

## FinCEN streamlines CDD requirements, reducing compliance burden for covered financial institutions

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The Treasury Department's Financial Crimes Enforcement Network continues its efforts to modernize the U.S. AML/CFT compliance framework, providing covered financial institutions [exceptive relief from the Customer Due Diligence Rule's requirement to identify and verify the identity of beneficial owners at each account opening.](#)

The Financial Crimes Enforcement Network (FinCEN) issued an [order](#) on February 13, 2026 that grants [exceptive relief to covered financial institutions<sup>1</sup>](#) from the Customer Due Diligence (CDD) Rule's requirement to identify and verify the identities of beneficial owners of legal entity customers at each new account opening (the Order).<sup>2</sup> The Order is another step forward in FinCEN's efforts to modernize the compliance framework under the Bank Secrecy Act (BSA) and its implementing regulations, and will likely be well-received by covered financial institutions who have, since the CDD Rule was implemented, raised issues with the redundancy of collecting (and recollecting) beneficial ownership information from legal entity customers each time a customer opens an account. According to FinCEN Director Andrea Gacki, "This relief supports a more efficient, risk-based approach to customer due diligence and reduces unnecessary regulatory burden without weakening the foundational requirements that protect the U.S. financial system."

In the Order, FinCEN states that the [exceptive relief](#) is intended to meet the Trump administration's policy to "significantly reduce the private expenditures required to comply with Federal regulations to secure America's economic prosperity and national security ..." and "alleviate unnecessary regulatory burdens placed on the American people."<sup>3</sup> FinCEN also notes that the Order is part of the agency's efforts to meet its obligations under the Corporate Transparency Act (CTA), which requires FinCEN to amend the CDD Rule to, among other things, reduce any unnecessary or duplicative compliance burdens on financial institutions and legal entity customers in light of the CTA.<sup>4</sup> Notably, FinCEN states that it anticipates making further changes to the CDD Rule through the rulemaking process and views the Order as supporting and informing those efforts. The Order was effective immediately upon its issuance and we encourage covered financial institutions to review and amend their CDD policies and procedures, as necessary and appropriate.

### Scope of the Order's exceptive relief

Under the Order, instead of identifying and verifying the identities of beneficial owners of legal entity customers at each new account opening, covered financial institutions may instead limit their identification and verification of beneficial owners to the following scenarios:

1. when a legal entity customer first opens an account with a covered financial institution;
2. any time thereafter when the covered financial institution has knowledge of facts that would reasonably call into question the reliability of beneficial ownership information previously obtained about the legal entity customer; and
3. as needed based on a covered financial institution's risk-based procedures for conducting ongoing customer due diligence.

FinCEN notes that in Scenario 3, a covered financial institution may rely on beneficial ownership information previously obtained in accordance with the CDD Rule, so long as the customer certifies or confirms (verbally or in writing) that its beneficial ownership information is up-to-date and accurate.<sup>5</sup>

## Background and context

Under the CDD Rule, which FinCEN issued in July 2016 (with a compliance date of May 2018), covered financial institutions are required to develop and implement appropriate risk-based procedures for conducting ongoing CDD, including:

- Obtaining and analyzing sufficient customer information to understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile;
- Conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information, including information regarding the beneficial owner(s) of legal entity customers;<sup>6</sup> and
- Establish and maintain written procedures that are reasonably designed to identify and verify beneficial owners of legal entity customers.

The CDD Rule requires that identification of beneficial owners occur “at the time a *new account* is opened.”<sup>7</sup> FinCEN defines the phrase, “new account” to mean “each account opened at a covered financial institution by a legal entity customer ... .”<sup>8</sup>

Generally, the Federal banking agencies and FinCEN have expected covered financial institutions to identify and verify the identity of a legal entity customer’s beneficial owners each time the customer opens an account with the financial institution, no matter how little time passes between account openings. In response to feedback from covered financial institutions, FinCEN has, over the years, provided incremental relief from the CDD Rule’s beneficial owner identification and verification requirements in certain instances. For example, in 2018, FinCEN issued [Frequently Asked Questions](#), which provide that a covered financial institution that has already obtained a CDD Certification Form (or its equivalent) for the beneficial owners of a legal entity customer may rely on the information in the Certification Form to fulfill the CDD Rule’s beneficial ownership requirements for subsequent accounts, provided the customer certifies or confirms (verbally or in writing) that the beneficial ownership information is up-to-date and accurate at the time each subsequent account is opened and the financial institution has no knowledge of facts that would reasonably call into question the reliability of such information.<sup>9</sup>

Industry reactions to FinCEN’s efforts to relieve the compliance burden under the CDD Rule, in addition to comments received in response to other regulatory initiatives, led FinCEN to consider providing broader relief to covered financial institutions, including the Order. Finally, the Order will require updates to the Federal Financial Institutions Examination Council’s BSA/AML Examination Manual to reflect the exceptive relief in the Order.

## Looking forward

The Order offers another data point in the administration’s efforts to streamline compliance burdens under the BSA. Last October, for example, FinCEN and the federal banking agencies issued guidance intended to reduce suspicious activity reporting (SAR) obligations for financial institutions (discussed in our client update [here](#)), and the Office of the Comptroller of the Currency released examination procedures last November that are intended to reduce regulatory burdens for community banks (discussed in our client update [here](#)). Like the agencies’ updated SAR guidance and the OCC’s new examination procedures for community banks, the Order represents a targeted (yet significant) update to regulatory expectations, rather than a wholesale rewriting of the relevant regulations (such as FinCEN’s overhaul of the CTA). We expect further efforts will follow over the coming year as the administration continues to prioritize BSA reform.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

**Kendall Howell**

+1 202 962 7068  
kendall.howell@davispolk.com

**Neil H. MacBride**

+1 202 962 7035  
neil.macbride@davispolk.com

**Paul Marquardt**

+1 202 962 7156  
paul.marquardt@davispolk.com

**Daria Adjowa Serwaa Nonnemaker**

+1 202 962 7037  
daria.serwaanonnemaker@davispolk.com

**Will Schisa**

+1 202 962 7129  
will.schisa@davispolk.com

**Sam Silverberg**

+1 202 962 7126  
sam.silverberg@davispolk.com

**Daniel P. Stipano**

+1 202 962 7012  
dan.stipano@davispolk.com

**Charles Marshall Wilson**

+1 202 962 7130  
charles.wilson@davispolk.com

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- <sup>1</sup> The term "covered financial institutions" is defined at 31 CFR 1010.230(f) (by cross-reference to 31 CFR 1010.605(e)(1)) to include banks, broker dealers, futures commission merchants, introducing brokers and mutual funds.
- <sup>2</sup> FinCEN, FIN-2026-R001, *Exemptive Relief from Requirement to Identify and Verify Beneficial Owners at Each Account Opening* (February 2026).
- <sup>3</sup> Executive Order 14192, *Unleashing Prosperity through Deregulation* (January 2025), <https://www.federalregister.gov/documents/2025/02/06/2025-02345/unleashing-prosperity-through-deregulation>.
- <sup>4</sup> See Corporate Transparency Act, Pub. L. 116–283, div. F, title LXIV, §6403(d). The CTA establishes a beneficial ownership reporting framework wherein reporting companies are required to submit certain beneficial ownership information (BOI) directly to FinCEN, with the intention of eventually relieving covered financial institutions from collecting such information from their legal entity customers. On September 30, 2022, FinCEN published the Beneficial Ownership Information Reporting Requirements final rule (BOI Reporting Rule), implementing the CTA's reporting requirements. As discussed in our client update ([here](#)), FinCEN narrowed the scope of the BOI reporting requirements under the BOI Reporting Rule on March 21, 2025 and, as of the date of this client update, the BOI Reporting Rule only applies to foreign companies. Although FinCEN narrowed reporting requirements under the BOI Reporting Rule, the CTA requires FinCEN to amend the beneficial ownership requirements of the CDD Rule to bring the rule into conformance with the CTA, account for financial institutions' access to the national BOI registry and reduce any unnecessary or duplicative compliance burdens on covered financial institutions and legal entity customers in light of the CTA's passage. FinCEN has yet to amend the CDD Rule and so the Order represents FinCEN's first step towards streamlining CDD Rule compliance, as required under the CTA.
- <sup>5</sup> FinCEN also states that covered financial institutions must maintain a record of any beneficial ownership certification or confirmation, including for both verbal and written confirmations by the customer. If a customer is unable to certify or confirm that previously obtained beneficial ownership information is up-to-date and accurate, or if the covered financial institution has knowledge of facts that would reasonably call into question the reliability of beneficial ownership information previously obtained about the legal entity customer, the covered financial institution must identify and verify the identities of the beneficial owners of the legal entity customer in accordance with 31 CFR 1010.230.

<sup>6</sup> See, e.g., 31 CFR 1020.210(a)(2)(v).

<sup>7</sup> 31 CFR 1010.230(b)(1) (*emphasis added*).

<sup>8</sup> 31 CFR 1010.230(g).

<sup>9</sup> See FinCEN, *Frequently Asked Questions Regarding Customer Due Diligence Requirements for Financial Institutions* (April 2018); see also, FinCEN, *Exceptive Relief from Beneficial Ownership Requirements for Legal Entity Customers of Rollovers, Renewals, Modifications, and Extensions of Certain Accounts* (September 2018), [https://www.fincen.gov/system/files/administrative\\_ruling/2018-09-18/Permanent%20Exceptive%20Relief%20Extension%20of%20Compliance%20Date%20CDs\\_final%20508%202.pdf](https://www.fincen.gov/system/files/administrative_ruling/2018-09-18/Permanent%20Exceptive%20Relief%20Extension%20of%20Compliance%20Date%20CDs_final%20508%202.pdf) (providing that covered financial institutions are relieved from the beneficial ownership requirements under 31 CFR 1010.230 when a legal entity customer opens a new account as a result of: (1) a rollover of a certificate of deposit; (2) a renewal, modification, or extension of a loan that does not require underwriting review and approval; (3) a renewal, modification, or extension of a commercial line of credit or credit card account that does not require underwriting review and approval; and (4) a renewal of a safe deposit box rental.)