ComplyFirst

EXAMPLE RISK-BASED APPROACH USING EXISTING TIER-BASED VERIFICATION

Privacy-preserving cryptocurrencies have features which give them characteristics similar to those of cash.

In instances where an entity has assessed that allowing customers to transact in privacy-preserving cryptocurrencies presents high(er) inherent risk (which may be similar to the risks of cash or mixers depending on the specific case), existing customer risk assessment and due diligence procedures may be sufficient to:

- Reduce the risk that the entity is being used to facilitate ML / TF by knowing more about the customer wishing to transact in privacy-preserving cryptocurrencies.

- Reduce the risk that the entity is being used to facilitate ML / TF by knowing more about the source of funds when a customer wishes to transact in privacy-preserving cryptocurrencies.

The above may be possible to accomplish by using existing tier based verification frameworks.
An example implementation of this might resemble the chart below (for Individuals):

Example risk characteristics by tier

Tier 1 - Low Risk	Tier 2 - Normal Risk	Tier 3 - High Risk
$ Small Deposits/Withdrawals	$$ Medium Deposits/Withdrawals	$$$ Large Deposits/Withdrawals
Regulated Individuals	Normal Individuals	Politically Exposed Persons

Asset types allowable for deposit/withdrawal by verification tier

Tier 1	Tier 2	Tier 3
-	Privacy-preserving cryptocurrencies, Cash	Privacy-preserving cryptocurrencies, Cash
Traceable ETH tokens	Traceable ETH tokens	Traceable ETH tokens
Traceable cryptocurrencies	Traceable cryptocurrencies	Traceable cryptocurrencies
Traceable stablecoins	Traceable stablecoins	Traceable stablecoins

Verification requirements by tier

Tier 1	Tier 2	Tier 3
Email, Name, Phone	Email, Name, Phone	Email, Name, Phone
Address	Address	Address
Valid ID	Valid ID	Valid ID
-	Proof of address	Proof of address
-	Profession	Profession
-	-	Income verification
-	-	Proof of source of funds

Requiring customers who wish to transact in privacy-preserving cryptocurrencies to reach a higher verification tier, and thus submit more information for analysis, may be an effective measure in reducing ML / TF risks to an acceptably low level if lower tiers do not already ask for sufficient information to manage risks.

ABOUT COMPLYFIRST

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DOCUMENT HISTORY

Date	**Description**
11/20/2020	Initial public release
12/7/2020	Terminology changes