

OSCE Extrabudgetary project

“Innovative policy solutions to mitigate money laundering risks of virtual assets”

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What are virtual assets?

Virtual assets are any digital representation of value that can be digitally traded, transferred or used for payment. They do not include digital representations of fiat currencies, which are the official currencies of governments. Examples of virtual assets include cryptocurrencies, non-fungible tokens (NFTs), and tokens that represent ownership of real-world assets, such as stocks or commodities.

Why virtual assets are becoming important?

The fast-evolving blockchain and distributed ledger technologies have the potential to radically change the financial landscape. But, their speed, global reach and above all - anonymity - also attract those who want to escape authorities' scrutiny. Since the origin of blockchain as we know it, virtual assets have become widely available and have started to be used as payment products. However, without established regulation and oversight, the sector is often still referred to as the wild west of the finance industry.¹

How criminals can use virtual assets?

Virtual assets can be used in various different ways by criminals, organized crime groups and other malefactors:

- **Money laundering:** Virtual assets provide a convenient and opaque way to launder proceeds from criminal activities such as drug trafficking, fraud, and scams. By converting illicit

funds into virtual assets, criminals can break the link between the crime and the funds, making it difficult for law enforcement to trace the money's origins.

- **Fraud:** Virtual assets are often targeted by scams and fraud schemes, such as phishing attacks, investment scams, and pyramid schemes. These scams typically involve convincing victims to invest in virtual assets or provide personal information that can be used for financial gain.
- **Cybercrime:** Ransomware attacks, where hackers encrypt a victim's data and demand payment in virtual assets to unlock it, have become increasingly prevalent. Virtual assets' anonymity and borderlessness make them appealing for ransom payments, as criminals can easily conceal their identities and receive the ransom without detection.
- **Sanctions evasion:** Criminals can use virtual assets to circumvent international sanctions, transferring funds to and from sanctioned countries or individuals. The decentralized nature of virtual asset networks makes it challenging to monitor and enforce sanctions, allowing criminals to bypass traditional financial restrictions.

How does the OSCE work to counter illicit use of virtual assets

Preventing and combating money laundering and terrorism financing remains among the key elements of the OSCE's comprehensive approach to security and one of the main priorities of the Office of Co-ordinator of OSCE

Economic and Environmental Activities (OCEEA). The OCEEA works on promoting international co-operation on economic issues, strengthening good governance and assisting the OSCE participating States in combating corruption, money laundering and the financing of terrorism.

The engagement of the OSCE is based on the mandate given to it by the participating States to promote good governance and combat corruption, money laundering, and the financing of terrorism, as expressed in several Ministerial Council Decisions and the 2003 Maastricht Strategy Document for the Economic and Environmental Dimension.

The OSCE is tasked under Ministerial Council Decision 2/03 to “work together with the United Nations Office on Drugs and Crime Global Programme against Money Laundering and use its good offices to promote the organization of workshops on tackling money-laundering”, while the 2012 Dublin Ministerial Declaration on Strengthening Good Governance and Combating Corruption, Money-Laundering and the Financing of Terrorism encourages the OCEEA “to support interested governments and other relevant partners in implementing the FATF Recommendations, including by building capacity to conduct, and to contribute and respond to, money-laundering and financing-of-terrorism risk assessments.”

The OSCE also promotes regional co-operation as an essential way to address challenges posed by corruption. In this endeavour, the OSCE co-operates with a wide range of stakeholders, including state and local authorities, international and regional organizations, civil society actors, social parties, the private sector,

¹ Virtual assets: What, when, how ? Accessed January 3, 2024. https://www.fatf-gafi.org/content/dam/fatf-gafi/brochures/FATF-Booklet_VA.pdf.

academia and think tanks. The OSCE is part of international and regional fora and a member of expert working groups pertinent to its mandate and activities. In particular, we co-operate closely with other international organizations, such as UNODC, OECD, Financial Action Task Force and Regional Anti-corruption Initiative among others.

The OSCE understands the importance of new technologies and how criminals may use them for illicit purposes. Therefore, in 2022 the OCEEA started to implement a project that aims to build the capacities of national authorities to counter the risks of criminal use of virtual assets in OSCE participating States.

OSCE/OCEEA Project on Innovative policy solutions to mitigate money laundering risks of virtual assets

The project directly addresses the issues of already existing, but poorly managed risks posed by the use of virtual assets for criminal purposes, in particularly money laundering and circumvention of international sanctions regimes. The ultimate objective is to build the capacities of national authorities to counter these vulnerabilities.

In October 2022, the OSCE has initiated the project with a kick – off meeting, which took place in Vienna, and gathered government officials from relevant agencies, central banks, supervisors of financial markets and virtual assets from Georgia, Moldova and Ukraine. In total, 20 participants attended the event: 5 from Georgia, 9 from Moldova and 6 from Ukraine.

The kick-off meeting provided an opportunity for an interactive discussion between experts and participants about challenges of proper use of virtual assets, current available tools to investigate illicit transactions, as well as international legal frameworks and national regulations. The OCEEA also presented the project essentials to participants.



Awareness-raising on risks related to virtual assets

In November 2022, the OCEEA conducted 3 awareness-raising workshops for the representatives of relevant agencies in Tbilisi, Georgia, in Chisinau, Moldova and with the representatives from Ukraine in Vienna. At the workshops, experts discussed the risks existing on the national virtual assets markets, the money laundering potential of cryptocurrencies, relevant to virtual assets regulations and legislation, and software tools required for investigating illicit transactions conducted in cryptocurrencies.



A total of 30 participants from the Office of Prosecutor General, Financial Monitoring Service, Ministry of Finance, Virtua Assets Service Providers representatives and National Bank of Georgia took part in the workshop in Tbilisi. The workshop for Moldovan officials gathered 15 participants from Financial Intelligence Unit, Moldovan Banks Association, National Integrity Authority, National Bank of Moldova, National Commission of Financial Market, Ministry of Education and Research, Office of Prosecutor General, Ministry of Internal Affairs. The workshop for Ukrainian officials brought together 20 participants from National Bank of Ukraine, Ministry of Finance, Ministry of Digital Transformation, National Securities and Stock market commission, Verkhovna Rada of Ukraine, National police of Ukraine, and National Anti-corruption Bureau of Ukraine.



Training on blockchain-based investigations

In the beginning on 2023, the OCEE conducted 5 basic training courses (one four-day training for law enforcement and supervisory agencies of Georgia, one three-day training for law enforcement agencies of Moldova, one three-day training for supervisory agencies of Moldova, one three-day training for law enforcement agencies of Ukraine, one three-day training for supervisory agencies of Ukraine) on how to analyze and investigate money laundering crimes conducted with the use of virtual assets.



Participants had an opportunity to get familiar with risks associated to cryptocurrencies, criminal schemes, as well as tools for tracing different coins and tokens. They also had opportunities to review real-life case studies, learn more about compliance of virtual assets service providers (VASP), try some of the specialized online tools for investigation of cryptocurrencies, and participate in a practical simulation exercise on hacking digital crypto-wallets and seizing criminal funds.



At the end of 2023, 3 advanced training courses on virtual assets investigations were conducted, which were attended by more than 60 government officials from Georgia, Moldova and Ukraine to enhance their knowledge and skills in identifying and investigating financial crimes conducted with cryptocurrencies and other virtual assets.



During the courses, participants learned about advanced techniques and practical tools to investigate financial crimes committed with virtual assets. The courses also equipped participants with knowledge on advanced tracing of criminal transactions on different blockchains through case studies and best practices, and provided an opportunity for participants to familiarize themselves with specialized analytics software.



Providing blockchain analytical tool



With the aim of further ensuring sustainability of project results and strengthening the capacities of relevant government agencies to investigate criminal activities conducted with the use of virtual assets, the OSCE/OCEEA provided a specialized software from

Elliptic that will allow relevant state agencies in Georgia, Moldova and Ukraine to track and investigate illicit transactions conducted with the use of virtual assets.

Booklets on virtual assets

The OSCE/OCEEA prepared booklets on criminal risks associated with virtual assets in national languages. These booklets provide information on the different ways that criminals can misuse virtual assets, as well as the steps that individuals and organizations can take to mitigate those risks. The booklets are targeted to law enforcement agencies and other relevant institutions that are responsible for preventing and detecting financial crime in countries-beneficiaries of the project.

Workshops on Virtual Assets Service Providers regulatory framework

On the request of the Government of Georgia, the OCEEA conducted 2 workshops to assist the National bank of Georgia with the development of virtual assets service provider (VASP) regulatory framework, which country is required to adopt to meet the requirements of the FATF recommendation 15.

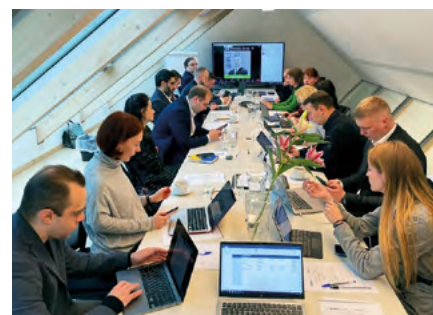


The workshop provided participants with the opportunity to enhance their understanding of regulatory compliance in the cryptocurrency industry and

strengthen their capacity to combat illicit activities.

Workshop for legislators on drafting and reviewing the laws related to virtual assets

At the end of 2022, a group of experienced experts led and co-ordinated by a team leader under supervision of OSCE/OCEEA and UNODC reviewed the existing regulatory framework in Ukraine and provided suggestions and recommendations on possible amendments to comply with international standards and FATF recommendations. Recommendations contained practical advice on how to reduce gender gap in virtual assets and encourage more active participation of women in this sector of economy.



Looking ahead

The interest in OCEEA's project and activities is steadily increasing. As part of its ongoing expansion, the project is set to include eight new beneficiaries. This expansion also involves the introduction of new activities, with a heightened emphasis on promoting gender equality and increasing women's participation. OSCE/OCEEA remains committed to supporting participating states in their efforts to enhance capacities for countering illicit activities involving virtual assets. The evolving scope of the project reflects a proactive approach to addressing emerging challenges and fostering inclusivity in the pursuit of its objectives.

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