

# Bailiwick of Jersey Virtual Asset Service Providers

## National Risk Assessment of Money Laundering, Terrorist Financing, and Proliferation Financing



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## Foreword

This is the first national risk assessment of the virtual asset service provider (VASP) sector, but it is not the first time this sector has been assessed.

In 2022 the Government of Jersey published a National Risk Overview of Virtual Assets. As was stated at the time, the small size of the VASP sector in 2022 made a full-scale risk assessment impractical.

Since then, while the number of relevant entities remains small, further data has been gathered, and given the pace of change and likely importance of virtual assets in the future, a more comprehensive review was considered appropriate. In addition, since 2022, the Proceeds of Crime (Amendment No. 6) (Jersey) Law 2022 has brought VASPs fully within scope of AML/CFT provisions and has enabled the JFSC to collect relevant data on this sector.

At the time of the overview there were only three active entities in the Island, and while that number has grown it still remains small. This conservative approach has of itself acted to mitigate the Island's exposure to risk but may have impacted the levels of understanding of the risks it can present.

This risk assessment forms an important part of the Island's risk strategy, and the latest in the programme of risk assessments that have been ongoing since 2018. The virtual asset sector, more than any other, is rapidly evolving and whilst Government acknowledges the different opportunities this sector does offer, the potential risks need to be kept under constant review.

I thank everyone involved in the work which has led to the publication of this report, and for their ongoing commitment both to address the recommended actions identified and generally to protect our jurisdiction from this ongoing risk.



**Deputy Ian Gorst**  
**Minister for External Relations**

## Executive Summary

Jersey is committed to combatting money laundering, terrorist and proliferation financing. Its ability to do so, and to be seen to do so, is crucial in maintaining its reputation as an international finance centre. One of the Island's hallmarks is that it is a safe, stable, and legitimate place to do business.

Jersey is well-known internationally for the work it does in the banking, trust company and funds sector, involving financial institutions and designated non-financial businesses and professions. One area, which is defined by the FATF but is not yet a major part of the Jersey industry, is the virtual asset service providers (VASPs).

Anyone undertaking a VASP activity in Jersey is subject to the full AML/CFT/CPF regulatory framework including registration with the JFSC. The registration process began in 2016 for businesses offering exchange services between virtual assets (VA) and fiat currencies (virtual currency exchange businesses (VCEBs)) and has subsequently been extended to all VASPs.

Since the VASP risk overview was completed in 2022, the virtual asset sector worldwide has grown. There are many high-profile examples of the risks inherent within it. The profile of Jersey VASPs has seen several changes, but the absolute number of registered persons has remained small. From 2022 to early 2024 the sector grew from three registered persons to ten, although not all of those were operational at the time this assessment was completed.

Another international growth area has been decentralised finance (DeFi), and while any activity performed by a registered VASP is within the scope of this risk assessment, activity performed outside of a registered VASP is currently outside the regulatory perimeter and therefore not considered. Discussions with the registered VASPs identified that they were not undertaking any DeFi activity at the time of this assessment.

This assessment identifies four residual risks that the Island needs to address. The first is that the travel rule, being only recently implemented, needs to be monitored to assess effectiveness.

The second and third risks relate to awareness of the sector, with both law enforcement and industry through its understanding of the ML/TF/PF risks posed by VAs and VASPs, still requiring development, although it has improved.

Finally, as VAs and VASPs continue to evolve, the national structure must facilitate policy development in accordance with identified risks, using suitable resources and data points from across the competent authorities and industry.

Overall, the risk posed by the sector is as expected with the ML/TF/PF threat and inherent vulnerability relating to VA and VASP activity in Jersey assessed as Medium-High. The existing mitigation of ML/TF/PF relating to VA and VASP activity in Jersey is assessed as Medium.

While this falls within the expectations formed in light of the overview, the volatility and rapid evolution of the sector means that agency, and industry, knowledge of the sector as it evolves, and as the vulnerabilities and threats also evolve, needs to be maintained.

## 1 Introduction

### 1.1 Jersey's economic and finance sector position

- 1.1.1 Jersey is a significant global international finance centre (IFC) with all the key structural elements required for an effective AML/CFT/CPF system. It has stable institutions with accountability, transparency, and integrity; political stability; governmental rule of law; a high-level commitment to prevent and detect money laundering (ML), terrorist financing (TF) and proliferation financing (PF), and a capable, efficient, and independent judicial system. It continues to build on a foundation of effective financial regulation with a strong focus on adherence to international standards.
- 1.1.2 Digital Jersey<sup>1</sup> was established in 2013 to support and sustain economic growth in Jersey's digital sector. Jersey for Fintech is a collaboration between the Government of Jersey and key agencies to promote Jersey as the ideal location for fintech firms to establish, grow and flourish. Jersey welcomes financial innovators and is committed to providing an attractive, productive and supportive environment for new/innovative and established financial technology firms.
- 1.1.3 Since 2018, when the Jersey Financial Services Commission (JFSC) started to collect data on a systematic basis, the financial services industry has consistently reported connections to over 245 jurisdictions. Highlighting that the source of wealth administered by Jersey's financial services businesses is international in nature.
- 1.1.4 In 2022, financial services, including the legal and accountancy sectors, accounted for 42% of Jersey's total Gross Value Added and 22% of the Island's employment<sup>2</sup>. Jersey's financial services industry reflects most of the activities defined by the Financial Action Task Force (FATF) as Financial Institutions (FIs), [Designated Non-Financial Businesses and Professions \(DNFBPs\)](#) and Virtual Asset Service Providers (VASPs). The most significant sectors are (i) banking, (ii) Trust Company businesses (TCBs)<sup>3</sup>, and (iii) the funds sector (including service providers to both public and private funds).
- 1.1.5 VASPs are a very small element of the financial services industry, as at 31 December 2023 there was just eight registered persons, of which five were active. This compares to 43 registered crypto-assets firms in the UK, and one registered VASP in Guernsey.

### 1.2 Regulatory framework

#### VASPs

- 1.2.1 All persons undertaking a VASP activity in or from within Jersey on behalf of another natural person, or legal person or arrangement, are now required to register with the JFSC who supervises them for compliance with the AML/CFT/CPF regulatory framework.

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<sup>1</sup> <https://www.digital.je/initiatives/fintech-regtech/>

<sup>2</sup> <https://www.gov.je/StatisticsPerformance/BusinessEconomy/Pages/NationalAccounts.aspx>

<sup>3</sup> Persons that undertake one or more of the activities covered by Article 2(3) of the Financial Services (Jersey) Law 1998, and who are registered by the JFSC to carry on that activity.

- 1.2.2 Since 2016, all businesses operating in or from within Jersey offering an exchange service between virtual assets (VA) and fiat currencies (virtual currency exchange businesses (VCEBs)) have been subject to the AML/CFT/CPF regulatory framework. Until 30 January 2023 any VCEB with a turnover of less than £150,000 was not required to register with the JFSC. However, a notification regime existed and the JFSC was able to exercise its regulatory powers on both registered and notified VCEBs. The alignment of the Jersey regulatory framework with the FATF definition of VA<sup>4</sup> and VASP<sup>5</sup> removed this limited registration exemption. Any person in business on 30 January 2023 had until 30 June 2023 to submit a registration application.
- 1.2.3 The JFSC collects relevant data from applicants and registered persons to inform and update its understanding of ML/TF/PF risks in the VASP sector. Due to the small size of the sector it is possible to have close contact with all relevant entities.
- 1.2.4 During 2023 the JFSC put in place a dedicated team to supervise the sector. In September 2023 the EU Legislation (Information Accompanying Transfers of Funds) (Jersey) Regulations 2017 was extended to include VASPs (the Travel Rule).

### 1.3 VASP sector size and activity

- 1.3.1 Whilst the profile of the Jersey VASP sector has seen several changes, the number of registered persons has remained small. During the two-year period from early 2022 to the end of March 2024 the sector grew from three registered persons (all VCEBs) to ten registered persons (includes but is not limited to VCEBs). It is important to note that the number of active VASPs may be less than the number registered (year-end 2023 saw eight registered with five being operational).
- 1.3.2 A person may register to undertake more than one type of VASP activity. Table 1.1 presents the **activities** of the registered VASPs operational at the end of 2023. Note, all VASPs were registered for at least two activities.
- 1.3.3 Additionally, a VASP may register to undertake another type of financial services business. Three VASPs hold licences to carry on FI activity – two are registered as a Fund Services Business and one as an Investment Business. Consequently, these persons are subject to the prudential and conduct of business regulatory framework relating to these additional activities.
- 1.3.4 The activities of the registered VASPs include: (i) investment management platforms offering over the counter trading for institutional investors and High Net Worth Individuals; (ii) institutional grade custody/depository services; (iii) stablecoin settlement solutions; and (iii) virtual asset exchange services (both virtual to fiat and virtual to virtual).

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<sup>4</sup> Part 1, [paragraph 1 of Schedule 2 to the Proceeds of Crime \(Jersey\) Law 1999](#) ("Proceeds of Crime Law")

<sup>5</sup> Part 4, [paragraph 24 of Schedule 2 to the Proceeds of Crime \(Jersey\) Law 1999](#)

**Table 1.1: Activity of registered VASPs 31 December 2023**

Registered VASP activity	Number of active VASPs undertaking activity at end of 2023
a) Exchange between virtual assets and fiat currencies	5
b) Exchange between one or more forms of virtual assets	4
c) Transfer of virtual assets	5
d) Safekeeping or administration of virtual assets or instruments enabling control over virtual assets	4
e) Participation in and provision of financial services related to an issuer’s offer and/or sale of a virtual asset	2

1.3.5 Whilst the JFSC is seeing an increasing interest in the tokenisation of real-world assets such as equities, funds and bonds, tokenisation is not covered by this risk assessment. This is covered in more detail in paragraph 6 of Appendix C to this report.

1.3.6 FIs and DNFBPs operating in Jersey provide VA-related services, or services with an exposure to Vas. These include TCBs, funds and banks. However, these activities do not meet the definition of a VASP. Further information on these activities is provided in section 5 of this report.

**VA’s and initial coin offerings (ICOs)**

1.3.7 Jersey’s Control of Borrowing (Jersey) Order 1958 (COBO) requires any person wishing to raise capital in or from within Jersey to seek consent from the JFSC. The consents may be granted with or without conditions. Through the granting of consents the JFSC has a level of visibility over many persons doing business in Jersey and the attachment of conditions provides control over the activity, or structure of businesses.

1.3.8 In 2018 the JFSC introduced guidance on ICOs to control the raising of capital through token issuances. This guidance remains relevant at the time of publishing this risk assessment. Further information on ICOs is available in paragraph 2 of Appendix C to this report.

1.3.9 It is the JFSC’s policy to always place conditions on COBO consents granted to persons operating in the VA or ICO sector. These conditions include the requirement for the person: (i) to be a Jersey company; (ii) to appoint a Jersey licensed TCB, and (iii) to appoint a principal person of the TCB to a management function of the person receiving the consent (e.g. appointing a director of the TCB to the management function of their customer).

1.3.10 Through these conditions, TCBs have a duty regarding the implementation of relevant and adequate systems and controls to manage and mitigate ML/TF/PF.

**2 Residual Risks and Recommended Actions**

**2.1 2024 residual risks and recommended actions**

- 2.1.1 Following completion of this risk assessment several residual risks have been identified along with actions which will contribute to a better understanding of risks posed by VA activity in Jersey, and hence enable more oversight and control.
- 2.1.2 These recommended actions are supported by the VASP working group. Lead and supporting competent authorities will be identified and, where appropriate, the actions will be added to the National Action Plan and taken forward through the National Financial Crime Policy and Strategy Cooperation and Coordination Structure.

Table 2.1: Residual risks and recommended actions

Residual risk	
	Recommended actions
RR1	Internationally, jurisdictions are noted as having made insufficient progress on implementing the travel rule. This is true in Jersey as legislation has been implemented but its effectiveness is as yet unknown.
	RA1 The JFSC to continue outreach and engagement with the sector to: (i) raise awareness of the requirements; (ii) further understand the challenges associated with its implementation with a view to sharing examples of best practice with industry, and (iii) developing and publishing additional guidance if necessary.
RR2	Law enforcement authority (LEA) capacity, capability and co-operation with respect to investigations involving the VA sector requires further development.
	RA2 Continue to enhance capacity and capability within LEAs to progress investigations involving the use of virtual assets. Such enhancement could include further use of blockchain analytics tools.
	RA3 LEAs to identify any specific blockers to co-operation and continue to pursue enhanced co-operation with other jurisdictions in relation to requests for information.
RR3	For both competent authorities and industry, the understanding of ML/TF/PF risks posed by VAs and VASPs has increased since publication of the 2022 VASP NRO but still requires development.
	RA4 Continue to develop and enhance the competent authorities’ understanding of virtual assets and underlying technology, leveraging the experiences of other jurisdictions. This should encompass further development of agency knowledge across the Financial Intelligence Unit, Jersey (FIU), LEAs, the JFSC and the Government.
	RA5 The risk understanding of traditional FIs and DNFBPs to be further developed through targeted risk-focused outreach and engagement by competent authorities. The FIU to include VA typologies in future reports.

	RA6	<p>Peer-to-peer (P2P) transactions may be attractive to illicit actors. Competent authorities, particularly the JFSC and the FIU, should work together to identify the extent to which these activities are occurring within Jersey, including the volume and value of transactions in to/out of Jersey.</p> <p>This may include the exploration of blockchain analytics solutions that utilise IP address filtering/monitoring.</p>
RR4		<p>As VAs and VASPs continue to evolve, the national structure must facilitate policy development in accordance with identified risks, using suitable resources and data points from across the competent authorities and industry.</p>
	RA7	<p>Through the national structure monitoring of emerging ML/TF/PF risks arising from Jersey VA and VASP activity should continue with a view to identifying gaps in the regulatory framework (legal and regulatory requirements). Regular risk reporting should occur to the Financial Crime Political Steering Group.</p>
	RA8	<p>Whilst the level of data held on the activities of VASPs has increased further risk understanding and policy development is required. The JFSC should ensure relevant and timely data collection. For example, they should hold data:</p> <ul style="list-style-type: none"> <li>a) designed to continue to enhance the understanding of the VA exposure arising in other sectors such as Banking, Funds (i.e. Jersey Private Funds (JPFs)) and TCBs, and</li> <li>b) in relation to decentralised finance (DeFi) activity, they should include mining and staking activities if these are undertaken by registered VASPs in Jersey.</li> </ul>

**3 Methodology and Scope**

**3.1 Methodology**

**FATF requirements**

3.1.1 The FATF Recommendations call on countries to identify, assess and understand their ML, TF and PF risks, and take appropriate action. This includes designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. A country’s understanding of risk is an essential foundation of its regulatory framework and should be used to allocate resources efficiently. This principle is specifically applied to VAs and VASPs by FATF Recommendation 15 (new technologies)<sup>6</sup>.

**VASP ML/TF risk understanding**

3.1.2 In May 2018, Jersey initiated a programme of National Risk Assessments (NRAs) using the World Bank (WB) methodology which has resulted in the publication of a series of risk-focussed documents. These can be accessed from the Government of Jersey website<sup>7</sup>.

3.1.3 Some of these reports contain recommendations relating to the VASP sector. Section 1 of this report sets these out along with the position regarding action taken as at the end of 2023.

Table 3.1: Risk-focussed reports published since 2020

Subject	Publication date	Risk rating
NRA of ML (2020 ML NRA)	September 2020	Medium-high
NRA of TF (2021 TF NRA)	April 2021	Medium-low
NRA of Non-profit Organisations	April 2022	Medium-low
Update on 2021 TF NRA (2023 TF NRA Update)	May 2023	Medium-low
NRA of Legal Persons/Legal Arrangements	July 2023	Threat: High; Vulnerability: Medium
Update on 2020 ML NRA (2023 ML NRA Update)	September 2023	Medium-high

<sup>6</sup> <https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf>

<sup>7</sup> <https://www.gov.je/Industry/Finance/FinancialCrime/NationalRiskAssessments/Pages/index.aspx>

## 2022 VASP NRO

- 3.1.4 In May 2022, Jersey published a National Risk Overview of Virtual Assets (2022 VASP NRO). Due to the size of the sector in 2021/early 2022 (three registered VCEBs) this report considers VA and VASP ML/TF risks in general, it is not a data-led in-depth risk assessment.
- 3.1.5 The underlying work was conducted at a high level with the key objectives of furthering the general understanding of ML/TF risk in the sector, and informing policy decisions in the development of Jersey's VA and VASP regulatory framework.
- 3.1.6 The 2022 VASP NRO notes:
  - 3.1.6.1 Jersey has a progressive approach to virtual assets and that it continues to monitor the threat and vulnerabilities they pose to the jurisdiction informally since their emergence.
  - 3.1.6.2 The level of knowledge, and understanding, of virtual assets and the risks involved remains limited both at authority and non-VASP entity level.
  - 3.1.6.3 The JFSC and other relevant authorities were not, at the time, collecting sufficient data that would allow them to further develop their understanding of the sector and the risks presented by its activities.

## Approach

- 3.1.7 In line with other recent risk assessments, this NRA utilises the WB methodology - the VA and VASP toolkit was published June 2022. The toolkit emphasises the importance of the public/private approach to assessing risk. The private sector's involvement is key to assessing risk, raising awareness of the results, and assisting with the implementation of practical recommended actions and mitigants.
- 3.1.8 NRAs are led by the Government of Jersey with significant support from working groups. For this assessment the VASP working group comprised:
  - 3.1.8.1 Representatives from the private sector: registered VASPs, the legal sector and TCBs
  - 3.1.8.2 The JFSC
  - 3.1.8.3 The Law Officers' Department
  - 3.1.8.4 The FIU
- 3.1.9 The VASP working group met on three occasions between July and November 2023, undertaking detailed analysis of the specific risks posed by VA/VASP activities. This included consideration of information and data provided by both the private sector and the Island agencies and drew conclusions on the risks presented.

## Data

- 3.1.10 The ability to conduct a comprehensive risk assessment is heavily dependent on the collection and analysis of reliable data. The WB methodology highlights the need for qualitative and quantitative data from the public and private sector, it advises that: *“The collection of quantitative and qualitative data is an essential element of an VA-RA exercise. The ability to collect and analyse data about VA and VASP activities is crucial to assessing ML and TF risks.”*
- 3.1.11 Compared to early 2022, Island agencies, specifically the JFSC and FIU, now have a greater data set covering VA and VASP activity. This has enabled a data-led consideration of ML/TF/PF risks. This NRA drew on several data sources, including both objective and subjective data gathered from experts including:
- 3.1.11.1 **JFSC:** Private sector data collected regularly (e.g. annual Supervisory Risk Data); 2023 VASP application data, and data collected on an ad hoc basis during 2023 from banks.
  - 3.1.11.2 **FIU:** Suspicious Activity Report (SAR) data and case files for the period 2019 to 2022.
  - 3.1.11.3 **External Source:** 2023 and 2024 Chainalysis Crypto Crime Reports<sup>8</sup>.
- 3.1.12 Overall, the data available was considered adequate to assess the risk of ML, TF and PF posed by Jersey registered VASPs, and to draw appropriate conclusions and recommendations. However, it is important to understand that there are limitations in the analysis due to the sector only comprising five fully operational registered VASPs at that time. Consequently, any change in the profile of the sector, or a single reporting entity, can have a significant impact on the aggregated data.
- 3.1.13 Note: Where data includes reference to a jurisdiction being FATF grey-listed (under increased monitoring) this relates to the FATF position as at September 2023.

## 3.2 Scope

### Activities modelled using the WB tool

- 3.2.1 The WB methodology provides a summary of typical VASPs and the services they provide, highlighting seven types of VASPs, offering 12 VASP functions, and 25 activities (see columns 2 – 4 of Table 3.2).
- 3.2.2 The scope of this risk assessment has been determined by overlaying the activities of the registered VASPs against the WB summary. Column 5 of Table 3.2 highlights the in-scope activities.
- 3.2.3 For those out-of-scope activities, due to insufficient data and/or regulatory oversight, further information is available in Appendix C (Column 6 refers to the relevant paragraph).

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<sup>8</sup> [Research Reports Archive - Chainalysis](#)

Table 3.2: Scope of this risk assessment

	Type of VASP	Offering	Activity	In scope?	Appendix C paragraph
(1)	(2)	(3)	(4)	(5)	(6)
1	Virtual Asset Wallet Providers	Custodial Services <sup>9</sup>	1. Hot Wallet	Yes	
		Non-custodial Services	2. Cold Wallet	Yes	
2	Virtual Asset Exchanges	Transfer Services	3. P2P	No	3
			4. P2B <sup>10</sup>	No	
		Conversion Services	5. Fiat-to-virtual	Yes	
			6. Virtual-to-fiat	Yes	
			7. Virtual-to-virtual	Yes	
3	Virtual Asset Broking/ Payment Processing	Payment Gateway	8. ATMs	No	7
			9. Merchants	No	
			10. Cards	No	
4	Virtual Asset Management Providers	Funds	11. Fund Management	No	
			12. Fund Distribution	No	
			13. Compliance, Audit, and Risk Management	No	
5	Initial Coin Offering Providers	Fund Raising	14. Fiat-to-virtual	No	2
			15. Virtual-to-virtual	No	
		Investment	16. Development of Products and Services	No	

<sup>9</sup> Both hot and cold wallets secure crypto private keys. The main difference is that hot wallets are internet-enabled and online, whilst cold wallets are offline and come in the form of a physical device, such as a USB stick.

<sup>10</sup> P2B means peer-to-business

	Type of VASP	Offering	Activity	In scope?	Appendix C paragraph
(1)	(2)	(3)	(4)	(5)	(6)
		Other Offerings	17. Security Token Offerings	No	
			18. Initial Exchange Offerings	No	
<b>6</b>	<b>Virtual Asset Investment Providers</b>	<b>Trading Platforms</b>	19. Investment into VA-related Commercial Activities	<b>Yes</b>	
			20. Non-Security Tokens and Hybrid Trading Activities	<b>Yes</b>	
			21. Stablecoins	<b>Yes</b>	
		<b>Emerging Products</b>	22. Crypto Escrow Service	<b>Yes</b>	
			23. Crypto-custodian Services	<b>Yes</b>	
7	Validators/ Miners/ Administrators	Proof of Work	24. Fees	No	4
			25. New Assets	No	

## Decentralised finance (DeFi) <sup>11</sup>

### Overview

- 3.2.4 DeFi activity per se is not caught by the FATF Recommendations. In June 2023, the FATF's targeted update on VASPs detailed the increasing global use of DeFi protocols and identified DeFi activity as an emerging risk. The FATF called for jurisdictions to take a holistic approach to completing NRAs and to reflect the interconnectedness between DeFi arrangements, VASPs, unhosted wallets and P2P transactions.
- 3.2.5 Unhosted wallets can interact with a range of DeFi protocols including mixers, darknet markets, and other services both legitimate and illicit. Criminals may use these services to hold funds temporarily, obfuscate their movement of funds, or swap between assets. DeFi protocols are also used by illicit actors to convert fiat currency.
- 3.2.6 DeFi protocols account for the second largest destination of illicit funds in 2022 and 2023. According to Chainalysis, the share of illicit funds going to DeFi protocols has grown. The 2024 report primarily attributes this to the growth of DeFi generally. Sending illicit funds to DeFi protocols is a continuing trend that began in 2020.

### Jersey

- 3.2.7 Any DeFi activity performed by a registered VASP is within the scope of this risk assessment. However, any DeFi activity performed outside of a registered VASP is currently outside the regulatory perimeter and therefore not considered.
- 3.2.8 The JFSC have no data or formal insight on DeFi activity to inform a full risk assessment. However, it is understood that activity within Jersey is primarily retail activity involving lending/borrowing, use of Automated Market Makers and liquid staking derivatives. Discussions with the registered VASPs identified that they were not undertaking any DeFi activity at the time of this assessment.
- 3.2.9 Nevertheless, DeFi activity is of concern for the JFSC. They are considering the supervisory risk data collected from registered VASPs and the possibility of using this process to collect data on DeFi activity (including staking activities) should the registered VASPs change their activity mix. If collected the data will enable enhancement of ML/TF/PF risk understanding arising from DeFi activity (RA8).

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<sup>11</sup> DeFi, uses emerging technology to remove third parties and centralised institutions from financial transactions. The components of DeFi are cryptocurrencies, blockchain technology, and software that allow people to transact financially with each other.

**4 Threats**

**4.1 Overall threat level**

- 4.1.1 A ML/TF/PF threat comes from a person or group of people, object or activity which has the potential to cause harm to, for example, the state, society, or the economy.
- 4.1.2 The overall ML/TF/PF threat relating to VA and VASP activity in Jersey has been assessed as **Medium-High**. Note this is a composite rating with the TF/PF threat rating being lower than the ML rating, see also section 4.6 of this report.
- 4.1.3 The threats set out in the WB methodology are inherently high risk due to the nature of the technology and these threats are typically consistent across different jurisdictions. However, Jersey has no exposure to the highest risk activities including transactions involving privacy coins, mixing/tumbling protocols and algorithmic stable coins. Additionally, the VA activity within Jersey is almost exclusively institutional rather than retail, again reducing the overall threat level. Based on these factors an overall threat level of medium-high is appropriate.
- 4.1.4 All persons meeting the FATF definition of VASP are regulated and supervised in Jersey from an AML/CFT/CPF perspective, and in June 2023 the JFSC commenced collecting an expanded set of data covering the activities of registered VASPs. The size of the VASP sector remains small, with eight registered VASPs at the end of 2023, five of those being fully operational. Based on the data and information considered, the ML/TF/PF overall risk posed by registered VASPs is considered limited in terms of size and impact. However, there are areas identified within this risk assessment where further analysis and data is required to better understand the threats.
- 4.1.5 Table 4.1 sets out the six VA/VASP intermediate threat variables in the WB methodology, along with their ratings. Two variables have been assessed as presenting the highest threat: Ease of criminality and virtual asset nature and profile, discussed further in 4.3 and 4.5 respectively.

Table 4.1: Intermediate threat variables and their rating

Threat assessment - Intermediate variables	ML/TF/PF threat rating
Virtual asset nature and profile	High
Accessibility to criminals	Medium
Source of funding	Medium
Operational features of virtual assets	Medium
Ease of criminality	High
Economic impact	Low
<b>Overall threat rating</b>	<b>Medium-High</b>

## **4.2 Variation of WB methodology**

- 4.2.1 The WB methodology assesses threat through consideration of quantitative data concerning the level of investigated/prosecuted cases where VASPs were used for ML/TF/PF purposes.
- 4.2.2 Jersey has limited data relating to domestic prosecutions where VASPs/VAs have been involved. To better understand the threat picture, other data sources were leveraged including FIU SAR data and consideration of international typologies which identify prevalent global threats often experienced by larger jurisdictions. This provided a level of insight that allowed Jersey to better understand the potential threats it may face as a jurisdiction.

## **Suspicious activity reporting (SAR)**

- 4.2.3 In February 2022 the FIU issued a revised SAR template such that when an MLRO adds assets to a SAR they must identify whether it is a virtual asset or not.
- 4.2.4 The profile of businesses is not static and this change in profile can have a significant impact on the number of SARs submitted. A large globally active VASP had a Jersey registration during 2019/2020 and during this period there was a significant increase in the number of SARs reported. Excluding this business highlights that the registered VASPs submit between two and four SARs per year with a number also submitting miscellaneous information reports. Whilst the SAR submission could be considered low in absolute terms, until 2023 the number of operationally active registered VASPs never exceeded five and the sector's total reported customer base remained below 150 customers.
- 4.2.5 In 2023, the FIU received just over 1,500 SARs of which 50 were submitted by FIs/DNFBPs and have a typology of cryptocurrency or virtual assets. The FIU continues to utilise this data in its strategic analysis aimed at identifying Jersey's threats.

## **4.3 Ease of criminality**

### **Disguising criminal proceeds**

- 4.3.1 Research by third parties shows there is growing evidence that internationally VAs are being used to facilitate cybercrime and ransomware and other forms of ML, TF and PF, with ransomware and darknet activity being two prominent forms of cybercrime.
- 4.3.2 The Chainalysis '2024 Crypto Crime Report' published in February 2024<sup>12</sup>, reports a drop in of the value received by illicit virtual asset addresses. However, the report also adjusts its 2022 estimate from circa USD 20.6bn to USD 39.6bn, a significant increase from the 2017 estimate of USD 4.9bn. The adjustment of the 2022 estimate largely arises due to the identification of previously unknown, highly active addresses hosted by sanctioned services as well as inclusion of the creditor claims against FTX.

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<sup>12</sup> Crypto Crime Reports are available from the Chainalysis website: [Research Reports Archive - Chainalysis](#)

4.3.3 The US Department of Treasury's *Action Plan to Address Illicit Financing Risks of Digital Assets*<sup>13</sup> highlights that the USA ML NRA:

*"Found that several threat actors, including ransomware cybercriminals, drug trafficking organizations, and fraudsters were using virtual assets, among other methods, to launder illicit proceeds.*

*Cybercriminals often require ransomware payments to be made in virtual assets, frequently in bitcoin.... SAR data also shows that the cybercriminals behind the top ransomware variants commonly send funds to VASPs to be exchanged for fiat currency. The same data indicates that threat actors use foreign located VASPs that have weak or non-existent AML/CFT controls for ransomware related deposits, before laundering and cashing out the funds as fiat currency. To further obfuscate the laundering of ransomware proceeds, threat actors avoid using the same wallet addresses and use chain hopping, mixing services, and DeFi services."*

4.3.4 The existence of VASPs in Jersey that facilitate the exchange of VAs and fiat currency, exchange between one or more forms of VAs and the transfer of Vas, means that Jersey is exposed to similar threats. The ability to exchange between fiat and VAs is attractive for money laundering, because illegally acquired virtual assets will probably be converted into fiat at some point (off ramps), and illegally obtained fiat currency can be converted into virtual assets (on ramps) as part of the placement, layering and integration stages of money laundering. The 2023 and 2024 Chainalysis Reports highlight that services that allow for VAs to be exchanged for fiat are the most important part of the money laundering process. The risk is enhanced if payments are then made in fiat currency to higher risk jurisdictions. While there are thousands of off-ramping services in operation, most money laundering activity is concentrated to a select few services. Of all illicit funds sent to off-ramping services in 2023, 71.7% went to just five services, up slightly from 68.7% in 2022.

4.3.5 According to Chainalysis, overall, illicit addresses sent nearly USD 31.5 billion worth of cryptocurrency in 2022. Whilst this value fell in 2023 to USD 22.2bn some of this fall may be attributed to an overall decrease in cryptocurrency transaction volume, both legitimate and illicit. As is usually the case, mainstream centralised exchanges remain the biggest recipient of illicit cryptocurrency, taking in just under half of all funds sent from illicit addresses.

## 4.4 Predicate offences

### Fraud

4.4.1 Whilst not perpetrated by Jersey businesses, the 2023 ML NRA Update references VA threats arising from fraud. Residents of Jersey have lost significant sums of money in VA frauds, in the early part of 2023 this totalled £600,000<sup>14</sup> with a further loss of £700,000 highlighted in November 2023 which was the result of an Islander investing in an online cryptocurrency scam. The Jersey police issued a warning about cryptocurrency investment

<sup>13</sup> <https://home.treasury.gov/system/files/136/Digital-Asset-Action-Plan.pdf>

<sup>14</sup> [Jersey cryptocurrency fraud totals £600,000 in three months](#)

fraud in November 2023 which includes eight red flags regarding cryptocurrency fraud<sup>15</sup>.

### **Drug trafficking**

4.4.2 Again, not involving a Jersey registered VASP but cryptocurrency appears in a Jersey drug case as a means of moving value. In *AG vs Jose Aguiar*<sup>16</sup>, the defendant was accused of importing drugs via the dark web and paying for them with cryptocurrency.

## **4.5 Virtual asset nature and profile**

### **Anonymity and pseudonymity**

4.5.1 Virtual assets can be transferred anonymously, making it challenging to identify the parties involved in transactions and potentially facilitating illicit activities. Transactions are linked to pseudonymous addresses rather than real-world identities. This enables criminals to obscure their identities while conducting transactions. Some smart contract features (mixers/tumblers) and virtual assets have additional privacy features which means it is impossible to identify the true source of funds (i.e., from which blockchain address the funds have originated). The Chainalysis Report published in February 2023 notes the use of mixing services by threat actors to further obfuscate the laundering of criminal proceeds.

4.5.2 Notwithstanding the above, Jersey registered VASPs do not offer any activities, services or assets that relate to privacy coins, mixers or tumblers. This reduces the overall threat level.

### **Absence of face-to-face contact**

4.5.3 Non-face-to-face activities inherently expose Jersey to a higher threat of ML/TF/PF. The 2023 ML NRA Update notes that as an IFC, the majority of Jersey's customer base is non-resident, by both number of customers and value of business transacted. Consequently, many activities involving a Jersey financial services business, including generation of funds, take place in another jurisdiction. This general position is true of the VASP sector as the industry data submitted confirms that only 16% of customers and beneficial owners of registered VASPs are resident in Jersey which is significantly lower than many other sectors.

4.5.4 In addition, the data shows connections to jurisdictions grey-listed by the FATF as at September 2023 however, Jersey has well developed relationships with the finance industry of these jurisdictions: Cayman Islands<sup>17</sup>; South Africa, and the United Arab Emirates (UAE).

### **Peer-to-peer (P2P) cross-border transfers**

4.5.5 VAs offer a conduit for cross-border transfers that do not use the traditional finance system to facilitate.

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<sup>15</sup> [States of Jersey Police - Cryptocurrency Investment Fraud](#)

<sup>16</sup> [AG v Aguiar 13-Dec-2021](#)

<sup>17</sup> Removed from FATF grey-list in October 2023.

- 4.5.6 P2P transactions occur in Jersey, as they do in other jurisdictions however, this activity is outside the remit of both the FATF Recommendations and the JFSC. In the absence of regulatory oversight, the ML/FT/PF risks arising in respect of P2P transfers may be considered high. More extensive data and research is needed to determine the extent to which this activity represents a threat to Jersey (RA6).

### **Traceability**

- 4.5.7 Blockchain technology provides for traceability of all transactions. But an individuals' true identify may never be known if the 'travel rule' is not implemented and or is implemented ineffectively. The 'travel rule' requires the accurate details of both senders and recipients to be obtained and disclosed to counterpart VASPs or FIs when transfers are made.
- 4.5.8 The legislation implementing the 'travel rule' in Jersey came into force on 1 September 2023. There are accepted challenges associated with its implementation<sup>18</sup>. Work with the registered VASPs to further understand and overcome these in Jersey is ongoing (RA1).

### **Speed of transfer/trace and seize difficulty**

- 4.5.9 It is considered much easier to send large volumes of value across borders using VAs and VASPs rather than through traditional FIs. Consequently, the VA/VASP sector is known to be attractive to abuse by illicit actors.
- 4.5.10 The States of Jersey Police utilise blockchain analytics tools to help trace and subsequently seize VAs connected with illicit activity. Additionally, the Law Officers' Department possess in-house expertise and experience in this area and regularly share their knowledge and learnings with other on-Island agencies including the JFSC. In common with other jurisdictions the LEAs would benefit from continued capacity and capability enhancements to assist with VA investigations (RA2).
- 4.5.11 Cross-jurisdiction investigations can prove challenging due to requirements from VASPs and/or regulators in other jurisdictions including the sending and receiving of formal requests for information, which can take time (RA3).

## **4.6 TF, PF and sanctions**

### **TF and PF**

- 4.6.1 Based on data submitted by Jersey registered VASPs, there are no known connections to, or value transfers to or from, higher risk jurisdictions for terrorist or proliferation financing.
- 4.6.2 The 2024 Chainalysis report notes that the use of cryptocurrency by terrorist organisations represent a small share of illicit transactions in the cryptocurrency ecosystem, but it is an ever-present concern. The report also highlights the issue of distinguishing between terrorist financing and the provision of humanitarian aid.

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<sup>18</sup> The challenges associated with implementing the Travel Rule are discussed in section 2 of the June 2023 FATF publication: [Virtual Assets: Targeted Update on Implementation of the FATF Standards on VAs and VASPs](#)

- 4.6.3 TF fundraising by terrorist organisations, cells and individual actors may take the form of abusing VAs, for example, by fundraising via social media, gaming platforms and crowdfunding<sup>19</sup> websites, platforms and messaging applications. Whilst some high-profile examples exist of cryptocurrency being used to finance terrorist activities, and there are reports that the use of VAs by terrorists is increasing<sup>20</sup>, it is still perceived that fiat currency transactions make up the bulk of the terrorist financing activity. This may be attributed to dramatic fluctuations which have been seen with VAs as well as the transparency and traceability offered by blockchain technology<sup>21</sup>.
- 4.6.4 Crypto-hacks remain a PF threat, for example, attacks have been rising over the past few years from hackers associated with North Korea<sup>22</sup>.
- 4.6.5 There is no Jersey intelligence for the reporting period suggesting TF or PF abuse of registered VASPs.

### Sanctions evasion

- 4.6.6 The FATF report: [Targeted Update on Implementation of the FATF Standards on Virtual Assets and Virtual Asset Service Providers](#), raised concerns about the threat posed by the Democratic People's Republic of Korea's (North Korea) use of VA related activity to undertake criminal activity, evade sanctions, and finance the proliferation of weapons of mass destruction. The Royal United Services Institute (RUSI) noted<sup>23</sup>: *"This latest attack reinforces the need for countries to monitor the rise of new cryptocurrency gateways that allow North Korea to circumvent sanctions and finance its nuclear weapons programme."*
- 4.6.7 Data received from across Jersey's financial services businesses has never included any information relating to connections with North Korea.
- 4.6.8 Sanctions-related transaction volume increasingly comprises a larger share of all illicit transaction volume, in part due to the number of entities being sanctioned, but also due to the difficulty of enforcing sanctions against entities in some regions, or against decentralised operations. The 2024 Chainalysis report noted that cryptocurrency inflows to sanctioned entities and jurisdictions comprised 61.5% of all illicit transaction volume in 2023.

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<sup>19</sup> FATF's report: [Crowdfunding for Terrorism Financing \(fatf-gafi.org\)](https://www.fatf-gafi.org).

<sup>20</sup> For example, pages 19-20 [Letter dated 23 January 2024 from the Chair of the Security Council Committee pursuant to resolutions 1267 \(1999\), 1989 \(2011\) and 2253 \(2015\) concerning Islamic State in Iraq and the Levant \(Da'esh\), Al-Qaida and associated individuals, groups, undertakings and entities addressed to the President of the Security Council](#).

<sup>21</sup> One terrorist organisation announced in 2023 that it would no longer raise Bitcoin due to apparent disruption efforts:  [Hamas armed wing announces suspension of bitcoin fundraising | Reuters](#).

<sup>22</sup> [Stolen Crypto Falls in 2023, but Hacking Remains a Threat \(chainalysis.com\)](#) and [2022 Biggest Year Ever For Crypto Hacking - Chainalysis](#)

<sup>23</sup> <https://rusi.org/explore-our-research/publications/commentary/compliance-harmony-how-north-korean-cryptocurrency-abuse-expanding>

- 4.6.9 In addition to the concerns regarding North Korea, the 2024 Chainalysis report highlights that Iran continues to be a major cryptocurrency adopter, with dozens of exchanges in the country processing billions of dollars in transactions. Iranian services are heavily used to facilitate transfer of value in and out of the country. Much of this business may be legitimate as the Iranian Rial is extremely volatile and the large adoption of cryptocurrency may be the result of Iranians seeking other mechanisms to transfer value. However, Iran is still subject to sanctions and virtual asset activity in Iran must be treated with caution.

**5 Vulnerabilities**

**5.1 Overall ML/TF/PF vulnerability**

- 5.1.1 ML/TF/PF vulnerability comprises the characteristics of the jurisdiction or product/services that can be exploited by the threat, or which may support or facilitate the threat’s activities as well as the strength of the controls.
- 5.1.2 Consideration of vulnerability considers the inherent vulnerability factors of the jurisdiction, essentially the attractiveness of the jurisdiction for ML/TF/PF abuse and the strength of the mitigation measures in place.
- 5.1.3 The overall ML/TF/PF inherent vulnerability relating to VA and VASP activity in Jersey has been assessed as **Medium-High**.
- 5.1.4 The ML/TF/PF overall mitigation of relating to VA and VASP activity in Jersey has been assessed as **Medium**.
- 5.1.5 For the purposes of this risk assessment TF and PF have been considered alongside ML with respect to the inherent and control vulnerabilities. Where appropriate specific comments have been included regarding TF and PF.

**5.2 Inherent vulnerabilities – Medium-High**

**Overview**

- 5.2.1 The WB methodology includes ten intermediary inherent vulnerabilities, the results of the analysis are set out in Table 5.1.
- 5.2.2 It must be remembered that the sample size for this work remains very small – five fully operational VASPs – with significant overlap in the activities undertaken.

Table 5.1: Intermediary inherent vulnerabilities and their rating

Intermediary variables	Inherent ML/TF vulnerability risk rating
Licensed in the country or abroad	Medium
Nature, size and complexity of business	Low
Products/services	Medium-High
Methods of delivery of products/services	High
Customer types	High
Country risk	Medium
Institutions dealing with VASP	Medium
VA (anonymity/pseudonymity)	Medium
Rapid transaction settlement	High
Dealing with unregistered VASPs from overseas	High

### **Licensed in the country or abroad - Medium**

- 5.2.3 Any person undertaking a VASP activity in or from within Jersey on behalf of another natural person, or legal person or arrangement, is required to register with the JFSC. They subsequently supervise them for compliance with the AML/CFT/CPF regulatory framework. The registration requirement applies to both persons operating through a Jersey vehicle and those operating as a branch of an overseas person.
- 5.2.4 The registration requirement and the JFSC's supervision of, and regular engagement with VASPs registered in Jersey contributes to a medium rating.

### **Nature, size and complexity of business - Low**

- 5.2.5 At the end of 2023 there were eight registered VASPs, of which five were fully operational. Whilst 2023 data is not yet available the 2022 data highlights that:
- 5.2.5.1 In total the sector reported just under 140 customer relationships of which over 90% were declared as "active customers".
  - 5.2.5.2 The sector employed 35 individuals in Jersey (37 overall) representing 0.27% of all staff reported as employed by financial services businesses.
  - 5.2.5.3 The reported total income and overall value of transactions facilitated by the registered VASPs demonstrates that the VASP sector is small in comparison to other FIs and DNFBPs.

### **Products and services – Medium-High**

- 5.2.6 Table 1.1 highlights that the most common activities for which VASPs are registered is acting as an exchange (virtual/fiat and virtual/virtual). The Chainalysis' 2023 Crypto Crime Report identifies services that allow for cryptocurrency to be exchanged for fiat (off ramp) as the most important part of the ML process. Chainalysis: Global data shows that in 2022 illicit addresses sent nearly USD 23.8 billion of cryptocurrency with mainstream centralised exchanges being the biggest recipient of the illicit cryptocurrency, receiving just under half of all funds sent.
- 5.2.7 The global evidence demonstrating the role of centralised exchanges in the ML process and the presence of this activity in the registered VASPs contributes to a high vulnerability rating for this service.
- 5.2.8 As part of this risk assessment the activities of Virtual Asset Wallet Provider and Virtual Asset Investment Provider have been rated lower.
- 5.2.9 Jersey currently has a very limited exposure to ICOs with only two registering with the JFSC since 2018, such that the vulnerability associated with them remains low. However, ICOs can be used to raise funds for fraudulent or non-existent projects, allowing criminals to launder money through the issuance of virtual assets. Also, ICOs have been used to evade sanctions and fund weapons of mass destruction programmes<sup>24</sup>.

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<sup>24</sup> RUSI details an example of a North Korean linked person launching an ICO token (Marine Chain Token) which represented fractional ownership interests in shipping vessels.  
Page 16 <https://static.rusi.org/Institutional-VASP-VARAG-web-final.pdf>

5.2.10 There are no products or services offered by Jersey registered VASPs relating to privacy coins and mixers/tumblers. However, the availability of these services globally means that registered VASPs, and their customers, may be indirectly exposed to these activities.

5.2.11 Overall, the products and services vulnerability are rated medium-high.

### **Methods of delivery of products/services - High**

5.2.12 The nature of activity in this sector means that business relationships often involve limited face-to-face contact. The lack of face-to-face contact and frequent use of pseudo-anonymous tokens mean that there are inherently high vulnerabilities associated with these products and services.

5.2.13 Data collected from registered VASPs shows that virtual asset transactions include pseudo-anonymous tokens and that 84% of customers are based outside Jersey.

5.2.14 The global nature of the customer base, combined with the anonymity features which are inherent within the sector, lead to a high vulnerability rating for this variable.

### **Customer types - High**

5.2.15 Through its annual Supervisory Risk Data, the JFSC collects data regarding the customer types, customer risk ratings, and connections to politically exposed persons (PEPs). This data has been utilised to assess the vulnerabilities linked to customer types.

5.2.16 For 2022, registered VASPs reported that 21% of their customers are individuals, of which 76% are not resident in Jersey. This demonstrates that the dominant client profile of the registered VASPs is institutional investors rather than individuals.

5.2.17 Registered VASPs reported rating 15% of their customers as higher risk whereas 44% were reported as being, or being connected to, a PEP.

5.2.18 These two data points do not directly correlate due to the PEP data being significantly skewed by the business model of a registered VASP with significant connections to senior UK police (it holds VAs which have been seized by the UK police). These are PEP customers but the risk rating for the customer is low due to the factor that creates the PEP status.

5.2.19 Excluding this entity, the number of PEP connections as a percentage of total customers is 17% which is more aligned with the reported 15% higher risk customers. This percentage of PEPs is also in line with the level of PEP connections reported by Jersey's Funds and TCB sectors.

### **Country risk - Medium**

5.2.20 The global nature of the VASP customers and cross-border flow of funds means there is an inherent vulnerability in the sector. In considering country risk, two specific elements were considered for the jurisdictions reported to the JFSC:

5.2.20.1 The compliance rating of each jurisdiction with FATF Recommendation 15.

- 5.2.20.2 Whether the transactions were with jurisdictions on either the ML, TF or PF list of higher risk jurisdictions.
- 5.2.21 Overall, the country risk vulnerability has been assessed as medium risk due to:
  - 5.2.21.1 No fund flows to jurisdictions assessed as not compliant with Recommendation 15.
  - 5.2.21.2 The lack of fund flows to or from higher risk TF jurisdictions.
  - 5.2.21.3 The UK, USA and Cayman Islands are the jurisdictions of interest from the ML higher risk list, noting that: (i) the FATF element of the higher risk list is amended three times per year and the Cayman Islands are no longer on the FATF grey-list, and (ii) the UK results are skewed by the registered VASP whose customers are the UK Police.

**Jurisdictions compliance rating with FATF Recommendation 15**

- 5.2.22 The reported data shows that most transactions (63.8%) were with jurisdictions assessed as compliant or largely compliant with FATF Recommendation 15. Only 1.0% of reported transactions were to a jurisdiction assessed as partially compliant and there were no transactions reported to or from jurisdictions which are non-compliant.
- 5.2.23 Whilst the reported data demonstrates fund flows to and from jurisdictions under FATF increased monitoring (grey-listed), all these jurisdictions have been assessed as being largely compliant with FATF Recommendation 15.
- 5.2.24 A relatively large proportion of reported transactions are with a jurisdiction yet to be assessed for compliance with Recommendation 15 (35.2%). The vast majority (99%) of these transactions are fund flows within Jersey with the remaining 1% being to or from the British Virgin Islands. This is not considered to increase the country risk.

**ML/TF/PF higher risk jurisdictions**

- 5.2.25 Consistent with the FI and DNFBP sectors, just over 16% of customers and beneficial owners reported in the JFSC Supervisory Risk Data are from Jersey. This demonstrates the cross-jurisdictional nature of the sector.
- 5.2.26 Recognising the small data sample, the country risk data is presented using regional descriptors.

Table 5.2: Reported jurisdiction of customers and beneficial owners

Region	% of total reported customer relationships
UK and other Crown Dependencies	27%
Europe, Middle East and Africa	25%
The Americas	19%
Jersey	16%

Africa and Pacific	13%
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(Source: JFSC Supervisory Risk Data, VCEB Data)

**Money laundering**

5.2.27 In completing the ML analysis, the higher risk jurisdictions are the 20 jurisdictions set out in Table 6.4 of the 2023 ML NRA Update.

5.2.28 The analysis has been completed on data reported for 2022.

5.2.28.1 There were no reported connections between registered VASPs and jurisdictions where there is an FATF call for action (Appendix D1 of the AML/CFT/CPF Handbook) nor any with jurisdictions listed in three or more sources of Appendix D2 of the AML/CFT/CPF Handbook.

5.2.28.2 Fund flows to and from jurisdictions identified in columns 1 and 2 of Table 6.4 of the 2023 ML NRA Update account for 12% of total reported VASP transfers. Most of these flows are with either the USA or the UK. This aligns with both the profile of VASP customers and fund flows across other Jersey financial services businesses.

5.2.28.3 Registered VASPs reported transactions with jurisdictions on the FATF grey list of September 2023. The majority of these are transactions with the Cayman Islands<sup>25</sup> with smaller transactional values to and from the UAE.

**Terrorist financing**

5.2.29 For the purposes of the TF analysis, the list of higher risk terrorist financing jurisdictions published by Government of Jersey in September 2023 ([Guidance on countries with higher risk of facilitating terrorist financing](#)) has been utilised.

5.2.30 Based on the available data, there are no connections to higher risk jurisdictions for terrorist financing.

5.2.31 Additionally, the Financial Sanctions Implementation Unit has confirmed that no sanctions notifications or licence applications have been received in relation to VAs or VASPs.

**Proliferation financing**

5.2.32 For the purposes of the PF analysis, the two jurisdictions of interest are Iran and the Democratic People's Republic of Korea, both FATF black-listed jurisdictions where there is an FATF call for action ([Appendix D1 of the AML/CFT/CPF Handbook](#)).

5.2.33 Based on the available data, there are no reported connections between Jersey registered VASPs and these jurisdictions.

<sup>25</sup> Removed from FATF grey-list in October 2023.

**Institutions dealing with VASPs - Medium**

5.2.34 An analysis of limited data available from the JFSC suggests there is a low exposure of VAs across other Jersey FIs and DNFBPs. This is unsurprising given the 2022 VASP NRO which commented on the prevalent conservative approach to virtual assets in Jersey. The JFSC is to consider expanding its annual supervisory risk data to enhance the understanding of the exposure to virtual assets arising in other sectors such as Banking, Funds and TCBs in the future (RA8).

**Banking sector**

5.2.35 The VASP working group highlighted that, at present, Jersey registered VASPs struggle to find local banking partners. Consequently, many have established overseas banking relationships including in Switzerland and the USA.

5.2.36 During 2022, the JFSC collected data from 20 Jersey registered banks for the three years 2020 to 2022. The ad hoc survey was designed to identify fund flows between banks and VCEBs (Jersey and overseas). The results demonstrate low overall fund flows highlighting that most banks have a limited appetite for VA activity. 14 banks reported less than £1m in total fund flows to or from VCEBs and only two banks reported greater than £10m in total transfers. Notwithstanding this, the value of transactions increased significantly between 2020 and 2021 increasing again slightly in 2022.

5.2.37 Overall, the fund flows represent less than 0.01% of the total reported flows in the period 2020 to 2022.

Table 5.3: Transfers through a Jersey to or from a Jersey or large global overseas VCEB

<b>Bank</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Incoming	£29.1m	£118.8m	£180.4m
Outgoing	£31.5m	£100.3m	£95.1m
<b>Total</b>	<b>£60.6m</b>	<b>£219.0m</b>	<b>£275.5m</b>

(Source: JFSC Data Collection, Bank Transfers to VCEBs)

**Trust and company businesses (TCBs)**

5.2.38 With respect to 2022, the JFSC performed a high-level review of TCBs connections to VAs. This highlighted that 14 TCBs provided services to fewer than 50 customers involved with, directly or indirectly, ICOs or the provision of services relating to virtual assets.

5.2.39 These connections included:

5.2.39.1 Services provided to investment funds (JPFs) which had an exposure to VAs;

5.2.39.2 Customers investing in VAs or into companies with exposure to VAs or blockchain technology;

- 5.2.39.3 Services provided to registered VASPs;
- 5.2.39.4 Acting on behalf of companies who have launched, or intend to launch, an ICO, and
- 5.2.39.5 Companies which develop software and algorithms used for investing into VAs.

**Jersey private funds (JPFs)**

- 5.2.40 JPFs are limited to professional and eligible investors, they are not a retail fund product.
- 5.2.41 Where a JPF application includes reference to VAs the JFSC will undertake additional due diligence commensurate with the level of risk presented. Overall, the ML risk for JPF structures is medium-high per the 2020 ML NRA<sup>26</sup>.
- 5.2.42 Table 5.4 highlights that the proportion of JPFs with exposure to VAs remains low, noting that 611 JPFs have been authorised by the JFSC. Whilst there is a notable increase in the value of VAs in the JPFs, the percentage of total reported JPF net asset value remains low at 0.12% in 2022.

Table 5.4: JPF investment policy in virtual assets

	2018	2019	2020	2021	2022
Net Asset Value (Virtual Assets)	£2.3m	£7.2M	£2.7m	£25.2m	£84.9m
% of Total JPF Net Asset Value	0.01%	0.02%	0.00%	0.04%	0.12%
<i>Number of JPF's</i>	1	4	1	3	6

- 5.2.43 Exposure to VAs through the JPFs is an area to watch and the JFSC should consider expanding its annual supervisory risk data to better understand this VA exposure (RA8).

**VA anonymity/pseudo-anonymity - Medium**

- 5.2.44 VA products or services that facilitate pseudonymous or anonymity-enhanced transactions pose higher ML/TF/PF risks, particularly if they inhibit a VASPs ability to identify the beneficiary. The inability to identify a beneficiary is especially concerning in the context of VAs, which are cross-border in nature. The anonymous or pseudonymous nature of certain VAs dictate that they inherently have a higher vulnerability to ML/TF/PF.
- 5.2.45 Transactions with platform tokens are linked to a wallet address which is normally linked to an individual. These types of VAs present higher levels of usability than other VAs as they can facilitate transactions between platforms, and, as a result, offer higher liquidity. These types of VAs present a medium risk of ML/TF/PF.

<sup>26</sup> [National Risk Assessment of Money Laundering September 2020](#)

5.2.46 The most utilised virtual assets in Jersey are stablecoins (50%) and established pseudo-anonymous tokens (25%). Stablecoins offer high usability when compared to other VAs, which can make them attractive from an ML/TF/PF perspective as they can be exchanged and transferred more easily than other tokens.

**Table 5.5: Percentage of total transaction value by type of VA (2022)**

Type	% of total transaction value (2022)
Stablecoin	50%
Pseudo-anonymous	26%
Platform	24%

**Rapid transaction settlement - High**

5.2.47 VAs provide near real-time transaction cross-border settlement at a lower cost than other well-established methods. They present an attractive opportunity for globalised criminal and terrorist groups requiring borderless financial channels.

5.2.48 As stated in the US Department of the Treasury Action Plan to Address Illicit Financing Risks of Digital Assets<sup>27</sup>: *“Virtual assets can be used to transfer large amounts of value across borders very quickly. Through P2P transactions, users can send virtual assets to beneficiaries regardless of geographic borders, limited only by the beneficiaries’ possession of a virtual asset address and internet-capability connection.”*

**Dealing with unregistered VASPs from overseas - High**

5.2.49 Challenges arise from VA services provided by unlicensed VASPs from overseas that may be operated by criminals or as noncompliant operators. These operators could abuse ICOs and take advantage of the lack of awareness among issuers of securities tokens as to their AML/CFT/CPF obligations, particularly in jurisdictions that do not require registration or have inadequate laws in place.

5.2.50 In 2022, no funds were received by registered VASPs directly from unregistered VCEBs with 94% of funds received from VASPs registered either in Jersey or another jurisdiction. However, the presence of overseas unlicensed operators may lead to indirect exposure to Jersey VASPs and their customers.

**Table 5.6: Analysis of the source of funds received**

Funds received from	Total	% of total
Registered VCEB not in Jersey	£1,954.2m	59%
Registered VCEB in Jersey	£1,148.8m	35%

<sup>27</sup> Page 4 <https://home.treasury.gov/system/files/136/Digital-Asset-Action-Plan.pdf>

Funds received from	Total	% of total
Hosted Wallet	£164.5m	5%
Other	£29.3m	1%
Unregistered VCEB	£0.0m	0%

(Source: JFSC Supervisory Risk Data, VCEB Data)

- 5.2.51 As noted in the Chainalysis Crypto Crime Report 2023, another global money laundering trend observed is the growth of underground services. These are typically only accessible through private messaging apps or the Tor browser, and usually only advertised on darknet forums.
- 5.2.52 There is currently a reliance on VASPs to register with the JFSC with no tools and resources for investigating the presence of an unlicensed or unregistered VASPs. The WB methodology guidance states that countries should consider web-scraping and open-source information to identify online advertising or possible solicitations for business by an unregistered or unlicensed entity. Information from industry circles (including establishing channels for receiving public feedback) is useful regarding the presence of certain businesses that may be unlicensed or unregistered.

**5.3 Mitigating measures**

**Overview**

- 5.3.1 The overall mitigation of ML/TF/PF relating to VA and VASP activity in Jersey is assessed as **Medium**.
- 5.3.2 We have assessed Jersey against three sets of mitigation measures as defined in the WB methodology. In all cases, the ratings for these mitigating measures are consistent across the VASP activities in scope for this risk assessment.

Table 5.7: Mitigating measures – ML/TF/PF

Measures	ML/TF mitigation rating
Government Measures	Medium
VASP Measures	Medium
FI and DNFBP Measures	Medium

**Government measures - Medium**

**Regulatory arbitrage**

- 5.3.3 Appendix B to this report highlights the market capitalisation position and reflects on the global perspective of VA-related services. Various jurisdictions continue to actively research and consult on the topic of virtual assets to further define how virtual assets are incorporated into the wider existing

financial services frameworks. Despite these efforts the definitions and terminology used remain highly fragmented. It is this lack of well-developed global regulations in the VA sector that can create opportunities for criminals to exploit regulatory gaps through arbitrage. This was specifically highlighted as a vulnerability by the VASP working group.

- 5.3.4 Regulatory arbitrage should be regularly monitored by the financial crime political steering group through receipt of risk reports that highlight gaps in the regulatory framework (RA7).

### **Comprehensiveness of AML/ CFT/CPF legal framework**

- 5.3.5 Since 2016, any person offering exchange services between VAs and fiat currencies has been subject to the AML/CFT/CPF regulatory framework. A limited exemption from JFSC registration, available to those with a turnover of less than £150,000, was removed on 30 January 2023 when the Jersey regulatory framework was fully aligned with the FATF definition of VA<sup>28</sup> and VASP<sup>29</sup>.
- 5.3.6 Consequently, all persons undertaking a VASP activity in or from within Jersey on behalf of another natural, or legal person or arrangement, are now required to register. Any person in business on 30 January 2023 had until 30 June 2023 to submit a registration application.
- 5.3.7 The JFSC collects relevant data from applicants and registered persons to inform and update its understanding of ML/TF/PF risks in the VASP sector.
- 5.3.8 More recently, in 2023 Jersey adopted the FATF definition of VAs and VASPs and approved an extension of the Wire Transfer Regulations (the 'Travel Rule') to include VASPs.
- 5.3.9 It is however recognised that some of these are recently introduced enhancements therefore their effectiveness is still being assessed therefore caution has been exercised in assigning the mitigation level.

### **Adequate supervision and monitoring mechanism**

- 5.3.10 The JFSC is the supervisory body for the VASP sector. A specific supervisory unit within the JFSC monitors VASPs and supervises their compliance with the AML/CFT/CPF regulatory framework. Examinations, outreach and data gathering form key components of the JFSC's supervisory activities. The JFSC continues to develop its risk-based approach through enhancements to its risk model, to account for VA-specific risks.
- 5.3.11 A low-level of onsite examinations was noted prior to 2023 however, the JFSC has and will continue to address this. In Q2 2023, a VASP sector thematic examination was conducted focussing on the completeness of obligations regarding SAR requirements. The JFSC also assessed the on-going monitoring measures in place for the scrutiny of transactions and activity. An examination feedback paper is due to be published in the first half of 2024 to inform the wider industry.

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<sup>28</sup> Part 1, [paragraph 1 of Schedule 2 to the Proceeds of Crime Law](#)

<sup>29</sup> Part 4, [paragraph 24 of Schedule 2 to the Proceeds of Crime Law](#)

### **Availability and effectiveness of entry controls**

- 5.3.12 Any person conducting VASP activity in or from within Jersey who is not registered with the JFSC is guilty of an offence and liable to imprisonment for a term of up to 7 years and a fine.
- 5.3.13 The JFSC maintains robust market entry controls. Applicants must demonstrate that they meet a range of AML/CFT/CPF obligations and requirements, including but not limited to:
  - 5.3.13.1 Having a relevant business risk assessment.
  - 5.3.13.2 Appointing a Money Laundering Compliance Officer and a Money Laundering Reporting Officer.
  - 5.3.13.3 Applying customer due diligence measures.
  - 5.3.13.4 Implementing appropriate systems and controls including SAR measures.
  - 5.3.13.5 Screening and training their employees.
- 5.3.14 The JFSC has deemed activities involving VAs as sensitive activities and therefore applies an increased level of scrutiny to such applications.

### **Financial and human resource capacity of LEAs to investigate, trace, seize and secure virtual assets**

- 5.3.15 The States of Jersey Police and the Law Officers' Department possess in-house expertise and experience in this area and regularly share their knowledge and learnings with other on-Island agencies including the JFSC. In common with other jurisdictions the LEAs would benefit from continued capacity and capability enhancements to assist with VA investigations (RA2).
- 5.3.16 There have been no criminal prosecutions of VASPs for ML/TF/PF offences in the reporting period.

### **VASP measures - Medium**

#### **Effectiveness of compliance function and internal control mechanism**

- 5.3.17 Within the VASP sector 33% of compliance and risk roles were vacant as at December 2022. This reflects a wider concern that there is a shortage of adequately qualified and experienced compliance staff within Jersey. This shortage is exacerbated in the VASP sector due to the additional specific VA knowledge required to perform those roles.

#### **AML/ CFT/CPF knowledge of VASP staff**

- 5.3.18 The AML/CFT/CPF Handbook requires, by way of a Code of Practice, that VASPs must screen the competence and probity of their employees (including directors and senior managers) at the time of recruitment and when there is a change of role. All persons will have had to demonstrate knowledge of AML/CFT/CPF risks at the time of submitting their application.
- 5.3.19 VASPs must provide their employees with adequate AML/CFT/CPF training at appropriate frequencies. Compliance is assisted through Jersey consulting firms that deliver training tailored to a client's requirements.

5.3.20 During 2023 the JFSC conducted a thematic examination of the VASP sector which focused on the completeness of obligations regarding suspicious activity reporting requirements and the on-going monitoring measures in place for the scrutiny of transactions and activity. The examination feedback paper is to be published in 2024.

### **Quality of governance structure and level of accountability of VASP**

- 5.3.21 The AML/CFT/CPF Handbook includes a section on corporate governance which includes regulatory requirements through a Code of Practice to complement the businesses' legal obligations under the Money Laundering (Jersey) Order 2008 to establish and maintain appropriate and consistent policies and procedures to prevent and detect ML/TF/PF.
- 5.3.22 Enhanced customer due diligence has been applied to 72% of customers across the VASP sector.
- 5.3.23 Blockchain analytics solutions are currently being employed by 100% of operational VASPs. These tools help the VASP to identify illicit funds or funds otherwise connected to illicit activity.
- 5.3.24 There is currently a lack of internal documentation to detail exactly how these blockchain analytics solutions are being used. In the absence of appropriate process documentation there is a risk that the blockchain analytic solutions will not be effective in detecting illicit funds and they could be mistakenly accepted by VASPs.

### **FI and DNFBP measures - Medium**

- 5.3.25 There is currently limited exposure to VA across most FIs and DNFBPs. See paragraphs 5.2.34 to some insight into the exposure in the Banking and TCB sectors along with the JPF product.
- 5.3.26 Whilst the understanding of VAs and their associated risks is improving, the understanding is perceived as remaining limited across the wider financial services industry. A risk identified within the VASP national risk working group relates to other sectors providing services in relation to VA activities who may be doing so without sufficient expertise and experience (RA5).
- 5.3.27 Additionally, RA8 refers to the JFSC holding data points to enhance the understanding of the exposure to virtual assets arising in other sectors.

**6 Status of recommended actions relating to VASPs in other published risk documents**

**6.1 2020 ML NRA, 2021 TF NRA and 2023 TF NRA update**

6.1.1 The 2020 ML NRA and 2021 TF NRA both referenced the need to conduct a risk assessment of the VASP sector. The 2023 TF NRA Update confirmed the need to complete a VASP risk assessment from a TF perspective.

Table 6.1: Recommended actions in other risk assessments and progress to date

Recommendation	
	Progress
<b>2020 ML NRA</b>	
As new and emerging risks are identified such as the use of VASPs and/or Fintech, relevant typologies should be issued.	
	<p><i>Progress</i></p> <p>Whilst the agencies in Jersey have not produced a typologies report focussed solely on VA/VASPs, MONEYVAL published a report on Money Laundering and Terrorist Financing Risks in the World of Virtual Assets Typologies Report<sup>30</sup> in July 2023. A number of the key findings from the report are captured in this NRA.</p> <p>It is further recommended that a typologies report is produced which includes examples for the VA/VASP sector (RA5).</p>
<b>2021 TF NRA</b>	
Undertake a VASP risk assessment.	
	<p><i>Progress</i></p> <p>The 2022 VASP NRO was the first risk document relating to VAs and VASPs. On publication, this VASP NRA will close this recommendation.</p>
<b>2023 TF NRA Update</b>	
Undertake a detailed further risk assessment in respect of the VA/VASP sector.	
	<p><i>Progress</i></p> <p>On publication, this VASP NRA will close this recommendation.</p>

<sup>30</sup> <https://www.coe.int/en/web/moneyval/-/virtual-assets-typologies-report-on-money-laundering-and-terrorist-financing-risks-in-the-world-of-virtual-assets>

**6.2 2022 VASP NRO**

6.2.1 As noted in section 3.1 of this report, the conclusion text of the 2022 VASP NRO identifies several actions, which are set out in the table below along with progress against the action.

Table 6.2: 2022 VASP NRO conclusion and progress

Conclusion text	
	Progress
<p><i>Paragraph 116</i></p> <p>The GoJ is taking positive steps to identify, assess, and understand the ML and TF risks prevalent in the VA sector. It is also looking to identify gaps in its existing frameworks to inform legislative policy and develop a strategy to address those gaps effectively, in line with the FATF Standards.</p>	
	<p><i>Progress</i></p> <p>Having identified gaps in the VASPs regulatory framework, the Proceeds of Crime (Amendment No. 6) (Jersey) Law 2022 (the amending law) came into force on 30 January 2023 and closed this gap.</p> <p>The amending law has the effect of removing the scope exemptions highlighted in Jersey’s 2015 mutual evaluation report and aligns Schedule 2 of the Proceeds of Crime Law with the FATF VASP definition.<sup>31</sup></p> <p>Additionally, the EU Legislation (Information Accompanying Transfer of Funds) (Jersey) Regulations 2017 came into force on 1 September 2023.</p> <ul style="list-style-type: none"> <li>• It requires that VASPs obtain and disclose details about the sender and recipient of a virtual asset transfer to counterpart VASPs or FIs during or before a transaction, with a de minimis limit USD/EURO 1,000 for virtual asset transfers.</li> <li>• For transfers under this threshold, VASPs must collect the names of the originator and beneficiary, as well as their virtual asset wallet addresses or unique transaction reference numbers.</li> <li>• For transfers exceeding the threshold, VASPs must also collect additional information, such as the originator's account number, physical address, national identity number, customer identification number, date and place of birth, and the beneficiary’s account number.</li> </ul>
<p><i>Paragraph 115</i></p> <p>The GoJ and all other relevant authorities should seek to deepen their understanding of the virtual asset sector and to develop a legislative and regulatory regime that is fit for purpose to effectively monitor the sector and manage the risks the jurisdiction is exposed to in line with the FATF Standards.</p>	
	<p><i>Progress</i></p>

<sup>31</sup> <https://www.jerseyfsc.org/news-and-events/virtual-asset-service-provoder-vasps/>

Conclusion text	
	<b>Progress</b>
	<p>All persons meeting the definition of a VASP are now required to apply for registration with the JFSC if they undertake their activities in or from within Jersey.</p> <p>A new VASP Supervision team was created in the JFSC<sup>32</sup> to facilitate more active supervision of the sector.</p> <p>Whilst progress has been made understanding of VAs and VASPs is an ongoing matter reflected in RA4 of this risk assessment.</p>
	<p>Paragraph 116</p> <p>The VA sector in Jersey remains small, meaning that the risks relating to ML/TF that it presents to the jurisdiction are perceived to be limited in terms of size and impact. The assessment of the true level of risk is hampered by the lack of available data on the sector. Going forward, planned legislative developments will see a more uniform approach in relation to data collection. This will allow for a more in-depth assessment of the risks presented by VAs in the jurisdiction and the assignment of a risk level or rating reflecting this.</p>
	<p><i>Progress</i></p> <p>Whilst the level of data held on the activities of VASPs has increased, to facilitate further risk understanding and policy development relevant and timely enhancement of data collection should be implemented by the JFSC. (RA8)</p>
	<p>It is important to note that this sector is rapidly evolving and with it the risks it presents, and therefore the potential risks need to be kept under constant review.</p>
	<p><i>Progress</i></p> <p>This remains an active matter and is reflected in residual risk 4.</p>

<sup>32</sup> <https://www.jerseyfsc.org/news-and-events/pooled-supervision-and-new-regime-supervision-teams-to-combine-as-new-dnfbpnpovasp-team/>

## Appendix A - Glossary

It is not intended that the meanings given below should necessarily be, or become, formal definitions, they are provided only to assist in reading this report.

Acronym	Meaning
2020 ML NRA	<a href="#">National Risk Assessment of Money Laundering in Jersey</a>
2021 TF NRA	<a href="#">National Risk Assessments: Terrorist Financing (2021 and 2023)</a>
2022 VASP NRO	<a href="#">National Risk Overview: Virtual Asset Service Providers (2022)</a>
2023 ML NRA Update	<a href="#">National Risk Assessment: Money Laundering (2023)</a>
2023 TF NRA Update	<a href="#">National Risk Assessments: Terrorist Financing (2021 and 2023)</a>
AML	Anti-money Laundering
ATM	Automatic Teller Machine
BRA	Business Risk Assessment
CFT	Combating the Financing of Terrorism
COBO	Control of Borrowing (Jersey) Order 1958
CPF	Countering Proliferation Financing
DeFi	Decentralised Finance
DNFBP	Designated Non-Financial Businesses and Professions
EU	European Union
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit, Jersey
GoJ/Government	Government of Jersey
IFC	International Finance Centre
JFSC	Jersey Financial Services Commission
JPF	Jersey Private Fund
ICO	Initial Coin Offering
LEA	Law Enforcement Authorities

Acronym	Meaning
ML	Money Laundering
NFT	Non-fungible Token
NRA	National Risk Assessment
NRO	National Risk Overview
P2P	Peer-to-Peer
PEP	Politically Exposed Person
PF	Proliferation Financing
Proceeds of Crime Law	Proceeds of Crime (Jersey) Law 1999
RUSI	Royal United Services Institute
RWA	Real-world Assets
SAR	Suspicious Activity Report
TCB	Trust Company Business, persons that undertake one or more activities covered by articles 2(3) and (4) of the Financial Service (Jersey) Law 1998, and who are registered by the JFSC to carry on that activity.
TF	Terrorist Financing
UAE	United Arab Emirates
UK	United Kingdom
VA	Virtual Asset
VASP	Virtual Asset Service Provider
VCEB	Virtual Currency Exchange Business
WB	The World Bank

## Appendix B – Market Capitalisation and Global Perspective

### 1 Market capitalisation

1.1 Adoption of VA activities continues to rise globally with major institutions entering the space and making VA-related services available to an ever-growing customer base. At the time of writing the total market capitalisation of all VAs is \$1,4T. The chart below depicts the total market value of VAs globally including stablecoins and other tokens between 29 April 2013 and 14 November 2023:



(Source: CoinGecko November 2023)

1.2 VAs are seen as an alternative store of value, especially in regions experiencing volatile national currencies. In Chainalysis’ “2023 Global Crypto Adoption Index”, India, Nigeria and Thailand are ranked as the top three countries with lower middle-income nations leading the way in the adoption of VAs. The Index’s top 20 includes jurisdictions struggling with economic challenges, it includes Argentina, Turkey and Russia who are all facing higher levels of inflation.

### 2 Global perspective

- 2.1 The focus on regulating virtual assets has intensified in recent years and is expected to continue. The widespread interest by both retail and institutional investors has contributed to the expansion in total market capitalisation of VAs. This has however been accompanied by notable volatility. In 2022, consumer trust in VAs declined due to the collapse of prominent VA firms, instances of fraud, scams, and mismanagement of customer funds. This has spurred regulatory authorities to promptly address market integrity. While global standard-setters are actively promoting international cooperation, the regulatory landscape for virtual assets remains fragmented and continues to evolve.
- 2.2 Jurisdictions continue to actively research and consult on the topic of VAs to further define how they are incorporated into the existing financial services frameworks. Despite these efforts globally the definitions and terminology used remain highly fragmented.

## **FATF**

- 2.3 The FATF Recommendations set AML/CFT/CPF requirements for FIs, DNFBPs and VASPs, these include the travel rule for VASPs. In October 2021, the FATF issued updated guidance<sup>33</sup> advocating a risk-based approach to virtual assets and their providers. This guidance assists regulators in formulating directives for VA activities and aids VASPs in understanding and fulfilling their obligations.
- 2.4 The ‘travel rule’ was introduced in 2019, in June 2023 the FATF published a targeted update on implementation of the standards in relation to VAs and VASPs. This update highlights that jurisdictions continue to struggle with fundamental requirements such as undertaking a risk assessment, enacting legislation to regulate VASPs, and conducting a supervisory inspection. In addition, jurisdictions were noted as having made insufficient progress on implementing the ‘travel rule’<sup>34</sup>.

## **UK**

- 2.5 With respect to the ‘travel rule’ HM Treasury confirmed, June 2022, the extension of information sharing requirements for wire transfers to include virtual assets and since September 2023, virtual asset firms have been required to collect, verify, and share information for defined virtual asset transfers, including all transfers with an ‘elevated risk of illicit finance.’

## **EU**

- 2.6 The European Union brought into force, July 2023, its Markets in Crypto Assets Regulation<sup>35</sup> (MiCA) with full application in December 2024. MiCAs primary objectives include ensuring legal clarity, consumer and investor protection, market integrity, financial stability, and promoting innovation. It aims to address challenges arising from fragmented national frameworks.

## **UAE and Hong Kong**

- 2.7 Jurisdictions taking a notably pro-virtual assets stance include the UAE and Hong Kong. In the UAE, Dubai authorities are establishing the world’s first authority (Virtual Assets Regulatory Authority) exclusively focusing on virtual assets.
- 2.8 Meanwhile, Hong Kong aims to become a global hub for VA by implementing a harmonised regulatory framework covering the entire ecosystem. The Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) continue expanding regulations over activities related to VA.

## **USA**

- 2.9 The United States has adopted a more stringent approach to VAs, with the Securities Exchange Commission (SEC) cracking down on industry participants. However, in 2023, the SEC faced a series of high-profile legal defeats, likely leading to increased clarity for the VAs industry. In the United States, VA firms are generally required to register with FinCEN and comply with AML and sanctions requirements.

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<sup>33</sup> [Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers](#)

<sup>34</sup> [Virtual Assets: Targeted Update on Implementation of the FATF Standards on VAs and VASPs](#)

<sup>35</sup> [Markets in Crypto-assets Regulation \(MiCA\)](#)

## Appendix C – Further Information on some VA and VASP Activities

### 1 Overview

- 1.1 Given the limited data held in relation to the activities discussed in this appendix, these were either out or not fully within the scope of this risk assessment. In line with the evolution and growth of the VASP sector in Jersey these may be more fully included in future risk assessments. This may include collecting expanded data on these activities.

### 2 Initial coin offerings (ICOs)

- 2.1 The JFSC has published a Guidance Note: The Application Process for Issuers of Initial Coin Offerings setting out the general requirements for all ICO Issuers.
- 2.2 The [Sound Business Practice Policy](#) sets principles regarding the activities considered sensitive, which includes ICOs. Each ICO application is considered by the JFSC's High Risk Business Forum which comprises JFSC senior management and subject matter experts.
- 2.3 All entities seeking to issue ICOs in Jersey must comply with several requirements including seeking a consent under the COBO, which governs the raising of capital in Jersey (includes issuing company share capital).
- 2.4 COBO consents can be granted with or without conditions – the JFSC has a policy of applying conditions to consents relating to ICO issuers. ICO issuers:
  - 2.4.1 are required to be incorporated as a Jersey company;
  - 2.4.2 must be administered by a locally licensed TCB and as such must comply with a wide range of regulatory requirements covering prudential and conduct of business as well as AML/CFT/CPF, and
  - 2.4.3 must include a principal person of the TCB in their management, usually a Director of the TCB.
- 2.5 Jersey's exposure to ICOs remains low. Only two ICOs, having been granted approval since 2018, remain operational. These are recorded on Registry's SPV Register and regular correspondence occurs between the JFSC and the appointed TCBs.

### 3 P2P transfers

- 3.1 The FATF defines P2P transactions as VA transfers conducted without the use or involvement of a VASP or other obliged entity (e.g., VA transfers between two unhosted wallets whose users are acting on their own behalf). Unhosted wallets, including those used in P2P transactions, can be used to avoid AML/CFT/CPF controls and therefore pose a specific risk as they may be attractive to illicit actors.
- 3.2 The increasing global implementation of VASP regulatory controls, and the supervision of compliance with those controls, means the risks associated with P2P transfers are likely to increase as illicit activity is likely to be forced into the P2P arena and Defi which remain largely unregulated. P2P transactions are

noted by the FATF as an emerging risk and one that currently falls outside the scope of the FATF standards<sup>36</sup> and consequently regulatory frameworks.

- 3.3 Registered VASPs providing fiat on-ramps and off-ramps (exchange of fiat currency e.g., GBP, USD for virtual assets) help to mitigate the risk that illicit funds are converted to fiat and integrated back into the traditional financial system using blockchain analytics.

#### **4 Miners/staking**

- 4.1 The activity of mining/staking currently sits outside the Jersey regulatory framework. There is a recognition that Jersey-resident individuals may be running their own small scale mining operations or staking nodes.
- 4.2 Ethereum's shift to Proof of Stake in 2022 and the enablement of withdrawals from the staking contract in April 2023 is likely to incentivise VASPs and other FIs to explore staking activities further. The JFSC are regularly engaging with each of the registered VASPs to understand what activities they are performing along with considering an expanded data collection.

#### **5 Non-fungible token (NFTs)**

- 5.1 VAs that are unique, rather than interchangeable, and in practice are used as collectibles rather than as payment or investment instruments, can be referred to as a non-fungible tokens (NFTs) or crypto collectibles. Such assets, depending on their characteristics, are generally not considered to be VAs under the FATF definition. Only NFTs that are used for the purpose of value transfer or for investment purposes could be considered within the definition of a VA.
- 5.2 Jersey has very limited experience with NFTs. There has been a small number of collectable NFT initiatives but nothing which could be considered as an 'investment instrument'.
- 5.3 In the absence of regulatory oversight and detailed data sets the AML/CFT/CPF risks for transactions involving the transfer of NFTs cannot be properly assessed. This is an acknowledged challenge for authorities in all jurisdictions. However, the JFSC continues to work closely with local law enforcement agencies to understand emerging risks, including the possibility that NFTs might be used to evade AML/CFT/CPF and sanctions controls. Competent authorities also continue to monitor the international developments with regards to NFT publications from bodies such as the FATF and Egmont.

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<sup>36</sup> *Jurisdictions are encouraged to assess and monitor the risks associated with unhosted wallets, including P2P transactions, and share their experiences, including on data collection and risk assessment methodologies and findings, as well as practice in mitigating risks.* Section 4, paragraph 57, of [Targeted update on Implementation of the FATF Standards on Virtual Asset Service Providers](#)

## 6 Tokenised real-world assets (RWAs)

- 6.1 Tokenised RWAs do not meet the Jersey definition of VAs, consequently these have not been included in this risk assessment.
- 6.2 As a jurisdiction Jersey is receiving an increasing number of applications including the tokenisation RWAs and the JFSC is typically taking a substance over form approach with each tokenised RWA application, mapping it against our existing supervisory regimes.
- 6.3 Areas where the JFSC expects to see increased exposure to this asset class include the tokenisation of bonds, equities, funds, real estate and other high value physical assets. This expectation is based on both local enquiries received and the increasing global adoption of such products.
- 6.4 It is recognised that ML/TF/PF risks may be higher when tokenised RWAs enter a decentralised secondary market. The JFSC will continue to explore how emerging tokenised assets and activities can be best mapped against the existing regulatory framework.

## 7 Automatic teller machines (ATMs)

- 7.1 Jersey does not host any virtual asset ATM operators - stand-alone machines that allow users to convert fiat currency to and from VAs.
- 7.2 VAs transacted through ATMs are attractive to criminals. Historically little or no due diligence has been applied to these transactions, facilitating the anonymous laundering of funds.
- 7.3 The UK FCA stated<sup>37</sup>: *“Our Regional Cyber Crime Unit officers work jointly with the Financial Conduct Authority and other partner agencies to target the use of unregulated crypto ATMs. Machines such as these are a key component in the facilitation of money laundering and the movement of funds acquired through criminal activity. Crypto ATMs allow people to buy or convert money into crypto assets.”*

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<sup>37</sup> <https://www.fca.org.uk/news/press-releases/fca-continues-action-against-unregistered-crypto-atms-across-uk>