

## Online Currency Exchange Alleged to Have Laundered Billions for Criminal Enterprises Around the World

In a three-count indictment unsealed on May 28, 2013, the U.S. Attorney's Office for the Southern District of New York alleged that the owners, founders and managers at Liberty Reserve, an online currency exchange, conspired to launder six billion dollars over the last seven years. The indictment followed a coordinated effort by law enforcement agencies in seventeen countries around the world as part of the largest international money laundering prosecution in history.

### Cryptocurrency/Digital Currency System

Incorporated in Costa Rica in 2006, Liberty Reserve provided users with digital currency – commonly referred to as “LR” – which the company's website proclaimed could be used to “send and receive payments from anyone, anywhere on the globe.” To participate, users registered on the Liberty Reserve website and transferred LR between their accounts and others', with Liberty Reserve charging percentage fees for each transaction. To convert mainstream currency to LR (or vice versa), users were directed by Liberty Reserve to third-party “exchangers” who credited (or debited) the users' Liberty Reserve accounts. Certain “merchants” also accepted LR currency as payment for services.

### Designed for Criminal Activity

As alleged in the indictment, the individuals behind Liberty Reserve intentionally created, structured and operated Liberty Reserve as a business venture designed to facilitate illegal transactions and launder the proceeds from criminal activity. Federal prosecutors claim that Liberty Reserve attracted and maintained its customer base by ensuring that financial activity on its currency platform was anonymous and untraceable.

The indictment alleges that Liberty Reserve offered anonymity to its customers in two primary ways. First, it employed a user registration system that did not validate identity information. Accounts, therefore, could be opened easily using fictitious and anonymous identities. The indictment cited users with blatantly suspicious pseudonyms such as “Russia Hackers” and “Hacker Account” as support for this allegation. Second, Liberty Reserve did not permit users to fund their accounts by transferring money to Liberty Reserve directly. Instead, users funded their accounts through “pre-approved” third-party exchangers, which, according to prosecutors, were usually unlicensed money transmitting businesses operating with little or no governmental oversight in countries like Malaysia, Russia, Nigeria and Vietnam. The funneling of funds through these third-party exchangers allegedly served to ensure that no centralized financial paper trail was created or maintained.

According to the indictment, during its seven years of existence, Liberty Reserve's online currency platform became the financial hub of the cyber-crime world. In that period, Liberty Reserve allegedly processed fifty-five million separate financial transactions and laundered more than six billion dollars in proceeds for individuals engaged in a broad range of online criminal activity, including credit card fraud, identity theft, investment fraud, computer hacking, child pornography and drug trafficking. Prosecutors claim that approximately 200,000 Liberty Reserve users were based in the United States.

## Recent Enforcement Trends

The Liberty Reserve indictment comes on the heels of several highly publicized money laundering and fraud indictments brought against prominent financial institutions in recent years. Such investigations are indicative of increasing global enforcement of existing anti-money laundering laws against high profile targets and the DOJ's active engagement in those investigations.

Recent reports also indicate that Barclays has been dragged into the Liberty Reserve investigation after prosecutors discovered that Arthur Budovsky, Liberty Reserve's founder, held an account with the British bank in Spain. Barclays is cooperating with the investigation and has not been accused of any wrongdoing at this stage.

## Contact Ropes & Gray

Ropes & Gray regularly advises clients on anti-money laundering issues and compliance. If you have any questions about the Liberty Reserve indictment or the large financial institutions targeted in other enforcement actions, please do not hesitate to contact your regular Ropes & Gray attorney.