

# The AML/CFT risks associated with the use of virtual currencies and the European supervisory response: 'as-is' vs 'to-be'

Joana Neto, European Banking Authority (EBA)

*7th December 2021*



# The EBA's AML/CFT role

## *The mandate...*

Article 1(5)(fb) of the EBA Regulation:

**'The Authority shall, within its respective competences, contribute to [...] preventing the use of the financial system for the purposes of ML/TF.'**

Article 9a(1) of the EBA Regulation:

The Authority shall [...] **take a leading, coordinating and monitoring role** in promoting integrity, transparency and security in the financial system by means of adopting measures to prevent and counter money laundering and terrorist financing in that system.

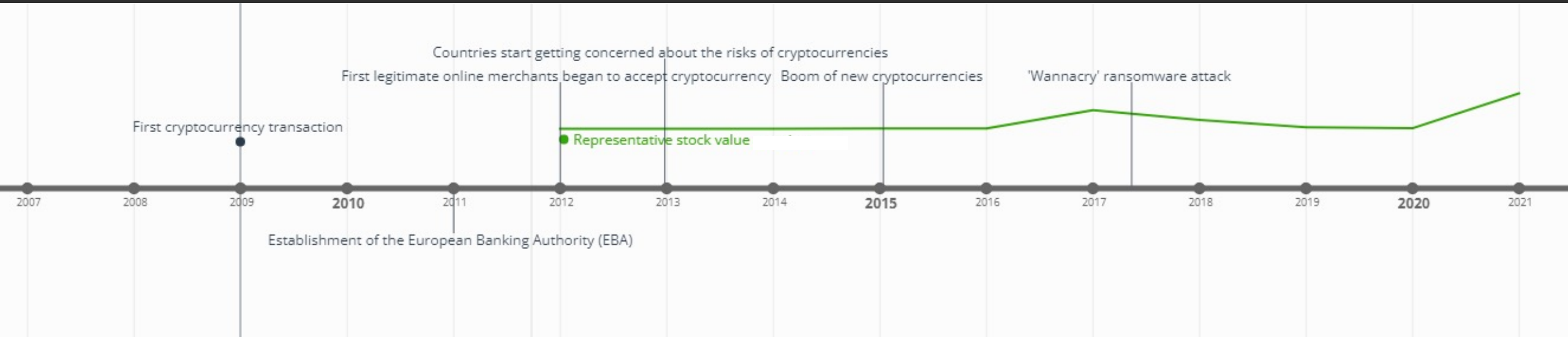
## EBA strategic objectives on AML/CFT



# Regulatory and Supervisory responses – a timeline\*

*Market key-moments over the years*

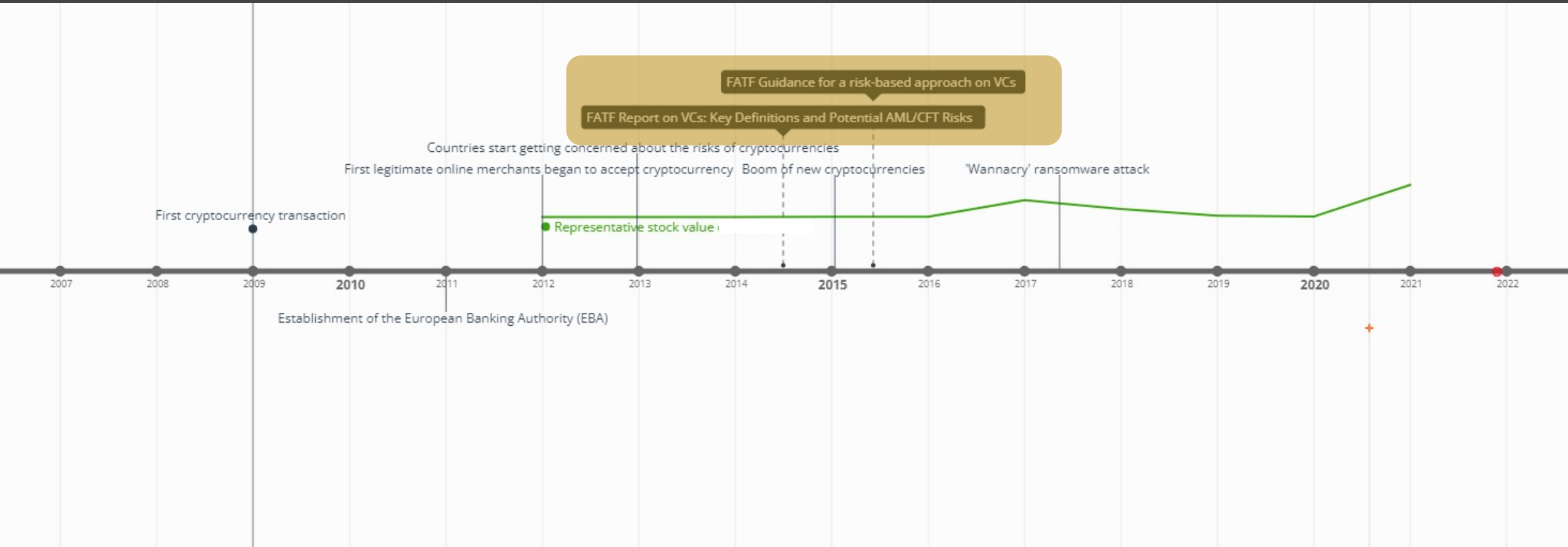
\* Indicative timeline



# Regulatory and Supervisory responses – a timeline\* [cont.]

*FATF makes its first VC related publication in mid-2014*

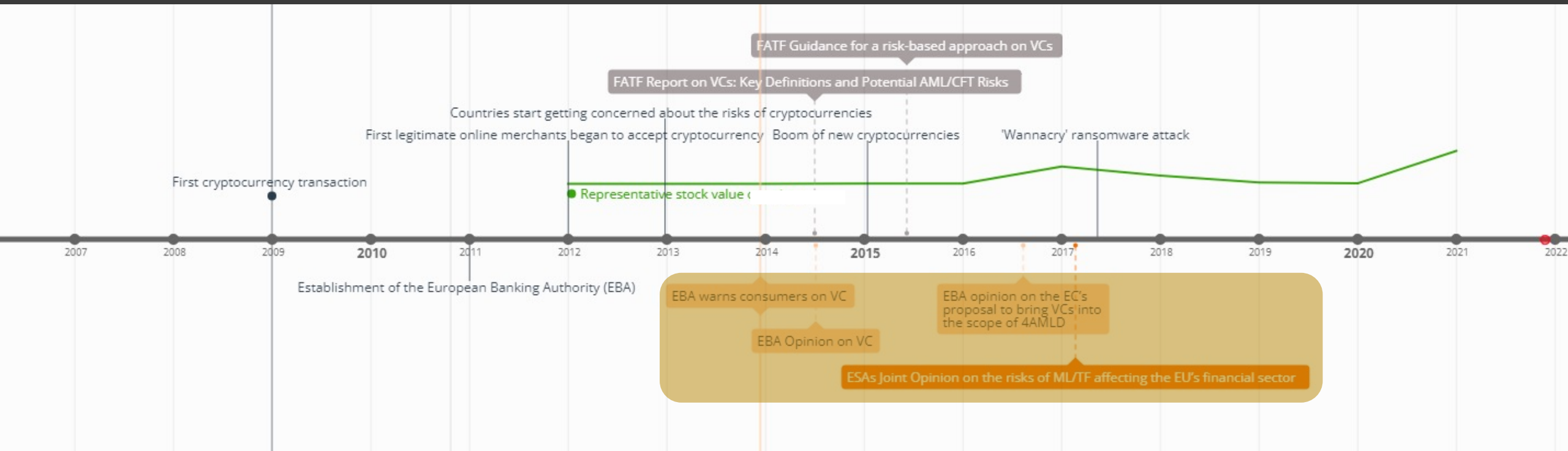
\* Indicative timeline



# Regulatory and Supervisory responses – a timeline\* [cont.]

*EBA addresses the issue for the first time in 2013*

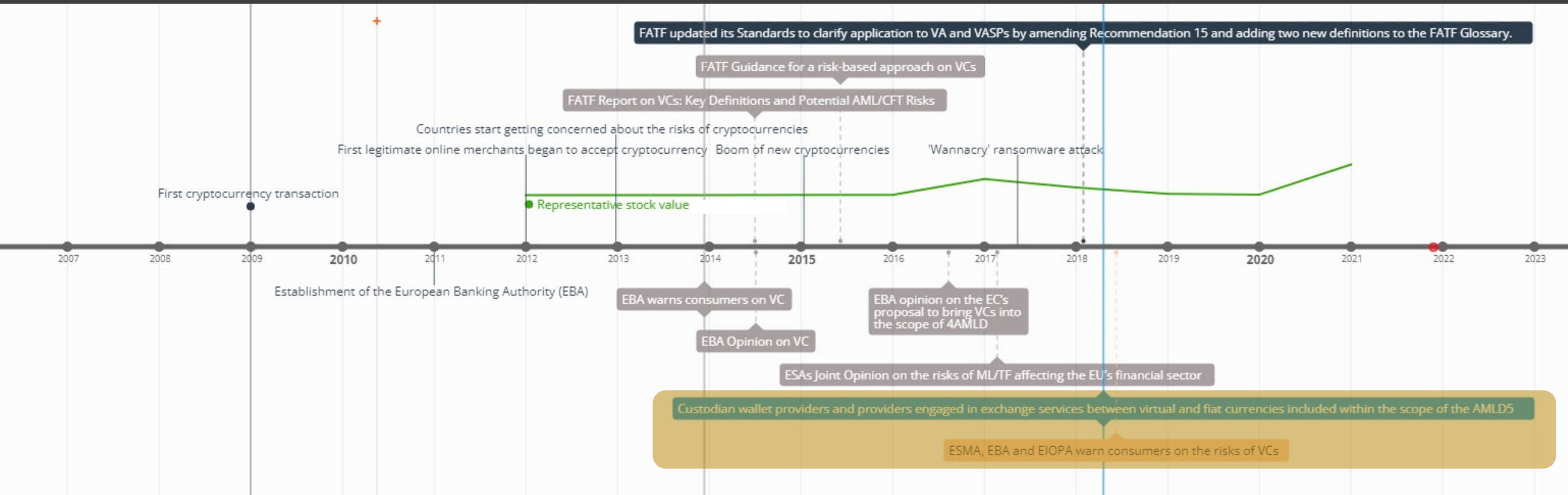
\* Indicative timeline



# Regulatory and Supervisory responses – a timeline\* [cont.]

2018

\* Indicative timeline

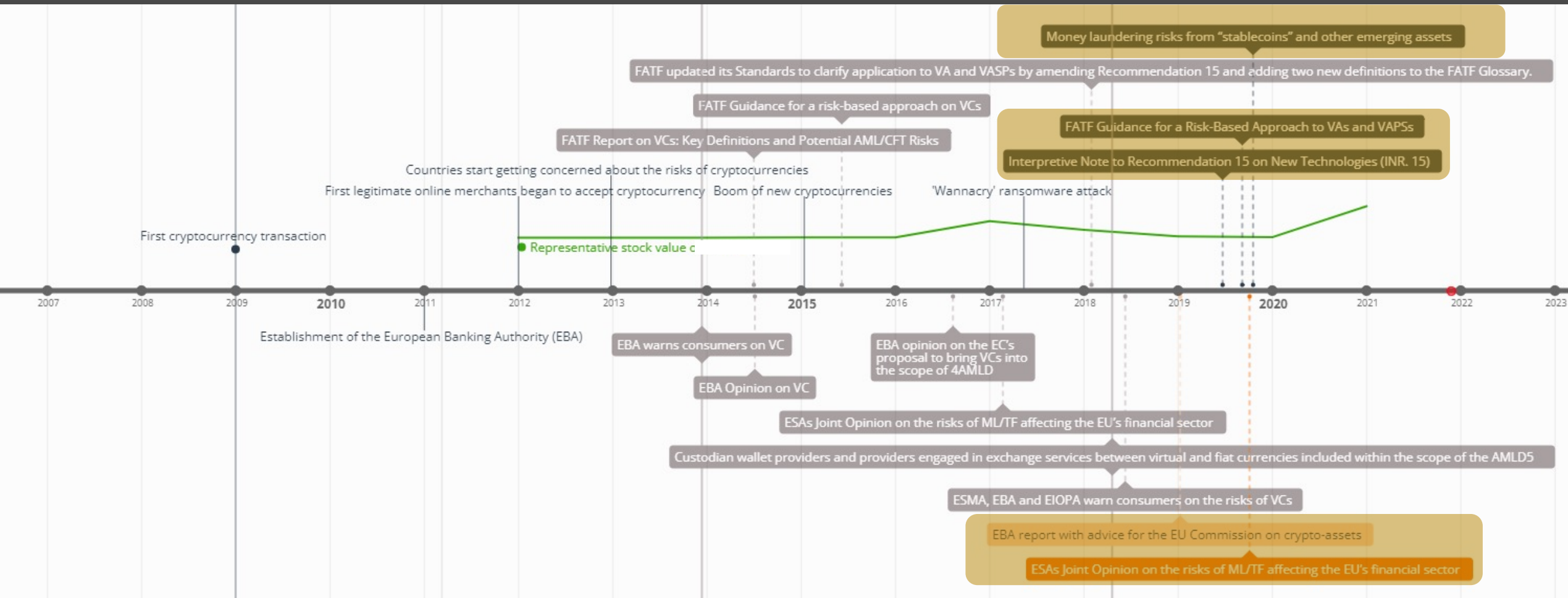




# Regulatory and Supervisory responses – a timeline\* [cont.]

2019

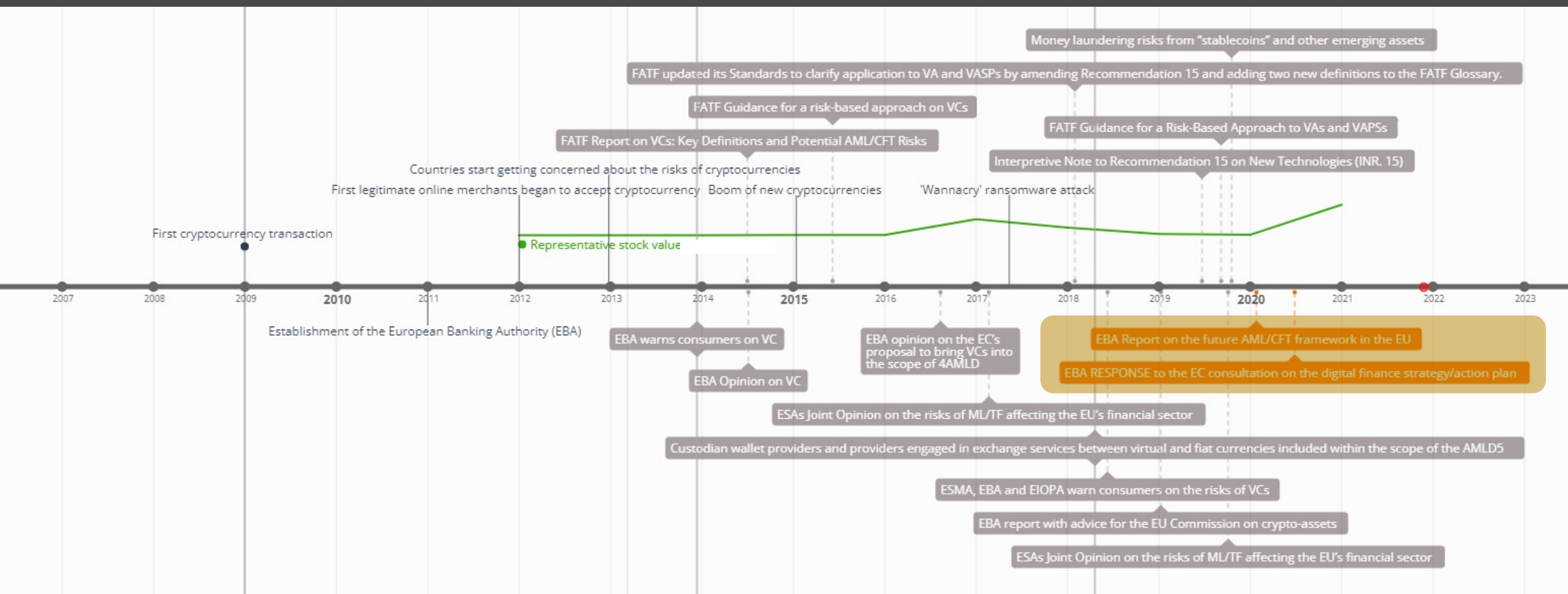
\* Indicative timeline



# Regulatory and Supervisory responses – a timeline\* [cont.]

2020

\* Indicative timeline

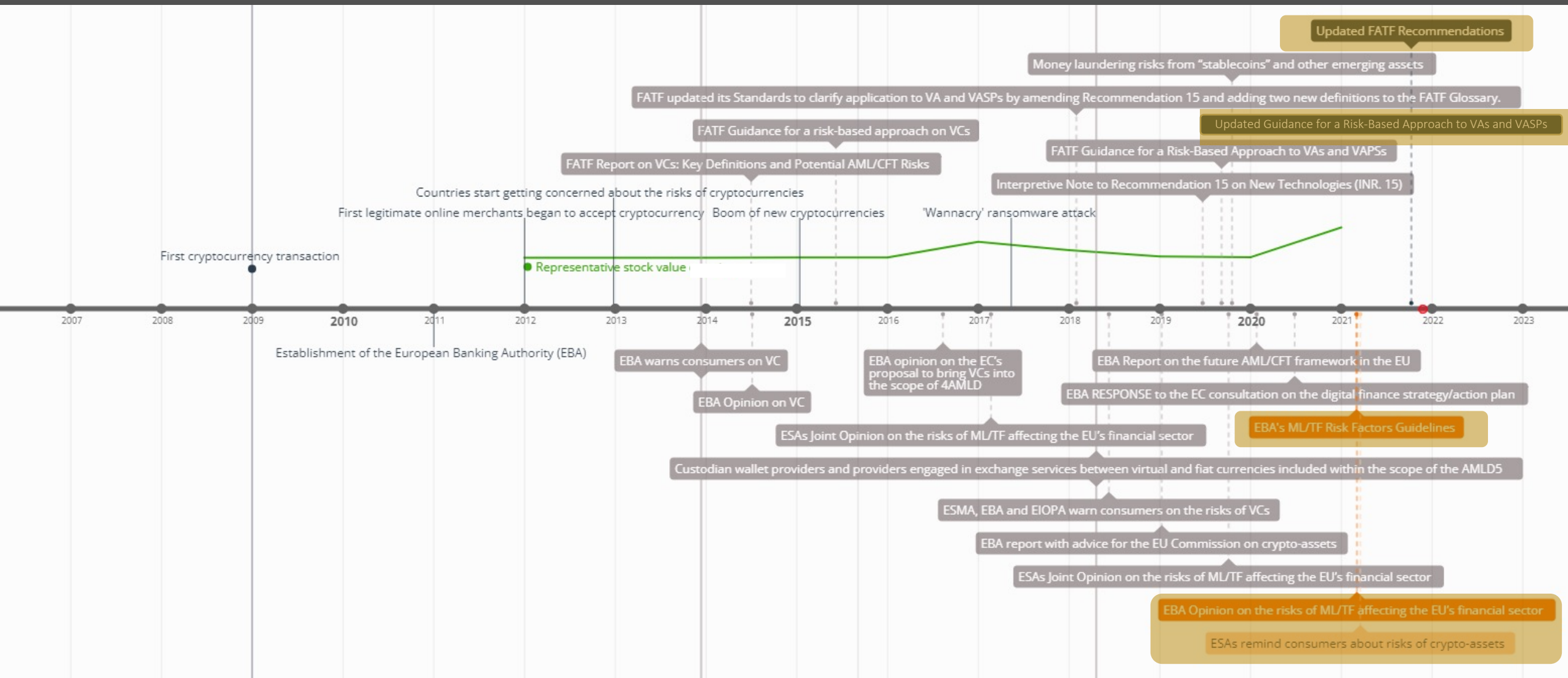




# Regulatory and Supervisory responses – a timeline\* [cont.]

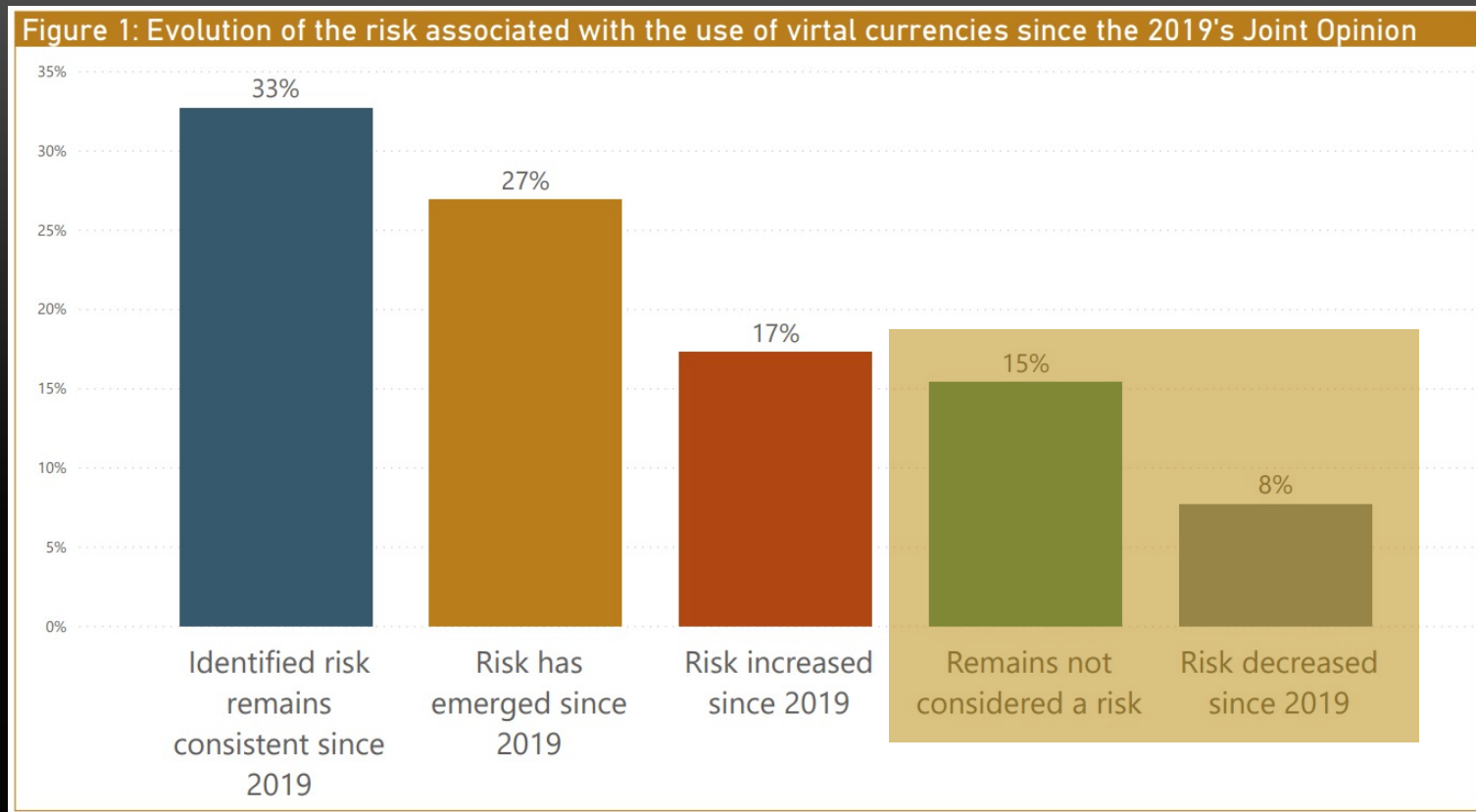
2021

\* Indicative timeline



# AML/CFT risks of virtual currencies

*What do authorities designated as competent for AML/CFT supervision of financial institutions think?*



**Source:** Views expressed by **national authorities** designated as competent for AML/CFT supervision of financial institutions through a **questionnaire** related to **ML/TF risks and supervisory activities** carried out in **2018 and 2019**, as part of *EBA's biennial Opinion on risks of ML/TF affecting the EU's financial sector*.

# AML/CFT risks of virtual currencies [cont.]

*What are the ML/TF risks in the perspective of competent authorities?*

## 2019

1. Growing customer demand;
2. Often unregulated nature of associated products and services;
3. Associated lack of customer due diligence measures;
4. Perception by Competent Authorities of limited overall understanding of ML/TF risks in the sector.

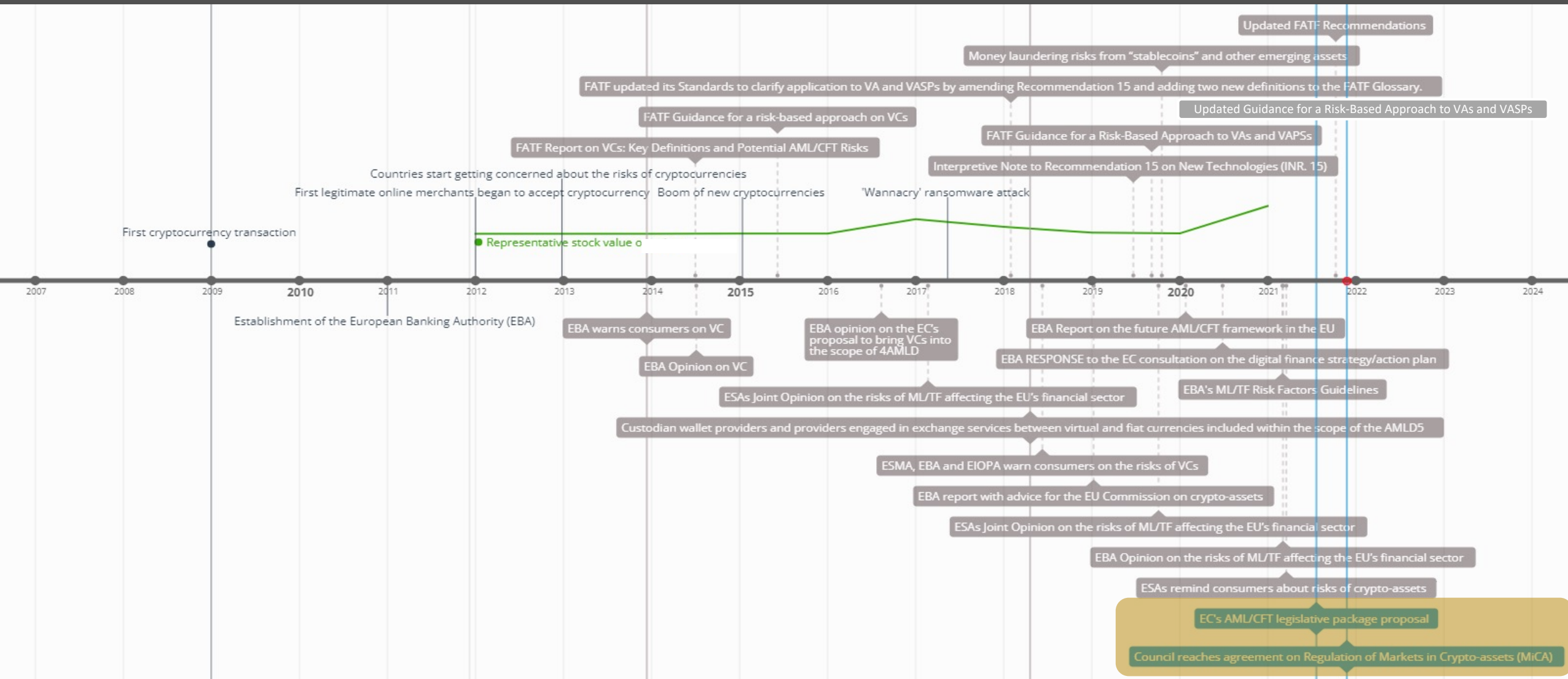
## 2020

1. Growth of the VC market, in terms of transactions processed and number of firms' clients that use VCs or are virtual asset service providers (VASP);
2. Main sectors affected: credit institutions, investment firms, electronic money issuers and payment institutions;
3. Increasing risk appetite from firms for VC-related business, notably in the context of the provision of financial services to VASPs;
4. Limited transparency of transactions and identities of end-customers involved in VC activities that in the context of several typologies may facilitate illegal activities such as fraud (i.e. forex or ICO related investment scams), trading of illicit goods/services and terrorist financing.

# Regulatory and Supervisory responses – a timeline\* [cont.]

2021

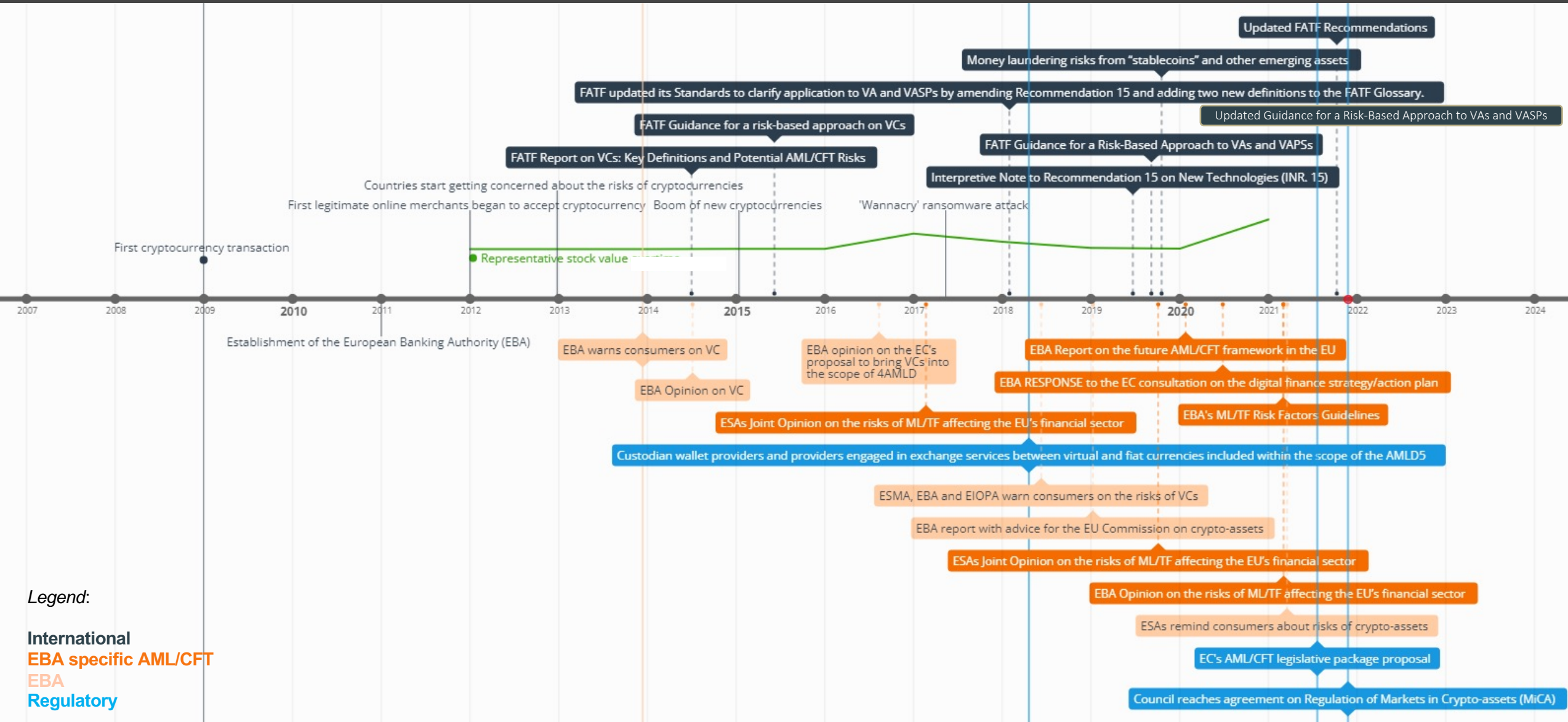
\* Indicative timeline



# Regulatory and Supervisory responses – a timeline\* [cont.]

How does the progress look like so far?

\* Indicative timeline





# The role of AML/CFT supervision

## ‘As-is’

- **5<sup>th</sup> Anti-Money Laundering Directive (AMLD5)** - inclusion of custodian wallet providers and providers engaged in exchange services between virtual and fiat currencies within the scope of the AML/CFT legal framework by defining them as obliged entities.

## ‘To-be’

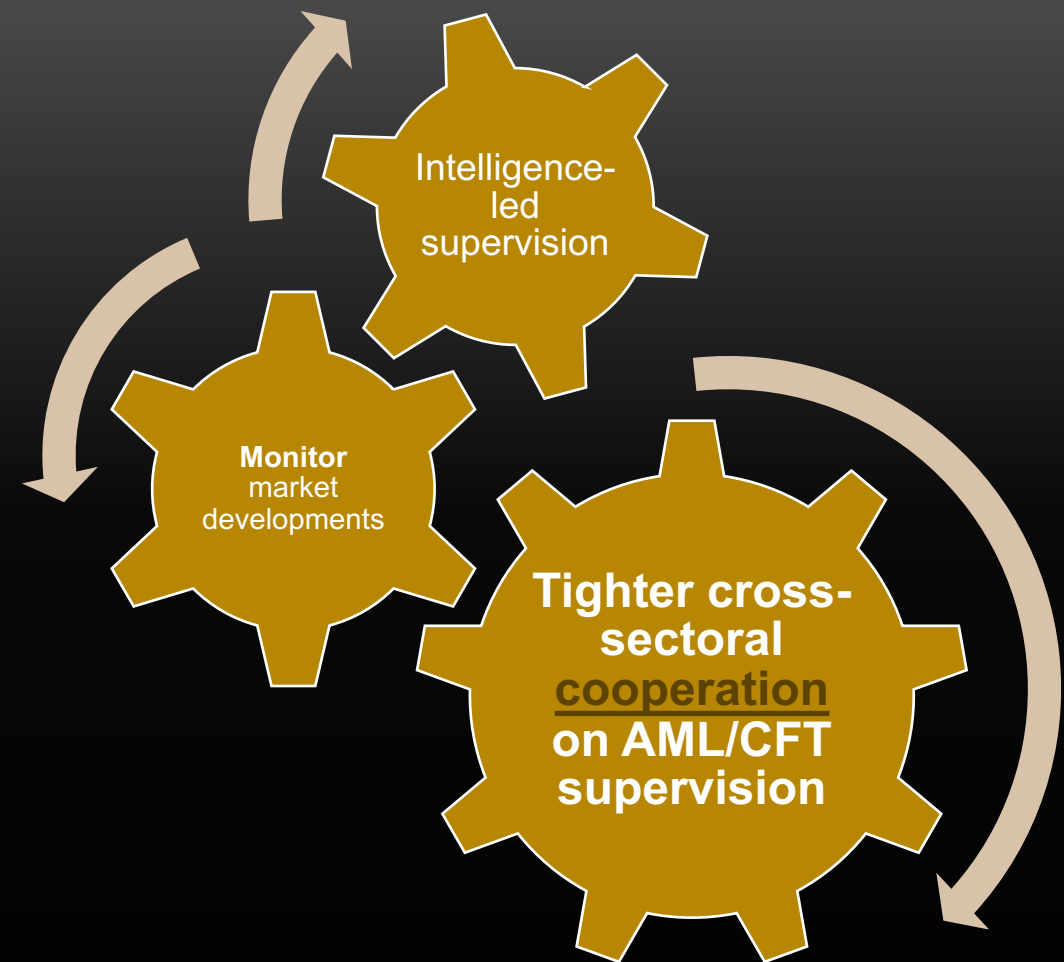
- **Proposed Regulation on Markets in Crypto-assets (MiCA)** - will expand the EU regulatory perimeter to a wide range of crypto-asset activities, including stablecoins.
- **EU’s AML/CFT legislative package proposal**
  - **AML Regulation** - All types and categories of Crypto-Asset Service Provider added to the list of obliged entities.
  - **Recast 2015 EU Regulation on transfers of funds (Regulation 2015/847)** - to extend its scope on the exchange of information to transfers of crypto-assets, as well.



# The role of AML/CFT supervision [cont.]

*What's next?*

The technology and business models deployed in the VC industry have evolved significantly over the last years, and so have the regulatory and supervisory efforts to mitigate the risks arising from its use.



# For more information on the EBA's work:

Visit the **EBA's website** at:

<https://eba.europa.eu/regulation-and-policy/anti-money-laundering-and-counter-terror-finance>

You can also sign up to receiving a quarterly **Newsletter** with the latest information and developments here: <https://europa.eu/!rt48Jc>

**EBA AML/CFT Newsletter**



follow us :

