

AML POLICIES AND PROCEDURES

Written by M.E. Lau, AML Compliance Officer

2013

BitCoin Nation

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

Table of Contents

[AML Mission Statement](#)

[Company Risk Assessment](#)

[BitCoin Nation's Products, Services](#)

[Independent Audits](#)

[Customer and Service Profile](#)

[Registration and On-boarding \(Know Your Customer\)](#)

[Directors, Shareholders, Control Officer and Ultimate Beneficiary Documentation for Corporation](#)

[Ultimate Beneficiaries, Shareholder, Member Documentation for LLP, LLC, and Trusts](#)

[Entity Identification Issues](#)

[Customer Due Diligence Guidance](#)

[Due Diligence on Customers' Banks and Credit Unions \(non-U.S.A.\)](#)

[OFAC](#)

[Guidance for Documenting Analysis](#)

[Maintenance of Current Customer Information](#)

[Guidance for Resolving Issues](#)

[Assessing Customer Risk Levels](#)

[PEPs](#)

[Suspicious Transactions or Activity](#)

[Filing a SAR](#)

[Suspicious Activity Reporting Requirements](#)

[Enhanced Due Diligence for Higher-Risk Customers](#)

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

[Due Diligence on Domestic and Foreign Agents and Counterparties](#)

[Currency Transaction Reporting](#)

[Cross-Departmental Training Program](#)

[Records Maintenance](#)

[Statement of Cooperation](#)

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

[AML Mission Statement](#)

In order to create a safe environment for users, merchants, and operators, BitCoin Nation LLC (BTCN), also referred to as “the company” in this handbook, willingly creates, applies, and enforces the AML policies and procedures written here. The policies and procedures, mandated by the Bank Secrecy Act of 1970¹ and the USA PATRIOT Act of 2001,² exist to formalize and execute the financial institution’s requirement to assist U.S. government agencies in detecting and preventing money laundering and terrorist financing.

[Company Risk Assessment](#)

BitCoin Nation LLC is registered as a money services business (MSB). Due to the newness and nascent properties of bitcoin as a currency, the current risk assessment for any bitcoin operations are automatically zoned as “high” risk. Due to the “high” risk assessment, the company’s AML/BSA program has developed policies and procedures commensurate to the risk rating. While regulations for bitcoin currency and operations are ongoing, the company will stay current with any new regulations and revise them accordingly.

Note: For purposes of covering comprehensive terminology, “bitcoin” is also interchangeable with “cryptocurrency,” and “virtual currency” which includes but is not limited to currencies such as litecoin, peercoin, namecoin, dogecoin, etcetera. For purposes of clarity, Bitcoin (capital “B”) refers to the industry as a whole, which includes payment systems, exchanges, e-cash, and pricing. When it is referred to as “bitcoin” with a small “b,” this is in reference to the currency only.

[BitCoin Nation’s Products, Services](#)

There will be a total of four products/services planned for the future.

1. **ATM Software** – This software will be incorporated into the current ATM infrastructure with a strategic ATM partner. The existing ATM’s will adopt this software so that cash can now be dispensed for bitcoin. The user will be issued a BitCoin Nation debit card & PIN to access their wallet on the ATM machine, just like users do now for their bank accounts. For this product, due diligence will be applied to users and entities (i.e. individuals & merchants). *The ATM threshold for withdrawals will be capped at \$1000 per day per person/entity in a 24 hour period.*
2. **Bitcoin Wallet** – This service will hold bitcoin(s) for the user who will be able to deposit and withdraw bitcoin funds, as well as transfer fiat cash to and from traditional

1 http://www.fincen.gov/statutes_regs/bsa/

2 http://www.fincen.gov/statutes_regs/patriot/

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

bank accounts. For this product, due diligence will be applied to users which may include individuals and entities.

3. **Bitcoin Exchange** – This exchange is a fair market price system so users can buy/sell/transfer crypto-currencies. A bank clears the cash side of things, while the exchange processes trades. For this product, due diligence will be applied to users, merchants, and ATM operators.

4. **KYC information** – A “one swipe fits all” solution for users to “get verified” to satisfy KYC/AML requirements for other firms. This is provided free for the user. BTCN will approach firms to accept our centralized AML identification product. We will charge firms who use the KYC/AML information to verify.

Independent Audits

Commensurate to the risk rating, BTCN will request independent audits every two (2) months. The reviews of the independent audits will be available to the sponsor bank, BSA examiners, IRS examiners, or any regulatory authority/agency that requests to see the files.

Additionally, commensurate to the risk rating, BTCN will request independent audits every two (2) months. This auditor will NOT be the same independent check as mentioned above. The reviews of the independent audits will be available to the sponsor bank, BSA examiners, IRS examiners, or any regulatory authority/agency that requests to see the files.

Customer and Service Profile

1. Who are the customers? The customers are mostly individuals and entities. The entities associated with the company normally operate as agents, merchants, or ATM operators. The individuals may vary in wealth, but as a whole, are usually technologically savvy, creative types in the 18 to 40 year age range. The customer demographic may change as Bitcoin becomes more popular. Merchants are entities who accept bitcoin as payment for goods or services. They can include restaurants, convenience stores, professional sports teams, and retail shops (online, brick and mortar). Currently, over 30,000 merchants accept bitcoin. The list grows daily. ATM operators will sign up with BTCN to incorporate the company’s Bitcoin software into the ATM interface. This enables users to go to an ATM and utilize the Bitcoin software to buy, sell, exchange BTC for fiat currency.

2. What do they use the service or product for? The customers use BTCN’s services to buy/sell bitcoin, exchange bitcoin for fiat currency, store bitcoin in a digital wallet, and transmit bitcoin. Bitcoin may also be accepted by merchants as currency for goods or services. ATM operators will profit via a revenue share program with BitCoin Nation, LLC. The revenue stream from the ATM software is the only product that BTCN will share with their ATM partners. The revenues from the ATM software are created by a transaction fee associated with each time a user uses the ATM.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

3. **How do they pay for the service or product?** BTCN charges a per transaction fee to the customer when the customer uses the service via the ATM software.
4. **What is an average transaction?** The current ATM transaction, for a traditional ATM, is \$60 USD.³ In addition to limiting a individual user to only allow for one individual to withdraw \$1,000 in a 24 hour period, we will also limit the max withdrawl to \$250 per transaction so that the operator of the ATM can achieve a satisfactory revenue stream. Bitcoin's is trading over \$600 currently.

Registration and Onboarding (Know Your Customer)

The registration section requires the prospective user, merchant, or operator to divulge the following information in order to comply with KYC protocol, per section 326 of the USA PATRIOT Act.⁴

- A. For the user (one individual person) **with U.S. residency**:
 1. First name
 2. Last name
 3. Middle initial
 4. Physical address (no P.O. Boxes)
 5. Phone number
 6. Social Security number
 7. Employer name
 8. Employer address
 9. Job Title
 10. Salary range
 11. Months/Years Employed
 12. Full Bank Account Number, Routing Number to which account will be linked
 - a. Small deposits in cents will be deposited to account; customer will input exact amounts into verification link.
 13. Credit Card or Debit Card number to which account will be linked
 - a. Small deposits in cents will be deposited to account; customer will input exact amounts into verification link.

In order to fact check the above information, the user is required to upload two (2) forms of unexpired photo identification, including but not limited to a driver's license, passport, or national/state ID card. To confirm the physical address, the user is required to upload a copy of a **paper** bill such as utility, cable, or internet bill from the **last three months**.
**Cell phone bills shall not be deemed sufficient for physical address confirmation.
**If any IDs are found to have missing signatures, client will be contacted to resend properly signed photo ID.

³ <http://www.statisticbrain.com/atm-machine-statistics/>

⁴ http://www.fincen.gov/statutes_regs/patriot/

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

B. For the user (one individual person) **with non-U.S. residency**:

1. First name
2. Last name
3. Middle initial
4. Physical address (no P.O. Boxes)
5. Phone number
6. Employer name
7. Employer address
8. Job Title
9. Salary range
10. Months/Years Employed
11. Full Bank Account Number, Routing Number to which account will be linked
 - a. Small deposits in cents will be deposited to account; customer will input exact amounts into verification link.
12. Credit Card or Debit Card number to which account will be linked
 - a. Small deposits in cents will be deposited to account; customer will input exact amounts into verification link.

In order to fact check the above information, the user is required to upload two (2) forms of unexpired photo identification, including but not limited to a driver's license, passport, or national/state ID card. To confirm the physical address, the user is required to upload a copy of a *paper* bill such as utility, cable, or internet bill from the *last three months*.
**Cell phone bills shall not be deemed sufficient for physical address confirmation.
**If any IDs are found to have missing signatures, client will be contacted to resend properly signed photo ID.

C. For merchants and ATM operators (U.S.A.) (first tier):

1. Company name
2. Tax ID number (TIN) or Employee Identification Number (EIN)
3. Company address (no P.O. boxes)
4. Mobile or Landline phone number

If the merchant is an LLC, the following documents are required for submission:

1. Operating Agreement
2. Articles of Organization
3. State Business License

If the merchant is an LLP, the following documents are required for submission:

1. Memorandum and Articles of Association
2. Certificate of Registration
3. Partnership Agreement
4. State Business License

If the merchant is a corporation, the following documents are required for submission:

1. Certificate of Incorporation and Business Registration
2. Memorandum and Articles of Association (which evidence the powers that regulate and bind the company)

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

3. Ownership and Control Structure (please provide chart indicating percentage holdings)
4. Company Bank Statement (from which first wire transaction will occur)
5. Directors Minutes to Open Account
6. Authorized Signature List
7. Current Officer Register List
8. Current Director Register List
9. Names of Ultimate Beneficiary(s)
10. Shareholder List
11. Proof of Registered Office and Business Address (if different from registered office)
12. Certificate of Incumbency

If the corporation filing to open an account is owned/controlled by another corporation (and for each additional corporate layer) BTCN may ask for further documentation to fully understand ultimate control and beneficiary.

Directors, Shareholders, Control Officer and Ultimate Beneficiary Documentation for Corporation

Each director, shareholder (owning 10% or more in the company), control officer/person and ultimate beneficiary is required to provide proof identity. Documents required include:

1. Two (2) forms of valid (unexpired) picture identification such as passport (bio pages), national ID card, driving license, other form of government issued identification.
2. Proof of address no older than 3 months is required. Utility bill, service bill, government tax statement or statement from a licensed company (bank, credit card, insurance).

If merchant has undergone **any name changes since inception, the Certificate of Name Change will be required.

**If documentation or due diligence shows that merchant is a subsidiary or has a parent company, additional documents may be requested upon registration or at any time in the future.

IMPORTANT:

All documents must have *signatures* where necessary
If any documents are shown to have missing signatures, client will be contacted to resend signed copies.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

Ultimate Beneficiaries, Shareholder, Member Documentation for LLP, LLC, and Trusts

Due to the nature of entities such as LLC, LLP, and Trusts, further documents will be requested at the *second tier*. The goal is to find the designated persons and/or beneficial owners who have *signing and decision-making authority* or are the final beneficiary of any funds distributed.

For the LLC, proper identification is needed for all managing members. The managing member(s) are confirmed by evidence of a **signature page** that includes the names, signatures, and titles of the managing members. If the managing members are persons, client shall upload two (2) unexpired photo IDs and proof of residency (utility, cable, or internet bill) from last three months. If one or both managing members are entities, client shall provide the necessary documents depending on whether the managing member(s) are LLC(s), LLP(s), or corporation(s). Finally, should there be a third tier, a set of persons should be at the tail end of entities within entities. However, depending on the structure of the company, there may be further entities within entities going into the fourth, fifth, and sixth tiers, etcetera. Several tiers within a company indicate a red flag. Enhanced due diligence, along with an investigative file may be opened to log any correspondence and negative news found in association with the entity.

For the LLP, proper identification is needed for all partners. The partner(s) are confirmed by evidence of a **signature page** that includes the names, signatures, and titles of the partner(s). Client shall upload two (2) unexpired, valid photo IDs and proof of residency (utility, cable, or internet bill) from last three months.

For a trust, proper identification is needed for all trustees. Assuming the trustees are persons, client shall upload two (2) valid, unexpired photo IDs and proof of residency (utility, cable, or internet bill) from the last three months. If the trustees are entities, entity documentation will be required depending on the type of entity (LLP, LLC, corporation, trust, association, foundation, etc).

NOTE: All documentation will be outsourced to fact check and authenticate validity so as to ensure proof of identity of the customer/client/entity has not been fraudulently tampered with.

Entity Identification Issues

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

If the structure of the entity is such that there are several companies within the entity at several levels, this type of entity will automatically be labeled as high risk and will be monitored as such or terminated due to the suspicious company structure.

At the core of identifying an entity, a person or persons (beneficial owner, designated persons) needs to be made known. The company’s KYC protocol will not honor a relationship with an entity that cannot produce actual persons (controlling persons, ultimate beneficiary) at the core of the company. After a waiting period of 30 days, the account will be closed/terminated, and the entity will be added to the “Do Not Do Business With” list. Below is a sample spreadsheet that shows part of what the actual spreadsheet will look like.

Do Not Do Business With List

Individual Name	Title/Position	Offense				
Sani Abacha	military dictator of Nigeria	During Sani Abacha’s five year reign (1993–1998) as military dictator of N				
Bank of Credit and Comm Bank		At its peak, the Bank of Credit and Commerce International (BCCI) was th				
Benex	Name of Scandal involving Ru	In what was to become known as the “Benex Scandal,” vast sums of mon				
Silk Road	drug trafficking company	Silk Road was a notorious online marketplace which allowed drug barons l				
Franklin Jurado	money launderer	In 1996, Harvard educated Franklin Jurado pleaded guilty to laundering \$				
José Santacruz-Londoño	drug lord	connected to Jurado				
Nauru	obscure Pacific island	Nauru is a tiny Pacific island, 1,200 miles off the coast of New Guinea. It r				
Al Capone	American mobster	The best known of America’s mobsters was at the forefront of the birth of				
Meyer Lansky	mobster accountant	Following Capone’s imprisonment one of his contemporaries, the Polish bc				
Ferdinand Marcos	lawyer, Philippines president	Ferdinand Marcos, an ex-lawyer, was president of the Philippines from 196				
President Suharto	Indonesian president	Coming in at number one on Transparency International’s most corrupt le				
Pablo Escobar	drug trafficker, money launder	The most successful criminal ever known, it has been said that at one poi				
Ross Ulbricht	head of Silk Road	allowed drug trafficking				
XYZ Shell Inc.	Suspicious company structure	Unable to identify core ultimate beneficial owners, managers, members, c				

Customer Due Diligence (CDD) & Enhanced Due Diligence (EDD)⁵

Customer Due Diligence Guidance

⁵ Certain sections have been directly copied or adapted from http://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_013.htm

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

The BSA/AML policies, procedures, and processes set forth in this document declare that BitCoin Nation LLC is determined to pay particular attention to customers' financial activities. As a money transmitter, BitCoin Nation LLC acts as the intermediary, facilitating the transfer of funds between sender and receiver.

The following basic information is collected for each transaction:

1. Date of transaction
2. Amount of transaction
3. Name, email address, and IP address of person sending money
4. Name, email address, and IP address of person receiving money
5. Reference or transaction number assigned

If the transaction is \$3,000 or greater, additional information will be required such as:

1. Reason for sending/receiving
2. Where did the funds originate?

For amounts \$10,000 or greater, a Currency Transaction Report (CTR) will be filed within forty-eight (48) hours. All information will be captured and stored by official and non-official auditing purposes.

Due Diligence on Customers' Banks and Credit Unions (non-U.S.A.)

For banks, credit unions, and other financial intermediaries/institutions outside the U.S.A., due diligence will be conducted to confirm:

1. Location of Headquarters and branches
2. How long the bank/institution/intermediary has been in business?
3. Is the bank/institution/intermediary regulated?
4. Who is the regulator?
5. Is the bank/institution/intermediary in good standing? (according to news searches)

OFAC

If the bank is located in any OFAC sanctioned countries, the company will not process the transaction and the customer/sender will be notified. In addition, the transaction will immediately be documented in a suspicious activity report (SAR). The following link is updated frequently with a list of OFAC sanctioned countries or transnational entities:

<http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

The company ~~will not open an account~~ for customers or any entities whose identification or physical address shows they are located or originate from a country or entity listed on the OFAC website.

Guidance for Documenting Analysis

All written analysis will include the following information:

1. Date of activity
2. Kind of activity (receiving, sending)
3. Pattern of activity (multiple times in one 24 hour period, weekly, bi-monthly)
4. Amount for each transaction
5. Are the amounts the same or different?
6. Are the amounts close to a specified threshold such as under \$1000.00?
7. Does the transaction have one sender going to multiple receivers?
8. Does the transaction have multiple senders going to one receiver?
9. Reason given for each transaction – did the sender give a reason? If so, what was it?
10. Why is this activity suspicious and has it been escalated? If so, who was it escalated to? Please provide name, job title, and date of escalation.

All analysis will be saved to an Excel File with the above ten (10) items serving as columns. Each case will be given a unique alphanumeric code. Below is a sample spreadsheet that shows part of what the actual spreadsheet will look like.

Suspicious Activity Analysis

Date of Activity	Kind of activity (receiving, sending)	Pattern of activity (multiple times in one 24 hour period, weekly, bi-monthly)	Amount for each transaction	Are the amounts the same or different?	Are the amounts close to a specified threshold such as under \$1000.00?	Does the transaction have one sender going to multiple receivers?	Does the transaction have multiple senders going to one receiver?	Reason given for each transaction – did the sender give a reason? If so, what was it?
3/14/12	sending	3x in 24 hours	333	same	yes, total is 95	yes 1 sender t	N/A	donation
4/2/12	sending	4x in 7 days	2500	same	yes, total is 10	yes 1 sender t	N/A	rent
4/13/12	sending	8x in 30 days	999	same	yes, each tran	N/A	yes, 3 senders	N/A
5/11/12	receiving	12x in 48 hours	833	same	yes, total is 10	No, 1 sender t	No, 1 sender t	assistance
7/7/12	receiving	16x in 72 hours	62.5	same	yes, total is 10	No, 1 sender t	No, 1 sender t	payment

Maintenance of Current Customer Information

Current or active customers’ information must be maintained in a database. Documentation will be saved as screenshots and any correspondence with customer regarding obtaining documentation will be saved in “KYClog.xls.” If an email address is kicked back more than three times, the customer must be contacted via SMS and/or post office mail to retrieve a working email address. If postal mail is returned with a forwarded address, the new address must automatically be inputted into the database, and postal mail re-sent to new address. The date of logging the new address into the

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

database must be inputted using insert comment on the cell (right click and choose in menu). Any and all changes in name, social security number, driver’s license identification/number, phone number, employer, employer address, and job title must also be updated in KYC.xls, along with the date this was inputted (you may use “comments” column if more than one column was updated).

For entities, all information must be kept up to date as well. Attempts to reach out to the client must be logged into KYC.xls. All email correspondence must be PDF’d and saved in the “Emails” folder with the following format “Company/IndividualName.Date.pdf.” Once information has been received, PDF the email and save the document in KYC folder under the customer’s folder. Below is a sample spreadsheet that shows part of what the actual spreadsheet will look like.

KYC Log

Date	Customer Name	Email Address	Postal Address	Missing Docs	Log
1/5/13	Ethel Merman	emerman@laughingmermaid.com	123 Hollywood Rd, Beverly Hills CA 90210	still need passport signed	1/6/13 - emailed client requesting copy of signed passport 1/7/13 - emailed client requesting confirmation of new address. Once email confirms new address, we will re-send mail to correct address
1/6/13	Lucille Ball	ilovelucy@loosygoosy.com	455 West 8th St, New York NY 10014	mail sent back	1/8/13 - emailed client requesting trust docs. 1/9/13 - emailed client requesting certificate of name change
1/7/13	Charlie Chaplin	chuckchap@moustache.com	411 Vermont St, Providence RI 02903	estate trust docs needed	
1/8/13	Betty Boop	bebop@betty.com	88 Elvis Dr, Memphis TN 38103	need certificate of name change	
1/9/13	Bill Pullman	elpresidente@independenceday.com	11 Broadway, New York 10005	social security number not valid	1/10/13 - emailed client requesting copy of social security card

Guidance for Resolving Issues

When insufficient or inaccurate information is obtained, please open the KYClog.xls file and log the date, information that is unclear or insufficient, and steps taken to remediate the issue. Appropriate steps include emailing the client to request a resend of documents and making sure to request *clear, signed, and unexpired copies* (if this applies) of the documentation. Once issue has been remediated, close the issue by stating “Y” under the “Issue Resolved?” column. If client does not respond, attempts to contact the client must be made every other day for a week (5 business days) and every attempt must be logged into the database KYClog.xls.

If the client does not respond after 2 weeks, client’s account must be suspended/frozen/on hold until client responds. Client must be notified by email and/or postal mail regarding account hold. Please save ALL email correspondence as PDFs,

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

showing efforts to reach out to client, and client response(s). Save all email PDFs in the “Emails” folder of the KYC folder. The email must be saved in the following format:

1. Individual: Lastname.FirstName.Date.pdf
2. Entity: CompanyName.Date.pdf

Assessing Customer Risk Levels

At this time, the BSA/AML Compliance Officer is responsible for reviewing or approving changes to a customer’s risk rating or profile. As BitCoin Nation LLC expands, specified delegations to newly hired staff members will be recorded in the AML policies and procedures handbook.

The company intends on collecting as much information as reasonably possible at account opening. This intent is supported by the Registration and Onboarding (KYC) section prior to this section (please see pages 3-5). This information will be used in the company’s suspicious activity monitoring system, provided by *Actimize*. In addition, the company will subscribe to *LexisNexis* and utilize its database of information on U.S. customers to confirm unclear KYC information or to search negative news. *The use of LexisNexis may also be expanded for registration and onboarding of new clientele.*

When analyzing a customer and the level of risk, the following questions will be asked:

1. Has the customer’s first and last name been inputted into LexisNexis and Google to search for negative news?
2. Has any negative news shown up?
3. If so, is there any data in the article(s) that match the customer, other than name? Other factors include age, places of residence, etcetera.

If it is determined that the customer is the same person referred to in negative news, further research will be required to see if the case has been resolved. The following questions will be considered:

1. How old is this article and when was the incident stated to have happened?
2. Was there a resolution?
3. Was there an arrest?
4. Was there a trial?

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

5. Was there a sentence? What was it?
6. Was there a fine? What was it?

Once these questions have been addressed, a summary and ensuing opinion of this customer's risk will be emailed to the BSA Officer. Currently, the BSA Officer also holds the function of AML Analyst. The BSA Officer will ascertain the elements of negative news and assign a risk level to this customer. This customer will then be placed in a spreadsheet entitled "CustRiskLevels.xls." The levels are "low, medium, high, very high." Depending on the risk level, each customer's transactions will be monitored correspondingly.

PEPs

If the customer's name is recognized in the news as a politically exposed person (PEP), enhanced scrutiny must be applied in order to detect funds that "may involve the proceeds of foreign corruption, which includes any asset or property obtained through misappropriation, theft or embezzlement of public funds, the unlawful conversion of property of a foreign government or bribery or extortion."⁶ PEPs will automatically be categorized as "high" risk and funds will be monitored with more care and analysis.

Suspicious Transactions or Activity

If, during the course of daily transaction monitoring, a customer's activity is found to be suspicious, enhanced monitoring and analysis will be applied to this particular customer, and the customer's risk level will be updated correspondingly. The following are some suspicious scenarios:

1. Deposits uncharacteristic of customer's wealth (*transaction*)
2. Large amounts from same sender structured identically to avoid reporting requirements (*transaction*)
 - a. A customer breaks a large transaction into two or more smaller transactions.
 - b. A man wants to conduct a transaction involving \$12,000 in cash. However, knowing that the cash threshold of more than \$10,000 for filing a CTR would be met, he conducts two cash transactions of \$6,000 each.
 - c. A large transaction is broken into two or more smaller transactions conducted by two or more people.
 - d. A woman wants to send a \$5,000 money transfer but knowing that the threshold of \$3,000 or more for recording of funds transfers would be met, she sends a \$2,500 money transfer and asks her friend to send a \$2,500 money transfer.
3. Complex web of transactions often involving shell or front companies, bearer shares, and offshore secrecy havens. (*transaction*)

⁶ USA PATRIOT ACT, Section 312. CAMS study guide. Fifth edition. Page 168.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

4. A customer uses a false ID, or multiple IDs on different occasions (name, address, or identification number may be different). (*activity*)
5. Two or more customers use the same or similar IDs (photo or name may be different). (*activity*)
6. Customer changes a transaction after learning that he or she must show ID.
7. Customer conducts transactions so that they fall just below amounts that require reporting or recordkeeping.
8. Two or more customers, trying to evade BSA requirements, seem to be working together to break one transaction into two or more transactions.
9. Customer, trying to evade BSA requirements, uses two or more MSB locations or cashiers on the same day to break one transaction into smaller transactions.
10. If a customer does something obviously criminal – such as offering a bribe or even admitting to a crime – the law requires filing a SAR if it involves or aggregates funds or other assets of \$2,000 or more.

If there is any reason found NOT to file a SAR, that reason must be documented. Otherwise filing a SAR regarding the above scenarios is recommended.

Filing a SAR

Deadline

30 calendar days are given to file a SAR after becoming aware of any suspicious transaction or pattern of suspicious transactions or activities that are required to be reported.

Liability

When suspicious activity is reported, the law protects the company from civil liability.

AML's Role

The SAR is not written in an accusatory manner – AML is only required to file a SAR if AML believes the activity is suspicious and involves \$2,000 or more.

Urgency

If a situation seems to require immediate attention, contact the appropriate law enforcement authority right away; then file a SAR.

Confidentiality

It is illegal to tell any person involved in the transaction that a SAR has been filed.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

Suspicious Activity Reporting Requirements

Certain money services businesses – businesses that provide money transfers or currency dealing or exchange; or businesses that issue, sell, or redeem money orders or traveler’s checks – must report suspicious activity involving any transaction or pattern of transactions at or above a certain amount:

\$2,000 or more;

\$5,000 or more for issuers reviewing clearance records.

30 calendar days are given to file a SAR *after* becoming aware of any suspicious transaction that is required to be reported.

How to Report Suspicious Activity

1. Record relevant information on a Suspicious Activity Report by MSB (SAR-MSB) form available at www.msb.gov or by calling the IRS Forms Distribution Center: 1-800-829-3676.

2. Submit completed SAR to:
IRS Enterprise Computing Center – Detroit
Attn: SAR-MSB
P.O. Box 33117
Detroit, MI 48232-5980.

3. Keep a copy of the report and any supporting documentation for **5 years** from the date of filing the report.⁷

Enhanced Due Diligence for Higher-Risk Customers

If a customer poses a higher risk because of the customer’s business activity, ownership structure, anticipated or actual volume and types of transactions, including those transactions involving higher-risk jurisdictions, the company will consider obtaining or will obtain, both at account opening and throughout the relationship, the following information on the customer:

⁷ The section entitled “Suspicious Transactions or Activity” has information directly copied from http://www.fincen.gov/financial_institutions/msb/materials/en/report_reference.html

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

1. Purpose of the account.
2. Source of funds and wealth.
3. Individuals with ownership or control over the account, such as beneficial owners, signatories, or guarantors.
4. Occupation or type of business (of customer or other individuals with ownership or control over the account).
5. Financial statements.
6. Banking references.
7. Domicile (where the business is organized).
8. Proximity of the customer's residence, place of employment, or place of business to the bank.
9. Description of the customer's primary trade area and whether international transactions are expected to be routine.
10. Description of the business operations, the anticipated volume of currency and total sales, and a list of major customers and suppliers.
11. Explanations for changes in account activity.

As due diligence is an ongoing process, the company will take measures to ensure account profiles are current and monitoring will be risk-based. The company will consider whether risk profiles should be adjusted or suspicious activity reported when the activity is inconsistent with the profile.

Due Diligence on Domestic and Foreign Agents and Counterparties

Upon establishing working relationships with merchants and ATM operators, the company has procedures for conducting reasonable, risk-based due diligence on domestic/foreign agents to help ensure all parties are not complicit in illegal activity involving the company's products and services. At a minimum, the confirmation of the identity of the owners of said domestic/foreign agents will be checked against negative news searches. If any negative news is returned, further analysis and documentation will be conducted and recorded. The conclusion will yield the degree of risk that the agent is assigned.

Depending on the determined risk level, the company will establish customized due diligence protocol for any particular agent so that they may be better equipped to detect illegal activity in ensuing transactions and more importantly, develop a more robust AML program. The company will evaluate the implementation of the due diligence protocol by requiring independent audits to ensure proper handling of all transactions, records, controls, procedures, and AML protocol. The company will require the agent to send the results of the independent audit to the AML department. In this way, risks of abusing the company's products and services knowingly or unknowingly by any agent's or counterparty's customers, employees, or contractors are minimized.

Ongoing due diligence includes identifying material changes in agents' risk profiles, such as change in ownership, business, or any regulatory scrutiny to which it is subject.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

The independent audit will include a review of transactions to be able to identify:

1. instances of unusual wire activity
2. bulk sales or purchases of sequentially numbered instruments
3. multiple purchases or sales that appear to be structured
4. illegible or missing customer information

The independent audit will also confirm and review:

1. existence of an AML program
2. implementation of the AML program
3. any breakdowns in the application of the AML program
4. activity indicative of layering through aggregating transaction data from multiple jurisdictions (if possible and applicable)

Should the agent or counterparty present unreasonable risks of money laundering or the financing of terrorism, corrective action or termination of relationship will be executed. This conclusion will be determined on a case by case basis over time, demonstrating systemic, willful, or repeated lapses in compliance with the company's own AML procedures and/or requirements.

Currency Transaction Reportings

BTCN will file a Currency Transaction Report (CTR) (FinCEN Form 104) for each transaction in currency (deposit, withdrawal, exchange, or other payment or transfer) of more than \$10,000 by, through, or to the bank. Certain types of currency transactions such as those involving "exempt persons," a group which can include retail or commercial customers meeting specific criteria for exemption, do not need to be reported.

Aggregation of Currency Transactions

Multiple currency transactions totaling more than \$10,000 during any one business day are treated as a single transaction if BTCN has knowledge that they are by or on behalf of the same person. Transactions throughout the company should be aggregated when determining multiple transactions. Types of currency transactions subject to reporting requirements individually or by aggregation include, but are not limited to, denomination exchanges, individual retirement accounts (IRA), loan payments, automated teller machine (ATM) transactions, purchases of certificates of deposit, deposits and withdrawals, funds transfers paid for in currency, and monetary instrument purchases. BTCN will develop systems necessary to aggregate currency transactions throughout BTCN's systems, once they have been firmly established. BTCN Management will

8 This section entitled "Currency Transaction Reporting" has been adapted and/or directly copied from https://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_017.htm

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

ensure that an adequate system is implemented that will appropriately report currency transactions subject to the BSA requirement.

Filing Time Frames and Record Retention Requirements

A completed CTR must be filed with FinCEN within 15 days after the date of the transaction (25 days if filed electronically). The bank must retain copies of CTRs for five years from the date of the report (31 CFR 103.27(a)(3)).

CTR Backfiling

If for any reason, the company has failed to file CTRs on reportable transactions, the the company should begin filing CTRs and should contact the IRS Enterprise Computing Center – Detroit (formerly the Detroit Computing Center) to request a determination on whether the backfiling of unreported transactions is necessary.

Additional information about the currency transaction exemption process can be found on FinCEN's Web site at www.fincen.gov.

Cross-Departmental Training Program

The compliance department will regularly (monthly) train and test upper management and staff members on key AML protocol in order to encouragement company wide AML cooperation. The training is critical to the support and ongoing robustness of BTCN's AML program. Cultivating the ability to detect suspicious behavior or activity will be the cornerstone of a strong AML program. Ensuring company members have access to the AML training guide⁹ along with essential contact emails and phone numbers will secure a clear path to escalating any suspicious situations upon immediate recognition.

Records Maintenance

Any and all activity will be logged into spreadsheets and kept for historical as well as official books and records audit purposes. Records (a spreadsheet file) shall be kept for all on-boarding and registration activity, any due diligence, suspicious activity/transactions, reports filed, reports not filed with reasons, and AML trainings/tests. Along with spreadsheets, screen shots will be key to identifying suspicious activity upon immediate recognition, as well as procuring evidence for internal/external audits regarding any of the AML processes mentioned. All records will be saved for five years at which time they will be archived.

Statement of Cooperation

⁹ This guide is currently in process of being written.

AML POLICIES AND PROCEDURES

BitCoin Nation, 2013

BitCoin Nation LLC will cooperate with all regulatory authorities and federal/international laws by applying the policies and procedures herein. The company will respond to any regulatory or federal inquiries and be of assistance in the event the company is called upon to help resolve a situation, issue, or investigation.

---THE END---