

April 8th, 2019

To: The Financial Action Task Force (“FATF”)

Re: CGTF input to the FATF public statement (the “Public Statement”) dated February 22, 2019¹

Dear FATF team,

We appreciate a strenuous effort by national regulators and authorities to work with standards for virtual assets and its providers.

We are hereby providing an input to the FATF public statement dated February 22, 2019, which the FATF invites the comments from the private sector entities and other experts on paragraph 7(b) as regards to the application of Recommendation 16(“R16”) to virtual asset service providers(“VASPs”).

About Cryptoassets Governance Task Force²

Cryptoassets Governance Task Force (CGTF) is a Japan-based non-profit community which provides technical information (e.g., security) for cryptoassets in multi-stakeholder approach including academia, technical community, and private sector entities established on Feb. 2018. Since establishment, CGTF worked to develop a security consideration on risk management for virtual assets for consumer and investor protection prior to the discussion by regulators and self-regulatory organization.

The security consideration on cryptoasset custodians (in Japanese³) is published as the result of broad discussion with an engagement of academia, technical communities, and VASPs. We published the documents as proposed standards at international standardization body (IETF⁴⁵) to build a shared understanding of risk about virtual assets.

With those activities, we established a cooperative relationship with a self-regulation organization (Japan Virtual Currency Exchange Association⁶).

¹ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets-interpretive-note.html>

² <https://vcgftf.github.io/>

³ [暗号資産カストディアンセキュリティ対策についての考え方\(案\) \(in Japanese\)](#)

⁴ Sato, M., Shimaoka, M., and Nakajima, H., "General Security Considerations for Cryptoassets Custodians", [draft-vcgftf-crypto-assets-security-considerations-03](#) (work in progress), December 2018.

⁵ Nakajima, H., Kusunoki, M., Hida, K., Suga, Y., and T.Hayashi, "Terminology for Crypto Asset", [draft-nakajima-crypto-asset-terminology-01](#) (work in progress), December 2018.

⁶ <https://jvcea.or.jp/>

Proposal

1. Input on 7(b) of the Public Statement as regards to the application of Recommendation 16 (“R16”)⁷

“Countries should ensure that originating VASPs obtain and hold required and accurate originator information and required beneficiary information on virtual asset transfers, submit the information of originating VASPs to beneficiary VASPs (if any) and counterparts (if any), and make it available on request to appropriate authorities. It is not necessary for this information to be attached directly to virtual asset transfers. Countries should ensure that beneficiary VASPs obtain and hold originator information and required and accurate beneficiary information on virtual asset transfers, and make it available on request to appropriate authorities. Other requirements of R.16 (including monitoring of the availability of information, and taking freezing action and prohibiting transactions with designated persons and entities) apply on the same basis as set out in R.16”

- a. We provide input on 7(b) explaining that “Countries should ensure that originating VASPs obtain and hold required and accurate originator information and required beneficiary information on virtual asset transfers, submit the ~~above~~ information of originating VASP to beneficiary VASPs (if any) and counterparts (if any), and make it available on request to appropriate authorities.” appears to presuppose that beneficiary VASPs are capable of receiving the originator information, which it is not possible the originating VASPs ensure that. We also explain that traceability and accountability of the transaction are met by providing information of originating VASP to beneficiary VASPs who are able to obtain the originator information from originating VASP. Therefore, we propose that strike through to be removed and underlined to be added.
- b. We also propose an input on 7(b) explaining that “Countries should ensure that beneficiary VASPs obtain and hold ~~required~~ originator information and required and accurate beneficiary information on virtual asset transfers, and make it available on request to appropriate authorities.” appears to presuppose that beneficiary VASPs are sure to obtain the originator information which it is not possible that beneficiary VASPs are not able to obtain the originator information in a case where transaction is initiated by non-VASPs. We also explain that the originator information can be obtained from a declaration by the beneficiary. With the above reasons, we propose that strike through to be removed.

⁷ Current text for R16 7(b);

Countries should ensure that originating VASPs obtain and hold required and accurate originator information and required beneficiary information on virtual asset transfers, submit the above information to beneficiary VASPs and counterparts (if any), and make it available on request to appropriate authorities. It is not necessary for this information to be attached directly to virtual asset transfers. Countries should ensure that beneficiary VASPs obtain and hold required originator information and required and accurate beneficiary information on virtual asset transfers, and make it available on request to appropriate authorities. Other requirements of R.16 (including monitoring of the availability of information, and taking freezing action and prohibiting transactions with designated persons and entities) apply on the same basis as set out in R.16

Background and opinion

1. **Effectiveness and efficiency of regulations are required to avoid regulatory arbitration**

At present, there are only limited areas in which registration systems have been introduced for VASPs, and excessive regulation may lead to regulatory arbitration due to regulatory gaps. We should choose a method that is effective and easy for financial authorities and VASPs to avoid introducing regional differences in regulation.

2. **Equal footing between VASPs and non-VASPs wallet**

Virtual assets are different from conventional MVTs, users can freely transfer value without relying on VASPs. Over-regulation of VASPs encourages the transition of digital assets to non-VASPs wallets, and as a result, there is a risk that financial authorities will lose control over virtual assets.

3. **Provide mechanisms to identify VASPs by transaction**

To provide a mechanism for originating and beneficiary VASPs to identify counterparty VASPs and to make inquiries about counterparties as needed. This mechanism should be done through a standard protocol in a manner that is not dependent on man-in-the-middle, can be automated, and has minimal privacy impact.

4. **Regulations based on deposits from non-VASPs**

Unlike MVTs, VASPs cannot refuse deposits from other VASPs and non-VASPs. Therefore, it should not be assumed that remittance is provided with identification information based on the obligation. The beneficiary VASPs should be able to query the originating VASPs as needed.

5. **Request to announcement regarding non-VASPs wallet**

Even for non-VASPs wallets which do not manage private keys and gateways which relay their transactions, FATF and countries shall make an announcement to them that storing logs including IP addresses for a certain period of time, responding to inquiries from financial authorities and law enforcement authorities are highly recommended.