



# *FedFin Client Report*

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Tuesday, April 9, 2024

## Senators Search for Digital-Asset AML Compromise

Client Report: AML137

### Executive Summary

Today's Senate Banking Committee Hearing with Deputy Secretary Adeyemo reviewed the Administration's request for additional digital asset AML/CFT authority. Democrats were generally supportive of outlined statutory changes, citing various potential legislative solutions. Republicans focused their criticism on the Biden Administration's efforts to sanction Iran, noting the growth of Iranian oil exports to China as a major avenue of sanction evasion. Although Ranking Member Scott (R-SC) called digital assets the "scapegoat" of this administration, Sens. Tillis (R-NC) and Hagerty (R-TN) floated a discussion draft of legislation to ensure that AML standards apply to centralized, consumer-facing digital asset financial institutions, calling this a good first step to ensuring the broader AML coverage sought in the Warren-Marshall [bill](#) (S.2669). Chairman Brown (D-OH) gave no indication of whether he is prepared to give the GOP's approach consideration as he and others work to include a digital-asset AML bill in legislative vehicles. As noted earlier today, Sen. Warren (D-MA) made it clear that she has considerable problems with pending bipartisan House stablecoin legislation; we think compromise here is quite possible if something AML-related advances which Sen. Warren is willing to support. Surprisingly, Republicans did not use the hearing to press Treasury on SAR surveillance despite Sen. Scott's [letter](#) raising serious concerns in this arena. Much of the hearing also addressed the committee's bipartisan bill (S.1271) authorizing sanctions targeting fentanyl trafficking.

### Analysis

#### *Opening Statements*

Chairman Brown highlighted the need to close gaps in illicit finance authorities to keep up with bad actors as they turn to new funding routes like digital assets. Noting the lack of KYC rules and suspicious transaction reporting, the Chairman stressed that crypto platforms should play by the same rules as other financial institutions. Ranking Member Scott stated that the Treasury already has a robust toolkit at its disposal and criticized the Biden Administration's approach to Iran and China.

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## Testimony

As noted, the Deputy Secretary's testimony stood firm on Treasury's assertions that digital-asset exemptions facilitate money laundering and terrorism, outlining a series of statutory changes the Administration believes essential to effective enforcement and thus to macroeconomic growth, financial stability, and national security. Treasury continues to press for statutory sanctions targeted at foreign digital-asset providers and certain MSBs, explicit digital-asset coverage in AML and CFT law, and greater extraterritorial reach.

## Q&A

- **Tillis-Hagerty Bill:** Arguing that the KYC reporting provisions Treasury recommends do not work in a distributed ledger environment, Sen. Tillis advocated for what he called an important step that better fits distributed ledger digital assets, providing necessary cryptocurrency regulation while avoiding overly-burdensome reporting.
- **Iran:** Alongside Sen. Menendez, most Republicans in attendance criticized the Biden Administration's approach to sanctioning Iran, noting the country's growing oil exports and criticizing poor sanction enforcement. The senators warned against funding Iran and reiterated complaints regarding electricity waivers to Iraq and the \$6 billion in assets stored in Qatar. The Deputy Secretary repeated that Iran does not have access to this money, but noted that he is concerned they may increasingly use digital assets as a workaround to get funds back into Iran, justifying the need for the reforms outlined in his testimony.
- **Russia:** Sen. Brown asked how Treasury plans to strengthen sanction enforcement against Russia; Mr. Adeyemo stated that Treasury is making efforts to target Russia's supply chains, stating the need for more sanctions as Russia adjusts to slow them down. Sen. Vance (R-OH) asked about Russia's GDP growth in response to sanctions; Mr. Adeyemo stated that the Russian economy has transitioned into a war economy. Sen. Vance warned against encouraging Russia to lean into its war economy status, expressing concerns that such an approach may increase Russian aggression.
- **Digital Asset Providers:** Sen. Warner (D-VA) promoted bipartisan legislation (S.2355) requiring decentralized finance services including crypto trading platforms to meet the same AML and sanctions requirements obligations as other financial companies. Sen. Warren focused on validators as the middlemen of cryptocurrency transactions, noting that there are no rules punishing validators for working with bad actors. Sen. Cortez-Masto (D-NV) inquired about the use of cryptocurrency mixers, noting that ten percent of all crypto addresses tied to illicit transactions used mixers. Mr. Adeyemo said that the tools Treasury has requested would assist it in effectively targeting the cryptocurrency ecosystem.
- **Sanctions Targeting:** Sen. Warnock (D-GA) expressed concern that poorly-targeted

sanctions have the greatest negative impact on poor populations; Mr. Adeyemo agreed that this is an important issue, emphasizing the need for sanctions to be well-targeted and tied to clear foreign-policy objectives.

- **Litigation Finance:** Sen. Menendez (D-NJ) expressed concerns about what he believes to be sanctioned actors' exploitation of the litigation finance industry and the risk that the industry's lack of transparency may create a gap in sanctions enforcement. When asked by the Senator if further legislation is needed, Mr. Adeyemo stated that additional transparency would be beneficial, with Treasury willing to work with the Senator.