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ACCOUNTING

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## “BETWEEN TRANSPARENCY AND PRIVACY: INVESTOR IDENTITY VERIFICATION AND DEMAND FOR CRYPTO TOKENS”

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### ABSTRACT

Tackling widespread use of crypto tokens in illegal transactions and money laundering requires new accounting regulations and devices. Firms that issue crypto tokens can increase transparency through collecting investor identity information. This allows reducing the risk of illegal transactions and provides firms with legitimacy among mainstream market participants. However, adopting such investor identity verification (IIV) policies may hamper demand for their tokens among privacy-seeking investors. We examine this tension between concerns with transparency and privacy, respectively, by looking at how identity verification policies impact demand for crypto assets. We find that IIV is associated with greater investor demand for tokens. We also find that increase in regulation leads to a less severe reduction in demand for tokens issued by firms with IIV in place. Finally, we find that active and diversified investors are more likely to invest in tokens issued by firms that adopt IIV. This evidence suggests that IIV adoption sends a credible positive signal about firm’s legitimacy and reduces its potential legal liability, a benefit that dominates costs associated with investors’ privacy concerns. Broadly, our results also suggest benefits of increased investor disclosures outweigh their costs in unregulated markets.

**Keywords:** crypto tokens, know-your-customer, anti-money-laundering, investor privacy