

Cryptocurrency, Vice and Money Laundering

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A Recap

Why Money?

- **Exchange mechanism** to enable trade (via cash or electronically)
 - Free within currency and if cash
 - A little bit more costly if digital,
 - Very costly if **currency transaction** involved
- Wealth preservation (inter-temporal consumption choices)
- Traceability
 - Cash: no (if used)
 - Digital transactions: yes
 - Crypto: maybe

Why Banks?

- Maturity Transformation
- Wealth Preservation (via money, security)
- **Payment processor**



Why Central Banks?

- Wealth Preservation (via inflation)
- Provider of liquidity (deflation / gold standard)
- Lender of last resort

=> **Central Bank Digital Currencies (CBDCs)** would provide all this; otherwise there is no role for central banks.

Why Securities Markets?



- Enables the financing of large investment volumes
 - All started under a tree on Wall Street
 - In 1792, brokers signed the Buttonwood Agreement to form an organization for securities trading
 - US was short on capital, Victorian Britain long
- Provider of prices and liquidity
 - Prices key to the functioning of an economy; liquidity drives prices
 - Liquidity allows to change preferences (no lock-up period, and hence lower entry barriers)
- Opportunities for Digital Currencies
 - **Financing of new projects** (legitimate, grey, or illegal)
 - **Global / borderless**
 - **Requires good property rights**

Tokenization

- Enables to freely assign property rights, and divide them infinitely
- Tokens can be assigned to anything (real estate, paintings and art, diamonds, stocks, ...)
- Benefits:
 - Instant verification of ownership (decentralized, no government involvement)
 - Free transactions across borders (global markets)
 - Greater reach of potential buyers, and hence deeper liquidity pools
 - Allows us to finance (large) niche projects
 - We need efficient central exchanges for it to work (Nordics in a good position here)

Smart Contracts

- As we have learnt from Edmund, no role for courts, no discretion
- Smart contracts as the way forward?
 - Automatic execution if certain conditions are met (no discretion)
 - Smart contracts might not be that smart, but might still be useful
 - Credible commitment device
 - 'Useful' for illegal transactions

Issue of unregulated markets and currencies

- Market manipulation
- Manipulation of value of currency (Elon Mask?)
- Fake, fraud, etc..
- Tax (why pay?)
- Open money laundering activities (possible)

=> There is a reason why we moved away from them

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