

April 27, 2022

The Honorable Janet Yellen  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Dear Secretary Yellen and Chair Gensler,

As organizations that work to promote accountability in government and combat corruption and the abuse of power, we write to raise serious concerns about the dangerous private investment loophole in the U.S.'s financial regulatory regime. Corrupt regimes, including Russia, have exploited the private investment industry's exemption from federal anti-money laundering ("AML") obligations to amass illicit fortunes in the United States, almost always under the cover of anonymity.<sup>1</sup>

The Treasury Department and the Securities and Exchange Commission ("SEC") must act swiftly and decisively to close this loophole by applying similar Bank Secrecy Act ("BSA")/AML standards to the private investment industry as are applied to other, non-exempt financial institutions covered by the BSA. Both the Treasury Department and the SEC could draft and enforce new AML rules today using their existing statutory authority, and in doing so, make our nation less vulnerable to financial exploitation from bad actors in the future.

As recent reporting<sup>2</sup> from *The New York Times* journalists Matthew Goldstein and David Enrich reveals, the loopholes that allow the \$11-trillion private investment industry to operate largely outside federal AML regulation come with real costs. Goldstein and Enrich detail the sweeping network of anonymous shell companies and stealthy financial service providers that enabled Russian oligarch Roman Abramovich to secretly move billions of dollars between major American hedge funds and private equity firms.

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<sup>1</sup> See, e.g., Transparency International U.S., Financial Accountability and Corporate Transparency ("FACT") Coalition, Global Financial Integrity, "Private Investments, Public Harm: How the Opacity of the Massive U.S. Private Investment Industry Fuels Corruption and Threatens National Security," December 2021, available at <https://us.transparency.org/resource/private-investments-public-harm-report/>.

<sup>2</sup> Matthew Goldstein and David Enrich, "How One Oligarch Used Shell Companies and Wall Street Ties to Invest in the U.S.," *The New York Times*, March 21, 2022, available at <https://www.nytimes.com/2022/03/21/business/russia-roman-abramovich-concord.html>.

Abramovich's exploitation of anonymous shell companies enabled the oligarch to stash billions of dollars within the United States without triggering money laundering alarms. As *The New York Times* reports, "The key was that every lawyer, corporate director, hedge fund manager and advertisement adviser involved in the process could honestly say he or she wasn't working directly for Mr. Abramovich. In some cases, participants weren't even aware of whose money they were helping to manage."<sup>3</sup>

There are also broader security risks. The report "Private Investments, Public Harm: How the Opacity of the Massive U.S. Private Investment Industry Fuels Corruption and Threatens National Security" – released jointly in December 2021 by Transparency International U.S., the Financial Accountability and Corporate Transparency ("FACT") Coalition, and Global Financial Integrity – found that Russian and Chinese interests have sought sensitive American technologies through private investment vehicles.<sup>4</sup> Overall, the report identified structural weaknesses in the private investment industry, including how nearly 13,000 investment advisers operate with little to no AML due diligence responsibilities. Only the federal government can address a problem of this magnitude.

Our system must be more resilient to hidden threats like Mr. Abramovich and the flood of illicit money pouring through the private investment industry. The Treasury Department should immediately promulgate a rule to require investment advisers and unregistered investment companies to implement robust AML programs with beneficial ownership identification, risk evaluations for investors, suspicious activity reporting to the Financial Crimes Enforcement Network, and ongoing monitoring of accounts. And the SEC should revise Form PF to require investment advisers to conduct risk-based customer due diligence, report beneficial ownership information (including information about any "politically exposed person" or "senior foreign political figure"), and disclose the country of origin of each investor, the source of their funds, and an approximate value of the funds invested.

This Administration has committed publicly and taken certain specific steps to root out global corruption and combat money laundering<sup>5</sup>, but these officials cannot deliver on their promise so long as bad actors can so easily bypass regulatory safeguards and continue to build their corrupt wealth within the United States. Not only do these loopholes render the Biden Administration's targeted Russian sanctions less effective, they allow Russians closely tied to Vladimir Putin a platform from which to fund additional attacks on democracy and the rule of law both in Eastern Europe and globally.

Thank you for your consideration of our views. We welcome the opportunity to discuss this issue further.

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<sup>3</sup> Investigative reporting regarding the fallout of the Russian invasion of Ukraine has generated considerable additional attention to the private investment loophole and the ways that it may complicate U.S. sanctions intended to target Russian oligarchs. See, e.g., Marina Temkin, "Anti-Russia sanctions spur VCs to unravel ties to 'toxic' money," Pitchbook, April 13, 2022, available at <https://pitchbook.com/news/articles/russian-VC-firms-sanctions-almaz-alexander-galitsky>; Todd C. Frankl, "The search for oligarchs' wealth in U.S. is hindered by investment loopholes," The Washington Post, March 16, 2022, available at <https://www.washingtonpost.com/business/2022/03/16/private-equity-regulation-gap/>; Tedd Bunker & Laura Kreutzer, "Sanctions on Russia Put Private Fund Backers Under the Microscope," The Wall Street Journal, March 6, 2022, available at [https://www.wsj.com/articles/sanctions-on-russia-put-private-fund-backers-under-the-microscope-11646586001?st=4x9dkqqbzkb09t5&reflink=desktopwebshare\\_permalink](https://www.wsj.com/articles/sanctions-on-russia-put-private-fund-backers-under-the-microscope-11646586001?st=4x9dkqqbzkb09t5&reflink=desktopwebshare_permalink).

<sup>4</sup> See supra note 1.

<sup>5</sup> The White House, "United States Strategy on Countering Corruption," December 2021, available at <https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf>.

Sincerely,

Accountability Lab  
Americans for Financial Reform Education Fund  
Anti-Corruption Data Collective  
Basel Institute on Governance  
Bekker Compliance Consulting Partners, LLC  
Coalition for Integrity  
Ethic Alliance Inc.  
Global Financial Integrity  
Never Again Coalition  
Partnership for Transparency Fund  
Project On Government Oversight  
Tax Justice Network  
The Financial Accountability and Corporate Transparency (FACT) Coalition  
The ONE Campaign  
The Sentry  
Transparency International U.S.  
UNISHKA Research Service