



Observatoire ARGA

Circumventing International Sanctions Through Cryptocurrency Infrastructure: Mechanisms, Risks, and Enforcement Limitations

Author:

Sergey Khrabrykh — President of ARGA, PhD

Organization: Observatoire ARGA – Sanctions and Compliance Unit

Mailing address: 14 rue Jacques Laffitte, Bayonne, 64100

Contacts: info@argaobservatory.org, +33 7 58 49 62 27

Website: www.argaobservatory.org

Paris, 13 January 2026

Table of Contents

Abstract	3
1. Introduction.....	3
2. The Economic Logic of Sanctions Circumvention.....	3
3. Cryptocurrencies as an Alternative Settlement Environment.....	3
4. The Role of Stablecoins in Sanctions Circumvention.....	4
5. The TRC-20 Network and Low-Barrier Infrastructure.....	4
6. The OTC Market and Informal Intermediaries	4
7. Non-Custodial Wallets and Decentralization	5
8. Mixers and Technologies for Concealing the Origin of Funds.....	5
9. Cross-Chain Operations and Interoperability Bridges	5
10. Concealment of Beneficiaries and Proxy Structures.....	5
11. Limitations of Sanctions Compliance	6
12. International Regulatory Approaches	6
13. The Political-Economic Dimension of Sanctions Circumvention	6
14. Risks for Intermediaries and Users	7
15. Conclusions.....	7
16. Recommendations.....	7
List of sources and materials used	7

Abstract

This report analyzes the mechanisms used to circumvent international sanctions regimes through cryptocurrencies and related infrastructure. It examines key tools and practices employed to preserve liquidity, transfer value, and conceal beneficial ownership outside the traditional banking system. Particular attention is paid to the role of stablecoins, the OTC segment, non-custodial wallets, mixers, and cross-chain operations, as well as the institutional limitations of international law enforcement. The report is written in an academic style and is intended for regulators, law-enforcement authorities, analysts, and sanctions-compliance professionals.

1. Introduction

International sanctions traditionally rely on control over bank settlements, correspondent accounts, and financial intermediaries. The development of cryptocurrency infrastructure has significantly altered this model by creating alternative channels for value transfer that partially or entirely fall outside classical sanctions-control mechanisms.

In recent years, cryptocurrencies have increasingly been viewed not as an auxiliary but as a systemic instrument for sanctions circumvention, particularly in the context of cross-border operations and restricted access to the international financial system.

2. The Economic Logic of Sanctions Circumvention

Sanctions regimes are designed to:

- restrict access to international capital markets;
- freeze assets;
- complicate settlements and cross-border transfers.

Cryptocurrencies partially neutralize these effects through:

- the absence of centralized clearing;
- direct peer-to-peer transactions;
- the global accessibility of infrastructure.

As a result, a parallel economy emerges, functioning outside traditional channels of financial control.

3. Cryptocurrencies as an Alternative Settlement Environment

The use of cryptocurrencies in a sanctions context includes:

- preservation of asset value;
- payment for goods and services;
- cross-border transfers;
- hedging against currency risks.

Unlike bank transfers, cryptocurrency transactions do not require correspondent banks and are not subject to unified international freezing procedures.

4. The Role of Stablecoins in Sanctions Circumvention

Stablecoins, particularly USDT, have become key instruments for sanctions circumvention. Their advantages include:

- linkage to fiat currency;
- high liquidity;
- minimal transaction costs;
- compatibility with grey schemes.

Stablecoins allow for settlement stability and enable cryptocurrencies to function as a practical analogue of bank money.

5. The TRC-20 Network and Low-Barrier Infrastructure

The use of the TRC-20 network has enhanced the effectiveness of sanctions circumvention due to:

- extremely low fees;
- high transaction speed;
- accessibility to non-specialized users;
- weak monitoring outside centralized platforms.

TRC-20 has effectively created a mass infrastructure for cross-border settlements outside the banking system.

6. The OTC Market and Informal Intermediaries

The OTC segment plays a critical role in sanctions circumvention by enabling:

- conversion of fiat into crypto-assets;

- withdrawal of funds into cash form;
- transfer of economic control without on-chain traces.

OTC intermediaries often operate without licensing and outside systematic oversight, creating significant regulatory gaps.

7. Non-Custodial Wallets and Decentralization

Non-custodial wallets eliminate the presence of a centralized operator obliged to comply with sanctions requirements. The user retains full control over private keys, while law-enforcement authorities lack a clear addressee for urgent legal requests.

Decentralization thus shifts from a technological principle to a practical instrument for circumventing restrictions.

8. Mixers and Technologies for Concealing the Origin of Funds

Mixers are used to:

- break transactional chains;
- complicate the analysis of the origin of funds;
- reduce the likelihood of identifying beneficial owners.

In a sanctions context, mixers enable assets to re-enter circulation without a direct link to their original source.

9. Cross-Chain Operations and Interoperability Bridges

The use of cross-chain bridges makes it possible to:

- transfer assets between different blockchains;
- bypass localized restrictions within specific networks;
- complicate analytical tracing.

Cross-chain operations increase data fragmentation and undermine the effectiveness of national control regimes.

10. Concealment of Beneficiaries and Proxy Structures

Sanctions-evasion schemes widely employ:

- nominee owners;
- proxy wallets;
- distribution of control among multiple actors.

This complicates the identification of the ultimate beneficial owner and reduces the evidentiary value of on-chain analysis.

11. Limitations of Sanctions Compliance

Sanctions compliance in the crypto sphere faces several structural limitations:

- the territorial nature of enforcement;
- the absence of a unified international registry;
- divergent regulatory approaches;
- delayed responses by issuers and platforms.

As a result, sanctions measures often remain fragmented and reactive.

12. International Regulatory Approaches

The EU, the United States, and international organizations show a growing tendency to strengthen control over cryptocurrencies in the sanctions context. However, existing measures:

- do not cover informal segments of the ecosystem;
- remain limited by national jurisdictional boundaries;
- fail to ensure synchronized responses.

There is no unified international standard for sanctions control in the crypto sphere.

13. The Political-Economic Dimension of Sanctions Circumvention

In some cases, the use of cryptocurrencies is connected not only with sanctions violations but also with:

- redistribution of assets;
- preservation of economic influence;
- maintenance of cross-border business relationships.

The criminal-law and sanctions framework may conceal more complex underlying economic processes.

14. Risks for Intermediaries and Users

Participation in cryptocurrency operations within a sanctions context entails:

- the risk of secondary sanctions;
- sudden asset freezing;
- loss of liquidity;
- personal liability for intermediaries.

The absence of legal certainty amplifies systemic risks.

15. Conclusions

Cryptocurrency infrastructure has significantly altered the logic of sanctions enforcement by creating alternative channels for value transfer. In conditions of insufficient international coordination, cryptocurrencies become a resilient instrument for sanctions circumvention, undermining the effectiveness of traditional regimes of financial pressure.

16. Recommendations

1. Development of international standards for sanctions control in the crypto sphere.
2. Strengthening regulation of the OTC segment and non-custodial services.
3. Alignment of banking and cryptocurrency compliance approaches.
4. Integration of sanctions analysis with blockchain analytics and financial intelligence.

List of sources and materials used

1. <https://www.fatf-gafi.org/en/topics/virtual-assets.html>
2. <https://www.fatf-gafi.org/en/publications/Virtual-Assets/Updated-guidance-vasp-2023.html>
3. <https://www.chainalysis.com/blog/crypto-crime-report-2024/>
4. <https://www.trmlabs.com/resources/blog/crypto-crime-and-illicit-finance-report>
5. <https://home.treasury.gov/policy-issues/financial-sanctions>
6. <https://ofac.treasury.gov/sanctions-programs-and-country-information>
7. <https://www.europol.europa.eu/crime-areas-and-statistics/crime-areas/financial-and-economic-crime>
8. <https://www.unodc.org/unodc/en/cybercrime/cryptocurrencies-and-crime.html>
9. <https://www.imf.org/en/Publications/fandd/issues/2022/09/crypto-assets-regulation>
10. https://www.bis.org/publ/qtrpdf/r_qt2103.htm
11. <https://www.interpol.int/What-you-can-do/Crimes/Financial-crime>
12. <https://www.interpol.int/News-and-Events/News>

13. <https://argaobservatory.org>