



**MAURITIUS COMPLIANCE
RISK & ECONOMIC CRIME
CONFERENCE**

CRYPTO CURRENCIES AND THE AML/CFT
RISKS ASSOCIATED WITH THEM

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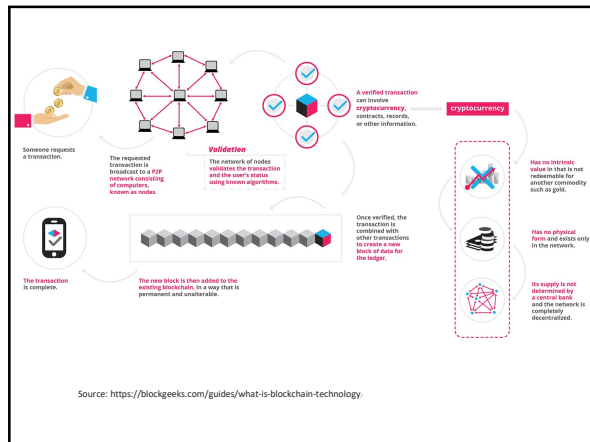
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Concepts (I)

- FATF Report, Virtual Currencies, Key Definitions and Potential AML/CFT Risks – June 2014
- Virtual currency - a digital representation of value that can be digitally traded and functions as (i) a medium of exchange; and/or (2) a unit of account; and/or (3) a store value, but does not have legal tender status in any jurisdiction.
- Fiat currency - coin and paper money of country designated as legal tender
 - S. 37 of Bank of Mauritius Act: Currency issued by the central bank is legal tender in Mauritius
 - Circulates
 - Customarily used and accepted as a medium of exchange in the issuing country
- E-Money - a digital representation of fiat currency; a digital transfer mechanism for fiat money
- Cryptocurrency - a math-based, decentralised convertible virtual currency protected by cryptography

Concepts (II)

- Blockchain - a public ledger of all Bitcoin transactions that have been executed.
- Centralised Virtual Currencies - a single administrator that controls the system; issues the currency; establishes rules for its use; maintains a central payment ledger system; & authority to withdraw it from circulation: e.g., WebMoney (<https://www.wmtransfer.com/>) and PerfectMoney (<https://perfectmoney.is/>)
- Decentralised Virtual Currencies - a.k.a crypto-currencies. Open-source; math-based peer-to-peer virtual currencies; no central administering authority; no central monitoring or oversight: e.g., Bitcoin (<https://www.bitcoin.com/>) ; Bitcoin (<https://litecoin.com/>) & Ripple (<https://ripple.com/>)



Concepts (III)

- **Node** - Nodes are used to the updating of each decentralised copy of the Blockchain.
- **No. of nodes** indicates the extent of VC use.



VC System Participants (I)

- **VC Exchange** – a person engaged as a business in the exchange of VC for: (i) real currency, (ii) virtual currency, (iii) commission
 - Exchangers are used to deposit and withdraw money from virtual currency accounts
 - E.g., eToro (<https://www.etoro.com/>); ice3x (<https://ice3x.co.za/>) & Coinbase (<https://www.coinbase.com>)
- **Administrator** – a person engaged as a business in issuing a centralised VC; establishing rules for its use; maintaining a central payment ledger; having authority to redeem VC
- **User** – a person who obtains VC and uses it to buy goods or services; makes personal transfers to another person; holds it as investment
- **Miner** – a participant in the decentralised VC network who solves complex algorithms using special software to validate transactions in the VC system. E.g., CGminer – open source software to mine
- **VC wallet provider** – entity that provides the virtual currency wallet. E.g., Coinbase & LedgerBlue (www.Ledgerwallet.com)

VC System Participants (II)

- Other entities :
 - Web administrators
 - Third party payments senders
 - Software developers
 - **Non-exhaustive list**

Dichotomy

- Actual/potential economic and social benefits
- Actual/potential exploitation
- Questions:
 - Are national laws adequate to cover VCs?
 - Should existing laws be amended to accommodate the use of VCs, or new laws enacted?
 - What degree of government scrutiny is required?
 - If regulation is desirable, what form should it take and how far should it go?

(Commonwealth Working Group on Virtual Currencies, Oct 2015)

Types of VC use

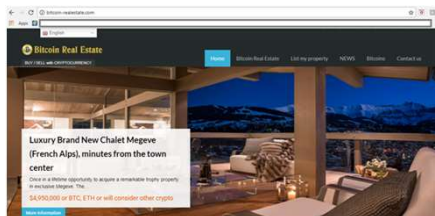
- Provision of goods and services
- Sale and lease of immovable property
- Investments
- Provision of payment products and services
- Payment platforms and exchange services
- Use by civil society
- Criminality using VCs

Types of VC use (I)

- Provision of goods and services
 - Ability to act as a substitute for fiat currency.
 - E.g., Bitcoins can be used in the same country of purchaser and seller or in distance selling transactions - physical delivery through the post or through communication technology.
 - South Africa: supermarket testing bitcoin payments
 - India: acceptance by restaurants or for the sale of concert tickets
 - However, VC can also facilitate cybercrime or cyber-related crime – e.g., purchase of air-time for pre-paid mobile phones

Types of VC use (II)

- Sale and lease of immoveable property
 - Jamaica: Rental of villa



Types of VC use (III)

- Investments
 - Purchase as VC as a form of speculative investment
 - Capital gain on the comparative fiat value of the VC

CRYPTOCURRENCIES

% who agree



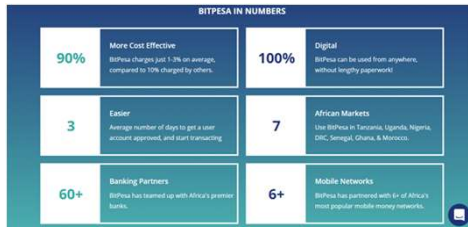
Based on those "aware"

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Types of VC use (IV)

- Payment platforms and exchange services
 - Kenya: Proliferation of virtual exchanges
 - E.g., BitPesa: offers commercial exchange and remittance services via VC.
 - UK → Kenya; Ghana, Kenya, Nigeria, Senegal, Tanzania, Uganda and DRC



Types of VC use (VI)

- Use by civil society
 - For charitable causes
 - Dogecoin used to fund Jamaica bobsleigh team
 - BitPesa exchange: to receive donations in the form of Bitcoins
 - Binance exchange: to raise \$1 million for Japanese flood victims
 - Paxful exchange: to raise scholarships for female Afghans
 - E.g., Bitcoins can be used in the same country of purchaser and seller or in distance selling transactions - physical delivery through the post or through communication technology.
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 - India: acceptance by restaurants or for the sale of concert tickets
 - However, VC can also facilitate cybercrime or cyber-related crime – e.g., purchase of air-time for pre-paid mobile phones

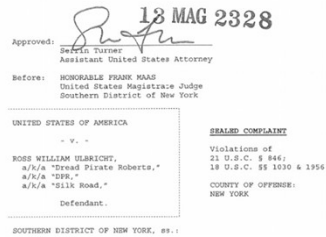
Types of VC use (VII)

- Criminality using VCs
 - Anonymity, rapidity, reducing transaction costs, reducing transaction time make VCs an attractive payment mechanism for criminals
 - VCs: instrumentalities of crime; e.g., facilitating payments for illicit products or services, ransom payments or laundering proceeds of crime
 - VCs: object of the crime; e.g., the theft of VCs.



Types of VC use (VIII)

- Criminality using VCs – 'Silk Road' case (2013)



Types of VC use (IX)

- Investigations
 - Well – known criminal use of VC: advertising the sale of illicit goods and services in Darknet market places
 - Impossibility to determine the location of either vendors or purchasers
 - Using Tor (The Onion Router) to hide users' IP address and other identifiers & Using the web anonymously

used by several thousand drug dealers and other unlawful vendors to distribute hundreds of kilograms of illegal drugs and other illicit goods and services to well over a hundred thousand buyers, and to launder hundreds of millions of dollars deriving from these unlawful transactions. All told, the site has generated sales revenue totaling over 9.5 million Bitcoins and collected commissions from these sales totaling over 600,000 Bitcoins. Although the value of Bitcoins has varied significantly during the site's lifetime, these figures are roughly equivalent today to approximately \$1.2 billion in sales and approximately \$80 million in commissions.

b. Bitcoins are not illegal in and of themselves and have known legitimate uses. However, Bitcoins are also known to be used by cybercriminals for money-laundering purposes, given the ease with which they can be used to move money anonymously.

c. Silk Road's payment system essentially consists of a Bitcoin "bank" internal to the site, where every user must

Against VCs?

- Investigations complicated
 - Obscurity of VCs relative to payment cards
 - Ability to enable users to avoid (i) traditional financial institutions, and (ii) record transaction requirements
 - Concerns for law enforcement authorities: money laundering, terrorist financing, trafficking in drugs and arms investigations
 - E.g., in money laundering investigations: the strategy is 'to follow the money'
 - Details of all VC transactions are distributed to all accounts holders in the ledger
 - Analysis of transactions flows and values against the timing of criminal activities → VC pseudonyms involved and to follow the transaction history. CHALLENGE: Linking the pseudonym to the real person.

In favour of VCs?

- UK National Crime Agency – National risk assessment of money laundering and terrorist financing, October 2017
 - Risk level: relatively LOW.
 - Little evidence of VCs being used to launder large amounts of money
 - May 2016 – July 2017: 1,584 Suspicious Activity Reports referred to digital currencies. SARs raised because of involvement of digital currencies. No suspicion of money laundering or terrorist financing
 - Use for terrorist financing: limited and unlikely to increase significantly in the next 5 years
- AUSTRAC: Australian Transaction Reports and Analysis Centre.
 - August 2015 before the Senate: Potential risk in the future
- EU: Fifth Anti-Money Laundering Directive
 - Registration of providers of exchange service providers and custodian wallet providers
 - In line with the FATF risk-based approach.

Concluding remarks

- It is not being suggested that VCs cannot be used for money laundering or the financing of terrorist activities.
- Crypto assets may be used for money laundering.
(UK House of Commons, *Digital Currencies*, 20 June 2018: *CryptoUK Chairman*)
- Question is not whether VCs will be regulated but how
- Balancing exercise: protecting market integrity and consumers with the need to avoid impeding innovation

THANK YOU !

The ALN Network

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