

Money Laundering / Cryptocurrency / Blockchain Analysis / *Daubert* Hearing

Court conducts a Daubert hearing and finds that the results of a blockchain analysis linking a defendant and his business to a cryptocurrency tumbling operation were sufficiently reliable to be admitted into evidence.

United States v. Sterlingov, ___ F. Supp.3d ___, 2024 WL 860983 (D.D.C. Feb. 29, 2024).

D.D.C. * Defendant operated Bitcoin Fog, a bitcoin tumbling business that commingled bitcoin from different customers in pooled accounts and then redistributed them to the customers, minus a fee. In so doing, Defendant's business made it difficult for law enforcement to trace a given quantity of bitcoin to its original source.

Defendant was indicted for conspiracy to commit money laundering and for operating an unlicensed money transmitting business. The Government provided expert discovery regarding the details of the methods that the Government's expert, Chainalysis, used to identify the 900,000 cryptocurrency addresses used by Bitcoin Fog to conduct its tumbling operation, and to link Bitcoin Fog to various darknet market sites.

At the Court's urging, the Government also provided a "highly confidential, supplemental production" containing more precise details of the Chainalysis clustering program. The court held that Defendant's counsel were entitled to such information, but issued a protective order that precluded them from revealing the details to Defendant or to the public. *United States v. Sterlingov*, ___ F. Supp.3d ___, 2023 WL 8365390 (D.D.C. Nov. 30, 2023) (February 2024 *Digest*).

Defendant then moved to exclude the evidence obtained from Chainalysis on the ground that its software program, known as Reactor, is "junk science" and does not yield reliable results. Accordingly, the court conducted a multi-day *Daubert* hearing to determine whether Reactor's results were reliable.

In a detailed and well-drafted opinion, the court explained the various ways in which Reactor is able to link a given person or business to an otherwise

anonymous cryptocurrency address. Among other things, the program looks at transactions where the same person is drawing cryptocurrency from multiple addresses at the same time, which gives rise to the assumption that the same person has the "private key" to all of those addresses. Thus, if the owner of one address is known, the owner of the other addresses is known as well.

Also, the court explained how Reactor looks for telltale signs that similar transactions are being conducted in the same way, thus indicating that the person conducting one transaction is likely the person conducting the other transactions as well.

Finally, the court discussed how Reactor's results are verified or corroborated by comparing the results with the information obtained via subpoena, searches of a suspect's computer, undercover transactions, or information obtained from informants or other sources. According to the experts who testified at the Daubert hearing, there was never a time when the link provided by Reactor to a given individual yielded a false positive or was otherwise found to be incorrect.

Based on this evidence, the court found that the data provided by Reactor that linked Defendant and Bitcoin Fog to the multitude of cryptocurrency addresses was "not junk science," but was sufficiently reliable to be admitted into evidence and presented to the jury. Defendant remained free, the court noted, to attack the evidence at trial through cross-examination of witnesses and by presenting contrary evidence; but under the *Daubert* standard, the court said, it "clears the standard necessary to reach the jury."

So, Defendant's motion to exclude the analysis obtained from Chainalysis was denied. SDC

Contact: AUSA Chris Brown.

Comment: For anyone struggling to understand how Chainalysis and its cohorts in the blockchain analysis business are able to link – with a high degree of reliability – a given person to a constellation of seemingly anonymous cryptocurrency addresses, this opinion is the place to start. It is a stellar example of expository writing, making it possible for a layperson to understand both how the analysis is done and why it is reliable – and accordingly, why the results are admissible as evidence in a criminal trial under the *Daubert* standard. SDC