

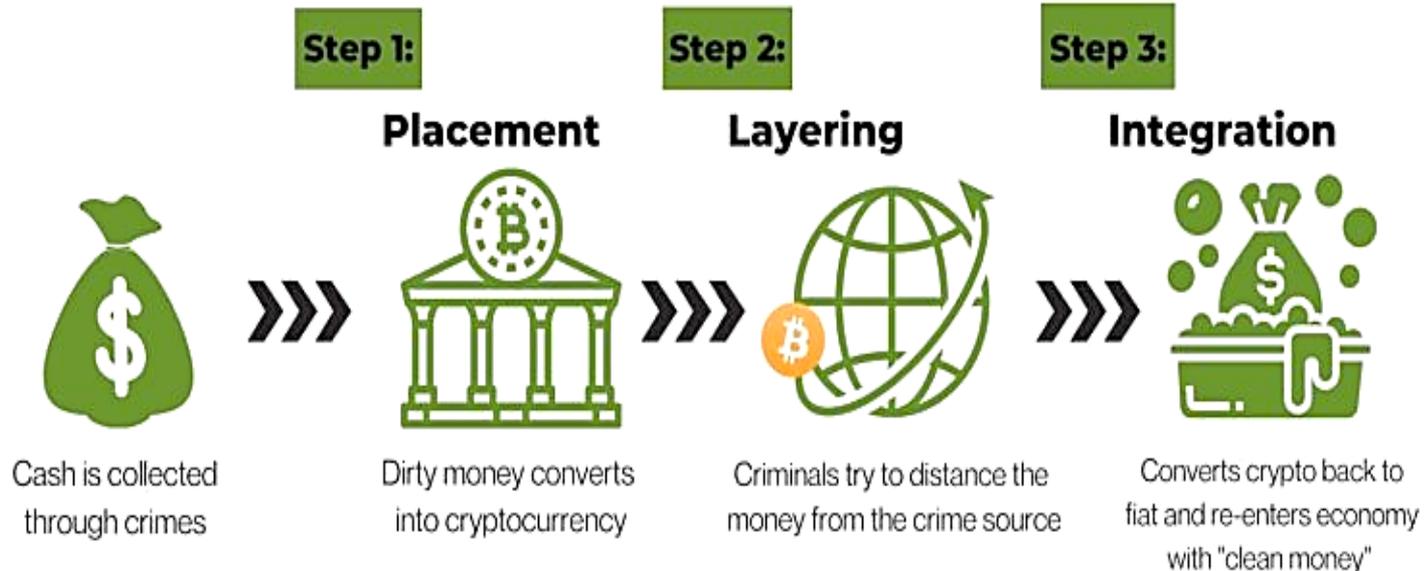
# **Scam & Money Laundering through Cryptocurrency- A Case Study**

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## Stages of Money Laundering

- The laundering process is accomplished in **three basic stages**.
- These three stages are **placement**, **integration**, and **layering**.
- They can be taken simultaneously in the course of a single transaction, OR
- They can also appear in well separable forms one by one.

# HOW DIRTY CRYPTO IS LAUNDERED



# Placement Stage

- In the placement stage **illicit funds are placed into the legitimate financial system.**

**Ex: (1)** Criminal sells drugs and narcotics online and gets paid in crypto currencies right away.

**(2)** Illicit cash in fiat currency, used to purchase crypto currencies.

**(3)** Criminal has crypto currencies of an illegal origin available on a wallet.

# Layering Stage

- It is the **layering or hiding stage**, where the criminal facilitates crypto transactions to disguise the illegal origin of the funds.
- Transactions made in cryptocurrencies are **pseudonymous** and has a **certain degree of anonymity**.
- By **breaking the links between different transactions**- establish layers between different blockchain transactions- Using Mixers.
- By participating in an Initial Coin Offering, where **criminals can use one type of coin to pay for another**.
- **Illicit exchanges**, provide a good opportunity for criminals to layer the illegal origin of the crypto funds

## Integration Stage

- The **criminal feels confident** enough that it is impossible to trace back the dirty currency to the criminal's activity.
- The **funds are used for legitimate purposes**, such as buying luxury cars, real estate, or jewellery.
- Present it as the **result of a profitable venture** or other currency appreciation, which can be very hard to disprove.

# Initial Coin Offering (ICO)

- ICO stands for **Initial Coin Offering**. It's the crypto equivalent of an Initial Public Offering (IPO).
- It is the **initial coin launch, a token sale, or a coin sale**.
- A common way for **new crypto projects to raise funds** but in an unregulated market.
- Investors can buy into ICOs to receive the new coin or token issued by a given company.
- Investors may **receive a utility token** that helps them use a specific product.
- A **governance token** that gives them a say in how the new company is run or
- Simply receive a new coin and hope that it appreciates in value.

## How do Crypto ICO work ?

- **Whitepaper Release:** This is a **detailed document** that explains the project's vision, the problem it aims to solve, how it will solve it, the team behind the project, tokenomics, and other details.
- **Token Sale Phases:** These might include a **private sale** (restricted to select investors), **a pre-sale** (with possibly better terms or bonuses for early participants), and **the main sale** (open to the general public).
- **Listing:** Once the ICO is completed, the token will usually be listed on crypto currency exchanges where it can be bought, sold, or traded.

# Crypto ICO Scam

- **Exit scam:** An exit scam occurs when the creators of a cryptocurrency project or exchange collect funds from investors and then **disappear without delivering** on their promises or fulfilling their obligations.
- **Pump and dump scheme:** This is a scheme where the price of a cryptocurrency is **artificially inflated or pumped** to attract unsuspecting investors, and then sold off and dumped by the perpetrators for a profit.
- **Ponzi scheme:** A ponzi scheme is a **fraudulent investment scam** that promises high returns with little or no risk to investors. It pays returns to earlier investors using the capital of newer investors, rather than from legitimate business activities.

## Crypto ICO Scam-Case Study

- Mr. A allegedly collected deposits from investors under the **guise of an Initial Coin Offer (ICO)** for the launch of **Morris Coin Cryptocurrency**.
- Unsuspecting investors were lured to invest in the **attractive schemes** through WhatsApp messages.
- They were **offered ₹270 (3\$ approx. ) every day for 300 days and 15 Morris Coin Cryptocurrency worth 15 \$ each, on investing 150\$** through agents in the crypto wallets provided by the promoters.
- The agents were reportedly given **10-30% of the commission** for making people invest in Morris Coin.

# Crypto ICO Scam-Case Study

- Several **promotional events** in the presence of celebrities,
- Introducing investors to **flashy websites**,
- **Promotion on YouTube** urging people to invest as much as possible.
- Investors were promised that the **cryptocurrency shall be listed on Franc exchange**- a fake crypto exchange based out of X place in India.
- That the **value of the tokens would increase multifold**, however, the coins were never listed.

# Placement and Layering of Funds

- While the accused **did not have any office of his own**, nor did he share his personal contact with anybody.
- Working like a **Multi-Level Marketing scheme**, those who made join others in the scam received **lucrative commissions** and the network flourished rapidly.
- Mr.A managed to **collect huge funds** from unsuspecting investors and transferred the money to his bank account and that of his firms .
- Transferred funds from banks to **shell companies in Tax Havens and unregulated Crypto Exchanges**.
- Purchased properties and Crypto Currencies in India through **reverse hawala** funds.

## Scam Busted

- However, when investors stopped receiving money, the **whole network collapsed**.
- Investors were earlier pacified with the promise that the promoters of Morris Coin were **planning to issue ATM cards** to cope with the high number of customer withdrawals.
- However, when patience ran out, **investors approached the police** and the case was later transferred to the **Enforcement Directorate** of India , due to the enormity of the crime.

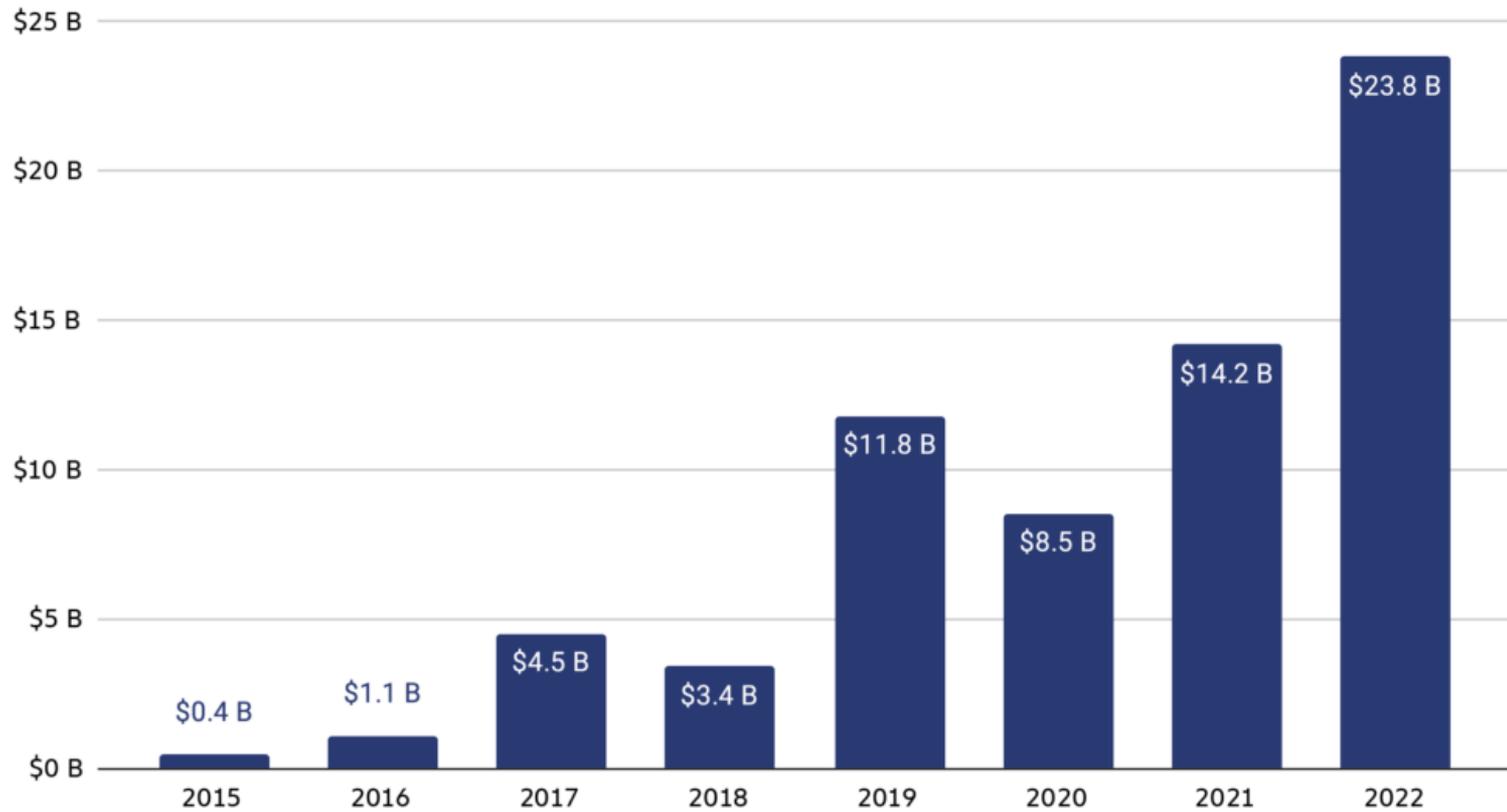
## Recovery of assets and Prosecution

- The ED booked and **arrested the prime accused Mr.A** and **attached assets valued at 1.68 Million USD** under the Prevention of Money Laundering Act (PMLA), 2002.
- The attached assets include the **balances in bank accounts of and immovable properties** of associates of Mr.A, purchased out of the **proceeds of crime**.
- The ED has also **seized the cryptocurrency** and the **wallets funds** held in the bank accounts of a hospital and **52 acres of agricultural land**.

## Extent of the ICO Scam

- **Over 900 investors** have been allegedly cheated.
- To the tune of **168 Million USD** through this crypto currency scam.
- The scam offered staggering returns of up to **3% a day on an investment of 150 \$ USD** made to purchase Morris Coin( a fake Crypto currency).

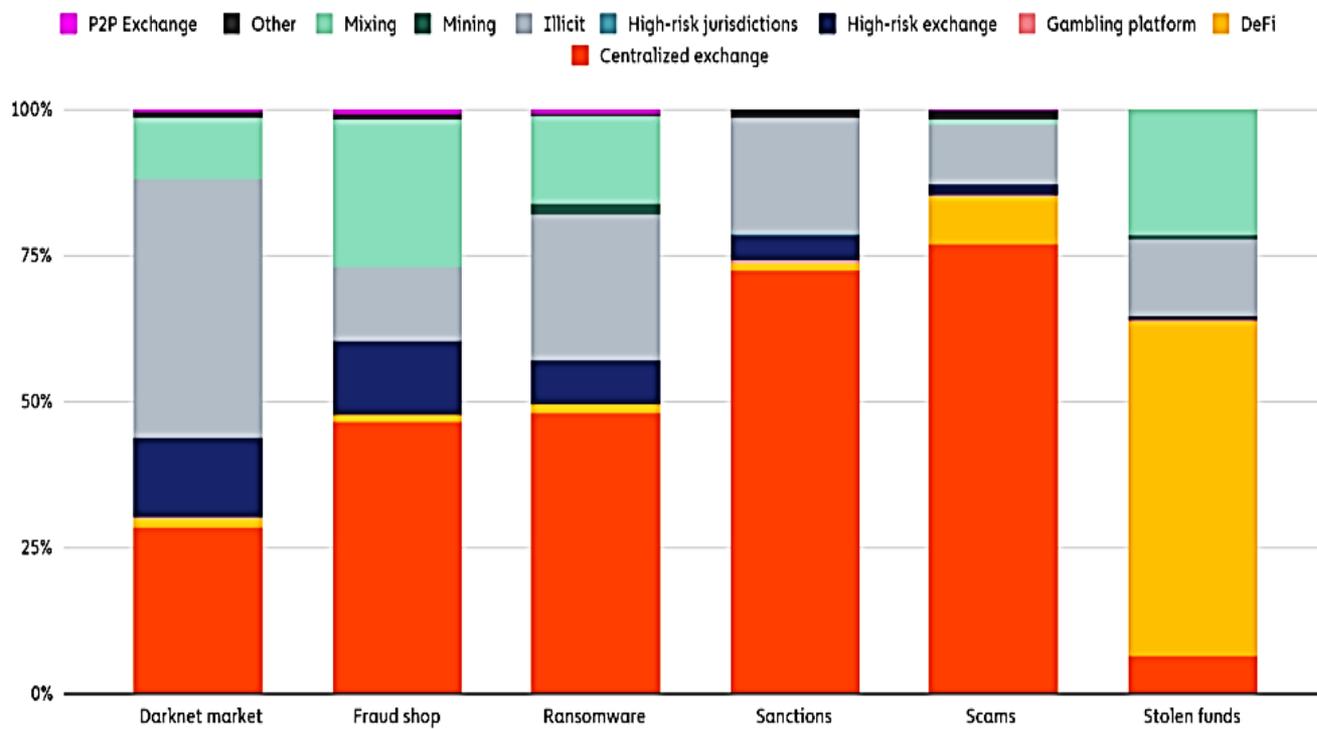
## Total cryptocurrency laundered by year, 2015 - 2022



© Chainalysis

Source : <https://www.chainalysis.com>

## Destination of funds leaving illicit addresses by crime type, 2022



© Chainalysis

Source : <https://www.chainalysis.com>

# Red Flags For ICO Scam

- Incoming funds from a platform with **no or relaxed AML/KYC** regulations.
- A single crypto wallet **linked to multiple bank accounts and credit cards** (an indication that a group of people is using the same wallet to move funds around).
- Incoming transfers of **very high frequency** from multiple crypto wallets into one account.
- Linked crypto wallets that **hardly match customer profiles**.
- Transactions amounting **just below the reporting thresholds**.
- **Continuous high-value transactions** within a short period of time.
- Quick transfer of **deposits to unregulated jurisdictions**

The background features a light blue gradient with several gold Bitcoin coins and wooden clothespins. The coins are partially visible, showing the Bitcoin symbol and the Latin phrase 'VIRI NUMERIS'. The clothespins are white and are attached to a white rope.

thank  
you