DECISION • COMPLIANCE • CONTROL

KYT AND COUNTERPARTY RISK

Can you identify, assess and monitor the risks in your stablecoin transactions?

AN ACCEPTABLE TRANSACTION MUST BE DECIDED — NOT ASSUMED

01 IDENTIFY

The counterparty, wallet and transaction

02 ASSESS

On-chain signals and off-chain information

03 DECIDE

Accept, enhance, suspend or decline

PROPORTIONATE • EXPLAINABLE • DOCUMENTED DECISION

THE JOURNEY

SUMMARY

Understand the risk,
assess the actors,
then decide.

IDENTIFY
↓
ASSESS
↓
DECIDE

A CONFIRMED TRANSACTION IS NOT NECESSARILY ACCEPTABLE

The blockchain confirms that a transfer was recorded on a network. The business must still understand the transaction, identify the parties and assess the risks that apply to it.[1 2 3]

WHAT THE NETWORK CONFIRMS

01 The token and network used

02 The addresses, amount and time

03 The transaction ID and status

≠

IS NOT ENOUGH TO

WHAT THE BUSINESS MUST ESTABLISH

A Who actually controls the wallet?

B Why is the transaction taking place?

C Is there a sanctions or risk indicator?

D Are the stablecoin, provider and network approved?

WHAT LEADERS SHOULD REMEMBER

Confirming the transaction is only the start of the review — never its conclusion.

SOURCES

[1] European Union, Regulation (EU) 2023/1113, 31 May 2023 • [2] FATF, Virtual Assets Red Flag Indicators, Sept. 2020
[3] OFAC, Sanctions Compliance Guidance for the Virtual Currency Industry, 15 Oct. 2021

RISK SPANS SIX LAYERS — NOT A SINGLE WALLET

Framework proposed by this guide: assess the legal actors and technical path end to end.[1 2 3]

LEGAL ACTORS

01 ISSUER
Status, reserves, redemption, freeze

02 PROVIDER
Entity, authorisation, custody, withdrawals

03 COUNTERPARTY
Identity, activity, jurisdiction, transaction

TRANSACTION
IN STABLECOIN

TECHNICAL PATH

04 WALLET
Controller, custody model, relevant history

05 NETWORK
Official token, contract, finality, technical risks

06 INTERMEDIARIES
Bridge, protocol, sub-custodian, liquidity

WHAT LEADERS SHOULD REMEMBER A strong link does not offset a weakness elsewhere in the chain.

SOURCES
[1] European Union, MiCA Regulation (EU) 2023/1114, 31 May 2023 • [2] European Union, Regulation (EU) 2023/1113, 31 May 2023
[3] FATF, Understanding and Mitigating the Risks of Offshore VASPs, 11 Mar. 2026

KYT INFORMS THE DECISION — IT DOES NOT MAKE IT

A KYT result is a set of observations, labels and signals that require context — not a verdict.[1 2 3]

WHAT KYT CAN HELP OBSERVE

01	**The visible path**	Addresses, amounts, dates, network and interactions
02	**Flagged links**	Services or addresses identified in the selected dataset
03	**Behaviour patterns**	Structuring, speed, circularity or profile changes
04	**Estimated exposure**	Direct or indirect, depending on method and tracing depth

WHAT IT CANNOT ESTABLISH ON ITS OWN

A	**Legal identity**	A wallet alone does not establish who actually controls it
B	**Economic purpose**	Purpose, contract and economic origin remain off-chain
C	**Legal classification**	A label or score determines neither legality nor suspicion
D	**Absence of risk**	No alert does not mean that all risks are ruled out

WHAT LEADERS SHOULD REMEMBER

ALERT ≠ SUSPICION ≠ EVIDENCE ≠ DECISION

SOURCES

[1] FATF, Virtual Assets Red Flag Indicators, Sept. 2020 • [2] OFAC, FAQ 594, digital address searches, 18 May 2021
[3] OFAC, FAQ 562, addresses linked to blocked persons, accessed 21 Aug. 2026

A RED FLAG TRIGGERS ANALYSIS — NOT A CONCLUSION

Its significance depends on the source, recency, intensity and transaction context.[1 2 3]

PRIORITISE THE SIGNALS

01 IMMEDIATE VERIFICATION

- Exact match against a sanctions list
- Documented origin: theft, ransomware or hack

02 ENHANCED REVIEW

- Mixers, anonymisation tools or opacity-enhancing assets
- Bridges, rapid chain hopping or significant indirect exposure

03 CONTEXTUAL REVIEW

- Amount, frequency or path with no apparent economic rationale
- Late wallet change, unusual behaviour or insufficient information

HANDLE THE SIGNAL

01 **DETECT**
Assess the source

02 **VERIFY**
Confirm the facts

03 **CONTEXTUALISE**
Link to the transaction

04 **DOCUMENT**
Retain the analysis

05 **DECIDE**
Apply the response

WHAT LEADERS SHOULD REMEMBER

Severity never depends on a keyword or isolated score.

SOURCES

[1] FATF, Virtual Assets Red Flag Indicators, 14 Sept. 2020 • [2] FATF, Countering Ransomware Financing, Mar. 2023
[3] EBA, Guidelines on ML/TF Risk Factors, 16 Jan. 2024

THE TRANSACTION IS ONLY AS STRONG AS EACH LINK IN THE CHAIN

Assessing a wallet is not enough: the business must examine the issuer, stablecoin, provider and intermediaries actually involved.[1 2 3 4]

01 ISSUER

- ✓ Entity and status verified
- ✓ Reserves and disclosures reviewed
- ✓ Redemption, freeze and insolvency understood

Legal and redemption risk

02 STABLECOIN

- ✓ Official token and networks confirmed
- ✓ Rights and restrictions identified
- ✓ Liquidity, depeg and bridge risks assessed

Product and liquidity risk

03 PROVIDER

- ✓ Entity, licence and jurisdiction verified
- ✓ Custody, withdrawals and sub-custodians understood
- ✓ Incidents, limits and continuity assessed

Operational and custody risk

04 INTERMEDIARIES

- ✓ Banks, bridges and protocols identified
- ✓ Outsourcing and concentration mapped
- ✓ Jurisdictions and remedies identified

Chain and dependency risk

WHAT LEADERS SHOULD REMEMBER The final decision must reflect the weakest link — not the average control result.

SOURCES

[1] EU, MiCA Regulation (EU) 2023/1114, 31 May 2023 • [2] EBA, ML/TF Risk Factors for CASPs, 16 Jan. 2024
[3] FATF, Stablecoins and Unhosted Wallets, 3 Mar. 2026 • [4] FATF, Offshore VASPs, 11 Mar. 2026

A SOUND DECISION IS A PROCESS — NOT A SCORE

The method must combine reliable information, proportionate analysis, human approval and reassessment over time.[1 2 3]

01 SCOPE
Purpose, amount, parties, jurisdictions and urgency

02 COLLECT
Identities, wallets, token, network and providers

03 VERIFY
Statuses, lists, token contract and available evidence

04 ASSESS
On-chain and off-chain risks, direct and indirect

05 DECIDE
Action, conditions, approver and rationale

06 MONITOR
Execution, alerts, changes and periodic review

POSSIBLE RESPONSES	ACCEPT	ENHANCE	SUSPEND	DECLINE

WHAT LEADERS SHOULD REMEMBER

Thresholds, exceptions and approval levels must be defined before the transaction.

SOURCES

[1] FATF, Risk-Based Approach to Virtual Assets and VASPs, 28 Oct. 2021 • [2] EBA, ML/TF Risk Factors for CASPs, 16 Jan. 2024
[3] European Union, Regulation (EU) 2023/1113, 31 May 2023

A CONTROLLED TRANSACTION IS REVIEWED BEFORE, DURING AND AFTER

The checklist must follow the actual transaction, produce evidence and require escalation when essential information is missing.[1 2 3]

01 BEFORE
Authorise the transaction

- ✓ Counterparty and beneficiary identified
- ✓ Wallet, token and network confirmed
- ✓ Issuer and providers assessed
- ✓ Amount, purpose and jurisdictions approved

02 DURING
Secure execution

- ✓ Address and network checked again
- ✓ KYT signals reviewed at transfer time
- ✓ Dual approval applied where required
- ✓ ID, time, amount and fees captured

03 AFTER
Close and monitor

- ✓ Receipt and economic outcome confirmed
- ✓ Differences and alerts analysed and documented
- ✓ Decision and evidence archived
- ✓ Reassessment triggered when circumstances change

! **ESCALATE UNDER INTERNAL POLICY**

Potential sanctions match • unconfirmed identity or wallet • contradictory information • unexplained serious signal • execution incident

SOURCES

[1] European Union, Regulation (EU) 2023/1113, 31 May 2023 • [2] FATF, Risk-Based Approach to Virtual Assets and VASPs, 28 Oct. 2021
[3] EBA, ML/TF Risk Factors for CASPs, 16 Jan. 2024

KYT DOES NOT ELIMINATE RISK — IT MAKES THE DECISION DEFENSIBLE

The business must be able to explain what it knew, what it verified, who decided and why.[1 2 3]

01 **IDENTIFIED**

Parties, wallets, token, network and providers

02 **UNDERSTOOD**

Economic purpose, flow of funds and context

DECISION

ACCEPTABLE AND EXPLAINABLE

As at the decision date

03 **PROPORTIONATE**

Response aligned with the nature and intensity of risk

04 **DOCUMENTED**

Sources, analysis, decision, approver and evidence

IF ONE CONDITION IS MISSING, THE DECISION IS NOT COMPLETE.

SOURCES

[1] FATF, Seventh Targeted Update on Virtual Assets/VASPs, 16 Jul. 2026 • [2] FATF, Stablecoins and Unhosted Wallets, 3 Mar. 2026
[3] European Union, Regulation (EU) 2023/1113, 31 May 2023