



# TARGETED UPDATE ON IMPLEMENTATION OF THE FATF STANDARDS ON VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS

JUNE 2024





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Citing reference:

FATF (2024), *Targeted Update on Implementation of the FATF Standards on Virtual Assets/VASPs*, FATF, Paris, France,  
<https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Fatfrecommendations/targeted-update-virtual-assets-vasps-2024.html>

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## Executive summary

In 2019, the Financial Action Task Force (FATF) extended its global standards on anti-money laundering and counter-terrorist financing (AML/CFT) to apply to virtual assets (VAs) and virtual asset service providers (VASPs). To strengthen implementation of Recommendation 15 (R.15), the FATF adopted a Roadmap in February 2023. As part of the Roadmap, the FATF published a table that sets out the status of implementation of R.15 by FATF members and other jurisdictions with materially important VASP activity<sup>1</sup>. The FATF and its VACG will continue to conduct outreach and provide assistance to support global compliance with R.15 and update the table in 2025.

This report provides a fifth targeted review of implementation of the FATF's Standards on VAs and VASPs<sup>2</sup> including the Travel Rule, and an update on emerging risks and market developments in this area. Compared to the 2023 survey results, jurisdictions, including some with materially important VASP activity<sup>3</sup>, have made progress in putting AML/CFT regulation in place or are in the process of doing so. However, a continued lack of implementation of the relevant FATF Standards globally means that VAs and VASPs remain vulnerable to misuse and overall implementation of the Standards remains behind that of other financial sectors. In that context, this report sets out key areas for improvement and recommendations for both public and private sectors.

## Key Findings

- While some jurisdictions have made progress in introducing regulations, global implementation is still lagging. The findings from the 2024 survey indicate only marginal improvements on many elements of R.15 implementation across jurisdictions. However, the findings also identify specific areas of greater progress since 2023, such as the number of jurisdictions registering or licensing VASPs in practice.
- As of April 2024, 130 FATF mutual evaluations and follow-up reports were completed and published on the FATF website since the adoption of the standards on VAs and VASPs in 2019 (32 additional MERs and FURs that assessed R.15 were published since April 2023). Three quarters of jurisdictions (75%; 97 of 130) are only partially or not compliant with R.15. The proportion is identical

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<sup>1</sup> Status of implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity (fatf-gafi.org)

<sup>2</sup> FATF (2020) 12-Month Review of Revised FATF Standards on Virtual Assets and VASPs; FATF (2021) Second 12-Month Review of the Revised FATF Standards on Virtual Assets and VASPs; FATF (2022) Targeted Update on Implementation of the FATF Standards on Virtual Assets/VASPs; FATF (2023) Virtual Assets: Targeted Update on Implementation of the FATF Standards.

<sup>3</sup> FATF (2024) Status of implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity.

to that of April 2023 (75% partially compliant or non-compliant jurisdictions; 73 of 98)<sup>4</sup>.

- Jurisdictions continue to struggle with the implementation of the fundamental requirements of R.15. Of the 147 respondents to the 2024 survey on R.15 implementation (compared to 151 responses in 2023), 29% (42 of 147) have not conducted a virtual asset risk assessment at all, and results of mutual evaluation and follow-up reports show that 75% (97 of 130) of jurisdictions have not conducted adequate risk assessments.
- More than a quarter of survey respondents (27%; 39 of 147) have yet to decide if and how to regulate the VASP sector. Of the respondents that had determined an approach, 60% (88 of 147) decided to permit VAs and VASPs, and 14% (20 of 147 jurisdictions) report opting to prohibit VASPs partially or explicitly. Similar to the findings of the 2023 Targeted Update report, mutual evaluation and follow-up report results indicate that prohibiting VASPs effectively is difficult. Only two of twenty jurisdictions taking a partial or explicit<sup>5</sup> prohibition approach have been assessed as largely compliant with the FATF requirements and more than half have been assessed as partially or not compliant. It is still unclear to what extent the decision to prohibit VASPs has been made pursuant to a thorough risk assessment, as 20% of jurisdictions with prohibitions reported that they have not conducted a risk assessment.
- Jurisdictions have made insufficient progress on implementing the Travel Rule. Nearly one third of the survey respondents (30%; 29 of 94), excluding those that prohibit VASPs explicitly (i.e., including those that permit VASPs and those that prohibit VASPs partially), have not passed legislation implementing the Travel Rule. One third (32%; 11 of 34) of the jurisdictions who assessed VAs/VASPs as high risk and do not take an explicit prohibition approach have not yet passed legislation implementing the Travel Rule. Even among jurisdictions who have passed legislation implementing the Travel Rule, supervision and enforcement remains low: less than one third (26%; 17 of 65) have issued findings or directives or taken enforcement or other supervisory actions against VASPs focused on Travel Rule compliance.
- Virtual Assets continue to be used to support the proliferation of weapons of mass destruction as well as by scammers, terrorist groups, and other illicit actors. The DPRK continues to steal or extort virtual assets from victims and increasingly uses sophisticated methods to launder illicit proceeds. Virtual Assets are increasingly used by terrorist groups, in particular by ISIL in Asia and groups in Syria, and terrorist groups that are using virtual assets often use stablecoins and experiment with anonymity-enhancing cryptocurrencies.
- During VACG engagements, private sector stakeholders reported on market developments, including the increasing use of stablecoins for ML, TF and PF purposes and continued hacks of decentralised finance (DeFi) arrangements. Certain progress in risk mitigation measures that leverage smart contracts was also noted. Several jurisdictions reported progress in regulation, supervision, and enforcement, such as introducing AML/CFT/CPF, including Travel Rule

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<sup>4</sup> The 2023 Targeted Update reflects results from 98 MERs and FURs that assess jurisdictions' compliance with the revised R.15 (published on the FATF website as of April 2023).

<sup>5</sup> The term "explicit" used here refers to the comprehensive prohibition approach that fully bans the use of VAs and VASPs regardless of purposes.

requirements, for stablecoin service providers, taking regulatory and enforcement actions against DeFi arrangements, and conducting risk assessments on DeFi and unhosted wallets including peer-to-peer (P2P) transactions.

## Recommendations for the public and private sectors

In this context, it is vital that all jurisdictions act rapidly to fully implement the FATF's requirements on VAs and VASPs, particularly those with materially important VASP activity. The recommendations below identify actions that all jurisdictions should urgently take based on the findings of this report, and next steps for the FATF and the VACG.

### Recommendations for the Public Sector

#### Risk assessment and policy approach to VASPs

1. Jurisdictions that have not yet done so should identify and assess the ML and TF risks associated with VAs and VASPs and put in place risk mitigation measures, including measures to manage identified regulatory and supervisory challenges.
2. Jurisdictions should develop and implement jurisdictional approaches to VASPs, i.e., permitting the use of VA and VASPs or partially or explicitly prohibiting the use of VA and VASPs. Both jurisdictions that permit VAs and VASPs and those that partially or explicitly prohibit them should monitor or supervise their VASP population and enforce against non-compliance, including by sanctioning VASPs that fail to comply with obligations.

#### Licensing/registering and supervising VASPs

3. Jurisdictions should take immediate action to mitigate ML, TF, and PF risks related to VAs and VASPs, including by ensuring full implementation of R.15. This should include, if jurisdictions are not taking a ban or prohibition approach, requiring VASPs to be licensed or registered, conducting supervisory inspections of VASPs, and taking enforcement actions or supervisory actions against VASPs, as appropriate<sup>6</sup>.
4. In developing a licensing or registration framework, jurisdictions are encouraged to consider risks associated with offshore VASPs (i.e., VASPs that are not incorporated or physically based in their jurisdiction) and incorporate appropriate risk mitigation measures into their approach.

#### Implementation of the Travel Rule

5. Jurisdictions that have not yet introduced legislation/regulation to implement the Travel Rule should urgently do so.
6. Jurisdictions that have introduced the Travel Rule should rapidly operationalise it, including through effective supervision and enforcement in case of non-compliance.
7. To facilitate counterparty due diligence in line with R.16 as well as R.13, jurisdictions are strongly encouraged to maintain and publicise information on VASPs that are registered or licensed in their jurisdiction, in a way that can be readily available for

<sup>6</sup> FATF (2021) Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, paras.31-43.

AML/CFT purposes.

8. Jurisdictions should enhance their knowledge base of the Travel Rule compliance tools, including by engaging with their VASP sector to identify commonly used Travel Rule compliance tools and ensure these tools meet all the FATF requirements.

#### Addressing emerging and increasing risks such as Stablecoin, DeFi, unhosted wallets including P2P transactions, and Non-Fungible Tokens (NFTs)

9. In light of the increasing adoption of stablecoins, their use by illicit actors, and the ability to transfer stablecoins P2P, like other virtual assets, jurisdictions should monitor market developments, assess the illicit finance risks, and take appropriate risk mitigation measures.
10. Jurisdictions should assess and monitor illicit finance risks associated with DeFi arrangements, identify entities that could fall into the definition of VASPs, develop a regulatory framework to capture responsible entity(ies), take supervisory and enforcement action as appropriate, and share good practices and remaining challenges with VACG members.
11. Jurisdictions should monitor market developments and assess ML/TF/PF risks related to unhosted wallets, including P2P transactions, and NFTs and share their experiences, including on data collection and risk mitigation.

#### Recommendations for the Private Sector

12. VASPs and Travel Rule compliance tool providers should:
  - review their Travel Rule compliance tools to ensure they enable providers to fully comply with the FATF requirements; and
  - improve the compatibility between Travel Rule compliance tools (e.g., technological advancements that allow enhanced compatibility among tools, development of mechanisms that permit transactions to be made through a chain of tools compatible with each other, etc.) to facilitate effective implementation of the Travel Rule by VASPs and to support VASPs' sanction screening and transaction monitoring to detect and prevent suspicious transactions not compliant with the FATF requirements.
13. In light of persistent and significant threats related to ML, TF, and PF, the private sector, particularly VASPs, should ensure they have appropriate risk identification and mitigation measures in line with R.15 in place and should adopt other risk-based measures, as appropriate<sup>7</sup>. This should include consideration and mitigation of risks associated with stablecoins, DeFi, NFTs, and unhosted wallets including P2P transactions, as well as engagement with the public sector stakeholders to develop a common risk understanding.

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<sup>7</sup> FATF (2021) Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, paras.31-43.

## Next steps

In February 2023, the FATF adopted a Roadmap through June 2024 to strengthen implementation of R.15. As part of the roadmap, the FATF published a table that sets out the status of implementation of Recommendation 15 (R.15) (e.g., undertaking a risk assessment, enacting legislation to regulate VASPs, conducting a supervisory inspection, etc). by FATF members and other jurisdictions with materially important VASP activity<sup>8</sup>. The purpose of this table is to enable the FATF network to best support these jurisdictions in regulating and supervising VASPs for AML/CFT purposes and to encourage jurisdictions with materially important VASP activity to fully implement R.15 in a timely manner. The FATF and its VACG will continue to conduct outreach and provide assistance to jurisdictions, particularly those with lower capacity and materially important VASP activity to encourage and support compliance with R.15 in collaboration with FSRB Secretariats and relevant international organisations that set the global standards or provide assistance and training. In addition, the FATF and VACG will continue to share findings, experiences and challenges on R.15 implementation, including relating to DeFi and unhosted wallets, including P2P transactions, and monitor market trends in this area for material developments that may necessitate further FATF work. The status of implementation of R.15 by FATF Members and jurisdictions with materially important VASP activity will be updated and published in 2025, as decided by the FATF Plenary in February 2024.

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<sup>8</sup> Status of implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity ([fatf-gafi.org](https://fatf-gafi.org))



## Introduction

1. In October 2018, the FATF updated Recommendation 15 (R.15) to extend AML/CFT requirements to virtual assets (VAs) and virtual asset service providers (VASPs). In June 2019, the FATF adopted an Interpretive Note to R.15 to further clarify how the FATF requirements apply to VAs and VASPs. Since then, the FATF has undertaken a significant amount of work to identify and address gaps in implementation, provide guidance to jurisdictions to facilitate implementation (see Table 1.1), and monitor emerging risks in the VA sector.

**Table 1 - Overview of FATF work on VAs and VASPs**

2018	<ul style="list-style-type: none"> <li>• <a href="#">Recommendation 15</a> amended</li> </ul>
2019	<ul style="list-style-type: none"> <li>• Adoption of <a href="#">Interpretive Note to R.15</a></li> <li>• Creation of the FATF Virtual Assets Contact Group (VACG)</li> <li>• Initial guidance for regulators: A risk-based approach to VAs and VASPs (updated in 2021)</li> </ul>
2020	<ul style="list-style-type: none"> <li>• 12 month review of the new FATF Standards: <a href="#">1<sup>st</sup>12-month review</a></li> <li>• Report to the G20: <a href="#">FATF Report to the G20 on So-called Stablecoins</a></li> <li>• Risk indicators: <a href="#">List of Red Flag Indicators of ML/TF through VAs</a></li> </ul>
2021	<ul style="list-style-type: none"> <li>• Updated guidance for regulators<sup>9</sup>: <a href="#">Updated Guidance for a Risk-Based Approach to VA and VASPs</a></li> <li>• 24 month review of the FATF Standards: <a href="#">2<sup>nd</sup>12-month review</a></li> </ul>
2022	<ul style="list-style-type: none"> <li>• Report on R.15 compliance, with a particular focus on the Travel Rule, and emerging VA risks: <a href="#">Targeted Update on Implementation of the FATF Standards on VA and VASPs</a></li> </ul>
2023	<ul style="list-style-type: none"> <li>• Report on ransomware, with a focus on VA risks and trends: <a href="#">Countering Ransomware Financing</a></li> <li>• Report on implementation of R.15: VAs: <a href="#">Targeted Update on Implementation of the FATF Standards</a></li> </ul>
2024	<ul style="list-style-type: none"> <li>• <a href="#">Status of implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity</a></li> </ul>

2. This report is the FATF's fifth report on the global implementation of the FATF's Standards on VAs and VASPs. It provides an overview of global implementation of R.15, including the Travel Rule. It also outlines challenges in implementing the FATF Standards in relation to VAs and VASPs and identifies progress made by the public and private sectors and good practices in implementation. Finally, the report provides an overview of emerging risks relating to VAs, and jurisdictions' and industry responses to these risks. This report is based on:

- A March 2024 survey on jurisdictions' implementation of R.15, including the Travel Rule, and responses to emerging risks. The survey collected responses from 147 jurisdictions (35 FATF members and 112 FSRB members) (See Annex B). Responses were self-reported and not verified. The survey applied conditional branching/skip logic, meaning respondents would be directed to certain questions based on their answer to a previous question (e.g., respondents that indicated that they had not yet decided whether to prohibit or regulate VASPs were not asked questions on Travel Rule implementation).

<sup>9</sup> The 2021 Guidance includes updates focusing on the following six key areas: clarification of the definitions of virtual assets and VASPs; guidance on how the FATF Standards apply to so-called 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; and principles of information-sharing and co-operation amongst VASP supervisors.

As a result, the number of respondents to each question group varied<sup>10</sup>. The report infers that jurisdictions (58) that did not respond to the survey have not made progress on R.15, including the Travel Rule implementation<sup>11</sup>.

- Meetings of the FATF's VACG throughout late 2023 and early 2024, including consultations with representatives from the VA private sector in December 2023 and April 2024; and
- Results from completed and published FATF mutual evaluation reports (MERs) and follow-up reports (FURs) that assess R.15 (as of April 2024).

3. This report comprises the following sections:

- Section 1 provides an overview of jurisdictions' implementation of R.15 across the FATF's global network and considers major challenges faced in assessing ML/TF risks, licensing or registering VASPs, and regulating offshore VASPs.
- Section 2 provides information on global implementation of the FATF's Travel Rule and shares public and private sector challenges and solutions to implementation.
- Section 3 considers market developments and emerging risks, in particular stablecoins, decentralised finance (DeFi), peer-to-peer transactions (P2P) and unhosted wallets<sup>12</sup>, non-fungible tokens (NFTs) that meet the FATF definition of VAs, and the use of VAs for terrorist financing and financing the proliferation of weapons of mass destruction.
- Section 4 sets out the next steps for the FATF and VACG.

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<sup>10</sup> Risk assessment and policy approach to VASPs: 147 respondents; licensing/registering and supervising VASPs: 94 respondents; Travel Rule implementation: 94 respondents; treatment of DeFi, NFTs, unhosted wallets, and P2P: 133 respondents; final comments: 147 respondents.

<sup>11</sup> FATF and the Global Network consist of 205 jurisdictions in total. 147 jurisdictions responded to the 2024 survey.

<sup>12</sup> Also referred to as non-custodial, self-custodial or self-hosted wallets.

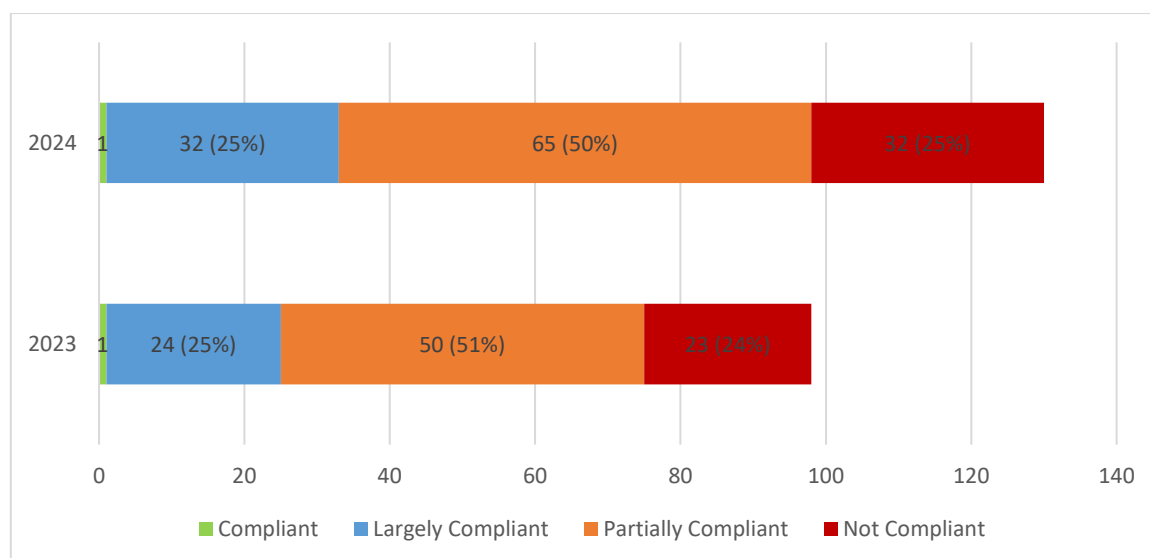
## SECTION ONE:

### Jurisdictions' Implementation of FATF Standards on VAs/VASPs (R.15)

#### Overall Status of R.15 Implementation in Mutual Evaluation and Follow-up Reports

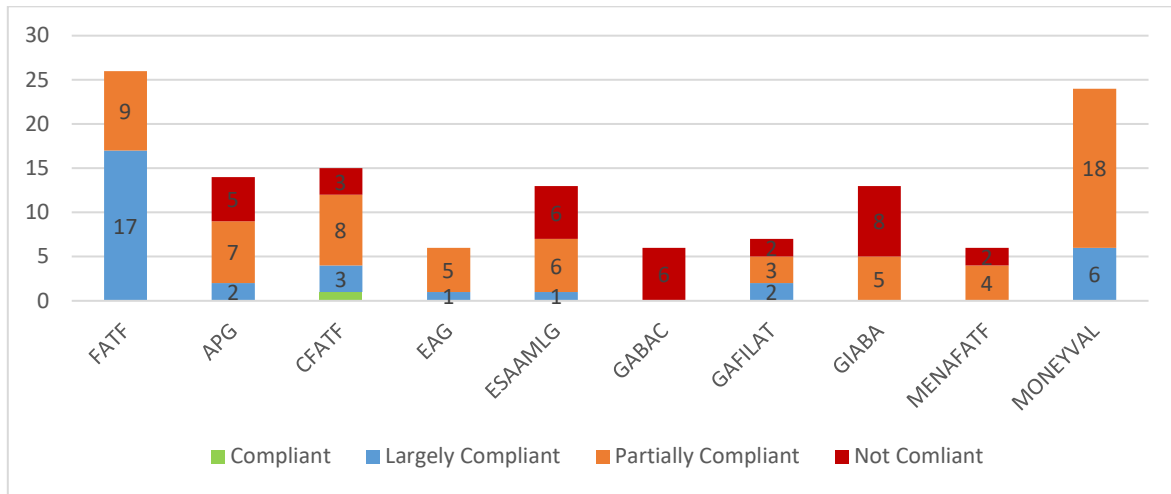
4. While the number of jurisdictions largely compliant with the FATF's standards on VA and VASPs (as set out in R.15 and INR.15) has increased compared to the findings of the 2023 Targeted Update (25%; 24 of 98), global implementation is still limited. As of April 2024, the FATF and its Global Network have assessed 130 jurisdictions' compliance with the revised R.15 (note 32 MERs/FURs assessing jurisdictions' compliance with R.15 have been additionally published on the FATF website since April 2023)<sup>13</sup>. Most jurisdictions (75%; 97 of 130 jurisdictions) are only partially (PC) or not compliant (NC) with the FATF's requirements. Only 32 jurisdictions (25%) are largely compliant (LC), and one jurisdiction is fully compliant (C) (see Figure 1.1). The proportion of PC or NC jurisdictions as of April 2024 is identical to that of April 2023 (75% PC or NC jurisdictions; 25% LC jurisdictions).

**Figure 1.1. Assessment results: Compliance with R.15 (as of April 2024)**



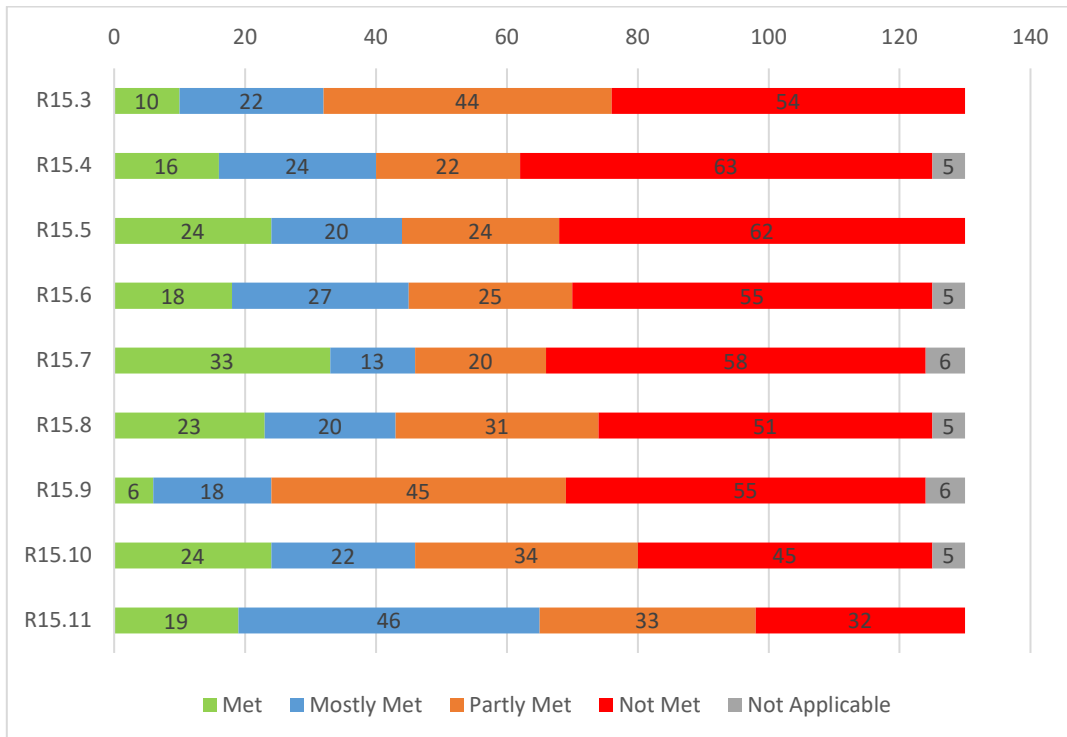
<sup>13</sup> The ratings may not reflect the current progress made by jurisdictions towards implementing the FATF Standards on VA and VASPs, elements of which are shown in the analysis of the 2024 survey results.

Figure 1.2. Assessment results: Compliance with R.15 by FATF/FSRB (as of April 2024)



5. As in 2023, assessment results indicate that jurisdictions continue to struggle with several fundamental requirements, including conducting a risk assessment, developing a regime for VASPs (i.e., registering/licensing or prohibiting VASPs) and implementing the Travel Rule (see Figure 1.3).

Figure 1.3. Assessment results: Compliance with individual R.15 criteria (as of May 2023)<sup>14</sup>



<sup>14</sup> For details on R.15 criteria see FATF Methodology for assessing compliance with the FATF Recommendations.

**Table 1.1. FATF Assessment Methodology for requirements on VAs/VASPs**

R15.3	Risk assessment and application of a risk-based approach
R15.4	Licensing/Registration of VASPs
R15.5	Identification of natural persons or legal entities that conduct VASP activities
R15.6	Supervision/Regulation of VASPs to ensure AML/CFT compliance
R15.7	Establishment of guidelines which assist VASPs in AML/CFT compliance
R15.8	Sanctions compliance
R15.9	Preventative AML/CFT measures including the Travel Rule
R15.10	Targeted Financial Sanctions compliance
R15.11	International cooperation

Source: FATF Methodology for assessing compliance with the FATF Recommendations, available at: [www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html](http://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html)

### Challenges assessing ML/TF risks of VAs and VASPs

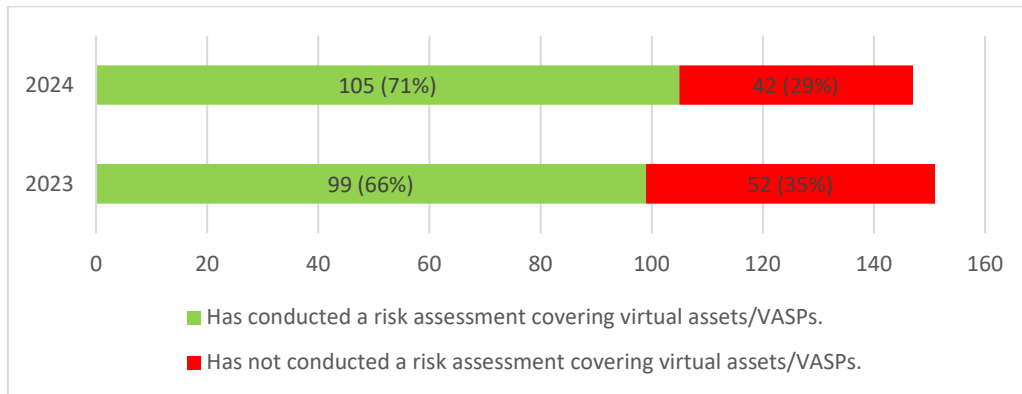
6. As in 2023, jurisdictions continue to face challenges assessing and mitigating the ML/TF risks emerging from VAs and VASPs (see Figure 1.3). Based on assessment results, 75% (98 of 130) of jurisdictions are not sufficiently implementing the requirement to conduct a risk assessment on VAs and VASPs (R.15 sub-criteria 3). This aligns with the results of the FATF's March 2024 survey of the global network, in which nearly one third of respondents (29%; 42 of 147) reported that they had not conducted such a risk assessment. Recent assessment results indicate that jurisdictions face difficulties in implementing measures in line with ML/TF risks identified through national risk assessments as well as in requiring VASPs to identify, assess, manage and mitigate ML/TF risks. Jurisdictions are encouraged to refer to the FATF's 2021 Guidance, which includes factors that jurisdictions should consider in undertaking a VA risk assessment and taking a risk-based approach<sup>15</sup>. In addition, jurisdictions could consult the FATF's Community Workspace on Virtual Assets<sup>16</sup>, which includes several examples of VA risk assessments as well as a recording and materials from the 2023 December VACG symposium, the 2023 December VACG meeting, and the 2024 April IOSCO/FATF workshop<sup>17</sup>.

<sup>15</sup> FATF (2021) Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, paras.31-43.

<sup>16</sup> The workspace is available to all members of the global network. To request access, authorities should contact the FATF Secretariat.

<sup>17</sup> During these events attended by more than 500 participants, VACG member jurisdictions have presented case studies and best practices, focusing on the topics relevant to areas where technical assistance (TA) is needed, such as various methods of conducting risk assessment of the VA sector.

**Figure 1.4. Survey results: Has your jurisdiction conducted a risk assessment of VAs/VASPs?**

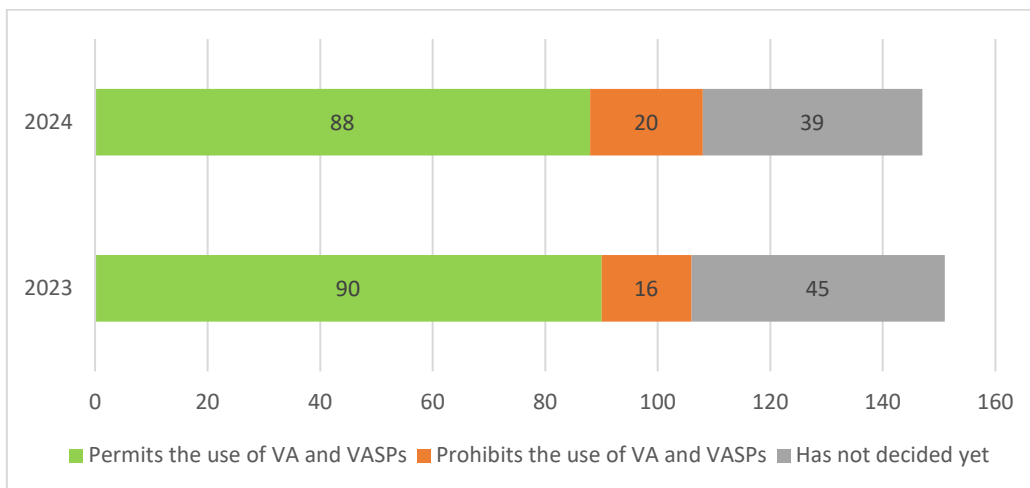


**Challenges developing, implementing and enforcing a regime for VASPs**

**Developing and implementing a regime for VASPs**

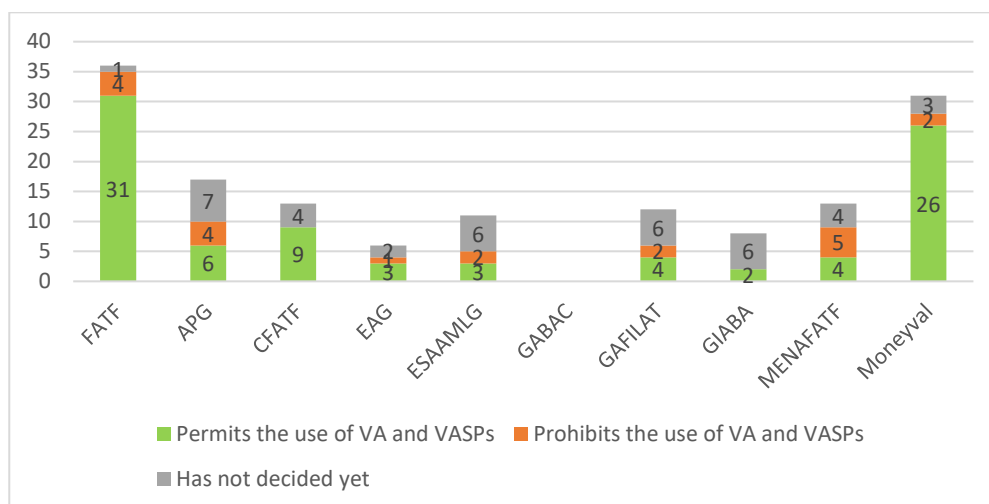
7. Many jurisdictions are still in the process of deciding what approach to take regarding VA sector (see Figure 1.5). Over a quarter of survey respondents (27%; 39 of 147 jurisdictions) reported that they had not yet decided if and how to regulate the sector, indicating a minor improvement since 2023 (29%; 45 out of 151 had not decided on their approach). Most jurisdictions (60%; 88 of 147 respondents) have decided to permit the use of VAs and operation of VASPs. 14% of respondents reporting opting to prohibit VASPs, indicating a steady increase over the past few years, rising from 7% of survey respondents in 2022 (7 of 98) and 11% in 2023 (16 of 151).

**Figure 1.5. Survey results: What is your jurisdiction’s approach to VAs and VASPs?**



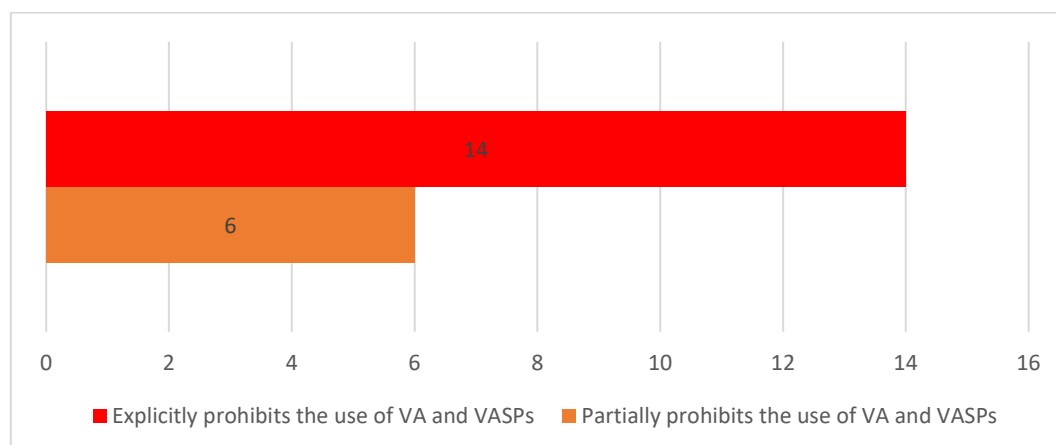
8. A prohibition approach appears to be more common in certain regions; based on survey responses, members of MENAFATF (Middle East and North Africa region) and APG (Asia Pacific region) have more commonly chosen a prohibition approach than members of other FSRBs (see Figure 1.6).

**Figure 1.6. Survey results: Approach to VA and VASPs by FATF/FSRB**



9. The majority of jurisdictions taking a prohibition approach reported that they explicitly prohibit all VASPs rather than specific VASP activities (70%; 14 of 20) (See Figure 1.7). The methods of partial prohibitions vary, although the most common approach is prohibiting VAs from being utilised as a means of payment for goods and services while allowing VAs trading and related services. Other partial prohibition approaches include prohibiting the use of VA for retail investment purposes, the transfer of VAs to decentralised systems (DeFi, DEX), and the use of VAs for settlement purposes. As the range and depth of prohibitions are different, and the enforcement results are limited, the FATF will keep monitoring those regulatory approaches.

**Figure 1.7. Survey results: Prohibition approach to VA and VASPs**

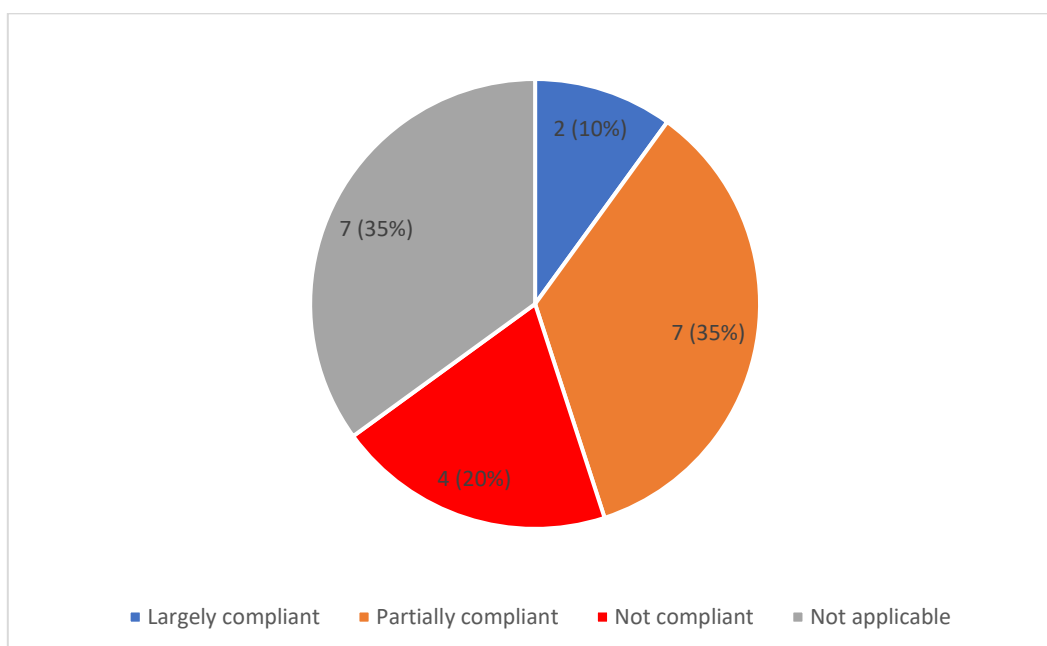


10. One jurisdiction that has opted for prohibition noted the considerable resources and expertise required to implement the prohibition as well as challenges in trying to ensure it works in practice (i.e., the prohibition is not circumvented). This counters an assumption by some jurisdictions that prohibition requires fewer resources or is easier to manage than creating and enforcing a licensing/registration

and supervisory regime<sup>18</sup>. Similarly, other case studies shared with the VACG on FSRBs' experiences and research by the FSB illustrate difficulties of banning VAs. The Financial Stability Board (FSB) flagged in a 2023 report that prohibiting VAs in one jurisdiction could also lead to activity migrating to other jurisdictions, creating spillover risks<sup>19</sup>, and concluded that “[b]lanket bans that make all [virtual] asset activities (e.g., trading and mining) illegal can be costly and technically demanding to enforce”.

11. Assessment results indicate that successfully prohibiting the use of VA and VASPs is still challenging (see Figure 1.8). Only two jurisdictions partially or explicitly prohibiting the use of VA and VASPs have been assessed as largely compliant with the FATF standards. While an increasing number of jurisdictions taking a prohibition approach have conducted a risk assessment, jurisdictions face difficulties taking a comprehensive and effective risk assessment. Recent assessment results show that only two jurisdictions taking a prohibition approach have met the relevant R.15 requirement (R.15 sub-criteria 15.3). Jurisdictions, however, have not progressed in taking supervisory or enforcement actions to sanction VASPs operating illegally within their jurisdictions. Nine of 14 jurisdictions explicitly prohibiting the use of VA and VASPs reported taking such actions, which is similar to the findings of the 2023 Targeted Update (56%; 9 of 16 respondents).

**Figure 1.8. Assessment results: Compliance with R.15 – 20 jurisdictions taking a prohibition approach to VA and VASPs**



<sup>18</sup> Under the FATF Standards, jurisdictions that take a prohibition approach are exempt from implementing the full suite of R.15 requirements (e.g., licensing/registration of VASPs, supervision of VASPs, applying AML/CFT preventive measures to VASPs, etc.). See the FATF Methodology, footnote 44.

<sup>19</sup> FSB (September 2023) IMF-FSB Synthesis Paper: Policies for Crypto-Assets, [www.fsb.org/wp-content/uploads/R070923-1.pdf](http://www.fsb.org/wp-content/uploads/R070923-1.pdf)

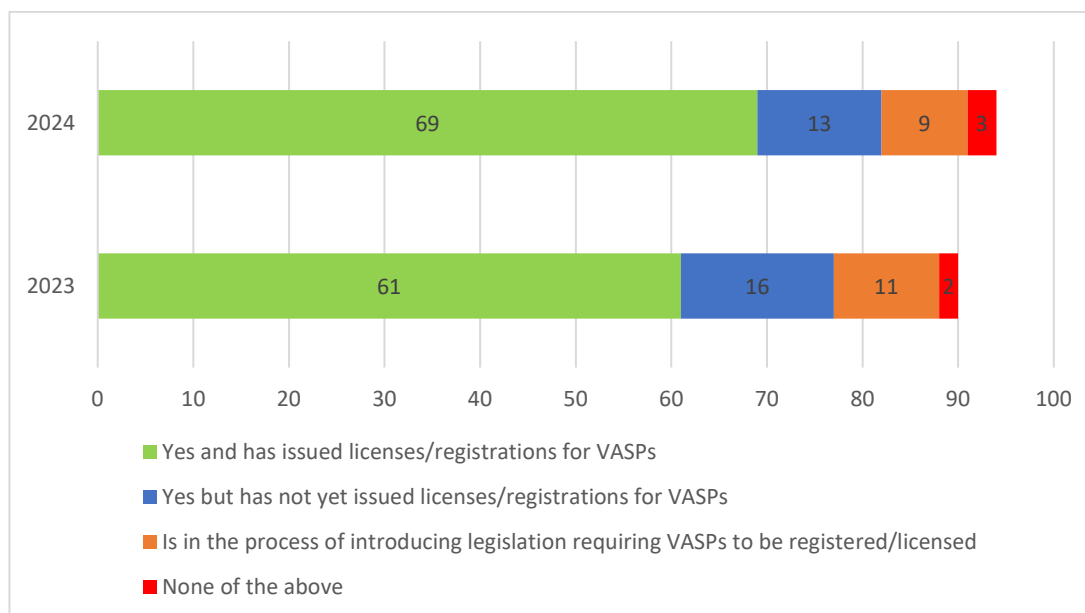


### Licensing/Registering VASPs and taking enforcement and supervision actions

12. Jurisdictions have made progress in licensing or registering VASPs, both in law and in practice. Eighty seven percent of respondents (82 of 94) excluding those that prohibit or plan to prohibit VASPs explicitly report that they require VASPs to be licensed or registered, and 69 of those 82 jurisdictions report having licensed or registered a VASP in practice. This demonstrates a considerable improvement since 2023 when just 44% of jurisdictions (60 out of 135) reported having issued a license or registration for a VASP in practice. However, the progress indicated by survey responses is not yet fully reflected in assessment results, possibly due to improvements made since an assessment or inflated responses to the survey. As in the 2023 Targeted Update (30%; 29 of 98 assessed jurisdictions), 31% of assessed jurisdictions (40 of 130) satisfactorily require VASPs to be licensed or registered (i.e., criteria 15.4 is rated met or mostly met; see Figure 1.3). A majority of these 69 jurisdictions reported having conducted supervisory inspections of VASPs (78%; 54 of 69) and having taken enforcement actions or other supervisory actions against VASPs (77%; 53 of 69). This similarly indicates advancement since 2023, rising from 61% of jurisdictions reporting taking enforcement or other supervisory actions.

13. Of jurisdictions that assessed VAs and VASPs as high risk and do not prohibit or plan to prohibit VASPs explicitly, 15% (5 of 34 respondents) do not yet have legislation in force requiring VASPs to be registered/licensed, static with the 2023 Targeted Update report.

**Figure 1.9. Survey results: Does your jurisdiction have legislation in force requiring VASPs to be registered/licensed?**



14. Despite the progress noted above, jurisdictions struggle with identifying VASPs and the licensing or registration process, in particular with offshore VASPs. This is particularly the case for lower capacity jurisdictions or those with shortcomings in general AML/CFT regulation and supervision, which are frequently reflected in deficiencies related to VASPs specifically. This highlights the continued

need for information, expertise-sharing and technical assistance, particularly from FATF members (as representatives of the global Standards setter).

### ***Offshore VASPs***

15. During VACG discussions, jurisdictions recognised challenges associated with VASPs operating in jurisdictions without appropriate license/registration, in particular, when the VASP is not incorporated or physically based in the jurisdiction, referred to as an offshore VASP. Several jurisdictions shared that even VASPs that are not incorporated or physically located in their jurisdiction are required to be licensed/or registered if they engage in certain activities (e.g., advertise to persons in the jurisdiction, offer services to persons in the jurisdiction), with the aim of managing and mitigating ML/TF/PF risks effectively. Jurisdictions also identified challenges identifying offshore VASPs and assessing whether VASPs are undertaking activities that require registration or licensing, as VASPs sometimes take or instruct users to take measures to obscure their users' location or other identifying information. In other cases, jurisdictions do not have licensing or registration requirements for VASPs that are not based or incorporated within their jurisdiction. While jurisdictions are not required but may regulate VASPs that are based or incorporated outside their jurisdictions<sup>20</sup>, this optionality may limit their ability to mitigate ML/TF/PF risks that those VASPs may present.

16. In addition, offshore VASPs may often switch locations, moving from one jurisdiction to another, which brings additional regulatory challenges. Jurisdictions also noted that some offshore VASPs continue to provide services to customers in jurisdictions where the use of VAs and VASPs is prohibited by circumventing requirements through multiple procedures. Industry reported that unlicensed/unregistered offshore VASPs operating in domestic markets pose additional implementation challenges for licensed/registered VASPs.

### ***FATF work to accelerate global implementation of R.15***

17. In addition to identifying jurisdictions with materially important VASP activity<sup>21</sup>, the FATF held the 2023 December VACG symposium to support jurisdictions, including those with materially important VASP activity, in the process of implementing R.15. In April 2024, the FATF also co-hosted a workshop with IOSCO to leverage collaboration with other international organisations to further knowledge sharing and outreach on implementation of R.15.

18. The key objective of these initiatives was to support targeted capacity building and training and facilitate knowledge sharing on the development and implementation of AML/CFT frameworks for VAs and VASPs. Both events had large audiences (approximately 550 participants for the 2023 December VACG symposium and 260 for the 2024 ISOCO/FATF workshop). VACG member jurisdictions shared case studies and best practices covering a range of regulatory and supervisory challenges and experiences and answered questions from the audience.

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<sup>20</sup> The FATF Recommendation set the expectations that "Jurisdictions may also require VASPs that offer products and/or services to customers in, or conduct operations from, their jurisdiction to be licensed or registered in this jurisdiction." (Interpretive note to Recommendation 15 - New Technologies)

<sup>21</sup> FATF (2024) Status of implementation of Recommendation 15 by FATF Members and Jurisdictions with Materially Important VASP Activity

19. The FATF remains committed to working with jurisdictions to facilitate the implementation of R.15, including effective supervision and enforcement, and mitigate abuse of VAs and VASPs by illicit actors.

## SECTION TWO: Implementation of FATF'S Travel Rule

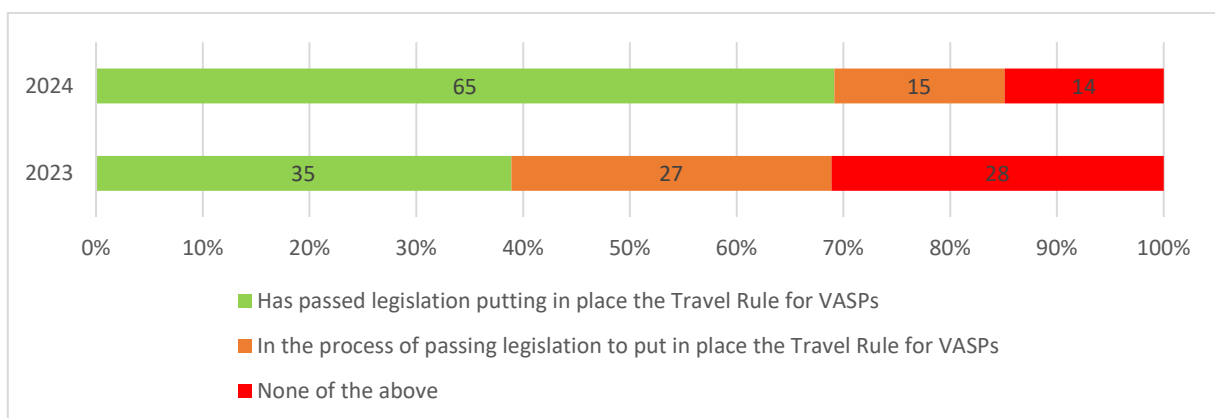
20. The Travel Rule applies the FATF's payment transparency requirements (FATF Recommendation 16) to the VAs context. The Travel Rule requires VASPs and financial institutions to obtain, hold, and transmit specific originator and beneficiary information immediately and securely when transferring VAs.

### Overall status of jurisdiction implementation and enforcement of the Travel Rule

21. Jurisdictions have made progress on implementing the Travel Rule. For the 2024 survey, 70% of respondents (65 of 94 jurisdictions, excluding those that prohibit or plan to prohibit VASPs explicitly) have passed legislation implementing the Travel Rule (See Figure 2.1). Moreover, 15 jurisdictions reported that they are in the process of adopting legislation to do so (e.g., have tabled draft legislation, issued a draft law, undertaken public consultations on draft legislation, etc.) (see Figure 2.1). This reflects a notable improvement since 2023 (when 35 jurisdictions had passed legislation and 27 were in the process of doing so) and 2022 (when 30 jurisdictions had passed legislation and 25 were in the process of doing so).

22. Still, almost one third of respondents have not yet passed legislation implementing the Travel Rule. Moreover, it is likely that the 58 jurisdictions that did not respond to the FATF's survey have not done so, indicating that global implementation remains incomplete and leaves VAs and VASPs vulnerable to misuse.

**Figure 2.1. Jurisdictional Implementation & Enforcement of the Travel Rule**



**Figure 2.2. Jurisdictional Implementation & Enforcement of the Travel Rule by FATF/FSRB Region**



23. Concerningly, one third of the jurisdictions (32%; 11 of 34) that assessed VAs/VASPs as high risk and do not take an explicit prohibition approach have not yet passed legislation implementing the Travel Rule.

24. As in 2023, enforcement of the Travel Rule remains weak. Even among 65 jurisdictions that have passed legislation implementing the Travel Rule, supervision and enforcement are still low. Less than one third of the 65 jurisdictions (26%; 17 of 65) have issued findings or directives or taken enforcement or other supervisory actions against VASPs focused on Travel Rule compliance. However, there has been some improvement since 2023, and regulators have shared practical experiences and cases to set industry expectations. For example, several jurisdictions shared Travel Rule enforcement cases during various public sector-only dialogues. One jurisdiction shared that although regulated VASPs suffer from the lack of interoperability among Travel Rule compliance tools, non-compliant VASPs would still be penalised for their compliance shortcomings. Another jurisdiction reported imposing regulatory orders on a VASP for non-compliance related to Travel Rule compliance tool's deficiencies such as incomprehensive coverage of VAs or delayed data submission.

25. Some jurisdictions noted various deficiencies in VASPs that resulted in enforcement actions:

- low-quality data collection possibly due to internal instructions, leading to ineffective screening and STR framework.
- delayed transmission of data,
- failure to implement the Travel Rule for transactions involving certain types of VAs, or
- failure to implement the Travel Rule by the date required by their regulators including failure to submit/receive the Travel Rule data to and from certain foreign VASPs

26. The substantial outstanding gaps in Travel Rule implementation is a serious concern. The effectiveness of the Travel Rule depends on consistent, effective and global implementation and enforcement. The FATF urges jurisdictions to make immediate progress to enact and enforce legislation implementing the Travel Rule.

### Public and private sector challenges in Travel Rule implementation

27. Jurisdictions and VASPs continue to face a range of challenges implementing the Travel Rule.

28. The private sector reported some positive developments in the VA sector, increases in VA transaction volume using tools and in VASPs considering Travel Rule obligations in their operations, and the use of tools to mitigate illicit finance risks associated with counterparties. However, the private sector emphasised how gaps in the implementation of the Travel Rule across jurisdictions and a lack of enforcement, even in jurisdictions that had Travel Rule obligations, failed to incentivise increased Travel Rule implementation by the private sector.

29. Moreover, industry stakeholders continued to identify challenges associated with interoperability among Travel Rule compliance tools. The private sector reported that there had been some progress regarding interoperability, citing success and ongoing efforts, while noting that architectural differences and data protection requirements continued to pose challenges. Additionally, industry reported that there could be approaches short of full tool interoperability that could mitigate these challenges, although these approaches were not yet viable or presented additional friction. For example, while VASPs are able to internally integrate multiple Travel Rule compliance tools to mitigate some interoperability issues, this approach may pose additional technical, operational, and financial burdens.

30. The industry also reported the common use of interVASP Messaging Standards (IVMS) as a messaging standard for Travel Rule information replicating ISO20022 for the VA sector. They also recognised the potential for future work on further developing industry standards to align and improve the functionality of message transitions (e.g., how to reject transactions, how to follow up with questions, etc.). The industry also noted the increased sophistication of VAs transfers, including the role of professional traders and over-the-counter brokers, suggesting that some Travel Rule compliance tools are designed for transactions between individual users and may not be fully fit for purpose for broader types of transactions.

## *Differences in jurisdiction requirements and the sunrise issue*

### Sunrise Issue

Delays and inconsistencies in country implementation of the Travel Rule results in the ‘sunrise issue’. Compliance with the Travel Rule requires both the ordering and beneficiary VASP to provide information. However, given the current inconsistent state of implementation, it may not always be the case that both VASPs will be required by their national authorities to comply with the Travel Rule. Ordering institutions can require Travel Rule compliance regardless of regulation in the beneficiary jurisdiction. Nonetheless, until all VASPs are required to implement the Travel Rule (i.e., until the sun rises in all jurisdictions), VASPs operating in or from compliant jurisdictions will continue to face challenges executing all transactions in a compliant manner. (2023 Targeted Update)

31. Jurisdictions continue to take a range of approaches to deal with the sunrise issue, many of which were covered in detail in the FATF’s 2022 and 2023 Targeted Update reports. As in 2023, 2024 survey results indicate that of the 80 jurisdictions that have implemented the Travel Rule or are in the process of doing so, nearly one third (33%; 26 of 80) are still taking a phased approach to implementation (e.g., only requiring VASPs to implement the Travel Rule in certain circumstances, setting a higher threshold for Travel Rule requirements, or permitting manual data processing with short delay) or are allowing a grace period for Travel Rule compliance, during which there are exemptions or flexibility in how VASPs are expected to comply.

32. As in 2023, certain jurisdictions reported that they limit how domestic VASPs can interact with foreign counterparts to mitigate risks associated with the sunrise issue. Of the 65 jurisdictions that have passed legislation enacting the Travel Rule, about half have measures in place to ensure domestic VASPs are only transacting with regulated and/or Travel Rule-complaint counterparts or are otherwise mitigating the risks (55%; 36 of 65). Measures include permitting domestic VASPs to transact only with licensed/registered foreign counterparts (5 respondents); allowing domestic VASPs to transact only with licensed/registered and Travel Rule-compliant foreign counterparts (15 respondents); allowing domestic VASPs to transact with foreign VASPs that are licensed/registered in specific jurisdictions and/or complying with the Travel Rule (4 respondents); or permitting VASPs to transact with unlicensed/unregistered foreign counterparts but only where risk mitigating measures are taken (12 respondents). However, 15% of jurisdictions (10 of 65) that have passed legislation enacting the Travel Rule still allow domestic VASPs to transact with any foreign VASP, regardless of licensing/registration, Travel Rule compliance, or risk mitigating measures.

33. The FATF will continue to work to accelerate implementation of R.15, given the sunrise issue will only be resolved with widespread implementation of the FATF Standards on VAs and VASPs, including the Travel Rule. The FATF calls on all jurisdictions to rapidly enact and enforce the Travel Rule.

**VASP counterparty due diligence****Counterparty due diligence**

Counterparty due diligence ensures VASPs avoid dealing with illicit or sanctioned actors and helps ensure that a counterparty can comply with the Travel Rule, including protecting the confidentiality of shared information. Note that counterparty due diligence for the purpose of complying with R.16 is distinct from the obligations applicable to cross-border correspondent relationships (R. 13). (FATF (2021) Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers)

34. For a VASP to transmit the required Travel Rule information, they need to identify and conduct due diligence on their counterparty VASP. Discussions with the public and private sectors throughout 2023 and 2024 indicate that this remains a challenge both due to difficulties in identifying the counterparty VASP based on VAS wallet address and varying counterparty VASP due diligence requirements across jurisdictions. The private sector indicated that public national lists of registered or licensed VASPs facilitated the counterparty due diligence process. However, according to the research conducted by one private sector participant, at least 34 jurisdictions with a VAs regulatory regime lack a public data on licensed or registered VASPs<sup>22</sup>. VASPs noted that the absence of such information or challenges accessing and using such information could make it difficult to determine service providers that are permitted to undertake VA activities in a certain jurisdiction or can require manual collection of VASP data for each transaction.

35. As noted above, the survey results show that many jurisdictions still allow domestic VASPs to transact with foreign VASPs that are not licensed/registered and/or do not comply with the Travel Rule. Without the proper identification of the counterparty VASP and the beneficiary location prior to completing a VA transfer, the originator VASP cannot fully manage the risk of breaching economic sanction obligations (e.g., VA transfer to the restricted economic area). For cases in which only one of the originator and beneficiary VASPs has Travel Rule obligations due to differences in national requirements, VASPs should still take steps to comply with targeted financial sanctions obligations. One risk mitigation measure could be, as 12 jurisdictions have chosen to permit VASPs to transact with unlicensed/unregistered foreign counterparts only if the originator VASP takes risk mitigating measures (12 respondents).

36. The private sector indicated that the ability of VASPs to transact with foreign VASPs that are not licensed/registered and/or do not comply with the Travel Rule presented additional challenges for counterparty due diligence given the difficulties in assessing if and where counterparties were registered or licensed, whether they had Travel Rule obligations, and potential risks.

<sup>22</sup> [www.vaspnet.com/articles/the-global-state-of-compliance-with-fatf-recommendation-15](https://www.vaspnet.com/articles/the-global-state-of-compliance-with-fatf-recommendation-15)



### **Issues with Travel Rule compliance tools**

37. The 2022 and 2023 Targeted Update reports note that while the industry has responded to the FATF Standards on VAs and VASPs by developing a range of Travel Rule compliance tools, many do not fully meet the FATF standards and there remain challenges regarding interoperability.

38. As set out in the 2023 Targeted Update (see Table 2.1)<sup>23</sup>, common shortcomings include a failure to transmit information immediately, which undermines the purpose of the Travel Rule (e.g., to enable sanctions screening) and ability of a VASP to appropriately conduct counterparty due diligence.

39. Both the public and private sector can help avoid largescale adoption of non-compliant tools, as emphasised in the previous Targeted Update reports. Regulators and supervisors should continue engaging with their VASP sector to identify commonly used compliance tools and ensure these tools meet all the FATF requirements as well as take supervisory or enforcement actions for violations of Travel Rule obligations in their jurisdiction to set a clear precedent and act as an effective deterrent against non-compliance. Travel Rule compliance tool providers should evaluate and address possible shortcomings, including deficiencies identified in the 2023 Targeted Update, to take appropriate remediation actions. Some of the deficiencies identified in the 2023 Targeted Update remain, and some VASPs have been subject to enforcement actions for failing to comply with TR obligations while using deficient TR compliance tools.

40. VASPs should take a deliberative and informed decision and select a compliance tool(s) that will allow them to meet all FATF Travel Rule requirements. Box 2.1 below sets out guiding questions that VASPs should ask to determine whether potential Travel Rule solution tools will comply with all FATF requirements. Regulators and supervisors should also refer to the questions when engaging with VASPs and the Travel Rule compliance tool providers to ensure compliance with the Travel Rule in their jurisdictions.

41. While interoperability among Travel Rule compliance tools is not required in the FATF standards, a lack of interoperability between tools can present frictions noted above and reduce the ability of VASPs to identify counterparties and successfully send and receive TR information. This can have knock-on effects for transaction monitoring or detecting suspicious activity. Discreet, rather than interconnected, Travel Rule tools with closed lists of participants may also complicate the identification of counterparty VASPs and could result in the misidentification of a counterparty VASP as an unhosted wallet simply because the counterparty did not use the same Travel Rule compliance tool as the beneficiary. The FATF urges the private sector to progress towards increasing compatibility amongst Travel Rule compliance tools, whether through technological advancements that allow interoperability between tools, or by developing relationships that permit transactions to be made through a chain of interoperable tools or other methods.

42. Seven additional jurisdictions also noted in 2024 survey responses that VASPs are using in-house Travel Rule compliance tools that are newly and locally developed, reflecting an increase in this approach rather than using third-party tools for Travel Rule compliance (3 jurisdictions in 2023). Some VACG members indicated interest in better understanding how in-house tools enable transmission or receipt of data from

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<sup>23</sup> FATF (2023) Virtual Assets: Targeted Update on Implementation of the FATF Standards

VASPs using other tools or foreign VASPs and one delegation expressed concerns around the effectiveness of these tools in enabling VASPs to be compliant with their requirements. As noted in the previous section, supervisory authorities and regulated VASPs are encouraged to engage in a collaborative process with Travel Rule compliance tool providers to ensure their Travel Rule compliance tools enable VASPs to meet regulatory requirements. Ideally this should happen before VASPs start using the tool(s). To provide further guidance on collaboration regarding Travel Rule compliance tools, the VACG has set out a list of pertinent questions and considerations below (see Box 2.1).

### **Box 2.1. Guiding questions and considerations for Travel Rule compliance tool providers**

The below questions may be useful to help VASPs and jurisdictions engage with Travel Rule compliance tool providers. VASPs and jurisdictions should consider the below in addition to the guiding questions included on p. 25 of the 2023 Targeted Update.

#### *Timing and scope of Travel Rule data submission*

- Does the tool cover all VA types that are offered/transferred by a VASP? If not, what would be the alternative plan or method that the VASP takes for TR compliance?
- Does the tool use an embedded and structured data format that meet global industry standards such as ISO20022? Note that this could enable VASPs to conduct sanction screening and transaction monitoring more effectively.
- Does the tool allow a VASP to submit and obtain securely Travel Rule information in sufficient time for originating, beneficiary, and intermediary institutions, (i.e., simultaneously or before the transaction is executed on the blockchain, with no exceptions)?
- Does the tool enable ordering VASPs to submit Travel Rule information to certain beneficiary VASPs or have a function that allows an originator VASP, possibly automatically/pre-programmed, to choose not to send TR data when the originator VASP does not want to send the data to the counterparty VASP? Possible scenarios include the originator VASP needing to avoid providing financial services to certain sanctioned jurisdictions, high TF/PF risk areas, or lower level of data privacy protection regulation jurisdiction.

#### *Counterparty VASP identification and due diligence*

- Does the tool provide VASPs with a secure communication channel to help follow-up with a counterparty VASP to:
  - seek information on the counterparty VASP to allow the VASP directly to conduct required counterparty due diligence; and
  - request information on a certain transaction to determine if the transaction involves high-risk or prohibited activities

- Please be reminded VASPs are required to independently assess counterparty risk as set out in the FATF’s 2021 Guidance. Even if VASPs use the same Travel Rule compliance tool or are within the same financial group does not automatically remove the need for VASPs to independently verify the information and ensure all relevant domestic obligations are met.

*Questions on interoperability with other Travel Rule compliance tools and “in-house” tools*

- In addition to the above questions and the list of questions noted in the 2023 Targeted Update<sup>24</sup>:
  - How does the tool transmit Travel Rule data to or receive Travel Rule data from external counterparty VASPs as well as transaction type and amount that are not covered by the tool?
  - Does the tool have limitations regarding to/from which VASPs it can send/receive data?
  - What is the tool's customer base? Does it sufficiently cover a VASP's need to transfer VA overseas?

***Proposed revisions of R.16 and implications on the Travel Rule implementation***

43. In February 2024, the FATF began a public consultation on the potential changes to Recommendation 16 and its Interpretive Note on payment transparency, based on the text of the proposed amendments and an Explanatory Memorandum<sup>25</sup>. The proposed revisions seek to adapt the Standard to changes in payment systems' business models and messaging standards (ISO 20022) and ensure that R.16 remains technology-neutral and follows the principle of ‘same activity, same risk, same rules’.

44. As the source of the Travel Rule, the updates to R.16 may have implications for the VA sector, including what originator and beneficiary information must be transmitted and the roles and responsibilities of VASPs involved in complex and/or hybrid payment chains<sup>26</sup>. Once the revision of R.16 is finalised, the FATF will decide whether the Travel Rule requirement for VASPs will change.

<sup>24</sup> Virtual Assets: Targeted Update on Implementation of the FATF Standards on VAs and VASPs (fatf-gafi.org)

<sup>25</sup> The text of the proposed amendments and the Explanatory Memorandum, published after the Plenary for public consultation, is included in Annex C.

<sup>26</sup> FATF (2024) Public Consultation on Recommendation 16 on Payment Transparency

## SECTION THREE: Market Developments and Emerging Risks

### Use of VAs for predicate offences, money laundering, terrorist financing and proliferation financing

45. Virtual Assets continue to be used to support the proliferation of weapons of mass destruction as well as by scammers, terrorist groups, and other illicit actors. Industry reported that DPRK continued to steal or extort virtual assets from victims, although one firm reported that additional cybersecurity measures amongst some firms and DeFi arrangement contributed to a reduction of the amount stolen year-over-year; another blockchain analytics company noted that DPRK-stolen funds fell from USD 1.7 billion in 2022 to USD 1.0 billion in 2023<sup>27</sup>. One jurisdiction also noted that price fluctuations in virtual assets contributed to this reduction in the amount stolen by DPRK actors in 2023 compared to 2022. Two private sector firms described how DPRK used increasingly sophisticated methods to launder illicit proceeds, often involving anonymity-enhancing coins, mixers, DeFi arrangements, and cross-chain bridges, before converting stablecoins into fiat currency at over-the-counter brokers concentrated in certain jurisdiction(s).

46. Private sector participants highlighted the role of virtual assets in investment fraud schemes, in particular so-called “pig butchering” scams, in which fraudsters gain the confidence of their victims before eventually enticing them to make investments in fraudulent VASPs.<sup>28</sup> One participant also noted an increase in ransomware attacks and payments, which are almost always demanded in virtual assets, with a focus on targeting large, high-value organisations or high-profile entities that attackers think are more likely to pay a ransom.

47. Participants also noted an increasing use of virtual assets by terrorist groups, in particular by groups in Syria and ISIL in Asia, while recognizing that the majority of TF continued to occur in cash and other traditional methods. They noted that terrorist groups that were using virtual assets often used stablecoins and experimented with anonymity-enhancing cryptocurrencies.

<sup>27</sup> Chainalysis (24 January 2024) “Funds Stolen from Crypto Platforms Fall More Than 50% in 2023, but Hacking Remains a Significant Threat as Number of Incidents Rises”. Available at: [www.chainalysis.com/blog/crypto-hacking-stolen-funds-2024/](https://www.chainalysis.com/blog/crypto-hacking-stolen-funds-2024/)

<sup>28</sup> See U.S. Department of Justice (DOJ), U.S. Attorney’s Office, Central District of California Press Release, “Justice Dept. Seizes Over \$112M in Funds Linked to Cryptocurrency Investment Schemes, With Over Half Seized in Los Angeles Case” (Apr. 3, 2023).

## Stablecoins

48. Public and private sector participants recognised the increased adoption and use of stablecoins for illicit activities, including fundraising campaigns by terrorist groups.<sup>29</sup> These findings are supported by reports of blockchain analytics firms, which found an increased use in particular of Tether’s stablecoin, USDT<sup>30</sup>. Mass adoption of VAs, including stablecoins, could potentially decrease the use of AML/CFT-obliged entities as stablecoins stored in unhosted wallets could potentially be used to purchase goods without being converted to fiat currency. As discussed in the Updated Guidance, certain stablecoins could have greater potential for mass-adoption, which could amplify illicit finance risks associated with virtual assets more broadly.

49. A range of entities in a stablecoin arrangement such as issuers and intermediaries may be VASPs or otherwise have AML/CFT obligations; such entities, if offering services in a jurisdiction where they are not based, incorporated, or licensed/registered (offshore), could present particular illicit finance risks and require international cooperation. These observations emphasise the importance of relevant FATF Standards being effectively implemented before the mass adoption of stablecoins, in order to manage and mitigate ML/TF/PF risks. Several jurisdictions reported that they have implemented regulatory frameworks for stablecoin issuers and intermediaries including the Travel Rule.

50. Stablecoin service providers noted that they can employ risk mitigation measures, including using blockchain analytics to monitor use of their stablecoins even for transactions to which the provider itself is not directly party to assess illicit finance risk. Additionally, some stablecoin arrangements have the ability to freeze or burn stablecoins via programmability in the code underpinning the stablecoin tokens. Stablecoin service providers most frequently use this capability often at the request of law enforcement or in line with targeted financial sanctions obligations.

## Decentralised Finance (DeFi)

51. As noted in the 2022 and 2023 Targeted Update reports, identifying individuals or entities exercising control or influence over DeFi arrangements continues to be challenging. VACG members continue to agree that many DeFi arrangements are decentralised in name only, while recognizing that there are still regulatory challenges in applying the FATF Standards to DeFi arrangements, particularly in relation to identifying regulatory anchor points and identifying where DeFi platforms are located, operating, and/or licensed/registered. The FATF will continue monitoring relevant developments and trends.

52. During the VACG outreaches, several participants, both from the public sector and private sector or academia, shared their recent discussions, reports, and outcomes. Several discussion forums considered the degree to which DeFi arrangements are in practice decentralised, but reached no consensus.

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<sup>29</sup> So-called ‘stablecoins’ are not a legal or technical category and the use of this term is not intended to endorse any stability claims. Under the revised FATF Standards, a stablecoin will either be considered a virtual asset or a traditional financial asset depending on its exact nature: FATF (2020) Report to the G20 on So-called Stablecoins.

<sup>30</sup> TRM Labs “The Illicit Crypto Economy Key Trends from 2023”. Available at: [www.trmlabs.com/the-illicit-crypto-economy-report](http://www.trmlabs.com/the-illicit-crypto-economy-report)

53. Based on survey results, around half of jurisdictions (49%; 39 of 80) that are more advanced in regulating VASPs (i.e., those that have passed legislation implementing the Travel Rule for VASPs or are in the process) are requiring certain DeFi arrangements to be licensed or registered as a VASP (e.g., where the creator, owner or operator maintains control or sufficient influence in the arrangement) (See Figure 3.1). Of the 51% (41 of 80) of advanced jurisdictions that *do not* apply their AML/CFT framework for VASPs to DeFi entities, 44% (18 of 41) are taking steps to identify and address risks in this area (e.g., studying the risks or engaging with the private sector) and 42% (17 of 41) are not taking any specific steps or other initiatives related to DeFi.

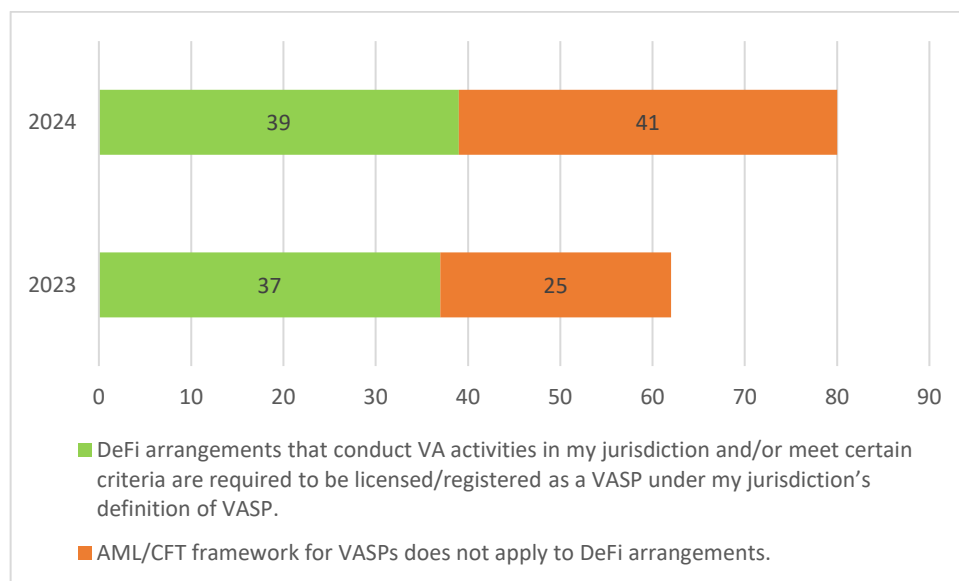
### Box 3.1 Case study: How the SCA dealt with a Defi exchange

The Securities and Commodities Authority (SCA) noticed an entity advertising on its website that it is licensed by the UAE’s competent authorities. After investigating, the SCA has found that the entity was a Defi exchange which claims that it is licensed in every jurisdiction in which it advertises its website. Based on the findings, SCA has taken the following actions:

1. issued investor alert by informing the public that the company is not licensed by the SCA or any other competent authorities in the UAE and warning the public not to undertake any transaction or deal with the exchange;
2. initiated a request to the Competent Telecommunications Authority to consider blocking the exchange’s website so that it is not accessible from the UAE; and
3. shared the findings and actions with all relevant and competent authorities for information and prompt necessary actions.

Source: The UAE Securities and Commodities Authority

Figure 3.1. Approach to DeFi arrangements



54. As in 2023, most jurisdictions (77%; 30 of 39) have not identified any unregistered/unlicensed DeFi entities that qualify as VASPs, which may indicate that jurisdictions continue to struggle with identifying entities in DeFi arrangements that fall within their regulatory perimeter for VASPs. 9 jurisdictions have successfully identified DeFi entities that qualify as VASPs and/or taken supervisory or enforcement action against such entities (see Table 3.1). Compared to the findings in the 2023 Targeted Update report (one jurisdiction), one more jurisdiction reported having registered or licensed DeFi entities as VASPs in practice (5%; 2 of 39).

**Table 3.2. Approach to DeFi arrangements**

My jurisdiction has registered/licensed DeFi entities as VASPs	2
My jurisdiction has taken supervisory or enforcement action against DeFi entities that qualify as VASPs (e.g., supervisory inspection, finding, sanction).	5
My jurisdiction has identified unregistered/unlicensed DeFi entities that qualify as VASPs, but no supervisory or enforcement actions have been taken.	2
My jurisdiction has not identified any unregistered/unlicensed DeFi entities that qualify as VASPs.	30

55. One jurisdiction reported that the services offered in the area of automated market making (AMM) were identified as VASP relevant activities. It was noted that the programming and maintenance of the protocol, the control over the smart contracts required to use the AMM and the collection of fees from the AMM lead to an attribution of the DeFi activity to the programmer/provider of the smart contracts. Another jurisdiction reported that the definition of virtual asset trading platform covers both a centralised or decentralised digital platform under the existing regulatory framework and the operator of the platform shall be deemed the owner of the entity where a single entity or group that controls the platform cannot be identified. Currently, one entity is registered as a decentralised exchange in this jurisdiction, which in reality has a centralised oversight structure.

56. Many jurisdictions, including those that have not determined a regulatory approach to DeFi arrangements, recognise the risks associated with DeFi arrangements and are in the process of developing or conducting risk assessments.

57. In addition, some jurisdictions started exploring other ways that may address ML/TF risks related to DeFi arrangements and reflect technical characteristics, i.e., composability which allows the integration of compliance functions such as screening for targeted financial sanctions, that are distinct to DeFi arrangements. One jurisdiction launched a pilot project to develop, deploy and test a technological solution for embedded supervision of DeFi activity, in particular to explore the feasibility of a technical solution allowing for supervision conducted at the technical protocol level of DeFi. The project focuses on the technological capabilities for automated supervisory data gathering directly from blockchain with the aim of identifying potential prudential policy measures in the DeFi space. Another jurisdiction is conducting research on the concept of embedded supervision in order

to potentially mitigate the risks associated with DeFi arrangements and P2P transactions. One jurisdiction emphasised that efforts for embedded supervision should be deliberately assessed prior to implementation and may not be appropriate for all jurisdictions.

58. Another jurisdiction, in a risk assessment focused on DeFi, recognised that AML/CFT compliance tools and public blockchain data analysis could partially mitigate risks DeFi arrangements. The risk assessment identified that many tools required further technical development and adjustments to meet AML/CFT requirements and that use of anonymity-enhancing tools and methods could limit the ability to mine data from public blockchains.

59. In line with the 2023 Targeted Update, jurisdictions recognised that that DeFi arrangements still account for a relatively low percentage of overall VA activity while noting the need to monitor DeFi arrangements for illicit finance risks.

60. Private sector participants posited that illicit finance activity could migrate to DeFi arrangements from centralised VASPs as jurisdictions make progress with R.15 implementation. Survey findings support that even jurisdictions with mature AML/CFT frameworks for VASPs may not cover DeFi arrangements. Private sector participants identified that DeFi arrangements were most commonly used to launder proceeds from investment fraud and that hacks of DeFi arrangements had decreased from USD 3.1 billion in 2022 to USD 1.1 billion in 2023 as estimated by blockchain analytics firms, perhaps partially due to increased cybersecurity measures.

### Unhosted Wallets, including Peer-to-Peer (P2P) Transactions

61. As in 2023, even amongst jurisdictions with more advanced VASP regulations (i.e., those that have passed legislation implementing the Travel Rule for VASPs or are in the process), the majority of respondents (64%; 51 of 80) have not yet evaluated or started evaluating the specific risks related to self-hosted wallets or P2P transactions. Data gaps remain as a main challenge, as noted by many jurisdictions. Several jurisdictions (15%; 12 of 80), however, reported that they are currently working on collecting and assessing P2P market metrics to evaluate the ML/TF/PF risks posed by unhosted wallets and reflecting this in its national risk assessment (NRA), strategy or other policy documents. The majority of these jurisdictions reported doing so as part of updating their NRA.

62. The public and private sectors agreed that volume going through unhosted wallets decreased in 2023. The private sector noted that they had observed unhosted wallets be used in the layering process of money laundering. Generally, though, the private sector emphasised that VASPs continued to play a critical role as on-and off-ramps to fiat currency.

63. A number of jurisdictions are assessing risks associated with unhosted wallets and P2P and a few completed the initial assessment. One jurisdiction reported that it analysed the size of the P2P market, defined its mode as one of vulnerability in its risk assessment and issued guidelines detailing the risks of this type of business. Another jurisdiction reported to have developed a guidance for VASPs on how to undertake Enhanced Due Diligence (EDD) for unhosted wallets and unregistered VASPs.

64. Regarding transactions between unhosted wallets and VASPs, many jurisdictions reported that they require VASPs to take risk mitigation measures in accordance with the 2021 Guidance. Examples of practices include: requiring VASPs



to use blockchain analytics tools to identify and assess the risk of the unhosted wallets to which the VAs are to be sent, only allowing transfers to unhosted wallets controlled by the originator, requiring the similar requirements as the travel rule to VASP-unhosted wallets transactions, and require enhanced due diligence.

65. During outreach since July 2023, several public and private sector participants shared mitigation measures for risks associated with P2P transactions. They emphasised the importance of Travel Rule implementations, as wide implementation of the Travel Rule can increase VASPs' risk awareness and ease the identification of transactions coming from or going to unhosted wallets. One jurisdiction shared the case of lower-risk unhosted wallet transactions that have been relatively common in local VASPs, where local users earn VAs through "play-to-earn" apps and subsequently, transfer earned VAs from their "unhosted wallet" connected to the apps to a VASP wallet. Thanks to the domestic data collection and due diligence requirements on transactions involving unhosted wallets, regulated VASPs have the obligation to contact customers to obtain required information, assess the transaction risk, and determine if the information obtained is trustworthy.

### Non-Fungible Tokens (NFTs)

66. Jurisdictions continue to take different approaches to NFTs. Looking at survey responses, most jurisdictions that are more advanced in regulating VASPs (i.e., those that have passed legislation implementing the Travel Rule for VASPs or are in the process), are primarily regulating NFTs as VAs where appropriate (e.g., where NFTs are used for payment or investment purposes) (53%; 42 of 80 respondents). 45% of advanced jurisdictions do not apply their AML/CFT framework to NFTs (36 of 80 respondents). 2 jurisdictions reported that NFTs were regulated as art or cultural objects, whereas no jurisdictions have reported doing so in the previous Targeted Update reports.

67. One jurisdiction published an illicit finance risk assessment on NFTs. The risk assessment identifies that NFTs and NFT platforms are to date rarely being used for proliferation or terrorist financing. However, the assessment finds that NFTs are highly susceptible to use in fraud and scams and are subject to theft. Additionally, criminals can use NFTs to launder proceeds from predicate crimes, often in combination with other methods to obfuscate the illicit source of funds.

## SECTION FOUR: Next Steps for the FATF and VACG

68. In line with the Roadmap to improve R.15 implementation, the FATF and VACG will continue to conduct outreach and provide assistance to jurisdictions with materially important VASP activity as well as lower capacity jurisdictions to encourage compliance with R.15, including by:

- Using FATF's internal online platforms to share material related to R.15, including available training and presentations; examples of legislation/regulation, guidance and risk assessments; and information on other jurisdictions' approaches.
- Facilitating outreach and engagement where possible with a specific focus on R.15 elements commonly identified as challenging, (e.g., risk assessment, licensing and registration, implementation of the Travel Rule), and prioritising jurisdictions with materially important VASP activity.
- Organising forums, workshops or webinars as possible to facilitate jurisdictions sharing their experiences and to build capacity. This should include supporting broader efforts, where possible in collaboration with international organisations (including technical assistance providers and Standards-setting bodies) that have resources, tools and experience in TA provision in the VA sector such as IMF, World Bank and IOSCO.

69. The FATF will work to further expand VACG participation to the FSRBs to enhance engagement and help accelerate the global implementation of R15 by FRSB members.

70. The FATF will publish the next Targeted Update in 2025 on jurisdictions' progress implementing R.15, and regulatory policies and responses to emerging virtual asset risks and developments. The FATF will also publish as well as an updated public table of jurisdictions with materially important VASP activity.

71. The FATF will continue monitoring updates in the VA ecosystem, including the development of Travel Rule tools and implementation of the Travel Rule by jurisdictions.

72. The FATF will continue to monitor market developments in order to ensure that FATF Standards remain relevant in light of rapid changes and evolving risks in this space, including related to DeFi and unhosted wallets, including P2P transactions. The FATF will continue to gather practices from member jurisdictions on risk assessments, regulatory frameworks and supervisory and enforcement actions related to emerging risks such as stablecoins, DeFi, and P2P and continue to serve as

a platform to share findings, experiences, challenges and leading practices among VACG members and with the FATF Global Network.

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