Origin and purpose

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The travel rule is the requirement that information about the originator and the beneficiary of a transfer accompany the transfer itself, so that each institution in the chain and any investigator afterwards can see who sent value to whom. It began in 1996 as a United States rule for wire transfers and became FATF Recommendation 16 for the banking world. In June 2019 the FATF extended it to virtual-asset transfers through paragraph 7(b) of the Interpretive Note to Recommendation 15, requiring VASPs to obtain, hold and transmit originator and beneficiary information for transfers above a USD/EUR 1,000 threshold.[1] Singapore and Switzerland were the two financial centres that implemented the extension first and without a de minimis exemption. Both have since lived with the consequence of having been early, which this chapter calls the sunrise problem.

The purpose of the rule in the digital-asset context is not primarily to catch the laundering transaction in flight. It is to make the ledger legible. A blockchain shows that address A sent 10 ETH to address B. The travel rule makes the sending institution record that A belongs to a named customer and tell the receiving institution so. An investigator holding a court order can then follow the value through hosted wallets without reconstructing identities from scratch. It also forces every hosted-wallet provider to know whom it is dealing with on the other side, which is where the counterparty due-diligence duty comes from.

Notes

1. FATF, Interpretive Note to Recommendation 15, para. 7(b), adopted June 2019; FATF, Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers, June 2019, paras 113–118.

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