



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

JUNE 2022



The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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Executive summary

1. It has now been three years since the Financial Action Task Force (FATF) extended its anti-money laundering and counter-terrorist financing (AML/CFT) Standards to financial activities involving Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs), to respond to the threat of criminal and terrorist misuse¹. Since then, FATF has published two global reviews of implementation of the FATF Standards on VAs and VASPs^{2,3}, and in October 2021 published Updated Guidance to help jurisdictions and VASPs effectively implement these requirements⁴. This report provides a third targeted review of implementation, with a focus on FATF's Travel Rule, which requires the private sector to obtain/exchange beneficiary and originator information with VA transfers⁵. It also provides a brief update on general implementation of FATF's Recommendation 15 and its Interpretative Note (R.15/INR.15), as well as emerging risks and market developments that FATF continues to monitor, such as Decentralised Finance (DeFi), Non-Fungible Tokens (NFTs), and unhosted wallets.

Key Findings

2. The report finds that:
 - The vast majority of jurisdictions have not yet fully implemented FATF's R.15/IN.15 requirements (which set the global AML/CFT Standards for VAs and VASPs). Of the 53 jurisdictions that have been assessed by the FATF's Global Network⁶ since June 2021, the majority still require major or moderate improvements on R.15, with improvements particularly needed on assessing ML/TF risks, and the application of AML/CFT preventative measures.
 - Over the last year, jurisdictions have made only limited progress in introducing FATF's Travel Rule (which is a key FATF requirement that enables private sector to comply with sanctions requirements and to detect suspicious transactions)⁷. As of March 2022, while 29 out of 98 responding jurisdictions reported having passed Travel Rule legislation, only 11 jurisdictions have started enforcement and supervisory measures. While around a quarter of responding jurisdictions are now in the process of passing the relevant legislation, around one-third (36 out of 98) have not yet started introducing

¹ The FATF Standards: [FATF Recommendations](#) (Amended in 2022).

² [12-Month Review of Revised FATF Standards on Virtual Assets and VASPs](#). 2020.

³ [Second 12-Month Review of the Revised FATF Standards on Virtual Assets and VASPs, 2021](#).

⁴ [FATF Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers](#) (Initially published in 2019 and updated in 2021).

⁵ The 'travel rule' is a key AML/CFT measure, which mandates that VASPs obtain, hold and exchange information about the originators and beneficiaries of virtual asset transfers (as per paragraph 7 of FATF's Interpretative Note to 15). This enables financial institutions and VASPs to conduct sanctions screening and to detect suspicious transactions.

⁶ FATF's Global Network comprises of over 200 jurisdictions that have committed to implement the FATF's AML/CFT Standards.

⁷ The FATF's Travel Rule applies to all VA transfers, based on the cross-border nature of VA activities and VASP operations (see para 180 of FATF's [Updated Guidance](#)).

the Travel Rule⁸. This gap leaves VAs and VASPs vulnerable to misuse, and demonstrates the urgent need for jurisdictions to accelerate implementation and enforcement.

- The private sector has made progress over the last year in facilitating Travel Rule implementation. Technological solutions are currently available to support compliance, albeit with some limitations, and Travel Rule providers have started taking early steps to ensure interoperability with other solutions. Nevertheless, the private sector needs to further strengthen interoperability between solutions, and to ensure full compliance with the FATF Standards, to enable global implementation.
- As jurisdictions and the private sector have implemented the Travel Rule, they have found challenges to implementation, especially between jurisdictions that regulate VAs and VASPs, and those that do not (the “sunrise issue”). Furthermore, jurisdictions are taking different approaches to some extent to Travel Rule requirements, as allowed for under the FATF Standards (i.e. approaches to unhosted wallets, data protection rules, and thresholds). This highlights the need for jurisdictions to continue to coordinate on common issues, and for the private sector to advance global technological tools that can accommodate for nuances across jurisdictions.
- Since June 2021, DeFi and NFTs markets have continued to grow. FATF’s recent outreach with industry suggests that “decentralised” currently can be a marketing term rather than a technical description, and that even in so-called decentralized arrangements, often there continues to be persons and centralized aspects that may be subject to AML/CFT obligations.
- There continues to be a significant threat of ransomware actors misusing VAs to facilitate payments, and ransomware cybercriminals continue to rely on a small group of non-compliant VASPs and privacy coins to move funds.

Next Steps

3. Based on the findings of this report, FATF has identified the following priorities for action by the Virtual Asset Contact Group (VACG), members of the Global Network, and the private sector:

Compliance with R.15/INR.15

- i. Both FATF and FATF-style regional body (FSRB) members should accelerate compliance with FATF’s R.15/INR.15, with a priority focus on assessing ML/TF risks of VA and VASPs, and the application of AML/CFT measures to mitigate these risks. This will require both passing relevant laws and effective enforcement.

FATF’s Travel Rule

- ii. Countries that have not introduced Travel Rule legislation should do so as soon as possible, and FATF jurisdictions should lead by example by promoting implementation, and by sharing experiences and good practices.

⁸ Over half of the FATF Global Network did not respond to the survey and it is assumed that those jurisdictions have not made progress in Travel Rule implementation.

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As mentioned above, there are now various technological solutions available to support this implementation in practice, despite further advancements needed, and rapid implementation by jurisdictions will incentivize progress further.

- iii. The FATF and its VACG should continue to promote cross-border implementation of the FATF's Travel Rule, by facilitating discussions across jurisdictions on common implementation challenges and good practices⁹, and should review implementation progress again by June 2023¹⁰.
- iv. As part of their broader efforts to comply with the FATF standards, the private sector should strengthen efforts to facilitate interoperability across Travel Rule technological solutions, and ensure flexibility to accommodate for nuances in domestic requirements.

Market Developments

- v. The FATF and its VACG should continue to monitor market trends for material developments that may necessitate further FATF work, including how the FATF Standards apply to DeFi and NFTs, and engage with members and the private sector to understand risks, mitigation measures, and country approaches to such issues. In addition, FATF will work with its members over the next year to raise awareness of common trends in ransomware payments and related ML through VAs and VASPs.

⁹ This may include dialogue on cross-border issues such as 1) monitoring and risk mitigation measures involving transaction between VASPs and unhosted wallets; 2) interoperability of Travel Rule technological solutions; 3) de minimis thresholds; and 4) data protection rules.

¹⁰ With the intention of publishing the main findings.

Introduction

4. In October 2018, FATF updated its Standards to extend AML/CFT requirements to Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs). In June 2019, FATF adopted an Interpretive Note to Recommendation 15 (INR.15) to clarify how the FATF requirements apply in relation to VAs and VASPs. Since then, FATF has conducted two reviews to determine how jurisdictions and private sector are implementing the revised FATF Standards for VAs and VASPs. These reviews found that both public and private sector had made progress in implementing the revised FATF Standards, but that substantial work remained to reach global implementation. The second 12-month review in June 2021 therefore committed FATF to focus on implementation of the FATF Standards on VAs and VASPs, including accelerating private sector implementation of the Travel Rule as a priority. Since then, FATF has published an [Updated Guidance for a Risk-Based Approach to VAs and VASPs](#) (October 2021), which provides clarifications to help jurisdictions and VASPs effectively implement the FATF's R.15/INR.15 requirements¹¹.
5. This report is a third targeted update on global implementation of the FATF's Standards on VAs and VASPs. In particular, this report is more targeted than the previous reviews as it focuses on implementation of FATF's Travel Rule. This report focuses on FATF's Travel Rule as it is an important requirement to enable VASPs to implement their targeted financial sanction and transaction monitoring requirements, and previous FATF analysis shows that implementation of this requirement has been particularly lagging. In addition, this report also provides a brief update on key themes that have emerged from FATF's recent consultations with industry and ongoing monitoring, including on Decentralised Finance (DeFi), Non-Fungible Tokens (NFTs), unhosted wallets, sanctions evasion, and ransomware.
6. To inform this report, FATF has drawn on the following information sources:
 - A March 2022 survey on the implementation of the Travel Rule, which collected responses from 98 jurisdictions (33 FATF members and 65 FSRB members). Not all jurisdictions responded to every question.
 - Meetings of the FATF's Virtual Asset Consultation Group throughout late 2021 and early 2022, including a consultation in April 2022 with representatives from the VA sector.
 - The latest results from the completed FATF Mutual Evaluations Reports (MERs) and Follow-up Reports (FURs) on R.15/INR.15 (as of May 2022).
7. This report sets out the findings of this review as follows:
 - Section 1 provides a brief update on Recommendation 15 results from across the FATF's Global Network.

¹¹ The [2021 Guidance](#) includes updates focusing on the following six key areas: (i) clarification of the definitions of virtual assets and VASPs; (ii) guidance on how the FATF Standards apply to stablecoins; (iii) additional guidance on the risks and the tools available to countries to address the money laundering and terrorist financing risks for peer-to-peer transactions; (iv) updated guidance on the licensing and registration of VASPs; (v) additional guidance for the public and private sectors on the implementation of the Travel Rule; (vi) principles of information-sharing and co-operation amongst VASP Supervisors.

6 | Targeted Update on Implementation of the FATF Standards on Virtual Assets/VASPs

- Section 2 summarises the FATF’s findings on implementation of the FATF’s Travel Rule.
- Section 3 provides a brief update on market developments and emerging ML/TF risks for VAs based on FATF’s ongoing monitoring.
- Section 4 sets out the FATF’s Next Steps based on the conclusions of this report.

SECTION ONE: State of Public Sector Implementation of FATF Standards for VAs/VASPs

Overall Status of Recommendation 15 Implementation

8. Since June 2021, the FATF's Mutual Evaluation (MER) and follow-up report (FUR) results suggest that jurisdictions have made only limited progress in implementing the FATF's R.15/INR.15 (which set the global AML/CFT Standards for VAs and VASPs). For example, from June 2021 to May 2022, the FATF and its Global Network have published 53 MERs and FURs, which include assessments of country compliance with the FATF's requirements on VAs and VASPs (R.15.3-15.11)^{12,13}. Overall, most jurisdictions assessed during this period have received a partially compliant (PC) rating¹⁴, showing there is a continued need to strengthen technical compliance with R.15¹⁵. Since June 2021, no jurisdiction has received a fully compliant rating with R.15. Only 12 jurisdictions out of 53 (23%) have been assessed as largely compliant with R.15, with 6 of these jurisdictions being FATF members and 6 being a member of an FATF regional body (either the Asian Pacific Group, the Caribbean Financial Action Task Force, or MONEYVAL) (See **Graph 1.1 and 1.2 below**).

¹² This analysis covers 13 MERs and 40 FURs, including all reports that FATF and FSRBs have published from June 2021 to May 2022.

¹³ The current analysis excludes 5 jurisdictions whose MERs was published since June 2021. These 5 jurisdictions began their mutual evaluation process before the adoption of the revised methodology (October 2019). Therefore, they were not assessed according to the revised methodology that includes R15.3-11.

¹⁴ Notably, while most of the R. 15 criteria in the technical compliance assessment are specific to VAs and VASPs, it also includes criteria that are not specific to VASPs (R15.1 and R15.2 in relation to new technologies). Therefore, a jurisdiction's performance on these criteria will also impact their overall R.15 rating.

¹⁵ There are four possible levels of compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC). These ratings are based only on the criteria specified in the technical compliance assessment. C rating is given when there are no shortcomings in the extent to which a country complies with the standard, LC (only minor shortcomings), PC (moderate shortcomings), and NC (major shortcomings).

Figure 1.1. R.15 Results across FATF Global Network (June 2021 to May 2022)

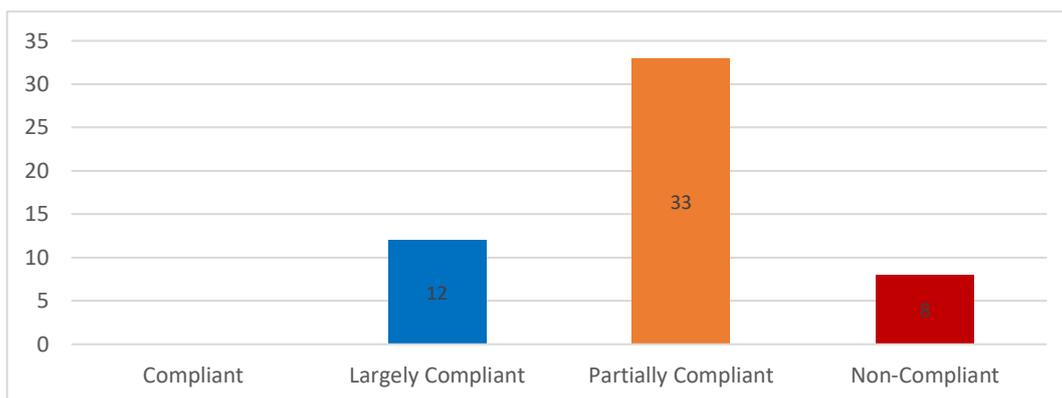
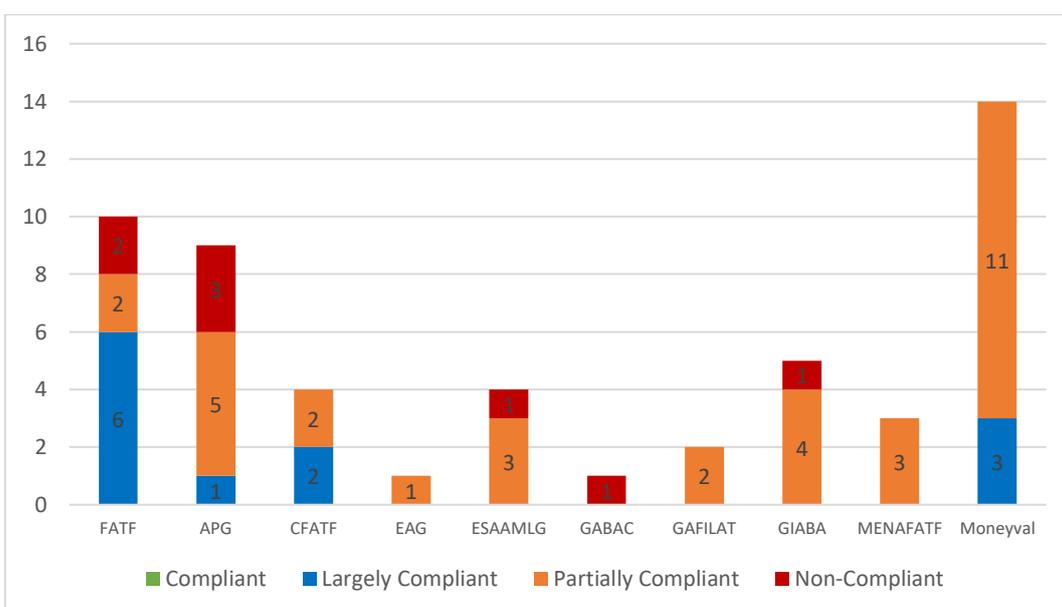


Figure 1.2. R.15 assessment by FATF/FSRB region (June 2021 to May 2022)

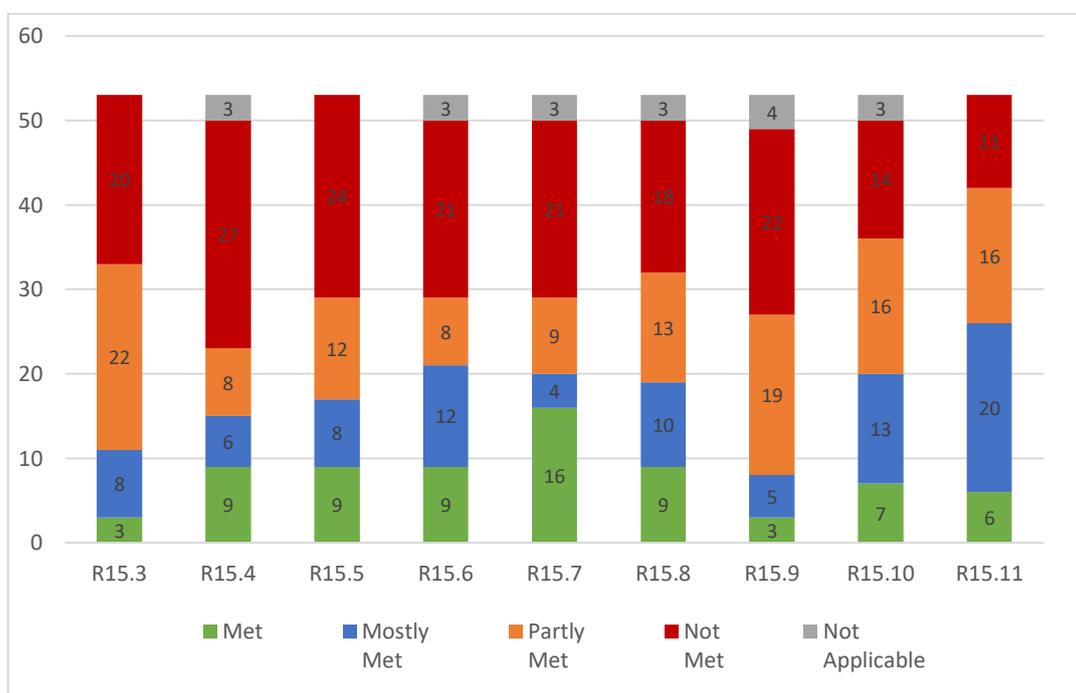


9. **Figure 1.3** below shows a breakdown of the results across the specific FATF criterion, or requirements, on VAs and VASPs across the 53 jurisdictions. This analysis shows that jurisdictions need to strengthen actions to assess ML/TF risks from misuse of VAs and VASPs; and application of a risk based approach to VAs and VASPs in line with these risks (FATF’s criterion 15.3). 42 out of 53 jurisdictions (79%) do not meet, or partly meet, this requirement. Similarly, in line with the second 12-month review, jurisdictions also continue to face challenges for sub-criterion 15.9, which requires jurisdictions to apply AML/CFT preventative measures to VASPs, such as customer due diligence and the Travel Rule. 41 out of 53 jurisdictions (77%) do not meet, or partly meet, this requirement.

10. Notably, the mutual evaluation results on R.15 compliance are consistent with feedback received through an FATF survey to members in March 2022, which collected feedback on jurisdictions’ progress in licensing and registering VAs and VASPs. The March 2022 survey found that of the 98 responding jurisdictions, 42

jurisdictions (or 43%) had introduced a licensing or registration regime for VAs and VASPs, in comparison to 39% (52 out of 128) in June 2021. This suggests there is a continued need for both FATF and FSRB members to accelerate compliance with the FATF Standards on VAs and VASPs in order to prevent criminal misuse.

Figure 1.3. FATF and FSRB Results on R.15 individual criterion (June 2021 to May 2022)



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

SECTION TWO: State of Implementation of FATF's Travel Rule

Overall status of implementation & enforcement

11. This section presents the findings of the FATF's March 2022 survey on implementation of the Travel Rule, as well FATF consultations with the private sector on the Travel Rule. In total, 98 jurisdictions responded to the FATF's March 2022 survey (33 FATF members and 65 FSRB jurisdictions¹⁶). FATF's Travel Rule (or Recommendation 16) requires VASPs to obtain, hold, and transmit required originator and beneficiary information, immediately and securely, when conducting VA transfers. This is a key AML/CFT measure that enables VASPs and financial institutions to carry out effective sanction screening and detect suspicious transactions.
12. This report finds that since June 2021, jurisdictions have made limited progress in implementing and enforcing the Travel Rule. There is therefore an immediate need for jurisdictions to progress in this area, and for the private sector to strengthen the development and interoperability of Travel Rule solutions. As of March 2022, while 29 out of 98 responding jurisdictions reported having passed Travel Rule legislation, only 11 jurisdictions have started enforcement and supervisory measures (see **figure 2.1** and **figure 2.2** below). This reflects only a marginal increase since the FATF's second 12-month review in 2021¹⁷. While around a quarter of jurisdictions have now started passing relevant laws and regulations, with most expecting to implement them by the end of 2023, around a third (36 out of 98, or 37%) have not yet started introducing the Travel Rule¹⁸. The level of progress amongst non-reporting FATF and FSRB members remains unknown, but the mutual evaluation results suggest that progress among non-reporting jurisdictions is likely to be slower than for reporting jurisdictions.

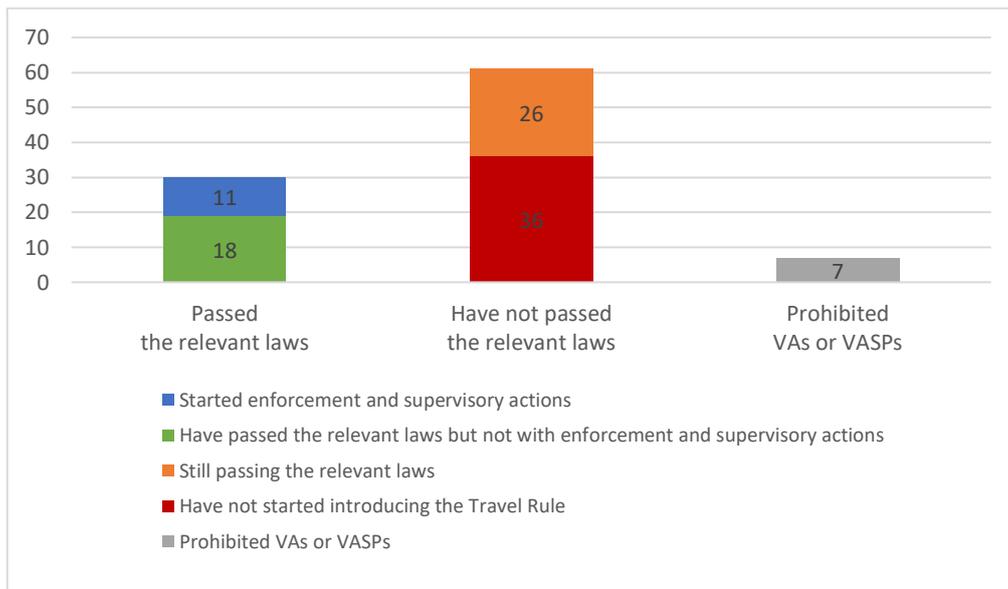
¹⁶ The questionnaire was a self-assessment by participating jurisdictions and is not an official FATF assessment of the level of implementation of jurisdictions. Compliance with the FATF Standards is assessed through the Mutual Evaluation Process and Follow-up Reports.

¹⁷ In the FATF's second 12-month review (published in June 2021), 24 out of 128 responding jurisdictions had passed the relevant Travel Rule legislation, with only 10 having started enforcement and supervisory actions. Notably, direct comparisons between this report and previous FATF reviews should be done with caution, given variations in responding countries and sample sizes.

¹⁸ For the remaining 7 responses, jurisdictions have prohibited VAs or VASPs, and are conducting outreach to detect unlicensed/unregistered activities.

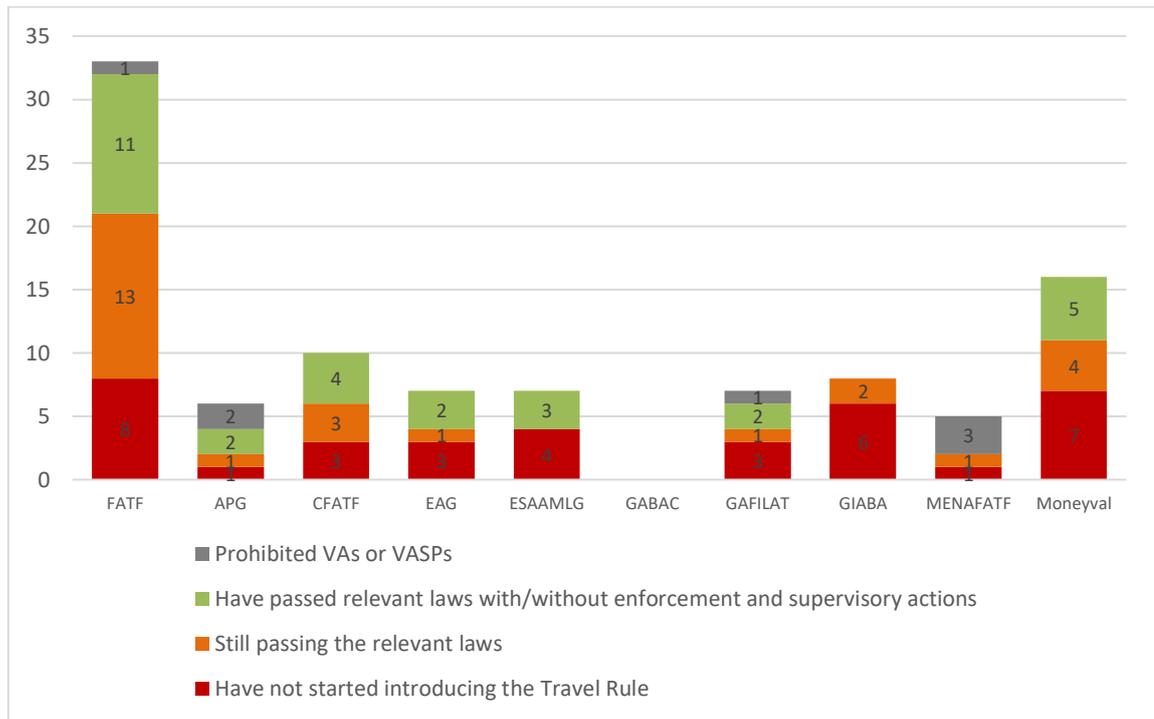
13. Of the jurisdictions that have not yet started introducing the Travel Rule, many FSRB jurisdictions noted this is due to: (i) the fact that the country is still developing a licencing/registration regime for VAs and VASPs; and/or (ii) a lack of domestic expertise to effectively supervise and enforce Travel Rule compliance.
14. In terms of private sector implementation, FATF consultations show that there has been some progress over the last year in the development and use of technological solutions to facilitate implementation, particularly for domestic and VASP to VASP transactions. Still, industry needs to further develop solutions that are global, interoperable, and can accommodate for nuances across national requirements.

Figure 2.1. Jurisdiction Implementation & Enforcement of the Travel Rule



Source: FATF March 2022 Travel Rule Survey.

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



Source: FATF March 2022 Travel Rule Survey.

Country Approaches to Common Implementation Issues

15. Similar to other AML/CFT requirements, while the FATF Standards clarify the minimum requirements for the FATF’s Travel Rule, jurisdictions have some flexibility in how they transpose these requirements into domestic legislation. Furthermore, as identified in the first and second 12 month reviews, delays in Travel Rule implementation have resulted in different transition and enforcement periods across jurisdictions, resulting in some VASPs interacting with foreign counterparties without similar Travel Rule requirement (also known as the ‘sunrise issue’).
16. With this context, there are nuances in national travel rule requirements across jurisdictions, including on: de minimis thresholds, data privacy issues, approaches to transactions with unlicensed/unregistered and unhosted wallets. Notably, many jurisdictions are still deciding on what approach to take on these issues. While the FATF Standards and Guidance do allow for variations, provided countries and the private sector meet the minimum requirements, this report highlights the need for jurisdictions to continue to coordinate on common issues, and for private sector to advance global technological tools that can accommodate for national nuances¹⁹.

¹⁹ Addressing this will require work by public sector to effectively clarify national requirements, and by the private sector to advance global interoperability and adaptability of travel rule solutions.

Approaches to the sunrise issue

17. As mentioned above, the ‘sunrise issue’ has resulted in situations where Travel Rule requirements enter force at different speeds across jurisdictions. To respond to this, FATF’s March 2022 survey highlights that some jurisdictions are: (i) introducing temporary flexibility for domestic requirements to address delays in global implementation, and (ii) providing guidance to the domestic VASPs on how to deal with situations where counterparties are unlicensed/unregistered, or unable to share Travel rule data (see paragraph 19 below).
18. For the former this includes: (i) phased approaches or grace periods for implementation of domestic Travel Rule requirements whereby flexibility and/or exemptions may apply; or (ii) allowing VASPs to implement risk mitigation measures when Travel Rule data cannot be shared prior to, simultaneously, or concurrently with a VA transfer (such as enhanced Customer Due Diligence on counterparties, or post-facto submissions in lower-risk cases)²⁰. Throughout consultations, the private sector has welcomed such transitional flexibility. Going forward, broad and rapid introduction of the Travel Rule can reduce the scale of the sunrise issues and provide additional incentives for industry to accelerate compliance.

Requirements for domestic VASPs interacting with unlicensed/unregistered foreign VASPs

19. As part of the sunrise issue, some jurisdictions have introduced requirements or guidance to clarify how their domestic VASPs should interact with foreign unlicensed/unregistered counterparts²¹. There are two dimensions to this issue: (i) whether domestic VASPs are permitted to make transactions with those VASPs; and (ii) whether domestic VASPs are required to send Travel Rule-related transactional and customer information to those VASPs. These two issues are addressed separately below.

a) Do jurisdictions allow transactions between VASPs and foreign unlicensed/unregistered counterparts? Based on the FATF’s March 2022 survey, most jurisdictions have not yet made a decision on this question, but, of those that have, most (22 out of 32 jurisdictions) have decided to allow domestic VASPs to transact with *any* foreign VASP, whether they are licenced/registered or not. A handful of other jurisdictions have decided to require domestic VASPs to limit transactions to foreign VASPs that are licenced/registered and/or apply FATF’s Travel Rule. Two jurisdictions have decided not to introduce mandatory requirements or limitations on such transactions, and instead provided guidance to industry on additional risk mitigation measures that they can take in such

²⁰ Notably, Recommendation 15 requires countries to ensure that all VASPs should be regulated for AML/CFT purposes and licensed/registered. In order to identify persons operating without a license and/or registration, the FATF’s [Updated Guidance](#) (October 2021) suggests the range of tools and resources countries should consider to investigate the presence of an unlicensed/unregistered VASP.

²¹ Out of the 87 jurisdictions that responded to this question, 55 jurisdictions indicated they had not yet made a decision or that they prohibited VAs or VASPs; 22 have decided to allow domestic VASPs to transact with any foreign VASPs; 3 jurisdictions plan to limit transactions to only foreign VASPs that are licenced; 5 plan to limit to foreign VASPs complying with the Travel Rule; and 2 will allow transactions with unlicensed/unregistered foreign VASPs with appropriate risk mitigations in place.

situations. Overall, both industry consultations and jurisdiction responses highlight the value in providing for flexibility in such cases.

b) Are VASP required to submit Travel Rule information to foreign unlicensed/unregistered counterparts? The vast majority of jurisdictions have not yet made a decision on this issue. Of those that have, most jurisdictions have decided to require domestic VASPs to apply the Travel Rule with all foreign VASPs, whether or not they are registered/licenced or have similar Travel Rule requirements²². A small group of jurisdictions have decided to limit Travel Rule requirements to only licenced/registered counterparts with similar requirements. Finally, several other jurisdictions have decided to leave it to the discretion of VASPs whether to share Travel Rule data in such cases, based on the ML/TF risks of the counterparty. As above, these approaches generally align with the flexibility provided in the FATF's Updated Guidance (October 2021), which provides examples of exceptions or altered procedures that VASPs could consider in cases where there are data protection concerns²³.

Approaches to requirements for domestic VASPs interacting with unhosted wallets

20. In addition to the above scenario, approaches to unhosted wallets have emerged as a key topic of discussion in industry consultations. In October 2021, the FATF's Updated Guidance provided clarifications on how the FATF's Travel Rule would apply in such cases²⁴. This report finds that, while many jurisdictions are still deciding what approach to take²⁵, most that have decided, will follow the approach outlined in the FATF's Updated Guidance, by requiring VASPs to collect relevant beneficiary information on unhosted wallets from their own customer. Other countries will require VASPs to apply additional mitigation measures or limit transactions with

²² Of the 90 jurisdictions that responded to this question, 69 have not yet made a decision; 10 have decided to require domestic VASPs to apply the Travel Rule with all foreign VASPs; 7 jurisdictions will not require, or plan to exempt, VASPs from applying the Travel Rule with foreign unlicensed/unregistered counterparts or those that do not have equivalent Travel Rule requirements; and the remaining 4 jurisdictions will require VASPs to use their discretion in such cases, based on the ML/TF risks of the counterparty.

²³ The FATF Standards require countries to ensure that originating VASPs submit the specified information to the beneficiary VASP or financial institution (if any) securely. Further, the Guidance describes exceptions or altered procedures that could be appropriate in cases where a VASP reasonably assesses that the counterparty VASP cannot sufficiently protect Travel Rule information

²⁴ See pages 18 and 19 of [FATF's Updated Guidance on VAs and VASPs](#) (October 2021). As noted in the Updated Guidance, FATF R.16's data submission requirements are applicable to transactions between regulated entities, and therefore FATF does not require VASPs to submit collected Travel Rule information to unhosted wallets. Nevertheless, as a risk mitigation measure for such transactions, FATF's Guidance states VASP should collect the required originator and beneficiary information on unhosted wallets from their own customer.

²⁵ Out of 98 jurisdictions that responded to this question, 64 indicated they have not yet decided on an approach or prohibit VAs; 11 plan to require domestic VASPs to collect relevant beneficiary/originator information from their own customer; 4 jurisdictions clarified that they won't require application of Travel Rule requirements to unhosted wallets; 7 will require VASPs to additionally apply mitigation measures or to limit transactions with unhosted wallets, and 6 jurisdictions don't distinguish between hosted and unhosted wallets in relevant regulations

unhosted wallets (such as verifying the identity of the unhosted wallet owner, or performing enhanced due diligence). Within the above responses, several jurisdictions responded that they are still studying how widely unhosted wallets are used in their jurisdictions.

21. In FATF consultations to date, several jurisdictions indicated they are addressing this issue by requiring VASPs to use blockchain analytic services to mitigate some of the ML/TF risks of unhosted wallets. Nevertheless, such jurisdictions recognise limitations in this approach²⁶. Given the ability to use unhosted wallets for financial activity, including to conduct peer-to-peer transactions, FATF will continue to monitor and discuss how countries are approaching transactions with unhosted wallets, as well as other key elements of the FATF Standards²⁷.

Approaches to de minimis thresholds, required Travel Rule information & data protection issues

De Minimis Thresholds

22. In line with the FATF Standards, jurisdictions may choose to adopt a de minimis threshold for VA transfers of 1000 USD/EUR, whereby there are comparatively fewer requirements for VA transfers below the threshold than above²⁸. Even if jurisdictions implement such a threshold, they should still require the VASPs when engaging in transfers below the threshold to collect: a) the name of the originator and the beneficiary, and b) the VA wallet address for each or a unique transaction reference number for VA transfers²⁹. In addition, if such a VA transfer under the threshold has a ML/TF suspicion, such information pertaining to the customer should be verified.³⁰
23. With this context, this report finds that jurisdictions are, to some extent, taking different approaches to de minimis thresholds, as allowed for under the FATF Standards. For example, of the 35 jurisdictions that indicated an approach to a de minimis threshold, the majority (19 out of 35 responding) updated that they have, or plan to, introduce a de minimis threshold of 1000 USD/EUR (see **figure 2.3** below). Of the remaining 15 jurisdictions, 12 have not introduced, or do not plan to introduce, a de minimis threshold; 2 have introduced a higher threshold than 1000 USD/EUR, and 2 a lower threshold³¹. During the private sector consultation, some participants noted the benefits of VASPs sending/requesting Travel Rule information from counterparty VASPs, even for transactions below required thresholds, given the

²⁶ Including when enhanced anonymity coins are used in the chain of transactions and/or when the number of virtual assets covered by those tools is limited.

²⁷ Further discussions on this topic could include sharing by countries that have implemented the risk mitigation measures for unhosted wallets identified in the [Updated Guidance](#) (October 2021).

²⁸ Paragraph 5 of the Interpretative Note to FATF's R.16 (INR.16).

²⁹ Paragraph 5 of INR.16, and Para 191 in the [Updated Guidance for a Risk Based Approach to VAs and VASPs](#) (October 2021).

³⁰ Paragraph 5a) of INR16, and paragraph 294 of the [Guidance](#).

³¹ For the range of specific thresholds, one jurisdiction indicated a threshold of USD 3 000, and on the lower end, another indicated that they plan to introduce as low as a USD 1 threshold.

utility of this information for transaction monitoring, customer on-going due diligence and counterparty VASP due diligence³².

Figure 2.3. Jurisdiction approaches to de minimis thresholds



Source: FATF March 2022 Travel Rule Survey.

Required Travel Rule Information

24. The FATF Standards outline the types of information that VASPs are required to send/receive for the Travel Rule³³. Beyond these requirements, around one fifth of jurisdictions (around 20 out of 98) indicated that they plan to require additional information to assist in VASPs detecting relevant ML/TF risks, and to meet broader AML/CFT requirements such as targeted financial sanctions. Most frequently, this includes: the purpose of the VA transfer, source of VA funds, and residential addresses of the beneficiary.

Data Protection & Privacy (DPP) Issues

25. During recent FATF consultations, industry highlighted data protection and privacy (DPP) issues as key considerations for Travel Rule implementation. This report finds that most jurisdictions require licensed/registered VASPs to meet local DPP regulations when processing any personal data in accordance with national AML/CFT requirements. Some jurisdictions have imposed additional data security requirements on VASPs in the process of registration/licensing approvals, such as asking to obtain an information security certificate. FATF recognises the importance of DPP issues, and the [Updated Guidance](#) (October 2021) clarifies that VASPs should take into account the robustness of the counterparty’s data security controls when

³² The FATF Standards provide flexibility to allow jurisdictions to determine at the domestic level whether to encourage such exchange.

³³ The [FATF Guidance](#) clarifies that: countries should ensure that FIs include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, which includes: the originator’s name, the originator’s wallet address; the originator’s physical address; the beneficiary’s name; and the beneficiary’s wallet address.

deciding whether to send Travel Rule and other similar data³⁴. Going forward, FATF will continue to monitor these issues to ensure data privacy and other similar issues do not present barriers to implementation.

Private Sector Approaches in Implementing the Travel Rule

26. Both open source reports and FATF consultations suggest that there has been progress in industry implementation of the FATF's Travel Rule, in some cases in advance of relevant public sector requirements³⁵. Moreover, FATF consultations in April 2022 confirmed that there are now various technological solutions available to implement the Travel Rule in practice, and that some Travel Rule providers have started taking steps to ensure interoperability with other solutions³⁶. During the FATF's April 2022 consultations with industry, several VASPs provided updates on their experience in adopting Travel Rule solutions, and noted the importance of such solutions being globally scalable and in line with FATF requirements.
27. Despite this progress, many Travel Rule solutions are currently implemented only within specific countries, rather than globally or across regions. In addition, some solutions are compatible only with certain virtual assets, or require approval of participating VASPs and their counterparties, by solution providers or a third party, in order to transmit Travel Rule information. This highlights the importance of industry fully aligning such solutions with the FATF requirements, and the importance of global interoperability between solutions³⁷.
28. In addition, during FATF consultations, both jurisdictions and industry noted that they face challenges in determining which technological solution, or combination of solutions, are appropriate to meet FATF and local compliance obligations. This is further complicated by the fact that many countries have not yet publicised, or shared, clear information about Travel Rule obligations for VASPs in their jurisdictions. Further, some private sector vendors are yet to address shortcomings of Travel Rule solutions raised by authorities during outreach. To help partially respond to these challenges, two FATF jurisdictions have developed a list of guiding questions on Travel Rule solutions to help clarify their jurisdictions' expectations for solution providers (see box in Annex B on "Additional Information" for the abbreviated version of the list)³⁸.

³⁴ Paragraph 197 c), 291 of the [Guidance](#), such as "*The VASP would need to assess the counterparty VASP's AML/CFT controls to avoid submitting their customer information to illicit actors or sanctioned entities and should also consider whether there is a reasonable basis to believe the VASP can adequately protect sensitive information*". More generally, FATF's Recommendation 2 requires that jurisdictions ensure cooperation and coordination between domestic AML/CFT and DPP authorities to ensure compatibility of relevant requirements and rules (e.g. data security).

³⁵ Several industry representatives have published their own analysis on private sector compliance, including: <https://notabene.id/state-of-crypto-travel-rule-compliance-report>

³⁶ This includes solutions developed by both VASPs and third party providers.

³⁷ Notably, one of the largest VA industry bodies is working to develop a Wolfsberg-Style Due Diligence Questionnaire for VASPs that will standardise VASP to VASP and VASP to FI onboarding. This is due for release in Q3 2022.

³⁸ The objective of these guiding questions is to facilitate dialogue with the private sector, to promote the development of tools with interoperability between various jurisdictions, and to promote the adoption of Travel Rule solutions by VASPs.

29. Finally, while there has been progress in private sector implementation, recent FATF consultations highlight that many VASPs are still in the very early stages of implementing the Travel Rule, and that some VASPs still need to deepen their understanding of the scope of FATF's Travel Rule requirements. This emphasizes that FATF must continue to engage with jurisdictions and the private sector to support universal implementation. In order to accelerate implementation, particularly across borders, **FATF calls on industry to accelerate efforts to strengthen solutions that are global, and can accommodate nuances in requirements across jurisdictions**, in line with the expectations of the FATF Standards.

SECTION THREE: Updates on Market Developments and Emerging Risks

30. Since FATF published its second 12-month review in July 2021, FATF has continued to monitor and discuss emerging VA developments, such as Decentralised Finance (DeFi)³⁹, Non-Fungible Tokens (NFTs) and unhosted wallets, and in October 2021, published [Updated Guidance](#) on how FATF's Standards apply to these issues. Over the last year, delegations have expressed increasing levels of concern about risks in the DeFi and NFT sectors, and both delegations and the private sector identify DeFi and NFTs as a challenging area for implementation of the FATF Standards. This section therefore provides a brief update on emerging issues that FATF will continue to monitor.

Decentralised Finance (DeFi)

31. Inputs from FATF jurisdictions and open source research suggest that the DeFi markets have grown significantly over the last year. While it is not possible to determine the exact impact of the growth in DeFi on illicit financing, open source information suggests that threats from criminal misuse continue⁴⁰.
32. Notable changes in the DeFi market over the last year include: (i) the increasing use of stablecoins in DeFi protocols commensurate with the growth in the DeFi market, as they are used to facilitate trading or as collateral for DeFi protocols, and (ii) the increase in cross-chain bridges^{41,42}, which is likely to impact the materiality of relevant DeFi platforms (see Annex B for additional information on market trends).
33. As clarified in FATF's [Updated Guidance](#) (October 2021), the FATF Standards do not apply to software. Nonetheless, the FATF Standards can apply to persons who maintain control or sufficient influence over a DeFi arrangement or protocol providing VASP services. Open source data and engagement with industry suggest

³⁹ References to DeFi (Decentralized Finance) in this report are distinct to decentralized VAs such as Bitcoin, Ethereum, and Tezos. As noted in the second 12-month review, the term DeFi is used where 'decentralised or distributed application (Dapp)' offers financial services such as those offered by VASPs.

⁴⁰ Open sources suggest that DeFi is increasingly used for money laundering, and the percentage of funds sent from illicit wallets to DeFi protocols compared to centralized exchanges is increasing; DeFi received 17% of all funds sent from illicit wallets in 2021 (15% in 2020) Crypto Crime Report 2022. Chainalysis. 2022.

⁴¹ Cross-chain bridges are protocols that enable the transfer of VAs between different blockchain networks.

⁴² Total Volume Locked (TVL) of the Cross-Chain Bridge to Ethereum. Dune Analytics. 2022.

that, even where projects publicly brand themselves as “DeFi”, often there continue to be persons and centralized aspects that may be subject to AML/CFT obligations⁴³,⁴⁴,⁴⁵. Key challenges for jurisdictions therefore are in identifying which DeFi entities should be regulated, and how to consistently enforce the FATF’s Travel Rule and other FATF regulations for such entities, particularly when they move to non-compliant jurisdictions.

34. As such, the messages in FATF [Updated Guidance](#) (October 2021) on DeFi remain valid, including the guiding questions to help jurisdictions determine whether there are VASPs in specific DeFi eco-systems⁴⁶. **To ensure the relevance of current AML/CFT Standards, FATF will continue to monitor developments in DeFi, particularly the emergence of truly decentralized DeFi entities, and to facilitate dialogue on common AML/CFT implementation challenges, risk assessment, and good practices.**

Non-Fungible Tokens (NFTs)

35. Similarly, research shows that the NFT market has also continued to grow⁴⁷. As with DeFi, while it is not possible to quantify at this stage, feedback from FATF jurisdictions and open source data suggest criminals can misuse NFTs for illicit financial activities, such as money laundering and wash trading⁴⁸.
36. Several notable developments for the NFT market include: (i) the expansion of NFT markets and applications, as an increasing number of apparent non-financial corporations have entered the NFT market; and (ii) the increased number of active wallets which have bought or sold a NFT, despite the recent decrease in the number of NFT global sales in 2022 (see Annex B for additional information). In recent FATF consultations, FATF members have confirmed that differences in NFT definitions and functions across jurisdictions can present challenges in determining how to apply AML/CFT regulations in practice.
37. As clarified in FATF’s [Updated Guidance](#) (October 2021), NFTs that are unique, and used in practice as collectibles rather than as payment or investment instruments, are not VAs generally speaking for the purpose of the FATF Standards. Nevertheless, jurisdictions should apply the FATF Standards on VAs to NFTs in cases they perform the same function as VAs (used for payment or investment purpose). Given the rapid development of NFT markets and their functions/forms, FATF will continue to monitor this issue and discuss any new implementation issues and country approaches.

⁴³ Decentralized Finance: On Blockchain- and Smart Contract-Based Financial Markets. Fabian Schär. Federal Reserve Bank of St Louis Review. 103(2), pp. 153-74. 2021.

⁴⁴ [OR01/2022 IOSCO Decentralized Finance Report](#).

⁴⁵ [Research Report of JFSA Multilateral Joint Research on the Chain of Trust of Decentralized Finance](#). Financial Services Agency of Japan. 2022.

⁴⁶ See pages 27 and 28 of FATF’s [Updated Guidance](#) (October 2021).

⁴⁷ Study of the Facilitation of Money Laundering and Terror Finance Through the Trade in Works of Art. U.S. Department of the Treasury. 2022.

⁴⁸ Wash trading refers to executing a transaction in which the seller is on both sides of the trade in order to paint a misleading picture of an asset’s value and liquidity. Chainalysis 2022 Crypto Crime Report. Chainalysis. 2022

Other Market Developments (P2P, stable coins etc.)

38. FATF will also continue to monitor risks associated with peer-to-peer (P2P) payments. As FATF has underlined in its [Updated Guidance](#) (October 2021), there is a potential risk that illicit actors will move to transactions that fall outside of the scope of the FATF Recommendations, such as those that exclusively use unhosted wallets, or non-compliant VASPs. Currently, the FATF has not identified a need for immediate updates to the FATF Standards, but FATF will continue to monitor emerging risks, including the possibility of criminals using only P2P transactions, without ever involving VASPs or on/offramps to the traditional fiat currency.
39. Similarly, FATF remains vigilant to shifts in market developments for stablecoins⁴⁹. As the liquidity of stablecoins increases⁵⁰ in parallel with the growth of DeFi markets, FATF will continue to facilitate discussion between jurisdictions and other standard setting bodies on implementation issues.
40. On wider market developments, FATF recognises the increased involvement in some jurisdictions of traditional financial institutions in VA markets, and will remain vigilant to such trends to inform future FATF outreach to industry. FATF will also continue to follow the current, and any potential future, volatility in VA markets, for material changes in ML/TF risks⁵¹.

Emerging Risks

Sanctions Evasion

41. In addition, FATF recognises the potential misuse of VAs for sanctions evasion. While at least one member has taken recent sanctions enforcement actions against a VASP, recent FATF dialogue suggests that sanctions evasion using VAs is not occurring on a large-scale due to liquidity limitations. Nevertheless, given the potential for this threat to change, and in light of the recent global attention on sanctions, many FATF jurisdictions have taken recent action to confirm to their private sector that targeted financial sanction (TFS) requirements apply to VAs and VASPs. Recent FATF consultations with industry also highlight the value in public sector outreach and training on this issue⁵², and specific tools and techniques, such as GeoIP monitoring and blocking and pattern analysis using blockchain analytic tools, to assist in sanction screening for VA transactions. Going forward, rapid implementation of the FATF's Travel Rule is a vital component in supporting effective identification of counterparties and effective sanction screening.

⁴⁹ Under the revised FATF Standards, a so-called stablecoin will either be considered a virtual asset or a traditional financial asset depending on its exact nature ([FATF's Report to G20 on So-called Stablecoins](#), June 2020).

⁵⁰ Chapter 3, Figure 3.1, Global Financial Stability Report April 2022, IMF, www.imf.org/en/Publications/GFSR/Issues/2022/04/19/global-financial-stability-report-april-2022

⁵¹ www.reuters.com/markets/us/crypto-collapse-intensifies-stablecoin-tether-slides-below-dollar-peg-2022-05-12/

⁵² Countries have taken further initiatives to mitigate potential sanctions evasion using VAs by engaging with the private sector on sanctions evasion through trainings, acting as advisories, and issuing red flag indicators and guidance which reiterate that all financial services firms, including the VA sector, are required to comply with economic sanctions.

Ransomware

42. Similarly, FATF is responding to the ongoing and growing threat of criminal misuse of VAs for the receipt and laundering of illicit proceeds from ransomware attacks. FATF dialogue with industry on this issue in April 2022 highlights that criminals continue to rely on a small group of non-compliant, and sometimes complicit, VASPs to launder their proceeds from ransomware attacks, although they often use centralized, compliant VASPs post-laundering to cash out into fiat currency. Ransomware cybercriminals are increasingly using mixers or tumblers and privacy coins to receive and launder their illicit proceeds, although industry dialogue suggests Bitcoin remains the most common virtual asset for this purpose.
43. To combat these threats, both jurisdictions and industry in recent consultations have recognised the opportunities of blockchain analytics to help trace ransomware-related money laundering. Blockchain tools have supported and informed successful enforcement cases, targeted financial sanctions, and other actions to disrupt ransomware-financing^{53,54}. Nevertheless, industry also acknowledged that some challenges remain, particularly due to the use of privacy coins, chain-hopping⁵⁵ via non-compliant VASPs, and unhosted wallets. In order to address these threats going forward, it is important that both jurisdictions and the private sector implement FATF's Standards on VAs and VASPs, including the Travel Rule, to enable the private sector detect illicit actors and suspicious transactions⁵⁶.

⁵³ www.justice.gov/opa/pr/department-justice-seizes-23-million-cryptocurrency-paid-ransomware-extortionists-darkside

⁵⁴ <https://home.treasury.gov/news/press-releases/jy0701>

⁵⁵ Chain-hopping refers to moving from one VA into another, often in rapid succession and with the aim of evading attempts to track these movements.

⁵⁶ To reduce the profitability of ransomware attacks and to mitigate its risk, it was shared that it would also be useful for FATF to 1) compile, share and publish typologies and red flag indicators of ransomware attacks and 2) strengthen international cooperation between authorities (both LEAs and supervisors) at international level; 3) continue and strengthen outreach to the private sector to inform them of relevant risks; 4) explore ways to take advantage of various sources of information including information on the blockchain and in STRs; and 5) strengthen cooperation between relevant authorities at the domestic level.

SECTION FOUR: Next Steps

44. Based on the findings of this report, FATF has identified the following priorities for action by the VACG, members of the Global Network, and the private sector:

Compliance with R.15/INR.15

- i. Both FATF and FSRB members should accelerate compliance with FATF's R.15/INR.15, with a priority focus on assessing ML/TF risks of VA and VASPs, and the application of AML/CFT measures to mitigate these risks. This will require both passing relevant laws and effective enforcement.

FATF's Travel Rule

- ii. Countries that have not introduced Travel Rule legislation should do so as soon as possible, and FATF jurisdictions should lead by example by promoting implementation, and by sharing experiences and good practices. As mentioned above, there are now various technological solutions available to support this implementation in practice, despite further advancements needed, and rapid implementation by jurisdictions will incentivize progress further.
- iii. The FATF and its VACG should continue to promote cross-border implementation of the FATF's Travel Rule, by facilitating discussions across jurisdictions on common implementation challenges and good practices⁵⁷, and should review implementation progress again by June 2023⁵⁸.
- iv. As part of their broader efforts to comply with the FATF standards, the private sector should strengthen efforts to facilitate interoperability across Travel Rule technological solutions, and ensure flexibility to accommodate for nuances in domestic requirements.

Market Developments

- v. The VACG should continue to monitor market trends for material developments that may necessitate further FATF work, including how the FATF Standards apply to DeFi and NFTs, and engage with members and the private sector to understand risks, mitigation measures, and country

⁵⁷ This may include dialogue on cross-border issues such as 1) monitoring and risk mitigation measures involving transaction between VASPs and unhosted wallets; 2) interoperability of Travel Rule technological solutions; 3) de minimis thresholds; and 4) data protection rules.

⁵⁸ With the intention of publishing the main findings.

approaches to such issues. In addition, FATF will work with its members over the next year to raise awareness of common trends in ransomware payments and related ML through VAs and VASPs.

Annex A. Further Information to Support Public Report

Market Developments

DeFi

1. Relevant open source reports and research by FATF jurisdictions have identified the following potential illicit finance risks related to DeFi:
 - i. DeFi protocols can pose illicit financing risks if designed without appropriate customer due diligence (CDD) verification, or other AML controls, as many of these protocols are pseudonymous and permissionless⁵⁹. Many such protocols seem to be operating outside of, or are not compliant with, existing regulatory frameworks.
 - ii. There is an increased availability and use of privacy-enhancing technologies such as mixers that can make it challenging to trace the origin and destination of funds, although these technologies are not specific to DeFi protocols⁶⁰.
 - iii. DeFi protocols can be used to perform 'chain-hopping' which can make the transactions more difficult to trace.

NFTs

2. Based on the series of assessments conducted by several FATF member countries and open source reports, the following risks and challenges are highlighted:
 - i. NFTs take different forms and applications ranging from art work to representations of ownership of physical assets. For example, property can even be sold using NFTs, where the NFTs can be used as collateral for further VA borrowing and lending⁶¹. Such diversity of NFTs may make it challenging to distinguish the cases where NFTs count as VAs or other assets or identify high risk NFTs.
 - ii. Regulation and supervision of NFTs is nascent or non-existent in many jurisdictions, and it can be difficult to ascertain activities conducted using the NFTs.

Travel Rule Solution Considerations

3. As mentioned in the Travel Rule section above, two FATF jurisdictions have developed the below guiding questions on Travel Rule solutions to help clarify expectations with the private sector.

⁵⁹ [On How Zero-Knowledge Proof Blockchain Mixers Improve, and Worsen User Privacy. Wang et al.](#) Imperial College London. 2022.

⁶⁰ Money Laundering Risks Associated with DeFi, Stablecoins and NFTs. Financial Transactions and Reports Analysis Centre of Canada. Government of Canada. 2022.

⁶¹ [NFTs and Defi are Revolutionizing Real-Estate Investing and Homeownership – Here's How.](#) Cointelegraph. 2022.

Box 1. Guiding questions at the meeting with Travel Rule Technological Solutions vendors

At FATF meetings in April and May 2022, two jurisdictions updated that they are developing guiding questions on Travel Rule Technological Solutions, to help clarify expectation with providers. The objective of this is to promote the development of tools with interoperability between various jurisdictions in place, and to promote the adoption of Travel Rule solution tools by VASPs. This is not an exhaustive list, but instead a compilation of questions that have been useful in dialogue to foster functional improvement of solutions.

Category	Guiding question examples
Interoperability with other Travel Rule solution tools	<ul style="list-style-type: none"> ▪ Is the tool/solution interoperable with other tools? ▪ What kind of interoperability is imbedded within your tool, and when will interoperability testing be conducted? E.g. pilot test, functional test, capacity stress test, live data test, tested data scope, and tested VASPs. ▪ What kind of interoperability testing has been conducted? E.g. pilot test, functional test, capacity stress test, live data test, tested data scope, and tested VASPs.
Timing and scope of Travel Rule data submission	<ul style="list-style-type: none"> ▪ Could the tool/solution enable VASPs to submit Travel Rule data for small value VA transfers (i.e. below USD1,000/EUR 1,000) to accommodate varying threshold requirements across jurisdictions? ▪ Does the tool/solution cover all VA types? Does it enable receiving VASPs to obtain and handle a reasonably large volume of transactions from multiple destinations in a secure and stable manner? ▪ Does the tool/solution provide a function that allows an originator VASP to choose not to send Travel Rule data to counterparty VASP? Possible scenarios include the originator VASP needs to avoid providing financial services to certain sanctioned jurisdictions, high TF/PF risk area, or lower level of DPP regulation jurisdiction.
Recordkeeping and transaction monitoring	<ul style="list-style-type: none"> ▪ What function does the tool/solution provide to facilitate recordkeeping and transaction monitoring (retaining data for 5 years/ allow user VASPs to download data)?

Source: FATF jurisdictions.