

November 12, 2024

The Honorable Glenn Thompson
Chairman
U.S. House Committee on Agriculture

The Honorable David Scott
Ranking Member
U.S. House Committee on Agriculture

The Honorable Patrick McHenry
Chairman
U.S. House Financial Services Committee

The Honorable Maxine Waters
Ranking Member
U.S. House Financial Services Committee

Re: Anti-Money Laundering and Sanctions Safeguards Must Be Included in Any Final Cryptocurrency Legislation

Dear Chairman Thompson, Chairman McHenry, Ranking Member Scott, and Ranking Member Waters:

As organizations dedicated to promoting government accountability, combating corruption, and defending U.S. national security, we respectfully urge you to ensure that any forthcoming legislation related to the cryptocurrency industry includes the full suite of authorities that the U.S. Department of the Treasury (Treasury) requested from Congress in its November 2023 term sheet. Given news that cryptocurrency legislation is likely to advance before the end of this year,¹ it is essential that any such legislation include provisions to curb the ability of authoritarian and corruption-financed regimes to exploit loopholes in U.S. anti-money laundering and sanctions frameworks.

The Russian invasion of Ukraine and the ensuing economic sanctions placed on Russia have made it clear that kleptocratic regimes are increasingly turning to cryptocurrency to bypass global financial restrictions. Russia recently legalized cryptocurrency mining, and is poised to significantly expand its government-backed cryptocurrency investments in 2025, including through creating a central bank-facilitated cryptocurrency exchange.² The Government of Iran is also reportedly laundering billions a year, including through un-hosted wallets,³ while the Government of North Korea reportedly receives over half its foreign revenue from

¹ See Declan Harty, “Waters presses McHenry for stablecoin ‘grand bargain’”, Politico Pro, Sept. 24, 2024, <https://subscriber.politicopro.com/article/2024/09/waters-presses-mchenry-for-stablecoin-grand-bargain-00180691>; Sarah Wynn, “Sen. Stabenow, lawmakers look to forge ahead on legislation that will give the CFTC authority over crypto citing urgency,” The Block, July 10, 2024, <https://www.theblock.co/post/304565/sen-stabenow-lawmakers-look-to-forge-ahead-on-legislation-that-will-give-the-cftc-authority-over-crypto-citing-urgency>.

² Chainalysis Team, “Russia Cryptocurrency Pivot: Legislated Sanctions Evasion,” Chainalysis, Sept. 5, 2024, <https://www.chainalysis.com/blog/russias-cryptocurrency-legislated-sanctions-evasion>.

³ See Angus Berwick and Tom Wilson, “Crypto exchange Binance helped Iranian firms trade \$8 billion despite sanctions,” Reuters, Nov. 7, 2022, <https://www.reuters.com/business/finance/exclusive-crypto-exchange-binance-helped-iranian-firms-trade-8-billion-despite-2022-11-04/>.

cryptocurrency.⁴ Such moves demonstrate the state-sponsored embrace of financial assets with few financial safeguards. In response, key U.S. allies like the United Kingdom are pursuing efforts to eliminate loopholes presented by cryptocurrencies.⁵

Russian kleptocrats in particular have utilized cryptocurrency to subvert sanctions, maintain access to global markets, and fund their illicit activities, including the ongoing war in Ukraine. After Russian banks were kicked out of the SWIFT system, the country needed a new way to access capital to bolster its economy and supply its war in Ukraine. It has now turned to cryptocurrency.

Moreover, research from Transparency International Russia in Exile (TI-R) recently exposed how intermediaries on the dark web are selling “money mule” accounts at cryptocurrency-to-fiat payment providers to Russian speakers,⁶ further enabling kleptocrats to obscure their financial activities. Russian exchanges like Garantex, which maintains full operations despite being sanctioned⁷ and which conducts no Know Your Customer (KYC) due diligence,⁸ process billions of dollars in cryptocurrency transactions using U.S. Dollar-backed stablecoins like Tether.⁹

Such risks underscore the urgent need for the U.S. to modernize its regulatory frameworks. Deputy Treasury Secretary Wally Adeyemo, when testifying about cryptocurrency’s use for sanctions evasion before the Senate Banking Committee in April 2024, expressly stated that Treasury needs new laws authorizing the department to shut down cryptocurrency’s use by U.S. foreign adversaries.¹⁰ We believe it is imperative that any such legislation include the full suite of authorities that Treasury requested from Congress in its November 2023 term sheet. In

⁴ See U.S. Senate Committee on Armed Services, “Hearing to Receive Testimony on Worldwide Threats,” May 2, 2024, <https://www.armed-services.senate.gov/imo/media/doc/5224fulltranscript.pdf>.

⁵ See Lucy Harley-McKweon, “UK economic crime plan looks to tighten grip on crypto kleptocrats and fraudsters,” The Block, Mar. 30, 2023, <https://www.theblock.co/post/224054/uk-economic-crime-plan-crypto-regulation>.

⁶ Transparency International United Kingdom, “New Investigation Highlights Major Russian Dark Money Risk at Crypto Payment Providers,” Oct. 31, 2023, <https://www.transparency.org.uk/new-investigation-highlights-major-russian-dirty-money-risk-crypto-payment-providers>.

⁷ See *supra*, note 1.

⁸ *Id.*

⁹ Alex Wickham, Jennifer Jacobs, and Alberto Nardelli, “US and UK Probe \$20 Billion of Crypto Transfers to Russian Exchange,” Bloomberg, Mar. 28, 2024, <https://www.bloomberg.com/news/articles/2024-03-28/crypto-transfers-to-russian-exchange-worth-20-billion-probed-by-us-uk>; Angus Berwick and Ben Foldy, “Inside the Russian Shadow Trade for Weapons Parts, Fueled by Crypto,” The Wall Street Journal, Apr. 1, 2024, <https://www.wsj.com/finance/currencies/crypto-fuels-russian-shadow-trade-for-weapons-parts-1bfdc1a1>.

¹⁰ U.S. Department of the Treasury, “Testimony of Deputy Secretary of the Treasury Wally Adeyemo Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Apr. 9, 2024, <https://home.treasury.gov/news/press-releases/jy2243>.

particular, as outlined in the November term sheet, we respectfully request that any final legislation extend the principle of “same activity, same risk, same regulation” by:

Defin[ing] a new cryptocurrency-related category of “financial institution” under the BSA, which includes but is not limited to cryptocurrency exchanges, Virtual Asset Service Providers (VASPs), virtual asset wallet providers, certain blockchain validator nodes, and decentralized finance services and subjec[ting] it to the type of AML/CFT requirements to which banks and other financial institutions are already subject.¹¹

Also important is that lawmakers consider including provisions to modernize FinCEN authorities, including special measures, to improve Treasury’s ability to enforce the BSA against kleptocrats and other financial criminals. Congress must also ensure that Treasury actively pursues and urges robust improvements to global AML standards in the cryptocurrency space in order to disincentivize a “race to the bottom” among country-specific standards, and that Treasury and other relevant areas of the U.S. Government are fully engaged in understanding and setting standards for interconnecting payment systems around the world. The legislation must close sanctions loopholes by requiring all blockchain participants to screen for and block transactions involving sanctioned entities. Doing so would create an important new check on our foreign adversaries’ abilities to profit off and finance their crimes through cryptocurrency.

Lastly, and yet foundational to each of these measures, adequate new resources must be provided in order to allow the U.S. Government to effectuate these obligations. While cryptocurrency is a burgeoning market, the regulatory capacities of the U.S. Government must grow with them.

We stand ready to partner with you and your colleagues in crafting comprehensive and effective solutions to these challenges. By closing the regulatory gaps that allow kleptocrats, foreign adversaries, criminals, and others to operate with impunity in the cryptocurrency market, we can take a meaningful step toward safeguarding our financial system and national security. Yet absent such requirements, we leave the door open for kleptocrats, terrorists, and other bad actors to continue exploiting cryptocurrency networks to launder money, evade sanctions, and engage in other illicit activities.

Thank you for your consideration. If you have any questions, please contact Scott Greytak, Director of Advocacy for Transparency International U.S., at sgreytak@transparency.org.

Sincerely,

Transparency International U.S.
Kleptocracy Initiative, Hudson Institute
Razom for Ukraine
Free Russia Foundation

¹¹ U.S. Department of the Treasury, “Potential Options to Strengthen Counter-Terrorist Financing Authorities,” Nov. 28, 2023, <https://www.coincenter.org/app/uploads/2023/12/11.28.2023-Counter-TF-Legislative-Proposals.pdf>.

Citizens for Responsibility and Ethics in Washington (CREW)
Financial Accountability and Corporate Transparency (FACT) Coalition

CC: Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, U.S. Senate Committee on Homeland Security and Government Affairs, U.S. Senate Committee on Foreign Relations, U.S. House Committee on Foreign Affairs, U.S. House Permanent Select Committee on Intelligence, U.S. Senate Select Committee on Intelligence