

**Project on “Preventing Money Laundering and Terrorist Financing in Serbia”**

**TECHNICAL PAPER**

**Virtual Assets and Virtual Assets Service Providers:**

**Analysis of AML/CFT Regulatory, Supervisory and Oversight Approaches and  
Challenges**

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The project “Preventing Money Laundering and Terrorist Financing in Serbia” aims at supporting Serbia in addressing the remaining Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) regulatory shortcomings thereby strengthening the country’s AML/CFT prevention and enforcement regime. This overall objective will be achieved by developing effective and sustainable framework for preventing and suppressing money laundering and terrorist financing in Serbia, inclusive of primary and secondary legislation, organisational solution, and specialisation.

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#### Disclaimer

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The views and opinions presented herein are those of the main author and should not be taken as to reflect the official position of the Council of Europe and/or the Swedish International Development Cooperation Agency.

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## ABBREVIATIONS

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
AML/CFT Law, Serbia	Law on the Prevention of Money Laundering and the Financing of Terrorism, Official Gazette of Republic of Serbia, No 113 of 17 December 2017, 91 of 24 December 2019
ASIC	Australian Securities and Investment Commission, Australia
CDD	Customer Due Diligence
CFTC	Commodity Future's Trading Commission, USA
CNBV	National Banking and Securities Commission of Mexico
DEXs	Decentralised Exchanges
DNFBPs	Designated non-financial businesses and professions
EBA	European Banking Authority
EC	European Commission
ESMA	European Securities and Markets Authority
FATF	Financial Action Task Force
FCA	Financial Conduct Authority, UK
FIs	Financial Institutions
FIU	Financial Intelligence Units
ICO	Initial coin Offering
JFSA	Financial Services Agency of Japan
KYC	Know Your Customer
LEAs	Law Enforcement Authorities
MAS	Monetary Authority of Singapore
MER	Mutual Evaluation Report
MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
ML	Money Laundering
OSC	Ontario Securities Commission, Canada
STRs/SARs	Suspicious Transaction Reports/Suspicious Activity Reports
TF/FT	Terrorist Financing/Financing of Terrorism
USA	United States of America
UK	United Kingdom
VA/VAs	Virtual Assets
VASPs	Virtual Asset Service Providers

## 1. EXECUTIVE SUMMARY

This technical paper aims to provide guidance to the regulatory and supervisory authorities in Serbia on applying a risk-based approach to the AML/CFT supervision of Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs). The paper provides guidance to Serbian authorities on developing and/or strengthening their AML/CFT supervisory processes, procedures and systems to supervise and monitor VA activities and VASPs by analysing the current regulatory, supervisory and oversight approaches, as adopted by other jurisdictions, and drawing on their experiences which can be best followed as good practices.

The paper is primarily based on desk-based review of the available literature on the AML/CFT supervision of VAs and VASPs, both at national and international level, to understand the current regulatory, supervisory and oversight approaches, as well as the challenges that might be faced in the effective regulation and supervision of this sector. The relevant literature for the purposes of this paper includes, but is not limited to, the legislation and bylaws related to the supervision of VAs and VASPs in Serbia (both governing the general supervision and AML/CFT specific supervision of VAs and VASPs), 2018 National ML/TF Risk Assessment of Serbia, 2018 NRA Action Plan of Serbia, Serbia's National AML/CFT Strategy (2020-2024) and Action Plan (2020-2022), 2016 MONEYVAL Fifth Round Mutual Evaluation Report of Serbia, 2018 MONEYVAL 2<sup>nd</sup> Enhanced Follow-Up Report of Serbia, , various guidelines and reports issued by international and regional bodies and agencies on risk-based approach to supervision of VASPs, sector-specific ML/TF typology and red-flag indicator reports published by international organisations such as Financial Action Task Force (FATF) and any other relevant literature on VA activities and activities or operations of VASPs and their effective AML/CFT supervision.

Some of the key findings and recommendations of this paper to strengthen the AML/CFT risk-based approach to the supervision of VA activities and VASPs in Serbia are as follows:

- To conduct a national level ML/TF risk assessment of VAs activities and activities or operations of the VASPs, on priority basis, to identify, assess and mitigate the ML/TF risks facing the sector.
- To conduct a sectoral-level ML/TF risk assessment of the VA activities and VASPs sector by the National Bank of Serbia and the Securities Commission, as designated supervisory authorities, to inform their risk-based approach to supervision of this sector.
- To conduct trainings and capacity building activities for the relevant authorities (including National Bank of Serbia, the Securities Commission, the FIU, police and other LEAs) to enhance their understanding of VA products, services and activities, as well as ML/TF risks associated with VAs and VASPs. This includes training on typologies, related challenges and forensic techniques for detecting and assessing ML/TF risks associated with VAs and VASPs.
- To conduct outreach activities for VASPs to raise their understanding and awareness on the ML/TF risks associated with various VA products, services or activities, as well as their AML/CFT obligations.
- To develop and provide appropriate guidelines to VASPs on applying AML/CFT risk-based approach at institutional level so that they can effectively identify, assess and mitigate ML/TF risks facing their firm.

- To develop and implement proper procedures, processes, guidelines and systems by supervisory authorities to conducting risk-based AML/CFT supervision of the VASPs sector.
- To effectively supervise and monitor the rapidly evolving and transforming VASPs sector in Serbia, the adoption and implementation of a transformed AML/CFT risk-based supervisory model, which uses advanced data gathering and analysis techniques, is highly recommended by this report.
- To further clarify, improve and strengthen the cooperation and coordination between supervisory authorities (National Bank of Serbia and the Securities Commission) and other competent authorities on the exchange of information related to AML/CFT supervision.
- To develop and promote public-private partnerships among regulatory and supervisory authorities and VASPs to understand the typologies and indicators for ML and TF risk assessment, as well as to understand new products, new business models, new technologies and potential risks.
- To regularly utilise the international organisations, such as FATF and the Egmont Group, to facilitate collaboration between competent authorities on appropriate regulatory and law enforcement responses to VAs, including information sharing and typology development.

This paper is mainly focussed on providing guidance to the regulatory and supervisory authorities on developing their risk-based approach to supervision of VA activities and VASPs for AML/CFT purposes. It does not cover how VASPs could implement their own firm-level AML/CFT risk-based approach and how supervisory authorities oversee that risk-based approach. Nonetheless, the information provided in this paper would be useful, to some extent, to the obliged entities in the VASPs sector in designing and conducting their own institutional-level risk assessment.