Cryptocurrencies: An Illusion or Reality?

"Cryptocurrencies are the NEW Hedge against the DYING Dollar" – Robert Kiyosaki

"It is not a durable means of Exchange, it's not a store value" – Warren Buffet

Since its creation, cryptocurrency has caused a lot of controversy and disagreement.

Financial firms, central banks, regulators, investors and governments are all reconsidering the way in which cryptocurrency technologies are changing the globe.

Cryptocurrencies offer users a cheaper and faster way to conduct international transactions. Yet, the crypto sector is subject to criminal activity, such as money laundering and terrorist financing, a serious problem that is continuously increasing worldwide.

To begin with, what is cryptocurrency?

Cryptocurrency is a form of payment used to exchange goods and services online. Companies issue their own currencies called tokens, and holders of these tokens can use them in exchange of goods or services that the company provides.

Cryptocurrencies function through a technology called Blockchain, which is a decentralized technology installed on many computers that control and document all the transactions.

What makes cryptocurrencies so much in demand?

Cryptocurrencies can be very attractive because:

- Advocates of cryptocurrencies believe that these tools will become the currency of the future and are racing to buy them now, before their prices increase.
- Some speculators prefer cryptocurrencies because of the increase in their value and are not interested in crypto as a way to transfer money.

- Other promoters have interest in the blockchain, the technology behind cryptocurrencies because it is a decentralized system and can be more secure than conventional payment systems.

In fact, Cryptocurrencies offer many advantages such as:

- <u>User Autonomy and Absence of Intermediation</u>: Users can control the way they spend their money, or send and receive payments, without dealing with an intermediary authority like a bank or a government, and without requiring approval from any external source or authority.

- <u>Discretion:</u> Crypto transactions can be anonymous and untraceable.

- <u>Absence of Banking fees and Low Transaction Fees on International Payments</u>: Since crypto transactions occur with no intermediary institutions or government involvement, the cost of a transaction is very low and crypto users do not have to pay banking fees.

- <u>Swiftness in Transacting:</u> Cryptocurrency transfers take place very quickly, which removes the hassle of authorization requirements and delays.

- <u>Mobile Payments:</u> Crypto users can pay anywhere they have Internet access. However, contrary to online payments or cards, personal information is not necessary to complete any transaction.

Yet, Cryptocurrencies present many challenges to the government authorities, mainly because it is difficult to regulate them, criminals use them, and they can help nationals evade capital controls.

Similar to any new financial product or technology, cryptocurrencies can present a lot of money laundering risks. They are subject to fraudulent activity, and the way they operate is not very clear. These risks are mainly due to:

- The anonymity of transactions
- The vulnerability in the crypto systems
- Malicious software (ransomware)
- The source of cryptocurrency funds may be related to illegal activities, and customers are not very transparent about the source of their funds.

So what are regulators doing to eliminate all these risks?

To stay ahead, regulatory bodies are introducing several legislations to prevent money laundering through cryptocurrency exchanges and custodians, and detect suspicious activities in the crypto sector.

For example, The European Commission announced 3 months ago that it plans to end anonymity in cryptocurrencies and establish a new anti-money laundering (AML) agency to impose stricter rules on financial criminals.

All cryptocurrency service providers will be obliged to verify the identity of persons sending and receiving transactions. In addition, “anonymous crypto asset wallets will be prohibited”, and cash payments of more than €10,000 will be forbidden.

Similarly, The U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) is setting in place some recommendations to help the virtual currency industry in mitigating crypto risks. Members of the crypto industry are now obliged to ensure that they do not engage, directly or indirectly, in transactions banned by OFAC sanctions, such as dealings with blocked individuals, entities or properties, or getting involved in prohibited trade or investment related transactions.

In addition, Jerome Powell, The Chairman of the US Federal Reserve, announced recently that he has no Intention to ban cryptocurrencies.

Chinese regulators, on the other hand, united their forces a couple of months ago to eliminate crypto by considering all cryptocurrency-related transactions in China illegal and by banning all crypto mining activities.

So it looks like cryptocurrency is pressuring countries and regulators to choose between banning, tolerating, or cooperating with the crypto industry, and the question remains as follows: “Why different regulators have different approaches in regulating cryptocurrency?”

Knowing the real reasons behind the different regulatory approaches and the effects on both the market and the investors will enable us to know how to solve the riddle of regulating efficiently the crypto market.

Time is vitally important, and regulators should take immediate synchronized actions worldwide in order to benefit from the advantages offered by the crypto industry, while of course handling at the same time all the deficiencies in this industry.

"I've always believed it'll be made illegal someplace, like China made it illegal, so I think it's a little bit of fool's gold; it’s got no intrinsic value. And regulators are going to regulate the hell out of it.” Jamie Dimon

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