



# A technology- and risk-based approach to addressing AML risks

## Introduction

### AML Package

Blockchain for Europe (BC4EU) welcomes the proposed Anti-Money Laundering (AML) package, including the review of the Transfer of Funds Regulation (TFR) and the new Anti-Money Laundering Regulation (AMLR), as we believe there is a need for consistency and harmonisation of the rules in the crypto-assets sector.

However, there are several aspects of the proposals that need further improvement and clarification, in particular to align them with MiCAR. This document provides a summary of BC4EU's position on these issues and specific recommendations for the TFR proposal to ensure the regulatory framework allows to develop a truly balanced and innovative ecosystem for crypto-assets in the EU.

## Transfer of Funds Regulation (TFR)

### Leveraging the benefits of blockchain technology (Article 14)

On top of strict KYC rules already applied, crypto-asset service providers (CASPs) would be required by the TFR to collect users' (unverifiable) self-declarations disclosing the full identity behind each private crypto wallet address their accounts interact with, raising also privacy concerns. In addition, the compliance burden of the TFR will only cement the market power of large CASPs which are mostly non-European.

Instead, the TFR should grant flexibility to CASPs to use blockchain analytical tools and technological solutions which can effectively track and trace suspicious wallets / transaction flows, without compromising the legitimate privacy of end-users.

### Avoiding manual obligations through innovative technology (Article 16)

The Regulators should avoid adding manual processes where everything is automatic. The verification of the beneficiary will introduce additional manual processes which will be logistically challenging (in particular for smaller CASPs).

By enabling flexibility to use analytical solutions, coupled with a database of suspicious wallets set-up by AMLA and relying on the transparency of Blockchain technology, additional manual processes can be avoided while still achieving the TFR objectives.

## Derogation for transfers under EUR 1.000 threshold (Article 15)

Removing the derogation for crypto-asset transfers under EUR 1.000 is a disproportionate approach and not in line with the principle of technological neutrality, as it will put CASPs at a competitive disadvantage.

Preserving the Commission threshold of 1.000 EUR will ensure a level playing field for CASPs. Actors that participate, whether virtually or physically, in generally low-risk commercial transactions should remain outside of financial institution style regulatory requirements, regardless of the technology used.

CASP users will not be able to circumvent the threshold as transfers linked to other transfers of crypto-assets, together exceeding the 1.000 EUR threshold, are already covered by the TFR.

This risk is even lower as crypto-assets are intrinsically more transparent due to the nature of Blockchain technology and, therefore, safer than fiat transfers.

## Exemptions for non-financial tokens (Article 16)

Blockchain is a database technology that allows for digital representations of all sorts of assets, items, and things, including consumer products, services and artwork. Those assets can

also be digitally represented using other technologies, and yet AML obligations do not apply to these assets when they are digitally represented through other technologies. Introducing measures forcing holders of non-financial tokens to undergo KYC procedures when transacting their assets would stifle the innovation enabled by Blockchain-based tokenisation and disrupt consumer experiences across Europe.

Therefore, it is paramount that all transactions of crypto-assets which are not admitted to trading are exempted.

## Decentralised Finance (DeFi)

Imposing disclosure obligations on projects that have no means to comply (e.g., software developers of DeFi projects) and treating them as financial intermediaries will put Europe at a competitive disadvantage when it comes to developing innovative financial services.

Policymakers need to ensure that, with the establishment of AMLA, the new authority will be adequately staffed to be able to accurately categorize DeFi projects. This would allow for the future creation of innovation-friendly regulation ensuring consumer protection, market integrity and proper AML rules.

## Maintaining the exclusion of Person-to-Person transfers of crypto-assets

# About BC4EU

BC4EU is a trade association representing international blockchain industry players at the EU level. We work with policymakers, academics and our member companies to develop a European regulatory framework to support and promote blockchain-based innovation. Over the past two years, we have contributed to EU policies such as the 5th Anti-Money Laundering Directive, the Markets in Crypto-Assets Regulation, and the 8th Directive on Administrative Cooperation (DAC8).

A more detailed overview of the BC4EU Members' position is outlined in the full length position paper available [here](#).