

Best Practices: Money Transmitter License Annual Renewals



It is almost that time of year! Yes, license renewal season is nearly upon us. FS Vector and Paul Hastings have teamed up to share some best practices for preparing for and managing your money transmitter license (MTL) renewals. This article focuses on MTLs, but it is generally applicable to other state licenses, such as lending, loan servicing, loan broker, and the New York BitLicense. The importance of keeping your licenses “healthy” cannot be overstated. If you are a licensee, your MTLs are core to your company’s product architecture and your ability to continue offering regulated services in each state where you hold a license. As such, your MTLs not only support your existing business in critical ways, but also facilitate new product development. “Unhealthy” MTLs, as we explain further below, can lead to business disruptions, friction in your product development roadmap, and heightened regulatory scrutiny. Accordingly, we focus a lot of our time on keeping our clients’ MTLs and other licenses healthy.

What can impair the health of your MTLs? One of the most commonly cited violations on state regulatory examinations is late, missing or inaccurate regulatory filings. These can include quarterly volume reporting, material change notifications, or annual renewal applications. Ensuring all mandatory reports are filed timely and accurately is a key function to maintaining the health of your MTLs.

TL;DR

The steps we recommend you take to ensure a smooth MTL renewal are: (1) plan ahead with a detailed renewal project plan, (2) stay organized throughout the year with an MTL maintenance calendar, immediately inputting new or changed requirements, (3) provide ongoing access to the MTL maintenance calendar for internal stakeholders who will be involved with renewals and other periodic reports, (4) engage with internal stakeholders ahead of renewal season to ensure their inputs will be provided timely (e.g., finance, for volume reporting), and (5) always respond promptly and directly to a regulator’s question or request for additional information in connection with your renewal.

Before Anything Else

As you prepare for your first license approvals (i.e., while your applications are in process), you should begin populating your license maintenance calendar. This calendar should be continually and timely updated as new licenses are obtained or state requirements change. Throughout the year, it is a good idea to track changes in state requirements as they are communicated to you, generally via email to the address listed as the primary contact on the Nationwide Multistate Licensing System (NMLS), or as they are posted on state regulators’ websites or in newsletters. For example, in the last few years, a number of states increased surety bond coverage requirements or changed the formula used to calculate the coverage amount.

NMLS Account Access

Most MTL renewal activity will be conducted through NMLS. We recommend establishing an Organization User in addition to the primary and secondary Account Administrators on NMLS, so that the Organization User can handle any required reports if the primary or secondary contacts are out of the office or there is some other type of interruption in support. Renewal season coincides with a number of holidays, so it is important to ensure redundancy of personnel that (i) can access the NMLS document repository; and (ii) are familiar with the process to submit documents and renewal materials to the regulators.

Know Your Dates

The MTL annual renewal period is November 1 – December 31. This will not be the only time you are submitting materials and reports to your regulators, however; it actually coincides with Q3 Reporting, which is due November 14 each year. Your maintenance calendar should be the single source of truth for all reporting requirements so that each stakeholder is aware of the ongoing and sometimes overlapping requirements.

Below is a list of the types of MTL activities that should be included as recurring dates. That calendar should be shared with each stakeholder in your organization (more on stakeholder engagement below):

- License Renewal Period → November 1-December 31
- Annual Reports → Due throughout the year at the discretion of state regulators (though generally due in the Spring/Summer).
- Annual Audited Financial Statements → Due to NMLS by March 31 (unless a licensee's fiscal year ends at a different time)
- Quarterly Reports → Typically due 30-45 days following the end of each fiscal quarter (includes the NMLS MSB Call Report and also other requirements submitted directly to state regulators via email or state-specific online portal)
- Monthly Reports → required in some, but not all, states
- Assessments → amounts to be paid by the licensee vary by state and often by volume of activity (most states have at least an annual assessment)

The stakeholders that need ongoing access to your MTL maintenance calendar include Compliance, Finance and Accounting, Legal, and Operations / Product / Engineering / Data Science. Think about which teams in your company are involved with funds flows and transaction data flows – those are the stakeholders who must be involved with the renewal process, because they will likely be involved in providing the information necessary to complete the required reports in each state.

Here are a few key considerations for each of those stakeholders in the context of MTL renewals:

- *Compliance* – In many cases, Compliance owns license management, including renewals. If you are in this role, think of the renewal process as a project, and you are the project manager. Keep a detailed task list with assigned owners and ensure each owner is tracking towards written completion dates. We find that weekly calls and shared chat channels (e.g., Slack) are effective ways to manage a renewal project.
- *Finance and Accounting* – Your Finance and Accounting people are possibly the most important to the renewal process. They are also some of the busiest leading up to and during the renewal period. On top of their year-end financial planning, forecasting for next year and chasing outstanding receivables, you will be asking them to pull a variety of reports and data (e.g., the unaudited financial statements for the third quarter, activity volumes, etc.). This team will also prepare for the annual audited financial statement submission, which is due by March 31st. Give this team as much lead time as possible to generate the required information for your renewal.
- *Legal* – Your renewal submission generally will not require a heavy legal review. We recommend giving your legal team a week or so for a final “sanity check” of your submission. There are sometimes legal gray areas or questions that require review.

- For example, is there a question regarding which transactions are reportable? Are you planning any changes to your business plan? Of course, your legal team should be involved in keeping your NMLS disclosures up to date throughout the year (e.g., with respect to reportable litigation or regulatory actions), but renewal season is also a great time to ensure that every required disclosure has been properly captured.
- *Operations / Product / Engineering / Data Science* – The transaction data and funds flows are owned by one or more of these functions. To ensure renewal readiness, we recommend testing the ability to pull required data periodically throughout the year so that your Operations team can quickly, easily, and reliably pull reportable data when required for annual renewal applications. Remember that these teams' year-end is frequently quite busy with technical debt and code freezes as well as product and engineering roadmap planning for the following year. The types of questions we often see come up from these functions for renewals are around whether transaction types – especially new ones – are properly mapped to NMLS line items or state specific data requests.

Executing on the Renewal

In the 1-2 months leading up to your MTL renewal, you are engaged in the renewal project plan. Included in this project plan should be a list of license-related confirmations that, if completed ahead of time, will ensure a smoother renewal process. These items include:

- *State Business Registrations* → Ensure that state business registrations (foreign registrations) are active and in good standing. Each must be in good standing for the MTL renewal to be approved. Many licensees use a registered agent service to assist with maintaining business registrations. We recommend that you contact your representative at least one month ahead of when you plan to submit your MTL renewal to confirm your registrations. The time to fix a state business registration varies, but is usually from two to six weeks.
- *Fees* → MTL renewal fees range and sometimes increase year over year, but currently may be up to \$5,000. If you are late paying for the renewal, late fees typically apply. Most states use NMLS for renewals and annual invoices/fees, though licensees should also be aware that certain states may require additional and/or separate annual reports and annual invoices/fees outside of NMLS. For example, Washington requires payment of their annual assessment through a proprietary online system each July.
- *Past Deficiencies* → Check license deficiencies/items on NMLS. State will not renew your license unless all deficiencies are cleared.
- *Surety Bonds* → Your MTL renewal period is a logical time for you to conduct a surety bond review to ensure that coverage amounts are adequate for the upcoming year based on the previous year's transactions volume. Part of maintaining healthy licenses is anticipating changes (especially increases) in your reportable transactions and how that will impact your required bond coverage. Because your bond issuer may need to engage in additional underwriting to increase your coverage, be sure to give them plenty of notice of required increases.
- *FinCEN registration* → Licensees must have a current money services business registration throughout the life of its MTL, and an expired registration will prevent approval of an MTL renewal. At least one month prior to submitting the initial MTL renewals, check with the Financial Crimes Enforcement Network (FinCEN) database to ensure your FinCEN registration is current. If it has expired, it will usually take at least 2 weeks to bring it current.

Addressing Deficiencies and other Feedback

Life rarely goes perfectly according to plan, and the same is true for license renewals. If questions are received from a state in response to your renewal, your response strategy should be to respond quickly (ideally within 24 hours with at least an acknowledgment of receipt) and transparently. The substance of your response should be direct and streamlined, with no extraneous information. State regulators are not shy; if they wanted that additional information, they would have requested it.

As you move through the renewal process and respond to any questions or requests for further information, it is important to be able to substantiate each statement you make to your regulators. You do not necessarily need to submit the substantiation, but be prepared to provide it if asked. For example, we often see companies that have different money movement product flows make determinations about what should be included on their MTL renewals and reports as regulated (as opposed to unregulated) transactions. This data will be included in your submissions as numbers, but in your own files you should have substantiation to demonstrate how and why you came to that conclusion, including any legal analysis, if necessary. Frequently, this substantiation can be provided in the form of a memorandum from your outside counsel. The flow in question is included with the written analysis and conclusion regarding the scope of the license. This type of documentation requires up-front work, but will save you headaches later if a regulator asks why certain transactions or flows are not included in your reports and renewals.

We hope this information helps to demystify the license renewal process and provide a roadmap to maintain healthy MTLs. Should you have any questions, please do not hesitate to contact us.



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