Are Money Transmission Laws Keeping Up?
AGENDA

• Background & Basics on the Conference of State Bank Supervisors (CSBS) Model Money Transmission Modernization Act
• Concepts Designed to Ensure Consumer Protection, Foster Innovation & Create Consistency for Existing and New Licensees
• Adoption of the Model Law in Arizona
• Looking Ahead to 2023

MEET OUR PANELISTS

Megan Howell, Moderator
PayPal

Scott Talbott
Electronic Transactions Association

Adam Fleisher
The Money Services Roundtable, Cooley LLP

Stephen Briggs
Arizona Department of Financial Institutions
BACKGROUND ON THE MODEL LAW

• First comprehensive update to money transmission licensing statute since the early 2000s.

• Fintech Industry Advisory Panel convened through CSBS included cross-section of State Banking Departments, trade associations, and industry subject matter experts.

• Goal to draft updated statutory language that meets the policy objectives set by the CSBS Board and covers activities and exemptions, control, operations, safety and soundness, supervision and efficient use of regulatory resources.

• Positions states to regulate innovative business models from niche industry participants to national and global payments frameworks.

• The final Uniform Money Transmission Modernization Act drafted by CSBS with consultation from State Regulators and industry experts was approved by the CSBS Board on Aug. 9, 2021.
The Fintech Industry Advisory Panel, convened in 2018 as part of Vision 2020. The CSBS Board approved a series of recommendations as the basis for the development of a model law for money transmission. This approval led to the creation of a state working group which released draft statutory language for comment in September 2019.

The CSBS Board established the Regulator-Industry Clearing House.

Vision 2020 was retired in December 2020.

In early 2021, the CSBS Board approved the Money Transmitter Model Law as one of its eight priorities for advancing Networked Supervision.

The final CSBS Uniform Money Transmission Modernization Act was approved by the CSBS Board on Aug. 9, 2021.

State implementation begins in 2022.
SPOTLIGHT ON KEY CONCEPTS

• Largely embraces, updates, and builds upon existing concepts in state money transmission laws, including the Uniform Act
  • Offers a harmonized, unified and consistent approach if broadly adopted in the states and territories
• Uniform, updated and more precise definitions of regulated and exempt activity
  • New approach to “control” reflects modern investment/ownership structures
• Leverages NMLS system for management of regulated entities with a clear statutory basis
  • Establishes standardized criteria and process for license and change of control applications
  • Standardizes required reporting of regulated volume, certain specified events, etc.
• Establishes consumer disclosure requirements based on existing precedents
  • Carves out commercial and other transactions from these requirements

OTHER NEW & INNOVATIVE ELEMENTS

• Updates prudential standards
  • Sliding scale net worth requirement based on licensee size
  • Surety bonds based on volume of regulated activity
  • New permissible investments definitions
    • Letter of credit as new type of permissible investment—can help address risks associated with customer funds in the event of bankruptcy/insolvency
• Opportunity for more streamlined adjudication of licensing applications and especially in the change of control context
ADOPTION OF SENATE BILL 1580
MSB MODEL LAW IN ARIZONA

Stakeholder Support
• Local Contact who has local relationships
• Ability to support in committee

Executive Approval
• Language vetted before the legislative session begins
• Guarantees Governors Approval

Legislative Sponsor
• Chairman of Finance Committee
  • Sen. David Livingston –
    • Familiar with inner workings of agency
    • Hard worker

Legislative Process
• Focus on Committee of Reference
  • Testimony
  • Letter of Support - specific consumer protection measures in bill
• Committee Staff - Majority and Minority
  • Share as much context as possible
  • Get into the weeds with these people
ADOPTION OF SENATE BILL 1580
MSB MODEL LAW IN ARIZONA

Timeline
• 2/10 – Senate Finance Committee with technical amendment found by staff - passed
• 2/15 – Senate Rules - passed
• 2/24 – Committee of the Whole (COW) with floor amendment requested by DPS (fingerprint) - passed
• 2/28 – Senate Floor 26-1 (1 Republican No) - passed
• 3/15 – House Commerce Committee - passed
• 3/29 – House Rules - passed
• 4/12 – House COW with floor amendment - passed
  • FAILED House 16-39
  • Motion to recommit passed – 2 week clock starts
• 4/27 – COW approved with floor amendment
  • Passed House 51-7
  • Back to Senate for Concurrence
• 5/17 – Senate concurred – passed 27-0
• 5/20 – Signed by Governor
PRESS RELEASE

FOR IMMEDIATE RELEASE

Arizona Among the First States to Adopt Model Legislation for Money Transmission Services

Phoenix, AZ - The Department of Insurance and Financial Institutions (DIFI) applauds Governor Doug Ducey’s signing of SB1580 into law. Sponsored by Senator David Livingston (LD22), SB1580 adopts the Conference of State Bank Supervisors (CSBS) Model Money Transmission Modernization Act, which strengthens the quality and effectiveness of state regulation of money transmission services.

The lack of uniform and consistent money transmission laws from state to state has led to unnecessary regulatory burden for the industry and inefficiencies in supervision for regulators. In response, regulators, industry, and consumer stakeholders worked together over several years in conjunction with CSBS to develop the money transmission model law.
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SB1580 addresses the needs of a rapidly growing payments industry, modernizes the licensing and supervision standards across the states, and increases transparency and consistency for the industry. More specifically, the model legislation seeks to:

- Ensure states can coordinate in all areas of regulation, licensing, and supervision to eliminate unnecessary regulatory burden and more effectively use DIFI’s resources.
- Protect the public from financial crime.
- Standardize the types of activities subject to licensing.
- Modernize safety and soundness requirements to ensure customer funds are protected in an environment that supports innovative and competitive business practices.

“Arizona is very pleased to be one of the first states to enact these necessary reforms to money transmission laws and standards,” said Director Evan Daniels. “As DIFI seeks to advocate for tailored, effective regulation that facilitates innovation, SB1580 is a significant step in that regard by relieving unnecessary regulatory burdens, promoting safe markets, and enabling efficient supervision.”

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QUESTIONS & ANSWERS
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