

Banking Cannabis in Michigan

Michigan Bankers Association

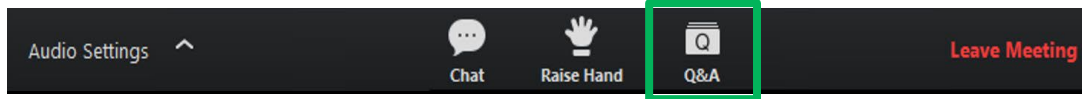
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Attendees will be muted to avoid background noise

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Use the **Q&A** button in your Zoom window to submit a question



Not available to those using the call-in only option

Post-webinar questions: info@greencheckverified.com

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The Green Check Team

Deep expertise in enterprise software, financial services, and regulatory oversight.



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BANKING COMPLIANCE
STACY LITKE



CANNABIS COMPLIANCE
JOHN GADEA

- We offer **advisory services** to guide you through the process of designing, developing, and deploying your cannabis program
- Our **software platform** combines decades of banking compliance expertise with new, modern approaches to address cannabis oversight

Overview

- **The Fundamentals of Cannabis Banking**
 - Cannabis Banking 101
 - Michigan's legal cannabis program
- **Qualifying the Risks and Rewards**
 - Assess Risk
 - Evaluate the financial opportunity
- **Running a Compliant Program**

Green Check's program development roadmap



Cannabis Fundamentals

Step 1

Cannabis
Marijuana
Hemp
THC
CBD

cannabis



What is Marihuana?

[The] term “**marihuana**” means all parts of the plant *Cannabis sativa* L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin. The term “**marihuana**” does not include—

(i) **hemp**, as defined in section 1639o of title 7;”

21 U.S. Code § 802

What is Hemp?

The term “**hemp**” means the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a **delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent** on a dry weight basis.

Agriculture Improvement Act of 2018 (Farm Bill)

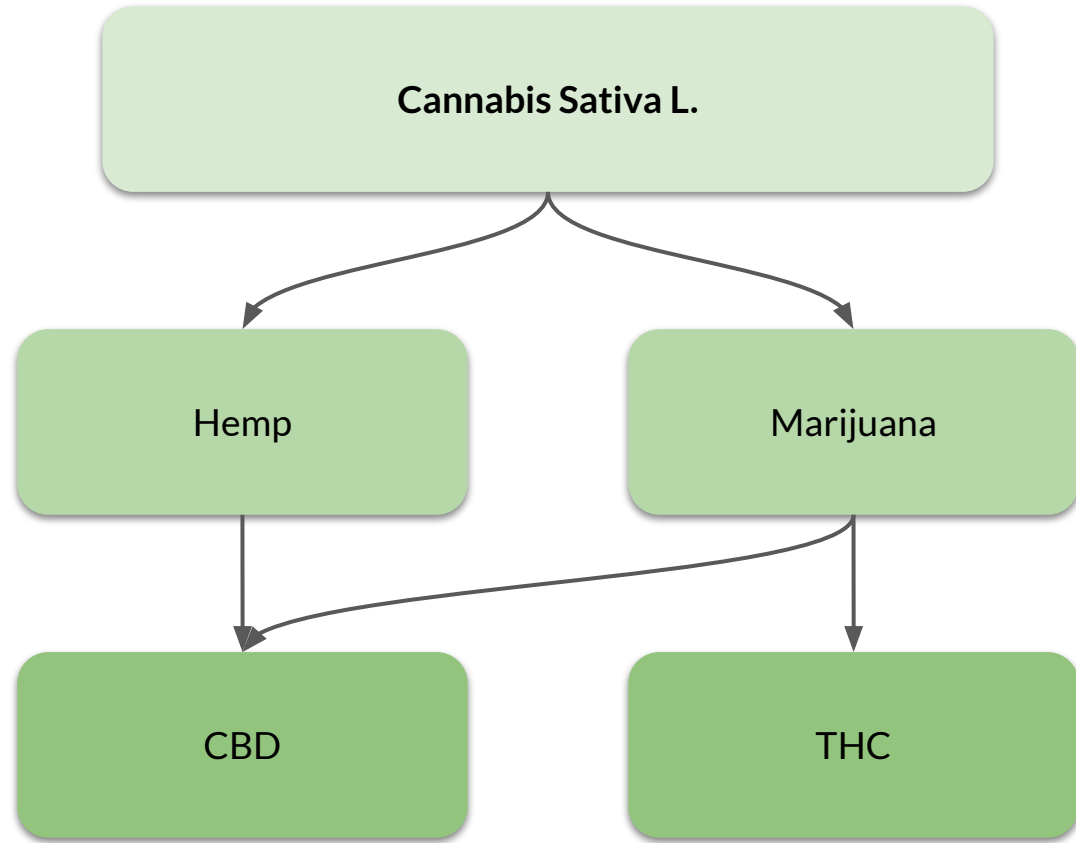
CBD & THC are chemical compounds in cannabis

Cannabidiol (CBD)

- FDA approved for the treatment of childhood epilepsy (*Epidiolex*)

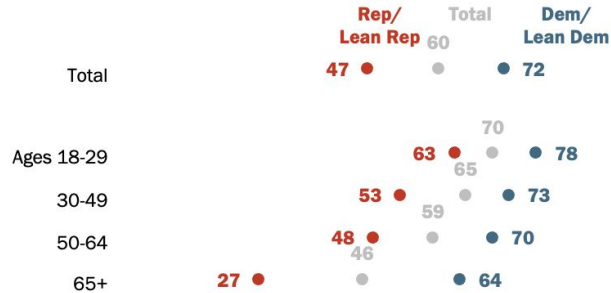
Delta-9 Tetrahydrocannabinol (THC)

- Significantly psychoactive
- FDA Approved for the treatment of chemotherapy-induced nausea (*Dronabinol*)
- Schedule I Controlled Substance



Republicans ages 65 and older far less likely than younger Republicans to support legalizing marijuana for medical and recreational use

% who say marijuana should be legal for medical AND recreational use

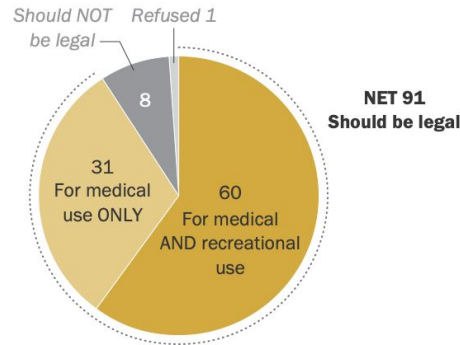


Source: Survey of U.S. adults conducted April 5-11, 2021.

PEW RESEARCH CENTER

Fewer than 10% of U.S. adults say marijuana should not be legal at all

% who say marijuana...

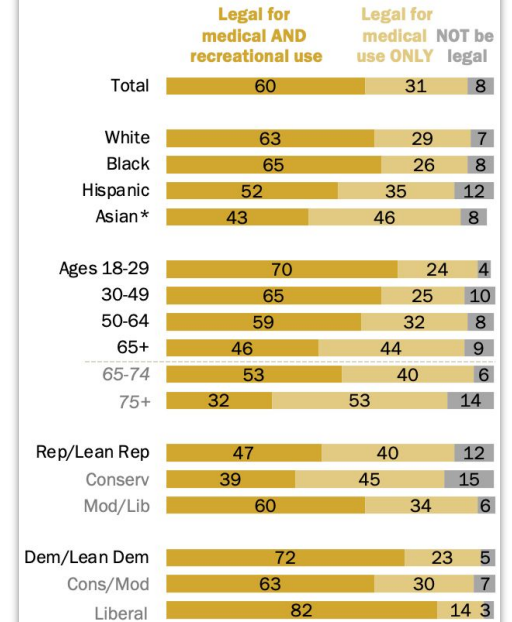


Source: Survey of U.S. adults conducted April 5-11, 2021.

PEW RESEARCH CENTER

Majorities across age groups – except 75 and older – say marijuana should be legal for medical and recreational uses

% who say marijuana should be ...

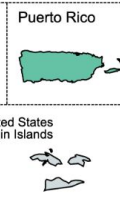
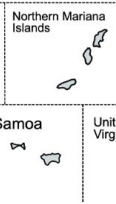
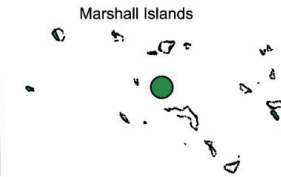
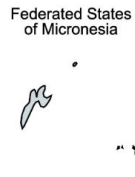
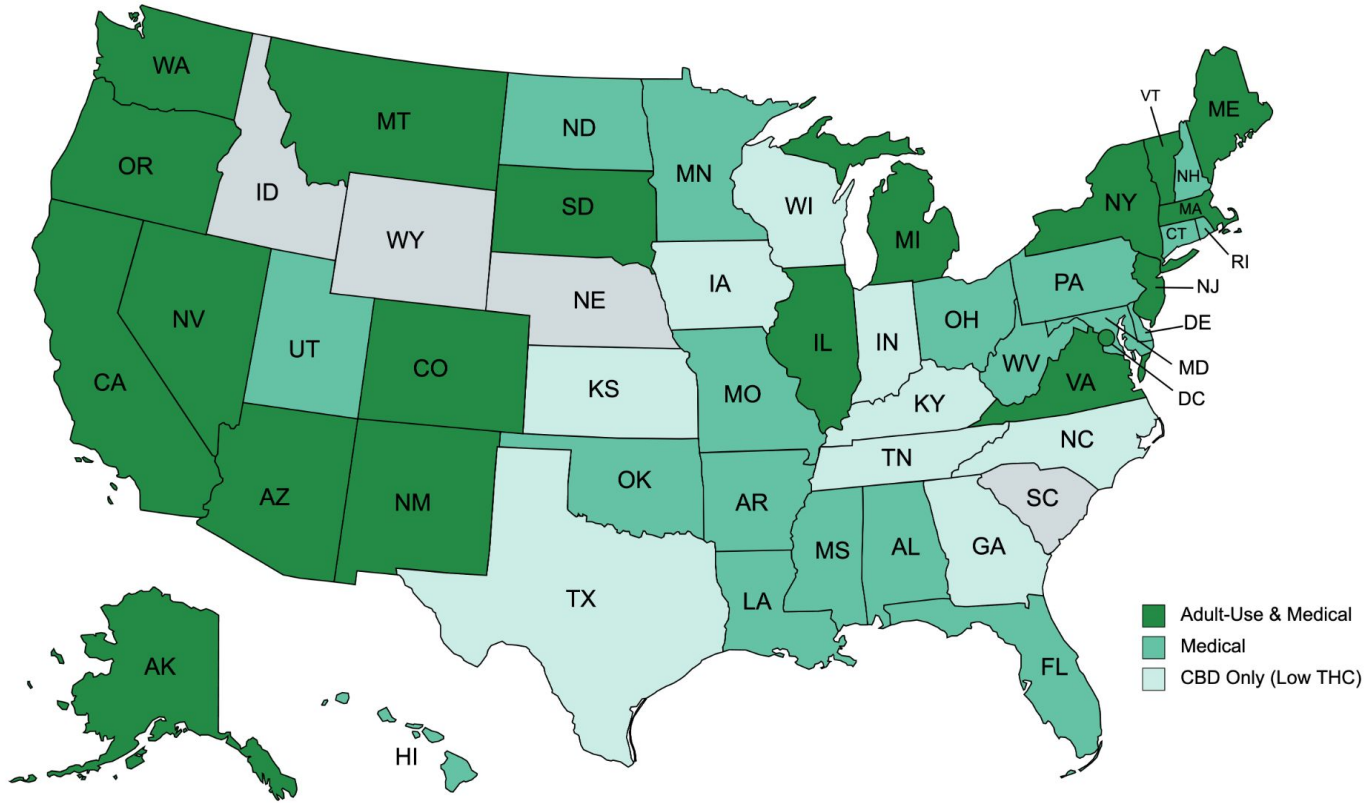


*Asian adults were interviewed in English only.

Notes: White, Black and Asian adults include those who report being one race and are not Hispanic. Hispanics are of any race. No answer responses not shown.

Source: Survey of U.S. adults conducted April 5-11, 2021.

PEW RESEARCH CENTER



SAFE Banking Act Provisions

- A federal regulator cannot terminate or limit the **deposit insurance or share insurance** of a depository institution [...] solely because the depository institution provides or has provided financial services to a cannabis-related legitimate business or service provider...
- prohibit, penalize, or otherwise discourage a depository institution from **providing financial services** to a cannabis-related legitimate business...
- recommend, incentivize, or **encourage a depository institution not to offer financial services** to an account holder, or to downgrade or cancel the financial services offered to an account holder solely because [of their involvement with the cannabis industry]...
- take any adverse or corrective supervisory action on a **loan** made to [a CRB or related person]...
- Financial Institutions Examination Council shall develop uniform guidance and **examination procedures** for depository institutions that provide financial services to cannabis-related legitimate businesses and service providers.

Future of the SAFE Banking Act remains unclear

"[Sherrod Brown] reporters on Wednesday that he's interested in the bill but doesn't yet support it "because I think we need to look at a number of things." He said he's been discussing the matter with Senate Democratic Leader Chuck Schumer, "and will see where it goes."

"This committee's been too much about Wall Street and not enough about housing, not enough about rural and urban affairs and people's everyday economic lives, and that's my focus," said Brown. "I will look at this seriously. We're not ready to move on it."

Don't hold your breath on passing marijuana banking legislation, says Senate banking chair Sherrod Brown, Cleveland.com, April 22, 2021

The Common Sense Cannabis Reform for Veterans, Small Businesses, and Medical Professionals Act

Introduced by Representatives David Joyce (R-OH) and Don Young (R-AK):

- It would remove "marihuana" and "tetrahydrocannabinols" from the schedule of federally controlled substances.
- The FDA and the Treasury Department's Alcohol and Tobacco Tax and Trade Bureau would be responsible for developing cannabis regulations "similar to federal rules regulating alcohol".
- It would offer safe harbor to financial institutions that bank cannabis businesses and veterans

Michigan's Marijuana Program

Michigan Overview

Programs

- Medical: Michigan Medical Marihuana Act (2008)
- Adult: Michigan Regulation and Taxation of Marihuana Act (2018)

Regulatory Agency

- [Marijuana Regulatory Agency](#), Michigan Department of Licensing and Regulatory Affairs (LARA)

Seed to Sale Tracking System

- [METRC](#)

Purchase Limits for Medical and Adult-Use

Purchase Limits

- Daily: 2.5 ounces
 - Adult-Use: “not more than 15 grams of marijuana may be in the form of marijuana concentrate”
- Monthly: 10 ounces

Flower Equivalencies

- Flower, resin, extract: weight of product
- Solid (chocolate bar, gummies, etc): 16 ounces
- Liquid (tinctures, topicals): 36 fluid ounces

Purchase Limit Example

“A qualifying patient intends to purchase (1) ounce of flower, (5) vape cartridges each with a net weight of 0.1 ounces, and (2) brownies each weighing 8 ounces. This transaction equals the 2.5-ounce daily limit. The one ounce of flower is added to the total net weight of the vape cartridges (0.5 ounces) and the weight of the two brownies (one ounce).”

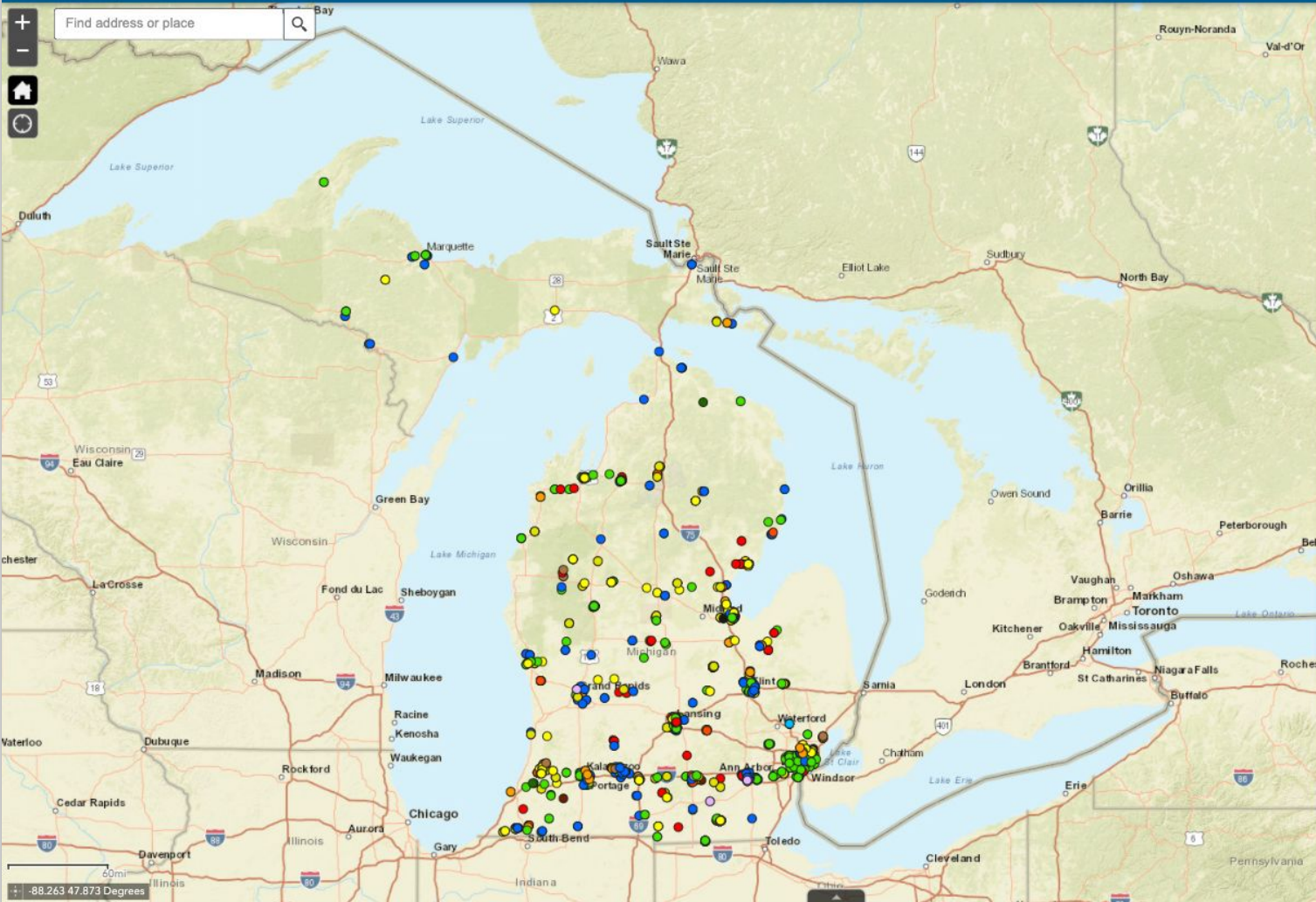
[Purchasing Limits for Medical and Adult-Use Marijuana Facilities \(10/22/19\)](#)

Michigan License Types (Adult and Medical)

- Class A Marihuana Grower
- Class B Marihuana Grower
- Class C Marihuana Grower
- Excess Marihuana Grower
- Marihuana Microbusiness
- Marihuana Processor
- Marihuana Retailer
- Marihuana Secure Transporter
- Provisioning Center
- Marihuana Safety Compliance Facility
- Marihuana Event Organizer
- Temporary Marihuana Event
- Designated Consumption Establishment

Find address or place

Map navigation icons: Zoom in (+), Zoom out (-), Home, Refresh



MRA License Type Filter

<input type="radio"/> Adult-Use Excess Marijuana Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Retailer	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Class B Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Class C Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Microbusiness	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Processor	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Safety Compliance	<input checked="" type="checkbox"/>
<input type="radio"/> Adult-Use Marijuana Secure Transporter	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Provisioning Center	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Class A Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Class B Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Class C Grower	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Processor	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Safety Compliance Facility	<input checked="" type="checkbox"/>
<input type="radio"/> Medical Marijuana Secure Transporter	<input checked="" type="checkbox"/>

Providing Financial Services to Cannabis-Related Businesses

Cannabis-Related Businesses (CRBs)

Marijuana-Related Businesses (MRBs)

Direct MRB (Medical / Adult Use)

A business licensed by the state's marijuana authority

Indirect MRB

A business that derives 51% or more revenue from a Direct MRB

Ancillary Parties / Marijuana Adjacent

Businesses and persons associated with the industry that merit ongoing monitoring

Hemp-Related Businesses

Agricultural/Industrial HRB

A business licensed by the state or federal (USDA) hemp regulatory authority

CBD HRB

A business that derives its revenue from the extraction, production, or commercial distribution of CBD

Business challenges faced by MRBs Specifically

- MRBs are ineligible for government small business loans (PPP)
- MRBs must often pay state and federal taxes in cash
- 26 U.S. Code § 280E: Expenditures in connection with the illegal sale of drugs
- Can not use most valuable assets (controlled substances) as loan collateral
- Can not seek bankruptcy protection per Office of US Trustees
- May not accept credit card payments processed on the Visa, Mastercard, and American Express, Discover networks
- Many armored transport services will not work with CRBs

BSA Expectations Regarding Marijuana-Related Businesses (FinCEN 2014)

Providing Financial Services to MRBs

“In general, the decision to open, close, or refuse any particular account or relationship should be made by each financial institution based on a number of factors specific to that institution. These factors may include its particular **business objectives**, an **evaluation of the risks** associated with offering a particular product or service, and its **capacity to manage those risks** effectively. Thorough customer due diligence is a critical aspect of making this assessment.”

“This FinCEN guidance should enhance the availability of financial services for, and the financial transparency of, marijuana-related businesses.”

Due Diligence Requirements (1/2)

- (i) verifying with the appropriate state authorities whether the business is duly licensed and registered;
- (ii) reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
- (iii) requesting from state licensing and enforcement authorities available information about the business and related parties;
- (iv) developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers);

Due Diligence Requirements (2/2)

(v) ongoing monitoring of publicly available sources for adverse information about the business and related parties;

(vi) ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and

(vii) refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

“With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.”

MARIJUANA ESTABLISHMENT LICENSE APPLICATION

Marijuana Establishment License Application

- Page 1: Demographic Information
- Page 2: Attestation 2-A – Acknowledgment & Consent to Investigations, Statute & Rule Compliance
- Page 3: Attestation 2-B – Interest & Experience Attestation
- Page 4: Attestation 2-C – Confirmation of Section 6 Compliance – Part 1: Municipality
- Page 5: Attestation 2-C – Confirmation of Section 6 Compliance – Part 2: Applicant
- Page 6: Attestation 2-D – Confirmation of Insurance
- Page 7: Acknowledgment of Attestations
- Page 8: Disclosures: (1) Business Specifications, (2) Municipality Information, (3) Employee Information

Supporting Documents

- Copy of Certificate of Use and Occupancy
- Copy of deed or lease agreement
- Copy of proof of financial responsibility (e.g., insurance policy, constant value bond)
- Copy of marijuana business location plan complying with Rule 8 in the Marijuana Licenses Rule Set (R 420.8)
- Copy of floor plan
- Copy of business plan, including but not limited to:
 - Technology plan
 - Marketing plan
 - Staffing plan
 - Inventory and recordkeeping plan
- DBA documentation (if applicable) (obtained at county-level)
- Certificate of Assumed Name (if applicable) (obtained from LARA Corporations Division)

Marijuana Secure Transporter applicants only:

- Proof of auto insurance (for any vehicles used to transport marijuana product)
- Vehicle registration (for any vehicles used to transport marijuana product)
- Registration as a commercial motor vehicle (for any vehicles used to transport marijuana product)

Marijuana Suspicious Activity Reports (SARs)

“a financial institution is required to file a SAR on activity involving a marijuana-related business (including those duly licensed under state law), in accordance with this guidance and FinCEN’s suspicious activity reporting requirements and related thresholds.”

- **Marijuana Limited**
 - No reason to believe the marijuana-related business is violating state law
- **Marijuana Priority**
 - Suspicion that the marijuana-related business is violating state law
- **Marijuana Termination**
 - Termination of a marijuana-related business account

Hemp and CBD

USDA Interim Final Rules for Hemp Production

- Hemp must be tested to make sure that its THC content does not exceed 0.3% (within a margin of error)
- **Growing “hot hemp” is not, in and of itself, tantamount to growing marijuana as long as the producer can demonstrate that it was unintentional.**
- States and Tribal governments have the option to develop their own hemp regulatory programs
- The USDA will audit licensed hemp producers in order to verify their physical location, the status of their license, and their commitment to producing cannabis with less than 0.3% THC
- The USDA will maintain a database of legal hemp activities and make it available to federal, state, and tribal law enforcement agencies

FinCEN Guidance Regarding Due Diligence Requirements under the Bank Secrecy Act for Hemp-Related Business Customers (FinCEN 2020)

Hemp Due Diligence Requirements

- “Financial institutions should obtain basic identifying information about hemp-related businesses through the application of the financial institutions’ customer identification programs and risk-based CDD processes, including beneficial ownership collection and verification, as they would for all customers.”
- “confirm the hemp grower’s compliance with state, tribal government, or the USDA licensing requirements”
- “The extent to which a financial institution will seek additional information beyond the steps outlined above will depend on the financial institution’s assessment of the level of risk posed by each customer. Additional information might include crop inspection or testing reports, license renewals, updated attestations from the business, or correspondence with the state, tribal government, or USDA.”

No Hemp Marijuana SAR Requirement

“... because hemp is no longer a Schedule I controlled substance under the CSA, financial institutions are not required to file a Suspicious Activity Report (SAR) on customers solely because they are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations”

FDA's Position on CBD

“Despite the 2018 Farm Bill removing hemp – defined as cannabis and cannabis derivatives with very low concentrations (no more than 0.3% on a dry weight basis) of THC – from the definition of marijuana in the Controlled Substances Act, CBD products are still subject to the same laws and requirements as FDA-regulated products that contain any other substance. [...] **We are aware that there may be some products on the market that add CBD to a food or label CBD as a dietary supplement. Under federal law, it is illegal to market CBD this way.**

“What You Need to Know (And What We’re Working to Find Out) About Products Containing Cannabis or Cannabis-derived Compounds, Including CBD” 11/25/2019

Hemp Access and Consumer Safety Act

Introduced by Senators Ron Wyden (D-OR), Rand Paul (R-KY), and Jeff Merkley (D-OR):

“In 2018, Congress passed the Hemp Farming Act, which legalized the production and sale of industrial hemp and hemp derivatives, including hemp-derived CBD. However, in order for producers to take full advantage of the 2018 law and market hemp derived-CBD products in interstate commerce, the FDA must act, which – two and half years later – it has failed to do.”

“The act would “[give] Give hemp-derived CBD products an opportunity to lawfully be used in dietary supplements, foods and beverages under the Federal Food, Drug and Cosmetic Act.”

Q&A

Build Your Program

Step 2

Assessing Risk

Objective: Assess Risk

- Assess readiness to bank cannabis before developing or expanding a cannabis banking program
- Evaluate your existing controls environment as it applies to cannabis banking
- Understand what controls will need to be in place in order to reduce risk and meet Examiner expectations
- Review at least annually, and modify as your program changes
- Evaluate CRBs consistently as part of initial due diligence

Program Risk Assessment

Categories of Risk

Financial | Oversight

What is the impact to financial and regulatory oversight?

Strategic

Does this new line of business complement or compete with other initiatives?

CRB Compliance

Are we able to effectively monitor CRB compliance with state laws?

Reputation

How do we address potential account holder concerns?

Transaction | Operations

What limitations will we place on this high-risk line of business?

Credit

What are the risks specific to lending to CRBs?

Determining the Level of Inherent and Residual Risk

POTENTIAL IMPACT (Remains Consistent)	Extreme	5	10	15	20	25
	Very High	4	8	12	16	20
	Moderate	3	6	9	12	15
	Low	2	4	6	8	10
	Very Low	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Certain
POTENTIAL LIKELIHOOD (Controls Reduce Likelihood)						

Example Risk Item - Financial

Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
Consideration has NOT been given to impact on Liquidity in the event of significant increases and decreases in deposits.	Moderate	Unlikely	6

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
FI is in a strong liquidity position. This will be closely monitored by our ALM committee. A financial model has been created with Green Check . Exit Strategy in place.	3	50%	YES

Example Risk Item - Reputation

Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
Failure to establish procedures for addressing negative opinions and / or comments regarding your CRB program that are made public	Moderate	Possible	9

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
Internal complaint policy has been updated to include an escalation path for cannabis related complaints. Talking points have been shared with all front line staff.	3	66.67%	YES

Example Risk Item - MRB Compliance

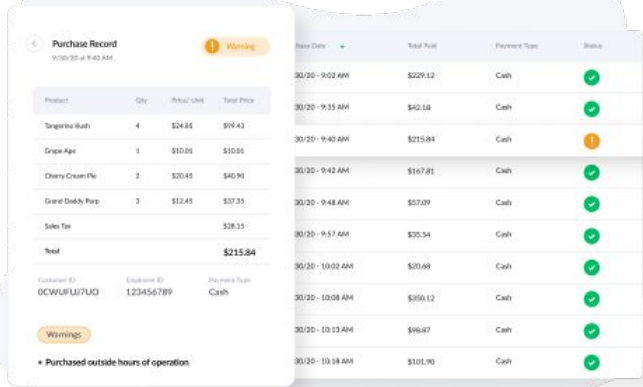
Foreseeable Risk, Threat, Vulnerability	Potential Impact	Potential Likelihood	Inherent Risk Rating (1-25)
<p>A customer appears to be using a state-licensed marijuana-related business as a front or pretext to launder money derived from other criminal activity</p>	<p>Very High</p>	<p>Possible</p>	<p>12</p>

Mitigating Control Description	Residual Risk Rating (1-25)	Control Effectiveness	Acceptable Risk?
<p>Green Check provides visibility into every one of your cannabis business' customer transactions, and only those funds verified through Green Check's compliance rules engine are eligible for deposit, limiting the possibility that a CRB can introduce illicit funds into your institution.</p>	<p>4</p>	<p>66.67%</p>	<p>YES</p>

Green Check Transaction Monitoring

Automated monitoring of sales transactions

Direct integration with a business' point-of-sale and seed-to-sale systems to verify all sales and inventory data for compliance with applicable rules and regulations.



Purchase Record
9:00:20 at 9:40 AM

Warning

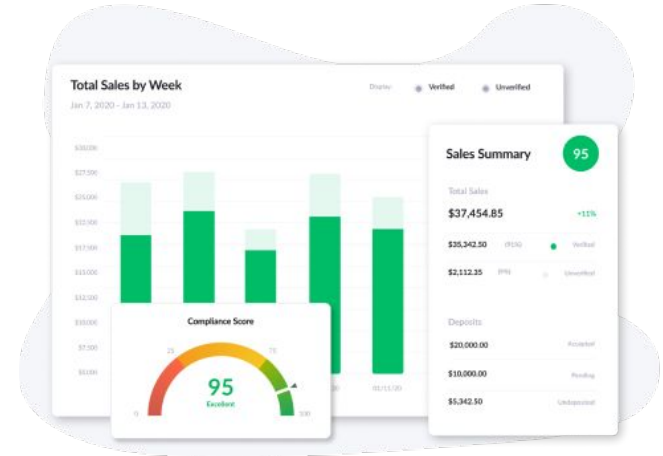
Product	Qty	Price/Unit	Total Price
Tangerine Bath	4	\$24.65	\$98.43
Grape Ape	1	\$10.00	\$10.00
Cherry Cream Pie	2	\$20.45	\$40.90
Grand Doble Pie	3	\$12.45	\$37.35
Sales Tax			\$28.35
Total			\$215.84

Customer ID: DCWUFLU7UK0 Invoice ID: 123456789 Payment Type: Cash

Warning

- Purchased outside hours of operation

Time Date	Total Paid	Payment Type	Status
20/20 - 9:02 AM	\$209.12	Cash	✓
20/20 - 9:33 AM	\$42.18	Cash	✓
20/20 - 9:40 AM	\$215.84	Cash	⚠
20/20 - 9:42 AM	\$167.81	Cash	✓
20/20 - 9:48 AM	\$57.09	Cash	✓
20/20 - 9:57 AM	\$20.54	Cash	✓
20/20 - 10:02 AM	\$20.68	Cash	✓
20/20 - 10:08 AM	\$50.12	Cash	✓
20/20 - 10:13 AM	\$98.87	Cash	✓
20/20 - 10:18 AM	\$101.90	Cash	✓



Rule-based alerts

Restrict deposits to only include verified funds while tracking exceptions and corrective actions on an account-by-account basis.

CRB Risk Assessment

What Makes a Good CRB?

- Transparent and complete with documentation
- Clear business plans, policies and procedures
- Owners are easily identified and verified
- No negative news

Transparent and complete with documentation

Professional CRB

- Responds with all required documents
- Documents are up to date and complete
- Sends documents in a timely manner
- Answers questions that arise

CRB that raises Red Flags

- Expired or missing documents
- Takes multiple requests to receive all documents
- Unable to answer or avoids answering questions

No Negative News

Professional CRB

- “For us, that’s where it is: How do we give back to the community? How do we educate our patients? How do we work with the industry to make it the best it can be?”
- But the brand does so much more than simply infuse marijuana into food. It gives back to the community and helps families with critically ill kids get the medicine they need by covering medical and relocation expenses.

CRB that raises Red Flags

- Neighborhood push-back against a marijuana grow operation culminated Thursday in the city’s first-ever denial of a routine cultivation license renewal.
- A marijuana dispensary will have to pay back wages to their employees along with a \$1.25 million fine after reaching a disciplinary settlement with the state’s brand new Cannabis Compliance Board.

Financial Modeling

Objective: Financial Modeling

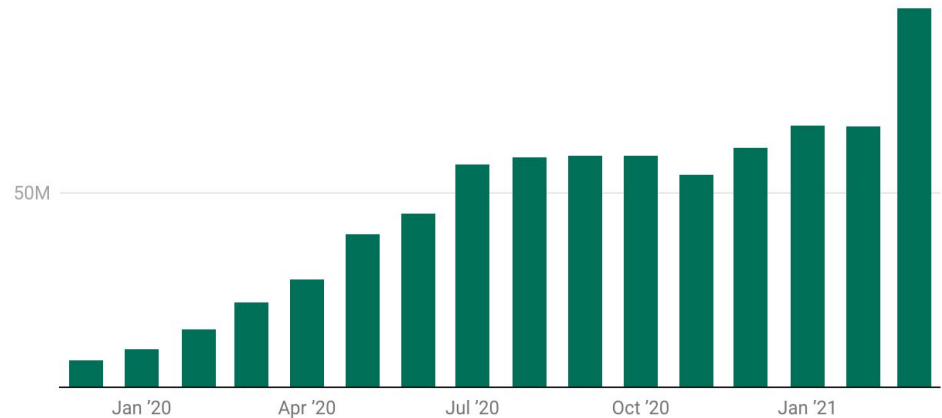
- Review the cannabis banking opportunity in your market, and determine the pace that works best for your institution
- Determine what products and services you want to offer
- Develop a pricing model based on your priorities
- Forecast and track the performance of the cannabis banking program, including impact to Financial Institution's key metrics

Michigan's Cannabis Market Boom

- Adult-use sales topped \$98 million last month — by far the highest monthly sales figure since adult-use cannabis became legal in 2019.
- Money & Markets [reports](#) that's a 46% jump in sales from the previous quarter and a 345% increase in sales from March last year.
- In the first quarter of 2021, adult-use sales were \$232 million — a little less than half the \$510 million in sales in all of 2020.

Michigan Total Adult-Use Cannabis Sales

The total adult-use cannabis sales in the state of Michigan from 2019 to March 2021.



Adult-use sales in Michigan did not start until December 2019.

Chart: Matthew Clark • Source: Michigan Marijuana Regulatory Agency • Created with Datawrapper

Market Opportunity - As of Q1 2021

Business Type	Medical	Adult Use
Grower	212	200
Processor	36	50
Provisioning Center/Retailer	232	216
Secure Transporter	21	22
Safety Compliance Center	11	11

What to watch in 2021

- Michigan continued to expand its adult-use program, opening the application process to non-MMJ permit holders on March 1.
- Municipal participation in the program overall has been slow but is increasing.
- Detroit began accepting applications in January, more than a year after adult-use cannabis became legal in the state. The city's latest process, however, has come under fire because of "legacy" provisions, though it is unknown whether this will further delay expansion of the industry.

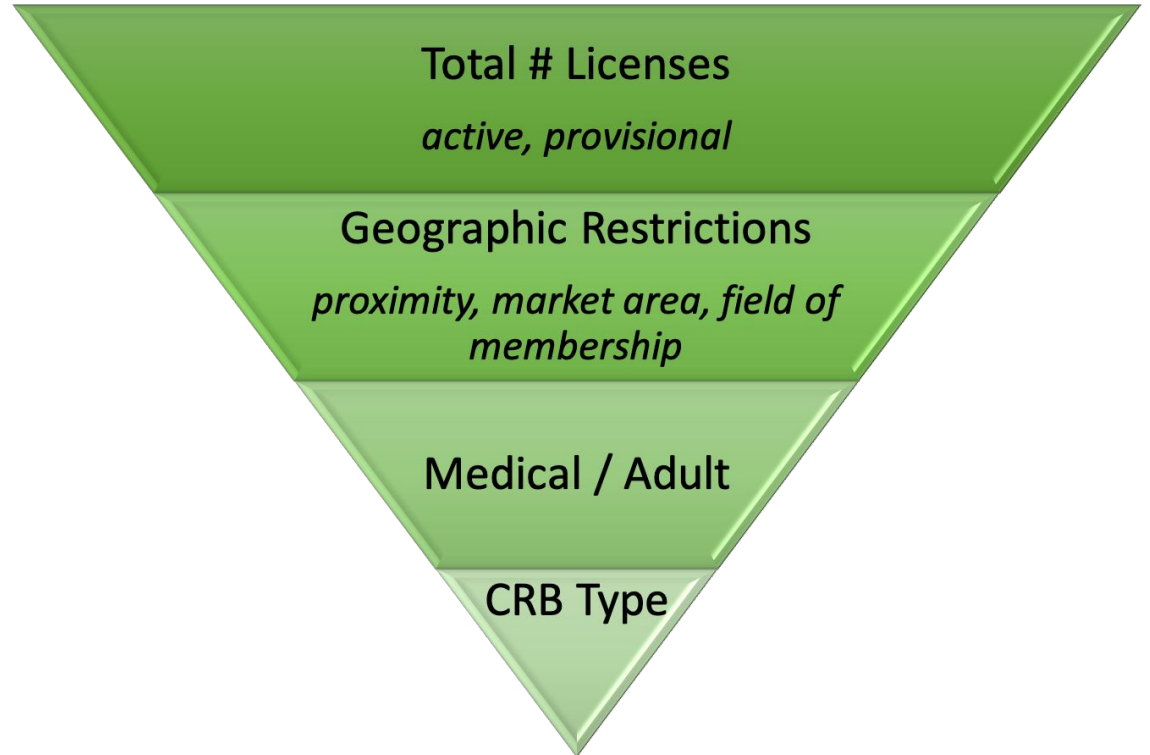
Market Considerations

- What is our current market area?
- Are we able to bank all MRBs across the state?
- Are branches necessary to handle cash?



Define Overall Market

- Proximity to Branches
- Cash Logistics
- Medical vs. Adult Use
- Type of Business



Cannabis Banking Products, Services, and Fees

Deposit services

Operating Account

Online/Mobile banking

ACH Origination

Bill Pay

EFTPS

Wires

Positive Pay

Line of Credit, fixed term loans

Employee accounts

Program Costs and Staffing Considerations

Manual Program (20-25% of Revenue)

- Collecting documentation through fax, email, etc
- Review documentation, record review and approval
- Set calendar invites to review licenses
- Receive daily transaction spreadsheets to compare and record legal sales to deposits
- Manually filling out SARs and staying on top of ongoing reports
- Tracking program performance in multiple spreadsheets with complex pivot tables, etc
- Expensive ongoing training requirements

Automation (5-10% of Revenue)

- CRB uploads all documents securely through web-based portal
- Workflows for:
 - Reviewing documentation and approval audit trail
 - Reconciling incoming deposits to sales
 - FinCEN Reporting (CTRs and SARs)
- Automatic transaction verification against state compliance rules
- Account Monitoring
 - 360 insight into program performance
 - Board reporting

Financial Modeling Tool

Getting your Board on Board

What to bring

- ❑ Risk Assessment
- ❑ Financial Model
- ❑ Products and Services list and Pricing
- ❑ Cannabis Banking Policy

What to anticipate

- “It’s federally illegal and we don’t want to lose our charter.”
- “Our existing customers/members will be upset and leave.”
- “Does the possible reward outweigh the immediate risk?”
- “We can’t afford to hire a new BSA officer just for marijuana.”

Q&A

Run a Compliant Program

Step 3

Three Major Workflows

Onboarding

- Enhanced due diligence requirements
- Know your state's program

Transaction Verification

- Verifying that every dollar is the result of a state-legal sale

FinCEN Reporting

- Ongoing Marijuana Limited SARs at **account opening** and **every 90 days**

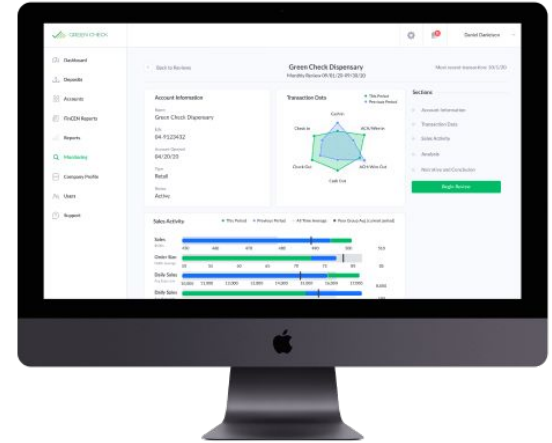
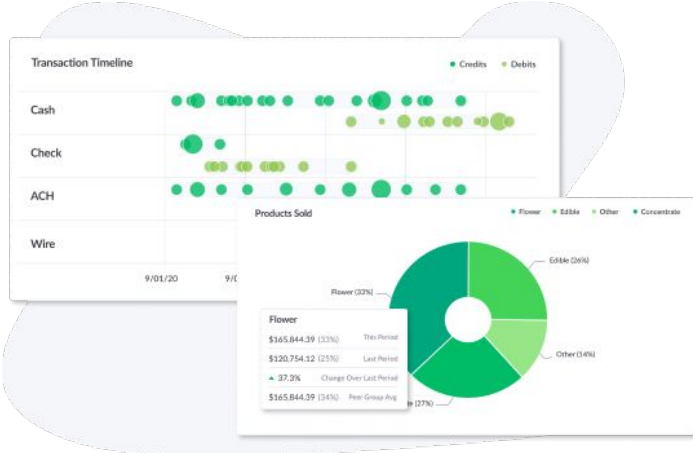
Ongoing monitoring

- Quarterly account reviews
- Measure CRB performance against peer group
- Look for unusual transactions
- Set up news alerts and follow industry media
- Don't forget your existing transaction monitoring software

Green Check Account Monitoring

Standardized Review Process

Green Check provides structure and accountability by automatically creating and assigning reviews based on customer risk ratings.



Historic and Peer Group Analysis

Data is summarized and presented so you can easily review an account's activity against its own historic performance and peer group activity levels.

Meeting Examiner Expectations

Examiner Expectations

- “Not Banking” cannabis is no longer an option in any state with a legal program
- Provide documentation that shows that the decision to bank cannabis was a thoughtful and transparent process within your institution
- You must be able to demonstrate that every dollar entering your institution is the result of a state-legal sale
- Managing a program manually is becoming a concern for examiners
- Be ready to explain how you’re only banking “good” and compliant CRBs
- You need to show that you’re able to leave the line of business if necessary

DIFS: Regarding Financial Services to the Marijuana Industry

"DIFS will review the potential impact of marijuana-related financial services on an institution's overall risk profile as part of any examination assessment and ratings process. Examiners will continue to utilize risk-based examination procedures, and regulator expectations for the institution's risk management functions will be commensurate with the inherent risk to the institution's safety and soundness. **DIFS will not take regulatory action based merely on the involvement of the marijuana industry in any financial institution's products, services, or activities. However, regulatory action will result if the financial institution fails to identify, manage, account for, or provide sufficient safeguards related to the risks of marijuana-related financial products or services.**"

https://www.michigan.gov/documents/difs/Letter_2020-CU-01_676151_7.pdf

DIFS: Reviewing Products/Services related to MRBs

"These procedures outline the general review of credit union financial services related to the marijuana industry and related businesses/members. As the risks related to offering services in this space are varied and high, (particularly while federally illegal), the institution's due diligence and ongoing control over such a portfolio must be robust. **Examiners must evaluate management's due diligence in deciding to provide such services. The board and management must have clear understanding of the associated risks, and satisfactory risk management tools in place which are functioning soundly.**"

[https://www.michigan.gov/documents/difs/10160 MRB 704841 7.pdf](https://www.michigan.gov/documents/difs/10160_MRB_704841_7.pdf)

DIFS Letter # 2020-CU-01 (1/2)

- Performed thorough initial and ongoing due diligence, which must include detailed evaluation of the legal, compliance, strategic, reputational, liquidity, and transactional risks, with detailed risk-mitigating plans and factors to limit the institution's exposure to individual and overall risk.
- Performed a detailed analysis of the institution's capacity to absorb potential losses, and to endure the potential impacts of risks, without jeopardizing the ongoing safety and soundness of the institution or otherwise becoming detrimental to ongoing operations.

(continued next slide)

DIFS Letter # 2020-CU-01 (2/2)

- Established sufficiently sophisticated risk management systems for the risks being assumed. Institutions must satisfactorily measure, monitor and control related risk, and possess a robust risk management system to ensure compliance with applicable federal and state laws and reporting requirements.
- Have in place knowledgeable staff and an effectively functioning compliance system, commensurate with the risks being assumed. Particularly for cash-intensive activities, this must include a robust BSA/AML program with effective processes for ensuring appropriate Cash Transaction Reporting (CTRs) and Suspicious Activity Reporting (SARs).
- Exit strategies which can be swiftly executed should the product or service later present unexpected and/or undue risk to the institution.

DIFS Policy # 10160

Determine if the institution has adjusted related business processes to also include MRB impacts:

- Regular Risk Assessment
- Public information monitoring
- Training practices
- Bond/Insurance coverages
- Contingency planning (including backups for vendor services)
- Disaster recovery procedures
- Third Party due diligence practices
- On employee satisfaction and/or health
- Cash Management controls, logistics, and security
- Budgeting: Equipment and additional physical/personnel resources

What's next?

What you can expect following this session

- Copies of all presentation materials
- A cannabis banking policy template
- A copy of the sample financial model developed during the session
- A copy of the sample risk assessment developed during the session
- 90-day access to a recording of both sessions

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Thank you!

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