November 9, 2023

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5 min read

**The Ultimate Guide to DeFi KYC**



DeFi is short for Decentralized Finance. It is a growing ecosystem that enables users to conduct financial transactions in a peer-to-peer (decentralized) manner.

As DeFi continues to mature, Know Your Customer (KYC) requirements are becoming increasingly important, especially for any organisation that wants to be taken seriously.

In this guide, we'll provide you with the ultimate guide to DeFi KYC.

**Step 1: Setting up a**[**DeFi Wallet**](https://www.togggle.io/blog/decentralized-finance-self-sovereign-identity)

Before you can begin trading digital assets peer-to-peer on decentralized exchanges (DEXs) and other decentralized applications (dApps) like you'll find on the Uniswap DeFi protocol ecosystem [[**1**](https://icy.tools/learn/ultimate-guide-to-defi)], you'll need to set up a non-custodial DeFi wallet. Custodial wallets, such as Coinbase, are centralized and require users to trust a third party with their funds. Non-custodial wallets, on the other hand, are decentralized and allow users to retain full control over their funds.

**Step 2:**[**KYC Procedure**](https://www.togggle.io/blog/when-is-kyc-required)

KYC stands for "Know Your Customer" and refers to the process of verifying the identity of customers. In [DeFi](https://www.togggle.io/id-defi), KYC is becoming increasingly important as regulators around the world are cracking down on the use of cryptocurrencies for illegal activities such as money laundering and terrorism financing.

The KYC process typically involves the following steps [[**2**](https://securityboulevard.com/2023/03/the-ultimate-guide-to-kyc-in-crypto-everything-you-need-to-know/)]:

* Step 1: Get personally identifiable information (PII) about their clients, such as their complete name, location, date of birth, and address.
* Step 2: Compare this information to their official government-issued identities, such as passports or driver's licenses.
* Step 3: Conduct additional checks, such as screening the customer against international watchlists and conducting risk assessments.

DeFi KYC is typically conducted by Virtual Asset Service Providers (VASPs), which are entities that provide services related to the buying, selling, and custody of virtual assets.

**Step 3: Risks and Benefits of DeFi KYC**

While DeFi KYC may seem like a burden to some users who value their privacy, it is important to note that it has several benefits, including:

* Protection against fraud and illegal activities: KYC helps prevent the use of cryptocurrencies for illegal activities such as [money laundering](https://www.togggle.io/3-stages-money-laundering) and terrorism financing.
* Enhanced trust: KYC helps establish trust between users and DeFi platforms by verifying their identities and ensuring that they are legitimate.

However, there are also some risks associated with DeFi KYC, including:

* Privacy concerns: Some users may be uncomfortable with sharing their personal information with third-party VASPs.
* Centralization: Some argue that DeFi KYC requirements may undermine the decentralized nature of the DeFi ecosystem and lead to centralization.

**Conclusion**

DeFi KYC is becoming increasingly important as the DeFi ecosystem continues to mature and regulators around the world crack down on the use of cryptocurrencies for illegal activities. While KYC may seem like a burden to some users, it has several benefits, including protection against fraud and enhanced trust. However, it is important to consider the risks associated with DeFi KYC, including privacy concerns and centralization.

<https://www.togggle.io/blog/the-ultimate-guide-to-defi-kyc>