

Liberty Reserve Press Conference
Prepared Remarks of U.S. Attorney Preet Bharara
May 28, 2013

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

Today, we announce charges in what may be the largest international money laundering case ever brought by the United States.

Specifically, we unseal charges against Liberty Reserve and seven of its principals and employees, who for years have operated one of the world's most widely-used digital currencies.

But as alleged, the only liberty that Liberty Reserve gave many of its users was the freedom to commit crimes, as it became a popular hub for fraudsters, hackers, and traffickers. And the global enforcement action we announce today is an important step towards reining in the Wild West of illicit Internet banking.

As detailed in the indictment, Liberty Reserve was intentionally created and structured to facilitate criminal activity. It was essentially a black market bank.

As alleged, Liberty Reserve deliberately operated in a way to attract and aid criminals who wished to use digital currency to break the law and to launder the proceeds of their crimes – serious crimes including credit card fraud, identity theft, investment fraud, computer hacking, child pornography and narcotics trafficking.

All told, Liberty Reserve allegedly processed 55 million separate financial transactions and laundered a staggering \$6 billion in criminal proceeds.

We have indicted Liberty Reserve itself because, as alleged, its entire existence was based on a criminal business model.

In addition, we have charged seven individuals, five of whom were arrested on Friday:

- Arthur Budovsky, the principal founder of Liberty Reserve, who was arrested in Spain.
- Vladimir Kats, a co-founder of Liberty Reserve, who was arrested in New York.
- Azzedine El Amine, a manager of Liberty Reserve's financial accounts, who was arrested in Spain.
- Mark Marmilev, who helped design and maintain Liberty Reserve's technological infrastructure, and who was arrested in New York.
- Maxim Chukharev, who also helped manage Liberty Reserve's technology infrastructure, and who was arrested in Costa Rica.

Two other defendants – Ahmed Yassine Abdelghani and Allan Esteban Hidalgo Jimenez – remain at large in Costa Rica.

In addition to bringing criminal charges, today we have also effectively shut Liberty Reserve down by seizing its domain name, as well as its computer servers in Sweden, Switzerland and Costa Rica. We have also seized \$25 million and counting of Liberty Reserve funds, and we have so far restrained or seized a total of 45 bank accounts around the world.

So what is – or was – Liberty Reserve? As described in our papers, it was a company incorporated in Costa Rica, which operated a popular digital currency.

As alleged, Liberty Reserve quickly became a financial hub of the cyber-crime world, facilitating all manner of online crimes, from identity theft to child pornography, and over time became the bank of choice for the criminal underworld. By providing layers of anonymity, the company allowed users to engage in criminal transactions with an impunity that would have been impossible in the legitimate financial system.

As described in the indictment, the scope of the defendants' alleged unlawful conduct is truly staggering:

- With over one million users worldwide, including 200,000 in the United States, Liberty Reserve grew to process annually more than 12 million financial transactions with a combined value of more than \$1.4 billion.
- Overall, Liberty Reserve is believed to have processed 55 million separate transactions and laundered more than \$6 billion in criminal proceeds.

What made Liberty Reserve's digital currency so attractive to criminals? The coin of the realm, so to speak, was anonymity – multiple layers of anonymity. As alleged, Liberty Reserve was deliberately structured and operated in a way to help other criminals remain anonymous, untraceable and untouchable:

First, as described, its founder Arthur Budovsky specifically set about building a digital currency through a company he incorporated in Costa Rica in order to elude U.S. law enforcement. Ultimately, Budovsky even formally renounced his U.S. citizenship, explicitly admitting concerns about legal liability in the U.S.

Second, and more importantly, Liberty Reserve offered users almost complete anonymity. Unlike traditional banks or legitimate online payment processors, Liberty Reserve did not require users to validate personal identifying information.

Unlike traditional banks, Liberty Reserve had the opposite of a know-your-customer policy.

As a result, and as set forth in the indictment, Liberty Reserve users routinely and brazenly established accounts under fictitious names like "Russia Hackers" and "Hacker Account."

- In fact, during our investigation, an undercover agent was able to register an account at Liberty Reserve using the name “Joe Bogus,” the account name “tostealeverything,” and the address “123 Fake Main Street” in “Completely Made Up City,” USA.
- The same undercover then used his Liberty Reserve account to conduct transactions that he described as being for “ATM skimming work” in one case and as being “for the cocaine” in another.

Third, Liberty Reserve provided anonymity in another important way as well. As alleged, to buy the digital currency that Liberty Reserve offered, users were effectively barred from funding their accounts directly to Liberty Reserve. Nor could they withdraw funds directly from Liberty Reserve.

Instead, every user was required to go through “third party exchangers” – certain preapproved vendors of Liberty Reserve currency – that operated without significant oversight or regulation in countries such as Malaysia, Russia, Nigeria and Vietnam.

Users had to wire real money to these third party exchangers, who, after taking a fee for themselves, gave “LR” credits to the users that bought the digital currency. What was the point of this?

We allege that it was to prevent the creation of a centralized financial paper trail; to make it harder for law enforcement to investigate the crimes being committed using Liberty Reserve; and to make it easier for Liberty Reserve to claim it had no idea that all these criminals were making use of its digital currency.

Finally, Liberty Reserve sought to protect its users from law enforcement by protecting itself from the law’s reach.

Among other things, as detailed in the indictment, the defendants tried to protect their criminal business by lying to anti-money laundering authorities in Costa Rica, even pretending that the company was shut down after learning that it was under investigation by U.S. law enforcement; and moving tens of millions of dollars through shell-company accounts in Cyprus, Morocco, Australia, China and Russia, among other places.

Why did they do all this? Because, as described, as one defendant said to another, Liberty Reserve’s business was “illegal” and “everyone in USA” such as “DOJ” knows that Liberty Reserve is a “money laundering operation that hackers use.” Today, the whole world knows that, as well.

This case is an important one for a number of reasons. Among other things, it provides something of an update to an old law enforcement adage – follow the virtual money. And in this case, we followed it all over the world.

As I've said many times, as crime goes increasingly global, the long arm of the law has to get even longer, and in this case, it encircled the earth.

So as you can see, we have truly entered an era of coordinated global enforcement.

I particularly want to praise the extraordinary work of the case agents on this matter. This investigation has been as comprehensive as it has been innovative. Among other things, in the 18 months leading up to this indictment, the agents and our foreign partners have executed more than 30 search warrants, including one of the first ever searches of a so-called cloud server, obtained multiple wiretaps, reviewed countless documents, and conducted numerous interviews.

Of course, the worldwide enforcement chain is only as strong as its weakest link. And so every country should be encouraged and urged to do everything it can to beef up money laundering enforcement as much as possible.

The Internet is an amazing gift, but it also has an ugly underbelly. Cybercrime poses one of the greatest threats we face as a country, threatening our national security, our financial security, and our privacy.

We will continue to make cybercrime a significant priority, and we will continue not only to prosecute cyber criminals, but to dismantle the online infrastructure like Liberty Reserve that makes widespread cybercrime possible.

So many dedicated and creative public servants brought us to this point, and it is impossible to name them all, but let me thank some of the agencies represented here.

First, I would like to thank our partner in this case, the Asset Forfeiture and Money Laundering Section of the Department of Justice, represented here today by Acting Assistant Attorney General Mythili Raman.

I would also like to thank our investigative partner in this case, the Global Illicit Financial Team. The GIFT is a taskforce comprised of three agencies that this Office is honored to work with day in and day out: the United States Secret Service, represented here today by Steven Hughes, the Special Agent in Charge of the New York office; the IRS, represented here today by Richard Weber, Chief of IRS-Criminal Investigations; and Immigration and Customs Enforcement's Homeland Security Investigations represented by Jim Hayes, Special Agent in Charge of the New York office.

In addition, I would like to thank the Secret Service's New York/New Jersey Electronic Crimes Task Force, who did so much work on this.

I also want to thank the Financial Crimes Enforcement Network, represented here today by Director Jennifer Shasky Calvery.

I am also joined here today by Treasury Under Secretary, David Cohen, who will talk about a related money laundering enforcement action against Liberty Reserve.

And of course I want to express my appreciation to the career prosecutors who have conducted the extensive investigation leading to the charges we unseal today both in the Complex Frauds Unit and the Asset Forfeiture Unit.