**Could Bitcoin ever hope to engage with the Know Your Customer/AML/CTF identification requirements of currency regulators?**

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# Introduction

The alternative and digital system of transaction has procured space for the crypt currencies like Bitcoin which can be used as a worldwide payment system. The use of bitcoin eradicates the problems of different currencies as it is the very first decentralised and digital currency which can operate without the administration of a central bank or a monopolistic administrator. The use of bitcoin emerged from 2009 whereas the coins are unspent outputs from different kind of transactions in the numbers of multiplication of a single satoshi. The assignment will deal with the issue whether this crypto currency can maintain compliance with the requirement of the KYC, AML or CTF to be considered as valid for worldwide use.

# Know Your Customer/AML/CTF identification requirements

The Know your customer of KYC is a directive for preventing the activities of money laundering whereas the AML itself is anti-money laundering directive. The Australian government also has an Anti Money Laundering and Counter-Terrorism Financing Act 2006 to prevent unauthorized money laundering that are mainly used to finance illegal terrorist activities all over the world. There are various legal requirements of KYC, AML or CTF in the legal spectrum of Australia such as verification of the identity of the customers of bank transactions. It focuses on the requirements of the ownership of the accounts to verify the legal process of monetary operations (Meredith *et al.* 2015). Apart from that, the KYC requirements constitute the acquiring of identification to make future disbursements. The KYC requires the accounting process of all the customer related information to make determination whether the transaction is unusual in the regular business process. The requirement of due diligence is mandatory for the KYC maintenance that needs official identification of the individuals along with corporate documents. In addition to that, the other requirements are financial statements and bank references. There are mainly four elements of the KYC policies that are acceptance policy of customer, identification process of customer, transaction monitoring and risk management. The KYC process should be rigorous and robust with supervision of regulators whereas the KYC process ought to incorporate the EDD files to prevent unauthorized transaction of money (Wolfson *et al.* 2015). The KYC generally have to provide reasonable assurance based on the legal standards and balance of probability to identify the unusual exchange of money.

On the other hand, the AML/CTF identification requirement also focuses on the deterring process of the terrorism financing and money laundering. There are many obligations under the AML/CTF act of the legislative guidelines that mainly focuses on the enrollment and registration of the business to the usual spectrum of commercial transactions. On the other hand, the customer identification is another important requirement for AML/CTF identification process whereas the verification of the identity should be focused on for the purpose of maintaining assurance of the transactions in legal spectrum (Reynolds *et al.* 2017). Another important requirement of the process of AML/CTF is the record keeping of the possible transactions in order to prevent the chances of money laundering and circulation of black money outside the spectrum of taxation of the country. Apart from that, this encompasses another requirement of establishment and maintenance of the anti-money laundering program in the identification and verification process. The requirement also includes the report of customer due diligence for maintaining the records of the customer to detect the unusual transactions.

# Adherence of bitcoin with the requirements

Bitcoin can be considered as the only currency that has a structure of its own along with adequate governance, purpose and the technology. In case of many countries the exchange of bitcoin are considered as subject of bank secrecy act laws whereas the exchanges ought to maintain compliance with the requirements of the know your customer. The bitcoin is less likely to adhere with the regulations of the KYC or AML as those mainly focuses on accounting the identification and verification of the customers but bitcoin users are very much anonymous and hence cannot be accounted or monitored. The linkage among the parties of bitcoin transaction is very much dependent on the exchanges of the bitcoin through implementing the compliance programs with sheer effectiveness (Pieters *et al.* 2017). The crypto changes can maintain the established vendors with viability and security of the value of common exchange of bitcoin. In the use of bitcoin, the validation of the customer attitude with the customer information acquired through due diligence process cannot be done for the anonymity of the users which prevents in making compliance with the requirements.

Apart from that, the bitcoin transactions prevent the blockchain monitoring for lack of customer identification information and hence it causes problems in identifying the illicit transactions of bitcoin with unknown monetary value. The anonymous use of bitcoin also differs from the requirement of KYC as it does not use any reputable or licensed process of exchange and hence there is no way to track down the move of the funds. The requirements of AML requires the authority to the taxation department for altering the technical rules of an exchange for the safety and other related interest of national economy. In this case, bitcoin cannot be monitored or altered by the states as this is very much decentralized in nature. Only the use of de facto ban can be effective to criminalize the bitcoin transaction but there is no way to maintain due diligence in the bitcoin transaction process (King *et al.* 2015). The CTF requires the exchange medium to be of uniform quality to track the unusual happenings whereas the bitcoin status can be varied in different transactions and that can make the process of tracking nearly impossible for the units of counter terrorism financing. The very anonymous activities of the bitcoin owners can create deception to deviate the regulatory authorities for making identification of the customers through verifying them with the ID card numbers, bio-digital scanning or social security IDs. The lack of compliance with the KYC requirements makes it almost impossible to make investigation of the money laundering activities based on exchanges of bitcoin.

As per AML requirements, the identification of the customers can be used after the completion of the transaction to make investigation whereas the bitcoin exchange completely wipes out the process of transactions along with the parties involved in the transaction after the conversion of the bitcoin value into cash currencies. The AML demands the personal information of the user to keep them stored for future investigation purpose for tax evasions but there cannot be any appropriate data on the anonymity of the bitcoin users and that makes it hard for maintaining compliance with the legal standards (Johnson *et al.* 2008). The requirement of the anti-money laundering frameworks demand some sort of linkage of the customers with the transaction process but there is no such compliance in case of bitcoin as the exchange does not need supervision of a bank or regulatory department and hence it never discloses the true identity of the parties involved in exchanging bitcoin. Hence, there can be many advantages of bitcoin but it does not simply fulfil the varied legal requirements of KYC, AML and CTF such as proper identification of the customer to store the information which incurs prevention for the currency regulators to track the transactions and identify the users associated with the transactions for the anonymity of bitcoin.

# Conclusion

Along with the rapid advancement of the technology, the decentralised and uniform currency for all the people of the world can bring a new advantage for world economy. But, this much decentralised concept is associated with the anonymity of the users of bitcoin and it makes the duty of anti-money laundering units and anti-terrorist financing unit to identify the owners of bitcoin. Hence, this bitcoin transaction and conversion to monetary value can be widely used for illegal purposes such as capital providing to terrorist groups whereas it also causes massive blow to world economy for the evasion of taxes using the anonymous bitcoin for financial transaction purpose. Hence, it cannot be ever used as a major currency for all of the world because it is very anonymous and contrary to legal requirements.