

CTA Will Now Apply Only to Foreign Reporting Companies

March 6, 2025 – Cross-Border Counselor

by Kendall R. Fisher and Matthew Dickerson

On February 27, 2025, FinCEN confirmed that it would halt enforcement actions in relation to the Corporate Transparency Act (“CTA”) while it developed revised regulations that would prioritize reporting for *“those entities that pose the most significant law enforcement and national security risks.”* On March 2, 2025, the U.S. Treasury Department confirmed that the scope of those new regulations would be limited to *“foreign reporting companies”* only, and that Treasury would not *“enforce any penalties or fines against U.S. citizens or domestic reporting companies or their beneficial owners after the forthcoming rule changes take effect”*. Essentially, the U.S. government has now abandoned the CTA for the vast majority of reporting companies that were covered under the prior regime.

Dorsey will continue to monitor developments and will review the proposed revised regulations in detail once published. Of particular importance will be the defined terms “domestic reporting company” and “foreign reporting company”, as referred to in the recent Treasury announcement, and whether the forthcoming regulations will retain the current definitions of those terms. Under the existing regulations, a U.S. entity formed and wholly-owned and/or controlled by a Canadian company or Canadian person would constitute a “domestic reporting company”. Assuming the revised regulations will not change this definition – such entities would be exempt from the enforcement of penalties or fines under the CTA. Under the existing regulations, Canadian entities that have registered to do business in the U.S. by the filing of a document with a secretary of state or similar office would generally be considered “foreign reporting companies”. Again, assuming the revised regulations will not change this definition, such entities would remain subject to CTA enforcement and penalties and fines for non-compliance.

While Treasury’s recent announcement should be welcome news for many U.S. entities formed by Canadian companies and Canadian persons, we remain cautious as the changed scope of CTA enforcement in Treasury’s announcement may have been unintentionally broad and may be subject to refinement upon release of the forthcoming regulations.

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