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FILAC
Financial Inclusion Initiative for Latin America and the Caribbean

VIRTUAL ASSETS AND FINANCIAL INCLUSION FOR LATIN AMERICA AND THE CARIBBEAN

POLICY BRIEF

CONTENTS

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Cover photo: Handmade peruvian rug or wall decor. (Tose / Shutterstock.com)

EXECUTIVE SUMMARY

Virtual Assets (VAs) are increasingly being recognized as an important component of the global financial ecosystem, offering potential benefits for financial inclusion. However, their decentralized nature and associated risks — including consumer protection concerns, financial stability implications, and misuse in the context of illicit financial flows — demand effective regulatory frameworks.

This policy brief examines various regulatory approaches to VAs and Virtual Asset Service Providers (VASPs), highlighting emerging practices and strategies from multiple countries to support financial policymakers and regulators in developing comprehensive frameworks that take into account the varied policy objectives of financial regulators.

Financial policymakers and regulators play a critical role in safeguarding the financial system's safety and soundness while preventing VAs from causing harm to consumers, especially disadvantaged groups disproportionately excluded from the traditional financial system such as youth, women, persons with disabilities, and forcibly displaced persons (FDPs).

The G20 and global standard-setting bodies (SSBs), such as the Financial Action Task Force (FATF), Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO), have emphasized the need for more consistent implementation of standards for VAs and VASPs. However, progress on adopting critical measures such as the FATF's "Travel Rule" remains slow, exposing jurisdictions to the risks of money laundering, terrorist financing, and proliferation financing (ML/TF/PF). In the context of financial stability, the FSB promotes a principle of "same activity, same risk, same regulation", emphasizing the importance of aligning national regulations with international standards.

Countries worldwide are taking varied approaches to regulating VAs, from outright prohibition or targeted restrictions; narrow regulation intended to deal solely with anti-money laundering, countering the financing of terrorism, and countering proliferation financing (AML/CFT/CPF) risks and standards; through to more comprehensive regulatory frameworks encompassing financial inclusion, financial stability, and consumer protection objectives. This policy brief explores these diverse strategies and draws lessons from the experiences of jurisdictions outside the LAC region, including Mongolia, Namibia, Switzerland, Armenia, and the Philippines. These examples underscore the benefits of integrated policy approaches which promote innovation while ensuring consumer protection, and the stability and integrity of the financial system.

To enhance regulatory frameworks, the brief underlines the importance of international cooperation, capacity building, risk assessment tools, and consumer education. By pursuing holistic, inclusive, and adaptive regulatory reforms, LAC countries can position themselves as leaders in the responsible adoption of VAs and VASPs, promoting financial inclusion while mitigating associated risks.

1. INTRODUCTION

1.1. GLOBAL VIRTUAL ASSETS (VAs) LANDSCAPE

VAs are rapidly emerging as a significant component of the global financial ecosystem, reshaping traditional paradigms of capital flows, value transfer, and storage. Defined by the FATF as a "digital representation of value that can be digitally traded, transferred, or used for payment or investment purposes," VAs include cryptocurrencies (e.g. Bitcoin and Ethereum), stablecoins (e.g. USDC), and utility tokens. These innovations leveraging blockchain technology are expected to provide decentralized, secure, and transparent systems of financial exchange.

For the purpose of this policy brief, VA will refer to, but is not limited to, cryptocurrencies, stablecoins, and utility tokens.

Their decentralized nature and potential to promote financial inclusion have captured the attention of regulators worldwide. However, VAs also pose risks, particularly to consumer protection, AML/CFT/CPF, and financial stability.

The global VAs market has expanded dramatically, marked by significant price volatility, with a market capitalization exceeding USD3 trillion as of November 2024. According to Chainalysis' methodology, emerging market countries such as India, Vietnam, the Philippines, and Nigeria are leading in adoption, even in cases where clear regulatory frameworks for VAs and VASPs are lacking.

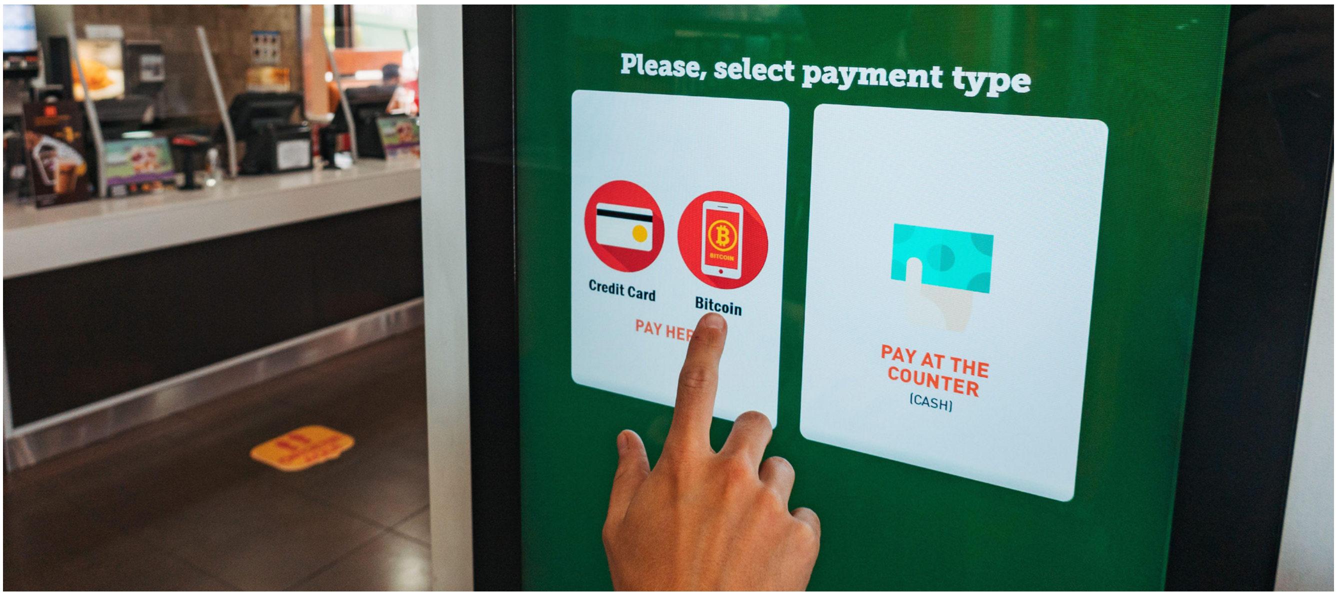
Consumer use cases for VAs in these markets include remittances, inflation hedging, and decentralized finance (DeFi).[1]

1.2 POLICY BRIEF OBJECTIVES

This policy brief, which explores a range of regulatory approaches to VAs, highlighting the best practices from different jurisdictions to inform the development of comprehensive frameworks that balance financial inclusion with effective risk management, aims to:

- Offer an overview of VAs regulatory trends at the global and LAC regional levels.
- Analyze the implications of VAs adoption for financial integrity, stability, and inclusion.
- Present actionable policy recommendations tailored to the LAC's unique challenges and opportunities.
- Enable regional and international collaboration to address cross-border risks and leverage VAs for financial inclusion.

1 FSB. 2023. DeFi: is an umbrella term commonly used to describe a variety of services in crypto-asset markets that aim to replicate some functions of the traditional financial system while seemingly disintermediating their provision and decentralizing their governance. Further information is available at: https://www.fsb.org/2023/02/the-financial-stability-risks-of-decentralised-finance/



A person pays for their food with Bitcoin over the Lightning Network on a McDonald's ordering kiosk in El Salvador. (Hugh Mitton / Alamy Stock Photo)

1.3 VIRTUAL ASSETS IN LATIN AMERICA AND THE CARIBBEAN (LAC)

In the LAC region, countries such as Brazil, Argentina, and Mexico stand out in the 2023 Global Crypto Adoption Index. The region showcases diverse usage patterns, with high adoption rates driven by the need for financial alternatives in response to hyperinflation, local currency devaluation, and the high cost of remittances.

The adoption trends in LAC[2] reveal a diverse landscape, namely:

ARGENTINA

Amid hyperinflation, more citizens adopted VAs, contributing to significant growth in the use of stablecoins as they seek to preserve value and hedge against currency depreciation.

EL SALVADOR

The adoption of Bitcoin as legal tender in 2021 highlighted both the opportunities and challenges of integrating VAs into national economies.[3]

BRAZIL

The development of a robust institutional market has spurred innovations in decentralized finance (DeFi) and blockchain applications.

MEXICO

Has become a key hub for cryptocurrency-based remittances, with cryptocurrencies becoming a significant channel for remittances from the US, reducing costs and enhancing efficiency in cross-border transactions.[4]

2 Chainalysis. 2023. The 2023 geography of cryptocurrency report: Everything you need to know about regional trends in crypto adoption. Available at: https://go.chainalysis.com/geography-of-cryptocurrency-2023.html

3 International Monetary Fund. 2021. Article IV consultation with El Salvador. Available at: https://www.imf.org/en/Publications/CR/Issues/2022/01/26/El-Salvador-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-512245

4 Chainalysis. 2023. The 2023 geography of cryptocurrency report: Everything you need to know about regional trends in crypto adoption. Available at: https://go.chainalysis.com/geography-of-cryptocurrency-2023.html

However, regulatory frameworks in the LAC region remain fragmented, ranging from permissive to cautious or prohibitive. This policy brief aims to address these disparities by providing policy recommendations for harmonized, inclusive, and risk-sensitive VAs regulations in the region.

1.4 EMERGING POLICY POSITIONS

Regulating VAs and VASPs has become a priority for financial policymakers and regulators worldwide, including in LAC countries. As cryptocurrencies and blockchain technology evolve, jurisdictions must develop robust legal frameworks to ensure consumer protection, mitigate ML/TF/PF and financial stability risks, and promote innovation. Further, VAs can present global financial stability risks,[5] requiring a comprehensive and coordinated regulatory approach.

Observing the global landscape, policymakers and regulators have adopted various policy positions to manage the risks and opportunities presented by VAs, which can be categorized as follows:

- **Prohibitive:** Countries like China have banned cryptocurrency trading and mining to prevent systemic risks.
- **Permissive:** El Salvador's Bitcoin Law (2021) and Digital Assets Issuance Law (2023) represent an open embrace of VAs to drive financial inclusion, and particularly to facilitate affordable remittances.
- **Regulated Innovation:** Jurisdictions like Singapore balance innovation with risk management through clear licensing regimes and regulatory sandboxes.
- **Cautionary:** Regulators in the United States have focused on enforcement actions while gradually introducing targeted legislation.

These positions reflect the varied priorities of jurisdictions, from promoting innovation to safeguarding financial integrity and financial stability.

5 Financial Stability Board. 2022. Assessment of Risks to Financial Stability from Crypto-assets. Available at: https://www.fsb.org/uploads/P160222.pdf

2. POLICY APPROACHES AND IMPLICATIONS

Jurisdictions around the world have adopted diverse approaches to regulating VAs, ranging from outright prohibitions in certain countries to more sophisticated AML/CFT/CPF frameworks, including dedicated licensing regimes for VASPs. These efforts aim to strengthen compliance with existing global standards that address VAs and VASPs, while advancing other national policy objectives such as financial inclusion.

Latin woman using ATM during daytime. (Javier Bermudez Zayas / Shutterstock.com)

2.1 GLOBAL STANDARDS RELEVANT TO VAS AND VASPS

Global standard-setting bodies have issued or updated certain standards and released critical guidance for VAs and VASPs:

FATF: Recommendation 15 and its Interpretive Note 15 (R.15/INR.15), R16 and its Interpretive Note (R.16/INR.16 and also known as the Travel Rule), and its Updated Guidance on the Risk-Based Approach to VAs and VAPs.[6]

The FATF mandates that VASPs share transaction originator and beneficiary information to enhance transparency and mitigate the risks of money laundering, terrorist financing, and proliferation financing. VASPs are advised to assess risks based on their specific activities and customers, applying enhanced due diligence where higher risks are identified.

Despite these efforts, the FATF's Targeted Update on Implementation of the FATF Standards on VAs and VASPs [7] reveals significant gaps in global compliance, with 75 percent of jurisdictions assessed as partially or non-compliant with FATF standards for VAs and VASPs. One of the key challenges is the inconsistent implementation of the FATF Travel Rule, which requires VASPs to share the transaction details of originators and beneficiaries to prevent ML/TF/PF risks. Many jurisdictions are lagging in adopting and enforcing legislation. Meanwhile, the misuse of VAs for illicit activities, including terrorist financing and proliferation financing, continues to grow. Strengthening regulatory oversight in this area is crucial, especially for addressing both domestic and cross-border risks.

6 FATF. 2021. Updated Guidance for a Risk-based Approach – Virtual Assets and Virtual Asset Providers. Available at: https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Updated-Guidance-VA-VASP.pdf.coredownload.inline.pdf

7 FATF. 2024. Targeted Update on Implementation of the FATF Standards on Virtual Assets and Virtual Asset Service Providers. Available at: https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/2024-Targeted-Update-VA-VASP.pdf.coredownload.inline.pdf

Woman paying with NFC technology on mobile phone, restaurant, cafe, bar. (LDprod / Shutterstock.com)

FSB: FSB Global Regulatory Framework for Crypto-Asset Activities, FSB High-level Recommendations for the Regulation, Supervision, and Oversight of Crypto-asset Activities and Markets — Final report.

The FSB, which promotes a principles-based approach emphasizing "same activity, same risk, same regulation", emphasizes the importance of a globally consistent regulatory approach to mitigate regulatory arbitrage. The global SSB, which focuses on financial stability, has developed a regulatory framework centered on three core principles:

1. **"Same activity, same risk, same regulation"** - Crypto-asset activities posing similar risks to those in traditional financial systems should be subject to equivalent regulatory standards.
2. **Flexibility** - The framework allows for either the adaptation of existing regulations or the creation of new ones to accommodate evolving markets.
3. **Technology neutrality** - Regulations should focus on addressing the economic functions and associated risks, regardless of the underlying technology.

IOSCO: Policy Recommendations for Crypto and Digital Asset Markets

In November 2023, IOSCO published its Policy Recommendations for Crypto and Digital Asset Markets [8] which aims to promote greater consistency across global regulatory frameworks, and importantly, to enhance consumer protection and market integrity. IOSCO promotes cooperation between jurisdictions to address cross-border challenges and enhance supervision. The recommendations emphasize:

1. **Investor protection** – Establish measures ensuring that investors in crypto and digital assets receive similar levels of protection as those in traditional markets.
2. **Market integrity** – Implement strategies to address market manipulation, fraud, and other illicit activities.
3. **Operational resilience** – Set standards to address the operational risks associated with crypto and digital asset infrastructures.
4. **Cross-border cooperation** – Encourage collaboration among jurisdictions to address the cross-border nature of digital asset markets.

8 International Organization of Securities Commissions. 2023. Policy Recommendations for Crypto and Digital Asset Markets. Available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf

2.2 REGULATORY APPROACHES IN THE LAC REGION

The regulatory landscape of AFI member countries in the LAC region reflects varying degrees of engagement with VAs, from full adoption to cautious regulation, some examples include:

HONDURAS

Virtual assets are not explicitly regulated. However, the Central Bank of Honduras[9] issued a consumer protection-related warning in 2021, stating that cryptocurrencies are not recognized as legal tender and advising the public of the risks associated with using them.

EL SALVADOR

In September 2021, El Salvador became the first country in the world to adopt Bitcoin as legal tender through the Bitcoin Law.[10]

COSTA RICA

While cryptocurrencies are not considered legal tender, they are legal to own and trade. The Central Bank of Costa Rica[11] has issued warnings about the risks associated with their use, maintaining a cautious stance on regulation.

MEXICO

Cryptocurrencies are not recognized as legal tender but are regulated under the 2018 FinTech Law,[12] which provides a legal framework for financial institutions dealing with VAs. While cryptocurrencies can be used for transactions, they are subject to AML/CFT/CPF regulations. Mexico's approach remains cautious, focusing on regulating crypto-related services through exchanges.

THE BAHAMAS

The Bahamas launched the Sand Dollar, the world's first fully operational Central Bank Digital Currency (CBDC),[13] which is integrated into the local financial system. While cryptocurrencies are allowed, they are regulated under the Digital Assets and Registered Exchanges (DARE) Act, which provides a legal framework for cryptocurrency exchanges and related services.

9 Central Bank of Honduras. 2021. Warning on the Use of Cryptocurrencies. Available at: https://www.bch.hn/administrativas/RI/Enlaces%20Comunicados%20FMI%20%20ES/Comunicado%20-%20BCH%20ante%20las%20consultas%20realizadas%20sobre%20el%20uso%20de%20criptoactivos%20como%20medios%20de%20pago%20en%20el%20territorio%20nacional%20-%2011%20de%20junio%20de%202021.pdf

10 El Salvador Legislative Assembly. 2021. Bitcoin Law. Available at: https://www.asamblea.gob.sv/node/11282

11 Central Bank of Costa Rica. Cryptocurrency Warning. Available at: https://www.bccr.fi.cr/publicaciones/Criptomonedas/NT-01-2019-Criptoactivos-analisis-e-implicaciones-desde-la-perspectiva-del-BCCR.pdf

12 Fintech Law. 2018. Official Mexican Government Publication. Available at: https://www.banxico.org.mx/regulations-and-supervision/d/%7BBCED7618-FED0-6513-EB07-28D9B60CE0FC%7D.pdf

13 Central Bank of The Bahamas. 2020. Sand Dollar White Paper. Available at: https://www.centralbankbahamas.com/viewPDF/documents/2019-12-25-02-18-11-Project-Sanddollar.pdf

At the regional level, countries in El Grupo de Acción Financiera de Latinoamérica (GAFILAT), which is the FATF-Style Regional Body (FSRB) for Latin America, are implementing R.15 in different ways:

TABLE 1: IMPLEMENTATION OF R.15.

Specific regulatory regime	Integration into the AML/CFT regime	Modification/Issuance of Secondary AML/CFT Regulations	Obligations for traditional AML and CFT obliged entities	No regulation
El Salvador, Mexico, Brazil, and Chile	Cuba, Nicaragua, and Paraguay	Colombia and Ecuador	Argentina (in addition there are tax provisions), Bolivia (Limitations and Prohibitions for FIs on transactions with AV and the payment system)	Costa Rica, Guatemala, Honduras, Panama, Peru, the Dominican Republic, and Uruguay

Source: GAFILAT

2.3 REGULATORY APPROACHES BEYOND THE LAC REGION

Although each country faces unique challenges, there are common policy objectives across the board, such as balancing innovation with regulatory enforcement, maintaining financial integrity, and building consumer trust in the digital economy. Countries have adopted different approaches to regulating VASPs, shaped by their national economic priorities and risk tolerance. The following are key examples of regulatory approaches related to VAs outside the LAC region:

MONGOLIA

In 2021, Mongolia passed a law regulating VASPs registration, operations, and supervision. The law seeks to ensure proper governance over VASPs, with 12 providers registered and awareness-raising initiatives underway.

NAMIBIA

The Virtual Assets Act of 2023 empowers the Bank of Namibia to regulate VASPs, emphasizing consumer protection, AML/CFT compliance, and strong cybersecurity measures. Namibia's approach is supported by multiple stakeholder coordination efforts, both nationally and internationally, ensuring a comprehensive understanding of virtual assets.

THE PHILIPPINES

The Bangko Sentral ng Pilipinas (BSP) has implemented comprehensive guidelines for VASPs, recognizing their potential to support financial inclusion while addressing risks such as money laundering and terrorist financing. The guidelines are aligned with international standards such as the FATF Recommendations. The BSP emphasizes proper governance, consumer protection, and strict compliance with cybersecurity protocols, ensuring that VAs activities are conducted within a safe and regulated environment.

SWITZERLAND AND ARMENIA

Both countries have also implemented legal frameworks for VASPs that include collaboration with international bodies and compliance with the FATF Travel Rule to enhance transaction transparency and security.

SINGAPORE[14]

Regulatory sandboxes enable controlled experimentation, balancing innovation with risk mitigation. These efforts are primarily guided by the Payment Services Act (PSA), which is overseen by the Monetary Authority of Singapore (MAS). This act establishes a licensing regime that requires VASPs involved in digital payment token services to meet AML and CFT standards. Additionally, the MAS has adopted the Financial Action Task Force (FATF) "Travel Rule", further strengthening compliance.

JAPAN[15]

A stringent licensing regime ensures VASPs compliance with AML/CFT standards while reinforcing consumer trust. Japan's regulatory framework is overseen by the Financial Services Agency (FSA), which works closely with self-regulatory organizations, such as the Japan Virtual Currency Exchange Association (JVCEA), to implement these standards and enhance regulatory compliance.

14 Monetary Authority of Singapore. 2023. Payment Services Act and Digital Payment Token Services. Available at: https://www.mas.gov.sg/

15 Sygna. 2023. Japan's Implementation of the Travel Rule and VASP Regulations. Available at: https://www.sygna.io

By adopting strong legal frameworks, promoting stakeholder collaboration, and enhancing consumer education, countries can develop resilient digital economies that leverage the potential of virtual assets while protecting consumers and financial systems.

2.4 IMPLICATIONS FOR POLICYMAKERS

This chapter outlines key regulatory areas and potential actions to address VAs market challenges, ensuring a balance between promoting innovation and ensuring financial system safety. It offers policy insights to strengthen financial integrity, stability, consumer protection, financial inclusion, and ecosystem development, guiding the creation of robust regulatory measures that support the sustainable growth and resilience of VAs markets.

The policy approaches to VAs across the LAC region demonstrate diverse strategies, reflecting varying levels of adoption, regulation, and caution based on economic priorities, financial stability concerns, and development goals, which reflects a mix of cautious regulation and proactive innovation.

For the region to capitalize on the potential of virtual assets, countries must balance financial inclusion and innovation with strong regulatory compliance, particularly with relevant global standards.

TABLE 2: KEY REGULATORY AREAS OF VA MARKETS.

Policy Need	Rationale	Likely Approach	Potential Outcome	Tradeoffs	Examples
Financial Integrity	Implementing the FATF's Travel Rule ensures transparency in VAs transactions, reducing any risks of illicit activities.	Mandate VASPs to collect and transmit originator and beneficiary information; introduce phased compliance and capacity building.	Strengthened financial integrity and reduced risks of illicit activities.	Increased compliance costs for VASPs and potential initial friction in cross-border transactions.	Switzerland and Singapore have mandated strict adherence to the FATF's Travel Rule, enhancing transaction transparency.
Financial Stability	Regulatory safeguards can prevent systemic risks posed by VAs volatility and market contagion.	Adopt the FSB's "same activity, same risk, same regulation" principle; conduct stress-testing of VAs ecosystems.	Enhanced financial system resilience and balanced market growth.	Overregulation may stifle innovation, while under-regulation could increase systemic vulnerabilities.	Japan regulates VASPs under existing financial laws to ensure market stability while allowing innovation.
Consumer Protection	Transparency and accountability mechanisms build consumer trust, reducing fraud and misinformation.	Establish disclosure requirements for VASPs; enhance consumer redress mechanisms for dispute resolution.	Increased consumer confidence and sustainable adoption of VAs.	Balancing protections with innovation-friendly policies might require iterative adjustments.	The European Union's Markets in Crypto-Assets (MiCA) regulation ensures detailed risk disclosures and protection measures for consumers.
Financial Inclusion	VAs offer cost-effective solutions for remittances and cross-border payments in some remittance corridors.	Consider the testing of VAs products intended to enhance financial inclusion through innovation enablers such as regulatory sandboxes and innovation hubs.	Expanded financial access for unbanked populations and reduced cross-border transaction costs.	Aligning inclusion efforts with robust oversight can delay regulatory compliance or complicate policy implementation.	El Salvador uses Bitcoin for remittances, reducing costs for senders and receivers.
Innovative Ecosystem Development	Clear regulatory guidance attracts investment and encourages innovation in VAs technologies.	Establish regulatory sandboxes and innovation hubs to enable experimentation under controlled conditions.	Thriving digital ecosystems that drive technological advancements and economic growth.	Delays in policy rollouts or overregulation may deter investment, while under-regulation risks exposing ecosystems to security vulnerabilities.	The United Kingdom's Financial Conduct Authority (FCA) offers a regulatory sandbox for testing VAs-related innovations in controlled environments.

Source: AFI

3. POLICY RECOMMENDATIONS

I. MONITOR AND ADOPT EMERGING, RELEVANT GLOBAL STANDARDS:

As discussed earlier, while a few global SSBs do address VAs and VASPs, global standards are not yet coherent and well-harmonized. Jurisdictions need to have a deep understanding of their country context, (i.e. different risks, markets, legal culture) and a clear vision for their financial inclusion policy objectives, to develop an effective regulatory framework for the VAs sector. For AML/CFT/CPF, jurisdictions should accelerate the implementation of FATF R.15 and R.16 by enacting relevant legislation and enforcing compliance to ensure transparency and security in virtual asset transactions. To better protect consumers as investors and ensure market integrity, complying with IOSCO's 18 Policy Recommendations for the regulation of crypto and digital assets would be beneficial. As global standards for VAs and VASPs continue to emerge and evolve from various SSBs, it is important to adopt a regulatory approach contextualized to a country's unique circumstances and financial inclusion goals.

II. DEVELOP SOUND RISK ASSESSMENTS AND SUPERVISORY FRAMEWORKS:

Regulators must regularly conduct comprehensive risk assessments, particularly for financial integrity and stability, and establish clear supervisory frameworks for VASPs to address emerging risks in the VAs sector. The inherent volatility in VAs requires regulatory safeguards to protect consumers and maintain market stability. This includes clear guidelines for VASPs on managing liquidity and operational risks.

III. STRENGTHEN DOMESTIC AND INTERNATIONAL COOPERATION:

At the country level, a strong multi-stakeholder coordination mechanism is essential to effectively drive collaboration among all relevant regulatory and supervisory authorities and private sector actors, to ensure regulatory coherence. At the same time, it is important to also strengthen global cooperation with peer jurisdictions and international SSBs. This is crucial to mitigate the risks posed by unregulated VAs and cross-border transactions and will enhance the ability to track and combat illicit activities on a global scale.

IV. LEVERAGE BLOCKCHAIN ANALYSIS TOOLS:

Both public and private sectors must invest in sophisticated blockchain analysis tools capable of detecting suspicious transaction patterns, including those involving intermediary wallets or cross-chain obfuscation techniques. These tools are essential for tracking and mitigating risks related to illicit VAs activities. Building regulator capacity and using blockchain technology for supervision can ensure a better understanding of the technology while reducing or alleviating any associated concerns. There is an imperative to "shift the control points", meaning that financial regulators and supervisors should be open to using technology in different ways to improve regulation and supervision, similar to how new technologies are driving the uptake of virtual assets.

V. UNDERTAKE CAPACITY BUILDING:

Ongoing capacity-building programs are essential for regulators, supervisors, law enforcement, and compliance teams. These programs should focus on emerging risks and new technologies in the virtual asset space, ensuring that stakeholders are equipped with the latest knowledge and forensic blockchain tools to detect and prevent suspicious transactions. These should also help to enhance coordination between various regulatory institutions and the private sector, as discussed in Policy Recommendation 3.

VI. PROMOTE CONSUMER EDUCATION:

Enhancing consumer education about the risks associated with VAs, including the high prevalence of fraud and scams in the ecosystem, as well as the regulations in place, is essential. Ensuring that users of digital financial services understand both the benefits and risks will promote a more secure and informed use of VAs. The consumer protection framework should be extended where feasible, and providers required to act as part of a responsible ecosystem.

4. CONCLUSIONS

- The empirical evidence suggests that different regions and countries have unique drivers for VAs adoption. Countries with unstable local currencies, such as Argentina and Venezuela, demonstrate how VAs (particularly US dollar-denominated stablecoins) can be attractive to consumers to protect their assets from high inflation. In the case of remittances, VAs play a significant role, particularly in Latin America, where they can potentially reduce costs and improve the speed of transactions.
- LAC countries should enhance their regulatory frameworks to keep pace with the growing digital asset market. By adopting international standards and promoting regional cooperation, countries can mitigate the risks related to ML/TF, financial stability, and consumer protection while promoting innovation and inclusion.
- Global coordination in the regulation of cryptocurrencies and global stablecoins (GSCs) is needed, such as cross-border cooperation, especially as the market for cryptocurrencies grows and integrates further with traditional financial systems. The framework sets the stage for ongoing international collaboration to ensure that the risks posed by cryptocurrencies are effectively addressed, safeguarding financial stability while advancing responsible innovation.
- There is a critical need for jurisdictions to urgently implement the Travel Rule and other AML/CFT measures to address the increasing risks posed by VAs. Both the public and private sectors must strengthen their regulatory frameworks and adopt robust risk management practices to ensure financial integrity in the growing VAs ecosystem.
- The future of VAs in the LAC region depends on developing adaptive, forward-thinking regulations that balance innovation with security. By adopting global standards, enhancing regional collaboration, and prioritizing consumer protection, the region can position itself as a leader in the responsible adoption of VAs and VASPs while leveraging them for financial inclusion. As next steps, countries should pursue regulatory reforms that are inclusive, technology neutral, and resilient to illicit financial flows.

Woman holding a smartphone at her shop in a park in Mexico City. (Jeffrey Isaac Greenberg 11+ / Alamy Stock Photo)

DEFINITION OF TERMS

TERM/ ABBREVIATION	DEFINITION	REFERENCE
Virtual Assets (VAs)	A digital representation of value that can be digitally traded, transferred, or used for payment or investment purposes. Examples include cryptocurrencies, stablecoins, and utility tokens.	FATF: Virtual Asset Guidance
Virtual Asset Service Provider (VASP)	An entity that provides services related to the exchange, transfer, safekeeping, or issuance of virtual assets.	FATF: Recommendation 15
Cryptocurrency	A type of virtual asset leveraging blockchain technology to provide decentralized, secure, and transparent systems of financial exchange. Examples include Bitcoin and Ethereum.	
Stablecoin	A type of cryptocurrency designed to maintain a stable value by pegging to a reserve asset, such as fiat currency or commodities (e.g. USDC).	IMF: The Rise of Stablecoins
Utility Token	Digital tokens used to access services or applications within a specific blockchain ecosystem.	
AML/CFT/CPF	Anti-Money Laundering, Combating the Financing of Terrorism, and Counter-Proliferation Financing: Regulatory measures to prevent illicit activities through financial systems.	FATF: Recommendations
Decentralized Finance (DeFi)	A financial ecosystem based on blockchain technology that operates without centralized intermediaries, enabling peer-to-peer financial transactions and services.	World Economic Forum
Blockchain	A decentralized, distributed ledger technology that records transactions across multiple systems securely and transparently.	
FATF Travel Rule	A requirement under FATF Recommendation 16 mandating that VASPs share transaction originator and beneficiary information to enhance transparency and reduce ML/TF/PF risks.	FATF: Travel Rule Guidance
Financial Stability Board (FSB)	An international body that monitors and provides recommendations on the global financial system to enhance its stability.	FSB Principles
Markets in Crypto-Assets (MiCA)	A regulation introduced by the European Union to establish a harmonized framework for cryptocurrencies, addressing consumer protection, transparency, and market integrity.	European Commission: MiCA
Central Bank Digital Currency (CBDC)	A digital form of a country's fiat currency issued and regulated by its central bank. Examples include the Sand Dollar (Bahamas) and e-CNY (China).	Atlantic Council CBDC Tracker
Digital Asset	An umbrella term encompassing digital representations of value, including virtual assets, cryptocurrencies, and tokenized assets.	OECD Digital Assets
Regulatory Sandbox	A controlled environment where innovators can test new financial products or services under regulatory supervision, with tailored legal and operational frameworks.	Financial Conduct Authority (FCA)

Travel Rule Compliance	The practice of VASPs adhering to the FATF's Travel Rule by sharing required originator and beneficiary information during transactions to reduce illicit finance risks.	FATF: Travel Rule
GAFILAT	El Grupo de Acción Financiera de Latinoamérica: The FATF-Style Regional Body (FSRB) responsible for AML/CFT standards in Latin America.	GAFILAT
Anti-Proliferation Financing	Regulatory measures designed to prevent funding for the proliferation of weapons of mass destruction.	FATF: Counter Proliferation Financing
Tokenized Assets	Physical or financial assets represented digitally on a blockchain, enabling fractional ownership and broader access.	World Economic Forum
Consumer Redress Mechanisms	Processes and systems established to effectively address and resolve consumer complaints and disputes.	World Bank
Interoperability	The ability of different systems, organizations, or platforms to work together seamlessly, particularly in sharing data and services.	ISO Standards
Blockchain Analysis Tools	Advanced tools used to track, analyze, and visualize blockchain transactions to identify illicit activity patterns.	Chainalysis
Remittances	Cross-border money transfers, often from migrants to their home countries, used to support families and communities.	World Bank Remittance Flows

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