



# The Model Money Transmission Modernization Act

## *Frequently Asked Questions*

### ***What is the Model Money Transmission Modernization Act?***

- The Model Money Transmission Modernization Act, also known as the Money Transmitter Model Law, is a single set of nationwide standards and requirements created by industry and state experts and approved by the CSBS Board of Directors.
- A common regulatory baseline across the country is a crucial step in advancing multistate harmonization in the money transmission industry, as states will be better able to work together in the licensing, regulation and supervision of money transmitters operating across state lines.
- Common standards also empower the states to use technology, apply data analytics and share resources together as a networked system of state supervision (Networked Supervision).
- Networked Supervision benefits both consumers and industry:
  - Consumers benefit from the added risk detection and corresponding consumer protection that becomes possible with consistent standards across the states.
  - Industry benefits from a faster, more predictable and efficient regulatory process across the states.

### ***What does the Money Transmitter Model Law specifically do?***

- Provides regulators with the tools needed to regulate money transmitters of all sizes, including those that operate globally or small businesses operating locally.
- Standardizes:
  - Definitions applicable to money transmitters, eliminating technical differences between states that make compliance difficult for companies operating in multiple states.
  - Exemptions from money transmitter licensing to promote consistency among states.
  - The licensing process, including standardized determinations of who is in control of a licensee and the vetting process.
  - Safety and soundness requirements, including net worth, bonding, and permissible investments.
- Enables:
  - Multistate licensing, ensuring the benefits of the Multistate MSB Licensing Agreement can be expanded and enhanced.
  - Multistate supervision, ensuring the benefits of the One Company, One Exam program can be expanded and enhanced.
- Facilitates the development of technology and data analytics necessary to supervise at scale with local accountability.



### ***How did the Model Money Transmitter Model Law come together?***

- The Fintech Industry Advisory Panel, convened in 2018 as part of Vision 2020, provided a series of recommendations for streamlining state licensing and supervision.
  - The CSBS Board approved the recommendations as the basis for the development of a model law for money transmission.
  - This led to the creation of a state working group which released draft statutory language for comment in September 2019.
  - The extensive influx of comments revealed that the states and industry were too divergent on an abundance of issues to move forward with implementation of the statutory language.
- To ensure industry comments and concerns were properly integrated into the final product, the CSBS Board established the Regulator-Industry Clearing House, a joint working group of state regulators and industry experts.
  - The working group was tasked with drafting new statutory language that meets the policy objectives set by the CSBS Board and gathered weekly to discuss the model law.
  - Ultimately the group developed legislative language covering activities and exemptions, control, operations, safety and soundness, supervision and efficient use of regulatory resources.
- Common standards also empower the states to use technology, apply data analytics and share resources together as a networked system of state supervision.
  - In early 2021, the CSBS Board prioritized the Model Money Transmitter Model Law as one of its eight priorities for advancing Networked Supervision initiative
  - Vision 2020 was retired in December 2020 – Networked Supervision is the next step toward a more uniform state system that preserves local accountability.\

### ***Why is the Model Money Transmitter Model Law Necessary?***

- The market for money transmission has changed dramatically:
  - States have licensed and regulated transmitters of money for over 100 years.
  - Recently, the boom in fintech payments providers has resulted in the number of money transmitters operating nationwide (licensed in 40 or more states) more than doubling since 2015.
  - While state laws were well positioned to regulate innovative business models, efficiencies were needed as the money transmitters increasingly became national and global.
- Common standards will allow the state system to expand its use of technology platforms, increasing efficiency in the system and enhancing risk detection ensuring consumer funds are protected.
  - The Nationwide Multistate Licensing System & Registry® (NMLS) is a technology platform for and by the states.
  - Common standards can be deployed using NMLS, including licensing forms, workflows, procedures, supervision and data analytics.

- Standardized safety and soundness requirements will help to ensure customer funds are protected in an environment that supports innovative and competitive business practices.

### ***What are the benefits for a state implementing the Model Money Transmitter Model Law?***

- Common licensing and regulatory standards will add efficiencies to the multistate process, allowing states to leverage common practices, analysis and data:
  - 50 separate sets of standards and analyses currently exist to answer common questions like “who needs a license?” and “how are permissible investments calculated?”; The Money Transmitter Model Law provides a common standard to apply to all issues of state licensing and regulation of money transmission.
  - The Model Money Transmitter Model Law enhances information sharing, better positioning states to increase focus on consumer harm and examine risk on a nationwide basis.
  - Common standards will make it easier to share examination resources across the state system and give greater access to a diversity of expertise.
- Consumer protections will be improved by protecting the public from financial crime, increasing the safety of customer funds and guaranteeing adequate capitalization of licensees.
  - The standardization of safety and soundness requirements across the states ensures that industry maintains a high level of competency, integrity and security.

### ***The Model Money Transmitter Model Law contains an article on virtual currency – is this something new for states?***

- Virtual currencies that are accepted by multiple parties as a value that can be exchanged for money, goods or services fit squarely within the definition of money transmission
  - However, ambiguity between state and federal regulators has necessitated a separate article that makes clear virtual currency is included in money transmission when received for transmission.
  - Accordingly, the Money Transmitter Model Law includes a module for states that would prefer a stand-alone portion of the law covering virtual currency