

Many countries yet to fully implement steps to prevent misuse of virtual assets, says FATF

The FATF plenary had in February 2023 agreed on a road map to strengthen the implementation of its standards on virtual assets and VASPs

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A session during the FATF plenary in Paris on February 22, 2023. Photo: fatf-gafi.org

The Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog, has found that many countries are yet to fully implement its requirements aimed at preventing misuse of virtual assets and virtual asset service providers (VASPs).

Virtual assets (crypto assets) refer to “any digital representation of value that can be digitally traded, transferred or used for payment”. The FATF plenary in February 2023 agreed on a road map to strengthen the implementation of its standards on virtual assets

and VASPs. Recently, it carried out a survey on the current levels of implementation and has now published a paper on the “[Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity](#)”.

“Following a 12-month process to collect and evaluate information, the FATF is publishing a table which sets out the status of implementation of Recommendation 15 by FATF members and other jurisdictions with the most materially important VASP activity. This table is based on the work of the FATF’s Virtual Assets Contact Group members as well as the extensive input by the FATF Global Network of FATF members and FATF-Style regional bodies,” it has said.

The FATF also had consultations with representatives of the private sector, besides the virtual assets and VASP community.

The study, which involves 58 FATF and non-FATF jurisdictions, found that India has already conducted a risk assessment covering virtual assets and VASPs. Although it has explicitly prohibited the use of virtual assets and VASPs, it is compliant on issues such as enactment of legislation/regulation requiring VASPs to be registered or licensed and application of Anti-money Laundering/Counter-terrorism Financing measures.

India, a member country, has conducted a supervisory inspection or included VASPs in its current inspection plan; has taken enforcement action or other supervisory action against VASPs; and has passed or enacted the travel rule for VASPs. The FATF is yet to evaluate and rate India’s performance with respect to the revised standards on virtual assets and VASPs.

The countries which have explicitly prohibited the use of virtual assets and VASPs are China, Egypt and Saudi Arabia, while it is in progress in Seychelles and Indonesia.

“The table includes all FATF members plus twenty jurisdictions with materially important VASP activity. These jurisdictions were identified based on two criteria: trading volume and userbase, based on open-source datasets from January to December 2022 and cross-checked against data from blockchain analytics companies,” said the FATF.

It added: “It is important to note that large-scale trend data related to virtual assets is difficult to obtain, incomplete, and may change rapidly. This table provides a snapshot in time of jurisdictions that are identified as having materially important VASP activities as well as jurisdictions that are FATF members.”

Listing the reasons for issuing the table, the FATF said as virtual assets were inherently international and borderless, any failure to regulate VASPs in one jurisdiction could have serious global implications.

“This is particularly concerning given emerging trends in this space. Recent reports raise serious concerns about the Democratic People’s Republic of Korea’s (DPRK)... and laundering of hundreds of millions of dollars’ worth of virtual assets for financing the proliferation of weapons of mass destruction, enabling an unprecedented number of recent launches of ballistic missiles. Ransomware incidents have grown significantly in recent years, and ransomware payments are almost exclusively demanded in virtual assets,” said the FATF.

“Terrorist groups, including ISIL, Al Qaeda and their affiliates, as well as ethnically or racially motivated terrorist entities, are also known to be increasingly using virtual assets to raise and move funds globally,” it added.