

Banking in Cannabis

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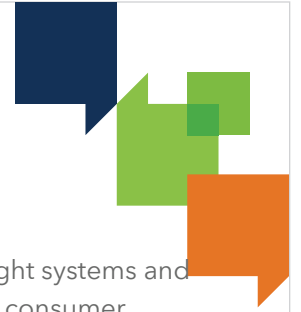
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Imagine weathering the storm brought by COVID-19 in a new industry that is volatile on a good day. Welcome to Cannabis 2020, not for the faint of heart.

If you're a banker looking to enter this arena, think of it as a high risk banking venture. There are good reasons for taking on the effort, perhaps most importantly gaining early market share and experience in cannabis, coupled with the likelihood that the risk will decrease with industry maturity and regulatory easing. Yes, there are third party providers who can help with all manner of compliance issues, but the key is to develop deep and broad institutional knowledge and awareness that will allow you to deploy the right systems, choose the right partners, and invest wisely in the cannabis world.

What is your baseline of knowledge? The Banking Secrecy Act (BSA) was last clarified by the Financial Crimes Enforcement Network (FinCEN) in February, 2014. The "Cole Memo" was somewhat trumped by the Sessions statements, but not really. Do you have a methodology and ability to know what you need to know about every prospect in the cannabis world that you might want to do business with? Are your BSA compliance officers tasked with really knowing a portfolio, the entire supply chain, and the beneficial owners? Taking on new clients in the cannabis space is a tedious process. And then there is the painful question of whether you already have qualifying cannabis clients and aren't aware, which can happen with something as innocent as a real estate developer leasing space to a company that supplies material to a cannabis market.

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The benefits to entering this growth space are many. While volatile, the market is knowable, and with the right systems and compliance team banks can enter the fastest growing consumer product supply chain and do so profitably. There are dozens of entry points into the supply chain and the data gained in one transaction often crosses into new opportunities along the same supply chain. Potential clients, from seed to sale, are all looking for banking relationships that are safe and predictable.

Developing compliance systems that standardize and humanize a process that requires maintenance, repetition, and transferability is vital to banking in cannabis; compliance that passes BSA muster with ease is part and parcel to entering the cannabis universe safely. Developing healthy third-party supplier relationships to assist the effort is also a key factor. Your team and our team at Graydon can tackle the heavy lifting together.