

European Union's Travel Rule

Embracing Technology for the
Transfer of Funds Regulation

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21

ANALYTICS



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Introduction

On 20 April 2023, the EU Parliament approved its first piece of legislation for tracing transfers of crypto-assets, aiming to “ensure that crypto transfers can be traced and suspicious transactions blocked”¹.

The new Transfer of Funds Regulation (TFR) is a recast of Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds. It passed in the European Parliament, extending its scope to include Crypto Asset Service Providers (CASPs)², as prescribed by the Financial Action Task Force’s (FATF) [Recommendation 16](#), also known as the “travel rule”.

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1. Available at: [Crypto-assets: green light to new rules for tracing transfers in the EU | News | European Parliament \(europa.eu\)](#)
 2. Available at: [What is a CASP? \(21analytics.ch\)](#)



02

What is the “travel rule” about and where did it originate from?

The FATF’s Recommendation 16 and its interpretative note (INR. 16 - 2021) on “Wire Transfers” establishes that “countries should ensure that ordering institutions, whether a virtual asset service provider” ([VASP](#)) or other obliged entity such as a Financial Institution ([FI](#)), involved in a virtual asset ([VA](#)) transfer, obtain and hold required and accurate [originator](#) information and required beneficiary information and submit them to [beneficiary](#) institutions (whether a VASP or other obliged entity, such as a FI), if any. Furthermore, countries should ensure that beneficiary institutions obtain, and hold required originator information, as well as required and accurate beneficiary information”^{3,4}.

The Recommendation 16 is called “travel rule”, because the information on the source of the asset and its beneficiary will have to “travel” with the transaction and be stored on both sides of the transfer.

The “new” EU Transfer of Funds Regulation ([TFR](#)), that amends the Regulation (EU) 2015/847, translates the existing travel rule from traditional finance to crypto and harmonizes the Union’s approach while complying with the updated FATF’s standards on the prevention of money laundering and terrorism financing⁵.

3. FATF Recommendations (2012). Available at: [FATF Recommendations 2012.pdf.coredownload.inline.pdf \(fatf-gafi.org\)](#)

4. FATF (2021), Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers. Available at: [www.fatf-gafi.org/publications/fatfrecommendations/documents/Updated-Guidance-RBA-VA-VASP.html](#)

5. Amended EU TFR. Available at: [AM_Ple_LegConsolidated \(europa.eu\)](#)



03

Crypto-assets: green light to new rules for tracing transfers in the EU

A. Scope of the TFR

The new EU TFR applies to transfers of funds, that is: to banknotes and coins, scriptural money, and electronic money, as well as to transfers of virtual assets, where at least one of the payment service providers or crypto-asset service providers involved in the transfer of funds or transfer of crypto-assets is established or has its registered office, as applicable, in the Union⁶. It also applies to intermediary [CASPs](#), e.g., businesses that are not the originator's or beneficiary's CASP but receive and transmit a transfer of crypto-assets on behalf of one of these CASPs, or of another intermediary.

The scope of the TFR is extended to transfers executed by means of crypto-ATMs and self-hosted wallets when a Crypto-Asset Service Provider (CASP) is involved.

Relevant to note that the TFR does not apply to⁷:

- ▶ Cash transactions, paper cheques, electronic money tokens used for payment of goods and services with payment cards, electronic money, or mobile phones;
- ▶ Tax payments, fines, and other similar payments to a public authority within a Member State;

6. Amended EU TFR. Art. 1 and 2. Available at: [AM Ple LegConsolidated \(europa.eu\)](#)

7. Art. 2 para 3 and 4 EU TFR. Available at: [AM Ple LegConsolidated \(europa.eu\)](#)



Source: <https://www.21analytics.ch/european-union-travel-rule-guide/>

- ▶ Payment service providers acting on their own behalf (originator and the beneficiary are CASP), and
- ▶ Peer-to-peer (P2P) transactions when no CASP is involved.

B. TFR Thresholds

Even though the FATF recommends a threshold of USD/EUR 1 000 for observance of the travel rule, jurisdictions may decide on their specific minimum limits. The EU's TFR applies to any transfer of funds transactions in fiat and crypto currencies irrespective of the amount.

In regard to transfers involving CASPs and [self-hosted wallets](#), the EU TFR demands CASPs to collect the information on both the originator and the beneficiary, usually from their client. CASPs do not need to verify the self-hosted wallet owner data in transfers below EUR 1000 involving their customers and a self-hosted wallet. Above this threshold, CASPs must verify whether that self-hosted address is effectively owned (or controlled) by that client.

C. Required TFR information

Whenever financial institutions or CASPs transfer funds, the following information shall be obtained, held, and shared⁸:

- Originator's information: name; distributed ledger address and crypto-asset account number; address (including the country, official personal document number, and identification number, or alternatively, date and place of birth); and the Legal Entity Identifier (LEI) or other equivalent official identifier.
- Beneficiary's information: name; distributed ledger address and account number; LEI or other equivalent official identifier.

In cases of a transfer of crypto-assets, the crypto-asset service provider shall not allow the initiation or execution of any transfer before ensuring full compliance with the above requirements. In addition, the required information should be submitted in advance of, or simultaneously, or concurrently with the transfer, and in a secure manner.

Moreover, whenever a CASP is involved in a transfer of an amount exceeding EUR 1 000 to a self-hosted address, the crypto-asset service provider of the originator or of the beneficiary shall take adequate measures to assess whether that address is owned or controlled by their customer.

8. Art. 14 EU TFR. Available at: [AM Ple LegConsolidated \(europa.eu\)](#)

D. Data issues: data protection and missing/incomplete data

The processing of personal data under the TFR should take place in full compliance with General Data Protection Regulation ([GDPR](#)) and for the purposes of the prevention of money laundering and terrorist financing only. Further processing of personal data for commercial purposes should be strictly prohibited⁹.

Accordingly, whenever transferring crypto-assets on behalf of a client to a CASP that is not registered in the EU, the crypto-asset service provider of the originator should assess whether the crypto-asset service provider of the beneficiary could receive and retain the information in compliance with the GDPR¹⁰ (for instance, non-EU countries with an adequate level of data protection¹¹).

On the other hand, the crypto-asset service provider of the beneficiary shall implement effective procedures, including, where appropriate, monitoring after or during the transfers, in order to detect whether the required information on the originator and the beneficiary are included in the transfer¹².

In case of missing or incomplete data, the crypto-asset service provider of the beneficiary must implement effective risk-based procedures to determine whether to execute, reject, return or suspend a transfer lacking the required information and to take the appropriate follow-up action¹³. When the beneficiary CASP identifies an originator CASP that repeatedly fails to provide the required data, the beneficiary CASP shall take steps which may initially include the issuing of warnings and setting of deadlines, and ultimately terminate their business relationship.

E. Relevant dates and application of the TFR

The TFR adopted text was published in the EU Official Journal on 9 June 2023. On 29 June 2023, it entered into force and will be binding in full throughout the EU by 30 December 2024.

9. Art. 25, para 1 and 2 EU TFR. Available at: [AM_Ple_LegConsolidated \(europa.eu\)](#)

10. Arts. 44 - 50 GDPR. Available at: [REGULATION \(EU\) 2016/ 679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL - of 27 April 2016 - on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/ 46/ EC \(General Data Protection Regulation\) \(europa.eu\)](#)

11. The European Commission has so far recognized Andorra, Argentina, Canada (commercial organizations), Faroe Islands, Guernsey, Israel, Isle of Man, Japan, Jersey, New Zealand, Republic of Korea, Switzerland, the United Kingdom under the GDPR and the LED, and Uruguay as providing adequate protection. Available at: [Adequacy decisions \(europa.eu\)](#).

12. Art. 16 EU TFR. Available at: [AM_Ple_LegConsolidated \(europa.eu\)](#)

13. Art. 17 EU TFR. Available at: [AM_Ple_LegConsolidated \(europa.eu\)](#)



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What are the challenges and how can the virtual asset community cope with them?

A. Technical and new challenges

The EU TFR can be considered stricter than other countries' implementations of the travel rule as it, for example, sets no threshold, applying to any crypto transfer that involves an EU CASP. The global fragmentation of the rule creates technical challenges since counterparties in countries with more relaxed approaches to the travel rule (or with no implementation yet) might not collaborate to exchange the required data - amounting to the so-called sunrise issue.

The TFR also sets new counterparty due diligence requirements for CASPs, as they need to assess their counterparties' risk exposure and ability to safeguard personal identifiable information ([PII](#)), if located in third countries. In that case, EU CASPs must apply enhanced due diligence measures similar to those used in the context of banking when establishing new relationships with other entities.

B. Guidances to come

According to TFR provisions, crypto-asset service providers should also expect further guidance on data protection and the transfer of information, as well as transfers of funds or transfers of crypto-assets with missing or incomplete information on the payer.

The European Data Protection Board shall, after consulting the European Banking Association (EBA), issue guidelines on the practical implementation of data protection requirements for transfers of personal data to third countries in the context of transfers of crypto-assets.

Moreover, EBA shall issue guidelines on suitable procedures for determining whether to execute, reject, return or suspend a transfer of crypto-assets in cases where compliance with data protection requirements for the transfer of personal data to third countries cannot be ensured and the transfer has missing or incomplete information.

Therefore, crypto-asset service providers should be attentive to the specificities brought by the European implementation of the travel rule and make sure to promptly update its procedures according to the text of the law and respective guidances.

The travel rule will bring changes to any crypto product as new requirements arise for CASPs and their customers. However, understanding and coping with this shift may be challenging, and expert assistance brings efficiency.

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How can we support?

By leveraging EY's expertise in regulatory matters, CASPs can benefit from impact and gap assessments for their operations impacted by the recently implemented TFR. Additionally, EY can support updating policies and internal procedures in accordance with the new regulation. Moreover, EY can offer support in addressing various AML/CFT challenges, including the management of CASPs' both individual and corporate clients. Lastly, EY's legal managed services can be tailored to CASPs' specific requirements, aiding in the implementation of technology and data-driven processes aimed at cost control, enhanced risk mitigation, and business value delivery.

Through 21 Analytics' software solution, 21 Travel Rule, CASPs guarantee GDPR compliance through a multiprotocol solution that holds data on-premises. Its flexibility allows CASPs to transact with any counterparty, including self-hosted wallets seamlessly. For CASPs looking at implementing protocols, 21 Analytics' expert team supports integrating the open Travel Rule Protocol (TRP) standard.

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Connected links:

1. 21 Analytics – Travel Rule Regulation Guide European Union. Available at: <https://www.21analytics.ch/european-union-travel-rule-guide>
2. The FATF “travel rule” for VASPs that “travelled” to Switzerland with greater strictness. Available at: [The FATF “travel rule” for VASPs that “travelled” to Switzerland with greater strictness | EY Switzerland | Can you see through #differentEYes? \(newrealityblog.com\)](#)

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