



“ILLICIT FINANCE RISK ASSESSMENT OF NFTs” U.S. DEPARTMENT OF TREASURY REPORT, MAY 2024

On May 29th, the U.S. Department of Treasury released its first-ever assessment of the risks posed by non-fungible tokens. The **report** indicates that while there is little evidence of NFTs being used for money laundering, financing terrorism, or evading sanctions, the potential for such misuse remains. Brian Nelson, Under Secretary for Terrorism and Financial Intelligence, urged the private sector to use the report's findings to develop their own risk mitigation strategies

THREATS



Money Laundering

- **Self-Laundering:** Buying and selling NFTs to and from oneself to create sale records
- **Layering:** Rapidly buying and selling NFTs to complicate transaction tracing
- **Multiple Platforms:** Using different platforms to obscure the source of funds



Investment Fraud and Scams

- **Rug Pulls:** Fraudulent projects that disappear after raising funds
- **Market Manipulation:** Price manipulation through wash trading, buying and selling the same product to create the illusion of market activity
- **Fake Sales:** Counterfeit NFTs mimicking legitimate collections
- **Fraudulent Platforms:** Used to steal NFTs
- **Insider Trading:** Using confidential information for personal gain
- **Chargeback Scams:** Disputing credit card purchases after transferring NFTs



Theft

- **Malware:** Malicious links draining digital wallets
- **Smart Contract Exploitation:** Exploiting vulnerabilities to steal or manipulate NFTs



Proliferation Finance

Although rare, there are instances of NFTs being used by entities like Democratic People's Republic of Korea (DPRK) for proliferation financing. DPRK actors have used fake NFT platforms to steal NFTs and convert them into funds



Terrorist Financing

While terrorist groups may potentially use NFTs to raise funds, there is limited evidence of successful efforts. Traditional methods of fundraising remain more prevalent

RECOMMENDATIONS



Regulatory Considerations

- Continue to supervise & take enforcement actions against actors in the NFT sector who fail to comply with obligations
- Further consider NFT-specific regulations or guidance
- Address regulatory gaps



Private Sector Engagement

- Collaboration between private and public sectors
- Encourage industry collaboration to address risks



International Cooperation

The U.S. government should work with foreign partners to encourage risk assessments and the development of policy approaches to address the illicit finance risks associated with NFTs and NFT platforms