

Cryptocurrencies

US crypto tsar promises crackdown on digital platforms

Justice department steps up scrutiny of industry wracked by scandal and volatility



Eun Young Choi heads a new unit set up by the Biden administration to target criminal misuse of digital assets © Charlie Bibby/FT

Stefania Palma in London MAY 15 2023



The top US cryptocurrency enforcement tsar is promising a crackdown on illicit behaviour on digital platforms, saying the scale of crypto crime has grown “significantly” in the past four years.

The Department of Justice is targeting crypto exchanges along with the “mixers and tumblers” that obscure the trail of transactions, Eun Young Choi, who was appointed director of the agency’s national cryptocurrency enforcement team last year, told the Financial Times in an interview. The DoJ is targeting companies that commit crimes themselves or allow them to happen, such as enabling money laundering, she said.

“But on top of that, they’re allowing for all the other criminal actors to easily profit from their crimes and cash out in ways that are obviously problematic to us,” she added. “And so we hope that by focusing on those types of platforms, we’re going to have a multiplier effect.”

Choi said the focus on platforms would “send a deterrent message” to businesses that are skirting anti-money laundering or client identification rules, and who were not investing in solid compliance and risk mitigation procedures.

Choi heads a new unit focused on criminal misuse of digital assets as the US under the administration of President Joe Biden has emerged as one of the jurisdictions with the toughest stance on crypto worldwide.

“We’re seeing the scale and the scope of digital assets being used in a variety of illicit ways grow significantly over the last, say, four years,” she said.

“I think that is concurrent with the increase of its adoption by the public writ large.”

Choi’s comments come after the crypto industry was shaken last year by the collapse of FTX, the exchange that had been widely perceived as a sound player in an often-volatile sector. FTX founder Sam Bankman-Fried faces criminal charges including wire fraud as well as conspiracy to commit money laundering and violate campaign finance laws. He has pleaded not guilty to all charges.

Washington has also targeted Binance, the world’s largest crypto exchange. The US derivatives watchdog in March sued the company and its chief executive Changpeng Zhao for operating illegally in the country. The exchange has said it has no formal headquarters and does not serve US customers.

There are concerns in the industry that a greater crackdown on companies of systemic importance such as Binance would throw the broader industry into further disarray.

But Choi, without referring to any specific entity, said a company’s size “is not something that the department will countenance” while weighing potential charges.

If a company “has amassed a significant market share in part because they’re [flouting] US criminal law”, the DoJ cannot “be in a position where we give someone a pass because they’re saying ‘Well, now we’ve grown to be too big to fail’”, Choi said.

“Think of what message it would send,” she added. “It can’t be the way that we think when it comes to crypto, when it comes to any white-collar crime.”

Bitzlato, a digital exchange that US authorities have described as a key link to the dark net, was taken down in January when the DoJ arrested its founder for allegedly transmitting more than \$700mn in illicit crypto funds.

Beyond platforms, the DoJ's crypto unit aims to bring more enforcement actions targeting investment scams, as the volume of funds lost to such schemes has ballooned from approximately \$900mn in 2021 to more than \$2.5bn last year, according to victims' reports to the FBI.

Choi highlighted "pig butchering" schemes, which are named after a Chinese phrase referencing fattening pigs for slaughter, and involve scammers building relationships with victims over the long term.

The justice department last month seized crypto worth more than \$112mn linked to such scams.

The DoJ is also focusing on thefts and hacks involving decentralised finance (DeFi), Choi said, particularly "chain bridges", where users can exchange different types of digital tokens, or nascent projects with codes that are vulnerable to these attacks.

The justice department in February charged a man for defrauding DeFi platform Mango Markets of crypto worth \$110mn.

This is a "pretty significant issue" for the DoJ given North Korean state-sponsored hackers have emerged as key actors in this space, Choi said.

Copyright The Financial Times Limited 2023. All rights reserved.
