

# Study on the Amendment of the Legal System of Anti-Money Laundering Regulation from the Perspective of Digital Currency

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## Abstract

With the rapid development of digital currencies, the global financial system faces new opportunities and challenges, especially in the field of anti-money laundering (AML) regulation. The purpose of this paper is to explore the amendment path of the current AML regulatory legal system from the perspective of digital currency. First, it analyzes the historical evolution, scientific and technological foundation and financial foundation of digital currencies, and reveals its impact and challenges on the AML regulatory system. Secondly, it explores the compliance principles and regulatory value of anti-money laundering regulation with respect to the causes, path choices and international factors of money laundering behavior of private digital currencies. By comparatively analyzing the legal practices of Switzerland, the United States and South Africa in the field of digital currency anti-money laundering, this paper distills the experiences and lessons of different countries. Based on these studies, this paper puts forward suggestions to improve the legal system of anti-money laundering regulation from the perspective of digital currency in China, including the revised paths of expanding the regulatory body, perfecting the compliance system, innovating the regulatory tools, and strengthening international cooperation. Ultimately, this paper argues that the development of digital currencies not only challenges the current AML regulatory system, but also provides a new opportunity for its innovation, and it is necessary to cope with this complex situation through the continuous improvement of the legal system.

## Keywords

Digital currency, anti-money laundering, regulatory legal regime, international experience.

## 1. Introduction

### 1.1. Background and significance of the study

In recent years, with the advancement of blockchain technology and the popularization of cryptocurrencies, digital currencies have developed rapidly worldwide. This technological innovation has not only changed the traditional payment methods and financial transaction modes, but also brought about far-reaching changes to the global financial system. Characterized by anonymity, decentralization and cross-border circulation, digital currencies have greatly facilitated the convenience of international financial flows. However, the anonymity and borderless character of digital currencies also facilitates the transfer of illegal funds and increases the risk of financial crimes such as money laundering and terrorist financing. Therefore, how to strike a balance between the development of digital currency and financial security has become an important challenge for governments and financial regulators. Against this background, the legal system for the regulation of anti-money-laundering is faced with the need to revisit and amend it in order to adapt to the new risks posed by digital currencies.

## 1.2. Research questions

Against the backdrop of the rapid development of digital currencies, the existing legal regime against money-laundering faces many problems. Traditional anti-money laundering regulatory measures are mainly targeted at banks and other financial institutions, while the decentralized nature of digital currencies makes the flow of funds no longer limited to the traditional financial system. This makes it difficult for the existing anti-money laundering legal system to effectively regulate the cross-border transfer of digital currencies and anonymous transactions. In addition, the differences between different countries in the anti-money laundering regulatory system also lead to the existence of regulatory loopholes, and criminals can circumvent legal risks through cross-border transactions. Based on this, this paper will focus on the current situation and problems of anti-money laundering regulation under the perspective of digital currency, analyze the root causes of these problems, and put forward corresponding countermeasures and suggestions, with a view to providing new ideas for improving the anti-money laundering legal system.

## 1.3. Research methodology

This paper will adopt a variety of research methods to ensure the comprehensiveness and scientificity of the research. Firstly, through the literature analysis method, we will sort out the relevant research results on digital currency and anti-money laundering legal system at home and abroad, and make clear the progress and deficiencies of the existing research. Secondly, the method of jurisprudential analysis is applied to explore the legal logic between the technical characteristics of digital currency and anti-money laundering regulation, and to analyze its jurisprudential basis and institutional deficiencies. In addition, this paper will adopt the international comparative research method to select representative countries such as Switzerland, the United States and South Africa to analyze their legal practices and experiences in the anti-money laundering regulation of digital currencies, and to draw on the effective measures of these countries to provide a reference basis for the amendment of China's anti-money laundering regulatory legal system.

# 2. Legal attributes of the regulatory regime against money-laundering

## 2.1. Historical evolution of digital currencies

The concept of digital currencies dates back to the late 20th century, but its real rise began in 2009 with the birth of Bitcoin. As the world's first decentralized cryptocurrency, Bitcoin marked the entry of digital currencies into practical application. Over the next decade, as blockchain technology matured, the variety of digital currencies gradually increased, with the emergence of various types of cryptocurrencies such as Ether and Ripple. The development of digital currencies can be roughly divided into three stages: the first stage is the budding of bitcoin, which emphasizes decentralization and anonymity; the second stage is the emergence of ethereum, which brings smart contract technology and pushes the wide application of cryptocurrencies; the third stage is the rise of cryptocurrency regulation on a global scale, where countries are gradually aware of the impact of digital currencies on the financial system and legal regulation, and begin to formulate relevant laws and regulations. The scientific and technological basis of digital currencies mainly relies on blockchain, distributed ledger, cryptography, etc., while their financial basis includes the decentralized financial (DeFi) system and the gradual integration with traditional finance.

## **2.2. Evolution of the legal regime for the regulation of anti-money-laundering in digital currencies**

With the rapid development of digital currencies, the global legal regime for the regulation of anti-money-laundering has been constantly adapted and innovated. Initially, anti-money-laundering laws were mainly targeted at traditional financial institutions, such as banks and securities companies, requiring them to establish mechanisms for customer identification and monitoring of financial flows. However, the decentralization and anonymity of digital currencies have broken the regulatory model of traditional financial institutions, making the anti-money-laundering regulatory legal system face significant challenges. In order to address this emerging risk, countries have gradually brought digital currencies into the regulatory scope of anti-money laundering laws. For example, the Bank Secrecy Act (BSA) of the United States was amended in 2013 to include virtual currency exchange organizations and related financial service providers in the regulatory system. Similarly, the European Union adopted the Fifth Anti-Money Laundering Directive (AMLD5), which explicitly requires cryptocurrency exchanges and wallet service providers to comply with anti-money laundering and counter-terrorist financing regulations. The development of digital currencies has driven changes in global anti-money laundering laws, with countries updating their legal provisions to address the money laundering risks posed by digital currencies.

## **2.3. Jurisprudential basis for anti-money-laundering regulation from the perspective of digital currency**

The jurisprudential basis for anti-money-laundering regulation is the maintenance of financial order and the prevention of illicit funds from circulating through the financial system, thereby jeopardizing economic and social stability. In the traditional financial system, the anti-money laundering regime relies on the "Know Your Customer" (KYC) principles of the institution and the transparency of the flow of funds. However, the anonymity and borderless nature of digital currencies has created new challenges to these traditional AML jurisprudential foundations. First, the anonymity of transactions makes it difficult for law enforcement to track the movement of funds, weakening the enforcement of anti-money laundering laws. Second, the decentralized nature makes it difficult for regulators to effectively monitor digital currency transactions, which essentially challenges the traditional legal attributes of anti-money laundering laws. Therefore, in the digital currency environment, the AML legal system needs new jurisprudential support, including the establishment of a global regulatory cooperation mechanism and the exploration of technological means to enhance the transparency of digital currency transactions. With the popularization of digital currencies, how to balance the jurisprudential requirements of financial innovation and anti-money-laundering has become a major issue that the global legal community needs to jointly address.

## **3. Regulatory value of money-laundering from the perspective of digital currencies**

### **3.1. Money-laundering of private digital currencies and the causes thereof**

Private digital currencies, such as Bitcoin and Ether, are ideal tools for criminals to conduct money laundering activities due to their anonymity and decentralized nature. Money laundering is primarily motivated by the need to conceal the source of illicit funds, making the proceeds of crime appear legitimate. Private digital currencies provide a more convenient path for money laundering than the traditional financial system due to their difficult-to-track transactions, unimpeded global circulation, and lack of uniform regulatory measures. Cross-border money laundering in particular has become a prominent feature of private digital currency money laundering behavior, and criminals can circumvent money laundering

regulation by using the inconsistency of legal regulation between countries to quickly transfer funds to countries with looser regulation. In addition, the regulatory policy of some countries on digital currencies is still imperfect, or there are large regulatory gaps, enabling criminals to utilize this for cross-border money laundering.

### **3.2. Compliance principles for digital currencies**

In terms of digital currency compliance, existing foreign exchange, capital management and anti-money laundering regulations are still in the exploratory stage for the regulation of digital currencies. Different countries have different attitudes and regulatory efforts towards digital currencies, which has led to the complexity of compliance with digital currencies on a global scale. In general, the decentralized nature of digital currencies conflicts with the existing foreign exchange management system, as digital currencies are not controlled by a single national monetary system. In order to effectively address this issue, countries around the world have begun to introduce appropriate anti-money laundering and counter-terrorist financing regulations that require digital currency trading platforms to comply with customer identification (KYC) and transaction monitoring requirements. These legal requirements aim to ensure the transparency of digital currency transactions, thereby reducing the risk of money laundering and terrorist financing. However, the distributed architecture of digital currencies makes regulation more challenging, especially with respect to cross-border and anonymous transactions, and ensuring compliance remains a challenge.

### **3.3. Value analysis of anti-money-laundering regulation**

The core value of anti-money-laundering regulation lies in maintaining the global financial order and preventing the flow of illegal funds into legitimate economies to safeguard the healthy operation of the economy. In the context of digital currencies, the effectiveness of the implementation of the anti-money-laundering legal regime is of great significance in curbing money-laundering. Although the anonymity and decentralization of digital currencies increase the difficulty of regulation, the flow of illegal funds can still be effectively combated through the implementation of stricter anti-money laundering measures. Anti-money laundering regulation through customer identification and fund tracking means can to a certain extent limit the use of digital currencies by criminals to carry out money laundering activities. In addition, anti-money laundering regulation of digital currencies not only helps to maintain national financial security, but also improves market transparency and enhances public trust in the digital currency market. Therefore, the effectiveness of anti-money laundering regulation is not only reflected in combating illegal acts, but also in stabilizing the financial market and promoting sustainable economic development.

## **4. Extraterritorial experience in anti-money-laundering regulation from the perspective of digital currencies**

### **4.1. Analysis of the Swiss Anti-Money Laundering Decree**

Switzerland, as one of the global financial centers, has always taken an active regulatory approach to anti-money laundering. Switzerland's Anti-Money Laundering Ordinance (AMLO) has strict regulations on digital currency trading and related financial service providers. The ordinance requires all financial institutions and trading platforms involved in virtual assets to comply with customer identification (KYC) and reporting of suspicious transactions. Through the supervision of the Swiss Financial Market Supervisory Authority (FINMA), Switzerland has succeeded in preventing large-scale money laundering activities while safeguarding the transparency of the financial market. In addition, Switzerland requires digital currency trading platforms to establish a comprehensive risk management system to ensure the legitimacy of transactions. This strict regulatory model provides an important reference for global anti-

money laundering efforts in digital currencies, especially in preventing financial risks and combating illicit financial flows with remarkable results.

#### **4.2. Analysis of the United States Digital Currency Act**

The U.S. regulatory policy on digital currencies is considered a model of proportionate regulation. Through mechanisms such as the Bank Secrecy Act (BSA) and the Financial Crimes Enforcement Network (FinCEN), the U.S. requires virtual currency exchanges and related service providers to comply with anti-money laundering (AML) and counter-terrorist financing (CTF) regulations. In 2019, the U.S. proposed Digital Currency Act further clarifies the regulation of digital currency transactions, in particular the AML compliance requirements. The bill requires digital currency trading platforms to report suspicious transactions and implement stricter customer identification procedures. In addition, the U.S. has cracked down on illegal behavior in digital currency trading through judicial and law enforcement authorities. For example, U.S. law enforcement agencies have repeatedly shut down digital currency trading platforms involved in money laundering and terrorist financing in recent years, reflecting their successful experience in digital currency AML practices.

#### **4.3. Analysis of South Africa's Anti-Money Laundering and Counter-Terrorist Financing Amendment Bill**

Unlike Switzerland and the United States, South Africa has adopted a more passive regulatory model with respect to digital currency AML. Although South Africa's Anti-Money Laundering and Counter-Terrorist Financing Amendment Act covers some digital currency transactions, it is still in its infancy overall, and the regulation of digital currencies is relatively lax. The South African government has an open attitude towards digital currencies and hopes to promote economic development by supporting this emerging industry. However, this lax regulatory model has also led to South Africa becoming a potential hotbed for money laundering and illicit money transfers. South Africa's anti-money laundering laws are not strictly enforced in the area of digital currencies, and the lack of strong regulatory measures and enforcement mechanisms gives criminals the opportunity to use digital currencies for money laundering. The experience of South Africa therefore serves as a warning to other countries: while the development of digital currencies can bring economic benefits, the lack of effective legal regulation will lead to risks that cannot be ignored.

#### **4.4. Learning from and reflecting on extraterritorial experience**

By analyzing the experiences of Switzerland, the United States and South Africa in the field of anti-money laundering regulation of digital currencies, some successful practices can be distilled. First, strict customer identification and risk management systems are the key to effectively combating money laundering in digital currencies. Switzerland's practice shows that strong regulation and law enforcement can not only prevent money laundering, but also promote the stability and development of the financial market. Second, moderate regulatory policies can help balance financial innovation and legal compliance, and the U.S. model demonstrates how illegal financial flows can still be effectively combated without impeding technological progress. However, South Africa's experience with lax regulation reminds us that an overly relaxed legal framework will provide opportunities for criminals to capitalize. For China, it can learn from the successful experiences of Switzerland and the United States to establish a stricter anti-money-laundering legal system while ensuring financial innovation, especially in terms of strengthening international cooperation and law enforcement, in order to deal with the challenges of new types of financial crimes brought about by digital currencies.



## **5. Improvement of China's anti-money laundering regulatory legal system from the perspective of digital currency**

### **5.1. Expansion of China's anti-money laundering regulatory bodies from the perspective of digital currency**

With the rapid development of digital currencies, the traditional anti-money laundering regulatory body is no longer sufficient to deal with the emerging money laundering risks. In this context, it is necessary for China to expand the scope of anti-money laundering regulatory subjects and include new types of subjects such as digital currency-related enterprises, trading platforms and wallet service providers in the regulatory system. Currently, China conducts AML regulation mainly through financial institutions and payment organizations, but with the popularity of digital currencies, it is necessary to further expand regulatory coverage to ensure that all entities involved in digital currency transactions are able to accept AML compliance requirements. This includes requiring digital currency trading platforms to conduct customer identification, transaction monitoring and reporting of suspicious activities, thereby plugging the loopholes in the legal and regulatory system and preventing money-laundering.

### **5.2. China's anti-money laundering regulatory compliance system from the perspective of digital currency**

In order to adapt to the development of digital currencies, China needs to establish a complete anti-money-laundering compliance system to ensure that digital currency transactions are conducted within a compliance framework. First, digital currency trading platforms and related financial service providers should be required to comply with the "know your customer" (KYC) and "anti-money laundering reporting" systems to ensure the transparency and legality of the transaction process. Second, the state should further clarify the legal status of digital currency transactions and issue appropriate compliance guidelines to help companies fulfill their legal responsibilities when engaging in digital currency transactions. In addition, regulators should regularly review the compliance status of digital currency trading platforms and impose severe penalties on platforms that do not meet compliance standards, so as to ensure that market participants comply with the anti-money laundering legal system, thereby improving the standardization and security of the entire market.

### **5.3. Innovation of China's anti-money-laundering regulatory tools from the perspective of digital currency**

In the face of the technological challenges posed by digital currencies, traditional regulatory tools have become inadequate. China needs to rely on technological innovation and adopt new anti-money-laundering regulatory tools to better cope with the hidden nature and complexity of digital currency transactions. For example, the transparency and traceability of blockchain technology itself can become a powerful tool for AML regulation. Regulators can monitor digital currency transactions in real time through blockchain technology, identify abnormal transactions and intervene in a timely manner. In addition, artificial intelligence and big data analytics can be used to monitor and analyze large-scale transaction data, from which potential money laundering can be identified. Through these technology-driven innovative tools, regulators can improve the efficiency and accuracy of anti-money laundering, thus making a breakthrough in addressing the risk of digital currency money laundering.

### **5.4. China's international cooperation against money-laundering from the perspective of digital currency**

Due to the borderless nature of digital currencies, the frequent occurrence of transnational money-laundering makes international cooperation in the field of anti-money-laundering particularly important. While improving its own anti-money-laundering legal system, China

needs to strengthen its cooperation with other countries and international organizations and promote international information sharing and law enforcement collaboration. First of all, China should actively participate in the activities of international anti-money laundering organizations (such as the Financial Action Task Force FATF) to learn and learn from advanced international anti-money laundering experience. At the same time, it should establish closer cooperation mechanisms with major countries with active digital currency transactions to share relevant information on money laundering activities. Through the establishment of cross-border regulatory and judicial cooperation mechanisms, China is able to respond more effectively to money laundering activities on an international scale, make up for the limitations of the domestic legal system, and thus enhance the global regulatory capacity of anti-money laundering in digital currencies.

## 6. Conclusion

### 6.1. Key findings

By analyzing the legal system for anti-money laundering regulation from the perspective of digital currencies, this paper arrives at several important research findings. First, the development of digital currencies has posed a major challenge to the existing anti-money laundering regulatory system, especially its decentralization, anonymity and cross-border transactions, which makes the traditional legal framework for anti-money laundering face many dilemmas in monitoring and combating money laundering. This has resulted in the existing legal tools and regulatory mechanisms being insufficiently effective in the face of money laundering in digital currencies, and reform and innovation are urgently needed. Second, although countries have begun to formulate and implement relevant legal regimes to deal with the money laundering risks posed by digital currencies, there is still inconsistency in legal norms globally and insufficient cross-border regulation and international cooperation. This has provided new avenues and opportunities for money-laundering activities and has further exacerbated the complexity of global anti-money-laundering efforts.

### 6.2. Research outlook

Looking ahead, with the further development of digital currencies, anti-money laundering regulation will continue to face new challenges and opportunities. On the one hand, with the application of blockchain technology and the popularization of digital currencies, money-laundering activities may become more hidden and complex, requiring the legal system to continuously adapt to changes in technology. On the other hand, the international community will need to strengthen transnational cooperation and build a more unified and coordinated regulatory framework for anti-money laundering. In addition, the legal system for the regulation of digital currencies may develop in a more refined and technological direction, further enhancing the precision and timeliness of AML regulation through blockchain technology, artificial intelligence, big data and other means. In conclusion, future legal amendments should not only follow the progress of technology, but also closely integrate with the actual legal needs, in order to ensure the effectiveness of anti-money laundering regulation in the context of digital currencies.

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