Twitter Thread by Stears Business



Stears Business
@StearsBusiness

The CBN's official reason for its recent cryptocurrency restriction is that cryptocurrencies are anonymous and used for money laundering, terrorism financing, and tax evasion. Let’s dig into what the facts say.

A THREAD #Nigeria #Bitcoin

1/21

We’ll break up the allegation into two. First up, “cryptocurrency is used for money laundering.”
Cryptocurrencies have been used for illicit activities but so too have official currencies. So the CBN's argument must be that cryptocurrencies make the situation worse.

2/21

But as things stand, significantly more illicit activities are conducted with regular money than with cryptocurrencies. According to the UN, between $800 billion and $2 trillion is laundered globally every year, mostly in cash.

3/21

Meanwhile, the entire global value of cryptocurrencies is currently $1.4 trillion. Chainanalysis, the leading crypto-analysis company helping governments track criminals, estimated that 1.1% of all cryptocurrency transactions are illicit.

4/21

So, if the government is trying to clamp down on money laundering and terrorism financing, they are better off spending their energy on their naira accounts.

5/21

Let’s take on the next accusation: “Cryptocurrencies are anonymous.” Well, there are over 2,000 cryptocurrencies. So let us take bitcoin, which is the most valuable. Bitcoin is not anonymous. Technically, it is Pseudonymous.

6/21

To use or store any cryptocurrency, you need a wallet, which can look something like this: 3FZbgi29cpjq2GjdwV8eyHuJJnkLtktZc5. There is no name behind it, but all transactions made by these wallets are stored on a permanent and public ledger.

7/21

The ledger doesn't store names, but it has all the user's transactions. That means it is possible to track where my money first originated and how it has moved around on the network.

8/21

As Quartz put it, laundering money using cryptocurrency is like stealing from a jewellery store but leaving the map to your house at the crime scene.
But, chasing down crypto criminals requires expertise.
9/21

Interested parties such as the Federal Bureau of Investigation (FBI) can get a sense of who owns a particular address by analysing the pattern of transactions involving that address. This process is called (block)chain analysis, and it was used as recently as last year.
10/21

Remember the 2020 Twitter bitcoin scam? Twitter accounts of celebrities from Elon Musk to Kim Kardashian were hacked. Hackers asked individuals to send bitcoin to a specific cryptocurrency wallet promising that the money would be doubled and returned to a charity.
11/21

Blockchain analysts noticed that the attackers appeared to be consolidating funds stolen from the attack into a central account. Within two weeks, the American authorities had used the activity on the blockchain accounts to identify three suspects in the scam.
12/21

As the US attorney prosecuting the case said: "There is a false belief within the criminal hacker community that attacks like the Twitter hack can be perpetrated anonymously and without consequence".
13/21

But while advanced countries like the US are developing the expertise to carry out these operations, developing countries fall behind. Regulators (like our CBN) have opted for outright restrictions on their use.
14/21

But before the latest restrictions, several of Nigeria's crypto exchanges had already begun to self-regulate by removing these digital currencies' Pseudonymous nature. They knew who was buying or selling cryptocurrencies.
15/21

To transact on many cryptocurrencies exchanges, you have to submit personal details, take selfies, upload government ID, and submit BVN or NIN numbers to conduct transactions.
16/21

Collecting this information strengthens their Know Your Customer (KYC), Anti-Money Laundering (AML), and combating the financing of terrorism (CFT) procedures, just like what commercial banks
17/21

Collecting this information strengthens their Know Your Customer (KYC), Anti-Money Laundering (AML), and combating the financing of terrorism (CFT) procedures, just like what commercial banks
17/21

Unfortunately, if the CBN’s restriction brings about the end of exchanges in Nigeria, then we are going back to the times of WhatsApp and Telegram for cryptocurrency transactions.
18/21

So it looks like, with the recent move, the CBN has essentially moved cryptocurrencies from platforms where it could detect any money laundering and terrorism financing to platforms where it can't monitor what the market is doing. The irony.
19/21

It's bizarre that instead of asking exchanges to formalise their KYC processes, the CBN told banks to close the accounts of anyone involved in the space. There is another reason, about which the CBN has been quiet.
20/21

For a deeper analysis of the unstated motives behind the latest restrictions, read our premium story.
https://t.co/i0AGdOPRsr

21/21