Regulatory Landscape for Virtual Currency

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ACAMS NEW YORK CHAPTER LEARNING EVENT
JANUARY 8, 2020

sli.do: ACAMSNY-010820

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SPEAKERS

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Executive Assistant District Attorney
Chief of the Investigation Division

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Chief Compliance Officer
PAXFUL

Jesse Spiro
Head of Policy & Regulatory Affairs
Chainalysis

MODERATED BY

Angel Nguyen Swift
ACAMS-NY Chapter Board
Member

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AGENDA

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- 1DCEE01968G5CRYPTE263
- H12C81F25A896A38517DCD
- AE6126C750D0190635125A

BASICS

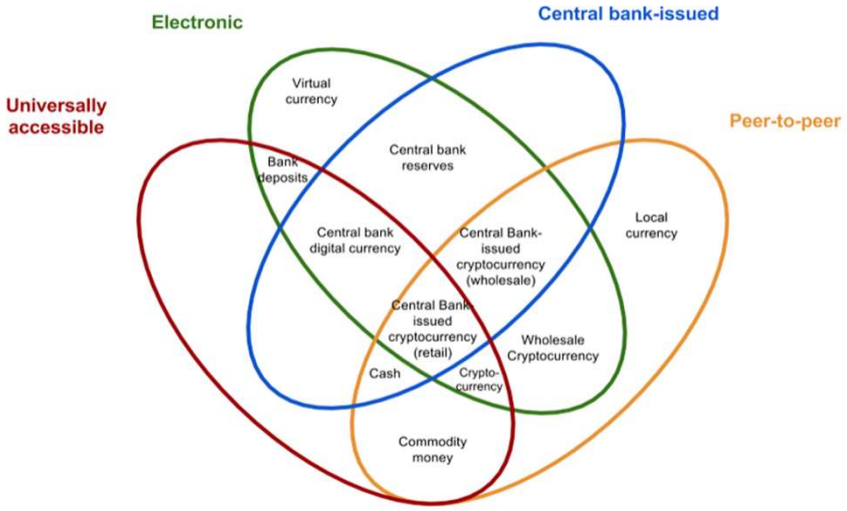
DEBUNKING CRYPTO MYTHS

REGS, REGS, REGS

APPLICATION OF THE REGS

BASICS: CURRENCY

Digital Assets, Virtual Currency, Cryptocurrency, Bitcoin, ICOs, Oh My!



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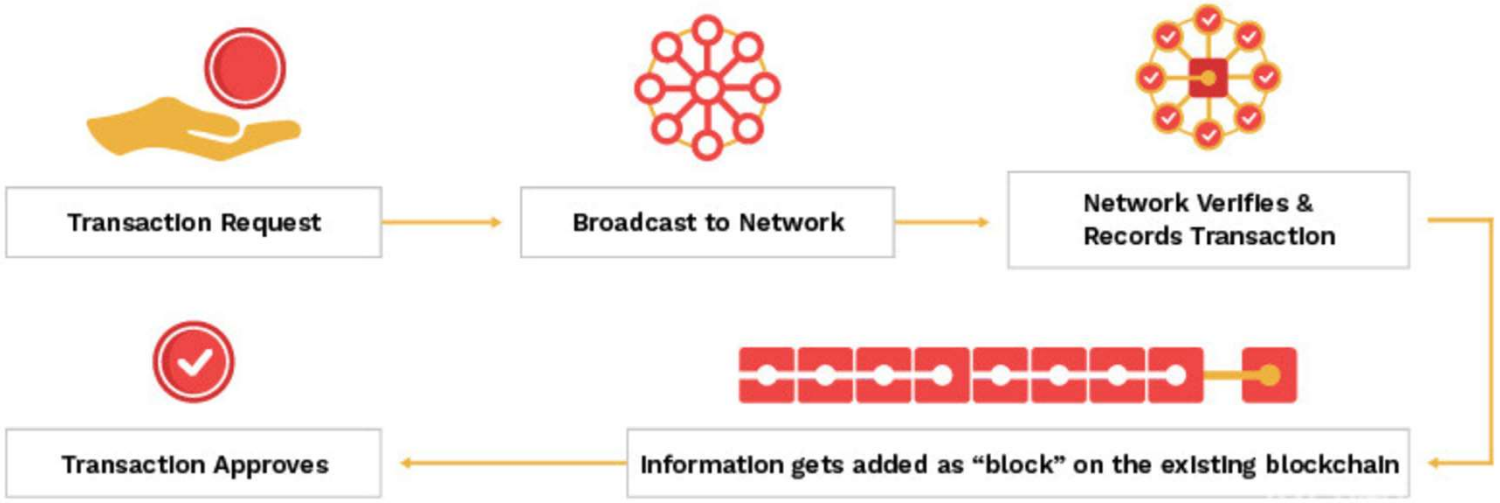
BASICS: TRANSACTIONS

Blockchain, Distributed Ledger, Hash, Encryption



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BASICS: FEATURES

Digital	Peer-to-Peer	Trustless	Encrypted
Decentralized	Pseudonymous	Global	

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DEBUNKING THE MYTHS

- “It is a wild west, there are no regulations”

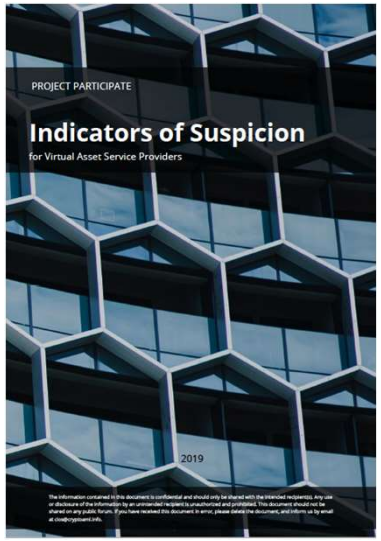
- FATF expanded guidance from June 2015 to June 2019 to broaden the scope: Governance, Risk Assessment, KYC, Transaction Monitoring, Audit and Assurance; Mandated registration or licensing to local authority; Created a new definition: Virtual Asset Service Providers (VASPs)
- FINCEN advisory guidance May 9, 2019

- “It is a black box, We have no visibility of what’s going on”

- Tools to identify risks associated with crypto transactions (blockchain analytics companies such as Chainalysis)
- Studies to understand methodologies for Money Laundering and Terrorist Financing

- “It is used mainly for illegal activities”

- It is estimated only 1% of 2019 crypto transactions are illegal!



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Q1 - Q3 2019 Illicit Activity in Cryptocurrencies

- **$855** trillion in multicoin economic activity first 3Qs of 2019
- **$3.8** trillion *sent to* illicit entities in first 3Qs of 2019
- **$4.5** trillion *sent from* illicit entities in first 3Qs of 2019
- **1%** of all cryptocurrency transactions are associated with an illicit entity

Chainalysis

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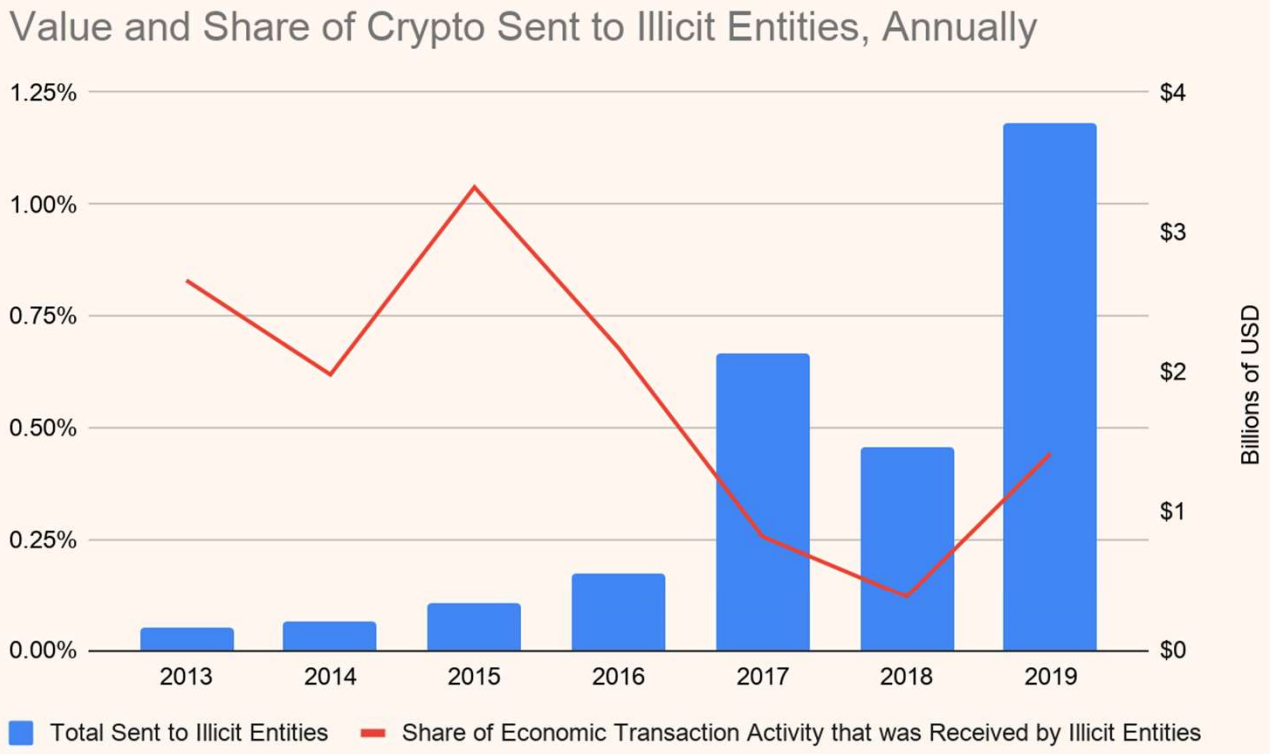
The share of cryptocurrency activity attributed to illicit entities was rapidly falling YoY until 2019...



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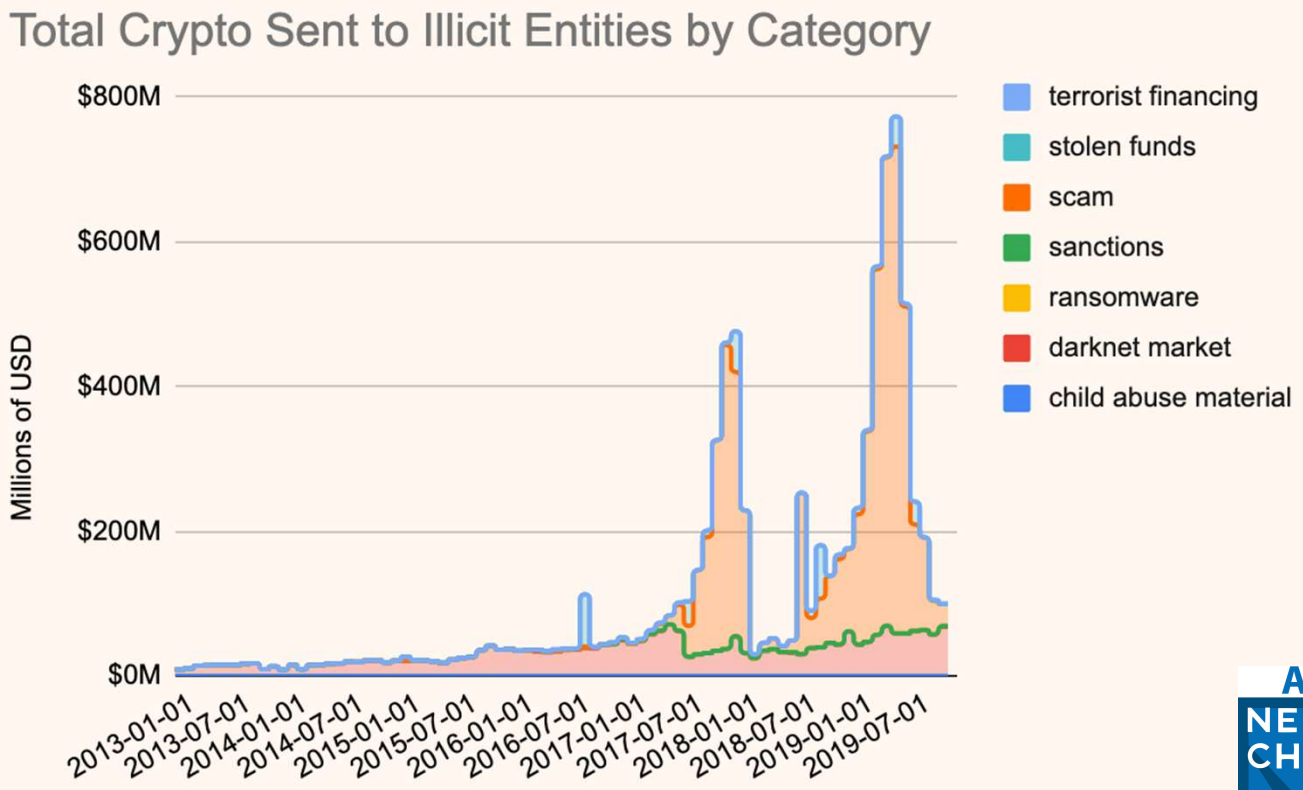
...because 2019 was a huge year for scams, specifically ponzi schemes.

- Billions sent to ponzi schemes: PlusToken, FXTrading Corp, CloudToken



Chainalysis

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Satoshi Nakamoto Institute The Complete Satoshi Literature Research Mempool

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Cryptography Mailing List

Bitcoin P2P e-cash paper

2008-10-31 18:10:00 UTC - Original Email - View in Thread

I've been working on a new electronic cash system that's fully peer-to-peer, with no trusted third party.

The paper is available at:
http://www.bitcoin.org/bitcoin.

The main properties:
Double-spending is prevented wi
No mint or other trusted partie
Participants can be anonymous.
New coins are made from Hashcas
The proof-of-work for new coin
network to prevent double-spend

Bitcoin: A Peer-to-Peer Electro

Abstract. A purely peer-to-peer
allow online payments to be sen
without the burdens of going th
Digital signatures provide part
benefits are lost if a trusted
double-spending. We propose a s
problem using a peer-to-peer ne
transactions by hashing them in
proof-of-work, forming a record
redoing the proof-of-work. The
proof of the sequence of events
from the largest pool of CPU po
the most CPU power on the netwo
chain and outpace any attackers
minimal structure. Messages are broadcasted on a best effort basis,
and nodes can leave and rejoin the network at will, accepting the
longest proof-of-work chain as proof of what happened while they
were gone.

Full paper at:
http://www.bitcoin.org/bitcoin.pdf

Satoshi Nakamoto

Satoshi Nakamoto Institute The Complete Satoshi Literature Research Mempool

The Memory Pool

Where ideas wait to be mined into the block chain of the collective conscience

Bitcoin is Not for Criminals

Parker Lewis - January 4, 2020 (Originally published November 29, 2019)

We accept the good with the bad, recognizing that due to the very nature of bitcoin, we do not get to decide. There are always trade-offs, and in this case, that bitcoin will unavoidably be used for illicit purposes is the trade-off we gladly accept in exchange for the economic stability that an unmanipulable global currency will provide.

"BITCOIN IS NOT FOR CRIMINALS, IT'S FOR EVERYONE."

Satoshi Nakamoto Institute The Complete Satoshi Literature Research Mempool

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Cryptography Mailing List

Bitcoin P2P e-cash paper

2008-11-03 16:23:49 UTC - Original Email - View in Thread

>> As long as honest nodes control the most CPU power on the network,
>> they can generate the longest chain and outpace any attackers.

ie farms of 100,000
tlist of spam sending
mbies a day.

k on today's Internet
firepower than the bad

I could have. The
ave more CPU power than

e not big enough to
money by generating
nodes". (I need a
s resort to generating
he network, making
hat they may as well
il" theory, the small,
d add up to a lot more

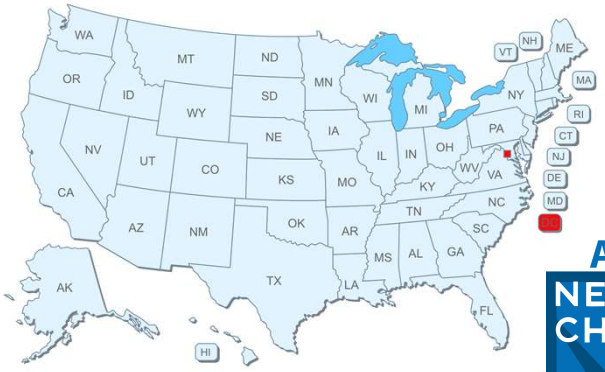
's not like he's
back money he himself
would have to buy
hen overpower the
network and try to take his money back. I don't think he could make as
much money trying to pull a carding scheme like that as he could by
generating bitcoins. With a zombie farm that big, he could generate
more bitcoins than everyone else combined.

The Bitcoin network might actually reduce spam by diverting zombie
farms to generating bitcoins instead.

Satoshi Nakamoto

REGS, REGS, REGS

OFAC



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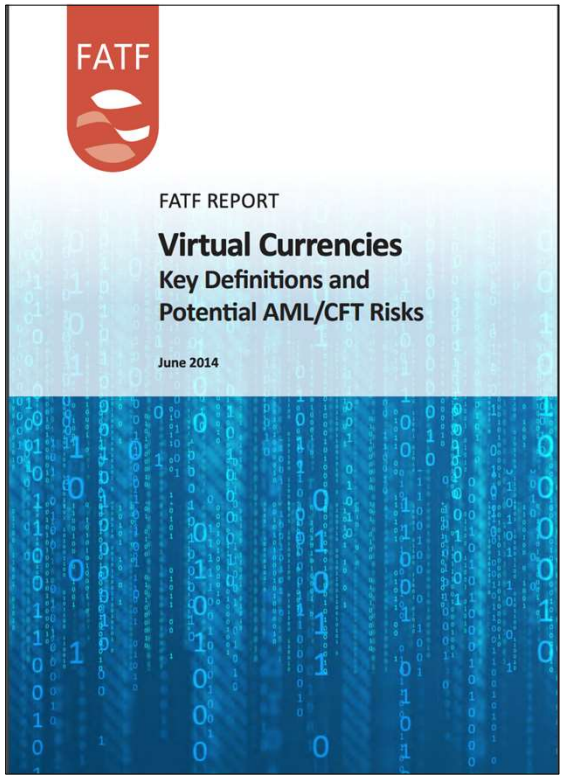
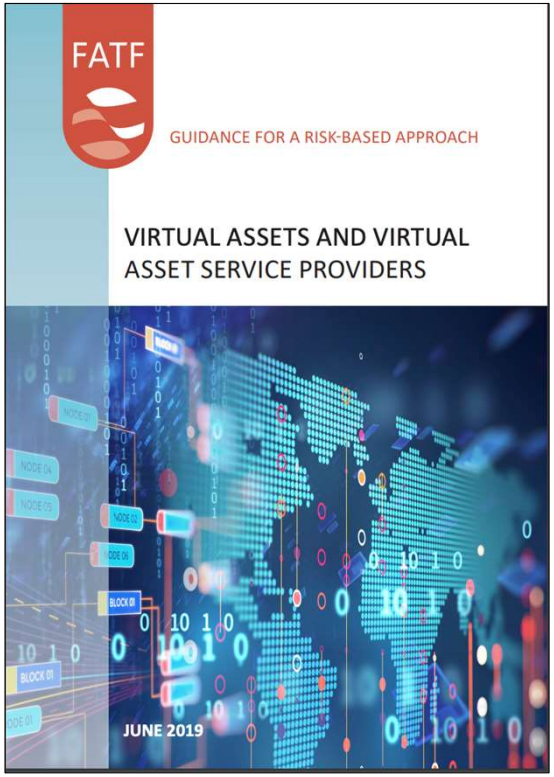
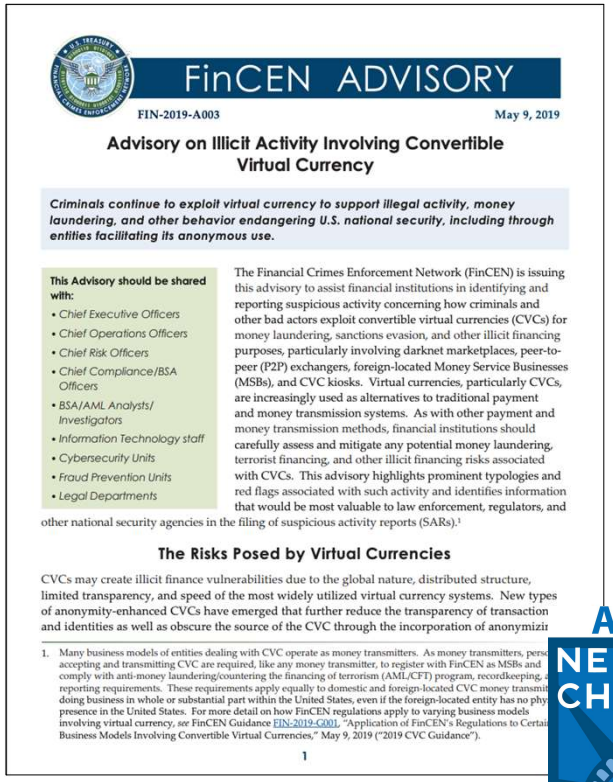
WHAT'S IN, WHAT'S OUT?







FinCEN ADVISORY

FIN-2019-A003 May 9, 2019

Advisory on Illicit Activity Involving Convertible Virtual Currency

Criminals continue to exploit virtual currency to support illegal activity, money laundering, and other behavior endangering U.S. national security, including through entities facilitating its anonymous use.

This Advisory should be shared with:

- *Chief Executive Officers*
- *Chief Operations Officers*
- *Chief Risk Officers*
- *Chief Compliance/BSA Officers*
- *BSA/AML Analysts/ Investigators*
- *Information Technology staff*
- *Cybersecurity Units*
- *Fraud Prevention Units*
- *Legal Departments*

The Financial Crimes Enforcement Network (FinCEN) is issuing this advisory to assist financial institutions in identifying and reporting suspicious activity concerning how criminals and other bad actors exploit convertible virtual currencies (CVCs) for money laundering, sanctions evasion, and other illicit financing purposes, particularly involving darknet marketplaces, peer-to-peer (P2P) exchangers, foreign-located Money Service Businesses (MSBs), and CVC kiosks. Virtual currencies, particularly CVCs, are increasingly used as alternatives to traditional payment and money transmission systems. As with other payment and money transmission methods, financial institutions should carefully assess and mitigate any potential money laundering, terrorist financing, and other illicit financing risks associated with CVCs. This advisory highlights prominent typologies and red flags associated with such activity and identifies information that would be most valuable to law enforcement, regulators, and other national security agencies in the filing of suspicious activity reports (SARs).[1]

The Risks Posed by Virtual Currencies

CVCs may create illicit finance vulnerabilities due to the global nature, distributed structure, limited transparency, and speed of the most widely utilized virtual currency systems. New types of anonymity-enhanced CVCs have emerged that further reduce the transparency of transaction and identities as well as obscure the source of the CVC through the incorporation of anonymizi

1. Many business models of entities dealing with CVC operate as money transmitters. As money transmitters, pers accepting and transmitting CVC are required, like any money transmitter, to register with FinCEN as MSBs and comply with anti-money laundering/countering the financing of terrorism (AML/CFT) program, recordkeeping, reporting requirements. These requirements apply equally to domestic and foreign-located CVC money transmi doing business in whole or substantial part within the United States, even if the foreign-located entity has no phy presence in the United States. For more detail on how FinCEN regulations apply to varying business models involving virtual currency, *see* FinCEN Guidance FIN-2019-G001, "Application of FinCEN's Regulations to Certai Business Models Involving Convertible Virtual Currencies," May 9, 2019 ("2019 CVC Guidance").

1

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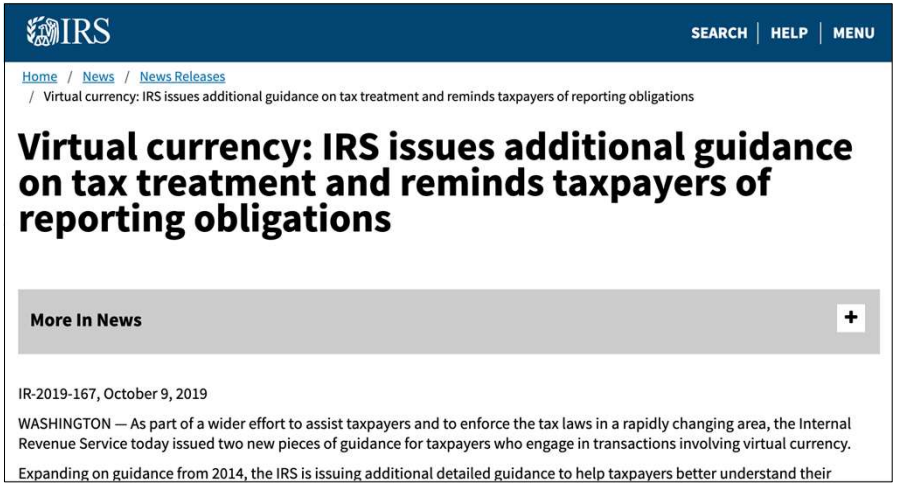
Forbes

581 views | Nov 14, 2019, 01:04pm

State vs. Federal Clash Over National "Fintech Charter" Set For 2020 Appellate Showdown?

Glenn G. Lammi Contributor
Washington Legal Foundation Contributor Group
Policy
Chief Counsel, Legal Studies Division



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/ Virtual currency: IRS issues additional guidance on tax treatment and reminds taxpayers of reporting obligations

Virtual currency: IRS issues additional guidance on tax treatment and reminds taxpayers of reporting obligations

More In News +

IR-2019-167, October 9, 2019

WASHINGTON — As part of a wider effort to assist taxpayers and to enforce the tax laws in a rapidly changing area, the Internal Revenue Service today issued two new pieces of guidance for taxpayers who engage in transactions involving virtual currency.

Expanding on guidance from 2014, the IRS is issuing additional detailed guidance to help taxpayers better understand their

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Public Statement

Statement on Cryptocurrencies and Initial Coin Offerings

Chairman Jay Clayton

Dec. 11, 2017

https://www.sec.gov/biography/jay-clayton

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Press Release

SEC Orders Blockchain Company to Pay $24 Million Penalty for Unregistered ICO

FOR IMMEDIATE RELEASE
2019-202

Washington D.C., Sept. 30, 2019 — The Securities and Exchange Commission today announced settled charges against blockchain technology company Block.one for conducting an unregistered initial coin offering of digital tokens (ICO) that raised the equivalent of several billion dollars over approximately one year. The company agreed to settle the charges by paying a $24 million civil penalty.

According to the SEC's order, Block.one, which has operations in Virginia and Hong Kong,

Related Materials

- SEC Order

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PRACTICAL APPLICATION

- KYC / EDD
- Controls
- Transaction Monitoring
- Tech/Tools/Data
- Investigations
- What are regulators looking for?
- Collaboration

"That's all well and good, but what's the practical application for it?"

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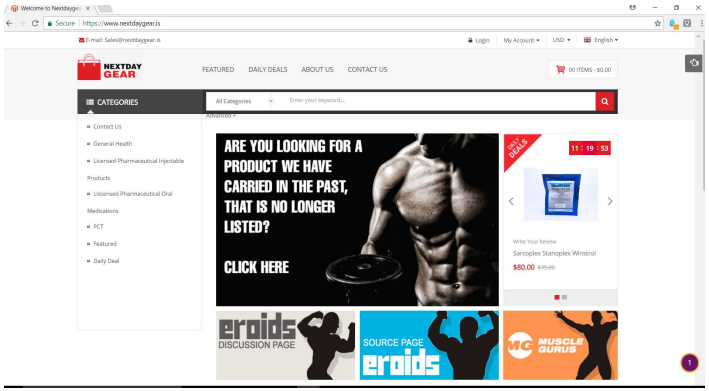
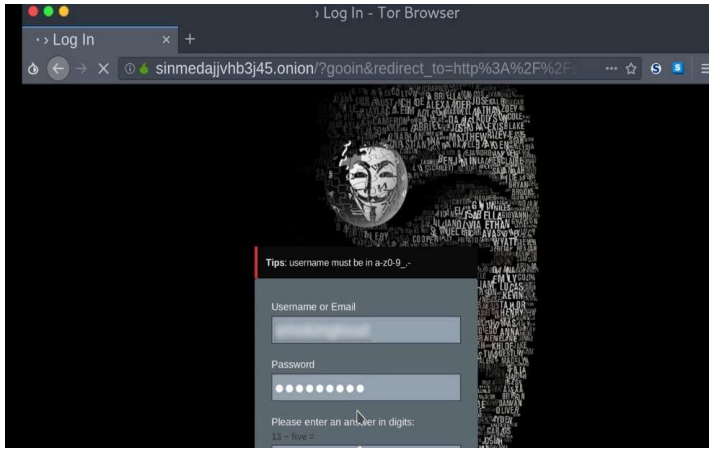
DIGITAL CURRENCY AND CRIMINAL INVESTIGATIONS

- Theft/Phishing
- Malware/Extortion
- Means of Exchange for Contraband – narcotics, child pornography
- Unlicensed Money Remittance/Money Laundering
- Tax fraud
- Purchasing Legal Goods Used in Criminal Enterprises





SINMED

Contact vendor

Username	sinmed (1050) (4.95⭐) (3000, 4.96/5) (1207, 4.89/5) (1070/5/5) (200~500, 4.96/5) (11/0/0)
Verified	Agora: 3000 deals, Ratings: 4.96/5
Verified	Nucleus: 1207 Deals, Rating 4.89/5
FE enabled	Yes
Join date	05/07/2017
Last active	11/09/2018 (today)

Report Vendor

Add to favourites

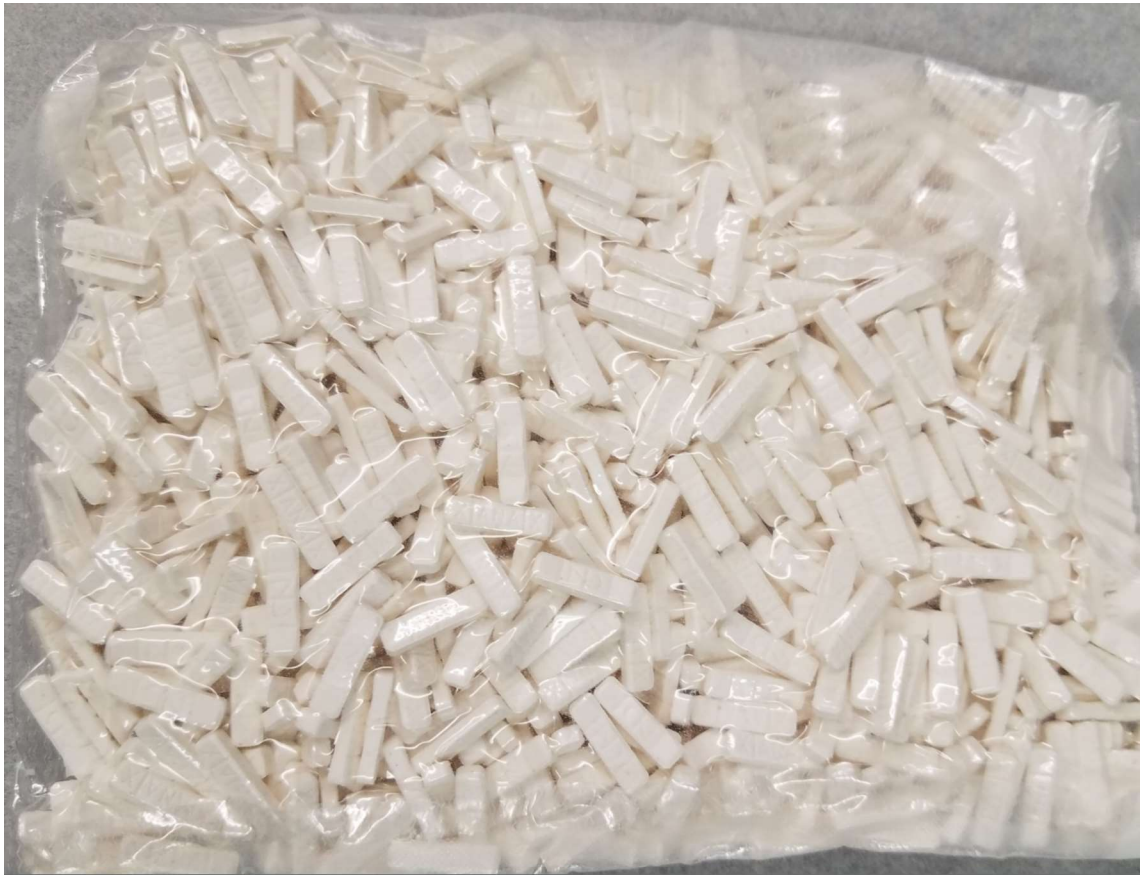
Send message

Trust?

28 1

SINMED - GHB

SINMED - XANAX



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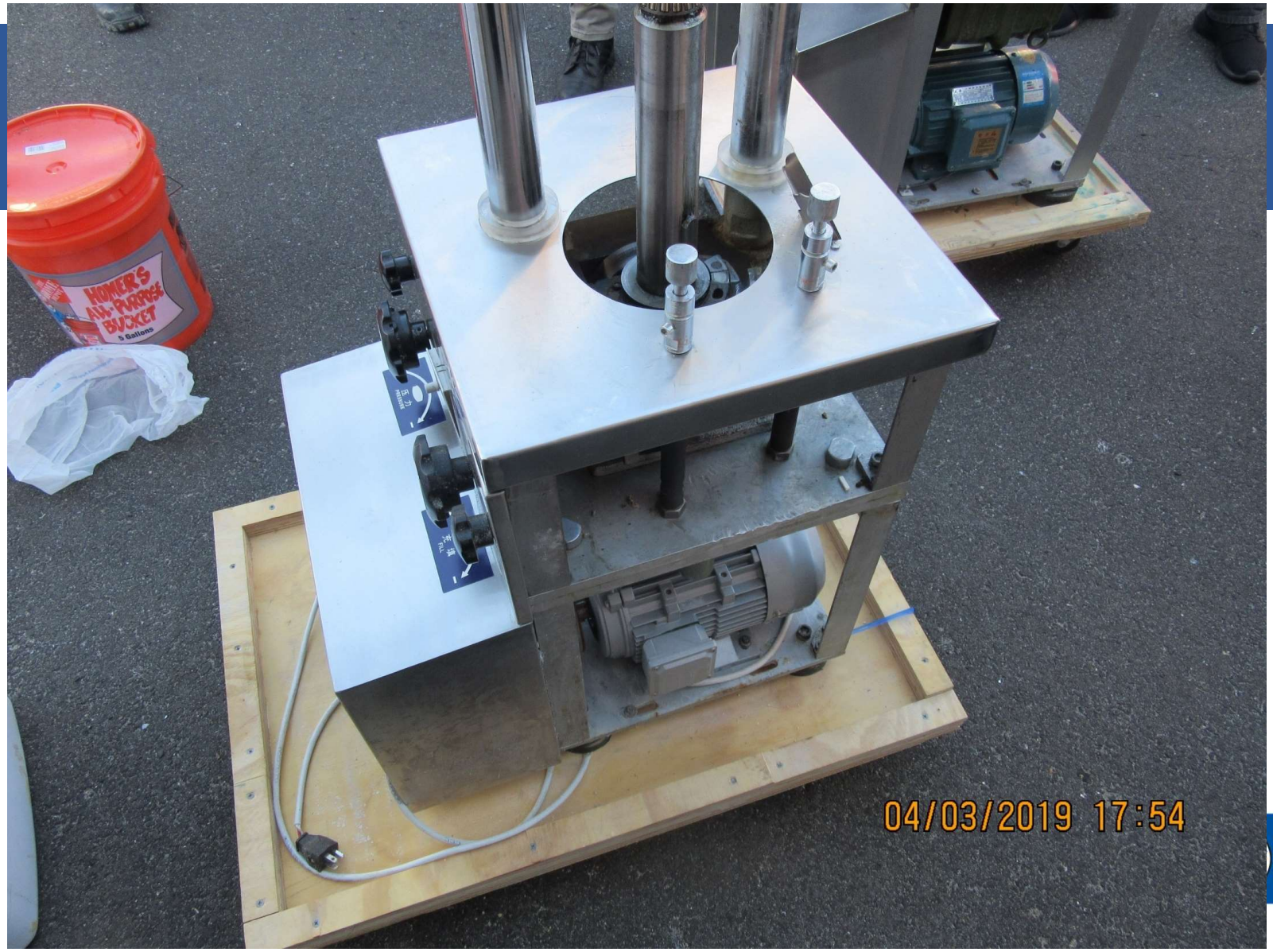
HOMER'S
ALL-PURPOSE
BUCKET
5 Gallons
04/03/2019 17:54

THE HOME DEPOT
5 Gallons

KEY TAKEAWAYS

- Cryptocurrency businesses need to engage with regulators, not all created equal. The more they know, the better off everyone is.
- While still a confusing landscape as everyone gets their arms around some of the unique challenges for crypto, the overarching direction is toward more transparency.
- Need to have access to traditional financial services; move toward widespread inclusion and adoption by financial institutions
- Crypto has gotten a bad rap: low financial integrity. But, it isn't different than with the traditional financial system historically.

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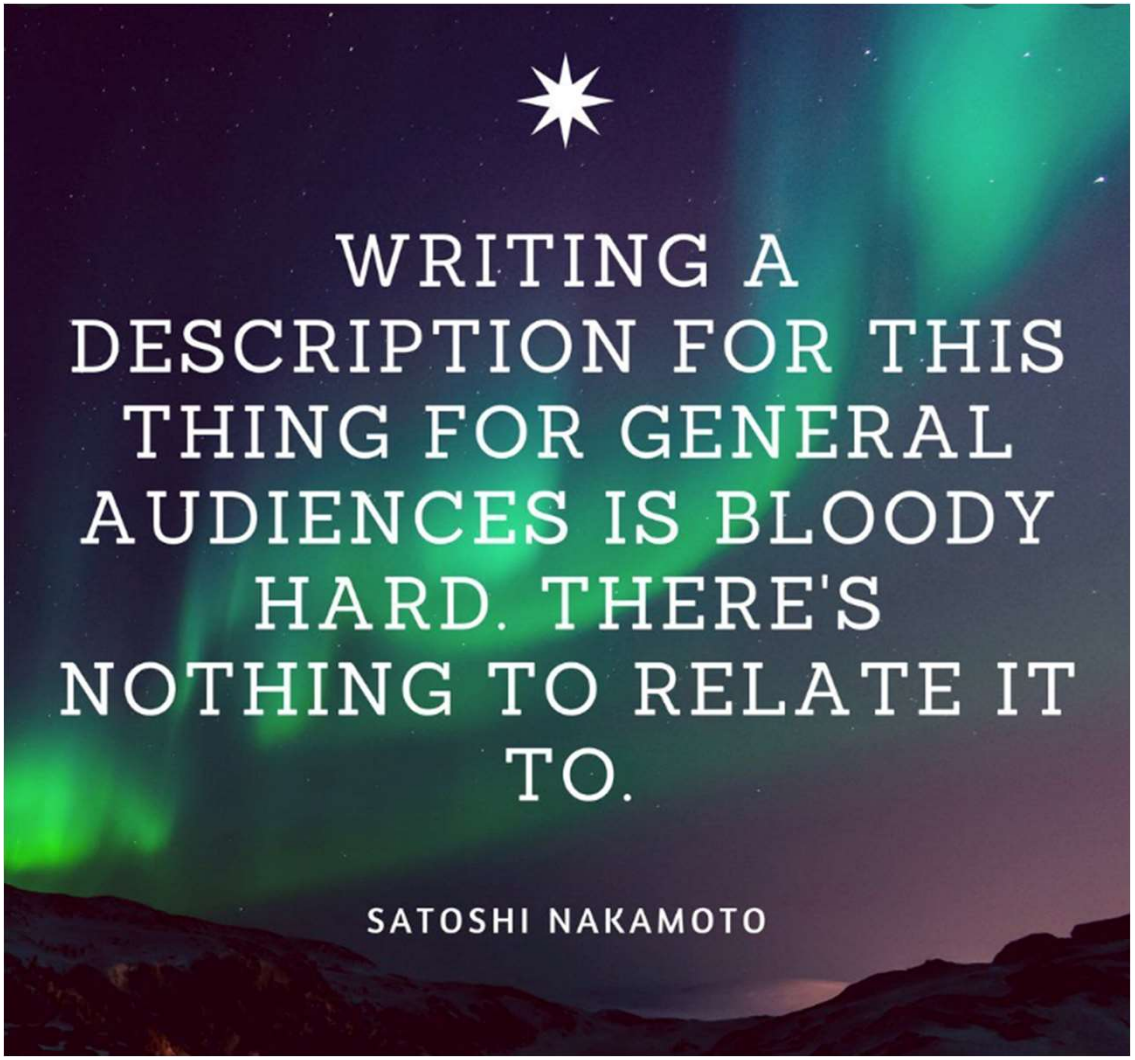
Original article based on tweet

Fake/True Satoshi Nakamoto? 6 People on the List of Candidates by Now

#	Title <	Full Title	Copyright Number	Date
[1]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TXu002136996	2019
[2]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TXu002162384	2019
[3]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TXu002162836	2019
[4]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TX0008745988	2008
[5]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TX0008726120	2008
[6]	Bitcoin: A Peer-to-Peer Electronic Cash System.	Bitcoin: A Peer-to-Peer Electronic Cash System.	TX0008749890	2008

to be acknowledged the legendary Bitcoin creator so far, including Craig Wright – will there be more candidates in the future?


WRITING A DESCRIPTION FOR THIS THING FOR GENERAL AUDIENCES IS BLOODY HARD. THERE'S NOTHING TO RELATE IT TO.
SATOSHI NAKAMOTO