

May 2026

CRYPTOCURRENCY BACKGROUND BRIEF

FIVE GAPS, FIVE FIXES: THE ANTI-MONEY LAUNDERING AND ETHICS PROTECTIONS THE CLARITY ACT MUST INCLUDE

Cryptocurrency regulation is overdue. For years, digital asset markets have grown faster than the laws meant to prevent criminals from exploiting them. Congress is now moving toward setting those rules, but the **Digital Asset Market Clarity Act (CLARITY Act)**, which cleared the Senate Banking Committee on May 14, 2026, **leaves critical gaps unaddressed.**

CLOSING THE FIVE LOOPHOLES

1. DeFi cannot be a law-free zone.

Platforms and other intermediaries that move money, custody assets, or otherwise provide financial services must not evade oversight by claiming to be "decentralized." Rules should follow function, not labels. If you handle people's money, basic anti-money laundering (AML) safeguards must be in place. North Korean hackers have laundered hundreds of millions of dollars through mixers and anonymizing tools to fund weapons programs—exactly the kind of activity that escapes oversight when intermediaries can claim "decentralization" as a shield. **Digital asset platforms and other intermediaries, including DeFi, must be covered by the CLARITY Act.**

2. Close the "Tornado Cash" sanctions loophole.

DeFi allows users to move, swap, lend, or pool crypto assets through software protocols rather than traditional intermediaries. But some of these tools are designed to keep operating automatically, even when it becomes clear they are being used to launder money. If AML rules apply when a person moves funds, but disappear when software performs the same function, the law has not created a safeguard; it's created a loophole. A [May 2026 FinCEN](#) alert warned U.S. financial institutions that Iran's Islamic Revolutionary Guard Corps (IRGC) is using digital asset infrastructure—alongside front companies and exchange houses—as part of a multi-jurisdictional shadow banking network to launder oil proceeds and fund weapons procurement and terrorist activity. **The CLARITY Act must provide the Treasury Department's Office of Foreign Assets Control (OFAC) with clear authority to act against anonymizing tools used to evade sanctions.**

3. No stablecoin escape hatches.

The GENIUS Act created the core framework for stablecoin issuers, but CLARITY must not

let illicit actors route around that framework through DeFi, offshore platforms, mixers, or other services that move stablecoins without meaningful controls. Sanctioned Russian entities have used stablecoins, including through platforms that impose no identity verification requirements, to move funds and sustain its financial networks amid international pressure. **The CLARITY Act should require stablecoin issuers, consistent with FinCEN guidance, to implement reasonable ecosystem-wide monitoring to help identify and report suspicious activity to law enforcement.** Without that broader market-wide visibility, stablecoins risk becoming the preferred rail for sanctions evasion, fraud, ransomware, trafficking, and corruption-related money laundering—even if issuer-level rules exist on paper.

4. Stop offshore platforms from dodging U.S. AML rules.

The CLARITY Act must make clear that digital asset platforms and other intermediaries that serve U.S. customers or facilitate U.S.-touching activity cannot evade U.S. AML and sanctions requirements by nominally locating offshore. The U.S. Department of Justice has prosecuted a scheme in which a senior Venezuelan official and his associates allegedly converted millions of dollars in bribes and embezzled state funds into cryptocurrency before moving the funds through U.S. exchanges—exactly the kind of cross-border flow that becomes harder to detect when intermediaries can choose whichever jurisdiction gives them the least scrutiny. If a platform or intermediary facilitates illicit finance, it should be cut off from the legitimate financial system.

5. Ethics rules must be meaningful.

Four days before the 2025 inauguration, the Trump family reportedly signed a deal selling a 49% stake in their crypto venture, World Liberty Financial, to an Abu Dhabi-backed entity for half a billion dollars. According to [The Wall Street Journal](#), the Trump Administration later approved giving the UAE access to 500,000 of the world's most advanced AI chips, overcoming longstanding national security objections. **The CLARITY Act must bar public officials and their immediate family members from owning, promoting, sponsoring, endorsing, or soliciting investment in digital asset ventures while the official is in office.**

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MEDIA CONTACT

Victoria Brusa - Communications and Media Affairs, Transparency International U.S.

Telephone: +1 771 250-8065 / +54 9 3492 652098 (WhatsApp)

Email: vbrusa@us.transparency.org

Twitter: @TransparencyUSA