



Follow the Money: New Payment Systems Used by Cybercriminals

Howard W. Cox

Kimberly Kiefer Peretti

Computer Crime & Intellectual Property Section,
Department of Justice

4/11/08| Law-401

RSACONFERENCE**2008**

Roadmap

- Digital Currency Industry
 - Legal framework
- Digital Currency & Online Crime
 - Examples of state and federal prosecutions
- Other New Payment Systems



The Digital Currency Industry




What is Digital Currency?

- Digital currency:
 - Medium of exchange over the Internet
 - Allegedly backed by precious metals as the store of value – also known as “digital precious metals”
- Two parties involved in process
 - Issuers: issue the currency and manage the precious metals
 - Exchangers: offer service of exchanging national currency into digital currency
- Used for speculation in commodities, person-to-person payments, commercial payments



Digital Currency Issuers



Simon Davis



Douglas Jackson



Jim and Pam Fayed



Jim Turk



JP May




Gordon Hayes



Bernard von NotHaus





Dr. Habib Dahinden




Arthur Budovsky








Digital Currency Exchangers

 Examiner
 Exchange Rates

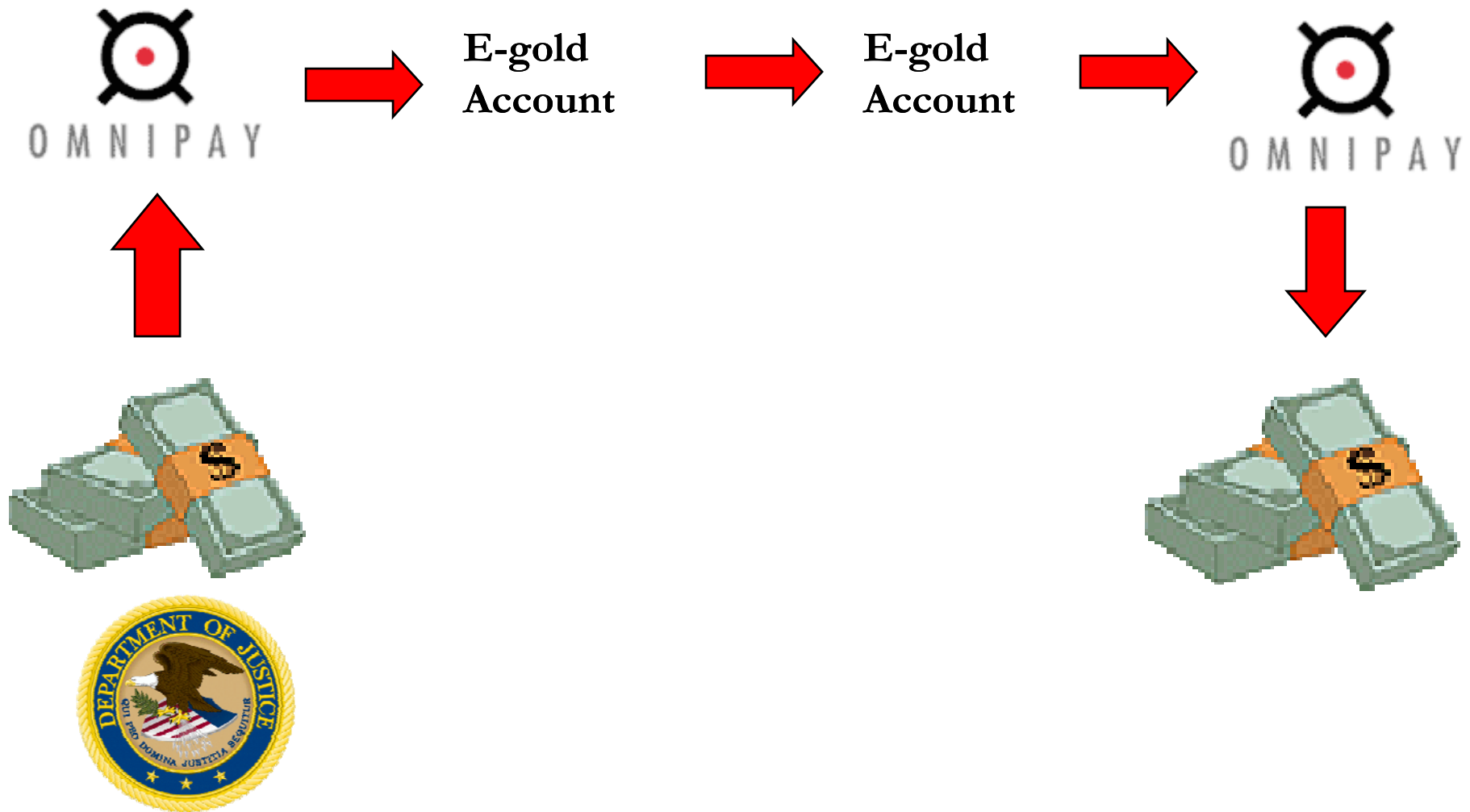
[Home](#) | [Terms of Use](#) | [About Us](#) | [FAQ](#) | [Access Account](#) | [Contact](#)



e-gold Directory

 <p style="text-align: center;">davis-company.com/e-gold.html</p>	<p>Fill the void!!</p>	 <p style="text-align: center;">www.gitgold.com</p>
 <p style="text-align: center;">www.GoldCurrencies.ca</p>	 <p style="text-align: center;">www.icegold.com</p>	 <p style="text-align: center;">www.londongoldexchange.com</p>
 <p style="text-align: center;">OMNIPAY The primary source for e-gold exchange.</p> <p style="text-align: center;">www.omnipay.com</p>	<p>return to top</p>	 <p style="text-align: center;"><i>"We treat our customers like gold"</i></p> <p style="text-align: center;">www.thebullionexchange.com</p>

How Does The Transaction Work?



What kind of funds do exchangers accept?

- National currency to digital currency -- varies by exchanger, but includes:
 - Cash
 - Direct deposit to bank account
 - Bank wires
 - Western Union
 - Money order
 - Money gram
 - Credit card



What kind of funds do exchangers pay out with?

- Digital currency to national currency -- varies by exchanger, but generally:
 - Western Union
 - Check
 - Bank wire
 - Anonymous debit card



Criminal Activity using Digital Currencies

- Credit card fraud – “carders”
- Online child pornography
- Online pyramid schemes
- International drug trafficking
- Online gambling
- International money laundering
- Terrorism
- Anything illegal available online



What attracts the criminals?

- Anonymity
 - Issuers – many require only valid email address to open account
 - Exchangers – many do not require or verify any customer information
- Irreversibility of transactions
- Lack of Government Oversight
 - Most issuers and exchangers do not comply with any financial laws or regulations



Comparison



- Name, address, e-mail requested for account sign up
- Payments can only be funded by bank account or credit card
- Payments can be
 - Received into bank account
 - Sent by check to listed address



- Credit Card required for instant transfer via Internet
- Customer must present gov't ID for in-person transfer or receipt of funds over specified amount

Laws Addressing Online Currency / Payment Systems



**18 U.S.C. § 1960:
Prohibition of Unlicensed Money
Transmitting Business**



“Money Transmitting”

18 U.S.C. § 1960(b)(2)

- What is “money transmitting”
 - The term “money transmitting” includes transferring funds on behalf of the public by any and all means including but not limited to transfers within this country or to locations abroad by wire, check, draft, facsimile, or courier



18 U.S.C. § 1960

- Prohibits operation of an unlicensed money transmitting business
 - Where such business is required to be licensed under state law
 - Where such business is required to be registered with FinCEN
 - Otherwise involves transfer of funds known to be derived from criminal offense or intended to be used to promote unlawful activity



18 U.S.C. § 1960

- Section 1960 was enacted to ... “to combat the growing use of money transmitting businesses to transfer large amounts of the monetary proceeds of unlawful enterprises.”
 - *United States v. Velastegui*, 199 F.3d 590, 593 (1999)



18 U.S.C. § 1960(b)(1)(A):
State licensing requirement

- Majority of states require licenses for businesses operating as money transmitters
- In Internet world, even if no physical presence in state, may need to be licensed



18 U.S.C. § 1960(b)(1)(B): Federal registration requirement

- Registration with Financial Crimes Network (FINCen) with Department of Treasury
 - 31 U.S.C. § 5330, 31 C.F.R. § 103.11(uu)(5)
- Designation as Money Services Business (“MSB”)



18 U.S.C. § 1960(b)(1)(B):
Federal registration requirement

- MSB Regulation under the Bank Secrecy Act
 - Must establish anti-money laundering program (31 U.S.C. § 5318(h))
 - Required to file Suspicious Activity Reports (SARs) (31 U.S.C. § 5318(g))
 - Required to file Currency Transaction Reports (CTRs) (31 U.S.C. § 5313)
 - Establish procedures for verifying customer identification (31 U.S.C. § 5318(l))



18 U.S.C. § 1960 (b)(1)(c): Transmission of criminal funds

- Transfer of funds known to be derived from criminal offense or intended to be used to promote unlawful activity
- Only prove that the proceeds were from a “criminal offense”, not Specified Unlawful Activity
- Or prove defendant knew the funds were intended to be used to promote or support “unlawful activity”



Other criminal violations?

- Money Laundering (18 USC §§1956, 1957)
- Reporting of Currency Transactions (31 USC § 5331)
- Reporting of Suspicious Transactions (31 USC § 5318)



The right way ...



PayPal – licensed money transmitter

PayPal, Inc.

- [About Us](#)
- [Awards](#)
- [Events](#)
- [Executive Team](#)
- [In the News](#)
- [Jobs](#)
- [Press Releases](#)
- State Licenses**
- [Contact Us](#)


State Licenses


PayPal, Inc. is licensed in the following US jurisdictions:

Jurisdiction	Regulatory Agency	Statute
Alabama	Alabama Securities Commission	Sale of Checks Act
Arizona	Arizona State Banking Department	Transmitters of Money Act
California	California Department of Financial Institutions	Transmission of Money Abroad Law
Colorado	Colorado State Banking Commissioner	Money Order Act
Connecticut	Connecticut Department of Banking	Money Order and Travelers Check Licensees Act
Delaware	Delaware Office of the State Bank Commissioner	The Sale of Checks Act
District of Columbia	District of Columbia Department of Consumer and Regulatory Affairs	Money Transmitter Law
Florida	Florida Office of the Controller	Money Transmitters Code

The wrong way ...





Blackjack, Poker,
Keno, Craps,
and more... 

© thegoldcasino.com 2005

NEWS
COMPANY
CONTACT
ENG · [GER](#) · [EST](#)

	we buy	we sell
e-gold	-	-

EXCHANGE

- [Buy e-gold](#)
- [Sell e-gold](#)
- [Exchange rates](#)

SUPPORT

- [Exchange how-to](#)
- [Requirements](#)
- [Bank fees](#)
- [F.A.Q.](#)
- [Calculators](#)

INFORMATION

- [e-gold](#)

[Click here](#) to invest
e-gold or **GoldMoney**
on financial markets

Welcome to IceGold

IceGold is closed for business

Due to the adoption of Estonia's new Anti Money-laundering Law on Jan 28th 2008 we have decided to stop providing exchange services. The new law requires exchangers of alternative payment systems - such as IceGold - to identify all customers face to face.

Please do not send us wire transfers as we have closed our account in Sampo Bank.

We hope that we can offer exchange services again in the future. Please check back here for news.

Copyright © 2000-2008 IceGold. All rights reserved.

Case examples



E-gold: Ongoing Criminal Prosecution

- December 2005: criminal search warrants and civil seizure warrants issued
- Indictment unsealed April 2007
 - Conspiracy to launder monetary instruments
 - Conspiracy to operate an unlicensed money transmitting business
 - Operating an unlicensed money transmitting business
 - Money transmission without a license (Washington DC)



E-Gold (cont'd)

- Post-Indictment Restraint of Assets
 - Restraining order against defendants to prevent dissipation of assets
 - 24 seizure warrants covering 58 e-gold accounts
- Defendants
 - E-Gold
 - Gold & Silver Reserve, Inc.
 - Douglas Jackson
 - Reid Jackson
 - Barry Downey



- Access Your Account
- Create An Account
- Phone Access
- Security
- Shopping Cart Info
- e-gold Directory
- What is e-gold?
- Site Map
- What's New



Internet payments 100% backed by gold



Exchange Rates



Statistics



Examiner

Immediate payment no waiting for checks to clear or credits to be made.

Secure, user friendly access to your account.

Low fees lower than credit cards or competing payment services.

Buy or sell e-gold from/to the independent exchange service who best meets your needs.

Available Worldwide the world's first truly global payment option.

No chargebacks "Get paid, stay paid" unlike credit card payments.

Easy **shopping cart interface** anyone can accept e-gold on their web site.

Refer accounts, make money using the e-gold Incentive program.

Exchange provider guidelines start your own exchange business today.

System announcements including upgrades, any scheduled downtime, and important events.

World Class DDoS
Protection by:



e-gold, e-silver, e-platinum, e-palladium, e-metal, Better Money, AUG, AGG, PTG, PDG are trademarks of e-gold Ltd.







Welcome!

[Signup](#)

OMNIPAY is the primary source for e-gold exchange. [Find out more.](#)

OmniPay Services

OmniPay offers currency exchange services supporting the e-gold family of currencies, including exchange from:

	InExchange National Currency to e-metal
	M2M e-metal to e-metal
	OutExchange e-metal to National Currency

OmniPay Advantages

- **Better Exchange Rates**
We've reduced our already low InExchange rate for e-gold to 2% above Spot. There's never been a better time - or place - to upgrade to Better Money!
- **Bill Payment Service**
Pay all your bills with e-gold via OmniPay OutExchange! You Remit e-gold to OmniPay - OmniPay pays your bills per your instructions.
- **Established Reputation**
Trust is built over time. OmniPay is a service of Gold & Silver Reserve, Inc. (G&SR), serving the AUG economy since 1996. The minds that brought you e-gold continue to serve on our Board of Directors.

Remittances accepted via:



[ABOUT SSL CERTIFICATES](#)

This site chose VeriSign [SSL](#) for secure e-commerce and confidential communications.



Western Express

- Western Express:
 - E-Gold exchanger;
 - Distributed stored value cards;
 - Sold U.S. Taxpayer Identification Numbers; and
 - Rented U.S. addresses for client mail drops
- Clients in Russia, Ukraine and other Eastern European countries
- Also involved in cybercriminal activity: re-shipping schemes, phishing, spoofing, spamming



Western Express

- Clients used stolen credit cards to make purchases
- Sold the merchandise online in exchange for E-Gold which was sold through Western Express
- Prosecuted by Manhattan DA's office



Western Express

- February 22, 2006: Indicted married couple and son (Vadim Vassilenko, wife Yelena Barysheva, son Alexey Baryshev)
 - Owners of Western Express
 - Charges: illegal check cashing and money transmission (not licensed) in violation of NY Banking Regulations
 - \$25 million flowed through bank accounts
- Husband and wife pled guilty later in 2006 in NY to running unlicensed check cashing and money transfer business



Gold Age



- Gold Age operated as a digital currency exchanger, allowed anonymous transactions
 - Buy E-gold and Gold Age would send wire or check
 - Sell E-Gold and Gold Age would accept wires, cash deposits, mail in postal money orders and checks



Gold Age

- Also prosecuted by Manhattan DA's office
 - 6-month undercover in 2006, transmission of \$30 million
 - July 27, 2006: Indictment of Arthur Budovsky and Vladimir Kats for operating an illegal money transmitting business out of their Brooklyn apartments



Other New Payment Methods



Other New Payment Methods

- Internet Payment Services
- Electronic Purses
- Prepaid Cards
- Mobile Payments



Characteristics of New Payment Methods

- Operate via the Web, often with no clearly identified home jurisdiction
- Legal rationale is providing cross-border payment options for the unbanked
- No obvious or consistent way for consumers and money remitters to conduct due diligence on one another



Example -- Neteller

NETELLER® You are here: [Home](#) → Using NETELLER [Open Account](#) [Sign In](#)

Using NETELLER

Depositing Funds
NETELLER offers more ways to fund your account than any other online payment system, with localized options in North America and the Europe and universal options across the globe. [Read more...](#)

Transferring Funds
Once you have deposited funds into your NETELLER Account, you are ready to send money to over 2500 online merchants and over 700,000 individual NETELLER Account holders. Transferring money with NETELLER is free and instant... you pay no fees to transfer money to merchants or peers, and you have immediate access to the funds in your NETELLER account. [Read more...](#)

Withdrawing Funds
NETELLER offers a wide range of withdrawal options to suit the needs of all members, regardless of location. Withdrawing your money quickly when you need it is just as important as being able to deposit and transfer money quickly and conveniently. We are continually providing new, innovative methods for withdrawing funds to serve our worldwide customers. [Read more...](#)

Security
NETELLER uses the latest technology to provide you with a fast, secure way of transferring funds to and from our merchants and other NETELLER members. The security and integrity of your personal information is our top priority, and in order to protect it, we employ all available measures. [Read more...](#)

Navigation menu (left): Depositing Funds, Transferring Funds, **Withdrawing Funds**, Security, NETpoints, The NETELLER ATM Card, Refer a Friend

Browser address bar: <http://www.neteller.com/ab/learn/>

Browser address bar (bottom): <http://www.neteller.com/ab/learn/?about=depositing>

Taskbar: start, NETEL..., Google, 12:34 AM

Neteller (cont'd)

- January 16, 2007: SDNY; 2 defendants complained on 1956 violation
 - Operation of internet payment services company (Neteller) that facilitated transfer of billions of illegal gambling proceeds from US citizens to owners of gambling companies overseas
 - Neteller based in Isle of Man, publicly traded in UK
 - approx. 85% of revenue from North America
- Defendants charged with conspiring to transfer funds with the intent to promote illegal gambling



Example -- Webmoney

- WebMoney Transfer (www.wmtransfer.com)
 - Based in Russia
 - Internet payment system based on WM units and purses
 - WMR – Russian Rubles purse/unit
 - WMZ – US dollars unit/purse
 - To join: download WM client and register
 - Like e-gold, can fund account without bank account or credit card



Second Life – Linden dollars?

January 2008: Second
Life bans unregulated
banks



Howard W. Cox Kimberly Peretti

Computer Crime &
Intellectual Property Section
U.S. Department of Justice,
Criminal Division

howard.cox@usdoj.gov

kimberly.peretti@usdoj.gov

(202) 514-1026

www.cybercrime.gov

