

THE LEGAL CHALLENGE OF CRYPTO-ASSETS: RECOGNITION PROBLEMS WITHIN INTERNATIONAL CRIMINAL LAW AND UZBEKISTAN'S REGULATORY RESPONSE**Muxtorov Rahmiddin**

Postgraduate student at TSUL

Annotation (Abstract): The emergence of crypto-assets represents a significant challenge to the global financial system, primarily due to the lack of uniform international legal recognition. This regulatory fragmentation creates systemic vulnerabilities that impede effective transnational counter-measures within the framework of International Criminal Law (ICL), particularly concerning Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) and cross-border asset recovery. This thesis analyzes the mechanisms through which crypto-assets facilitate money laundering (ML), including the use of stablecoins, DeFi protocols, and obfuscation techniques (mixers, chain hopping), accelerating the Layering phase. The paper contrasts the rapid, borderless nature of crypto crime with the slow, bureaucratic pace of traditional legal cooperation (MLATs). While Uzbekistan has achieved significant success in technical compliance with FATF Recommendation 15 (R.15) through the centralized regulation by the National Agency for Prospective Projects (ILMA), critical operational gaps remain, notably the need for institutionalizing real-time international cooperation and integrating rapid asset freezing protocols into bilateral ICL mechanisms. The study concludes with strategic recommendations aimed at enhancing global operational effectiveness against transnational crypto crime.

Keywords: Crypto-Assets, International Criminal Law, Money Laundering (ML), FATF, Regulatory Arbitrage, Asset Recovery, ILMA, Uzbekistan, Virtual Asset Service Providers (VASP).

Introduction

The rise of decentralized digital assets, such as Bitcoin and Ethereum, has transformed global finance, simultaneously creating technological opportunities and profound legal challenges. These assets' inherent characteristics—decentralization, rapid cross-border movement, and anonymity—make them potent instruments for transnational organized crime and terrorism financing. The core conflict addressed by this study is the systemic failure of international criminal law to adapt to the speed and borderlessness of blockchain technology, primarily stemming from the divergence in national legal classifications of crypto-assets (as currency, security, or property). This fragmentation leads to "regulatory arbitrage," allowing criminals to exploit jurisdictions with lax AML/CFT standards. This thesis will explore the key legal, operational, and technological hurdles facing effective ICL enforcement in the crypto domain and evaluate the comprehensive regulatory response and practical effectiveness achieved by the Republic of Uzbekistan.

Main Part

The absence of a unified global legal status for crypto-assets directly undermines the application of global AML/CFT standards, particularly those mandated by the Financial Action Task Force (FATF). When virtual assets (VAs) are not recognized as financial instruments, the ability to impose AML duties on Virtual Asset Service Providers (VASPs) is compromised. This divergent classification fuels

regulatory arbitrage, where criminals shift funds through VASPs outside stringent regulatory oversight. Investigating cross-border crypto crime is further complicated by the jurisdictional challenge, as nodes and transactions span multiple legal frameworks, making the determination of applicable law (e.g., over a non-physical ledger) inherently difficult. The slow bureaucratic nature of Mutual Legal Assistance Treaties (MLATs) contrasts sharply with the speed of asset movement, creating a systemic weakness in international asset recovery (Confiscation and Asset Recovery) efforts.

Crypto-assets expedite and obscure the traditional three stages of money laundering (Placement, Layering, and Integration). The ease of creating new crypto addresses bypasses traditional Placement barriers (like bank reporting thresholds). Stablecoins, rather than volatile assets like Bitcoin, now dominate illicit flows, favoring stability and rapid high-value movement during the Layering phase. Layering is made highly complex by technological tools:

- **Mixers/Tumblers:** Centralized and decentralized services blend funds from multiple users, disrupting the audit trail (with nearly 10% of illicit funds passing through mixers in 2022).
- **Chain Hopping:** Switching assets between different blockchains (often via cross-chain bridges or DEXs) fragments the transaction data across distinct technological and legal jurisdictions.
- **DeFi and NFTs:** Decentralized Finance (DeFi) protocols and Non-Fungible Tokens (NFTs) present significant new risks, bypassing traditional KYC/CDD requirements and enabling techniques like **Self-Laundering**, where criminals buy and re-sell NFTs to themselves to generate a 'clean' transaction history.

Uzbekistan has demonstrated strong commitment to meeting international standards, achieving a "Largely Compliant (LC)" rating for FATF R.15 (VASP regulation) in its Eurasian Group (EAG) mutual evaluations. The country's regulatory framework, overseen by the National Agency for Prospective Projects (ILMA), centralizes VASP licensing and AML/CFT compliance, restricting domestic crypto trading exclusively to licensed local providers. This strategy, while mitigating domestic risk, may push activity toward unregulated channels (P2P, foreign VPN access). Key procedural strides include the 2024 joint decree establishing detailed procedures for the rapid seizure, arrest, and storage of crypto-assets during investigation and prosecution. However, despite technical compliance success, *operational effectiveness* remains the critical challenge. A significant institutional limitation is the incomplete integration of the Financial Intelligence Unit (MRB, under the General Prosecutor's Department) into key global operational intelligence networks like the Egmont Group, which restricts the speed of real-time P2P data sharing crucial for trans-border crypto crime investigation.

Conclusion

Crypto-enabled money laundering poses a systemic, transnational risk that demands rapid and globally coordinated ICL responses. Uzbekistan has established a robust foundation, achieving strong technical compliance with FATF standards and creating the necessary domestic procedural mechanisms for asset freezing. Nevertheless, the speed disparity between transnational crime and judicial cooperation remains the primary Achilles' heel. To elevate the national system's effectiveness within the ICL context, strategic enhancements are imperative. This study recommends: (1) **International Protocol Integration:** Actively promoting the inclusion of specific, binding protocols for *urgent freezing and confiscation* of crypto-assets into bilateral MLATs. (2) **Universal VASP Accountability:** Advocating

internationally for universal ICL mechanisms capable of enforcing minimal global AML/CFT standards against unlicensed foreign VASPs, eliminating jurisdictional safe havens. (3) **Capacity Building:** Institutionally investing in advanced crypto forensics tools and specialized human capital, while formalizing fast, real-time intelligence sharing channels between ILMA, MRB, and international partners (INTERPOL/Egmont Group) to match the velocity of illicit crypto flows.

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