



# A guide to virtual IBANs and their regulation



## AUTHORS

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Virtual IBANs have become increasingly popular in the payments industry, but are not always well understood, and the application of regulation (and payment system rules) to vIBANs is not always straight forward. This article explains vIBANs and how they are used, and comments on some related regulatory considerations.

## KEY POINTS

- Virtual International Bank Account Numbers (vIBANs or virtual IBANs) are identifiers formally linked to a master bank account and informally associated with other accounts or relationships. They are typically used to streamline payments reconciliation and support indirect participation in payment systems.
- Virtual IBANs owe their existence to industry usage, and as their use is not specifically addressed in regulations, careful thought is sometimes needed as to how the regulations apply.

## WHAT IS A vIBAN?

Before a vIBAN can exist, there must be an international bank account number (IBAN).

An IBAN is used within certain systems (such as European SEPA bank clearing systems and the SWIFT messaging system)<sup>1</sup> to identify a specific account held with a specific bank (or branch) in a specific country. Other systems may use alternative identifiers, for example a “sort code” and account number are used within the UK Faster Payment Scheme (FPS).

Such account identifiers are created by a bank or other payment service provider (PSP) directly participating in the relevant system (Participant PSP), in accordance with the system’s requirements and any applicable legal requirements.<sup>2</sup>

We refer below to the account to which a Participant PSP allocates an IBAN (or equivalent identifier) as the “master account”. As far as a payment system is concerned, an IBAN formally identifies that master account for the purposes of sending and receiving funds transfers through the system. The master account is provided by the Participant PSP to its client (Client) and the master account is held by the Client.

An IBAN becomes a “virtual” IBAN (i.e., a vIBAN) when it is informally associated with something other than the master account. Where vIBANs are to be used, a Participant PSP will typically allocate numerous IBANs to a single master account, so that for example:

- each IBAN can be associated, as a vIBAN, with a sub-account sitting within the master account and/or
- the Client can associate each IBAN, as a vIBAN, with a specific third party or specific purpose.



Whilst a variety of use cases is possible, typically they would involve the Client associating each vIBAN to a different underlying customer (End User) of the Client, including in the following two illustrative use cases.

- Use case 1: A Client supplies goods or services to its End Users. It can allocate a separate vIBAN to each End User, so that when a particular End User pays the Client for a supply of goods or services using the vIBAN specific to that End User, the Client is able to easily reconcile the payment to that End User. Here, vIBANs allow businesses to automate the process of matching incoming payments to specific customers or invoices. By allocating a separate vIBAN to each customer, a supplier can instantly identify the source of each payment, reducing manual effort and minimising the risk of errors.
- Use case 2: A Client is a PSP that does not directly participate in a payment system but wishes to indirectly participate via a Participant PSP (e.g., an e-money institution indirectly participating in SEPA or FPS through its bank which is a direct participant). Here, the Client may associate a separate vIBAN with each payment account it provides to an End User. Such an “Indirect Participation Arrangement” means that when an End User sends or receives a payment that is routed through the payment system, the transfer can be associated with the End User’s payment account by virtue of the vIBAN. For example, an End User holding an e-money account with an electronic money institution (being the Client) can provide the vIBAN for their e-money account to a third party to use when sending money to their (ie the End User’s) e-money account.

Virtual IBANS owe their existence to industry usage, and in general their use is not specifically addressed in regulations. However, this is changing.

Firstly, the new EU Anti-Money Laundering Regulation<sup>3</sup> (EU AMLR), which will come into effect in July 2027, will introduce a definition of vIBAN for anti-money laundering (AML) purposes, namely “an identifier causing payments to be redirected to a payment account identified by an IBAN different from that identifier”.<sup>4</sup> We understand this definition as distinguishing between, in effect, the “original” IBAN allocated to a master account and any additional IBANs allocated to that account intended for use as vIBANs. Other recent developments include a European Banking Authority report on vIBANs published in May 2024, which may in due course be reflected in provisions of a proposed new EU Payment Services Regulation.



# Application of regulatory requirements

## (1) FINANCIAL CRIME REGIME

The Financial Action Task Force (FATF) sets international AML standards, which are subsequently implemented into national laws, including UK and EU laws. Under FATF Recommendation 16,<sup>5</sup> where money is sent by one customer (Sender) to another customer (Beneficiary), the Sender's PSP must generally send (via any intermediary PSP) information about the Sender and Beneficiary to the Beneficiary's PSP in conjunction with the funds transfer. This helps the various PSPs involved in the transfer to have visibility of the Sender and Beneficiary details, in order to facilitate monitoring for financial crime risk. Furthermore, the Sender's PSP should typically have performed customer due diligence (CDD) to verify the Sender's identity as a means of ensuring accuracy of the shared information.

In an Indirect Participation Arrangement, the Sender and Beneficiary may each be End Users with whom a Participant PSP does not have a relationship. If so, any Participant PSP at the send end of the transfer will need to obtain Sender and Beneficiary information from its Client PSP, and any Participant PSP at the receive end of the transfer will need to pass on such information to its Client PSP, in order for each PSP to meet its obligations under FATF Recommendation 16. Messaging systems used between each of the PSPs, including payment systems' messaging systems, need to be able to support this information transfer.

This increased chain of actors potentially increases the financial crime risk posed by a transfer, but this can be mitigated where, for example, Client PSPs are also subject to FATF-equivalent standards, the PSPs involved have effective financial crime controls, and messaging systems are robust.

Some of these points are addressed by EU AMLR, which will in future require a PSP to perform CDD on whomever it distributes vIBANs to, and to share such CDD (on request) with the PSP providing the linked master account (even though the master account provider may not have a relationship with the recipient of the vIBAN).<sup>6</sup>

At an international level, FATF recently updated its Interpretative Note to Recommendation 16 to state that: "Information in the payment message should make it possible for all [relevant] financial institutions and authorities to identify which financial institution is servicing the account of the originator and beneficiary respectively and in which countries these institutions are located. Financial institutions should ensure that account numbers should not be used to disguise the identification of the country where the financial institution that services the account resides"<sup>7</sup>

The accompanying explanatory note also highlights it is not the FATF's intention to impose the inclusion of country information in all types of account numbers (e.g., those that do not include a country code) nor to ban the legitimate use of virtual account numbers (such as virtual IBANs).<sup>8</sup> It is unclear how these principles are intended to play out, and in particular whether it means that e.g., a Client PSP would in practice need to supply vIBANs with country identifiers corresponding to its End Users' account locations.

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## (2) CONFIRMATION/VERIFICATION OF THE PAYEE AND APP FRAUD REGIMES

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When a Sender enters the IBAN (or equivalent identifier) for a Beneficiary's account, often there has – historically – been no way for the Sender to check that they have provided the correct IBAN, and so sometimes they may send a payment to the wrong person.

As a result, the UK has introduced a “confirmation of the payee” regime<sup>9</sup> and the EU is (from 9 October 2025, for certain PSPs) introducing a “verification of the payee” regime.<sup>10</sup> Those regimes require, for many transfers, that the Sender's PSP must confirm in real time to the Sender whether or not an IBAN (or UK equivalent) matches the Beneficiary's name. This requires a live feed between the Sender's PSP and Beneficiary's PSP, ideally using a payment system's messaging system.

Where an Indirect Participation Arrangement exists, and a Client PSP is acting for the Sender or Beneficiary, the position becomes more complicated. Here, a Participant PSP needs to understand the way in which vIBANs it has provided are being used by a Client, and in particular whether the Client is using them as the Sender's or Beneficiary's PSP. Otherwise, the risk is that:

- the Participant PSP at the send end of a transaction does not enable its Client PSP to perform confirmation of the payee for its Sender
- when the Sender's PSP requests (via a payment system) confirmation of the payee, the Participant PSP at the Beneficiary end of the transfer provides the name of its Client rather than of the End User Beneficiary, and the Sender then rejects the transaction.

It also follows that Client PSPs may need to implement live bilateral communication channels with Participant PSPs, in addition to the communication channels that the Participant PSPs have between themselves. Such doubling up of communication channels potentially introduces vulnerabilities and delays into the confirmation or verification of the payee service. The UK's new authorised push payment (APP) fraud reimbursement scheme similarly creates a need for transparency and clarity when using vIBANs.<sup>11</sup> The APP fraud regime requires a Sender's PSP to, in many cases, compensate victims of APP fraud, and provides for the Sender's PSP to potentially recover 50% of the compensation amount from a Beneficiary's PSP. The APP fraud regime can affect Indirect Participation Arrangements, because it can apply to PSPs participating indirectly (as well as directly) in the FPS and CHAPS payment systems.<sup>12</sup>

Again, therefore, it is necessary for a Participant PSP to understand how its Client deploys vIBANs and, in particular, whether its Client is using a vIBAN in the context of an Indirect Participation Arrangement. This can have an impact on whether APP fraud compensation is payable and, if so, which PSP (i.e., the Participant PSP or its Client PSP) is liable to pay (or contribute to) compensation.

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### **(3) CONFUSION OF THE AUTHORITIES**

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It is possible that a master account may be held in one country and the vIBAN used in another. For example, a German bank may provide a master account to a Maltese e-money institution which in turn associates vIBANs with accounts it provides to its End Users. This would mean vIBANs with a “DE” (i.e., Germany) identifier being associated with Maltese accounts. In this case, it could potentially result in the German authorities seeking incorrectly to assert jurisdiction over the Maltese End User accounts.

### **CONCLUSION**

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vIBANs have become a valuable tool in the payments industry, offering significant benefits in terms of payment reconciliation, operational efficiency, and for indirect participation models. However, they can also introduce greater complexity to payment chains, which may require sophistication to navigate in practice.



## FOOTNOTES

<sup>1</sup> See s 2 of the Swift IBAN Registry, Release 99, December 2024: [https://www.swift.com/sites/default/files/files/iban-registry\\_3.pdf](https://www.swift.com/sites/default/files/files/iban-registry_3.pdf)

<sup>2</sup> The SEPA Regulation (EU) 260/2012 defines an IBAN as “an international payment account number identifier, which unambiguously identifies an individual payment account in a Member State, the elements of which are specified by the International Organisation for Standardisation (ISO)”.

<sup>3</sup> Regulation (EU) 2024/1624.

<sup>4</sup> Ibid Art 2.

<sup>5</sup> Implemented in:

(i) EU law under Regulation (EU) 2023/113 on information accompanying transfers of funds and certain crypto-assets; and

(ii) UK law under:

(a) Regulation (EU) 2015/847 on information accompanying transfers of funds as it forms part of the laws of the United Kingdom and (b) the UK Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017/692.

<sup>6</sup> Article 22 of EU AMLR.

<sup>7</sup> FATF Recommendations, June 2025:

<https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf>

<sup>8</sup> FATF, Explanatory note for revised Recommendation 16, June 2025: <https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/Explanatory%20note%20for%20revised%20R16.pdf.coredownload.pdf>

<sup>9</sup> Initially under the Payment System Regulator's (PSR's) Specific Direction 10 (Confirmation of Payee), 1 August 2019: <https://www.psr.org.uk/publications/policy-statements/ps194-specific-direction-10-confirmation-of-payee/> and expanded under the PSR's Specific Direction 17 on expanding Confirmation of Payee, 11 October 2022: [https://www.psr.org.uk/publications/legal-directions-and-decisions/specific-direction-17/10-Instant-Payments-Regulation-\(EU\)-2024/886-Art-5c](https://www.psr.org.uk/publications/legal-directions-and-decisions/specific-direction-17/10-Instant-Payments-Regulation-(EU)-2024/886-Art-5c).

<sup>11</sup> The EU is also contemplating introducing an APP fraud regime in its proposed Third Payment Services Directive package which may raise similar issues in due course.

<sup>12</sup> See PSR, Consolidated policy statement, PS25/5: APP scams reimbursement requirement, 21 May 2025: <https://www.psr.org.uk/publications/policy-statements/ps255-app-scams-reimbursement-requirement/>

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