

Anti-Money Laundering Regulation of Privacy-Enabling Cryptocurrencies

Privacy-enabling cryptocurrencies, commonly known as privacy coins, are enhanced versions of early cryptocurrencies that were developed to protect the financial privacy of individuals and businesses alike. Each privacy coin leverages innovative mechanisms that provide privacy, encryption, and security to its users. Alongside their positive effects, however, these mechanisms have raised an important compliance question:

Is it possible for regulated entities to comply with anti-money laundering (AML) obligations when supporting privacy coins?

The answer, in our view, is yes.

This white paper proceeds in four parts, as follows:

- In Part 1, we discuss the importance and benefits of financial privacy for individuals and businesses, as well as how privacy coins address identified deficiencies.
- In Part 2, we survey several different privacy coins and the mechanisms that each uses for privacy, encryption, and security.
- In Part 3, we survey the approaches taken in the United States (at the federal and state level), Japan, and the United Kingdom with respect to AML regulation of privacy coins in addition to the recommendations set forth by the Financial Action Task Force, an intergovernmental body.
- Finally, in Part 4, we explore the effectiveness of targeted AML regulation on VASPs and how unique features of certain privacy coins assist VASPs with compliance. We conclude that privacy coins protect legitimate individual and commercial privacy interests and that existing financial regulations sufficiently address the AML issues that privacy coins present.

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