

Avoiding the 'Shadow VASP' Risk

Identifying and Preventing Non-Compliant Structures in the Crypto Licensing Landscape

Executive Summary

In the rapidly evolving regulatory climate for virtual assets, the term “Shadow VASP” has emerged to describe entities that functionally offer VASP services without holding a valid license, falling outside the scope of registration or oversight. These structures are legally precarious and pose serious enforcement, banking, and criminal liability risks—particularly when servicing retail clients, managing custody, or facilitating fiat-crypto transactions.

HPT Group works with top-tier legal and regulatory partners to help ensure that clients avoid accidental “shadow operations,” structuring their digital asset businesses in a fully compliant, transparent, and license-ready manner.

What Is a ‘Shadow VASP’?

A Shadow VASP refers to an entity that:

- Performs regulated crypto activities (e.g., exchange, wallet custody, ICOs, OTC brokerage, token issuance)
- Without registering as a VASP, MSB, EMI, or equivalent with relevant national authority
- Relies on shell entities, nominee directors, or non-licensed platforms to obscure real activity

Such a setup often fails FATF compliance requirements, violates local AML laws, and creates unlicensed money transmission or securities risks.

Common Shadow VASP Traps

Trap	Risk Created
Using an offshore company without a VASP license	Breach of local AML rules, tax evasion suspicion
Operating as a crypto custodian without approval	Criminal exposure in MiCA, UK FCA, or U.S. FinCEN jurisdictions
Issuing tokens via “marketing agency” shell	Illegal offering of securities or unlicensed ICO/IEO
Structuring OTC brokerage without license	Triggers MSB or broker-dealer status (e.g., Canada, U.S., Singapore)
Using another firm’s license via API white-label	“Regulatory piggybacking” — often disallowed or considered unlawful outsourcing
Holding user funds without safeguarding rules	Violates PSD2/EMD2, exposes to theft and liability claims
Claiming “consultancy only” status	Substance over form test applied — regulators look at actual activity, not labels

Red Flags That Banks and Regulators Detect

- No named compliance officer or MLRO on staff
- No license number on website or public documentation
- Use of prepaid or pooled wallets instead of client-segregated wallets
- Inability to provide source of funds trail for clients
- Non-standard jurisdictions used to avoid transparency (e.g., shell IBCs in blacklisted countries)
- Frequent changes of domain, director, or corporate identity
- Customer onboarding outsourced to third-party firms without contractual clarity

Consequences of Being Deemed a Shadow VASP

- Account terminations, blacklisting from IBAN or PSP providers
- Seizure of funds by financial intelligence units (FIUs)
- Retroactive tax investigations and sanctions
- Loss of investor confidence and capital freeze
- Ineligibility for institutional banking or token listing
- Criminal prosecution for operating an unlicensed financial service

How HPT Ensures You Are Not a Shadow VASP

HPT Group offers structured compliance assistance and regulatory roadmapping, including:

- Jurisdictional analysis of whether your business model requires licensing
- Entity restructuring to ensure operations are run through registered VASPs, MSBs, or EMLs
- Full compliance documentation packs (AML policy, risk matrix, transaction monitoring)
- Guidance on token issuance, exchange setup, custody, and treasury management
- Coordination with regulators for sandbox access or pre-approval letters
- Bank introductions only after full compliance and licensing alignment

Best Practices to Remain Fully Compliant

- Always operate under a licensed entity — even if through a partner structure
- Do not handle client funds or crypto unless you are explicitly licensed to do so
- Avoid misleading representations — never claim regulatory coverage you do not have
- Engage legal counsel before launching products or marketing campaigns
- Use independent AML audits to validate your framework before applying for bank accounts

Conclusion

The Shadow VASP risk is no longer theoretical. Global regulators, tax agencies, and financial institutions are actively detecting and dismantling non-compliant setups. What may appear as an efficient workaround can swiftly become a prosecutable offense. HPT offers the legal clarity, compliance structure, and jurisdictional alignment to ensure that your crypto operation remains on solid regulatory ground.

HPT Group — The Regulatory Firewall for Crypto Enterprises.