

NY AML Rules Get Crypto Rebrand: What It Means For Banks

By **Katherine Lemire** (October 8, 2025)

The New York State Department of Financial Services last month issued an industry letter to New York-licensed banks intersecting with crypto markets.[1] The guidance, in a nutshell, suggests that banks use blockchain analytics in connection with the following activities:

- Screening wallets of customers who have engaged in crypto transactions to assess risk exposure;
- "Verifying the source of incoming funds originating from virtual asset service providers," such as crypto exchanges and wallet providers;
- Observing the crypto ecosystem more broadly to assess customer exposure to illicit conduct such as money laundering and sanctions violations;
- Assessing the risk of third parties with which a customer has engaged, such as crypto exchanges and businesses offering trading and custodial services;
- Comparing a customer's expected transactional activity to actual activity;
- "Using intelligence gained from holistic monitoring" of the crypto ecosystem to refine the banks' risk strategy; and
- "Weighing the risks associated with a crypto product or service to be offered."



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The guidance is quick to point out that the list is not intended to be exhaustive, underscoring there may be more ways to employ blockchain analytics.

What is the function of blockchain analytics? In simple terms, blockchain analytics are a tool used to review wallet addresses, transactions, and patterns on blockchains to trace the flow of funds and identify suspicious activity. Blockchain analytics are used to detect money laundering and other financial crimes, and can be used to bolster know-your-customer and other anti-money laundering defenses.

Law enforcement agencies have used blockchain analytics for years to trace illicit funds, link crypto wallet addresses to criminal enterprises and gather evidence for criminal prosecutions.

The industry letter follows on the heels of guidance issued in April 2022 setting forth best practices and expectations for holders of NYDFS-issued BitLicenses. Through this new guidance, the NYDFS extends the April 2022 guidance to New York banks.

The bottom line conveyed by the NYDFS is that banks should be aware of risks posed by crypto activity, and that banks should tailor safeguards and use up-to-date tech solutions to address those risks.

At a high level, the guidance appears to be a regulatory reminder that banks have a key role to play in keeping the financial system safe, and crypto activity is no exception.

Crypto Repackaging of New York's AML Rules

The guidance could be interpreted as a crypto repackaging of New York's AML rules. Already, New York-licensed banks are required to maintain an effective AML program,[2] operate in a safe and sound manner,[3] and maintain an adequate transaction monitoring system.[4]

The NYDFS industry letter appears to be a simple underscoring of existing AML rules with a reminder that a particular tool — blockchain analytics — is a means to ensure compliance with those rules.

New York has already made clear that crypto exchanges that fail to meet New York AML standards will be penalized. Both Coinbase and Robinhood paid heavy fines in recent years for failing to meet New York AML standards required of all New York BitLicense holders.

AML requirements for BitLicense holders include those applied to banks, such as maintaining an effective transaction monitoring program[5] and maintaining a compliant Bank Secrecy Act/AML program.[6]

New York Tightens as Feds Loosen

The guidance comes several years after the NYDFS announced that all New York-licensed banking organizations should seek prior approval before engaging in new crypto-related activity. That announcement, which came within weeks of the collapse of FTX in 2022, remains in effect. The September letter points to the 2022 guidance reminding banks that "they are expected to seek approval from the Department before engaging in new or significantly different virtual currency-related activity." [7]

In contrast to New York, federal regulators have loosened requirements for banks engaging in crypto activity. In March 2025, the Federal Deposit Insurance Corp. reversed itself and allowed FDIC-supervised banks to engage in permissible crypto-related activity without prior FDIC approval.

In parallel with the FDIC reversal, the Office of the Comptroller of the Currency rescinded prior instructions to banks requiring OCC approval before banks engaged in cryptocurrency activities.

These activities, for which the OCC previously required approval, included custody services, facilitating stablecoin payments and holding stablecoin reserves.

As with the FDIC, such approval is no longer required by the OCC. Loosening of federal requirements may be the reason that corporate cousins of several NYDFS-issued BitLicensees have applied for OCC bank charters and conversions to national banks, including BitGo, Ripple and Fidelity Digital Assets.

Is the Guidance Binding?

New York-regulated banks may view the NYDFS guidance as less weighty than a regulation or law. After all, "guidance" is just that — guidance — and is therefore advisory in nature.

At the same time, financial institutions could benefit from casting a critical eye over their AML policies and ensuring those policies are sufficiently robust as crypto enters established

banking institutions.

In addition, the payoffs for following NYDFS guidance could be real, and serve as mitigation in a future NYDFS enforcement action.

For example, another recently revised NYDFS regulation noted that in assessing penalties, the NYDFS will take into account "the relevant policies and procedures" of the company, as well as "good faith" efforts, and "such other matters as justice and the public interest require." [8]

In sum, by taking to heart the NYDFS guidance today, a bank could mitigate penalties tomorrow.

Where From Here?

In future enforcement actions against banks engaged in crypto activity, expect to see a focus on blockchain analytics. More specifically, expect to see a focus on failure to utilize blockchain analytics in AML-related enforcement actions.

In sum, NYDFS enforcement staff could readily charge a bank with failing to maintain an effective AML program if the bank engages in crypto activity but does not include blockchain analysis among its AML tools.

Conversely, the NYDFS may give a pass to a bank employing blockchain analytics, even if the bank otherwise is found to have violated New York AML rules.

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[1] The Guidance is addressed to "Covered Institutions," which include all New York banking organizations, as well as all branches and agencies of foreign banking organizations licensed by NYDFS. New York banking organizations include banks, trust companies, safe deposit companies, credit unions, and investment companies. For the sake of brevity, this article uses the term "banks."

[2] 3 N.Y.C.R.R. § 116.2.

[3] N.Y. Banking Law § 44 and 3 N.Y.C.R.R. § 417.2.

[4] 3 N.Y.C.R.R. § 504.3.

[5] 23 NYCRR 200.15.

[6] 23 NYCRR § 504.3.

[7] Industry Letter Regarding Prior Approval for Covered Institutions' Virtual Currency-Related Activity, N.Y. State Dep't of Fin. Services (Dec. 15, 2022), https://www.dfs.ny.gov/system/files/documents/2025/04/il20221215_prior_approval_rev.pdf.

[8] 23 N.Y.C.R.R. 500.