

COMPASS



Chartwell Compliance provides a one-stop shop of consulting, testing and outsourcing services in the areas of regulatory compliance, state MSB licensing, financial crimes prevention and enterprise risk management.

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Islamist Terrorism from a Risk Perspective

By Dennis M. Lormel, CAMS



Dennis M. Lormel is a Senior Advisor for Chartwell. Mr. Lormel retired from the Federal Bureau of Investigation (FBI) in December 2003, following over 30 years of government service, almost 28 years as a Special Agent in the FBI. During his distinguished career, Mr. Lormel amassed extensive major case experience as a street agent, supervisor and senior executive, particularly in complex, document and labor intensive financial related investigative matters. In December 2000, Mr. Lormel was promoted to Chief of the FBI's Financial Crimes Program.



Governments, through their intelligence and law enforcement agencies, access and prepare for terrorist activity based on the level of the risk or physical threat that terrorism presents. To address the risk or the threat, you have to understand the risk or the threat. Understanding the threat of terrorism can lead to detection, intervention, disruption and prevention. Truly understanding requires accurate and continuous risk assessment. No one is more cognizant of the risk assessment process than financial institutions. The cornerstone of every anti-money laundering (AML) compliance program is the risk assessment.

An AML risk assessment is designed to identify inherent risks. Once inherent risks are identified, you develop controls or control environments that will mitigate risk. The next step in the process is to identify the inevitable residual risk. Once residual risks are identified, you again determine the level of controls necessary to continue to mitigate the risk. In assessing the threat of terrorism from an AML perspective, you must first assess the overall threat of terrorism and then drill down and assess the terrorist financing risk. Terrorist financing should be considered a component of terrorism, and therefore, should be assessed in conjunction with the broader terrorism risk and mitigation strategies.

Specific inherent and residual terrorist risk factors are not financial institution risk factors. As a component of terrorism, terrorist financing risk factors should be considered after assessing the specific terrorist risk factors by drilling below the broader terrorist risk factors to identify the financial threads. However, it should be noted that inherent and residual mitigation measures will include specific financial disruption mechanisms.

The greatest immediate threat to the U.S. and our allies comes from jihadist terrorism or Islamist extremism. Islamism is a radical political ideology. It is extremely important to note that Islamism is separate from Islam as a religion. Islam is not the problem. Jihadist extremists who twist Islam and misinterpret it to fit their radical ideology present the problem. Core groups, most notably the Islamic State and al-Qaeda, their affiliate groups and grassroots jihadists who are influenced by these groups pose the threat. Groups like the Islamic State and al-Qaeda have been extremely adept at exploiting the internet for propaganda, fundraising, and most notably, recruitment. Disenfranchised and easily radicalized individuals, who become foreign terrorist fighters and homegrown violent extremists, have evolved into the most acute threat to the U.S. and its allies.

On April 18, 2017, in a speech at George Washington University, Center for Cyber and Homeland Security, Department of Homeland Security Secretary, John Kelly, discussed the threat of terrorism. Secretary Kelly made the following comments: "The threat to our nation and our American way of life has not been diminished. In fact, the threat has metastasized and decentralized, and the risk is as threatening today as it was that September morning almost 16 years ago. As I speak these words the FBI has open investigations in all 50 states...But the dangers don't just come from overseas. Over the past few years, we've seen an unprecedented spike in homegrown terrorism. In the past 12 months alone, there have been 36 homegrown terrorist cases in 18 states. These are the cases we know about—homegrown terrorism is notoriously difficult to predict and control. And what's feeding this homegrown violence? Most experts agree a major contributor is the internet."¹

¹ Home and Away: DHS and the Threats to America, Remarks Delivered by Secretary Kelly at George Washington University Center for Cyber and Homeland Security, U.S. Department of Homeland Security, April 18, 2017, <https://www.dhs.gov/news/2017/04/18/home-and-away-dhs-and-threats-america>.

[...] we can disrupt and prevent terrorist attacks from occurring. It is a daunting task that begins with understanding risk.

Secretary Kelly's remarks underscore the fact that over the past several years, the terrorist threat environment facing the U.S. and its allies have evolved into something more dangerous and complicated than ever before. It points to the threat evolution of homegrown violent extremists. In order to disrupt, diminish and ultimately prevent the threat of homegrown violent extremism, we must fight the threat of terrorism through sustainable tactical and strategic strategies. Sustainable tactical and strategic strategies require establishment of meaningful public-public and public-private partnerships.

We must establish and maintain tactical measures to thwart terrorist attacks. Tactical measures include:

- ▶ **Public sector** intergovernmental offensive and defensive activities to include military action, diplomatic engagement, intelligence operations, law enforcement investigations and sanctioning actions
- ▶ **Public and private sector** capacity building initiatives to assist at-risk countries build good governance systems and to fight corruption
- ▶ **Public and private sector** financial disruption activity through disrupting the funding flows to and from terrorist organizations. This is where financial institutions, and more broadly the financial services industry, play a significant role

We must establish and maintain strategic measures to counter the extremist radicalization that fuels its hatred and violence and undergirds its strategy and global appeal. Strategic measures include:

- ▶ **Public and private sector** community outreach and vigilance to identify and interdict individuals at risk for radicalization
- ▶ **Public and private sector** propaganda strategies using social media and internet communications to dispel and counter the appeal of radicalization
- ▶ **Public and private sector** strategies to prevent radicalization, promote intervention and reintegration

The foundation for developing meaningful and sustainable tactical and strategic strategies is to understand the risk factors. You understand risk factors through risk assessment and analysis. From an AML perspective, you identify the inherent risk factors, risk mitigation of the inherent risk factors, residual risk factors and risk mitigation of the residual risk factors. For Islamist terrorism, the inherent risk factors include: sectarianism, ideology, lack of governance, corruption and convergence. The residual risk factors include adaptability, capacity and reach.

Inherent and residual risk factors for Islamist terrorism do not contain direct financial threads. The financial threads are indirect. This is one of the reasons why terrorist financing is a component of terrorism. From an AML perspective, this is also one of the primary considerations as to why terrorist financing is so difficult to identify. Developing tactical and strategic Islamist counterterrorism strategies begins with assessing and understanding terrorist risk factors starting with inherent risk factors. Tactical strategies will be more tangible, while strategic strategies will be more intangible.

There are a variety of inherent risk factors that merit consideration. Five fundamental inherent risk factors include:

- ▶ **Sectarianism:** Sectarianism goes back thousands of years. It goes back to the death of the Prophet Muhammad in the year 632. It is rooted in the divide between Sunni Muslims and Shiite Muslims about who was the rightful successor to Muhammad. Through the years, the sectarian divide between Sunnis and Shiites has grown and has led to significant fighting, chaos and instability in the Arab world.
- ▶ **Ideology:** Islamist ideology is an extreme radical interpretation of Islam that has been adopted by Islamist terrorist groups to justify their violent tactics and political quest to establish a caliphate.
- ▶ **Lack of governance:** The lack of governance in many countries is caused by factors to include the Sunni and Shia divide and corruption. The lack of governance creates crisis and chaos, which serve as an incubator for the growth of terrorist groups and transnational criminal organizations.
- ▶ **Corruption:** Corruption contributes to a lack of governance and a loss of trust. When the public does not trust the government there is a lack of governance which fosters sectarianism and enables the growth of terrorism and transnational criminal activity.
- ▶ **Convergence:** The convergence of terrorist groups and transnational criminal organizations has proven to be extremely profitable for both. By forming hybrid terrorist and criminal organizations, these groups have been empowered and have developed lucrative funding streams, especially in countries with poor governance.

Each of the five inherent risk factors build on each other to enhance the risk of Islamist terrorism. The tactical mitigation strategies to address the inherent risk factors should first be focused to operationally contain the physical threat of terrorism. It should then lead to disruption, and ultimately, to prevention, in tandem with strategic strategies.

There should be two prongs to the tactical mitigation strategy. The first requires public sector interagency collaboration to continue to contain and disrupt the threat of terrorism through military, diplomatic, intelligence, law enforcement and sanctions operational counterterrorism measures. The second prong requires public and private sector collaboration to disrupt and prevent the flow of funds to and from terrorist organizations, operations and operatives. This is where financial institutions play a pivotal role.

Strategic mitigation strategies should also be two pronged. Both prongs require public and private sector partnerships. The first prong should involve public and private sector collaboration to counter the propaganda used by terrorists on social media and through internet communications for recruitment. The second prong should involve diverse community outreach to identify at-risk individuals and to interdict those who fall prey to jihadist recruitment. This requires vigilance, intervention and ultimately the reintegration of at-risk individuals back into the community.

There are two primary Islamist terrorist residual risk factors, which are:

► **Adaptability:** All terrorists, including Islamist terrorists, have demonstrated the ability to be adaptive. As the public and private sector assess risk, terrorists assess counterterrorism tactics and adapt their operations to avoid detection and disruption. They also seek to continuously identify systemic vulnerabilities they can exploit in order to sustain the threat they pose.

► **Capacity and reach:** Islamist terrorist groups evolve or devolve as their capacity and reach change. For example, the Islamic State evolved into an organization with a supposed caliphate, which provided barbaric governance. As the caliphate collapses, the Islamic State will devolve from a structured organization to an insurgency. Their capacity to govern will cease but their ability to wreak havoc will continue to some extent. Through homegrown violent extremists and other mechanisms, they will strive to establish greater reach by causing attacks in the U.S. and allied nations.

To address the residual risk, both the tactical and strategic mitigation strategies should continue to follow their two-pronged approaches. Terrorists will be more adaptive to tactical counterterrorism initiatives. Therefore, from a tactical counterterrorism perspective the response should be more vigilant and flexible to adjust to the adaptations of the terrorists. As Islamist terrorist groups, most notably the Islamic

The ultimate goal of counterterrorism initiatives is to eliminate the threat of terrorism. Unfortunately, that will never happen [...] However, we can work toward detection, intervention, disruption and prevention.

State, see their physical presence in Iraq and Syria diminish, they are more likely to push outward on the internet to intensify recruitment of homegrown violent extremists. Between foreign fighters returning to their homelands— from Iraq and Syria— and the ongoing recruitment of homegrown violent extremists, the Islamic State will encourage them to commit terrorist acts in their home countries. Thus, it is critically important that strategic counterterrorism initiatives intensify to identify, interdict and disrupt the radicalization process.

The ultimate goal of counterterrorism initiatives is to eliminate the threat of terrorism. Unfortunately, that will never happen. With respect to Islamist terrorism, especially with the serious sectarian divide between Sunnis and Shiites, it is extremely unlikely that we can eliminate the inherent and residual risk factors. However, we can work toward detection, intervention, disruption and prevention. To accomplish this, we must understand the enemy, their perspective and the risks they pose. As part of this process, we must identify and understand the flow of funds to and from terrorist organizations. This should emphasize the importance of financial intelligence and the risk assessment process.

Understanding the terrorist threat should lead to the development and implementation of effective tactical and strategic containment and disruption strategies. These initial strategies are mostly reactive strategies that can be built upon. This is the juncture where public-public and public-private partnerships play a meaningful role. This is where collaboration leads to the development of more proactive strategies that leverage the capabilities and capacity of public and private partners. This will prevent evolving from reactive containment and disruptive strategies to reactive and proactive disruptive and preventive strategies. We may never be able to eliminate the threat of terrorism, but we can disrupt and prevent terrorist attacks from occurring. It is a daunting task that begins with understanding risk.

MSB & Fintech Regulatory Highlights **Updates**

By Jason Noto, Esq.

U.S. Senate The U.S. Senate currently has a bill on the floor that would essentially bring back the Glass-Steagall Act provisions that were repealed under the Gramm-Leach-Bliley Act (GLBA). Generally, an insured depository institution would not be able to: (1) be or become an affiliate of any insurance company, securities entity, or swaps entity; (2) be in common ownership or control with any insurance company, securities entity, or swaps entity; or (3) engage in any activity that would cause the insured depository institution to qualify as an insurance company, securities entity, or swaps entity.

Texas Texas recently passed a bill that re-defines “tangible net worth” as the total value of all assets, minus any liabilities and intangible assets. Money Transmitter applicant net worth must now be \$500,000, if business is proposed to be or is conducted, directly or through an authorized delegate, at five or more locations or over the Internet. Additionally, at least 50 percent of a Money Transmitter license applicant’s or license holder’s total net worth must be tangible net worth. The new law is also clear that the Banking Department Commissioner may increase the amount of security required of an applicant who intends to provide, or a license holder who is providing, third-party bill payments in conjunction with loan acceleration services, up to a total amount of \$2 million, by multiplying the amount of security required under this section by a factor of up to two.

New Hampshire New Hampshire recently passed a bill that exempts the State from regulating virtual currency as money transmission and, thus, not requiring a Money Transmitter’s license to engage in virtual currency transmission within the State. Conversely to New Hampshire’s virtual currency exemption passage, neighboring state, Vermont, went in the opposite direction. Vermont recently passed a bill calling for the regulation of virtual currency money transfers as money transmission.

Vermont Vermont, within the same bill calling for virtual currency regulation, updated necessary money transmitter consumer disclosures. Specifically, licensees and authorized delegates will need to provide a receipt to the customer that clearly states the name, address, and telephone number of the licensee; the amount of money presented for transmission; and the total of any fees charged by the licensee. Additionally, if the rate of exchange for a money transmission to be paid in the currency of a foreign country is fixed by the licensee for that transaction at the time the money transmission is initiated, then the receipt provided to the customer will need to disclose the rate of exchange for that transaction, and the duration, if any, for the payment to be made at the fixed rate of exchange so specified. However, if the foreign country exchange rate is not fixed at the time the transmission is sent, then the receipt provided to the customer would need to state that the rate of exchange for the transaction will be set at the time the foreign country recipient receives the funds. Last, refunds must be issued to the customer within 10 days of receipt of a written request for a refund all moneys received for transmittal unless: (1) the funds have been delivered to the recipient, (2) instructions have been given committing an equivalent amount of money to the person designated by the customer or (3) there is reason to believe that a crime has been committed.

CFPB The CFPB has a proposal for comment that relates to several aspects of the final prepaid rule amended in April of 2017, including error resolution and limitations on liability for prepaid accounts where the financial institution has not completed its consumer identification and verification process; application of the rule’s credit-related provisions to digital wallets that are capable of storing funds; certain other clarifications and minor adjustments; and two issues relating to the effective date of the rule. Compliance date for the rule would be October 1, 2018. Comments are due by August 14, 2017.

CFPB The CFPB also issued a new rule banning financial services-related companies--such as those that lend money, store funds, and move or exchange funds to or for consumers--from using mandatory arbitration clauses to prohibit class action lawsuits brought by consumers. Specifically, such companies using pre-dispute arbitration agreements must include language in the agreements expressly stating that class-action suits are not included in the lawsuit waiver within the arbitration clause. The rule also requires the companies to submit certain records relating to arbitral and court proceedings to the CFPB.

Chartwell will continue to track and monitor these and other potential changes as 2017 could bring about more legislative and regulatory fluctuations in the financial services industry.

Customer Due Diligence (CDD) & Anti-Money Laundering (AML) Controls

By Brandi Reynolds, CAMS-Audit



“Knowing Your Customer” is critical for any financial institution. To adequately Know Your Customer (“KYC”), a financial institution must conduct proper Customer Due Diligence (CDD). Financial institutions are often scrutinized by regulators for having weak or inadequate controls in this area. Specifically, Regulators are concerned with the lack of uniformity and consistency with CDD compliance. Lack of effective controls may render a financial institution’s AML Program inadequate.

Beginning on May 11, 2018, covered financial institutions must comply with new FinCEN rules that were finalized on July 11, 2016.¹ “Covered financial institutions” are those that are already

subject to Bank Secrecy Act (BSA) Customer Identification Program (CIP) requirements such as: depository institutions, mutual funds, securities brokers, and futures commission merchants

and, introducing brokers in commodities. These rules are best practices for other financial institutions as well as non-financial institutions that partner with banks.

What are the core elements of CDD?

FinCEN indicates that there are four core elements of CDD and should be explicit requirements in the anti-money laundering (AML) program for all required financial institutions. Requiring a covered financial institution to incorporate these elements into its AM Program will allow for clarity and consistency across sectors.² The four core CDD elements are:

1. Customer identification and verification - CDD begins with verifying the customer’s identity. Financial institutions must identify and verify customers on a risk-based approach to ensure there’s a reasonable belief as to the true identity of the customer.³

2. Beneficial ownership identification and verification - Financial institutions shall identify beneficial owners of all customers and verify their identities using a risk-based approach.

3. Understanding the nature and purpose of customer relationships to develop a customer risk profile - Regulated financial institutions should understand the nature and purpose of the transaction as well as expected activity. This will assist in assessing the risk and identifying and reporting suspicious activity.

4. Ongoing CDD - Financial institutions shall establish policies and procedures for conducting ongoing monitoring of all customers/transactions for reporting suspicious transactions and, on a risk-basis, maintain and update customer information.

1 <https://www.gpo.gov/fdsys/pkg/FR-2016-05-11/pdf/2016-10567.pdf>

2 <https://www.gpo.gov/fdsys/pkg/FR-2016-05-11/pdf/2016-10567.pdf>

3 https://www.ffiec.gov/bsa_aml_infobase/pages_manual/olm_011.htm and https://www.ecfr.gov/cgi-bin/text-idx?SID=9bd185e43e8c6b2ef75acbb2e228806d&mc=true&node=se31.3.1022_1210&rgn=div8

How can financial institutions mitigate their risk?

Financial institutions can mitigate their risk of non-compliance by creating and maintaining a client risk profile. Financial institutions should maintain a process for identifying and managing high-risk customers and transactions that includes procedures for enhanced due diligence (EDD).

The dilemma that financial institutions have is that there is not a “one size fits all” approach to complying with the CDD requirements. Therefore, financial institutions must employ a risk-based approach.

To determine the relevant risks, financial institutions must obtain information, similar to the information listed below, to determine the following:

- ▶ Purpose of the transaction or business relationship;
- ▶ Expected pattern of activity (e.g. volume and transaction amounts)
- ▶ Origination and destination of funds (if applicable)
- ▶ Beneficial owners;
- ▶ Geographic location of the customer.

What you should know about high-risk accounts...

It is likely that high-risk accounts may be identified during the CDD process. It is important that EDD is conducted on all high-risk customers/transactions and properly documented, because these are often scrutinized by regulators. Below are some things you should know about high-risk accounts.

Regulators often scrutinize high-risk accounts and the process to identify them.

Politically Exposed Persons (PEPs) may be considered high-risk customers.

Risk ratings must adequately rate the



risk of the customers and be linked to the process for monitoring and reporting suspicious activity.

Enhanced monitoring is required for high-risk customers/transactions.

AML Controls for Compliance

Failure to implement adequate internal controls is frequently cited in enforcement actions issued by FinCEN⁴. Regulators often rely on independent annual testing as reassurance that AML program requirements are being followed by the financial institution. This testing includes verification of adequate controls such as policies and procedures and transaction testing. However, it is no longer sufficient that these controls are in place. Regulators now want assurance that the financial institution is effectively implementing these controls.

What Controls do you need?

No matter the type and size of your financial institution, there are certain standard controls that should be

considered to assist you in your compliance efforts with CDD requirements.

Suspicious Activity Monitoring- Are there adequate technical and/or human resources for detecting suspicious activity?

Policies and Procedures- The AML Compliance Program should be supplemented with policies and procedures. These should be regularly updated.

Customer Risk Rating- The risk rating approach/methodology should be updated regularly to consider changes in products and services offered.

Conclusion

The cornerstone of a strong BSA/AML compliance program rests in the adoption and implementation of comprehensive CDD policies, procedures, and processes for all customers, particularly those that present a higher risk for money laundering and terrorist financing. An effective BSA/AML Compliance Program must incorporate CDD, EDD, and proper AML Controls to meet regulator’s scrutiny.



Brandi Reynolds, CAMS-Audit, is a Compliance Director with Chartwell and has over 11 years of experience in the money services business industry in anti-money laundering (AML), consumer compliance and corporate governance. In addition to her AML expertise, Brandi has experience in federal and state level consumer compliance. For more information, please contact Brandi at brandireynolds@chartwellcompliance.com.

⁴ <https://www.fincen.gov/news-room/enforcement-actions>

Five Tips to a Successful Money Transmission Licensing Project

By Sherry Tomac, PMP

Here are 5 tips to managing a successful money transmission licensing project. Multiple state licensing projects can be overwhelming with complexity and the volume of information required. The complexity is increased due to the need to address federal BSA/AML/OFAC and consumer protection compliance requirements. With many fintech companies offering online financial products and services, it's not at all unusual for them to make the decision to apply for money transmission licenses in all 50 states and the 4 US territories at once. The last thing they want to do is deny a transaction or be fined because they don't have a money transmitter license in the customer's state of residence.

So how and where do you start a large money transmission licensing project? You must plan and organize. Chartwell researches each state's money transmission application requirements which may involve anywhere from 5 to 35 pieces of information per application. Multiply that by 50 states and 4 territories and you have a mighty large list of requirements for your project. In fact, Chartwell's master list of documents/pieces of information needed to be obtained from a client can top 300 items. Our clients are often amazed (and sometimes frustrated) at how much information states require for the money transmission license applications.

TIP #1 Identify Critical Path Items. Based on years of licensing application experience, Chartwell has developed a list of Critical Path Items representing applicant information that is common amongst most state applications. Some of the items may be easy to obtain, such as copies of corporate formation documents, but many other items such as a business plan, a flow of funds diagram, and operating policies and procedures have a long lead time and require a collaborative client effort to develop. Prioritizing the Critical Path Items in our licensing project plans gets the most common project items having the longest lead times started first.

TIP #2 Establish the Order of Application Filings. In determining order, clients may prioritize the easiest license applications first, ones that require less personal disclosure information, or sometimes it's prioritized by lowest fees and/or minimum net worth requirements. On the flip side, some clients opt to prepare and submit the state applications

having the longest application processing lead times first, such as New York or California. Finally, some applicants choose to prioritize states with the highest expected sales or the states where their IT group has completed software development. There are a variety of ways to establish the order for preparing and submitting applications, but an order must be established to set the course of the application work.

TIP #3 Use a One-Piece Flow approach to completing and submitting state applications. One-Piece Flow means working one application from start to finish before starting the next one. Following the client's designated Order of (Application) Filings and using the Critical Path Items, state applications are prepared one by one. Batching the input of information across several states at once leaves you with many half-completed applications rather than even one completed application at the end of each day. Unique state information beyond the Critical Path Items is requested from the client as the application is being prepared.

TIP #4 Prepare and submit each state money transmission license as quickly as possible. We all know change is constant. States are constantly changing their forms and requirements, often without advance notice. Companies are constantly changing their products, their key officers and directors, their strategy, and even their address. If preparation of an application drags out too long, your application will be stale and you will have a lot of rework to contend with. And, since most states require bonds as part of the application, you could also be paying bond fees while trying to finalize everything for submission to the state.

TIP #5 Respond to state deficiency notices quickly. As each state begins to review an application, the regulator may send notices asking for clarification or possibly for additional information to understand the applicant's business and how state regulations are met. These additional questions or requests for documentation are referred to as deficiencies. Some state regulators set due dates for the applicant's responses to deficiencies and some do not. The strategy here is to close these out state by state and making sure deficiencies are responded to within the deadlines. Missed deadlines could mean re-submission of the application and loss of application fees.

The difficulty of managing a money transmission licensing project is exponential to the number of states where the company is required to be licensed. A 50-state project can take up to 24 months from start to finish, sometimes longer. Planning and organizing the work using the 5 tips above will help make the effort more focused, efficient, and successful.



Sherry Tomac, PMP, Sherry has spent 20 years developing her expertise managing global, cross-functional projects focused on strategic organizational goals such as software rollouts, call center initiatives, and compliance undertakings at Western Union and First Data. Sherry also has seven years of client engagement experience with Ernst & Young.

Sherry has a passion to drive process improvement and is a certified Six Sigma Black Belt and has completed Toyota Production System Lean Kaizen training in Japan. Sherry graduated from the University of Missouri. For more information, please contact Sherry at sherrytomac@chartwellcompliance.com.



Interview with **David Durant,** General Counsel, YapStone

By Richard Davis

Please tell us a bit about YapStone and its services

DD: YapStone is characterized as a full stack payment service provider and payment facilitator in the US and abroad with a focus on properties, short term/long term rentals, vacation rentals and Home Owners Associations.

Describe what you like most about your current position

DD: I'd have to say three things. One, the Companies commitment to people and the products and finding ways to make the experience great, two, the people themselves, a great set of employees, and three, the pace of innovation and change creates challenge in an environment where compliance and legal are valued highly.

How do you see the company changing in the next two years, and how do you see yourself being a part of that change?

DD: We have a very aggressive roadmap and set of projects that we are working to deliver that deal with product enhancements and expanding our footprint to other online marketplaces. In addition to expanding the number of online marketplaces, expanding the geographical scope of services.

How I see myself being part of this is, is on multiple levels. One is ensuring that the legal and compliance department grows in a way that allows the company to scale, and two, working to help the company to operate efficiently and helping manage our way through a complex legal and regulatory environment on an international level.

How did YapStone celebrate being named #19 on the San Francisco Business Times Top 50 East Bay Private Companies List?

DD: It was at an all hands meeting with a big rah, rah. Being named #19 is a challenge, because we are striving to be the #1 company.

YapStone is diligent about keeping an eye on their Customer and takes steps to ensure a great consumer experience. What is YapStone's "secret" of achieving this over the last 17 years?

DD: I think the key is a singular focus on our customers and on continuing to be innovative and entrepreneurial.

What is the biggest challenge you are facing right now?

DD: Complexity related to regulatory changes, particularly in payment services licensing and privacy. Including for example, new changes in Europe around cyber security and changes in US, particularly in the state of New York.

YapStone is characterized as a full stack payment service provider and payment facilitator in the US and abroad.

The best piece of advice that you have ever received?

DD: I think the best piece of advice I have ever received is “listen, far more than you speak”.

Who has inspired you the most throughout your life?

DD: If I had to just pick one figure who has inspired me in my life that would-be Martin Luther King, Jr. There are a couple of reasons, one is the sheer power of his ideas and his willingness to adapt his ideas to changing circumstances over time. And, the other is his focus on the quality of the individual person as well as work that they do.

Did you ever have a nick name?

DD: Laughter... Yes, I did but none that I can share...

What was your favorite age?

DD: As I try so much to focus on living in the moment, my current age is my favorite age.

Literally, there is so much of what I can do today that is based on a body of experience, not just work experience but human, living experience, and I try and build on that collection of experiences on a daily and weekly basis. I can't imagine how life would have been at 25 knowing everything I know now.

If given a chance, who would you like to be for a day?

DD: I am going to go with my first initial thought, there are actually two. The first is Barack Obama and the second is Richard Branson. I am always intrigued by fascinating people. I mean, people who are sort of willing to do the unusual or unforeseen – to contribute in a productive way. I think that phrase epitomizes both of them.

People would be surprised if they knew?

DD: Laughter... The things that go through my head that I don't say...

What did you want to be when growing up?

DD: Early on I wanted to be a business tycoon and then, still as a kid, it evolved into wanting to be a lawyer. I was influenced by pop culture at that time, and it is likely that most attorneys would have the same answer, but Atticus Finch in *To Kill a Mockingbird*, Perry Mason of course, but I also had read collection of books that had been written by F. Lee

“If I had to just pick one figure who has inspired me in my life that would-be Martin Luther King, Jr. There are a couple of reasons, one is the sheer power of his ideas and his willingness to adapt his ideas to changing circumstances over time. And, the other is his focus on the quality of the individual person as well as work that they do.”

Bailey and became enamored with the idea of using law for doing good and for building things.

What's the weirdest thing you've ever eaten?

DD: Laughter... I am not particularly adventurous with food, however, and it was just a couple of years ago, while traveling in Thailand, I had seen gamecock running around that afternoon. That evening, it was on my plate. I travel a lot and love food from all over, but generally stay away from strange food choices.

What book did you read last?

DD: It is actually something I'm reading right now, a novel called *The Human Stain* by Philip Roth, which was given to me by a former colleague who literally at one point in a conversation, said “the way you are talking, you need to read this book.” She glowed about the complexity of the characters and she thought it would be worth the read and that I would relate.



Arizona Department of Financial Institutions

Money Transmitter
Start Date: 5.1.2017

Collection Agency License
Start Date: 1.2.2017

Arkansas Arkansas Securities Department

Money Transmitter License
Start Date: 10.01.2015

California California Department of Business Oversight

Money Transmitter License
Start Date: 1.15.2016

Connecticut Department of Banking

Check Cashing Branch License - General Facility, Check Cashing Branch License - Limited Facility, Check Cashing License, Consumer Collection Agency Branch License, Consumer Collection Agency License, Debt Adjuster For-Profit Branch License, Debt Adjuster For-Profit License, Debt Adjuster Non-Profit Branch License, Debt Adjuster Non-Profit License, Debt Negotiation Branch License, Debt Negotiation License, Money Transmission License, Sales Finance Company Branch License, Sales Finance Company License, Small Loan Company Branch License, Small Loan Company License
Start Date: 7.1.2015

Georgia Department of Banking and Finance

Check Casher License
Check Casher Branch Location
Money Transmitter
Seller of Payment Instruments License
Start Date: 9.2.2014

Hawaii Department of Financial Institutions

Escrow Depository License
Start Date: 9.1.2016

Money Transmitter
Money Transmitter Branch
Registration
Start Date: 7.1.2014

Idaho Department of Finance

Money Transmitter
Start Date: 9.1.2012
Collection Agency License
Payday Lender License
Regulated Lender License
Start Date: 9.3.2013

Illinois Illinois Department of Financial and Professional Regulation

Money Transmitter License
Start Date: 11.1.2015
Consumer Installment Loan License
Payday Reform License
Sales Finance Agency License
Start Date: 7.1.2016

Indiana Department of Financial Institutions

Money Transmitter License
Start Date: 11.1.2013
Debt Management License
Start Date: 7.1.2014

Indiana Secretary of State

Collection Agency
Start Date: 11.1.2012

Iowa Division of Banking

Debt Management License
Delayed Deposit Services
Business Branch License
Delayed Deposit Services
Business Registration
Money Services License
Start Date: 7.1.2013

Kansas Office of the State Commissioner

Money Transmitter License
Start Date: 11.1.2013

Kentucky Department of Financial Institutions

Money Transmitter
Start Date: 8.1.2012

Louisiana Office of Financial Institutions

Insurance Premium Finance
Licensed Lender
Pawnbroker
Sale of Checks and Money
Transmitter
Start Date: 7.1.2012

Maine Department of Professional and Financial Regulation

Money Transmitter
Start Date: 11.1.2014

Maryland Commissioner of Financial Regulation

Money Transmitter
Start Date: 1.2.2013

Massachusetts Division of Banks

Check Casher
Check Seller
Debt Collector
Foreign Transmittal Agency
Insurance Premium Finance
Motor Vehicle Sales Finance
Retail Installment Sales Finance
Small Loan
Start Date: 4.16.2012

Michigan Office of Financial and Insurance Services

Money Transmitter License
Start Date: 9.3.2013



Minnesota Department of Commerce

Money Transmitter License

Start Date: 10.1.2013

Currency Exchange License

Currency Exchange Registration

Currency Exchange Branch License

Start Date: 9.1.16

Electronic Financial Terminal License

Start Date: 7.1.2016

Mississippi Department of Banking and Consumer Finance

Consumer Finance Division

Debt Management

Motor Vehicle Sales Finance License

Motor Vehicle Sales Finance

Registration

Start Date: 10.31.2016

Money Transmitter

Start Date: 5.1.2017

Montana Division of Banking and Financial Institutions

Consumer Loan License

Consumer Loan Branch License

Deferred Deposit Lender License

Deferred Deposit Lender Branch License

Escrow Business License

Sales Finance Company License

Sales Finance Branch License

Start Date: 7.1.2014

Nebraska Department of Banking and Finance

Installment Loan

Start Date: 4.15.2013

Department of

Banking and Finance

Money Transmitter

Start Date: 4.14.2014

New Hampshire Banking Department

Debt Adjuster

Money Transmitter

Motor Vehicle Retail Seller

Motor Vehicle Sales

Finance Company

Small Loan Lender

Start Date: 7.9.2012

Money Transmitter

Start Date: 6.24.2013

New Mexico Financial Institutions Division

Money Service Business

Check Cashier License

Currency Exchange License

Start Date: 7.1.2016

New York State Department of Financial Services (NY-DFS)

Money Transmitter License

Start Date: 7.1.2017

North Carolina

Money Transmitter License

Start Date: 11.15.16

Transition Due: 12.31.2016

North Dakota Department of Financial Institutions

Collection Agency

Branch Registration

Collection Agency License

Debt Settlement Service Provider

Branch Registration

Debt Settlement Service Provider

License

Money Transmitter License

Start Date: 7.1.2013

Deferred Presentment Service

Provider Branch License

Start Date: 10.25.2013

Oklahoma Department of Banking

Money Transmission License

Start Date: 10.1.2012

Oklahoma Department of Consumer Credit

Deferred Deposit Lender

Start Date: 4.16.2012

Oregon Division of Financial Regulation

Collection Agency Registration

Collection Agency Branch

Registration

Debt Management Service Provider

Registration

Money Transmitter License

Start Date: 4.15.2017

Transition Due: 9.30.2017

Department of Consumer and

Business Services

Consumer Finance License

Start Date: 1.2.2014

Payday/Title Loan License

Payday/Title Loan Registration

Payday/Title Loan Branch License

Start Date: 4.1.2015

Pennsylvania Department of Banking

Debt Management Services

Money Transmission

Start Date: 9.1.2012

Check Cashier

Retail Grocery Store Check Cashier

Start Date: 2.15.2013

Pawnbroker License

Start Date: 8.1.2013

Debt Settlement License

Debt Settlement Branch License

Debt Settlement (DN) License

Debt Settlement (DN) Branch

License

Start Date: 11.1.2014



Puerto Rico Commissioner of Financial Institutions

Money Transmitter
Start Date: 7.1.2014

Rhode Island Division of Banking

Check Cashier
Start Date: 4.16.2012

Debt Collector Registration
Start Date: 9.3.2013

Debt Management Services

Electronic Money Transfers

Sales of Checks
Start Date: 4.16.2012
Transition Due: 6.30.2012

Small Loan Lender
Start Date: 4.16.2012

Third Party Loan Servicer License
Start Date: 7.1.2015

South Dakota Division of Banking

Money Transmitter, Money Lender & Money Lender Branch
Start Date: 7.1.2015

Tennessee Department of Financial Institutions

Deferred Presentment
Start Date: 8.1.2012

Money Transmitter License
Start Date: 10.1.2013

Flexible Credit License
Start Date: 1.2.2015

Texas Department of Banking

Money Transmission
Start Date: 9.2.2014

Property Tax Lender License
Start Date: 7.1.2014

Utah Department of Financial Institutions

Money Transmitter License

Escrow Agency Registration

Title Lender Registration
Start Date: 9.1.2015

Deferred Deposit Lender Registration
Start Date: 11.1.2013

Vermont Division of Banking

Debt Adjuster
Start Date: 11.1.2012

Litigation Funding Registration
Start Date: 7.1.2016

Money Transmitter

Check Cashier & Currency Exchange
Start Date: 7.1.2012

Sales Finance
Start Date: 4.16.2012

Washington Department of Financial Institutions

Check Cashier

Check Cashier with Small Loan Endorsement
Start Date: 7.30.2012

Currency Exchanger

Money Transmitter
Start Date: 4.16.2012

Washington, D.C. District of Columbia Department of Insurance, Securities and Banking

Automated Teller Machine Operator License

Automated Teller Machine Operator Branch License

Check Cashier

Check Cashier Branch

Money Lender

Money Lender Branch

Money Transmitter

Retail Seller and Consumer Sales Finance

Retail Seller and Consumer Sales Finance Branch
Start Date: 9.3.2014

West Virginia Division of Financial Institutions

Money Transmitter
Start Date: 7.1.2014

Wisconsin Department of Financial Institutions

Seller of Checks
Start Date: 7.1.2013

Adjustment Service Company License
Start Date: 7.1.2016

Loan Company License

Loan Company License (Branch)

Payday Lender License

Payday Lender License (Branch)
Start Date: 9.1.2015

Wyoming Division of Banking

Money Transmitter License
Start Date: 9.30.2013

Pawnbroker License

Post Dated Check Cashier License

Supervised Lender License

Sales Finance Company License
Start Date: 1.1.2017

*Please note that the selected updates pertain to Consumer Compliance or Bank Secrecy Act and are intended for information purposes only.



Points to Ponder & Heed

Regulations & Rules | Interpretations & Applications

New York joins Growing Number of States Transitioning to NMLS

Financial Services Superintendent Maria T. Vullo recently announced that the Department of Financial Services (DFS)'s transition to the Nationwide Multistate Licensing System and Registry (NMLS) for money transmitters officially commenced on July 1, 2017. In this transition, DFS will manage the license application and ongoing regulation of all non-depository financial institutions doing business in New York through NMLS, which was created by the State Conference of Bank Supervisors (CSBS) and began operations in January 2008. DFS, which currently uses NMLS to manage and regulate mortgage providers licensed in New York, is expanding usage, in stages, to all non-depository institutions, including money transmitters.

Migrants Send Home 51 Percent More Money Than a Decade Ago, Says New Report

The amount of money migrants send to their families in developing countries has risen by 51 percent over the past decade – far greater than the 28 percent increase in migration from these countries, according to a new report released by the International Fund for Agricultural Development (IFAD). This is the first-ever study of a ten-year trend in migration and remittance flows over the period 2007-2016. While the report shows that there have been increases in sending patterns to almost all regions of the world, the sharp rise over the past decade is in large part due to Asia which has witnessed an 87 percent increase in remittances.

Economic Pressure Increase on North Korea

On June 29, 2017, the U.S. Department of Treasury took multiple actions in response to North Korea's actions and violations. Treasury's Financial Crimes Enforcement Network (FinCEN) announced a finding that Bank of Dandong, a Chinese bank that acts as a conduit for illicit North Korean financial activity, is a foreign bank of primary money laundering concern, and FinCEN has proposed to sever the bank from the U.S. financial system. In addition, Treasury's Office of Foreign Assets Control (OFAC) designated two Chinese individuals and one Chinese company in response to North Korea's ongoing WMD development and continued violations of UN Security Council resolutions.

CFPB's Monthly Complaint Report

On June 27, 2017, the CFPB has released a special edition of its monthly complaint report taking a different approach with new statistics and containing a snapshot of consumer complaints received from each state and the District of Columbia. The report provides statistics on complaint volume, the products and services generating the most complaints, company response rates, and a look at complaints from service members and older Americans. The report also gives a national overview and spotlights narratives submitted by consumers regarding their experience with the CFPB's complaint process.

AIG OFAC Sanctions Violations

On June 26, 2017, the American International Group, Inc. (AIG) of New York, NY, an international insurance and financial services organization incorporated in Delaware and headquartered in New York, agreed to remit \$148,698 to settle its potential civil liability for 555 apparent violations of the following OFAC sanctions programs. From on or about November 20, 2007, to on or about September 3, 2012, AIG engaged in a total of 555 transactions totaling approximately \$396,530 in premiums and claims for the insurance of maritime shipments of various goods and materials destined for, or that transited through, Iran, Sudan, or Cuba, and/or that involved a blocked person. OFAC has determined that AIG did voluntarily self-disclose the Apparent Violations, and that the Apparent Violations constitute a non-egregious case.



Points to Ponder & Heed

Regulations & Rules | Interpretations & Applications

FATF Plenary Meeting Outcome

The Financial Action Task Force (FATF) has released the outcome of its June 21-23, 2017 third Plenary meeting of Plenary year FATF-XXVIII.

The main issues addressed at the meeting were:

- ▶ Work on combating terrorist financing, which remains a priority for the FATF
- ▶ Work on improving transparency and beneficial ownership
- ▶ Adoption of the Report to the G20 Leaders' Summit
- ▶ Impact of recent FATF work on de-risking
- ▶ Discussion of the mutual evaluation reports of Denmark and Ireland
- ▶ Statement on Brazil's progress in addressing the deficiencies identified in its mutual evaluation reports, since the FATF's statement of February 2017
- ▶ Two public documents identifying jurisdictions that may pose a risk to the international financial system
 - Jurisdictions with strategic anti-money laundering and countering the financing of terrorism (AML/CFT) deficiencies for which a call for action applies, including an update on Iran's engagement with FATF
 - Jurisdictions with strategic AML/CFT deficiencies for which they have developed an action plan with the FATF, including an update on AML/CFT improvements in Afghanistan and Lao PDR
- ▶ Adoption of a revision to the interpretative note to Recommendation 7 (Targeted Financial Sanctions Related to Proliferation)
- ▶ Proposals to strengthen FATF's institutional basis, governance and capacity
- ▶ Outcomes of the meeting of the FATF Forum of Heads of Financial Intelligence Units, that was held in the margins of the Plenary
- ▶ Update on the activities of the FATF Training and Research Institute in Busan, Korea

\$40 Million Money Laundering of Drug Proceeds

On June 22, 2017, eleven individuals were charged with laundering more than \$40 million in drug proceeds back to Mexico through Atlanta-area money remitters following a three-year criminal investigation led by U.S. Immigration and Customs Enforcement (ICE), Homeland Security Investigations (HSI) and the IRS. HSI Atlanta special agents investigated individuals across the Atlanta area that were suspected of using money-broker businesses to launder drug proceeds by breaking up large amounts of cash into smaller transactions, and using false names and addresses in an attempt to disguise the electronic transfers as remittances in exchange for a kickback.

2017 Issue of the Consumer Compliance Outlook

The Federal Reserve Bank of Philadelphia has released the first 2017 issue of Consumer Compliance Outlook. Featured articles include:

- ▶ Combating Elder Financial Abuse
- ▶ Understanding Finance Charges for Closed-End Credit
- ▶ Implementing the New Uniform Interagency Consumer Compliance Rating System



Points to Ponder & Heed

Regulations & Rules | Interpretations & Applications

Treasury Report to President Trump

On June 12, 2017, the Treasury Department issued the first in a series of reports ordered by President Trump examining the United States' financial regulatory system and detailing executive actions and regulatory changes that can be immediately undertaken to provide relief. This 147-page report covers the depository system and includes the Trump administration's views focusing on the operations of banks and credit unions, detailing areas including capital regulation and stress testing, the drafting of resolution plans known as living wills and changing the structure and shrinking the powers of the CFPB. The report also reviews the Dodd-Frank financial oversight law and urges changes to rules implemented under Dodd-Frank by outlining what it calls core principles of financial regulation.

\$1.8MM CMP for Mortgage Servicing Practices

The Federal Reserve Board has announced the termination of an enforcement action against EverBank Financial Corp issued in April 2011 related to residential mortgage loan servicing and foreclosure processing. The Board also announced a \$1.8 million civil money penalty against the company for its mortgage servicing deficiencies related to that enforcement action.

Former Bank Employees Permanently Barred

On June 7, 2017, the Federal Reserve Board permanently barred Richard Henderson and Philip Cooper, former employees of Regions Bank, from the banking industry after both pleaded guilty to conspiracy to commit money laundering, and conspiracy to commit bank bribery and wire fraud affecting a financial institution. Henderson and Cooper held senior positions at Regions Equipment Finance Corporation (REFCO), a Regions' subsidiary. In their plea agreements, Henderson and Cooper admitted that they conspired to defraud Regions and REFCO by directing REFCO to purchase insurance from a shell company that paid kickbacks to Henderson and Cooper. Henderson and Cooper attempted to conceal those kickbacks by establishing additional shell companies to receive their kickbacks.

Same Day ACH Phase 2 Qualified ACH Debits Update

On June 7, 2017, the Federal Reserve Financial Services posted an update on the implementation of Same Day ACH Phase 2 scheduled for September 15, 2017. The Phase 2 implementation will mean that debit entries received before the same day submittal deadlines with an invalid, stale or current date in the effective entry date field will settle as same-day transactions, provided that other requirements are also met.

OCC Issues FAQ on Third-Party Relationships

On June 7, 2017, the OCC issued Bulletin 2017-21 with frequently asked questions (FAQ) to supplement Bulletin 2013-29 "Third-Party Relationships: Risk Management Guidance," issued October 30, 2013. The FAQs address several areas related to the guidance, including collaboration with other banks, engagement with fintech companies and entering a marketplace lending arrangement with nonbank entities.

FTC Annual Report to CFPB on Consumer Protection Enforcement Activities

On May 30, 2017, the Federal Trade Commission provided its 2016 Annual Financial Acts Enforcement Report to the CFPB on enforcement and other activities related to Regulation Z (Truth in Lending Act), Regulation M (Consumer Leasing Act), and Regulation E (Electronic Fund Transfer Act).

New York-DFS: Money Transmitter License Transition to NMLS

By Trish Lagodzinski and Dawn Vignola

The most recent in a long list of states to make use of the Nationwide Mortgage Licensing System and Registry (NMLS), as of July 1, 2017, the New York Department of Financial Services (DFS) has begun managing new applications and transitioning existing licensees from nondepository financial institutions doing business in New York through NMLS.

NMLS was created by the Conference of State Bank Supervisors (CSBS) and began operations in January 2008.¹ NMLS is the system of record for non-depository, financial services licensing or registration in participating state agencies, including the District of Columbia and U.S. Territories of Puerto Rico, the U.S. Virgin Islands, and Guam. In these jurisdictions, NMLS is the official system for companies and individuals seeking to apply for, amend, renew and surrender license authorities managed through NMLS by 61 state or territorial governmental agencies. NMLS itself does not grant or deny license authority.

With the joining of New York, 40 states and territories now participate in the use of NMLS for one or more money service business related licenses: Money transmitter licenses, check issuance and cashing, and currency exchange. Prior to expanding its use to money services businesses, New York's DFS already employed NMLS to manage and regulate mortgage providers licensed in New York. Now, this usage will be expanded, in stages, to all nondepository institutions, commencing with money transmitters. Along with the transition of DFS Money Transmitter Licenses to NMLS, DFS will utilize the NMLS Uniform Authorized Agent Reporting (UAAR) functionality to fulfill agent reporting requirements.

Upon embarking on the utilization of the NMLS for money

transmission licenses, the Conference of State Bank Supervisors (CSBS) provided users and potential users with a helpful and detailed webinar reviewing how to use the NMLS system from creating an account to using NMLS checklists for a new application to the optional transitioning an existing license. Also discussed were the requirements for completing a transition of an existing license to NMLS, submitting the Company Form (MU1) to transition an existing HQ license, submission of Individual Form (MU2) for applicable Control Persons of the company and branch managers, document submissions, and locating help, and other useful tools such as the UAAR for authorized agents/delegates.

In particular, detail was provided regarding the NMLS checklist and the role it plays in ensuring new as well as transitioning applications are completed easily and quickly. Specific attention was also paid to the potential mistakes and pitfalls that can occur with the current configuration and functionality of the NMLS if relied upon solely to manage the process. With the variations among state requirements and use of NMLS, the checklist helps to ensure that the user understands which documents and processes are handled through NMLS and which ones are submitted outside of NMLS to prevent missing required submissions.

Presenters primary focus was the transition of existing licensees. During the presentation, they provided detailed, step by step descriptions and demonstrations of how to use NMLS to transition an existing license. Each company that holds a New York Money Transmitter License may submit the company form (MU1) to transition the license to NMLS. The transition to NMLS is optional for NY money transmitter licensees; unlike with new applications, there is no fee for transitioning a license.

New York money transmitter licensees will be able to use NMLS for annual renewals beginning in November 2017. Expected in September 2017 is a new release from NMLS. According to the NMLS Release Bulletin (Issue Date May 30, 2017), the functionality planned for the September NMLS Release (2017.3) currently slated for September 18, 2017, the major enhancements in the Release provide additional functionality for Electronic Surety Bond (ESB) management and processes.



Trish Lagodzinski has more than 19 years of experience in government contracting, project management and support. At Chartwell Compliance and, previously, Ascella Compliance, she has assisted with regulatory compliance matters dealing with state money services business licenses and related state and federal compliance regulations for a wide range of non-bank financial services companies. Her work has included leading a 50-state license application project in six months for a publicly traded customer. She also serves as an outsourced state license administrator for customers. For more information please contact Trish Lagodzinski at trishlagodzinski@chartwellcompliance.com.



Dawn Vignola, Ph.D., has over 20 years of management and operational experience streamlining and implementing business processes and technological initiatives focused on reducing costs and increasing efficiencies and revenue growth, with over 15 years within the compliance industry.

¹ NMLS was created by the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) and began operations in January 2008. It is owned and operated by the State Regulatory Registry LLC (SRR), a wholly owned subsidiary of CSBS. CSBS is the nationwide organization of banking regulators from all 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands.



Representative Engagements

Consumer Compliance

Chartwell has recently executed a number of bank consumer compliance program reviews, a very important area as federal regulators intensify their scrutiny of loan and deposit activities. Our bank compliance testings, led by consultants with over a quarter century of regulatory experience, have covered the following regulations:

- ▶ Regulation B: Equal Credit Opportunity Act
- ▶ Regulation C: Home Mortgage Disclosure Act
- ▶ Regulation D: Reserve Requirements for Financial Institutions
- ▶ Regulation E: Electronic Fund Transfers Act
- ▶ Regulation G: S.A.F.E. Mortgage Licensing Act
- ▶ Regulation H: Flood Insurance
- ▶ Regulation M: Consumer Leasing Act
- ▶ Regulation N: Mortgage Acts and Practices-Advertising
- ▶ Regulation O: Extensions of Credit to Insiders
- ▶ Regulation P: Privacy of Consumer Financial Information
- ▶ Regulation V: Fair Credit Reporting Act
- ▶ Regulation X: Real Estate Settlement Procedures Act
- ▶ Regulation Z: Truth in Lending Act
- ▶ Regulation AA: Unfair or Deceptive Acts or Practices Act
- ▶ Regulation BB: Community Reinvestment Act
- ▶ Regulation CC: Expedited Funds Availability Act
- ▶ Regulation DD: Truth in Savings Act
- ▶ Regulation GG: Prohibitions on Internet Gambling
- ▶ Fair and Accurate Credit Transactions Act (FACTA)
- ▶ Unfair, Deceptive or Abusive Acts or Practices Act (UDAAP)
- ▶ Fair Debt Collection Practices Act (FDCPA)
- ▶ Home Ownership Counseling
- ▶ Mortgage Disclosure Improvement Act (MDIA)
- ▶ Mortgage Loan Officer Compensation
- ▶ Right to Financial Privacy Act (RTFPA)
- ▶ Servicemembers Civil Relief Act (SCRA)
- ▶ FDIC Deposit Insurance Disclosures
- ▶ Advertising, Public Notices, and Signage

Chartwell took just seven weeks to complete money transmitter license applications covering 50 states and territories for a venture-backed online remittance business.

The first application was approved in just two days after submission to the state, testifying to the quality of the product created under rigorous time pressure.

Representative Engagements

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Chartwell was hired by a prominent venture capital firm and completed compliance due diligence of the prospective investee in less than two weeks from contract signing. The investee, an emerging payments business, responded favorably to our performance and consequently hired us directly to assist them with compliance matters.

Chartwell was hired on one day's advance notice by a publicly traded financial institution software business to provide a full-day crash-course on the regulatory compliance framework for money services businesses. The engagement helped the customer win a major AML software deal, and to subsequently hire Chartwell again.

BSA/AML

An international payments processor sought a consultant to assist with a broad range of BSA/AML compliance matters in conjunction with the launch of a new person-to-person money transfer product platform that will be sold to financial institutions. To start the project, Chartwell was assigned to design a BSA/AML compliance program with detailed policies and procedures, after gaining an understanding of the company's business model. Chartwell then provided written BSA/AML training course material. We assigned a consultant with nearly 30 years of experience in financial services compliance and exceptional background in payments and money services businesses.

State Money Transmitter License Applications

Chartwell completed applications for state money transmitter licenses in 47 states and three U.S. jurisdictions on behalf of a publicly traded customer. The project was successfully completed within a quick six-month period and almost exactly within the initially estimated budget. Part of the reason the organization chose us is due to our unique software and methodology capabilities to manage a project of complex initiatives. Our project leaders were also veterans of state licensing and money services businesses, having well developed relationships with personnel throughout the state regulatory agencies.

Interest Rate Risk

Chartwell assisted a strategic partner with conducting an assessment of interest rate risk ("IRR") metric selection and application for a large national bank, providing our written and verbal opinions on gaps relative to both better practices and regulatory requirements, as well as our insights on data, analytics and measures, governance processes, and reporting to refine the financial institution's overall IRR measurement capability. We assigned a former senior bank safety and soundness examiner with approximately a quarter century experience in multiple federal regulatory agencies.

Transfer of Control

Chartwell's Daniel Weiss assisted a financial services software business with identifying the regulatory requirements associated with acquiring control of a licensed money transmitter. The work included providing guidance on sequencing and structuring the deal in relation to the regulatory process; communicating and sounding off ideas with regulators; providing non-legal guidance during regulatory strategy sessions with company executives and counsel; identifying and assisting with applications for approval and better defining requirements in states which do not have specific rules; providing suggested talking points for use with regulators; providing suggestions on notifying the surety bond broker, Secretaries of State and banks concerning the material event.

International Correspondent Banking

Chartwell recently assigned five individuals to be separately interviewed by a client organization for their views on the regulatory compliance requirements affecting U.S.-Mexico correspondent banking relationships. Our interviewees include Dennis Lormel (former FBI Financial Crimes Section Chief); Allan Schott (former OCC Chief Counsel); Bob Pasley (former OCC Assistant Director of Enforcement and Compliance); James Wright (former OCC examiner); and Kris Welch (former bank compliance officer). Each of these individuals have extensive resumes of working with international organizations or overseas.

All-Purpose Compliance Assistance

Chartwell's **HelpDesk** product, launched in January 2013, provides all-purpose, customized compliance assistance on demand to subscribers for a fixed, reasonably priced annual fee, with a special discount for ICBA members. Please learn more about **HelpDesk** in this edition of *Compass* or on [our website](#).

Conducting a 130-Country AML Risk Assessment for a Federal government Agency

Chartwell recently conducted a 130-country Anti-Money Laundering risk assessment for a federal government agency preparing to launch an international financial product. The scope of the engagement included the creation of a comprehensive assessment matrix; provision of narrative explanations of rankings and full reproducible methodology; procedures for the client to perform future iterations as necessary for additional countries; and an executive summary for the client's internal stakeholders. Chartwell identified the relevant subject matter and utilized a small team of professionals with over 90 years' combined AML, money transmission, financial services and project management experience.

Serving as outsourced BSA and State MSB

Licensing Administrator An international money services business sought a consultant to assist with a broad range of BSA/AML compliance and state licensing matters in the U.S. that have included: serving as outsourced BSA/AML compliance administrator; applying for and serving a project manager role for state money transmitter license applications; providing compliance policies and procedures; conducting compliance training; providing nonlegal opinions on the applicability of state money transmitter licensure and money services businesses registration with FinCEN; and producing a handbook of state money transmitter requirements. These services have been needed in conjunction with the launch of the company's business in the U.S. As this client's needs have evolved, we have assigned a team of consultants with a combined 190 years of experience in financial services compliance and exceptional background in payments and money services businesses.



Compliance Beacon Q&A

Q: *Are B2B transactions covered under the Pennsylvania Act 129 regulating money transmission effective January 2, 2017?*

A: No, B2B transactions are no longer considered a regulated activity under Act 129.

Q: *Is there a requirement for the newly licensed money transmitter in North Carolina to become operational?*

A: The North Carolina Commissioner of Banks has changed its internal policies to require all money transmitter license applicants to be operational within 6 months of receiving the license.

Q: *Does New Jersey have an express B2B exemption?*

A: No, but exemptions have been issued for reasons including the company not technically transmitting funds.

Q: *Is an unsuccessful cyber-attack reportable as a suspicious activity?*

A: According to the FinCEN's October 2016 guidance, even an unsuccessful cyber-event attempting to conduct, facilitate, or affect an authorized transaction or series of unauthorized transactions aggregating or involving at least \$5,000 in funds or assets is reportable as a suspicious activity.

Q: *When are California money transmitter license applicants required to submit an ADTL exhibit with their application?*

A: The ADTL is only required if the applicant elects to request a lower bond than the \$1,000,000 required. The ADTL is to show that current and projected volume would not warrant such a high bond amount based on the highest daily outstandings.

Q: *What are the requirements for renewing a FinCEN MSB registration?*

A: After an MSB completes its initial registration, the form to renew its registration must be filed by December 31 of the second calendar year preceding the 24-month renewal period and is accomplished by filing the Registration of Money Services Business Form, FinCEN Form 107. Thereafter, the registration renewal must be filed every 24 months by December 31.

Q: *Are MSBs required to comply with FinCEN's fifth "pillar" of the anti-money laundering ("AML") to establish risk-based procedures for conducting ongoing customer due diligence programs?*

A: While MSBs are not covered financial institutions under the final rule, it is likely that banking partners will expect MSBs to implement processes to comply with the beneficial ownership and risk-based customer due diligence requirement. The effective compliance date for covered financial institutions is May 11, 2018.

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“Chartwell demonstrated sound knowledge in the Fintech space and an ability to understand unique quirks presented by compliance programs operating under innovative business models.”

*Matthew Van Buskirk, Director,
Compliance & Regulatory Affairs,
Circle Internet Financial, Inc.*

Chartwell Compliance offers all-in-one integrated regulatory compliance and risk management consulting, testing, audit and examinations, and outsourcing services. We serve bank and non-bank financial service providers that are striving to do business successfully in the midst of unprecedented regulatory upheaval.

Chartwell Compliance is attuned to emerging trends, new regulations and rules, and issues relating to the financial services industry. Our consultants believe every client is critically important; and, along with high service delivery standards, coupled with a smaller firm’s pricing, allow Chartwell to deliver a value unmatched in the marketplace.

The people of Chartwell have a practical, real-world understanding of regulatory compliance, enterprise risk management, and financial crimes. Chartwell consultants have gained their real-world understanding through numerous years of work as regulators, law enforcement officials, and operators in the financial industry. This allows us to translate compliance in practical ways helping our clients maintain fee revenue; lower operating costs, and proactively anticipate the desires and requirements of a diverse range of agencies and regulators in charge of supervising financial institutions.

Chartwell Compliance, as an all-in-one consulting firm, allows our clients to avoid the burden of managing multiple vendor relationships, making it possible for our clients to realize economies of scale. In addition, our clients gain further value from having a partner with experience and expertise encompassing compliance, risk, and corporate planning. Our consultants are passionate about their areas of expertise and equally comfortable as testers, trainers, or mentors to our clients.

Value Propositions

- ▶ One of the best AML/CFT, financial crimes and state license consultancies in the world
- ▶ One of North America's best MSB and emerging payments compliance consulting firms
- ▶ Very well-rounded practitioners experience
- ▶ Nimble, specialized and affordable
- ▶ Significantly lower cost, more services, and more practitioners experience
- ▶ Entrepreneurial and highly responsive
- ▶ End-to-end services and outsourcing
- ▶ Free distribution of quarterly technical publication, *Chartwell Compass*
- ▶ Strong human and software project administration backbone to keep on time and on budget.

Chartwell Consultants

Our team is cross-certified in regulatory compliance, anti-money laundering, testing, information technology and security, and fraud. The diversified experience of our consultants provides our clients with access to experienced examiners, operators, and regulatory policy makers in both the banking and non-banking segments of the financial services market, including some of the most talented and seasoned professionals in emerging payments compliance. This vast, multi-disciplinary experience allows us to help our clients design and implement compliance and risk management programs and practices properly calibrated to address both the current and prospective regulatory environment in an effective manner. As a result, our clients' products and services can be launched more quickly and remain appropriately priced, usable, compliant, and of high value to end users.

Our group includes some of the industry's foremost authorities on regulatory compliance, information security, licensing, and fraud such as:

- ▶ Average of 20 years of experience per professional
- ▶ Former executives and managers from MSBs such as Western Union, First Data/Integrated Payment Systems, MoneyGram, Sigue, Advance America & Microfinance International
- ▶ Former senior compliance and risk managers for state and nationally chartered banks
- ▶ Former Federal Reserve System nationally commissioned compliance examiners
- ▶ Former Chief of the Federal Bureau of Investigation's Financial Crimes and Terrorist Financing Sections
- ▶ Former Office of the Comptroller of the Currency (OCC) Assistant Director of Enforcement
- ▶ Certified AML (CAMS) and regulatory compliance manager certifications (CRCM), CAMS-Audit, PMP, CISA (top secret and security clearances)
- ▶ Extensive experience working in or with start-ups
- ▶ Long-standing relationships between many team members



Services

REGULATORY COMPLIANCE Chartwell Compliance provides consulting across nearly the entire range of rules and regulations affecting bank and non-bank financial institutions. Our regulatory subject matter expertise includes but is not limited to: Enforcement action solutions; Bank Secrecy Act (“BSA”); Office of Foreign Assets Control (“OFAC”); Loan Compliance (commercial, consumer, real estate); Deposit Compliance, Home Mortgage Disclosure Act (“HMDA”); Secure and Fair Enforcement for Mortgage Licensing Act (“SAFE”); Unfair, Deceptive or Abusive Acts or Practices Act (“UDAAP”); social media; capital requirements; Community Reinvestment Act (“CRA”); state and federal regulations for money services businesses, stored value, and payment systems.

BSA/OFAC, AML, FRAUD & CORRUPTION Chartwell Compliance brings together some of the country’s most prominent authorities in Anti-Money Laundering and Combating the Financing of Terrorism (“AML/ CFT”) financial crimes and fraud prevention. Chartwell Compliance’s proficiencies include: Counter terrorism financing; anti-money laundering; asset forfeiture and recovery; fraud prevention (corporate and mortgage); Foreign Corrupt Practices Act and the UK Bribery Act; forensic accounting; foreign government advisory on AML/CFT regulatory regimes. Chartwell Compliance provides a wide variety of related services including: Training and seminars; enforcement action solutions; comprehensive look back reviews; policy and procedure development; independent reviews; risk assessments; investigations and due diligence, expert witness services; and non-legal opinions.

STATE MONEY SERVICES BUSINESS LICENSING Chartwell Compliance assists money services businesses such as prepaid access providers, currency exchangers, check-cashing companies, e-wallet service providers, and mobile technology companies in applying for and maintaining state licensure requirements. We offer first-hand experience, reasonable non-legal pricing and additional value in being able to assist clients with related areas such as AML compliance and corporate planning. Chartwell Compliance provides services tailored to fit the specific needs of each MSB including: preparation and submission of state license applications; FinCEN/FINTRAC registrations; administration of existing state license portfolios including renewals, periodic reporting, and other requirements; assistance with state regulatory exams and related remedial work; and non-legal regulatory opinion relative to licensing and regulatory requirements.

DUE DILIGENCE AND INVESTIGATIONS The team of former senior law enforcement and regulatory officials and private sector executives of Chartwell Compliance permits Chartwell to undertake due diligence and investigation activities in a range of areas in the U.S. and overseas. We also offer assistance to institutional investors and other companies conducting corporate due diligence on investment, merger, and acquisition targets.

OPERATIONS & GOVERNANCE Many Chartwell Compliance consultants have experience in corporate operations, planning and leadership. Chartwell Compliance provides consulting services in all of these areas, as well as, providing clients with services such as: Assessments and recommendations; enterprise wide risk assessments; key indicator dashboards; policies and procedures; employee training; board of directors training, and other services.

Strategic Alliances

Chartwell Compliance welcomes relationships that deepen the value provided to our mutual customers. In particular, Chartwell Compliance has a select number of strategic partnerships with leading service and software providers in the financial sector seeking a trusted source for referrals, thought leadership and feedback on new products from the perspective of regulators, law enforcement officials and former practitioners. Some of our alliances include:

- **Fiserv, Inc.** (NASDAQ: FISV) is the leading global provider of information management and electronic commerce systems for the financial services industry.
- **BankersEdge** is the online training partner of choice for hundreds of financial institutions nationwide, with a library of over 300 courses that span regulatory compliance, financial skills and professional development.
- **Bankers' Bank of the West** provides high-quality products and services as well as deep industry expertise to more than 300 community bank clients in the western states and Great Plains region.
- **Thomson Reuters** is the world's leading source of intelligent information for businesses and professionals.
- With its finger on the pulse of the financial services, real estate and IT industries, **OnCourse Learning** provides best-in-class education and compliance solutions that help people get started and succeed in their chosen professions.
- Consistently ranked as number one in the space, **NICE Actimize** experts apply innovative technology to protect institutions and safeguard consumers and investors assets by identifying financial crime, preventing fraud and providing regulatory compliance.
- **First Manhattan Consulting Group** provides strategy, risk management, and marketing services to financial institutions across the globe.

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