



What's Been Happening?

As the Russia-Ukraine conflict continues to escalate, countries are responding by ramping up political sanctions applicable to Russian politicians and businesses. In addition, international organizations continue to crack down on Russian-related criminal elements, as evidenced by the action against Hydra, the largest darknet market, and Garantex, a Russian cryptocurrency exchange.

Closer to home, both the SEC and the Department of Treasury have actively been seeking to address risks associated with the rise of digital assets. Similarly, the CFPB announced it intends to examine FinTechs that have historically been subjected to less rigorous BSA/AML requirements than banks. These actions include identifying potential risk areas, setting crypto-related examination priorities, and recognizing the need to protect certain categories of investors and consumers from the associated risks.

We've also seen yet another action against Deutsche Bank, and (in what will no doubt be the first of many similar cases), the arrest of two individual associated with NFT-related fraud.

SEC Announces 2022 Examination Priorities



On March 30, the Securities and Exchange Commission's Division of Examinations announced its 2022 examination priorities. In line with President Biden's March 9 Executive Order on Crypto, examinations will include emerging technologies and crypto-assets.

As stated by SEC Chair Gary Gensler, "The Division's 2022 examination priorities identify key risk areas that we expect registrants to address, manage, and mitigate with vigilance". At this time of exponential growth in cryptocurrency users and

Deutsche Bank Searched Over Suspicious Activity Reports



German agents searched Deutsche Bank's Frankfurt headquarters on April 29. The BaFin, the German banking regulator, issued a warrant that appears to focus on whether DB filed suspicious activity reports (SARs) in a timely manner. Banks are required to promptly file these reports with applicable regulatory authorities when they have a suspicion that a customer is attempting to engage in criminal or other terrorist financing activities.

This regulatory action is the latest in a long line of many BSA/AML-related enforcement actions against Deutsche Bank over the past decade. In 2020, Deutsche Bank was fined EUR 13.5 million for late reporting of SARs. In addition, the

platforms, the Division is expanding its investigations into the security threats created by new technology and determining if there are gaps within compliance platforms. Examiners will review if the risks associated with emerging technologies were considered and if the firm's policies and procedures meet those risks. Crypto firms should be working with their compliance teams to make a holistic determination on whether their controls address their risks.

US Department of Justice has been investigating DB for years over trades that authorities said were used to launder \$10 billion out of Russia, which led to the German bank being fined nearly \$700 million. Moreover, in 2018 the BaFin installed KPMG as a special monitor at DB, to oversee the bank's progress on enhancing its AML controls. A spokesman for Deutsche Bank said the bank is fully cooperating with authorities.

Consumer Financial Protection Bureau Addresses Nonbank Consumer Risks



The Consumer Financial Protection Bureau (CFPB) announced on April 25th that it intends to leverage a largely unused legal provision to examine nonbank financial companies (i.e., FinTechs) and seeks comments on its updated procedures. The CFPB believes using this authority will enable them to hold nonbanks to the same standards as banks and allow the Bureau to be “agile and supervise entities that may be fast-growing or are in markets outside the existing nonbank supervision program.”

The types of nonbank businesses within the scope of the CFPB's efforts include mortgage and private student lenders, “larger participants” in other nonbank markets for consumer financial products, and nonbanks whose activities the CFPB has reasonable cause to determine pose risks to consumers. From an AML perspective, FinTechs should proactively review their compliance programs to identify potential differences between their controls and those applicable to banks, such as risk ranking customers from an AML perspective, and performing enhanced due diligence on higher-risk customers.

Treasury Sanctions Russia-Based Hydra, World's Largest Darknet Market, and Virtual Currency Exchange Garantex



Highlighting the U.S Department of the Treasury's continued focus on cybercrime and digital assets, in early April OFAC sanctioned the world's largest and most prominent darknet market, Hydra Market (Hydra),

DOJ Launches First NFT Fraud Case



The Department of Justice (DOJ) arrested the two 20-year-old founders of the “Frosties” NFT project for wire fraud and money laundering. The duo raised approximately \$1.1 million of Ether by selling 8,888 NFTs of ice-cream-scoop-themed characters (Frosties) in an hour, only to execute a “rug pull.”

along with Garantex, a cryptocurrency exchange that executed over \$100 million in cryptocurrency transactions associated with darknets, including \$2.6 million from Hydra.

The sanctions resulted from an international effort to disrupt the proliferation of cybercrime services, drugs, and other illegal offerings facilitated by these Russia-based organizations. Darknets like Hydra are internet-based networks that are accessed via special software designed to obscure individuals' identity and internet activity, and almost exclusively use virtual currency as means of payment. In addition, OFAC added over 100 virtual currency addresses associated with Hydra's operations to the SDN List.

OFAC is one of the few global regulators that sanctions specific cryptocurrency wallet addresses.

This particular rug pull involved the two individuals (who concealed their identities) siphoning the funds raised from selling the NFTs, and closing the project's Discord channel without delivering on the project's utility, e.g., alleged early access to future mints and metaverse projects. This case is noteworthy because it highlights:

- the risk of fraud when transacting with NFT sellers whose identities have not been verified, and
- increased government focus on an area ripe with fraud, presumably due to the DOJ's creation in October 2021 of a National Cryptocurrency Enforcement Team (NCET).

To check out what you missed, you can view the Frosties NFT collection on [OpenSea](#).

Secretary Yellen Remarks on Biden Administration's Approach to Digital Assets



On April 7th, the Secretary of the Treasury Janet Yellen **delivered remarks** on digital assets policy, innovation, and regulation at American University. Consistent with President Biden's recent Executive Order, Secretary Yellen pointed out the need to focus on the opportunities that digital assets bring, as well as the potential risks. To that end, she mentioned the policy objectives of the Executive Order, such as protecting consumers, investors, and businesses, safeguarding financial stability from systemic risk, and mitigating national security risks. Among other topics, she highlighted several "lessons" that should be considered when exploring new technologies. One take-away involves learning from the mistakes of the 2007 Financial Crisis, where she stressed that "[w]hen regulation fails to keep pace with innovation, vulnerable people often suffer the greatest harm".

DigiPli's turn-key solution enables FinTechs and digital financial institutions to rapidly implement or upgrade their AML infrastructure by delivering highly automated workflows, integrated KYB, KYC, AML tools and data, and day-to-day support from AML experts in a single, affordable package.

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