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By Claudia Raskey

The **Impact of Artificial Intelligence** on AML Compliance

Artificial Intelligence (AI) has emerged as a key component of modern technology and is used in a wide range of different contexts. Whether it be as a household companion with the use of smart assistants, or in the workplace generating profound industry transformations — with intelligent automation and robotic process automation (RPA) streamlining repetitive duties — AI is becoming hard to ignore. It is revolutionizing customer service by providing personalized assistance and resolving inquiries quickly and accurately. It is shaping our everyday experiences beyond the boundaries of home, work, and school, with streaming services, e-commerce, and social media platforms all employing AI-powered recommendation systems to curate personalized content. AI is revolutionizing healthcare by aiding in early disease detection, analyzing medical images, and predicting treatment outcomes. It paves the way for autonomous vehicles in transportation, reducing accidents and traffic congestion while increasing mobility.

Artificial intelligence is ushering in a new era of technological advancements that have the potential to transform many facets of our existence. AI has significant implications for industries that place a premium on regulatory compliance. Anti-money-laundering (AML) compliance is one industry that is experiencing the transformative effects of AI. This article will explore the ways in which AI is revolutionizing the world of AML compliance by improving efficiency, accuracy, and efficacy in fighting financial crimes.

AI algorithms can analyze immense quantities of data with greater speed and precision than humans can. This skill becomes indispensable in the context of AML compliance. AI-powered systems can process and analyze large volumes of transactional data, customer profiles, and financial records in real time, identifying patterns, anomalies, and potential instances of money laundering that might otherwise go undetected by

manual processes. By automating data analysis, AI lets AML compliance professionals make informed decisions swiftly, allowing for proactive risk mitigation and efficient detection of suspicious activities.

Effective AML compliance requires robust risk assessment processes. Multiple data sources, such as internal and external databases, news bulletins, and regulatory information, can be integrated by AI algorithms to generate comprehensive risk profiles for customers and entities. By leveraging machine learning techniques, AI systems can continuously learn and adapt to evolving patterns of money laundering, allowing organizations to remain ahead of complex financial crimes. Risk assessment tools powered by AI provide a comprehensive view of prospective risks, enabling compliance teams to allocate resources efficiently and concentrate on other, more high-risk areas.

Historically, AML compliance has relied on manual processes and periodic evaluations, which frequently result in delays in detecting and reporting suspicious activities. Using predefined principles and machine learning algorithms, AI-powered solutions enable real-time monitoring of transactions by identifying and flagging potentially fraudulent activities as they occur. Systems propelled by AI can generate alerts and notifications, allowing for prompt investigation and response time, thereby mitigating risks and boosting the efficacy of AML compliance efforts.

AML compliance requires robust customer due diligence processes to identify and verify individuals and organizations engaging in financial transactions.

AI simplifies this procedure by automating identity verification using facial recognition, document analysis, and biometric data to ensure precision and efficacy. By utilizing AI technologies, compliance teams can reduce manual errors, improve Know Your Customer (KYC) processes, and bolster the prevention of money laundering and terrorist financing.

AI enables continuous monitoring of transactions, customer behavior, and market trends, allowing businesses to identify emergent risks and adapt AML compliance controls accordingly. Algorithms capable of machine learning can analyze historical data, learn from past patterns, and predict potential instances of money laundering. This proactive approach to AML compliance keeps organizations apprised of evolving regulatory requirements, and lets them anticipate potential risks and implement effective preventative measures.

The emergence of AI is transforming the landscape of AML compliance, allowing organizations to enhance their detection, prevention, and defense of financial offenses by leveraging the power of AI algorithms. Adoption of AI-driven solutions leads to efficient data analysis, enhanced risk assessment, real-time monitoring, streamlined due diligence, and adaptive controls, thereby empowering AML compliance professionals to effectively address emergent challenges. To successfully combat money laundering in today's evolving climate, it is essential to establish a balance between AI adoption and human expertise to ensure ethical considerations, regulatory compliance, and accountability.

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By Daniel Lee

Unraveling the Data Dilemma:
Overcoming BSA/AML Compliance
Program's Data Management Challenges

In the ever-evolving landscape of Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) regulatory compliance, effective data management is a paramount challenge for financial institutions. The ability to aggregate, integrate, and analyze vast amounts of data with accuracy and efficiency is essential when it comes to identifying and mitigating money laundering risks. **To safeguard the integrity of the financial system and protect against illicit activities, it is imperative that institutions prioritize robust data management frameworks.** By investing in advanced technologies, implementing stringent data governance practices, and fostering a culture of data-driven decision-making, financial institutions can enhance their AML compliance efforts while also gaining valuable insights to drive business growth. Effective data management is not only a regulatory requirement but also a strategic imperative.

KEY DATA MANAGEMENT CHALLENGES FACED BY FINANCIAL INSTITUTIONS

DATA AGGREGATION AND INTEGRATION

Financial institutions often have diverse data sources, including transactional data, customer information, and external data feeds. The challenge lies in aggregating and integrating these disparate data sets into a centralized system for effective analysis. Solutions include implementing data integration platforms or data warehouses that can streamline data collection, normalization, and consolidation processes.

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DATA QUALITY AND ACCURACY

Ensuring the quality and accuracy of data is critical to achieve robust risk management and compliance. Financial institutions regularly face challenges such as incomplete, inconsistent, or outdated data, which can compromise the effectiveness of AML monitoring and reporting. Implementing data validation checks, conducting periodic data audits, and establishing data governance frameworks can help improve data quality and accuracy.

DATA PRIVACY AND SECURITY

Financial institutions must handle sensitive customer data while adhering to privacy regulations. **Striking a balance between utilizing customer data for AML purposes and protecting individual privacy is essential.** Implementing strong data encryption, access controls, and robust data privacy policies can help mitigate risks and ensure compliance with data protection regulations.

DATA STORAGE AND SCALABILITY

The volume of data generated by financial institutions can be substantial, requiring efficient and extensive storage solutions. Cloud-based storage options offer scalability, flexibility, and cost-effectiveness. **However, careful consideration should be given to data security and compliance with regulatory requirements when using cloud storage solutions.**

DATA ANALYTICS AND INSIGHTS

Extracting meaningful insights from vast amounts of data is a challenge for financial institutions. Advanced analytics tools, such as machine learning and artificial intelligence algorithms, can help identify patterns, detect anomalies, and generate actionable insights for AML risk management. Implementing such tools can enhance the efficiency and effectiveness of AML monitoring and detection processes.

DATA RETENTION AND RECORDKEEPING

Financial institutions must adhere to regulatory requirements regarding data retention and recordkeeping. Managing the retention of vast amounts of data over extended periods of time can be challenging. Implementing robust data retention policies, archiving solutions, and effective recordkeeping systems can help meet regulatory obligations while optimizing data storage and retrieval processes.

INFORMATION SHARING AND COLLABORATION

Information sharing and collaborating with other financial institutions and regulatory authorities is crucial for effective AML efforts. However, this may be hindered by concerns including data privacy, confidentiality, and legal restrictions. Establishing secure information-sharing protocols, participating in industry-wide collaborations, and leveraging standardized data formats can facilitate effective sharing of relevant AML information.

KEEPING PACE WITH REGULATORY CHANGES

BSA/AML regulations are subject to frequent updates and changes in order to adapt to emerging risks and evolving criminal tactics. Financial institutions must ensure they stay up to date on regulatory developments, understand their implications, and adapt their compliance programs accordingly. Failure to keep pace with these changes can result in compliance gaps and potential penalties.

KEY TAKEAWAYS

It is important for financial institutions to assess their specific data management challenges and tailor solutions to their unique needs and regulatory requirements. Partnering with technology providers specializing in data management and adopting industry best practices can significantly help in addressing these challenges and building robust data management frameworks for BSA/AML compliance.

To summarize, given the rapidly changing regulatory and technology environment, **it is critical that financial institutions:**

INVEST IN TECHNOLOGY

Allocate resources to implement advanced data management technologies, including data integration platforms, analytics tools, and secure data storage solutions, to improve data accuracy, analysis, and reporting capabilities.

ESTABLISH STRONG DATA GOVERNANCE

Develop and enforce robust data governance frameworks that encompass data quality controls, privacy protocols, and compliance with regulatory requirements to ensure the integrity and security of customer data.

FOSTER COLLABORATION

Embrace industrywide collaboration and information-sharing initiatives to collectively tackle the challenges of data management and enhance the effectiveness of AML risk management across the financial ecosystem.

"It is important for financial institutions to assess their specific data management challenges and tailor solutions to their unique needs and regulatory requirements."

EMBRACE INNOVATION

Keep abreast of technological advancements and emerging best practices in data management to continuously evolve and adapt compliance programs, enabling proactive identification and mitigation of evolving money laundering risks.

By taking these steps, financial institutions can forge a future in which theystand resilient against the ever-changing landscape of financial crimes, instilling trust and confidence in the global financial system. Rather than treating data management as a cost center and regulatory obligation, by embracing data as a powerful weapon against illicit activities, organizations can ensure that they are safeguarding institutions and the community as bastions of integrity, resilience, and trust.

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By Robert M. Reed, CAMS, MBA

"High" Risk, It's Inevitable

As the cannabis industry continues to grow, it is becoming increasingly important for financial institutions to prepare for federal approval of this high-risk product. With recent bank collapses, it is more important than ever that financial institutions understand all the regulatory and operational requirements before taking on such a risky endeavor with such "High" rewards. The fear of regulatory fines or findings due to the lack of proper transaction monitoring is real with fines in the tens of millions for processing "prohibited transactions" like cannabis. However, the uncertainty of protection is reduced with the recent reintroduction of the Safe Banking Act (SBA) in the United States Congress. If passed, it would provide legal protection for financial institutions that choose to work with cannabis businesses.

The SBA is written to provide safe harbor protection from criminal or civil liability to financial institutions that offer services related to legal cannabis businesses under certain conditions, including meeting strict anti-money laundering safeguards and promptly reporting suspicious activity to law enforcement agencies. Ankura can help financial institutions understand and

> "Now is an ideal time for financial institutions to get ahead of potential regulations or restrictions imposed on them once the Safe Banking Act (SBA) is approved."

prepare for these regulations to ensure they are ready to responsibly partner with cannabis businesses once legalization occurs at the federal level. If not, they will be left behind as other more prescient financial institutions seize opportunities first. This bill has been gaining momentum the past few years and could pass soon. Now is an ideal time for financial institutions to get ahead of potential regulations or restrictions imposed on them once legislation is approved.

As many states have already legalized medical, and in some cases recreational, marijuana it means there are even more cannabis businesses looking towards

> "Not only does early preparedness put financial institutions one step ahead when actual legislation passes through Congress, it also helps protect their reputation by enhancing compliance throughout the implementation period."

traditional banking options to make payments easier while also protecting against potential fraud or theft associated with cash-only transaction businesses. Smaller to mid-size financial institutions, including some credit unions, have already begun reaping the rewards via profit and growing relationships via the various tiers of marijuana related businesses from alliances with cannabis businesses. Financial institutions no longer need to fear entering business relationships with these companies but rather embrace them with appropriate knowledge and preparation, since financial institutions can offer a variety of benefits including increased security measures against money laundering activities, improved customer service experiences through digital payment processing systems, and greater profitability due to their large customer base.

financial institutions must take steps today to remain competitive tomorrow. There are numerous benefits to financial institutions beyond revenue generation of properly preparing to work with cannabis-based businesses. Doing so assists the larger community by providing these cash-based businesses with opportunities to secure their cash, reducing the likelihood of robberies and laundering through cash. Not only does early preparedness put financial institutions one step ahead when actual legislation passes through Congress, it also helps protect their reputation by enhancing compliance throughout the implementation period.

HOW ANKURA CAN HELP

Ankura will apply deep risk management experience to help your financial institution prepare a product-based risk assessment to determine whether cannabis is the right product for you. If it is, Ankura will offer experienced professionals to assist with program setup and best practices. Ankura pairs technology expertise with extensive operational knowledge and strong relationships so our clients can rest assured knowing that we understand the complexities involved in such operations better than anyone else in the market today. Our team consists of highly qualified professionals, former BSA/AML/OFAC officers, analysts, and regulators who are well-versed with the legal requirements surrounding cannabis banking and operations as well as how best to effectively manage associated risks, so clients remain thoughtful, innovative, and safe if they decide to establish a successful new business in the cannabis space.

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Robert has over 20 years of experience in the financial service industry as a senior C-suite executive, BSA/AML officer, and operations, compliance, MIS risk, and trading professional. Robert has established regulatory effectiveness groups at global and regional banks and led over 100 anti-money laundering (AML) regulatory examinations with U.S. federal, state, and global regulators, including a challenging written agreement in one instance and consent order in another. Further, he has overseen multiple remediation projects pertaining to compliance findings, and directed global technology projects to enhance automated reporting, AI, and process monitoring.

By Martin Patterson, CAMS

What's Risk Got to Do With It?

Throughout my years of work in compliance, there is really nothing I enjoy more, and nothing more challenging, than constructing a new risk assessment. Part art and part science, risk assessments challenge us to look at a business through a static lens and then give it a grade that provides a quantifiable measure of the effectiveness of its efforts to curb risks. And, although the process allows for some flexibility in approach, I have rarely met anyone involved that feels like they have gotten it exactly right.

While having a risk assessment may not be a strict legal requirement in every case, there is an expectation by regulators and bank partners, alike, that Bank Secrecy Act (BSA), Anti-Money Laundering (AML), and The Office of Foreign Assets Control (OFAC) compliance programs and controls be "risk-based," and that risk-based decisions should be formalized and documented. In this sense, the term risk-based implies a recognition 1) that risk will never be eliminated completely – that is not the goal of a risk assessment, and 2) that resources within the company are finite, and so the best approach is to focus those resources thoughtfully where they will have the most meaningful effect. To that end, risk assessments have become a cornerstone of effective compliance programs, a vehicle for concise communication of risks to senior management, and an effective tool for tracking controls identification, design, and implementation.

But what does it actually look like? How does it work? There are numerous types of risk assessments that can be conducted by a financial institution based on the need and scope targeted AML risk assessments, product risk assessments, vendor and third-party risk assessments, and in some cases broad, enterprise-wide risk assessments. All generally contain some common elements and share similar purposes, but often achieve the goal in a variety of ways unique to each entity.

First, identify and categorize the risks faced by the company – for an AML risk assessment, reviewers will expect that this results in the identification of some specific risk categories (e.g., products, services, customers, and geographic locations), and then further examining risks within those categories. For example, within the "geographic locations" category a company may recognize that they operate in a jurisdiction known to be relaxed in government oversight or likely to attract fraudsters.

Next, assess the likelihood and impact of the realization of each risk. First, in an environment where no controls are applied (inherent risk), and then, for comparative purposes, in an environment in which the company's controls exist and have been tested and applied effectively (residual risk). Typically, these attributes are scored or otherwise labeled to produce a resulting confidence level (e.g., high, moderate, or low) relative to the risk following the application of controls. Using the previous example, operating in a high-risk jurisdiction, and applying no controls will likely result in a negative outcome (high inherent risk). However, if the company requires additional information for customers using the service in that jurisdiction, it will thereby reduce that likelihood by some degree ("low residual risk"). Scoring methodologies to reach these outcomes – how the level of risk is defined, scored, and labeled - will often differ and can range from simple and straightforward to very intricate.

Ultimately, there are right ways to do this, yet some examples I have found over the years left something to be desired in their design. The keys to this, particularly for startups, will be to approach the process in earnest, evaluate your company honestly, involve all the members of the senior leadership team for their input, start as simply as reasonably possible with scale and audience in mind, and do not expect the results of the risk scoring to look pretty (low risk) on day one. Remember that the purpose of the exercise is to understand your risks and strategically apply measures to control them, not eliminate them. Mostly, the only recurring audience will be the individuals from within your organization; external third parties are typically limited to bank partners, auditors, or examiners.

The next steps will include approval of the risk assessment by the Board of Directors, recurring (typically annual) reviews of these risks, making decisions about how to report on risk trends, regularly consulting your assessments prior to making significant changes to your platforms or services, and perhaps even growing your company's maturity and scale to include a Risk Committee for program governance. Over time, transaction data, user data, supporting third-party platform data and leadership team input will come to further inform your risk assessment and the overall understanding of the effectiveness of the controls environment. Having this data will allow the risk assessment to become more objective and quantitative as opposed to being purely qualitative. As your familiarity with risk management grows, so will your comfort level in understanding how to put it all together.

If it all sounds like a big deal, that is because it is. However, you do not have to go through this process by yourself. You do not have to wade through the search results for "AML Risk Assessment," read the published guidance for bank examiners, or watch replays of Association of Certified Anti-Money Laundering Specialists (ACAMS) seminars and sessions online to try to figure it all out. While that is all helpful, it can also be overwhelming. The good news is that there is an experienced team at Ankura who has gone through this process for many years, many times for many types of clients and many types of risk assessments, and can assist in a variety of ways, from building it for you to simply providing a helpful eye to guide you along the way. We are here to help you and we look forward to hearing from you about these and any other compliance-related needs you may have.

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Martin has almost two decades of experience in US financial services compliance and operations oversight, corporate client due diligence, risk assessments, and transaction monitoring, with a strong focus on implementing new processes and platforms at Travelex Currency Services and Sum Up.

By Maria Padilla

The Evolution of Transaction Monitoring

In today's rapidly evolving global economy, financial institutions encounter numerous challenges in detecting and preventing illicit activities. Over the years, transaction monitoring has experienced an evolution, driven by technological advancements, regulatory requirements, and the changing nature of financial crimes.

MANUAL TRANSACTION MONITORING – THE EARLY DAYS

In the early days, transaction monitoring was primarily conducted manually, which involved human intervention and analysis rather than using an automated system or software. It was a process that was time-consuming, rudimentary, and susceptible to human error. Involvement of multiple parties and diverse financial products have made manual transaction monitoring more difficult, forcing financial institutions to implement rules-based systems to monitor and flag suspicious transactions or activities. Despite its limitations, manual transaction monitoring provided flexibility, contextual understanding, investigative depth, and continuous improvement, among many other advantages that an automated system could not provide at the time. This method also relied on human analysts to review account activity and identify suspicious transactions allowing them to make informed decisions about whether a transaction warranted further investigation. An analyst could detect patterns, scenarios, and/or irregularities that an automated system could have missed. More importantly, manual transaction monitoring provides feedback to inform and improve automated transaction monitoring systems, thus making manual reviews and human input vital components of any successful transaction monitoring program.

FINANCIAL INTELLIGENCE

Financial intelligence has evolved in recent years due to technological advancements. These advancements have revolutionized the way we access, analyze, and utilize data. Criminals have also found new opportunities to exploit the latest technologies, forcing institutions to optimize transaction monitoring solutions. As a result, transaction monitoring has undergone shifts to keep up with technology demands. Automation and machine learning algorithms have revolutionized financial intelligence by automating repetitive tasks and analyzing massive datasets with speed and accuracy to identify patterns and ensure comprehensive monitoring and detection of suspicious activity. This allows financial institutions to stay ahead of evolving risks and better protect themselves and their customers from illicit activities.

AUTOMATED TRANSACTION MONITORING – THE NEW NORMAL

Technology plays a significant role in the evolution of financial crime. It has opened new and easier avenues for criminals to conduct illicit activity. Financial crime has become more complex, creating a widespread desire to embrace the latest advances in technology across transaction monitoring. Consequently, financial institutions have implemented methods to identify suspicious activity, assess risk levels, and make predictions about future customer activity and patterns. As technology and financial crime have advanced, financial institutions have started implementing more sophisticated automated transaction monitoring systems. These systems have been integrated to improve transaction monitoring alerts, minimize false positives, reduce the workload on compliance teams, and define red flags for investigations, creating a more efficient structure as well as easily adapting to changing industry typologies and best practices. There is an ever-growing list of technologically advanced platforms to detect suspicious activity easier and sooner, improve the quality of alerts, and increase efficiency in identifying new patterns of suspicious activities.

ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING – NOW AND LOOKING TO THE FUTURE

Advanced technology such as artificial intelligence (AI) and machine learning (ML) play an important role in transaction monitoring in various industries, including finance, banking, and e-commerce. Both can analyze massive amounts of data, detect anomalies that may indicate fraudulent or suspicious behavior, adapt to new trends and patterns, improve the accuracy of detecting suspicious transactions over time, and learn from historical patterns. The use of data, analytics, and robotics has renovated the current and future state of financial crime monitoring. AI and ML algorithms can learn patterns and behaviors from historical data to identify irregularities in transactions. These algorithms can adapt and improve their detection capabilities over time as they encounter new data. They can also be trained on updated data, allowing transaction monitoring systems to be effective in the ever-changing fraud techniques. However, real people will always be needed to make sure the software is working correctly and to continue feeding the system the correct data.

CONCLUSION

The evolution of transaction monitoring has shifted from manual processes to advanced, automated systems that influence technology, data analytics, AI an ML. A combination of manual and automated transaction monitoring is recommended for a comprehensive and efficient monitoring program. As the Financial Action Task Force (FATF) outlines in their paper Opportunities and Challenges of New Technologies For AML/CFT, "Combining the efficiency and accuracy of digital solutions with the knowledge and analytical skills of human experts produces more robust systems that can effectively respond to AML/CFT requirements." [1]

HOW CAN ANKURA HELP?

Our experts can assist your financial institution with the implementation of a robust transaction monitoring program. We have many years of experience and expertise in the area and have successfully assisted many clients to establish a transaction monitoring program that is best suited to their operation. This includes rule development, alert investigations, compliance oversight, reporting, system maintenance and enhancements, tweaking of controls, and training for staff. Additionally, Ankura can assist your company with selecting and implementing a third-party platform that best meets your company's needs and anti-money laundering program objectives.

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Maria has more than seven years of compliance experience with MSBs AFEX and Sigue Corporation. Maria has a focus on customer onboarding, due diligence, OFAC, transaction monitoring, risk management, compliance policy and program development and review.

[1] https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Opportunities-Challenges-of-New-Technologies-for-AML-CFT.pdf.coredownload.pdf

Andrew Sotak; co-author Ryan Zetterholm

Current State of Affairs:
Financial Reporting and Regulation of Crypto Assets

Professionals involved in the crypto asset space understand that regulation and oversight of the industry are amorphous. With the barrage of recent activity, it can be difficult to keep up with new guidance and regulatory enforcement actions. This article summarizes the following major developments around the financial reporting of crypto assets over the past year:

- The Securities and Exchange Commission (SEC) issuance of SAB No.121 requires crypto exchanges to better account for and disclose their obligations to safeguard customer crypto assets;

- The SEC reopening of the comment period for the proposed amendments to Exchange Act Rule 3b-16 as it relates to broadening the definition of "exchange;"

- The SEC continued focus on enforcement in the crypto asset space;

- The Financial Accounting Standards Board (FASB) introduction of a technical agenda item that would require entities to account for crypto assets at fair value each reporting period;

- The Public Company Accounting Oversight Board (PCAOB) concerns with Proof of Reserve Reports and their 2023 inspection priorities which include the review of audits of entities with material crypto assets; and

- Congress' introduction of bills to regulate the crypto asset space.

THE SEC ISSUED SAB NO. 121 – ACCOUNTING FOR OBLIGATIONS TO SAFEGUARD CRYPTO ASSETS AN ENTITY HOLDS FOR PLATFORM USERS

On April 11, 2022, the SEC issued Staff Accounting Bulletin No.121 (SAB No.121) to provide interpretive guidance for entities, such as cryptocurrency exchange platforms, that provide custody of crypto assets for third-parties. In addition to providing users with the ability to transact in crypto assets, these entities may safeguard third-party crypto assets and maintain the cryptographic key information necessary to access such assets. A common misconception is that crypto assets held in a wallet at an exchange are directly owned

and controlled by the user (and rightfully so when the user's wallet shows a balance of crypto assets). In the world of cryptocurrency, however, it is possession of the "private key," or cryptographic key, that represents ownership of a wallet and the corresponding crypto assets within. Since the exchanges maintain the cryptographic keys on behalf of their users, they effectively control the underlying crypto assets. As such, in the case of an adverse event such as fraud, theft, or bankruptcy at the exchange, a user's crypto assets are vulnerable to being lost.

Due to an increase in the number of entities that provide crypto asset custodial services, the SEC released SAB No.121 to help public companies address the increased technological, legal, and regulatory risks for the benefit of their investors.

The SEC highlights several changes it expects public companies to implement no later than their first interim or annual period ending after June 15, 2022, with a retrospective application as of the beginning of the fiscal year to which the interim or annual period relates. The key changes featured by the SEC relate to (i) recording an asset and liability for the crypto assets safeguarded by an exchange on behalf of third-parties and (ii) disclosing the nature and amount of crypto assets held for platform users.

REQUIREMENT TO RECORD AN ASSET AND LIABILITY FOR CRYPTO ASSETS SAFEGUARDED

From the SEC's point of view, the ability of users to obtain benefits from the crypto assets safeguarded by exchanges is dependent on the entity's efforts to protect the assets and the associated cryptographic key information from loss, theft, or other misuse. Due to this responsibility, the SEC believes that these entities should present a liability on their balance sheet to reflect their obligation to safeguard the crypto assets held for their platform users. Further, the SEC believes these entities should also present a distinct asset on their balance sheet representing the value of the crypto assets held for its platform users. The SEC stated that

the asset and liability should be measured at initial recognition and each reporting date at the fair value.

REQUIREMENT TO DISCLOSE THE NATURE AND AMOUNT OF CRYPTO ASSETS SAFEGUARDED

In addition to requiring entities to record an asset and liability for the crypto assets held for platform users, the SEC believes entities should include clear disclosures of the nature and amount of safeguarded crypto assets in their notes to the financial statements. The SEC provided the following disclosure guidance:

- Entities should make a separate disclosure for each significant crypto asset;

- Entities should disclose vulnerabilities due to any concentrations in specific crypto assets;

- Entities should include disclosure regarding fair value measurements;

- Entities should consider disclosure about who specifically holds the cryptographic key information, maintains the internal recordkeeping of those assets, and is obligated to secure the assets and protect them from loss or theft;

- Entities should disclose the potential impact that the destruction, loss, theft, compromise, or unavailability of the cryptographic key information would have on the ongoing business, financial condition, operating results, and cash flows of the entity; and

- Entities should disclose any risk-mitigation steps they have put in place related to the crypto assets held for platform users, such as insurance coverage.

As an example of compliance with the new accounting and disclosure requirements, Coinbase Global, Inc. (Coinbase) recorded in its Q1 2022 Form 10-Q a "[c]ustomer custodial funds" current asset in the amount of $10.02 billion and a "[c]ustodial funds due to customers" current liability in the amount of $9.74 billion. Coinbase also recorded several risk disclosures related to the

crypto assets it held for platform users, including the following statement, among others:

The theft, loss, or destruction of private keys required to access any crypto assets held in custody for our own account or for our customers may be irreversible. If we are unable to access our private keys or if we experience a hack or other data loss relating to our ability to access any crypto assets, it could cause regulatory scrutiny, reputational harm, and other losses. [1]

THE SEC PROPOSED AMENDMENTS TO EXCHANGE ACT RULE 3B-16 AND FOCUSES ENFORCEMENT ON THE CRYPTO ASSET INDUSTRY

In a press release on April 14, 2023, the SEC reopened the comment period and provided supplementary information on proposed amendments to the definition of "exchange" under Exchange Act Rule 3b-16. The SEC's reopening of the comment period also included supplemental information and economic analysis regarding other systems or mechanisms of trading securities that would be newly included in the definition of "exchange" under Exchange Act Rule 3b-16. In other words, the supplemental information would result in a broader definition of "exchange" such that more entities would be required to comply with the rule. The reopening is intended to allow interested parties the opportunity to review and provide comments on the proposed changes in consideration of the new supplemental information.

In addition to amending its rules to keep up with the evolving crypto asset landscape, the SEC has recently focused significant attention on the enforcement of the crypto asset industry. In 2022, the SEC brought a total of 30 crypto-related enforcement actions, an increase of more than 50% from the prior year.[2] Through April 2023, the SEC has already announced 13 actions against crypto-related entities, which is on pace to eclipse the number of enforcement actions brought in 2022.[3] These actions taken by the SEC, when combined with statements from SEC chair Gary Gensler that "the runway is getting shorter" for crypto companies to register and/or comply with the agency, demonstrates the SEC's focus on regulating the crypto asset space. This sentiment is further evidenced by the SEC's nearly doubling of the number of personnel in their Crypto Assets and Cyber Unit in May of 2022. [4]

THE FASB INTRODUCED A TECHNICAL AGENDA ITEM – ACCOUNTING FOR AND DISCLOSURE OF CRYPTO ASSETS

On December 15, 2021, the FASB chair Rich Jones added a project to the technical agenda titled "Accounting for and Disclosure of Crypto Assets." This technical agenda item is considered a "Recognition & Measurement" project, which involves determining whether, and at what amount, to include certain items on the face of the financial statements. The comment period concluded on June 6, 2023, and a total of 81 comment letters were received by the FASB from a wide range of interested parties, including Coinbase, Kraken, Binance. US, Deloitte, EY, MicroStrategy Inc., and the AICPA. The FASB board has provided an estimated completion date of Q4 2023 for the issuance of a final ASU on the topic.

According to the Proposed ASU, the amendments would apply to crypto assets that meet all of the following criteria:

• Meet the definition of intangible assets as defined in the Codification Master Glossary; [6]

• Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets;

• Are created or reside on a distributed ledger based on blockchain technology;

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[1] Coinbase Global, Inc., Q1 2022 Form 10-Q, p. 84.
[2] Asmakov, A. (2023, January 18). Nearly Half of SEC Crypto Enforcement Actions in 2022 Were Against ICOs. Decrypt.
[3] Sinclair, S. (2023, May 3). SEC Crypto Enforcements on Track to Eclipse 2022. Blockworks.
[4] U.S. Securities and Exchange Commission. (2022, May 3). SEC Nearly Doubles Size of Enforcement's Crypto Assets and Cyber Unit. https://www.sec.gov/news/press-release/2022-78
[5] FASB Exposure Draft, Proposed Accounting Standards Update, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets.
[6] According to the FASB Master Glossary, intangible assets are assets (not including financial assets) other than goodwill that lack physical substance.
[7] FASB ASC 350, Intangibles – Goodwill and Other

• Are secured through cryptography;

• Are fungible; and

• Are not created or issued by the reporting entity or its related parties.

The proposed ASU would require entities to subsequently measure crypto assets that meet those criteria at fair value with changes recognized in net income each reporting period. Also, entities would be required to recognize transaction costs to acquire crypto assets, such as commissions, as expenses when incurred.

Crypto assets, and the change in their fair value, would be required to be presented separately from other intangible assets, and changes in those other intangible assets, on the entity's balance sheet and income statement, respectively. Finally, the proposed ASU would require entities holding crypto assets to make several disclosures, such as (i) the name, cost basis, fair value, and number of units of each significant crypto asset held and (ii) the activity in each reporting period with respect to crypto assets, including additions, dispositions, gains and losses, and descriptions of the activities that resulted in such additions and dispositions.

While U.S. General Accepted Accounting Principles (GAAP) does not currently address how to account for crypto assets, most public companies that hold crypto assets have accounted for them as indefinite-lived intangible assets under ASC 350. [7] Under this standard, entities are required to record intangible assets at cost and then must test them for impairment at least annually or more frequently if events or changes in circumstances indicate that it is more likely than not that they are impaired. In other words, crypto assets are currently recorded as assets at cost and then can only subsequently be lowered, and never raised. If the price of a crypto asset goes back up, nothing can be done to recover that value. For these reasons, and due to the extreme volatility of prices in this space, the intangible assets recorded on public companies' balance sheets are typically not representative of the current value of their crypto assets held.

If this project becomes a standard in the future, companies would be required to measure the fair value of their crypto assets using the fair value hierarchy included in ASC 820-10-35, as follows:

• **Level 1 Inputs:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date, such as a major token with large volumes of transactions at centralized cryptocurrency exchanges like Coinbase. If more than one active market exists for an asset, the principal market with the greatest volume and level of activity should be used as the Level 1 input.

• **Level 2 Inputs:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as tokens with extremely low trading volumes at decentralized exchanges like Uniswap or tokens that are not available for trading on decentralized or centralized exchanges but have been offered through Simple Agreements for Future Tokens (SAFTs) or other agreements.

- **Level 3 Inputs:** Unobservable inputs for the asset or liability.

Generally, ASC 820 gives priority to observable inputs over unobservable inputs. Also, the industry is constantly evolving, so crypto assets previously valued using Level 2 or Level 3 inputs might eventually become traded in an active market and require Level 1 inputs.

The FASB Board indicated they will consider the presentation, disclosure, and transition at a future meeting.

THE PCAOB ISSUED AN INVESTOR ADVISORY CONCERNING PROOF OF RESERVE REPORTS AND IDENTIFIED 2023 PRIORITIES

On March 8, 2023, the PCAOB, which is responsible for overseeing the audits of public companies, issued an investor advisory with a clear warning for investors whose crypto assets are held with exchanges: "[p]roof of reserve reports are inherently limited, and customers should exercise extreme caution when relying on them to conclude that there are sufficient assets to meet customer liabilities."[8] Proof of reserve reports (PoR Reports) are the results of a third-party review of a crypto entity and they are designed to show whether the crypto entity has sufficient funds to back all customer deposits. In other words, PoR Reports purport to give customers assurance that their funds held at the crypto entity are safe and could be withdrawn at any time.

The PCAOB alleges that the PoR Reports claim to provide crypto asset verification, but are severely limited because (i) they do not address the crypto entities' liabilities, which could evidence whether crypto entities have borrowed crypto assets to make them appear to have reserves, and (ii) they are based on crypto assets held at a particular point in time, so crypto assets could theoretically be used, lent, or otherwise become unavailable immediately following the issuance of the PoR Report. The PCAOB makes it clear in their news release that PoR Reports are not equivalent or more rigorous than an audit and they are not conducted in accordance with PCOAB auditing standards, even if reported by PCAOB-registered audit firms.

In April of 2023, the PCAOB issued their "Staff Priorities for 2023 Inspections" report and specifically identified digital assets as a key focus. [9] In the report, the PCAOB states that "[a]udit firms may not have staff with the expertise to identify and assess risks related to digital assets and may not appropriately tailor their audit procedures to address these risks." The PCAOB noted that they will be selecting 2022 fiscal year-end audits of identified public companies and broker-dealers with material digital assets.

BILLS AND RESOLUTIONS RELATING TO CRYPTO ASSETS CURRENTLY IN THE LEGISLATIVE PROCESS

The virtual asset space has garnered a lot of attention over the past few years and has resulted in lawmakers introducing bills and resolutions to ensure crypto assets and other digital assets are appropriately regulated.

On June 7, 2022, the Lummis-Gillibrand Responsible Financial Innovation Act bill was introduced in the Senate.[10] This bill will aim to (i) provide definitions for key terms in the digital asset space, (ii) provide legal clarity around the distinction between digital assets that are commodities and those that are securities, (iii) grant jurisdiction to certain government regulators over the digital asset space, and (iv) require higher standards of disclosure for certain providers of digital assets.

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[8] Public Company Accounting Oversight Board. (2023, March 8). Investor Advocate: Exercise Caution With Third-Party Verification/Proof of Reserve Reports.
[9] Public Company Accounting Oversight Board. (2023, April). Spotlight: Staff Priorities for 2023 Inspections.
[10] U.S. Congress. (n.d.). S.4356 - Lummis-Gillibrand Responsible Financial Innovation Act. Retrieved May 4, 2023

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Following the Terra-Luna collapse, this bill will also aim to prioritize the regulation of stablecoins, including placing a universal ban on all algorithmic stablecoins and determining who can issue stablecoins and what kinds of reserves would be required.[11]

In March 2023, Lummis stated at the Milken Institute Future of Digital Assets Symposium that a revised Lummis-Gillibrand bill would be presented to the Senate in mid-April 2023.[12] However, as of early May, a revised bill has not been presented.

Other bills have also been introduced to Congress that could have an impact on the financial reporting of crypto assets. Similar to the Lummis-Gillibrand Bill, the Digital Commodities Consumer Protection Act of 2022 bill [13] aims to provide clarity for regulatory oversight of the industry. Specifically, the Digital Commodities Bill would provide the Commodity Futures Trading Commission (CFTC) with the authority to regulate the trading of digital commodities. This bill would set a uniform national standard and enable the CFTC to more proactively respond to emerging risks in the crypto asset space.

In addition, Representative Patrick McHenry (R-N.C.), chair of the House Financial Services Committee, stated at Consensus 2023 that the U.S. House Financial Services Committee and House Agriculture Committee will be putting together crypto-related legislature in the "next two months." [14] As of the date of this publication, none of the above bills have been voted on in Congress.

HOW ANKURA CAN HELP

The Ankura Digital Asset Investigation and Advisory team has extensive experience helping our clients address the key issues facing the crypto asset industry today. If you or your organization are facing any crypto asset-related challenges or would like to find out more about the Ankura service offerings, please contact Andrew Sotak at **andrew.sotak@ankura.com**.

Andrew Sotak
Managing Director

✉ andrew.sotak@ankura.com

Andrew has more than 11 years of experience in forensic accounting, litigation consulting, and tax and audit advisory. He is a CPA and CFE and leads complex financial investigations, provides securities litigation support, and advises on technical accounting matters. Andrew specializes in matters related to digital assets, blockchains, and cryptocurrencies.

Ryan Zetterholm
Director

✉ ryan.zetterholm@ankura.com

Ryan has spent his full-time tenure in the forensic accounting field by assisting with various fraud investigations, dispute matters, and risk and compliance engagements. Specifically, Ryan has experience with earn-out disputes, damages assessments, FCPA investigations, asset misappropriation investigations, flow of funds analyses, crypto asset tracing, receivership advisory, and compliance assessments, among others.

[11] Wagner, C. (2023, March 2). Gillibrand, Lummis Plan Revamped Crypto Bill for April. Blockworks.

[12] DeGregorio, M. (2023, March 21). FinTech in Focus — March 21, 2023: Future of Digital Assets Symposium Insights and Community Resilience. Milken Institute.

[13] U.S. Congress. (n.d.). H.R.8950 - Digital Commodities Consumer Protection Act of 2022. Retrieved May 4, 2023

[14] Singh, A. (2023, April 28). U.S. House Will Have Crypto Bill in 2 Months: Rep. McHenry. CoinDesk. https://www.coindesk.com/policy/2023/04/28/us-house-will-have-crypto-bill-in-2-months-mchenry/

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EXTRAORDINARY, SIGNIFICANT MATERIAL EVENTS OR CHANGES

(Out of Cycle Reporting Requirements)

Regulators require advanced reporting and/or approval for material or exceptional events that occur within a licensed institution. Ankura provides the tools and expertise to properly submit advanced change notices and approval requests to regulators. If any of the following or similar events occurred, or are planned at your company, contact us to see how we can assist:

- **Change of control, such as an acquisition, merger, or other changes in ownership;**

- **New executive officer or board director;**

- **Change in corporate structure;**

- **Change of primary address;**

- **Change of company name or trade name;**

IMPORTANT UPDATES

Changes in the Regulatory Tide

Money Transmission Modernization Act (MTMA)

States have been adopting the Money Transmission Modernization Act (MTMA), either in full or by adopting significant portions of the Act. The effective date of these revisions began in 2023, with a number of additional states still in the process of enacting the MTMA. Ankura strongly encourages that Money Services Businesses (MSBs) review the regulatory changes and update relevant procedures to ensure continued compliance.

Effective Dates for State Adoption of MTMA

- Georgia - Effective 7/1/2023

- Indiana - Effective 1/1/2024 (Adopted in full)

- Iowa - Effective 7/1/2023 (Adopted in full)

- Minnesota - Effective 8/1/2023 (Adopted in full)

- Nevada - Effective 7/1/2023 (Adopted in full)

- New Hampshire - Effective 7/18/2023

- North Dakota - Effective 8/1/2023 (Adopted in full)

- South Dakota-Effective 7/1/2023

- Tennessee- Effective 1/1/2024

- Texas - Effective 9/1/2023 (Adopted in full)

- West Virginia - Effective 3/10/2023

Notable Changes Affecting License Maintenance:

If a state has adopted MTMA language regarding Surety Bond, Net Worth, and Permissible Investments, MSBs must ensure procedures are updated to continually review compliance with these sections of the Act.

- **Surety Bond** - The amount of the required security shall be (1) the greater of $100,000 or an amount equal to one hundred percent of the licensee's average daily money transmission liability in this state calculated for the most recently completed three-month period, up to a maximum of $500,000; or (2) in the event that the licensee's tangible net worth exceeds 10% of total assets, the licensee shall maintain a surety bond of $100,000.

- **Net Worth** - A licensee under this Act shall maintain at all times a *tangible* net worth of the greater of $100,000 or 3 percent of total assets for the first $100 million, 2 percent of additional assets for $100 million to $1 billion, and 0.5 percent of additional assets for over $1 billion.

- **Permissible Investments** - A licensee shall maintain at *all times* permissible investments that have a market value computed in accordance with United States generally accepted accounting principles of not less than the aggregate amount of all of its outstanding

money transmission obligations. The following investments are permissible:

— Cash (including demand deposits, savings deposits, and funds in such accounts held for the benefit of the licensee's customers in a federally insured depository financial institution) and cash equivalents including ACH items in transit to the licensee and ACH items or international wires in transit to a payee, cash in transit via armored car, cash in smart safes, cash in licensee-owned locations, debit card or credit card-funded transmission receivables owed by any bank, or money market mutual funds rated "AAA" by S&P, or the equivalent from any eligible rating service;

— Certificates of deposit or senior debt obligations of an insured depository institution, as defined in Section 3 of the Federal Deposit Insurance Act, 12 U.S.C. Section 1813, as amended or recodified from time to time, or as defined under the federal Credit Union Act, 12 U.S.C. Section 1781, as amended or recodified from time to time;

— An obligation of the United States or a commission, agency, or instrumentality thereof; an obligation that is guaranteed fully as to principal and interest by the United States; or an obligation of a state or a governmental subdivision, agency, or instrumentality thereof;

— The full drawable amount of an irrevocable standby letter of credit for which the stated beneficiary is the [Commissioner] that stipulates that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds up to the letter of credit amount within [7] days of presentation of the items required by [Section 10.04(a)(4)(C)]

— One hundred percent of the surety bond [or deposit] provided for under [Section 10.02] that exceeds the average daily money transmission liability in this state.

— Receivables that are payable to a licensee from its authorized delegates in the ordinary course of business that are less than seven days old, up to 50% of the aggregate value of the licensee's total permissible investments;

— Following investments are permissible up to 20% per category and combined up to 50% of the aggregate value of the licensee's total permissible investments: short-term (up to six months) investment bearing an eligible rating; Commercial paper bearing an eligible rating; A bill, note, bond, or debenture bearing an eligible rating; U.S. tri-party repurchase agreements collateralized at 100% or more with U.S. government or agency securities, municipal bonds, or other securities bearing an eligible rating; Money market mutual funds rated less than "AAA" and equal to or higher than "A-" by S&P, or the equivalent from any other eligible rating service; and A mutual fund or other investment fund composed solely and exclusively of one or more permissible investments listed in [Section 10.04(a)(1)–(3)]

— Cash (including demand deposits, savings deposits, and funds in such accounts held for the benefit of the licensee's customers) at foreign depository institutions are permissible up to 10% of the aggregate value of the licensee's total permissible investments if the licensee has received a satisfactory rating in its most recent examination and the foreign depository institution: has an eligible rating; is registered under the Foreign Account Tax Compliance Act; is not located in any country subject to sanctions from the Office of Foreign Asset Control; and is not located in a high-risk or non-cooperative jurisdiction as designated by the Financial Action Task Force.

SEC – CRYPTO ASSET SECURITIES

In association with their current complaints against several large cryptocurrency exchanges the SEC has established the following virtual currency assets as securities:

- Solana (SOL)
- Cardano (ADA)
- Polygon (MATIC)
- Filecoin (FIL)
- Cosmos (ATOM)
- Sandbox (SAND)
- Decentraland (MANA)
- Algorand (ALGO)
- Axie Infinity (AXS)

- Coti (COTI)
- Chilliz (CHZ)
- Flow (FLOW)
- Internet Computer (ICP)
- Near (NEAR)
- Voyager (VGX)
- Dash (DASH)
- Nexo (NEXO)

As such, the SEC has stated that any company engaging in providing consumers buying/selling/trading services associated with these crypto assets should be registered with the SEC as an exchange, broker, clearing agency, or should establish the qualification for an exemption from registration.

To learn more or if you want to see how Ankura can help you navigate the regulatory waters and add value to your team, please reach out to us at **chartwellinfo@ankura.com**.

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2023 NMLS CONFERENCE & TRAINING

The 2023 NMLS Conference & Training held April 3-6 in Phoenix, Arizona was the first in person conference event since 2020. Attendees found opportunities to network with peers and state regulators as well as learning sessions on NMLS, the State Examination System (SES), and the latest regulatory trends. Several new and upcoming NMLS features and enhancements were presented.

A new log-in system is under development with the NMLS modernization team. This new system will allow individuals to use one login for all their accounts between companies and for MU1s, MU2s, and MU4s. NMLS will also introduce easier password recovery with more self-service options which should reduce the need to contact the NMLS Resource Center. In addition, NMLS plans to issue new state standardized checklists later this year.

Virtual currency dominated the conversation at the NMLS conference and in the licensing community. NMLS began as a mortgage licensing system that later added money services businesses (MSBs) – including virtual currency companies, consumer finance, and debt collection companies. Currently, virtual currency licensees and activities are driving legislation, regulation, and supervision.

The State Examination System is also a priority for the CSBS, but adoption by the states is slow due to the inefficiencies of the system. The working group continues to make improvements to the system, but it is still a long way from full adoption by both regulators and companies. In fact, Google flatly refuses to use the system until it passes security audits and reviews. Exams both in and out of SES are expected for the near future.

Another important topic at the conference, The Money Transmission Modernization Act, also known as the Money Transmitter Model Law, aims to replace 50 sets of state-specific money transmitter laws and rules with one single set of nationwide standards and requirements created by state and industry experts. The Money Transmission Modernization Act is currently the priority of the states and the CSBS. The CSBS is pushing full steam ahead with getting this Act into states' legislation nationwide. The latest updates CSBS has the latest updates on its 2023 Money Transmission Modernization Act **website**.

Money Transmission Modernization Act

• 11 States adopted some or all of the Act at the time of the conference.

• 20 States with legislation this year.

Virtual Currency Regulation

• New York and Louisiana have already adopted.

• California, Nevada, and Illinois have proposed legislation for new virtual currency regulation and licensure.

For mortgage lenders, an important topic of discussion at the conference was the allowance for remote location work. Most states' regulations require any locations where mortgages are originated to be reported as branches, which was problematic for pandemic restricted originators working from home.

Nationwide Multistate Licensing System & Registry

NMLS CORNER

NMLS NEWS

2022 CSBS Annual Report Now Available

The 2022 Conference of State Bank Supervisors (CSBS) annual report is now available. **Read the report** which includes highlights of NMLS and SES activity for 2022.

Get Highlights from the 2023 Ombudsman Meeting at the NMLS Annual Conference & Training

Click here to access the meeting summary for the Ombudsman Meeting at the 2023 NMLS Annual Conference and Training. Thank you to both state regulators and industry representatives for participating in the ongoing dialogue to improve the state system.

NMLS Policy Guidebook Updates Available

An updated version of the **NMLS Policy Guidebook** has been posted to the NMLS Resource Center and the Regulator Resource Center. **Click here** to view a summary of the updates.

AGENCY NEWS

New Office Location for Indiana Department of Financial Institutions

The Indiana Department of Financial Institutions (Indiana DFI) has moved to a new office location. The current Indiana DFI office at 30 South Meridian Street, Suite 300 has relocated to 30 South Meridian Street, Suite 200, effective Monday, January 9, 2023.

North Dakota Department of Financial Institutions adds new license and registration types

The Indiana Department of Financial Institutions (Indiana DFI) has moved to a new office location. The current Indiana DFI office at 30 South Meridian Street, Suite 300 has relocated to 30 South Meridian Street, Suite 200, effective Monday, January 9, 2023.

On August 1, North Dakota Department of Financial Institutions will add new license and registration types to NMLS. New applicants will be able to submit these records through NMLS for the following North Dakota licenses:

• Residential Mortgage Lender

• Residential Mortgage Lender Branch Registration

• Residential Mortgage Loan Servicer

• Residential Mortgage Loan Servicer Branch Registration

Applicants are now able to view the license requirements on the State Agency Licensing page. **Click here** for more information. **Click here** to view North Dakota's Legislation Notice.

Starting August 1, 2023, the North Dakota Department of Financial Institutions will also begin receiving new Electronic Surety Bonds (ESB) through NMLS for the following license types:

• Residential Mortgage Lender

• Residential Mortgage Loan Servicer

See the **ESB Adoption Map and Table** for a list of state agencies who have also adopted ESB and required ESB conversion dates.

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Virginia Bureau of Financial Institutions to Adopt Electronic Surety Bond

The 2022 Conference of State Bank Supervisors (CSBS) annual report is now available. Read the report which includes highlights of NMLS and SES activity for 2022.

On March 1, the Virginia Bureau of Financial Institutions will begin receiving new Electronic Surety Bonds (ESB) through NMLS for the following license types:

• Broker License

• Lender License

• Money Order Seller and Money Transmitter License

Click here to view the **ESB Adoption Industry Communication** from Virginia Bureau of Financial Institutions. See the **ESB Adoption Map and Table** for a list of state agencies who have also adopted ESB and required ESB conversion dates.

Nevada Financial Institution Division Adds New License Types to NMLS on Mar.1

NMLS will begin receiving new applications for the Nevada Financial Institution Division. New applicants and will be able to submit these records through NMLS for the following license types:

• Deferred Deposit, High-Interest, Title Loan and Check Cashing Services Licensees

• Deferred Deposit, High-Interest, Title Loan and Check Cashing Services Branch License

Applicants are now able to view the license requirements on the **State Agency Licensing page**.

Starting March1, the Nevada Financial Institution Division will begin receiving new Electronic Surety Bonds (ESB) through NMLS for the following license type:

• Deferred Deposit, High-Interest, Title Loan and Check Cashing Services Licensees

Arizona Department of Insurance and Financial Institutions to Replace State Quarterly Report with MSB Call Report Q1 2023

As recently announced by Arizona Department of Insurance and Financial Institutions effective for Q1 2023 reporting, the Arizona Department of Insurance and Financial Institutions quarterly report will be replaced by the **NMLS Money Services Businesses (MSB) Call Report**. The NMLS MSB Call Report functionality permits the submission of routine financial and transactional reporting directly in NMLS.

The Q1 2023 submission of the NMLS MSB Call Report is due 45 days after the Q1 2023 quarter end May 15, 2023. Arizona Department of Insurance and Financial Institutions replace its current quarterly report with the MSB Call Report for the licenses listed below:

• Money Transmitter License

Free trainings, and additional resources to assist licensees in submitting the report are available on the **MSB Call Report page** on the NMLS Resource Center.

Arizona Department of Insurance and Financial Institutions is also adopting Uniform Authorized Agent Reporting (UAAR). **Click here** to review the list of participating agencies and specific license types.

To view all updated statutes as well as information relating to the additional new requirements visit the Arizona Money Transmitter website page located **here**.

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We Can Show You the Way

Our Anti- Financial Crime Team delivers powerful solutions to complex regulatory, licensing, and compliance challenges experienced by Fintech and financial services companies. We have served nearly 600 firms ranging from Fortune 50 to Fintech's biggest unicorns throughout the world. The acquisition of Chartwell by Ankura further enhances the entire organization's global anti-financial crime offering to help banking and Fintech clients navigate the full spectrum of BSA/AML challenges, licensing acquisition, maintenance and administration as well as outsourcing services.

VALUE PROPOSITION

ONE-STOP SOLUTION

Complete outsourcing of worldwide license acquisition and maintenance and many day-to-day compliance and AML staff functions. Flex talent and variable fee structure that are superior to direct hiring or other service provider options.

SATISFIED CLIENTS

Over 600 satisfied clients, including some of the most prominent multinationals in their respective industries and many firms within the Fortune 1000.

STABLE, HIGHLY QUALIFIED WORKFORCE

Our team is staffed by employees, the majority of whom have over 20 years of experience as practitioners or regulators. We are proud of its low turnover rate and the many awards it has received for a unique and revolutionary corporate culture and approach to staff development.

EXCEPTIONAL PROJECT MANAGEMENT

Our staff members practice a Kaizen methodology and use proprietary project management techniques that sustain a high level of quality.

WE ARE PLEASED TO INTRODUCE THE FOLLOWING

Robert Reed
Managing Director

Robert Reed, Managing Director has over 20 years of experience in the financial service industry as a senior C-suite executive, BSA/AML officer, and operations, compliance, MIS risk, and trading professional. Robert has established regulatory effectiveness groups at global and regional banks and led over 100 anti-money laundering (AML) regulatory examinations with U.S. federal, state, and global regulators, including a challenging written agreement in one instance and consent order in another. Further, he has overseen multiple remediation projects pertaining to compliance findings, and directed global technology projects to enhance automated reporting, AI, and process monitoring. For more information, please email **robert.reed@ankura.com**.

Ayana Murphy
Managing Director

Ayana Murphy is a Managing Director at Ankura based in New York. She has nearly 20 years of experience in regulatory compliance work, with a focus on Bank Secrecy Act (BSA), Anti-Money Laundering (AML), and Know Your Customer (KYC) compliance for the past 15 years. Ayana is a subject matter expert in BSA/AML compliance and has spent the bulk of her career at major international and domestic banks providing guidance on compliance with BSA/AML rules and regulations and collaborating with senior stakeholders to enhance AML controls, policies, and procedures. She holds a law degree from NYU and a BA from the University of Chicago. For more information, please email **ayana.murphy@ankura.com**.

Elif Cinar
Senior Director

Elif Nadire Cinar is a Senior Director at Ankura, based in New York. Elif specializes in utilizing data analytics tools and methodologies to predict, prevent, detect and deter economic and financial crimes including but not limited to asset misappropriation, bribery and corruption, money laundering, and sanctions violations. Elif has consulted on matters across a variety of industries, with particular focus on financial services, construction, and technology. Throughout her career, Elif has worked on several global engagements spanning the Americas, Europe, Africa and Asia. For more information, please email **elif.cinar@ankura.com**.

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Risk, Forensics & Compliance Anti-Financial Crime Team

Our team members are 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 seasoned examiners, operators, and regulatory policy makers in the banking, non-banking, and emerging payments compliance segments of the financial services industry.

CONSULTANTS AVERAGE 22 YEARS OF EXPERIENCE

We use this vast experience to design and implement executive compliance and risk management programs properly calibrated to address both the current and prospective regulatory environment.

EXTENSIVE EXPERIENCE AT THE INDUSTRY'S BEST ORGANIZATIONS

Staff members have served in:

- Internationally prominent U.S. payments licensing and compliance advisory outsourcing practice

- The Regulatory Divisions of the California Department of Business Oversight and the Florida Office of Financial Regulations

- MSBs such as Western Union, First Data, and Sigue State and nationally chartered banks

- The Federal Bureau of Investigation's Financial Crimes and Terrorist Financing

- Assistant director at the Office of the Comptroller of the Currency (OCC) Assistant Director of Enforcement

CROSS-CERTIFIED STAFF MEMBERS

- Certified AML (CAMS)

- Regulatory manager certifications CRCM and PMP

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Our Services

Fintech Licensing

With its large team of long-time licensing officers and former regulators, we have centuries of collective experience obtaining and maintaining thousands of regulatory licenses for intech companies in areas like money transmission, cryptocurrency, prepaid access, currency exchange, lending, and gaming. The firm provides a fully outsourced solution in all key component parts of getting and staying licensed. Our emphasis on excellent project management and Kaizen methodology helps ensure timely results. Our staff have serviced, worked at, or supervised a statistically significant portion of all licensed U.S. money transmitters.

Federal Compliance

Our team is one of the world's preeminent providers of AML/CFT, fraud prevention, and regulatory compliance services to the Fintech industry. Comprised of an incredibly deep bench of long-time practitioners from all corners of the Fintech industry, the firm builds, localizes, enhances, and audits compliance programs. It has served many of the industry's leading Fintechs, hundreds of companies overall throughout the world.

Banking Compliance

Our team has well-credentialed former bank compliance officers and regulators who serve all types of banks as well as challenger/neo/digital banks in most areas of bank regulatory compliance. Numerous clients come from the Fintech industry and several of the Fintech banking market leaders have worked with us. Our team brings a unique, first-hand experience to its work.

Global Outsourced Compliance

Our team of veteran compliance officers, regulators and analysts are positioned as an outsourced resource for compliance program execution with many financial services businesses. The firm handles many of the day-to-day functions required to maintain an effective compliance program, including transaction monitoring and reporting; sanctions screening; KYC and customer due diligence; onboarding and enhanced due diligence; fraud prevention; consumer compliance; and taking overall leadership of the program. Providing flex talent at variable cost, with excellent bench depth and quality assurance, we are a strong alternative to hiring directly in many cases.

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Strategic Alliances

HAWK:AI

Hawk AI helps banks, payment companies and fintechs fight financial crime with AML and fraud surveillance. Powered by explainable AI and Cloud technology with a focus on information sharing, our technology improves the efficiency and effectiveness of anti-financial crime teams.

THOMSON REUTERS

Thomson Reuters is a leading provider of business information services. Our products include highly specialized information-enabled software and tools for legal, tax, accounting and compliance professionals combined with the world's most global news service – Reuters.

NICE ACTIMIZE

NICE Actimize uses innovative technology to protect institutions and safeguard consumers and investors by identifying financial crimes, preventing fraud and providing regulatory compliance.

MVB

Through its subsidiary, MVB Bank, Inc., and the Bank's subsidiaries, MVB Community Development Corporation, and Paladin, MVB provides financial services to individuals and corporate clients in the Mid-Atlantic region and beyond.

acuant

Acuant Compliance's Trusted Identity Platform provides identity verification, regulatory compliance (AML/KYC) and digital identity solutions leveraging AI and human-assisted machine learning to deliver unparalleled accuracy and efficiency.

fiserv.

Fiserv, a global leader in payments and financial technology, helps clients achieve best-in-class results in account processing and digital banking solutions; card-issuer processing and network services; payments; e-commerce; merchant acquiring and processing; and the Clover® cloud-based point-of-sale solution.

Middesk

Middesk's Identity product provides accurate, complete information that financial services companies need to make efficient onboarding decisions. Our Agent product makes it easy for employers to file with the state and federal agencies needed to establish their business across the country. Our customers include Affirm, Brex, Plaid, Mercury, Divvy, Rippling, Gusto, and others.

coinfirm

Coinfirm is a global leader in AML & RegTech for blockchain & cryptocurrencies. Offering the industry's largest blockchain coverage - over 98% of cryptocurrencies supported - Coinfirm's solutions are used by market leaders, ranging from VASPs such as Binance, and protocols like WAVES, to major financial institutions and governments.

ACCUITY

Accuity offers a suite of innovative solutions for payments and compliance professionals, from comprehensive data and software that manage risk and compliance, to flexible tools that optimize payments pathways.
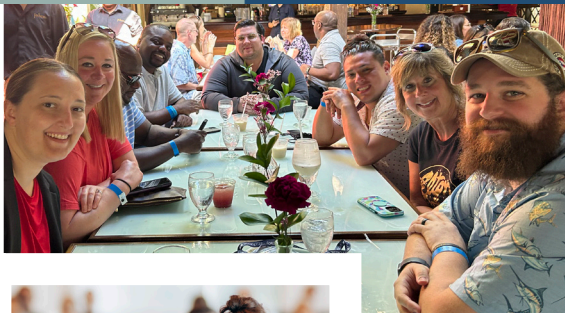
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Culture and Honors

TEAM RETREAT 2023

Our team came together in San Juan, Puerto Rico to collaborate, understand how we can better serve our clients, and engage in team building activities.

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