



**ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY**

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*Lught-Reill Shirveishyn Argidoil Ellan Vannin*

**Consultation Paper**  
**Travel Rule (Transfer of Virtual Assets) Code**  
**2024**

**CP24-02**

**Issue Date: 4 March 2024**

**Closing Date: 15 April 2024**

## Consultation Paper – CP24-02

This Consultation Paper ('the Paper') is issued by the Isle of Man Financial Services Authority ('the Authority') in conjunction with the Department of Home Affairs ('DHA'). The Authority is the regulatory body for financial services in the Isle of Man and the oversight body for Designated Businesses ('Designated Business') in relation to compliance with Anti-Money Laundering ('AML') and Countering the Financing of Terrorism ('CFT') obligations.

The purpose of the consultation is to obtain views regarding the proposed introduction of a new code: the Travel Rule (Transfer of Virtual Assets) Code ('the Code'). The primary objective of the Code is to implement the expanded scope of the Financial Action Task Force's ('FATF') Recommendation 16<sup>1</sup> to ensure the Island's continued compliance with international standards.

The contents of this Paper are of importance to the Regulated and Designated Business sectors with specific relevance to entities engaged in Virtual Asset Trading and wider Virtual Asset Service Provider ('VASP') activity. Prior to this consultation being issued, the Authority sought feedback from relevant stakeholders which has been considered as part of the pre-consultation process.

The current term used for this sector on the Island is Convertible Virtual Currency ('CVC') activity. This term was adopted in 2015 prior to the wider development of international frameworks, which included standardised terminology. The terms 'virtual-assets' or 'VASPs' and 'crypto assets' or 'CASPs' have become more widely used and are terms used in many sectoral and regulatory proposals. For the purposes of this Paper the Authority will use the terms 'virtual-assets' or 'VASPs'<sup>2</sup>, unless context indicates otherwise.

The closing date for comments is **15 April 2024**.

This Paper has been published on the Authority's website. It has also been published on the Isle of Man Government's Engagement Hub<sup>3</sup> ('the Hub') where you can give your views by clicking on the 'Online Survey' link. Responses made outside of the 'Online Survey' can be submitted by email to [aml@iomfsa.im](mailto:aml@iomfsa.im) and, if in an attachment, preferably in an extractible format e.g. Microsoft Word document. Alternatively, you can submit responses by post to:

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**Isle of Man Financial Services Authority**

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<sup>1</sup> FATF Methodology for assessing technical compliance with the recommendations - <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>

<sup>2</sup> See consultation - *Designated Businesses (Amendment) Order 2024 and Proceeds of Crime (Business in the Regulated Sector) Order 2024* – where it is proposed that the sector terminology is updated across the Island's AML/CFT framework from CVC to VASP.

<sup>3</sup> <https://consult.gov.im>

### **Confidentiality and Data Protection**

The information you send may be published in full or in a summary of responses. All information in responses, including personal data, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2018) with which the Authority is obliged to comply. The Authority is registered with the Information Commissioner as a data controller under Isle of Man data protection legislation. It collects and processes personal data to carry out its functions under relevant legislation and may share personal data with other parties where there is a legal basis for doing so. Further information on how the Authority collects and processes personal data can be found in the Privacy Policy on the Authority's website: <https://www.iomfsa.im/terms-conditions/privacy-policy/>.

If you have a query in relation to how this consultation has been carried out, please contact the Authority's AML/CFT Division by email at [aml@iomfsa.im](mailto:aml@iomfsa.im) or by telephone on +44 1624 646000.

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## Glossary

<b>AML</b>	Anti-Money Laundering
<b>Authority</b>	Isle of Man Financial Services Authority
<b>CFT</b>	Countering the Financing of Terrorism
<b>Convertible Virtual Currency ('CVC') activity</b>	Issuing, transmitting, transferring, providing safe custody or storage of, administering, managing, lending, buying, selling, exchanging or otherwise trading or intermediating convertible virtual currencies, including crypto-currencies, virtual assets or similar concepts where the concept is accepted by persons as a means of payment of goods or services, a unit of account, a store of value or a commodity
<b>Designated Business</b>	Person registered with the Authority under the DBROA15
<b>DBROA15</b>	Designated Businesses (Registration and Oversight) Act 2015
<b>DHA</b>	Department of Home Affairs
<b>FATF</b>	Financial Action Task Force
<b>FSA08</b>	Financial Services Act 2008
<b>MONEYVAL</b>	MONEYVAL – monitoring body of the Council of Europe
<b>the Code</b>	Travel Rule (Transfer of Virtual Assets) Code 2024
<b>Virtual Asset</b>	refers to a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes. Virtual assets do not include digital representation of fiat currencies, securities, and other financial assets
<b>Virtual Asset Service Provider or 'VASP'</b>	means any natural or legal person who by way of business conducts one or more of the following activities or operations for or on behalf of another natural or legal person — <ul style="list-style-type: none"> <li>(a) exchange between virtual assets and fiat currencies;</li> <li>(b) exchange between one or more forms of virtual assets;</li> <li>(c) transfer of virtual assets;</li> <li>(d) safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; and</li> <li>(e) participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset</li> </ul>
<b>Virtual Asset Transfer</b>	means any transaction, on behalf of an originator, with a view to making a virtual asset available to a beneficiary, irrespective of whether the originator and the beneficiary are the same person

## 1. Executive Summary

### 1.1 Overview

Following the 2016 MONEYVAL Mutual Evaluation Report the Island achieved a partially compliant rating with the FATF's Recommendation 16 in respect of wire transfers. Since this time, Recommendation 16 has been expanded to include Virtual Asset Transfers, requiring certain information to travel with a Virtual Asset Transfer.

While the DHA has responsibility for the legislation being consulted upon, the task of introducing the proposed new Code has been delegated to the Authority due to its existing remit regarding AML/CFT oversight of the VASP sector. The ownership of the legislation will be noted throughout this Paper where necessary.

### 1.2 What is the purpose of this Consultation Paper?

The Authority, in conjunction with the DHA, proposes the establishment of a Travel Rule (Transfer of Virtual Assets) Code. The primary objective of the Code is to create a legislative framework to implement the expanded scope of FATF Recommendation 16.

Recommendation 16 was originally developed with the objective of preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds, and for detecting such misuse when it occurs. Specifically, it aims to ensure that basic information on the originator and beneficiary of wire transfers is immediately available to:

- (a) Law enforcement agencies;
- (b) Financial Intelligence Units; and
- (c) Ordering, intermediary and beneficiary financial institutions.

In 2019 the FATF expanded the scope of Recommendation 16 to include the requirement for wire transfer information to accompany transactions relating to Virtual Assets. This meant that it became a requirement for entities operating in the VASP sector to obtain unique originator and beneficiary customer information when processing a Virtual Asset Transfer.

With the VASP sector being less established than traditional money transmission services, the requirements and regulations that are commonplace in traditional financial services have not yet been widely embedded across the Virtual Asset industry. As such, there is currently no existing legislation on the Island which compels VASPs to provide the information required under Recommendation 16.

It is key that the Island's AML/CFT framework remains aligned with international standards and the introduction of this new legislation should help to achieve this from a technical compliance perspective. It is also of critical importance that the Code is operational as soon as practicable to reduce the risk of the Island's VASP sector being exploited for the purposes of money laundering, terrorist financing or financing the proliferation of weapons of mass destruction.

The Authority invites affected and interested parties to consider and provide comments on the proposed draft Code.

### 1.3 Who may be affected by this Consultation Paper?

This consultation paper is relevant to Designated Businesses and regulated entities, and specifically those engaged in trading Virtual Assets and conducting wider VASP activity.

## 2. Consultation Process

### 2.1 The Authority's regulatory objectives

The Authority's regulatory objectives are set out in section 2(2) of the FSA08 as —

- (a) securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;
- (b) the reduction of financial crime; and
- (c) the maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre.

The Authority is required to give consideration to certain factors when discharging its functions in accordance with paragraph 3 of Schedule 1 to the FSA08. The most relevant factors for this consultation are considered as follows:

Factor	Information
The need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden.	<p>The proposal will ensure the Island's supervisory and registration regimes are effective, proportionate and responsive to the rapidly evolving Virtual Asset sector.</p> <p>The implementation of the Code is essential for the Island to meet international requirements in respect of Virtual Asset Transfers.</p>
The need to safeguard the reputation of the Island.	The implementation of the Code will safeguard the reputation of the Island as a responsible financial centre by establishing a legislative framework to ensure compliance with international standards set by the FATF.
The desirability of implementing and applying recognised international standards.	The expanded scope of FATF Recommendation 16 introduces the requirement for jurisdictions to obtain unique originator and beneficiary

Factor	Information
	<p>information to accompany Virtual Asset Transfers.</p> <p>This proposal will ensure VASP activities taking place in, or from, the Island are underpinned by an effective legislative framework that is compliant with international standards.</p>

## 2.2 Responding to the Consultation Paper

Open dialogue with stakeholders is an essential element for successful development of the Authority's proposals. Constructive feedback will help the Authority reach an informed decision on the content of the proposals and manner of implementation. Respondents should note the following when responding to this Paper:

- Submissions received by the closing date of the consultation will be considered but may not necessarily result in a change to the proposals following a review of all responses received.
- Professional bodies, trade associations and other representative groups should provide a summary of the people and organisations they represent when responding to a consultation as well as the methodology used to gain members input.
- The Authority requests that submissions are not made anonymously as they will not be considered or included in the Feedback Statement.

A list of specific representative groups to which this Paper has been sent is shown in Appendix A.

## 3. Proposals

### 3.1 Travel Rule (Transfer of Virtual Assets) Code

It is proposed that a new Code is made under section 157 of the Proceeds of Crime Act 2008 and section 68 of the Terrorism and Other Crime (Financial Restrictions) Act 2014. The Code will be applicable only to those entities registered as VASPs (or CVC entities as they are currently known).

The purpose of the Code is to create a legal framework to implement the expanded scope of FATF Recommendation 16. This introduces the requirements for VASPs to obtain, and share, unique originator and beneficiary information when transferring Virtual Assets. The Code will compel entities undertaking VASP activity to comply with the information sharing requirements, and with this, firms must give consideration to their obligations under data protection requirements.



### FATF Recommendation 16 requires the following:

Originators of Virtual Asset Transfers must submit the following information to beneficiaries:

- Originator name;
- Account number (where this is being used to process the transaction);
- Physical address;
- National identity number, customer identification number or other unique identity number; and
- Date and place of birth.

Beneficiaries must submit the following information to originators:

- Beneficiary name; and
- Account number or virtual wallet number (where this is necessary to process the transaction).

Ultimately, the objective is to establish a framework compliant with international standards, and one that can robustly manage the money laundering, terrorist financing and proliferation financing risks facing the Island.

### **3.2 Travel Rule (Transfer of Virtual Assets) Code – Civil Penalty Regulations**

In due course, it is envisaged that a set of civil penalty regulations will sit alongside the Code. These regulations will allow civil penalties to be included as civil sanctions for non-compliance with the Code as an alternative to criminal sanctions. It is proposed that the penalties will be fixed monetary amounts per identified contravention.

There will be a separate consultation regarding the introduction of civil penalties in due course.

### **3.3 Proceeds of Crime (Compliance with International Standards) Order 2024**

The *Proceeds of Crime (Compliance with International Standards) Order 2024* will be made pursuant to section 222A(1) of POCA. This Order will amend section 157 of POCA and establish the legal provisions necessary to mandate the information sharing requirements of the Travel Rule Code.

### 3.4 Terrorism and Other Crime (Financial Restrictions)(Compliance with International Standards) Order 2024

The ***Terrorism and Other Crime (Financial Restrictions)(Compliance with International Standards) Order 2024*** will be made pursuant to section 69A(1) of TOCFRA. This Order will amend section 68 of TOCFRA and establish the legal provisions necessary to mandate the information sharing requirements of the Travel Rule Code.

## 4. Impact Assessment

This Code will primarily impact those entities operating in the Island's VASP sector. This piece of legislation is specifically designed to implement the requirements of FATF Recommendation 16 in respect of wire transfers for Virtual Assets. The cost associated with this from a system development perspective may have a disproportionate impact on smaller entities.

The sector is aware of these developments in respect of the Travel Rule as corresponding regulation was introduced in the UK on 1 September 2023.

## 5. Questions

### Question 1 (Required)

Name:

### Question 2

Please provide any comments you may have regarding the proposed introduction of the Travel Rule Code.

Response:

## **6. Next Steps**

Following closure of the consultation period, the Authority will review the responses received and publish a Feedback Statement on both the Authority's website and the Hub.

Subject to views expressed in response to the consultation, it is intended that the proposed legislative and procedural changes will come into effect in mid-2024.

## Appendix A – List of Groups to which this Consultation Paper has been sent

- Alliance of Isle of Man Compliance Professionals
- Association of Chartered Certificated Accountants (as oversight body)
- Association of Corporate Service Providers
- Chartered Institute for Securities and Investment (Isle of Man branch)
- The Department for Enterprise
- Digital Isle of Man
- Finance Isle of Man
- Financial Intelligence Unit
- Financial Planners & Insurance Brokers Association
- Gambling Supervision Commission
- Institute of Certified Bookkeepers (as oversight body)
- Institute of Chartered Accountants In England and Wales (as oversight body)
- Institute of Directors (Isle of Man branch)
- Institute of Financial Accountants (as oversight body)
- International Association of Bookkeepers (as oversight body)
- Isle of Man Wealth & Fund Services Association
- Association of Chartered Certified Accountants (Isle of Man branch)
- Isle of Man Association of Pension Scheme Providers
- Isle of Man Bankers Association
- Isle of Man Captive Association
- Isle of Man Chamber of Commerce
- Insurance Institute of the Isle of Man
- Isle of Man Law Society (as oversight body)
- Isle of Man Post Office
- Isle of Man Society of Chartered Accountants
- Isle of Man Insurance Association
- Society of Trust and Estate Practitioners (Isle of Man branch)
- The Treasury

**Appendix B - Draft Travel Rule (Transfer of Virtual Assets) Code  
2024**

**Appendix C - Draft Proceeds of Crime (Compliance with  
International Standards) Order 2024**

**Appendix D - Draft Terrorism and Other Crime (Financial  
Restrictions) (Compliance with International Standards) Order 2024**