

# MONEYVAL: Typologies Report on ML and TF Risks in the World of Virtual Assets

## News

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On 6 July 2023, MONEYVAL published a [report on money laundering \(ML\) and terrorist financing \(TF\) risks in the world of virtual assets \(VA\) and their service providers \(VASP\)](#) in MONEYVAL members states and territories.

The report found that MONEYVAL members continue to struggle with the implementation of FATF Recommendation 15, which concerns ML/TF risks in relation to the development of novel products and business practices, including new delivery mechanisms, and the use of new or developing technologies for both recent and pre-existing products. Around 80% of the assessed members are only partially or not compliant with the FATF requirements.

The report includes an overview of the measures taken to regulate and supervise VASPs and features of the identified risks for laundering the proceeds of crime via VASPs and VA (i.e., exchanges, exchange offices, aggregators, and other cryptocurrency platforms, including e-gaming, sports betting, and non-fungible tokens (NFTs)). It also explores whether law enforcement agencies have adequate powers and tools to investigate, locate, and impose interim measures in respect of VA and includes examples of the types of virtual assets platforms used to financially support criminal activity alongside examples of cases investigated by the relevant authorities. The key findings of the report are as follows:

- MONEYVAL members are at varying stages in their implementation of FATF Recommendation 15, with most of them requiring major or moderate improvements. Better results were achieved in areas in which VASPs were included as reporting entities in the national AML/CFT law;
- When assessing VA and VASP risks, different entities pose different risks, depending on various factors, including products, services, customers, geography, business models, and the strength of the entity's compliance programme. In more advanced jurisdictions, the risk analysis also includes the results of the supervisory actions;
- The collection of statistics relating to VA and VASPs would improve risk assessment, particularly in the jurisdictions that need to identify unregistered domestic VASPs or external VASPs operating in the respective jurisdiction;
- The use of technology to identify and assess risks in this sector appears to be a good practice. To better understand and mitigate the risk, some countries purchased blockchain risk evaluation tools, and supervisors trained employees in blockchain analysis;
- Licensing, registration, and regulation remain a challenge, which is directly related to the designated supervisor's capacity to fully understand the risks and the particularities of the sector;

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- The difference between registering for the purpose of AML/CFT oversight and being licensed can have a significant impact on the prevention of crime and the management of a branch of industry. Some MONEYVAL members report that registration is still not sufficient, as less reputable firms use registration as a stamp of legitimacy, and their customers rarely understand the difference between registration and license;
- MONEYVAL members report difficulties in detecting unlicensed/unregistered VASPs in practice;
- Looking at supervision of the VASP sector, most MONEYVAL members are still at the beginning of implementation. Not all supervisors are comprehensively resourced in terms of staffing and knowledge, and the risk-based approach is rarely tailored to a sector-specific risk assessment;
- Monitoring of cross-border transactions is still a problematic issue (e.g., application of the travel rule);
- Fraud and child sexual exploitation were highlighted as the prevalent predicate offences identified by VASPs;
- ML/TF investigation responsibility is most often not determined on the basis of the cases' *modus operandi* (e.g., whether VA are involved or not) but instead on the type of underlying crime. Smaller countries tend to have one central law enforcement authority responsible for all ML/TF investigations;
- Sourcing of financial intelligence is heavily dependent on the designation of VASPs as reporting entities. Members mostly reported that the legal powers to collect evidence during ML/TF investigations also cover information held by VASPs and VA;
- Difficulties exist in gathering evidence from VASPs located in foreign jurisdictions, and channels of mutual legal assistance are not efficient enough to ensure the timely seizure of VA located abroad;
- The majority of Financial Intelligence Units and law enforcement authorities is lacking appropriate technological tools and expertise to effectively analyse and investigate VA-related ML/TF cases. It is, however, evident that there is investment in training and cooperation with VASPs to build expertise;
- The ability to seize and freeze VA is dependent on the presence of a VASP intermediary and/or the possession of the private keys providing controls over the VA;
- Only a small fraction of ML/TF investigations involve proceeds of crime that are VA. This portends difficulties in detecting and investigating VA-related ML/TF cases. The value of frozen and confiscated proceeds of crime that are VA is negligible.

MONEYVAL member states and territories are invited to provide feedback on the usefulness of the findings in 2024.

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