



Budding Business, Regulatory Jungle

Marijuana-related Businesses More and more countries are legalizing marijuana for medical and even recreational use. The number of marijuana-related businesses is growing exponentially. However, the regulatory situation remains confusing for the time being.

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Since the late 1970s, coffee shops in the Netherlands were places of yearning for marijuana consumers. Possession of small quantities of marijuana was tolerated, but the dried buds of cannabis plants were never entirely legalized. That's why Amsterdam had to cede its status as a marijuana mecca by early 2018, when Canada, following Uruguay in 2017, became the first industrialized nation to completely legalize the cultivation and sale of cannabis. The legalization move by the Canadian government was aimed at promoting safer marijuana use and more effective youth protection, as well as opening a new business and investment sector for the economy.

Hopes in the latter aspiration, at least, are justified. The market for marijuana-related businesses (MRBs) possesses huge growth

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potential. Around 30 more countries in addition to Uruguay and Canada have since legalized marijuana at least for medical purposes. MRBs have accounted for 3% of all initial public offerings (IPOs) in those countries thus far in 2019. Annual worldwide sales revenue of MRBs is projected to climb to above USD 60 billion by 2024.

Gold Mine or Reputation Trap?

Marijuana seems to be losing its stigma as a gateway drug. However, investing in this market isn't a no-brainer given the heterogeneous regulatory landscape worldwide, which looks set to stay jumbled for a long time to come. What's legal on one side of the globe can be punishable under criminal law on the other side of the world. Take the sub-market for cannabidiols (CBDs) as an example. ➤

In Switzerland, low-THC cannabis has been sold freely since 2011. Market leader BioCan harvests CBD-rich buds from fields and greenhouses throughout Switzerland.



CBD products contain only a very small concentration of psychoactive tetrahydrocannabinol (THC). They have been sold freely in Switzerland since 2011 (also see photo sequence), whereas in Texas their sale is restricted to epilepsy patients.

Differing Legislation

Particularly in the US market, the legal landscape is exceptionally complicated. Drug offenses in the USA fall under the legislative jurisdiction of the 50 individual states. State laws, though, can deviate from US federal law, which banks are heavily subject to.

Cannabis is currently legal for medical use in 34 states, the District of Columbia, Guam, Puerto Rico, and the American Virgin Islands. It is completely legalized also for recreational use in 13 states for adults over the age of 21. Twelve other states permit the use

Marijuana is completely legalized in 13 US states.



of low-THC marijuana and CBD products under certain circumstances. US federal law, however, still criminalizes the use, possession, cultivation, and sale of marijuana.

An investment requires careful consideration – inside and outside the USA. Even though marijuana has been legalized in a growing number of countries, it remains illegal in the vast majority of nations. Residents of those countries that outlaw cannabis who invest in MRBs run the risk of violating anti-money-laundering laws. The new MRB Securities Watchlist from SIX (see box on the right) helps to assess this risk. ■

MRB Securities Watchlist

30,000 Financial Instruments Affected

Some investors wish to avoid investing in marijuana-related businesses (MRBs) altogether, or at least want to be able to make risk-based decisions on investing in such companies. “Not just in view of regulatory uncertainty, but also for reputation reasons,” says Oliver Bodmer, Senior Product Manager in the Financial Information business unit of SIX. But since MRBs operate in a wide array of sectors ranging from research and cultivation to transport and sales, it is hard for banks to maintain an overview in the interest of their investor clients, Bodmer explains. SIX supports banks in this task with its new MRB Securities Watchlist, which lists MRBs and their issued securities, as well as structured products and options based on those securities, six days a week. Approximately 400 companies and 30,000 financial instruments are currently on the watchlist (see graphic).

The MRB Securities Watchlist builds on the award-winning Sanctioned Securities Monitoring Service (SSMS) that SIX has been providing since 2016. The SSMS monitors 6.7 million active instruments and more than 26,000

changes – including regulator updates and shareholder changes, for example – per week, making it one of the most comprehensive monitoring services on the market.

Always Up to Date

A geopolitical environment with a constant onslaught of new and ever-shifting sanctions poses an enormous challenge for compliance officers at banks worldwide. Identifying securities connected with sanctioned business entities or individuals is a laborious and complex undertaking, also because sanctions often apply only to specific countries and are imposed abruptly. When the US Treasury Department recently classified 96 Russian oligarchs as high-risk individuals, the first six sanctions quickly followed.

That’s why the SSMS provides a daily compendium of companies and persons under observation in addition to its daily list of sanctioned companies and individuals. It does this by drawing on information from a wide range of international regulators, including

authorities in the EU, Switzerland, Singapore, Hong Kong, Australia, Canada, the United Kingdom, the United States, and the United Nations Organization.

The SSMS meets a great need, as attested also by partnerships of SIX with well-known providers of asset management services like SimCorp and Eagle Investment Systems, which integrate the SSMS in their compliance modules. “Their customers can directly access our constantly up-to-date information on global sanctions. Doing that enables them to employ internal resources elsewhere and minimizes their risk of incurring fines and reputational harm,” explains Joe Chimenti, Partners Director for the US market at SIX. ■



→ More information:
six-group.com/sanctions

SIX has identified more than 30,000 financial instruments that are directly or indirectly connected with roughly 400 marijuana-related businesses (status as of June 2019). A wide array of sectors are affected.

