Travel Rule

Compliance and Implications

Presented by

Anti-Money Laundering /Anti-Terrorist Financing (AML/ATF) Department,

Bermuda Monetary Authority (BMA)

17 November 2025

Agenda

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02 Regulation 22(1): Scope of Application

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Section 01

Travel Rule and Timeline

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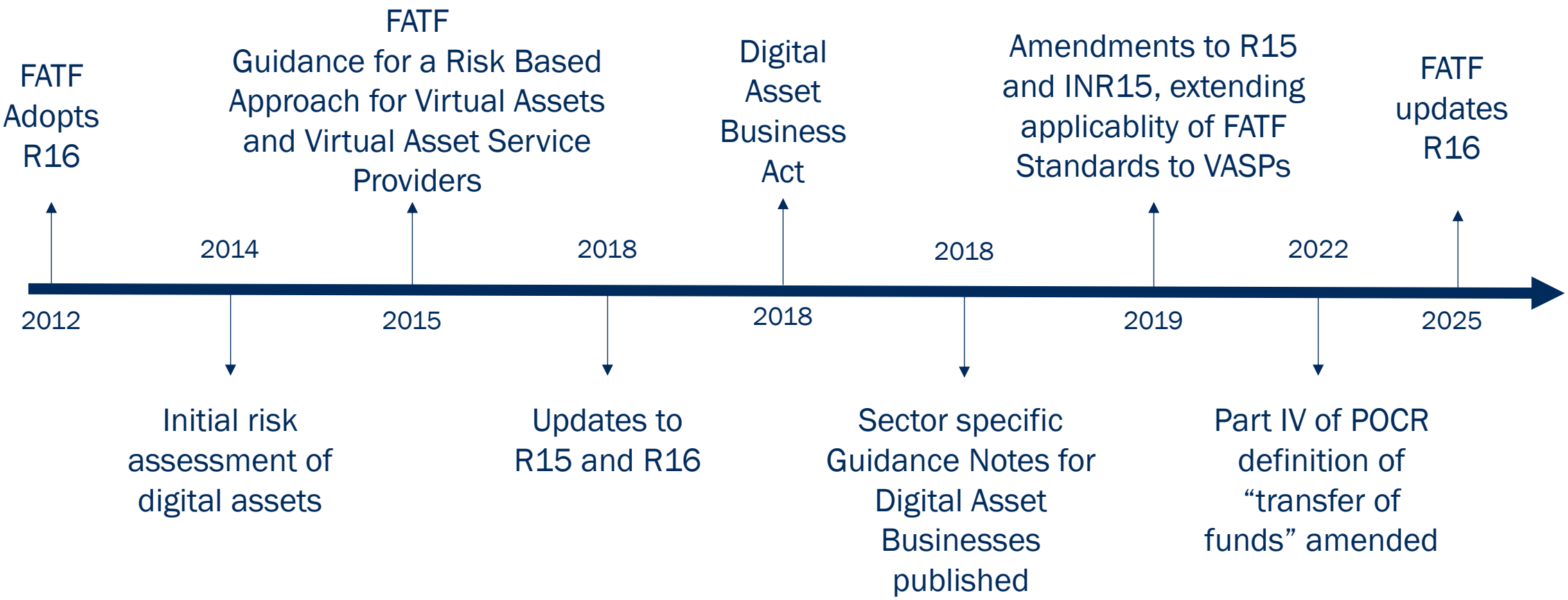
What is the Travel Rule?

The Travel Rule requires financial institutions, including Digital Asset Businesses (DABs), to share specific **customer data** during fund transfers, ensuring that **originator** and **beneficiary information** accompany each transaction.

Purpose:

- **Enhancing Transparency**: Tracking transactions to prevent Money Laundering/Terrorist Financing (ML/TF).
- **Promoting Fairness**: Ensuring a **level playing field** between regulated financial institutions.
- **Sanctions Compliance**: Enables effective sanctions screening.

Timeline


FATF Adopts R16
2012
2014
Initial risk assessment of digital assets
FATF Guidance for a Risk Based Approach for Virtual Assets and Virtual Asset Service Providers
2015
2018
Updates to R15 and R16
Digital Asset Business Act
2018
2018
Sector specific Guidance Notes for Digital Asset Businesses published
Amendments to R15 and INR15, extending applicablity of FATF Standards to VASPs
2019
2022
Part IV of POCR definition of “transfer of funds” amended
FATF updates R16
2025

Section 02

Regulation 22(1): Scope of Application

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Regulation 22(1): Scope of Application

Applicability:

Regulation 22(1) applies to all **fund transfers**, in any currency, sent or received by a **Payment Service Provider (PSP)** in Bermuda.

Key Definitions:

Payment Service Provider (PSP):

- An individual or entity engaged in **services for transferring funds** to or from a payer or payee.

Transfer of Funds:

- Any transaction carried out electronically by a PSP on behalf of a payer to make funds, including **digital assets**, available to a payee.

- Applies regardless of whether the **payer and payee** are the same individual.

Section 03 | Key Requirements

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Key Requirements

<table>
<tr><td rowspan="4">Travel Rule compliance

Measures applicable to transfers of funds</td><td colspan="5">Payer / Originator Payment Service Provider</td></tr>
<tr><td>Informative elements that must travel with transaction</td><td colspan="2">Payer</td><td colspan="2">Payee</td></tr>
<tr><td>All transfers of funds</td><td>Verifies and transmits</td><td rowspan="2">• Full name
• Account number and address (if address not available, can be replaced with place and DOB, customer identification number or national identity number)</td><td>Transmits</td><td rowspan="2">• Full name
• Account number (if not available, must be replaced with unique identifier)</td></tr>
<tr><td>DA Transfers to self-hosted wallets</td><td>Obtains and records</td><td>Obtains and records</td></tr>
</table>

Key Requirements (Cont'd)

<table>
<tr><td rowspan="4">Travel Rule compliance

Measures applicable to transfers of funds</td><td colspan="4">Payee / Beneficiary Payment Service Provider</td></tr>
<tr><td>Informative elements that must travel with transaction</td><td colspan="2">Payer</td><td colspan="2">Payee</td></tr>
<tr><td>All transfers of funds</td><td>Detects</td><td rowspan="2">Mandatory informative elements on the Payer/Originator (slide above)</td><td>Detects and verifies</td><td rowspan="2">Mandatory informative elements on the Payee/ Beneficiary (slide above)</td></tr>
<tr><td>DA Transfers from self-hosted wallets</td><td>Obtains and records</td><td>Obtains and records</td></tr>
</table>

Key Requirements (Cont'd)

Intermediary Payment Service Provider			
All transfers of funds .	**Detects, transmits and records**	Mandatory informative elements on the payer and payee. (slide above)	**1. Implements effective procedures to:** • Detect whether digital assets transfers are accompanied by information about the originator and the beneficiary. • Determines, based on risk assessment, whether to execute or reject a digital asset transfer that is not accompanied by complete information about the originator or beneficiary. 2. **Inform the BMA** if a PSP regularly fails to supply the information on the payer. **3.** Considers the **omission and incompleteness of information as factors for applying enhanced measures and assessing suspicion of MLTF** and filing SARs with FIA.

Section 04

Counterparty DAB Due Diligence Process

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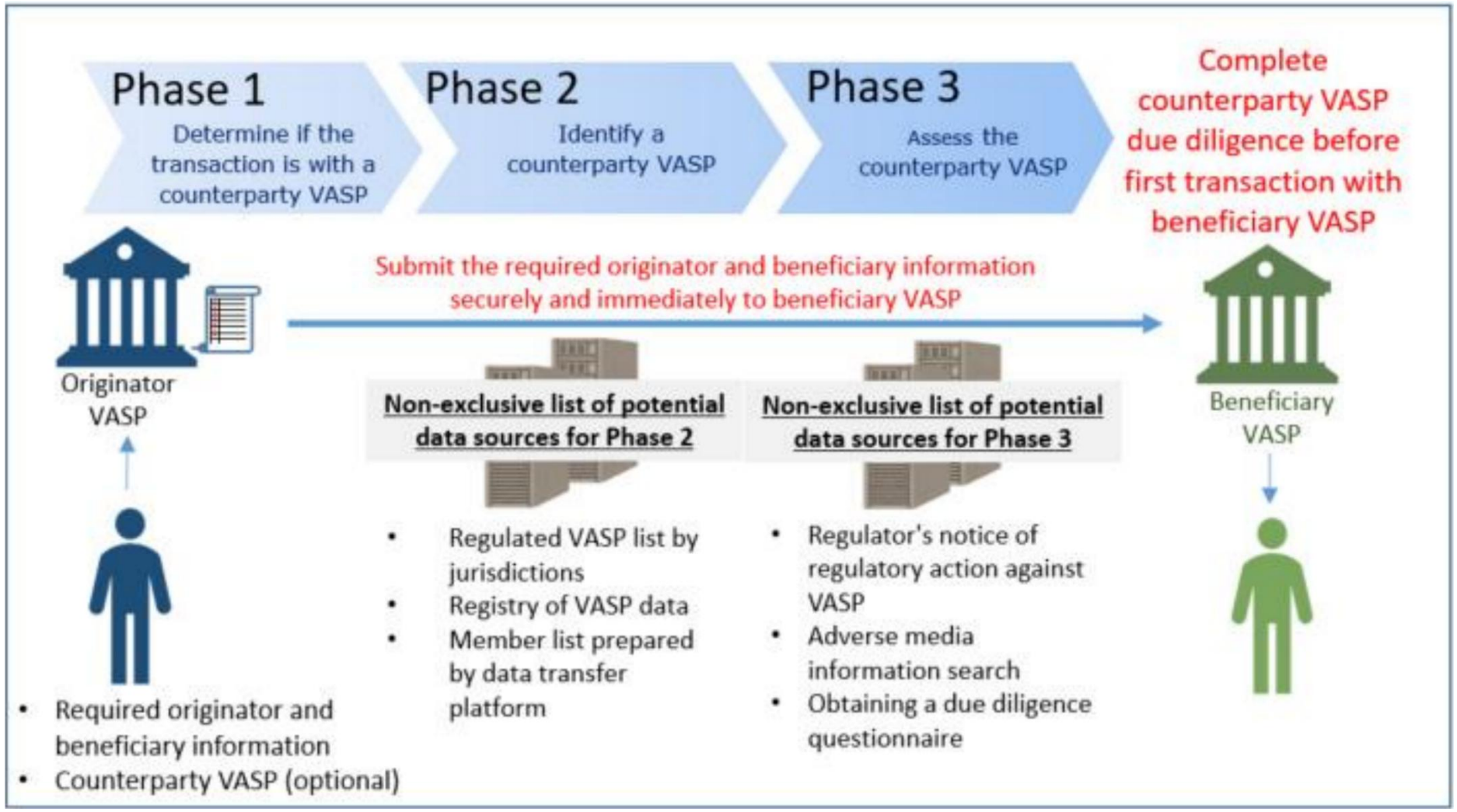
Counterparty DAB Due Diligence Process



Source: FATF (2021), Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, FATF, Paris. Page 65, Figure 1.

Section 05

The Compliance Imperative

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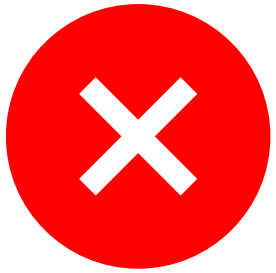
The Compliance Imperative

Risks

- Regulatory risk
- Reputational risk
- Operational risk
- Loss of market access
- Financial risk



Benefits

- Regulatory alignement
- Enhanced reputation and trust
- Operational advantages
- Market access and growth opportunities
- Strategic long term benefits

Section 06 | Challenges

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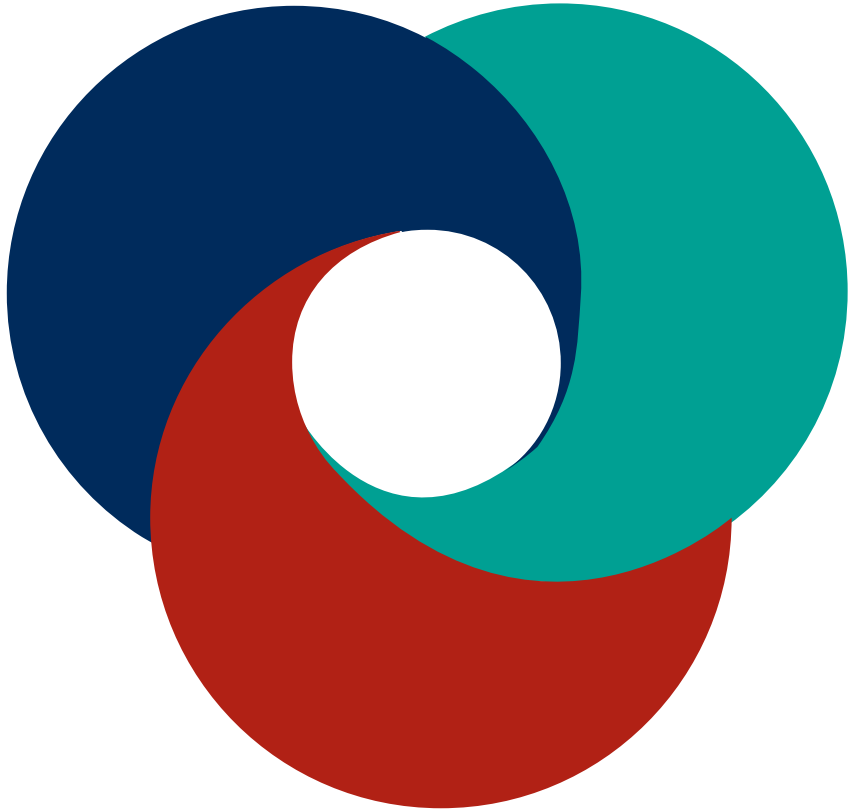
Challenges in Global Travel Rule Implementation

Fragmentation Across Jurisdictions

- **30%** of jurisdictions have not implemented Travel Rule legislation
- Even in high-risk jurisdictions, **32%** remain non-compliant
- Enforcement is weak, with only **26%** taking active supervisory actions *(Source: FATF, 2024)*



Data Sharing and Interoperability

- **No standard communication protocols** across Digital Asset Businesses (DABs)
- Challenges include **data security**, **encryption** and **real-time delivery**

Counterparty Due Diligence and the Sunrise Issue

- Difficulty in verifying **counterparty compliance status**
- **Different adoption timelines** in jurisdictions create cross-border transfer issues

Section 07

Case Studies, Tips and Takeaways

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Case Study #1

DAB to DAB cross-border transfer in compliant jurisdictions

Jane Doe, customer of Bermuda licensed DAB A, instructs DAB A to transfer 1 BTC to Joe Doe's account at DAB B in another jurisdiction. Both jurisdictions are Travel Rule compliant and both DABs have interoperable Travel Rule solutions.

Step #1: Determine Travel Rule applicability

Step #2: DAB A to collect and verify payer/originator information

Step #3: Identify the beneficiary's DAB and check compatibility

Step #4: Transmit Travel Rule mandatory information

Step #5: Execute the transaction

Case Study #2

DAB to DAB cross border transfer, where counterparty DAB is non-responsive or jurisdiction is not Travel Rule compliant

Bob Smith, customer of Bermuda licensed DAB C, instructs DAB C to transfer 1 BTC to Alice Smith's account at DAB D in another jurisdiction. DAB D is unresponsive, or jurisdiction D has not implemented Travel Rule requirements.

Step #1: Determine Travel Rule applicability

Step #2: DAB D is unresponsive, or solution is incompatible – collect and verify information locally; perform EDD

Step #3: Decide between allowing, delaying or rejecting

Step #4: Report and record

Tips for Maintaining Compliance

- Maintain up-to-date registry of counterparty DABs and jurisdictional equivalence
- Avoid single provider lock-in
- Log and retain all Travel Rule messages
- Collect and verify mandatory elements
- Consider applying EDD and assessing transactional risk
- Determine if transfer should be delayed or prevented, file SAR
- Record evidence on checks on counterparty DAB

Key Takeaways

- Ensure information is verified and transmitted or obtained and recorded, depending on your role
- Conduct due diligence on your counterpart
- Review compliance frequently

Section 08 | Q&A

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Thank You!

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