



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 18-3

May 11, 2018

**TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE
BANK AND BANKING ORGANIZATIONS SUPERVISED BY THE FEDERAL
RESERVE**

Applicability: This letter applies to banks supervised by the Federal Reserve, including those with \$10 billion or less in consolidated assets, that are defined as covered institutions under the rule.

SUBJECT: Federal Financial Institutions Examination Council Examination Procedures on Customer Due Diligence and Beneficial Ownership Rule

The Federal Financial Institutions Examination Council (FFIEC)¹ recently issued examination procedures for the Financial Crimes Enforcement Network (FinCEN) rule, *Customer Due Diligence Requirements for Financial Institutions*, which was issued on May 11, 2016.² The rule contains both formalized, explicit customer due diligence (CDD) program requirements and a new requirement to identify and verify the identity of individuals who own or control legal entity customers (otherwise referred to as beneficial owners), subject to certain exclusions and exemptions. FinCEN issued the final rule under the Bank Secrecy Act (BSA) with a compliance date for banks³ and other covered financial institutions of May 11, 2018.

¹ The four federal banking agencies that are voting members of the FFIEC are the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency. The Consumer Financial Protection Bureau and State Liaison Committee are also voting members of the FFIEC.

² 81 *Fed. Reg.* 29397 (May 11, 2016).

³ Banks that are covered financial institutions for the purposes of this rule are defined in 31 CFR 1010.100 (includes state member banks, Edge Act and agreement corporations, and U.S. branches, agencies, and other offices of foreign banks supervised by the Federal Reserve).

Under the CDD portion of the rule, banks must develop and implement appropriate risk-based policies, procedures, and processes for conducting ongoing CDD.⁴ For the beneficial ownership section of the rule, banks must establish and maintain written procedures that are reasonably designed to identify and verify beneficial owner(s) of legal entity customers and to include such procedures in their anti-money laundering compliance program.⁵ The rule requires banks to collect beneficial ownership information at the 25 percent ownership threshold regardless of the customer's risk profile. Refer to the FFIEC press release and materials linked below for additional detail about these requirements.

These bank examination procedures replace the section in the 2014 *FFIEC BSA/AML Manual* (manual) entitled "Customer Due Diligence – Overview and Examination Procedures," pages 56 – 59, and add a new section entitled "Beneficial Ownership Requirements for Legal Entity Customers – Overview and Examination Procedures." The FFIEC member agencies developed these examination procedures in collaboration with FinCEN and the U.S. Department of the Treasury. These procedures are consistent with the FinCEN regulation and corresponding FinCEN guidance and do not contain any additional requirements.

To foster consistency, the manual includes the bank examination procedures that will be used by each agency's examiners, including the state banking agencies. The manual underscores the importance of banks effectively managing their BSA/AML risk (that is, the risk of abuse by money launderers or terrorist financiers) by developing BSA/AML compliance programs tailored to their organizations' risk profiles.

Federal Reserve examiners should begin using the examination procedures for BSA/AML examinations as soon as they are available on the FFIEC's website.

Reserve Banks are asked to distribute this SR letter to the domestic and foreign banking organizations supervised by the Federal Reserve in their districts, as well as to supervisory and examination staff. Questions concerning the guidance should be addressed to Koko Ives, Manager BSA/AML, at (202) 973-6163; Jennifer White, Senior Supervisory Financial Analyst, at (202) 452-3964; MaryBeth Evans, Senior Supervisory Financial Analyst, at (202) 973-7366; or Jason Gonzalez, Special Counsel, at (202) 452-3275.

Michael S. Gibson
Director

Attachments:

- FFIEC Press Release
 - *Customer Due Diligence – Overview and Examination Procedures*

⁴ See 31 CFR 1020.210(b)(5)

⁵ See 31 CFR 1010.230

- *Beneficial Ownership for Legal Entity Customers – Overview and Examination Procedures*

Supersedes:

- SR letter 10-5, “Interagency Guidance on Obtaining and Retaining Beneficial Ownership Information”