



TEXAS DEPARTMENT OF BANKING

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SUPERVISORY MEMORANDUM – 1023

September 1, 2020

TO: All Money Services Businesses License Holders

FROM: Charles G. Cooper, Commissioner

SUBJECT: Examination Frequency Policy for Money Services Businesses (MSBs)¹

BACKGROUND

Section 151.601(b)(1) of the Texas Finance Code provides that MSB license holders may be examined annually or as the Department may reasonably require.

OVERVIEW

When this examination frequency policy was originally implemented, the risk factors considered in determining the examination frequency policy included the volume of business conducted by the entity, number of prior examinations, and the entity's last two examination ratings. Revisions to this Memorandum on December 7, 2016 and September 1, 2018 removed the volume of business conducted criteria and the requirement for a license holder's prior two examination ratings be a 1 or 2.

Since the revisions to this policy in September 2018, other non-depository state regulators have implemented several initiatives to modernize the licensing and supervision of MSBs. More state regulators have expanded their examination programs enabling the Department to participate in a networked supervision system to efficiently utilize state resources to examine MSBs licensed in multiple states. The networked supervision approach has allowed the Department to coordinate the examinations of multistate MSBs with other state regulators. This has resulted in initiatives such as the "One Company, One Exam" where the goal is to have one multistate examination of an MSB per calendar year to reduce redundancies and regulatory burden on license holders.

State regulators have various examination frequency cycles which results in most multistate MSBs being examined annually by either joint or individual states. State regulators that participate in the networked supervision of MSBs utilize a standard work program and guidelines to ensure consistent and thorough examinations of a money transmitter's operations, financial condition, management, and compliance function, including compliance with the Bank Secrecy Act and the

¹ This examination frequency policy, which was originally implemented on September 1, 2006, was last revised on September 1, 2018. Current revisions modify the examination frequency for currency exchange and money transmission license holders.

institution's anti-money laundering program. Most of the MSBs with multistate licenses are examined in a coordinated effort. These examination reports are available to state regulators.

This policy is revised to reflect the networked supervision approach of money transmitters licensed in multiple states to improve examination efficiencies and effectiveness. Extending the examination cycle allows the Department to increase the coordination of multistate MSBs. The Department's examination cycle will also be more aligned with examination cycles of other state regulators that participate in multistate joint examinations.

EXAMINATION FREQUENCY

In *general*, as depicted by the tables shown below, currency exchange license holders that receive "marginal" ratings at the most current examinations will be examined every 12 months. Currency exchange licensees receiving a "strong" or "satisfactory" rating during the most recent examination will be examined every 18 months. Money transmitter licensees that receive a "strong" or "satisfactory" rating during the most current examination will receive an examination every 24 months. Money transmitters that receive a "marginal" rating will be examined every 18 months.

License holders rated "unsatisfactory" or "poor" will be examined every 12 months and will also receive a limited scope examination in approximately six months of the examination that resulted in an "unsatisfactory" or "poor" rating. The limited scope examination will be conducted to assess corrective action and compliance with applicable statutes and rules with respect to the prior examination findings. A new rating will not be assigned until the next full scope examination.

Examination Frequency Guide for Currency Exchange License Holders

Uniform Rating*	Full Scope Exam Frequency
Most current examination rating is a 1 or 2	18 months
Most current examination rating is a 3	12 months
Most current examination rating is 4 or 5	12 months for full scope examination <ul style="list-style-type: none"> In addition, a limited scope examination in approximately 6 months of examination resulting in a 4 or 5 rating
New Licensee with no previous examination or rating	12 months
Licensee with only one examination and with a rating of a 1, 2, or 3	12 months

*Ratings only issued at full scope examination.

Examination Frequency Guide for Money Transmission License Holders

Uniform Rating*	Full Scope Exam Frequency
Most current examination rating is a 1 or 2	24 months
Most current examination rating is a 3	18 months
Most current examination rating is a 4 or 5	12 months for full scope examination <ul style="list-style-type: none"> In addition, a limited scope examination in approximately 6 months of examination resulting in a 4 or 5 rating
New Licensee with no previous examination or rating	12 months
Licensee with only one examination and with a rating of a 1, 2, or 3	18 months

**Ratings only issued at full scope examination.*

ADDITIONAL QUALIFIERS AND INFORMATION APPLICABLE TO ALL LICENSE HOLDERS

A license holder that qualifies for an extended examination frequency may be excluded from the program if additional circumstances arise relating to changes in financial condition, management practices, business models, regulatory compliance, or any other issue which could significantly impact the overall condition of the license holder. Additionally, any license holder that is subject to a formal administrative action issued by our Department and/or has filed a change of control application within the prior 24 month period which our Department determines has resulted in a substantive change in the daily oversight of the day-to-day operations of the business may be excluded from the 18 month cycle for currency exchange license holders and from the 24 month cycle for money transmission license holders until such action is no longer in effect or until the license holder has complied with the requirements of the administrative action; and the Department has performed at least one on-site examination of the entity since the approval of the change of control application. As a matter of practice, all examinations will be conducted on-site, and off-site examinations will only be conducted in circumstances when deemed appropriate. As an example, new license holders that have no transaction activity in Texas may be examined off-site to reduce time and travel costs for the license holder and for the Department.