

## What's Been Happening?

The NYS Department of Financial Services issued guidance directing crypto firms to implement more stringent risk controls, including RegTech solutions. The SEC is beefing up its regulation of cryptocurrency markets by doubling its headcount covering this space. Notable regulatory events included two crowdfunding portals that FINRA fined for securities violations, and OFAC filed criminal charges against a US citizen for transferring cryptocurrency to a sanctioned country. Other regulatory news involved the OCC doubling down on RegTech, and global regulators publishing a list of NFT Red Flags.

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Headed to Consensus? Let's Meet!



### Crowdfunding Under Fire

The regulatory pressure is ramping up for crowdfunding portals. On May 4, FINRA **fined** two funding portals (Wefunder and StartEngine Capital) a combined \$1.75 million for failing to comply with securities laws. Wefunder raised more than was allowed under crowdfunding rules, which it did by diverting the excess funds raised in one offering into a subsequent offering. StartEngine posted issuer communications on its funding portal that it suspected were false or misleading, and posted inaccurate counts of the number of investors on its platform. Check out [FINRA's detailed guidance](#) on funding



### SEC Doubles Crypto Unit

SEC Chair Gary Gensler continues to turn up the heat on the crypto industry. On May 3, the SEC **announced** the allocation of 20 additional positions to the unit responsible for protecting investors in crypto markets and from cyber-related threats. The 'Crypto Assets and Cyber Unit' within the Division of Enforcement will nearly double in size to 50 positions. Comparing crypto and capital markets, Gensler said, "The U.S. has the greatest capital markets because investors have faith in them, and as more investors access the crypto markets, it is increasingly important to dedicate more resources to protecting

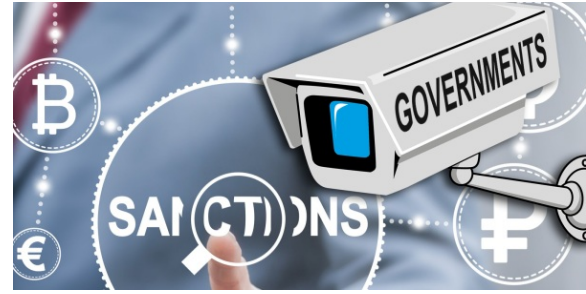
portals and crowdfunding offerings, which is published as part of its risk monitoring program. If you're working with crowdfunding - it's time to review your controls.

them.” The beefed-up department is expected to help the SEC more actively supervise crypto and cyber-related issues.



## NFT Red Flags

The Joint Chiefs of Global Tax Enforcement published at the end of April some of the first **guidance** to combat NFT-related fraud. The Joint Chiefs are a group of tax officials from the US, UK, Australia, Canada, and the Netherlands. The guidance includes a list of “red flags” that highlight the risk of fraud when buying NFTs. The Joint Chiefs divided the red flags into “strong” and “moderate” indicators of fraud. The big question is whether NFT marketplaces will make it easier for less savvy purchasers to identify a red flag before buying. Regardless, it’s clear that regulators are finally starting to focus on the high instances of fraud in this massively growing market.



## Evade OFAC with crypto?

The Department of Justice filed a **criminal complaint** on May 13 against a US citizen accused of sending over \$10 million in bitcoin to a virtual currency exchange based in a sanctioned country. The defendant allegedly executed transactions through an online payments platform operating from a sanctioned country. The platform advertised its services as designed to evade US sanctions, including through allegedly untraceable virtual currency transactions. The scheme involved moving funds through various US and non-US financial institutions and virtual currency exchanges as part of the illicit payment flow to the sanctioned country.



## OCC Stresses RegTech

Kevin Greenfield from the Office of the Comptroller of the Currency (OCC) **testified** on May 13 during a hearing before the House Financial Services Committee Task Force on Artificial Intelligence (AI). He discussed the



## NYS Crypto Monitoring

The NYS Department of Financial Services (DFS) encouraged cryptocurrency firms to enhance their risk management practices. In particular, in **guidance** issued in late April, the DFS stated that firms “must”

OCC's approach to innovation and its supervisory expectations for banks' use of AI in regulatory compliance. In particular, he stated that the "use of innovative technologies to facilitate regulatory compliance, commonly referred to as RegTech, can increase bank productivity and improve accuracy in analysis, decision making to support risk management and regulatory compliance monitoring and internal controls." However, he also stressed that banks should ensure the intended benefits are achieved – and unexpected risks are not introduced – by having effective governance processes and controls for the planning, implementation, and operation of RegTech solutions.

implement certain RegTech solutions. The DFS guidance focused on three main areas: (1) augmented KYC controls to identify 'high risk' wallets; (2) blockchain tracing tools to identify suspicious on-chain transactions; and (3) conducting sanction screening of on-chain transactions. Why does this matter? Cryptocurrency firms regulated by the DFS are held to a higher standard as to what constitutes appropriate controls than those licensed in many other states. Virtual currency exchanges and other firms that aren't implementing reasonable solutions to address these three areas face significant liability should their platforms be used for illicit activity.

We're empowering FinTechs and digital financial institutions to rapidly deploy or upgrade AML infrastructure

Want to chat?



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