FATF IDENTIFIES STABLECOINS AS A MAJOR RISK IN ILLICIT USE OF VIRTUAL ASSETS

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This article provides a summary on the latest Financial Action Task Force ("**FATF**") targeted update and a few of our own observations on the significant popularity of stablecoins.

On 26 June 2025, the FATF published its sixth targeted update on the global implementation of anti-money laundering and counter-terrorist financing ("**AML/CFT**") measures for virtual assets ("**VAs**") and virtual asset service providers ("**VASPs**"). This 2025 Targeted Update identifies several emerging risks and calls for stronger global action to safeguard the integrity of the international financial system.

A key finding in the 2025 Targeted Update is the increased use of stablecoins by illicit actors, including those affiliated with the Democratic People's Republic of Korea ("**DPRK**"), terrorist financiers, and drug traffickers. In 2025, the DPRK carried out the largest single VA theft in history, stealing US$1.46 billion from the VASP, ByBit. The FATF noted that this trend has continued to grow since the 2024 Targeted Update, and that most on-chain illicit activity now involves stablecoins.

We have observed that since the second half of 2024, stablecoins have become immensely successful in the global cryptocurrency market. Stablecoins represented approximately more than two-thirds of the trillions of dollars market worth of cryptocurrency transactions in that period. A large part of the popularity has been due to the 1:1 pegging of stablecoins to more stable assets, including fiat currencies and commodities. Such pegging has rendered more consistency and predictability in their value. In the wake of recent and current political developments causing instability in the international money markets, it is likely that stablecoins will continue to gain momentum as a medium of exchange and as a store of value.

However, the FATF highlighted that the perceived advantages of stablecoins over other types of digital assets, including a reduction in volatility, transaction efficiency with low costs, and abundant liquidity in the market that make stablecoins attractive to many consumers and businesses also draw in criminals seeking to maximise profits and reduce their costs.

The FATF warns that mass adoption of stablecoins or VAs more broadly could amplify illicit finance risks, particularly in jurisdictions where the FATF standards for VAs and VASPs are not fully implemented. This uneven implementation creates vulnerabilities that can be exploited by criminals and rogue states to their own advantage.

The 2025 Targeted Update also highlights the challenges that jurisdictions face in regulating offshore VASPs, many of which issue or operate stablecoins. These challenges include difficulties in identifying natural or legal persons conducting VASP activities and enforcing licensing and registration requirements. We would also add to that list, that difficulty in ensuring compliance and policing breaches of such laws and regulations.

To address these risks, the FATF urges jurisdictions to accelerate the implementation of Recommendation 15 and its Interpretative Note, which require that AML/CFT measures be applied to VAs and VASPs.

The FATF also emphasises the importance of implementing FATF's Travel Rule, which requires VASPs and financial institutions to obtain, hold, and transmit specific originator and beneficiary information immediately and securely when transferring VAs. in this regard, the FATF also published Best Practices on Travel Rule Supervision to assist jurisdictions in developing effective supervisory frameworks. In the context of Singapore, it should be noted that the Monetary Authority of Singapore ("**MAS**") has implemented the FATF's Travel Rule, particularly through issuing of Notice PSN02 on the Prevention of Money Laundering and Countering the Financing of Terrorism - Digital Payment Token Service ("**Notice PSN02**"), where Notice PSN02 requires VASPs intending to carry out payment services to comply with and be subject to the effective systems of continuous AML monitoring and CFT supervision.

In conclusion, the 2025 Targeted Update underscores the urgent need for coordinated global action to address the growing risks associated with stablecoins. The central bank or governing financial authority in many countries have to strengthen their regulatory frameworks, encourage and work with private sector entities and other players to take more cognisance of the growing use of stablecoins for illicit purposes and activities and to strengthen compliance measures to prevent the misuse of VAs in illicit finance. This is in view of the sanguine global outlook on stablecoins, particularly in light of the recent passage of the Guiding and Establishing National Innovation for U.S. Stablecoins ("**GENIUS**") Act, which establishes a comprehensive regulatory framework and is expected to further drive adoption of stablecoins.

For more information on the implementation of FATF's Travel Rule in Singapore and Notice PSN02, refer to the following link to a previous CNPupdate article we prepared on this topic.

References

FATF urges stronger global action to address Illicit Finance Risks in Virtual Assets

The Financial Times - The rise and risks of stablecoins

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