

Is the Liberty Reserve Money Laundering Case the New Face of Cyber Crime?

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The Rising Implications of Crypto- Currencies in Crime and Commerce.

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IDentityTheft
Protecting identities. Enhancing reputations. **911**

The Liberty Reserve Scheme: How did it work?

- ◆ Liberty Reserve: Scheme Associated With Blackmail
- ◆ Liberty Reserve: Scheme Associated with IP Theft
- ◆ How did it Work: Transnational Organized Crime (TOC) led the attack
- ◆ A Lucrative Franchise Crime Model Was Implemented
- ◆ Fraudulent Websites Were Created to Facilitate Identity and IP Theft

DOJ Indicts Liberty Reserve, "The Bank of Choice for the Criminal Underworld"



The Liberty Reserve Scheme: How it Worked (cont'd)

- ◆ Websites Included an information-only logon section
- ◆ Websites Also Included investment logon section:
 - ◆ Click on the Liberty Reserve icon to establish investment account
 - ◆ Enter your “secure” UN and PW, and Whamo!
- ◆ Two TOC Attack Scenarios: Offshore and Proximity
- ◆ The Franchise scam spanned across the TOC member range

Risks and Adverse Outcomes from Scam

- ◆ Business risk includes the following:
- ◆ Loss of target company IP
- ◆ Diminished company brand value
- ◆ Diminished executive brand value
- ◆ Loss of revenue
- ◆ Loss of company stock value
- ◆ Civil litigation against target company by other companies impacted*
- ◆ Potential increased threat of physical attack, physical penetration of the perimeter, and hiring of a TOC affiliate
- ◆ Criminal prosecution

Current Criminal Prosecutions



- ◆ Silk Road: Federal Prosecution
- ◆ Liberty Reserve: Federal Prosecution
- ◆ Charlie Schrem (BitInstant): Federal Prosecution
- ◆ Florida State Prosecution
- ◆ E-Gold and Gold Age: Federal Prosecutions



Key Theories of Prosecution

- ◆ Financial crime in aid of other criminal activity (Silk Road)
 - ◆ Knowingly conduct transactions with criminal proceeds
 - ◆ Knowingly conceal the sources of criminal proceeds
- ◆ Financial crime as the principal objective (Liberty Reserve)
 - ◆ Use of unlicensed currency exchangers
 - ◆ Evaded efforts at oversight and regulation
 - ◆ Did not report known and suspicious criminal activity
 - ◆ Extraordinary measures to insure anonymity

Is Liberty Reserve the New Face of Cybercrime?

- ◆ Consider the strong linkage between unregulated electronic currency and:
 - ◆ Money laundering
 - ◆ Transnational criminal enterprises
 - ◆ Website hijacking and fraudulent duplication
 - ◆ Brand hijacking and devaluation
 - ◆ Extortion
 - ◆ Phishing database development through fraudulent website logon ID acquisition
 - ◆ Theft of intellectual property, trade secrets, and non-public personal information

A Fraud Founded on Unregulated LRs

- ◆ Money laundering backed by these currencies resulted in:
 - ◆ Enablement of transnational criminal franchising of web fraud scheme through unregulated financial channels
 - ◆ Facilitation of broad distribution of digital chaff to misdirect law enforcement investigation and prosecution, defusing efforts to detect multiple frauds
 - ◆ Increased number of revenue channels across multiple geographies and jurisdictions to enhance profits associated with criminal activity
 - ◆ Unregulated electronic currencies were—and remain—difficult and expensive to trace in law enforcement investigation



Just Like Cash

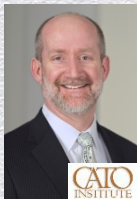
“...when Bitcoins, like any traditional currency are laundered and used to fuel criminal activity, law enforcement has no choice but to act.”

Bitcoin Toss

- ◆ Why Crypto-Currency Has a Bad Reputation
 - ◆ It Is Not Understood
 - ◆ It Is Anonymous
 - ◆ It Is a Super Enabler of Organized Crime
 - ◆ It Is Unregulated
- ◆ How to Fix It
 - ◆ Pass Specifically Tailored Regulations
 - ◆ Treat It Like Cash



U.S. Regulatory Stance



- Jim Harper, the CATO Institute



- John Harlan II, U.S. Supreme Court Justice



- Mary Jo White, *SEC Chairman*



- Benjamin Lawskey, *New York's Superintendent of Financial Services*

Unregulated Currencies Increase Operational Risks

- ◆ Legal

- ◆ Civil and criminal litigation costs to victim companies, individuals, and governments

- ◆ Regulatory

- ◆ Increased regulatory scrutiny, fines, foundation for protracted civil litigation and criminal prosecution

- ◆ Financial

- ◆ Market drift and subsequent financial loss, stock devaluation

- ◆ Reputation

- ◆ Competitive market disadvantage, brand image recovery, loss of stakeholder confidence

Companies, the Feds and BitCoin



Small Business, Personal Transactions, and Bitcoin



Staying Out of Bitcoin Jail

- ◆ Don't Use Bitcoins to Conduct an Otherwise Illegal Activity
- ◆ Conduct Financial Transactions in Compliance with All Applicable Laws and Regulations
 - ◆ Licensing
 - ◆ Currency Transaction Reporting
 - ◆ Understand the Limits of Anonymity
 - ◆ Consult with an Attorney Ahead of Time



Thank You

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