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Chairman Hill, Ranking Member Lynch, and Members of the Subcommittee on Digital Assets, Financial Technology and Inclusion: Thank you for inviting me to speak today on an important subject - countering illicit finance - an area on which I have focused throughout my career. I began looking at sanctions evasion as an investigator: first, conducting investigations for the United Nations into the North Koreans' use of hard currency; then, for the Office of Foreign Assets Control (OFAC) at the U.S. Department of the Treasury where I led many investigations into how the Iranians, North Koreans, and Syrians were evading sanctions to fund their malign activities and procure materials for their weapons programs. These investigations were protracted and required data from classified sources, foreign governments, domestic and foreign financial institutions, and other non-public data sources. Despite cooperation within the U.S. government and with certain foreign governments, these investigations would often reach dead ends when activity, such as financial transactions, reached other foreign jurisdictions. From these investigations, I experienced firsthand the challenges of tracking illicit financial networks if partners and/or foreign countries are not able or willing to cooperate. I also saw the importance of compliant financial institutions and money services businesses in detecting, freezing, and preventing these illicit flows.

I then worked as the Senior Advisor to the U.S. President of the Financial Action Task Force (FATF), the global standards-setter for anti-money laundering (AML) and countering the financing of terrorism (CFT) measures. I also oversaw AML/CFT policy for Africa and Latin America at the Treasury Department. In these roles, I would frequently hear from developing nations that U.S. financial institutions would cite AML regulations as the biggest challenge to facilitating banking services, affecting cross-border payments, remittances, foreign direct investment, and other economic activity. For many of these financial institutions, the literal cost of AML compliance in certain jurisdictions, countries, and/or regions is not worth the revenue generated from establishing and maintaining correspondent banking relationships in these areas. This prevents most of the populations in these areas from accessing U.S. financial services; and, it limits the reach and power of our economic sanctions and AML standards. At the same time, I was seeing how regulatory clarity, led by the United States, around digital assets and payment stablecoins (like USDC, the digital dollar issued by Circle) could overcome many of these challenges, with the added benefit of increased AML transparency around financial networks.

The Current Landscape

Today's traditional payment networks are not universally interoperable and open. While real-time gross settlement (RTGS) systems have the potential to improve payments, they have significant drawbacks, unlike digital asset payments innovations: they are restrictive, antiquated, and fragmented proprietary payment systems. They lack cross-border interoperability, are slow to adapt to new technologies, and require voluntary participation and adoption only at the wholesale level by commercial banks. Conversely, digital assets serve as an enhancement to these restrictive and fragmented payments systems, bringing nearly instant, 24/7 settlement to the everyday consumer. The U.S. government, through its policies and regulations, should support these innovations in order to provide these services and optionalities to consumers.

As the total market for digital asset businesses and services grows, it is important to position the U.S. economy, and the regulatory foundation that underpins the U.S. financial system, at the forefront of this growth. The U.S. government has made clear (prominently in the reports stemming from the White House's "Executive Order on Ensuring Responsible Development of Digital Assets"¹) that the twin pillars of U.S. competitiveness are technological leadership in innovation and the promulgation of safe, efficient, and equitable regulatory frameworks. Promoting a modern domestic payment system that is transparent and efficient, supports innovation, and maintains U.S. technological leadership, all while safeguarding the integrity of our financial system and our national security, is paramount. Circle will continue to work with Congress and U.S. regulators, departments, and agencies to advance those goals.

About Circle

Circle is the sole issuer of the payment stablecoin² USDC, which allows businesses and users around the world to transfer value nearly instantly using secure blockchains. Circle was founded in 2013 with a simple goal: to craft a better dollar-based payment system that makes the exchange of value frictionless. Circle has invested heavily in people, processes, and technologies to build a dynamic company that conforms to emerging global regulatory regimes while staying abreast of technological developments and ahead of illicit financial actors. The company started in Boston and has approximately 650 employees in the United States across 37 states (and about 850 employees total).

Payment stablecoins like USDC rely on open-source software and blockchains rather than proprietary technology, which means that users are not dependent on banking hours. USDC is available on weekends, holidays, and "afterhours." Payment stablecoin transactions using blockchains are generally lower cost and faster than sending payments through the traditional

¹ The Biden Administration. (2022, March 9). *Executive Order on Ensuring Responsible Development of Digital Assets*. The White House. <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>

² In "Beyond Speculation: Payment Stablecoins for Real-time Gross Settlements" (Liao, Hadeed, Zeng), a payment stablecoin is defined as a token that is fully-backed with cash and cash equivalent instruments (e.g. T-bills and other level 1 HQLA with less than 90 days of maturity). Throughout this testimony, I will refer to USDC as a payment stablecoin because it meets these criteria. I will use the term "stablecoin" more generally in this testimony to refer to other tokens that, at times, purport to stablecoins (to include fiat-backed stablecoins that do not meet these criteria, crypto-collateralized stablecoins, and algorithmic stablecoins).

financial system, and are more accessible than a traditional bank account. USDC thus promotes access and competitiveness of the U.S. dollar in an era of always-on, device-centric banking and payments. A properly-constituted USD-denominated payment stablecoin is a digital currency that entitles the holder to redemption at par for one U.S. dollar. In order to protect holders, payment stablecoins should be backed by high quality, liquid assets on at least a 1:1 basis. Circle looks forward to legislation that provides clarity on reserves by codifying reserve standards into law.

USDC has enabled more than \$13 trillion in on-blockchain payments and settlements since its launch in 2018, and there are approximately 2.7 million wallets that hold at least \$10 worth of USDC. These data points demonstrate how USDC is generating economic activity based on the U.S. dollar. More broadly, this private sector-driven activity, using blockchain-based payment systems, offers an alternative pathway to allow the United States to compete with other countries proceeding with their own central bank-backed digital currencies (CBDC). USDC has gained widespread market adoption and extends digital versions of the dollar to an internet-based economy.

Circle has differentiated itself through a regulatory-first approach. We take pride in being a regulated U.S. company that is actively engaged with the U.S. government. In fact, Circle's co-founder and Chief Executive Officer testified at the first-ever hearing on blockchain technology in the Senate more than a decade ago,³ and our key executives and leaders have been a part of this important public policy conversation ever since. Beyond building a reputation as a transparent and trustworthy payment stablecoin issuer, Circle's track record of sanctions and Bank Secrecy Act (BSA) compliance has exported stability, rule of law, and respect for U.S. AML/CFT standards to the broader digital assets market.

The ecosystem around USDC - consisting of multiple blockchains, exchanges, virtual asset service providers (VASPs), digital wallets, fintechs, neo-banks and major payment companies, among others - enables its use for a store of value, as well as a medium of exchange for transactions, cross-border payments, remittances, trading, and lending. Responsible, regulated financial services innovations in this sector have lowered barriers to entry for consumers and also drive the increased participation of traditional financial services firms. One such example of this is the many traditional, global payments firms and networks, such as Visa, MoneyGram, Worldpay, and Stripe, among others, who are using USDC as a settlement option.⁴ Even though Visa authorizes transactions 24 hours a day, seven days a week, they are still reliant on banking hours to actually move money. Visa is piloting a program that allows issuers and acquirers to settle in USDC, allowing Visa to provide an additional option to their clients that could potentially improve the speed of cross-border settlement payments between their clients and Visa's treasury.⁵

USDC has proven to be a reliable means of facilitating efficient payments across borders with increased transparency into payment flows, thereby making risks stemming from illicit activity, including corruption, more easily identified and traced. This provides multiple benefits: humanitarian aid and relief (including post-disaster assistance) can reach recipients much faster than through the

³ Allaire, J. (2023, November 18). *Testimony of Jeremy Allaire*. Hearing on "Beyond Silk Road: Potential Risks, Threats and Promises of Virtual Currencies." <https://www.hsgac.senate.gov/>

⁴ *State of the USDC Economy | 2024 Outlook*. (n.d.). <https://www.circle.com/reports/state-of-the-usdc-economy>

⁵ Visa Expands Stablecoin Settlement Capabilities to Merchant Acquirers | Visa. (2023, September 5). *Visa*. <https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.19881.html>

traditional financial system, disbursements can be provided in a digital wallet instead of physical cash (which is susceptible to theft, diversion, corruption, and other risks⁶), and governments and humanitarian aid organizations can ensure only intended recipients receive funds. Beginning in 2020, for example, Circle helped the Venezuelan government (which was, at the time, led by President-elect Juan Guaido) to distribute millions of dollars in desperately needed aid to the nation's front-line medical workers as they battled the COVID-19 pandemic, while bypassing the controls that Nicolás Maduro's competing government had placed on Venezuela's financial system. And, in December 2022, Circle announced a partnership with the United Nations High Commissioner for Refugees (UNHCR), the Stellar Development Foundation, and MoneyGram to disburse aid to refugees and internally displaced persons in Ukraine.⁷ This program offers optionality to individuals - they can hold USDC in their digital wallets, or if they are dependent on physical cash, they can cash out aid directly at any MoneyGram location globally, including the over 4,500 locations in Ukraine.

USDC brings the benefits of digital currency - fast, inexpensive, highly secure, global, and interoperable, all over the internet - without the downside of the volatility that plagues most other cryptocurrencies. However, it is critical that stablecoin issuers are licensed, regulated, and operate with coordinated supervision by governmental authorities, including for AML/CFT standards, and with harmonized regulations internationally. Without that, consumers are left relying on a disparate array of regulations and standards, which as we have seen, can result in some issuers deliberately evading AML obligations and prudential practices, and others using complex formulas to artificially prop up their value. That is a key reason why Circle has conformed with the prevailing U.S. money transmission laws since first launching USDC nearly six years ago, and has been a registered Money Services Business (MSB) with the Treasury Department's Financial Crimes Enforcement Network (FinCEN) ever since. Not all operators in this market, including opaque so-called stablecoin issuers, abide by these standards, which produce a dangerous regulatory and financial crime compliance arbitrage.

Combating Illicit Finance

The safety and integrity of the international financial system, including preventing and detecting illicit financial flows, are a fundamental part of well-regulated financial services. Since its founding, Circle has made combating illicit finance activities a foundational principle. We recognize that in order to have global, mainstream adoption of digital assets and blockchains, AML/CFT compliance is key to protecting customers and systems from illicit actors, just as they are in

⁶ Idris, I. (2017, August 30). *Conflict-sensitive cash transfers: unintended negative consequences*. K4D: Knowledge, Evidence and Learning for Development. <https://assets.publishing.service.gov.uk/media/59df6771e5274a11ac1c4964/200-Conflict-Sensitive-Cash-Transfers-Unintended-Negative-Consequences.pdf>

⁷ UNHCR successfully served over 1,500 individuals and disbursed more than \$1.1 million in USDC in a one-year period in support of persons impacted by war and dislocation as a result of Russia's invasion of Ukraine. UNHCR Treasurer Carmen Hett said of the program: "we need to have solutions that are standardized, streamlined, accountable, and can deliver with speed... We could see within minutes that individuals could transact and withdraw their money... It's quite impressive to deliver aid within minutes."

(Source: *Circle, Stellar, MoneyGram and the UNHCR Convene to Advance Humanitarian Aid*, 2023, at: <https://www.circle.com/blog/circle-stellar-moneygram-and-the-unhcr-convene-to-advance-humanitarian-aid>)

traditional financial systems. In short, we have not only established the same financial crime compliance controls and investments as expected with other financial institutions, we have also leveraged novel technologies due to the unique features of blockchains. This has resulted in a stronger defense against illicit activity.

This regulation-first mindset is resident throughout our company and demonstrated by a sophisticated enterprise risk management program. Circle has designed and developed a comprehensive risk-based global compliance program; as part of this, we recognize that compliance is an ongoing process and must be fully integrated into our business activities, including product launches and customer relationships. Our traditional compliance functions include, but not are limited to, internal AML/CFT risk assessments, Know Your Customer (KYC) onboarding and ongoing diligence reviews, transaction monitoring, sanctions screening, monitoring and testing, internal training, and audits; these are also complemented by an internal 'financial intelligence unit' to better understand ecosystem risk, advanced machine learning techniques, and engineering teams that build internal support tools. In order to support these functions, Circle has invested heavily in developing a skilled and robust compliance team: over 40% of Circle employees are in a 'control' function, and one-in-six employees serve in a compliance capacity. These teams also work closely with governments, regulators, and law enforcement in the United States and other jurisdictions to identify, trace, and deter illicit financial flows from using USDC and to help develop the tools and know-how to disrupt cyber crime. In October of 2023, for instance, the U.S. Secret Service recognized Circle's prolonged support identifying instances of fraud and "pig-butcher" scams and assisting in the recovery of stolen assets.⁸

In order to detect and deter illicit activity, Circle's financial crimes risk management processes leverage compliance methodologies used in traditional financial institutions as a foundation, which are then enhanced by tools unique to blockchains and digital assets. As with any compliant financial institution, all of Circle's customers undergo a robust and compliant KYC program with periodic reinvestigations throughout the lifecycle of the relationship. Customer transactions are monitored - including on the blockchain - on an ongoing basis and suspicious activity is reported to appropriate authorities. Circle implements our sanctions obligations in applicable jurisdictions without delay. In addition, the open and transparent nature of blockchain transactions, along with the ability to irrevocably record money flows, provides us (and any other digital asset-related company) new tools to combat bad actors and illicit activity. Unlike traditional financial transactions which are siloed to specific financial institutions, anyone can view transactions on blockchains, in real-time, even where there is no U.S. nexus. And, blockchain analytics applies even more sophisticated analysis on top of these public ledgers. Circle uses blockchain analytics to internally monitor transactions within our regulatory obligations, and we continuously look for ways to add to and increase the effectiveness of our compliance processes based on innovations in the technology.

The transparency of blockchain transparency is inherently available to the public sector as well, reducing the traditional information asymmetry between financial institutions and regulators. The U.S. government and private industry can therefore both play a more substantial role in detecting, following, and in some cases, retrieving illicit funds involving digital assets. A December 2023

⁸ Circle Refutes False Claims on Illicit Financing. (2023, November 30). *Circle*. <https://www.circle.com/blog/circle-refutes-false-claims-on-illicit-financing>

U.S. Government Accountability Office (GAO) report highlighted statements from OFAC, FinCEN, and FBI officials that “public ledger records... allow agencies ... to conduct ‘look backs,’ [which] are reviews of historical transactions appearing on open source blockchains, that potentially allow agencies to discover past illicit activity on blockchains [or] take action against illicit actors.”⁹ For example, German authorities just announced in January 2024 their largest seizure to date - 50,000 bitcoin, worth over \$2.1 billion - for activity that was over a decade old.¹⁰ Many in law enforcement have attested that the permanent, immutable ledger on blockchains is the Achilles heel to illicit activity to bad actors: the Director of the Commercial Crimes Investigation Department in the Malaysian Police Department explained that crypto-related crimes were “easily traceable” because “everything which utilizes blockchain technology has a unique trait,” providing a “trail” for investigators.¹¹ For these reasons, transacting via blockchains with regulated VASPs should not naturally appeal to illicit actors.

The technology of smart contracts allows for the freezing of assets without delay on public blockchains, beyond the ability of traditional financial institutions with fiat. Because of the public transparency of blockchains, there is now the ability to verify sanctions compliance. Circle is proud to show this track record; anyone with an internet connection can see, for instance, the exact amount of USDC that has been frozen, or blocked, by Circle in digital assets addresses that have been designated by OFAC. As such, payment stablecoin issuers should, without fail, be able to point to blocked addresses and funds on chain to demonstrate compliance with sanctions laws, which should serve as a precondition to issuing a digital asset within the regulatory perimeter of the United States and other countries.

Unfortunately, the sector is not without rebuke when it comes to implementing robust and effective AML programs: some digital asset companies have a public track record of proclaiming themselves above AML/CFT regulation, even if issuing a USD-backed token, which has served as a “Welcome Sign” for terrorists, fentanyl manufacturers, terrorist organizations, and state-sponsored actors. Indeed, the United Nations Office on Drugs and Crime (UNODC) recently raised alarms regarding offshore stablecoins as the “preferred choice for crypto money launderers.”¹² (Though, positively, blockchain traceability has allowed the private sector and governments to track and seize these flows. For instance, in one singular action, Israeli authorities seized \$1.7 million in stablecoins going to Hizballah and Iran’s Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF).¹³) Terrorist groups and criminals will continue to find entities attractive that reside offshore and limit U.S. touchpoints to evade U.S. AML/CFT regulations.

⁹ *Economic Sanctions: Agency Efforts Help Mitigate Some of the Risks Posed by Digital Assets*. (2023, December 13). U.S. Government Accountability Office. <https://www.gao.gov/assets/d24106178.pdf>

¹⁰ Schuetze, C. F. (2024, January 30). German authorities seize \$2 billion worth of bitcoin. *The New York Times*. <https://www.nytimes.com/2024/01/30/business/bitcoin-germany-illegal-movie-site.html>

¹¹ Noorshahrizam, S. A., & Nizam, F. (2024, January 29). 'Cops can solve crypto crimes quickly' [NSTTV]. *NST Online*. <https://www.nst.com.my/news/nation/2024/01/1006985/cops-can-solve-crypto-crimes-quickly-nsttv>

¹² United Nations Office on Drugs and Crime, Southeast Asia and the Pacific. (2024, January). *Casinos, Money Laundering, Underground Banking, and Transnational Organized Crime in East and Southeast Asia: A Hidden and Accelerating Threat*. https://www.unodc.org/roseap/uploads/documents/Publications/2024/Casino_Underground_Banking_Report_2024.pdf

[Publications/2024/Casino_Underground_Banking_Report_2024.pdf](https://www.unodc.org/roseap/uploads/documents/Publications/2024/Casino_Underground_Banking_Report_2024.pdf)

¹³ Chainalysis. (2023, June 27). *Israeli authorities disrupt Hezbollah and Iran Quds force terrorism financing crypto infrastructure, seize \$1.7 million in First*. <https://www.chainalysis.com/blog/israel-nbctf-hezbollah-iran-quds-crypto-seizure/>

Ultimately, addressing the financial facilitators behind terrorist groups and other illicit and criminal actors will take clear regulations and guidance domestically that are enforced, continued private and public sector cooperation domestically, and the United States' leadership internationally, both from the public and private sectors, to facilitate stronger regulations and government action.

Protect U.S. economic power in the domestic and international financial systems

The power of our economic tools to protect our financial system from abuse by malign actors and as a tool of U.S. foreign policy depends disproportionately on the power that the Treasury Department has over U.S. financial institutions and, by proxy, the U.S. dollar and international payment services. Russia's invasion of Ukraine has been the most recent example of the importance of payment rails that are responsive to U.S. economic actions. As a result, many strategic competitors - led by China and often supported by Russia and Iran - have been motivated to find alternatives to systems that enforce U.S. sanctions that are out of the reach of U.S. law enforcement. China's "trial" of the digital yuan, or e-CNY, is no longer a trial; China has developed this CBDC to have the ability to authoritatively control their citizens. At the same time, they are also building the infrastructure to support the global settlement tools to supplant the U.S. dollar, alongside other tools such as the renminbi-based Cross-Border Interbank Payment System (CIPS).¹⁴ Other governments and international organizations - even those that are friendly with the United States - have researched and created pilot programs to overcome many of the frictions associated with cross-border payments with the explicit goal of developing dollar-alternative payment systems.

Unanswered, the dual threats of decoupling from U.S.-led international payment systems and de-dollarization can degrade the central role the U.S. dollar plays as the world's reserve currency. How do we best protect against these concerted efforts that are meant to evade the U.S. regulatory system, and support the other projects that are trying to improve upon cross-border payments?

First, the U.S. government should form a whole-of-government effort to bring every relevant department and agency together to study these alternative payment and settlement systems, and the potential broader challenge to dollar dominance. This is not just a threat to U.S. foreign policy through economic tools, but to the dollar's place as the world's trade and settlement currency. As a result, departments and agencies should be consulted as to the ways this might affect their mission and goals. This interagency group should also focus on strategic planning against foreign and international efforts, as well as efforts domestically to bolster U.S.-aligned payment systems and the role of the U.S. dollar as the global currency of trade.

The U.S. government should also be considering ways to strengthen the role of the U.S. dollar in the future. One clear opportunity is to support U.S.-led innovation and initiatives to make the dollar the base currency of digital assets. Regulated, USD-denominated and -backed payment stablecoins like USDC import robust compliance measures and the U.S. rule-of-law to the digital

¹⁴ Lu, C. (2023, May 31). Dollar dominance: Chinese yuan, BRICS currency won't supplant USD. *Foreign Policy*. <https://foreignpolicy.com/2023/05/12/dollar-dominance-global-trade-china-yuan-brics-currency/>

asset space.¹⁵ It is detrimental to U.S. foreign policy and the integrity of the financial system if USD-pegged stablecoin issuers are purposely operating offshore to try to avoid compliance with the International Emergency Economic Powers Act (IEEPA), the BSA, existing money transmission or electronic stored value rules, and any potential prudential regulation that comes with legislation. As Deputy Secretary of the Treasury Wally Adeyemo said in November 2023, the Treasury Department “cannot allow dollar-backed stablecoin providers outside the United States to have the privilege of using our currency without the responsibility of putting in place procedures to prevent terrorists from abusing their platform.”¹⁶

The United States must ensure, then, that all USD-backed stablecoins have compliant BSA programs and comply with IEEPA requirements through clarified guidance, enforcement actions, and/or new authorities granted by Congress; this would also prevent any misconceptions on who must comply. Stablecoins that reference the U.S. dollar should not be able to be used for flagrant sanctions or AML violations, and the Treasury Department should have the proper authority to capture that activity. Furthermore, U.S. touchpoints - in the traditional financial sector or via a VASP - should be held responsible for promulgating or otherwise facilitating the existence of these non-compliant tokens. Terra/Luna, for instance, a “so-called stablecoin,” was available to U.S. consumers despite the poor algorithm that was supposed to hold its value.

Increase collaboration between the public and private sectors to support robust enforcement

The financial sector, through effective compliance programs, has and should remain the first line of defense in countering illicit finance. This is in part because the private sector has traditionally had unique data not available to government regulators: for instance, traditional financial institutions have information on their own customers and associated transactions that the government does not have. Therefore, financial institutions file suspicious activity reports to notify governments about suspicious activity, and engage in other formal and informal information sharing with government regulators. While these obligations appropriately apply to digital assets companies operating as licensed or registered financial institutions or MSBs, governments have access to exponentially more information regarding transactions in the digital assets ecosystem as compared to traditional finance due to the transparency of transactions on blockchains. This does not, and should not, release VASPs from their BSA obligations, but it does provide regulators and law enforcement an important tool to identify suspicious activities and disrupt illicit activity in real-time, and help to evaluate VASP compliance with BSA and IEEPA regulations. In fact, blockchain analytics firms and trusted industry companies have been working closely with key government partners to share information; this has allowed law enforcement actors to monitor illicit fund movements and interdict stolen funds where possible, subject to applicable laws.

¹⁵ This aligns with the U.S. Treasury Department’s recommendation (4) in the *Future of Money* report, which states that the U.S. government should “prioritize efforts to improve cross-border payments, both to enhance payment system efficiency and protect national security.” (Source: *Future of Money and Payments*. (2022, September). U.S. Department of The Treasury. <https://home.treasury.gov/system/files/136/Future-of-Money-and-Payments.pdf>)

¹⁶ Remarks by Deputy Secretary of the Treasury Wally Adeyemo at the 2023 Blockchain Association’s policy Summit. (2024, January 25). U.S. Department of The Treasury. <https://home.treasury.gov/news/press-releases/jy1934>

As a result, regulators and law enforcement around the world (and not just in the United States) have taken advantage of this transparency and collaboration to pursue cases that span multiple jurisdictions using sophisticated analytical methods. While the United States has played a leading role in freezing and seizing digital assets, other countries have been able to trace historical illicit financial flows with successful seizures worth billions. These actions send a clear message that criminals cannot outrun their illicit activity. In fact, GAO notes that “risks posed by techniques to obscure transactions are mitigated to some extent by the evolving blockchain analytics and other industry tools.”¹⁷ And, the tide has turned. While criminals may have thought that digital assets are anonymous, enforcement cases have clearly shown that is not the case. Increasing funding for U.S. law enforcement agencies, to include additional resources to identify, track, and analyze financial crime networks and emerging threats, would allow further review of covered entities. At the same time, additional resources should include financial technology experts to review and encourage responsible innovation in the area of countering illicit financial activity.

Blockchain analytics are just one part that enable these law enforcement actions; compliant entities are another critical aspect. In February 2022, the U.S. Department of Justice (DOJ) announced a seizure of 94,000 Bitcoin valued at over \$3.6 billion, stemming from activity six years prior.¹⁸ In announcing this action, Deputy Attorney General Lisa O. Monaco explained that several VASPs “enforced AML policies and KYC requirements that proved key to this investigation” and had “asked questions about where the money came from.”¹⁹ FinCEN has also levied significant enforcement actions against VASPs who are non-compliant, with the most recent settlement against Binance being the largest in the Treasury Department’s history. Well-regulated companies like Circle are a partner in fighting illicit finance even before law enforcement action. The U.S. government’s recent actions against actors in this space even demonstrate that when illicit activity happens internally, and not ‘on-chain,’ companies are not out of reach. In fact, when discussing risks emanating from virtual assets, the Treasury Department notes *first* in its 2024 “National Money Laundering Risk Assessment” that there is “inconsistent compliance with domestic obligations” among VASPs, but their regulatory obligations are not unknown: the Treasury Department emphasizes that those domestic obligations exist, and multiple agencies (to include FinCEN, OFAC, SEC, and the CFTC) “have issued statements and guidance on regulatory requirements for VASPs.”²⁰

Finally, in accordance with the Treasury Department’s “Action Plan To Address Illicit Financing Risks of Digital Assets” published in September 2022, Circle believes that establishing a forum for policymakers, regulators, and financial institutions to engage and learn more about the blockchain-based tools and products can improve industry compliance. Government agencies and departments might, for instance, also benefit from exchange programs or “secondments” that embed private sector analysts within government agencies, or vice versa. Given that private sector KYC processes are central to an effective AML/CFT program, regulators, law enforcement, and the industry must work together to develop better solutions, to take advantage of private sector expertise, and increase proactive information sharing between firms and agencies.

¹⁷ *Economic Sanctions: Agency Efforts Help Mitigate Some of the Risks Posed by Digital Assets*, 2023

¹⁸ *Two arrested for alleged conspiracy to launder \$4.5 billion in stolen cryptocurrency*. (2022, February 8). <https://www.justice.gov/opa/pr/two-arrested-alleged-conspiracy-launder-45-billion-stolen-cryptocurrency>

¹⁹ *Ibid.*

²⁰ *National Money Laundering Risk Assessment (NMLRA)*. (2024, February). U.S. Department of The Treasury. <https://home.treasury.gov/system/files/136/2024-National-Money-Laundering-Risk-Assessment.pdf>

It should be noted and emphasized, however, that private and public sector collaboration should not come at the expense of an individual's right to privacy, appropriate consumer protections, and due process. Blockchains have been able to provide financial services optionality for law-abiding people, who should enjoy privacy and financial access as a human right, while giving bad actors and illicit finance no place to hide. Actions by digital assets companies should be in accordance with applicable regulations and legal protections.

Support the development of fintech measures and other responsible innovation

The digital asset industry in the United States is constantly developing new technologies to address long-standing AML challenges. The Treasury Department, as a result, should seek to make public and share with industry their assessments of financial technology. For example, reports like those issued under the auspices of the 2020 AMLA Section 6210 could help the private sector stay compliant and ease the burden of financial monitoring. Similar to the requirements of Section 6210, such reports might require "the Secretary of the Treasury, in consultation with regulators and other relevant parties, to prepare and submit a report assessing the impact of technology on financial crime compliance."²¹ Additionally, increased collaboration and direction from FinCEN - from a Chief Innovation Officer, or Office of Innovation - specifically on their financial technology priorities, policies, and outlook will help covered institutions embrace the most effective and efficient procedures. The White House should also evaluate emerging technologies around digital identity and AML tools in their digital asset research and development agenda.

More specifically, supporting the development of digital identity tools and international standards around digital identity management would aid both the private sector and U.S. government in the detection and reporting of illicit financial activity. Covered entities have been reluctant to do so, likely due to the start-up costs associated with incorporating new technology and potential enforcement actions. The Treasury Department and the industry publicly recognize the multitude of benefits from privacy-preserving yet compliant digital identity solutions but have yet to take a more concerted role to encourage adoption. The Treasury Department noted in its "Future of Money" report the importance of developing identity verification sufficient to enable AML compliance while balancing user privacy.²² Circle is a founding member of the Travel Rule Universal Solution Technology (TRUST), an industry-driven, bespoke solution that allows participating VASPs to be in compliance with certain regulatory requirements while protecting the security and privacy of customers.

Promote the global implementation of FATF standards and conduct targeted engagement and technical assistance

The U.S. regulatory regime for combating illicit finance, under which Circle operates, requires digital asset companies to comply with the same AML rules that govern traditional financial institutions, payment companies, and other covered entities. However, the U.S. government

²¹ *AMLA 2020 Summary Grid*. (2017). GuideHouse.

https://guidehouse.com/-/media/www/site/insights/financial-services/2021/fs_amlagrid.pdf

²² *Future of Money and Payments*, 2022.

should continue to advocate that other countries adopt similar frameworks to ensure digital asset companies cannot take advantage of lax regulation and supervision in other jurisdictions.

The United States must play a strong leadership role in setting international standards for AML regulations around digital assets. Many countries are currently considering a variety of regulatory frameworks, but materially different requirements from one country to another will open the door to a “race to the bottom.” The United States has a tremendous opportunity to serve as a standard bearer and to work with other countries to harmonize rules that meet its own high bar. Clear, consistent rules will enhance the reach of USD-denominated payment stablecoins and, accordingly, U.S. sanctions and illicit finance standards. The Treasury Department should take a demand-focused approach and prioritize jurisdictions where there are large volumes of individual transfers – such as remittances – from the United States or growing global reliance on mobile and/or digital payments services.

Finally, the United States should be the leader in exporting the technical know-how that has allowed U.S. law enforcement to track and seize over \$10.8 billion worth of digital assets.²³ For instance, we applaud the U.S. government’s recent work, in conjunction with the private sector, to train Ukrainian law enforcement agencies in how to unravel complex financial networks.²⁴ U.S. blockchain analytics companies have also brought together foreign governments and the private sector to discuss best practices in AML compliance.²⁵ Circle has also been dedicated to educating stakeholders domestically and internationally on payment stablecoins, compliance in digital assets, and the broader ecosystem writ large. Congress should look to encourage this type of collaboration by expanding funding for direct government and government-sponsored technical assistance.

²³ Arkham. (n.d.). <https://platform.arkhamintelligence.com/explorer/entity/usg>; as of February 13, 2024.

²⁴ TRM joins U.S. Secret Service and Security Service of Ukraine for Hands-On Crypto Investigations Workshop | TRM Insights. (n.d.). <https://www.trmlabs.com/post/trm-joins-us-secret-service-and-security-service-of-ukraine-for-training-on-crypto-investigations>

²⁵ Lowenthal, S. (n.d.). *Elliptic Workshop Recap: Strategies for Success in a 5AMLD World*. <https://www.elliptic.co/blog/strategies-for-success-in-a-5aml-d-world>