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Statement from UK Financial Regulatory Authorities on Sanctions and the Cryptoasset Sector



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On March 11, 2022, the UK Financial Conduct Authority (“FCA”), the Office of Financial Sanctions Implementation (part of HM Treasury) and the Bank of England published a [joint statement](#) (the “Statement”) on sanctions and the cryptoasset sector. The primary focus of the Statement is to reiterate existing AML and sanctions controls whilst making it clear that the cryptoasset sector is “expected to play their part in ensuring that sanctions are complied with.” It makes clear that action will be taken against sanction breaches by registered firms and attempts by sanctioned parties to utilise cryptoassets to circumvent restrictions. The context of the Statement is the unprecedented range of financial sanctions on Russia and Belarus, introduced in response to Russia’s invasion of Ukraine on February 24, 2022.

In the UK, cryptoasset firms such as exchanges and custodian wallet providers have been required, since 2020, to comply with UK anti-money laundering (“AML”) laws and are supervised by the FCA for this purpose. The Statement sets out specific steps that the UK cryptoasset sector must take to ensure compliance with their legal obligations relating to sanctions. These include updating risk assessments to take into account the changing sanctions landscape and periodic re-screening as sanction lists are amended. The Statement includes a non-exhaustive list of examples of “*red flag indicators*” which suggest an increased risk of sanctions evasion. These indicators include: transactions to or from “*high-risk*” wallet addresses, transactions involving exchange providers known to have poor due diligence procedures and the use of tools designed to obfuscate either the location of the customer (e.g., a virtual private network (“VPN”) or proxy), or the source of cryptoassets (e.g., mixing services which pool together potentially “tainted” funds from multiple inputs and then split and return them after a random time period).

Passing mention is made to the use of “*blockchain analytics solutions*” and how they can be utilised to identify higher-risk wallet addresses. Unfortunately, no

further detail is provided, which is unhelpful in such a rapidly developing field. There will be not-insignificant costs associated with implementing new KYC software and manually reviewing the flags thrown up. In the context of the extensive Russian sanctions regime, it seems clear that the FCA will expect cryptoassets firms to be able to demonstrate that they have enhanced their systems and controls in short order to deal with the growing threat of sanctions evasion using cryptoassets.
