MULTI-STATE MSB EXAMINATION TASKFORCE

REPORT TO STATE REGULATORS
2015
Introduction

The Multi-State MSB Examination Taskforce, or MMET, is the state representative body charged with coordinating and facilitating multistate supervision of money services businesses (“MSBs”). The Taskforce was established in 2013 by the Nationwide Cooperative Agreement for MSB Supervision and its companion Protocol for Performing Multi-State Examinations (collectively “MSB Protocol and Agreement”).¹ The MMET is tasked with leveraging the state system for money services businesses supervision and protecting consumers and state economies, while fostering regulatory consistency. The MMET also facilitates coordinated examinations in partnership with the Consumer Financial Protection Bureau (“CFPB”) and Financial Crimes Enforcement Network (“FinCEN”). The MMET consists of 10 regulatory representatives appointed by the Conference of State Bank Supervisors (“CSBS”) and the Money Transmitter Regulators Association (“MTRA”). In 2015, the MMET was chaired by Chuck Dolezal, Superintendent of the Ohio Division of Financial Institutions.


Multi-State MSB Examination Taskforce (“MMET”)

The MMET’s role of coordinating supervisory efforts is meant to assist state regulators in fulfilling their own regulatory responsibilities. In coordinating supervisory processes, MMET responsibilities include:

- Determining the risk profile of an MSB operating in multiple states (“Multi-State MSB” or “MMSB”);
- Facilitating and maintaining joint examination schedules;
- Assisting in the establishment of examination teams in consultation with participating state regulators;
- Facilitating the exchange of information between the joint examination state regulators and the concurrent examination states; and
- Supporting communications and facilitating development and implementation of joint or concurrent actions.

The MMET elected Ohio Superintendent of Financial Institutions Charles Dolezal as its 2015 Chair, and Karen Heede of the Virginia Bureau of Financial Institutions as the Vice Chair. The 2015 participating state regulators comprising the MMET are:

- California Department of Business Oversight
- Office of the State Bank Commissioner of Kansas
- New York State Department of Financial Services
- North Carolina Office of the Commissioner of Banks
- Ohio Division of Financial Institutions
- Pennsylvania Department of Banking and Securities
- Texas Department of Banking
- Virginia Bureau of Financial Institutions
- Washington Department of Financial Institutions
- West Virginia Division of Banking

The MMET held its annual meeting in Tucson, Arizona in January 2015, and met via teleconference throughout the year to improve procedures and policies for conducting multi-state examination supervision.

Coordination and Engagement

For the MMET, 2015 was a year of operational streamlining and active engagement.
2015 MMSB Identification
Beginning with the manner in which multi-state MSBs are identified, the MMET updated processes to more efficiently understand the money transmission industry and schedule exams for the hundreds of companies potentially subject to multi-state supervision. Prior to 2015, identification of money transmitters that operate in multiple states was a cumbersome process that required manual consolidation of 47 state licensing lists. With more states using the Nationwide Multistate Licensing System (“NMLS”) for MSB licensure, this process became more streamlined and more precise. Pulling data from NMLS, the MMET is able to identify MMSBs licensed in any state that uses NMLS as the licensing system for money transmitters. Though the official numbers are always updating, NMLS licensing data capture approximately 90% of all licensed money transmitters.

2015 Examination Scheduling
The Protocol for Performing Multi-State Examinations requires the MMET to “facilitate and maintain Joint Examination schedules . . .” The MMET assumed responsibility of scheduling exams from the MTRA starting with the 2015 exam schedule. The first MMET scheduling call took place in December 2014, with quarterly calls throughout 2015 in accordance with the Protocol.

2015 Examinations
In 2015, 149 state examinations were completed, 68 of which were joint exams consisting of examiners from multiple states. Participation in joint examinations was widespread, with 26 states participating. Thirteen states participated as lead states, providing a total of 21 Examiners-in-Charge to supervise and offer technical expertise.

MMSBs that underwent examination varied in size, with two-thirds of the largest companies being examined by multistate exam teams. Nearly 75% of the exams were administered at companies that held licenses in more than 20 states. Still, 18 joint exams were performed at companies licensed in 19 or fewer states.

2 62 MMSBs were examined by multi-state teams, six of which were examined twice in 2015.
Coordination with Federal Agencies
There was an expansion of coordination with several federal agencies in 2015. The MMET continued its engagement with the Financial Crimes Enforcement Network (FinCEN) on several issues, ranging from supervision processes to de-risking.3 MMET members coordinated with FinCEN in a variety of forums, including Treasury’s Bank Secrecy Act Advisory Group, explaining the legal, regulatory, and supervisory structures of state MSB supervision and its relation to the risks facing banks that offer services to money services businesses. This will be an ongoing education and transparency effort as de-risking continues.

The MMET also established a relationship with the Office of Foreign Asset Control (“OFAC”). As a result, OFAC opened a training series on sanctions issues to state examiners. Topics covered have included updates on Cuba and Iran sanctions.

Additionally, 2015 was the first year for coordinated exams with the CFPB, the culmination of significant process and scheduling work by the MMET, State Coordinating Committee, and CFPB. Through MOUs, a supervisory framework, and protocols and agreements, state regulators and the CFPB are now positioned to minimize burden on the MSB industry and leverage the resources available to regulators.

Guidelines for Joint Examinations
In 2014, the MMET developed a guide for lead states and the examiners in charge of multi-state exams. The “Guidelines for Joint Examinations” were developed to provide this guidance, clarifying the responsibilities of both examiners in charge and participating state examiners during the joint examination process. The MMET continued to encourage the use of these guidelines in 2015, improving quality and consistency in multi-state examinations.

2015 Training
Based on a training need identified by the MMET, the CSBS IT Examiner School was conducted in Raleigh, North Carolina in March 2015. This was the second time the IT Examiner School was held, following a successful 2014 pilot. Twenty-two examiners from 16 agencies participated. The IT Examiner School is for examiners from all financial disciplines with limited or no information technology experience or training, or for those looking for a refresher. The course addressed technology, risk assessments, operations, security, risk management, and other core information

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3 There is no common definition of de-risking, but it is commonly understood to refer to the practice of financial institutions terminating relationships with clients or categories of clients to avoid risk.
technology issues. Due to the success of this training, the third IT Examiner School will be held May 2 – May 6, 2016 in San Diego, CA.

An MTRA Intermediate Examiner School was conducted in June 2015 in Minneapolis, Minnesota with 30 examiners, two of whom were awarded scholarships to attend. The faculty was composed of five regulator instructors and a speaker from FinCEN. The school focused on a walk-through of an exam, including the MTRA work program, with particular emphasis on the financial, compliance and management components. The MTRA exam rating system, as well as case studies and data mining, were covered. Also covered was a class exercise on foreign agent due diligence. Last, students completed pre-coursework on detecting suspicious activity.

A school was also conducted at the October 2015 MTRA annual meeting in Kansas City, Missouri. Representatives from 30 state agencies attended the school. The school covered emerging payment systems, data mining and pivot tables, prepaid access, and the complex world of mobile and crypto currency payment systems. Attendees also heard about the US-Brazil corridor and the prevention of money laundering and identification of “front MSBs.” The 2016 Examiner’s School and MTRA Annual Conference will take place September 19-22 in Tucson, Arizona.

Additionally, CSBS conducted its long-standing Bank Secrecy Act and Anti-Money Laundering (BSA/AML) Examiner Classes in October 2015. Examiners from five states participated in the course, which provided an overview of various products as well as BSA/AML and OFAC requirements for prepaid access and money transmitters.

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<thead>
<tr>
<th>Upcoming Training Events</th>
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<th>Location</th>
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<tr>
<td>CSBS IT Examiner School</td>
<td>5/2/2016</td>
<td>San Diego, CA</td>
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<tr>
<td>CSBS BSA/AML Examiner School</td>
<td>6/13/2016</td>
<td>San Diego, CA</td>
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<tr>
<td>2016 MTRA School – MSB Emerging Payment Risks</td>
<td>8/2/2016</td>
<td>Portland, OR</td>
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<td>MTRA 2016 Annual Conference &amp; Examiner’s School</td>
<td>9/19/2016</td>
<td>Tucson, AZ</td>
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<tr>
<td>CSBS BSA/AML Examiner School</td>
<td>11/14/2016</td>
<td>Sacramento, CA</td>
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Industry Advisory Group & Survey
Continuing an annual effort to garner industry input and regulator transparency, the MMET Industry Advisory Group performed a small survey to solicit feedback on multi-state examinations and off-site examinations. The results have been discussed in multiple venues, including the October 2015 MTRA conference. The process has underscored the importance of selecting experienced, well-trained examiners-in-charge to lead multi-state exams, as well as the need to continue to improve consistency between states and examiners.

Looking Forward

In 2016, the MMET anticipates developing expanded training programs to support staffing needs and a defined path to the experience necessary to become an examiner in charge. The MMET will also encourage states to accept exam reports from other states and develop a standardized report of examination that can be used as a common starting point for exam reports. Lastly, the MMET will continue discussions and coordination with federal counterparts. By combining training with improved processes, the MMET will continue to move forward with improving supervision for the industry and state regulators alike.

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