FACT SHEET

Customer Identification Programs

On May 13, 2024, the Securities and Exchange Commission (SEC) and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) issued a joint notice of proposed rulemaking (NPRM) to apply customer identification program (CIP) obligations to certain investment advisers. The proposed rule would require SEC-registered investment advisers (RIAs) and exempt reporting advisers (ERAs) to, among other things, implement a CIP that includes procedures for:

- verifying the identity of each customer to the extent reasonable and practicable; and
- maintaining records of the information used to verify a customer's identity, including name, address, and other identifying information.

Why This Matters

The proposed rule seeks to prevent illicit finance activity involving the customers of investment advisers by strengthening the anti-money laundering/countering the financing of terrorism (AML/CFT) framework for the investment adviser sector. If adopted, this CIP rule would make it more difficult for criminal, corrupt, and illicit actors to use investment advisers as an entry point into the U.S. financial system.

Among other requirements, the proposed rule seeks to require RIAs and ERAs to implement reasonable procedures to identify and verify the identities of their customers. The proposal is generally consistent with the CIP requirements for other financial institutions, such as brokers or dealers and mutual funds, and are designed to align with the CIP requirements across these financial institutions. Under these proposed requirements, this rulemaking would make it more difficult for persons to use false identities to establish customer relationships with investment advisers for the purposes of laundering money, financing terrorism, or engaging in other illicit finance activity.

This rulemaking complements a separate FinCEN proposal to designate RIAs and ERAs as "financial institutions" under the Bank Secrecy Act and subject them to AML/CFT program requirements, as well as obligations to file suspicious activity reports.[1] That proposal cites a Treasury risk assessment that identified that the investment adviser industry has served as an entry point into the U.S. market for illicit proceeds associated with foreign corruption, fraud, tax evasion, and other criminal activities.

[1] *See* FinCEN, Anti-Money Laundering/Countering the Financing of Terrorism Program and Suspicious Activity Report Filing Requirements for Registered Investment Advisers and Exempt Reporting Advisers, Notice of Proposed Rulemaking, 89 FR 12108 (Feb. 15, 2024).

What This Proposal Would Do

The proposal would require RIAs and ERAs to, among other things, establish, document, and maintain written CIPs appropriate for their respective sizes and businesses. The CIP would include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable within a reasonable time before or after the customer's account is opened. The procedures would have to enable the RIA and ERA to form a reasonable belief that it knows the true identity of each customer. RIAs and ERAs would be required to obtain certain identifying information with respect to each customer, such as the customer's name, date of birth or date of formation, address, and identification number.

The proposed rule would also include procedures for, among other things, maintaining records of the information used to verify a customer's identity and notifying customers that the adviser is requesting information to verify their identities.

Additional Information:

The proposal will be published on SEC.gov and in the Federal Register. The public comment period will remain open for 60 days after publication in the Federal Register.