

# AML Tuesday's Session #33 on:

Virtual Assets Risk Assessment

19 September 2023

# Agenda

10:00 – 10:05	Welcome and Opening
10:05 – 10:15	Purpose
10:15 – 10:50	2023 VA NRA
10:50 – 10:55	Conclusion
10:55 – 11:00	Questions & Answers

# Purpose & Overview

# National Risk Assessments

Important that risks are identified on the national level and are communicated to private sector so that every FI/DNFBP in Monaco can:

- Take the information into account when doing its own Business Risk Assessment, which is required by law and must be provided to SICCFIN/the Bar Association upon request. Remember the document needs to be in writing and its is not focused on individual customers but your business as a whole.
- Determine to what extent and in which ways the identified risks may or do in practice affect your risk profile as a business.
- Align your whole internal controls environment to focus on those areas of risks that are most pertinent and material to your business. Strengthen the risk mitigation measures in those areas.

# National Risk Assessments

This year, Monaco already completed the following ML/TF focused Risk Assessments:

- Terrorism Financing National Risk Assessment
- Non-Profit Organizations National Terrorism Financing Risk Assessment
- Virtual Assets National Money Laundering Risk Assessment
- Tax National Money Laundering Risk Assessment (forthcoming)
- Legal Entities National Money Laundering Risk Assessment (forthcoming)
- A number of Sectorial Risk Assessments Conducted by SICCFIN (forthcoming)

Of course also there is the National Risk Assessment Report of 2020 and the National Terrorism Financing Risk Assessment Report of 2021.

# The VA Risk Assessment

- VAs are attractive way to disguise and convert ownership and control rights over assets
  - Easy to evade sanctions
  - Easy to integrate proceeds of crimes into the global financial system
- Monaco has regulation for creating and supervising VASPs (Law 1.528 and Law 1.491)
  - Specify which types of services and crypto assets can be offered as licensed and regulated activities;
  - Applicable regulatory requirements
  - Services may include the exchange of VAs against other VAs, the issuance of new VAs, and the operation of a negotiation platform for virtual assets.



# The VA Risk Assessment (cont'd)

Specifically on virtual assets, the MONEYVAL assessment team recommended the following:

Monaco should refine its analysis of risks linked to certain sectors and activities (casinos, CSPs, trusts and **virtual assets**) [...] through a more detailed examination of the information available in its next NRA.



Led and Coordinated by Strategic Committee

FATF Recommendation 15 was amended:

- Countries now required to prohibit or license/register and regulate VASPs

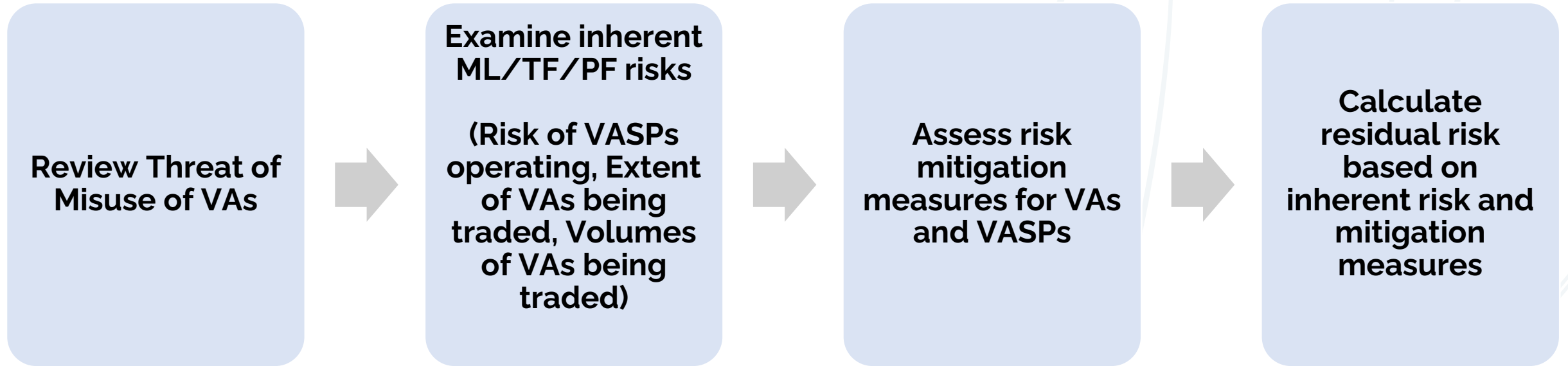
Pandemic saw stark rise in quantity of VAs, exchange of VAs, circulation of VAs, acceptability of VAs by society, as means of payment or exchange.

Recent scandals in the VA-sphere (e.g. FTX) also highlighted risks associated with VASPs

# 2023 VA NRA



# Methodology



Data sourced from SICCFIN (FIU), SICCFIN (Supervision), DSP, GPO, and open source specifically in relation to VA and VASP links

# Threat arising from criminality

- NRA 2 notes low level of domestic criminality but medium-high risk of foreign generated proceeds of crime being present in Monaco.
  - ➔ Could lead to the conclusion that they need to be laundered, so the demand for ML schemes exists
- STRs, police investigation cases, prosecutions, incoming MLA requests for the years 2020-2022 were examined in relation to any existing VA or VASP links.
- Findings:
  - Low number of STRs, investigations and prosecutions since 2020 involving VA and VASP activities.
  - Still limited complexity of the fact patterns outlined in these cases.
  - Monegasque nationals or residents do seem to engage in some VA related activities but this is mostly through platforms located abroad.
  - The absolute number of cases that have arisen in this regard is limited and involves generally lower volumes of funds.

# Threat arising from criminality (cont'd)

- The STRs analyzed demonstrate that FIs and DNFBPs in Monaco are acutely aware of the threats associated with customers that either trade in or are associated with VA activities, or themselves are VASPs, and that they apply a low threshold for reporting such activity.
- Monegasque FIs/DNFBPs or the customers they serve are not heavily active in the VA and VASP space.
- The STRs also forcefully illustrate that Monegasque FIs/DNFBPs have a very minimal appetite to onboard clients that have made their wealth or are majorly invested in virtual assets trading activities.
- While Monaco may have a medium-high ML threat in general, this threat is VA or VASP specific to only a limited extent

# Threat arising from criminality (cont'd)

- Nevertheless, the medium-high national ML risk profile combined with the rising use of VAs and a general tendency for their accepted use not only by society in general but also financial institutions and governments around the world increase the risks that VAs become more frequently used in money laundering or terrorism financing schemes globally.
- Currently, few cases or indications that Monegasque use VAs for criminal purposes but international ML schemes involving foreign proceeds of crimes would likely draw from a whole range of instruments available to criminals, including virtual assets.
- In conclusion, at the time of the drafting of this report the threat to Monaco arising from VAs was conservatively rated to be **MEDIUM-HIGH**.

# Inherent Risks of VAs

- Inherent risk assessed via three scenarios:

- 1. VASPs are operating in Monaco and provide VA services to clients domestically/internationally**
- 2. Monegasque nationals, residents or legal entities, or even non-resident customers of Monegasque banks engage in the trading or investment of VAs through VASPs located in countries other than Monaco, using a local account to send or receive funds to the foreign exchange or wallet**
- 3. VAs are accepted in Monaco as a medium of exchange – for example for the purchase of goods**

- All of these scenarios pose a real risk for Monaco, some more direct than others.

# Inherent Risks of VAs

- **Scenario 1: VASPs are operating in Monaco and provide VA services to clients domestically or abroad**
  - Licensing and regulatory framework for VASPs is in place
  - In practice, no license for VASP activities has been issued = no VASP sector in Monaco
  - Any person wishing to trade VAs or receive other VA related services would have to do so through foreign VASP
  - Unauthorized VA activities have not been identified and thus are presumed to not take place on a systematic or grand scale.

# Inherent Risks of VAs (cont'd)

- **Scenario 2: Monegasque nationals, residents or legal entities, or even non-resident customers of Monegasque banks engage in the trading or investment of VAs through VASPs located in countries other than Monaco, using a local account to send or receive funds to the foreign exchange or wallet**
  - SICCFIN uses VA-related questions in data collection of supervised entities to assess extent to which banks cater to VA transactions of VASPs of their customers
  - 2022 data showed 0 business relationships by Monegasque banks directly with foreign VASPs,
  - Some banks did report that their customers did engage in VA-related activities abroad
  - Total volume of transactions was very low when contextualized with total volume of funds flows through Monegasque banks
  - Also average amount of VA related transactions through banks was very low.



# Inherent Risks of VAs (cont'd)

- **Scenario 3: VAs are accepted in Monaco as a medium of exchange – for example for the purchase of goods**
  - No definite policy decision on whether VAs are acceptable as means of exchange
  - In practice only few local businesses seem to accept VAs as form of payment
  - All of those businesses are part of the same sector – thus conclusion is that only one sector in Monaco accepts payments for services in form of VAs, volumes recorded still limited
  - Overall acceptance and popularity of VAs is low among Monegasque society compared to other countries
  - VAs are generally not used as a medium of exchange, including in sectors such as real estate, the casino, or TCSPs, antiques dealers, jet service providers, auctioneers, car dealers, DPMS, jewellers, and pawn shops.



# Conclusion on Inherent Risks

- Monaco has a **MEDIUM-LOW** inherent risk profile in relation to VA and VASP related ML risks
- The inherent risk is concentrated mostly in the banking sector
- The inherent risk is most likely to materialize by way of foreign VA activities on banking customers in the context of cross-border ML schemes
- Either to move foreign generated proceeds of crime out of or into Monaco's banking sector (and from there into other sectors)

# Risk Mitigation Measures

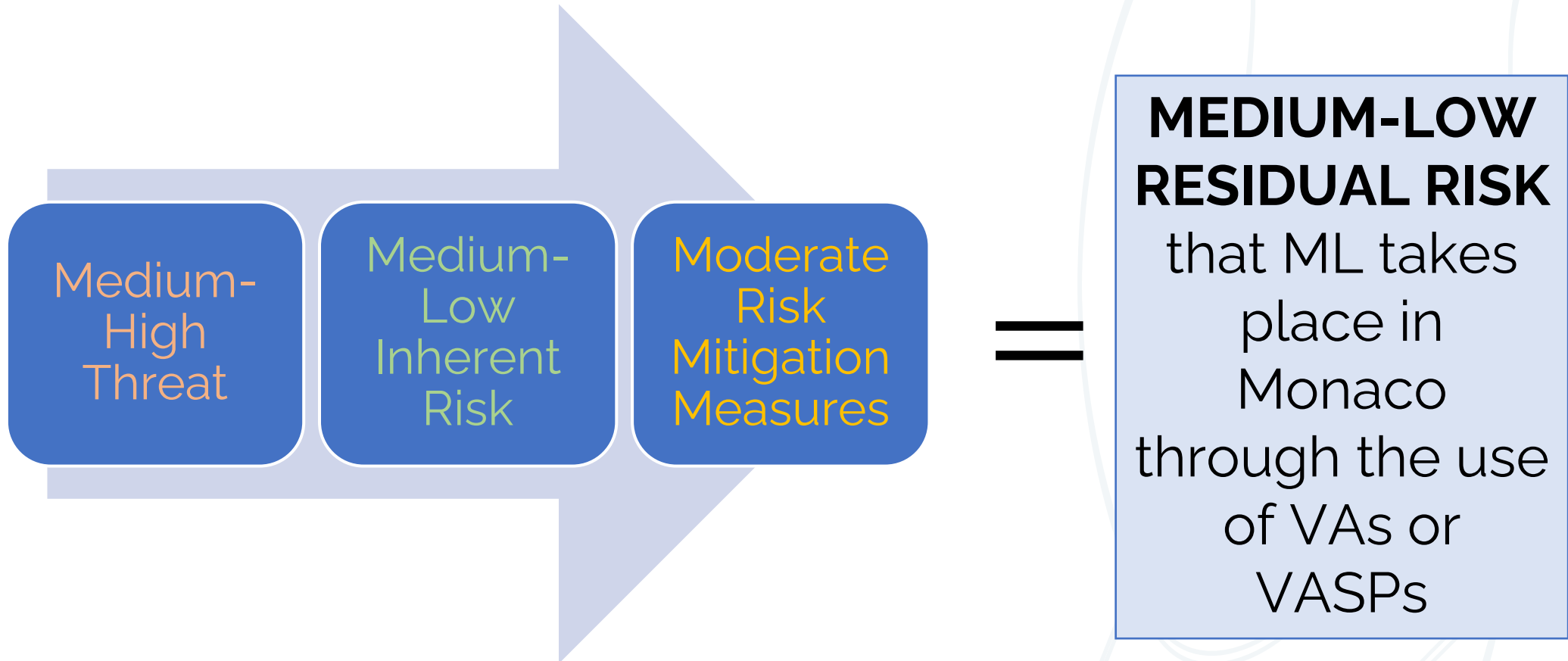
- Regulatory Framework for VASPs (Law 1.528)
  - Two licensing processes (CCAF and Minister or State)
  - First step towards implementation of registration and licensing framework
  - Secondary Legislation (Sovereign Ordinance) to be developed = will clarify the details of the regulation and licensing process
  - In practice, licenses were so far not received under either of the two processes
- Regulatory Framework for ICOs (Law 1.491 and SO 8.258)
  - Issuance of tokens on a blockchain, subject to authorization by the Minister of State
  - Strict requirements and examination process
  - Only 3 applications for ICOs filed to date – one was permitted



# Risk Mitigation Measures (cont'd)

- AML/CFT Obligations for FIs/DNFBPs in relation to VA activity
  - AML/CFT Law was amended = full range of preventive measures also for VASPs
  - Term “Funds” now also includes VAs, which means that the full set of preventive measures applies to virtual assets even in the absence of the involvement of a domestic VASP.
  - VA-related surveys circulated by SICCFIN
  - Awareness raising by SICCFIN to improve FIs/DNFBPs ability to detect and report suspicious VA activities
  - SICCFIN and the DSP invested in software to analyze VA-related transactions and set up units of specialized officers
  - Conclusion: Monaco's risk mitigation measures for VAs and VASPs are **MODERATE** in strength at the time of the drafting of this report.

# Residual Risk for Virtual Assets





*Thank you for your  
time*

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**Next Session:**

03.10.2023

**Topic:**

ML Risks Posed by Tax Crimes,  
Red Flag Indicators and the Tax  
Risk Assessment

Today's Host: Jan Bellenghi

Today's Presenter: Gabriele Dunker