Notification obligations regarding transfers of crypto-assets and electronic payment instruments (i.e. travel rules for crypto-assets/stablecoins)

In order to make it possible to trace transaction flows of crypto-assets ("VAs") and electronic payment instruments (i.e. stablecoins, "SCs"), notification obligations (i.e. travel rule) shall be imposed on **Crypto-asset Exchange Service Providers** and **Electronic Payment Instrument Exchange Service Providers** (hereinafter referred to as "VASP"). This obligation requires a originator VASP to notify the beneficiary VASP of originator and beneficiary information at the time of the transfer of VAs and SCs.

Originator VASP
Originator Account (wallet)

Notification of Originator/Beneficiary information

+

Transfer of VA/SC

Beneficiary VASP
Beneficiary Account (wallet)
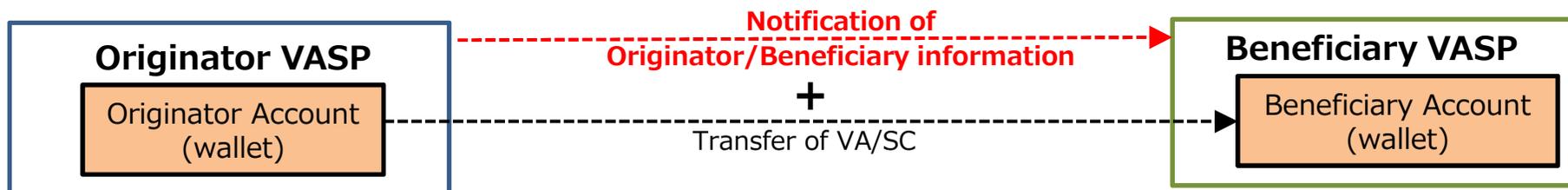
Covered Transfers [APTCP articles 10-3 and 10-5]

✓ Transfers to domestic VASPs and foreign VASPs (Note 1), but not applicable to transfer to individuals and unregistered VASPs.

✓ Includes all transfers, regardless of amount or VA/SC type (Note 2).

(Note 1) Foreign Crypto-Asset Exchange Service Provider and Foreign Electronic Payment Instrument Exchange Service Providers prescribed in the Payment Services Act.

(Note 2) Among SCs, the Specified trust beneficiary rights per defined in the Payment Services Act, because no transfer to a third party VASP will occur, are excluded.

Excluded Transfers [APTCP Order articles 17-2 and 17-3]

✓ Transfers to countries or regions where regulations corresponding to Japan's notification obligation have not been established shall be excluded. (Designation by Public Notice)

Mandatory items [APTCP Ordinance articles 31-4 and 31-7]

	Natural person	Legal person
Originator Information	(1) Name (2) Residential address or customer identification number, etc. (3) Blockchain address or an alphanumeric data by which the address can be identified	(1) Name (2) Location of head office or principal office or customer identification number, etc. (3) Blockchain address or an alphanumeric data by which the address can be identified
Beneficiary Information	(4) Name (5) Blockchain address or an alphanumeric data by which the address can be identified	(4) Name (5) Blockchain address or an alphanumeric data by which the address can be identified

## Record Retention [APTCP Ordinance article 24]

✓ VASPs must retain records of all information sent (notified) and received.

Risks and regulatory perimeter about an unhosted wallet

- "unhosted wallet"* may also receive crypto-assets and electronic payment instruments (i.e. stablecoins) and also be used for P2P transactions

- There are risks in transactions with unhosted wallets due to the anonymity of the unhosted wallet owner and the lack of restrictions by a regulated administrator. The FATF and other organizations have pointed out the need to take measures against those transactions; Japan is also considering taking measures.

  *An unhosted wallet is a wallet (account) that is not hosted (managed) by a business operator.

This is a transaction between individuals without a VASP involved. As the VASP is not involved in the transaction, it is difficult for the VASP to see it.

[No travel rules]

P2P Transactions

unhosted wallet		unhosted wallet

VASP

| Japanese VASP		Japanese VASP
Foreign VASP		Foreign VASP

[Travel rules]

Fiat currency
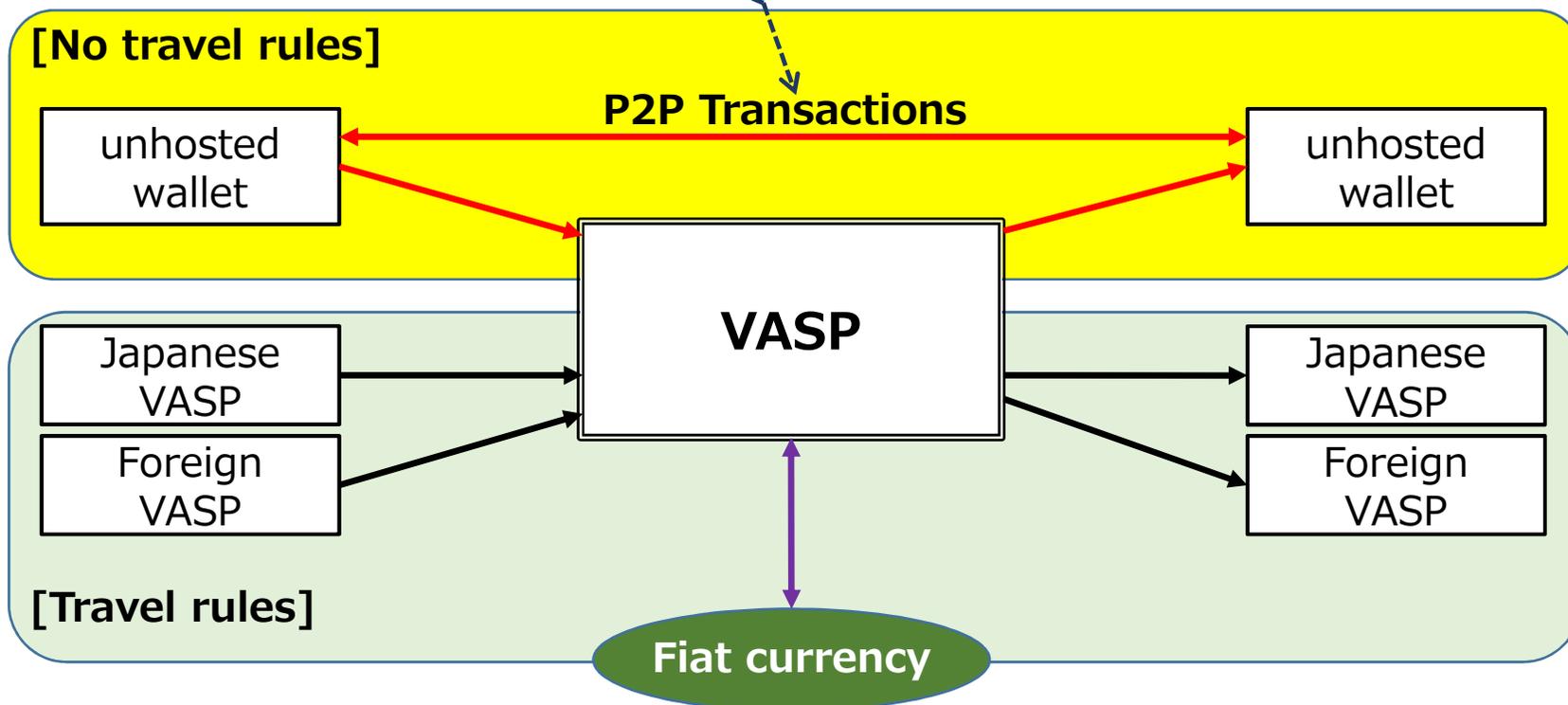
# Requirements involving transactions with unhosted wallets, etc.

VASPs will be required to collect and retain owner information of unhosted wallets regarding transactions with <u>unhosted wallets, etc.</u>* This will enhance the visualization of transaction flow involving unhosted wallets in conjunction with the travel rules between VASPs.

* Refers not only to wallets managed by individuals, but also to other wallets that are not subject to notification obligations (i.e. travel rule), including wallets managed by unregistered VASPs or VASPs in jurisdictions where notification obligations (i.e. travel rule) are not imposed.

Case 1 (outgoing transfer)

Obliged Entity

VASP — Transfer → (VA) (SC) → **Beneficiary** (unhosted wallets, etc.)

Transfer Request ↑

Customers

Case 2 (incoming transfer)

Originator (unhosted wallets, etc.) — Transfer → (VA) (SC) → VASP **Obliged Entity**

Opened account (consignment of account management) ↑

Customers
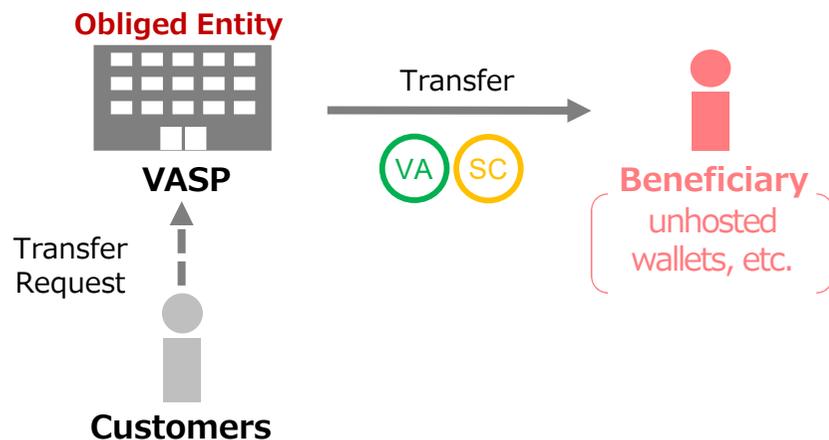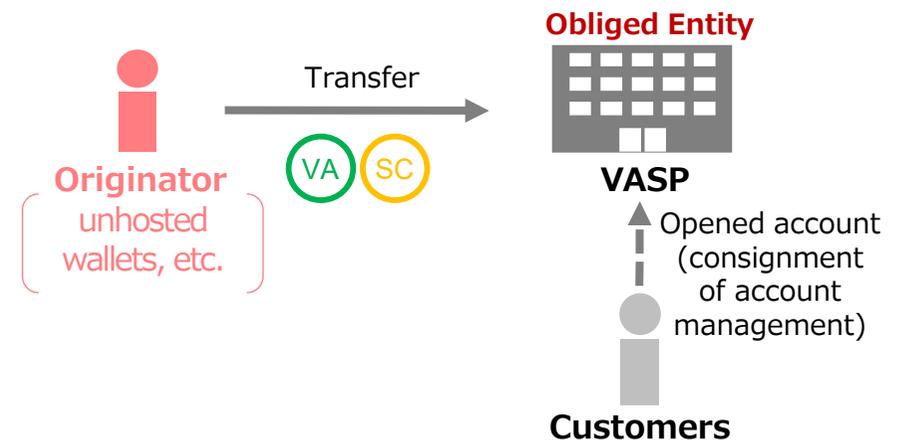
Record retention obligations [APTCP Ordinance article 24]

✓ Obtain and record the owner information (name, address, etc.) of the counterparty unhosted wallet, etc. (Note).

(Note) In the case of an incoming transfer from the unhosted wallets, because the beneficiary customer may not know all the owner information of the originator, the scope of the record retention shall be limited to the items that can be known under the control framework of data collection obligations.

Data collection obligations [APTCP Ordinance article 32]

✓ Japan urges VASPs to establish the risk control framework to conduct the following measures:

● Assess ML/FT risks by investigating and analyzing the attributes of the counterparty unhosted wallet.

● Collect owner information (name, address, etc.) of the counterparty unhosted wallets and the other information involving the transaction.

- *"APTCP" stand for the Act on Prevention of Transfer of Criminal Proceeds*
- *Under the Act on the Protection of Personal Information of Japan, the consent of the individual is not required when: collecting, retaining, and providing personal information to a third party, per laws and regulations such as the travel rule.*