SUBMITTED VIA EMAIL TO: FATF.Publicconsultation@fatf-gafi.org

To whom it may concern,

Re: The Financial Action Taskforce (FATF) Public Consultation on AML/CFT and Financial Inclusion - Updated FATF Guidance on AML/CFT Measures and Financial Inclusion

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been curated through a series of member discussions, industry engagement, and roundtables, and GDF is grateful to its members who took part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail should that be beneficial as the FATF continues its work.

Yours faithfully,
Elise Soucie – Executive Director – GDF

Response to the Public Consultation: Executive Summary

GDF was grateful for the opportunity to engage with the FATF in its recent meetings of the Private Sector Consultative Forum in Vienna, the Virtual Assets Contact Group (VACG) in Paris, and on its previous consultations on Payments Transparency and Financial Inclusion.

Overall, GDF is supportive of objectives and aims set out in the FATF's Public Consultation on AML/CFT and Financial Inclusion - Updated FATF Guidance on AML/CFT Measures and Financial Inclusion.

GDF developed this response with its Global Policy & Regulatory Task Force, which is comprised of GDF members from across the globe, as part of our ongoing commitment to supporting the work of the FATF, as well as the GDF mission to support the development of best practices and governance standards across the digital finance industry. The executive summary concisely states our views on the specific language within the text. Given the nature and scope of GDF's work, our response focuses specifically how the guidance applies to Virtual Asset Service Providers (VASPs). Our key points of our feedback are as follows:

1. **We remain supportive of the 'proportionality' wording which particularly crucial as it relates to VASPs, as well as the broader financial services ecosystem; and**

2. **We remain supportive of a risk-based approach from the FATF that enables both VASPs and financial institutions to implement appropriate compliance measures that are aligned to their risk profile while also being practical and efficient.**

Response to the Questions for Consultation

Is the discussion on the concept of financial inclusion and its relevance to financial integrity and financial exclusion risk in Chapter 1 sufficiently comprehensive?

Yes, GDF finds the discussion sufficiently comprehensive and is supportive of the FATF's broader objectives with regards to financial integrity and financial inclusion.

Is the guidance on assessment of areas of lower risks for implementation of simplified measures in Section 2.2.3 of Chapter 2 sufficient to inform balanced risk assessments?

Yes, GDF finds the guidance sufficient and has no further comments on this section.

Is the explanation on recently adopted Standards revisions, for example on the concepts of proportionality, encouragement of simplified measures, tailoring measures to identified risks, etc., in Section 2.3 of Chapter 2 sufficiently comprehensive?

GDF is supportive in particular of the of wording relating to "*proportionality*" and the clarification of how these concepts should be applied in the context of a risk-based approach. We support the FATF in the aim of setting clearer expectations with regard to simplified measures; and the alignment of the FATF's expectations to those of financial inclusion stakeholders and frameworks more broadly.

Furthermore, noting GDF's focus on the digital assets and digital finance industry, we believe proportionality particularly crucial as it relates to VASPs, as well as the broader financial services ecosystem. We would set out three key reasons why we are supportive of the FATF's proportionality measures:

1. **We agree with the FATF as set out in previous consultations that the wording around proportionality is better aligned to a risk-based approach.** Proportionality implies a direct relationship between risks and measures applied by financial institutions and designated non-financial businesses and professions (DNFBPs).
2. **A proportionate approach enables improved scalability for small and/or emerging VASPs.** A proportionate and risk-based approach reduces barriers to entry for smaller VASPs and would reflect the risk level and scale of various business models. This is beneficial for supporting responsible innovation as well as financial inclusion.
3. **The 'proportionality' wording may also reduce regulatory arbitrage across the financial services ecosystem.** A proportionate, risk-based approach can lead to greater consistency in regulation across FATF jurisdictions, as assessments of both risk level and the scale of the business can be more easily harmonized.

Would further guidance and examples on tailoring measures to address financial inclusion needs in non-lower risk situations be required? If so, please provide relevant inputs and examples.

Yes, building on the points set out above, we fully support the FATF's guidance that jurisdictions should identify areas of lower risk, for example, through their national or sub-national risk assessments, to support VASPs and financial institutions to apply measures proportionate to those risks. GDF believes that further guidance and examples would be helpful for VASPs and financial institutions on the possible approaches for the implementation of simplified measures where the risks are lower. In particular, we would support this for VASPs and GDF would be happy to help lead this work in developing examples as part of the Virtual Assets Contact Group (VACG).

GDF firmly believes that a risk-based approach from the FATF enables both VASPs and financial institutions to implement appropriate compliance measures that are aligned to their risk profile while also being practical and efficient. This approach has wider benefits notably that:

- Smaller firms or those with low-risk activities will avoid being overburdened by superfluous compliance requirements;
- By tailoring approaches that are proportionate to risks, firms can allocate their internal resources more efficiently. This is beneficial for achieving effective governance and can reduce costs, ultimately supporting broader financial inclusion aims;
- This type of approach encourages innovation and growth as opposed to a one-size-fits-all approach which may inadvertently stifle responsible development of new technologies;
- A risk-based approach can also help focus the public and private sector on high-risk areas ensuring that resources are dedicated to the most significant threats; and
- The approach is also aligned to broader international standards and principles from other global standard setters.

Overall, GDF is supportive of further guidance and examples.

Does the guidance in Section 3.2.2 and Section 3.2.3 of Chapter 3 provide sufficient clarity on the roles of supervisors and regulated entities in implementing the risk-based approach to promote financial inclusion?
Yes, GDF believes there is sufficient clarity and has no further comments on this section.

Would further guidance and examples be required on the risks associated with non-face-to-face business relationships and transactions and how to mitigate them? If so, please provide relevant examples.
GDF has no further comments on this section.

Do the examples in the boxes throughout the Guidance and the annexes provide enough details on the range of approaches to implement the risk-based approach?
Yes, GDF believes there is sufficient detail and has no further comments on this section.