

## Regulatory News Alert

### FATF publishes report on Virtual Assets – AML/CFT red flag indicators

15 September 2020

#### Context and objectives

On 14 September 2020, the Financial Action Task Force (FATF) published a report entitled [“Virtual Assets - Red Flag Indicators of Money Laundering and Terrorist Financing”](#). This report complements the FATF’s adoption of the Interpretative Note to Recommendation 15 in June 2019, which clarifies the application of FATF requirements to **virtual asset (VA) activities** or operations and **virtual asset service providers (VASPs)**, including with respect to suspicious transaction reporting.

The purpose of this report is to help national authorities, and to assist reporting entities, including financial institutions (FIs), designated non-financial businesses and professions (DNFBPs), and VASPs to detect whether virtual assets are being used for criminal activity, and to facilitate the application of a risk-based approach to their Customer Due Diligence (CDD) requirements.

#### Key red flag indicators

**Suspicious activities** involving the use of VAs may share **similar traits with money laundering/terrorist financing (ML/TF)** activities involving the use of fiat currency, or other kinds of assets. Reporting entities should therefore consider the following **most important red flag indicators**:

1. **Technological features that increase anonymity** - such as the use of peer-to-peer exchanges websites, mixing or tumbling services or anonymity-enhanced cryptocurrencies
  - These factors make VAs attractive to criminals looking to disguise or store their funds
  - The presence of these indicators should be considered in the context of other characteristics about the customer and relationship, or a logical business explanation
2. **Geographical risks** - criminals can exploit countries with weak, or absent, national measures for virtual assets
  - Customer’s funds from, or are sent to, an exchange that is not registered in the jurisdiction where either the customer or exchange is located

- A VA exchange in a high-risk jurisdiction with non-existent or minimal AML/CFT regulations on VAs and VASPs
  - Offices in jurisdictions that have no regulation / have not implemented VA regulations governing
3. **Transaction patterns** - irregular, unusual or uncommon patterns which can suggest criminal activity
    - Conducting a large initial deposit to open a new relationship with a VASP
    - A new user attempts to trade the entire balance of VAs, or withdraws the VAs
    - Transactions involving the use of multiple VAs with no logical business explanation
    - Making frequent transfers in a certain period to the same VA account
  4. **Transaction size** – if the amount and frequency has no logical business explanation
    - Structuring VA transactions in amounts under record-keeping or reporting thresholds
    - Making multiple high-value transactions in short succession, or in a staggered and regular pattern
    - Accepting funds suspected as stolen or fraudulent
  5. **Sender or recipient profiles** - unusual behavior can suggest criminal activity
    - Account creation: separate accounts under different names, non-trusted IP addresses, open an account frequently within the same VASP
    - During CDD: incomplete or insufficient KYC information, lacking knowledge or providing inaccurate information
    - Profile: identification shared by another account, discrepancies arise between IP addresses, VA address on public forums
    - Profile of potential money mule or scam victims
  6. **Source of funds or wealth** - which can relate to criminal activity
    - Illicit trafficking in narcotics
    - Psychotropic substances
    - Fraud, theft and extortion (including cyber-enabled crimes)

FATF emphasizes that such indicators should **not be the sole determinant** of whether or not suspicious transaction reports (STRs) should be filed. Reporting entities should **consider filing** an STR if they **know, suspect, or have reasonable grounds** that ML/TF has been committed.

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- AML/CTF training
- AML/CTF policy, procedure, and process design or review



Assistance in risk assessment drafting regarding ML/TF

- DKYC: externalizing KYC processes

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