

## FEDERAL BUREAU OF INVESTIGATION INTELLIGENCE BULLETIN



## (U) Threat Actors Likely Use Private Investment Funds To Launder Money, Circumventing Regulatory Tripwires

(U) PREPARED BY FBI CRIMINAL  
INVESTIGATIVE DIVISION  
CO-AUTHOR FBI NEW YORK FIELD OFFICE

1 MAY 2020  
FBI IB173 20200501

(U) This document is classified: Unclassified//Law Enforcement Sensitive.  
(U) Intelligence Bulletin template approved for fiscal year 2020, as of 1 October 2019.

(U) LAW ENFORCEMENT SENSITIVE: The information marked (U//LES) in this document is the property of the Federal Bureau of Investigation and may be distributed within the federal government (and its contractors), U.S. intelligence, law enforcement, public safety or protection officials, and individuals with a need to know. Distribution beyond these entities without FBI authorization is prohibited. Precautions should be taken to ensure this information is stored and/or destroyed in a manner that precludes unauthorized access. Information bearing the LES caveat may not be used in legal proceedings without first receiving authorization from the originating agency. Recipients are prohibited from subsequently posting the information marked LES on a website on an unclassified network without first obtaining FBI approval.

(U//LES) The FBI assesses threat actors<sup>a</sup> likely<sup>b</sup> use the private placement of funds,<sup>c</sup> including investments offered by hedge funds and private equity firms,<sup>d</sup> to launder money, circumventing traditional anti-money laundering (AML) programs. This assessment is made with high confidence,<sup>e</sup> based on open source reporting from the US Department of Justice (DOJ), human sources with direct access and varied levels of corroboration, and a sensitive financial source with direct access or firsthand knowledge of the financial industry.

(U//LES) The FBI assumes AML programs are not adequately designed to monitor and detect threat actors' use of private investment funds to launder money. Additionally, the FBI assumes threat actors exploit this vulnerability to integrate illicit proceeds into the licit global financial system. The FBI assesses, in the long term, criminally complicit investment fund managers likely will expand their money laundering operations as private placement opportunities increase, resulting in continued infiltration of the licit global financial system. If greater regulatory scrutiny compelled private investment funds to identify and disclose to financial institutions the underlying beneficial owners of investments, this would reduce the appeal of these investment firms to threat actors, at which time the FBI will re-visit this assessment.

<sup>a</sup> (U) "Threat actor" is defined in this product as encompassing both financially motivated criminals and foreign adversaries.

<sup>b</sup> (U) See Appendix A: Expressions of Likelihood.

<sup>c</sup> (U) Private investment funds are funds that do not solicit investments from the public and retail investors. Under the Investment Company Act of 1940, private investment funds are largely exempt from Securities Exchange Commission (SEC) regulatory oversight and other federal financial regulatory authorities. Private investment funds include entities such as hedge funds and private equity firms.

<sup>d</sup> (U) See hedge fund and private equity firm definitions in the textbox on page 3.

<sup>e</sup> (U) See Appendix B: Confidence in Assessments and Judgments Based on a Body of Information.

UNCLASSIFIED//FOR OFFICIAL USE ONLY

**(U) Source Summary Statement**

(U//FOUO) Reporting in this intelligence bulletin is derived primarily from open source reporting from the DOJ; two human sources with direct access, one whose reporting has been corroborated through consensual monitoring and one whose reporting has not been corroborated; and sensitive financial sources with direct access or firsthand knowledge of the financial industry. Reporting from the DOJ, along with sensitive financial reporting, was critical to understanding the use of private investment funds for money laundering activity due to the detailed reporting regarding the ultimate beneficial owners of the source of funds received by private investment funds. The intelligence collection used in this report occurred between March 2017 and July 2019 and is current as of July 2019.

## (U//LES) Threat Actors Likely Transfer Money to Private Investment Funds To Launder Illicit Proceeds, Circumventing Regulatory Tripwires

(U//LES) The FBI assesses threat actors likely use private placement of funds, including investments offered by hedge funds and private equity firms, to launder money, circumventing traditional AML programs. This assessment is based on reporting of threat actors' use of private investment funds to launder money and avoid reporting requirements. Specifically, hedge funds and private equity firms receive funds from entities registered in nations that maintain laws conducive to masking underlying beneficial owners, thereby making it harder for US financial institutions and regulators to determine the source of funding. Additionally, hedge funds and private equity firms have been used to facilitate transactions in support of fraud, transnational organized crime, and sanctions evasion.

- (U) As of April 2019, an identified former partner of a major US law firm assisted others in laundering more than \$400 million from a fraudulent cryptocurrency<sup>f</sup> investment scheme through a series of purported private equity funds holding accounts at financial institutions, including those in the Cayman Islands and the Republic of Ireland, to conceal and disguise the nature, location, source, ownership, and control of the proceeds. The underlying source of funds, the perpetrator of the cryptocurrency scheme, was not disclosed to the bank during the initial due diligence review, according to open source reporting, and a human source with direct access.<sup>1, 2</sup>
- (U//FOUO) As of July 2019, a representative of a New York, New York, and London, United Kingdom-based hedge fund proposed investing in private placement funds and using a series of shell corporations to purchase and sell prohibited items from sanctioned countries to the United States. The proposed hedge fund was to have operated entities registered in Luxembourg and Guernsey to evade regulatory requirements when transacting with sanctioned companies, according to a human source with direct access.<sup>3</sup>
- (U) As of January 2019, an unidentified Mexican cartel operating in the Los Angeles, California, and Orange County, California, areas recruited and paid individuals to open

<sup>f</sup> (U) Cryptocurrency is a math-based, decentralized convertible virtual currency that is protected by cryptography. Cryptocurrency incorporates principles of cryptography to implement a distributed, decentralized, secure information economy. It relies on public and private keys to transfer value from one person (individual or entity) to another and must be cryptographically signed each time it is transferred. *Source:* Website / Investopedia.com / "Cryptocurrency" / 2018 / <http://www.investopedia.com/terms/c/cryptocurrency.asp> / accessed on 17 October 2018.

hedge fund accounts at private banking institutions. The cartel laundered approximately \$1 million through the accounts each week and then withdrew the money to purchase gold, according to a human source with direct access whose reporting has not been corroborated.<sup>4</sup>

- (U//LES) As of August 2017, a New York-based private equity firm received more than \$100 million in wire transfers from an identified Russia-based company allegedly associated with Russian organized crime, according to a reliable source with excellent access.<sup>5</sup>

---

UNCLASSIFIED

### (U) Hedge Funds versus Private Equity Firms

(U) A hedge fund is a privately managed investment fund typically consisting of publicly traded assets, such as stocks, bonds, currencies, commodities, and derivatives. Hedge funds potentially carry higher risk and greater returns on investments than traditional investment vehicles, such as mutual funds. Sophisticated investors, such as high net worth individuals, are typical hedge funds clients.

(U) A private equity firm is typically composed of a group of high net worth investors who purchase the shares or other assets of a business that is not publicly traded. Private equity firms frequently acquire a controlling interest of a financially distressed business with the prospect of returning it to profitability under new management or profiting from the sale of its underlying assets. Private equity investments include venture capital, leveraged buyouts, and risky debt purchases.

(U) Source: Book / *Alternative Investments: A Primer for Investment Professionals* / © 2018 CAIA Association | pp. 1-4 | CFA Institute Research Foundation.

---

### (U) Perspective

(U//FOUO) Private investment funds, including hedge funds and private equity firms, have historically not had to disclose information publicly, as some investment advisers to private funds are exempt from registration with the SEC under the private adviser exemption.<sup>g</sup> Thus, these entities are not subject to many of the public reporting requirements to which investment advisers managing other funds, such as mutual funds, must comply. Of the limited information available about hedge funds, most is general or not publicly reported. For example, Form PF: Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors<sup>h</sup> is not publicly available and is primarily used by potential investors to evaluate the financial risks associated with the fund. Additionally, the form only requires fund advisers to disclose the total amount invested by beneficial owners who are non-USPERs, even though beneficial disclosure of the names or entities are helpful for regulatory and law enforcement using this form to vet hedge funds for money laundering risk.<sup>i</sup>

---

<sup>g</sup> (U) The private adviser exemption removes the SEC registration requirement to any investment advisor that acts solely as an advisor to private funds and that has assets under management in the United States of less than \$150 million. Source: US Government website / SEC / “Private Fund Adviser Overview” / 21 October 2016 / <http://www.sec.gov/divisions/investment/guidance/private-fund-adviser-resources.htm> / accessed on 31 October 2018.

<sup>h</sup> (U) This form reports information about the private funds under management, including each fund’s size, leverage, liquidity, and types of investors.

<sup>i</sup> (U) For more information, see Appendix C for a comparison of regulatory requirements between traditional broker-dealer stock portfolios and hedge funds/private equity funds.

(U//FOUO) Commercially available databases provide fund performance information on hedge funds covered by its service; however, those hedge funds provide information on a voluntary, self-reported basis. These databases require a paid user subscription, creating a barrier of access for average investors, as well as self-regulatory, civil, and criminal investigatory agencies. Furthermore, since many hedge funds and private equity firms are unregistered entities, the SEC has limited oversight ability, making proactive identification of fraudulent hedge funds difficult.

(U//FOUO) The FBI has reported on this topic through the issuance of a Liaison Information Report titled, “Financial Crime Threat Actors Very Likely Laundering Illicit Proceeds Through Fraudulent Hedge Funds and Private Equity Firms to Obfuscate Illicit Proceeds,” on 29 January 2019. In this report, the FBI assessed financial crime threat actors very likely launder money from financial fraud schemes through fraudulent hedge funds and private equity firms to obfuscate illicit proceeds. This intelligence bulletin builds upon this analytical line by providing recent reporting of hedge funds and private equity firms used to launder illicit proceeds, and expands the threat context beyond financial threat actors to include foreign adversaries.

## (U) Analysis of Alternatives

(U//FOUO) The FBI considered the alternative analysis that private investment funds likely are not targeted for exploitation by money launderers given standard industry practices, such as extensive fund “lock-up”<sup>j</sup> periods and standard customer due diligence questionnaires, which make these financial conduits illiquid and unattractive to threat actors looking to launder funds in the United States. The FBI discounted this alternative because the proliferation of private investment funds has made the industry less rigid as to the structure of the investment in an effort to attract more capital; barriers between the hedge fund manager and the ultimate source of investment funds are amplified through the existence of funding sources with unverifiable beneficial ownership. Furthermore, the profit motive does not incentivize the private investment fund manager to scrutinize the source of funds or the underlying beneficial owner, especially considering the lighter regulatory, compliance and reporting framework in the United States, thus minimizing the legal risk calculation for onboarding a client with funds from unverifiable sources. Private investment funds under management has grown over the past 25 years into a several trillion dollar industry in the United States, which provides ever-increasing opportunities for threat actors to co-opt investment funds without being overly scrutinized. The FBI will re-evaluate this alternative hypothesis if additional reporting highlights a significant upward trend of self-reporting from this industry to regulators or law enforcement of suspicious activity, which could call into question the utility of private investment funds as a viable tool for money laundering in the United States economy.

## (U) Outlook

(U//FOUO) The FBI assesses, in the long term, money laundering facilitators likely will expand their money laundering operations by creating private investment funds solely for the purpose of

---

<sup>j</sup> (U) An investor cannot withdraw funds for a specific time period with paying a penalty. The industry standard is one year.

layering<sup>k</sup> illicit proceeds obtained from threat actors, hindering public and private AML detection. Currently, accredited investors are granted increasingly more opportunities, specifically through federal legislation designed to stimulate the economy,<sup>l</sup> to invest in private placement offerings with no AML program requirements. The economic trend toward such placement of investment funds through non-financial institutions presents more opportunities to threat actors to layer and integrate illicit funds without the scrutiny of a financial institution's AML review. The implementation of new sanctions on state and criminal actors and entities, as well as recently implemented legislation to expand reviews by the Committee on Foreign Investment in the United States, present opportunities to law enforcement and other regulatory authorities to mitigate the risk of money laundering through private investment funds.

(U//FOUO) Indicators of threat actors increasing their use of private investment funds to launder illicit funds are:

- (U) Increases in private investment funds that consist primarily of shell companies registered in high-risk offshore countries maintaining an unverifiable client base;
- (U) Increases in private investment funds operating as pass-through entities and not engaging in substantive medium-to-long term investments;
- (U) Increases in private investment funds engaging in short-term (less than one year) investment activity; and
- (U) Increases in private investment funds transfer of ownership of an USBUS to an individual beholden to the government of a foreign adversary.

---

(U) If you would like to provide qualitative feedback on this product, please send an email to the appropriate address with the product title as the subject line: [DI\\_Customer\\_Feedback@fbi.gov](mailto:DI_Customer_Feedback@fbi.gov); [DI\\_Customer\\_Feedback@fbi.sgov.gov](mailto:DI_Customer_Feedback@fbi.sgov.gov); or [DI\\_Customer\\_Feedback@fbi.ic.gov](mailto:DI_Customer_Feedback@fbi.ic.gov).

(U) This intelligence bulletin was prepared by the Criminal Investigative Division, Money Laundering Intelligence Unit (CID/MLIU) FBI and the New York Field Office of the FBI. Comments and queries may be addressed to the CID/MLIU Unit Chief at 1-202-324-5524 or to the FBI New York Intelligence Division at 1-212-384-1000.

---

<sup>k</sup> (U) Money laundering takes place in three stages: placement, layering, and integration. Layering is the movement of money through accounts to obfuscate the illicit source of funds.

<sup>l</sup> (U) For example, the Jumpstart Our Business Startups Act (JOBS Act) passed by Congress in 2012 exempted certain funding portals (such as Internet crowdfunding) from the definition of broker/dealer, which exempts them from implementing policies and procedures reasonably designed to achieve compliance with the Bank Secrecy Act requirements, including filing of suspicious activity reports, currently applicable to brokers and dealers in securities.

**(U) Appendix A: Expressions of Likelihood**

(U) Phrases such as “the FBI judges” and “the FBI assesses,” and terms such as “likely” and “probably” convey analytical judgments and assessments. The chart below approximates how expressions of likelihood and probability correlate with percentages of chance. Only terms of likelihood should appear in FBI products; the chart includes terms of probability strictly for comparison, as they sometimes appear in reporting of other government agencies. Furthermore, the FBI does not arrive at judgments through statistical analysis and will not use terms of probability to convey uncertainty in FBI external intelligence products.

UNCLASSIFIED

<b>Terms of Likelihood</b>	<b>Almost No Chance</b>	<b>Very Unlikely</b>	<b>Unlikely</b>	<b>Roughly Even Chance</b>	<b>Likely</b>	<b>Very Likely</b>	<b>Almost Certain(ly)</b>
<b>Terms of Probability</b>	Remote	Highly Improbable	Improbable (Improbably)	Roughly Even Odds	Probable (Probably)	Highly Probable	Nearly Certain
<b>Percentages of Chance</b>	1-5%	5-20%	20-45%	45-55%	55-80%	80-95%	95-99%

(U) Table showing terms of likelihood aligned with terms of probability and percentages of chance.

## (U) Appendix B: Confidence in Assessments and Judgments Based on a Body of Information

(U) Confidence levels reflect the quality and quantity of the source information supporting a judgment. Consequently, the FBI ascribes high, medium, or low levels of confidence to assessments, as follows:

(U) **High confidence** generally indicates the FBI's judgments are based on high quality information from multiple sources. High confidence in a judgment does not imply the assessment is a fact or a certainty; such judgments might be wrong. While additional reporting and information sources may change analytical judgments, such changes are most likely to be refinements and not substantial in nature.

(U) **Medium confidence** generally means the information is credibly sourced and plausible but not of sufficient quality or corroborated sufficiently to warrant a higher level of confidence. Additional reporting or information sources have the potential to increase the FBI's confidence levels or substantively change analytical judgments.

(U) **Low confidence** generally means the information's credibility or plausibility is uncertain, the information is too fragmented or poorly corroborated to make solid analytic inferences, or the reliability of the sources is questionable. Absent additional reporting or information sources, analytical judgments should be considered preliminary in nature.

## (U) Appendix C: Comparison Table of Regulatory Requirements by Investment Vehicle

UNCLASSIFIED

Regulatory Requirement	Broker-Dealer Fund	Hedge Funds	Private Equity Funds
Anti-Money Laundering Program	Required.	Not Required.	Not Required.
Bank Secrecy Act Filings	Required.	Not Required.	Not Required.
Customer Due Diligence	Customer Due Diligence (aka Know-Your-Customer) process required.	Not Required.	Not Required.
SEC Filings (private)	Subject to examination by the Financial Industry Regulatory Authority and the SEC. Detailed trading data and access to the firm's books and records must be made available upon request.	SEC Form PF: Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors; <ul style="list-style-type: none"> <li>• <i>Required for funds over \$150 million.</i></li> <li>• <i>Not publicly disclosed.</i></li> <li>• <i>Designed primarily to evaluate health of the fund(s) under management.</i></li> <li>• <i>Identifies assets under management for which there is no identifiable underlying beneficial owner.</i></li> </ul>	SEC Form PF: Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors; <ul style="list-style-type: none"> <li>• <i>Required for funds over \$150 million.</i></li> <li>• <i>Not publicly disclosed.</i></li> <li>• <i>Designed primarily to evaluate health of the fund(s) under management.</i></li> <li>• <i>Identifies assets under management for which there is no identifiable underlying beneficial owner.</i></li> </ul>
Participate in information sharing programs pursuant to the USA PATRIOT Act	Required.	Not Required.	Not Required.

(U) Source: Online report | Association of Certified Anti-Money Laundering Specialists (ACAMS) | "Hedge Funds: A Primer on Money Laundering Vulnerabilities" | [files.acams.org/pdfs/2016/Hedge\\_Funds\\_Primer\\_on\\_AML\\_E\\_Bethoney.pdf](https://files.acams.org/pdfs/2016/Hedge_Funds_Primer_on_AML_E_Bethoney.pdf) | accessed on 13 June 2019 | Research report describing the money laundering vulnerabilities. ACAMS is an organization dedicated to educating financial crime professionals on money laundering regulations and compliance.