

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

03

Why a valid transaction
may still be unacceptable

04

Counterparties and risks
to assess end to end

05

What KYT can establish
— and what it cannot

06

Red flags linked to
wallets and transactions

07

Assess the issuer, stablecoin,
provider and intermediaries

08

A risk-based assessment
and decision method

09

The checklist before, during
and after the transaction

10

Conclusion: a proportionate,
documented decision

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}



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

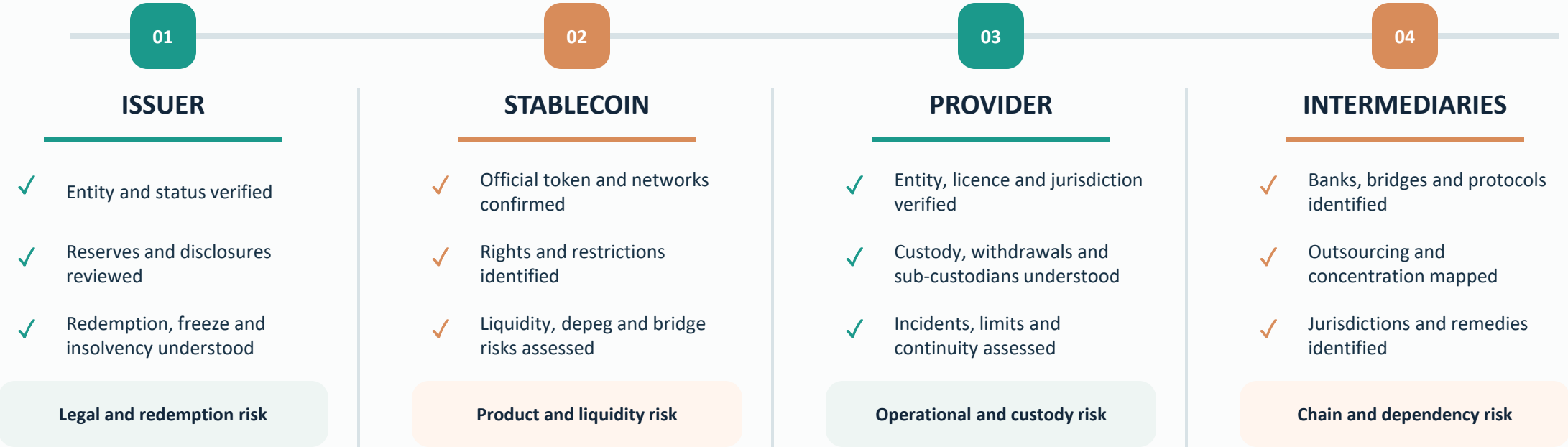
WHAT LEADERS SHOULD REMEMBER

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}



WHAT LEADERS SHOULD REMEMBER

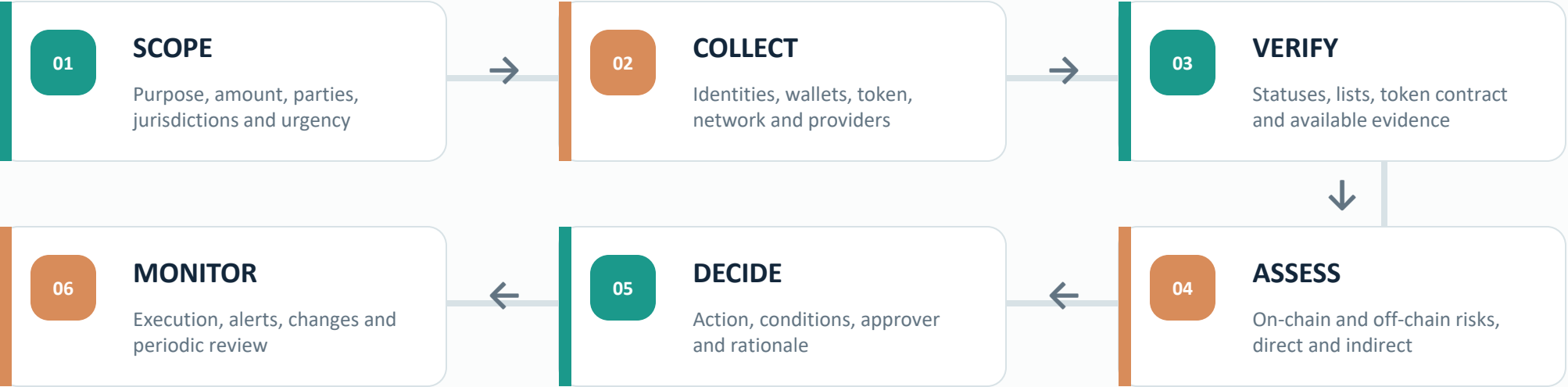
The final decision must reflect the weakest link — not the average control result.

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}



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

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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}



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