



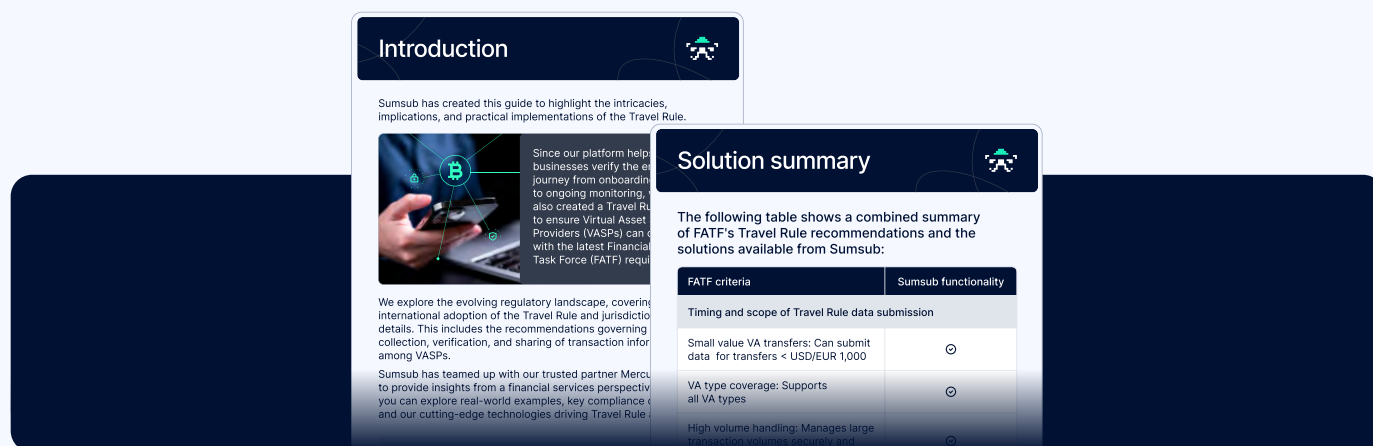
sumsub mercuryo



Mastering Travel Rule Compliance

2024

With Sumsub and Mercuryo



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Introduction



Sumsub has created this guide to highlight the intricacies, implications, and practical implementations of the Travel Rule.



Since our platform helps businesses verify the entire user journey from onboarding to ongoing monitoring, we have also created a Travel Rule solution to ensure Virtual Asset Service Providers (VASPs) can comply with the latest Financial Action Task Force (FATF) requirements.

We explore the evolving regulatory landscape, covering international adoption of the Travel Rule and jurisdiction-specific details. This includes the recommendations governing the collection, verification, and sharing of transaction information among VASPs.

Sumsub has teamed up with our trusted partner Mercuryo to provide insights from a financial services perspective, so that you can explore real-world examples, key compliance challenges, and our cutting-edge technologies driving Travel Rule adherence.

This guide will help you adapt to ongoing regulatory changes in the crypto sphere, so you can confidently navigate the complexities of Travel Rule compliance and secure the future of your crypto endeavors.

Understanding the Travel Rule



The Travel Rule requires that originating VASPs acquire and maintain accurate originator information and essential beneficiary details for virtual asset (VA) transfers. Furthermore, it necessitates the submission of this information to the beneficiary VASP. This concept is already in operation for banks and payment services in traditional finance, and regulators started applying it to VASPs in 2019.

Historical background

In the fiat financial world, the Travel Rule is a long-standing concept. The Travel Rule was introduced along with the recordkeeping rule by FinCEN, a bureau of the U.S. Department of the Treasury, as part of the rules implementing the BSA (the Banking Secrecy Act) in 1995 and became effective May 28, 1996.

Travel Rule terminology

It's important to clarify that in the USA, the term "Travel Rule" has been historically applied to both fiat and crypto transfers. However, the FATF uses the term "wire transfers" specifically for fiat transactions. In FATF terminology, the "Travel Rule" exclusively refers to virtual asset transactions.

Under the FinCEN Travel Rule, all financial institutions had to pass on certain information to the next financial institution in certain fund transfers involving more than one financial institution. This was – and still is – the idea behind the Travel Rule: whenever at least two financial institutions execute someone's transaction, and the transaction is above a certain threshold, the sending financial institution should collect and transfer the information about the transaction and the data about the sender and recipient.

FATF endorsement

In 2012, the FinCEN Travel Rule was endorsed by the Financial Action Task Force (FATF), which is the global AML watchdog and trendsetter, in its famous 40 Recommendations, and in Recommendation 16 (Wire Transfers) specifically. In 2019, the requirements of Recommendation 16 were extended to VASPs.





Who can be considered a VASP?

The Travel Rule primarily affects VASPs, as well as their users. Therefore, individuals and entities engaging in cryptocurrency transactions through VASPs are also indirectly impacted by the Travel Rule.

According to the FATF, a VASP is a natural or legal person who, as a business, conducts the following activities:

- 1 Exchange between virtual assets and fiat currencies.
- 2 Exchange between one or more forms of virtual assets.
- 3 Transfer of virtual assets.
- 4 Safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets.
- 5 Participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

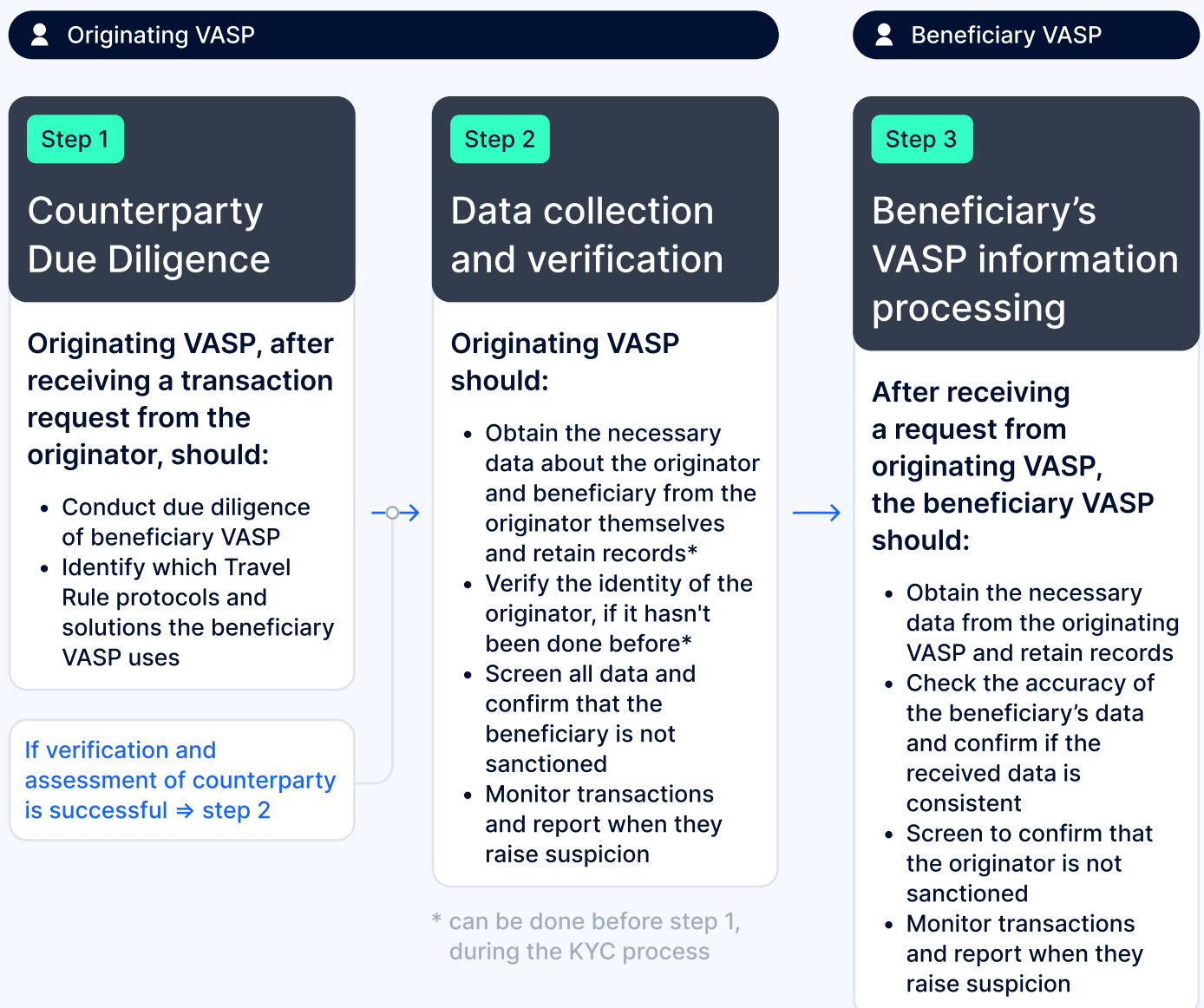
VASPs are now required to implement Travel Rule measures in addition to traditional AML measures such as Know Your Customer (KYC) procedures, ongoing monitoring, sanctions screening, recordkeeping and other compliance measures. It is also worth noting that different terminology is used in certain regions (i.e., VASPs are also known as crypto providers in parts of the EU).

How Travel Rule solutions work



Specialized Travel Rule solutions are available to assist VASPs in maintaining compliance with FATF and local regulations. These solutions enable them to automate data exchange on transaction participants with other providers, streamlining the process and enhancing efficiency in meeting regulatory requirements.

These are the main steps that all competent and compliant Travel Rule solutions provide:



Travel Rule solutions help VASPs implement further measures in addition to traditional AML procedures, such as Know Your Customer (KYC) processes, ongoing monitoring, sanctions screening, recordkeeping, and other compliance measures.

The above measures are included within processes that automate data exchanges for clients or those integrated with protocols like TRP and provide all functionalities within one platform.

Email notification features may also be required to facilitate efficient communication and compliance coordination for counterparties using different solutions or lacking Travel Rule measures. However, this particular feature is not designed to facilitate the transfer of travel data; it is simply a method of communication.

Integration with Transaction Monitoring

Elevate your security measures to the next level by using a Travel Rule solution combined with a real-time Transaction Monitoring tool on the same dashboard. This integration ensures swift detection of any suspicious activities, enhancing the overall security of your platform.

Become Travel Rule compliant in just one hour

Automate data transfers with counterparties and ensure compliance with the latest regulatory requirements worldwide.

[Get started →](#)



The Travel Rule's importance

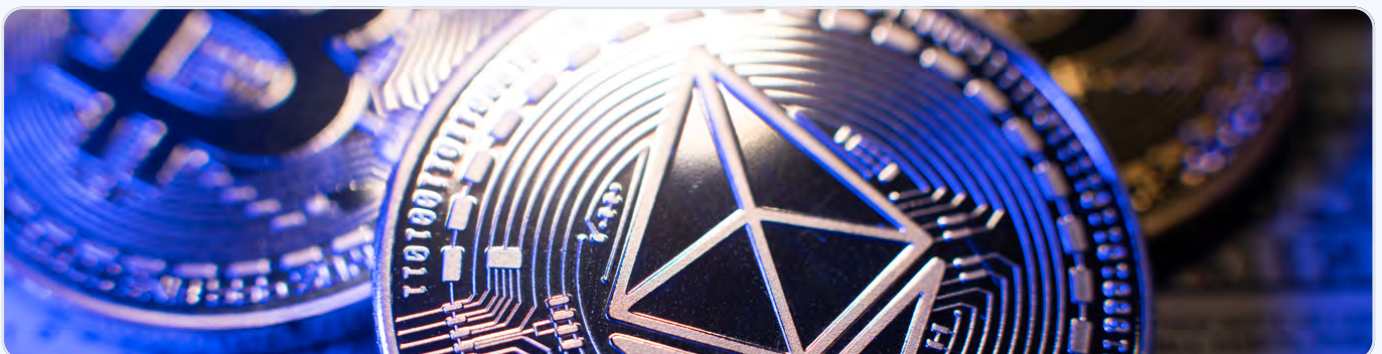


The Travel Rule is a key anti-money laundering (AML) and counter-terrorism financing (CTF) measure that enables VASPs and financial institutions to prevent terrorists, money launderers, and other criminals from accessing wire transfers to move their funds (including VAs) so that misuse can be detected when it occurs. As mentioned earlier, this functionality mirrors AML/CTF efforts in traditional finance.

The virtual asset (VA) industry has proactively addressed FATF standards by creating various compliance tools. These tools enable VASPs to gather information about the originator and beneficiary of a transaction, facilitating the sharing of this information with the corresponding VASP on the other end. However, these compliance tools encounter two significant challenges:

- ensuring adherence to the FATF Travel Rule requirements
- and friction arising from the current lack of interoperability between different Travel Rule compliance tools.

Addressing the Travel Rule is imperative for crypto's integration into the existing financial landscape and maintaining a secure, accountable, and compliant environment.



The Travel Rule is an essential concept for the following reasons:

AML/CFT Compliance



The Travel Rule is a key measure of AML/CFT legislation, strengthening global efforts to combat illicit financial activities. Adherence is a requirement in countries that have implemented the Travel Rule, but VASPs can also implement it voluntarily, even if national enforcement is not yet in place.

Enhanced regulatory oversight



Implementing the Travel Rule facilitates closer scrutiny by regulatory bodies, promoting a more regulated and accountable financial landscape.

Risk mitigation, fraud prevention, and transparency



By mandating the exchange of originator's and beneficiary's information, the Travel Rule acts as a deterrent to fraudulent activities, reducing the risk of financial crimes. The regulation promotes transparency by requiring the sharing of transaction details, fostering trust and accountability in the virtual assets field.

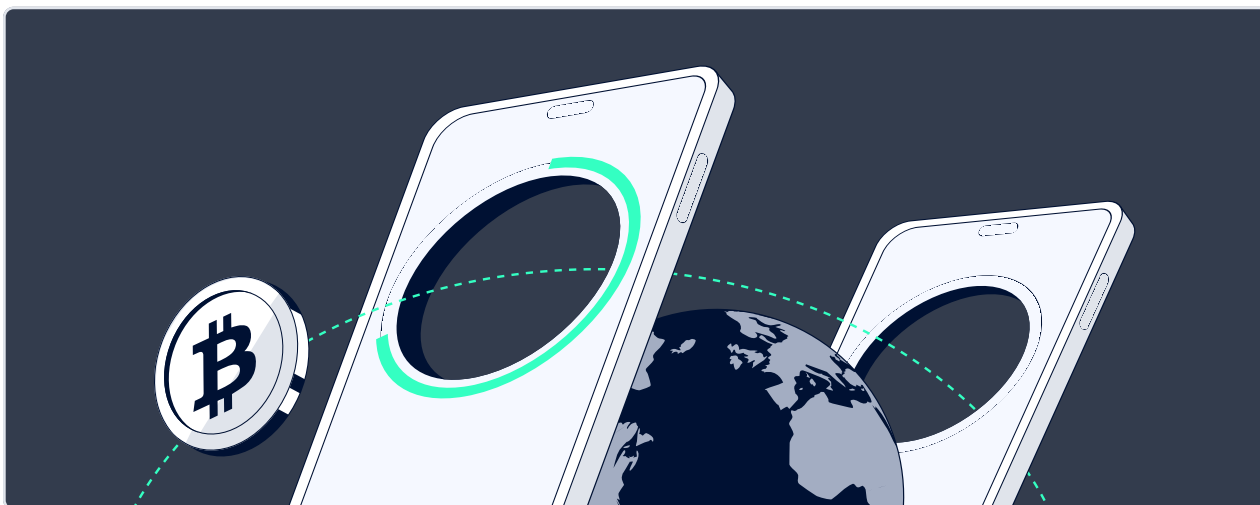
Cross-border coordination



The Travel Rule facilitates seamless information exchange between VASPs and financial institutions engaged in virtual asset (VA) transfers across borders, promoting international collaboration in tracking and preventing financial misconduct.

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How does the Travel Rule work for VASPs?



The Travel Rule operates in such a way that, in a nutshell, it requires VASPs to have information not only about their own clients (i.e., the senders of the payment) but also about the recipients of the cryptocurrency transfer, even though these recipients may not be clients of the VASP. This concept is already in operation for banks and payment services in traditional finance, and now certain regulators want to start applying it to VASPs.

Status of implementation by jurisdiction

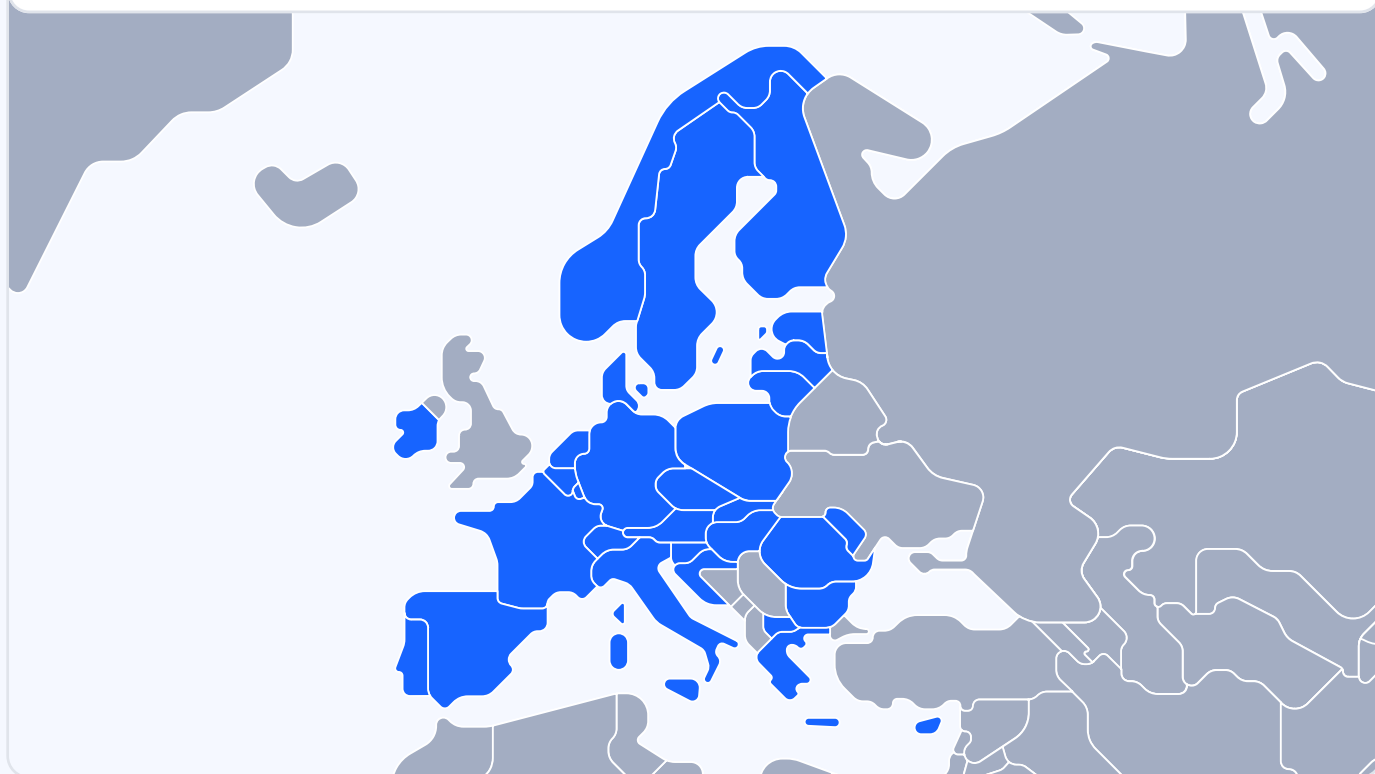


EU

In the European Union, big changes occurred in 2023. It is also worth mentioning that the Travel Rule was already in effect in some European countries before this.

On 20 April 2023, the EU Parliament approved two acts:

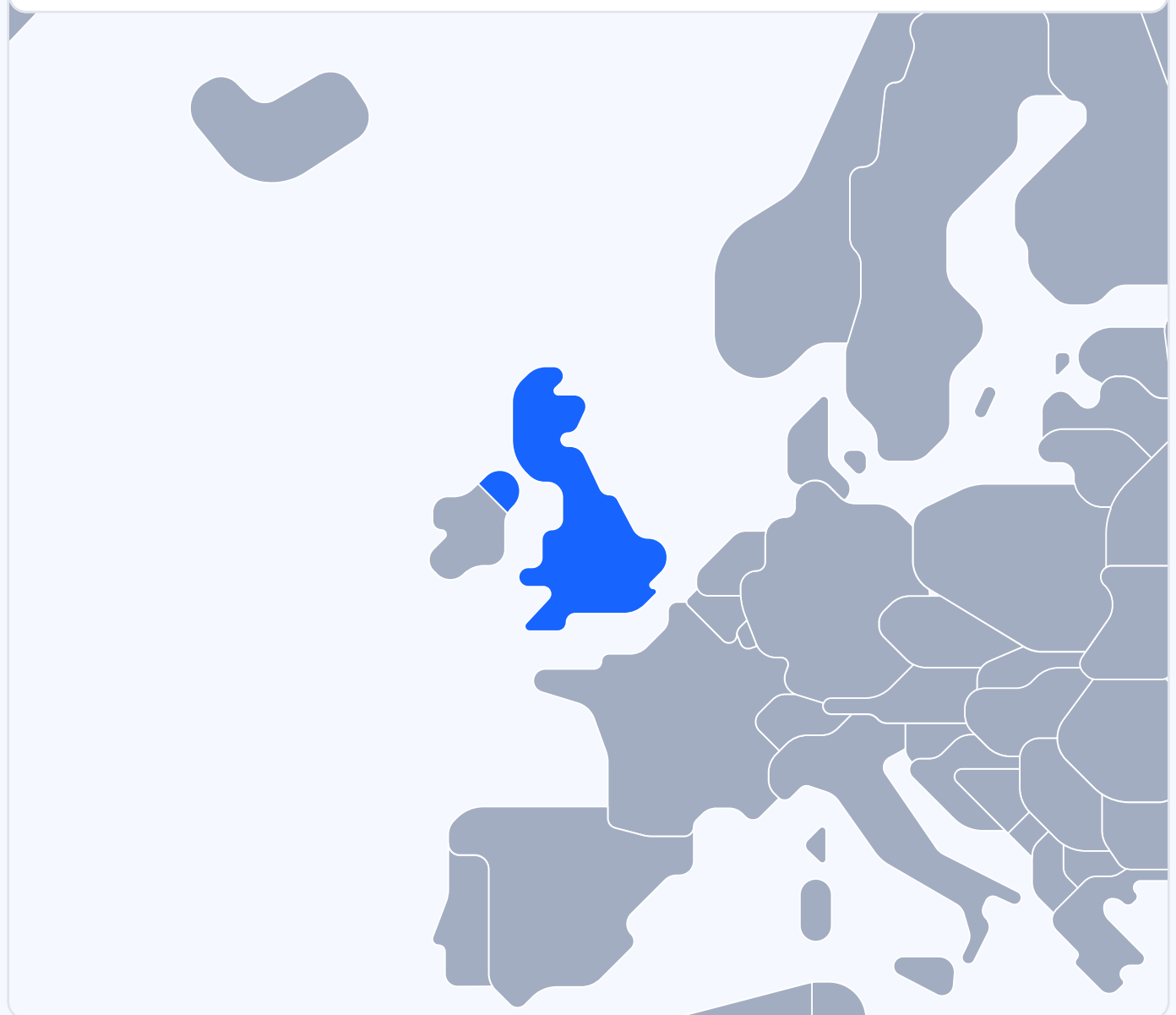
(i) the “Markets in Crypto Assets Regulation”, or MiCA; and (ii) the revised “Regulation on information accompanying transfers of funds and certain crypto-assets”, or TFR. Whereas the MiCA establishes a uniform legal framework for crypto-assets in the EU, the TFR specifically addresses the Travel Rule. Both regulations came into force in June 2023, but will apply for all EU CASPs – Crypto Asset Service Providers – starting from 30 December 2024.



UK

In the UK, VASPs – or cryptoasset businesses in terms of UK legislation – are subject to the Travel Rule starting from 1 September 2023.

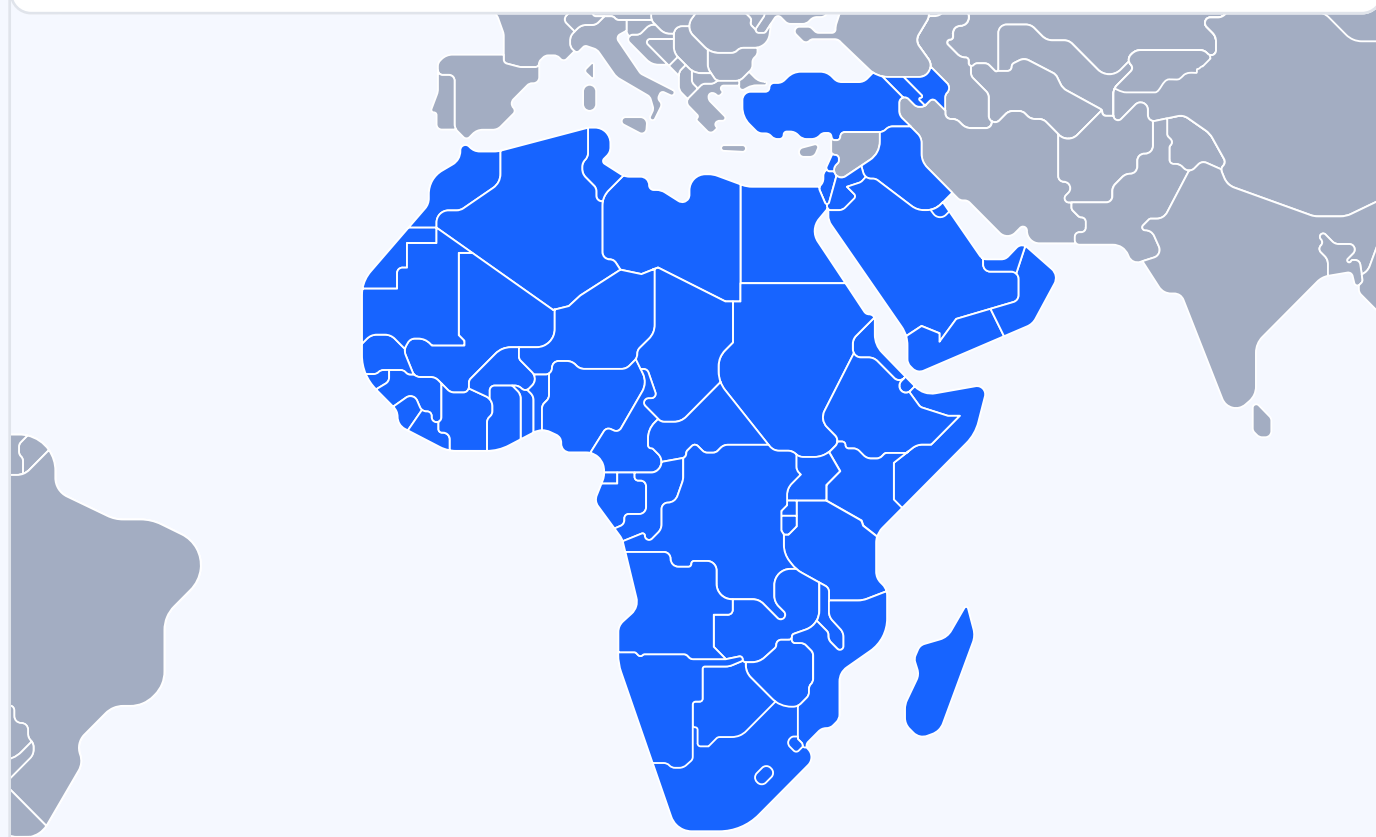
Generally, the requirements in the UK are based on the FATF standard but have several peculiarities. For example, these peculiarities are the de minimis threshold requirements, requirements for cross-border and domestic transfers, and verification of unhosted wallets.



MEA

The implementation of the Travel Rule in the Middle East and Africa (MEA) region is in its early stages, with notable legal provisions present in Zambia, Nigeria, UAE, and Mauritius. Sumsu remains actively engaged in researching and consulting with regulatory authorities to facilitate Travel Rule application in these jurisdictions, including monitoring the regulatory landscape in South Africa.

In 2023, the Virtual Assets Regulatory Authority (VARA) in Dubai's free zones and mainland, excluding the Dubai International Financial Centre (DIFC), published a Rulebook, offering recommendations for Travel Rule compliance, incorporating minor clarifications and additions compared to federal law, particularly regarding VASP due diligence (DD) and unhosted wallets.



APAC

The APAC region has a growing pattern of implementation of the Travel Rule. For example, Singapore, Korea, Japan, Philippines, New Zealand, Hong Kong, Malaysia, and Indonesia already have a Travel Rule requirement. Other countries, such as Australia and Vanuatu, are still in the process of implementing the requirement.



LATAM

In Latin America (LATAM), the regulatory landscape for virtual assets is beginning to emerge. In December 2022, Brazil enacted Federal Law No. 14.478/2022, initiating virtual asset regulation. By June 2023, Brazilian Federal Decree No. 11.563/2023 designated the Central Bank of Brazil as the regulatory authority for cryptocurrency trading. Despite this, AML/CFT regulations for VASPs are yet to be implemented in Brazil, resulting in the absence of Travel Rule obligations.

A similar scenario unfolds in Argentina and Chile, where proposed amendments in 2022/2023 aim to address virtual assets and VASPs, yet comprehensive clarity remains pending.

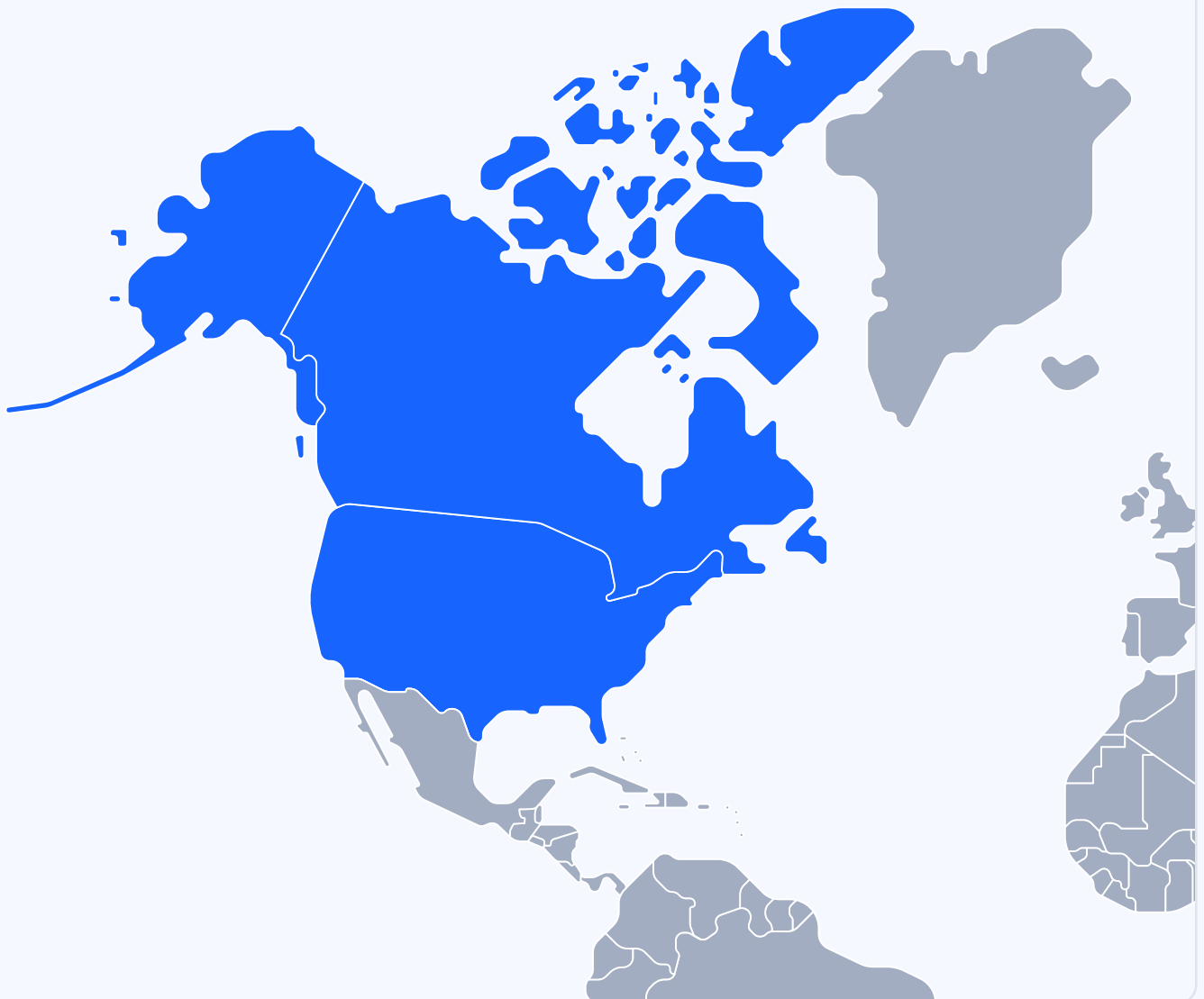


North America

In the US and Canada, Travel Rule requirements already apply to VASPs.

In the US, the Travel Rule was implemented in relation to CVC (Convertible Virtual Currency) in 2013, and in Canada on 01/06/2021.

As regulation evolves quickly, businesses potentially subject to the Travel Rule need to be ready for it to be enacted in their own jurisdictions.



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If a VASP operates in different jurisdictions, what Travel Rule requirements should apply?



When a VASP operates across multiple jurisdictions, determining which regulatory requirements to follow involves careful consideration of several key factors:



Place
of registration



Operational
locations



Specific
local VASP
requirements

Firstly, a VASP must adhere to the regulatory requirements of its country of registration. This compliance is guided by local regulations, which may be part of broader regional directives. For example, a VASP registered in Lithuania is bound by Lithuanian regulations, which are, in turn, influenced by EU-wide directives, including the Travel Rule.

In cases where a VASP has multiple legal entities in different jurisdictions, each entity must comply with the regulatory framework of its respective country. For instance, if a VASP operates legal entities in both the Netherlands and another country, each entity must independently comply with its local regulations and report to its national regulator.

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Suppose a VASP serves customers from other countries while registered in one jurisdiction. In that case, it must comply with its home country's regulations and evaluate whether it is targeting customers in other jurisdictions. This involves assessing whether the VASP is directly targeting citizens of other countries and understanding the specific requirements for providing virtual asset services in those countries. For instance, a VASP registered in France that targets French and Canadian customers must follow French regulations and may also need to register with Canadian FINTRAC as a Financial Services Business, adhering to Canadian AML/CFT requirements, including the Travel Rule.



Navigating the FATF criteria: challenges and solutions



The FATF criteria

The Travel Rule is a term used to refer to FATF Recommendation 16 in terms of VA transfers, which requires VASPs and financial institutions engaged in VA transfers to obtain information about originators and beneficiaries. This information is then shared with counterparty VASPs or financial institutions during or before the transaction.

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Travel Rule requirements



The Travel Rule aims to add traceability to transactions, therefore preventing money laundering and terrorism financing.



The Travel Rule applies to any transfer of funds exceeding a specific value, although certain countries may not have a threshold at all.

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The FATF recommends applying the Travel Rule to any transaction over USD/EUR 1000 involving another VASP, but some countries can set their own thresholds.



More specifically, the FATF specifies that countries may choose to adopt a threshold for VA transfers of USD/EUR 1000 in line with the FATF Standards. If countries decide to implement such a threshold, there are comparatively fewer requirements for VA transfers than for VA transfers above the threshold. However, for transactions below USD/EUR 1000, the FATF still requires a set of information to be transmitted.

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According to the FATF, the Travel Rule flow for two VASPs can consist of the following steps:



- Counterparty Due Diligence (including counterparty VASP attribution)
- Collection of required and accurate originator information and required beneficiary information by originating VASP*
- Receiving of required originator information and required and accurate beneficiary information by beneficiary VASP*

*Plus sanctions screening and monitoring



More precise requirements will need to be checked depending on your jurisdiction

Here are some of the FATF requirements criteria:

De minimis threshold

Countries may adopt a de minimis threshold of 1,000 USD/EUR for VA transfers while keeping in mind that there would be comparatively fewer requirements for VA transfers than those above the threshold.

For VA transfers under the threshold, VASPs must collect:

- The name of the originator (sender) and the beneficiary (recipient)
- The VA wallet address for each or a unique transaction reference number

This information does not need to be verified unless there are suspicious circumstances related to ML/TF, in which case information about the customer should be verified.

Data collection

For transfers exceeding the threshold, VASPs must collect and transfer:

- Originator's name
- Originator's account number for the account used to process the transaction (e.g., wallet address)
- Originator's physical (geographical) address; national identity number; customer identification number (i.e., not a transaction number) that uniquely identifies the originator to the ordering institution; or date and place of birth
- Beneficiary's name
- Beneficiary's account number for the account used to process the transaction (e.g., wallet address)

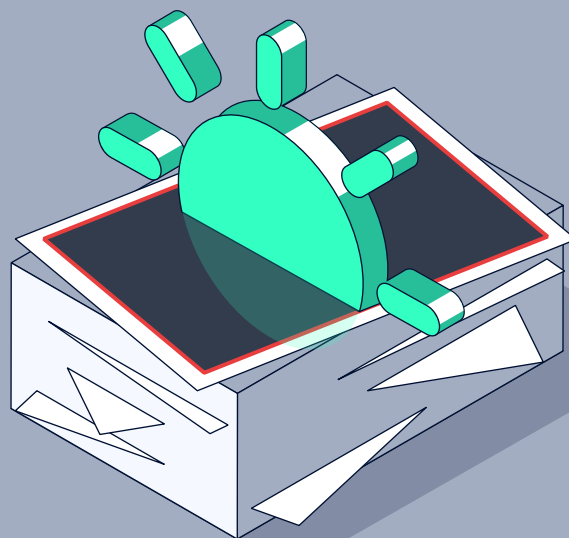
Travel Rule challenges

Implementation of the Travel Rule has been slow because of the many challenges it raises, such as:

The “sunrise issue”

The Travel Rule "sunrise issue" refers to the challenge of implementing compliance measures among VASPs before a universal standard is established, creating potential operational difficulties.

While some countries have already implemented the Travel Rule (so the sun is “up”), some others have not, so the sun is “down”. This leads to a scenario where one VASP participating in a transaction has to comply with the Travel Rule, but its counterparty doesn't.



Lack of a uniform technical solution and interoperability issues

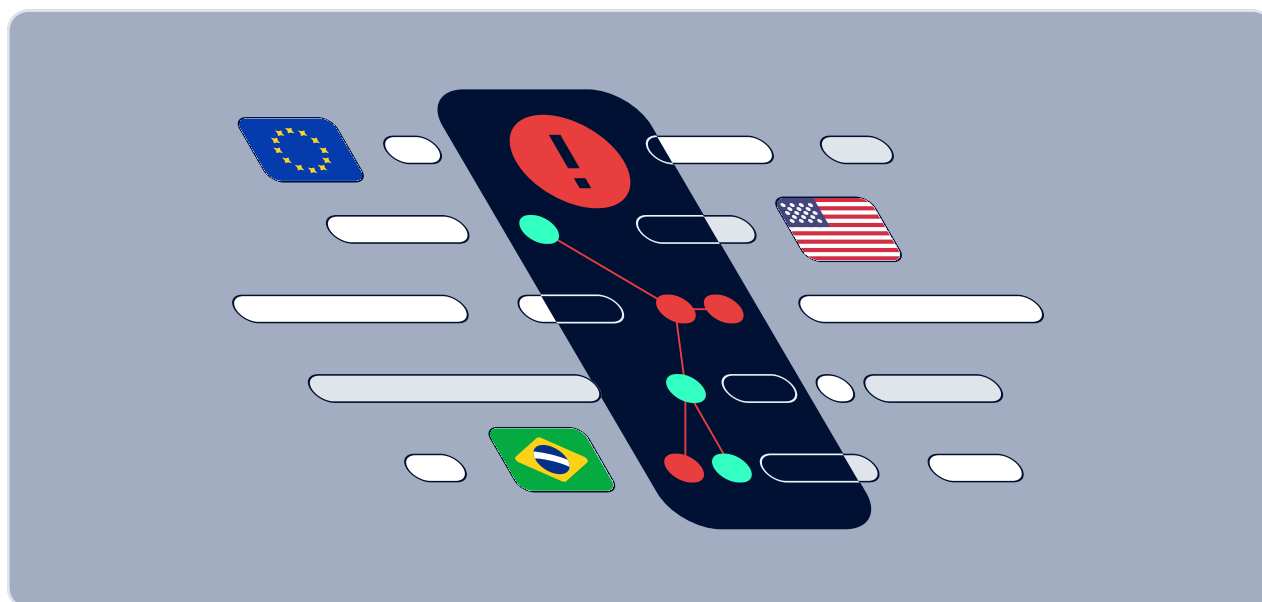
There's a lack of standardized technical solutions for Travel Rule implementation. Varying approaches and technical specifications across jurisdictions create interoperability challenges and hinder a consistent global framework.

The FATF, along with other countries, is adopting a technologically neutral approach to address these issues. However, this approach results in a lack of standardized solutions, leading to interoperability challenges. Consequently, VASPs find themselves in a position where they either implement multiple protocols and work with various providers, incurring potentially high costs, or alternatively, they may need to restrict overall transactions due to the absence of a universally accepted and compatible solution.



Different approaches of jurisdictions to the Travel Rule requirements

Jurisdictions have diverse interpretations and expectations regarding Travel Rule compliance, leading to a lack of harmonization. VASPs cooperating with counterparties in different countries will face difficulties, contributing to complexity and potential regulatory friction.



The cost of new processes

The Travel Rule can place a burden on VASPs, requiring process changes and incurring additional costs. VASPs must adapt to stringent information-sharing requirements, implement new compliance measures, and strive for seamless interoperability within evolving regulatory frameworks.



Solution summary



The following table shows a combined summary of FATF's Travel Rule recommendations and the solutions available from Sumsu:

FATF criteria	Sumsu functionality
Timing and scope of Travel Rule data submission	
Small value VA transfers: Can submit data for transfers < USD/EUR 1,000	✓
VA type coverage: Supports all VA types	✓
High volume handling: Manages large transaction volumes securely and efficiently	✓
Immediate data submission: Sends originator and beneficiary data to beneficiary VASPs upon or before a blockchain/DLT-based VA transfer	✓

FATF criteria	Sums sub functionality
Counterparty VASP identification and due diligence	
Locate counterparty VASP: Identifies the counterpart for VA transfers	✓
Communication channel for due diligence: Facilitates data requests for counterparty due diligence	✓
Risk transaction checks: Enables inquiries about high-risk or prohibited transactions	✓
Record-keeping and transaction monitoring	
Compliance-driven record-keeping: Offers solutions for data retention, transaction monitoring, and reporting in line with national data protection standards	✓
Data download: Allows user VASPs to download retained data	✓

FATF criteria	Sumsb functionality
Interoperability with other Travel Rule compliance tools	
Interoperable data submission: Communicates with VASPs using different Travel Rule tools	⊙

Implementation advice

Implementing a Travel Rule solution is resource-intensive. It requires adjusting internal processes and integrating TR into transaction tools. Considering the complexity, early implementation is advisable to navigate the process efficiently and ensure compliance with regulatory requirements before there is a rush to do so.

Forecasting the future: trends in Travel Rule compliance



Greater global coverage

In 2024, the Travel Rule is set to be implemented across the European Union. Since the FATF is determined to promote the implementation of the Travel Rule in every possible way, an increasing number of countries in other regions are expected to implement it. This collaborative approach signifies a concerted effort within the industry to enhance the efficiency and comprehensiveness of Travel Rule implementation.

The global financial industry has also made significant progress in resolving interoperability issues between different networks, creating improved technical cooperation. These developments are expected to continue as compliance gaps are closed, leading to more interconnection and compliance in the crypto ecosystem.

Unified regulatory frameworks

Further improvements to the requirements and solutions for existing problems can be expected. For example, the FATF Virtual Assets Contact Group (VACG) serves as a platform for representatives from countries and international organizations to discuss global advancements and regulatory challenges. Notably, providers of Travel Rule solutions and blockchain analytics tools participate in these meetings, offering technical expertise and contributing to discussions on the practical implementation of recommendations.



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Head of Fintech Compliance Team, Sumsu



The Travel Rule is undoubtedly one of the key changes in regulating virtual assets and VASPs in recent years. It promotes a good goal, but unfortunately, as the practice has shown, its implementation faces serious difficulties for a number of reasons.

The primary task is to remove these obstacles to the widespread implementation of the Travel Rule, which will further help close the loophole for money laundering, terrorist financing, fraud, and other illegal transactions. Right now, various trends show that work in this direction is happening.

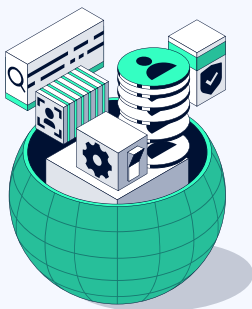
One example of a current trend is the mitigation or blurring of the interoperability issue. Sumsu feels this trend firsthand. This firsthand experience underscores the importance of coordination and cooperation among solution providers, complemented by the collaborative efforts of international organizations, countries, and industry stakeholders. Together, these initiatives aim to fulfill the global goals of the Travel Rule.



Sums sub is a holistic platform that secures every step of the user lifecycle with customizable KYC, KYB, AML solutions, and advanced transaction monitoring.

We offer vast experience with hundreds of crypto clients and help financial institutions and VASPs to meet all FATF Recommendations and become 100% Travel Rule compliant.

Sums sub has over 2,000 clients including Binance, Wirex, Bybit, Paxful, and Bitget.



360-degree platform

User verification, business verification, transaction monitoring, Travel Rule compliance, and case management all in a single dashboard.



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Mercuryo stands out in the decentralized ecosystem by enhancing payment use case growth and seamless on-chain integration, simplifying the user experience, especially for newcomers to this market.

It enables efficient capital flow within the DeFi ecosystem and consolidates various payment and banking solutions into a single, user-friendly interface.

Since 2018, we've proudly partnered with industry leaders like MetaMask, Trust Wallet, Ledger, Jupiter, 1inch, PancakeSwap, and more, with plans to expand further as we continue to innovate with our stack of products.

Simplify your journey to Travel Rule compliance

From robust identity verification to efficient data transmission and continuous crypto transaction monitoring, Sumsub is here to help you verify every step of the user journey.

Get a free tool to comply with the Travel Rule

Access the Sumsub client ecosystem to both send and receive Travel Rule transfers free for six months!

[Get started →](#)

