

AML ALERT: Unregistered OTC crypto brokers

Extract from NCA Amber Alert - Reference 0675- NECC (February 2022)

Overview

The purpose of the alert is to describe cryptoasset and cryptocurrency activities that may demonstrate an increased risk of trading activity, specifically linked to the operation of unlicensed OTC crypto brokers.

Summary of the activities

This alert is focusing on the risk of unregistered Over the Counter (OTC) crypto brokers making use of UK financial institutions to carry out unlicensed trading.

OTC cryptoasset trading happens directly between two interested parties who agree a price and the method of transferring the fiat currency and cryptoassets. It is becoming increasingly popular across the globe and can be done without the supervision of an exchange. Quantifying the amount of OTC trading that takes place on cryptoasset markets is difficult as these trades aren't publicly reported or independently audited. However, it is highly likely the overall threat level relating to OTC brokers has increased.

Businesses carrying on cryptoasset activity in the UK need to be compliant with the money laundering regulations and must be registered with the FCA to continue to carry on business. Some crypto firms operate without a license from the FCA and these brokers are unlikely to perform all the necessary AML or KYC checks.

Indicators

The following are considered potential indicators of unlicensed OTC crypto brokers:

Customer profile indicators:

- The customer appears to hold a larger than average number of current accounts, across multiple institutions, particularly those known to provide banking services to cryptocurrency businesses. This may indicate that the customer has been de-banked previously or is prepared for this to occur.
- When customer is questioned about account activity, they state they are trading and/or investing in cryptoassets.
- The customer provides a service which could generate a natural supply of cryptocurrency e.g. Cryptocurrency Mining or the sale of products and services on online marketplaces.
- The customer uses terminology associated with OTC cryptoasset trading as part of their company name, email address, username etc. This could include (but is not limited to) OTC, Trading & P2P.
- The company associated with a customer appears to have been an off-the-shelf company, whose name changed shortly prior to account opening and ownership changing shortly thereafter.

Open source indicators:

- The customer is listed as the Director of a company which markets itself in open sources as either a peer-to-peer trading platform, payment technology, merchant services or other technology company.
- The customer directly advertises as a peer-to-peer broker (via, for example, LocalBitcoins, Paxful, etc.) or is linked to a company which is nested within a recognised cryptocurrency exchange or peer-to-peer cryptocurrency trading platform.
- The customer's company is listed at a Virtual Office or Trust or Company Service Provider (TCSP).
- Neither the customer nor the customer's company is on either the full FCA Register of cryptocurrency firms or the Temporary Register, however they may be on the Unregistered FCA register.
- Websites or social media posts advertising OTC services make reference to investments held on behalf of "friends and family" and the holding of fully insured gold bonds over said investments.

Transaction Indicators:

- The customer holds one or more basic retail bank accounts that do not appear to be used for a large volume of lifestyle credits or debits. This may also be indicative of any customer who is conducting business activity through a personal account.
- The customer's company name is incorporated around the same time as an identified change in transaction behaviour.
- The customer account receives regular cash deposits, from different locations across the country, which may include a higher proportion of cash deposited through Post Office branches. This may also indicate that the account is being utilised as part of a mule network.
- The customer account receives large regular credits from Payment Service Providers specialising in e-commerce and Point of Sale transactions (usually between GBP 2,000 to GBP 10,000).
- The customer account received credits from other individuals or entities which have been identified, or are listed in open sources, as peer-to-peer cryptocurrency traders or OTC Trading Desks.
- While the customer account does show repeated debits to cryptocurrency exchanges and other VASPs, it does not show significant volumes of credits from these entities. This may also be indicative of longer term cryptocurrency investment, on a personal or professional basis, and may not confirm brokerage activity. The risk associated with this indicator may be increased where an account operates in line with expectations before a period of dormancy before this activity begins.
- The customer's account maintains a zero (or near zero) balance, with most cash or third party credits being debited soon after being received, generally to cryptocurrency exchanges or other VASPs. The crypto turnover of the account represents a large percentage of the account turnover. Any remaining balance may be transferred to a second account.
- The customer's account shows that the majority of all debits have been made to accounts in the customer's name or to cryptocurrency exchanges and other VASPs.
- The customer's account shows some debits to web hosting firms or domain registration firms.
- The customer's account shows evidence that test payments have been paid into the account by third parties.
- Multiple additional accounts identified for the customer at other banking institutions. These typically only begin to feature after suspected OTC activity commences.
- Account turnover spikes significantly and is not aligned with expected activity after suspected OTC activity commences.
- Individual debit and credit amounts relating to suspected OTC activity follow a consistent pattern, with a steady percentage of the amount received being paid onto cryptocurrency

Suspicious Activity Reporting

If you know or suspect ML or TF activity which may be indicative of the activity detailed in this alert, you should make a SAR and include the alert reference **0675-NECC** within the text *in addition* to the ongoing use of the Glossary of Terms.

Guidance on reporting is available at: www.nationalcrimeagency.gov.uk

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

Disclaimer

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