

# United States Senate

WASHINGTON, DC 20510

April 28, 2024

The Honorable Lloyd J. Austin III  
Secretary  
U.S. Department of Defense  
1000 Defense Pentagon  
Washington, D.C. 20301

The Honorable Janet Yellen  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, D.C. 20220

The Honorable Brian E. Nelson  
Under Secretary for Terrorism and Financial  
Intelligence  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, D.C. 20220

The Honorable Andrea Gacki  
Director  
Financial Crimes Enforcement Network  
P.O. Box 39  
Vienna, VA 22183

Mr. Jake Sullivan  
National Security Advisor  
The White House  
1600 Pennsylvania Avenue NW  
Washington, D.C. 20500

Dear Secretary Austin, Secretary Yellen, Under Secretary Nelson, Director Gacki, and Mr. Sullivan,

We write with heightened concerns about rogue nations’—including Russia, Iran, and North Korea—reliance on cryptocurrency to evade sanctions. On April 1, 2024, the Wall Street Journal reported that the stablecoin Tether has become “indispensable” to Vladimir Putin’s war machine.<sup>1</sup> Though Treasury sanctioned Russia’s preferred Tether trading platform, Garantex, in April 2022,<sup>2</sup> it is not clear if these actions have stopped the flow of funds through the platform. Reports indicate that “[t]he US and UK are reviewing more than \$20 billion of cryptocurrency transactions that passed through” the exchange after sanctions went into effect.<sup>3</sup> The national security threat posed by cryptocurrency requires a commensurate response by our country’s defense community. We seek information on the additional authorities you may need in order to neutralize this threat.

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<sup>1</sup> Wall Street Journal, “Inside the Russian Shadow Trade for Weapons Parts, Fueled by Crypto,” Angus Berwick and Ben Foldy, April 1, 2024, <https://www.wsj.com/finance/currencies/crypto-fuelsrussian-shadow-trade-for-weapons-parts-1bfdc1a1>.

<sup>2</sup> U.S. Department of the Treasury, “Treasury Sanctions Russia-Based Hydra, World’s Largest Darknet Market, and Ransomware-Enabling Virtual Currency Exchange Garantex,” press release, April 5, 2022, <https://home.treasury.gov/news/press-releases/jy0701>.

<sup>3</sup> Bloomberg, “US and UK Probe \$20 Billion of Crypto Transfers to Russian Exchange,” Alex Wickham et al., March 28, 2024, <https://www.bloomberg.com/news/articles/2024-03-28/crypto-transfers-to-russian-exchange-worth-20-billion-probed-by-us-uk>.

Russian arms smugglers are paying China millions to produce high-tech weaponry and sustain their invasion of Ukraine, using crypto to side-step our financial sanctions on Russia. The Wall Street Journal reported in November 2023: “One of the scourges of Ukraine’s counteroffensive is an exploding drone with distinctive X-shaped wings that smashes into targets at more than 100 miles an hour. In recent months, Russia’s Zala Lancet drone has repeatedly struck and disabled Ukraine’s Western-supplied armored vehicles that were supposed to break through Russian lines and turn the war decisively in Ukraine’s favor.”<sup>4</sup> Though Treasury sanctioned the drone’s manufacturer,<sup>5</sup> Russia continues to undermine these sanctions and use crypto to fund its Ukrainian offensive. The Wall Street Journal reported earlier this month: “For Vladimir Putin’s war machine, Tether has become indispensable. It helps Russian companies weave around Western sanctions and procure what is called dual-use goods that go into drones and other high-tech equipment.”<sup>6</sup>

Tether has become the cryptocurrency of choice for sanctions evaders and other bad actors. “Customers trade Tether on virtual public ledgers known as blockchains or via private exchanges, sometimes to purchase other cryptocurrencies or, as in Russia’s case, to pay for goods and services.”<sup>7</sup> Tether transactions in 2023 totaled over \$10 trillion—close to what Visa processes annually.<sup>8</sup> In a January report, the U.N. noted that Tether has “become a preferred choice for regional cyberfraud operations and money launderers alike due to its stability and the ease, anonymity, and low fees of its Transactions.”<sup>9</sup>

Though Treasury sanctioned Russia’s primary Tether trading platform, Garantex, the exchange is still facilitating billions of dollars in Russian transactions.<sup>10</sup> The Wall Street Journal reported in October 2023: “A year on, the exchange is booming. Despite its place on the U.S. blacklist, which restricts transactions with sanctioned entities, Garantex has become a major channel through which Russians move funds into and out of the country, according to trading data and people familiar with the firm.”<sup>11</sup> Last month, Bloomberg highlighted Garantex executives’ brazen flouting of U.S. sanctions, identifying a senior Garantex executive: “speaking on a panel

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<sup>4</sup> Wall Street Journal, “This Russian Suicide Drone Is Blunting Ukraine’s Advance,” Alistair MacDonald and James Marson, November 3, 2023, <https://www.wsj.com/world/this-russian-suicide-drone-is-blunting-ukraines-advance-8241a0e4>.

<sup>5</sup> *Id.*

<sup>6</sup> Wall Street Journal, “Inside the Russian Shadow Trade for Weapons Parts, Fueled by Crypto,” Angus Berwick and Ben Foldy, April 1, 2024, <https://www.wsj.com/finance/currencies/crypto-fuelsrussian-shadow-trade-for-weapons-parts-1bfdc1a1>.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> United Nations Office on Drugs and Crime, “Casinos, Money Laundering, Underground Banking, and Transnational Organized Crime in East and Southeast Asia: A Hidden and Accelerating Threat,” January 2024, p. 51, [https://bit.ly/casino\\_report](https://bit.ly/casino_report).

<sup>10</sup> Bloomberg, “US and UK Probe \$20 Billion of Crypto Transfers to Russian Exchange,” Alex Wickham et al., March 28, 2024, <https://www.bloomberg.com/news/articles/2024-03-28/crypto-transfers-to-russian-exchange-worth-20-billion-probed-by-us-uk>.

<sup>11</sup> Wall Street Journal, “The Crypto Exchange Moving Money for Criminal Gangs, Rich Russians and a Hamas-Linked Terror Group,” Angus Berwick, October 13, 2023, <https://www.msn.com/en-us/news/world/the-crypto-exchange-moving-money-for-criminal-gangs-rich-russians-and-a-hamas-linked-terror-group/ar-AA1ia54i>.

at a recent event in Russia that appears to chart how to use crypto to access US dollars through a network of intermediaries.”<sup>12</sup>

On March 25, 2024, Treasury sanctioned crypto exchange Bitpapa, citing its link to Garantex, along with 12 other crypto companies that Treasury explained “have all either helped build or operate blockchain-based services for, or enabled virtual currency payments in, the Russian financial sector, thus enabling potential sanctions evasion.”<sup>13</sup> According to Under Secretary Nelson in a statement on the sanctions: “Russia is increasingly turning to alternative payment mechanisms to circumvent U.S. sanctions and continue to fund its war against Ukraine.”<sup>14</sup>

Russia is using crypto to move funds and conduct transactions in dark web marketplaces: employing crypto wallets and mixing services that allow sanctioned entities to transfer and hide their wealth, developing a digital ruble that would allow it to conduct foreign trade without converting their currency into dollars, and executing ransomware attacks to recoup revenues lost to sanctions.<sup>15</sup> Nearly three-quarters of all global ransomware revenue last year, or more than \$400 million in cryptocurrency payments, is estimated to have gone to Russia-affiliated entities.<sup>16</sup>

Russia’s reliance on crypto is emblematic of a deepening national security threat, which includes Iran’s and North Korea’s growing use of crypto. On October 17, 2023 in the wake of Hamas’ attack on Israel, we along with over 100 of our Congressional colleagues wrote to Treasury and the White House to request that you “swiftly and categorically act to meaningfully curtail illicit crypto activity and protect our national security and that of our allies.”<sup>17</sup> As we expressed in that letter, Iran is using cryptocurrency to fund terrorist organizations like Hamas and Palestine Islamic Jihad.<sup>18</sup> One estimate indicates that Iranian Bitcoin mining could have produced as much as \$1 billion in revenue in 2021.<sup>19</sup> North Korea has also relied on crypto to fund their nuclear weapons program, stealing \$1.7 billion in 2022 alone—enough to have funded 56 intercontinental ballistic missile tests, if all of that stolen crypto were funneled into their weapons program.<sup>20</sup>

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<sup>12</sup> Bloomberg, “US and UK Probe \$20 Billion of Crypto Transfers to Russian Exchange,” Alex Wickham et al., March 28, 2024, <https://www.bloomberg.com/news/articles/2024-03-28/crypto-transfers-to-russian-exchange-worth-20-billion-probed-by-us-uk>.

<sup>13</sup> U.S. Department of the Treasury, “Treasury Designates Russian Companies Supporting Sanctions Evasion Through Virtual Asset Services and Technology Procurement,” press release, March 25, 2024, <https://home.treasury.gov/news/press-releases/jy2204>.

<sup>14</sup> *Id.*

<sup>15</sup> The New York Times, “Russia Could Use Cryptocurrency to Blunt the Force of U.S. Sanctions,” Emily Flitter and David Yaffe-Bellany, February 23, 2022, <https://www.nytimes.com/2022/02/23/business/russia-sanctions-cryptocurrency.html>.

<sup>16</sup> *Id.*

<sup>17</sup> Letter from Senator Elizabeth Warren to Treasury and White House, October 17, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.10.17%20Letter%20to%20Treasury%20and%20White%20House%20re%20Hamas%20crypto%20security.pdf>.

<sup>18</sup> *Id.*

<sup>19</sup> Elliptic, “How Iran Uses Bitcoin Mining to Evade Sanctions and “Export” Millions of Barrels of Oil,” Dr. Tom Robinson, May 21, 2021, <https://www.elliptic.co/blog/how-iran-uses-bitcoin-mining-to-evade-sanctions>.

<sup>20</sup> Senate Committee on Armed Services, “To receive testimony on the posture of United States Indo-Pacific Command and United States Forces Korea in review of the Defense Authorization Request for Fiscal Year 2025 and the Future Years Defense Program,” March 21, 2024,

On April 9, 2024, Deputy Secretary Adewale O. “Wally” Adeyemo testified before the Senate Committee on Banking, Housing, and Urban Affairs on the threat cryptocurrency poses to our national security and the need for Congress to grant Treasury additional anti-money laundering (AML) authorities to combat that threat.<sup>21</sup> The Deputy Secretary’s testimony highlighted a letter Treasury sent to Congress in November 2023 listing those necessary tools in the wake of Hamas’ attack on Israel on October 7, 2023.<sup>22</sup> Since 2020, in the years leading up to the October attack, Iran has relied on crypto to send large sums of money to Hamas.<sup>23</sup> The Treasury Department is currently investigating \$165 million in crypto transactions over the past three years that may be linked to Hamas.<sup>24</sup>

Rogue nations like Iran are profiting off AML deficiencies in the crypto ecosystem and using those profits to hurt real people. Deputy Secretary Adeyemo relayed an alarming exchange he had the day prior to the hearing with the families of hostages still held by Hamas. When asked by those families how Hamas still has access to financing despite exhaustive sanctions and Israel’s blockade, “I explained to them the actions we are taking in the traditional financing sector, but told them, frankly, that one of the places where we need additional tools is to be able to make sure that we don't allow Hamas to build up assets in the digital ecosystem using virtual currencies that are hard for us to track. Because that is money they will use to continue to come after not only Israel, but also to destabilize the region.”<sup>25</sup>

The value of our sanctions is entirely contingent on our ability to enforce them. Garantex’s continued facilitation of Russian arms trading despite Treasury’s 2022 sanctions indicates the insufficiency of regulators’ current anti-money laundering authorities when applied to cryptocurrency. As terrorists and rogue nations like Russia, North Korea, and Iran increasingly turn to crypto to evade sanctions, our tools to defend these sanctions must evolve with the threat.

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<https://www.warren.senate.gov/newsroom/press-releases/icymi-at-hearing-warren-warns-of-threats-posed-by-north-koreas-crypto-funded-weapons-program-and-pig-butcherer-scams-to-national-security>.

<sup>21</sup> Senate Committee on Banking, Housing, and Urban Affairs, “An Update from the Treasury Department: Countering Illicit Finance, Terrorism, and Sanctions Evasion,” April 9, 2024, <https://www.banking.senate.gov/hearings/an-update-from-the-treasury-department-countering-illicit-finance-terrorism-and-sanctions-evasion>.

<sup>22</sup> U.S. Department of the Treasury, “Potential Options to Strengthen Counter-Terrorist Financing Authorities,” November 28, 2023, <https://www.coincenter.org/app/uploads/2023/12/11.28.2023-Counter-TF-Legislative-Proposals.pdf>.

<sup>23</sup> Wall Street Journal, “Hamas Needed a New way to Get Money from Iran. It Turned to Crypto,” Angus Berwick and Ian Talley, November 12, 2023, <https://www.wsj.com/world/middle-east/hamas-needed-a-new-way-to-get-money-from-iran-it-turned-to-crypto-739619aa>.

<sup>24</sup> Wall Street Journal, “Hamas Needed a New way to Get Money from Iran. It Turned to Crypto,” Angus Berwick and Ian Talley, November 12, 2023, <https://www.wsj.com/world/middle-east/hamas-needed-a-new-way-to-get-money-from-iran-it-turned-to-crypto-739619aa>; Be(In)Crypto, “US Treasury Department Probes \$165 Million Potentially Funding Terrorism: Reports, Harsh Notarija, March 14, 2024, <https://beincrypto.com/us-treasury-probes-165-million-crypto-terrorism/#:~:text=The%20US%20Treasury%20Department%20is%20reportedly%20investigating%20%24165,of%20crypto%20in%20global%20finance%20and%20terrorism%20financing>.

<sup>25</sup> Senate Committee on Banking, Housing, and Urban Affairs, “An Update from the Treasury Department: Countering Illicit Finance, Terrorism, and Sanctions Evasion,” April 9, 2024, <https://www.banking.senate.gov/hearings/an-update-from-the-treasury-department-countering-illicit-finance-terrorism-and-sanctions-evasion>.

As Congress considers legislative proposals designed to eliminate illicit financing through crypto, we request answers to the following questions by May 17, 2024:

1. What additional authority would Treasury require in order to stop Tether and other cryptocurrencies from being traded through Garantex and other sanctioned entities?
  - a. Are those necessary authorities enumerated in Treasury's November 2023 letter to Congress requesting additional counterterrorism tools?
2. Financial Crimes Enforcement Network's (FinCEN) 2019 guidance on the application of the Bank Secrecy Act (BSA) to crypto entities applies traditional BSA principles to the crypto ecosystem.<sup>26</sup> Would the additional authorities detailed in Treasury's November 2023 letter assist FinCEN in identifying and stopping bad actors, including sanctions evaders like Russia, Iran, and North Korea, from processing crypto transactions?
3. Are the Department of Defense and the White House supportive of Treasury's request for additional enforcement authorities to counter the national security risk posed by cryptocurrency?
4. Since the October 7th attack on Israel, how many times have DoD, Treasury, the White House, and FinCEN leadership met, both jointly and individually, to address the threat crypto poses to our national security? Please provide an unclassified listing of any internal reports or memoranda related to crypto illicit financing that DoD, Treasury, the White House, or FinCEN has produced since October 7<sup>th</sup>, 2023.

Sincerely,



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Elizabeth Warren  
United States Senator



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Roger Marshall, M.D.  
United States Senator

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<sup>26</sup> U.S. Treasury Financial Crimes Enforcement Network, "Application of FinCEN's Regulations to Certain Business Models Involving Convertible Virtual Currencies," May 9, 2019, <https://www.fincen.gov/sites/default/files/2019-05/FinCEN%20Guidance%20CVC%20FINAL%20508.pdf>.