Office of the State Bank Commissioner
Guidance Document MT 2019-01

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Regulatory Treatment of Cash-In-Transit

Purpose

The purpose of this guidance document is to clarify the Office of the State Bank Commissioner's (OSBC) policy regarding the treatment of cash-in-transit as a permissible investment under the Kansas Money Transmitter Act (KMTA).

Currently, the KMTA does not define "cash" to include cash-in-transit items nor "deposits" to include deposits-in-transit; however, it does direct licensees to calculate their permissible investments in accordance with United States Generally Accepted Accounting Principles (US GAAP) pursuant to K.S.A. 9-513b(a).

K.S.A. 9-513b(a) of the KMTA states "each licensee under this act shall at all times possess permissible investments having an aggregate market value, calculated in accordance with United States generally accepted accounting principles, of not less than the aggregate amount of the outstanding payment liability held by the licensee in the United States. This requirement may be waived by the commissioner if the dollar volume of a licensee's outstanding payment liability does not exceed the bond or other security devices posted by the licensee pursuant to K.S.A. 9-509, and amendments thereto."

Definition of Permissible Investments

Per K.S.A 9-508(k) of the KMTA, "permissible investments" means, in part:

(1) Cash;

(2) deposits in a demand or interest-bearing account with a domestic federally insured depository institution, including certificates of deposit.

US GAAP definition of Cash

Cash is defined by the Financial Accounting Standards Board (FASB) as follows:

> "Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time, and they may also effectively withdraw funds at any time without prior notice or penalty. All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.[1]"

[1] FASB ASC Master Glossary, "Cash."

US GAAP Treatment of Cash-In-Transit

State regulators for money transmitters use the term cash-in-transit for the money services business call reports. Cash-in-transit does not appear to be a term used in the accounting industry but appears to have the same meaning as the industry term deposit-in-transit.

US GAAP permits a licensee to include deposits-in-transit in its calculation of cash.[2] Some deposits are received via automated clearing house (ACH) procedures. The question arose whether the KMTA permits cash-in-transit to be a permissible investment when an ACH-in-transit—a form of deposits-in-transit—is considered cash under US GAAP, and if the KMTA would permit cash-in-transit to be a permissible investment.

US GAAP states cash must include all cash within the payor's control, which includes cash in banks, cash on hand, and deposits-in-transit.[3] In addition, the Securities and Exchange Commission criticizes entities that do not reduce cash when payments are issued and no longer within the entity's control.[4] This cannot be considered an account payable.[5] Once the customer remits the money to the licensee, the customer can no longer declare it as cash, even though the money has not cleared out of the bank account.[6]

Application of Cash-In-Transit under the KMTA

US GAAP requires deposits-in-transit to be included in cash even before the entity has the funds cleared into its bank account. There is also no requirement for an allowance for loss. Like issuing a check, when an entity submits an ACH payment, it must reduce its cash balance once the funds are no longer within its control. The applicable date here is the "launch date." This is the date the ACH originator debits the sender's account and begins crediting the recipient's account. The recipient of an ACH-in-transit is required under US GAAP to declare the ACH-in-transit as cash after the launch date.

The OSBC will allow licensees to declare 100% of all deposits-in-transit as a form of deposit in a demand or interest-bearing account because doing so is consistent with US GAAP. Therefore, an incoming ACH-in-transit after the "launch date" from customers or agents should be counted towards the applicable demand or interest-bearing account balance for permissible investment purposes pursuant to K.S.A. 9-513b. Additionally, a licensee may declare an outgoing ACH-in-transit as towards the demand or interest-bearing account balance until the "launch date." Licensees will need to provide additional permissible investments after the launch date until the outstanding liability is extinguished.

This guidance document is issued pursuant to K.S.A. 9-513 and K.S.A 77-438. This document is only intended as general guidance and any compliance determination made by the OSBC is based upon the specific facts of each unique case. The OSBC reserves the right to exercise its discretion in the application of this guidance document and it may edit, modify or retract its interpretation at any time.

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[2] It is our position that US GAPP would permit a deposit-in-transit to be treated as cash as it is a credit towards a demand deposit account. FASB ASC Master Glossary, "Cash."
[3] FASB ASC Master Glossary, "Cash."
[4] GameStop Corp., Annual Report (Form 10-K) (February 1, 2014).
[5] *Id.*
[6] FASB ASC Master Glossary, "Cash."