

## Cryptocurrencies & Crime September 19, 2018

Since its introduction in 2009, Bitcoin has been associated with the criminal underworld on the Dark Web. Whether for money laundering, terrorist financing, or for purchasing illegal goods, virtual currencies have been celebrated for enabling anonymous digital transactions, making it difficult for law enforcement to fight this type of crime.

However, recently the conversation has shifted, as law enforcement has become more educated about Bitcoin and other virtual currencies. Many now believe that criminals would be ill-advised to transact in Bitcoin because it is much more traceable than originally thought – and is now generally referred to as ‘pseudonymous’ rather than anonymous. However, new virtual currencies like Z-Cash and Monero promise true anonymity, challenging law enforcement once again.

In this unit, we will examine whether and how cryptocurrencies can enable online crime. We will focus on money laundering and terrorist financing, gaining an understanding of how anonymous online currencies could facilitate these activities, and how US regulators attempt to combat them.

### **Reflection Questions:**

1. What is money laundering? What is terrorist financing?
2. How does the US government try to combat money laundering and terrorist financing through the Bank Secrecy Act?
3. What is FINCen?
4. What kinds of actions are banks required to take to help combat money laundering and terrorist financing?
5. What is “AML”? What is “KYC”?
6. Why are virtual currencies potentially useful for money laundering and terrorist financing?
7. How has the US government treated virtual currencies such as Bitcoin under the Bank Secrecy Act?
8. What are some critiques of how FINCen has treated virtual currencies?
9. What are the benefits of having an anonymous currency? Why would people want to transact with it versus using a credit card?
10. Are banks made part of law enforcement activities through the Bank Secrecy Act? Is this appropriate? Necessary? Are there alternatives?
11. Do the laws around money laundering and terrorist financing properly balance people’s desire to have privacy with the need to fight crime? What are the tradeoffs? Are the tradeoffs acceptable?

## **Readings:**

### **News Articles:**

Sen. Joe Manchin's Letter Urging Regulators to Ban Bitcoin, Feb. 26, 2014.

<https://www.manchin.senate.gov/newsroom/press-releases/manchin-demands-federal-regulators-ban-bitcoin>

*The Illicit World of Bitcoin and the Dark Web*, The Balance, July 1, 2018.

<https://www.thebalance.com/what-is-a-dark-market-391289>

*Why Bitcoin is Losing its Luster Among Criminals*, Fortune, Jan. 2, 2018.

<http://fortune.com/2018/01/02/bitcoin-criminals-monero/>

*Why Bitcoin is Better for Crime Fighters than Criminals*, CoinDesk, April 4, 2016.

<https://www.coindesk.com/bitcoin-cops-criminals/>

*Dark web finds bitcoin increasingly more of a problem than a help, tries other digital currencies*, CNBC, August 29, 2017.

<https://www.cnbc.com/2017/08/29/dark-web-finds-bitcoin-increasingly-more-of-a-problem-than-a-help-tries-other-digital-currencies.html>

Explore the website for Chainalysis, so you can explain what they do.

<https://www.chainalysis.com/>

### **Regulatory/Legal Readings:**

Background on FinCen:

<https://www.fincen.gov/what-we-do>

<https://www.fincen.gov/history-anti-money-laundering-laws>

<https://www.fincen.gov/frequently-asked-questions> (Review all FAQs)

Prepared Remarks of FinCEN Director Kenneth A. Blanco, delivered at the 2018 Chicago-Kent Block (Legal) Tech Conference, August 9, 2018.

<https://www.fincen.gov/news/speeches/prepared-remarks-fincen-director-kenneth-blanco-delivered-2018-chicago-kent-block>

Department of the Treasury, Financial Crimes Enforcement Network, Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies, March 18, 2013, <https://www.fincen.gov/sites/default/files/shared/FIN-2013-G001.pdf>

Department of the Treasury, Financial Crimes Enforcement Network, Application of FinCEN's Regulations to Virtual Currency Mining Operations, Jan 30, 2014, <https://www.fincen.gov/sites/default/files/shared/FIN-2014-R001.pdf>

Department of the Treasury, Financial Crimes Enforcement Network, Application of FinCEN's Regulations to Virtual Currency Software Development and Certain Investment Activity, <https://www.fincen.gov/sites/default/files/shared/FIN-2014-R002.pdf>