



WELCOME

The Presentation Will Start Soon



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Risky Business: KYC/Onboarding Best Practices for Marijuana, Crypto and Other High-Risk Customers

January 26, 2022



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Meet the Speakers



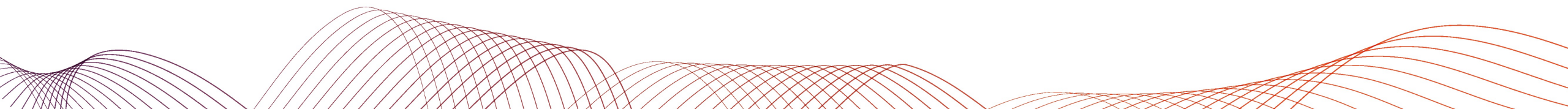
Chris DePow
Senior Advisor – Financial Institution
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Alan Hanson
Cannabis Banking Lawyer
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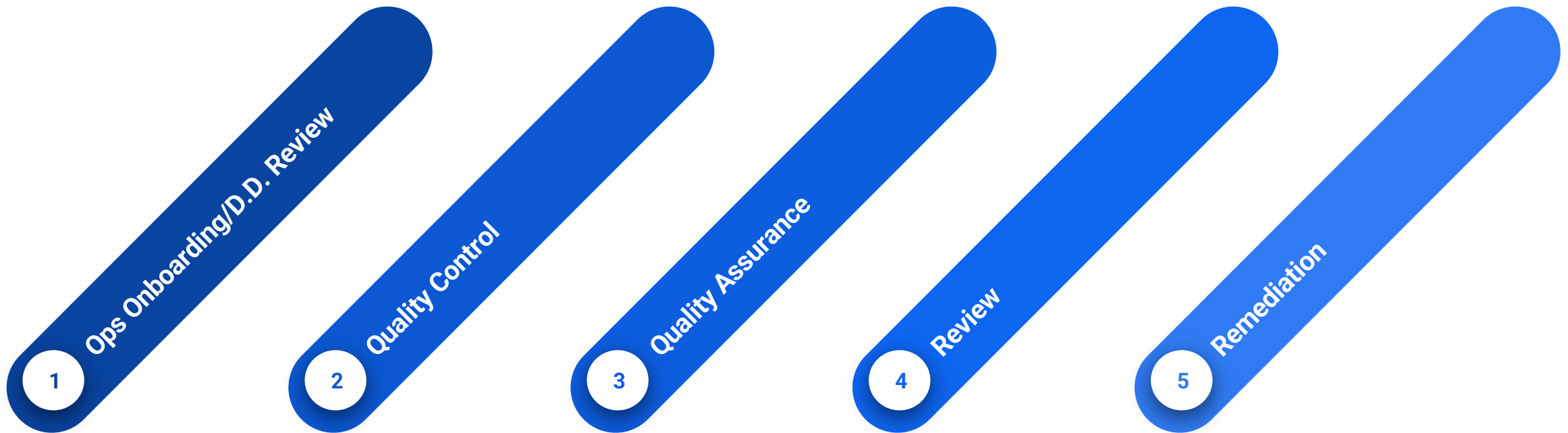
Steven Kemmerling
Founder & CEO
CRB Monitor



Crypto Customers: Risks in the Onboarding Process

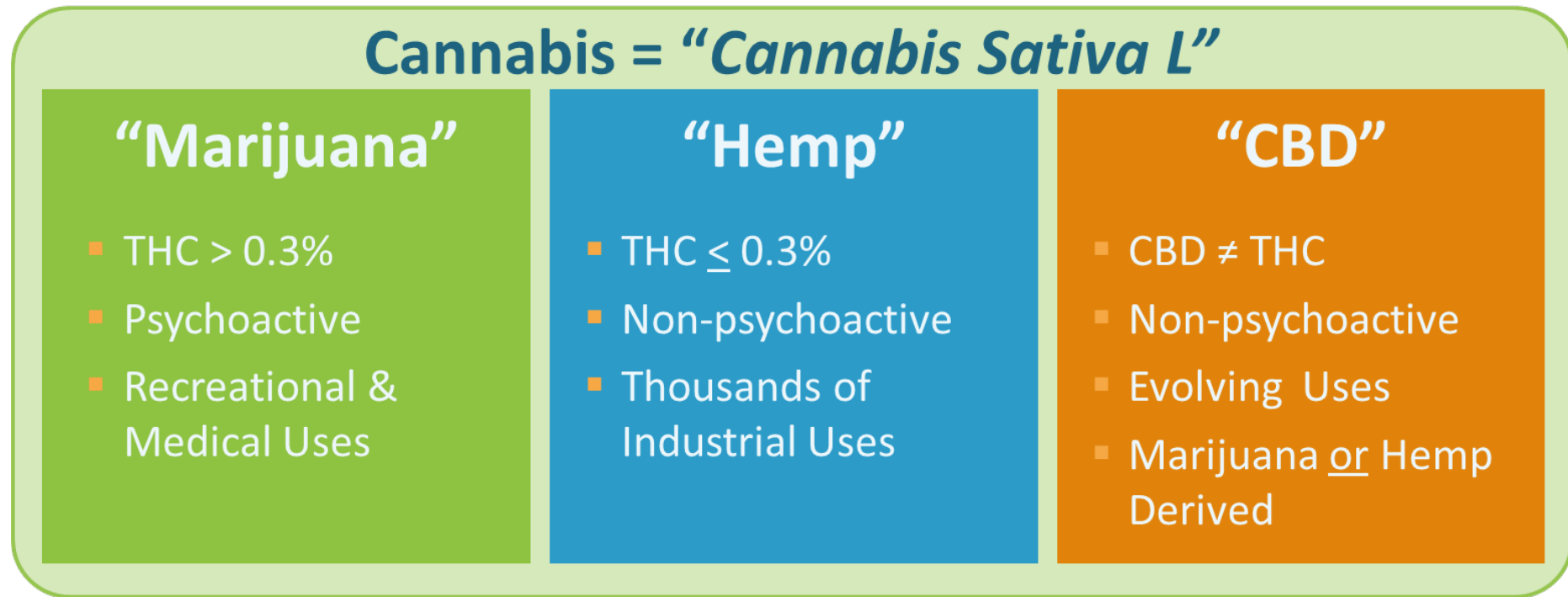
- **Establishing the Relationship**
 - **Industry Risk**
 - **Customer type risk**
 - **Product usage**
 - **Geographic risk**
 - **Reputational Risk**

Crypto Customers: Operational Onboarding Flow



Cannabis :: Definitions & Segmentation

- Marijuana, Hemp and CBD are all “Cannabis”, but are NOT the same thing and should be considered/treated differently
- “Delta-8” is a whole “new” thing and under the FDA’s and CDC’s targets

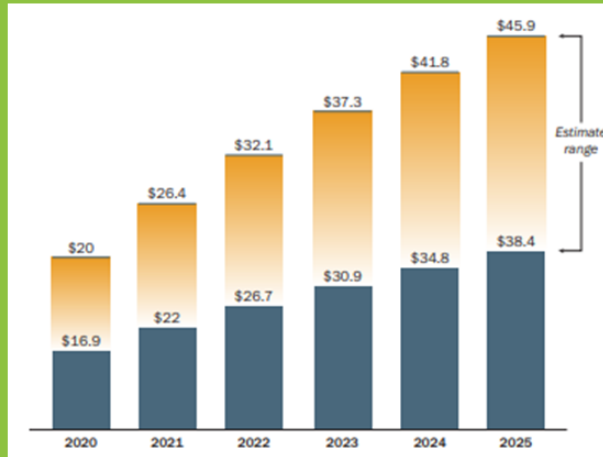


Cannabis :: Mkt Segmentation & Growth

- Cannabis represents a lot of Risk AND Opportunity, if managed correctly

“Marijuana”

(U.S. Retail in \$Bs)

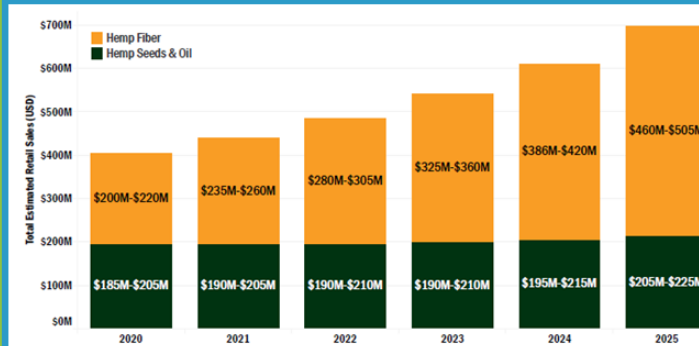


Source: Marijuana Business Factbook estimates
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CAGR
14-22%
\$38-45B by 2025

“Hemp”

(U.S. Fiber, Seed & Non-CBD Oil)



Source: Hemp Industry Daily estimates
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CAGR
11-18%
\$740M by 2025

“CBD”

(U.S. Retail in \$Bs)



Source: Nielsen Global Connect
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CAGR
29%
\$6.9B by 2025

Cannabis :: Legal & Regulatory Considerations

- Federal and State “legality,” rules/regulations, and oversight vary widely across each cannabis segment

“Marijuana”

- **Federal** Legality = ILLEGAL
- **State** Legality = Varies
- **Oversight** = DOJ/DEA/States

“Hemp”

- **Federal** Legality = Legal ... sort of
- **State** Legality = Varies
- **Oversight** = USDA/FDA/States

“CBD”

- **Federal** Legality = “It Depends”
- **State** Legality = Varies
- **Oversight** = FDA/States

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Cannabis :: Legal & Regulatory Considerations

Tier 1 = “Direct”

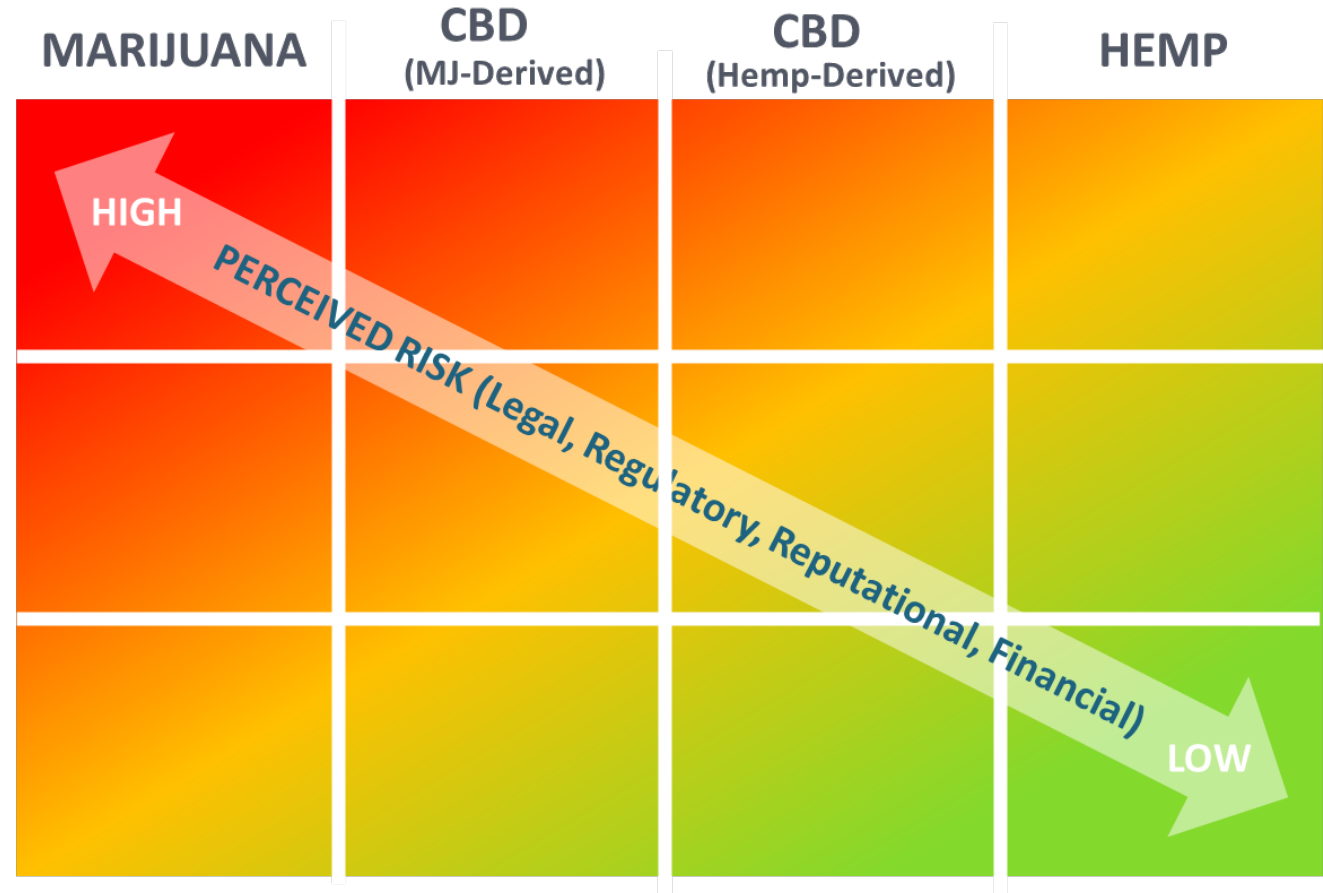
- “Direct”
- Plant-Touching
- Generally Licensed

Tier 2 = “Indirect”

- Substantial* revenue from Tier 1
- Otherwise non-licensed Tier 1 cannabis-derived products

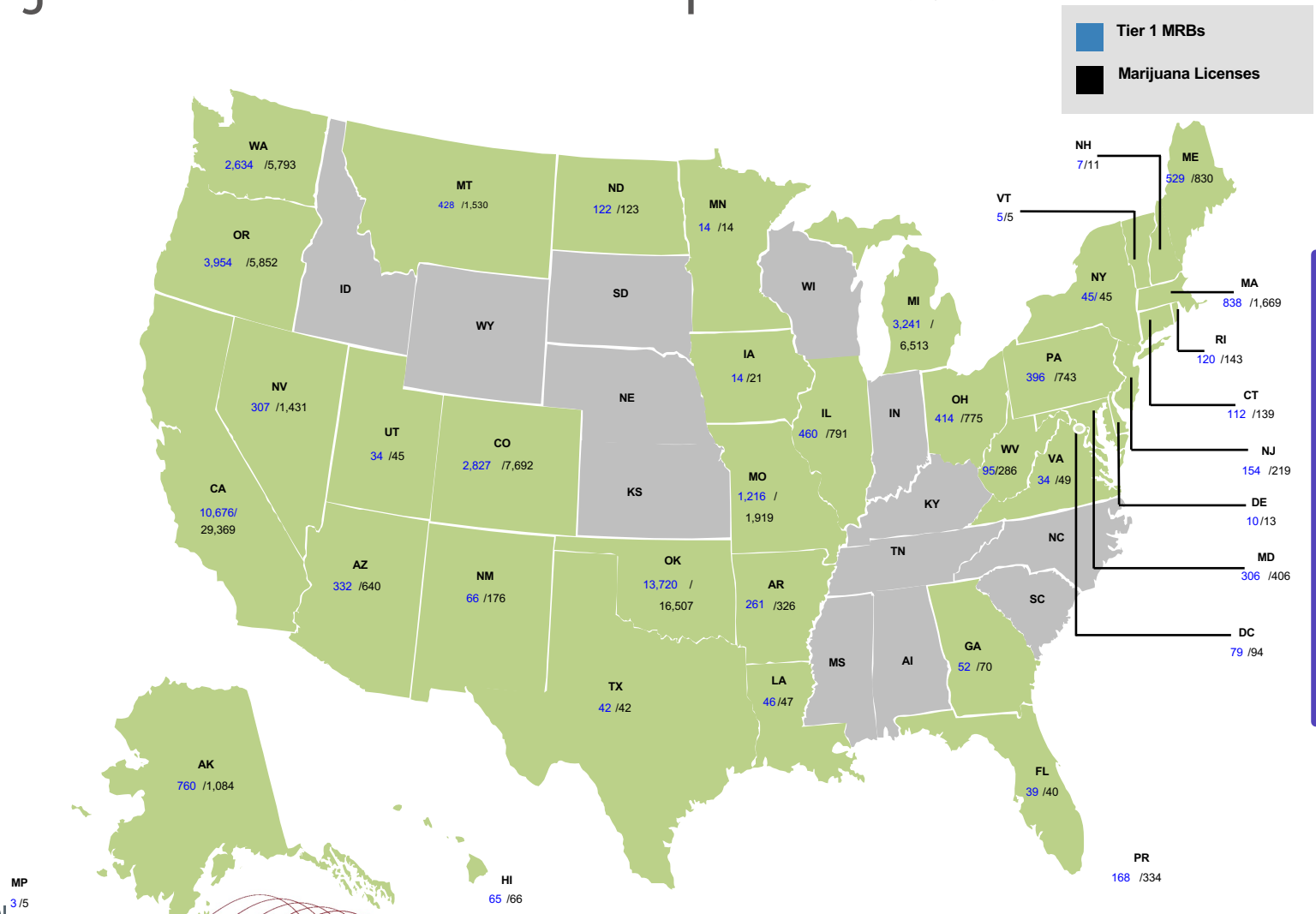
Tier 3 = “Indirect”

- Insubstantial* revenue from Tier 1



*% of revenue measure is hard to determine and somewhat subjective; best determined by each institution

Marijuana :: USA Footprint & Counts



As of August 2021:

Number of Tier 1 MRBs:

46,639

Number of Tier 1 Marijuana

Licenses:

87,894

US Federal - 36 / 36

NLA - 1,978 / 2,001

Marijuana :: USA Footprint & Counts

Weak cannabis-related policies and procedures cause significant control gaps, resulting in inconsistent and ineffective compliance programs

Weakness	Best Practice
Unwritten Cannabis Policy	Written Cannabis Policy
No differentiation between “cannabis” segments: <i>Marijuana, Hemp, and CBD</i>	Differentiate between “cannabis” segments Note: A “no cannabis” policy is fine, if you realize that it includes marijuana, hemp and CBD. But a “no marijuana” policy does NOT include hemp or CBD.
No differentiation between Tier 1/2/3 (Direct/Indirect).	Utilize a framework. Blanket “0% tolerance” statements increasingly unrealistic and <i>de facto</i> ineffective.
No Cannabis/Marijuana Questions on Applications	Just ask the question – provides “positive defense”
Not factoring in “owner(s) or manager(s), or...seemingly unrelated businesses”	Be aware of and look-out for – FinCEN specifically identifies as marijuana “Red Flags”
No effective control to consistently enforce policies	Screen to show effective CIP. Same workflow as PEPs. Be ready for “spot checks” by examiners.

What is Cannabis?

Controlled Substances Act - the term "marihuana" means all parts of the plant *Cannabis sativa* L., resin extracted, and every compound, derivative, or preparation of such plant, its seeds or resin.

Hemp – the plant *Cannabis sativa* L. with a THC level not greater than 0.3% THC.

CBD – a compound found in the *Cannabis sativa* L. plant. It can be either marihuana or hemp depending upon the source plant.

Who are you willing to serve

- Marijuana-Related Businesses – plant touching
- Third Parties
 - Direct
 - Employees and Insiders
 - Indirect
 - Incidental

Identify how you are NOT going serve the Cannabis Industry!

Initial Due Diligence

Determination of Member Risk

- Completeness and Consistency of information
- Cooperation with the CU

Know Your Customer License/Application Review

- Business Structure
- Related Businesses
- Financial Review
- Media Review on business

Initial Due Diligence

Beneficial Ownership

- Percentage of Ownership – Consider more conservative
- Media Review
- Background Investigation

Authorized Signors

- Media Review
- Background Investigation

Site Visits

On-Going Due Diligence

Repeat initial due diligence

Financial Records

- Seed-to-Sale Tracking report
- Point-of-Sale reports
- Account Experience

QUESTIONS?

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