




FINANCIAL ACTION TASK FORCE

EASY GUIDE TO FATF STANDARDS AND METHODOLOGY

Virtual Assets: What, When, How?





Virtual asset service providers are a new sector in most jurisdictions and face significant money laundering and terrorist financing risks. The Financial Action Task Force (FATF) has taken action to respond to the very real risk that legitimate services offered by virtual asset service providers will be abused by criminals and terrorists to launder money and finance terrorist acts.

Virtual assets are going to be regulated, like other sectors at risk of money laundering and terrorist financing. Now is the time to discuss implementation and move forward.

FATF FOCUS ON VIRTUAL ASSETS

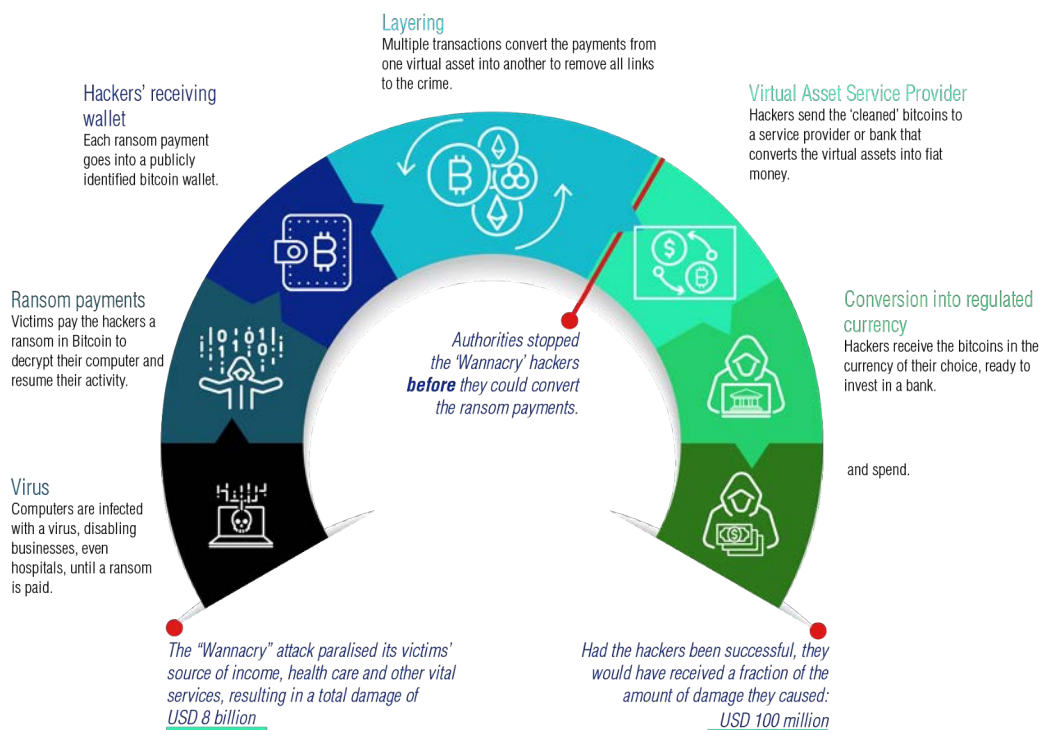
Blockchain, bitcoin, crypto assets, virtual currencies ... a whole new vocabulary describing innovative technology to swiftly transfer value around the world. The fast-evolving blockchain and distributed ledger technologies have the potential to radically change the financial landscape. But, their speed, global reach and above all - anonymity - also attract those who want to escape authorities' scrutiny. Blockchain originated just over 10 years ago. Since then, virtual assets have become widely available and have started to be used as payment products. However, without established regulation and oversight, the sector is often still referred to as the "wild west" of the finance industry.

How can criminals misuse virtual assets?

- In 2017 the 'Wannacry' ransomware attack held thousands of computer systems hostage until the victims paid hackers a ransom in bitcoin. The cost of the attack went far beyond the ransom payments, it resulted in an estimated USD 8 billion in damages to hospitals, banks and businesses across the world. Other ransomware attacks have happened since and appear to be on the rise.

HOW CAN CRIMINALS MISUSE VIRTUAL ASSETS ?

The 'Wannacry' example



FATF focus on virtual assets

- Virtual assets have many potential benefits. They could make payments easier, faster, and cheaper; and provide alternative methods for those without access to regular financial products. But without proper regulation, they risk becoming a virtual safe haven for the financial transactions of criminals and terrorists. The FATF has been closely monitoring the developments in the cryptosphere and in recent years has seen the first countries start to regulate the virtual asset sector, while others have prohibited virtual assets altogether. However, as yet, the majority of countries have not taken any action. These gaps in the global regulatory system have created significant loopholes for criminals and terrorists to abuse.
- With support from the G20, the FATF has issued global, binding standards to prevent the misuse of virtual assets for money laundering and terrorist financing. The term 'virtual asset' refers to any digital representation of value that can be digitally traded, transferred or used for payment. It does not include the digital representation of fiat currencies. The FATF standards ensure that virtual assets are treated fairly, applying the same safeguards as the financial sector. FATF's rules apply when virtual assets are exchanged for fiat currency, but also when they are transferred from one virtual asset to another.

The FATF Standards: FATF Recommendations

www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html

FATF Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers

www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets.html

Taking effective action

- Countries need to implement the FATF's measures, and soon. This will ensure transparency of virtual asset transactions and keep funds with links to crime and terrorism out of the cryptosphere. Today, many virtual asset service providers are perceived as 'risky business' and denied access to bank accounts and other regular financial services. While implementing the FATF's requirements will be challenging for the sector, it will ultimately increase trust in blockchain technology as the backbone behind a robust and viable means to transfer value. The FATF has revised its assessment methodology, which sets out how it will determine whether countries have successfully implemented the FATF Recommendations and are regulating the virtual asset service provider sector.

FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems

www.fatf-gafi.org/publications/mutualevaluations/documents/

fatfissuesnewmechanismtostrengthenmoneylaunderingandterroristfinancingcompliance.html

Preparing for the future

- The technology behind virtual assets is fast-moving. Future developments should not create loopholes that terrorists and criminals can exploit. The FATF will evaluate next steps in June 2020.

Money laundering risks from "stablecoins" and other emerging assets

www.fatf-gafi.org/publications/fatfgeneral/documents/statement-virtual-assets-global-stablecoins.html

How do the FATF Standards apply?

- The effective global implementation of these standards by all countries will ensure virtual asset technologies and businesses can continue to grow and innovate in a responsible way, and it will create a level playing field. It will prevent criminals or terrorists seeking out and exploiting jurisdictions with weak or no supervision.



Countries need to:

- Understand the money laundering and terrorist financing risks the sector faces
- License or register virtual asset service providers
- Supervise the sector, in the same way it supervises other financial institutions

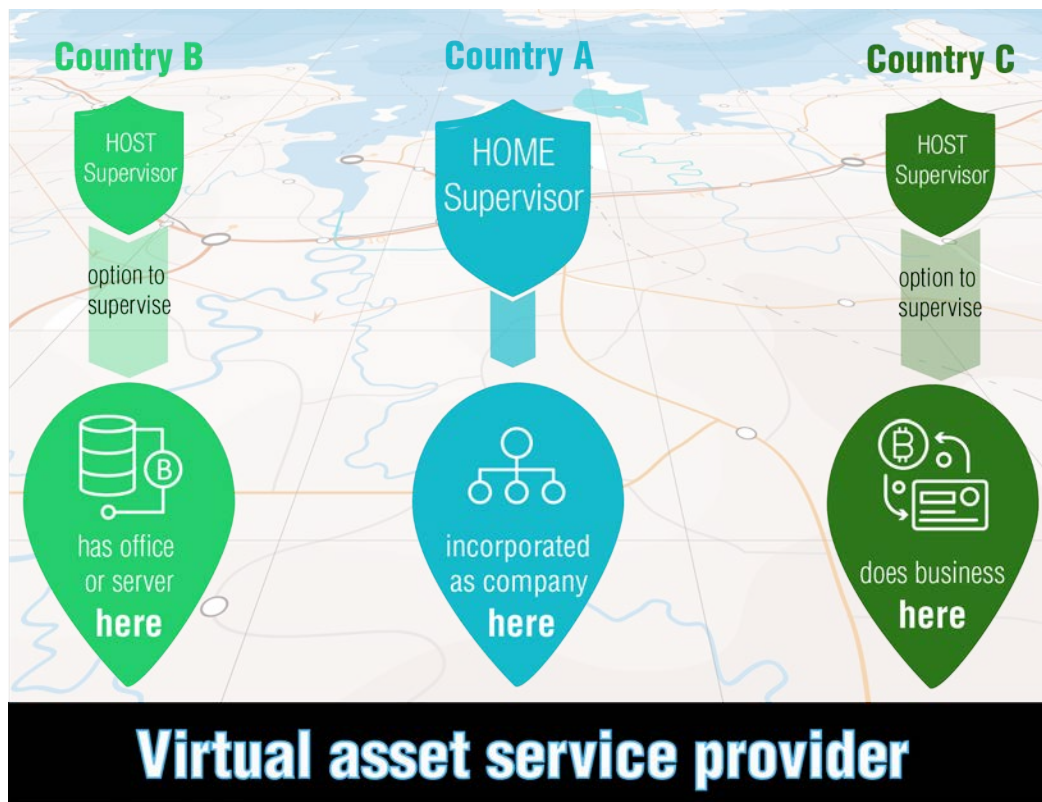


Virtual asset service providers need to:

- Implement the same preventive measures as financial institutions, including customer due diligence, record keeping and reporting of suspicious transactions
- Obtain, hold and securely transmit originator and beneficiary information when making transfers

Where does a VASP need a license or registration?

- Country where the company is incorporated – **always / mandatory**
- Location of management – **sometimes / optional** for countries
- Location of servers / back-office functions – **sometimes / optional** for countries
- Countries where you have significant numbers of customers – **sometimes / optional** for countries



Note: VASPs may need licenses or registrations from multiple national authorities if they do business in several countries

Building a partnership

Regulating virtual assets service providers is challenging for everyone. National authorities need to develop skills to understand the technology involved, while the virtual asset service providers have to learn about the financial rules that now apply to their sector.

It is up to the sector itself to develop the technology to meet the FATF's requirements, particularly when it comes to securely collecting and transmitting originator and beneficiary information.

To help governments and the industry itself, the FATF has developed a risk-based approach guidance with significant input from the sector itself. The guidance explains how to understand the risks, how to license and register the sector, and what the sectors needs to do to know who their customers are, store this information securely and detect and report suspicious transactions.

FATF Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers

www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets.html

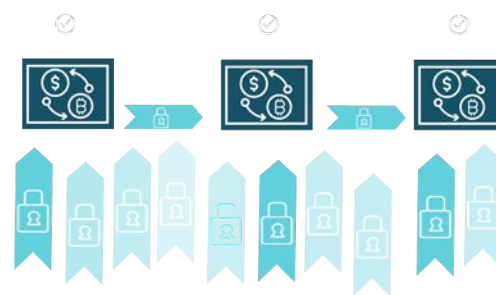
The FATF has engaged intensively with the virtual asset service provider sector to build a partnership between governments and the sector and better understand the issues and risks involved, including by hosting annual fintech/regtech forums since 2017.

Through its Contact Group, the FATF continues to further explain the FATF's requirements to the industry and to monitor developments and understand how the industry is meeting the various challenges.

▶ **Virtual asset service providers**

...must know who their customers are, keep records, and report transactions when they suspect money laundering or terrorist financing

...must securely & confidentially transmit customer information when sending a payment to another virtual asset service provider



▶ **Customers'**

...identity will remain private, except to the virtual asset service providers processing their payment



Looking ahead...

In light of the rapid development of the range of financial functions served by virtual assets, the FATF will review countries' and providers' implementation of the requirements applicable to virtual assets and virtual asset service providers in June 2020.

This will include monitoring the implementation of the new requirements at national level, monitoring virtual asset service providers' progress in developing technology solutions for securely submitting originator/beneficiary information between virtual asset service providers when conducting virtual asset transfers and assessing whether further updates are necessary to ensure the FATF Standards stay relevant and effective.

The FATF has also set up a contact group that will engage industry and monitor industry-led efforts to enhance compliance with the FATF Standards and better safeguard the international financial system from abuse.

FATF Publications and Useful Links

- The FATF Standards: **FATF Recommendations**
www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html
- **FATF Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers**
www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets.html
- **FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems**
www.fatf-gafi.org/publications/mutualevaluations/documents/fatfissuesnewmechanismtostrengthenmoneylaunderingandterroristfinancingcompliance.html
- **Money laundering risks from “stablecoins” and other emerging assets**
www.fatf-gafi.org/publications/fatfgeneral/documents/statement-virtual-assets-global-stablecoins.html
- **FATF dedicated webpage on Virtual Assets**
[www.fatf-gafi.org/publications/virtualassets/documents/virtual-assets.html?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/virtualassets/documents/virtual-assets.html?hf=10&b=0&s=desc(fatf_releasedate))

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www.fatf-gafi.org



Contact@fatf-gafi.org