

11th IMF Statistical Forum
**MEASURING MONEY IN THE
DIGITAL AGE**

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#StatsForum



Supervising cryptoassets for anti- money laundering

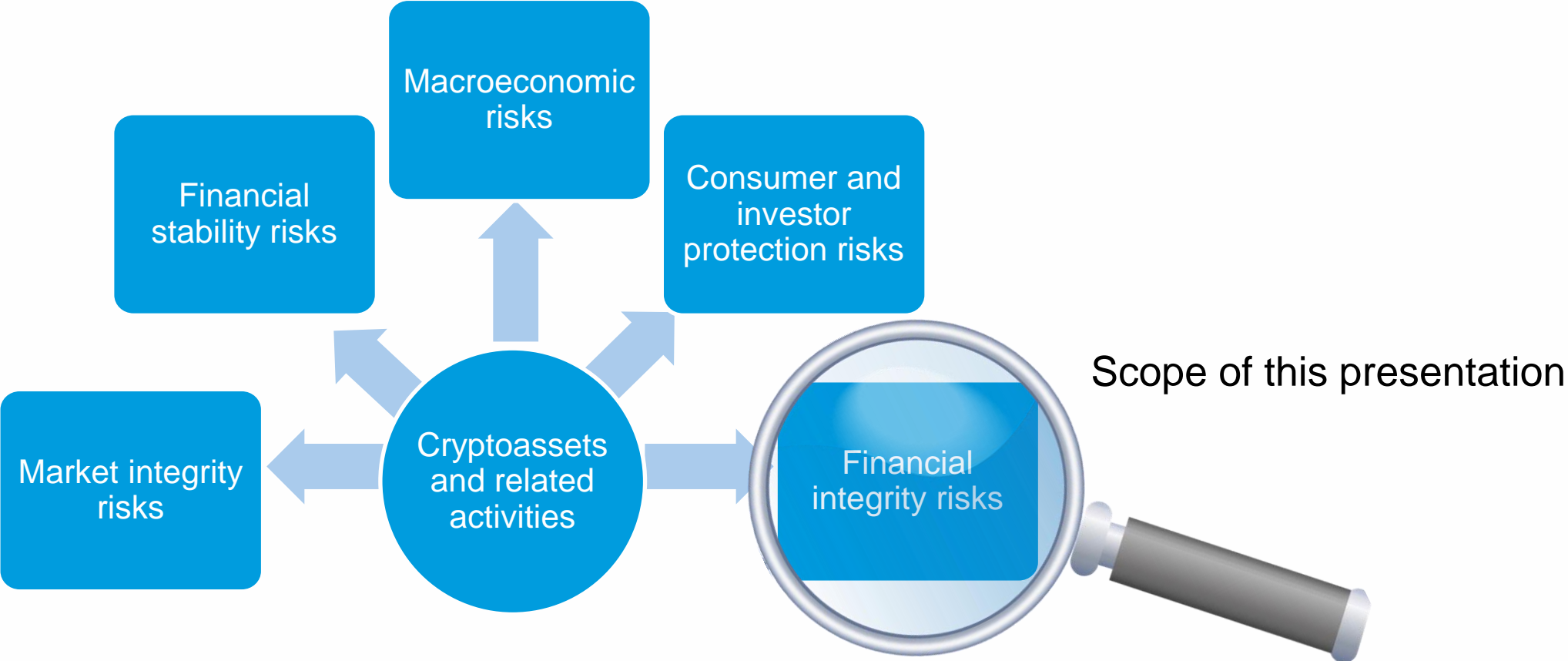
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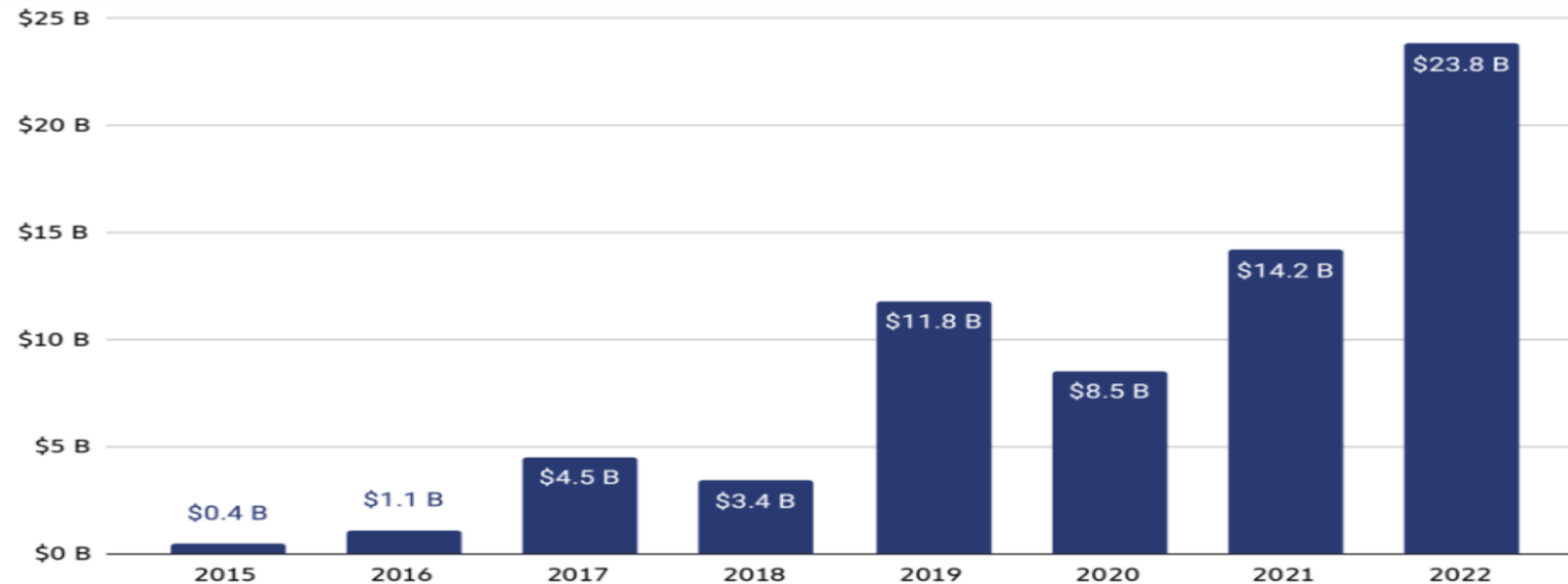
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Cryptoassets have the potential to enhance the efficiency of the provision of financial services, but may also generate risks...









Cryptoassets have been misused to launder proceeds from a range of criminal activities and finance illicit activities

Total cryptocurrency laundered by year, 2015-2022



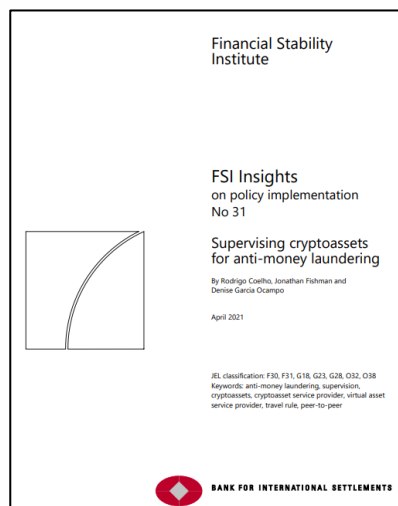
Source: Chainalysis 2023 Crypto Crime Report

The FSB along with Standard Setting Bodies have developed a global framework that helps guide authorities' policy actions to address risks posed by cryptoassets

SSB/IO	Mandate
 International Monetary Fund (IMF)	Promote global macroeconomic and financial stability
 Financial Stability Board (FSB)	Promote international financial stability
 Committee on Payments and Market Infrastructures (CPMI)	Promote the safety and efficiency of payment, clearing, settlement and related arrangements
 International Organisation of Securities Commissions (IOSCO)	Promote adherence to internationally recognised standards for securities regulation (eg market functioning)
 Basel Committee on Banking Supervision (BCBS)	Strengthen prudential regulation, supervision and practices of banks
 Financial Action Task Force (FATF)	Combat money laundering, terrorist financing and other related threats to the integrity of the international financial system

2019	<ul style="list-style-type: none"> FATF Standards on virtual assets (VA) and service providers (VASPs): FATF Recommendation 15 Guidance for regulators: A risk-based approach to VAs and VASPs (Updated in 2021)
2020	<ul style="list-style-type: none"> 12 month review of the new FATF Standards: 1st 12-month review Report to the G20: FATF Report to the G20 on So-called Stablecoins Risk indicators: List of Red Flag Indicators of ML/TF through VAs
2021	<ul style="list-style-type: none"> Updated guidance for regulators: Updated Guidance for a Risk-Based Approach to VA and VASPs 24 month review of the FATF Standards: 2nd 12-month review
2022	<ul style="list-style-type: none"> Report on R.15 compliance and emerging risks: Targeted Update on Implementation of the FATF Standards on VA and VASPs
2023	<ul style="list-style-type: none"> Report on R.15 compliance and emerging risks: Targeted Update on Implementation of the FATF Standards on VA and VASPs

Financial Stability Institute (FSI) publication series - policy papers on emerging regulatory and supervisory approaches to cryptoassets

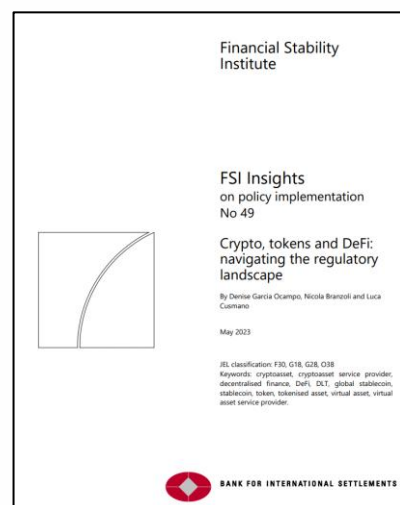


FSI Insights No 31: Supervising cryptoassets for anti-money laundering

Rodrigo Coelho, Jonathan Fishman and Denise Garcia Ocampo

<https://www.bis.org/fsi/publ/insights31.htm>

Overview of regulatory frameworks and supervisory practices in eight jurisdictions aimed to address AML/CFT risks and challenges posed by cryptoassets and related activities (Apr, 2021).



FSI Insights No 49: Crypto, tokens and DeFi: navigating the regulatory landscape

Nicola Branzoli, Luca Cusmano and Denise Garcia Ocampo

<https://www.bis.org/fsi/publ/insights49.htm>

Overview of policy actions in 19 jurisdictions aimed to address a range of risks and challenges posed by cryptoassets and related activities, including AML/CFT risks (May, 2023).

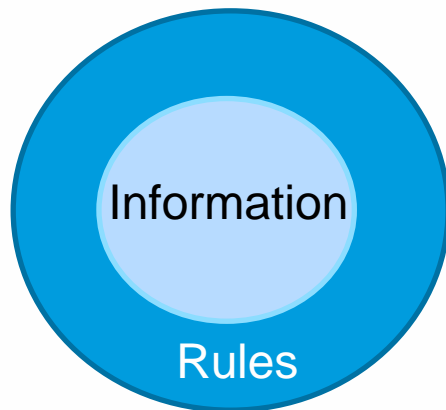
Defining and classifying crypto for regulatory purposes is a challenging task...

- Classification to specific legal categories is essential - clarity on regulatory treatment
- Challenges
 - Evolving nature of the crypto market
 - Development of new business models
 - Dependent on underlying legislation (e.g., private law, financial law, tax law) and angle of the analysis (e.g., technical design, economic function, intended objective).

What is a cryptoasset?

*Digital representations of **rights or value** issued by the **private sector** on a **distributed ledger** or similar technology (DLT) that can be **used for payment or investment***

Token



Tokens that represent rights

Debt Currency
Equity Derivatives Other obligations
Real estate Commodities
Goods/Services Collectibles

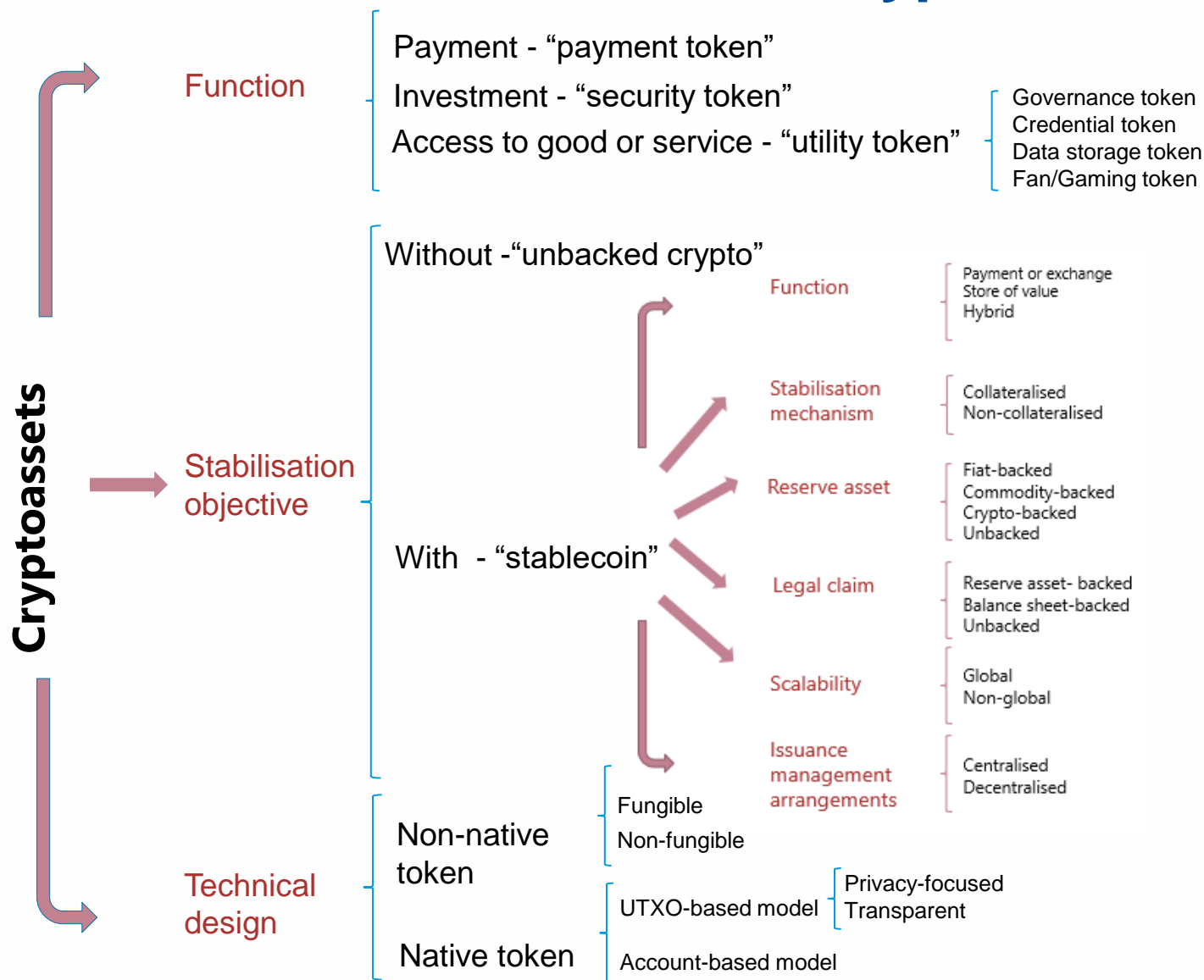
Tokens that represent value

Certificate Other
Digital ID Data storage

Cryptoassets terminology and classification in financial regulation

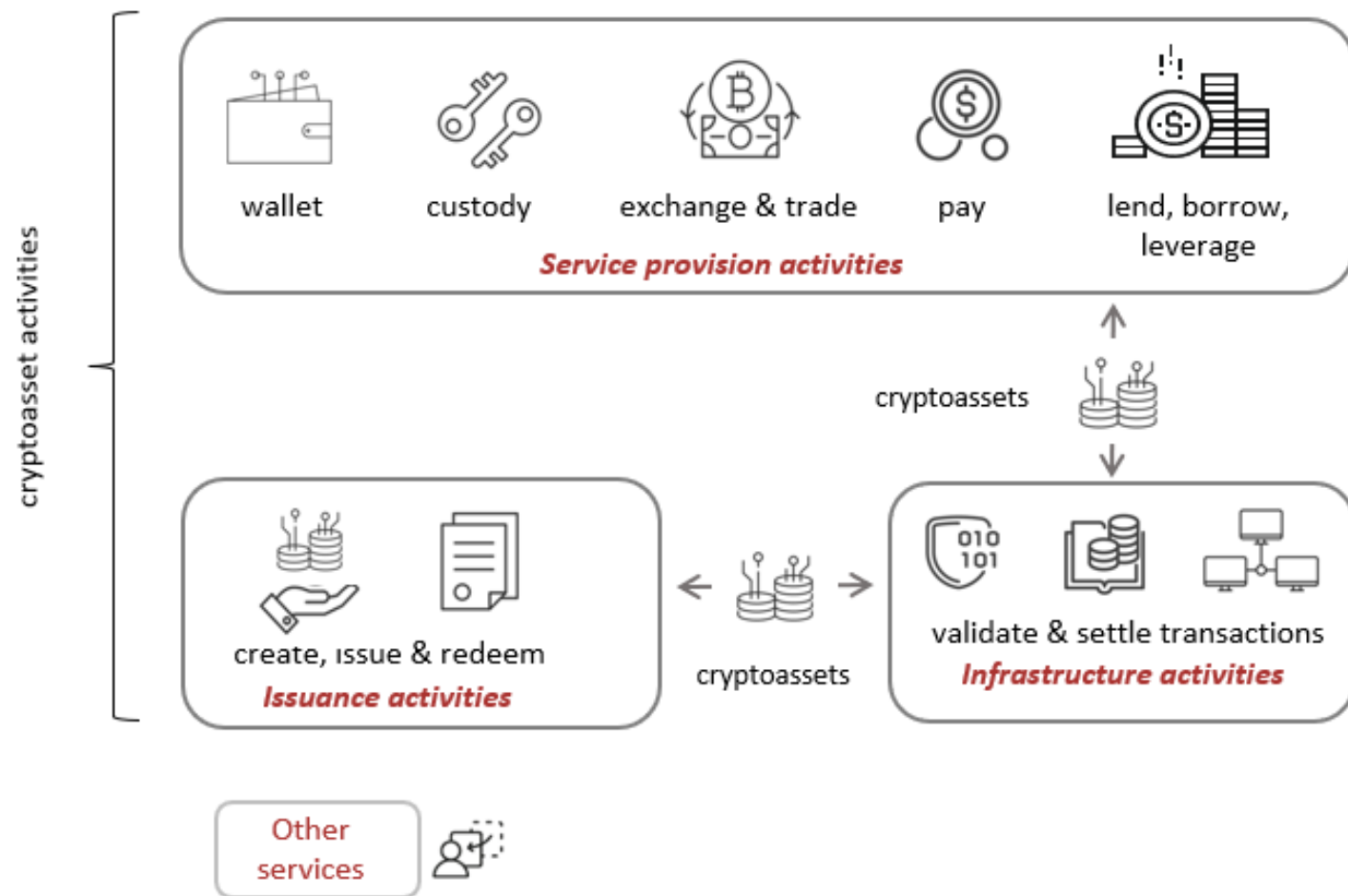
virtual currency cryptoasset virtual asset stablecoin crypto token
cryptocurrency e-money token security token unbacked cryptoasset
exchange token governance token asset reference token fiat crypto token payment stablecoin
NFT private tokenised money algorithmic stablecoin tokenised asset
virtual token Web 3 token
crypto-backed token *There are yet no globally consistent definitions and classification of cryptoassets.
Terms, definitions and classifications have evolved over time and are dependent on the
angle from which cryptoassets are analysed.* network token
dollar token fiat-backed stablecoin tokenised real world asset digital settlement asset
global stablecoin digital payment token tokenised deposits privacy coin
single currency stablecoin fiat referenced virtual asset
tokenised funds payment token significant token tokenised liabilities
commodity-linked token decentralised stablecoin digital money type stablecoin

Examples of classification criteria - cryptoassets



Source: Author's own elaboration

Examples of classification criteria – cryptoasset activities



Activities can be performed by individuals or entities organised through different arrangements

- **Centrally managed:** activities which are managed by individual and entities organised under **centralised** operational and governance arrangements.



- **Community managed:** activities managed by a community of participants in **public DLT networks** organised under **decentralised** operational and governance arrangements.



Regulatory frameworks

- Adjustments in regulatory perimeter to include cryptoassets, related activities and providers under the scope of the AML/CFT framework.
- Significant variability in the terminology and definition of the regulatory perimeter across jurisdictions.
- AML requirements for cryptoasset service providers (CSP):
 - Licensing and registration regimes vary among jurisdictions.
 - most AML/CFT preventive measures established in the FATF recommendations in a manner similar to other kinds of financial institutions.
 - Implementation of “travel rule” was mentioned as a relevant challenge.
- AML requirements for cryptoasset issuers - initiatives targeting security token and stablecoin issuers.

Supervisory practices

- Supervision of CSPs is at the early stages of implementation in most jurisdictions.
- Almost all the surveyed jurisdictions have undertaken some process of risk assessment relative to cryptoassets and made results available to the public. General consensus – increase in ML/TF risks related to cryptoasset activities.
- Some jurisdictions have applied existing supervisory regimes to cryptoassets on a functional basis, while others view them as fundamentally unique.
- Some jurisdictions have created a dedicated supervisory team specifically focused on cryptoassets, and others intend to do so.
- Efforts to detect and prevent unlicensed providers are generally more robust and are definitely more consistent across jurisdictions.
- Addressing the lack of general AML/CFT experience in the private sector is a key priority for most authorities.
- There is a clear need for supervisory innovation to match the innovative nature of the cryptoasset sector.

Enforcement actions

- Authorities generally have powers to impose the same remedial actions and sanctions to CSPs that are applicable to other financial intermediaries in response to AML/CFT violations.
- A few authorities have taken enforcement measures to address AML/CFT risks posed by the use of certain DeFi protocols.
- Most surveyed authorities make their sanctions public, but the granularity of the information provided varies significantly.

Cooperation and information-sharing

- International cooperation is a critical component for effective supervision.
- Areas for improvement:
 - channels for international cooperation
 - enhanced information-sharing on emerging practices in the area of AML/CFT supervision
 - proactive information-sharing on trends, typologies and suspicious activity

Conclusion

- Internationally, consistent implementation of international standards is the most pressing need, followed by cooperation.
- Three distinct policy areas stand out as challenges at the national level:
 - Defining the regulatory perimeter and detecting unlicensed activities
 - Implementing the travel rule
 - Mitigating risks posed by DeFi protocols, P2P transactions and unhosted wallets