

Supervisory Letter

NCUA | Office of Examination & Insurance
1775 Duke Street, Alexandria, VA 22314
www.ncua.gov

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TO: All Field Staff

SUBJECT: Money Services Businesses

This Supervisory Letter provides information about money services businesses (MSBs) and emphasizes the existing Federal Financial Institutions Examination Council (FFIEC) *Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual* procedures to establish a consistent framework for the exam and supervision process used to review credit unions that maintain an account relationship with an MSB.

The guidance in this document applies to all federally insured credit unions. If you have any questions on the following material, please direct them to your immediate supervisor or regional management.

I. Background

NCUA's supervisory focus for 2014 includes raised awareness for credit unions that provide account services to MSBs.¹ Chairman Debbie Matz highlighted the need for credit unions that maintain an account relationship with an MSB, or are considering doing so, to be aware of the potential risks involved – particularly with regard to money laundering.

MSBs provide a valuable service to consumers; however, the cash-intensive nature of these businesses may pose elevated risk for potential money laundering activities. This requires credit unions, where elevated risk activity is present, to exercise heightened due diligence by establishing monitoring and controls to properly assess, minimize, and manage the risk of money laundering.

NCUA's goal is to provide clarity to examiners on risks related to MSB activities, as well as, a review process that creates a compliance environment where credit unions can effectively service

¹ See NCUA Letter to Credit Unions, [Supervisory Focus for 2014](#) (LCU 14-CU-02)

Supervisory letters are official agency examination policy. These letters communicate guidance to NCUA field staff on regulations and exam procedures. Each supervisory letter focuses on a specific topic, providing background information and outlining any related regulatory and statutory requirements. Supervisory letters may also require field staff to perform certain procedures during an examination; in these cases, the letter will provide instructions to help field staff implement the procedures. Supervisory letters are intended to provide a framework for more consistent application of staff judgment with respect to conclusions about a credit union's financial and operational condition, and related CAMEL and risk ratings. These letters also provide a consistent approach for evaluating the adequacy of a credit union's relevant risk-management processes. Supervisory criteria detailed in a supervisory letter are not strict requirements, unless noted as required by law or regulation. The supervisory criteria contained in these letters are used by field staff to evaluate a credit union's condition based on the preponderance of relevant factors. Generally, supervisory letters are shared with the public as an attachment to a Letter to Credit Unions.

MSB members while meeting their BSA obligations. Credit unions need to identify MSBs that may pose an elevated risk for money laundering and establish proper BSA/AML procedures related to these entities.

A. What is a money services business, or MSB?

The Financial Crimes Enforcement Network (FinCEN) revised the regulatory definitions of certain non-bank financial institutions for purposes of the Bank Secrecy Act in August 1999, and grouped the definitions into a separate category of financial institution called “money services businesses” or MSBs.² A business is an MSB if it meets one or more of the definitions of a type of MSB.

The capacities in which a business might act that could bring it within the definition of an MSB are outlined in the table below.

Table 1: Types of Money Services Businesses³

Product or Service	Capacity (Type of MSB)
Money Orders	<ul style="list-style-type: none"> • Issuer of money orders • Seller of money orders • Redeemer of money orders
Traveler’s Checks	<ul style="list-style-type: none"> • Issuer of traveler’s checks • Seller of traveler’s checks • Redeemer of traveler’s checks
Check Cashing	<ul style="list-style-type: none"> • Check casher
Currency Exchange	<ul style="list-style-type: none"> • Dealer in foreign exchange
Currency Dealing	<ul style="list-style-type: none"> • Dealer in foreign exchange
Money Transmission	<ul style="list-style-type: none"> • Money transmitter
Prepaid Access	<ul style="list-style-type: none"> • Provider of Prepaid Access • Seller of Prepaid Access

It is important to note that there are threshold requirements for businesses in the first five categories: a business that engages in such transactions will not be considered an MSB if it does not engage in such transactions in an amount greater than \$1,000 for any person on any day in one or more transactions. Additional information about each type of MSB appears in [Appendix A](#). MSBs are diverse and can vary in size, products, and services offered. All MSBs must comply with BSA requirements applicable to it as an MSB, as a financial institution, and as a specific type of MSB.

² The types of MSBs are defined in [31 CFR 1010.100\(ff\)](#).

³ For further information, refer to FinCEN’s website at http://www.fincen.gov/financial_institutions/msb/amimsb.html.

Please Note: The BSA does not require credit unions to serve as a *regulator* of any type of MSB account, and neither FinCEN nor NCUA expects credit unions to serve in this capacity. While NCUA expects credit unions to manage risk associated with all accounts, including MSB accounts, credit unions are not responsible for their members’ compliance with the BSA and other applicable federal and state laws and regulations.

B. What risks do money services businesses pose to credit unions?

MSBs range from large international money transmitters to small independent businesses that offer financial services only as a secondary component to their primary business (for example, a grocery store that offers check cashing). As a result of this diversity, some MSBs may be lower risk and some may be higher risk for money laundering. Credit unions that maintain account relationships with MSBs may be exposed to a higher risk for potential money laundering activities due to the risk factors included in the table below.

Table 2: MSB Risk Factors

Risk Factors Within MSBs
<ul style="list-style-type: none"> • Diverse products, services and customer base • Lack ongoing customer relationships • Minimal or no identification requirements • Limited recordkeeping • Frequent currency transactions • Various levels of oversight • Frequent change of product mix, location, operations

To assist credit unions in determining the level of risk posed by an MSB account, the examples included in the tables below may be indicative of lower and higher risk, respectively. In determining the level of risk, credit unions should not take any single indicator as determinative of the existence of lower or higher risk. The application of these factors is fact-specific and a conclusion about an account should be based on a consideration of available information. An effective risk assessment should be a composite of multiple factors, and depending upon the circumstances, certain factors may be weighted more heavily than others.

Table 3: MSB Potentially Lower Risk Indicators

Examples of potentially lower risk indicators: The money services business –
<ul style="list-style-type: none"> • Primarily conducts routine transactions with moderate frequency in low amounts; • Offers only a single line of money services business product (for example, only check cashing); • Is a check casher that does not accept out-of-state checks; • Is a check casher that does not accept third-party checks or only cashes payroll or

Examples of potentially lower risk indicators: The money services business –
<p>government checks;</p> <ul style="list-style-type: none"> • Is an established business with an operating history; • Only provides services such as check cashing to local residents; • Is a money transmitter that only remits funds to domestic entities; or • Only facilitates domestic bill payments.

Table 4: MSB Potentially Higher Risk Indicators

Examples of potentially higher risk indicators: The money services business –
<ul style="list-style-type: none"> • Allows customers to conduct higher-amount transactions with moderate to high frequency; • Offers multiple types of money services products; • Is a check casher that cashes any third-party check or cashes checks for commercial businesses; • Is a money transmitter that offers only, or specializes in, cross-border transactions, particularly to jurisdictions posing heightened risk for money laundering or the financing of terrorism or to countries identified as having weak anti-money laundering controls;⁴ • Is a currency dealer or exchanger for currencies of jurisdictions posing heightened risk for money laundering or the financing of terrorism or countries identified as having weak anti-money laundering controls; • Is a new business without an established operating history; or • Is located in an area designated as a High Intensity Financial Crime Area (HIFCA) or a High-Intensity Drug Trafficking Area (HIDTA).⁵

A credit union needs to know and understand its MSB member. To do so, it should understand the MSB’s business model and the general nature of the MSB’s own customer base. While many MSBs provide services to individual customers, some MSBs provide services to other MSBs. This added layer of anonymity between the credit union and the originator of the transaction could pose additional complexity in identifying suspicious activity to the credit union. In addition, MSBs providing services to other MSBs can result in a much higher dollar amount and volume of activity, which can make it harder to identify

⁴ Jurisdictions posing heightened risk include those that have been (1) identified by the Department of State as a sponsor of international terrorism under 22 U.S.C. 2371; (2) designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member (such as the Financial Action Task Force, <http://www.fatf-gafi.org>) and with which designation the United States representative or organization concurs; or (3) designated by the Secretary of the Treasury pursuant to 31 U.S.C. 5318A as warranting special measures due to money laundering concerns.

⁵ While the operation of an MSB in either of these two areas does not itself require a banking organization to conclude that the MSB poses a high risk, it is a factor that may be relevant. Information concerning HIFCAs can be found at http://www.fincen.gov/law_enforcement/hifca/index.html. Information concerning HIDTAs can be found at <http://www.whitehouse.gov/ondcp/high-intensity-drug-trafficking-areas-program>.

suspicious activity or trends. Credit unions providing services to such MSBs should employ enhanced procedures, controls and monitoring regimes.

Credit unions that maintain account relationships with MSBs can mitigate the money laundering risks posed by MSBs by developing policies, procedures, and processes to achieve the goals of the items included in the table below.

Table 5: Risk Mitigation Factors for Credit Unions

Risk Mitigation Factors
<ul style="list-style-type: none"> • Proper identification of MSB relationships • Adequate assessment of potential risks • Adequate understanding of the business model and activity of the MSB • Adequate and ongoing due diligence relative to the risk assessed • Adequate and ongoing suspicious activity monitoring • Adequate staffing, expertise, and resources

C. What are the expectations for credit unions?

FinCEN, NCUA, and the other federal banking agencies have established minimum expectations that banking organizations should meet when providing banking services to MSBs.⁶ Based on existing BSA requirements applicable to credit unions, the minimum due diligence expectations associated with opening and maintaining accounts for MSBs are:

- Perform the required Customer Identification Program procedures;
- Confirm that member MSBs register with FinCEN, if applicable;⁷
- Confirm that member MSBs comply with state or local licensing requirements, if applicable;⁸
- Confirm the member MSB’s agent status, if applicable;⁹ and

⁶ See Financial Crimes Enforcement Network (FinCEN), [Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States](#), April 26, 2005.

⁷ FinCEN MSB Registrant Search web page is available at http://fincen.gov/financial_institutions/msb/msbstateselector.html. FinCEN outlines the BSA requirements for MSBs at http://fincen.gov/financial_institutions/msb/msbrequirements.html.

⁸ Individual states may or may not have their own licensing requirements for MSBs. The credit union should be familiar with the particular requirements in their state.

⁹ An entity that is an MSB solely because that entity serves as an agent of another MSB is not required to register. However, an entity that is an MSB both because it engages in MSB activities on its own behalf and as an agent of another MSB must register. For example, a supermarket corporation that serves as an agent both of a money order issuer and of a money transmitter is not required to register. However, registration is required if the supermarket corporation – in addition to acting as an agent of a money order issuer – cashed checks or exchanged currency (other than as an agent for another MSB) in an amount greater than \$1,000 for any person on any day in one or more transactions. ([31 CFR 1022.380\(a\)\(2\)](#).)

- Conduct a BSA/AML risk assessment to document the level of risk associated with the account and whether greater due diligence is necessary. As with any business account, in determining how much, if any, further due diligence would be required for any MSB member, the credit union should consider the following basic information:
 - Types of products and services offered by the MSB.
 - Location(s) and market(s) served by the MSB.
 - Anticipated account activity and volume
 - Purpose of the account.

If a credit union determines that a member MSB presents a higher level of money laundering or terrorist-financing risk, enhanced due diligence measures should be conducted *in addition to* minimum due diligence procedures. Depending on the level of potential risk, as well as the size and sophistication of a particular MSB, a credit union may pursue some or all of the following actions as part of an appropriate enhanced due diligence review:

- Reviewing an MSB's BSA/AML program.
- Reviewing results of an MSB's independent testing.
- Reviewing written procedures for the operation of an MSB.
- Conducting on-site visits of an MSB.
- Reviewing an MSB's written employee screening practices.

Not all money services businesses pose the same level of risk. Each will require a different level of due diligence based on the credit union's review and assessment. As noted above, MSBs providing services to other MSBs can pose a significantly higher level of risk that warrants heightened due diligence and monitoring.

Reporting Requirements

As with any account, credit unions must comply with all BSA reporting requirements with respect to MSBs.

Currency Transaction Reporting (31 CFR 1010.311)

A credit union must file a Currency Transaction Report (CTR) for each deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to a credit union which involves a transaction in currency of more than \$10,000. Multiple currency transactions totaling more than \$10,000 during any one business day are treated as a single transaction if the credit union has knowledge that they are by or on behalf of the same person.

Currency Transaction Reporting Exemptions (31 CFR 1020.315)

MSBs are ineligible for treatment as exempt non-listed businesses, and may not be exempt from the CTR requirements. However, a member that engages in multiple business activities may qualify for an exemption as a non-listed business provided that no more than 50 percent of its

annual gross revenues are derived from one or more ineligible business activities.¹⁰ For example, a grocery store that also provides MSB related services (such as check cashing) on behalf of its customers would be eligible for treatment as an exempt non-listed business if less than 50 percent of its annual gross revenues are derived from the MSB related services.¹¹

Identification and reporting of suspicious activity (12 CFR 748.1)

Existing regulations require credit unions to identify and report known or suspected violations of law or suspicious transactions, or both, relevant to possible violations of law or regulation. Ongoing risk-based monitoring of accounts maintained for all members, including MSBs, is a key element of an effective system to identify and, where appropriate, report violations and suspicious transactions. The level and frequency of such monitoring will depend on the risk assessment and the activity in the account.

Reporting MSB account services on Call Reports

Gaining a more accurate picture of the number of credit unions that provide account services to an MSB will assist in the risk management and supervision process. Beginning with the March 31, 2014 reporting cycle, credit unions are now required to report MSB account information on the Call Report. This enhanced reporting will assist in tracking the MSB activity in the credit union system. It will also cause credit unions to review their operations to ensure they are adequately identifying and assessing their BSA/AML risks.

II. Exam Procedures

In accordance with the risk-based examination procedures detailed in the FFIEC *BSA/AML Examination Manual*, examiners should:

1. Determine if the credit union provides account services to MSBs. Possible indicators of MSBs may include, but are not limited to:
 - a. Large cash transactions not commensurate with expected activity of account or business.

¹⁰ See FinCEN, [Guidance on Supporting Information Suitable for Determining the Portion of a Business Customer's Annual Gross Revenues that is Derived from Activities Ineligible for Exemption from Currency Transaction Reporting Requirements](#) (FIN-2009-G001), April 27, 2009.

¹¹ However, in those instances where it is less clear whether a non-listed business member derives no more than 50 percent of its annual gross revenues from ineligible activities, a credit union should obtain such additional supporting materials and information that would allow it to make a reasonable determination that it may appropriately exempt that member from currency transaction reporting. In particular, in such cases a credit union could reasonably make such a determination based upon member completion of a credit union checklist or form or receipt of a self-certification statement or letter signed by the member containing credible information about its annual gross revenues, which checklist or form or statement or letter would be substantiated by corroborating information. (FIN-2009-G001)

- b. High volume of third-party checks when not commensurate with expected activity of account or business.
- c. High volume of wire transfers not commensurate with expected activity of account or business.

This is not a comprehensive list of indicators, and staff should not assume that an account holder who conducts these activities is an MSB. Further investigation may be warranted if field staff has a reasonable suspicion that an account holder is an MSB and has not been identified as such by a credit union.

- 2. If the credit union provides account services to MSBs, evaluate the credit union's systems to ensure the credit union is exercising appropriate due diligence.
 - a. Determine whether internal controls are in place to adequately identify, monitor, and control the potential risk posed by the MSB account(s).
 - b. Determine whether the credit union meets the minimum due diligence expectations with respect to MSBs by:¹²
 - i. Confirming the credit union performed the required Customer Identification Program procedures at account opening;
 - ii. Confirming that the member MSBs have registered with FinCEN, if applicable;
 - iii. Confirming the member MSB's compliance with state or local licensing requirements, if applicable;
 - iv. Confirming the member MSB's agent status, if applicable; and
 - v. Confirming that the credit union has conducted a basic BSA/AML risk assessment to determine the level of risk associated with the account and whether further due diligence is necessary.
 - c. Determine if the credit union has established adequate enhanced due diligence procedures to be conducted *in addition to* the minimum due diligence procedures for any MSB account the credit union determines presents a higher level of money laundering or terrorist-financing risk.¹³

¹² See FinCEN, [Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States](#), April 26, 2005.

¹³ See FinCEN, [Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States](#), April 26, 2005.

- d. Determine if the credit union has adequate policies, procedures, and processes in place to identify, monitor, and report suspicious activity.
 - e. Determine if the credit union is in compliance with all BSA reporting requirements.
 - f. Determine if the credit union has accurately reported MSB account information on the Call Report.
3. Complete the MSB section of the BSA Questionnaire during all examinations when a credit union provides account services to MSBs. The MSB section will be integrated into the new AIRES Questionnaire workbook which will be released soon. Attached is a standalone MSB questionnaire to be used until the new AIRES Questionnaire workbook is released.

III. Additional Guidance Relevant to Money Services Businesses

This section outlines the unique attributes of MSBs, and builds on previously issued regulations and guidance, including:

- NCUA Letter to Credit Unions, [Supervisory Focus for 2014](#) (LCU 14-CU-02)
- [Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States](#), issued April 26, 2005
- *Bank Secrecy Act/Anti-Money Laundering Examination Manual*, Federal Financial Institutions Examination Council (FFIEC)¹⁴
 - [Nonbank Financial Institutions Overview](#)
 - [Nonbank Financial Institutions Examination Procedures](#)
- [Bank Secrecy Act, 31 CFR 1000](#)

If you have any questions on the material provided, please direct them to your immediate supervisor or regional management.

Sincerely,

/s/

Larry Fazio
Director
Office of Examination & Insurance

¹⁴ The BSA regulation was revised in July 2011 to include providers and sellers of prepaid access in the definition of MSBs. These revisions are not reflected in the FFIEC *BSA/AML Examination Manual* section as of the issuance of this Supervisory Letter.

Appendix A: Types of Money Services Businesses

The Financial Crimes Enforcement Network (FinCEN) revised the regulatory definitions of certain non-bank financial institutions for purposes of the Bank Secrecy Act (BSA) in August 1999, and grouped the definitions into a separate category of financial institution called “money services businesses” or MSBs.¹⁵ A business that meets one or more of the definitions of one of the five types of MSBs (as currently defined) is an MSB and must comply with BSA requirements applicable to it as an MSB, as a financial institution and as a specific type of MSB.

1. Dealer in Foreign Exchange

These facilities accept currency, other monetary instruments, funds, or other instruments of one or more countries in exchange for the currency or other monetary instruments, funds, or other instruments of one or more countries in an amount greater than \$1,000 for any person, on any day, in one or more transactions.

2. Check Casher

These entities accept checks or monetary instruments in return for currency, or a combination of currency and other monetary instruments, in an amount greater than \$1,000 for any person, on any day, in one or more transactions.

3. Seller, Issuer, or Redeemer of Traveler’s Checks or Money Orders

These entities issue, sell, or redeem traveler’s checks or money orders (collectively called “monetary instruments”) in an amount greater than \$1,000 to any person, on any day, in one or more transactions.

4. Money Transmitter

These entities accept currency, funds, or other value that substitutes for currency from one person and transmits the currency, funds, or other value that substitutes for currency to another location or person by any means. (This definition also includes administrators or exchangers of virtual currency).¹⁶

An entity that engages in money transmission in *any amount* is an MSB.

5. Provider or Seller of Prepaid Access

Providers of prepaid access have principal oversight and control over a prepaid program or participant in a program that is registered with FinCEN as the provider of prepaid access for

¹⁵ Types of MSBs are defined in [31 CFR 1010.100\(ff\)](#).

¹⁶ See FinCEN, [Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies](#) (FIN-2013-G001), March 18, 2013.

a particular program. Any person or organization that receives funds, or the value of funds in exchange for an initial loading or subsequent loading of value onto prepaid devices, is a *seller* of prepaid access.

Federal rules and regulations exclude the following programs from the definition of a prepaid program:¹⁷

- Programs that provide closed-loop prepaid access to funds not to exceed \$2,000 maximum value on any day.¹⁸
- Programs that provide prepaid access solely to funds provided by a government agency.
- Programs that provide prepaid access solely to funds from certain pre-tax flexible spending arrangements for health care or dependent care expenses, or from Health Reimbursement Arrangements.

Programs that offer open-loop prepaid access¹⁹ that does not exceed \$1,000 maximum value on any day, and prepaid access to employment benefits, incentives, wages or salaries (that is, payroll), are not prepaid programs subject to BSA regulatory requirements so long as the prepaid access cannot be used internationally, be reloaded from a non-depository source, or allow transfers of value from one person to another person within the arrangement. If *any* of these features are part of the arrangement, the open-loop prepaid access is covered as a prepaid program under the regulation.

¹⁷See [31 CFR 1010.100\(ff\)\(4\)\(iii\)](#).

¹⁸ Closed-loop prepaid access is defined as “prepaid access to funds or the value of funds that can be used only for goods or services in transactions involving a defined merchant or location (or set of locations), such as a specific retailer or retail chain, a college campus, or a subway system ([31 CFR 1010.100\(kkk\)](#)).

¹⁹ Any type of prepaid access that does not meet the definition of closed-loop is considered to be open-loop prepaid access. (Regulation does not provide a formal definition of “open-loop prepaid access.”)

