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**REMARKS TO THE CSBS STATE FEDERAL SUPERVISORY FORUM  
MAY 26, 2016**

Thank you, Chuck, for your kind introduction. I want to thank Conference of State Bank Supervisors (CSBS) for inviting FinCEN to speak today. Before I begin my remarks, I want to include a sincere thank you from FinCEN's outgoing director, Jennifer Shasky Calvery. Throughout her tenure, the states have been strong advocates and allies with respect to FinCEN's mission, and we appreciate your partnership. Rest assured, that partnership will continue based on the commitment and energy of a strong FinCEN staff and leadership team that will keep driving forward on our many initiatives, even as we await the appointment of a new director.

FinCEN has attended and spoken at this event for the past several years, but like many of your agencies, we have generally spoken on the state regulators-only day to discuss our joint priorities. Those conversations have always been very beneficial for FinCEN. Today, I am pleased to be able to speak with this broader audience at the State Federal Supervisory Forum, which includes many of our Federal banking regulatory partners. And because of this broader audience, I want to take an opportunity to discuss de-risking and our work with the states on coordinated supervision of money services businesses (MSBs).

Since I have heard the term de-risking used in many different ways, I want to clarify how I am using it today. When I and others at Treasury use the term "de-risking," we are talking about instances in which a financial institution seeks to avoid perceived regulatory risk by terminating, restricting, or denying services to broad classes of clients, without case-by-case analysis of risk or consideration of mitigation options. This is often discussed in the cross-border and correspondent banking context, but the term may be applied in the context of some domestic financial relationships as well. Today, I want to focus primarily on efforts we have made related to domestic de-risking, particularly with respect to MSBs.

In November 2014, FinCEN issued a [statement](#) on providing banking services to MSBs. In that statement, we noted the following: MSBs—including money transmitters that are important to the global flow of remittances—are losing access to banking services, which in part may be a result of concerns about the perceived risks presented by money services business accounts, the costs and burdens associated with maintaining such accounts, and regulatory

scrutiny. MSBs play an important role in a transparent financial system, particularly because they often provide financial services to people less likely to use traditional banking services and because of their prominent role in providing remittance services, both domestically and abroad. FinCEN, as the agency primarily responsible for administering the Bank Secrecy Act (BSA), does not support the wholesale termination of MSB accounts without regard to the risks presented or the bank's ability to manage the risk.

Since issuing our statement in 2014, FinCEN has spoken with many banks and MSBs about the de-risking environment. Our attention is focused on four key areas:

- 1) transparency of the MSB industry;
- 2) transparency of the supervision of the MSB industry;
- 3) communicating consistent, reasonable expectations for providing banking services to MSBs; and
- 4) facilitating industry best practices for MSBs to implement effective AML programs.

With respect to objectives 3 and 4, we are continuing to work with our regulatory partners on a consistent message on expectations for banking MSBs, as well as supportive of the MSB industry's ongoing efforts to develop a best practices document. So, I want to focus my remarks today on the first two objectives: transparency of the MSB industry and transparency of its supervision. This is especially fitting here as FinCEN has done a substantial amount of work with CSBS and state regulators in this regard.

Just as FinCEN has agreements with all of the Federal banking agencies on sharing BSA examination findings, we have similar agreements with a majority of state banking agencies pertaining to the variety of financial institutions that fall under their jurisdictions. We have been working with our state counterparts on MSB supervision for many years. However, over the last few years, we have increased our supervision cooperation through additional actions. For example, CSBS and the Money Transmitter Regulators Association (MTRA) have combined their work through the MSB Multistate Examination Taskforce (MMET). Through the MMET, FinCEN works closely with the states and the IRS on examination coordination. In fact, over the last year we have shared examination schedules to better coordinate those activities.

With respect to transparency in the industry and its supervision, I want to highlight a "white paper" CSBS and MTRA jointly issued yesterday highlighting their [MSB Supervision and Regulation efforts](#). Through this document, the states highlight their extensive licensing and examination efforts. I encourage everyone in this audience to read the document to better understand 1) how the states have increased their supervisory activity over MSBs, and 2) some specific examination expectations of MSBs. What's in the white paper is certainly not a surprise to members of the MSB industry, who have often detailed to us how thoroughly they feel they are examined.

There are a couple of issues within the white paper that I would like to focus on. As the paper notes, the majority of states have an extensive licensing regime that MSBs must follow prior to doing business, and on an annual basis. Prospective licensees must file an application that typically includes the submission of credit reports, fingerprints, a business plan, financial statements, a surety bond and, in many states, evidence of policies, procedures, and internal controls that will facilitate compliance with state and Federal regulations, including the need for FinCEN registration and a BSA/AML compliance program. With the expanding use of the Nationwide Multistate Licensing System (NMLS), licensing requirements across states are becoming more consistent and rigorous.

The white paper also highlights the state supervision of MSBs. State agencies examine licensed money transmitters, for example, as often as on a 12-month cycle to ensure they operate in a safe, sound, and legal manner. MSBs licensed in multiple states are examined closer to the 12-month cycle. Again, if you ask representatives from the larger MSBs, they are quick to tell you that, between the various states, examiners are often in their institutions multiple times a year. In fact, the paper notes that the states examined 97% of multi-state MSBs licensed in 40 or more states in 2015. Over 60% of the MSBs licensed in 20 states were examined. This is all in addition to the IRS' MSB examinations.

BSA/AML compliance is a substantial portion of state money transmitter exams. The white paper details the areas state examiners review, including AML programs, SAR and CTR reporting, internal controls, agent monitoring, risk assessments, and many other areas. The examination and its procedures are based upon much of the work CSBS has done with FinCEN and its banking partners on developing the FFIEC BSA Manual for banks.

Particularly with respect to industry transparency, I would like to highlight the white paper's discussion of the information contained in the NMLS. Our Federal banking partners are probably familiar with the NMLS due to registering companies and individuals in the mortgage business. However, CSBS expanded the use of the system in 2012 to include MSB licensing. Currently, 34 state agencies use NMLS for MSB licensing with more agencies joining NMLS each year as states adjust their laws and regulations. Approximately 1,900 companies hold more than 4,000 approved licenses through NMLS, with 286 money transmitter principals included.

In 2014, CSBS further expanded the NMLS to include the ability of MSB principals to upload lists of their authorized agents for reporting to state regulators. At the end of 2015, 26 states were using this functionality. CSBS reports that, via NMLS, there are currently 161 companies reporting over 170,000 active authorized agents.

I highlight the licensing system because of the value of publicly available information contained in the NMLS. [NMLS Consumer Access](#) is a fully searchable website that allows consumers and others, including banks and examiners, to view information concerning regulated companies, branches, and individuals. The NMLS also contains consolidated state information about any public action related to a regulated entity. Through our many discussions with banks

and their regulators, FinCEN senses that many of them are not yet aware of the transparency into the MSB industry that the NMLS provides. While the information already available is substantial, FinCEN is working closely with the state regulators, banks, and MSBs to further increase the information available through the NMLS.

Lastly, the white paper discusses an additional state effort to develop a unified MSB Call Report that licensees will respond to through the NMLS. This Call Report is intended to unify and replace the currently separate information collection that 36 states require with a process by which MSBs can submit reports to a single collection point on a routine basis. The information will provide the states and Federal regulators with standardized information about MSB activities that will allow us to better assess risk and identify trends, especially in combination with the current authorized agent information. Additional data in this system can only make our cooperative supervision better. And here, I want to applaud what the states are doing to pave the way for combined state and Federal use of this information. These efforts serve as a model for increased information sharing to the same effect among the Federal regulatory agencies themselves.

At the 2015 CSBS State Federal Supervisory Forum, FinCEN signed an MOU for access to the NMLS. We have been looking at the data contained in the system, particularly as it relates to MSBs. The data is incredibly detailed and useful for analytical purposes. Currently we are working with CSBS to obtain the data in bulk format in order to apply our advanced analytic capabilities. Further, we are looking to complete a horizontal study of the industry. And we will also use the data to do risk assessments that can be used by the IRS, FinCEN, or the states for prioritizing MSB examinations and for risk scoping during examinations. The data will also be used in coordination with FinCEN's MSB registration list, as well as other BSA data that may better indicate where an MSB has weakness, or may unknowingly be being used to facilitate the movement of illicit proceeds.

Speaking of examinations, you may have seen on March 11, 2016 that FinCEN issued [guidance](#) that specified a principal's obligation to monitor its agents. This guidance may seem evident to many of you, but it accomplishes several objectives. The guidance dovetails with and supports state efforts when they examine a principal's monitoring of its agents. As noted earlier, the states and the IRS pay specific attention to the adequacy of agent monitoring. In conjunction with the guidance, states are now better able to require MSB principals to maintain easily accessible information regarding their agent monitoring processes. And while we note that states generally focus their efforts on MSB principals, we are also working with CSBS to develop a process for states to report to FinCEN anomalies or concerns about specific agents during their review of a principal. These anomalies will be included in any risk assessment of the industry as well as a review of particular entities.

In issuing the guidance, we also intended to send a clear message to the banking industry that agent monitoring should not be a primary objective of banks that have MSB customers. As

reflected in industry discussions, banks felt that it was unclear who was primarily responsible for the detailed monitoring of agents. Of course, banks are required to know and understand the MSB customers' general activity and monitor for those expectations. But they can do this knowing that the MSB principal is responsible for, and examined for, knowing the activity of their agents.

The guidance was also welcomed by MSB principals as it underscored their own efforts to work with each other to share information on bad agents from an AML perspective. In fact, these information sharing efforts, which would be under the auspices of FinCEN's 314(b) rule allowing for voluntary sharing of information between financial institutions, serves as a model for others in the financial sector.

But pushing for broader information sharing to further AML goals is a topic for another day. So, let me get back to where I started with these remarks. Why am I focusing on the supervision of MSBs with an audience of state and Federal bank regulators? It's because often, in discussions related to de-risking as it applies to domestic MSBs, we hear that banks are expected to be the de facto regulators of MSBs by their examiners. Or, we hear that the MSB industry is unregulated, and therefore is higher risk. In fact, I have been hearing these refrains since I joined FinCEN 10 years ago. What we regrettably are not hearing from banks and their examiners, however, is any recognition or awareness that the landscape has clearly changed and continues to improve.

Through our discussion today, and with the issuance of the CSBS and MTRA white paper, I hope my Federal counterparts can see that we are focused on enhancing our cooperation with and our communication about this industry, and that MSBs are indeed examined and supervised at both the state and Federal level. I am also hopeful that we are providing further transparency into the industry and its regulatory scrutiny. Additionally, I want to thank the state regulators, most of whom are in this room, for their increased focus on supervising MSBs. And, I personally want to thank the outgoing CSBS Chairman, David Cotney, for his strong commitment over the past year on this specific issue. FinCEN's Director and I have appreciated his leadership and believe our ongoing state-Federal coordination discussions have benefitted greatly due to his dedication to the issue. We are also encouraged by the fact that Charles Cooper, the current chairman, has been an avid supporter of these efforts, and we look forward to continued progress.

In closing, I call on my state regulatory partners to continue to work with us on creating even more transparency in the industry, as well as the supervision of the industry. I also encourage additional states that have not been as deeply involved in the discussion of MSB supervision to join us. But, more importantly, I call on my Federal counterparts, whether you are at regional offices working directly with field examiners, or whether you are in Washington working on policy. When you hear that the MSB industry is unregulated, work with us to educate your teams on the increased transparency and supervision of the industry. Working

together to address any potential de-risking of MSBs is a key subject for the CSBS State Federal Supervisory Forum, especially considering the potential economic impact of money transmission to developing countries and MSBs to financial inclusion generally. I look forward to further state-Federal discussions both during the remainder of this conference and in future endeavors.

Thank you.

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