What is the Travel Rule?

In 2019, the Financial Action Task Force (FATF) recommended a united approach to combating money laundering and terrorist financing.

Part of the Bank Secrecy Act since 2011, the Travel Rule involves passing client information across financial institutions when transactions happen.

The information would include:

- Names of both the senders and recipients
- Account numbers
- Physical address
- Unique ID number
- Customer ID number
- Date and place of the transaction

This information would be shared across virtual asset providers or VASPs.

The travel rule applies to hosted wallets on exchanges and custodial exceeding 1000 dollars or euros.

Currently, this rule applies predominately to hosted wallets on VASPs, but in some cases, self-hosted wallets require some form of declaration. Switzerland for example requires the ID of private wallets interacting with local VASPs.

Regulatory Bodies Across the World

Region	Regulatory Body
UK	Financial Conduct Authority (FSA)
EU	Markets in Cryptoasset Regulation (MICA)
Canana	Financial Transactions and Reports Analysis Centre of Canada (FinTRAC)
Singapore	Monetary Authority of Singapore (MAS)
Australia	Australian Transaction Reports and Analysis Centre (AUSTRAC)
Japan	Financial Services Agency (FSA)
Korea	Financial Supervisory Service (FSS), Financial Services Commission (FCS)
China	People's Bank of China (PBOC)
India:	Reserve Bank of India (RBI)

Switzerland:	Swift Federal Tax Administration (SFTA)
Malta:	Virtual Financial Asset Act (VFA)
Estonia	Financial Intelligence Unit
Gibraltar	Gibraltar Financial Services Commission (GFSC)
Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)

Benefits of the Travel Rule

The travel rule will:
- Ensure crypto businesses adhere to sanctions, and blocks terrorist financing
- Make it easier for law enforcement to subpoena transaction data
- Would open the door for more uniform crypto regulation
- Support reporting suspicious activity, and prevents money laundering of crypto assets

Current Travel Rule Requirements

		FinCen	FATF
	Threshold	$3000	$1000 / €1000
Originator Information	Name	REQUIRED	REQUIRED
	Account Number	WHEN AVAILABLE	REQUIRED
	Address	REQUIRED	REQUIRED
	Identify of financial institution	REQUIRED	NOT REQUIRED
	Transmittal Amount	REQUIRED	NOT REQUIRED
	Execution Date	REQUIRED	NOT REQUIRED
Recipient Information	Name	WHEN AVAILABLE	REQUIRED
	Address	WHEN AVAILABLE	NOT REQUIRED
	Identify of financial institution	REQUIRED	NOT REQUIRED
	Transmittal Amount	WHEN AVAILABLE	REQUIRED
	Execution Date	WHEN AVAILABLE	NOT REQUIRED

World Regulation

https://cdn.statcdn.com/Infographic/images/normal/27069.jpeg

Source: https://www.statista.com/chart/27069/cryptocurrency-regulation-world-map/

3rd Party Travel Rule Solutions

Below are some options from third-party providers which are easily deployed.

Trisa.io	Decentralized Cryptocurrency Travel Rule Compliance
openvasp.org	The OpenVASP network facilitates robust compliance with global travel rule requirements for Virtual Asset Service Providers
kyc-chain.com	SelfKey Compliance Hub Solution

With every platform being unique and different from the providers it's very possible for providers to implement their own tailor-made solution.

Final Thoughts

Currently the travel rule does not apply to non-custodial or self-hosted wallets.

Records of crypto assets received and sent to the specific self-hosted address are recorded. Internal information can be collected from VASPs on who owns the specific address. This could be used at a later date to link a self-hosted wallet to a specific person.

Regulators will likely force KYC implementation on non-custodial or self-hosted wallets. This will likely indirectly create a travel rule across all wallets.

There is already the technology out there to bounce back tokens from non-KYC'ed wallets.

A solution would be to have a KYC issuer drop an NFT on the KYC'ed wallet. Depositors would send funds to a smart contract, and if the wallet transacting with the exchange does not contain this KYC token, it would automatically bounce it back. This kind of feature could be placed on regulated methods of cashing out, meaning that virtually all non-custodian will require exchanges to know and validate their owners.

What can be defined as a VASPs

A VASP stands for a '*Virtual Asset Service Provider*'.

It includes crypto exchanges and other crypto service providers which facilitate buy, sell, exchange, and interactions with the crypto market.

The guidelines for VASPs where issues in June 2019 by the Financial Action Task Force (FATF).

A VASP is a business that conducts at least one of the following:

- Acts as an exchange for virtual assets or fiat currencies
- Acts as a medium of transfer for virtual assets
- Stores virtual assets for safekeeping
- Provides financial services related to the sale of a virtual asset

According to the guideline of VASPs, a DEX, for the most part, is a VASP and must comply with KYC/AML. This opens up a door to whether decentralization actually exists amid regulation.

Does true decentralization exist?

Once an investor wants to cash out they would require a centralized service like Binance or Coinbase which processes their personal information.

The next step is to regulate information between exchanges using the 'Travel Rule'. The final step would be to regulate and control the decentralized nature of the blockchain, in other words, self-hosted or non-custodial wallets and the decentralized services they provide, for instance, the decentralized exchange (DEX).

If DEX or liquidity providers on platforms such as Uniswap's and Pancakeswap are considered VASPs, then they would require or facilitate the collection of KYC/AML information for their users.

This currently goes against the decentralized nature of an automated market maker (AMM) and there is little policymakers can do to police this, particularly if the protocol was created without the intention of profit (such as Uniswaps).

A decentralized exchange cannot be responsible to hold, trust and control users' private information. Exchanges are created on a daily basis and for the most part, are set up by anon groups. Many are short-lived, and rarely take off.

A quick and likely only workaround to this would be to externally KYC one's wallet via a third-party service and have the DEX check if the wallet has been verified as part of their KYC process.

The blockchain is an open space and smart contracts can be written to perform tasks that may or may not comply with specific jurisdictions.

If for example, Estonia, due to a regulatory stance decides to ban DEFI (which includes Uniswaps) then Estonia can block or blacklist all websites which fall under that category.

Participants, however, can easily bypass local restrictions by using a VPN to carry out their trades.

Ban on Cryptocurrencies Around the Globe

Below are some restrictions in regards to crypto, in accordance to their jurisdiction and dates. A mass adoption happens, and a majority, if not all the restrictions, would be lifted.

Year	Country	Ban / Restrictions
2014	Bolivia	Ban on Bitcoin and it's use, and in 2022 it declared a complete ban on all other crypto tokens
2014	Columbia	Financial institutions are not allowed to handle virtual currencies
2016	Macedonia	Complete ban on all digital currencies
2017	Iraq	Central bank issued a statement banning the use of cryptocurrencies
2017	Nepal	Nepal Rastra Bank declared Bitcoin illegal in August
2017	Vietnam	State Bank of Vietnam banned bitcoin and other cryptocurrencies as a means of payment
2017	Morocco	Complete ban on crypto, but is in the process of reversing the ban for regulation in June 2022.
2017	Bangladesh	Complete ban on crypto-currency
2018	Algeria	Illegal to buy, sell, use or hold virtual assets
2018	Egypt	Completely banning crypto-currency under Islamic law
2018	Indonesia	Ban the use of cryptocurrencies as a means of payment and also banning financial firms from handling this
2018	Qatar	Ban on crypto-currency at an institutional level
2020	Guana	Ghana's SEC completely banned the use of cryptocurrencies.
2021	Turkey	Illegal to use crypto to directly on in-directly pay for goods or services
2022	China	Outright ban cryptocurrency transactions
2022	Iran	4-month ban on bitcoin mining till the 22nd of September