

## Business Banking: New Beneficial Ownership Rule to Take Effect in May

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Banks and other financial institutions-including broker-dealers and mutual funds-have spent the last two years implementing changes to strengthen their customer identification programs. As of next month, their business customers must be ready for these changes.

Beginning May 11, covered financial institutions must comply with a [federal rule issued by the U.S. Department of the Treasury's Financial Crimes Enforcement Network](#) (FinCEN). The rule requires them to identify and verify the identities of the beneficial owners of legal entity customers when a new account is opened. While financial institutions have had years to prepare for this change, not all business customers will be prepared to provide the additional information required by the rule.

The rule will affect most business banking customers, including corporations, partnerships, business trusts, and limited liability companies, and includes practical implications for various types of businesses:

- Auto dealers who provide indirect financing through a bank must provide the bank with beneficial ownership information for their customers.
- Property management groups that create a new LLC for each project will be required to provide ownership information for each LLC.
- With some exceptions, for product or service renewals for existing customers, banks will be required to request updated business ownership information.
- Indirect owners of a company (25 percent or more) who previously wished to remain anonymous will no longer be permitted to do so.
- Fees for certain business accounts may increase as banks work to comply with the new requirements.

Specifically, the rule requires the identification (including obtaining the social security or passport number) of:

- Any individual who owns, *directly or indirectly*, at least 25 percent of the equity interests of a legal entity, and
- At least one individual with significant management responsibility over the legal entity (such as a CEO, CFO, general partner, or managing member).

Under this definition, each legal entity customer will have a total of between one and five beneficial owners. The rule also includes a number of requirements for financial institutions to update their customer identification policies and procedures, which most financial institutions have completed well in advance of the upcoming applicability date.

The scope of the rule is broad and will affect many types of legal entities and their owners, who have previously had

more anonymity in their banking relationships. Accordingly, businesses seeking to open new bank accounts or obtain new banking products should be aware that their bank may require additional information each time an account is opened. Rather than viewing such requests for information as an invasion of privacy by the bank, customers must understand that the regulatory requirements regarding identification requirements have changed.

[FinCEN recently issued guidance](#) to help financial institutions comply with the rule. If you are a financial institution with questions about the rule, or a business owner with questions about the applicability of the rule to your business bank accounts, [please contact me](#) or anyone in the [Barley Snyder Business Practice Group](#).

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