Cryptocurrency and Terrorism Financing

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In September 2019, during the 19th Annual International Conference on Counter Terrorism, the United States Treasury Undersecretary, Sigal Mandelker, warned that cryptocurrencies could become "the next frontier" in the war on terrorism:

> "While most terrorist groups still primarily rely on the traditional financial system and cash to transfer funds, cryptocurrencies, without the appropriate strong safeguards, could become the next frontier." (*Cointelegraph* 7 November 2019)

Regulators in the Muslim world must educate and train officials and law enforcement agencies to ensure familiarity with cryptocurrency and the associated challenges.

The first cryptocurrency, Bitcoin, was created by a mysterious individual under an alias Satoshi Nakamoto in 2008 as a response to the global financial crisis of 2008. In 2009, there was a 37% rise in unemployment and 3% decrease in GDP per capita (*BBC News* 18 September, 2013). The financial crisis cost the United States alone an estimate of $648 billion, with the real estate market losing around $3.4 trillion (*PEW* 28 April, 2010)

A research study by the Federal Reserve Board (2018) found that the crisis cost every single American approximately $70,000 (*Harvard Business Review* 25 September, 2018). People were forced to bail out these banks using their hard-earned savings by injecting billions to protect the banking system.

The year 2008 also marks the beginning of Bitcoin. In August 2008, a domain name called www.bitcoin.org was first registered. Satoshi Nakamoto proposed for the creation of a peer-to-peer electronic cash system. Satoshi Nakamoto's vision has gradually gained followers. In 2010, the first famous commercial transaction using bitcoin occurred when programmer Laszlo Hanyecz purchased two Papa John's pizzas using 10,000 bitcoins. The price of the pizzas was $30 and the programmer excitedly valued those relatively unknown bitcoins at that time at 0.003 cents per bitcoin.

The alleged anonymity associated with bitcoin makes it very attractive for those in the underworld. Traditionally shunned by the society due to its bad and suspicious reputation, the price of bitcoin jumped as the United States regulatory authorities decided that bitcoin is taxable. The dramatic increase of cryptocurrency price has left the regulators scrambling for a suitable regulation policy. Scammers and syndicates took this opportunity to deceive the public of their hard-earned money in this mostly grey area of law.

Bill Gates, Microsoft Founder, states that the anonymity of digital currencies means they are linked to terrorist funding and money laundering. Bill Gates warned of digital currencies:

> The main feature of crypto-currencies is anonymity. I don't think this is a good thing. Right now, crypto-currencies are used for buying fentanyl and other drugs, so it is a rare technology that has caused deaths in a fairly direct way. (*BBC News* 1 March, 2018)

In December 2018, a New York-based woman was charged with laundering crypto-currencies to help ISIL (*BBC News* 2 January, 2018). During a counter-terrorism conference in Melbourne in November 2019, the Australian Minister of Home Affairs, Peter Dutton, stated that the anonymity of cryptocurrencies allows extremists to avoid scrutiny (*Cointelegraph* 7 November, 2019).

Most Muslim governments have put in place laws that require reporting any suspicious activities. Cryptocurrency exchanges are subjected to the Anti-Money Laundering and Counter Financing of Terrorism (AML CFT) law, making money launderers less attracted (Mbiyavanga, 2019:15). Some countries like the UAE evinced interest in cryptocurrency and issued regulations to prevent negative practices (Babu, 2019:16).

In June 2019, the Financial Action Task Force (FATF) issued "an Interpretive Note to Recommendation 15 on New Technologies," which clarifies the amendments to the international standards relating to crypto assets, which aim to:

- assess and mitigate their risks associated with virtual asset activities and service providers;
- implement enforcement measures when service providers fail to comply with their AML/CFT obligations;
- license or register service providers and subject them to supervision or monitoring by competent national authorities;
- prohibit reliance on a self-regulatory body for supervision or monitoring.

An updated guidance was also released by the FATF for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers to further assist countries and providers of virtual asset products and services in complying with their AML/CFT obligations. To this end, alliances must be sought and built up among countries to share the methods used.