Remarks by Under Secretary for Terrorism and Financial Intelligence Brian Nelson at Association of Certified Anti-Money Laundering Specialists

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As Prepared for Delivery

Thank you, Justine, for that warm introduction.

It’s the fall meetings of the World Bank and IMF in Washington this week, so I apologize that I cannot join you in person for what promises to be a productive conference, but I appreciate the opportunity to speak with you virtually.

In my nearly one year as Under Secretary for Terrorism and Financial Intelligence at the Treasury Department, I’ve had the opportunity to work with many of you and the institutions you represent, and I look forward to meeting more of you in the months ahead.

I wanted to start with a note of appreciation: our Department could not accomplish its mission without the incredible work of dedicated compliance professionals like you. Every day you take on the hard work of building and implementing robust sanctions and anti-money laundering compliance programs. As this audience knows very well, one of the core tenets of an effective AML/CFT and sanctions program is a strong culture of compliance and senior leadership buy-in. As both OFAC’s framework for compliance and FinCEN’s culture of compliance advisory make clear, management commitment is essential—so you can tell your management that an Under Secretary of the Treasury personally thanks them for prioritizing compliance.

Your work is especially important today, given the scale and scope of the illicit finance challenges that we face. From Russian oligarchs’ attempts to evade U.S. sanctions, to corruption around the world, these challenges threaten to compromise the integrity of the international financial system, distort and weaken the business environment at micro and macro levels, and undermine U.S. national security. The Treasury Department’s efforts to address these challenges depend on our partnership with all of you.

I’d like to focus today on how our Department is closing the vulnerabilities that illicit actors are exploiting, and how we are holding them to account.
RUSSIA’S UNJUSTIFIED INVASION OF UKRAINE

No issue more clearly illustrates the stakes of our work than Russia's unjustified invasion of Ukraine. Since February, the U.S. Government has focused on using our tools of economic statecraft, including OFAC’s sanctions authorities, to ensure that Putin’s war will be a strategic failure. OFAC has issued over 1,200 new sanctions listings, including on significant Russian financial institutions, the Russian military-industrial complex, state-owned enterprises, oligarchs, and individuals tied to the Putin regime, as well as networks engaged in sanctions evasion.

All along, we have engaged with industry. We have provided guidance in over 120 new and 100 amended OFAC FAQs, as well as in fact sheets, and in FinCEN advisories. We welcome your questions and requests for additional clarity—OFAC has so far issued over 2,200 responses to specific license and interpretive guidance requests since Putin’s unjustified invasion of Ukraine.

We are cognizant that every time we issue a designation or put out new guidance, compliance professionals like yourselves are staying up late or working over a weekend to ensure that your institutions are promptly and fully coming into compliance. As one of my predecessors said at an ACAMS conference back in 2015, “[T]he work we do would not be possible without deep and regular cooperation between the private and public sectors. This spirit of cooperation is more important now than ever.” It may be a perennial truth, but this is undoubtedly a critical time for the work that we are doing together.

And I am pleased to tell you that this work is leading to real results. Our sanctions are having major, sustained effects, and will continue to bite over time. This is true not only in terms of the impact on the Russian economy but, critically, on Russia’s military capabilities. Treasury and our interagency partners have made it a priority to degrade Russia’s ability to sustain its military, including by targeting key nodes in the military-industrial supply chains. As Russia suffers setbacks on the battlefield in the face of Ukraine’s defenders, Putin will find it increasingly difficult to replenish his military stockpiles.

I want to share a few examples of how sanctions and export controls are increasingly choking off Russia from key inputs.
Russia has run out of critical parts for tanks, submarines, and aircraft, including marine diesel engines, helicopter and aircraft engine parts, electronics, and parts for tank fire control systems. Russia is so isolated that major supply shortages are forcing it to turn to North Korea and Iran for inferior military equipment.

Russia is also running out of microelectronics for defense systems. Already, two of Russia’s largest domestic microelectronics manufacturers have had to temporarily halt production due to a lack of critical, foreign technologies.

Russian defense companies are facing difficulties acquiring components, and their contracts are being delayed. They are running into challenges, including a lack of funding, qualified employees, and the loss of access to Western software.

As Russia loses more of its equipment on the battlefield, it will find itself economically isolated and unable to backfill the critical components for these systems. Russian officials are rightfully concerned that its defense industry is fundamentally unable to produce enough UAVs, missiles, or vehicles to sustain the war in Ukraine. Though Putin has touted Russia’s “cutting-edge” weapons, he has had to deploy outdated Soviet-era tanks. These challenges will compound, and Russia’s military and associated industrial base will continue to be degraded.

You and your colleagues in the compliance community have been critical to these results. Of course, vigilance is essential. I assure you that we are not done with imposing sanctions to hold Russia accountable. Two weeks ago, we issued a statement noting that “OFAC will leverage existing authorities to target entities and individual jurisdictions outside Russia that provide political or economic support for Russia’s illegal attempt to annex Ukrainian sovereign territory.” You should be prepared not only for additional designations of Russian individuals and entities, but also designations of those who provide “material support” to Russia’s invasion of Ukraine, wherever they may be.

ENFORCEMENT

This brings me to the importance of enforcing these sanctions and other laws aimed at protecting national security and countering illicit finance. Companies—large and small; new and old—need to ensure they are complying now. I’d like to highlight a few recent enforcement actions—two out just this morning:
Today, OFAC and FinCEN entered into settlements assessing liabilities over $24 million and $29 million, respectively, with a U.S. virtual currency exchange for violations of multiple sanctions programs and failing to comply with the Bank Secrecy Act’s anti-money laundering program and suspicious activity reporting requirements—highlighting that these obligations are not something that companies focused on growth can simply put off to a later day.

On June 30, 2022, OFAC announced that it had issued a Notification of Blocked Property to Heritage Trust, a Delaware-based trust in which OFAC-designated Russian oligarch Suleiman Kerimov holds a property interest. At the time of this action, Heritage Trust held assets valued at over $1 billion. This enforcement action ensures that those assets remain blocked and inaccessible to Kerimov. This is an example of how OFAC will conduct complex investigations—piercing through an opaque series of legal structures and front persons—to ensure that the assets of designated persons who are benefiting from Russia’s war against Ukraine remain blocked and out of their reach.

These cases demonstrate that Treasury will continue to aggressively pursue violations of our sanctions. To that end, Treasury is also strengthening ties with our interagency partners to identify and pursue potential violations. There is strong interest across the interagency to ensure that our sanctions and export controls are being fully enforced—our teams are meeting regularly within the U.S. government and with international counterparts, including through the Russian Elites, Proxies and Oligarchs, REPO, Task Force and other multilateral fora.

**PRICE CAP ON RUSSIAN OIL**

Since the start of Russia’s further invasion of Ukraine in February 2022, the United States and our allies and partners have sought to hold Russia accountable through financial pressure while also seeking to minimize spillover effects around the world. Within this context, I’d like to discuss a policy you may have heard about: the “price exception” on Russian oil.

Given the importance of having Russia’s oil continue to reach global markets, while also limiting revenue to Putin’s regime, the United States and our partners are supporting a measure on Russian oil that is distinct from earlier oil sanctions. I know that there has been some discussion on the price cap within the compliance community and want to take a moment to provide some context on this important multilateral initiative.
To be clear, G-7 countries, including the United States, have banned or committed to ending the import of Russian oil. The price cap is not changing that.

The EU’s sixth sanctions package, part of which takes effect on December 5th, will additionally ban the provision of certain services, including insurance, to any maritime transport of Russian oil to third countries. The price cap is creating an exception to that services ban – allowing service providers to continue to support Russian oil shipments, provided that the shipments are under the agreed upon price – that is the “price cap.”

Compliance professionals will recognize that this is quite different from other oil sanctions programs. Here, the objective is to limit revenue flowing to Putin – hence setting the ‘cap’ – while also allowing this oil to continue to reach the global market, including developing countries. This will be critical to ensure both stability in global energy prices and deprive Putin of revenue.

Last month OFAC issued “preliminary guidance” on the implementation of the price cap, and we anticipate providing additional guidance so that the private sector can adopt risk-based measures for compliance. I would underscore that given that the objective of this program is to ensure that Russian oil can reach the global market, we would encourage market participants to carefully review the materials and engage with Treasury on questions—and to avoid making a premature decision to derisk from the market.

CORRUPTION

Russia's war in Ukraine also underscores why the Treasury Department’s efforts to counter corruption globally are so urgent and remain such a priority for the United States. Putin's support structure, after all, is built on a bedrock of corruption, kleptocracy, and financial crime. These activities have, over decades, enabled Putin’s aggression, dimmed the prospects for Russian democracy, and led the interests of Russia’s self-dealing elite to became even more divorced from the interests of the Russian people.

Using our enforcement tools, we have held to account the oligarchs and cronies that enable Putin’s kleptocratic regime and derive illicit wealth from it. Through the multilateral REPO Task Force, we have blocked over $30 billion of assets of Russian individuals—including many me
yachts and luxury properties. Our aim is to increase the cost of Russia’s war and ensure that those enmeshed in its kleptocracy are cut off from the international financial system.

Our anti-corruption efforts are not limited to Russia. As President Biden laid out in the first-ever “U.S. Strategy on Countering Corruption,” corruption is a core national security threat – and curbing illicit finance is a critical part of stopping it.

The reality is that, as Secretary Yellen said at last year’s Summit for Democracy, “there’s a good argument that, right now, the best place to hide and launder ill-gotten gains is actually the United States.” The United States has had notable gaps in our AML/CFT framework that has allowed illicit actors—whether Russian oligarchs, drug kingpins, or others—to conceal their identity and launder their money through the dark corners of the U.S. financial system.

Illicit actors continue to move money through the financial shadows. As a native Californian, my message is simple: sunlight is coming.

On September 29, FinCEN issued a final rule on beneficial ownership information reporting pursuant to the Corporate Transparency Act. This marks a historic step in the U.S. government’s efforts to crack down on illicit finance and enhance financial transparency. The rule will require certain entities created in or registered to do business in the United States to report to FinCEN information about their beneficial owners—the natural persons who ultimately own or control the company. This will help stop the illicit actors who would use anonymous shell companies to hide or launder their ill-gotten funds. One of the most effective ways to deter and catch criminals is to follow the money- this will allow U.S. law enforcement to do that in a way they’ve never been able to before.

There is more work ahead—FinCEN is building the secure database to store this data and is working on the proposed rule for how authorized entities will access this information, but this final reporting rule is an important accomplishment that represents the culmination of years of bipartisan efforts by Congress, Treasury, national security and law enforcement agencies, and other stakeholders.

Along these lines of “following the money,” Treasury is developing proposed regulations to address the misuse of real estate as a money laundering mechanism and to mitigate illicit funds entering the U.S. real estate market. We are concerned with the lack of AML/CFT regulations in place on non-financed real estate transactions; not only are Russian oligarchs able to discreetly park their ill-gotten money in Miami or New York City high-rise apartment-buildings, illicit
actors are also using the opacity of real estate transactions to launder funds in communities from Phoenix to Pittsburgh. The National Association of Realtors estimated that non-financed residential transactions represent approximately 19 percent of existing residential sales in the U.S. market for 2020 and 2021, which is a significant AML/CFT risk that the rule will seek to address with a national standard.

And, as described in Treasury’s 2022 National Strategy to Combat Illicit Financing published this May, we are considering whether additional authorities are needed to apply AML/CFT obligations to cover key “gatekeepers” to the financial system. These are the professionals and service providers—including investment advisers, lawyers, accountants, trust and company service providers, incorporators, and others—who open and move funds through bank accounts but are not currently subject to AML/CFT requirements. Treasury’s Office of Terrorist Financing and Financial Crimes, in consultation with FinCEN, is closely examining this and assessing which of these areas are most in need of AML/CFT requirements to prevent the flow of illicit funds. We support bipartisan efforts in Congress to work with the administration to identify ways to limit the movement of ill-gotten gains through the U.S. financial system.

In closing, I want to thank you again for your time today and, most importantly, your partnership as we work together on these critical issues. The “spirit of cooperation” between the U.S. government and the compliance community has never been more critical or impactful.

I look forward to taking some questions.