Welcome
Agenda

• 9:00am – 9:15am  Welcome Greetings & Emcee Remarks
• 9:15am – 9:45am  Fireside Chat with Rick Small
• 9:45am – 11:00am Regulatory Panel
• 11:00am – 11:15am Break
• 11:15am – 12:15pm Industry Panel: Marijuana Adjacencies and Best Practices to Mitigate Risk to your FI
Agenda

• 12:15pm – 1:15pm Lunch
• 1:15pm – 2:15pm Law Enforcement Panel
• 2:15pm – 2:40pm Afternoon Keynote:
• 2:40pm – 2:55pm Break
• 2:55pm – 3:55pm Maintaining a Strong BSA Program while facing Corrective Action Plans
• 3:55pm – 4:05pm Closing Remarks
Partnerships in AML to Support an Efficient and Innovative Approach
Partnerships in AML to Support an Efficient and Innovative Approach
Fireside Chat with Rick Small & Dan Soto
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Fireside Chat with Rick Small & Dan Soto
Regulatory Panel

• **Moderator: Lauren Ware**, Industry Relationship AVP, Richmond Fed
• **Tom Lawler**, Senior Liaison Officer, FinCEN
• **Adnan Ghani**, BSA Subject Matter Expert & Principle Examiner, NCUA
• **Margaret Liu**, SVP & Deputy General Counsel, CSBS
• **Shay Smith**, BSA/AML Review Examiner, FDIC
• **Jennifer White**, Lead BSA/AML Policy Analyst, Board of Governors
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Learning Objectives / Key Topics:

• CDD Rule Execution
• Exam Findings & Enforcement Action Trends
• Regulatory Burden & Recent Interagency Statements/Initiatives
• Regulatory Reform & Exam Manual Updates
• Strengthening Regulatory Relationships
• Other Key Regulatory Risks/Topics
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Marijuana Adjacencies and Best Practices to Mitigate Risk to your FI

• **Moderator: Megan Hodge**, Executive Compliance Director BSA/AML Officer, Ally Financial
• **Heather Allen**, First Vice President, BSA Officer, Peoples Bank
• **Tanja Bacic**, VP, FIU Group Manager, BB&T
• **Erin Fonte**, Partner Hunton Andrews Kurth LLP
• **Todd Liddick**, Regional Enforcement & Compliance Supervisor, Maryland Medical Cannabis Commission
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Banking Cannabis

* Depository Institutions *(by type) Providing Banking Services to Marijuana Related Businesses*

(Data ending 30 September 2018)
## Cannabis: Marijuana vs. Hemp

<table>
<thead>
<tr>
<th>Marijuana</th>
<th>Hemp</th>
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<tbody>
<tr>
<td>Marijuana is abundant in THC with concentrations between 15% to 40%</td>
<td>Hemp contains a very low concentration of THC (0.3% or less)</td>
</tr>
<tr>
<td>Marijuana is grown for recreational and medicinal purposes</td>
<td>Hemp is grown primarily for industrial purposes (but CBD oil and products derived from hemp)</td>
</tr>
<tr>
<td>Marijuana can be smoked, inhaled, ingested or injected directly into the body. THC is also commonly extracted from the plant and used in a variety of methods including vaporizers, capsules, edibles and more</td>
<td>Hemp's rapid growth and strong fibers make it ideal for crafting durable rope, clothing, sail, and paper. With the fast-growing popularity of CBD, hemp is also used to produce a wide variety of THC-free CBD products (both ingestible and non-ingestible)</td>
</tr>
<tr>
<td>Still a Schedule I drug under the federal Controlled Substances Act</td>
<td>No longer a Schedule I drug under the federal Controlled Substances Act as of December 20, 2018</td>
</tr>
<tr>
<td>Marijuana</td>
<td>Hemp</td>
</tr>
<tr>
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</tr>
<tr>
<td>Still a Schedule I drug under the federal Controlled Substances Act</td>
<td>No Longer a Schedule I drug under the federal Controlled Substances Act</td>
</tr>
<tr>
<td>Cole Memos (rescinded in 2018)</td>
<td>2018 Farm Bill removed hemp (hemp cannot contain more than 0.3 percent of THC) from the Controlled Substances Act</td>
</tr>
<tr>
<td>FinCEN Guidance on Marijuana SARs (still effective)</td>
<td>But State issues on hemp (and CBD derived from hemp)</td>
</tr>
<tr>
<td>Multiple bills working through Congress (SAFE Act, States Act)</td>
<td></td>
</tr>
</tbody>
</table>
The Agriculture Improvement Act of 2018 (2018 Farm Bill, Section 10113) directs the U.S. Dept. of Agriculture to issue regulations and guidance to implement a program for the commercial production of industrial hemp in the U.S.

The USDA has begun the process to gather information for rulemaking – targeting Q1 2020 for proposed rules. Info to be used to formulate regulations that will include specific details for both federally regulated hemp production and a process for the submission of state and Indian tribal plans to the USDA.
For the 2019 planting season, the 2018 Farm Bill provides that states, tribes, and institutions of higher education can continue operating under authorities of the 2014 Farm Bill.

USDA is also required to establish a plan to monitor and regulate the production of hemp in those states or tribal lands that do not have an approved state or tribal plan. It is the USDA’s intention to issue regulations in the fall of 2019 to accommodate the 2020 planting season (but that may shift on timing).
• **April 2, 2019:** FDA announced new steps and actions to advance consideration of a framework for the lawful marketing of appropriate cannabis and cannabis-derived products under our existing authorities.

• **May 31, 2019:** Public Hearing: stakeholders shared their experiences and challenges with these products, including information and views related to product safety.

• The formation of a high-level internal agency working group to explore potential pathways for dietary supplements and/or conventional foods containing CBD to be lawfully marketed; including a consideration of what statutory or regulatory changes might be needed and what the impact of such marketing would be on the public health.
Updates to FDA website with answers to frequently asked questions on this topic to help members of the public understand how the FDA’s requirements apply to these products.

The issuance of multiple warning letters to companies marketing CBD products with egregious and unfounded claims that are aimed at vulnerable populations.

FDA is announcing that it has issued warning letters, in collaboration with the Federal Trade Commission, to three companies – Advanced Spine and Pain LLC (d/b/a Relievus), Nutra Pure LLC and PotNetwork Holdings Inc. – in response to their making unsubstantiated claims related to more than a dozen different products and spanning multiple product webpages, online stores and social media websites.
What about those CBD stores I see?
• 2018 Farm Bill removed Industrial Hemp as a Federal Schedule 1 drug

• **MYTH**: this did NOT make all CBD oil products legal – 2018 federal Farm Bill is *floor preemptive* and states/localities can enact greater restrictions on manufacture, distribution and sale of CBD oil products

• No one is growing industrial hemp legally yet unless licensed to grow in the state where recreational/medical use already approved

• USDA to enact state growing rules in Q1 of 2020, then states have to apply for approved grow plan, then growers have to apply to states to get licensed (looking at Q2 – Q3 of 2021)
  • State legislative efforts ongoing as well on hemp and CBD (Texas example)
Many states tightly regulate CBD oil/products

FIs may either refuse to bank or categorize as high-risk with SAR reporting and filing

Credit/debit card networks cracking down on incorrect Merchant Classification Code (“MCC”) such as “pharmacy” or “grocery” to disguise cannabis or CBD oil/product sales

FDA posturing to increase enforcement against manufacturers and retail sellers of CBD oil/product

Retailers should watch FDA and state-specific requirements/ restrictions before selling CBD products into a particular state
Legality under state law varies by states
- 3 states still fully illegal (Idaho, Kansas, Nebraska)
- 10 States + D.C. – Fully Legal (recreational and medical)
- 37 states with legalized medical marijuana use in some – 17 of these states have specific CBD Oil/Products laws

Multiple bills working through the state legislatures in 2019

Since so many states have restrictions on sale of CBD oil/products in terms of entities licensed to sell, requirement of prescriptions and similar restrictions, retailers selling over-the-counter including CBD oil/products risk state/local law enforcement action
• Maryland General Assembly created Medical Cannabis Commission in 2013 for the investigational use of medical cannabis.

• The statute was revised in 2014 to allow qualifying patients to obtain medical cannabis in accordance with a written certification from a physician.

• In 2016, additional medical providers were added: dentists, podiatrists, nurse practitioners, and nurse midwives.
Maryland Cannabis License Types

- Medical Cannabis Grower License
- Medical Cannabis Processor License
- Medical Cannabis Dispensary License

*Independent Testing Laboratories must register and be approved by the Commission*
Maryland Medical Cannabis Program

Who is involved?

GROWERS
15 State Locations

PATIENTS & CAREGIVERS

DISPENSARIES
102 State Locations

INDEPENDENT TESTING LABS

PROCESSORS
15 State Locations

GROWERS
15 State Locations

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Medical Cannabis **Grower** License

- Licensee grows and cultivates cannabis plants in a controlled facility
- 15 locations throughout Maryland; required to comply with all planning and zoning requirements for the applicable location
- Submits samples to Independent Testing Labs
- Sells product to Processors and Dispensaries
- As of June 1, 2017 there are 14 licensed Growers in the State of Maryland

**NOTE:** Maryland Law Prohibits Patients from Growing Cannabis for their own use.
A Processor licensee obtains medical cannabis flower, buds, shake or trim from Growers and transform it into cannabis-infused products, such as oils, tinctures, capsules, waxes or creams, patches, sublingual sprays.

- Submits samples to Independent Testing Labs
- Sells cannabis-infused products to Dispensaries
- Processors may transport cannabis infused products between Processors
- As of October 25, 2017 there are 12 licensed Processors in the State of Maryland
• Dispensary licensee provides both flower and cannabis-infused products to Qualifying Patients and Caregivers

• The Commission has issued pre-approvals of up to two (2) licensed Dispensaries per Senatorial district

• A Qualifying Patient may request delivery of Medical Cannabis upon written certification

• As of June 1, 2019, there are 79 Dispensaries licensed in the State of Maryland with 5 additional anticipated by July 1, 2019.

NOTE: Maryland Law does NOT permit “Edibles”*

*Any substance that is used as food or drink for human beings, or as a component of food or drink for human beings - Not legal for sale in State of Maryland
**Medical cannabis may be in the following forms:**

<table>
<thead>
<tr>
<th>Form</th>
<th>Form</th>
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</thead>
<tbody>
<tr>
<td>Dried flower or bud</td>
<td>Tinctures</td>
</tr>
<tr>
<td>Oils</td>
<td>Vaping Pens</td>
</tr>
<tr>
<td>Capsules</td>
<td>Capsules</td>
</tr>
<tr>
<td>Lotions</td>
<td>Patches</td>
</tr>
<tr>
<td>Wax</td>
<td>Sublingual sprays</td>
</tr>
</tbody>
</table>
• Registered Independent Testing Laboratories collect a representative sample from each 10 pound batch of cannabis flower to perform “in-process” or certifying tests. Sampling is performed by the laboratory at the licensed grower’s facility, and the sample is transported to the laboratory by the laboratory employee.

• Registered Independent Testing Laboratories collect random samples from each lot of cannabis infused product to perform “in-process or certifying tests”. Sampling is performed by the laboratory personnel at the licensed Processor’s facility and the sample is transported to the laboratory by the laboratory employee.
Polling Question

Does your institution bank Marijuana Adjacent businesses?

• Yes

• No
• Does this fit in your risk appetite?

• Do you have the resources necessary to support banking higher risk customer types?

• Do you have management support?
• Perform Risk Assessment
  – What types of products and services could be offered to each tier?
• Include Marijuana Related Business (MRB) treatment in the AML Policy
• Exceptions Policy; Board Reporting
• Risk Rating
• Training program across the Bank
• Number of SARs exit policy
• Centralized team for opening MRB accounts; Specialized relationship management associate(s); Specialized High Risk Group
• Talk to State and Federal examiners
Customer Acceptance

• What makes a customer good versus “non-permitted”?
  – Central versus de-centralized acceptance process
  – Customer supplied versus banker/branch supplied information
  – Education and communication to the front-line staff

<table>
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<tr>
<th>Indicators of Lower BSA Risk</th>
<th>Indicators of potentially higher BSA Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established company with proven track record and experienced management team</td>
<td>Start-up with limited experience in their industry or principals may have a criminal background</td>
</tr>
<tr>
<td>Activity is consistent for industry, size of company and relative to peers</td>
<td>Activity appears inconsistent or excessive Ex: Grower with a small amount of a crops in production but sales continue to increase</td>
</tr>
<tr>
<td>Inflows and outflows are consistent with expected industry type</td>
<td>Inflows and outflows don’t make sense for the industry Ex: growers with frequent cash deposits</td>
</tr>
</tbody>
</table>
On-Boarding Process

• Documents should answer these questions:
  – How do they make money? What % comes from marijuana/hemp related sales?
  – Where does the money come from and where does it go?
  – Who are their customers?
  – Can I explain their business to someone else?
  – How does my customer manage their risk?
  – How will I know something is suspicious?
  – Is the customer aware of their own industry regulations and challenges?
  – What is the customer’s procedure for testing THC levels for hemp?
  – What is the procedure for destroying the crop that is over the legal limit?
Ongoing Monitoring

- How do you know an individual customer is exceeding your risk tolerance?
  - Red Flags and Key Risk Indicators
  - Tiered approach to portfolio management
  - Enhanced Due Diligence
    - Shortened review cycles
    - Site visits
    - Ability to re-review the portfolio as new regulations are passed
  - SARs and Off-Boarding Process
    - Number of MRB SARs accepted
Banking Challenges to Consider

• Patch work of federal and state laws with a lot of gray area and little guidance (or even the hope of guidance)

• Emerging industry that can fall under the jurisdiction of multiple government agencies

• Federally regulated banks and state treasury accounts

• Constant changes

• Resources: Costs, Expertise, Staffing

• “Everyone is doing it, it must be legal”
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Lisa Varner
Elaine Yancey

Not pictured: Steve Hariprasad, Teresa Louro, and Jean Poindexter
Melinda Lytle
Law Enforcement Panel

- **Moderator:** Will Vorhees, SVP-FIU Manager, BB&T
- **James (Jim) Abbott,** Supervisory Special Agent, Federal Bureau of Investigation (FBI)
- **Greg Jones,** Special Agent, US Secret Service
- **Dennis Lormel,** President, DML Associates, LLC
- **Joan (Cassie) Mathias,** Assistant United States Attorney, Department of Justice
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- **Greg Jones**, gregory.jones@ussd.dhs.gov
- **Dennis Lormel**, dlormel@dmlassocllc.com
- **Joan (Cassie) Mathias**, Joan.Mathias@usdoj.gov
Afternoon Keynote Address
Laura Marshall,
Partner at Hunton Andrews Kurth LLP
Strengthening your BSA Program while facing Corrective Action

- **Moderator: Amanda Tucker**, Chief Risk & Compliance Officer, Atlantic Bay Mortgage Group
- **Sepideh Behram**, Principal Vice President & BSA Officer, Burke & Herbert Bank
- **Jim Candelmo**, Chief Anti-Money Laundering Officer, Capital One
- **Jason Chorlins**, Principal & Banking Practice Leader, Kaufman Rossin - Risk Advisory Services
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Learning Objectives:

• Making the best from a Supervisory action. Prevent quick-fix solutions and focus on long-term program sustainability

• Context, Context, Context - Ensuring open lines of communication with internal and external partners about planning, timelines, and deliverables

• Preparation is king – How to build and document a plan towards completion and prepare for additional lines of oversight

• Celebrate the wins. How to care for and retain your top talent during a challenging time
Making the best from a Supervisory action. Prevent quick-fix solutions and focus on long-term program sustainability
Making the best of a Supervisory Action

- Develop a strategy to address each issue of the supervisory action (tracking progress)
- Assess existing program strengths & opportunities
- Conduct a risk assessment
  - Review and document internal controls
- Establish effective communication strategies with executives, internal stakeholders and regulatory agency
- Determine sufficiency of automation
  - Identify root causes of gaps
- Conduct a staffing assessment
  - Roles & Responsibilities
  - Sufficiency of staffing
- Establish effective metrics (KRI and KPI's)

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Context, Context, Context - Ensuring open lines of communication with internal and external partners about planning, timelines, and deliverables.
Don’t Go it Alone: Communication and Gaining Buy-In

- Develop internal controls throughout the organization
- Identify AML learning topics and schedule the training
- Develop the communication strategy
- Drive the new culture of compliance
Preparation is king – How to build and document a plan towards completion and prepare for additional lines of oversight
## Developing & Documenting your Plan

<table>
<thead>
<tr>
<th>1. Plan</th>
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</thead>
<tbody>
<tr>
<td>- Develop a clear, concise, and consistent action plan.</td>
</tr>
<tr>
<td>- Address the issue, remediation, responsibility, completion date, and status.</td>
</tr>
<tr>
<td>- Determine how/where your plan repository will exist—don’t have multiple locations with varying information.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Ownership</th>
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<tbody>
<tr>
<td>- Obtain buy-in for Management’s action plan.</td>
</tr>
<tr>
<td>- Ensure appropriate document control/oversight—with whom and where will the plan live?</td>
</tr>
<tr>
<td>- Clearly communicate responsibility from the Board to Management oversight to individual tasks/goals.</td>
</tr>
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</table>

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<tr>
<th>3. Communication</th>
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<tbody>
<tr>
<td>- Establish timing standards so that all deliverables are communicated as necessary.</td>
</tr>
<tr>
<td>- Ensure regular communication with internal and external partners to provide updates on the status.</td>
</tr>
<tr>
<td>- Report delays in progress immediately and the root cause(s) for such delays.</td>
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</table>
Developing an Action Plan

• Developing a clear, concise action plan that includes the following key pieces of information:
  – What the issue identified was
  – What is Management’s plan for remediation
  – Responsible Party
  – Target Completion Date
  – Progress Updates
Preparation is King

Identify timelines
- Understand regulatory/audit expectations to reach milestones.
- Recognize feasibility - can your Financial Institution meet milestones with internal resources or is external support necessary to complete the task.
- Work backwards! What is the desired end-result and how do you get there?

Achievable objectives
- Develop a mini project plan for each milestone:
  - Determine key deliverables.
  - Identify resources.
  - Be candid, state the challenges.

Defined resources
- Your Plan must address the “who.”
- Go beyond the corrective action allocation: How will day to day and company initiatives be met while addressing the Plan.
- Will temporary employee allocations be needed to complete the Plan on time?
Assess your Team

Set the Vision and Live it

Celebrate & Communicate Wins

Mission Accomplished

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Polling Question

Do you have one “true source” for your plan and supporting materials?

• Yes, we purchased external software
• No, we have multiple different sources
• Project Management Solution
Oversight is critical

Know your audience and how they best consume information.

Have a Plan that travels (i.e. Your plan detail should be easily accessible.)

Stay nimble, be able to make adjustments to your plan based on challenges encountered and new developments as they arise.
Celebrate the wins.
How to care for and retain your top talent during a challenging time
Buckle up!
This is not who we are, it is something we do.
Take-Away’s

• Open lines of communication and open minds: assess your talent, evaluate progress, and tackle challenges head on.

• Assess the effectiveness of your strategy continuously.

• Remember the five P’s – Proper Planning Prevents Poor Performance.

• Positivity + Collaboration = Success (Make sure your team hears the good news, not just the negative).
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- Jim Candelmo, jim.candelmo@capitalone.com
- Jason Chorlins, jchorlins@kaufmanrossin.com
Dan Soto,
Chief Compliance Officer, Ally

Closing Remarks
Thank you!

BSS Coalition Day-of Event Staff

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Annette Frye
Lydia Genesevich

Nicole Gray-Willis
Mary Hagood
Gilda Harrison
Hannah Khan
Ryan Koch
Danielle Liles
April Marshall
Nathan Martin

Adam Mendez
Daniel O’briant
Nydia Tapia
Amanda Tucker
Lisa Varner
Kristina Wilson
Thank you!

BSA Coalition Planning Committee

Annette Frye
Megan Hodge
Suzanne Reynolds
Amanda Tucker
Kristina Wilson
Thank you!

BSA Coalition Board of Directors
We look forward to seeing you next year!!!