



Observatoire ARGA

**USDT, TRC-20, and Stablecoins as Infrastructure for Grey and
Illicit Financial Schemes: Risks, Abuses, and Limitations of
International Oversight**

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Abstract

This report provides a comprehensive analysis of the role of stablecoins — primarily USDT — and the TRC-20 network in shaping a modern parallel financial infrastructure widely used in grey and illicit transnational schemes. It examines the technological, economic, and legal factors that make these instruments attractive for investment fraud, money laundering, circumvention of currency and sanctions restrictions, and informal cross-border capital movement. Particular attention is paid to the institutional gap between the architecture of stablecoins and existing financial-oversight mechanisms, which remain incapable of effectively integrating these tools into traditional control frameworks. The report also explores the political-economic dimension of stablecoin use in criminal and quasi-criminal cases, where digital assets become instruments in struggles over asset control, jurisdiction, and financial flows.

1. Introduction

Stablecoins were originally conceived as a mechanism for reducing cryptocurrency volatility and as a technological bridge between digital assets and the traditional financial system. Their intended purpose was to facilitate settlements within the crypto environment, improve transaction predictability, and simplify integration between blockchain-based economies and fiat currencies.

In practice, however, stablecoins have become a central component of grey and illicit cross-border capital-movement schemes. Their combination with high-throughput, low-fee networks — particularly TRC-20 — has led to the emergence of a parallel payment infrastructure that partially substitutes for the banking system while lacking comparable levels of institutional oversight, reporting standards, and law-enforcement supervision.

This infrastructure enables transactions that, within the traditional financial system, would require complex procedures of identification, reporting, and currency control, making stablecoins particularly attractive for transnational schemes.

2. The Economic Nature of Stablecoins

Stablecoins represent a hybrid financial instrument combining features of:

- cryptocurrencies as technological records of value,
- electronic money as a means of storage and transfer,
- a unit of account operating outside the banking system,
- a payment intermediary enabling instant cross-border settlements.

Their resistance to volatility, high liquidity, and broad acceptance make them a convenient tool for storing and transferring value. In conditions of fragmented regulation and the absence of unified international standards of oversight, this turns stablecoins into instruments of systemic abuse, enabling the circumvention of currency restrictions, banking monitoring, and financial-transparency mechanisms.

Thus, the economic function of stablecoins extends far beyond their original purpose and forms the basis for the creation of shadow settlement circuits.

3. USDT as the Dominant Stablecoin

USDT is the most liquid and widely used stablecoin globally, effectively serving as a universal unit of account within the crypto-economy. Its popularity is driven by:

- global recognition and user trust,
- broad support across centralized and decentralized exchanges,
- widespread use within OTC exchangers and the P2P segment,
- the ability to operate outside banking infrastructure and currency controls.

At the same time, the issuance and circulation model of USDT has raised persistent questions among regulators and analysts, particularly regarding reserve backing, reporting transparency, and token-issuance controls. This uncertainty does not reduce its use in grey schemes; on the contrary, it increases its attractiveness as a tool operating outside traditional oversight mechanisms.

4. The TRC-20 Network and Its Systemic Advantages

TRC-20 has become the preferred network for using USDT in grey and illicit schemes due to a combination of technological advantages:

- minimal transaction fees, enabling transaction splitting without economic loss;
- high transaction speed, allowing near-instant settlements;
- technical ease of integration with wallets, exchangers, and P2P platforms;
- comparatively weak monitoring of transactions outside centralized exchanges.

As a result, TRC-20 has effectively created an alternative payment circuit for cross-border operations, widely used in investment pyramids, money-laundering schemes, illegal online gambling, cross-border settlements under currency restrictions, and sanctions pressure.

This network has become the infrastructural foundation for the mass use of stablecoins in transactions whose economic nature lies outside the boundaries of the legal financial system.

5. Stablecoins as a Substitute for Bank Transfers

In a number of regions worldwide, stablecoins have de facto begun to perform functions traditionally associated with banking infrastructure. They are used as an alternative to:

- international bank transfers (SWIFT, SEPA, correspondent accounts),

- cross-border settlements between companies and private individuals,
- remittance systems and payment intermediaries.

At the same time, this “parallel payment system” lacks the core elements of banking oversight. Transactions involving stablecoins, especially outside centralized exchanges, typically do not include:

- due-diligence procedures and counterparty verification,
- control over the origin of funds,
- mandatory reporting of suspicious transactions,
- a real-time mechanism for freezing assets upon judicial request.

Thus, stablecoins create an infrastructure functionally comparable to bank transfers while lacking the institutional safeguards and control mechanisms inherent to the banking system.

6. The OTC Market and Informal Conversion

The OTC segment has become a key component of the stablecoin ecosystem, providing the link between digital assets and cash or bank money. Through over-the-counter channels, the following activities take place:

- the entry of fiat money into crypto infrastructure,
- the withdrawal of digital assets into cash or bank funds,
- the transfer of economic control over assets without reflection in on-chain data.

A significant portion of OTC intermediary activity occurs outside formal regulation, is not recorded in public registries, and is often conducted via messengers, private arrangements, and offline meetings. As a result, the connection between a blockchain address and the real owner is broken precisely at this stage.

The OTC market thus becomes the zone where blockchain ceases to be a source of analytical information, and digital assets are fully integrated into the shadow economy.

7. Money Laundering and Layering Through Stablecoins

Stablecoins are actively used during the layering stage of classic money-laundering schemes. Their characteristics make it possible to effectively obscure the origin of capital through:

- splitting large sums into numerous small transfers,
- sequential transit operations between wallets,
- combining multiple networks (TRC-20, ERC-20, BSC, etc.),

- introducing time gaps between transactions.

The nominal stability of USDT eliminates the price-volatility risk typical of other crypto-assets, making it a convenient instrument for prolonged movement of funds without financial loss. This significantly increases the attractiveness of stablecoins for participants in illicit schemes and reduces operational risks.

8. Circumvention of Sanctions Regimes

The use of USDT on the TRC-20 network provides opportunities to bypass sanctions and currency restrictions by enabling:

- settlements outside the banking system and its monitoring mechanisms,
- concealment of the geographic origin of transactions through decentralized infrastructure,
- masking of ultimate beneficial owners through chains of addresses and OTC exchanges.

In some cases, stablecoins are used as a means of preserving the liquidity of assets formally subject to sanctions restrictions, allowing their holders to continue cross-border operations without the involvement of banks.

9. The Gap Between Issuers and Law Enforcement

Stablecoin issuers theoretically retain the ability to freeze assets at specific addresses. In practice, however:

- such measures are applied selectively and inconsistently;
- there are no unified, publicly transparent criteria for intervention;
- international law-enforcement requests are processed asynchronously and at varying speeds;
- issuers are not subject to a single, harmonized regulatory regime.

This creates legal uncertainty in which law-enforcement authorities cannot rely on predictable cooperation, while participants in grey schemes understand the limited practical risk of asset freezing.

As a result, an asymmetry of control emerges: the formal possibility of intervention exists, but in reality it fails to produce a systematic preventive effect.

10. Decentralized Infrastructure and the Absence of a Responsible Entity

Unlike the banking system, the stablecoin ecosystem does not involve a single institutional actor upon whom legal duties and liability can be imposed. The operational chain includes issuers,

protocol developers, network validators, wallet providers, OTC intermediaries, and users themselves, yet none of these actors performs a role comparable to that of a regulated financial intermediary such as a bank.

This significantly complicates:

- the assertion of legal claims and the issuance of judicial orders;
- the enforcement of court decisions related to asset freezing or recovery;
- the protection of victims' rights, as there is no clearly identifiable responsible party.

As a result, a legal environment emerges in which subjectivity is effectively “dissolved” across technological and private participants in the infrastructure, leaving law enforcement without a clear point of application.

11. Limitations of Compliance-Based Approaches

AML/KYC standards developed for centralized financial institutions and applied to cryptocurrency exchanges demonstrate low effectiveness outside the regulated perimeter. A substantial portion of stablecoin transactions occurs:

- through non-custodial wallets that do not require identification;
- outside centralized and regulated platforms;
- via P2P exchanges and the OTC segment without formal compliance;
- within decentralized applications where no operator is obliged to comply with supervisory requirements.

As a result, a compliance model focused on controlling entry and exit points fails to capture the majority of transactional activity. This creates an illusion of oversight while key capital flows remain effectively uncontrolled.

12. The Political-Economic Context of Stablecoin Use

In a number of cases, stablecoins are used not only in overtly criminal schemes but also in quasi-legal conflicts related to:

- the redistribution of assets among business participants;
- corporate disputes and struggles for control over companies;
- economic and administrative pressure on entrepreneurs;
- the withdrawal of funds under conditions of regulatory or political risk.

In such situations, the criminal-law framework may be used to legitimize economic objectives, while digital assets become instruments of concealed asset redistribution and circumvention of traditional control mechanisms.

This complicates legal assessment, as the formal elements of an offense may not reflect the true economic nature of the conflict.

13. Risks for Users and Intermediaries

Participants in stablecoin transactions — both end users and intermediaries — face a set of significant risks that are often underestimated.

These include:

- the risk of sudden asset freezing by an issuer or exchange without a clear appeals procedure;
- loss of access to assets due to technical errors, key compromise, or third-party actions;
- the absence of effective legal mechanisms for protection and asset recovery;
- personal liability of intermediaries, who may be classified as accomplices to unlawful operations even in the absence of criminal intent.

Thus, involvement in stablecoin transactions entails not only financial but also legal risks, which increase substantially in a cross-border context.

14. Institutional Limitations of International Oversight

The current architecture of international financial and law-enforcement cooperation lacks a unified toolkit adapted to the characteristics of stablecoins and the decentralized networks through which they circulate. Mechanisms designed for traditional banking operations prove poorly suited to digital assets operating outside centralized intermediaries.

At present, there are no:

- unified international standards for oversight of stablecoin issuance and circulation;
- a global registry of transactions capable of aggregating data on cross-border flows in a manner comparable to banking reporting;
- a mechanism for coordinated and synchronized response to violations involving the rapid movement of digital assets across jurisdictions.

International organizations issue recommendations, but their implementation remains fragmented, and enforcement depends heavily on national regulatory specificities. As a result, stablecoins operate in an environment where technological mobility significantly outpaces institutional control capacities.

15. Conclusions

USDT and the TRC-20 network have effectively formed a parallel financial infrastructure characterized by high speed, liquidity, and resilience to traditional banking and regulatory control mechanisms. This infrastructure is functionally comparable to international payment systems yet lacks comparable procedures of oversight, reporting, and legal accountability.

In grey, transnational, and sanctions-sensitive schemes, stablecoins become not an auxiliary but a central instrument of abuse. Their technological advantages amplify institutional deficiencies within the global financial system, creating favorable conditions for regulatory circumvention, concealment of economic relationships, and increased complexity of investigations.

16. Recommendations

The analysis demonstrates the need to adapt both international and national regulatory mechanisms to the new reality of digital payment instruments.

1. **Development of international regulatory standards for stablecoins.**

This requires unified requirements for issuers, reserve transparency, asset-freezing procedures, and cross-border data exchange.

2. **Strengthening oversight of the OTC segment.**

Mandatory registration of intermediaries, KYC/AML requirements for P2P platforms, and monitoring of over-the-counter operations would reduce a key zone of regulatory blindness.

3. **Alignment of regulatory regimes for digital and traditional payment instruments.**

Stablecoins performing settlement functions should be subject to requirements comparable to those applied to banks and payment systems.

4. **Consideration of the political-economic context in investigations involving stablecoins.**

In transnational cases, it is essential to recognize that digital assets may be used as instruments in corporate conflicts, asset redistribution, and regulatory circumvention.

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