

## Anti-Corruption Helpdesk Answer

# Alternative Investment Funds in Europe: money laundering and corruption risks

**Author: Matthew Jenkins**

Reviewers: Jamie Bergin (TI), Alanna Markle (Open Ownership) & Alex Chance (TI Ireland)

Date: 30 September 2024

Alternative investment funds (AIFs) are a category of investments that includes hedge funds, private equity funds and real estate investment funds. These collective schemes pool capital, typically from accredited rather than retail investors, to invest in a wide range of assets.

Certain characteristics of AIFs render them more exposed to money laundering threats than other forms of collective investment undertaking that are marketed at retail investors or that invest in conventional asset classes (European Commission 2022a: 46). These factors include investment strategies that may target hard-to-value illiquid assets, complex multi-layered structures involving a high number of intermediaries, opacity in terms of ownership arrangements, limited capacity to conduct customer due diligence, and financial incentives to attract wealthy clients whose profile might indicate pronounced money laundering risks (European Commission 2022b: 8).

The true extent to which AIFs are being misused to launder the proceeds of crime and corruption is unclear. However, emerging empirical evidence and documented cases are beginning to shed light on the scale of the problem. AIFs have figured prominently in recent high-profile corruption cases and multiple sectoral risk assessments have identified the AIF industry as being vulnerable to money laundering.

While recent regulatory initiatives in Europe and ongoing reforms in the United States address some of the industry's historical vulnerabilities to money laundering, some shortcomings remain, especially regarding customer identification. Enforcement of existing regulatory requirements also appears to be inadequate in some jurisdictions, as suggested by the low number of Suspicious Transaction Reports filed by the AIFs relative to the volume of assets they hold under management.

## Query

Please provide a summary of the money laundering and corruption risks associated with alternative investment funds.

### Main points

- Alternative Investment Funds (AIFs) represent a significant portion of assets under management globally. In 2023, the industry amounted to approximately US\$ 22 trillion globally.
- Certain characteristics of AIFs may make them attractive to criminals seeking to launder illicit proceeds and generate profits from these investments, and there is emerging evidence that these types of investment structures are being misused in this way.
- There are four main ways in which corruption can affect AIFs (Luxembourg CSSF 2020: 29). First, inbound capital from investors to AIFs might originate from politically exposed persons (PEPs) who have embezzled the funds or received a bribe. Second, AIFs may invest in entities and projects linked to corrupt government officials. Third, intermediaries such as investment managers or advisors may seek to unduly influence investment decisions due to a conflict of interests. Fourth, AIFs such as private equity funds may (inadvertently or otherwise) invest in portfolio companies that engage in corrupt practices.
- Hedge funds, private equity funds and real estate funds targeted at accredited investors appear to pose greater risks than investment vehicles marketed towards retail investors. This is due to the nature of alternative asset classes, fund managers' incentive structures and close relationships with wealthy (and potentially politically exposed) clients desirous of secrecy, and the opacity and complexity of legal structures investing in AIFs.
- Some of the assumptions that AIFs face only limited exposure to ML threats as a result of factors like long lock-up periods appear to be misplaced, especially with regard to corrupt actors from states characterised by authoritarian rule who may have longer investment horizons.
- Outsourcing AML obligations is a common practice in the AIF industry, yet the standard of AML controls conducted by these third parties is difficult to ascertain and may be highly variable.
- FATF Mutual Evaluation Reports of several countries have commented on the low number of Suspicious Transaction Reports (STR) filed by the AIF industry in relation to its size. This may contribute to fewer investigative leads for law enforcement agencies and a lack of understanding of the industry's risk profile on the part of governments.
- Enforcement efforts by AML supervisory bodies in some European jurisdictions with large AIF industries appear to be currently insufficient relative to the scale of the challenge.
- A 2024 survey found that 73% of industry insiders stated that ML risks have increased in the past two years (OCORIAN 2024). The rapid growth in the magnitude of the industry (Filbeck 2024) likewise suggests that the misuse of AIFs will remain a concern with potentially sizeable impacts on wider society.

## **Caveat**

While much has been made of recent regulatory initiatives by US authorities to close loopholes that heighten money laundering risks in the investment industry (FINCen 2024a; 2024b), this Helpdesk Answer focuses primarily on the situation in the European Union. It nonetheless occasionally draws on examples from other jurisdictions where these are especially illustrative of the underlying challenges.

There is growing concern about the role family offices can play in facilitating the laundering of the proceeds of crime and corruption (Hanley-Glersch 2024; Kumar 2022). Nonetheless, this Helpdesk Answer does not include family offices as they have not traditionally been considered to be AIFs under EU Directives (European Union 2011) or Guidelines issued by the European Securities and Markets Authority (2015: 4). This is because they do not raise capital from external investors but rather members of a pre-existing group, in other words, the family (UK FCA 2022).

Finally, there are ample cases of fraud in the investment funds industry, such as insider trading, price manipulation, financial reporting fraud and Ponzi schemes (see Alexander and Cumming 2020; Bosua 2020). This Helpdesk Answer consciously limits itself to consideration of risks relating to these vehicles being used to launder the proceeds of crime and corruption.

# Contents

|  |    |
|--|----|
| Introduction .....   | 5  |
| The impact of money laundering through investment funds .....              | 6  |
| Working definitions .....  | 7  |
| AIF market size .....  | 10 |
| Industry participants.....   | 12 |
| Investors.....   | 13 |
| Investment fund managers .....   | 14 |
| Service providers.....   | 14 |
| Corruption and ML risks in undertakings for collective investments .....   | 16 |
| Factors that render AIFs more exposed to money laundering .....            | 18 |
| Alternative assets may be difficult to independently value.....            | 22 |
| Industry incentive structures and client profiles.....                     | 23 |
| Complex and opaque investment structures .....                             | 23 |
| Outsourcing CDD and AML obligations .....                                  | 25 |
| Corruption risk factors and cases across different AIF categories .....    | 28 |
| Hedge funds .....  | 28 |
| Money laundering risk factors .....  | 29 |
| Exposure to corruption risks .....   | 30 |
| Case studies.....  | 31 |
| Private equity and venture capital.....                                    | 31 |
| Money laundering risk factors .....  | 32 |
| Exposure to corruption risks .....   | 33 |
| Case studies.....  | 33 |
| Real estate .....  | 34 |
| Money laundering risk factors .....  | 35 |
| Case studies.....  | 36 |
| Funds of funds.....  | 37 |
| Money laundering risk factors .....  | 37 |
| Other types of AIF .....   | 38 |
| Regulatory framework in Europe .....                                       | 40 |
| Ongoing shortcomings .....   | 41 |
| Ownership thresholds .....   | 41 |
| Insufficient sanctions .....   | 42 |
| Inconsistent application of AML standards and inadequate supervision ..... | 42 |
| Suspicious Transaction Reports.....  | 43 |
| Lack of data on specific legal structures.....                             | 45 |
| References .....   | 46 |

# Introduction

Laundering the proceeds of corruption often involves a dizzying array of jurisdictions, legal structures and industries. Individuals seeking to obscure the ill-gotten gains from a corruption scheme, such as the embezzlement of public funds, are likely to spread the risk of detection and confiscation by employing a variety of tactics to safeguard and enjoy their illicit wealth. These methods can include the use of shell companies and other intermediaries, offshore bank accounts, real estate investments, and the purchase of art and luxury goods. The misuse of investment funds as another potential means of laundering money has, in recent years, become the subject of increased attention and concern in both Europe and the Americas (Kumar 2022).

The problem has been brought into sharp relief by several recent high-profile transnational corruption cases (Kirshchenbaum 2018). In 2020, a document leaked from the US Federal Bureau of Investigation (FBI 2020) revealed their concern that “threat actors [criminals and foreign adversaries] use the private placement of funds, including investments offered by hedge funds and private equity firms” to reintegrate dirty money into the legitimate global financial system (Lloyd 2020; OCCRP 2020). In particular, the FBI viewed the opacity of the investment funds industry as an impediment to the efficacy of traditional anti-money laundering programmes, as both financial institutions and regulators were struggling to identify the source of some of the funds being invested through these structures (Empower 2022: 108).

The issue of the investment funds industry being vulnerable to misuse has gained further traction since the full-scale Russian invasion of Ukraine, due to the increased focus on the assets and financial transactions of individuals and legal entities subject to sanctions by western countries. Reporting by the New York Times (2022a ; 2022b), for instance, shed light on the “complex financial holdings of one oligarch, Roman Abramovich, who has [...] invested several billion dollars in U.S. hedge funds and private equity funds through a variety of shell companies.” Abramovic was reportedly able to move large amounts of money into investment funds in a way that masked the origin of the funds, by drawing on a “small army of handlers and enablers in the United States, Europe and the Caribbean” (New York Times 2022b).

In Europe, there has also been growing recognition by authorities of the investment sector’s exposure to money laundering. The European Banking Authority (EBA) (2023: 76) has observed that investment funds “may be abused to launder the proceeds resulting from criminal activity such as tax evasion, bribery, corruption and organised crime.” The EBA further points out that while the overall number of suspicious activity reports (STRs) submitted by funds managers to national authorities remains low, those STRs that have been filed substantiate these concerns (EBA 2023: 76).

The European Commission (2022a: 45) has also assessed the money laundering threat related to investment funds to be ‘significant’, especially those involving intermediaries like facilitators and brokers. It notes that “criminal proceeds may be used to purchase investment products [...] such as title of shares to conceal beneficial ownership, [while] investment activity may be used to justify criminal proceeds such as profit obtained from other (illicit) activity” (European Commission 2022a: 43). National level risk

assessments in European countries have likewise concluded that the misuse of investment funds to perpetrate money laundering is a growing risk (AMLC.EU 2021).

This conclusion is mirrored by perceptions within the investment funds industry. An international survey of 101 industry insiders<sup>1</sup> in early 2024 found that 73% of them stated that ML risks have increased over the past two years (OCORIAN 2024). While the survey does not itself shed light on why ML risks are perceived to be growing in the investment industry, Transparency International (2021: 8) has hypothesised that as AML regulation has progressively tightened for other types of legal vehicles in recent years, some money launderers may have turned to investment funds. Indeed, as illustrated below, the case of Registered Alternative Investment Funds in Cyprus shows how the introduction in the European Union of additional transparency requirements for certain legal vehicles displaced ML risks towards other parts of the investment industry.

## The impact of money laundering through investment funds

Where investment funds enable money laundering and the integration of the proceeds of corruption into the formal economy, there can be severe ramifications for both the fund in question and society at large.

At the firm level, funds that invest in other companies, such as private equity or venture capital funds, may experience profound negative effects when corruption affects one or more of the entities in their portfolio. According to (EY 2013: 2), these can include:

- **Financial:** fines and settlements imposed by regulators, litigation costs, expenses associated with internal investigations, losses incurred when a valuation of an entity or asset was distorted by corrupt dealings, as well as loss of revenue, customers and suppliers.
- **Operational:** potential successor liability for illegal activity on the part of the investee company and challenges in extrication from the investment, inadequate knowledge of potential bookkeeping or records issues and difficulty engaging with business partners (Moss et al. 2023).
- **Reputational:** difficulty attracting capital for future investments due to negative reputation, and liability exposure for directors and fund managers. Indeed, Nunes (2015) points out that although reputational risks are hard to quantify, reputation in the investment industry is crucial to a firm's credibility and valuation.

The unchecked flow of dirty money into the formal economy via investment funds can also have profoundly deleterious social, political and economic impacts:

- **Organised crime:** an investigation by OCCRP (2019a) revealed that a Dutch private equity fund invested in a gambling company called SKS365 that was reportedly involved in a money laundering network with connections to the 'Ndrangheta, an Italian organised crime group. Subsequently, Italian prosecutors also charged the owner of the Dutch private equity fund with

---

<sup>1</sup> Those surveyed consisted of senior executives, regulation and compliance executives working at alternative fund manager firms.

money laundering. It appears that the private equity fund had financed the purchase of a further gambling operator, Talenta Labs, using money that prosecutors believe was generated by the criminal activities of one of the founders of SKS365. Despite the fact that the SKS365 founder maintained a financial interest in Talenta Labs, his name did not appear in the firm's filings, underscoring some of the challenges of identifying beneficial owners in the complex financial structures that are characteristic of investment funds (OCCRP 2019b).

- **National security and sanctions evasion:** in the United States, an estimated US\$1.7 trillion are managed by private investment funds controlled by unknown foreign individuals (ACDC 2024). The Anti-Corruption Data Collective (2024) contends that this not only poses a significant risk that the proceeds of corruption are being laundered through these investment funds, but also constitutes a national security risk. The leaked FBI intelligence bulletin indicates that these concerns are not unfounded, as it includes cases of investment funds being used by Mexican drug cartels, Russian organised crime groups, sanctioned entities and foreign adversaries to integrate dirty money into the legitimate financial system (FACT Coalition et al. 2021). For instance, the opacity of the private equity funds in the United States reportedly allowed a Russian oligarch to secure a majority stake in a voting management firm in Maryland, which triggered concerns about election security (FACT Coalition et al. 2021).
- **Economic stability:** offenders behind some of the most brazen corruption schemes in recent years have turned to investment funds to obscure the illicit origin of the funds. In the 1MDB case, for example, hundreds of millions of dollars misappropriated from a Malaysian development bank were layered through investment funds based in the British Virgin Islands and in Curaçao (Knobel 2019: 16). In Malaysia, the fallout from the scandal was reported to have dented economic growth and was associated with drops in the valuation of the currency, stock market and increases in capital outflows (Shaffer 2016).
- **Real estate markets:** investment funds may be used by criminal actors to facilitate money laundering in the real estate sector (Remeur 2019). A study by Transparency International Canada (2021) found that the flow of illicit funds into the real estate sector in Toronto had led to the escalation of property prices, with far reaching impacts, such as many investment properties sitting vacant, a shortage of rental housing, rising rent prices and record levels of household debt.

## Working definitions

The investment industry is highly complex, with multiple types of investment funds, legal structures, financial products and services on the market. The Financial Action Task Force (FATF) (2018: 8), the custodian of international anti-money laundering standards, deals with investment funds under the broader definition of 'securities'.<sup>2</sup>

---

<sup>2</sup> Among other things, securities are considered by FATF (2018: 8) to include i) equities and bonds, ii) units in collective investment undertakings, iii) options, futures, swaps and derivatives contracts relating to currencies, interest rates and commodities.

Investment funds typically take the form of undertakings for collective investment (UCIs), which can be established as various legal structures including limited companies, limited partnerships, common contractual funds and unit trusts (FATF 2018: 11). Undertakings for collective investments (FATF 2018: 11):

*“pool money from a number of third party investors and invest it in assets such as securities (e.g. stocks, bonds, and other mutual funds) or other assets (e.g. real estate, private equity and commodities) [...] Investors may buy and sell shares or units in the investment fund. Each share/unit represents an investor’s part ownership in the fund and the income it generates. Investors may buy and sell investment fund units directly from the fund itself or indirectly through an intermediary, such as a broker or another financial institution.”*

Undertakings for collective investment can be further subdivided according to the category of investor they seek to attract as well as on the basis of the underlying asset in which they invest (Luxembourg CSSF 2020: 10).

Firstly, a common distinction is drawn between:

- UCIs that target retail investors, “non-professional investor[s] who [invest their own money to] buy and sell securities or funds [...] for their own personal accounts” (Hayes 2024). In the EU, this category of collective investment is known as UCITS (Undertakings for Collective Investments in Transferable Securities) and subject to specific regulation (European Union 2009).
- UCIs aimed at specific categories of specialised professional investors, such as high-net worth individuals, institutional investors [organisations who invest the money of others on their behalf], accredited investors or self-certified investors. These undertakings are also known as *private investment funds (PIFs)*, as they do not seek to solicit capital from retail investors or the general public (Chen 2024a).

Second, a difference can also be made between:

- UCIs that invest in conventional asset classes, such as stocks in publicly traded companies, government bonds, and cash. Most retail investment funds fall into this category.
- UCIs that invest in non-conventional (‘alternative’) asset classes, such as equity in non-publicly traded companies, real estate, art and antiques, commodities, managed futures, cryptocurrencies and so on (Chen 2024b). These types of investment funds tend to be marketed to qualified investors, such as professional investors and high-net worth individuals. These undertakings are commonly referred to as *alternative investment funds (AIFs)* (Chen 2024b).

As such, there is some overlap between private investment funds and alternative investment funds, but they are not synonymous. The majority of AIFs operate in private markets but, in some instances, there may be AIFs that are open to retail investors.

The European Securities and Markets Authority (2020: 35) stresses that

*“the line between traditional and alternative asset management is difficult to draw, and the concept of alternative strategies tends to encompass all styles*



*other than simple diversified long-term investments in plain vanilla stocks and bonds characterised by no leverage.”*

Indeed, the EU’s 2011 AIF Manager (AIFM) Directive does not itself formally define AIF types or strategies (European Union 2011). Instead, it adopts a functional approach by establishing that all investment funds not governed by the EU’s 2009 UCITS Directive are classified as ‘alternative’ (ESMA 2020: 35-36). According to EMSA (2020: 35) this approach is intended to “close potential regulatory loopholes and mitigate the risk of regulatory arbitrage” by imposing obligations on fund managers regardless of the legal structure or organisational form of the investment undertaking.

As such, the precise definition of an AIF is highly complex and subject to extensive guidance from authorities in various jurisdictions (DeNederlandscheBank 2024; UK FCA 2022). This Helpdesk Answer does not seek to provide a definitive summary of what qualifies a collective investment undertaking as an AIF, but simply notes that, broadly speaking, AIFs in Europe share three common characteristics (Austrian FMA 2024):<sup>3</sup>

- AIFs are a type of collective investment undertaking with a defined investment policy.
- AIFs raise capital with a view to investing that capital for the benefit of their investors in accordance with that policy.
- AIFs are not subject to specific regulations that apply to UCIs marketed at retail investors, such as the EU’s 2009 UCITS Directive. As such, AIFs in the EU are generally subject to fewer regulatory restrictions than UCIs intended for retail investors (Central Bank of Ireland 2024a). Similarly in the United States, retail investment funds must comply with multiple reporting requirements that are not generally applicable to AIFs (FACT Coalition et al. 2021: 10).

In considering the corruption and money laundering risks pertaining to AIFs, this Helpdesk Answer focuses on the four major categories of AIFs that are classified in the Commission Delegated Regulation 231/2013 (EU 2013: 72):<sup>4</sup>

1. Hedge funds: pool capital from investors to invest in a wide range of asset classes, seeking to earning high returns in a short timeframe.
2. Private equity funds: pool capital from investors to invest in companies that are not listed on a public exchange, typically with fixed investment terms longer than that of hedge funds.
3. Real estate funds: pool capital from investors to acquire assets in residential or commercial property, and often combine equity capital and debt capital.
4. Funds of funds (FoF): pool capital from investors to invest in a portfolio of other collective investment undertakings.

More detailed explanation of these types of AIF is provided in section 3, alongside due consideration of the money laundering risks particular to each category.

As alluded to above, the precise legal structure of an AIF can vary according to jurisdiction and purpose. Typical legal forms include limited partnerships, investment

---

<sup>3</sup> These definitional components are specified in guidance from various European regulators, including the UK FCA (2022).

<sup>4</sup> These fund types are also listed in the pro-forma reporting templates for AIF managers set out in Annex IV of the Commission Delegated Regulation 231/2013 that supplements Directive 2011/61 on Alternative Investment Fund Managers.

companies, unit trusts and common contractual funds (Central Bank of Ireland 2024a; SHANDA Consult 2019).

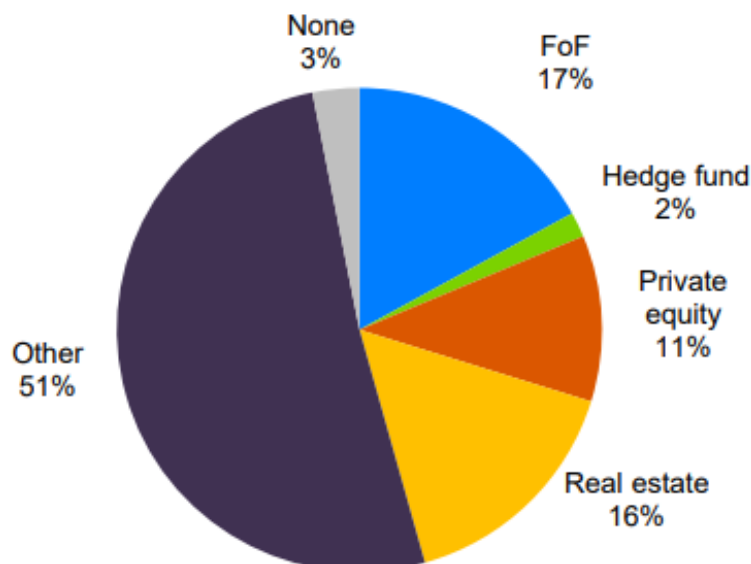
## AIF market size

Before turning to consider the corruption and money laundering risks of UCIs and AIFs in particular, it is worth considering the size of the market and the parties involved. These factors matter, as the FACT Coalition et al (2021: 9) note, the volume of transactions in different markets is an important consideration for corrupt and criminal actors choosing how to obscure the illicit origin of their funds.

Around the world, over the past decade, major institutional investors such as pension funds have been “migrating from increasingly mature public capital markets” to increase their allocation to alternative investment strategies, particularly “racier private [equity] markets” (Wigglesworth 2024; ESMA 2020: 35). Partly due to this trend, AIFs are a large and growing global market; by 2023, AIFs amounted to approximately US\$ 22 trillion in assets under management (AUMs), totalling 15% of the global market value of investments managed by persons or entities on behalf of their clients, as AUMs are defined. Within this broader category, private equity (US\$ 9.2 trillion), hedge funds (US\$ 4.9 trillion) and real estate (US\$ 3.8 trillion) made up 80% of AIF assets (Filbeck 2024).

In Europe, the AIF industry had a net asset value of €7.1 trillion by the end of 2020 (European Commission 2022a: 43). In 2022, AIFs accounted for 36% of the net asset value of the EU’s fund industry, within which, funds of funds constituted 17% of the value, real estate funds 16%, private equity funds 11% and hedge funds only 2% (Figure 1).

Figure 1: Composition of the AIF market in the EU (ESMA 2024: 13)



**Box 1: 'Other funds' in EU classification regime**

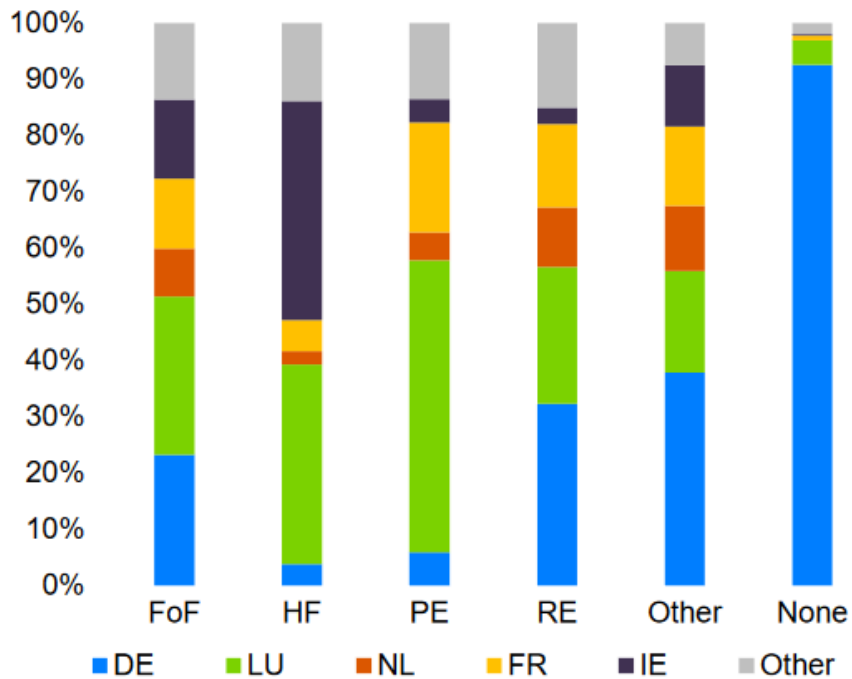
The EU's AIFM Directive imposes transparency obligations on fund managers to make available to investors and national competent authorities a description of the fund's strategy and the kind of assets in which it invests (ESMA 2020: 35). In addition to the four kinds of AIF mentioned above, the pro-forma reporting templates for AIF managers provided by the European Union (2013: 72) list "other" and "none" as potential options.

While the category of 'other AIFs' was originally intended to be a residual category (ESMA 2020: 35), approximately half of AIF managers report that their fund belongs to this group. According to ESMA (2020: 35) this indicates a clear problem with the classification framework. Nonetheless, EMSA (2020: 38) concludes that most funds in this category are "conventional non-UCITS investment funds pursuing more traditional strategies and targeting primarily traditional asset classes such as equities and bonds." Commodity and infrastructure funds as well as 'special funds' set up by single investors are also likely to fall into the category of 'other funds'.

This underscores that the definition of AIF is not restricted to funds investing in alternative asset classes, but also those with stakes in traditional assets (ESMA 2020:36). The vast majority (86%) of 'other AIFs' in the EU are sold to professional investors (ESMA 2020: 27).

Professional investors hold approximately 80% of the total net asset value of AIFs in Europe. Around 4,500 asset management companies operate in Europe, with most domiciled in either Luxembourg (27%) or Ireland (18%), although most of the actual asset management activity takes place in the United Kingdom, France, Germany, Switzerland, Italy and the Netherlands (European Commission 2022a: 43). The geographical disbursement of the AIF industry varies by AIF category; while funds of funds are chiefly domiciled in Germany, Ireland, France and Luxembourg, hedge funds are heavily concentrated in Ireland and Luxembourg, while private equity funds are mainly domiciled in Luxembourg and France (Figure 2).

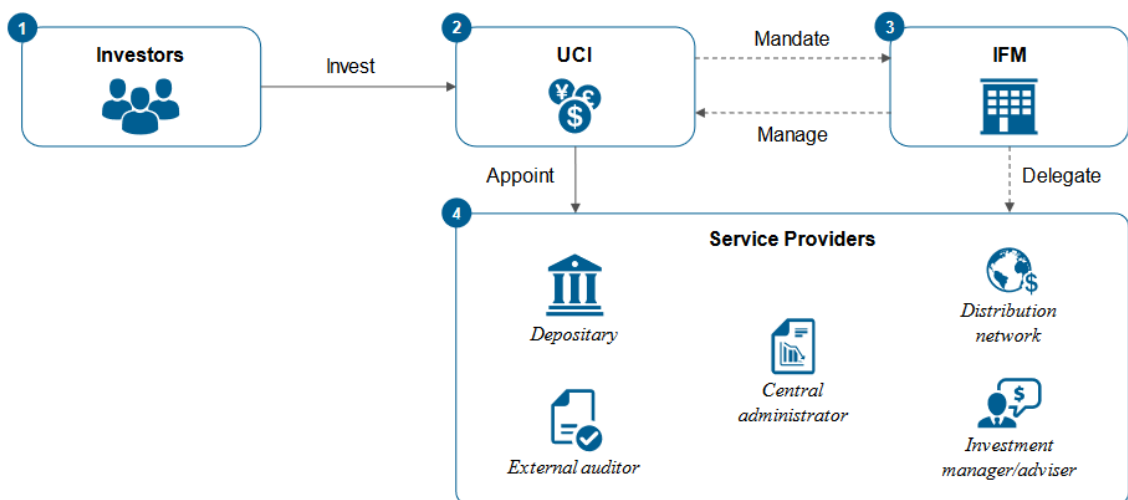
Figure 2: Country share by AIF type in the EU (ESMA 2024: 10)



## Industry participants

The collective investment industry, including AIFs, involves three major categories of participant: investors, investment fund managers, and service providers (Figure 3).

Figure 3: Collective investments landscape and interaction between participants (Luxembourg CSSF 2020: 8)



## Investors

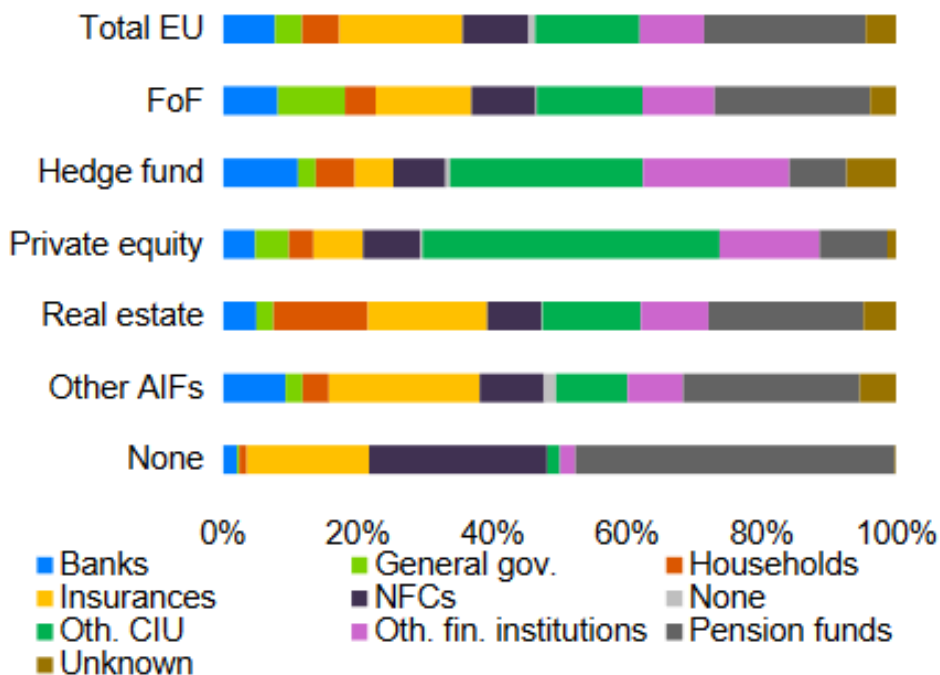
Investors provide capital to be invested via the UCI. These can be either retail investors or special categories of qualified investors, such as accredited high-net-worth individuals and institutional investors. Frequently, financial intermediaries play an important role as the “registered owner of the shares or units but act[ing] on the account of, and pursuant to specific instructions from, one or more third part[y]” investors (Luxembourg CSSF 2020: 9). This can mean that investors are not aware of the identity or source of capital of their co-investors (Hanley-Glersch 2024).

### Box 2: Accreditation Process for AIF investors

In the EU, the criteria required to become an accredited or qualified investor permitted to invest in AIFs is set out in Annex II of Directive 2014/59. Annex II stipulates requirements for private clients to be accredited who are not automatically considered to be professionals (such as investment firms and credit institutions). These requirements include demonstrating to investment firms that the potential investor has made a minimum number of large transactions within a given period and holds a financial instrument portfolio exceeding €500,000 (European Union 2014: 483-485). These procedures are intended to prevent non-professional investors from being exposed to risks of financial loss; they are not intended to vet whether an investor might pose a ML or corruption risk to investment funds in which they want to invest. While obliging investment firms to verify that a potential client does in fact qualify as an accredited investor (such as checking their portfolio size and transaction history) may throw up some red flags, the straightforward written procedure specified by Directive 2014/59 is unlikely to act as an effective check on potential money laundering.

The composition of the investor base in European AIFs varies somewhat by category of AIF (Figure 4). Note that NFC refers to non-financial corporates.

Figure 4: AIF investor base in the EU (ESMA 2024: 13)



## Investment fund managers

Investment fund managers manage the UCI's portfolio and its associated risks. In Europe, AIF managers are regulated by the EU's AIFM Directive and authorised by national authorities (Box 3).

### Box 3: Authorisation Process for AIF managers

AIF managers are authorised by national competent authorities, such as the Central Bank of Ireland, in line with the EU's AIF Manager Directive<sup>5</sup> (Central Bank of Ireland 2024b). Under the 2024 EU Directive on AIFs, AIF managers are required to provide competent authorities with information about the human and technical resources it employs to carry out its functions and supervise its delegates. This must include a minimum of two full-time people who are domiciled in the EU (European Union 2024a).

National regulators in the EU are expected to assess the fitness and probity of applicant AIF managers (Central Bank of Ireland 2024b). Nonetheless, the degree of scrutiny applied to prospective and authorised AIF managers by national authorities across different EU member states is unclear.

## Service providers

Service providers and fund administrators can support the fund managers with specific activities. Sector regulation typically requires the appointment of certain service providers such as depositories and external auditors,<sup>6</sup> while fund managers may decide to outsource particular tasks and responsibilities to other service providers, such as

---

<sup>5</sup> The EU's 2011 AIFMD provides a regulatory framework to monitor and regulate the activities of fund managers of hedge funds, private equity funds, real estate funds and funds of funds registered in the EU. The AIFMD does not regulate the funds themselves, but rather sets rules in relation to authorising, supervising and overseeing fund managers. The Directive has two main objectives. First, to prevent market instability and systemic risks in financial system by stipulating minimum capital requirements, making liquidity reporting to authorities mandatory, and independent valuations of assets under management. Second, to improve investor protection through stipulating required standards for fund managers, including structuring fund manager remuneration policies so as not to encourage excessive risk-taking, enhanced transparency through investor disclosure rules, and conflict of interest provisions. See European Union (2011).

The 2011 AIFMD was primarily intended to protect investors rather than to serve as an AML instrument, as the AML regime applicable to AIFs is covered by separate regulation. However, the Commission Delegated Regulation 231/2011 does contain a provision on money laundering under Article 83, which states that fund managers and depositories are required to contractually agree responsibilities in relation to AML obligations (European Union 2013: 50; ESMA 2023: 36). The 2024 revision to the 2011 AIFM has also added additional restrictions to the countries in which non-EU AIFMs seeking to market their products in the EU can be based, as jurisdictions deemed to be at high risk of AML by the EU are now excluded (European Union 2024a: 26-7).

<sup>6</sup> In Cyprus, for instance, Registered Alternative Investment Funds must appoint "a depository who must have the appropriate professional expertise to perform their safekeeping duties" with regard to the AIF's assets, as well as an independent auditor "with the appropriate experience, knowledge and expertise to perform their duties" (Chambers 2018).

investment advisory services and AML compliance obligations. Funds may also appoint a fund administrator to manage back-office operations (Irish Department of Finance 2019: 49).

# Corruption and ML risks in undertakings for collective investments

The FATF (2018: 9-10) has identified numerous risk factors that heighten the exposure of the securities sector, including collective investments, to money laundering and terrorist financing:

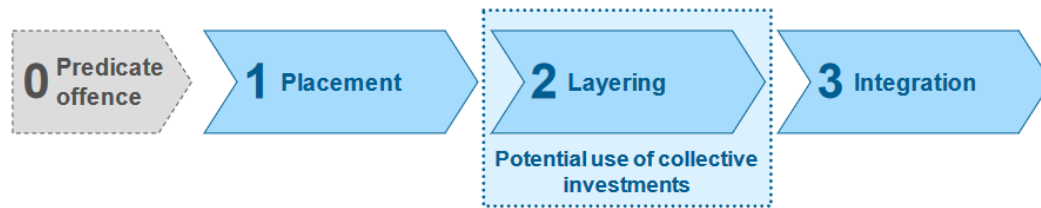
- Differences among jurisdictions in defining and regulating investment products.
- The ability to conduct transactions via intermediaries that provide anonymity.
- The global reach and speed of transactions across different onshore and offshore jurisdictions and financial markets.
- Complex investment products may be offered before they are regulated or assessed in terms of ML risks.
- Involvement of a multitude of investment managers and intermediaries on behalf of both buyers and sellers, potentially limiting the ability of any one participant to have complete oversight over transactions.
- The highly competitive and incentive-driven nature of the industry, which can lead to a higher appetite for risks or failure to adhere to internal controls.
- Challenges in pricing some of these investment products, due to their bespoke nature and complexity and pricing volatility.
- Opportunity to use transactions to generate illicit income within the sector through, for example, market abuse or fraud.

Taken together, these factors of anonymity, complexity, the presence of numerous intermediaries and the high speed and volume of international transactions can make it challenging to establish the origin and ultimate beneficial owner of funds invested in securities (Chhina and Markle 2024: 1). In turn, this creates opportunities for those who seek to misuse the sector to launder the proceeds of crime and corruption (Luxembourg CSSF 2020: 17).

The 2020 national ML/TF Risk Assessment of the collective investments sub-sector conducted by Luxembourg's Commission de Surveillance du Secteur Financier (CSSF) (2020: 5) notes that while the securities sector in general is exposed to ML threats, UCIs in particular face a high inherent risk of being misused to channel illicit proceeds. The CSSF (2020: 21-22) states that the primary exposure of UCIs to ML occurs during the layering stage of money laundering, where UCIs may form part of a series of complex transactions involving multiple bank accounts and legal entities (Figure 5). This can help obscure the illicit origins of funds by pooling them with legitimate funds in investments in securities (FinCen 2024: 12115).



Figure 5: Money laundering stages (Luxembourg CSSF 2020: 21)



The 2019 Irish National Risk Assessment of ML and TF notes that tracing the origins of UCI funds can be especially hard to comprehend when an investment fund’s “bank and custodian accounts are held in offshore jurisdictions, particularly those with stringent bank secrecy laws.” The role of skilled facilitators operating on behalf of criminal and corrupt actors in “creating and utilising opaque structures to hide the proceeds of criminal activities” has been observed by authorities in both Europe and the United States, where intermediaries have been known to form private funds “through which illicit proceeds can be transferred as part of a money laundering scheme” (European Commission 2022a: 44; U.S. Department of the Treasury 2024: 17).

The Irish Department of Finance (2020: 23) also notes that in addition to the layering phase, UCIs can also be abused during the integration stage of money laundering, “where illicit funds are invested in the legal vehicles used in the funds sector, in a similar way that illicit funds may be invested in other high-value assets such as property.” While exploiting UCIs for money laundering requires highly sophisticated methods, national authorities have concluded that criminal and corrupt networks do possess the necessary capabilities to do so (Irish Department of Finance 2020: 23).

Moreover, predicate offences such as fraud and forgery, tax crimes, corruption and insider trading can be perpetrated within the collective investment industry itself, as noted by the CSSF (2020: 27).

Figure 6: Predicate offences perpetrated within collective investments (Luxembourg CSSF 2020: 27)

| Predicate offence                       | Features increasing risk (non-exhaustive)  |
|---|--|
| Fraud                                   | <ul style="list-style-type: none"> <li>• International exposure</li> <li>• Complexity and opacity of setup</li> <li>• Cross-border delegation of services</li> <li>• Diversity of asset classes</li> <li>• Conflicts of interest</li> </ul>  |
| Tax crimes                              | <ul style="list-style-type: none"> <li>• International exposure</li> <li>• Complexity and opacity of setup</li> <li>• Concealed beneficial ownership</li> <li>• Cross-border operations</li> <li>• Cross-border investments</li> </ul>   |
| Corruption and bribery                  | <ul style="list-style-type: none"> <li>• Ties and connections with public officials</li> <li>• Over-reliance on government approval</li> <li>• Use of third parties or local agents</li> <li>• Unconstrained discretion over investment and portfolio allocation decisions</li> <li>• Large stakes in portfolio companies</li> </ul> |
| Insider trading and market manipulation | <ul style="list-style-type: none"> <li>• International portfolio of securities, especially from less transparent markets</li> <li>• Active portfolio management in highly competitive environment</li> </ul>   |

Specifically with regard to corruption, the CSSF (2020: 29) points to several potential ways in which corruption could affect collective investment funds.

First, inbound capital from investors to UCIs might originate from politically exposed persons (PEPs) who have embezzled the funds. In addition, UCIs that attempt to raise capital from institutional investors such as state-owned sovereign wealth funds or pension funds affiliated with national industries may encounter heightened risks of being solicited for bribes by (foreign) public officials overseeing the allocation of capital (Luxembourg CSSF 2020: 30).

Second, UCIs may invest in entities and projects linked to corrupt government officials. Moreover, as some investments rely on government approval and permits – particularly in the natural resources, infrastructure and real estate sectors – this can also present opportunities for public officials to demand, or unscrupulous fund managers to offer, bribes and illicit inducements to secure the necessary documentation. The risk may increase where third parties and local intermediaries are involved in the operations of the investment fund and when operating in jurisdictions with high incidence of corruption (Luxembourg CSSF 2020: 30).

Third, intermediaries such as investment managers or advisors may seek to unduly influence investment and portfolio allocation decisions, potentially in response to bribes by other parties or to direct funds towards entities in which they or their associates maintain a financial interest (Luxembourg CSSF 2020: 30).

Fourth, UCIs such as private equity funds may (inadvertently or otherwise) invest in portfolio companies who engage in corrupt practices (Luxembourg CSSF 2020: 29; Rotariu 2021).

## Factors that render AIFs more exposed to money laundering

Until fairly recently, it was commonly thought that several structural factors mitigated the ML risk that alternative investment funds face. These include the low level of cash-based transactions,<sup>7</sup> the long-term nature of the investment strategy as a result of lock-up periods (French AMF 2024: 21; EBA 2023: 75),<sup>8</sup> and the fact that assets managed by AIFs tend to be less ‘liquid’ than those managed by conventional investment funds (Chen 2024b).

According to Kumar (2022: 6), this “assumption that money launderers are only looking for quick schemes to clean their illicit money” has meant that, until recently, many regulators have not subjected these type of investment funds to the same scrutiny as the banking sector or money remittance services.

---

<sup>7</sup> The argument being that to access the investment sector, criminal or corrupt actors must first introduce money into the formal banking system, which should be subject to AML checks by banks. See European Commission (2022a: 45).

<sup>8</sup> A lock-up period is a window of time during which investors are not allowed to redeem or sell shares of a particular investment.

In fact, AIFs in the EU are subject to fewer regulatory restraints than retail investment funds in terms of risk diversification rules and investment restrictions (Gibson-Dautun 2024; Luxembourg Ministry of Justice 2020: 92). The extra regulatory obligations on retail funds are intended to protect non-professional investors from financial loss, rather than to reduce ML risks. Nonetheless, the ability of AIF managers to invest in a wider range of risky and illiquid assets that are off limits to retail funds could plausibly expose AIFs to additional ML threats (ACAMS 2022).

Moreover, some of the past assumptions about the low exposure of AIFs to ML threats appear to be misplaced. For instance, there are two flaws to the theory that the low rate of cash-based transactions in the AIFs isolates them from the proceeds of crime and corruption. First, this assumption is premised on the notion that those seeking to integrate dirty money into the formal economy must first navigate AML checks conducted by banks. Yet banks may fail to conduct adequate verification of the source of the funds (Knobel 2019: 3). Second, in systemically corrupt countries in which senior officials embezzle public funds with impunity, these funds are likely to already be incorporated into the banking system.

In addition, other characteristics of AIFs traditionally thought to make these types of investments unattractive to money launderers, such as extended periods during which investors cannot withdraw funds ('lock-up periods'), may not actually deter them. As Kumar (2022: 16) points out, criminal and corrupt actors "operate as sophisticated businessmen and look towards the long-term horizons when investing their ill-gotten gains."

Indeed, there appears to be a growing view among regulators in Europe that while UCITS targeted at retail investors are at 'low risk' of money laundering, alternative investment funds such as hedge funds and private equity funds are more exposed to money laundering threats (French AMF 2024: 17-27).

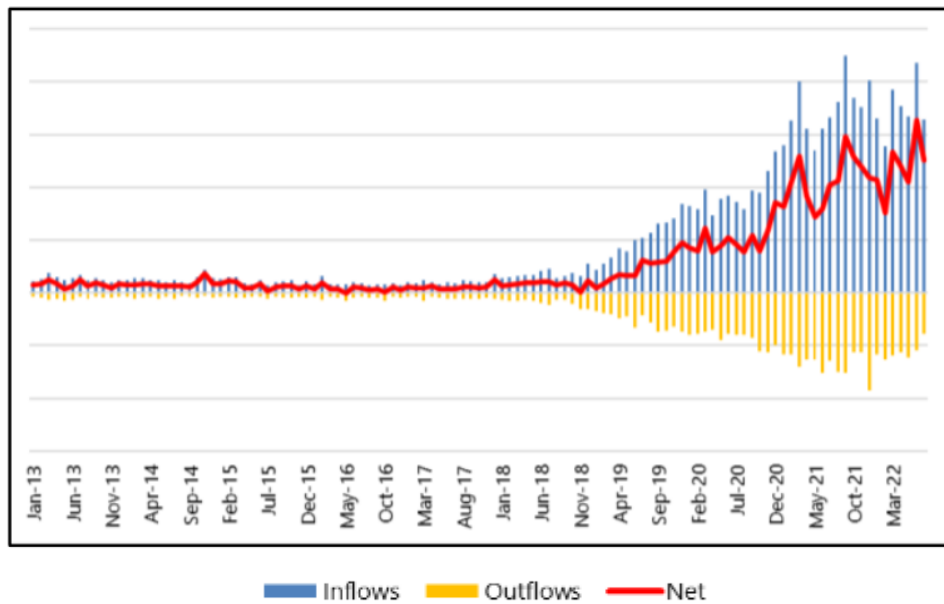
The EU's supranational risk assessment of ML/TF explains that certain characteristics of AIFs render them more exposed to money laundering threats than other forms of collective investment undertaking that are marketed at retail investors or that invest in conventional asset classes (European Commission 2022a: 46). These factors include more complex and more opaque legal structures, a higher number of intermediaries, low capacity to conduct robust customer due diligence and financial incentives to attract wealthy clients whose profile might indicate more pronounced money laundering risk levels (European Commission 2022a: 46).

Emerging empirical evidence and documented cases are beginning to corroborate this impression (Chhina and Markle 2024: 15). As discussed in further detail below, reports by law enforcement and journalists illustrate how AIFs such as hedge funds, private equity and real estate funds are being abused to launder money. AIF industry insiders themselves paint a concerning picture; an international survey of 101 alternative fund managers in early 2024 found that 73% of them stated that ML risks have increased over the past two years (OCORIAN 2024).

In addition to this anecdotal evidence, a recent IMF (2023) study produced some circumstantial evidence of the role of AIFs in enabling illicit financial activity. As shown in Figures 7 to 9, in the Nordic-Baltic region, there has been a disproportionate growth in the volume of financial flows not explained by what the IMF refers to as "economic

fundamentals”<sup>9</sup> to international financial centres (IFCs) that specialise in AIFs (like Luxembourg and Ireland) relative to financial centres that do not (such as Switzerland). According to IMF, while insufficiently explained financial flows do not themselves prove illicit activity, the rapid increase in financial transactions with IFCs specialising in AIFs could indicate heightened risks of money laundering and should prompt further assessment of cross-border ML risks in IFCs with large AIF industries (IMF 2023: 22-24).

**Figure 7: Nordic-Baltic Inflows, Outflows, and Net Flows with Ireland 2013-2022**



<sup>9</sup> Economic fundamentals analysis seeks to identify where cross-border payments are not supported by the main macro-economic cross-border indicators. The economic fundamentals analysis uses the main macro-economic indicators of cross-border economic linkages: (i) trade in goods; (ii) trade in services; (iii) portfolio investments; (iv) direct investments.

Figure 8: Nordic-Baltic Inflows, Outflows, and Net Flows with Luxembourg 2013-2022

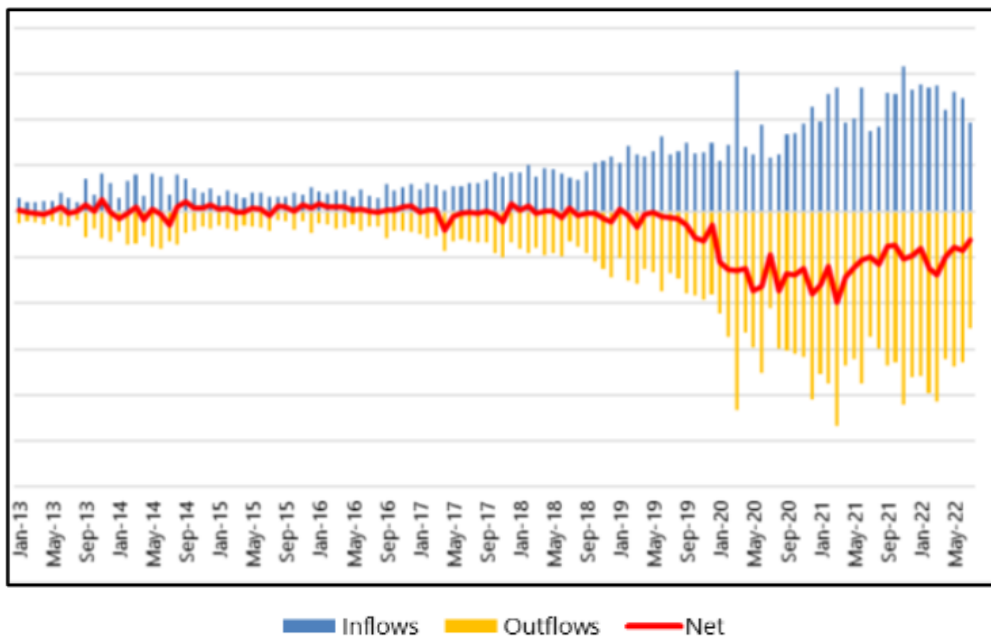
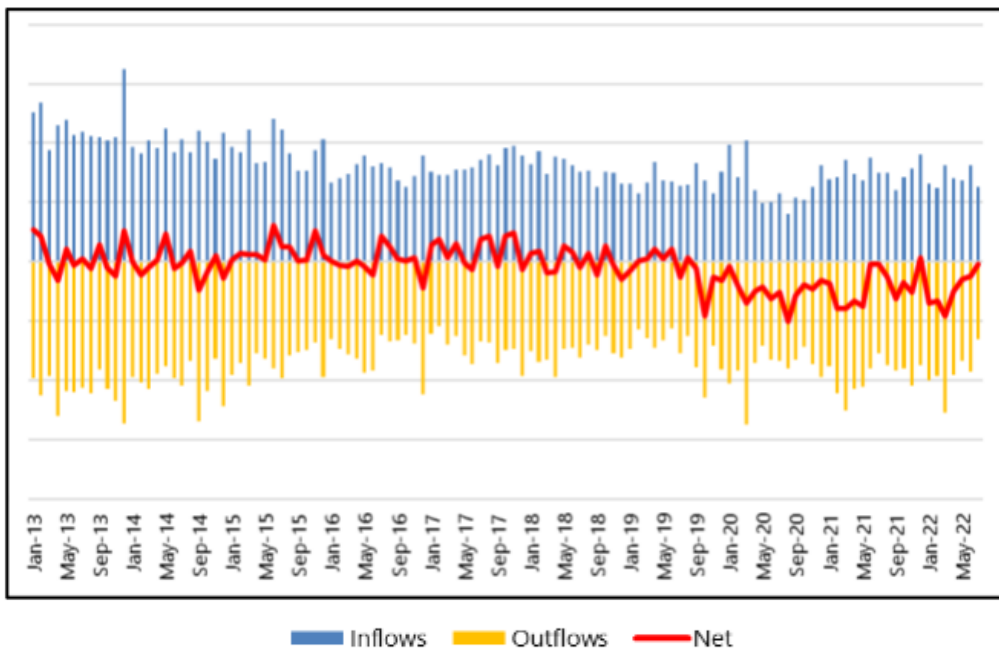


Figure 9: Nordic-Baltic Inflows, Outflows, and Net Flows with Switzerland



The investment fund industry can provide those seeking to launder ill-gotten gains actors with a dual advantage. First, they are able to launder assets illicitly obtained from criminal or corrupt activities. Second, these assets can generate additional profits either through traditional investment practices or through additional criminal acts, such as market manipulation and securities fraud (FATF 2009: 9).

Recent cases of criminals and kleptocrats misusing AIFs to launder money, such as those described in the leaked FBI document, demonstrate that they are not only interested in short-term gains, but also in financial instruments that offer both a profitable return of investment and a path to diversify their holdings (FACT Coalition et al. 2021: 17). This may be especially true of corrupt officials from authoritarian states whose “investment horizons [...] match their decades-long rule”, and who employ sophisticated intermediaries to manage their (potentially ill-gotten) wealth via a range of channels (FACT Coalition et al 2021: 17). For these actors, it is precisely the high yield and opacity of alternative investment funds that make them “attractive conduits for money laundering” through which their assets can be moved to and protected in global financial centres (FACT Coalition et al 2021: 17; Kumar 2022: 16).

The remainder of this section focuses on specific structural factors that render AIFs especially vulnerable to ML (Kumar 2022: 1; Protiviti 2022):

- the nature of alternative asset classes.
- fund managers’ incentive structures and their close relationships with a client base composed of wealthy (and potentially politically exposed) individuals seeking financial secrecy.
- opacity and complexity of legal structures including shell companies and trusts.
- the proclivity to outsource AML obligations and risk management to third parties.

## Alternative assets may be difficult to independently value

The “investment universe of traditional asset management funds” who deal in transferable securities like cash, government bonds or stocks in publicly traded companies is often regarded by national authorities as facing a ‘low’ threat of money laundering (French AMF 2024: 19). However, unlike conventional securities, regulators in some European countries consider there to be a high risk of money laundering for alternative asset classes including crypto-currencies, horses, teak, whisky, gold, wine, art, antiques and real estate (Dutch AFM 2023: 15).

Partly, this is because the nature of these non-traditional asset classes can make accurate valuation more difficult, since the value of illiquid assets such as private equity, art or real estate may be artificially inflated (Gibson-Dautun 2024). Under- and overvaluing prices has been known to be an important component in different money laundering techniques, including of trade-based money laundering and ML through real estate transactions. By misrepresenting the price of an asset, it is possible to transfer the additional value between the involved parties (FATF 2006: 4). In a study on Luxembourg, Dietz (2017: 71) observes that AIFs face a higher risk of ML than retail funds because the assets in which AIFs invest are difficult to value and can be easily under- or -overpriced.

While the regulatory framework in Europe requires that AIFs establish independent valuations for certain assets, observers have noted that the lack of transparent quantitative data and the illiquidity of alternative investments can make accurate valuation challenging in practice (Gibson-Dautun 2024; Luxembourg Ministry of Justice 2020: 92). The Luxembourg authorities thus conclude that these asset classes are “subject to higher ML/TF risk” than conventional transferable securities, and the fact that AIFs invest in a wide range of assets “statistically increases the risk of investing in high ML/TF risk assets” (Luxembourg CSSF 2020: 34).

## Industry incentive structures and client profiles

Multiple observers have pointed to the highly competitive nature of the institutional investments sector, whereby fund managers compete to attract capital from a limited number of investors, as a potential risk factor that can lead to “significant conflict[s] of interest” (Bosua 2020: EBA 2023: 72; European Commission 2022a: 45; Luxembourg CSSF 2020: 17). Given that compared to retail investment funds, AIFs tend to target a lower number of investors who tend to be high-net-worth individuals (potentially including PEPs), Kumar (2022: 1) points to the possibility of fund managers, investment advisors and their clients developing close relationships.

The European Commission (2022a: 46) likewise describes the vested interest fund managers have in conducting business with potentially high-risk clients, and how industry remuneration practices can “reduce incentives to carry out rigorous customer due diligence.” Reporting by the New York Times (2022b) notes that in the United States, investment advisors have shown a “willingness to ask few questions about the origins of the money” and prioritise increasing their fund’s assets under management over robust AML controls. As such, the client profile and business model of AIFs appears to be risky from a money laundering perspective.

## Complex and opaque investment structures

A further risk factor relates to the fact that AIF customers often invest through intricate legal structures that “create a layer of separation between the corporate entity and the ultimate owner” (Irish Department of Finance 2020: 23). The Irish Department of Finance (2019: 48) states that customers with complex ownership structures, such as holding companies, and nominee investments are a “particular feature” of the AIF industry.

A particular concern relates to the use of so-called omnibus accounts, which record the name of an intermediary rather than the end investor in the investment fund’s unit register (FATF 2018: 11), are frequently used to “prevent other intermediaries or competitors from identifying investment funds’ clients and stealing business” (European Commission 2022b: 10; Chhina and Markle 2024: 7). The U.S. Securities and Exchange Commission (2020) notes that omnibus accounts, “pose a particularly high risk of illicit activities including fraud [and] money laundering” as they can be used to obscure the identities of the individuals involved in financial transactions.

### Box 4: Trust and Company Service Providers

AIFs frequently rely on trust and company service providers (TCSPs) to handle various aspects of fund setup and administration, particularly when it comes to establishing the fund vehicle as a trust, company or limited partnership.

In addition, investors in AIFs may channel their investments through legal entities established by TCSPs for various reasons, including to obscure their identity. TCSPs can thus serve as a link between financial institutions – potentially including AIFs – and many of their customers by offering services to their clients that include:

- creating and administering legal entities such as trusts and corporate vehicles.
- advising on the structuring of corporate vehicles and trusts.

- providing nominee services such as acting as company director or secretary.
- providing a registered office or business address (Irish Department of Finance 2024; Transparency International 2023).

The use of TCSPs is widely acknowledged as being associated with heightened risk of money laundering, as the services they offer can be used to make transactions and ultimate ownership of assets more complex through the use of multi-layered structures spread across numerous jurisdictions (Lain 2016; Nesbitt 2019; Solicitors Regulation Authority 2024). These arrangements, often drawing on shell companies and professional trustees in offshore financial centres, make it challenging to identify whether funds are illicit in origin (Simms 2024). In fact, one academic study found that where potential clients present red flags of foreign corruption, TCSPs based in the US were actually *less* likely to insist upon documentation or break off the business relationship (Findley et al. 2014: 24).

Some of the characteristics of TCSPs that are associated with a higher risk of money laundering include (FATF 2010: 4):

- Weak or ineffective AML frameworks in many countries, especially where the various complexities related to number and types of persons carrying out the related services make it difficult for an appropriate oversight regime to be imposed.
- The presence in the TCSP sector of persons willing to engage in criminal activities.
- Lack of expertise, knowledge or understanding of matters related to the operation of their businesses and their client's affairs.

In the investment funds industry, UK authorities note that TCSPs can be misused to legitimise “the integration of the proceeds of crime or layering of crime proceeds through various forms of investment” (UK HMRC: 56). FATF (2010: 40-41) describes a case in which TCSPs were used to set up offshore entities including a private investment fund, into which capital was channelled through the other offshore entities to obscure the origin of the funds. Investigations revealed that the funds, totalling US\$ 47 million, were the proceeds of corruption relating to a politically exposed person (PEP) from an Eastern European country.

Moreover, AIFs may receive funds from non-resident customers and entities registered offshore in countries that “maintain laws conducive to masking underlying beneficial owners” (Lloyd 2020; EBA 2023: 76). European fund administrators may serve non-EU domiciled funds that are not obliged to adhere to the EU's common transparency requirements (Gibson-Dautun 2024). Fund administrators in Ireland, for instance, provide services to funds domiciled outside the EU, including in “jurisdictions that have stringent bank secrecy legislation and also in jurisdictions traditionally considered to be tax havens” (Irish Department of Finance 2019: 49).

These secretive trade practices make it more difficult to establish the origin, destination and purpose of capital raised by a wide range of AIF investors, potentially including cash-based business, high-net-worth individuals, PEPs and complex corporate clients (European Commission 2022b: 10; Irish Department of Finance 2020: 23). Perhaps unsurprisingly, the EBA (2023: 67) argues that “investment firms do not have access to adequate know-how to identify and assess the source of wealth and funds.” The “lack of systems and controls for identification and verification of beneficial ownership” and



the anonymity this affords the owner of the funds is commonly considered to constitute a high risk of money laundering (EBA 2023: 75; Irish Department of Finance 2020: 23).

The problem of opacity in the AIF industry is compounded by the fact that 37% of AIFs in the EU cannot be fully identified by authorities as they do not report either an International Securities Identification Number<sup>10</sup> or a Legal Entity Identifier<sup>11</sup> (ESMA 2020: 39).

#### **Box 5: Legal Entity Identifiers**

Increasing the uptake and reporting of Legal Entity Identifiers (LEIs) could enhance transparency in the AIF market, as these codes contain publicly available information about an entity's ownership structure (GLEIF 2024). GLEIF (2024) points out that LEIs offer numerous benefits, including greater transparency between business partners, streamlined customer due diligence (CDD) and Know-Your-Customer (KYC) processes, and simplified AML/CFT supervision given that beneficial ownership and entity relationships such as parent/child structures become exposed. As of 2020, fewer than 50% of AIFs in the EU possess and report an LEI (ESMA 2020: 39).

## **Outsourcing CDD and AML obligations**

### **Reliance on CDD conducted by third party financial institutions**

FATF Recommendation 17 allows for securities providers (including AIFs) to rely on third parties such as banks to perform some elements of initial CDD measures, including the identification of customers, verification of the identity of beneficial owners and assessment of the purpose and intended nature of business relationship (FATF 2023: 18).

Under FATF (2018: 32) standards, investment funds and other securities providers are not permitted to rely on other financial institutions' AML checks when it comes to ongoing monitoring of business relationships and scrutinising transactions. Securities providers like AIFs are also expected to first conduct due diligence on the third party on whose AML procedures they are relying, and ultimate responsibility for CDD remains with the securities provider (FATF 2018: 33).

In the European funds industry, the European Commission (2022a: 45) has observed that most investment funds continue to rely heavily on the efficacy of banks' AML and CDD procedures to identify illicit money as it enters the banking system, with the result that awareness of ML risks is not high in the investment sector itself.

The reliance of funds administrators on "letters of comfort or letters of introduction from regulated entities to identify and verify investors subscribing to a fund" can dilute

---

<sup>10</sup> An International Securities Identification Number is a 12-digit alphanumeric code that uniquely identifies a specific security to ensure that the holding of investors can be tracked across global markets (Chen 2024c).

<sup>11</sup> Legal entity identifier (LEI) codes are a 20-digit alphanumeric code by on the ISO 17442 standard. LEIs are intended to enable "clear and unique identification of legal entities participating in financial transactions and other official interactions" (GLEIF 2024).

fund administrators' oversight of the quality of AML controls employed by these third parties (Irish Department of Finance 2019: 48).

## Outsourcing CDD and AML obligations to third party service providers

In addition to relying on AML checks conducted by third parties, securities providers may also choose to outsource CDD as well as the ongoing monitoring of business relationships and transactions to third party service providers (FATF 2018: 33). Again, the ultimate responsibility for CDD and/or ongoing monitoring remains with the securities provider, and, for this reason, there should be processes in place to monitor whether the outsourced entity is performing effectively (FATF 2018: 33).

Across Europe, there is an increasing trend of fund administrators outsourcing AML/CFT obligations (including customer due diligence and transaction monitoring) to third party service providers (EBA 2023: 77; BaFin 2024). This can include outsourcing AML activities to third parties in lower cost jurisdictions (such as the Cayman Islands)<sup>12</sup> that "may not be regulated in their home jurisdiction" (Irish Department of Finance 2019: 49).

In the Netherlands, for instance, 39% of fund administrators outsource the identification and verification of the ultimate beneficial owner of the investing entity (Dutch AFM 2023: 9). Only 65% of Dutch fund administrators who outsource customer due diligence (CDD) state that they check at least once a year that the third party they contracted is compliant with the national Money Laundering and Terrorist Financing (Prevention) Act (Dutch AFM 2023: 9). The outsourcing of AML and CDD obligations to third parties leaves investment funds reliant on the professionalism and integrity of the service provider (McCahery and de Roode 2020). It can also mean that fund administrators lack adequate understanding of the nature and extent of AML risks associated with their client base (Irish Department of Finance 2019: 48-49). Revealingly, 24% of national regulators in the EU consider risks associated with the use of third party service providers to conduct AML activities to be 'very high' (EBA 2023: 71).

Before granting permission to outsource, national supervisors in Europe are expected to assess the expertise and suitability of the service provider in terms of its AML expertise and understanding of the transactions conducted by the UCI (European Union 2024b: 53). The extent and quality of these checks across Europe is difficult to ascertain.

Nonetheless, outsourcing to service providers in third countries is viewed as such a risk that both the United States<sup>13</sup> and the European Union<sup>14</sup> have imposed some level of restrictions on this type of outsourcing. For instance, a 2024 revision to the EU's AML regulation listed a number of AML tasks that 'obliged entities', including AIF administrators, are not permitted to outsource.<sup>15</sup> These include the decision on the risk profile to be attributed to the customer, the decision to enter a business relationship and the reporting of suspicious transactions to the competent financial intelligence unit

---

<sup>12</sup> An estimated 70% of private investment advisers are domiciled in the Cayman Islands, see (Lloyd 2020).

<sup>13</sup> For more details, see the [FinCen](#) and [SEC](#)'s rules on the topic.

<sup>14</sup> See Art 18. 6 in European Union (2024b).

<sup>15</sup> There are some exceptions, including for UCIs that have no legal personality. See European Union (2024b: 6).

(Art. 18.3). It also established a requirement for obliged entities to notify supervisors of outsourcing arrangements (European Union 2024b: 52).

# Corruption risk factors and cases across different AIF categories

Having outlined above the factors that render AIFs more exposed to money laundering threats than retail UCIs, this section sheds more light on specific risk factors and illustrative cases related to four major types of AIF: hedge funds, private equity, funds of funds and real estate funds.

These different kinds of funds share certain legal, functional and regulatory similarities while exhibiting slight differences in terms of investment strategies. However, it is important to note that the extent to which AIFs are used to launder the proceeds of crime and corruption and the nature of the ML vulnerabilities they face are likely to vary by jurisdiction and form of legal incorporation that a fund employs.

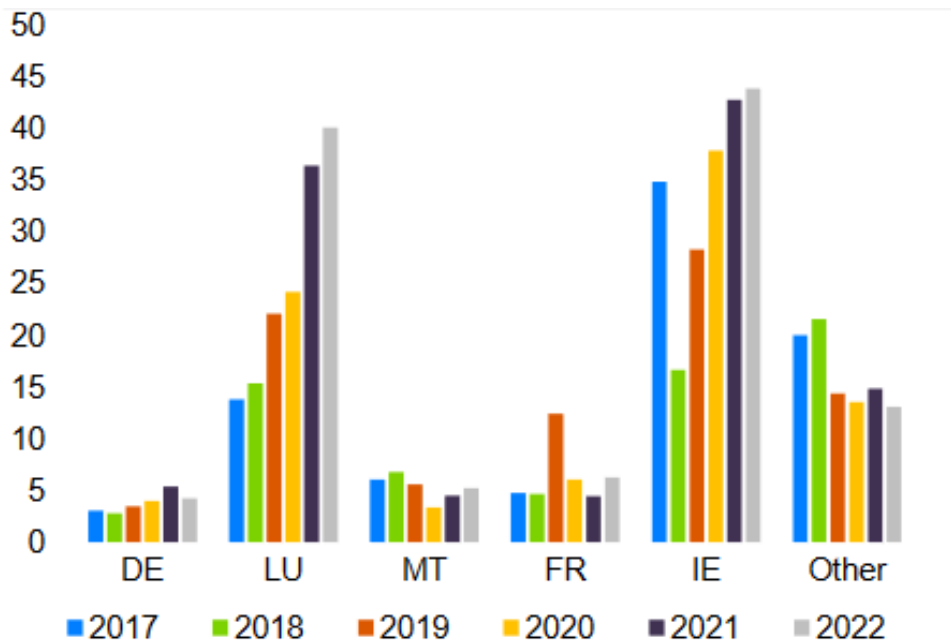
## Hedge funds

Hedge funds are a type of alternative investment that use pooled funds and different investment strategies with the purpose of earning high returns for investors in a short space of time. Hedge fund managers frequently rely on borrowed money, known as leverage, to invest in a wide range of both traditional and alternative asset classes (Maverick 2023).

In fact, diversification is one of the main strategies of hedge funds, as fund managers usually build portfolios with a variety of asset types to spread out (and minimise) risks and maximise potential returns. The practice of ‘hedging’ itself refers to efforts at limiting the risk of one investment with another investment which has an opposite profile (Cote 2021b).

The size of the hedge fund industry has grown in Europe in recent years, driven largely by expansion in Luxembourg and Ireland, the latter of which is now the largest hedge fund administration centre in the world, servicing 40% of global hedge fund assets (Irish Department of Finance 2020).

Figure 10: Net asset value of hedge funds by country of the manager in the EU (ESMA 2024: 33).



## Money laundering risk factors

Hedge funds are complex entities in terms of the number and the range of asset classes they typically invest in, their investment strategies, and their legal structures that often include offshore vehicles. In addition, hedge funds generally outsource functions such as CDD to third party service providers, which as noted above can decrease their understanding of the ML risks they face (ACAMS 2022: 3).

Access to hedge funds is usually limited to institutional or accredited investors. Hedge funds generally include restrictions on the ability of investors to withdraw funds before a certain period has passed (Investopedia 2024). These lock-up periods have been mentioned as one of the reasons why criminals who need access to illicit proceeds might be unwilling to use hedge funds to launder funds. However, relative to other categories of AIF, hedge funds tend to have short lock-up periods, which Kumar (2022: 2) argues “makes it easier to move illicit funds in and then out as clean money.” Moreover, longer lockup periods may be less of a concern for wealthy corrupt actors – especially those based in countries characterised by authoritarian rule or an absence of the rule of law – who seek stable returns, and have a medium- to long-term investment horizon (FinCen 2024: 12115).

Historically, many hedge funds were not registered with regulators or had a mixture of registered and unregistered entities in their organisational structure (Johnson 2010: 19). In addition, their incentive structures – usually a dual fee arrangement – for fund managers have been known to lead to risky and fraudulent behaviour. In theory, this could include knowingly accepting funds of illicit origin or overlooking red flags indicating ML. The dual fee arrangement refers to the fact that fund managers’

remuneration is based on a management fee,<sup>16</sup> as well as a performance fee, which is based on a percentage of investment profits earned over a specific period (ESMA 2020: 37).

If, for an example, a manager overvalues an illiquid asset, they will benefit directly from the increase in AUM, which has an impact, thanks to aggressive marketing, on higher performance gains (and fees) and on the fund's revenue (Johnson 2010: 19). Bosua (2020: 123) provides several examples of hedge fund managers involved in the valuation of hedge funds inflating the value of their investments due to this conflict of interest.

In addition, hedge funds are susceptible to changing market perceptions of their profitability and the pressure to demonstrate strong financial results may encourage aggressive or fraudulent practices (Brodsky and Corbett 2011). Analyses of hedge fund fraud cases notes that a substantial percentage occur after an investment loss (Johnson 2010: 261; Bosua 2020: 100), which implies that fund managers may resort to fraudulent or corrupt behaviour in order to hide their losses. Capco (2003) found that 46% of hedge fund failures were due to fraud, mainly from misappropriation of investor funds and misrepresentation of investments. An industry survey of 127 US hedge fund employees in 2013 found that 46% believed that their competitors break the law or act unethically, while 30% stated they had personally witnessed wrongdoing (Adams 2013).

## Exposure to corruption risks

Unlike private equity funds, hedge funds do not usually take significant stakes in investee companies or assume management responsibilities, which may reduce their liability exposure if one of the investee companies in their portfolio engages in corrupt practices (Brodsky and Corbett 2011).

Nonetheless, in their role of raising capital and managing relationships with investors, hedge fund managers may be exposed to attempts to launder the proceeds of corruption. Primarily this relates to hedge fund managers serving as passive, and generally unknowing, facilitators, but it can potentially also include a role for them as active enablers.

Where hedge fund managers aggressively look to attract investors, their incentives to carry out robust CDD and AML checks may be limited. Industry voices have pointed out that hedge fund managers' awareness of ML risks and their anti-corruption and bribery compliance efforts have historically been insufficient. Brodsky and Corbett (2011), for instance, stated that hedge fund managers conducted limited due diligence on assets and operations the fund intended to acquire, while also imposing little scrutiny of the nature of relationships between business partners, intermediaries and government officials.

This can create vulnerabilities to ML, especially where the funds are sourced from PEPs or funds owned/controlled by foreign government officials. These apparent investors may be seeking to layer the proceeds of corruption or other crimes (Brodsky and Corbett 2011), and recent case studies demonstrate that some hedge funds have unwittingly accepted capital from corrupt and criminal actors (Kumar 2022: 2).

---

<sup>16</sup> The management fee typically varies according to the amount of assets under management (AUM).

In more extreme examples, as illustrated by the case described in Box 6, in seeking out lucrative investment opportunities, key individuals involved in the management of hedge funds may be knowingly complicit in corrupt practices. For instance, fund managers may offer – or be instructed to provide – illicit inducements to public officials tasked with authorising investments (Brodsky and Corbett 2011). In addition, ACAMS (2022: 3) states that certain hedge funds have been established for the express purpose of laundering the proceeds of illicit activities.

## Case studies

### Box 6: Hedge funds and FCPA violations

In September 2016, for the first time, a hedge fund was held accountable for violating the US Foreign Corrupt Practices Act and bribing high-level officials in the Democratic Republic of Congo (DRC) and in Libya. Och-Ziff, a New York-based hedge fund, entered into a deferred prosecution agreement and agreed to pay a criminal penalty of US\$ 213 million (U.S. Department of Justice 2016).

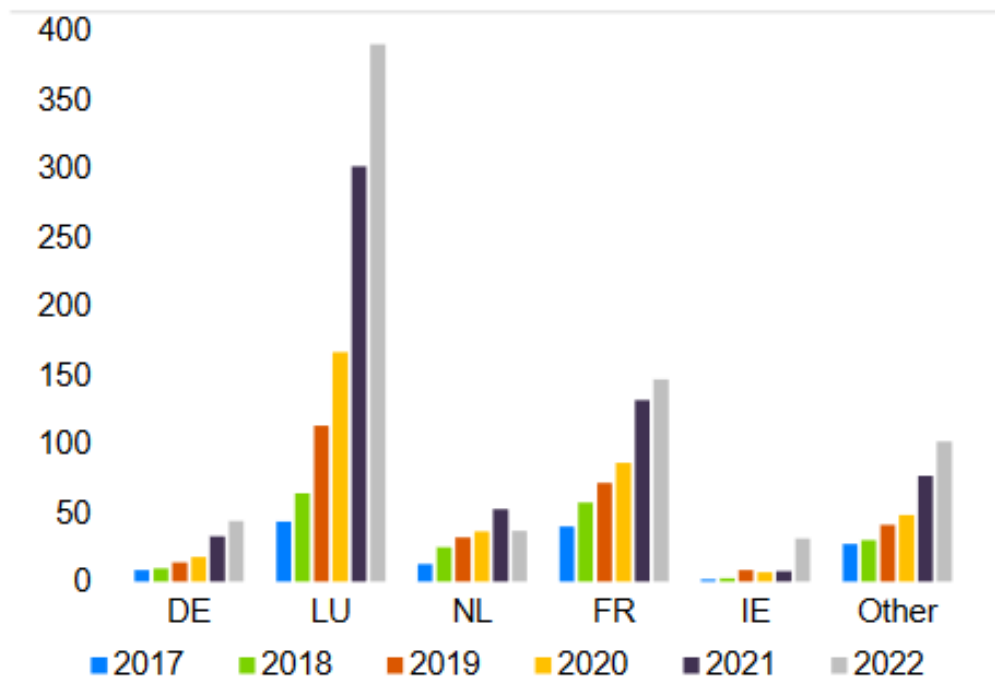
In the DRC, hedge fund employees sought out a businessman to access lucrative investment opportunities in the country's diamond and mining sectors. A number of transactions were conducted in conjunction with this businessman, and a portion of the Och-Ziff funds were used to pay bribes to secure access to, and preference for, the investment opportunities. In Libya, Och-Ziff engaged a third-party to secure investments amounting to US\$ 300 million from the Libyan Investment Authority. In return, the hedge fund paid US\$ 3.75 million to the businessman, knowing that a portion of these funds would be paid to Libyan officials (DOJ 2016).

## Private equity and venture capital

Private equity refers to capital investments made into companies that are not listed on a public exchange. Private equity firms usually invest in private companies by directly purchasing shares and typically assume an active role in the management and structuring of the companies in question, sometimes providing mentorship and industry expertise (Cote 2021a). Private equity investments are generally less liquid than hedge fund portfolios (Lloyd 2020), and both private equity and venture capital firms engage in fixed investment terms and prohibit withdrawals until the end of a set investment period (Segal 2024).

In Europe, Luxemburg has the largest share of the private equity market, followed by France (Figure 11).

**Figure 11: Net asset value of private equity funds by country of the manager in the EU (ESMA 2024: 37)**



Both private equity industry representatives and regulators have argued that the longer lockup periods associated with private equity relative to hedge funds make them less attractive to those seeking to launder money (French AMF 2024: 21; JMLSG 2023: 133; Lloyd 2020). Yet, the 1MDB scandal, in which approximately US\$ 4.5 billion were misappropriated from Malaysia's sovereign investment development fund, illustrates how attractive private equity can be for those seeking to launder the proceeds of corruption (FACT Coalition et al 2021: 17; U.S. Department of Justice 2020: 15). Hundreds of millions of dollars that had been misappropriated were 'invested' into investment funds based in Curacao (Knobel 2019: 16). In 2024, eight years after the scandal first broke, a Swiss court convicted two executives for embezzling more than US\$ 1.8 billion from 1MDB, which they used to invest in private equity, as well as spend on properties and jewellery (Al Jazeera 2024).

## Money laundering risk factors

The French regulator has concluded that the private equity industry presents a 'high' vulnerability to money laundering, as private equity firms often maintain close relationships with their investors, and these funds may invest in companies operating in high-risk countries and sectors (French AMF 2024).

Private equity funds, particularly venture capital, deal with large sums of money in a highly dynamic ecosystem that prioritises rapid growth and returns, which may lead to risk-prone behaviour and the skirting of due diligence rules. The nature of venture capital investments often involves multiple rounds of funding and high levels of discretion regarding the allocation and use of funds. This can complicate the tracking of funds and its origins.



The issue is compounded by the fact that private equity funds invest in private companies, about whom there may be only limited public information – partly due to concerns about commercially sensitive data. This may make it difficult to determine the value of a company, which can hinder law enforcement authorities’ ability to assess whether a transaction over/undervalues a stake in the company. Finally, conducting adequate due diligence on high-net-worth and institutional investors based abroad can be challenging for private equity firms (French AMF 2024).

The UK regulator points out that the acceptance of investors into a private equity fund is a fairly lengthy process that often involves face-to-face meetings between prospective investors and senior executives of the private equity firm, and argues that due diligence processes are usually robust (JMLSG 2023: 133). Nonetheless, it does state that private equity firms attempting to raise capital for the first time or from high-net-worth individuals face heightened ML risks (JMLSG 2023: 134).

## Exposure to corruption risks

Corruption risks for private equity relate primarily to the entities and assets in which it invests. Private equity and venture capital funds are exposed to the risk of – and may be legally liable for – investing in portfolio companies that engage in corrupt practices, especially where the fund’s partners or associates play a role in managing investee companies.<sup>17</sup> In 2016, for instance, an Israeli pharmaceutical company with private equity investors, agreed to a settlement of US\$ 519 million for bribing government officials in Russia, Ukraine and Mexico in violation of the FCPA (Rotariu 2021).

The Luxemburg authorities note that private equity funds may be abused to “conceal or even continue” corruption (Luxembourg CSSF 2020: 30). Indeed, there is a risk that fund managers may seek to unduly influence investment decisions where they face a conflict of interest. Interestingly, Cummings et al. (2012) found that private equity returns are higher in countries with a greater incidence of background corruption, though the reason for this is not clear.

## Case studies

### **Box 7: Private equity funds and cryptocurrency fraud schemes.**

According to the FBI, in 2019, a major US law firm helped to launder more than US\$ 400 million from a fraudulent cryptocurrency 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. This scheme aimed at concealing and disguising the nature, location, source, ownership, and control of the proceeds originating in the criminal enterprise. Neither the underlying source of funds, nor the perpetrator of the cryptocurrency scheme were disclosed to the bank during the initial due diligence review (FBI 2020).

Kumar (2022: 18) has shown how private equity firms in Brazil were used to send and receive bribes while obscuring the origin of corrupt payments, while the New York Times

---

<sup>17</sup> This might be the case where the fund’s partners sit on the board of the investee company, for example. See EY (2013).

(2022a) reported on how a US venture capital firm accepted capital from sanctioned Russian financial institutions.

A recent study by Transparency International Hungary (2024) has documented how private equity funds have become a means of hiding wealth and channelling public money from the national development bank into private fund management companies connected to PEPs, such as the son-in-law of Prime Minister Victor Orbán (Transparency International Hungary 2024a). In addition, companies acquired by private equity funds were found to “enjoy other forms of state support, such as winning public procurement tenders or getting state aid”, while companies partly owned by the state have acted as co-investors with private equity funds (Transparency International Hungary 2024b).

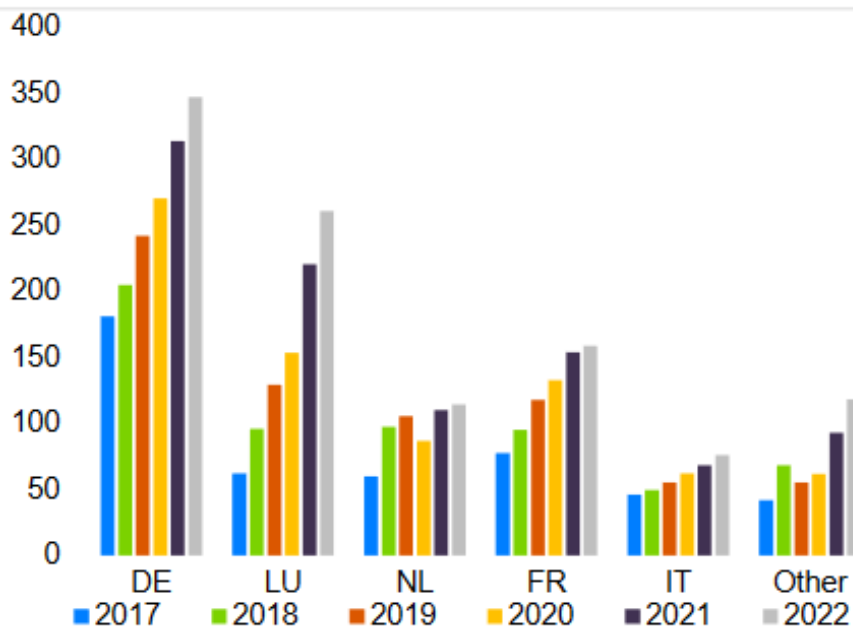
## Real estate

Investment funds can choose to specialise in real estate assets, either by investing in real estate properties directly, in which case, it is considered a private real estate fund, or by investing in real estate investment trusts (REITs) (ESMA 2020: 38). A REIT is a corporation that invests in income-generating real estate, it can be either publicly-traded or privately-held (Hayes 2023; Empower 2022: 102).

While REITs pay out regular dividends, private real estate funds produce value through appreciation (Hayes 2023). Investment in the real estate sector often draws on a combination of equity capital and debt capital to acquire assets in residential, office, retail, industrial or even logistics property (BVAI 2023).

In Europe, Germany has the largest share of the real estate fund market, followed by Luxemburg (Figure 12).

Figure 12: Net asset value of real estate funds by country of the manager in the EU (ESMA 2024: 29)



## Money laundering risk factors

Real estate has long been considered an enticing and lucrative channel for criminals to launder and invest the proceeds of crime and corruption. It provides a convenient place to hide these funds, while also allowing criminals to enjoy the benefits of their criminal enterprise, either through their private use or through investing in income-generating property (Martini 2017). Although there is growing awareness and concern over the use of the real estate sector to launder the proceeds of criminal activities, including by FATF (2022), there is little information about the ways in which real estate funds have been used to launder the proceeds of crime and corruption.

The French authorities state that real estate transactions are exposed to a high threat of money laundering “due to the large sums involved and the relative security offered by this type of investment, which make the sector attractive to criminal groups” (French AMF 2024: 24). Particularly at risk are investments in prestigious real estate because of the highly confidential nature of the transactions and the volatility of prices, as well as the investor-client profile, which may include PEPs and entities working in cash-heavy industries such as construction (French AMF 2024: 25). The use of multiple shell companies to obscure the identity of investors and actual beneficiaries is also a common practice in the real estate funds sector (French AMF 2024: 25).

Revealingly, while in total only 14% of assets managed by funds managers subject to Dutch AML regulations are considered to be at high risk of money laundering, 96% of these risky assets are in the real estate sector (Dutch AFM 2023: 5). Despite this, the European Parliament (2019: 2) has pointed out that due to more limited AML rules for the non-financial sector, real estate transactions have historically been subject to less scrutiny in terms of money-laundering risks than financial sector transactions, despite the large sums involved.

Real estate fund managers, incentivised to meet investors' expectations, may perpetrate financial reporting fraud and misconduct, such as tampering with financial statements or other documents.

KPMG (2017:1) has noted that REITs are particularly susceptible to risks of corporate misconduct and fraud because their characteristics include involvement in complex transactions and lean operating structures. Managers of REITs can display an eagerness to expand into new or emerging markets, which leads to a more risk accepting behaviour, such as accepting funds without adequate source of funds checks (KPMG 2017). REIT managers may also misappropriate assets, especially where they enter into 'built to suit' transactions with real estate developers (KPMG 2017: 8-10).

Additional risk factors for real estate funds are, according to Cohen & Grossmann (2012: 80-83):

- The role of third parties in proceedings such as the valuation of assets, which may play a central role in disguising the entry of illicit funds into the real estate market.
- Investment funds may choose to acquire real estate physically located in countries with a high incidence of corruption and weak rule of law.
- The involvement of governments, either as sellers of properties or as business partners in joint-venture development projects, can present certain risks. For example, public officials with discretionary power over which real estate can be sold to investment funds or whether to invest capital from sovereign wealth funds into real estate funds may have conflicts of interest or seek to solicit bribes from fund associates, potentially via local intermediaries.

## Case studies

### **Box 8: Narcotics proceeds laundered through real estate investments in the US**

The US Department of Justice (DOJ) uncovered that a Florida-based boutique real estate investment company accepted millions of dollars in narcotics proceeds, laundering those funds through real estate investments across the US. The company did not conduct even minimal due diligence proceedings, such as customer identification and source of funds verifications, and it ignored red flags. The investments included hotels, offices and residential buildings (Kumar 2022: 25). Since then, new regulations have been introduced in the United States relating to real estate brokers (FINCen 2024a).

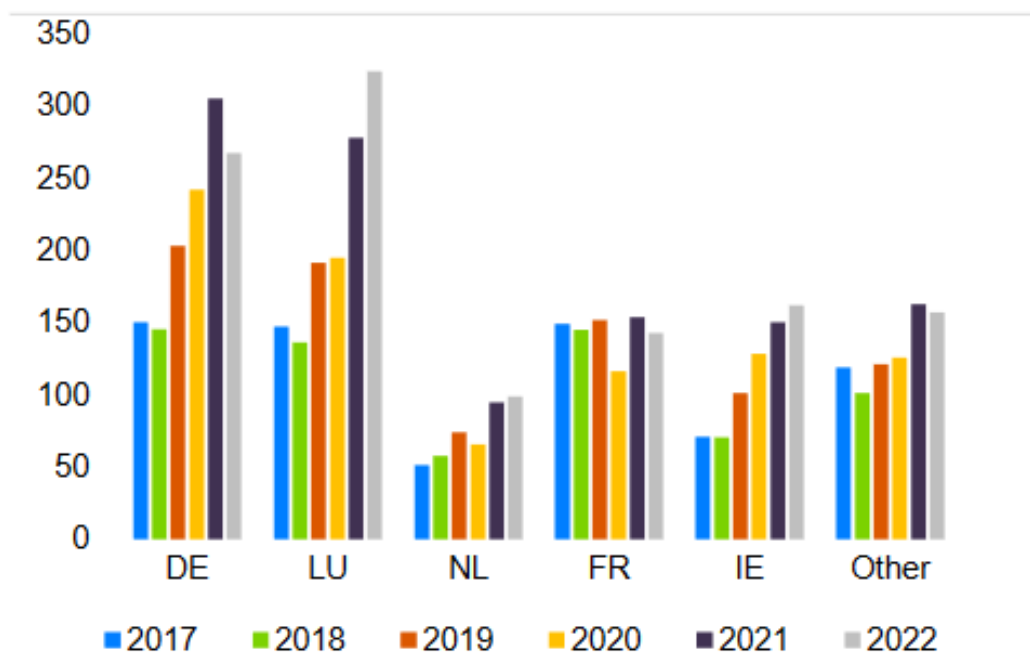
### **Box 9: Real estate funds used to launder Venezuelan petrodollars**

A former managing director for a Swiss private bank admitted to helping his Venezuelan clients to launder billions of dollars embezzled from the Venezuelan state oil company (PDVSA). Between US\$ 22-35 million were laundered through real estate purchases and investments made in Florida. According to the US DOJ, this was only possible due to the complicity of money managers, brokerage firms, banks and real estate investment firms in the US and elsewhere (Kumar 2022: 21).

## Funds of funds

A fund of funds (FOF) is a vehicle that pools capital from investors to buy shares in a broader portfolio of other investment funds, rather than investing directly into a specific category of securities like stocks or bonds (Jark 2024). FOFs therefore invest in various other investment vehicles, including hedge funds, private equity and real estate funds. FOF managers are expected to conduct due diligence of the funds in which they invest (Jark 2024). The fund-of-funds approach has grown in recent years, and in Europe, Germany and Luxemburg dominate the market.

**Figure 13: Net asset value of funds of funds by country of the manager in the EU (ESMA 2024: 25)**

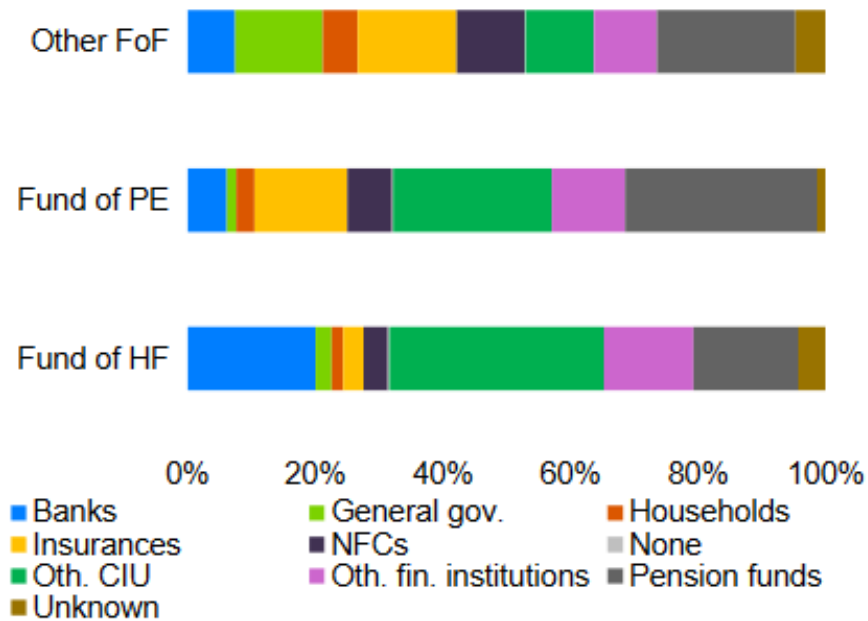


## Money laundering risk factors

FOFs make investment structures more obscure, with an additional layer of intermediaries involved between ultimate beneficial owners and assets. This multilayered structure of FOFs adds complexity and opacity, which can make it difficult for investors (and potentially regulators and AML obliged entities) to understand where a given investor's money is actually invested (Jark 2024). The UK's Joint Money Laundering Steering Group (2023: 136) likewise states that identifying beneficial owners is more difficult "where the investor is itself a fund vehicle", as is the case with FOFs.

Data collected by the European Securities and Markets Authority (2024) shows that the identity of FOF investors is not always known (Figure 14).

Figure 14: FOF investor base (ESMA 2024: 26)



## Other types of AIF

There are other forms of AIF that can be established in the European Union and that may present ML risks, such as commodity funds. One notable category of AIF is the so-called Registered Alternative Investment Funds (RAIFs) that were introduced in Cyprus in 2018, two months after a European Union (2018) Anti-Money Laundering Directive obliged member states to establish publicly accessible registries of ultimate beneficial owners of companies.<sup>18</sup> These vehicles take the form of a fund that seeks to attract capital from professional investors and can invest in any type of asset (KPMG 2023: 6). RAIFs emphasise their “entrepreneur-friendly approach” to fast-track authorisation (Chambers 2018), as they only need to be registered with national authorities, rather than licensed by them (OCCRP 2024). Moreover, while the fund manager is required to file certain information about the RAIF to the national authorities, this does not include the identities of its investors (Chambers 2018).

This vulnerability has reportedly been exploited by sanctioned entities to obscure the ownership of their assets such as luxury yachts (OCCRP 2024). OCCRP has documented how Cypriot RAIF managers accepted – unwittingly or otherwise – funds from Russians sanctioned by Western countries. In fact, according to OCCRP (2024), companies in Cyprus presented RAIFs to “to prospective clients as a way of avoiding having their ownership of assets revealed by the new EU transparency law.” This is because of the RAIF structure, investors held ownership stakes in the fund itself rather than the underlying assets and, as a result, they were not considered to be ultimate beneficial owners and could remain anonymous. In this sense, it appears that some of Cyprus’ RAIFs were not really investment vehicles at all, but rather intended to allow natural persons to continue to anonymously hold assets they already owned by

<sup>18</sup> This underscores the importance of using catch-all language in legislation regarding the applicability of transparency requirements to different forms of corporate vehicles, as emphasised by Markle (2023).

‘investing’ in an intermediary fund that, on paper, then controlled the underlying assets. OCCRP (2024) reports that although Cypriot authorities later clarified that ultimate investors of the funds did have to be declared, it was difficult to ascertain to what extent this was being enforced.

# Regulatory framework in Europe

To reduce the risk of AIFs being misused to launder the proceeds of crime and corruption, the FACT Coalition et al (2021: 7) argue that regulations should oblige these funds to:

- Establish a risk-based AML programme.
- Identify true beneficial owners of legal entities that invest capital.
- Conduct due diligence assessments of these owners and their transactions to identify potential instances of money laundering and understand the ML risks to which their fund is exposed given its portfolio and client base.
- When risky transactions are identified, alert competent authorities through Suspicious Transactions Reports.
- Ensure ongoing monitoring of accounts with a high-risk profile.

In Europe, for the purpose of AML regulations, both retail funds like UCITS and AIFs (including those constituted without legal personality) are considered ‘financial institutions’ and are thus subject to the same AML standards as banks and other obliged entities (European Union 2024b: 20, 34).

The recent EU Directive 2024/1640 has taken steps to reinstate access to beneficial ownership information for civil society organisations and investigative journalists<sup>19</sup> (Transparency International 2024). Moreover, the provisions on beneficial ownership data in Directive 2024/1640 apply to both legal entities<sup>20</sup> and legal arrangements<sup>21</sup> (Open Ownership 2024). As both legal entities and legal arrangements are used in the AIF industry, this may reduce the risk of simply displacing ML risks from one form of legal structure to another.

Directive 2024/1640 also closes a legal loophole by requiring foreign companies with investments in Europe to declare their beneficial owners. Regarding real estate, the new directive requires real estate registers to have adequate and complete data that is also available to the country’s Financial Intelligence Unit (FIU) and law enforcement agencies (European Union 2024c).

In addition, Directive 2024/927 updating the previous 2011 AIFM Directive tightens restrictions on the domicile of funds permitted to market in the EU. While previously funds based in a country on the FATF list of high-risk jurisdictions were banned, the updated Directive extends this prohibition to a longer list of jurisdictions blacklisted by the EU for AML or tax purposes, or which do not have arrangements to exchange tax information with the EU (European Union 2024a: 26-7).

---

<sup>19</sup> Public access to beneficial ownership information had been curtailed as a result of a 2022 ruling by the Court of Justice of the European Union (Wahl 2023).

<sup>20</sup> Such as limited liability companies or partnerships.

<sup>21</sup> A legal arrangement refers to a relationship established by means of a contract between two or more parties, such as a trust (Varghese 2022).



The EU also adopted Regulation 2024/1624, on the prevention of the use of the financial system for the purposes of ML, as part of an effort to harmonise requirements and standards for obliged entities, including AIFs. The regulation includes additional CDD obligations, as well as a definition of beneficial ownership that applies to AIFs and other forms of collective investment undertaking. According to Article 61, natural persons will be considered the beneficial owners of collective investment undertakings if they fulfil one or more of the following conditions (European Union 2024b: 79):

- “they hold directly or indirectly 25% or more of the units held in the collective investment undertaking;
- they have the ability to define or influence the investment policy of the collective investment undertaking; or
- they control the activities of the collective investment undertaking through other means.”

Finally, EU Regulation 2024/1620 establishes a new supranational Authority for Anti-Money Laundering (AMLA), which is intended to supervise obliged entities and prioritise oversight of those classified as high-risk – potentially including AIFs – in the coming years (European Union 2024d).

## Ongoing shortcomings

### Ownership thresholds

There are some continuing concerns that the EU’s criteria to identify beneficial owners of UCIs are not stringent enough, and that investment funds lack the capacity or willingness to establish the origin of the money and the purpose of business relationships.

A particular issue relates to the 25% threshold of units held in a UCI, as, in practice, the majority of investors in UCIs could fall below this threshold, even while holding stakes that could be worth large amounts of money (Transparency International 2021: 8). An investigation conducted by Transparency International (2021: 6-8) found that 80% of private investment funds registered in Luxembourg did not declare any beneficial owner, either because these funds did not have natural persons who owned or controlled more than 25% of the fund’s units or because they were violating legal requirements. A separate study by Chhina and Markle (2024: 13) concluded that most beneficial owners of investment funds operated from the Republic of Ireland would also fall under the 25% threshold.

Chhina and Markle (2024: 14) underscore that:

*“a number of small private investment companies might be established to hold less than the prescribed threshold in an investment fund to avoid becoming reportable beneficial owners. To make the structure more complex, these investment companies might all be controlled by a master trust controlled by a criminal, however, due to the involvement of various intermediaries in the process, it will be difficult to determine this indirect ownership or control via other means. Although this is a common tactic recognised among all legal entities to avoid detection in the failure to disclose, it becomes even more*

*challenging in the case of investment funds due to their shareholdings being particularly small and their use of intermediaries.”*

The authors therefore argue that the threshold to determine ownership should be lowered, for example, to 5% (Chhina and Markle 2024: 18).

Yet even this may be insufficient to deter and detect sophisticated criminal and corrupt actors. In 2021, a sting by a team of Al Jazeera journalists reported on a scheme to use investment funds to obscure the origin and beneficial owner of money to purchase English football clubs (Harrison 2021). A professional enabler was caught proposing to establish an investment fund, into which 21 small companies would invest, with each company held in a separate trust and owning less than 5% of the fund. The actual owner would have remained anonymous behind a master trust controlling the various investment companies, and their identity would not have become known to UK authorities (Chhina and Markle 2024: 9).<sup>22</sup>

Regulators including the EBA (2023: 18) have also expressed doubts that investment funds have the capacity to identify PEPs and establish beneficial owners in practice, noting that 26% of financial institutions in the EU “lack adequate systems and controls to identify UBOs.” The continuing challenges of identifying the true owners behind investments makes it more difficult to conduct CDD processes and origin of funds checks, both for obliged entities and for law enforcement officials (ACDC 2021: 5).

## Insufficient sanctions

The EBA (2023: 74) finds that in the UCI sector, the most common breaches of AML/CFT standards relate to investment funds’ internal controls, “ongoing monitoring, customer identification and verification, customers and business-wide risk assessment.” The EBA (2023: 79) also found that, “irrespective of the severity of the breach”, national competent authorities applied similar measures, typically by imposing a fine or requiring non-compliant companies to take corrective action. That these types of sanctions alone may be insufficient deterrent for risky behaviour by AIF managers is underscored by the fact that 70% of industry insiders around the world admitted in a survey that their organisation had been subject to AML fines during the previous two years (OCORIAN 2024).

## Inconsistent application of AML standards and inadequate supervision

Multiple observers have pointed to the “marked differences” in how various EU countries have organised the supervision of financial institutions, including AIFs, and the divergence in how AML provisions have been applied at national level (CITCO 2024; EBA 2023: 15). The EBA (2023: 15) states that across the EU, supervisors are equipped with different powers, have different expectations with regard to the standard of

---

<sup>22</sup> In the case of legal arrangements like trusts, Chhina (2021) recommends that all natural persons who are parties to the arrangement could be considered beneficial owners. Where AIFs take the form of trusts, for instance, this would mean that the settlors, trustees, protectors, beneficiaries, as well as natural persons exercising effective control, including the fund manager, would be considered beneficial owners.

financial institutions' AML systems and apply different approaches to appraise the quality of their AML controls. In fact, in some EU Member States, financial institutions' AML controls are reportedly not supervised at all, and in most EU countries competent authorities do not assess corruption-related risks relating to financial institutions paying "bribes to gain or retain business" (EBA 2023: 15, 19).

Specifically in the area of collective investment funds, AML supervision is reportedly more limited than in other parts of the financial sector and in the EBA's view (2023: 74) is not "commensurate with the ML/TF risk presented by firms in this sector." In the Netherlands, for instance, AMLC.EU (2021) states that the fact that AIF managers have been subject to minimal supervision by national authorities has led to a "greater risk of money laundering" in the industry. Despite this, the Dutch authorities have noted that AIFs are less likely than retail funds to comply with their legal obligations to establish suitable measures to mitigate the risks of money laundering (Dutch AFM 2023). Similarly, while 32% of all funds managers stated they did not refer to all relevant sanctions lists (national, EU and UN) when conducting CDD, AIF managers were less likely to check than retail funds managers (Dutch AFM 2023: 11). Overall, 12% of funds managers reported they do not always conduct risk assessments related to their investors and 35% did not include an assessment of corruption risks in their analysis (Dutch AFM 2023).

While the latest EU AML regulations may go some way to harmonising approaches in the EU, continuing inconsistencies at the national level make it more difficult for both supervisory authorities and fund managers to ensure consistent and coherent application of AML rules (EBA 2023: 15). In Hungary, for instance, the European Commission (2024) has declared that national regulation incorrectly transposes the Anti-Money Laundering Directive by omitting private equity funds from the scope of its national beneficial ownership register.

The complexity of the AIF market and the development of new investment products makes this issue especially thorny, and differences among jurisdictions in defining and, thus, regulating these types of investment vehicles can create risks for the sector and opportunities for criminals.<sup>23</sup> This is because it may lead to gaps and overlaps in applicable cross-border regulation and allow fund managers to invest in jurisdictions where AML obligations are less stringently regulated or enforced. Insufficient coordination and exchange of information between FIUs in the EU has been identified as compounding the problem of "inconsistent AML/CFT supervision across the internal market" (European Commission 2022b: 7).

## Suspicious Transaction Reports

Suspicious Transaction Reports (STRs)<sup>24</sup> may generate investigative leads for law enforcement agencies, offering specific information on potential criminal activity, which can then be investigated by these agencies. They are also tools through which governments obtain financial intelligence that is used to inform their overall AML policy. Collectively, STRs provide a picture not only of the AML risks, but also about the level of

---

<sup>23</sup> Markle (2023) therefore calls for legislative frameworks to be 'future-proofed' by ensuring that beneficial ownership disclosure regimes provide for comprehensive coverage of all types of corporate vehicles, with any exceptions explicitly listed.

<sup>24</sup> Some countries used different terminologies, such as Suspicious Activity Reports (SARs), Unusual Transaction Reports (UTRs).

awareness and compliance by reporting entities with their AML obligations (Transparency International UK 2012: 20).

The FATF (2023: 89) requires that, when financial institutions or designated non-financial businesses and professions have reasonable grounds to suspect that funds are the proceeds of a criminal activity, they should be required to promptly report to the country's FIU. FATF (2023) does not explicitly detail the reporting obligations of funds managers or other actors within the AIF industry.

Nonetheless, EU regulation requires undertakings for collective investment and their managers to submit STRs as appropriate to national FIUs. Despite this, regulators and competent authorities in Europe commonly identify the adequacy of STR procedures, the effectiveness of ongoing monitoring and suspicious transaction reporting as being particularly poor in the collective investment industry (EBA 2023: 72).

Proportionate to the volume of assets under management administered by UCIs, observers commonly report that the number of STRs emanating from the investment funds industry is low. In Germany, of instance, the number of STRs submitted to the FIU from asset management firms is in the low double digits, and the regulator observes companies in the industry appear to rely excessively on depositories like banks to detect suspicious transactions (German Federal Ministry of Finance 2020: 85). Similarly, in Ireland, despite having €5.6 trillion in assets under management as of 2024 (Irish Funds 2024), the funds industry accounted for just 0.3% of STRs submitted to the FIU in 2023 (FIU Ireland 2024). In the Netherlands, only 11% of fund managers generated STRs in 2022, and only around half of funds managers were even registered with the Dutch FIU, which is necessary in order to file STRs (Dutch AFM 2023: 10).

Low STR reporting by investment funds contributes to fewer investigative leads for law enforcement agencies and a lack of understanding of the industry's risk profile on the part of governments. In turn, this reduces states' capacity to design, implement and enforce proportionate mitigation measures.

#### **Box 10: Analysis of AIFs in FATF Mutual Evaluation Reports**

When assessing countries' compliance with its recommendations, FATF conducts an assessment of the ML risks in that particular country, called a Mutual Evaluation Report (MER). According to the FATF Assessment Methodology (2013: 10), this includes an assessment of the adequacy of financial supervision, referring to the measures that impose preventive AML/CFT requirements on the banking, insurance and securities sectors.

As part of this Helpdesk Answer, the latest MERs from 18 countries were analysed in terms of their coverage of AIFs. These countries were chosen based on the size of their AIF sector and overall perception of vulnerability to ML risks.<sup>25</sup>

While there is no specific mention of AIFs in the FATF Recommendations, under FATF nomenclature, they fall under the broader category of 'securities.' In more recent Mutual

---

<sup>25</sup> Assessments about AIFs made by the FATF in Mutual Evaluation Reports regarding 18 countries were compiled and analysed by Molly Quesnell, intern at Transparency International Ireland. The 18 countries are: Australia, Brazil, Canada, Cayman Islands, France, Germany, Hong Kong, Indonesia, Ireland, Japan, Luxembourg, Mexico, Netherlands, Singapore, Switzerland, United Arab Emirates, United Kingdom, and the United States.

Evaluation Reports, AIFs have received some attention, but the level of analytical detail is limited; in most of these assessments, the main characteristic noted by evaluators is the size of the AIF sector, in relation to either global and regional totals, or in relation to other forms of investments.

Overall, the analysis of 18 countries' MER demonstrates that low numbers of STRs submitted by the collective investment funds industry relative to other financial institutions is a common assessment made by FATF. It should be noted, however, that this assessment is also made regarding most Designated Non-Financial Businesses and Professions (DNFBPs).

## **Lack of data on specific legal structures**

While ESMA (2024: 8) collects data on AIFs in the European Union, it is revealing that 51% of AIFs are grouped together as 'other' (see Figure 1). This indicates that more work could be done by regulators and supervisors at the national level to assess the specific ML risks pertaining to individual types of AIFs, such as Registered Alternative Investment Funds in Cyprus, or Qualifying Investor Alternative Investment Funds in Ireland. These could include tailored risk assessments of the specific legal structures AIFs can assume, such as collective asset management vehicles, investment companies, unit trusts, limited partnerships and common contractual funds.

# References

- ACAMS. 2022. The Potential Vulnerability of Alternative Investments in Hiding Assets: Hedge Funds.  
<https://www.acams.org/sites/default/files/2022-03/RapidResponseBrief-HedgeFunds.pdf>
- Adams, S. 2013. Corruption at Hedge Funds Even More Rampant Than You Think, Study Shows.  
<https://www.forbes.com/sites/susanadams/2013/04/03/corruption-at-hedge-funds-even-more-rampant-than-you-think-study-shows/>
- Al Jazeera. 2024. Swiss court convicts two executives for embezzling \$1.8bn from 1MDB.  
<https://www.aljazeera.com/news/2024/8/28/swiss-court-convicts-two-executives-of-embezzling-1-8bn-from-1mdb>
- AMLC.EU. 2021. Private investment funds and money laundering. <https://www.amlc.eu/private-investment-funds-and-money-laundering/>
- Anti-Corruption Data Collective (ACDC). 2024. Unknown foreign individuals control \$1.7 trillion in U.S. private investment fund assets.  
<https://acdatacollective.org/work/unknown-foreign-individuals-control-1-7-trillion-in-u-s-private-investment-fund-assets-anti-corruption-data-collective/>
- Austrian Financial Market Authority (FMA). 2024. Alternative Investment Fund (AIF).  
<https://www.fma.gv.at/en/glossary/alternative-investment-fund-aif/>
- BaFin. 2024. Outsourcing in the financial sector: Greater transparency means greater security.  
[https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2024/fa\\_bj\\_2404\\_Auslagerungen\\_im\\_Finanzsektor\\_en.html](https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2024/fa_bj_2404_Auslagerungen_im_Finanzsektor_en.html)
- BlackRock. 2023. Alternative Investments 101.  
<https://www.blackrock.com/americas-offshore/en/education/alternative-investments-101#private-vs-public-vehicles>
- Bosua, M. 2020. Identifying hedge fund elements susceptible to economic crime.  
<https://web.archive.org/web/20211027003738/https://repository.nwu.ac.za/handle/10394/34888>
- Brodsky, M. and Corbett, K. 2011. Hedge Funds and Foreign Corruption.  
<https://thehedgefundjournal.com/hedge-funds-and-foreign-corruption/>
- BVAI. 2023. Real Estate.  
<https://www.bvai.de/en/alternative-investments/real-estate>
- Capco. 2003. Understanding and Mitigating Operational Risk in Hedge Fund Investments.  
[https://cdn2.hubspot.net/hubfs/4256284/Understanding\\_mitigating\\_hedge\\_fund.pdf](https://cdn2.hubspot.net/hubfs/4256284/Understanding_mitigating_hedge_fund.pdf)
- Central Bank of Ireland. 2024a. Introduction to Alternative Investment Funds ('AIFs').  
<https://www.centralbank.ie/regulation/industry-market-sectors/funds/aifs>
- Central Bank of Ireland. 2024b. Authorisation Process for AIFMs.  
<https://www.centralbank.ie/regulation/industry-market-sectors/funds-service-providers/aifm/authorisation>
- Chambers. 2018. Registered alternative investment funds – an overview.  
<https://chambers.com/articles/registered-alternative-investment-funds-an-overview>
- Chen, J. 2024. What Are Alternative Investments? Definition and Examples.  
[https://www.investopedia.com/terms/a/alternative\\_investment.asp](https://www.investopedia.com/terms/a/alternative_investment.asp)
- Chen, J. 2024a. Private Investment Fund: Non-public Investments Like Hedge Funds.  
[https://www.investopedia.com/terms/p/private\\_investmentfund.asp](https://www.investopedia.com/terms/p/private_investmentfund.asp)
- Chen, J. 2024c. ISIN: What It Is, How and Why It Is Used.  
<https://www.investopedia.com/terms/i/isin.asp>
- Chhina, R.K. 2024. Beneficial ownership transparency of trusts.  
<https://www.openownership.org/en/publications/beneficial-ownership-transparency-of-trusts/>
- Chhina, R.K. and Markle, A. 2024. Defining and capturing information on the beneficial

ownership of investment funds.

<https://oo.cdn.ngo/media/documents/oo-briefing-investment-funds-2024-03.pdf>

CITCO. 2024. White Paper: AML and alternatives funds. <https://www.citco.com/insights/white-paper-aml-and-alternatives-funds-how-an-external-custodian-can-help-managers-stay-one-step-ahead>

Cummings, D. et al. 2012. 'Law and Corruption in Venture Capital and Private Equity', in Cressy, R. et al. (eds), Entrepreneurship, Finance, Governance and Ethics. [https://link.springer.com/chapter/10.1007/978-94-007-3867-6\\_5](https://link.springer.com/chapter/10.1007/978-94-007-3867-6_5)

DeNederlandscheBank. 2024. Alternative investment funds (AIF) and undertakings for the collective investment in tradeable securities (UCITS). <https://www.dnb.nl/en/sector-information/open-book-supervision/open-book-supervision-sectors/collective-investment-schemes/prudential-supervision/alternative-investment-funds-aif-and-undertakings-for-the-collective-investment-in-tradeable-securities-ucits/>

Dietz, A. 2017. Anti-money laundering and counter-terrorist financing in the Luxembourg investment fund market. <https://www.econstor.eu/bitstream/10419/162698/1/891246215.pdf>

Dutch AFM. 2023. Beheerders van beleggingsinstellingen in beeld: Inzake de Wwft en Sw. <https://www.afm.nl/~profmedia/files/rapporten/2023/beheerders-in-beeld.pdf>

Empower. 2022. Runaway Train: The Perilous and Pernicious Path of Private Capital Worldwide. [https://empowerllc.net/wp-content/uploads/2022/08/Reporte\\_APE\\_FINAL\\_PublicVersion\\_web.pdf](https://empowerllc.net/wp-content/uploads/2022/08/Reporte_APE_FINAL_PublicVersion_web.pdf)

European Banking Authority (EBA). 2023. Opinion of the European Banking Authority on money laundering and terrorist financing risks affecting the EU's financial sector. [https://www.eba.europa.eu/sites/default/files/document\\_library/Publications/Opinions/2023/1058335/EBA%20Op%202023%2008%20Opinion%](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Opinions/2023/1058335/EBA%20Op%202023%2008%20Opinion%20on%20MLTF%20risks%20EBA%20REP%202023%2021.pdf)

[20on%20MLTF%20risks%20EBA%20REP%202023%2021.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Opinions/2023/1058335/EBA%20Op%202023%2008%20Opinion%20on%20MLTF%20risks%20EBA%20REP%202023%2021.pdf)

European Commission. 2022a. Commission Staff Working Document accompanying the document Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022SC0344>

European Commission. 2022b. Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0554>

European Commission. 2024. July infringement package: key decisions. [https://ec.europa.eu/commission/presscorner/detail/en/inf\\_24\\_3228](https://ec.europa.eu/commission/presscorner/detail/en/inf_24_3228)

European Parliament. 2019. Understanding money laundering through real estate transactions. [https://www.europarl.europa.eu/cmsdata/161094/7%20-%2001%20EPRS\\_Understanding%20money%20laundering%20through%20real%20estate%20transactions.pdf](https://www.europarl.europa.eu/cmsdata/161094/7%20-%2001%20EPRS_Understanding%20money%20laundering%20through%20real%20estate%20transactions.pdf)

European Securities and Markets Authority (ESMA). 2015. Guidelines on key concepts of the AIFMD. [https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-611\\_guidelines\\_on\\_key\\_concepts\\_of\\_the\\_aifmd\\_-\\_en.pdf](https://www.esma.europa.eu/sites/default/files/library/2015/11/2013-611_guidelines_on_key_concepts_of_the_aifmd_-_en.pdf)

European Securities and Markets Authority (ESMA). 2020. EU Alternative Investment Funds 2020. [https://www.esma.europa.eu/sites/default/files/library/esma50-165-1006\\_asr-aif\\_2020.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-165-1006_asr-aif_2020.pdf)

European Securities and Markets Authority (ESMA). 2023. Questions and Answers: Application of the AIFMD. [https://www.esma.europa.eu/sites/default/files/library/esma34-32-352\\_qa\\_aifmd.pdf](https://www.esma.europa.eu/sites/default/files/library/esma34-32-352_qa_aifmd.pdf)

European Securities and Markets Authority (ESMA). 2024. EU Alternative Investment Funds 2023. [https://www.esma.europa.eu/sites/default/files/2024-01/ESMA50-524821-3095\\_EU\\_Alternative\\_Investment\\_Funds\\_2023.pdf](https://www.esma.europa.eu/sites/default/files/2024-01/ESMA50-524821-3095_EU_Alternative_Investment_Funds_2023.pdf)

European Union. 2009. Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32009L0065>

European Union. 2011. Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32011L0061>

European Union. 2013. Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0231>

European Union. 2014. Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0065>

European Union. 2018. Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32018L0843>

European Union. 2024a. Directive (EU) 2024/927 of the European Parliament and of the Council of

13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds. [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202400927](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202400927)

European Union. 2024b. Regulation (EU) 2024/1624 of the European Parliament and of the Council of 31 May 2024 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202401624](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401624)

European Union. 2024c. Directive (EU) 2024/1640 of the European Parliament and of the Council of 31 May 2024 on the mechanisms to be put in place by Member States for the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Directive (EU) 2019/1937, and amending and repealing Directive (EU) 2015/849 [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202401640](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401640)

European Union. 2024d. Regulation (EU) 2024/1620 of the European Parliament and of the Council of 31 May 2024 establishing the Authority for Anti-Money Laundering and Countering the Financing of Terrorism and amending Regulations. [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202401620](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401620)

EY. 2013. Anti-corruption considerations for private equity firms. [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_gl/topics/assurance/assurance-pdfs/ey-transaction-forensics-anti-corruption-for-private-equity-firms.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/assurance/assurance-pdfs/ey-transaction-forensics-anti-corruption-for-private-equity-firms.pdf)

FACT Coalition et al. 2021. Private investments, public harm: how the opacity of the massive US private investment industry fuels corruption and threatens national security. [https://thefactcoalition.org/wp-content/uploads/2021/12/TI\\_Private-Investments-Public-Harm-10.pdf](https://thefactcoalition.org/wp-content/uploads/2021/12/TI_Private-Investments-Public-Harm-10.pdf)

Federal Bureau of Investigation (FBI). 2020. Threat Actors Likely Use Private Investment Funds to Launder Money, Circumventing



Regulatory Tripwires.

<https://archive.org/details/fbi-intelligence-bulletin-threat-actors-likely-use-private-investment/mode/2up>

Filbeck, A. 2024. January 2024: The Next \$ 20 Trillion in Alternative Investments.

<https://caia.org/content/january-2024-next-20-trillion-alternative-investments>

Financial Action Task Force (FATF). 2010. Money Laundering Using Trust and Company Service Providers. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Money%20Laundering%20Using%20Trust%20and%20Company%20Service%20Providers..pdf.coredownload.pdf>

Financial Action Task Force (FATF). 2013. Methodology: For Assessing Technical Compliance with The FATF Recommendations and the Effectiveness of AML/CFT Systems. <https://www.fatf-gafi.org/content/dam/fatf-gafi/methodology/FATF%20Methodology%2022%20Feb%202013.pdf.coredownload.pdf>

Financial Action Task Force (FATF). 2018. Securities Sector. <https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/RBA-Securities-Sector.pdf.coredownload.pdf>

Findley, M., Nielson, D., and Sharman J. 2014. Global Shell Games. <https://www.cambridge.org/core/books/global-shell-games/5C9BD5476C8F8F7113287C27F9955523>

FIU Ireland. 2024. STRs Received at FIU Ireland (1995-2023). [https://fiu-ireland.ie/public\\_documents/strs\\_received.pdf](https://fiu-ireland.ie/public_documents/strs_received.pdf)

French Autorité des Marchés Financiers (AMF). 2024. Sector Risk Assessment on Money Laundering and Terrorist Financing. <https://www.amf-france.org/sites/institutionnel/files/private/2024-07/asr-amf-version-anglaise-revue-sa-2024-07-16-clean.pdf>

German Federal Ministry of Finance. 2020. First National Risk Assessment 2018/2019. [https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press\\_Room/Publications/Brochures/2020-02-13-first-national-risk-](https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Brochures/2020-02-13-first-national-risk-)

[assessment\\_2018-2019.pdf?\\_\\_blob=publicationFile&v=6](assessment_2018-2019.pdf?__blob=publicationFile&v=6)

Gibson-Dautun, G. 2024. Beyond alternative investment fund compliance: Navigating the complexities of risk monitoring.

<https://www.aima.org/article/beyond-alternative-investment-fund-compliance-navigating-the-complexities-of-risk-monitoring.html>

GLEIF. 2024. Introducing the Legal Entity Identifier (LEI). <https://www.gleif.org/en/about-lei/introducing-the-legal-entity-identifier-lei>

Hanley-Glersch, J. 2024. Investment Funds and AML/CTF: US Regulation Is on the Horizon. <https://www.acamstoday.org/investment-funds-and-aml-ctf-us-regulation-is-on-the-horizon/>

Harrison, D. 2021. How a convicted criminal can buy a famous English football club.

<https://www.aljazeera.com/features/2021/8/10/how-convicted-criminal-can-buy-famous-english-football-club-launders-money>

Hayes, A. 2024. Retail Investor: Definition, What They Do, and Market Impact. <https://www.investopedia.com/terms/r/retailinvestor.asp>

International Monetary Fund (IMF). 2023. Nordic-Baltic Regional Report: Technical Assistance Report-Nordic-Baltic Technical Assistance Project Financial Flows Analysis, AML/CFT Supervision, and Financial Stability. <https://www.imf.org/en/Publications/CR/Issues/2023/09/01/Nordic-Baltic-Regional-Report-Technical-Assistance-Report-Nordic-Baltic-Technical-538762>

Irish Department of Finance. 2019. National Risk Assessment Ireland Money Laundering and Anti-Terrorist Financing.

<https://www.gov.ie/pdf/?file=https://assets.gov.ie/8242/80ab9a41b1354405adceec66bfb1c0715.pdf#page=null>

Irish Department of Finance. 2020. Legal Persons and Legal Arrangements Risk Assessment.

<https://www.amlcompliance.ie/wp-content/uploads/2020/06/LPLA-Risk-Assessment.pdf>

Irish Department of Finance. 2023. Funds Sector 2030: A Framework for Open, Resilient & Developing Markets.

<https://consult.finance.gov.ie/en/system/files/materials/14/Funds%20Sector%202030%20-%20Consultation%20Paper.pdf>

Irish Department of Finance. 2024. Trust or Company Service Providers (TCSPs).

<https://www.amlcompliance.ie/trust-or-company-service-providers-tcsp/>

Irish Funds. 2024. Why Ireland: The Voice of the Funds & Asset Management Industry in Ireland.

[https://cdn.irishfunds.ie/x/5ebbf11506/2024-03-irish-funds-why-ireland-2024-euro- \\_web.pdf](https://cdn.irishfunds.ie/x/5ebbf11506/2024-03-irish-funds-why-ireland-2024-euro- _web.pdf)

Jark, D. 2024. Fund of Funds (FOF) Explained: How Does it Work?

<https://www.investopedia.com/terms/f/fundsoffunds.asp>

Kirschenbaum, J. 2018. Russian Investments in the United States: Hardening the Target.

<https://securingdemocracy.gmfus.org/russian-investments-in-the-united-states-hardening-the-target/>

Knobel, A. 2019. Beneficial ownership in the investment industry: A strategy to roll back anonymous capital. <https://taxjustice.net/wp-content/uploads/2020/11/The-transparency-risks-of-investment-entities-working-paper-Tax-Justice-Network-Oct-2019.pdf>

KPMG. 2023. The Registered Alternative Investment Fund.

[https://assets.kpmg.com/content/dam/kpmg/cy/pdf/2023/The%20Registered%20Alternative%20Investment%20Fund%2005\\_23.pdf](https://assets.kpmg.com/content/dam/kpmg/cy/pdf/2023/The%20Registered%20Alternative%20Investment%20Fund%2005_23.pdf)

Kumar, L. 2022. Private Investment Funds in Latin America: Money Laundering and Corruption Risks. <https://gfintegrity.org/report/private-investment-funds-latam/>

Lain, S. 2016. 'Plugging' the Money-Laundering Intelligence Gap: Case Studies from Post-Soviet States.

<https://www.rusi.org/publication/%E2%80%98plugging%E2%80%99-money-laundering-intelligence-gap-case-studies-post-soviet-states>

Lloyd, T. 2020. FBI concerned over laundering risks in private equity, hedge funds - leaked document. <https://www.reuters.com/article/bc-finreg-fbi-laundering-private-equity/fbi-concerned-over-laundering-risks-in-private-equity-hedge-funds-leaked-document-idUSKCN24F1TP/>

Luxembourg Commission de Surveillance du Secteur Financier (CSSF). 2020. ML/TF Sub-Sector Risk Assessment: Collective Investments.

[https://www.cssf.lu/wp-content/uploads/Collective\\_Investments\\_Sub-Sector\\_Risk\\_Assessment\\_2020.pdf](https://www.cssf.lu/wp-content/uploads/Collective_Investments_Sub-Sector_Risk_Assessment_2020.pdf)

Luxembourg Ministry of Justice. 2020. National Risk Assessment of Money Laundering and Terrorist Financing.

<https://mj.gouvernement.lu/dam-assets/dossiers/blanchiment/en-nra-import-version-2982022.pdf>

Markle, A. 2023. Coverage of corporate vehicles in beneficial ownership disclosure regimes.

<https://www.openownership.org/en/publications/coverage-of-corporate-vehicles-in-beneficial-ownership-disclosure-regimes/>

Maverick, J.B. 2023. Hedge Fund vs. Private Equity Fund: What's the Difference?

<https://www.investopedia.com/ask/answers/121614/what-difference-between-hedge-fund-and-private-equity-fund.asp>

McCahery, J. and de Roode, F. 2020. 'Governance of Financial Services Outsourcing: Managing Misconduct and Third-Party Risks', in Alexander, C. and Cumming, D. (eds), Corruption and Fraud in Financial Markets: Malpractice, Misconduct and Manipulation.

Moss, S. et al. 2023. AML Best Practices for Private Fund Managers: The Prudence of Establishing an AML Compliance Program.

<https://www.lowenstein.com/news-insights/publications/client-alerts/aml-best-practices-for-private-fund-managers-the-prudence-of-establishing-an-aml-compliance-program-investment-management>

Nesbitt, D. 2019. TCSPs: The New Gatekeepers of the Financial System.

<https://www.ifcreview.com/articles/2019/july/tc>

[sps-the-new-gatekeepers-of-the-financial-system/](#)

Nunes, M. 2015. Fraud Risk in Alternative Investments.

<https://www.linkedin.com/pulse/fraud-risk-alternative-investments-marc-nunes/>

OCCRP. 2019a. Gambling on Crime.

<https://www.occrp.org/en/investigation/gambling-on-crime>

OCCRP. 2019b. Boekhoorn and Partners Accused of Money Laundering.

<https://www.occrp.org/en/news/boekhoorn-and-partners-accused-of-money-laundering>

OCCRP. 2020. BlueLeaks: FBI Aware Large Investment Funds Enable Money Laundering.

<https://www.occrp.org/en/news/blueleaks-fbi-aware-large-investment-funds-enable-money-laundering>

OCCRP. 2024. Secretive Cyprus-Registered Funds Were Used to Hide Megayachts and Luxury Real Estate Linked to Sanctioned Russian Banker.

<https://www.occrp.org/en/project/russian-asset-tracker/secretive-cyprus-registered-funds-were-used-to-hide-megayachts-and-luxury-real-estate-linked-to-sanctioned-russian-banker>

OCORIAN. 2024. Alternative fund managers face a growing threat from money laundering risks.

<https://www.ocorian.com/news-press-releases/alternative-fund-managers-face-growing-threat-money-laundering-risks>

Open Ownership. 2024. European Union takes important steps towards standardised and interoperable beneficial ownership information.

<https://www.openownership.org/en/news/european-union-takes-important-steps-towards-standardised-and-interoperable-beneficial-ownership-information/>

Protiviti. 2022. Private Equity and Hedge Funds: Methods of Choice for Money Laundering Threat Actors.

<https://www.protiviti.com/gl-en/whitepaper/private-equity-and-hedge-funds-methods-choice-money-laundering-threat-actors>

Rotariu, M. 2021. Navigating Anti-Corruption Risks in Private Equity.

<https://www.lextegrity.com/resources/navigating-anti-corruption-risks-in-private-equity>

Segal, T. 2024. Understanding Private Equity (PE).

<https://www.investopedia.com/articles/financial-careers/09/private-equity.asp>

Shaffer, L. 2016. Why Malaysia's 1MDB scandal is denting growth.

<https://www.cnbc.com/2016/01/28/malysias-1mdb-scandal-denting-growth-oxford-economics.html>

SHANDA Consult. 2019. Cyprus Alternative Investment Funds (Cyprus AIFs).

<https://shandaconsult.com/cyprus/cyprus-alternative-investment-funds-aifs/>

Simms, R. 2024. How to mitigate money laundering risks as a TCSP.

<https://www.financialaccountant.co.uk/blog/money-laundering-risks-tcsp>

Solicitors Regulation Authority. 2024. Guidance for trust and company service providers.

<https://www.sra.org.uk/solicitors/resources/money-laundering/trust-company-service-provider-guidance/>

The Joint Money Laundering Steering Group (JMLSG). 2023. Prevention of money laundering/ combating terrorist financing. 2023 Revised Version Guidance For The UK Financial Sector Part II: Sectoral Guidance.

[https://www.jmlsg.org.uk/wp-content/uploads/2023/03/JMLSG-Part-II\\_Sector-13\\_March-2023.pdf](https://www.jmlsg.org.uk/wp-content/uploads/2023/03/JMLSG-Part-II_Sector-13_March-2023.pdf)

The New York Times. 2022a. Lawmakers Join Calls to Close a Loophole Shielding Oligarchs' Investments.

<https://www.nytimes.com/2022/03/30/business/oligarchs-hedge-funds-russia.html>

The New York Times. 2022b. How One Oligarch Used Shell Companies and Wall Street Ties to Invest in the U.S.

<https://www.nytimes.com/2022/03/21/business/russia-roman-abramovich-concord.html>

Transparency International Hungary. 2024a. Regulatory loopholes serving illicit financial

flows: Opacity of Hungarian private equity funds.  
[https://transparency.hu/wp-content/uploads/2024/09/private\\_equity\\_funds\\_web-1.pdf](https://transparency.hu/wp-content/uploads/2024/09/private_equity_funds_web-1.pdf)

Transparency International Hungary. 2024b. Owners of multi-billion-forint private equity funds must reveal their identity.  
<https://transparency.hu/en/news/opacity-of-hungarian-private-equity-funds/>

Transparency International. 2021. In the Dark: Who is behind Luxembourg's 4.5 trillion-euro investment funds industry?  
<https://www.transparency.org/en/publications/in-the-dark-who-is-behind-luxembourgs-4-5-trillion-euro-investment-fund-industry>

Transparency International. 2023. How enablers facilitate illicit financial flows: Evidence from Africa.  
<https://www.transparency.org/en/news/how-enablers-facilitate-illicit-financial-flows-from-africa>

U.S. Department of Justice. 2016. Och-Ziff Capital Management Admits to Role in Africa Bribery Conspiracies and Agrees to Pay \$213 Million Criminal Fine.  
<https://www.justice.gov/opa/pr/och-ziff-capital-management-admits-role-africa-bribery-conspiracies-and-agrees-pay-213>

U.S. Department of Justice. 2020. United States of America, Plaintiff, V. One Drawing Entitled "Self-Portrait" By Jean-Michel Basquiat. Available [here](#).

U.S. Department of the Treasury. 2024. 2024 Investment Adviser Risk Assessment.  
<https://home.treasury.gov/system/files/136/US-Sectoral-Illicit-Finance-Risk-Assessment-Investment-Advisers.pdf>

U.S. Securities and Exchange Commission. 2020. Staff Bulletin: Risks Associated with Omnibus Accounts Transacting in Low-Priced Securities  
<https://www.sec.gov/tm/risks-omnibus-accounts-transacting-low-priced-securities>

U.S. Treasury Financial Crimes Enforcement Network (FINCen). 2024a. FinCEN Issues Final Rules to Safeguard Residential Real Estate, Investment Adviser Sectors from Illicit Finance.  
<https://www.fincen.gov/news/news-releases/fincen-issues-final-rules-safeguard-residential-real-estate-investment-adviser>

U.S. Treasury Financial Crimes Enforcement Network (FINCen). 2024b. SEC, FinCEN Propose Customer Identification Program Requirements for Registered Investment Advisers and Exempt Reporting Advisers.  
<https://www.fincen.gov/news/news-releases/sec-fincen-propose-customer-identification-program-requirements-registered>

UK Financial Conduct Authority (FCA). 2022. PERG 16.2 What types of funds and businesses are caught?  
<https://www.handbook.fca.org.uk/handbook/PERG/16/2.html>

UK HM Revenue and Customs (UK HMRC). 2023. Trust or company service provider guidance for money laundering supervision.  
<https://www.gov.uk/government/publications/anti-money-laundering-guidance-for-trust-or-company-service-providers>

Varghese, A. 2022. Beneficial Ownership of Legal Persons & Legal Arrangements.  
<https://www.linkedin.com/pulse/beneficial-ownership-legal-persons-arrangements-anu-varghese-cams/>

Wahl, T. 2023. CJEU: No Unrestricted Access to Data of Beneficial Owners.  
<https://euclid.eu/news/cjeu-no-unrestricted-access-to-data-of-beneficial-owners/>

Wigglesworth, R. 2024. Is private equity actually worth it? *Financial Times*.  
<https://www.ft.com/content/55837df7-876f-42cd-a920-02ff74970098>

*Transparency International  
International Secretariat  
Alt-Moabit 96  
10559 Berlin  
Germany*

*Phone: +49 - 30 - 34 38 200  
Fax: +49 - 30 - 34 70 39 12*

*tihelpdesk@transparency.org  
<http://www.transparency.org>*

*[transparency.org/en/blog](http://transparency.org/en/blog)  
[facebook.com/transparencyinternational](https://www.facebook.com/transparencyinternational)  
[twitter.com/anticorruption](https://twitter.com/anticorruption)*