TRANSPARENCY INTERNATIONAL U.S.
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U.S. Treasury Proposes Anti-Money Laundering Rule for Investment Advisers

Rule would require investment advisers to adopt AML safeguards

A statement from Transparency International U.S.
February 13, 2024

Washington, D.C. — The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) released a proposed rule today establishing anti-money laundering (AML) requirements for investment advisers working in the U.S. private investment sector. The rule would introduce AML obligations, including a requirement to report suspicious activities, to the U.S.'s private investment sector, which is currently valued at $20 trillion.

Investment brokers and dealers in the U.S., which largely work with public investments (e.g., mutual funds, companies listed on stock exchanges), have been subject to AML obligations since the 2001 amendments to the Bank Secrecy Act. However, these broker-dealers are often absent from private investments (e.g., private equity, hedge funds, venture capital). FinCEN's rule would introduce AML requirements to these investment advisers, finally closing this long-standing gap in our nation's AML requirements.

Gary Kalman, Transparency International U.S.'s Executive Director, issued the following statement:

> For years, gaps in rules for the private investment industry have led to countless cases of the corrupt stashing their illicit gains in U.S. hedge funds, private equity and venture capital. FBI investigations found Russian billionaires using venture capital to invest in U.S. firms specializing in military development, and Mexican drug cartels using hedge funds to launder millions of dollars. The stories that have come to light document a direct and serious threat to public safety and national security.
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> Requiring investment advisers to conduct AML checks is a necessary step in patching the holes in our nation's anti-money laundering framework.
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> FinCEN's decision to include advisers registered with the SEC and those exempt from such registration requirements is particularly important. Thousands of unregistered investment advisors—those managing less than $110 million—would otherwise be exempt from AML obligations, keeping open the door for moving as much as $109 million in dirty money into the U.S. through private investments. And, let's be honest, $109 million is a lot of money.

However, the proposed rule does not require that investment advisers collect information about the true, "beneficial" owners of their corporate clients. Treasury recently announced an AML rule for real estate professionals that included this key safeguard, and earlier this year successfully launched the U.S.'s first beneficial ownership registry. Treasury should reconsider its decision to omit this key protection from its proposed rule for investment advisers.

Overall, the proposed rule is a welcome development. Building on FinCEN's successful rollout of the Corporate Transparency Act on January 1 and last week's proposal to extend anti-money laundering requirements to the real estate sector, the U.S. is taking serious, significant and much-needed strides toward addressing our role as the world's go-to destination for dirty money.

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TI US is part of the world's largest coalition against corruption. In collaboration with national chapters in more than 100 countries, through research, policy development, and advocacy, we are leading the fight to turn our vision of a world free from corruption into reality.

Related Resources

- Read the proposed rule from Treasury;
- Read a TI US, the FACT Coalition, and GFI joint report on the money laundering risks posed by the U.S. private investment industry;
- Read TI US's fact sheet on the need to close the private investment industry loophole;
- Read a letter from TI US and other civil society organizations urging the Biden administration to extend AML obligations to the private investment industry.

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