

Buying a Money Transmitter: Due Diligence to Day 1 Readiness

A Spotlight on a Decision Framework for
Acquiring Licensed Money Transmitters



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There is Always a Catch

Acquiring a licensed money transmitter may help you leapfrog the license application part of a licensing roadmap and thereby gain some speed to market advantage. At first look, an acquisition appears to be the fastest, cheapest, and most efficient method to acquire a host of money transmitter licenses (MTLs).

However, the success of any MTL acquisition hinges on regulatory approval of the advanced change notice (ACN) for the proposed change in ownership, which is predicated on a certain similarity of business activities between you and the entity you are targeting to acquire. Therefore, for your acquisition strategy to work, you will need to:



Ensure there is a **business model match**. Regulators will not permit a transfer of MTLs granted to, for example, a virtual currency-based business to you if you are proposing to use the MTL for a traditional payroll business.



Achieve **regulatory approval** for the change in ownership ACN, which includes the acquiring entity, the board, and executive team intending to manage the licensee.



Cleanup **any legacy non-compliance**, whether financial or regulatory, the entity you are buying may have accumulated and ensure the licensee's banking partner approves you as the new owner.

Pre-Acquisition Due Diligence: Gauging Strategic Fit



Federal and state-specific MTL regulations and statutes have shaped a highly diverse market of MTL-holding entities that include everything from early-stage venture capital backed companies to publicly traded companies and encompasses a wide and growing range of business models. This is good news, as it means there is a potentially large opportunity set for you to choose from. However, the hard part is to find the acquisition target with optimal business model applicability for you. Your search should consider the following variables:



Customers

What are your target's customer population characteristics in terms of size, type, transaction patterns, and risk profiles?



Geographies

Does your target operate in the jurisdictions where you need to obtain MTLs and what are the applicable ACN requirements in each?



Business model

How similar are your target's flow of funds to yours in structural complexity and foundational attributes: Is it B2B, B2C, C2C? Fiat, virtual or both? With custody or without?



Operational

What is the status of your target's operations, is it transacting at scale, non-transacting, no longer transacting?



Financial

How do the maturity and size of your target compare to yours, is the MTL business profitable, loss-making, bankrupt, divesting?



Acquisition Due Diligence: Is It Worth It?

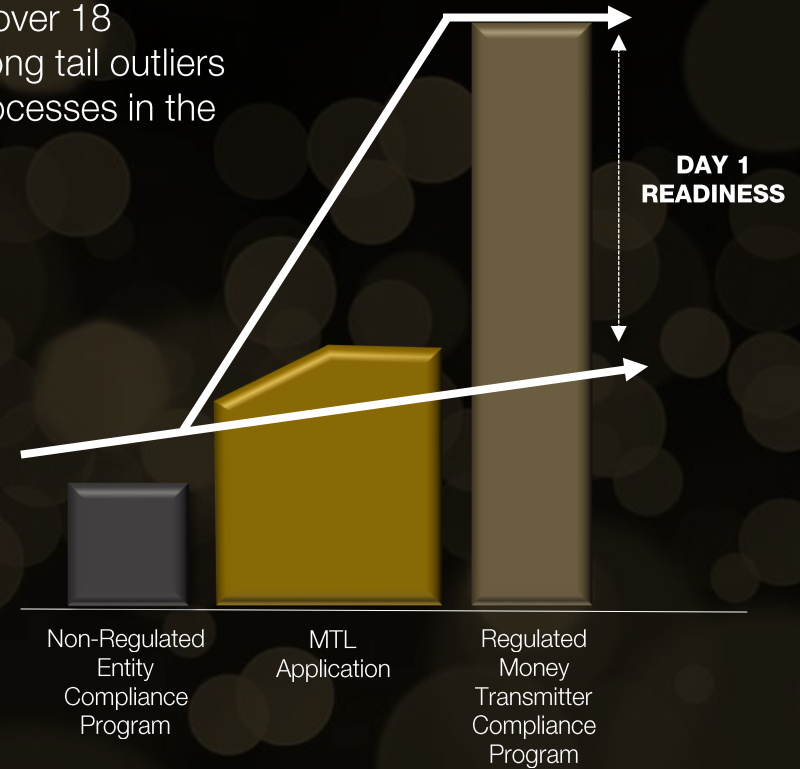


Acquiring an active MTL enables you to shortcut the time it takes to go through the state-by-state MTL application process. Depending on the jurisdictions of MTLs in your target's portfolio, you may be gaining anywhere from 2-3 months to over 18 months. California and New York are typically the long tail outliers as they have the most involved MTL application processes in the US.

The value of the speed to market you may gain is discounted by any liabilities associated with each MTL going back to the day it was initially approved. These liabilities may include open or recurring enforcement actions, findings of regulatory examinations and independent AML/Sanctions audits, mitigation of inherent risk exposures, penalties related to MSB reporting or renewals, deferred corporate registrations, and overdue taxes in each MTL state.



Valuation of the acquisition upside must also account for outlays associated with migration of customer data, compliance systems, and related documentation mandated by state and federal recordkeeping regulations.



Post-Acquisition Due Diligence: Are You Day 1 Ready?



Starting on the day of successful completion of the ACN process when a state regulator approves the transfer of an MTL, you will need to be in the position to demonstrate that you have met all regulatory requirements applicable to you as the licensee.

Day 1 readiness means you must maintain an operational compliance program that documents and implements the Bank Secrecy Act (BSA), sanctions, fraud, privacy, cybersecurity, vendor management, and other program requirements, key internal and third-party systems to support compliance processes, appropriately resourced and trained staff, and a governance framework to ensure continued risk management alignment as your business scales.



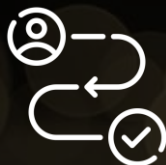
Day 1 readiness also requires mitigation of any legacy regulatory remediation issues, and ensuring historic customer, transaction and regulatory reporting data and documentation are available for regulatory examination. Maintenance of an active MTL portfolio further involves ongoing regulatory reporting, updating surety bonds, upkeep of corporate registrations, filing of state taxes, and annual MTL renewals.

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Money Transmitter Acquisition Strategy

Success of your acquisition strategy depends on a clear view of what advantage you seek to obtain and monetize because of buying a company holding money transmitter licenses. Stratis helps companies ranging from international payments to payroll processing to virtual currency activity evaluate their business models to isolate key strategic drivers and operational constraints for achieving optimal results as a regulated entity that define selection of acquisition targets.



Money Transmitter Acquisition Due Diligence

Evaluating potential acquisition targets requires assessing the extent of a business model match in terms of alignment across applicable regulatory requirements and related agencies. Stratis has executed pre-and-post acquisition due diligence Stratis has the knowledge to conduct regulatory evaluations and the experience to know where to look for salient indication on unexpected surprises, good or bad.



Money Transmitter Regulatory Approval Execution

The ACN process requires managing the process of providing varied sets of documents and data to meet different state-specific requirements and timelines, managing regulatory inquiries during review and effecting any required mitigation in short order. Stratis can streamline this process to ensure all appropriate requirements are met in a timely manner to limit delays of regulatory approvals.



Post-Acquisition Integration and Operations

Understanding your inherent risks in the context of regulatory frameworks provides insights that inform post-acquisition integration planning and, together with strategic imperatives such as speed to market, product roadmap and equity valuation, ultimately determine your growth path. Stratis can help with preparing a detailed plan, managing it end-to-end, and adjusting it as need to help you stand up and continuously execute the infrastructure and operations for success as a regulated entity.





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