

Bitcoin dealers charged in US with money laundering (Update)

January 27 2014, by Rob Lever



A pile of Bitcoin slugs sit in a box on April 26, 2013 in Sandy, Utah

US authorities Monday filed criminal charges against two operators of a Bitcoin exchange, including the head of a company with high-profile investment backers.

A criminal complaint unsealed by officials said the Bitcoin exchange violated money laundering laws by allowing its users to buy drugs and other illicit goods on the Silk Road underground website.

Federal prosecutors said they charged Robert Faiella and Charlie Shrem, who ran a company allowing people to use cash to buy Bitcoins, a virtual currency based on a mysterious computer algorithm.

The two are charged with conspiracy to commit money laundering and running an unlicensed money transmitting business, according to a statement from the US Attorney's office in New York.

Shrem, 24, who was also charged with violating the Bank Secrecy Act by failing to file any suspicious activity reports, was arrested Sunday at John F. Kennedy International Airport in New York, officials said.

Authorities did not name the company involved in the scheme, but Shrem is chief executive of BitInstant and is a self-described "Bitcoin evangelist" whose venture is backed by Tyler and Cameron Winklevoss, known for a legal spat over the founding of Facebook.

Shrem is also vice chair of the Bitcoin Foundation, a group aimed at promoting use of the crypto-currency.

The Winklevoss brothers said in a statement Monday they were "passive" investors in BitInstant and believed it complied with all laws.

"When we invested in BitInstant in the fall of 2012, its management made a commitment to us that they would abide by all applicable laws—including money laundering laws—and we expected nothing less," said the statement.

"Although BitInstant is not named in today's indictment of Charlie Shrem, we are obviously deeply concerned about his arrest...and will do everything we can to help law enforcement officials. We fully support any and all governmental efforts to ensure that money laundering requirements are enforced."

Faiella, 52, was arrested at his home Monday in Cape Coral, Florida, according to officials.

"As alleged, Robert Faiella and Charlie Shrem schemed to sell over \$1 million in Bitcoins to criminals bent on trafficking narcotics on the dark web drug site, Silk Road," said US Attorney Preet Bharara said in a statement.

"Truly innovative business models don't need to resort to old-fashioned law-breaking, and when Bitcoins, like any traditional currency, are laundered and used to fuel criminal activity, law enforcement has no choice but to act. We will aggressively pursue those who would coopt new forms of currency for illicit purposes."

The new charges come more than three months after federal officials seized the Silk Road website used for drugs, hacker tools and other illegal goods and arrested its alleged mastermind, Ross William Ulbricht, who was said to be "Dread Pirate Roberts."

Ulbricht, who is awaiting trial in New York, has denied the charges and also claims he is not "Dread Pirate Roberts."

In November, a message appeared on the social media site Reddit claiming Silk Road had reopened weeks after it was shut down by the FBI.

Bitcoin was invented in the wake of the global financial crisis by a mysterious computer guru using the pseudonym Satoshi Nakamoto. While Bitcoins have gained in legitimate transactions, the unregulated currency has also been linked to various kinds of criminal activity.

The Winklevoss twins, while not among the Facebook founders, claimed Mark Zuckerberg stole their idea, and reached a 2008 settlement that got

them and classmate Divya Narendra \$20 million in cash and \$45 million worth of stock.

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