The CDD Rule: Better or Worse Than Expected

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With You Today

Moderator

- **Vasilios Chrisos** – Principal, Financial Crimes Unit, *PwC*

Panel

- **Elena Hughes** – Executive Director, Head of AML – Institutional Securities Group, *Morgan Stanley*
- **Paul Khareyn** – Senior Vice President, AML Policy Office, *HSBC*
- **Thomas Aspinwall** – Vice President, Anti-Financial Crimes, Americas, *Deutsche Bank*

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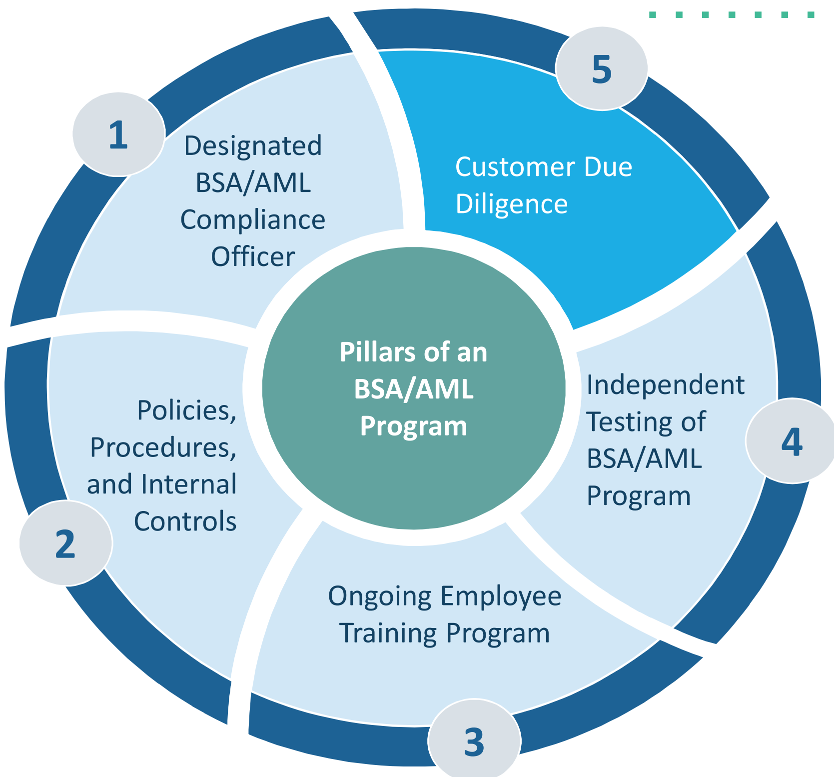
The Fifth Pillar



The CDD Rule introduced a fifth pillar for a BSA/AML Compliance Program.

Key Elements of this fifth pillar include:

1. Beneficial Ownership
2. Nature and Purpose
3. Ongoing Monitoring

Beneficial Ownership

FinCEN Beneficial Ownership Definitions

Ownership

- Beneficial Owner: $\geq$25% of the ownership interest.
- Must extend to natural person level.

Control

- One natural person with significant managerial control.
- Same individual(s) may be identified under both categories.
- Examples: CEO, CFO, President, General Partner, Treasurer .

Regardless of whether owners are identified, one controlling party is always required to be identified for legal entity customers that are not exempt.

Nature & Purpose

FIs must have risk-based procedures for understanding the nature and purpose of customer relationships in order to develop a customer risk profile.

1. Type of Account, Service or Product
2. Expected Activity (Volume/Geography)
3. Leverage for Suspicious Activity Reporting

Ongoing Monitoring

The CDD Rule includes a requirement to conduct ongoing monitoring. Key components should include:

1. Cyclical & Event-Driven Triggers
2. Actual versus Expected Analysis
3. CDD Data Refresh
4. Update Customer Risk Rating

Key Takeaways

1. Personnel from all lines of business and lines of defense including Client Onboarding, Information Technology, Operations, Internal Audit and Compliance must work in concert to help achieve compliance
2. Establishing a consistent approach will aid efforts to maintain a single view of the customer and allow information to flow seamlessly throughout the institution
3. While not explicitly stated, failure to update previously opened accounts on an event-driven or periodic review basis that is consistent with the bank's risk profile may result in regulatory pressure to update all preexisting accounts, which can be costly and time consuming

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Q & A