Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
Dana Twomey
Sr. Manager, Regulatory Risk and Compliance Practice Lead

- Received my MBA from the University of Notre Dame
- Over four years of senior level consulting experience
- Exposure to the financial markets through Banks, Venture Capital Firms and Hedge Funds
- CAMS certified
- Over two years spent focused on Beneficial Ownership
There are a number of key challenges facing our customers in the Compliance and Risk space

In industry, the most common obstacles that we see and assist customers to overcome fall into one of two buckets:

<table>
<thead>
<tr>
<th>Typical Environmental Factors</th>
<th>Operational Hurdles</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New/Modified Regulations (e.g., Beneficial Ownership)</td>
<td>• Urgency, Timing, Regulatory Deadlines</td>
</tr>
<tr>
<td>• Compliance/Risk Unreliable Handoff to the Lines</td>
<td>• Ineffective, Non-existent processes, communications and hand-offs</td>
</tr>
<tr>
<td>• Regulatory Actions (MRAs, Cease &amp; Desist Orders, Guidance Letters)</td>
<td>• Resource Capacity and Capabilities Constraints</td>
</tr>
<tr>
<td>• Internal Audit Findings</td>
<td></td>
</tr>
<tr>
<td>• Proactive Improvement (Satisfactory to Strong, Process Integration)</td>
<td></td>
</tr>
</tbody>
</table>
The role my team and I most commonly play when working on projects is the go-between for the lines of business and the Compliance/ Risk teams.

We typically find that, operating as a conductor, we can help translate needs across the different groups, while helping to ensure that the priorities of each are met or sacrificed.

Lines of Business

- Bring in business, while servicing customer needs and managing their experience

Compliance & Risk

- Ensure adherence to current rules and regulations, while limiting unnecessary risk

My Team

- Works as a liaison or moderator to create a partnership between the first and second lines of defense; we leverage our in-depth knowledge of both regulatory / risk requirements and our front line experience with a focus on efficiency
Framing our thought process around Beneficial Ownership

When we work with Program Management Offices and Lines of Business to solve problems, we typically rely on a high level framework to guide us.
Regulatory Compliance & Risk Practice – Program Management

Capabilities

- Detailed project planning, milestone definition, and stakeholder identification
- Program governance framework
- Customizable Program Management and Knowledge Management tools
- Integrated cross functional status reporting
- Issue and risk identification and resolution
- Resource assessment and forecasting
- Command center operations

Benefits

- Timely program delivery
- Program and workstream status visibility
- Representation across all lines of business and key stakeholders
- Detailed program documentation
- Executive reporting and visibility
Regulatory Compliance & Risk Practice – Policy Definition

Capabilities
- Regulatory interpretation
- Issue / risk identification and resolution
- Peer market review and industry benchmarking
- Impact and gap analyses
- Consensus building across all stakeholder groups
- Communication strategy, development and deployment

Benefits
- Actionable policies
- Clear policy documentation
- Policy / Risk alignment
- Consistent policy adoption vs. industry peer groups
Regulatory Compliance & Risk Practice – Process, Controls and Procedures Development

Capabilities

- Policy interpretation and process definition across business lines
- Organizational and process designs that are operationalized by the LOBs
- Design of support groups (e.g., middle office, QC Teams) and functions
- Form creation to facilitate data gathering
- Process control and exception reporting development
- Customizable process control tools
- Exception tolerance threshold definition
- Procedures writing

Benefits

- Policy / Process alignment
- Practical process design that are implemented / embedded
- Controls to ensure regulatory and policy compliance
- Framework for continuous process improvement
Regulatory Compliance & Risk Practice – Technology Implementation

Capabilities

- Policy interpretation
- Technology gap assessment
- Issue identification and resolution
- Business, functional, and technical requirement development
- User Acceptance Testing (UAT) script development and execution
- Technical documentation
- Vendor review and selection
- Process integration

Benefits

- Regulatory, policy and technology alignment
- Integrated technical and process solutions
- Achievable technology rollouts
Regulatory Compliance & Risk Practice – Training & Internal Communications

**Capabilities**
- Knowledge and capability improvement
- Audience specific content creation
- In-person and e-learning platforms
- Hands-on examples
- Leave-behind reference guides, frameworks and talking points
- “Assist” tools for guided problem solving
- Tone from the top messaging
- Efficient dissemination of policies and procedures

**Benefits**
- Consistent knowledge and approach across all lines of business
- Maximum training absorption
- Easy to use library containing unique content for reference
Regulatory Compliance & Risk Practice – Marketing & External Communications

**Capabilities**

- Multi-channel customer communication
- Customer education to facilitate data gathering
- Development of talking points for bankers to leverage to ensure consistent messaging to customers
- Material or form creation to facilitate data gathering
- Synthesis of regulatory language into easily understood, customer friendly language

**Benefits**

- Strengthened customer relationships
- Proactive customer education
- Focused content creation for specific customer geographies
### Regulatory Compliance & Risk Practice – Management Reporting and Monitoring

#### Capabilities

- Key metrics development
- Customized report development
- Reporting tools and dashboard creation
- Reporting and feedback loop framework development
- Incentive program development
- Analytical support and data interpretation
- Executive summary creation

#### Benefits

- Consistent reporting across lines of business
- Exceptions and performance visibility
- Sustainable reporting and processes
- Framework for continuous process improvement
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
So where do we start? We start with a new regulation...

- The Beneficial Ownership Requirements were published by the Financial Crimes Enforcement Network in May of 2016.

- Effective May 2018, all financial institutions are required to comply with the new regulation and identify beneficial owners of legal entity customers.

- This new regulation is affecting policies, procedures, technology, communications, training ... pretty much all aspects of how we conduct business.
In order to gather a baseline understanding of exactly how the industry was thinking about beneficial ownership prior to the rule, we did some secret shopping.

Over the course of several months, we co-hosted three symposiums focused on beneficial ownership.

- On average, the Symposia were attended by over 20 different institutions, and more than 50 people
- Major topics related to beneficial ownership were presented
  - Ownership thresholds
  - Certifications
  - Exclusions
- Peers were able to share their questions and concerns in a safe space and learn one another while developing best practices
In addition to hosting symposium with peers, we did some secret shopping...

<table>
<thead>
<tr>
<th>Beneficial Ownership CIP Requirements</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
<th>Bank 4</th>
<th>Bank 5</th>
<th>Bank 6</th>
<th>Bank 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Full Name</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>* Residential Address</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Country of Residence &amp; Citizenship Only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Date of Birth</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>* SSN / Passport #</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>X</td>
</tr>
<tr>
<td>Position/Title</td>
<td>X</td>
<td>✔</td>
<td>X</td>
<td>✔</td>
<td>X</td>
<td>✔</td>
<td>X</td>
</tr>
<tr>
<td>Percentage of Ownership</td>
<td>✔</td>
<td>X</td>
<td>✔</td>
<td>✔</td>
<td>X</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

X = No  ✔ = Yes
And we learned a lot.

<table>
<thead>
<tr>
<th>Beneficial Owner Requirements</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
<th>Bank 4</th>
<th>Bank 5</th>
<th>Bank 6</th>
<th>Bank 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>How is “Beneficial Owner” Defined</td>
<td>Those with 25% or more ownership</td>
<td>Those with 25% or more ownership</td>
<td>Those with 10% or more ownership; those holding Key Roles</td>
<td>Those with 20% or more ownership</td>
<td>No Distinction from an Authorized Signer</td>
<td>Those with 10% or more ownership; Directors; Exec Officers</td>
<td>25% or more ownership domestic (10%+ foreign)</td>
</tr>
<tr>
<td>Nomenclature for “Beneficial Owners”</td>
<td>Owners, Partners, and Key Execs</td>
<td>Those with 25% or more ownership interest</td>
<td>Those with 10% or more ownership interest; Sr. Managers; BOD</td>
<td>Those with 20% or more ownership interest</td>
<td>No Distinction from an Authorized Signer</td>
<td>Control Persons / Beneficial Owners</td>
<td>Those with 25% or more ownership (domestic); 10% foreign</td>
</tr>
<tr>
<td>Is Full CIP required for all Beneficial Owners (e.g., SSN) see next slide</td>
<td>✓ (up to four)</td>
<td>✓</td>
<td>X*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Is CIPV information required for all “BO” (e.g., drivers license)</td>
<td>✓</td>
<td>X*</td>
<td>X</td>
<td>✓</td>
<td>N/A</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Is BO Certification Form required to be completed and signed</td>
<td>✓** (for up to two owners / partners; part of section 2 &amp; section 3 certifies)</td>
<td>X*</td>
<td>X</td>
<td>✓**</td>
<td>N/A</td>
<td>✓**</td>
<td>✓** (only for one LOB)</td>
</tr>
<tr>
<td>Beneficial owners are required to appear In-Person</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

X = No ✓ = Yes

* It appears may not be initially be required
** Appears to not complete satisfy a Yes response
So what is Beneficial Ownership anyway?

Simply put, we want to know who owns entities. While this may sound easy enough, the rule is deceptively challenging.
Beneficial Ownership Highlights

**Beneficial Ownership only applies to Legal Entity customers and does not apply to Individual customers.**

**Legal Entity Definition:**
An active corporation, limited liability company, or other entity (organization) that is created by the filing of a public document with a Secretary of State or similar office, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account.
Beneficial Ownership Highlights

Examples of Legal Entity customer types that the rule applies to:

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Limited Liability Company (LLC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Partnership</td>
<td>Nonprofit Organization</td>
</tr>
<tr>
<td>Limited Partnerships</td>
<td>Other legally formed entities</td>
</tr>
</tbody>
</table>

There are a couple of entity types that are not included in the scope of beneficial ownership. These customer types are:

- **Sole Proprietorships** – these do not meet the definition of Legal Entity customer
- **Trusts** – only statutory trusts meet the definition of a Legal Entity customer
Beneficial Ownership Highlights

FinCEN defines beneficial ownership as having two prongs:

1. **Ultimate Beneficial Owner (UBO)**
   - A natural person who owns a designated percentage of the legal entity (the rule sets this percentage at 25%)

2. **Control Person**
   - A natural person who has significant managerial influence or control over the entity (e.g., CEO, CFO, Managing Partner)

**Important note**: information regarding UBOs and Control Persons must be collected regardless of whether the individuals are customers of the Bank.
Beneficial Ownership Highlights

Who Needs To Be Identified?

Going forward, banks will be required to identify the natural persons (or individuals) that are the **ultimate beneficial owners** of entity customers, as well as a **control person**.
Beneficial Ownership Highlights

The following information will need to be collected for each identified Ultimate Beneficial Owner (UBO) and Control Person:

<table>
<thead>
<tr>
<th>Ultimate Beneficial Owners</th>
<th>Control Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Name</td>
<td>Legal Name</td>
</tr>
<tr>
<td>Physical Address</td>
<td>Physical Address</td>
</tr>
<tr>
<td>Date of Birth</td>
<td>Date of Birth</td>
</tr>
<tr>
<td>Identification Number (i.e. SSN)</td>
<td>Identification Number (i.e. SSN)</td>
</tr>
<tr>
<td><strong>Percentage of Ownership</strong>*</td>
<td><strong>Title Held at Legal Entity Customer</strong>*</td>
</tr>
</tbody>
</table>

* Though the rule does not specifically state this information needs to be collected, it is highly recommended.
CIPV for Beneficial Owners

Though the UBO(s) and Control person may not be customers, you still have to confirm that they are who they say they are. Per the rule, this can be done in two ways:

1. Documentary Verification
2. Non-Documentary Verification

Your institution may choose to limit how you can perform CIPV and what documents or systems are permitted for use. Be sure you know the processes and procedures that you are supposed to follow.
Certification of Beneficial Ownership

- A certification form, attesting to beneficial ownership, is required by law; all financial institutions will be collecting a certification.

- The sample form, provided by FinCEN, contains the CIP information of ultimate beneficial owners and the control person.

- The certification must be signed by someone who is duly authorized to do so on behalf of the legal entity.

- The certification must be updated when there is a change in beneficial ownership information.
Beneficial Ownership Highlights

When do I need to get this information?  
(Let’s talk “trigger events”)

- The easy answer to this question is, “Whenever an entity customer opens a new account.”
- Some institutions are taking this further and applying all of their current trigger events to beneficial ownership
- Others are also including refresh events, and reaching out to customers whenever they go through a periodic review
- We will discuss this particular topic in more detail when we think about the particularly challenging aspects of this rule
There are some entity customers that will be either fully or partially excluded from beneficial ownership. This means that they may have to provide none or some beneficial ownership information.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td>A financial institution regulated by a Federal or state regulator or a bank regulated by a State bank regulator</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>A department or agency of the United States, of any State, or of any political subdivision of a State, any entity established under the laws of the United States, of any State, or of any political subdivision of any State, or under an interstate compact between two or more States, that exercises governmental authority on behalf of the United States or of any such State or political subdivision, any entity (other than a bank) whose common stock or analogous equity interests are listed on the New York, American,61 or NASDAQ stock exchange, or any entity organized under the laws of the United States or of any State at least 51 percent of whose common stock or analogous equity interests are held by a listed entity</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>An issuer of a class of securities registered under section 12 of the Securities Exchange Act of 1934 or that is required to file reports under section 15(d) of the Act</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>An investment company, as defined in section 3 of the Investment Company Act of 1940, that is registered with the Securities and Exchange Commission</td>
</tr>
<tr>
<td><strong>5</strong></td>
<td>An investment adviser, as defined in section 202(a)(11) of the Investment Advisers Act of 1940, that is registered with the SEC under that Act</td>
</tr>
<tr>
<td><strong>6</strong></td>
<td>An exchange or clearing agency, as defined in section 3 of the Securities Exchange Act of 1934, that is registered under section 6 or 17A of that Act</td>
</tr>
<tr>
<td><strong>7</strong></td>
<td>Any other entity registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934</td>
</tr>
</tbody>
</table>
Full List of Beneficial Ownership Exclusions (cont.)

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>A registered entity, commodity pool operator, commodity trading advisor, retail foreign exchange dealer, swap dealer, or major swap participant, each as defined in section 1a of the Commodity Exchange Act, that is registered with the CFTC</td>
</tr>
<tr>
<td>9</td>
<td>A public accounting firm registered under section 102 of the Sarbanes–Oxley Act</td>
</tr>
<tr>
<td>10</td>
<td>A bank holding company, as defined in section 2 of the Bank Holding Company Act of 1956, or savings and loan holding company, as defined in section 10(n) of the Home Owners’ Loan Act</td>
</tr>
<tr>
<td>11</td>
<td>A pooled investment vehicle that is operated or advised by a financial institution</td>
</tr>
<tr>
<td>12</td>
<td>An insurance company that is regulated by a State</td>
</tr>
<tr>
<td>13</td>
<td>A financial market utility designated by the Financial Stability Oversight Council under Title VIII of Dodd-Frank</td>
</tr>
<tr>
<td>14</td>
<td>A foreign financial institution established in a jurisdiction where the regulator of such institution maintains beneficial ownership information regarding such institution</td>
</tr>
<tr>
<td>15</td>
<td>A non-U.S. governmental department, agency or political subdivision that engages only in governmental rather than commercial activities</td>
</tr>
<tr>
<td>16</td>
<td>Any legal entity only to the extent that it opens a private banking account subject to 31 CFR</td>
</tr>
</tbody>
</table>
Talking Points –
Do you know how to talk to your customers about beneficial ownership?

“Thank you for coming in today. May I ask you a few clarifying questions about your business? For instance, are you the sole owner, or are there other owners of the business?

“I noticed you’re an LLC. Are you registered with any other governing body, such as the SEC of CFTC?”
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
Quick Example

Though the UBO(s) and Control person may not be customers, you still have to confirm that they are who they say they are. Per the rule, this can be done in two ways:

START: New Entity Customer

Opal LLC is a privately owned business based in Chicago, IL that produces high-end stationery for retail customers.

1st Step: Identify the details

Opal LLC is:
• Formed and operates in Chicago
• Does not meet an exclusion
• Is not a sole proprietorship

Are there other basic or “off the bat” questions you should be asking? For instance, if the company were formed outside of the US, does your institution drop the threshold for percentage or ownership due to risk?
Quick Example (cont’d)

**New Entity**

**Opal LLC** is a privately owned business based in Chicago, IL that produces high-end stationery for retail customers.

1st Step: The basics

Opal LLC is:
- Formed and operates in Chicago
- Does not meet an exclusion
- Is not a sole proprietorship

2nd Step: Work with the customer to identify the owners of the Entity, and the Control Person.

Ownership

- Ted Jackson: 80%
- Cathy Baron: 12%
- John Woolf: 8%

Control Person

- Ted Jackson: CEO

If there is any foreign ownership in the entity structure, is your institution taking a risk based approach and dropping the percentage or ownership threshold?
Quick Example (cont’d)

2nd Step: Work with the customer to identify the owners of the Entity, and the Control Person.

Ownership
Ted Jackson  Cathy Baron  John Woolf
80%  12%  8%

Control Person
Ted Jackson
CEO

25% Ownership Threshold
Quick Example (cont’d)

3rd Step: Apply the 25% ownership threshold to identify the UBOs.

Ownership

Ted Jackson 80%
Cathy Baron 12%
John Woolf 8%

Control Person

Ted Jackson  CEO

4th Step: Collect and record the information for the relevant UBOs and Control Person; obtain completed and signed Certification

<table>
<thead>
<tr>
<th>Information to Collect</th>
<th>Ultimate Beneficial Owners</th>
<th>Control Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Name</td>
<td>Legal Name</td>
<td></td>
</tr>
<tr>
<td>Physical Address</td>
<td>Physical Address</td>
<td></td>
</tr>
<tr>
<td>Date of Birth</td>
<td>Date of Birth</td>
<td></td>
</tr>
<tr>
<td>Identification Number (i.e. SSN)</td>
<td>Identification Number (i.e. SSN)</td>
<td></td>
</tr>
<tr>
<td>Percentage of Ownership</td>
<td>Title Held at Legal Entity customer</td>
<td></td>
</tr>
</tbody>
</table>
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
Taking a risk based approach to the beneficial ownership rule

The risks of how beneficial ownership is operationalized should be thought about in two ways:

1) Are you meeting the standards of the rule in such a way that you are also accounting for the overall risk profile of your institution?
   - Is the 25% ownership threshold right for your customer base?
     - Do you take on non-US customers that introduce higher risk and therefore should be looked at more closely?
   - While 16 exclusions from beneficial ownership are allowed per the rule, does your institution feel comfortable in allowing all of them?
     - Is there risk to training the front lines to understand all of the exclusions? Or is it a better approach to not allow any exclusions at all?

2) Are you the pack leader and therefore, perhaps, putting your institution at a competitive disadvantage?
   - If you adopt a lower threshold for percentage or ownership, are you going to lose customers who don’t want to provide that level of information?
     - Is this a red flag anyway?
   - If customers are sophisticated enough to know about and understand the rule, will they go to an institution that will allow them to bypass the hassle of providing beneficial ownership?
In addition to hosting symposium with peers, we did some secret shopping...

<table>
<thead>
<tr>
<th>Beneficial Ownership CIP Requirements</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
<th>Bank 4</th>
<th>Bank 5</th>
<th>Bank 6</th>
<th>Bank 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Full Name</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>* Residential Address</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>* Date of Birth</td>
<td>✔️</td>
<td>✔️</td>
<td>⬝**</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>* SSN / Passport #</td>
<td>✔️</td>
<td>✔️</td>
<td>⬝**</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>⬝</td>
</tr>
<tr>
<td>Position/Title</td>
<td>⬝</td>
<td>✔️</td>
<td>⬝</td>
<td>✔️</td>
<td>✔️</td>
<td>⬝</td>
<td>✔️</td>
</tr>
<tr>
<td>Percentage of Ownership</td>
<td>✔️</td>
<td>⬝</td>
<td>✔️</td>
<td>✔️</td>
<td>⬝</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

_X = No  ✔️ = Yes_
And we learned a lot.

<table>
<thead>
<tr>
<th>Beneficial Owner Requirements</th>
<th>Bank 1</th>
<th>Bank 2</th>
<th>Bank 3</th>
<th>Bank 4</th>
<th>Bank 5</th>
<th>Bank 6</th>
<th>Bank 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>How is “Beneficial Owner” Defined</td>
<td>Those with 25% or more ownership</td>
<td>Those with 25% or more ownership</td>
<td>Those with 10% or more ownership; those holding Key Roles</td>
<td>Those with 20% or more ownership</td>
<td>No Distinction from an Authorized Signer</td>
<td>Those with 10% or more ownership; Directors; Exec Officers</td>
<td>25% or more ownership domestic (10%+ foreign)</td>
</tr>
<tr>
<td>Nomenclature for “Beneficial Owners”</td>
<td>Owners, Partners, and Key Execs</td>
<td>Those with 25% or more ownership interest</td>
<td>Those with 10% or more ownership interest; Sr. Managers; BOD</td>
<td>Those with 20% or more ownership interest</td>
<td>No Distinction from an Authorized Signer</td>
<td>Control Persons / Beneficial Owners</td>
<td>Those with 25% or more ownership (domestic); 10% foreign</td>
</tr>
<tr>
<td>Is Full CIP required for all Beneficial Owners (e.g., SSN)</td>
<td>✓ (up to four)</td>
<td>✓</td>
<td>X*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Is CIPV information required for all “BO” (e.g., drivers license)</td>
<td>✓</td>
<td>X*</td>
<td>X</td>
<td>✓</td>
<td>N/A</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Is BO Certification Form required to be completed and signed</td>
<td>✓** (for up to two owners / partners; part of section 2 &amp; section 3 certifies)</td>
<td>X*</td>
<td>X</td>
<td>✓**</td>
<td>N/A</td>
<td>✓**</td>
<td>✓**</td>
</tr>
<tr>
<td>Beneficial owners are required to appear In-Person</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

X = No ✓ = Yes

* It appears may not be initially be required
** Appears to not complete satisfy a Yes response
What is the value of the market research?

We’ve used the feedback obtained from our symposiums and the market research to help our clients understand where their plans fit in within the industry spectrum.

- Most institutions are trying to stay in the middle of the pack
  - This means that they are taking a tiered approach to ownership threshold and allowing some but not all of the exclusions
- Many institutions are using the Certification form that was provided by FinCEN due to safe harbor, but others have decided to add or remove information that they feel is appropriate
  - In some instances this makes specific institutions very different than others
- Everyone agrees that no matter how beneficial ownership information is collected, it will be put into a system for screening and monitoring
  - The institutions that are ready for it are entering the information directly into their systems from day one
  - The institutions that are still developing their resources will collect the information using paper on day one
What is the value of the information that you collect from customers? What is it used for?

There’s more to beneficial ownership than just satisfying the rule from FinCEN.

- The information that the front lines collect from their entity customers will play a role in the work that your investigations teams perform

- Understanding ownership and the structure of an entity, helps to identify risks that may have previously been unknown
  - These clients can be evaluated further and either have their CRR adjusted or exited all together
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
When you listen across the industry, the below topics are raised as having sizable change management implications to policy, processes and procedures ...

<table>
<thead>
<tr>
<th>Key Topic</th>
<th>Current Approaches</th>
</tr>
</thead>
</table>
| CDD Data Requirements            | • Many banks are working to embed beneficial ownership data into current onboarding processes, forms and systems  
• Those few planning to initialize beneficial ownership data collection through paper forms, the information will be key entered into their KYC system for OFAC and Negative News screening  
• Some customers are steering away from transaction monitoring while others are setting ownership thresholds, and taking a risk based approach to transaction monitoring |
| Existing customers (Trigger Events) | • Most banks will treat lack of beneficial ownership as a hard stop; if a current legal entity customer refuses to provide beneficial ownership information, their account will be reviewed and likely have activity restricted or the relationship will be terminated  
• When an existing customer’s KYC is reviewed, banks need to consider whether there are any privacy concerns with asking a third party to confirm personal beneficial ownership information  
• Many banks believe that any new or modified beneficial ownership information will require a new certification form (but there is still a lot of discussion occurring on this topic) |
... particularly for the Lines of Business that are expected to comply with the final rule (while not negatively affecting customer experience or efficiencies) ...

<table>
<thead>
<tr>
<th>Key Topic</th>
<th>Current Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Certification</td>
<td>• All banks agree that the individual opening the account must certify, to the best of their knowledge, the accuracy of the information provided</td>
</tr>
<tr>
<td></td>
<td>• We have heard arguments that full CIP information should not have to be on the customer certification due to privacy issues; most agree that the rule is specific regarding an attestation of CIP information for owners and the control person</td>
</tr>
<tr>
<td></td>
<td>• Banks are split on pre-populating information on the certification form. The discussions focus on the balance between privacy concerns &amp; customer service</td>
</tr>
<tr>
<td></td>
<td>• A common approach centers on asking if any information has changed; confirming names and percentage of ownership / title; if a change, obtain the new information and in some cases a new certification)</td>
</tr>
<tr>
<td></td>
<td>• Few banks have noted that they are going to use a paper form initially, acknowledging that all information collected will be key entered into a screening system. Most banks, will collect information electronically as part of onboarding</td>
</tr>
<tr>
<td>CIP Verification</td>
<td>• Institutions will be required to follow similar, but not identical, CIPV practices for beneficial owners as current KYC CIPV practices</td>
</tr>
<tr>
<td></td>
<td>• Many banks will be relying on non-documentary verification methods with clear procedures for how to document which method was used and findings</td>
</tr>
<tr>
<td></td>
<td>• In cases where an owner or a control person’s identity cannot be verified, most banks will consider this a hard stop and won’t open an account</td>
</tr>
</tbody>
</table>

**Impact Rating:**
- Minimal
- Moderate
- Substantial
... and for BSA/AML, which is expected to communicate and maintain ongoing processes to comply with the new FinCEN beneficial ownership rule

<table>
<thead>
<tr>
<th>Key Topic</th>
<th>Current Approaches</th>
</tr>
</thead>
</table>
| **Screening**                    | • All agree that any and all beneficial ownership information collected will be screened against the OFAC list as well as for negative news  
• Additionally, information that is collected on a paper form will need to be entered into the system of record for screening |
| **Monitoring**                   | • The rule also stipulates that CTRs need to be filed when the Bank “has knowledge” that such a report should be filed  
• This has proven challenging since systems are not equipped to handle this type of monitoring  
• A few Banks are taking this the opportunity to upgrade their systems to allow for the aggregation of transactions across beneficial owners  
• Other banks are not planning to aggregate currency transactions at all unless transactions are “known” through the course of an investigation |
| **Training and Communications**  | • A multi tier training program that provides targeted information for employees based on their roles should be developed/ rolled out  
• Pre-emptive communications and post launch resources should be provided as support |

© 2017 West Monroe Partners | Reproduction and distribution without West Monroe Partners prior consent is prohibited.
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
How ready are you and your institution for the new beneficial ownership rule to go live in May?

As you prepare for the rule to take effect in May, I encourage you and the institutions that you work for to think about the following:

- Do you (and those in other roles) understand the expectation for your role going forward?
  - Have you been or will you be trained to perform your specific function?
  - Where can you go to get fast answers to your questions?
- Do you know how to talk to your clients, whether they are internal or external, about beneficial ownership?
- Do your systems align to the overall goal of identifying and monitoring beneficial owners going forward?
- How can you provide feedback up or down the chain of seniority if something needs to change?
Have more questions or need some assistance preparing for beneficial ownership?

Workshops are approached with the unique needs of each client in mind. Success is achieved by combining our team’s deep regulatory knowledge with the insights gained from pre-workshop interviews and our ability to work across different teams.

**Approach**
- Identify appropriate stakeholders to ensure meaningful/actionable dialog
- Pre-workshop interviews to understand current state
- Create an agenda to both educate on the new rule and discuss the direct affect on the bank
- Conduct in-person workshop (which typically lasts 2 hours)
- Provide detailed follow-up action items and identified next steps

**Benefits**
- Establish a common, shared view of what the regulation actually requires across all Lines of Business
- Set a clear foundation upon which to introduce potential policy updates or changes
- Provide a forum to discuss and understand the Line of Business perspectives on:
  - The potential impact to their business
  - Approaches to address the regulatory requirements within the operating environments
  - The potential risks associated with each approach
- Deliver a macro level road map that aligns to a detailed implementation plan (if not already developed)
Presentation Content

Introduction

Review of Beneficial Ownership Rule

Quick Example

Risk Based Approach to Implementation

Deeper Dive Into the Challenges

Institutional Readiness

Your Questions and Concerns?
Contact Information

Dana Twomey
Sr. Manager
Regulatory Risk and Compliance Practice Lead

- Email: dtwomey@westmonroepartners.com
- Phone: (312) 846-9984
- Mobile: (650) 867-0166