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Bitcoin Worth Billions Laundered Through Exchanges And Gambling Operators

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Pioneering research into money laundering using Bitcoin has found that gambling operators are at serious risk of exposure to illicit funds from darknet marketplaces.

A report published on Friday, which was the culmination of several years of research, recommended that authorities in all jurisdictions increase enforcement of anti-money laundering (AML) laws, particularly in the online gambling sector.

Authored jointly by London-headquartered blockchain analytics firm Elliptic and the Center on Sanctions and Illicit Finance, a programme at the US-based Foundation for Defense of Democracies, the report also singled out Europe as in dire need of tighter controls on virtual currency exchanges.

Online gambling sites and “mixers” were found to “have the biggest Bitcoin laundering problem”, processing “far and away the highest proportion” of tainted cryptocurrency.

Mixers or tumblers, which pool and redistribute funds to disguise their origins, increased significantly in usage over the period monitored.

The report warned that affected businesses “should assess whether they are indirectly enabling money laundering through cryptocurrencies.”

“Compliance professionals assessing financial crime risk should take into account flows of funds originating from cryptocurrencies, both directly and indirectly, and make use of blockchain analysis techniques to verify this risk.”

The study tracked the movement of half a million bitcoins, which would today be worth more than $6bn, to discover where and how users “cash out” cryptocurrency acquired from illicit sources.

It found those funds almost entirely originated from darknet marketplaces, such as Silk Road and AlphaBay — both of which have since been shut down by law enforcement authorities.

In 2015, more than a quarter of those illicit transactions were funnelled towards online gambling operators to obscure their transaction history, although that figure dropped to 14 percent the following year.

However, the vast majority — 97 percent — of all illicit transactions in those two categories were directed through only three different services.

Those three services, which the report did not name, were found to account for nearly half of all money laundering via Bitcoin from dark web marketplaces.

“Lastly, the exchanges represent another major part of the picture,” it said, referring to platforms that allow users to buy and sell units of cryptocurrency in exchange for fiat money.

“Our study identified that two EU-based Bitcoin exchanges account for 50 percent of all bitcoins laundered through exchanges, while the remaining 118 exchanges account for the other 50 percent.

Recently agreed amendments to the 4th Anti-Money Laundering Directive (4th AMLD) will bring such exchanges under regulatory oversight for the first time.

Along with custodian wallet providers, which refers to any entity that manages a user’s cryptographic keys on their behalf, they will be obliged to carry out know your customer (KYC) checks on users and to monitor for potentially suspicious activity.

The report acknowledged that some of Europe’s more prominent exchanges already carry out customer due diligence on a voluntary basis, but said the majority of mixers and gambling sites tend to hide their location to evade being caught by legislation.

“The key to addressing the pattern of Bitcoin laundering observed in this study is for financial authorities to investigate the poor AML and know-your-customer practices by businesses transmitting funds without licensure or regulatory compliance,” it said.