



## An Onboarding Process to Match our Principles

*As LGO Markets has begun to onboard institutions during our soft launch, here is a deeper look into how our onboarding process fulfills our goals of building trust and promoting fairness, security, and transparency in crypto-asset markets.*

### Onboarding Explained

For financial firms, onboarding is the process by which potential clients are reviewed before being granted access to trade on a platform. Opening an account involves collecting certain identifying information of those who will be authorized to act on behalf of the account and verifying it to different degrees—often referred to as know-your-customer (KYC) procedures.

Many firms also function under general mandates to perform anti-money laundering (AML) and anti-terrorism financing (ATF) investigations. The process differs among institutions depending on the specific legal obligations of the jurisdictions in which they operate. It typically requires running a company and trader data through extensive databases, searching various

government sanctions lists, public records, and enforcement repositories.

As described below, digital asset platforms face increased scrutiny for their AML/KYC compliance programs (from a multitude of regulators) while facing pushback from the community and having no set standard to follow. LGO seeks to set the standard for compliance and offer a model onboarding process for the industry.

### Breaking Down AML and KYC Regulations

In the United States, the statutory frameworks of the Bank Secrecy Act (BSA) and the USA PATRIOT Act of 2001 (Patriot Act) govern financial institutions, which the BSA defines broadly to include many businesses beyond just banks.

#### *FinCEN*

Treasury's Financial Crime Enforcement Network (FinCEN) is charged with enforcing the BSA. It directs firms to monitor transactions on their platforms for suspicious activity on an ongoing basis and file reports where necessary.

FinCEN was one of the first federal agencies to publicly address how virtual currencies fit into existing regulations with its 2013 guidance. In 2015, FinCEN brought its first civil enforcement against a virtual currency exchanger, fining Ripple Labs \$700,000 for failing to carry out an adequate AML compliance program.

*"Virtual currency exchangers must bring products to market that comply with our*

*anti-money laundering laws. Innovation is laudable but only as long as it does not unreasonably expose our financial system to tech-smart criminals eager to abuse the latest and most complex products.”*

-Former FinCEN Director Jennifer Shasky Calvery (2012-2016)

## OFAC

The Office of Foreign Asset Control (OFAC) is also within the Treasury Department, but it focuses on identified criminals through the maintenance of sanctions lists like the Specially Designated National (SDN) list.

In November 2018, OFAC announced the first addition of bitcoin addresses to an OFAC sanctions list, adding the addresses associated with two Iranian cyber criminals linked to the SamSam ransomware attacks.

*“It is vital that virtual currency exchanges, peer-to-peer exchangers, and other providers of digital currency services harden their networks against these illicit schemes.”* -Sigal Mandelker, Secretary for Terrorism and Financial Intelligence of the U.S. Treasury.

## NYDFS

The New York Department of Financial Services (NYDFS) similarly requires virtual currency businesses serving those within the state have AML/KYC procedures in place. The NYDFS's BitLicense calls for comprehensive AML compliance programs, records demonstrating compliance with federal AML guidelines, and identification and verification of account holders.

## A Pushback from the Community

With the focus on privacy and anonymity in the crypto space, AML/KYC has been a hot button issue. A study released in May found that close to 70% of cryptocurrency exchanges in the U.S. and E.U. did not perform identity verification on customers. The Wall Street Journal reported in September that close to \$90 million had been laundered through 46 cryptocurrency exchanges.

### *No Clear Standard Among Digital Asset Exchanges*

The AML/KYC compliance practices among digital asset exchanges diverge significantly with some requiring little more than a name and email address to start trading, as described by the New York Attorney General's virtual currency report. It warned: “Customers should be wary of platforms that allow new customers to onboard without adequate safeguards.”

## How LGO Handles Onboarding

LGO's onboarding process was developed with its chief focus on building trust through compliance and by promoting fairness, security, and transparency in all stages of a crypto-asset's life cycle, which begins at the client onboarding stage:

- **Fairness-** Each institution we onboard is held to the same clear and consistent standards, going through equal levels of AML and KYC scrutiny.
- **Security-** LGO safeguards the personal identifying information (PII) submitted to it

during the onboarding process (and throughout the duration of the client relationship) with a chief focus on security and protection. The client data is encrypted and stored on secured servers, thus making it difficult for bad actors to reach in the event of a hack. Our vendors likewise abide by strict data protection standards.

- **Transparency-** LGO sends every prospective client an overview of our onboarding process. By engaging in the steps required to be approved for trading on the platform, each participant shares our values of transparency. Our hope is that this ushers in a new level of integrity to the space.

#### *Building Trust Through A Multilateral Approach*

LGO aims to provide clients with a seamless onboarding process while maintaining the highest level of compliance. We have partnered with established vendors to verify all individuals and institutions who wish to trade on our platform as well as screen for any individuals sanctioned or connected with illicit money laundering activities.

Each LGO client benefits from another layer of verification by onboarding with our partnered fiat and digital asset clearing and custodian firms as they will be holders of one of the private keys for our clients' 2-of-3 multisignature wallet. Our partners' onboarding processes provide an additional safeguard for all LGO clients, emulating the multilateralism of traditional regulated financial institutions.

It is only after our clients have completed all aspects of our onboarding process that they are granted an access code that allows

them to access the platform and connect their hardware wallets to begin trading.

#### *Benefits of a Regulated by Design Infrastructure*

The benefit of LGO's thorough but straightforward process is two-fold: LGO not only meets its regulatory obligations, thereby positioning the crypto community in a positive, compliant light, but it also instills confidence in its clients by ensuring that they will be transacting with only the most qualified and vetted individuals and firms on LGO's platform.

## **Conclusion**

Digital asset platforms vary greatly in their onboarding procedures with many severely insufficient in a time of heightened regulatory scrutiny. LGO's goal is to provide clients with a seamless, secure, and transparent onboarding experience while ensuring the utmost integrity of participants on its platform.

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