



POSITION STATEMENT CASH MANAGEMENT FOR REGULATED MEDICAL CANNABIS

In all discussions, messaging and corporate communications, [FUSION FINANCIAL](#) emphasizes a strong and consistent message, "**We Work Exclusively with State-licensed, City-permitted Cannabis Operators**". Our mission is to provide the safe, legal, fully compliant financial services that are economically beneficial for licensed cannabis operators and mitigate risk. By adhering to all government compliance and strictly enforcing ongoing reporting and procedures above and beyond federal guidelines, we can effectively help our clients by providing treasury and cash management services to eliminate the risks associated with operating in cash.

FUSION FINANCIAL supports the position that medical marijuana research continues to show efficacy and to legitimize the industry efforts... safe, legal, compliant cash management is an absolute necessity.

Though often compared to prohibition, one major difference is that alcohol has never been prescribed as a viable medicinal alternative. The growing number of legitimate medical patients as well as progressive, research study findings have created a powerful movement toward full legalization despite rumblings in the oval office and those against cannabis.

In 2014, the [Cole Memo](#) issued guidance to federal prosecutors concerning marijuana enforcement by:

- Preventing the distribution of marijuana to minors
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels
- Preventing the diversion of marijuana from states where it is legal under state law in some form to other states
- Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity
- Preventing violence and the use of firearms in the cultivation and distribution of marijuana
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use
- Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands

- Preventing marijuana possession or use on federal property

On January 4, 2018, the Cole Memo was rescinded by Jeff Sessions, Attorney General for the DOJ. Though no longer in force, **FUSION FINANCIAL** continues to support these eight priorities. **It is critical that as an industry, we collectively uphold the above marijuana-related conduct regardless of the DOJ rescission.**

Current Bills and Initiatives:

In other news, there are several bills and initiatives that run the gamut to protect the cannabis industry.

- Rohrabacher-Blumenauer amendment (formerly Rohrabacher-Farr) is a budget rider that has prohibited the Justice Department from using federal funds to stop state-approved medical-marijuana programs. It comes as no surprise that Rep. Rohrabacher is advocating for a permanent version of his amendment that would not require annual renewals.
- Another Republican-led initiative is the Industrial Hemp Farming Act, introduced by Rep. James Comer (R-KY). Backed by the U.S. Hemp Roundtable, Rep. Comer's bill reflects a growing desire to separate the legality of industrial hemp from the federal prohibitions that currently make marijuana a controlled substance.
- Marijuana Justice Act put forth by Sen. Cory Booker (D-NJ) is designed to both remove cannabis from the Controlled Substances Act altogether and also provide restorative justice to the countless individuals who have suffered as a result of the War on Drugs. The Marijuana Justice Act was regarded as a radical piece of legislation when Sen. Booker introduced it in August. Oakland Democratic Rep. Barbara Lee submitted a companion bill to the House on Jan. 17, 2018, and has confirmed her intentions to see it passed.

As medical marijuana continues to move out of the shadows, we believe there are 4 legs to the table that will support ethical industry standards:

1. Licensing
2. Compliance/ Cash Management
3. Public Safety
4. Taxes and Reporting

Licensing:

Currently, there are 30 medically approved States. Within each State are the specific licensing requirements and permits needed for legal operation. This number is not shrinking. More municipalities and local governments are recognizing the benefit to creating licensing requirements to regulate operations in their districts.

In January 2018, just after the rescission of the Cole Memo, [CNN reported](#) that, *"federal prohibition hasn't stopped the marijuana industry from growing like a very profitable weed."*

“The industry has also been creating jobs and opportunities. There are 9,397 active licenses for marijuana businesses in the U.S., according to Ed Keating, chief data officer for Cannabiz Media, which tracks marijuana licenses.”

Licensing means government agencies are starting to get control of this increasing revenue potential but more importantly, regulate operating limits such as who, when, where and how much can be cultivated, manufactured, sold, distributed and delivered.

As an example, in [Florida](#), there are currently just over a dozen licensed operators that have already submitted the lengthy application, completed a background check and provided certified financials to be approved for a license. *“In order to become a licensed Medical Marijuana Treatment Center, each applicant is required to submit audited certified financials, which are financial statements that have been audited in accordance with Generally Accepted Auditing Standards (GAAS) by a Certified Public Accountant, licensed pursuant to Chapter 473, F.S. An applicant’s certified financials must have been issued within 12 months from the date they are submitted to the Department.”*

Licensing makes it easy for **FUSION FINANCIAL** to easily identify low-risk, long-term clients interested in viable cash management solutions. If they don’t have a license, they won’t qualify.

Compliance/Banking:

We recognize that the ultimate authority on compliance is the Financial Crimes Enforcement Network (“FinCEN”). They have provided written guidance to clarify Bank Secrecy Act (“BSA”) expectations for financial institutions seeking to provide services to marijuana-related businesses. This directive from the Financial Crimes Enforcement Network (FinCEN, a division of the U.S. Treasury) provides some clarity on the issue: Banks can serve those businesses, as long as they follow strict anti-money-laundering procedures outlined in the [2014 FinCen Guidelines](#).

December, 2015, [Leafly](#) wrote an article stating that, *“DFI director Scott Jarvis spent more than a year working with federal regulators to make legal cannabis banking happen. His agency now posts specific guidelines and documents to help businesses and bankers make their way through the thicket of regulations to bank legally. They give financial institutions some assurance that FinCEN won’t come after them for handling cannabis-related accounts provided they follow a stringent set of rules.”*

FinCEN said, essentially, that it will allow banks and credit unions to handle state-legal cannabis cash as long as the banks report it to the agency and conduct extraordinary initial and ongoing due diligence on those clients.”

These workarounds are becoming more cumbersome and varied. However, we are seeing a clear distinction between those businesses that are in it for the short run and those that are here to stay. Any operator that is licensed, fully compliant, wants public safety for their customers, employees and community AND is looking for a cash management solution, no longer has a target on his back.

As we study the industry, much of our analysis comes from continued extensive research on current market trends including the [The State of Legal Marijuana Markets – 5th Edition](#) report published by Arcview, the go-to expert on investing in this emerging market.

Arcview points out that in 2014, only 51 banks and credit unions worked with cannabis companies and now there are over 500 as this upward momentum continues. Legitimate, licensed operators have a strong desire to bank their cash. They want to have the same financial services available to them as the furniture store down the street. In short, they want to be able to:

- Pay their employees with a check
- Allow customers to use debit or credit cards for purchases
- Pay vendors with checks, wire transfers or credit cards
- Minimize the risk of employee theft using cash
- Pay taxes
- Eliminate the need for cash storage
- Use standardized electronic reporting instead of manually counting cash

The lack of banking options is the single largest obstacle that keeps the Black Market alive in the world of cannabis. We are confident **FUSION FINANCIAL** gets our clients one step closer to a cash management solution.

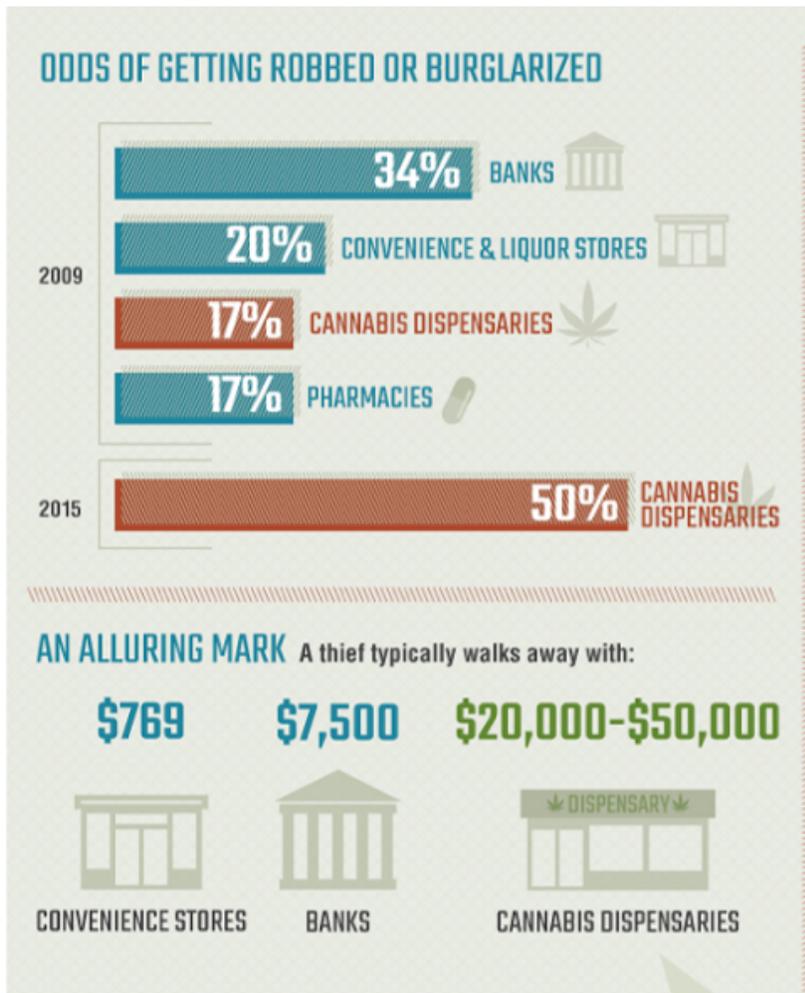
Public Safety:

“The emerging industry took in nearly \$9 billion in sales in 2017, [according to Tom Adams, managing director of BDS Analytics](#), which tracks the cannabis industry. Sales are equivalent to the entire snack bar industry, or to annual revenue from Pampers diapers.” Cannabis is a massive cash business, which creates a huge public safety issue for customers, employees and communities.

In spite of the rescission of the Cole Memo setting some US banks and credit unions on edge about cannabis, we have seen very positive support from the White House addressing the need for cash management.

In a recent [Forbes article](#), *“The Trump administration's top fiscal official appeared to voice support for letting marijuana businesses store their profits in banks. I assure you that we don't want bags of cash,” Treasury Secretary Steven Mnuchin testified on Tuesday during an appearance before the House Financial Services Committee.*

Mnuchin, in a series of responses to questions from lawmakers who raised concerns about the public safety implications of preventing cannabis businesses from accessing banks and forcing them to operate on an all-cash basis, said the Treasury Department is currently considering how to deal with the issue.”



Cash = Crime

There is no debate about the increase in crime for this burgeoning market. In late 2017, [University of Pennsylvania's Public Policy Initiative](#) addressed this very issue, "Mitch Morrissey, district attorney of Denver, notes a direct increase in crime cases related to the marijuana industry, and sees the reasoning behind the robberies stating: "You hit a 7-Eleven, you'll get 20 bucks. You hit a dispensary, you'll get \$300,000 on a good day.""

Getting cash off the streets is the responsible thing to do and well worth pursuit of public safety. **FUSION FINANCIAL** provides a safe, reasonable alternative that is completely legal from seed to vault.

Taxes and Reporting:

"By 2021, [BDS Analytics predicts](#) California will rake in up to \$1.4 billion from taxes on recreational marijuana purchases." That's if they can get their hands on it before it goes underground.

Cash management creates data capture where deposits initiate reporting which in turn require taxes to be paid. Government agencies can experience the increase in tax revenue when they are able to collect the data needed to keep track of businesses. **FUSION FINANCIAL** uses an extremely sophisticated software program to collect the data and generate reports. Tax guidelines for cannabis businesses are not easy to understand. It can take hundreds of hours to prepare the paperwork for cash-based businesses, which is what often drives them underground.

As an example, [California](#) has a complex tax structure that is enough to demand a full time CPA.

Here are just a few of their requirements:

- Your sales of cannabis and cannabis products are generally subject to sales tax, unless your customer provides you with a valid Medical Marijuana Identification Card indicating they are a qualified patient or the primary caregiver for a qualified patient, along with a valid government-issued identification card. Please refer to the heading, *Proposition 64 Exempts Certain Medicinal Cannabis Sales from Sales and Use Tax*, below for more information.
- Effective January 1, 2018, a 15 percent cannabis excise tax applies to the average market price of the retail sale. The average market price is determined by the type of transaction (either "arm's length" or "nonarms' length") that occurred when the seller (cultivator, manufacturer or distributor) sold the product to you.
- The cannabis excise tax is 15 percent of the average market price of the retail sale and the sales tax is based on your gross receipts. The examples below provide sample scenarios and guidance on how the cannabis excise tax and sales tax due are computed.
- Some cities have enacted measures requiring that cannabis businesses located in their jurisdictions pay a cannabis business tax. If you add a separate amount to your customers' invoices or receipts to cover your cannabis business tax, sales tax applies to the business tax amount.
- Distributors use a mark-up rate to compute the average market price of cannabis and cannabis products sold or transferred in an arm's length transaction. The mark-up rate is not intended to be used to determine the amount for which you sell your cannabis and cannabis products. You may use any mark-up you would like to establish your selling price.
- Effective **November 9, 2016**, certain sales of medicinal cannabis are exempt from sales and use tax.
- You are responsible for obtaining a seller's permit and reporting and paying the sales tax on the retail selling price of consignment sales.
- When you purchase a product that will be resold, you can purchase it without paying sales or use tax by providing the seller a valid and timely resale certificate. Sales tax will apply when you sell the product at retail. However, when you purchase a product for resale without paying sales tax but, instead of selling it, you consume or use the product, then you owe the use tax based upon the amount of the purchase price.
- You are required by law to keep business records so that we may verify the accuracy of your sales and use tax return and determine how much tax is due, when a return has not been filed.

Cash management software that creates the reports necessary to comply has been a great enticement for the licensed, compliant operators who simply do not have the time for checks and balances and auditing their sales. It frees them from the risk of missing a step that may ultimately cost their license.

Regulations and Compliance:

The ultimate authority on this subject is the Financial Crimes Enforcement Network (“FinCEN”) and they have provided written guidance to clarify Bank Secrecy Act (“BSA”) expectations for financial institutions seeking to provide services to marijuana-related businesses. [Click here to see the published guidance.](#) This directive from the Financial Crimes Enforcement Network (FinCEN, a division of the U.S. Treasury) provides some clarity on the issue: Banks can serve those businesses, as long as they follow strict anti-money-laundering procedures.

The Federal legal status has been well defined when it comes to the conflict between State and Federal Law as it relates to Medical Marijuana. The Obama administration had effectively stated that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. In furtherance of this Presidential Directive, the U.S. Department of Justice has provided guidance in the so-called “Cole Memo” to federal prosecutors regarding enforcement of laws regarding cannabis.

<https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>

Department of Justice. (2013, August 29). Department of Justice Announces Update to Marijuana Enforcement Policy. Retrieved from Department of Justice website: <https://www.justice.gov/opa/pr/justice-department-announces-update-marijuana-enforcement-policy>

Furthermore, the U.S. Department of Justice has deferred its right to challenge cannabis laws of States due to strict State regulatory schemes. Congress has also enacted an omnibus spending bill (the Rohrabacher-Farr bill which continues to be extended) including a provision prohibiting the U.S. Department of Justice (which includes the DEA) from using funds appropriated by that bill to prevent States from implementing their medical-use cannabis laws. That has further been confirmed to be the status quo for the Trump Administration.

The development of the regulated medical-use cannabis industry in the U.S. has generally been driven by state-level lawmaking and regulatory permitting, and accordingly, the market is generally defined on a State-by-State basis. This has been true of banking for the cannabis industry as well. There are many examples of state-chartered banks and credit unions who are currently providing bank accounts to cannabis operators. The list includes, for example;

- California:
Technicolor Credit Union

- Colorado:
Safe Harbor Credit Union
Champion Bank
Colorado National Bank
Colorado Bank and Trust

- Oregon:
MAPS Credit Union
- Washington:
Timberland Bank
Salal Credit Union
Lewis & Clark Bank
Numerica Credit Union
- Florida:
First Green Bank (nationally chartered, but only operating in FL)
- Illinois:
Bank of Springfield
- Maryland:
Severgn Bank
- Massachusetts:
Century Bank & Trust

LOCAL BANKING SOLUTIONS

Dozens of cannabis businesses in Oregon, Colorado and Washington state already have accounts with established banks and credit unions. These aren't national brands like Bank of America or Wells Fargo. They're small, state-chartered institutions with names you've probably never heard of: Salal, Maps, Timberland, Numerica.

It's the industry's quiet little secret — only it's not exactly a secret. A few financial institutions are open about their cannabis clientele. Salal Credit Union in Seattle has been serving the cannabis sector since mid-2014.

“After talking about it at great length with our board of directors, we decided that this would be a fit,” Senior Vice President Sheryl Kirchmeier said in an interview this year. “We saw it in part as a public safety issue” for their local community, she said.

Bankers at Salem, Ore.-based Maps Credit Union, which has been doing business with medical dispensaries for more than a year and now works with state-licensed recreational businesses, were also motivated by public safety concerns. “The thought of some guy walking out of his business at night, and going to an environment where there might be lots of people, with \$25,000 in cash in his backpack to buy money orders just doesn't sit right,” Vice President Shane Saunders told the Salem Statesman-Journal.

No Colorado bank or credit union has publicly acknowledged opening cannabis accounts. But a few accounts are open. Talk off-the-record with some of the bigger players in the state's cannabis industry, and they'll acknowledge that they've managed to obtain banking services —

but they almost never give up the name of their banker. Those who have accounts don't want to lose them by exposing the bank to unwanted attention or criticism.

Data is limited, but it tends to back up the chatter. The Financial Crimes Enforcement Network (FinCEN), the Treasury Department bureau that fights money laundering, reports that 266 depository institutions nationwide currently maintain accounts with marijuana-related businesses, known in banking jargon as MRBs. In a recent survey of 400 respondents in the cannabis industry, Marijuana Business Daily reported that 40 percent had bank accounts.

As with everything in the cannabis industry, it depends on the state. A handful of Washington and Oregon banks are open about their business with MRBs. But those accounts, usually very basic merchant accounts, are expensive and cumbersome. In Colorado it's very hush-hush — and it's still expensive and cumbersome.

Washington pushed ahead of Colorado in the banking realm by being proactive with smaller banks and credit unions. Three years ago the state's Department of Financial Institutions (DFI), which regulates banks and credit unions, took extraordinary measures to find a path to banking legalization.

DFI director Scott Jarvis spent more than a year working with federal regulators to make legal cannabis banking happen. His agency now posts specific guidelines and documents to help businesses and bankers make their way through the thicket of regulations to bank legally. They give financial institutions some assurance that FinCEN won't come after them for handling cannabis-related accounts provided they follow a stringent set of rules.

FinCEN said, essentially, that it will allow banks and credit unions to handle state-legal cannabis cash as long as the banks report it to the agency and conduct extraordinary initial and ongoing due diligence on those clients.

Credit unions like Salal must file quarterly Suspicious Activity Reports (SARs) on their cannabis clients with FinCEN. That sounds bad, but it's actually good. An SAR filed under the category "marijuana limited" means the client is operating a cannabis-related business that adheres to federal enforcement priorities as outlined in the Justice Department's 2013 Cole memo. If the credit union discovers activity that may violate those priorities, it's reported as a "marijuana priority" case. If the credit union closes out an account, it's reported as a "marijuana termination."

In a way, the FinCEN guidance turns banks into another set of eyes watching to make sure cannabis businesses follow the Cole memo priorities.

All that vetting and reporting is labor-intensive, which makes these accounts expensive for the banks and their clients. Charges for a basic MRB account can run from \$400 to \$1,000 per month. This is now just a cost of doing business in the cannabis industry.

Washington state is working with the FinCEN guidance, mainly because Scott Jarvis, the state's head banking regulator, continues to put effort into making it work. When federal bank

examiners looked as though they might obstruct cannabis accounts, for example, Jarvis and his agency intervened.

“We had a couple instances early on where an examiner maybe came in from out of the region and was unfamiliar with the issues,” Jarvis told Leafly. “We followed up with them and took care of the problem. And our folks,” he said of his office’s examiners, “are all pretty schooled up.”

NYSE LISTING OF IIPR

On November 21, 2016, the race to be the first cannabis company to list on one of the major stock exchanges was won. The New York Stock Exchange approved the initial public offering of Innovative Industrial Properties (NYSE:IIPR), a real estate investment trust that invests in medical marijuana properties. IIPR is currently banking with Comerica Bank under the full disclosure that they are a dedicated medical marijuana real estate landlord.

NYSE becomes the first major exchange to list a dedicated cannabis company with acceptance of the REIT IPO. You can [Click Here to read the full S-11 Registration filed by IIPR](#).

CONCLUSION

There is a chance the laws will change: reform is gaining the attention of Congress. The 2016 omnibus bill signed by President Obama has an inconspicuous single sentence within the 887-page bill that says the Department of Justice can't use money appropriated to it to prevent states from implementing medical marijuana laws. That sentence effectively legalized medical marijuana at the federal level. U.S. Rep. Earl Blumenauer (D-Ore.) released a statement, which said he was "disappointed" that banking reform wasn't included in the bill.

Fusion Financial is dedicated to building economically sound relationships with growers who are scholarly, scientifically credible, bankable and professionally focused on legal cannabis applications and medicinal results for those they serve.

Fusion Financial believes that a convergence of changing public attitudes toward both recreational and medical-use cannabis legalization, increased legalization momentum in various States, and a more secondary Federal enforcement posture create a progressive, time-sensitive opportunity to solve the financial services needs associated with legalized cannabis operations.

Fusion Financial strongly believes that the increased sophistication of the industry and the development of strong business, operational, and compliance practices have made this sector – the legalized cannabis market – one of the most attractive investment opportunities in today’s marketplace.

FUSION FINANCIAL is dedicated to supporting the success of fully licensed cannabis operators that are legal, ethic and beneficial to their communities.

FUSION FINANCIAL believes that compliance and cash management are the keys to legitimate cannabis operations.

FUSION FINANCIAL promotes public safety by providing a legal means to get cash off the streets.

FUSION FINANCIAL audits all revenues paid to tax authorities and supports tax revenue that stimulates community growth.

**FUSION FINANCIAL is an innovative cash management solution
exclusively offered to licensed MMJ community members
and is in strict compliance
with all required government banking
and financial regulations.**

“Compliant cash management is the best path forward”