

FINANCIAL ACTION TASK FORCE (“FATF”) TRAVEL RULE AS IMPLEMENTED IN SINGAPORE

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Financial Action Task Force (“FATF”) Travel Rule as implemented in Singapore



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Purpose of the FATF Travel Rule

It is common for virtual assets such as cryptocurrencies to be used as a means to layer illicit transactions, in which Virtual Asset Service Providers (“VASPs”) operating in jurisdictions that do not have effective anti-money laundering (“AML”) and counter terrorist financing (“CTF”) regulation in place are commonly exploited by using technological tools to increase anonymity of transactions. Examples of such technological tools are cryptocurrency tumblers or cryptocurrency mixers which mixes “tainted” cryptocurrency funds with other funds to prevent or obscure the ability to trace the original source of the “tainted” funds.

What is the FATF Travel Rule

The FATF Recommendation 16, (the “Travel Rule”), was originally intended to help AML/CTF efforts in relation to wire transfers however, in recent times, the Travel Rule has been expanded to include VASPs (viz. Crypto exchanges). The Travel Rule would therefore require VASPs to “include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain”. In this regard, virtual exchanges are required to provide certain levels of details and verification of information of the people that are trading on their platform to continually monitor and ensure compliance with AML and CTF requirements.

In Singapore, the Monetary Authority of Singapore (the “MAS”) has noted an upward trend of suspicious virtual asset transactions reports lodged with law enforcement, including transactions relating to scams, fraud, cybersecurity related offences, and darknet marketplaces. Law enforcement agencies have also

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taken a series of enforcement actions against illicit Digital Payment Token activities, which include sentencing a woman for providing an unlicensed payment service using bitcoin.

Implementation of the FATF Travel Rule in Singapore

On 5 December 2019, MAS issued (effective from 28 January 2020) a notice on the prevention of money laundering and countering the financing of terrorism – Holders of Payment Service Licence (Digital Payment Token Service) (the “PSN02”). This would require VASPs intending to carry out payment services to comply with and be subject to the effective systems of continuous AML monitoring and CTF supervision. PSN02 is aligned with the Travel Rule and is referred to in paragraph 13 of PSN02:

“Paragraph 13 shall apply to a payment service provider when it effects the sending of one or more digital payment tokens by value transfer or when it receives one or more digital payment tokens by value transfer on the account of the value transfer originator or the value transfer beneficiary but shall not apply to a transfer and settlement between the payment service provider and another financial institution where the payment service provider and the other financial institution are acting on their own behalf as the value transfer originator and the value transfer beneficiary.”

Thus, paragraph 13 imposes a continuing obligation on a payment service provider to comply with its requirements thereby embodying the essence of the Travel Rule. MAS does not stipulate a transaction cut-off size for the Travel Rule to apply but for transactions below S\$1,500.00, only the following information is required to be shared:

1. Name and account number of the originating customer; and
2. Name and account number of the beneficiary.

Recently, Binance, the world's largest cryptocurrency exchange platform with trading volumes that average approximately \$60 billion each month, has been under increasing governmental authority scrutiny in several jurisdiction around the world, facing regulatory crackdowns by the UK's regulator, the Financial Conduct Authority (Binance was banned by the UK's Financial Conduct Authority on 28 June 2021), and also from other regulators in Japan and Canada, for continuing business without the requisite licences. It was reported on 3 July 2021 in the Bangkok Post that the Securities and Exchange Commission of Thailand has filed a criminal complaint against Binance, for illegally operating a digital asset business without a licence under the Digital Asset Businesses Decree of Thailand.

In April 2021, Germany's financial regulator BaFin also warned Binance Germany for breach of European Union securities law by issuing securities-tracking digital tokens without publishing an investor prospectus. “BaFin has grounds to suspect that Binance Germany is selling shares in Germany in the form of ‘share tokens’ without offering the necessary prospectuses” it said.

In May 2021, the US Department of Justice and the Internal Revenue Service announced that they were investigating Binance. The investigation came about after blockchain forensics have shown that more funds tied to criminal activity have passed through Binance than any other single exchange in the world.

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In Singapore, on 2 July 2021, in response to the investigations and crackdowns conducted by several other countries against Binance, MAS told the media that it is aware of actions taken by other regulators against Binance. In response to a Straits Times' query, MAS noted that Binance's Singapore arm, Binance Asia Services is exempted (under a grace period) from holding a licence under the Payment Services Act for the provision of digital payment token services as its licence application is being reviewed.

The reliance of the Travel Rule and more transparent and stringent regulations ensure that there would be a trace on the originator and beneficiary of the virtual assets and FATF member countries (including Singapore) would have a better sense geographically of the transfer of such assets from the place of origin to the destination. Whilst these regulations may to some degree stifle innovation and may sift out smaller VASPs that may not be able to comply with the Travel Rule and other MAS regulations, the inherent benefits of the stringent regulations far outweigh the perceived constraints. With virtual assets being more "regulated" for AML and CTF purposes, there will be a reduction in anonymity, and illegal transactions which should provide a better measure of protection to investors, which in turn may boost investors' confidence to invest in virtual assets.

Singapore's approach to and regulatory treatment of cryptocurrency has been pro-active and open-minded to accepting and recognising VASPs in Singapore. However, as Singapore's reputation as a financial centre (and fintech hub) is built on clarity, transparency and stability, it will be important for VASPs to be bound by MAS regulations, the overarching guidelines provided by the FATF and the Travel Rule.

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