



Cryptoassets: 'An ABC of Terrorist Financing'

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Excerpts from Sen. Nathalie Goulet’s book



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CRYPTOASSETS, TERRORIST FINANCING, MONEY LAUNDERING, REGULATIONS—THE STATE OF PLAY

Many people continue to question the possibility of a link between illicit transactions, terrorist financing and money laundering, yet the figures speak for themselves. In 2022, the use of cryptocurrencies for illicit transactions was estimated at more than \$20 billion¹.

There are two prevailing schools of thought regarding this issue: those who believe in the inherent traceability of cryptocurrencies due to the blockchain technology that underpins them, and the “realists” who know that even the most sophisticated systems can be hijacked, that criminals are always one step ahead of the lawmakers, and that the whiff of money inevitably attracts all kinds of fraudsters and scammers.

According to cryptocurrency trading simulator CryptoParrot, the number of new cryptoassets rose by 68.75 percent between September 2020 and September 2021², and by 28 percent between 2023 and 2024³.

The debates over bitcoin—and cryptoassets more generally—are rooted in the unease felt by traditional financial circuits and regulators. The heated discussions about the topic are thus set to go on for some time yet.

The anonymous nature of certain cryptocurrencies that prioritize complete anonymity over pseudonymity makes them an ideal instrument for cybercrime activities such as drug-dealing, child pornography and terrorist financing. For this reason, these cryptocurrencies are ubiquitous on the darknet, also known as dark web, enabling practically untraceable transactions that facilitate various cybercrimes.

In August 2020, the US State Department published a document about the funding of Al-Qassam Brigades campaigns using an untraceable cryptoasset collection. The Al-Qassam Brigades website included video instructions on how to make donations, using a unique address generated for each donor. The State Department, working closely with FBI agents, seized 150 cryptocurrency accounts and prosecuted two Turkish nationals who were operating an unlicensed money-transmitting business.

As early as 2012, terrorists realized they could use digital currencies on the darknet, a virtual private network layered over the



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internet that employs specific protocols and functions to anonymize users and data, to finance the purchase of supplies or ammunition.

Thus, cryptoassets can be used to obfuscate and launder funds of criminal origin or conceal funds intended for criminal purposes. Ether, bitcoin and dogecoin, for example, offer complex but effective mechanisms for transferring funds, collecting donations and raising funds online.

The Financial Action Task Force considers the most significant money laundering and terrorist financing risks to be at the conversion interfaces between cryptocurrencies and legal tender, emphasizing the need to regulate the exchange platforms and other conversion intermediaries that facilitate money laundering.

In 2018, the Bank of France published a focus paper titled “The Emergence of Bitcoin and Other Cryptoassets: Issues, Risks and Prospects,” which recommended the regulation of cryptoasset activities for four main reasons: the fight against money laundering and the financing of terrorism, which is of highest priority; investor protection; maintaining market integrity in the light of the cyber risk; and, if these

Members of the Ezz-Al Din Al-Qassam Brigades, the armed wing of the Palestinian Hamas movement, parade in Rafah in the southern Gaza Strip. AFP

activities continue to develop, concerns over financial stability.

In other words, the Bank of France and the French Prudential Supervision and Resolution Authority advocated for broader supervision of services associated with cryptoassets, to regulate the interface between the real world and cryptoassets and to monitor investments in cryptoassets.

The position of the French authorities thus supports integrating and regulating cryptoassets rather than prohibiting them.

EUROPE’S MOVE TOWARD REGULATORY PRACTICES

Europe recently introduced the Markets in Crypto-Assets Regulation, which will establish a legal framework for bitcoin in all member states as of the end of 2024⁴.

In April 2023, in response to the ever-increasing role of cryptocurrencies in cybercrime, the European Parliament adopted its first piece of legislation for tracing transfers of cryptoassets, such as bitcoin and electronic money tokens.

The legislation, which was provisionally agreed by negotiators in June 2022, “aims to ensure that crypto transfers, as is the case with any other financial operation, can always be traced and suspicious transactions

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Workers inspect cryptocurrency mining rigs inside the BitRiver Rus LLC cryptocurrency mining farm in Bratsk, Russia. Bitriver, the largest data center in the former Soviet Union, has clients from all over the world, including the US, Japan and China. Getty Images

blocked,” the European Parliament said⁵. This regulation covers the transparency, disclosure, authorization and supervision of transactions.

THE LINK BETWEEN CRYPTOASSETS AND ILLICIT FINANCING

In its annual Anti Money Laundering and Counter Terrorist Financing report, Tracfin, the French Financial Intelligence Unit, warned of the increasing use of cryptocurrencies for money laundering and terrorist financing. The report, titled “The Level of the Threat 2022-2023,” was published in October 2023.

Tracfin’s 2020 Activity Report included a case study highlighting how terrorists use bitcoin for financing:

- Mr. X opened multiple accounts with a neobank using stolen identities.
- Simultaneously, he obtained several consumer loans from other financial institutions, also using stolen identities.
- Mr. X deposited the loan money into the neobank accounts.
- The funds in these accounts were used to purchase cryptoassets on cryptocurrency trading platforms in Europe, including France.

● These cryptoassets were then transferred in bitcoin, passing through various bitcoin addresses, to a cluster linked to Al-Qaeda.

A case study from the Belgian Financial Intelligence Processing Unit’s 2020 report further illustrates the innovative methods used in these illicit activities:

- The actual purchase of cryptocurrencies occurs through a retailer (for example, a newsagent or other shop).
- Customers receive either a voucher to delay the bitcoin purchase for a more favorable exchange rate or use the Direct Bitcoin service for immediate receipt.
- The prepaid, anonymous vouchers bought by financiers in France and Belgium can be transferred via encrypted messaging services (for example, Telegram, Threema, Signal) to terrorists in Syria.
- Through a network of intermediaries and exchange offices, these vouchers are added to cryptoplatforms, and the value, minus a commission, is paid in the desired currency to terrorists in northwestern Syria or in the detention camps of Al-Hol or Al-Roj.

These case studies illustrate the complex and evolving methods used by criminals to exploit cryptocurrencies for illicit financing, emphasizing the need for vigilant regulatory and monitoring efforts.

Changpeng Zhao, billionaire co-founder and former CEO of Binance, the world's largest cryptocurrency exchange, was sentenced to four months in prison in May after pleading guilty to violating US anti-money laundering laws. Getty Images





IRAN AND CRYPTOASSETS

In February, the US Department of Justice announced charges of terrorism, sanctions evasion, fraud and money laundering brought against seven key figures in an oil-laundering network⁶ linked to the Iranian government, which is a major supplier of oil to China, Russia and Syria.

The circumvention of these indictments and embargoes was facilitated, at least partially, through the use of cryptoassets.

Iran has eagerly embraced cryptocurrency mining, occasionally exceeding its national energy capacity, leading to temporary shutdowns of mining operations.

This is what caught the attention of Sen. Elizabeth Warren of Massachusetts, an expert on cryptocurrencies and a vocal critic of the widespread use of bitcoin in the US. She addressed the issue with a bill known as the “Digital Asset Anti-Money Laundering Act” in December 2023, which was designed to crack down on the use of cryptocurrencies in the US.

In a letter to the Department of Defense and the Department of the Treasury in May, Warren highlighted the risks of legalizing cryptomining in Iran. The practice, she said, has enabled the transfer of substantial funds to finance both the country’s own administration and Hamas.

In fact, the accounts of some of members of Hamas on the Binance platform, currently the world’s leading cryptocurrency exchange, have been frozen by the Israeli government. According to The Wall Street Journal, Hamas amassed more than \$41 million in

US Senator Elizabeth Warren during an hearing on the Semiannual Monetary Policy Report to Congress before the Senate Banking, Housing, and Urban Affairs Committee. AFP

cryptocurrency between August 2021 and June 2023⁷.

A 2021 report by the Iranian Presidential Center for Strategic Studies, a government-linked think tank, argued that a “serious intervention” by Tehran could generate \$2 million a day and \$700 million a year in direct revenue from cryptocurrencies⁸.

There is an old Arab saying that you should pursue a thief to the door of his house. Unsurprisingly, when we pursue Iranian cryptoassets, we arrive at the door of Hamas, in Yemen, Lebanon and elsewhere.

Legislators will continue to grapple with the issue of regulating cryptoassets, a matter that remains deeply political.

How can a country such as the US position itself as a global hub for cryptocurrencies while safeguarding against their misuse and exploitation? How can it regulate extremely high volumes of transactions while still supporting unrestricted capitalism?

For instance, the US is the largest holder of bitcoins: 190,000, worth €9 billion in January 2024, which is approximately 90 percent of all government-held bitcoins⁹.

According to the Energy Information Agency, the US accounted for almost 38 percent of the bitcoins mined worldwide in 2022¹⁰.

The issue is undeniably a political one, yet it remains intriguing. Nonetheless, the idealists must step aside for the pragmatists and political realism. In any event, they will be credited for sparking the debate, even if they have not yet come up with a way of taking it forward.

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