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Challenges to the Global Implementation of Travel Rule Solutions: Technologies, Management, and Regulations Surrounding Virtual Assets

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The Financial Action Task Force revised its Recommendation 16 to embrace Virtual Asset Service Providers (VASPs) with the *travel rule* in June 2019 (FATF, 2021). The travel rule defines the information that VASPs should aggregate and share when virtual assets transfer from an originator to a beneficiary. Pseudonymity is a key to the virtual assets relying on the distributed ledgers open to the public (Genkin et al., 2018). Therefore, financial regulators must dress virtual assets in traceability to protect the world from the phantom menace financing crimes and terrorism.

However, the FATF (2021) worries about the unsatisfactory progress of implementing the travel rules in jurisdictions. For example, South Korea postponed enforcing the act regarding the travel rule by March 24th, 2022, i.e., two years after its amendment on March 24th, 2020. The stretching "sunrise" period of the *travel rule* might fail to institutionalize virtual assets as VASPs can evade a complying jurisdiction simply by migrating to an emancipating jurisdiction (FATF, 2021: 36). What is the problem with the global implementation of travel rules while regulations guide it and the market provides travel rule solutions?

The research examines technological, managerial, and regulatory architectures surrounding blockchain-based virtual assets. The architectures show three practical issues on implementing the travel rules. First, the travel rules cause the trilemma among blockchain's decentralization with pseudonymity, regulation's centralization with real names, and travel rule solutions' matching real names with pseudonyms. Second, adopting a travel rule solution through the consensus between a pair of VASPs increases the market uncertainty more than individual-based adoption governed by network externalities (Shapiro, 1999). Third, travel rule solutions have a structure hard to be compatible with each other, as individual VASPs' verification process is entangled with inter-VASPs' communication protocols.

The research suggests that the global implementation of travel rule standard requires co-production of regulations, businesses, and technologies (Jasanoff, 2006). The research will contribute an architecture-based approach to theories and practices of information systems.

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