

A08: Regulatory Compliance Simulation

You Are the Chief Compliance Officer

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Learning Objectives

- Apply regulatory frameworks (MiCA, FATF, SEC) to real scenarios
- Make compliance decisions: Approve, Flag, or Reject
- Justify decisions with specific regulatory citations
- Assess risk levels and request appropriate information

Assignment Details

- Time: 60 minutes
- Format: Individual or pairs
- Difficulty: Medium
- Points: 50 (+15 bonus)

Your Role

You are the CCO of CryptoSecure Exchange, licensed under EU MiCA and US FinCEN. Every decision you make has legal consequences.

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EU Frameworks

- **MiCA** (Markets in Crypto-Assets): EU-wide crypto regulation
- **FATF Travel Rule**: Sender/receiver info for transfers > threshold
- **KYC/AML**: Know Your Customer, Anti-Money Laundering

US Frameworks

- **SEC**: Securities regulation (Howey Test)
- **CFTC**: Commodities and derivatives
- **FinCEN**: Financial crimes, suspicious activity reports

When in Doubt

If a transaction looks suspicious but you're not sure, the correct answer is almost always **Flag** (not Approve or Reject). Flagging triggers additional review without blocking legitimate business.

Decision Options

- **Approve**: Transaction is compliant, proceed
- **Flag**: Suspicious, needs additional review/information
- **Reject**: Clear regulatory violation, block transaction

Timeline

- 1 Read instructions and regulatory guide (0–5 min)
- 2 Review 5 required scenarios (5–45 min):
 - Read each scenario card carefully
 - Make your compliance decision (Approve / Flag / Reject)
 - Cite specific regulations that justify your decision
 - Note what additional information you would request
- 3 Optional: attempt bonus scenarios for +5 pts each, max +15 (45–50 min)
- 4 Prepare your 10-minute presentation (50–60 min)

Materials

- 10 scenario cards (5 required + 5 bonus)
- Regulatory guide reference sheet
- Decision worksheet

Grading Breakdown

- Regulatory citations: 15 pts
- Decision quality: 15 pts
- Information requests: 10 pts
- Risk assessment: 5 pts
- Presentation: 5 pts
- Bonus: +5 per extra scenario (max +15)

Decision Framework

- 1 Read the scenario carefully — identify the transaction type
- 2 Ask: Which regulations apply? (MiCA? FATF? SEC?)
- 3 Check: Is there sufficient KYC information?
- 4 Assess: What is the risk level? (Low / Medium / High)
- 5 Decide: Approve, Flag, or Reject
- 6 Justify: Cite the specific regulation or rule
- 7 Request: What additional information would help?

Common Scenarios

- Large cross-border transfer (FATF Travel Rule)
- Token offering (SEC Howey Test)
- Suspicious transaction patterns (AML/SAR)
- Stablecoin issuance (MiCA requirements)
- Privacy coin usage (enhanced due diligence)

Tip

- The regulatory guide has the specific rules. Reference it for every decision — don't rely on memory.

Presentation Structure

- ① For each of your 5 scenarios:
 - State your decision (Approve / Flag / Reject)
 - Cite the regulation that justifies it
 - Explain your risk assessment
 - Describe what additional info you'd request
- ② Reflect: Which scenario was hardest and why?
- ③ Discuss: How do you balance compliance with user experience?

Strong Answer Example

- “I flagged Scenario 3 under FATF Travel Rule because the transfer exceeds \$1,000 and lacks receiver identification. I would request the receiver’s full name, address, and account number before proceeding.”

Deliverables

- Completed decision worksheet (5+ scenarios)
- 10-minute presentation with regulatory citations

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Why Compliance Matters

- Binance: \$4.3B fine for AML violations (2023)
- FTX: Collapse partly due to compliance failures
- Tornado Cash: Sanctioned by OFAC (2022)
- Ripple vs. SEC: Years of litigation over token classification

The Compliance Officer's Dilemma

- Too strict: lose customers to competitors
- Too lenient: face fines, lose license, prison
- The art: protect the business while following the law

Career Relevance

Crypto compliance is one of the fastest-growing career fields. Every exchange, DeFi protocol, and crypto fund needs compliance expertise.

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Decision Tips

- Always cite a specific regulation (not just “it seems suspicious”)
- Consider jurisdictional differences (EU vs. US rules)
- When in doubt, Flag rather than Approve
- Document your reasoning thoroughly
- Consider both the transaction and the pattern

Common Mistakes

- Approving without checking KYC status
- Rejecting without regulatory basis
- Ignoring cross-border implications
- Failing to request additional information
- Not considering the source of funds

The Golden Rule

Every decision must be defensible in court. If you can't explain *why* with a regulation citation, reconsider.

Assignment Page

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All Assignments

digital-ai-finance.github.io/crypto-economics/assignments/index.html

Read your regulatory guide and start reviewing scenarios!

You have 60 minutes: 5 min reading, 40 min scenarios, 15 min preparation and presentation.

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