



# UNODC

United Nations Office on Drugs and Crime

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## ANTI CORRUPTION ALERT

TITLE: LAUNDERING OF CRIME PROCEEDS USING VIRTUAL CURRENCIES



### BACKGROUND AND PURPOSE

The purpose of this advisory is to provide a general overview of the history and concepts of virtual currencies, its presence in Indonesia and the challenges faced by law enforcement agencies to detect and interdict such transactions when used for illicit purpose. The United Nations Office on Drugs and Crime Country Office Indonesia, to help develop the law enforcement knowledge of emerging threats and to raise their awareness regarding countermeasures. It is crucial, from an investigative point of view to understand the interfaces between electronic money, virtual currencies and the traditional financial system.

### HISTORY OF VIRTUAL CURRENCIES

Virtual currencies are not a new concept. Multiple virtual currencies have come and gone over the past decade. However, recent evolutions in the industry through the emergence of Bitcoin and other similarly structured currencies have posed a challenge to Law Enforcement Agencies.

### CENTRALISED VS. DE-CENTRALISED VIRTUAL CURRENCY

Centralized Virtual Currencies have a single administrating authority (administrator) – i.e., a third party that controls the system. An administrator issues the currency; establishes the rules for its use; maintains a central payment ledger; and has authority to redeem the currency.

Decentralized Virtual Currencies (a.k.a. cryptocurrencies) are distributed, open-source, math-based peer-to-peer virtual currencies that have no central administrating authority, and no central monitoring or oversight. Examples include Bitcoin; Litecoin; and Ripple.

### CONVERTIBLE VS. NON-CONVERTIBLE VIRTUAL CURRENCY

Convertible (or open) virtual currency has an equivalent value in real currency and can be exchanged back-and-forth for real currency. Examples include: Bitcoin, e-Gold (defunct), Liberty Reserve (defunct), Second Life Linden Dollars and Web-Money.

Non-convertible (or closed) virtual currency is intended to be specific to a particular virtual domain or world, such as a Massively Multiplayer Online Role-Playing Game (MMORPG) or Amazon, and under the rules governing its use, cannot be exchanged for fiat currency. Examples include: Project Entropia Dollars<sup>23</sup>, Q Coins, and World of Warcraft Gold.

Threats presented by virtual Currencies are as follows:

1. Fast, Irreversible Transactions;
2. Transferring from fiat currency to virtual currency;
3. Converting from one virtual currency to another;
4. Transferring virtual currency from one account to another;
5. Proceeds from virtual currency are usually used to finance drug trafficking and organised crime.

## INVESTIGATIVE CHALLENGES

### Identification/Detection

The leading challenge for the law enforcement community is its anonymous nature which allows criminals to participate in financial markets and convert, transfer, and withdraw funds across borders without detection.

### Lack of Knowledge

There is limited awareness among investigators and prosecutors of the existence and capabilities of virtual currencies, as well as the tools and techniques to effectively perform investigations involving virtual currencies.

### Reliance on Electronic Evidence

The core enabler for the use of virtual currencies is information and communications technology. Virtual currencies operate primarily in the online environment; all such transactions, at some point, involve computer systems and data. There is virtually no paper trail available, except for a limited set of operations that involve exchange of virtual currency into fiat money, or vice versa. The relevance of such paper trail in terms of virtual currency-related investigations is similarly limited. Therefore, in terms of illegal use of virtual currencies, evidence of a crime will almost be exclusively in the form of electronic evidence, which is an important concept for law enforcement and financial intelligence units alike.

## EVIDENTIARY CHALLENGES

- Difficult traceability
- Necessity for specialist insight
- High volatility
- Susceptibility to alteration
- Unlimited copying

## COUNTERMEASURES

- Reporting
- Public and institutional Awareness
- Harmonised Legal Framework
- Inter-agency cooperation

This advisory will help officials develop an improved understanding and prepare an appropriate response to these emerging threats and also help to establish framework of key definitions, which could form the basis for policy development in Indonesia. Broadening the focus of law enforcement towards the dynamics of virtual payment schemes is essential to fight organised crime and international criminal networks effectively in the future.

This document is intended to serve as an advisory and does not compel compliance. Nevertheless UNODC offers its assistance to address these issues through legal framework models and best practices.

For further Information, please contact:

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*“Virtual Currency is a an emerging criminal threat about which law enforcement needs to raise their awareness and response”*

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