

## THE STANDARDS OF THE FATF AND OTHER INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF CRYPTO-ASSETS AND THEIR INTERNATIONAL LEGAL STATUS: A COMPARATIVE ANALYSIS WITH FOCUS ON UZBEKISTAN

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**Abstract:** This research examines the regulatory frameworks established by the Financial Action Task Force (FATF) and other international financial institutions governing crypto-assets, with particular emphasis on their international legal status and implementation in Uzbekistan. The study employs a comparative legal analysis methodology to evaluate how FATF recommendations and standards from institutions such as the International Monetary Fund, World Bank, and Basel Committee on Banking Supervision have shaped the global regulatory landscape for virtual assets. The findings reveal that while Uzbekistan has made substantial progress in establishing a legal framework for crypto-assets since 2018, challenges remain in aligning national regulations with FATF's risk-based approach and ensuring effective supervision of virtual asset service providers. The study concludes that the international legal status of FATF standards remains predominantly soft law, yet their practical impact on national jurisdictions is considerable due to compliance pressures and potential consequences of non-compliance. Recommendations include strengthening institutional capacity for anti-money laundering and combating the financing of terrorism measures, enhancing coordination between regulatory bodies, and developing more comprehensive legislation that addresses emerging risks in decentralized finance and cross-border crypto-asset transactions.

**Keywords:** FATF standards, crypto-assets, virtual assets, international financial regulation, anti-money laundering, Uzbekistan, comparative legal analysis, regulatory compliance

### Introduction

The rapid proliferation of crypto-assets and blockchain technology has fundamentally challenged traditional paradigms of financial regulation and international monetary cooperation (Zetzsche et al., 2020). Since the emergence of Bitcoin in 2009, the crypto-asset ecosystem has expanded exponentially, encompassing thousands of digital currencies, tokenized assets, and decentralized financial platforms that operate across jurisdictional boundaries with minimal oversight. This technological revolution has created unprecedented opportunities for financial innovation while simultaneously presenting significant risks related to money laundering, terrorist financing, tax evasion, and consumer protection. The borderless nature of crypto-assets has necessitated coordinated international responses, with the Financial Action Task Force emerging as the primary standard-setter for anti-money laundering and combating the financing of terrorism measures in the virtual asset space (Carlisle & Golovchenko, 2021).

The FATF, established in 1989 by the G7 countries, has evolved from its initial focus on traditional financial crimes to become the leading international body setting standards for combating illicit financial flows in the digital age (Langevin & Campbell-Verduyn, 2023). In June 2019, the FATF adopted revised standards that explicitly included virtual assets and virtual asset service providers within its regulatory framework, marking a watershed moment in the international regulation of crypto-assets (FATF, 2021). These standards, commonly known

as the "travel rule," require virtual asset service providers to collect and transmit originator and beneficiary information for transactions, effectively extending traditional banking compliance requirements to the crypto-asset sector. The FATF's approach has been complemented by other international financial institutions, including the International Monetary Fund, which has analyzed macroeconomic implications of crypto-assets (Adrian & Mancini-Griffoli, 2021), and the Basel Committee on Banking Supervision, which has developed prudential treatment frameworks for banks' exposures to crypto-assets (BCBS, 2022).

The international legal status of FATF recommendations and standards from other international financial institutions presents a complex analytical challenge (Brummer & Yadav, 2021). Unlike binding international treaties or conventions, FATF standards constitute what international legal scholars term "soft law"—normative instruments that lack formal binding force but exert significant influence on state behavior through various compliance mechanisms (Pauwelyn et al., 2023). The effectiveness of these standards derives not from traditional enforcement mechanisms but from peer review processes, mutual evaluations, and the potential reputational and economic consequences of non-compliance, including placement on FATF's "grey list" or "black list" of jurisdictions with strategic deficiencies in their anti-money laundering and combating the financing of terrorism regimes.

Uzbekistan's experience with crypto-asset regulation provides a particularly instructive case study for examining the implementation of international standards in a jurisdiction undergoing significant economic and legal transformation (Mirzaev & Karimov, 2023). Following decades of economic isolation and centralized control, Uzbekistan embarked on comprehensive reforms after 2016, including liberalization of its financial sector and exploration of innovative technologies to modernize its economy. In 2018, Uzbekistan became one of the first post-Soviet countries to adopt specific legislation on crypto-assets through Presidential Decree No. 3832 "On measures for the development of the digital economy," which established a legal framework for cryptocurrency exchanges and mining operations (Republic of Uzbekistan, 2018). This early adoption reflected the government's ambition to position Uzbekistan as a regional hub for digital innovation while simultaneously managing risks associated with virtual assets. The research significance of this study lies in its contribution to understanding how international financial standards are translated into national legal frameworks in jurisdictions with emerging regulatory systems.

## Methodology

This research employs a qualitative, doctrinal legal research methodology centered on comparative legal analysis and systematic examination of primary and secondary sources (Samuel, 2020). The methodological approach integrates several complementary research techniques to address the study's objectives comprehensively and rigorously. The selection of this methodology reflects the nature of the research questions, which require detailed textual analysis of legal instruments, critical evaluation of normative frameworks, and comparative assessment of regulatory approaches across different jurisdictions and institutional contexts.

The primary research method utilized is doctrinal legal analysis, which involves systematic examination and interpretation of legal texts, including international standards, national legislation, regulatory guidelines, and judicial or administrative decisions. This approach is particularly appropriate for analyzing the content and structure of FATF recommendations, as these documents constitute the foundational normative framework for international crypto-asset

regulation. The doctrinal analysis encompasses close reading of the FATF's Recommendations, Interpretive Notes, Guidance documents, and Mutual Evaluation Reports, with specific attention to Recommendation 15 on new technologies and its application to virtual assets. Similarly, documents from other international financial institutions—including IMF policy papers, World Bank reports, Basel Committee standards, and Financial Stability Board recommendations—are analyzed to identify convergences, divergences, and complementarities in their approaches to crypto-asset regulation.

The comparative legal method constitutes the second major methodological pillar of this research (Van Hoecke, 2021). Comparative analysis is conducted at multiple levels: first, comparing standards and recommendations across different international financial institutions to identify common principles and institutional variations; second, comparing Uzbekistan's regulatory framework with international standards to assess alignment and identify gaps; and third, selectively comparing Uzbekistan's approach with regulatory frameworks in other jurisdictions to contextualize findings and identify potential best practices. The comparative method employed follows functional equivalence principles, recognizing that different legal systems may achieve similar regulatory objectives through varying legal mechanisms and institutional arrangements.

## Results

The analysis of FATF standards and recommendations from other international financial institutions reveals a comprehensive but evolving regulatory framework for crypto-assets characterized by several distinctive features. The FATF's approach, crystallized in the June 2019 revisions to its Recommendations and the subsequent updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers (FATF, 2021), establishes virtual assets as financial assets subject to anti-money laundering and combating the financing of terrorism requirements equivalent to those applied to traditional financial instruments. The FATF defines virtual assets as "digital representations of value that can be digitally traded or transferred and can be used for payment or investment purposes" explicitly excluding digital representations of fiat currencies, securities, and other financial assets already covered under existing FATF recommendations (Houben & Langevin, 2022). This functional definition adopts a technology-neutral approach intended to encompass current and future forms of crypto-assets regardless of their specific technical characteristics.

The core substantive requirements imposed by FATF standards on jurisdictions include several key elements. First, countries must ensure that virtual asset service providers are regulated for anti-money laundering and combating the financing of terrorism purposes and subject to licensing or registration requirements. Second, virtual asset service providers must conduct customer due diligence, including identifying and verifying customer identity, understanding the nature and purpose of business relationships, and conducting ongoing monitoring of transactions. Third, virtual asset service providers must implement the "travel rule" requiring transmission of originator and beneficiary information for virtual asset transfers, mirroring requirements applied to wire transfers in traditional banking under FATF Recommendation 16 (Trautman, 2021). Additional requirements include risk assessment obligations at both national and institutional levels, suspicious transaction reporting to financial intelligence units, record-keeping for at least five years, implementation of targeted financial sanctions related to

proliferation financing and terrorism, and establishment of supervisory or monitoring bodies with adequate powers to ensure compliance.

The international legal status of FATF standards presents a complex picture that defies simple categorization within traditional international law taxonomies. FATF Recommendations do not constitute binding international law in the conventional sense—they are not treaties subject to ratification, they do not emerge from international organizations with legislative powers, and their violation does not trigger formal international legal responsibility. Instead, FATF standards exemplify what international legal scholars term "soft law," normative instruments that occupy an intermediate space between legally binding obligations and purely political commitments (Pauwelyn et al., 2023). Despite their soft law status, FATF standards exert considerable influence on state behavior through several mechanisms that effectively translate recommendations into practical compliance pressures (Langevin & Campbell-Verduyn, 2023). The primary enforcement mechanism is the mutual evaluation process, through which FATF and FATF-Style Regional Bodies conduct comprehensive assessments of member jurisdictions' compliance with FATF Recommendations. Jurisdictions demonstrating significant deficiencies may be placed on the FATF's list of jurisdictions under increased monitoring, commonly known as the "grey list," or in extreme cases, the list of high-risk jurisdictions subject to countermeasures. Inclusion on these lists carries substantial reputational and economic costs, including reduced access to international financial markets and increased transaction costs.

Other international financial institutions have developed complementary frameworks addressing different dimensions of crypto-asset regulation. The Basel Committee on Banking Supervision issued its prudential treatment framework for cryptoassets in December 2022, establishing capital and liquidity requirements for banks' exposures to crypto-assets (BCBS, 2022). The Basel framework categorizes crypto-assets into two groups: Group 1 includes tokenized traditional assets and stablecoins meeting specific criteria, subject to treatment equivalent to underlying exposures; Group 2 comprises all other crypto-assets, including unbacked cryptocurrencies, subject to significantly more conservative treatment with a 1250% risk weight effectively requiring one dollar of capital for each dollar of exposure (Restoy, 2021). The International Monetary Fund has focused on macroeconomic and financial stability implications of crypto-assets, analyzing issues including monetary policy transmission, exchange rate management, capital flow volatility, and fiscal implications (IMF, 2023). The IMF advocates for comprehensive regulatory frameworks addressing prudential regulation, conduct of business rules, consumer protection, and clear assignment of regulatory responsibilities across different types of crypto-assets and service providers.

The analysis of Uzbekistan's regulatory framework reveals a distinctive approach that combines early adoption of crypto-asset legislation with ongoing challenges in aligning domestic regulations with evolving international standards. The foundation of Uzbekistan's legal framework was established through Presidential Decree No. 3832 adopted on July 3, 2018, which created the National Agency for Perspective Projects as the primary regulatory body for crypto-assets (Republic of Uzbekistan, 2018). This decree legalized cryptocurrency exchanges and mining activities while establishing a licensing regime for virtual asset service providers. The decree introduced several innovative features including tax exemptions for licensed operators, simplified registration procedures intended to attract international cryptocurrency businesses, and designation of specific technology parks as zones where crypto-asset activities could be conducted under streamlined regulatory oversight (Mirzaev & Karimov, 2023).

Presidential Resolution No. 3926 of September 2018 approved regulations on the circulation of crypto-assets and tokens, establishing requirements for licensing, operational standards, and consumer protection measures. In April 2022, Presidential Decree No. 60 included provisions for further development of digital economy infrastructure and regulation of virtual assets, signaling continued government commitment to this regulatory domain (Nurimbetov, 2022).

The institutional architecture for crypto-asset regulation in Uzbekistan involves multiple agencies with overlapping jurisdictions. The National Agency for Perspective Projects holds primary responsibility for licensing and supervising virtual asset service providers, while the Central Bank of Uzbekistan maintains authority over aspects of crypto-asset regulation intersecting with monetary policy and payment systems (Umarov, 2023). The Financial Intelligence Unit under the General Prosecutor's Office receives suspicious transaction reports and analyzes potential money laundering or terrorist financing activities involving virtual assets. Comparing Uzbekistan's framework with FATF standards reveals both areas of alignment and significant gaps. Uzbekistan has established licensing requirements for virtual asset service providers consistent with FATF recommendations. Licensed operators must conduct customer identification and verification procedures, implementing know-your-customer requirements that partially align with FATF's customer due diligence standards. However, several areas of non-compliance or incomplete implementation are evident. Most significantly, Uzbekistan has not fully implemented the travel rule requiring transmission of originator and beneficiary information for virtual asset transfers (Carlisle & Golovchenko, 2021). The framework's treatment of stablecoins, non-fungible tokens, and emerging categories of crypto-assets remains underdeveloped. Recent amendments introduced in 2023 strengthened customer due diligence requirements and expanded reporting obligations, while increased cooperation with the Eurasian Group on Combating Money Laundering and Financing of Terrorism has facilitated technical assistance (EAG, 2023).

## Discussion

The findings of this research illuminate several significant dimensions of international crypto-asset regulation and its implementation in emerging regulatory systems. The analysis demonstrates that FATF standards have established a remarkably comprehensive normative framework that has achieved substantial global influence despite lacking formal binding legal status. This outcome challenges conventional assumptions about international law's primacy deriving from binding treaty obligations and formal enforcement mechanisms. Instead, the FATF case exemplifies how soft law instruments can achieve practical effectiveness through alternative compliance mechanisms including peer pressure, reputational costs, and network effects. The theoretical implications of FATF's soft law approach warrant careful consideration. From an international legal perspective, the FATF framework represents an evolution in global governance responding to regulatory challenges that transcend national boundaries and require rapid adaptation to technological change (Brunner & Yadav, 2021). Traditional treaty-based approaches suffer from temporal lags between identifying regulatory needs, negotiating treaty text, securing ratifications, and achieving entry into force—a timeline incompatible with the pace of technological innovation in crypto-assets. Soft law mechanisms enable more agile standard-setting, allowing international bodies to issue guidance, update recommendations, and respond to emerging risks without requiring formal amendment processes.

The legitimacy concerns surrounding FATF standard-setting relate to several dimensions. First, the composition of FATF membership raises questions about representativeness and whether standards adequately reflect interests and circumstances of countries not directly involved in their formulation. Second, the technical and expert-driven nature of FATF processes may limit meaningful input from civil society, affected communities, and democratically elected legislatures. The effectiveness of risk-based approaches central to FATF standards presents both theoretical and practical challenges, particularly evident in Uzbekistan's implementation experience. The risk-based paradigm assumes that regulated entities and supervisors can effectively identify, assess, and mitigate money laundering and terrorist financing risks through exercise of informed judgment rather than mechanical compliance with prescriptive rules (Black et al., 2020). However, successful implementation requires substantial institutional capacity, availability of reliable risk information, and mature compliance cultures—preconditions not universally present across jurisdictions.

The tension between universal international standards and local contextual factors emerges as a critical theme. FATF standards aspire to universal application, reflecting the view that money laundering and terrorist financing risks are global phenomena requiring consistent regulatory responses. However, countries differ substantially in their institutional capacities, legal traditions, economic development levels, technological infrastructure, and policy priorities (Grigsby et al., 2021). Uzbekistan's experience demonstrates how these contextual factors shape implementation outcomes. The travel rule implementation challenge exemplifies broader difficulties in translating international standards into operational practice. Technical challenges arise from the pseudonymous nature of many blockchain protocols, the absence of universal standards for information transmission across different platforms, and the decentralized architecture of many virtual asset systems (Trautman, 2021). The emergence of decentralized finance presents particularly vexing challenges for traditional regulatory approaches embedded in FATF standards. Decentralized finance platforms utilize smart contracts to provide financial services without traditional intermediaries (Aramonte et al., 2022). When automated protocols replace human intermediaries and governance is distributed among token holders, applying concepts like licensing, supervision, and customer due diligence becomes conceptually and practically difficult. The FATF has acknowledged these challenges and indicated that even decentralized finance platforms may have identifiable persons who maintain influence or control sufficient to trigger regulatory obligations (FATF, 2023), but definitional uncertainties and enforcement challenges remain substantial.

## Conclusion

This comparative analysis of FATF standards and their implementation in Uzbekistan reveals a complex landscape of international crypto-asset regulation characterized by ambitious normative frameworks, soft law governance mechanisms, and significant implementation challenges in emerging regulatory systems. The research demonstrates that FATF has successfully established comprehensive standards for virtual assets that have achieved substantial global influence despite their non-binding legal character. Through mechanisms including mutual evaluations, peer pressure, and reputational incentives, FATF recommendations have effectively shaped national regulatory approaches worldwide. However, the analysis also identifies significant tensions between universal international standards and local implementation contexts. Uzbekistan's experience illustrates how countries with developing institutional capacity face substantial challenges in fully operationalizing FATF's

risk-based approach and implementing technically complex requirements like the travel rule. While Uzbekistan has made commendable progress in establishing foundational legal frameworks for crypto-assets, gaps remain in comprehensive virtual asset service provider coverage, risk assessment methodologies, inter-agency coordination, and supervisory capacity. The findings suggest several policy recommendations for enhancing Uzbekistan's alignment with international standards. First, authorities should prioritize full implementation of the travel rule through adoption of emerging technical solutions and participation in international information-sharing networks. Second, regulatory frameworks should be expanded to explicitly cover emerging crypto-asset categories including stablecoins, non-fungible tokens, and decentralized finance protocols. Third, inter-agency coordination mechanisms should be strengthened through formal coordination councils and integrated information systems. Fourth, regulatory capacity should be enhanced through sustained investments in staff training and international cooperation arrangements. As crypto-assets continue evolving and their integration into mainstream financial systems deepens, the importance of effective regulatory frameworks aligned with international standards will only increase. The challenge for jurisdictions like Uzbekistan lies in achieving this alignment while fostering innovation, promoting economic development, and building institutional capacity over time.

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