

Regulating Digital Currencies: bitcoin and anti-money laundering strategies

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Bitcoin and Anti-Money Laundering Strategies

- Define the money laundering threat of Bitcoin.
- Focus upon the intention to apply anti-money laundering regulation to digital currency exchanges.
- Consider the amenability of Bitcoin to licensing, customer due diligence, and suspicious activity reporting
- Consider the risks of regulation

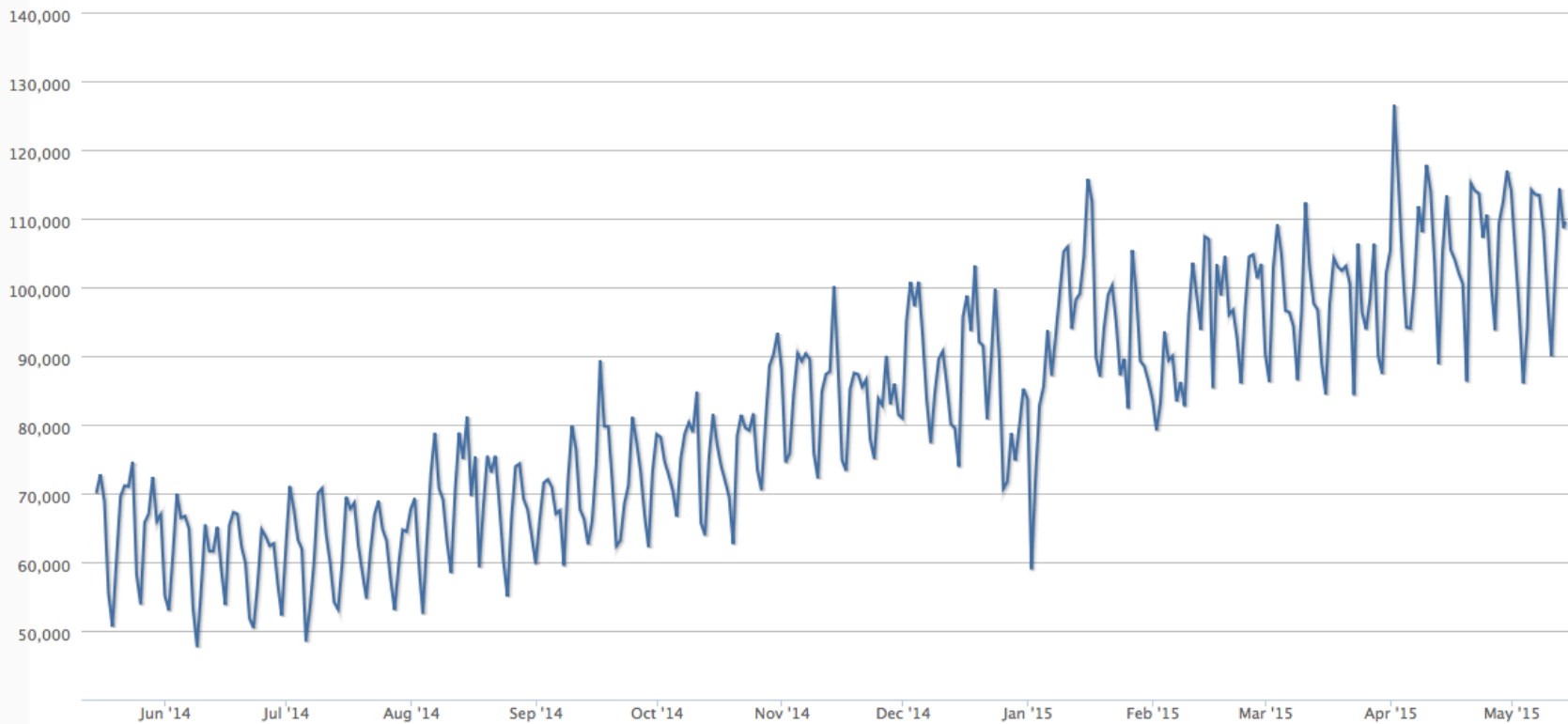
Defining Bitcoin

- Experimental, digital currency.
- Created, managed, and transferred ('spent') via a Peer-to-Peer (P2P) network.
- Spent through use of a Bitcoin address and a private Bitcoin key.
- No guarantor supporting each BTC.

Bitcoin Uptake

Number Of transactions Per Day

Source: blockchain.info



Value against the US Dollar

Market Price (USD)
Source: blockchain.info



Money Laundering Risks

- Accessible, easy transfer of value
- Circumvention of professionals
- International reach
- Non-face-to-face transactions
- Anonymity in transferring value

Digital Currency Consultation

“the government intends to apply anti-money laundering regulation to digital currency exchanges, to support innovation and prevent criminal use. The government is committing to a full consultation on the proposed regulatory approach early in the next Parliament”

HMT, Digital currencies: response to the call for information (March 2015)

Licensing/Registration

- For digital exchanges only?
- Implemented in US
- UK approach to 'money service businesses'
 - HMRC registration
 - Fit and proper test under MLR 2007

Customer Due Diligence

- KYC and related obligations well established.
- The use of exchanges as a regulatory 'choke-point'.
- Risk-based customer profiles possible.

Suspicious Activity Reporting

- What would a suspicious bitcoin transaction 'look' like?
- What actually *is* the difference between a 'mere inkling' and a subjective suspicion?
- How useful are redflags for other financial products and services?

The Risks of Regulation

- The balance between nurturing developing industry, preventing financial crime and protecting consumers.
- The legitimacy problem
- *A de facto* global currency?