Multi-state MSB Examination Taskforce

2016 & Beyond
Major Themes of 2016

• Coordination

• De-Risking

• Training
Creating an Industry Snapshot

• Centralized information on MSB industry limited

• Semi-Annual MMET State Survey identifies all state-licensed MSBs

• Provides baseline for industry analysis
Industry Snapshot

- Industry is consolidating, but companies are expanding the licensure base
- 59% of Money Transmitters licensed on NMLS
- FL, NJ, GA, WA, and IL have the most licenses
- California (60%) and New York (37%) have the largest percentage of licensees with in-state headquarters

<table>
<thead>
<tr>
<th></th>
<th>Q1 2016 Total</th>
<th>Q1 2015 Total</th>
<th>YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Companies</td>
<td>456</td>
<td>518</td>
<td>-12%</td>
</tr>
<tr>
<td>Corporate Entities</td>
<td>491</td>
<td>Not Tracked</td>
<td>N/A</td>
</tr>
<tr>
<td>Licenses</td>
<td>4442</td>
<td>3808</td>
<td>16.6%</td>
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<tr>
<td>Consolidated Companies Operating in multiple states</td>
<td>243</td>
<td>231</td>
<td>5%</td>
</tr>
<tr>
<td>% of Consolidated Companies Operating in multiple states</td>
<td>53%</td>
<td>45%</td>
<td>8%</td>
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<tr>
<td>Avg. Licenses per Consolidated Company</td>
<td>9.7</td>
<td>7.4</td>
<td>31%</td>
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Capitalize on MTRA Scheduling Process

- MTRA Leadership on Exam Process has brought us to unprecedented joint exam levels

- Broad Industry Coverage for 2015
  - 149 Exams of Multi-state MSBs
  - 97% of MMSBs licensed in 40 or more states examined
  - State Coordination: 62 Multi-state MSBs examined by multi-state teams
Uniform Report of Examination

• Increased federal and state coordination revealed need for streamlined exam reporting

• MMET working group outlined the basics of exam reports and organized the template to reflect exam norms

• Format is flexible for states to adapt as needed for their process/laws

• Currently in pilot stage, feedback from states and industry encouraged
FATF Mutual Evaluation

- Financial Action Task Force – international body that sets standards for anti-money laundering, fraud, proliferation, and terrorist financing
- Performs a review of member states every 10-years
- United States currently under review
- Previous Mutual Evaluation contained little information on state regulation

- MMET and MTRA Board Members participated in on-site review to educate
<table>
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<tr>
<th>Coordination</th>
<th>Risk Assessment</th>
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<tbody>
<tr>
<td><strong>Layered Protection</strong></td>
<td>Largest MSBs examined every year</td>
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<tr>
<td>• Federal Authority</td>
<td></td>
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<tr>
<td>• State Authority</td>
<td></td>
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<tr>
<td>• SAR Review Teams</td>
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<tr>
<td><strong>State Coordination</strong></td>
<td>NMLS MSB Call Report Development</td>
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<tr>
<td><strong>Information Sharing</strong></td>
<td>Industry Self-Assessment</td>
</tr>
<tr>
<td>• FinCEN Reporting</td>
<td>• Policies and Procedures</td>
</tr>
<tr>
<td>• MMET Protocol &amp; Agreement</td>
<td>• BSA/AML Self-Assessment Tool</td>
</tr>
<tr>
<td>• Coordinated Exams</td>
<td></td>
</tr>
<tr>
<td><strong>Enforcement Actions</strong></td>
<td>Virtual Currency</td>
</tr>
<tr>
<td>• Licensing Virtual Currency Companies</td>
<td>• Licensing Virtual Currency Companies</td>
</tr>
<tr>
<td>• CSBS Model Regulatory Framework, including BSA/AML recommendations</td>
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<tr>
<td><strong>Exam Tools Drive Consistency</strong></td>
<td></td>
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<tr>
<td>• MTRA Work Program</td>
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<tr>
<td>• FFIEC BSA/AML Manual</td>
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</table>
2006 U.S. FATF Mutual Evaluation – MTRA Leadership

• “... larger MSBs have reported having 6 to 10 separate examinations by different state authorities in any one year, all using different methodologies. The MTRA has established a committee to consider formulating standardized examination procedures, but it is understood that several states are reluctant to move away from their existing procedures.”

• “The private sector is calling for more coordination amongst state regulators... Currently, those states that belong to the MTRA and have signed the cooperative agreement exchange examination reports, albeit on an infrequent basis except in the case of the largest MSBs. MTRA would ideally wish to move towards the concept of joint examinations.”
2006 vs. 2016 FATF Mutual Evaluation

2006 Shortcomings
• “different methodologies”
• “more coordination”
• “greater coordination between the IRS and the state authorities”

2016 Accomplishments
• MTRA Workprogram
• 66 Joint Exams in 2015
• Schedule Sharing
Federal Coordination

- Coordinated Exams with CFPB
- Joint State/FinCEN Exams
- State-IRS Exam Schedule Sharing
- State/FinCEN/IRS Meetings
MSB Call Report

• Currently no central source of MSB information regarding financial condition or transactions

• Risk profiling and off-site monitoring difficult, increasing state resources necessary to supervise MSBs

• MMET requested examiner participation in development working group, ensuring data collected can be used in exam process
MSB Call Report Supervision Impact

• Reduce onsite impact of document and data requests

• Risk profiling institutions

• Focus examiner resources

• Improved risk focusing for exams
De-Risking

• States have witnessed MSBs losing or having difficulty attaining bank accounts
  - FinCEN confirmed
  - Hurting smaller businesses especially

• Banks and bank regulators unaware of MSB state licensure and regulation

• MMET engaged in education and transparency efforts
De-Risking Education

• Education Themes: Licensure and Supervision
• BSAAG Presentation by MMET Chair Dolezal (OH) & CSBS then-Chair Cotney (MA)
• CSBS & MTRA White Paper
• FFIEC Presentation on State Exams
  • Created examiner awareness – *Lots* of Questions
  • Positive Feedback
• Banks asking state regulators about exam process
De-Risking Education

• Audience Experience?

• Take Away: Regulators and industry both need to be clear on licensure, supervision, and overall compliance expectations of MSBs
De-Risking Efforts

- Texas Supervisory Memorandum allows money transmitters to seek permission to share examination reports with banks

- California exploring “Certificate of Licensure”
  - Notice informing licensed and supervised by DBO

- FinCEN Statement on Providing Banking Services to Money Services Businesses recognizes state licensure, regulation, and supervision
Training

• MMET/MTRA Working Group formed to work with CSBS Professional Development

• Many MTRA, CSBS, and federal opportunities available

• A tiered training program is desired
  ❖ Path from the first day to examiner-in-charge

• Multi-state exam training can be incorporated into program materials and case studies
Questions?