

Non-fungible Tokens Call for KYC/AML Regulations

NFTs or non-fungible tokens have been in the news for quite some time now. What are these? When were they first introduced? People have tons of questions about NFTs now. Non-fungible tokens are digital assets based on Ethereum blockchain. They are unique and interchangeable, making every token one of its kind. The concept first emerged with the inception of “Colored Coins” in 2012. However, that only laid the groundwork for these digital assets. The first ever NFT was introduced in May 2014 by the name “Counterpart” which is a peer-to-peer financial platform built on the Bitcoin blockchain. Over time, people have issued NFTs for art pieces, games, licences, collectables, memes and even tweets.

Since 2020, NFT sales have increased by 55% and these tokens are the most popular cryptocurrency trend of 2021.

Why are Non-fungible Tokens so Popular Now?

Here are a few reasons for all the hype about NFTs:

1. Authenticity

Only one token can be issued for an asset or in other words, they are standardised, uniquely identifiable and legitimate in nature. Although they are authentic since nobody can create multiple tokens for an asset, the anonymity of the issuer remains a question mark.

2. Transferability

With no central body to govern the flow or transfer of an NFT, these digital assets can be easily moved around. Moreover, there are no third parties involved in transferring these tokens making it a lot easier for literally anyone to exchange them with another digital asset like Dogecoin.

3. Ownership

The biggest perk of having an NFT is getting full authority or ownership of the token. Intermediaries cannot perform transactions on behalf of the issuer. Henceforth, only the owner can exchange the non-fungible token.

NFTs and Criminal Activities

Considering the attributes of NFTs, perpetrators are now using anonymous and interchangeable tokens for their illicit gains. Cases of money laundering and identity theft through non-fungible tokens have been reported. Let's take a look at how imposters managed to commit crimes through NFTs.

- Money Laundering through Non-Fungible Tokens

Anonymous, interchangeable, and no regulations make this the perfect outlet for fraudsters to hide illegally earned money. For instance, a money launderer has [USD 2 million](#) to place, layer and integrate to

dodge investigations. They can create an NFT for the amount, resell it after some time and bank on the profits. Since there are no regulatory requirements for non-fungible tokens, anonymity makes this more convenient.

- ID Theft and NFTs

Preventing identity theft is considered one of the biggest advantages of owning an NFT. but is it that easy to combat bad actors? I don't think so and here's why.

A few months ago, artist [Derek Laufman](#) received tons of emails and DMs on Instagram about his non-fungible tokens for art pieces. On the contrary, Laufman claims that he never issued an NFT for any of his works. Furthermore, he said that the identity verification protocols of the platform that issued this token were weak that led to misuse of his identity and artwork for illicit gains.

The Call for Rigid Regulations

Just like the financial sector, cryptocurrencies including non-fungible tokens are in dire need of rigid customer due diligence (CDD) and [anti-money laundering \(AML\) regulations](#). Otherwise, criminals will continue to use these digital assets for hiding black money. Experts are claiming to enforce stringent regulations soon to tackle perpetrators in the digital world.

The global watchdog, FATF issued guidelines for Virtual Asset Service Providers (VASPs) at the beginning of 2021. Also known as the [Travel Rule](#), FATF has included non-fungible tokens for the first time in its guidance. As per the Rule, NFTs must be considered as virtual assets depending on the trading method in the secondary market.

Countering the financing of terrorism (CFT), AML, and [Know Your Customer](#) (KYC) solutions must be adopted by all the platforms that deal with NFTs or other virtual assets. These solutions not only allow effective compliance with the laws but also ensure that the platform is onboarding legitimate customers only. Verifying the identity of any individual who issues a non-fungible token will assist in combating identity theft.

Meta:

Since 2020, NFT sales have increased by 55% and these tokens are the most popular cryptocurrency trend of 2021. Read more about non-fungible tokens in this blog.