

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

Updated October 2021

## IN BRIEF

The virtual asset (VA) sector is fast-moving and technologically dynamic, which means continued monitoring and engagement between the public and private sectors is necessary. In June 2020, the FATF completed its [12-Month Review of the Revised FATF Standards on VAs and VASPs](#), which identified areas requiring greater FATF guidance in order to clarify the application of the revised FATF Standards.

The updated [Guidance for a Risk-Based Approach for Virtual Assets and VASPs](#) forms part of the FATF's ongoing monitoring of the virtual assets and virtual asset service provider (VASP) sector. The FATF will be vigilant and closely monitor the VA and VASPs sector for any material changes that necessitate further revision or clarification of the FATF Standards. This includes in relation to areas covered in this Guidance such as stablecoins, peer-to-peer transactions, non-fungible tokens and decentralised finance.

The updated Guidance, originally published in 2019, reflects the input from the public consultation in March –April 2021, and explains how the FATF Recommendations should apply to VA activities and VASPs; provides relevant examples; identifies obstacles to applying mitigating measures; and offers potential solutions. In particular, it focuses on the following six key areas:



clarification of the definitions of VA and VASP



guidance on how the FATF Standards apply to stablecoins



additional guidance on the risks and the tools available to countries to address the ML/TF risks for peer-to-peer transactions



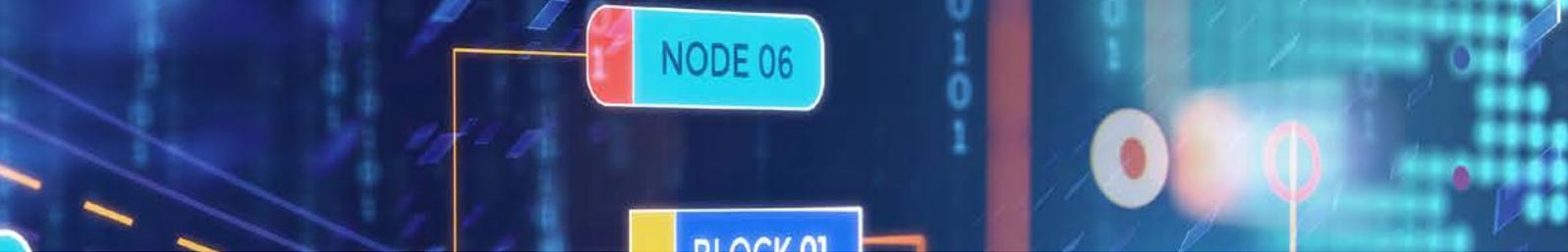
updated guidance on the licensing and registration of VASPs



additional guidance for the public and private sectors on the implementation of the “travel rule”



principles of information-sharing and co-operation amongst VASP Supervisors



# IN DETAIL

**Part One** reiterates the findings of the 2020 FATF report on [Virtual Asset Red Flag Indicators](#) and the FATF's [Second 12-Month Review of the Revised FATF Standards on VAs and VASPs](#). The Guidance clarifies that central bank digital currencies are not considered to be VAs, although the FATF Standards would apply to them similar to any other form of fiat currency. It also outlines that all varieties of VASPs, regardless of their business model, should be treated on an equal footing from a regulatory and supervisory perspective.

**Part Two** discusses the concept of so-called stablecoins with a view to the risk of “mass-adoption”, while also referencing specific design features which can impact ML/TF risks. It calls on countries, VASPs and other obliged entities to identify and to assess ML/TF risks relating to so-called stablecoins before launch and in an ongoing and forward-looking manner. It also calls on them to take appropriate measures to manage and mitigate the risks before launch. In addition, it calls on countries and VASPs to understand risks associated with peer-to-peer (P2P) transactions, which are transactions in VAs that do not involve obliged entities, and as well as the types and drivers of P2P transactions. As such, the Guidance expands on the risks and the tools available to countries to address the ML/TF risks for P2P transactions.

This section also provides a non-exhaustive list of elements in relation to VAs/VASPs that countries and VASPs need to consider when identifying, assessing, and determining how best to mitigate the risks associated with VA activities and the provision of VASP products or services.

The updated guidance includes more detailed definitions of virtual asset and VASP than in the 2019 Guidance. Countries are advised to take an expansive approach to the definitions. The definitions apply to the asset or service and not to the nomenclature or terminology being used. The Guidance provides detailed information about each of the components of the VASP definition and includes information about what is covered by each of them. This includes updated guidance on how stablecoins, non-fungible tokens (NFTs), decentralised finance (DeFi) and decentralised or distributed applications (DApp) and multisignature arrangements relate to the FATF Standards

The Guidance includes hypothetical case studies of stablecoins and initial coin offerings (ICOs) and the application of the FATF Standards, to shed more light on obliged entities. The revised Guidance also outlines that the FATF does not seek to regulate, as VASPs, natural or legal persons that provide ancillary services or products to a VA network, to the extent that they do not provide or actively facilitate as a business any covered VA activities or operations on behalf of their customers.



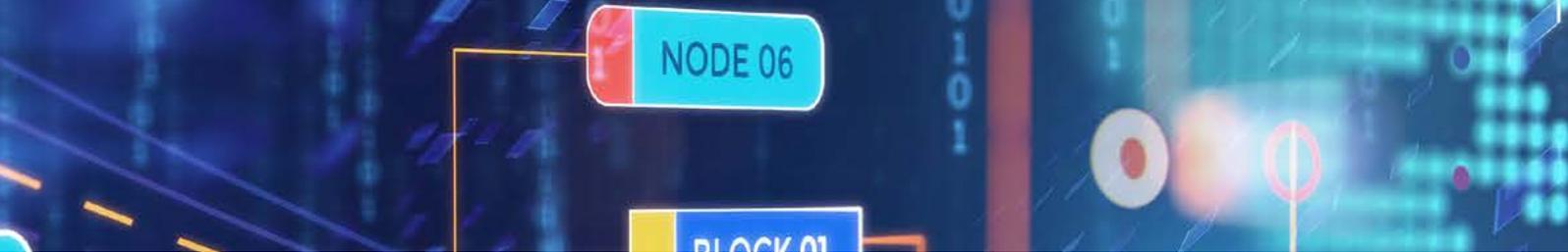
**Part Three** builds on the measures that countries should consider in understanding and mitigating the risks of P2P transactions. This revised section emphasizes that countries that ban or prohibit VA activities or VASPs should assess the ML/TF risks associated with VAs and VASPs on a periodic basis. It also refines the description on licencing/registration, including the addition of considerations concerning the licensing and registration process. The Guidance further sets out how to interpret the “correspondent banking and other relationships” definition in the FATF Standards.

In the context of Recommendation 16, the Guidance further refines the text on the travel rule by including a definition of transaction fees and how the travel rule applies to certain transactions where there are automatic refunds. It also clarifies :

- the approach towards counterparty VASP due diligence and what kind of information should be collected on transactions with unhosted wallets.
- the FATF’s approach to sanctions screening and the travel rule, and batch transfers, in particular, that the FATF does not accept post facto transmission travel rule data.
- how countries and VASPs should approach the sunrise issue.

**Part Four** covers the application of the FATF Standards to VASPs and other obliged entities that engage in or provide VA activities under the FATF definition of VA/VASP. This section has been updated to include references to:

- correspondent banking and other similar relationships
- technological solutions enabling VASPs to comply with the travel rule in an effective and efficient manner
- counterparty VASP identification and due diligence
- VA transfers to/from unhosted wallets
- key red-flag indicators for VAs



**Part Five** provides country examples of the risk-based approach to VAs/VASPs and remains largely the same, with updated and new case studies.

**Part Six** is a new section of the the FATF Guidance which discusses FATF principles of information-sharing and co-operation amongst VASP supervisors. These are non-binding principles for supervisors that introduce a wide range of requirements (e.g., supervisors should acknowledge receipt of requests, respond to requests for information, and provide interim partial or negative responses in a timely manner) and facilitate co-operation between counterparts and exchange of relevant information.

## DOWNLOAD THE GUIDANCE



*Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (Updated October 2021)*

[www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets-2021.html](http://www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-rba-virtual-assets-2021.html)



**More information:**

[www.fatf-gafi.org/publications/virtualassets/documents/virtual-assets.html](http://www.fatf-gafi.org/publications/virtualassets/documents/virtual-assets.html)

