CRYPTOCURRENCY – RUSSIA'S SANCTIONS LOOPHOLE?

Date: 18 March 2022

UK Investigations, Enforcement, and White Collar Alert

By: Michael E. Ruck

Regulators across the globe have this week stepped up their messaging in relation to sanctions on cryptocurrency. This comes in the wake of pleas from Ukraine's minister of digital transformation via Twitter on Sunday for crypto exchanges to not only target sanctioned individuals, but to impose blanket bans on Russian users:
“It's crucial to freeze not only the addresses linked to Russian and Belarusian politicians, but also to sabotage ordinary users.”

In the United States, senators wrote to the treasury secretary on Wednesday 2 March to ask about plans to monitor crypto networks, and at the same time, U.S. Attorney General Merrick Garland announced a new interagency task force 'KleptoCapture.' The aim of KleptoCapture is to enforce sanctions placed on Russia, and would include cryptocurrencies within its focus. The European Union has also said through Bruno Le Maire the French Finance Minister, that any sanctions against Russia will incorporate cryptocurrencies.

THE FINANCIAL CONDUCT AUTHORITY (FCA) RESPONSE

The FCA are “actively monitoring” crypto brokerages, and an FCA spokesman said: “As you would expect […] we have made it clear to crypto firms, banks and others that we expect them to focus on their sanction controls and, with our partners, we will be supervising their actions.” The Treasury has also spoken out to note that sanctions cover economic resources of every type, including crypto assets.

But how effective will these calls be? The FCA currently only have 34 cryptocurrency firms within their regulatory scope, as each of these firms hold a license in relation to anti-money laundering, but there are 150 unregulated firms in the crypto market in the United Kingdom. These companies are under no obligations to comply with any sanctions provisions or FCA stipulations. It is also worth noting that it is not necessary to buy cryptocurrency using an established exchange, for those with the resources crypto-mining is still ongoing and it is always possible to purchase directly from a crypto miner, which would make assets even more untraceable and beyond the reach of the regulator.

INDUSTRY SUPPORT

The response from the crypto industry has been somewhat mixed. The executive director of CryptoUK, the United Kingdom's self-regulatory trade association in the crypto sector, acknowledged that “much of the crypto industry is unregulated and therefore enables some sanctions evasion."

©2005-2026 K&L Gates LLP. All Rights Reserved.

Whilst CryptoUK has also been partnering with the Treasury and the National Crime Agency to see how the industry can help reach those firms which fall outside of the regulated scope, crypto firms themselves have been largely opposed to any blanket bans on Russian users. Changpeng Zhao, head of Binance, the largest cryptocurrency exchange in the world, said ordinary Russian citizens would not be cut off. Mr. Zhao told Radio 4 that Binance “differentiate[s] between Russian politicians who start wars and the normal people.” Whilst there seems to be a general opposition to banning all Russian citizens and freezing Russian accounts, other exchanges are working with the Biden administration to block the accounts of those individuals directly targeted by sanctions.

In terms of the international effort to stop cryptocurrency becoming a sanctions loophole, support from the industry has proven to be vital, and it does not appear that the main market players are willing to impose any sort of blanket ban at this stage. It may be a wakeup call to regulators who begin to understand the challenges of regulating this fast moving and complex sector, and the need to establish independent expertise, away from a reliance on big firms within the sector.

HOW WE CAN HELP

K&L Gates will continue to follow the impact and changes to the United Kingdom's imposition of economic sanctions with respect to Russia and cryptocurrency. The firm is equipped to advise on the full suite of regulatory and criminal issues, and can offer clear practical advice on how best to meet regulatory requirements. The touchstone of our practice is to offer industry focused and client-led solutions from the preparation of adequate controls, to full scale investigations should any potential wrongdoing arise. If you have any questions regarding UK sanctions or cryptocurrency, please do not hesitate to contact us.

KEY CONTACTS



MICHAEL E. RUCK
PARTNER

LONDON
+44.20.7360.6424
MICHAEL.RUCK@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.

©2005-2026 K&L Gates LLP. All Rights Reserved.