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FinCEN Cracks-Down on Yet Another Alleged Illegitimate Virtual Currency Exchange, Raising More Concerns for Legitimate Exchanges

The Financial Crimes Enforcement Network (FinCEN), working in coordination with the U.S. Attorney's Office for the Northern District of California, [assessed a \\$110,003,314 civil money penalty today](#) against BTC-e a/k/a Canton Business Corporation (BTC-e) for willfully violating U.S. anti-money laundering (AML) laws. Russian national Alexander Vinnik, one of the operators of BTC-e, was arrested in Greece this week, and FinCEN assessed a \$12 million penalty against him for his role in the violations. BTC-e is an internet-based, foreign-located money transmitter that exchanges fiat currency as well as the convertible virtual currencies. It is one of the largest virtual currency exchanges by volume in the world.

Alleged Activities

Among other violations, BTC-e facilitated transactions involving ransomware, computer hacking, identity theft, tax refund fraud schemes, public corruption, and drug trafficking, and failed to obtain required information from customers beyond a username, a password, and an e-mail address. Instead of acting to prevent money laundering, BTC-e and its operators embraced the pervasive criminal activity conducted at the exchange. Users openly and explicitly discussed criminal activity on BTC-e's user chat. BTC-e's customer service representatives offered advice on how to process and access money obtained from illegal drug sales on dark net markets like Silk Road.

BTC-e also processed transactions involving funds stolen between 2011 and 2014 from one of the world's largest bitcoin exchanges, Mt. Gox. BTC-e processed over 300,000 bitcoin in transactions traceable to the theft. FinCEN has also identified at least \$3 million of facilitated transactions tied to ransomware attacks such as "Cryptolocker" and "Locky." Further, BTC-e shared customers and

conducted transactions with the now-defunct money laundering website Liberty Reserve. FinCEN previously issued a finding under Section 311 of the USA PATRIOT Act that identified Liberty Reserve as a financial institution of primary money laundering concern.

FinCEN's Global Reach

FinCEN's action against a foreign business should come as a warning to money services businesses (such as some companies launching Initial Coin Offerings) which utilize foreign jurisdictions as a method to reduce their exposure to U.S. regulations. According to FinCEN's [press release](#):

"We will hold accountable foreign-located money transmitters, including virtual currency exchangers, that do business in the United States when they willfully violate U.S. anti-money laundering laws..."

Chilling Effect On Legitimate Businesses?

Enforcement actions against alleged illegitimate exchanges has led to widespread concern over the entire virtual currency industry, as regulators attempt to ferret-out illegal behavior. This announcement comes less than 48 hours the SEC provided guidance to exchanges regarding ICOs. FinCEN's enforcement action is yet another blow to legitimate virtual currency exchanges operating in the market, as more virtual currency exchanges are being subjected to broad regulatory oversight. Coinbase, for example, has been involved in a legal battle over an IRS John Doe Summons in the Northern District of California, which requests that Coinbase hand-over Coinbase consumer data and transaction records for 2013, 2014, and 2015, in an effort to ferret-out tax evasion, despite Coinbase's otherwise legitimate uses.

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