

# FSG Anti-Money Laundering (AML) Task Force

## The Technologies & Processes To Mitigate Cryptocurrency Risk

Webinar

Tuesday 27 October 2020



# WELCOME & INTRODUCTIONS



**Trevor Barritt**

AML Subject Matter Expert

Featurespace



**Stephen Ryan**

Founder & COO

CipherTrace



**Graeme Gordon**

CEO Praxity

Chair of FSG AML Task  
Force



# TODAYS AGENDA

15:00 – 15:05 Chairman's Introduction

15:05 – 15:30 Keynote Address - Trevor Barritt & Stephen Ryan

15:30 – 15:45 Audience Questions & Answers

# FSG AML TASK FORCE “PURPOSE”

- To Strengthening and Simplifying Anti-Money Laundering within the UK
- The City of London & UK is “Open For Business”
- Engage with major financial Institutions, ensure they realise the benefits to themselves of implementing revised AML procedures, if not already in place
- Galvanize relevant Trade Bodies to not only support the initiative and promote it well beyond the end of this year
- Galvanize all the Livery Companies of the City to promote and support the initiative in the best ways they feel they can
  - Webinars
  - Website
  - Seminars
  - E-Newsletters

# AML TASK FORCE 2020 SCHEDULE

➤ 23 Mar	Webinar	Best practice AML implementation
➤ 18 May	Webinar	The Professions
➤ 25 June	Webinar	The Controls
➤ 16 Sep	Webinar	AML & Technology
➤ 23 Oct	Webinar	Cryptocurrency Risk
➤ TBD Nov/Dec	Round Table	Clarifying The Issues [subject to COVID-19]
➤ TBD Nov/Dec	Webinar	Simplifying The Processes and Changing The Culture
➤ TBD Dec	Seminar	Lessons Learned
➤ TBD Dec/Jan	Launch	Protocol, Sign-Up



# A QUICK POLL

Regarding cryptocurrency exposure in your financial institution's legacy payment systems (Credit Cards, WIRE, SWIFT), can you provide a high level status of your capabilities:

- a) **None** - No capabilities at this point in time and none planned to identify crypto exposure
- b) **Basic** - Simple Name Matching of Cryptocurrency VASPs within legacy payment systems
- c) **Comprehensive** – Robust Crypto Analytics using VASP Bank Accounts and VASP Risk Ratings for matching within legacy payment systems
- d) **Future project** – A formal project is planned and will be initiated later in FY 2020 or 2021



## FSG Anti-Money Laundering (AML) Task Force

### The Technologies & Processes To Mitigate Cryptocurrency Risk



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**OUTSMART RISK**

# **The Technologies and Processes to Mitigate Cryptocurrency Risks**

**Presented by Trevor Barritt & Stephen Ryan**



# Cryptocurrency AML Webinar

OUTSMART RISK

## Discussion points:

- Crypto Compliance Exposure for Banks
- The AML controls specialists in this area are employing
- How AI can support these processes by surfacing new risks
- What the future of KYC and AML for Cryptocurrency looks like



**Trevor Barritt**  
AML SME  
Featurespace



**Stephen Ryan**  
COO  
CipherTrace

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# Featurespace & CipherTrace

## Featurespace

- Founded 2008 from 30 years' research at Cambridge University
- Invented Adaptive Behavioral Analytics to detect and prevent financial crime
- Working with 5 leading banks in UK and 2 of largest 10 banks in the world

## CipherTrace

- Founded 2015, HQ is Los Gatos, CA USA
- Cryptocurrency Analytics for 850+ VASPs
- Customers in 37 countries include Regulators, Banks, Exchanges, Payment Processors, and Law Enforcement

# Controlling Crypto Risk



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## Lack of Visibility Creates Fraud and Compliance Exposure

# \$2B

annual crypto-related transactions on a typical top 10 bank's payment networks

# 100%

top retail banks have consumers or small business transacting with VASPs via Credit Cards, Wire, and SWIFT transactions

# 80%

of the top banks unknowingly harbor unregistered crypto MSBs selling cryptocurrency from bank accounts via Wire transfers and Cash deposits

# Regulatory Compliance & Crypto Risk

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“As the use of cryptocurrency becomes more widespread, cryptocurrency service providers must deal with a greater range of threats from money launderers that exploit the speed and anonymity associated with the online trade of virtual assets” – **FATF 2020 Virtual Finance Report**

**Revised Principle XV-** Regulate or Prohibit Cryptocurrency

“In January 2020, new regulatory powers were introduced to allow us to supervise how crypto-asset businesses manage the risk of money laundering and counter-terrorist financing”. – **FCA, 2020**

## **FCA Regulates:**

- Fiat-to-crypto exchanges
- Crypto-to-crypto exchanges
- Custodial wallet providers
- Initial Coin or Exchange Offerings
- Cryptoasset ATMs

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- Cryptoassets such as Bitcoin, present new financial crime risks, as they enable digital value transfer without a financial intermediary.
- The application of robust AML controls combined with international cooperation can help reduce the risk.
- Robust regulation to prevent financial crime supports financial innovation in new markets like cryptoassets.
- The FCA's AML regime for cryptoassets presents the FCA with unique supervisory and enforcement powers tailored to meet international standards.

## Unique FCA Powers re Cryptos:

Requirement to submit information

Direction to amend or cease business

Extension of Fitness and Proprietary Test

# The USA March against Anonymity

- S. 6 Crypto-Currency Bill of 2020 – introduced to Congress September 2020

*"Tracing Of Transactions.—...the Secretary of the Treasury, acting through the Financial Crimes Enforcement Network, shall issue rules to require each crypto-currency... to allow for the tracing of transactions in the crypto-currency and persons engaging in such transactions in a manner similar to that required of financial institutions with respect to currency transactions under subchapter II of chapter 53 of title 31, United States Code."*

- Breaking News 23 October 2020 - US Federal Reserve proposed new rule :
  - Reduction in threshold for reporting transfers into or from the US from \$3,000 to \$250
  - Change in the definition of "money" to include crypto currencies
  - This will have the effect of requiring financial institutions to collect, retain, and transmit on the transfer, information including the name and address of the originator or transmitter.

*Rule Citation: 31 CFR 1020.410(a), 1010.410(e) & (f)*

# Example FATF Crypto-Specific Red Flags

- Transfers to Multiple VASPs
- Conversion into Multiple VAs
- Immediate Withdrawal to Private Wallet(s)
- Transfers to/from High Risk VASPs
- Large Deposit(s) to Open Relationships with new VASPs
- New User attempts to Withdraw entire Platform Balance
- Multiple Accounts at VASPs
- Entering VASP Platforms using IP Addresses associated with the Dark Web or anonymity
- Short Term Holdings of VAs
- Coin Tumbling & Mixing
- Customers not fitting usual VA Usage Profiles, e.g:
  - Age
  - Location
  - Salary





# Mitigating the Risk



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# Risk Management of Crypto Assets

VASP KYC Risk Rating

VASP Crypto Transaction Risk

VASP Jurisdiction Data

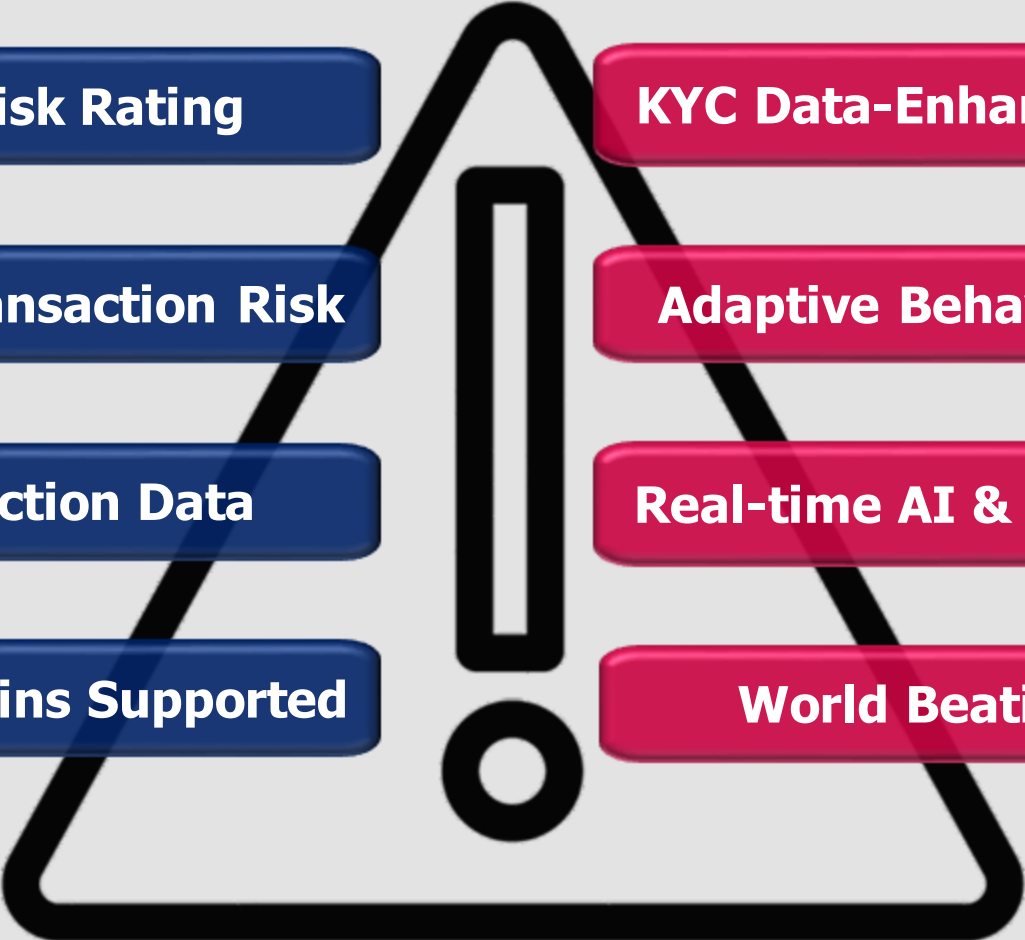
VASP Privacy Coins Supported

KYC Data-Enhanced Monitoring

Adaptive Behavioral Analytics

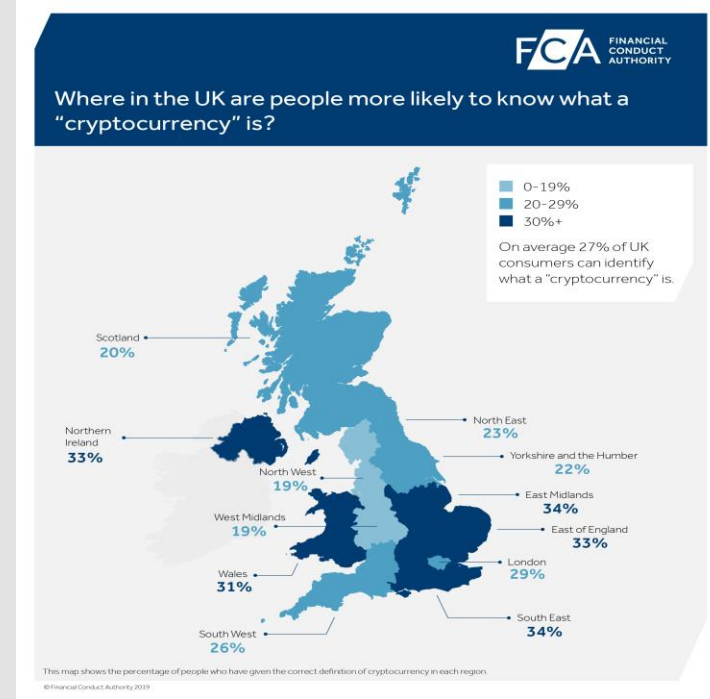
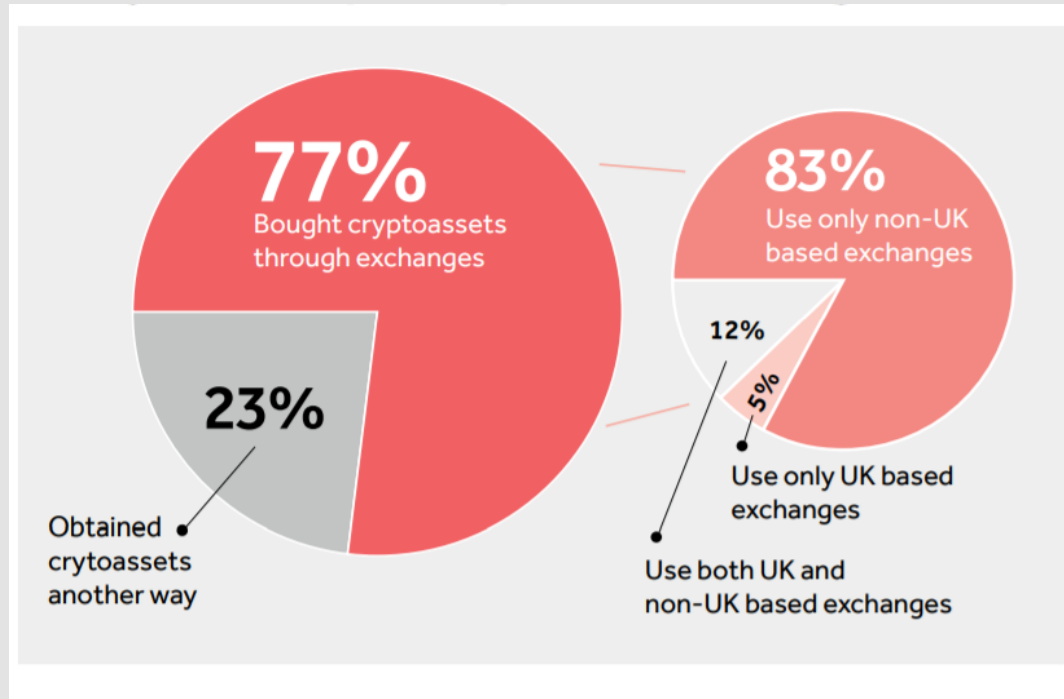
Real-time AI & Rules Combined

World Beating Profiling

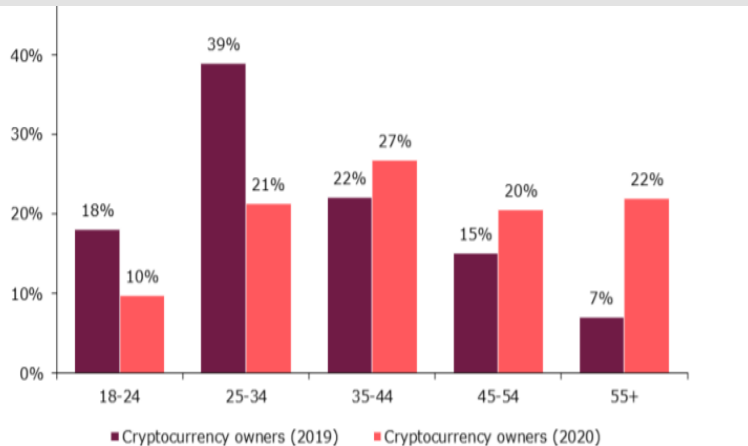


# Profiling & Rules: FCA Cryptoasset Consumer Research, June 2020

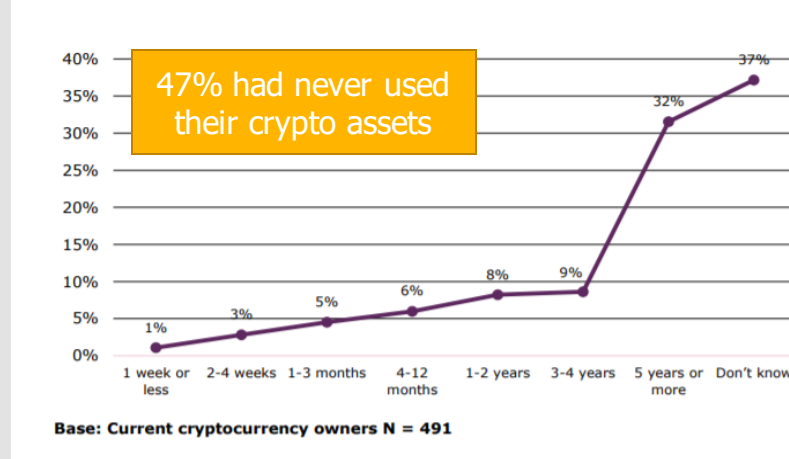
OUTSMART RISK



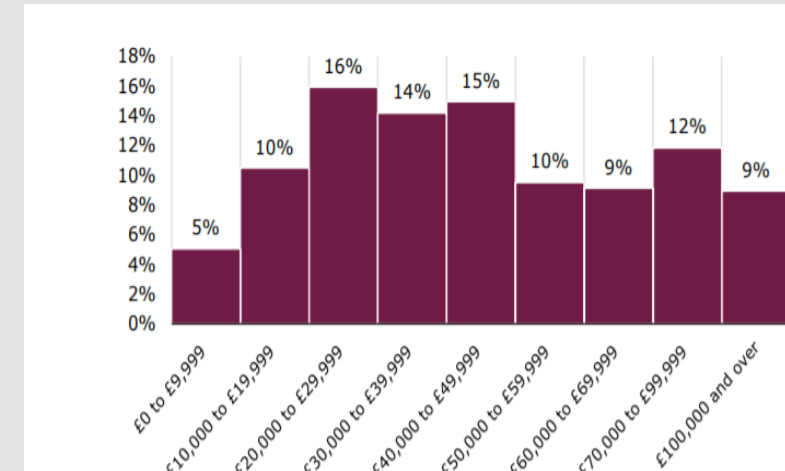
## Holder Age Distribution



## Intended Holding Period



## Annual Income Distribution



# The Future of Crypto-Asset Risk Management



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# VASP Matching Feed – Crypto WIRE Transactions

ARIC™ Risk Hub

← Back to List

Review 9 alerts

Risk

No-risk

Refer

Send to another team or user

Pending

Come back to this incident later

Add to list

Add data from this incident to a list

0 messages

+ New

Dashboard Incidents Events Reports Analytics Settings System Sandbox

## Clever Money Customer

PEP/Sanctions status: negative

Account Type: Business Account

Customer ID: CM00001B

CDD Score: Yellow

Map: [View CB3 OFA](#)

[View more](#)

D.O.B/D.O.I: 2019-09-01

Customer Since: 2018

Address: 21 JJ Thomson Avenue, Broers Building, Cambridge, Cambridgeshire, CB3...

Country Flag:

Method: Online

PEP/Sanctions s

negat

Activity Details Relationships

Add comment

Time	Event	Risk score	Value	Method	Information	Country	Account ID	Routing Num
11/12/2019 03:32 PM	Payment <b>Alert</b> <a href="#">businessrules</a> → <a href="#">multiplePaymentMethodsIntTransfers</a>	75.0%	£43,252.00	Wire	-		CM00001B	23-07-19
11/12/2019 03:32 PM	Payment	30.0%	£43,252.00	Wire	-		CM00001B	23-07-19
11/12/2019 03:31 PM	Inbound Payment <b>Alert</b> <a href="#">AML Model</a> → <a href="#">Transaction Value Breaches Peer Group Threshold</a>	67.0%	£2,000,000.00	Wire	-		CM00003B	16-56-71
02/12/2019 09:06 AM	Payment <b>Alert</b> <a href="#">businessrules</a> → <a href="#">multiplePaymentMethodsIntTransfers</a>	75.0%	£421,899.00	CHAPS	-		CM00001B	23-07-19
02/12/2019 09:06 AM	Payment	34.0%	£421,899.00	CHAPS	-		CM00001B	23-07-19
02/12/2019 09:05 AM	Inbound Payment	20.0%	£1,000,000.00	Wire	-		CM00002B	16-56-71
01/12/2019 05:02 PM	CipherTrace <b>Alert</b> <a href="#">CipherTrace</a> → <a href="#">InteractionWithHighRisk Greater 40pc</a> <a href="#">KYCGrade = Red</a>	80.0%	0.4726%	CipherTrace	Jubiter Technologies, AccountID LT...		-	-
01/12/2019 05:01 PM	Payment <b>Alert</b> <a href="#">businessrules</a> → <a href="#">multiplePaymentMethodsIntTransfers</a>	75.0%	£13,270.00	Online Transfer	Beneficiary: Jubiter Technologies U...		CM00001B	23-07-19
01/12/2019 05:01 PM	Payment <b>Alert</b> <a href="#">AML Model</a> → <a href="#">Product Activity</a>	80.0%	£13,270.00	Online Transfer	Beneficiary: Jubiter Technologies U...		CM00001B	23-07-19
01/12/2019 05:00 PM	Inbound Payment	43.0%	£5,000,000.00	Wire	-		CM00001B	16-56-71
15/11/2019 05:01 PM	Payment <b>Alert</b> <a href="#">businessrules</a> → <a href="#">multiplePaymentMethodsIntTransfers</a>	75.0%	£2,456.00	Faster Payments	-		CM00001B	23-07-19

## CipherTrace

01/12/2019 05:02 PM

The following triggered on this event

Models [CipherTrace](#)

Rules [InteractionWithHighRisk Greater 40pc](#)

Tags [KYCGrade = Red](#)

Risk Score **80.0%**

Details Jubiter Technologies, AccountID LT823880010100300837

Website <http://jubiter.com>

Bank Name GlobalnetUAB

Verification Provider CipherTrace

Trading with High Risk 0.4726%

Common Name Jubiter

Trades Fiat No

Trades Privacy Coins No

Direct Fiat On Ramp Yes

Indirect Fiat On Ramp Yes

## Key Takeaways

- Crypto-currency is increasingly popular for criminals seeking more complex strategies to legitimise their illicit gains
- Banks are exposed to cryptocurrency risks through traditional payment products such as Credit Cards, Wire, and SWIFT transactions
- The crypto-regulatory ecosystem is fast changing – requiring a flexible and agile risk strategy
- Adaptive monitoring is crucial in maintaining a firm grip on your crypto exposure risks and compliance strategy

The background is a dense, mosaic-like collage of aerial night photographs of various cityscapes. The images are cut into horizontal strips and arranged in a staggered, overlapping pattern. The colors are dominated by the warm yellows and oranges of city lights, with some cooler blues and purples from streetlights or building illumination. The overall effect is a complex, textured urban landscape.

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# QUESTIONS & DISCUSSION, ANSWERS?



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Gold Sponsors



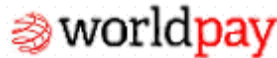
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# THANK YOU !

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