

Statement of Congressman Brad Sherman on Facebook Cryptocurrency Plan

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Jun 18, 2019 | Press Release

Sherman Blasts Zuckerberg Crypto Plans

Mark Zuckerberg wants to prove he really cares about protecting privacy – by creating a platform perfectly positioned to provide privacy to drug dealers, tax evaders, and terrorists. Facebook still resists efforts to protect the privacy of average Americans from data mining and data sales. But now Facebook has announced a plan for a crypto currency platform which appears to meet the needs of drug dealers, human traffickers, tax evaders, and terrorists.

Zuckerberg's approach to privacy is not inconsistent:

- He sells your privacy to make money,
- Now he proposes to provide privacy to criminals, so he can make more money.

This new Facebook cryptocurrency appears to be at serious risk of being exploited for illicit finance, among other potential impacts. Although existing cryptocurrencies have been used for illicit activity, the Treasury Department's Financial Crimes Enforcement Network (FinCEN) has been somewhat effective at using oversight of cryptocurrency exchanges as a chokepoint to block payments to criminals. These exchanges are a valuable entry point for law enforcement because cryptocurrency users generally must rely on them to exchange their digital coins for real money.

Facebook's new cryptocurrency will seek to work with retailers and vendors so that they accept payment in the form of Facebook's Libra coin. In theory, this would remove the entry point provided to law enforcement by exchanges required for existing cryptocurrencies. In addition, Facebook plans to allow the option for anonymized transactions in its cryptocurrency so that the company has no visibility into its users' transactions to protect its users' privacy. This anonymization of transactions could make it all but impossible for Facebook to comply with the Bank Secrecy Act – Anti-money Laundering (BSA-AML) customer oversight requirements that other non-bank payments companies are subject to.

"I am deeply concerned that Facebook, a company which has repeatedly failed to protect user privacy, is now moving forward with a new cryptocurrency that will provide terrorists, human traffickers, and criminals with a powerful new tool to conceal their illicit financial transactions" said Rep. Sherman. "According to Facebook's 'technical paper,' its new Libra cryptocurrency will allow the creation of anonymous accounts, a reckless decision which would prevent the company from carrying out 'know your customer' and anti-money laundering monitoring required for banks and other payments companies by U.S. law enforcement. If Mark Zuckerberg cared about helping protect the victims of terrorism, human trafficking, and illegal gun sales, he would bring a stop to this project now."

Facebook's newly released [technical paper](#) explains that:

"the Libra protocol does not link accounts to a real-world identity. A user is free to create multiple accounts by generating multiple key-pairs. Accounts controlled by the same user have no inherent link to each other. This scheme follows the example of Bitcoin and Ethereum in that it provides pseudonymity for users."^[1]

Cryptocurrencies already present a challenge for law enforcement efforts to combat the financing of terrorism, corrupt kleptocrats, and other criminal activity. This distribution of a new cryptocurrency by Facebook, with its 2.4 billion monthly active users, could however create an entirely new set of hurdles for law enforcement. If Libra is as widely used as Facebook expects, even a small percentage of Libra transactions involving illegal activity would represent substantial new financing of criminal activity.

Hamas, a group sanctioned as a terrorist organization by the European Union and U.S., actively solicits anonymous donations of Bitcoin on its website in violation of sanctions.[2] Researchers estimate that 46% of Bitcoin transactions involve illegal activity, according to a paper published earlier this year.[3]

Despite the current challenges, the Financial Crimes Enforcement Network (FinCEN) within Treasury has found some success in using oversight of cryptocurrency exchanges as an effective chokepoint to block payments to criminals. These exchanges are a valuable entry point for law enforcement because cryptocurrency users generally must rely on them to exchange their digital coins for real money.

Facebook has proposed in its [white paper](#) plans to develop a network through which retailers and vendors will accept its new Libra from users directly. In doing so, Facebook's cryptocurrency would rely less on exchanges and undercut an important tool currently used by law enforcement to identify and disrupt illicit finance.

Facebook's stated plans to anonymize users transacting in this cryptocurrency would create an unnecessary barrier for it and its partner companies to comply with Bank Secrecy Act – Anti-money Laundering (BSA-AML) 'know your customer' requirements that other financial services providers are subject to. After having failed to effectively safeguard user privacy in so many previous instances, this new misguided wall of separation would only provide the sort of financial anonymity greatly valued by terrorists, human traffickers, and criminal organizations.

America derives much of its power from the unique role of the U.S. dollar. Our sanctions policy is effective, our economy is growing, and we are able to stop many terrorist plots all because of the role of the U.S. dollar. American power protects Mark Zuckerberg and his billions. Now Zuckerberg seeks to undermine that power, to make more billions.

Congressman Brad Sherman (D-CA), is a senior member of the Financial Services Committee and the Foreign Affairs Committee, and formerly Chaired the Terrorism Subcommittee. He has been a prominent opponent of cryptocurrency.

[1] Zachary Amsden, et al. "The Libra Blockchain," Libra White Paper, Libra.org, Page 4.
<https://developers.libra.org/docs/assets/papers/the-libra-blockchain.pdf>

[2] Wilson, Tom and Williams, Dan. "Hamas shifts tactics in bitcoin fundraising, highlighting crypto risks: research," *Rueters*, April 2019. <https://www.reuters.com/article/us-crypto-currencies-hamas/hamas-shifts-tactics-in-bitcoin-fundraising-highlighting-crypto-risks-research-idUSKCN1S20FA>

[3] Sean Foley, Jonathan R Karlsen, Tālis J Putniņš, "Sex, Drugs, and Bitcoin: How Much Illegal Activity Is Financed through Cryptocurrencies?", *The Review of Financial Studies*, Volume 32, Issue 5, May 2019, Pages 1798–1853.
<https://doi.org/10.1093/rfs/hhz015>

