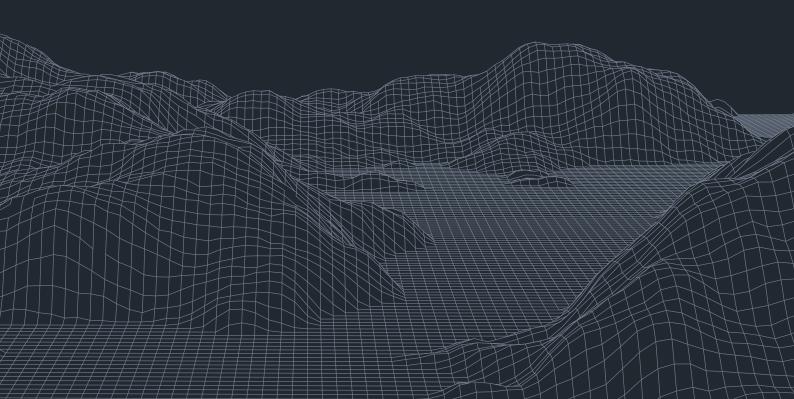


How Russians Use Tether



Introduction

On February 24, 2022 Russia invaded Ukraine. Since that day, rumors, reports, and debates have proliferated on how cryptocurrency, and in particular Tether, can be used by Russia to evade global sanctions.

Inca Digital is a digital asset intelligence company that provides data, analytics, and expertise to many of the world's leading exchanges, financial institutions, regulators, and government agencies. Inca Digital's clients use its unique and comprehensive intelligence to surveil digital asset markets, fight crime, generate alpha, and more.

Below is an initial report on how cryptocurrency trading platforms and Tether are used by Russians. Inca Digital's investigations team utilized our data analytics tools and global intelligence assets to collect data on 163 cryptocurrency trading platforms globally - this includes centralized exchanges, decentralized exchanges and peer-to-peer (P2P) market places, and over the counter service providers (OTC). Of those 163 trading platforms we collected data on, 79 allow Russian nationals to purchase cryptocurrency, all with different KYC requirements, maximum trading limits, and use of technology to identify the location of their users.

We focused our research on what financial services these platforms provided to Russian citizens over the past year and how Tether, specifically, is being used.

Full data for the charts and graphs below and a full report on each cryptocurrency trading platform we investigated is available upon request.

KEY FINDINGS ON RUSSIAN USE OF TETHER:

- Huobi and Kucoin both allow for transactions with Russian banks via their P2P platform that are sanctioned by the US, Canada, UK, EU and others. To establish jurisdiction, Inca Digital has data that both Huobi and Kucoin have US and Canadian users.
- On February 26, 2022, two days after the start of the war, there was a spike in the max spread between the Russian Ruble and Tether. The spread grew wider over the following months.



- In the first few days of the war Inca Digital observed a surge in discussions about using Tether for remittances on Russian social media. 62 (out of 79) international crypto trading platforms Inca Digital analyzed provide financial services to Russians.
- In of 62 international crypto trading platforms Inca Digital analyzed do not require Russians to pass KYC checks to start trading.
- Many cryptocurrency trading venues do not use VPN checks, meaning Russians can easily circumvent IP address attribution.
- 38 of 62 international crypto trading platforms Inca Digital analyzed have no Tether trading limits for Russian users.
- Kucoin, Binance, Bybit, and Huobi are the top exchanges that were co-mentioned with Tether on Russian social media from the start of the war through November 2022.

Tether

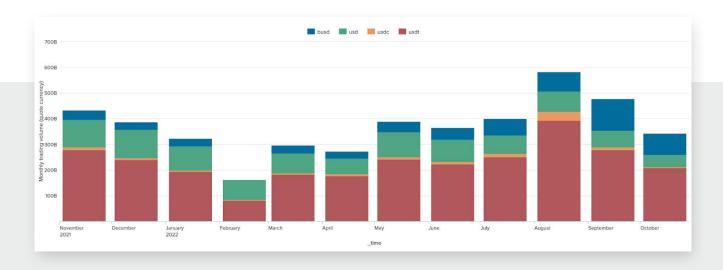
Tether (often referred to by its currency codes, USD₹ and USDT, among others) is an asset-backed <u>cryptocurrency stablecoin</u>. It was launched by the company Tether Limited Inc. in 2014. Tether Limited is owned by the <u>Hong Kong</u>-based company iFinex Inc., which also owns <u>Bitfinex</u>, a cryptocurrency trading platform. Tether Limited has stated that it maintains USD \$1 of asset reserves for each USD₹ 1 issued, but has been fined by regulators for failing to do this and has failed to present audits showing sufficient asset reserves.

For nearly all of 2022, Tether has remained the third cryptocurrency by market capitalization and arguably the most popular stablecoin. Amid the crisis of the algorithmic stablecoins and specifically the crash of TerraUSD, Tether has been used at an increasing rate.

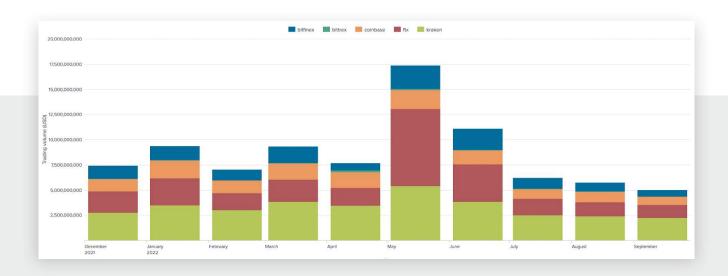
USDT DOMINANCE IN STABLECOIN MARKETS

Over the course of 2022, Tether remained the largest stablecoin by trading volume on major cryptocurrency exchanges. Its influence on the crypto market cannot be understated.





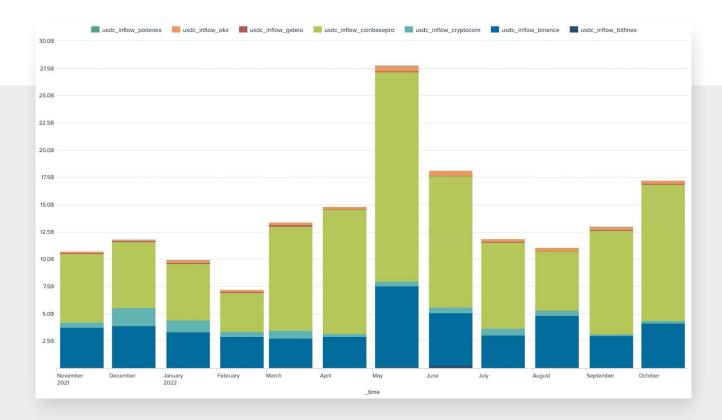
Trading volume of Bitcoin and Ether traded against stablecoins including USDT, USDC, BUSD, USD (Bitfinex, Binance, Kraken, KuCoin, Huobi, Poloniex, Bittrex, Coinbase, FTX, Crypto.com, HitBTC, OKX), Nov 2021 - Oct 2022



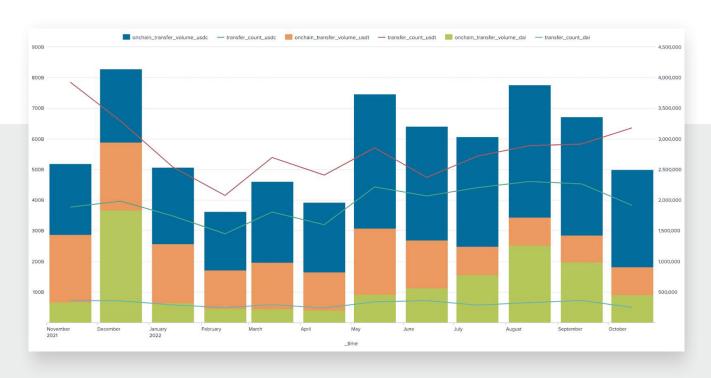
USDT/USD Trading Volume (Dec 2021 - Oct 2022)

Compared to other stablecoins, Tether had the biggest inflows into major cryptocurrency exchanges. Tether inflow volumes are almost two times bigger than those of the second most popular stablecoin - USDC.





USDC Inflow on Poloniex, OKX, Gate.io, Coinbase Pro, Crypto.com, Binance, Bitfinex (Nov 2021 - Oct 2022)



Total USDT, USDC, and DAI Volume transferred on-chain on Ethereum VS Transaction Count (Nov 2021 - Oct 2022)

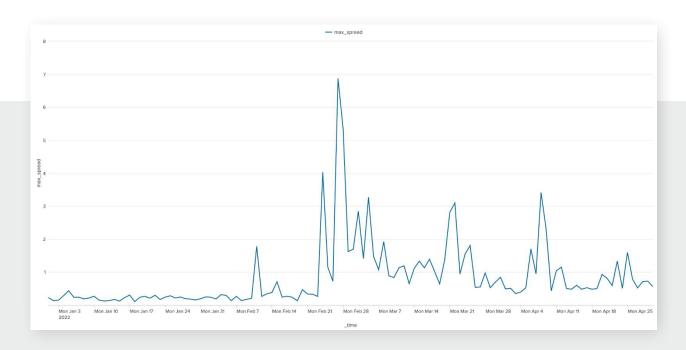


TETHER'S POSSIBLE ROLE IN SANCTIONS EVASION

In October 2022, the US Department of Justice <u>indicted</u> a criminal ring for violating the sanctions imposed on trade in Russian military equipment and Venezuelan oil. The scheme involved multiple transactions through shell companies, some of them worth \$17M in USDT, were made by criminal enablers for Russian oligarchs to purchase 500,000 barrels of Venezuelan oil. The cryptocurrency of choice that helped evade sanctions and make trades was Tether (USDT).

Since the start of the war in Ukraine, many Russians have turned to crypto to convert their holdings and move money out of the country. With the recent arrest of Russian national Anatoly Legkodymov, founder of crypto exchange Bitzlato, for allegedly processing over \$700 million of illicit funds, we leveraged some of our intelligence assets to dive into Russian use of cryptocurrency globally. Since many Russian banks have progressively been cut out of the international financial system under different legal regimes in the US and Europe, we investigated where and how Russians are using crypto to move money, and the popularity of Tether when doing so.

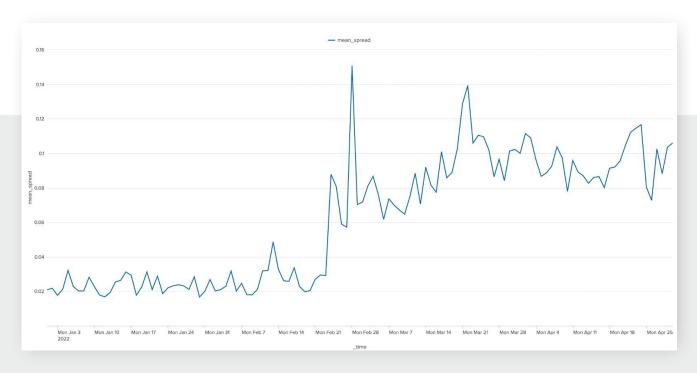
First, however, we observed a huge spike in the bid-ask spread between Tether and the Russian Ruble during the initial days of the Ukraine war:



Max spread between Russian Ruble and Tether (Jan 1 - March 31, 2022)

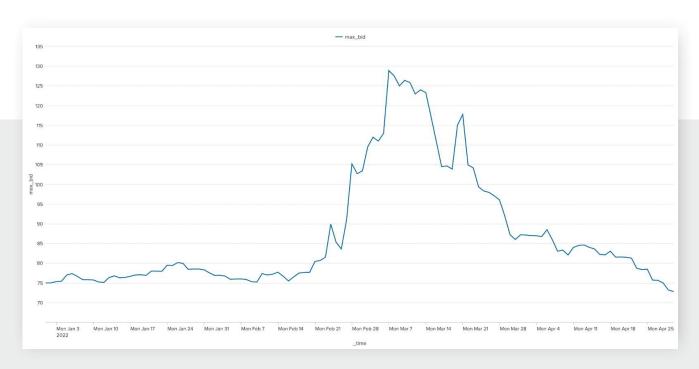
The overall trend for the following months shows that the spread had been steadily widening, which suggests that people in Russia were willing to pay a premium for Tether in extreme conditions.





Mean spread between Russian Ruble and Tether (Jan 1 - March 31, 2022)

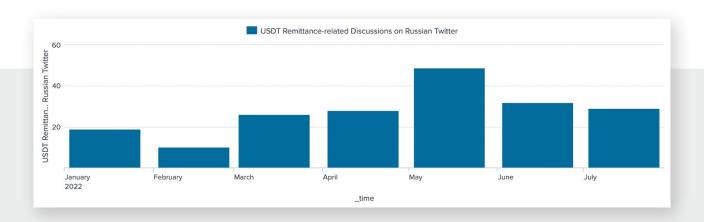
The trend is supported by data on the maximum bids for the USDT/RUB pair. Starting from February 24, 2022, the maximum bid was also growing.



Max bid for USDT/RUB (Jan 1 - March 31, 2022)

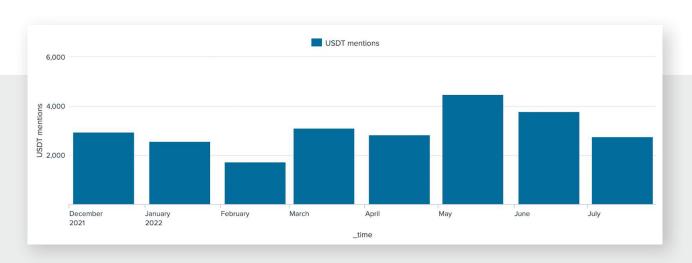


The trends in the market data were also supported by Inca Digital's natural language data. Using Inca's message classification modeling tools, we observed a significant growth in remittance-related discussions on Russian Twitter that also mentioned Tether.



USDT Remittance-related Discussions on Russian-speaking Twitter

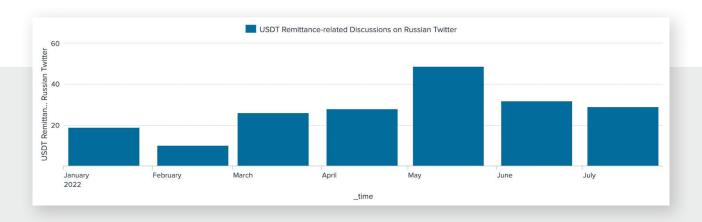
Inca also observed a surge in the number of mentions of USDT in Russian crypto-themed Telegram chats in March, right after the start of the war.



USDT mentions in Russian Crypto Telegram chats (Jan - July 2022)

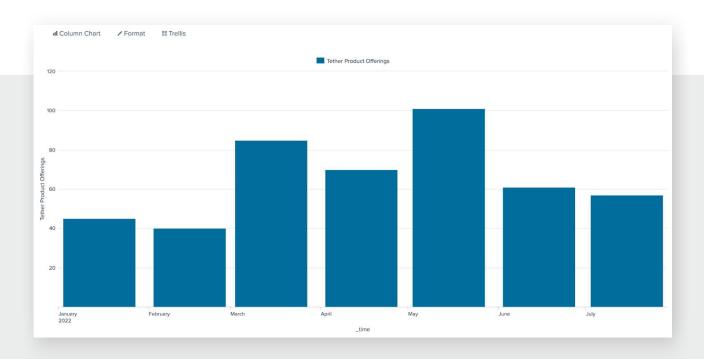
There were significantly fewer mentions of USDC compared to USDT.





USDC mentions in Russian Crypto Telegram chats (Jan - July 2022)

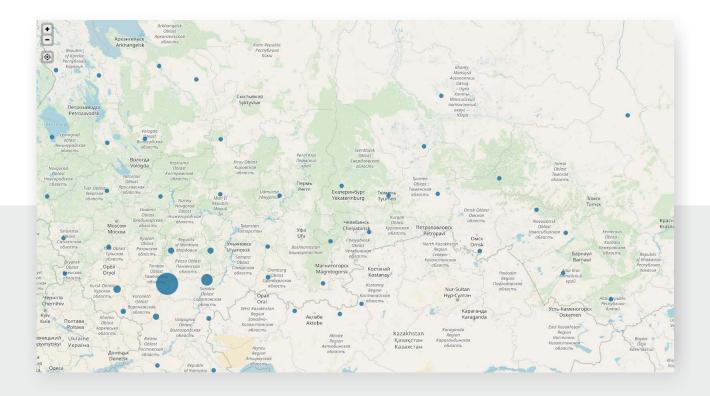
Inca also saw a surge in Tether-related Over the Counter product offerings in Russian-language discussions on social media starting from March 2022. For example, Inca used Russian linguists to establish relationships with OTC providers in Russia who were more and more willing to exchange Rubles for Tether on Telegram.



Tether-related Product Offerings in Russian discussions on social media

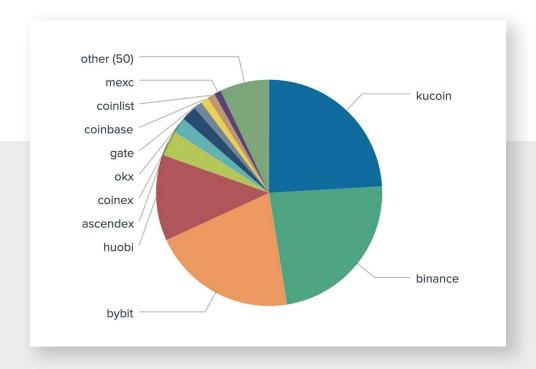
Inca Digital's GeoTagging tool also detected Russian language mentions of buying, selling, or using Tether on social media from all over Russia and in bordering countries.





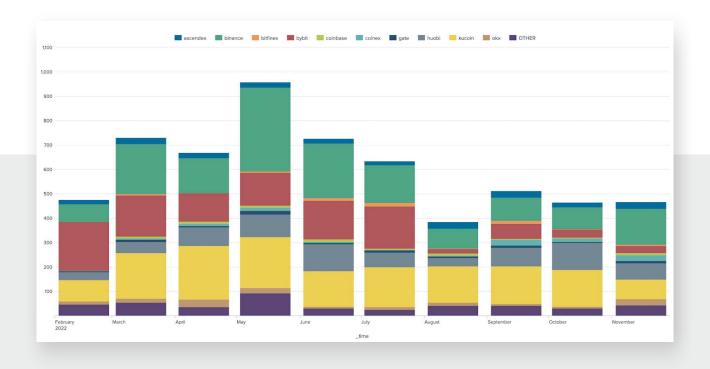
Locations of Russia-language users mentioning Tether on Twitter and Telegram (Feb - Nov 2022)

Along with a growing interest in stablecoins, especially Tether, came a growing interest in foreign off-ramp crypto venues. Inca found that the most popular crypto exchanges, that were co-mentioned with Tether in Russia, are Kucoin, Binance, and Bybit.



Top co-mentioned exchanges





Top co-mentioned exchanges over time (Feb - Nov 2022)

HOW RUSSIANS UTILIZE CRYPTO EXCHANGES

Taking the top 4 exchanges mentioned with Tether on Russian social media - Binance, Kucoin, ByBit, and Huobi - Inca investigated the methods of deposit and exchange available to Russian users, and limitations set on the amounts they can deposit.

Huobi and Kucoin

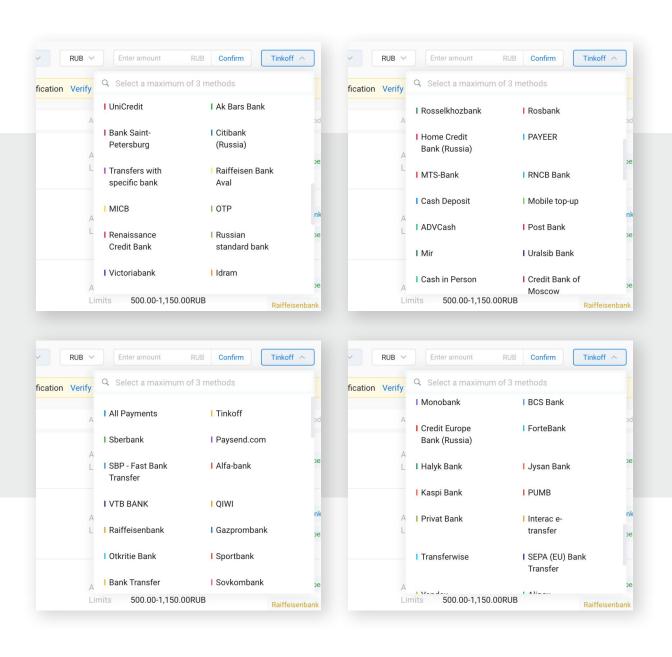
Huobi and Kucoin enable the purchase of crypto via a P2P market. In these P2P markets, Huobi and Kucoin match a seller and a buyer.

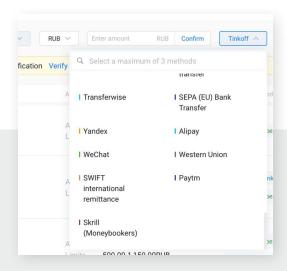
Example

Alice wants to sell her USDT and receive Rubles. Bob wants to sell his Rubles and receive USDT. Alice goes to Huobi's P2P trading page, chooses Bob because she likes the price he offers, and the amount of Rubles he offers to sell is what she needs. Alice starts a trade with Bob on Huobi P2P, her USDT goes into escrow on the platform. Once Bob sends Rubles to her bank account at Sberbank, she sees that she received the money, confirms it on the platform, and the platform releases USDT to Bob. The transaction is finished.

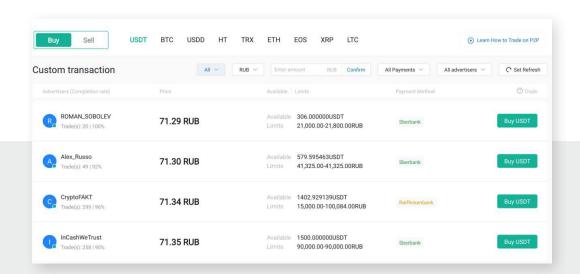


The only requirement for the P2P platforms is to complete KYC verification. Minimum and maximum deposit limitations are set based on a user's level of verification, regardless of the country of residence of the user. Inca found that cards issued by sanctioned Russian banks - such as Sberbank - are supported by both Huobi and Kucoin as a payment method on the P2P market. Huobi provides a range of Russian banks to select from as a payment method, whereas Kucoin does not offer the capability to filter payment methods, but does enable merchants to specify Russian banks as a payment option. The United States, Australia, the United Kingdom, Canada, and the European Union all currently have sanctions on Sberbank and other Russian banks. Inca Digital also has data that both Huobi and Kucoin have US and Canadian users despite not officially operating in those countries.

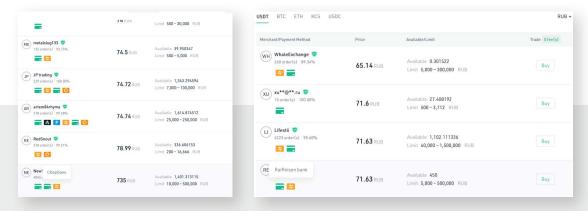




Russian Banks as Payment Methods on Huobi P2P



USDT/RUB on Huobi P2P



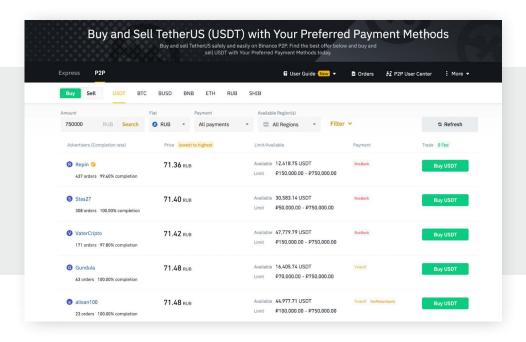
USDT/RUB on Kucoin P2P

USDT/RUB on Kucoin P2P with Sberbank as a payment method

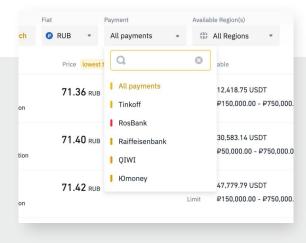


Binance

Binance, for example, offers multiple methods for Russians to convert local currency into crypto, namely their exchange, OTC desk, and a Peer to Peer (P2P) market. Each of these options is completely open to Russians without KYC for up to a \$10,000 equivalent deposit amount, but is easily circumvented after that amount due to favorable KYC policies and widely available methods of obfuscation, such as showing payments to non-Russian utility companies. The P2P market is the most popular for Russians looking to off-ramp from local currency, likely due to there being no minimum or maximum swap amounts, and because Binance does not allow Russian credit cards, debit cards, or sanctioned bank accounts for their crypto exchange but does allow these deposits for their P2P market, according to Inca Digital intelligence assets inside Russia.



USDT/RUB on Binance P2P

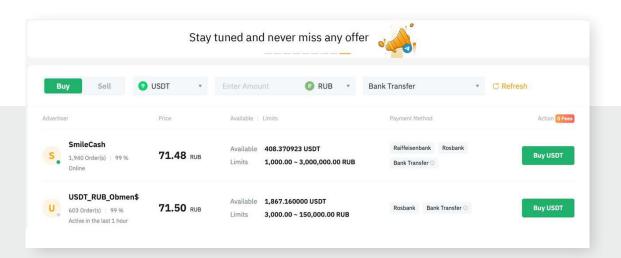


Russian Banks as Payment Methods on Binance P2P

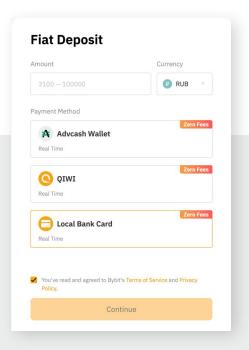


ByBit

Singapore-based exchange ByBit allows two different ways to obtain crypto via Russian rubles: their P2P market and fiat deposit. ByBit's P2P market may be available without completing KYC as some sellers do not require buyers to be verified. For the P2P market, ByBit does not place any limitations on transfer amounts. Alternatively, Russians may purchase crypto, such as USDT, on Bybit after depositing fiat currency via either QIWI wallet or a local bank card. This option, however, has amount restrictions from 3,100 RUB (~\$45) up to 100,000 RUB (~\$1,453). The Bybit Fiat Deposit page claims that "any Russianissued card can be used for a deposit."



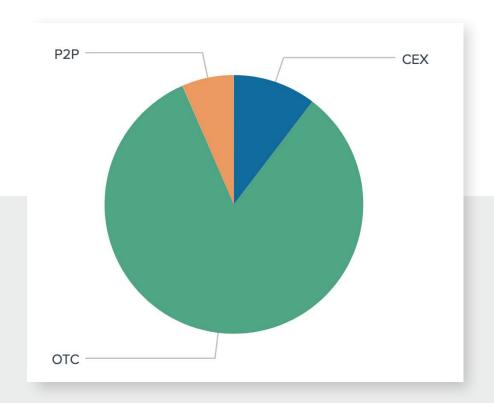
USDT/RUB on Bybit P2P



Russian Banks as Payment Methods on ByBit Fiat Deposit

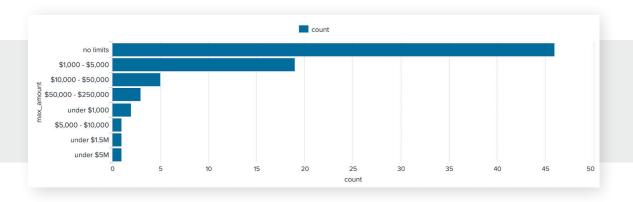


Many of these exchanges officially curtailed their operations in Russia due to the imposed sanctions. They claimed to block users from Russia and to prevent them from opening new accounts. However, our research shows that many of these exchanges and other P2P platforms and OTC desks continue working with Russian citizens, and allow them to continue their operations even with the maximum deposit, trading, and withdrawal limits.



Exchanges Available to Russians, Count by Exchange Type

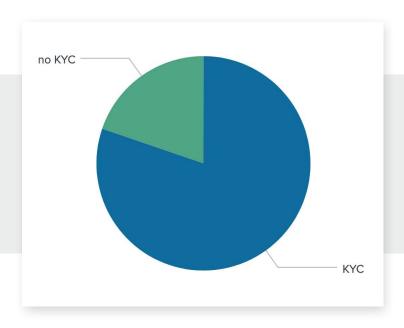
Since Tether is one of the top currencies used for converting holdings in local fiat currency to crypto, we analyzed the amounts that exchanges and OTC desks allow Russian citizens to purchase. The range starts at under \$1k worth of USDT and goes beyond up to \$5M, or no limits at all.



Daily maximum amount of USDT that can be purchased, count by exchange venue

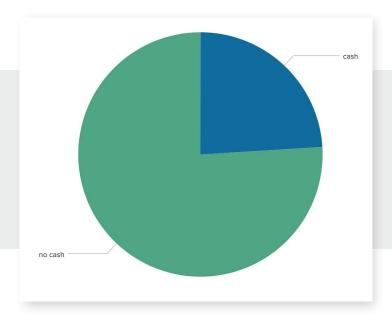


20% of the exchange venues analyzed do not ask users to pass KYC checks to start trading. These exchanges state that they block users by IP address, but they do not use tools to identify when a VPN is being used - meaning Russian users can easily access the services on these venues since most Russian users are already familiar with VPN technologies due to the increase in censorship activity of Roskomnadzor, the Russian government telecom watchdog.



Exchanges, count by KYC policy

19 out of 79 OTC desks Inca analyzed do not require users to make any digital transfers to verify their identity through banks or payment system providers. They can simply exchange Ruble in cash for Tether at an office location and go from there.



Exchanges, count by cash policy

