Remarks by Under Secretary for Terrorism and Financial Intelligence Brian Nelson on Treasury's Efforts to Safeguard the U.S. Financial System from Illicit Finance

February 15, 2024

As Prepared for Delivery

Good morning. I'm Brian Nelson, Treasury's Under Secretary for Terrorism and Financial Intelligence. My office is responsible for leading U.S. government efforts to counter illicit finance and using financial tools to respond to national security threats.

From terrorist financiers to cybercriminals and drug kingpins, our work centers on safeguarding the U.S. financial system from those who seek to corrupt it, exploit it, and use it to hide or launder illicit proceeds.

Central to this mission is a recognition of the dangers that illicit finance threats pose not only to our national security and the integrity of the U.S. economy, but also to the economic opportunity afforded to hardworking, responsible Americans.

The Treasury Department is matching the gravity of these challenges with a commitment to addressing the biggest vulnerabilities in the U.S. financial system that corrupt actors, criminals, and other national security threats exploit to launder funds. We are undertaking a concerted effort to address the systemic deficiencies in the United States' anti-money laundering and countering the financing of terrorism framework—also known as AML/CFT.

As I look forward to discussing with you this morning, over the past few days and weeks, we have announced several major initiatives that are designed not only to close critical regulatory loopholes and stay ahead of urgent national security threats, but also to increase transparency, fairness, and equity across the U.S. economy.

As the world's largest economy and with the most globally integrated financial system, the steps that the United States takes to fight crime, corruption, and illicit finance will radiate outward—helping other countries to combat these challenges and strengthening international AML/CFT standards.

Treasury's efforts, therefore, will help us to advance prosperity and security at home, while leading by example around the world.

ADDRESSING URGENT CHALLENGES

I am joining you all at a critical moment for U.S. national and economic security interests.

It is a moment when the fentanyl crisis—fueled by transnational networks of complicit companies and criminal organizations—is exacting an enormous human toll in communities across the United States, taking an estimated 70,000 lives annually. According to the DEA, the two most sophisticated Mexican drug trafficking organizations, as well as their associates and facilitators, operate across all 50 U.S. states and in more than 50 countries.

It is a moment when Russia's brutal invasion of Ukraine, tragically on the cusp of its two-year mark, is making clear the increasingly sophisticated ways that Russian elites and businesses are seeking to violate U.S. sanctions—in support of Vladimir Putin's war machine and at the expense of global security.

At this moment, cybercriminals continue to plunder the life savings of hardworking Americans, and ransomware actors continue to wreak havoc on critical infrastructure—including against a children's hospital in Chicago just this month.

Across the United States, fraudsters generate massive sums of illicit proceeds—often at the expense of taxpayer-funded programs and vulnerable populations. For example, frauds against the elderly—often referred to as elder financial exploitation—are linked to annual losses of more than $3 billion, with the average victim losing $35,000 and the associated proceeds often laundered through shell and front companies, wire transfers, and money mules.

Over the past four months, we have seen in the Middle East the consequences of terrorist groups like Hamas and Iran-aligned militant groups continuing to access funds. Their actions have not only taken innocent lives—including those of Americans—but also threatened international commerce and stability.

These threats, among others, share three important themes:

1. They threaten U.S. national security and the lives of Americans.

2. They undermine America's economic health—either by affecting Americans and businesses, or by eroding trust in the integrity of our financial system.

3. And they exploit vulnerabilities in the United States' AML/CFT framework to launder, move, or store funds.

That is why we are taking such substantial steps toward closing these loopholes, in partnership with key stakeholders, including the private sector.

HONING OUR UNDERSTANDING OF ILLICIT FINANCE RISK

The Treasury Department's efforts are rooted in our constantly evolving understanding of the illicit finance risks that the United States faces—our assessments of who and what our biggest risks are, how these threat actors move or launder funds, and what regulatory loopholes and financial blind-spots they are exploiting to do so.

To highlight these risks, last week Treasury published three national risk assessments for money laundering, terrorist financing, and proliferation financing. From North Korea's efforts to exploit the U.S. financial system to fund its nuclear program, to human traffickers concealing their activities through front companies, these assessments shine light on the ways that key threat actors are seeking to operate under the radar.

These studies aim not only to inform U.S. government efforts to address threats and safeguard the U.S. financial system, but also to help the private sector stay ahead of illicit activity and stay attuned to the biggest risks affecting their customers and their bottom lines.

ENHANCING CORPORATE TRANSPARENCY

A recurring risk that we are focused on is the misuse of corporate structures to launder or conceal funds. Anonymous companies are a favorite tool for bad actors seeking to conceal their activities and their funds. Across our risk assessments, we have identified numerous cases involving criminals and U.S. adversaries seeking to operate with anonymity using opaque corporate structures.

To address the critical vulnerability of corporate anonymity, last month, Treasury's Financial Crimes Enforcement Network, or FinCEN, launched a beneficial ownership filing system pursuant to the Corporate Transparency Act. Under this new framework, many companies operating in the United States are now required to report information to FinCEN about their beneficial owners—in other words, the real people who own or control them. FinCEN stores this information in a secure, non-public database. With this information, we can better support law enforcement and other partners in untangling networks of shell companies run by criminals, and work to hold them accountable.

It is not only international malign actors like drug traffickers, Russian oligarchs, and Iranian agents exploiting shell companies, but also home-grown criminals—like fraudsters, tax cheats, and corrupt officials—who use these tools to illicitly enrich themselves at the expense of their fellow Americans. For example, last year, seven individuals were indicted for an alleged conspiracy involving efforts to steal the identities of accountants and taxpayers, file 371 false tax returns, and claim more than $100 million in refunds.

Moreover, fraudsters have used shell companies to facilitate their exploitation of innocent American victims, and corrupt officials have hidden bribes and misappropriated funds through anonymous LLCs.

Accordingly, FinCEN's efforts to promote corporate transparency will both keep our country's financial system safe and protect everyday Americans.

PREVENTING THE ABUSE OF THE RESIDENTIAL REAL ESTATE SECTOR

Another major vulnerability involves the abuse of certain segments of the U.S. residential real estate sector. Although 80 percent of the residential real estate market has long been subject to stringent AML/CFT requirements, a range of national security threats—from foreign kleptocrats to drug kingpins—have been able to exploit certain regulatory gaps and anonymously park and launder their ill-gotten gains through all-cash purchases of U.S. real estate. They have leveraged the stability, size, and value of the U.S. housing market for their own nefarious gain, investing in an appreciating asset by hiding their wealth in Miami villas, Manhattan penthouses, and suburban neighborhoods.

To address these regulatory gaps, last week, FinCEN issued a proposal to increase transparency into certain non-financed transfers of U.S. residential real estate. This proposal builds on years of information collected through FinCEN's residential real estate Geographic Targeting Order program, which requires reporting on certain residential estate transactions in specified geographic areas of the United States. Our proposed rule aims to equip our law enforcement and national security partners with a lasting tool to help curb the flow of illicit proceeds through the residential real estate market across all of America.

Criminal exploitation of the real estate market does not just enable illicit activity, it can also be deeply unfair to everyday Americans. At a time when many American cities are grappling with limited housing supply and record-high prices, criminals are able to buy homes anonymously. Many of the properties they purchase sit vacant for years—functioning not as homes, but as vehicles for storing and hiding ill-gotten wealth. Without action, this can exacerbate housing market manipulation and corrode our neighborhoods, towns, and cities. FinCEN's proposal aims to bring transparency to the sector and remedy the existing regulatory gaps that allow illicit actors to exploit the U.S. residential real estate market.

SAFEGUARDING FINANCIAL SERVICES

Another one of our current priorities involves the misuse of the U.S. investment adviser sector by illicit actors. While many key players in the financial services sector—like banks, broker-dealers, and mutual funds—have, for decades, implemented regulations to identify and prevent money laundering and illicit financial activity, the investment adviser sector as a whole has not been consistently or comprehensively subject to these foundational AML/CFT obligations.

As recent Treasury analysis has found—including in an illicit finance risk assessment for the investment advisers sector published this week—illicit actors have moved massive amounts of funds through witting and unwitting investment advisers.

In one instance, as part of the infamous 1MDB corruption scheme, investment funds laundered approximately $150 million to acquire interests in various companies owned or affiliated with an SEC-registered private equity firm.

Separately, billions of dollars belonging to sanctioned Russian oligarchs and elites have been managed by U.S. investment advisers—in violation of U.S. sanctions and in support of Russia's war in Ukraine.

Additionally, foreign state actors have also used surreptitious investments in private funds managed by U.S. investment advisers to gain access to sensitive and emerging U.S. technologies—undermining American innovation and economic competitiveness.

To curb this illicit activity, earlier this week, Treasury issued a proposal to apply AML/CFT Compliance Program and Suspicious Activity Report (SAR) filing obligations to certain investment advisers. These measures would be critical to helping prevent misuse of this sector and stopping illicit financial activity in its tracks and protecting U.S. businesses from these threats.

This proposal would also help to harmonize regulatory obligations for advisers with existing obligations that already apply to banks, broker-dealers, mutual funds, and others. It would also help us to advance a level regulatory playing field across the financial services sector—so that no firm gets an unfair advantage.

SEEKING PRIVATE SECTOR FEEDBACK

As we work to address these systemic vulnerabilities in the U.S. financial system, getting feedback from our stakeholders, including the private sector, is critical. We are committed to ensuring that these initiatives both keep our country safe and advance fairness and opportunity. That is why—across all of our work—we will continue to make it a priority that regulatory obligations are clear, streamlined, and reasonable.

We recognize that it is most often those in the private sector that are on the front lines of identifying illicit activity and helping us stop it. That is why we assign so much value to hearing from the private sector. As part of the rulemaking process, there is a public comment period, and we are looking forward to engaging with key stakeholder groups and making sure their voices are heard.

The U.S. financial system is a pillar of the United States' economic health, and a driver of growth and opportunity across our country. The same traits that make it such an asset to us—its size and stability, its dynamism, and its centrality to global commerce, to name a few—also make it appealing to illicit actors.

Addressing the gaps in our AML/CFT regime will help prevent bad actors from operating across the United States and protect Americans from harm. These efforts—assessing illicit finance risk, enhancing beneficial ownership transparency, and preventing the misuse of the residential real estate and investment adviser sectors—reflect our commitment to safeguarding the U.S. financial system. These efforts are not just priorities for the Treasury Department, they are also key goals for the President, who called on us to advance these initiatives when he published the first-ever U.S. Strategy on Countering Corruption in the first year of his administration.

We will continue to take action to identify and mitigate vulnerabilities in other parts of our financial system as well. This work helps advance U.S. economic and national security, while bolstering U.S. leadership and international standards relating to countering money laundering, terrorist financing, and illicit finance.

We are committed to ensuring that the benefits of the U.S. financial system extend to all Americans—through better jobs, equitable and fair markets, and economic prosperity—while also protecting it from those who seek to exploit it.

###