



GLOBAL FINANCIAL INTEGRITY

Acres of Money Laundering

Why U.S. Real Estate is a
Kleptocrat's Dream

Lakshmi Kumar & Kaisa de Bel
August 2021

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Why U.S. Real Estate is a Kleptocrat's Dream

A comparative analysis of
real estate money laundering
regulations in the G7

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This report was produced through the membership of Global Financial Integrity with the Financial Transparency Coalition (FTC). The FTC is a global civil society network working to curtail illicit financial flows through the promotion of a transparent, accountable, and sustainable financial system that works for everyone. This document reflects the views of Global Financial Integrity and is not intended to represent the positions of other members of the FTC.

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ABBREVIATIONS

ALTA	American Land Title Association
AML	Anti-money laundering
AMLD	Anti-Money Laundering Directive
BO	Beneficial Ownership
BSA	Bank Secrecy Act
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CRE	Commercial Real Estate
DNFBPs	Designated Non-Financial Businesses and Professions
U.S. DOJ	United States Department of Justice
ECJ	European Court of Justice
EU	European Union
FATF	Financial Action Task Force
FIFA	Fédération Internationale de Football Association
FinCEN	Financial Crimes Enforcement Network
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FIU	Financial Intelligence Unit
GAO	Government Accountability Office
GTO	Geographic Targeting Order
HNIs	High Net worth Individuals
HMRC	Her Majesty's Revenue and Custom
IO	International Organization
IOC	International Olympic Committee
IOLTA	Interest on Lawyers Trust Account
KYC	Know Your Customer
LLC	Limited Liability Company
NAR	National Association of Realtors
PEP	Politically Exposed Person
PCMLTFA	Proceeds of Crime (Money Laundering) and Terrorist Financing Act
REIT	Real Estate Investment Trust
REML	Real Estate Money Laundering
RESPA	Real Estate Settlement Procedures Act
RMLOs	Residential Mortgage Lenders and Originators
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
SWF	Sovereign Wealth Fund
USCIS	United States Citizenship and Immigration Services

METHODOLOGY

Case Analysis (Chapter 3)

Identification of cases

The analysis of U.S., UK, and Canadian cases was based on a database compiled by Global Financial Integrity (GFI) of respectively 56, 34, and 35 real estate money laundering cases publicly reported between 2015 and 2020. The information on the cases was sourced from a) news reports by reputable media outlets and b) documents published by law enforcement authorities (such as indictments, forfeiture complaints, and press releases).

Value of Real Estate Money Laundering (REML)

The assessment of the total value laundered through real estate in the identified cases was based on the sum of the value of the properties as reported by the public sources used for case identification. In some cases, only the location and type of property were disclosed, while the value of the property was unknown. To address this, the value of the property was estimated by looking at the lower ranges of the average pricing in those markets. For cases where the characteristics and location of the properties were too vague, they were left out of the total value assessment. As a result, the presented number is a conservative estimate of the total minimum value.

Identification of Gatekeepers

Gatekeeper involvement in the money laundering schemes spanned three categories: (1) where the gatekeeper was complicit, (2) where if the gatekeeper had exercised Financial Action Task Force (FATF) recommended best practices, they should have recognized the scheme but failed to do so because there was no requirement to make that assessment, and (3) where the gatekeeper appeared to be willfully blind. Identification of gatekeeper involvement required rigorous qualitative analysis gleaned from news reports and other enforcement related documentation.

Identification of Politically Exposed Persons (PEPs)

PEPs were identified using a) FATF recognized standards and best practices on what constitutes a PEP and b) risk assessment tools utilized by leading financial institutions.

Determining the origins of illicit money

The origins of the illicit money were determined by identifying where the criminal activity that generated the illicit proceeds took place.

G7 comparison tables

Throughout the report, including in Annex - 1, tables are included that assess the progress of U.S. regulation to tackle REML in comparison to the rest of the G7. The symbols in these tables represent the following:



Progress or positive development in national anti-REML regulation, policies and/or implementation.



Stagnation in national anti-REML regulation and policies, or anti-REML regulations and policies are in place but not implemented adequately.



Lack or deficient implementation of national anti-REML regulation and policies.

EXECUTIVE SUMMARY

What do the Iranian government, a fugitive international jeweler, and a disgraced Harvard University fencing coach have in common? They have all used U.S. real estate to launder their ill-gotten gains. *In Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream*, Global Financial Integrity (GFI) dives into the murky world of global money laundering and demonstrates the ease with which kleptocrats, criminals, sanctions evaders, and corrupt government officials choose the U.S. real estate market as their preferred destination to hide and launder proceeds from illicit activities.

To tell the story of why U.S. real estate continues to remain a favored destination for illicit activity, GFI built a database of more than 100 real estate money laundering cases from the U.S., UK, and Canada, reported between 2015 – 2020. The database and accompanying regulatory analysis in this report provide conclusive evidence that the current U.S. regulatory approach, using temporary and location-specific Geographic Targeting Orders (GTOs), has critical shortcomings that will require comprehensive reform before it can adequately address the threats to the U.S. financial system and national security. To provide context to the analysis and recommendations in this report, GFI compares the regulatory developments in the U.S. with ongoing practices, challenges, and developments in the rest of the G7. Analyzing the problem in the U.S. through this prism helps the U.S. see the merits and demerits of possible regulatory approaches in other similarly placed economies and lends weight to GFI's final recommendations. At the same time, this approach underscores the continued relevance of real estate money laundering as a systemic risk across the G7 and the need therefore for solutions that are more cooperative.

GFI's key findings on the U.S. include:

- » At a minimum, from cases reported in the last five years, more than US\$2.3 billion has been laundered through U.S. real estate, including millions more through other alternate assets like art, jewelry, and yachts;
 - » Gatekeepers including attorneys, real estate agents, investment advisers, and employees of financial institutions have repeatedly facilitated REML by high net-worth individuals through willful blindness or direct complicity, yet the U.S. remains the only G7 country that does not require real estate professionals to comply with anti-money laundering (AML) laws and regulations;
 - » 60.71 percent of U.S. cases involved properties in one or more non-GTO counties, demonstrating the limitations of this location-specific regulatory tool;
 - » Well over 50 percent of the reported cases in the U.S. involved politically exposed persons, which is particularly problematic considering the lack of guidance from FinCEN on PEP identification;
 - » While commercial real estate featured in more than 30 percent of the cases and generally had significantly higher values than the residential real estate involved, the U.S. is yet to create any reporting obligations for risks in the sector;
 - » The use of anonymous shell companies and complex corporate structures continues to be the number one money laundering typology. Eighty-two percent of U.S. cases involved the use of a legal entity to mask ownership, highlighting the importance of implementing a robust beneficial ownership registry under the Corporate Transparency Act.
-

KEY RECOMMENDATIONS

GFI proposes the following key recommendations for the U.S. real estate sector in line with international best practices and regulatory developments seen elsewhere in the G7:

-  The GTOs, through a new rule-making, should be made permanent, expanded nationwide, and without any dollar threshold;
-  Real estate agents should be required to identify the beneficial owner of a residential real estate purchase, when title agents are not involved in the transaction;
-  FinCEN should issue guidance, red flag indicators, and create reporting requirements for real estate money laundering typologies related to commercial real estate transactions;
-  Legal professionals should be made the lead reporting entity for identifying money laundering risks in commercial real estate transactions;
-  The U.S. should create robust AML/CFT processes targeted at the real estate sector, including but not limited to a risk-based approach identifying and verifying the source of funds and beneficial owner of the client;
-  FinCEN should issue guidance on the definition of PEPs and an advisory highlighting the risk of foreign PEPs to real estate money laundering schemes. Reporting entities should be required to report when a foreign PEP purchases property;
-  Investment advisors should be required to carry out client due diligence, including enhanced client due diligence where required, on all prospective investors in private (real estate) funds;
-  The U.S. should undertake comprehensive gatekeeper reform for the real estate sector, by lifting the exemption given to real estate professionals under the BSA and include real estate agents and legal professionals who are involved in real estate transactions under the definition of 'financial institutions';
-  The EB-5 visa investor program needs critical reform on the methods used to identify the source of funds and verify investor identity, including processes to record investors that are PEPs.

1 | INTRODUCTION

The last few years have seen civil society groups, journalists, and governments expose a veritable avalanche of real estate money laundering (REML) cases that span the globe, including in the U.S. and other leading economies. These cases have exposed the underbelly of professional money laundering networks, where the very individuals who are meant to safeguard the financial system instead are given carte blanche over laws and ethical codes, to help corrupt politicians,¹ businessmen,² drug traffickers,³ war criminals,⁴ and kleptocrats hide their ill-gotten wealth in real estate.⁵

Much like other money laundering vehicles, real estate money laundering involves the migration of ill-gotten wealth from the developing world into the world's leading financial centers. In the U.S., cases like the acquisition of a skyscraper in New York by the Iranian government, and the loss of hundreds of jobs across West Virginia and Ohio after it was discovered that the millions invested into these states were just a real estate laundering scheme by Ukrainian oligarchs, has brought the issue close to home.

Why do criminals choose real estate as their preferred money laundering vehicle? First, the value of real estate is generally stable and appreciates over time. This allows criminals to accumulate wealth while erasing its nefarious origins. Second, real estate transactions – both commercial and residential – are subject to limited oversight. This makes it easy to hide ownership of these assets, while at the same time being able to flaunt in plain sight the evidence of ill-gotten wealth. Third, real estate can be used to turn an initially illicit investment into a legitimate income-generating enterprise, through rentals or property development. Fourth, increased scrutiny over the ownership and use of bank accounts has meant that criminals have to find new ways to hide their money. Fifth, and perhaps most pertinent of all, by safeguarding wealth in assets where ownership interests are hard to trace, criminals can protect their wealth from asset recovery efforts in their home jurisdiction, whether from legitimate authorities or the next usurper to grab power.

The U.S., along with the other advanced economies in the G7, has in recent years taken note of the serious risk posed by the real estate sector as a gateway to illicit finance. The U.S. Treasury department in its most recent national risk assessment (NRA) identified anonymous purchases of real estate, combined with a lack of comprehensive AML/CFT (anti-money laundering and combating the financing of terrorism) requirements on real estate gatekeepers, as one of the key vulnerabilities in the U.S. exploited by illicit actors.⁶ Similarly, the U.K. (2020), France (2019), Germany (2018), and Canada (2015)

REML can also lead to a distortion in real estate prices, adversely affecting house affordability and harming small businesses within the community.

1. Strum, B. (2017, April 11). Investors Flip Malibu Estate Once Involved in Corruption Scandal for \$69.9 million. Mansion Global. <https://www.mansionglobal.com/articles/investors-flip-malibu-estate-once-involved-in-corruption-scandal-for-69-9-million-59770/>

2. Dasgupta, S. (2021, April 7). A made-in-Miami money-laundering saga develops even deeper Ukraine roots. Miami Herald. <https://www.miamiherald.com/news/local/crime/article250418591.html>

3. Klein, D. (2021, January 15). US Real Estate Firms Forfeit \$50m in Alleged Drug Money. OCCRP. <https://www.occrp.org/en/daily/13642-us-real-estate-firms-forfeit-29m-in-alleged-drug-money>

4. The Sentry (2020, August 25). Podcast "Bribe, Swindle, or Steal": Laundering Looted Funds through African Real Estate. <https://thesentry.org/2020/08/25/4544/podcast-bribe-swindle-steal-laundering-looted-funds-african-real-estate/>

5. Page, M. T. (2017, November 24). Nigeria's Kleptocrats have a toxic affair with London's expensive real estate. Quartz Africa. <https://qz.com/africa/1137681/nigerian-corruption-kleptocrats-like-diezani-alison-madueke-have-a-love-affair-with-londons-expensive-real-estate/>

6. U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>, p. 13.

have all explicitly designated the sector as 'high risk' in their respective NRAs.⁷ France emphasized that the real estate sector was implicated in all stages of the money laundering process, and vice versa, that money laundering was frequent in all phases of a real estate project.⁸

The U.S. has primarily responded to these money laundering risks by issuing a series of temporary orders that target residential real estate in select locations within the U.S. Other advanced economies, including the rest of the G7, have turned to creating broad AML/CFT requirements for the entirety of the real estate sector.

To create a baseline on the scale and nature of REML in the U.S., Global Financial Integrity (GFI) has curated a dataset of REML cases. The dataset has helped GFI identify, amongst other things, where money is laundered in U.S. real estate, the money laundering typologies that are adopted, the country origins of the illicit money, and the roles residential and commercial real estate have in these schemes. The goal of this report is threefold. First, to assess the efficacy of U.S. regulations using our dataset. Second, to utilize our dataset to identify the most pressing vulnerabilities in the U.S. real estate sector that need to be addressed in future regulation or rulemaking. Third, to provide context by comparing and contrasting the U.S. approach with approaches taken in the rest of the G7.

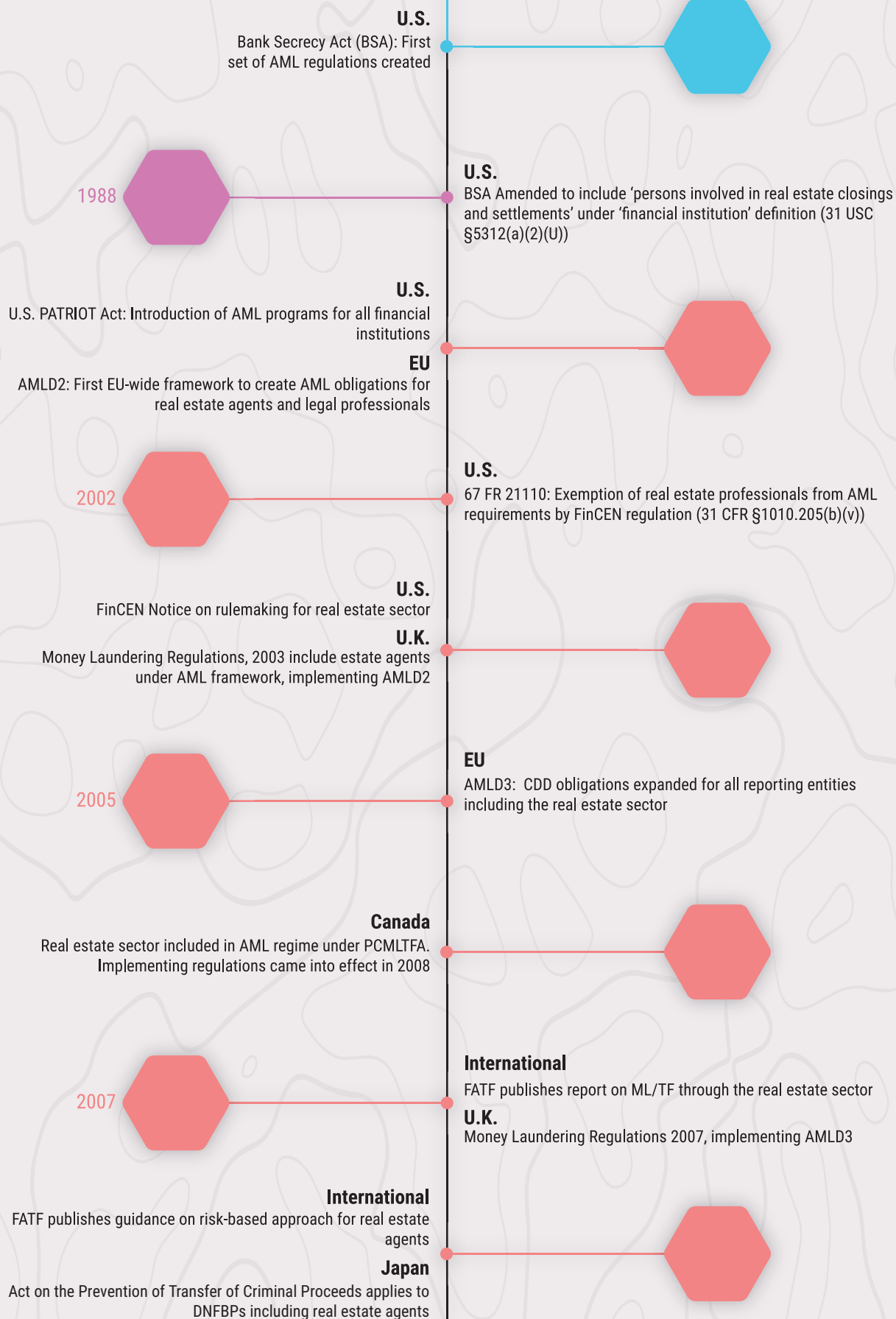
The findings of the report demonstrate that the current approach of the U.S is woefully inadequate, and that the country's real estate sector poses significant national security risks by continuing to be a safe haven for criminals and kleptocrats. The variety of cases show that REML in the U.S. is not just limited to the narrow confines of residential properties in luxury real estate markets. It spans from Anchorage, Alaska to the steel plants of the Midwest and the leafy suburbs of Boston, exposing a series of vulnerabilities that remain unchecked. The path forward for the U.S. lies in a combination of adapting some measures from the G7, while also taking the lead in other areas such as commercial real estate where the current G7 approach is inadequate.

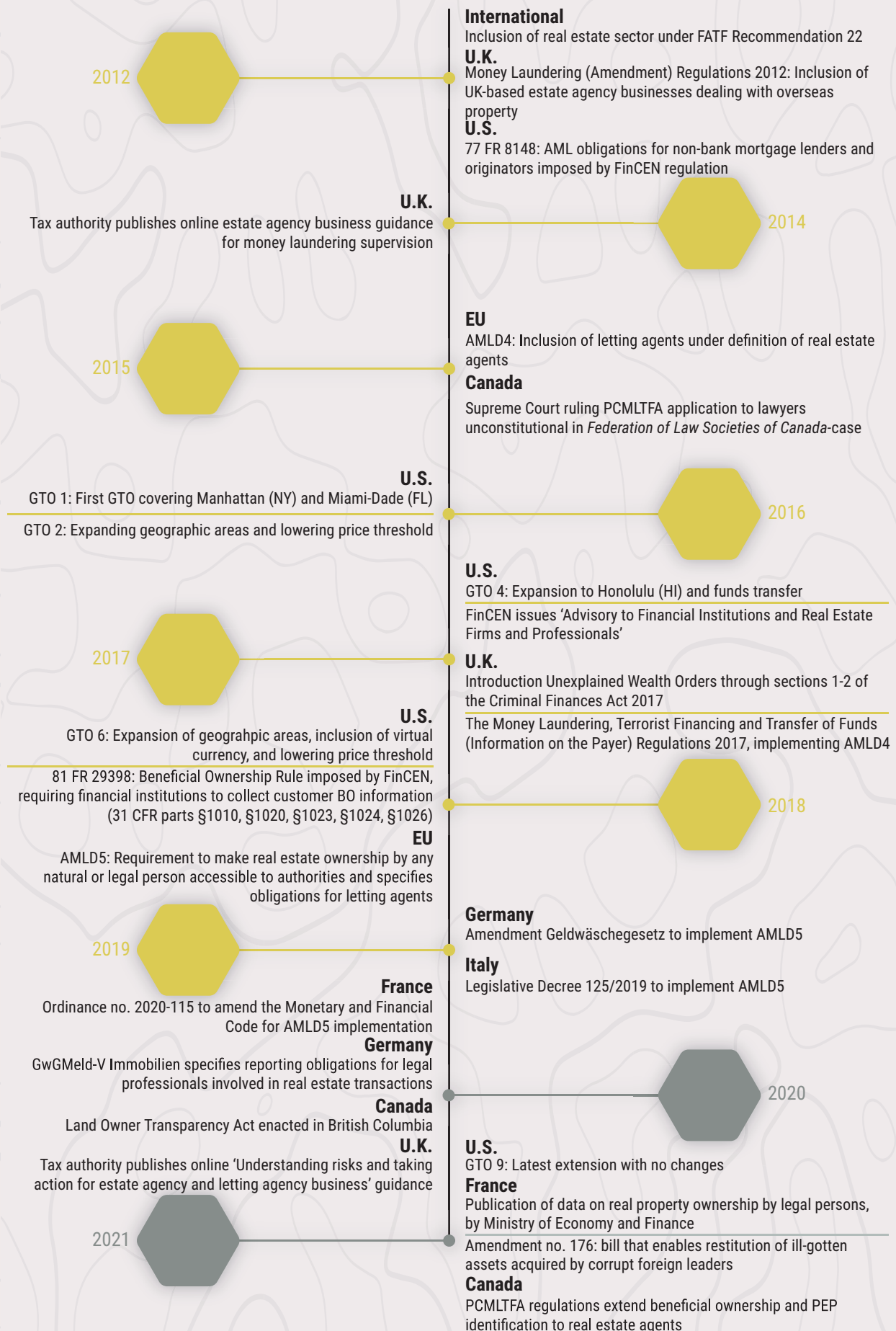
7. HM Treasury (2020). National risk assessment of money laundering and terrorist financing 2020. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945411/NRA_2020_v1.2_FOR_PUBLICATION.pdf; Department of Finance Canada (2015). Assessment of inherent risks of money laundering and terrorist financing in Canada. <https://www.canada.ca/content/dam/fm/migration/pub/mltf-rpcfat/mltf-rpcfat-eng.pdf>; Federal Ministry of Finance Germany (2018). First National Risk Assessment 2018/2019. https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Brochures/2020-02-13-first-national-risk-assessment-2018-2019.pdf?__blob=publicationFile&.

8. TRACFIN. (2019). ML/TF risk trends and analysis 2019-2020. Ministère de l'économie, des finances et de la relance. https://www.economie.gouv.fr/files/files/directions-services/tracfin/web-ra-eng-analyse-tracfin-19-20_0.pdf, p. 35.



TIMELINE: DEVELOPMENT OF REAL ESTATE MONEY LAUNDERING REGULATIONS ACROSS THE G7





2 | EVOLUTION OF THE LAWS TARGETING REAL ESTATE MONEY LAUNDERING IN THE U.S.

When the United States (U.S.) in 1988 amended the definition of financial institutions in the Bank Secrecy Act (BSA) to include 'persons involved in real estate closings and settlements',⁹ it became one of the first countries to target the risks of money laundering in the real estate sector. Despite this promising start, the U.S. today has one of the weakest regulatory frameworks amongst the G7 to address real estate money laundering (REML). The U.S. PATRIOT Act, enacted in the aftermath of 9/11 with the goal of strengthening national security, required financial institutions including real estate professionals to establish AML/CFT compliance programs. Ironically, it was the U.S. Financial Crimes Enforcement Network (FinCEN) granting real estate professionals a 'temporary exemption' from compliance as a 'financial institution', that created some of the loopholes that today allows kleptocrats, hostile governments, drug traffickers, and human rights abusers to launder their money in U.S. real estate.¹⁰ This 'temporary' exemption has since gone on for two decades, and hinders the development of any further legislative efforts to target other gatekeepers. This in turns exacerbates the vulnerabilities of the U.S. real estate sector to money laundering.

The Bank Secrecy Act is the main piece of Anti-Money Laundering legislation in the U.S., aimed at preventing criminals from using financial institutions to launder money.

The U.S. approach: Geographic Targeting Orders

Between 2001 and 2016, financial institutions became solely responsible for mitigating the risks of REML. Unsurprisingly, this proved inadequate, and in 2016 FinCEN issued the only binding regulation focused on REML risks in the U.S. real estate sector via a set of temporary orders called Geographic Targeting Orders (GTOs), which have to be renewed every six months. Targeted at cash purchases by anonymous companies in high-end residential real estate markets, the GTOs require title insurance companies to identify and report to FinCEN, the beneficial owners of legal entities making residential real estate purchases that conform to certain geographic and monetary criteria. The first GTO in March of 2016 targeted transactions of US\$3 million or more in Manhattan, New York and US\$1 million or more in Miami-Dade County, Florida. Subsequent GTOs expanded the geographical reach and lowered the purchase price threshold. Since November 2018, the content of the GTOs has remained unchanged. The evolution of REML GTOs is covered in the table below.

Under the current GTO, title insurance companies must report the beneficial owner of any residential real estate purchase of US\$300,000 or more made by a legal entity using currency, money instruments, wire transfers or virtual currency in one of the 22 designated metropolitan areas located in nine different states.

9. 31 USC 55312(a)(2)(U)

10. 67 FR 21110: FinCEN Interim final rule 'Anti-Money Laundering Programs for Financial Institutions'; 31 CFR §1010.205(b)(v).

GTO coverage and evolution

	GTO 1 (March 2016 to August 2016)	GTO 2 (August 2016 to February 2017)	GTO 3 (February 2017 to August 2017)	GTO 4 (September 2017 to March 2018)	GTO 5 (March 2018 to September 2018)	GTO 6 (November 2018 to May 2019)	GTO 7, 8, 9 and 10 (May 2019 to October 2021)
Purchase price reporting threshold	3M 2M 1M 0 ≥\$3,000,000- ≥\$1,000,000 (varied by geographic area)	3M 2M 1M 0 \$500,000- \$3,000,000 (varied by geographic area)	3M 2M 1M 0 \$500,000- \$3,000,000 (varied by geographic area)	3M 2M 1M 0 \$500,000- \$3,000,000 (varied by geographic area)	3M 2M 1M 0 \$500,000- \$3,000,000 (varied by geographic area)	3M 2M 1M 0 ≥\$300,000 (varied by geographic area)	3M 2M 1M 0 ≥\$300,000 (varied by geographic area)
Types of monetary instruments covered	 Currency Money order Checks: - Cashier's - Certified - Traveler's	 Checks: - Personal - Business		 Funds Transfer	 	 Virtual Currency	
Geographic areas covered (residential real property purchases in the following countries/ boroughs)	 NY - Manhattan FL - Miami-Dade	 NY - Brooklyn Queens Bronx Staten Island FL - Broward Palm Beach CA - San Diego Los Angeles San Francisco San Mateo Santa Clara TX - Bexar		 HI - Honolulu		 TX - Tarrant Dallas NV - Clark WA - King MA - Suffolk Middlesex IL - Cook	

Source: Table from GAO report (2020), redesigned.¹¹

Additional U.S. efforts are voluntary and restricted in value

In more recent years, FinCEN has issued advisories for the real estate sector to be shared with financial institutions, real estate agents, and escrow agents, amongst others.¹² However, these positive efforts are without any real teeth because most actors listed are not subject to AML/CFT requirements under the BSA, so compliance is entirely voluntary.

How does the U.S. compare to the rest of the G7?

Despite being later to the start than the U.S., the G7 quickly evolved its laws, keeping pace with international best practices and (revised) Financial Action Task Force (FATF) recommendations. Particularly noteworthy have been efforts to tackle the complicity of gatekeepers and other real estate professionals in REML schemes, approving

the creation of strong beneficial ownership registries to counter real estate purchases by anonymous legal entities, and expanding and strengthening politically exposed person (PEP) guidance. Many of these significant reforms have taken place within the last 5 years. The timeline (see pg. 8) captures the rapid development of laws targeting REML within the rest of the G7. At the same time, as the comparison tables included throughout this report indicate, these rapid developments have not been without challenges, and countries in the G7 have in some areas suffered from implementation issues, poor enforcement, and weak compliance. In other

11. <https://www.gao.gov/products/gao-20-546>

12. FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf.

areas, while the measures to target REML are positive developments, their introduction in only the last few years has made assessing their effectiveness difficult. In this way, it is similar to the U.S.' recent approval to create a beneficial ownership registry. Therefore, this report does not make absolute assessments on the G7, but uses, 🟢🔴, and 🟡 as indicated in the methodology to denote positive, negative, and stagnant developments in addressing REML. That said, the rest of the G7 have put their chess pieces on the board, and while not perfect have started to chart a comprehensive path to address REML. The U.S., despite having an impressive track record of enforcement, still operates at a distinct disadvantage when tackling REML, due to its weak regulatory framework.

Subsequent chapters in this report examine the adequacy of U.S. laws first through case analysis, and later through regulatory examination in comparison to the G7, making the case that the U.S. in some areas would be better served by adopting a standard that is more in line with the rest of the G7.





COMMON TYPOLOGIES: *Money Laundering and Real Estate*

1 Utilizing cash

Cash is often an inelegant but effective way of laundering money. Many countries do not have reporting thresholds for cash purchases or when they do, they are avoided by structuring payments through multiple accounts.



2 Use of gatekeepers

Professional gatekeepers, such as real estate agents and lawyers, assist criminals by representing them, establishing offshore legal entities or using their own bank accounts for transfers. This creates a buffer between the criminal and their illicit assets and adds a sense of legitimacy to the real estate transaction.



3 Front, shell, trusts and other company structures

These entities are established domestically or offshore to help obfuscate the identity of the actual owner of a property. On paper, control over the entity is vested in the hands of third parties or gatekeepers that do not raise obvious red



4 Renovation

Illicit funds are used to pay for renovations which help increase the value of the property. Using illicit funds at this stage obfuscates both the identity of the owner and the contributions these funds have made to the enhanced property value.



5 Leases

Criminals rent their own property by purchasing it in the name of a complicit third party and pay rent to themselves through the third party. Other schemes include providing tenants illicit funds to pay rent payments or depositing these funds into a fictitious rent account.



6 Loans and Mortgages

High-value loans are taken out and then re-paid lump sum or through structured smaller payments of illicit funds. In a loan-back scheme criminals borrow from themselves through a foreign off-shore entity that is seemingly an arms-length lender.



7 Third Party Purchases

Third parties or family members without criminal records are used to purchase a property and act as the legal owner. Third parties provide distance between the illicit funds, disguise ownership and can make discovery and seizure difficult.



8 Undervaluation

On a sale contract, criminals record a value that is lower than the actual purchase price. The purchaser makes up the difference using a secretive cash payment that hides the illicit source of funds. When the property is later sold at a higher value, the new sale provides the purchaser legitimate funds.



9 Overvaluation

Criminals over evaluate a property so they can receive the largest possible loan from a lender. The greater the loan amount, the greater the opportunity to service the loan using illicit funds.



10 Successive sales or purchases

Through a series of successive transactions (sales or purchases), the property is sold at a higher price each time to related third parties, companies or trusts controlled by the criminal. These fictitious sales help generate seemingly legitimate profits while ensuring the criminal actors maintain control over the property but also continue to hide their



11 Investments in real estate funds

A criminal can provide capital to a real estate fund or purchase shares in a real estate investment company, who is the legal owner of a property. As such, it can invest illicit money in real estate without becoming the direct owner or a party to the transaction.



12 Purchase of real estate to generate legitimate income

The real estate sector provides an opportunity to earn additional profits and integrate the illicit funds into the legitimate economy. Buying a casino, hotel, or restaurant brings legitimate business activities with extensive use of cash.



3 | FROM ANALYZING REPORTED CASES TO IDENTIFYING REGULATORY GAPS

Looking at the development of laws targeting money laundering in the G7 in Chapter 2, it becomes apparent that the U.S. is not on pace with other countries within the G7. To accurately identify where the greatest need for reform exists within the U.S. regulatory framework, GFI built a dataset of REML cases in the U.S., UK, and Canada that were publicly reported over a five-year period (2015 – 2020). The rationale for examining cases from the UK and Canada in addition to the U.S. is to provide a yardstick by which to determine whether regulatory solutions in the U.S. need to be distinct from other G7 countries. Additionally, the analysis helps to demonstrate patterns of systemic risk showing that the U.S. should align itself more closely with FATF recommendations and adopt certain regulatory standards being implemented elsewhere in the G7.

The analysis of the dataset points to several key points. First, the limitations of the GTO approach. Second, the need to prioritize the implementation of the beneficial ownership (BO) registry. Third, the prevalence of REML in the commercial real estate sector. Fourth, the prominent role that PEPs play as criminal actors in U.S. REML schemes. And finally, the importance of gatekeepers in facilitating REML in the U.S. The subsequent chapters of this report will provide an in-depth analysis of each of these issues and compare them to regulatory developments in the rest of the G7.

Billions laundered through real estate alongside other high value assets

Analyzing 125 cases (56 in the U.S., 34 in the UK, and 35 in Canada) reported over a 5-year period (2015 – 2020), GFI's calculations reveal that, at a minimum, US\$2.3 billion was laundered through the real estate sector in the U.S. During the same period, reported cases involving the UK and Canadian real estate sectors reveal that at least US\$1.1 billion and US\$626.3 million was laundered, respectively (see U.S., UK, and Canada Case Analysis, pg. 16,17 & 18).

These values are staggering because the dataset comprises only already reported or adjudicated cases and therefore represents only a fraction of the full extent of REML in the U.S. Further, these calculations only reflect the value of the real estate assets that were part of the money laundering schemes. This is important because the dataset demonstrated that REML schemes frequently occurred alongside schemes used to fund other types of high-net-worth lifestyle purchases. For example, many of the reported cases included money laundering through the purchase of yachts, private jets, horses, cars, jewelry, high-end watches, and art. In the case of the 1MDB scandal (Case 1, see below), it ironically included the funding of a blockbuster Hollywood movie on money laundering and market manipulation – “The Wolf of Wall Street”. This research shows that high-net-worth criminals are hiding their money in many alternate asset classes, for which the regulatory environment is opaque or insufficient to mitigate the heightened money laundering risks that exist.

Case 1: The 1MDB scandal - A textbook example of abusing the U.S. financial system to launder dirty money through luxurious assets

Key Elements:



Politically Exposed Persons (PEPs)



Commercial real estate



Use of lawyer
escrow accounts



Gatekeepers, including lawyers,
banks, and real estate agents



Complex corporate
structures

In the now infamous 1MDB scandal, more than US\$4 billion was siphoned off from Malaysia's sovereign wealth fund, 1Malaysia Development Berhad (1MDB), prompting lawsuits across the globe.¹³ Over the course of a decade, Jho Low, the alleged mastermind behind the money laundering scheme, and his associates including the Malaysian Prime Minister's stepson, Najib Razak, diverted the money by defrauding banks, sending wires to offshore accounts and laundering the proceeds in the U.S. by purchasing luxury penthouses, investing in major commercial development projects, throwing lavish parties, and gifting rare movie posters and jewelry to famous actors and supermodels. Since 2016, the U.S. Department of Justice has filed a series of forfeiture suits seeking to seize over US\$1.7 billion in assets including yachts, jets, paintings and real estate.¹⁴

The vast real estate portfolio acquired with 1MDB funds encompassed Beverly Hills mansions, Manhattan penthouses, and interests in hotels in New York and Los Angeles. The types of gatekeepers involved in these transactions varied widely. For example, a major real estate investment firm partnered with a legal entity beneficially owned by Jho Low to purchase the Park Lane hotel in New York. Wells Fargo bank granted a mortgage for the Park Lane acquisition without raising a red flag. For some of the other acquisitions, real estate agents were paid high fees for facilitating the property acquisitions, and at least five different title insurance and escrow companies carried out the transactions without any concerns. Most notably, attorneys from several New York-based law firms acted as representatives for the corporate entities purchasing the properties on behalf of Low and his associates, and used Interest on Lawyer Trust Accounts (IOLTA) to move the money.

13. Miller, H. & Browning, J. (2021, March 25). 1MDB Case Hits Setback as Judge Rules Against U.S. Justice Department. Bloomberg. <https://www.bloomberg.com/news/articles/2021-03-25/1mdb-kleptocracy-case-hits-setback-as-judge-rules-against-doj>

14. U.S. Department of Justice (2016). Documents and Resources from the July 2016 Press Conference Announcing Significant Kleptocracy Enforcement Action to Recover more than US\$1 billion obtained from Corruption involving Malaysian Sovereign Wealth Fund. <https://www.justice.gov/archives/kleptocracy-enforcement-action>; U.S. Department of Justice (2017), U.S. Seeks to Recover Approximately \$540 Million Obtained From Corruption Involving Malaysian Sovereign Wealth Fund. <https://www.justice.gov/opa/pr/us-seeks-recover-approximately-540-million-obtained-corruption-involving-malaysian-sovereign>; U.S. Department of Justice (2019), U.S. Seeks to Recover Approximately \$38 Million Allegedly Obtained from Corruption Involving Malaysian Sovereign Wealth Fund. <https://www.justice.gov/opa/pr/us-seeks-recover-approximately-38-million-allegedly-obtained-corruption-involving-malaysian>.

U.S. - CASE ANALYSIS

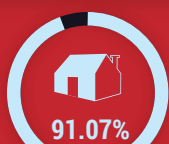
56

Number of cases analyzed
(2015-2020)

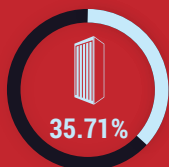
US\$2,315B

Total value laundered through real estate (minimum)

Residential versus Commercial

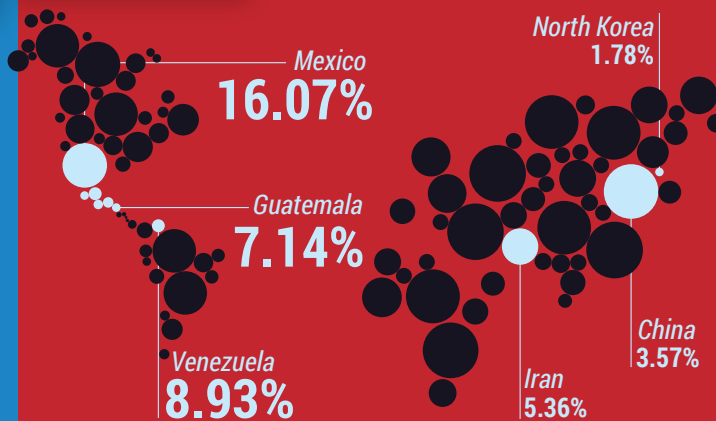


Residential



Commercial

Top foreign origins



Sources of illicit money

US origin
17.86%



82.14%
Foreign origin

Top foreign origins by region



PEPs involved:
53.57% of all cases

Top PEPs place of origin:

1. Mexico
2. Venezuela
3. Guatemala
4. Malaysia
5. Nigeria

Money laundering typologies

TOP 3



Company structures



Third parties

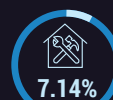


Mortgage schemes

OTHER



Leasing schemes



Renovations

Gate keepers & facilitators:



35.71%
Lawyers/
Law Firms



25%
Real Estate
Agents/
Brokers



17.86%
Title & Escrow
agents and
companies



16.07%
Real Estate
Investment
Companies



10.71%
Real Estate
Development
Companies



7.14%
Real Estate
Property
Management
Companies



5.36%
Company
Service
Providers



5.36%
Banks



5.36%
Auctioneers

U.K. - CASE ANALYSIS

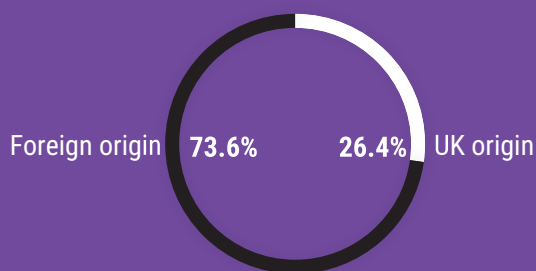
34

Number of cases analyzed
(2015-2020)

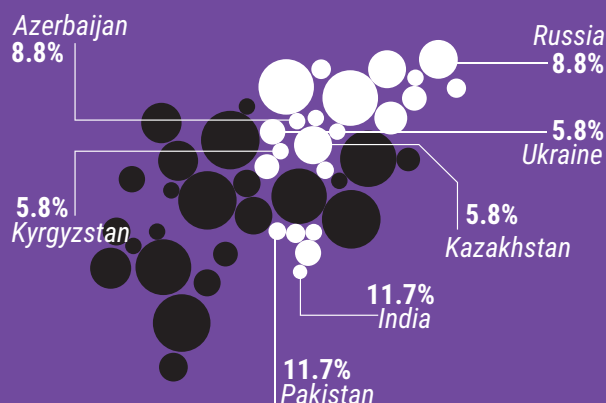
US\$1.135B

Total value laundered through real estate (minimum)

Origin of the money laundered through real estate



Top foreign origins



Other countries include:
Iraq, Libya, Nigeria, Bermuda, and Malaysia



PEPs involved:
41% of all cases

Top PEP countries:

1. *Azerbaijan*
2. *Pakistan & Kazakhstan*

Other countries included: *Kyrgyzstan, Iraq, Russia, Libya, Nigeria, Malaysia, and India.*

Gatekeepers & facilitators:



29.4%
Lawyers



8.8%
Accountants

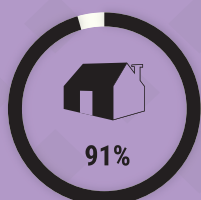


5.8%
Real Estate
Development
Company

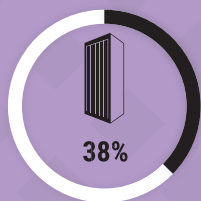
Other cases involved:

Real estate agencies and property consultants

Types of real estate



Residential Real Estate



Commercial Real Estate

Money laundering typologies

**TOP
2**



73.5%
Company
structures



50%
Third
parties

OTHER



8.8%
Mortgage
schemes



8.8%
Leasing
schemes



5.8%
Renovations

Other money laundering typologies identified include:

- ***The use of the immigrant investor programs***
- ***Overvaluation of a property***
- ***Successive sales***

CANADA - CASE ANALYSIS

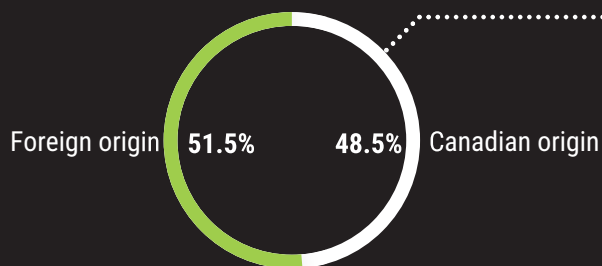
35

Number of cases analyzed
(2015-2020)

US\$626.3M

Total value laundered through real estate (minimum)

Origin of the money laundered through real estate



58.5%

of Canadian origin cases
related to drug trafficking

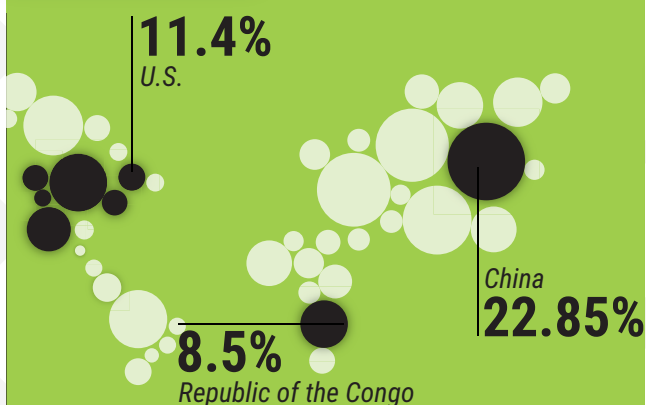
(28.5% of the total)



PEPs involved:
11.4% of all cases

PEP countries: **Congo, Malaysia, and Chad**

Top foreign origins



Other countries of origin include:
Chad, Mexico, Colombia, Malaysia, Russia, and Libya

Gatekeepers & facilitators:



22.8%
Lawyers



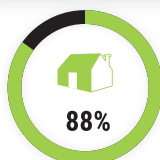
14.2%
Real Estate
Agents



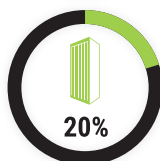
11.4%
Real Estate
Development
Company

Other identified: **Property management firms, mortgage brokers, crypto-money service business, accounting firms, and financial institutions**

Types of real estate



Residential Real Estate



Commercial Real Estate



Agricultural Land

Money laundering typologies

**TOP
3**



Company structures



Third parties



Mortgage schemes

OTHER



Private loans



Renovations



Leasing schemes

Other money laundering typologies identified include:

- **The use of the immigrant investor program**
- **Overvaluation of a property**

Location, Location, Location! – Money laundering is pervasive well outside of high-end real estate markets

Of all the G7 economies, the U.S. is the only country that applies regulatory requirements on REML selectively within its territory. Despite this, U.S. cases showed the broadest geographic coverage compared to the UK and Canadian cases. In the U.S., REML cases were identified across 25 states, even though only select counties in nine of these states are currently subject to a GTO. Particularly revealing is that 64% of cases occurred in states that had never been subject to a GTO, including REML cases tied to Iranian sanctions evasion that occurred in Alaska and a host of other non-GTO counties (Case 2, see below).

Case 2: US\$10 million commission for helping Iran evade sanctions laundered through real estate purchases in multiple states with no GTOs

Key Element:



Non-GTO counties: Anchorage (AK), Eugene (OR), Colorado springs (CO) and Costa Mesa (CA).

Between 2011 – 2014, Kenneth Zong helped the Iranian government transfer US\$1 billion to various businesses and individuals around the world, in violation of the U.S. sanctions regime. Zong received US\$10 million for his role in the scheme and laundered this money with the help of his family through real estate purchases in Anchorage (AK), Eugene (OR), Colorado Springs (CO) and Costa Mesa (CA) - none of which are subject to a GTO. He also laundered the money through the purchase of automobiles and an interest in a yacht. In 2014, Zong and his family were ordered to forfeit US\$10 million in assets, including real estate properties. In 2016, Kenneth Zong was charged in a 47-count indictment and in 2018, his son Mitchell Zong was sentenced for money laundering charges.¹⁵ In 2020, an additional US\$20 million forfeiture complaint was filed, aimed at his purchase of a hotel in Tbilisi, Georgia.¹⁶

Even when the analysis is broken down to look at occurrences of REML cases on a county basis, 60.71% of the cases included one or more counties that were not subject to a GTO.¹⁷ The number of cases that involved only non-GTO counties exceeded the number of cases that only involved GTO counties: 39.29% vs. 37.50%.¹⁸

15. Dorfman, Z. (2017, July 14). The Ayatollah's Billion-Dollar Alaskan Bag Man. Politico. <https://www.politico.com/magazine/story/2017/07/14/iran-money-laundering-kenneth-zong-215372/>.

16. U.S. Department of Justice. (2020, June 3). Justice Department Seeks Forfeiture of More than \$20 Million in Assets Relating to Unlawful Use of U.S. Financial System to Evade and Violate Iranian Sanctions. <https://www.justice.gov/opa/pr/justice-department-seeks-forfeiture-more-20-million-assets-relating-unlawful-use-us-financial>.

17. Non-GTO status is based on whether the county was a GTO county when the cases were first reported.

18. The remaining cases included both GTO and non-GTO counties within the same case.

Texas, which has some counties subject to a GTO, is particularly interesting. Seventy-five percent of Texas counties where REML cases were identified had never been subject to a GTO. California, which is another luxury real estate market, is in a similar position to Texas, as 60% of Californian counties where cases were identified were not subject to a GTO. By contrast, 100% of all cases that occurred in the state of Florida occurred in GTO counties or counties that subsequently became GTO counties.

Another area of concern, as the "Case Analysis Across Counties Map" reveals (see p. 27), is that only seven counties that were not originally targeted, subsequently became GTO counties. This is concerning because the majority of non-GTO counties, despite featuring in a comparable number of cases to GTO counties, continue to be excluded from any reporting requirements.

In the UK and Canada, by contrast, the cases identified were a lot less geographically disbursed. For instance, in the UK, 97% of all cases identified were in England, with 67.6% of all UK cases taking place in London. Similarly, in Canada, 68.5% of cases occurred in British Columbia, with Vancouver making up the largest share of cases by city at 37% (see UK, and Canada Geographic maps, pg. 22 & 23).

Residential versus Commercial real estate – Where is the illicit money going within the sector?

Unsurprisingly, residential property constitutes the bulk of all identified cases. In the U.S. and UK, residential property was involved in 91% of all cases. Canada is remarkably similar, with residential property featuring in 88% of all cases. This trend did not appear to change even though there were significantly more cases identified and analyzed in the U.S.

Commercial real estate (CRE), which is not subject to any reporting requirements under the GTOs, was also a significant vehicle to launder money in all three countries. In the U.S., one or more commercial real estate properties were involved in 35.71% of all cases. The numbers were not too far off in the UK and Canada, with commercial real estate identified in 38% and 20% of cases respectively. Canada is unique in that agricultural property was also identified in 5% of the cases.

The types of commercial properties ran the gamut, including everything from the mundane to the ultra-luxurious and the surprising. Some of the assets identified included: office parks, steel plants, luxury hotels, motels, a mental health facility, supermarkets, and condominium developments. Perhaps most interesting was the purchase of a wind turbine, in addition to houses and land, to launder the proceeds from a drug trafficking operation.¹⁹ This connection to renewable energy is not just noted in the three countries analyzed. Reports from Italy show that organized crime groups like the Cosa Nostra have invested "*years of deep infiltration into the renewable energy sector*", finding new ways to create seemingly legitimate income and assure the futures of their criminal enterprises (see page 61 for added Cosa Nostra's REML schemes).²⁰ Reports revealed that Italian authorities, in addition to the freezing of more than US\$2 billion in assets and the arrests of "*a dozen alleged crime bosses, corrupt local councilors and mafia-linked entrepreneurs*", seized 30 wind farms along with several solar power plants.²¹

While CRE was connected to fewer REML cases, on average the values of the CRE properties involved in the schemes were markedly higher than residential real estate. One egregious example (Case 3 – see

19. Gedling Eye. (2018, December 20). Man who bought land and property with criminal money ordered to pay back more than £1m. Gedling Eye. <https://www.gedlingeye.co.uk/news/man-who-bought-land-and-property-with-criminal-money-ordered-to-pay-back-more-than-1m/>.

20. Faiola, A. (2013, January 22). Sting operations reveal Mafia involvement in renewable energy. Washington Post. https://www.washingtonpost.com/world/europe/sting-operations-reveal-mafia-involvement-in-renewable-energy/2013/01/22/67388504-5f39-11e2-9dc9-bca76dd777b8_story.html.

21. Ibid.

"In the cases analyzed, the average values of commercial real estate properties involved were markedly higher than the values of residential real estate."

below) involved the embezzlement of US\$100 million from Kuwait's Department of Defense that was used to purchase an entire 'mountain' in Beverly Hills (a 157-acre property), with no questions asked about the financing. Another extreme case occurred in the UK and involved Ukrainian oligarch Dmytro Firtash, who was approved to purchase Brompton Road underground station from the UK's Ministry of Defense for US\$76.5 million in February 2014. Firtash, a controversial figure in Ukraine with close ties to organized crime as well as deposed premier Viktor Yushenko and Vladimir Putin, had no problems receiving approval to make the purchase. However, a few weeks later in March 2014, the U.S. made an extradition request to Austria for him on charges that later included bribery, money laundering, and corruption. The two decisions, completely opposite to one another, raise questions as to why the UK approved the sale, if the U.S. was aware that Firtash was purchasing a multi-million-dollar property from the UK's Ministry of Defense, and the lack of information-sharing in that regard between the two countries.²²

Key Elements:



Commercial real estate



Politically Exposed Persons (PEPs)

Case 3: Kuwaiti embezzled funds invested in 157-acre Beverly Hills 'Mountain'

Between 2009 and 2016, three high-level officials at Kuwait's Ministry of Defense used the Ministry's attaché office in London to open unauthorized bank accounts and embezzle more than US\$100 million in public funds. By transferring these illicit funds to Californian legal entities, they were able to purchase a private jet, a yacht, a Lamborghini sports car, three Beverly Hills homes and several other Los Angeles penthouses and apartments.²³ To top it off, some of the pilfered funds were used to invest in a 157-acre undeveloped hilltop in Beverly Hills also known as 'The Mountain', which was once marketed for US\$1 billion.²⁴ Twice the size of Disneyland, the land could be developed to fit 1.5 million square feet of buildings in addition to a soccer field, amphitheater, helipad, and a polo field.²⁵

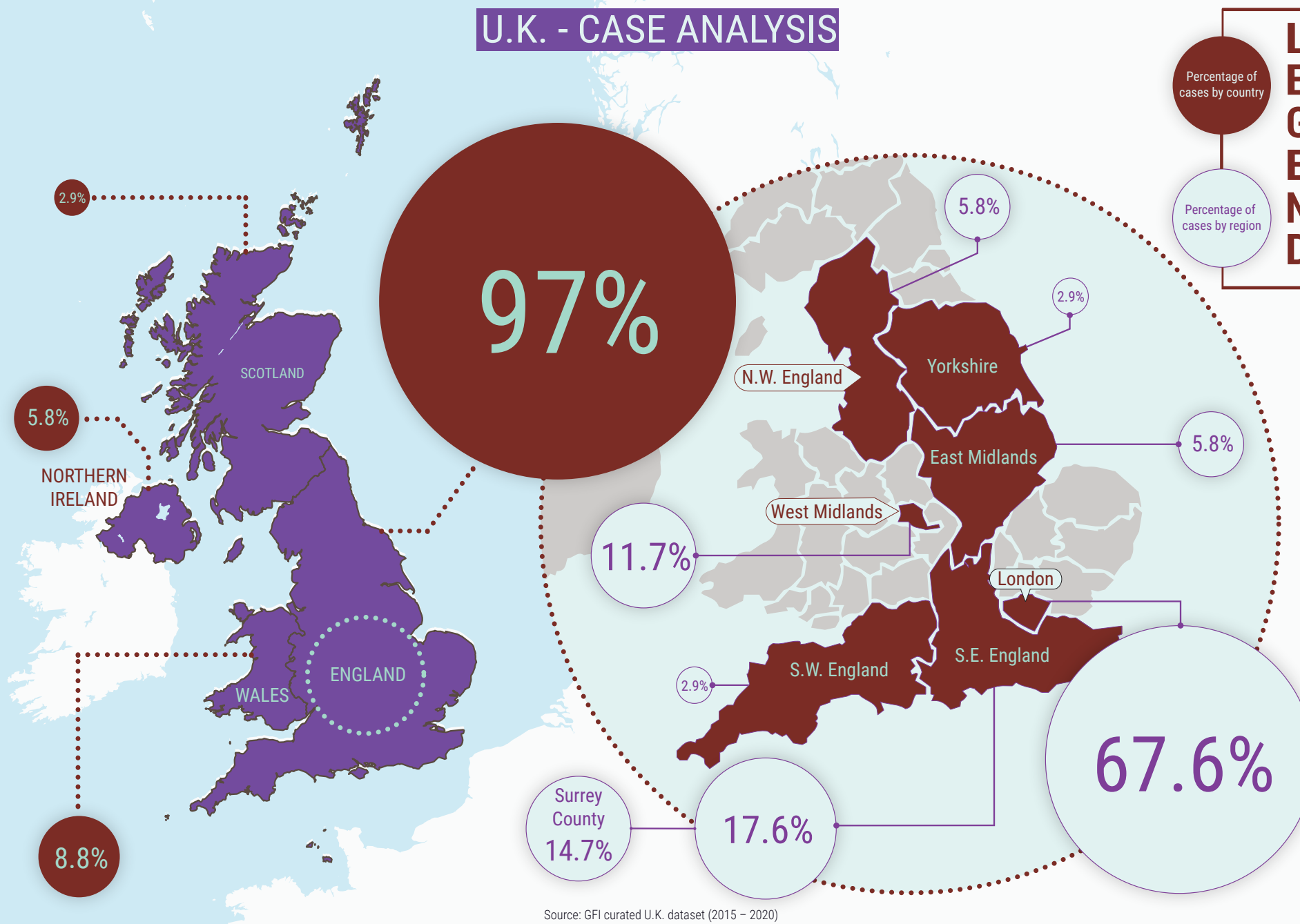
22. Prince, T. (2019, June 25). Dmytro Firtash: Who is the Ukrainian Tycoon wanted by the U.S. on Bribery charges? RFERL. <https://www.rferl.org/a/dmytro-firtash-who-is-the-ukrainian-tycoon-wanted-by-the-u-s-on-bribery-charges-/30020239.html>; Ridgwell, H. (2016, May 12). All Aboard! Kleptocracy tour shows shady side of London. VOA. <https://www.voanews.com/europe/all-aboard-kleptocracy-tour-shows-shady-side-london>; Liubakova, H. (2018, June 5). Sold out London: how Britain capital became home to the super-rich. Medium. <https://medium.com/@hanna.liubakova/sold-out-london-how-britains-capital-became-home-to-the-super-rich-432ad6bfddcd>.

23. U.S. Department of Justice. (2020, July 17). U.S. Files Lawsuits seeking to recover more than \$100 million embezzled by former officials in Kuwait's Ministry of Defense. <https://www.justice.gov/usao-cdca/pr/us-files-lawsuits-seeking-recover-more-100-million-embezzled-former-officials-kuwait-s>.

24. Associated Press. (2020, July 19). U.S. sues in LA to recover \$104 million in embezzled Kuwaiti funds – money financing real estate and luxury purchases. Daily News. <https://www.dailynews.com/2020/07/19/u-s-sues-in-la-to-recover-104-million-in-embezzled-kuwaiti-funds-money-financed-real-estate-and-luxury-purchases/>.

25. Hoffower, H. (2020, July 2020). A brief history of LA's \$1 billion 'mountain', from being scoped out by Jeff Bezos in 2019 to being seized by the Feds. Business Insider. <https://www.businessinsider.com/los-angeles-billion-dollar-mountain-for-sale-2018-7>.

U.K. - CASE ANALYSIS

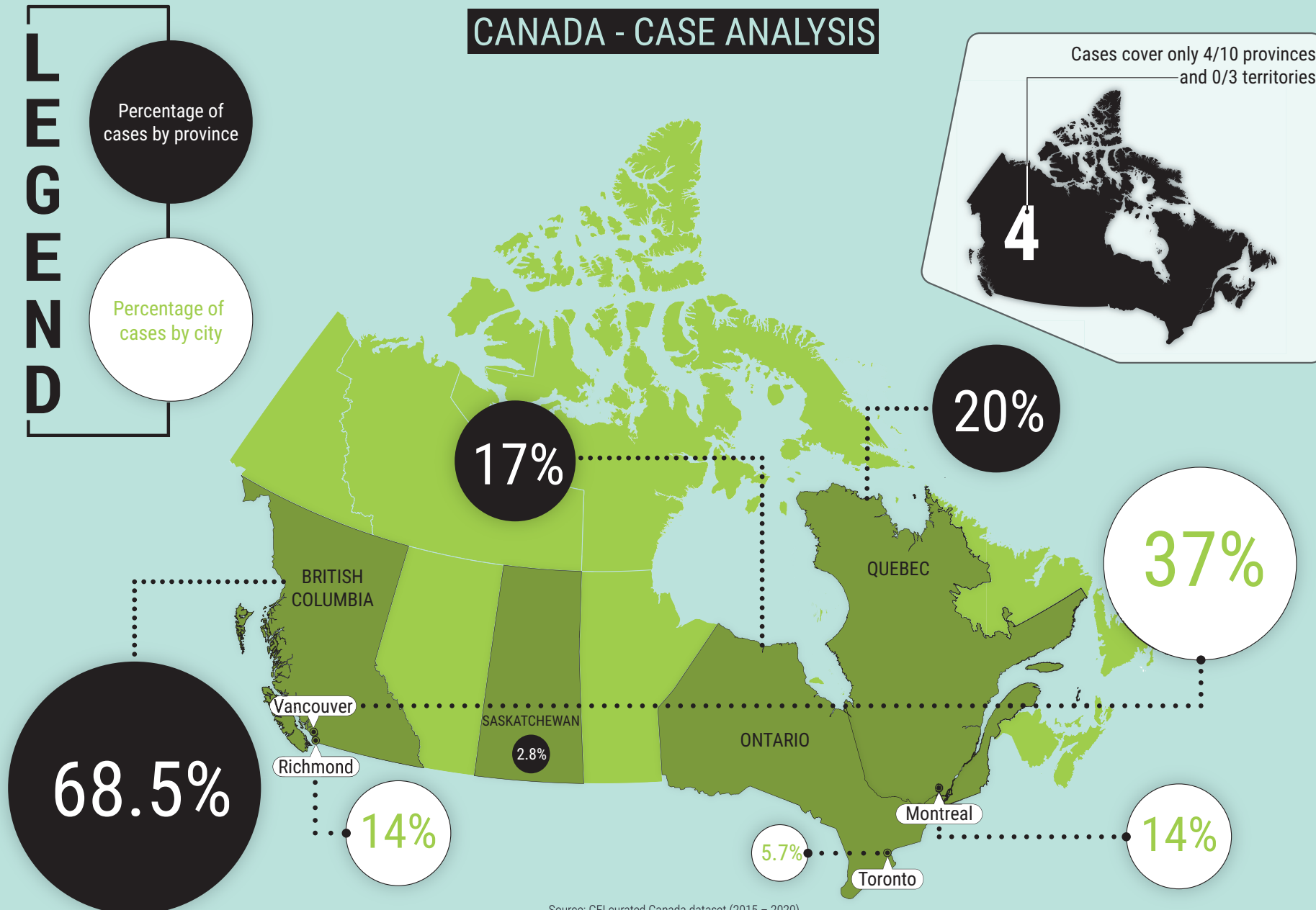


CANADA - CASE ANALYSIS

LEGEND

Percentage of cases by province

Percentage of cases by city



Source: GFI curated Canada dataset (2015 - 2020)

Following the money trail – The foreign origins of illicit money in real estate

In all three countries, the majority of REML cases involved foreign sources of money. In the U.S., this number was the highest with 82.14% of all identified cases involving money from abroad. In the UK, 73.6% of cases involved funds that were of foreign origin. In Canada, that number, though significant, was the lowest of the three at 51.5% of all cases. In Canada, one particular challenge was that a number of the cases were tied to the laundering of narcotics proceeds. These cases often involved middlemen selling the drugs within Canada, hence domestic purchases, but it was hard to decipher whether the drugs were produced in Canada or were trafficked into the country, with some part of the profits being repatriated overseas.

What is interesting is that with both Canada and the UK, the foreign sources of money entering the property market were from a very narrow set of countries. For the UK, it was from only 12 countries, with the bulk of the cases coming from India and Pakistan, closely followed by Russia and many countries that were formerly part of the Soviet bloc.²⁶ In the case of Canada, it was from only nine countries, with China (22.85%) and the U.S. (11.4%) taking up the top two positions.²⁷ With the U.S., GFI was able to identify illicit sources of money from 26 different countries. Countries from Latin America contributed the bulk, with Mexico (16.7%) being the top foreign source of illicit funds identified in REML cases.²⁸

Politically Exposed Persons – A key criminal actor in REML schemes

Several excellent reports, including the U.S. Department of the Treasury's 2020 National Strategy to Combat Terrorist and Other Illicit Financing, document the high risk of money laundering in the U.S. through the real estate sector, highlighting the role of gatekeeper professions in facilitating these schemes.²⁹ However, none of these reports comment on the significant presence of politically exposed persons (PEPs) within the space. Both the UK and the U.S. saw a significant percentage of cases involving PEPs. In the U.S., well over half of all cases involved a PEP, with the top three PEP countries all from within the Western Hemisphere (Mexico, Venezuela, and Guatemala), followed by Malaysia and Nigeria. In the UK, 41% of all identified cases involved a PEP, with Azerbaijan coming in first place, and Pakistan and Kazakhstan tying for second. Canada had significantly lower PEP involvement, with PEPs accounting for only 11.4% of all cases. Finally, the analysis also revealed that PEP cases often correlate with gatekeeper complicity, willful blindness, or shocking ignorance. Case examples like the 1MDB scam (Case 1 – see above), the Yahya Jammeh case (Case 9 in Chapter 5), the REML scheme by Congolese ruler Denis Sassou-Nguesso (Case 4 – see below), and the numerous cases of Mexican political corruption (Case 5 – featured at the end of this chapter) expand on this connection.

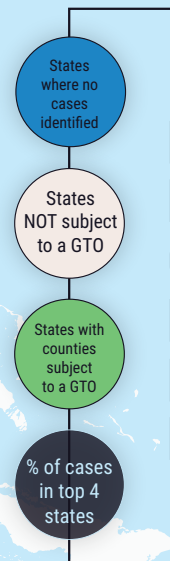
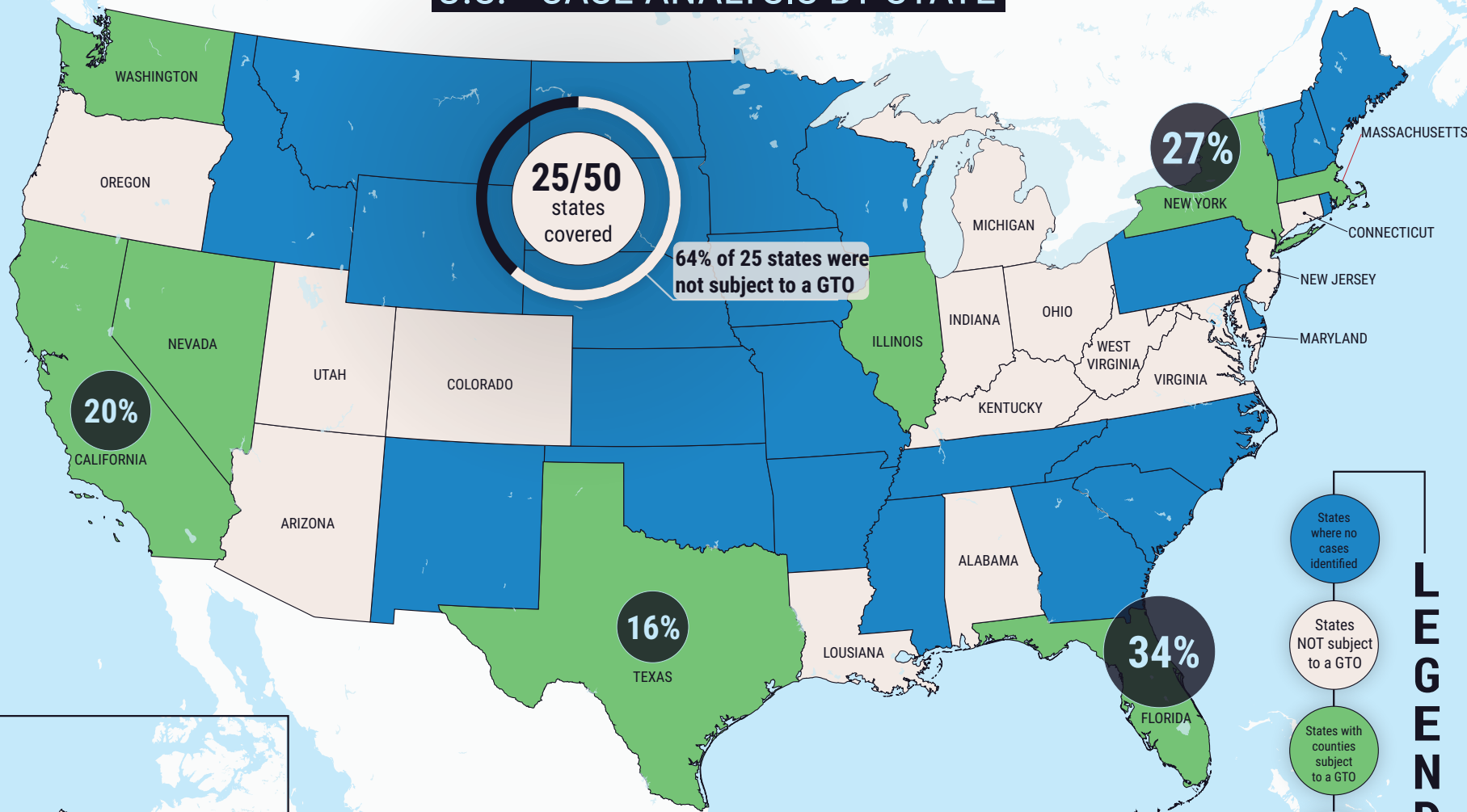
26. 12 different countries: Pakistan (11.7%), India (11.7%), Azerbaijan (8.8%), Russia (8.8%), Kyrgyzstan (5.8%), Ukraine (5.8%), Kazakhstan (5.8%), Iraq, Libya, Nigeria, Bermuda, Malaysia (each 2.9%).

27. 9 different countries: China (22.85%), US (11.4%), Republic of the Congo (8.5%), Chad, Mexico, Colombia, Malaysia, Russia & Libya (each 2.85%).

28. India, Japan, Brazil, Peru, Saudi Arabia, North Korea, Italy, Spain, Kuwait, Kyrgyzstan, Panama, Guinea, Gambia, Honduras, Haiti, Ecuador, China, Republic of the Congo, Kazakhstan, Malaysia, Nigeria, Ukraine, Iran, Guatemala, Venezuela, Mexico.

29. U.S. Government Accountability Office (2020). Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders. <https://www.gao.gov/assets/gao-20-546.pdf>; Miller, R.S. & Rosen L. W. (2019). Beneficial Ownership Transparency in Corporate Formation, Shell Companies, Real Estate, and Financial Transactions. Congressional Research Service. <https://fas.org/sgp/crs/misc/R45798.pdf>; U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>.

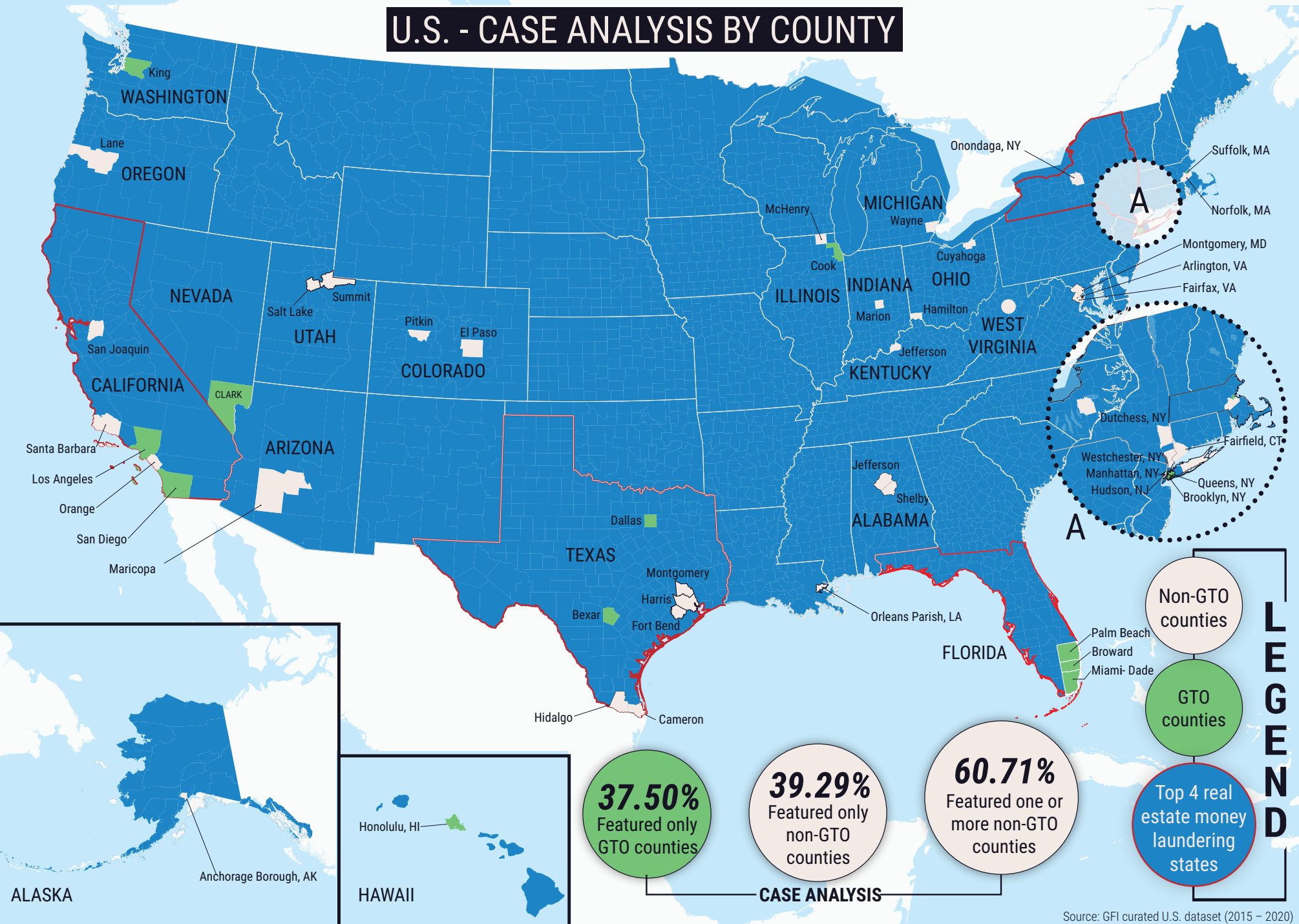
U.S. - CASE ANALYSIS BY STATE



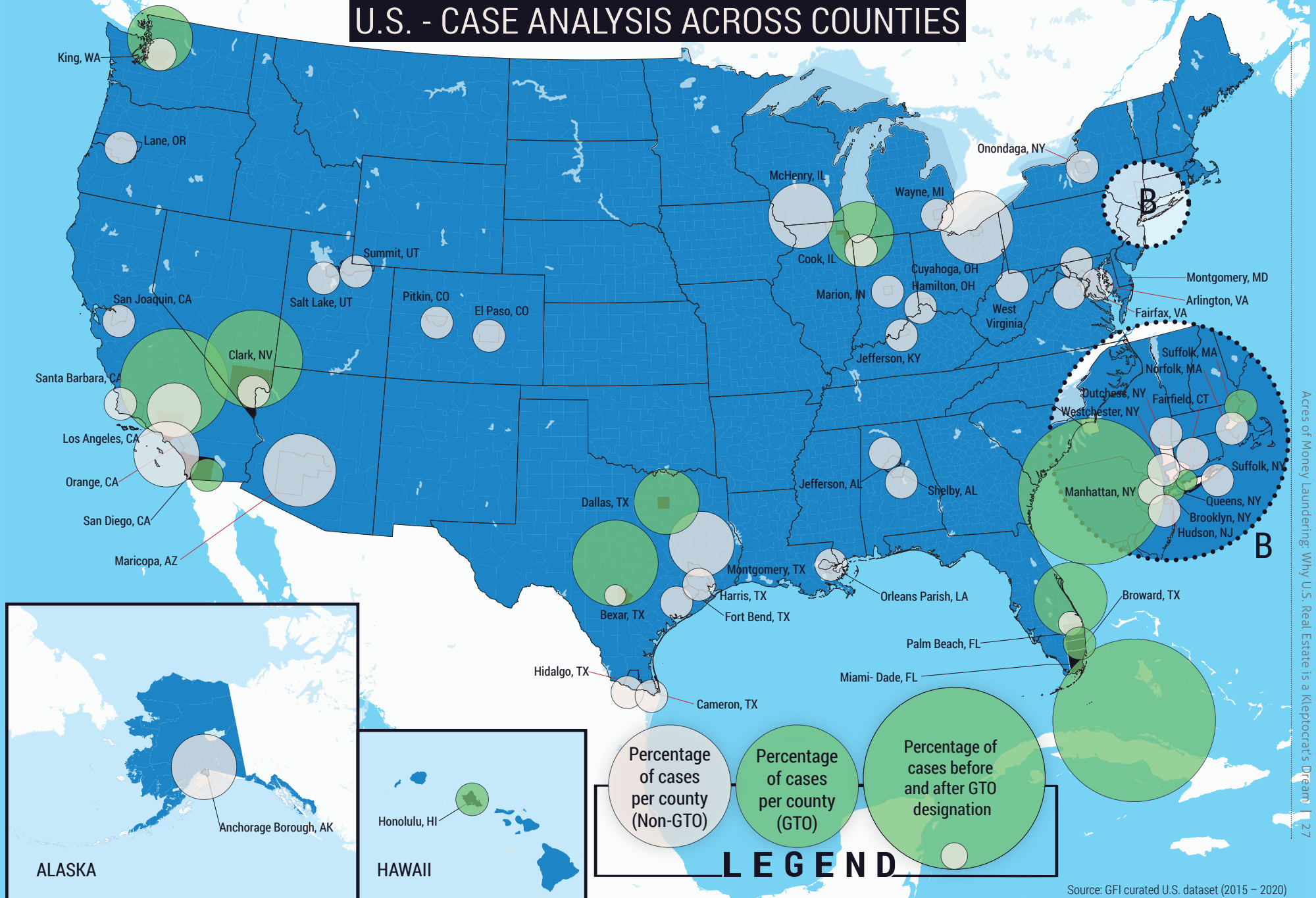
FLORIDA: 3/3 identified counties subject to GTO
NEW YORK: 4/7 identified counties were non-GTO
CALIFORNIA: 3/5 identified counties were non-GTO
TEXAS: 6/8 identified counties not subject to GTO



U.S. - CASE ANALYSIS BY COUNTY



U.S. - CASE ANALYSIS ACROSS COUNTIES



Case 4: Top U.S. law firm helps Congolese kleptocrats acquire luxury penthouses

Key Elements:



Politically Exposed Persons (PEPs)



Law firm



Real estate broker



Complex corporate structures



Third parties

The daughter and son of Congolese ruler Denis Sassou-Ngeusso allegedly used millions of embezzled state funds on luxury apartments in New York and Florida.³⁰ The money used could be traced back to the country's coffers through a complex web of companies with opaque ownership structures, middlemen and third parties. Top U.S. law firm K&L Gates LLP was hired to facilitate the acquisition of a US\$7 million apartment in the Trump International Hotel & Tower on behalf of daughter Claudia Sassou-Ngeusso. The law firm carried out the acquisition by incorporating a company in New York, using their New Jersey office as the registered address and one of their own lawyers as the director. Trump International Realty acted as the broker in the sale, and Trump International Management received monthly maintenance fees after the purchase.³¹

Money laundering typologies – anonymous companies remain the preferred method

Common trends also emerged across all three countries as regards the typologies used to launder money through the real estate sector. Unsurprisingly, the use of corporate vehicles is the number one method. The U.S. only recently passed legislation that would require the disclosure of beneficial ownership, and the case analysis reveals that at least 82.14% of all cases identified used a corporate structure of some kind to obfuscate the identity of the real owner.

In all three countries, third parties, such as family members, business associates, or lawyers, are used to hide the true beneficial owner of the property. In the U.S., over half (53.57%) of the identified cases involved the use of third parties. In the UK this was 50% of all cases and in Canada third parties were involved in 45.7% of all identified cases. In Canada, the use of private lenders is an especially significant typology used to perpetuate REML schemes: 34.2% of all cases involved some kind of mortgage scheme and over 17% of cases identified used a private lender as part of the REML scheme. In the U.S., 19.64% of cases involved mortgage schemes. Other common typologies identified, such as leasing and renovations, were also well represented but remain unaddressed along with most other common REML typologies through the GTO mechanism.

30. White, N. (2020, July 9). The Cycle of Kleptocracy: a Congolese state Affair part III. Global Witness. <https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/congoese-kleptocracy/>.

31. Abreu, M. (2019, April 10). Trump's Luxury Condo: A Congolese State Affair. Global Witness. <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/trumps-luxury-condo-a-congoese-state-affair/>.

Case 5: Paul Manafort launders millions from Ukrainian lobbying money into U.S. real estate

Key Elements:



Shell companies



Mortgage schemes



Renovation



Rental schemes



Real estate attorney



Non-GTO county: Arlington (VA)

Paul Manafort laundered money he made while advising a pro-Russian regime in Ukraine, by buying and renovating properties in the Brooklyn and Manhattan boroughs of New York City, the Hamptons, and Arlington (VA). According to the DOJ, Manafort used his offshore accounts (mostly) in Cyprus to purchase U.S. real estate, and spend millions on home improvements on his property in the Hamptons. To make the purchase, Manafort funneled money through a web of shell companies, and subsequently used these properties as collateral to obtain loans from financial institutions.³² For example, after the US\$2.85 million all-cash purchase of a condo in Manhattan through a shell company,³³ Manafort transferred the unit into his own name and then borrowed money against it with a value exceeding the home value. To obtain the US\$3.4 million loan, Manafort falsely told the bank that the property was a second home for his daughter, when in reality he rented it out on Airbnb. Additionally, he caused an insurance broker to provide false information to the bank through an outdated insurance report, thereby hiding previous mortgage on the property. A New Jersey-based real estate attorney has been associated with the legal entities used to purchase real estate, signing for biennial statements and loans.

Gatekeepers and Facilitators – no AML/CFT requirements equals no uncomfortable questions

The analyzed case examples reveal three distinct levels of involvement of gatekeepers and facilitators: (1) the gatekeepers or financial institutions were directly complicit; (2) the gatekeepers exhibited willful blindness, and (3) the absence of any requirement created a safe space where uncomfortable questions are never asked. In the three countries, cases involving PEPs, high net worth individuals (HNIs) or Ultra-HNIs showed a higher degree of use and involvement of gatekeepers in the money laundering scheme. In all three countries the top gatekeeper utilized to facilitate the money laundering schemes were lawyers. This is predictable because the vast majority of cases in the U.S. and U.K involved HNIs or PEPs laundering their money through real estate. Wealthy criminals have the resources to employ a network of gatekeepers to willingly, or willfully blindly, integrate their ill-gotten gains into the financial system.

32. Andrews, J. (2018, August 10). Why financial criminals use real estate to launder money. Curbed. <https://archive.curbed.com/2018/8/10/17674584/money-laundering-real-estate-paul-manafort-trial>.

33. The term all-cash refers to a real estate transaction that requires no mortgage or alternate financing arrangement.

In a number of cases included in this report (see Case 6), real estate attorneys either helped form the corporation buying the property, acted as the registering agent, funneled the money for the property purchase through their firm's accounts, or acted as director or front man of the legal entity that owned the real estate. The ultimate result always being that each of these actions always helped mask the identity of the beneficial owner of the property.

Case 6: Money from Mexican Political Corruption laundered through U.S. real estate using lawyers

Key Elements:



Third parties



Lawyers



Trusts



Shell companies



Mortgage schemes



Commercial real estate

In at least four cases, high-ranking Mexican officials accused of corruption, embezzlement and unexplained wealth acquired real estate worth millions of dollars in the U.S.

Former Veracruz governor Javier Duarte, who in 2016 was accused of embezzling US\$26 million as well as fostering ties with drug cartels, acquired approximately 90 properties in Mexico, Spain, and the U.S. between 2006 and 2014.³⁴ To purchase real estate in the U.S., Duarte used lawyers and business associates as front men to set up a complex network of shell companies in Texas, Delaware, and Florida.³⁵ His empire included commercial buildings in Florida, a US\$7.6 million Miami mansion purchased all-cash, and around 30 Miami homes that were sold and bought several times to conceal the origin of the money and ownership of the property.³⁶ He also owns properties in locations not covered by the GTOs, including Scottsdale, AZ and Houston, TX.³⁷

Former Oaxaca governor José Murat Casab and his son Alejandro Murat Hinojosa, at the time Mexico's top housing official, owned at least six properties worth over US\$6 million in New York, Florida, and Utah.³⁸ Ownership of these properties was obscured through trusts and shell companies registered in the names of friends and family members, including one of Murat's sons who was underage at the time of purchase. One New York condo was purchased with a trust set up by a wealth advisor in Zurich, the other by a shell company set up by a lawyer.

34. Irujo, J.M. (2016, November 21). Frontman for disgraced Mexican governor handled \$7m property portfolio. El País. https://english.elpais.com/elpais/2016/11/21/inenglish/1479726348_963052.html.

35. Corcoran, P. (2016, November 1). Did front man for fugitive Mexico Governor acquire millions in US assets? Insight Crime. <https://insightcrime.org/news/analysis/did-front-man-for-fugitive-mexico-governor-acquire-millions-in-us-assets/>.

36. Mexico Daily News (2016, October 25). Duarte's real estate: 30 homes in Miami. <https://mexiconewsdaily.com/news/duartes-real-estate-30-homes-in-miami/>; Ramírez, P., Reyes, G., Cooper, J. & Rincón S. (2017, June 21). How former Mexican governors used the United States to embezzle billions of dollars. Univision. <https://www.univision.com/univision-news/latin-america/how-former-mexican-governors-used-the-united-states-to-embezzle-billions-of-dollars>.

37. Mexico Daily News. (2018, September 18). Duarte and his wife built a real estate empire with more than 90 homes. <https://mexiconewsdaily.com/news/duarte-and-his-wife-built-a-real-estate-empire/>.

38. Story, L. & von Bertrab, A. X. (2015, February 10). Mexican Political Family Has Close Ties to Ruling Party, and Homes in the U.S. The New York Times. <https://www.nytimes.com/2015/02/11/nyregion/jose-murat-casab-mexico-pri-luxury-condos-us.html>.

Key Elements:



Successive sales



Non-GTO counties: Montgomery County (TX), Cameron County (TX), Maricopa County (AZ), and Summit County (UT).

In 2021, former governor of Tamaulipas Tomas Yarrington pled guilty to laundering drug cartel bribes through Texas real estate, including in non-GTO areas like Port Isobel and South Padre Island. Between 1998 and 2012, he used shell companies registered in the names of associates to secure millions of dollars in loans to purchase these properties as well as to pay for maintenance and repair fees.³⁹

While accused of taking bribes from El Chapo's Sinaloa Cartel, Mexico's former security minister Genaro Luna Garcia acquired a US\$3.3 million home in Golden Beach, FL, a commercial property in Aventura, FL, various condos worth US\$5 million, a luxury yacht as well as a permanent residence between 2012 and 2013. The LLCs used to purchase the properties were registered under the names of his lawyer and business associates.⁴⁰

39. United States v. Tomas Yarrington Ruvalcaba and Fernando Alejandro Cano Martinez. Indictment (2013, May 22). <https://www.documentcloud.org/documents/844560-yarrington-indictment.html>.

40. Ruiz-Goiriena, R. (2020, October 24). Gaming the system. Miami Herald. <https://www.miamiherald.com/news/local/immigration/article243460476.html>.

U.S. - REAL ESTATE FACT MAP

Scale of money laundering through economy:

US\$418.6B - 1.046T
in 2020

The U.S. is the only G7 country that does not impose **AML obligations** on real estate agents or other real estate professionals

RESIDENTIAL REAL ESTATE MARKET

Estimates of all-cash purchases:

19%

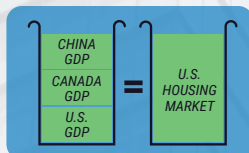
NAR (2019-2020)

24%

Redfin Property Broker (2020)

36%

Realtor.com (2020)



Value of the housing market:

US\$33.3T
in 2018

Real estate agents:



88%

Homes purchased through real estate agents/ brokers (2019-2020)

Residential real estate transactions by foreign buyers

US\$74 B
in 2019 - 2020

Top origins:

1. **China**
2. **Canada**
3. **Mexico**

64%
All-cash purchase

Financing:

39%

All-cash purchase

50%

Mortgages from U.S. banks

Biggest residential markets for foreign buyers:

1. **Florida**
2. **California**
3. **Texas**

Value of Florida homes purchased by foreign buyers:

US\$15.6B
in 2019-2020

As of August 15, 2019

23,659

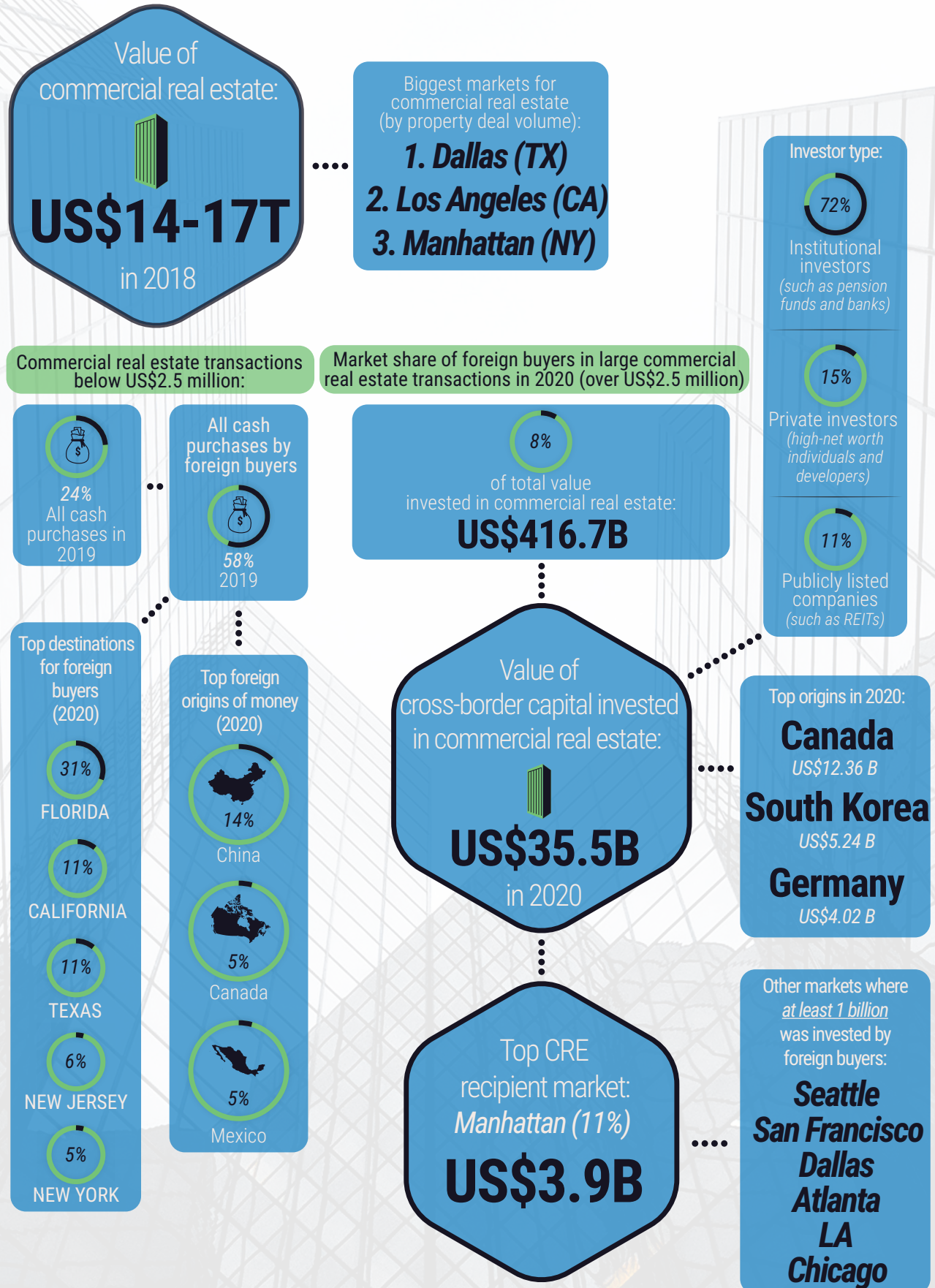
Reports filed by title companies under the GTOs.

54% - involved foreign buyers subject of a high-risk SAR

37%
Involved a person who was the subject of a SAR

15% - involved domestic buyers subject of a high-risk SAR

U.S. - REAL ESTATE FACT MAP - COMMERCIAL



4 | REGULATING RESIDENTIAL AND COMMERCIAL REAL ESTATE – THE INADEQUACY OF THE GTO MECHANISM

The discussions in Chapters 2 and 3 helped define the U.S. regulatory framework around REML and provide evidence as to the adequacy, or lack thereof, of the GTO mechanism to tackle REML in the U.S. The case analysis in Chapter 3 established that REML cases in the U.S. a) occurred with a sizeable majority in non-GTO locations, b) covered a wide range of REML typologies outside of the use of anonymous companies, and c) included money laundering through the commercial real estate sector. It is therefore necessary to underscore the limitations of the GTO approach and assess what direction any expanded regulation should take when addressing REML in the U.S.

The GTOs are insufficient to fully address money laundering risks even in residential real estate

When the findings of the case analysis are laid alongside the language of the GTOs, the limitations of the GTO policy become obvious. The main weakness of the GTOs is its limited geographic reach, covering only 22 metropolitan areas. GFI's analysis revealed that 60.71% of the cases involved one or more non-GTO counties, thus showing that criminal behavior is not just concentrated in areas typically considered luxury real estate markets in the U.S.

Second, the GTOs are limited not only by their focus on specific U.S. real estate markets, but also by applying only to *all-cash purchases* made by specific *legal vehicles*. The GTOs therefore ignore many of the other typologies described on page 13 and identified in the case analysis, including leases, successive sales, and the use of third parties. It is also unclear based on the language of the GTOs and the case analysis whether purchases made by trusts are effectively addressed.

Third, the GTOs are implicitly biased towards *buyer-side* REML schemes by making 'buyer identity disclosure' the centerpiece of the GTO process. This ignores REML typologies like overvaluation, undervaluation, and renovation that are often initiated by the *seller*.

Fourth, the GTOs still place the primary responsibility of raising REML red flags on financial institutions. The GTOs only require title insurance companies to identify the beneficial owner of a real estate purchase. Based on publicly available information reported from the U.S. Treasury and the Government Accountability Office (see Chapter 8), it appears that the GTO reports are then cross-referenced with suspicious activity reports to check for any high-risk actors. Because title insurance companies are not required to ask for source of funds, it appears that unless a bank files a SAR, the REML scheme has a much lower chance of detection.

Fifth, the GTOs do not include commercial real estate, even though 35.71% of reported cases involved commercial properties. Finally, while not a part of the analysis, subsequent conversations with title insurance industry experts revealed that the temporary nature and differing monetary thresholds

GTOs make 'buyer identity disclosure' the centerpiece of the GTO process and ignore REML typologies like overvaluation, undervaluation, successive sales, and renovation that are often initiated by the seller.

for the GTOs mean that the REML identification process has remained manual, raising costs for title insurance companies and reducing overall efficiency in detection. Thus, the GTOs are clearly insufficient to tackle REML typologies, even within the residential real estate sector.

Commercial real estate: uncharted territory





The next obvious question then is if the GTOs are inadequate to tackle residential REML schemes, can they really provide an effective mechanism to tackle commercial REML schemes? As stated in the previous chapter, 35.71% of identified cases in the U.S. involved money laundering through the CRE sector. The rest of the G7, by contrast, have whole-cloth extended their AML/CFT reporting obligations to the real estate sector without distinguishing between residential and commercial real estate. For example, a real estate agent is responsible for identifying the beneficial owner and the source of funds of not only a homebuyer, but also carrying out extensive CDD even when it is a group of 15 different conglomerates and private equity firms that are trying to acquire a hotel. This lack of distinction (see table I) is problematic because CRE deals are infinitely more complex in process, financing, and in the makeup of its investors. Yet, the language in much of the current guidance documents, red flags, and even in the selection of gatekeepers for reporting requirements emphasizes the risks seen in residential real estate deals. The section below lays out in detail the reasons for which commercial real estate transactions must move past the GTOs and adopt specific outreach, guidance, and red flag indicators distinct from those currently provided.










Commercial vs. Residential real estate

Residential real estate refers to property acquired primarily by individuals to be used as a living space. In the U.S. GTO context, it specifically refers to single-family homes and one-to-four-unit rental residences.

Commercial real estate refers to property that is primarily used for investment or income-generating purposes. CRE can also include residential properties when it involves multi-family rentals or the development of condominiums and residential communities. Additionally, anything to do with office space, retail, industrial, hotels, and other special purpose buildings fall under CRE purposes.

Table I: Comparing U.S. commercial and residential real estate obligations with the rest of the G7

	Commercial	Residential
U.S.	 Does not apply	 GTOs apply when "residential real property is purchased". But there have been no additions since 2018
UK	 The language from the UK Law Society and HMRC's guidance to estate agents suggests that the UK has not critically engaged with the challenges of the sector.	 There has been a concerted effort in recent years to strengthen and expand the regulatory framework around this. Including the introduction of unexplained wealth orders.
	Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 §12 and13). Legal professionals when "buying and selling real property." Estate agents "when carrying out estate agency work". Letting agents now included as well.	

	Commercial	Residential
Canada	 Lawyers that are critical to the due diligence process for CRE are excluded from the CDD requirements and guidance document from within high-risk money laundering provinces like British Columbia indicate a focus on targeting residential real estate. ⁴¹	 Canada, and British Columbia specifically, have made renewed efforts to tackle the issue and have made a spate of reforms in the last couple of years.
	Since 2007 - Real estate developer – makes specific reference to commercial and residential transactions - Real estate broker – purchase or sale of real property	
France	 The broad based and language of outreach suggests the focus is primarily on the residential sector. However, the ability to vet the land registry against the BO registry strengthens regulation	 Tracfin, the French FIU, has prioritized outreach with real estate professionals. France also launched a land registry that makes data on land owned by legal entities publicly available.
	L561-2, no:2, no.13 & L561-3 Monetary and Financial Code Applies to real estate professionals equally for both commercial and residential transactions.	
Germany	 Germany's particular emphasis on legal professionals places them on a better footing.	 Concerted effort in recent years to strengthen the regulatory framework around residential real estate with mixed results.
	Yes: §2(1) no. 10, no:14 GwG & GwGMeldV-Immobilien Applies to real estate professionals equally for both commercial and residential transactions.	
Italy	 Art.3 of Legislative Decree 231/2007 Applies to real estate professionals equally for both commercial and residential transactions. However, Italy's mutual evaluation shows good enforcement but weak knowledge or compliance by real estate professionals and gatekeeper professions. This is substantiated by continued low STR reporting	
Japan	 Legal professionals and judicial scriveners are limited to client verification and not CDD. This is a critical defect for CRE transactions.	 Though there are requirements, the law has many loopholes because of the absence of a BO registry and the significant challenges therefore of determining beneficial owners when corporate vehicles are used.
	Reporting obligations assigned under art. 2 of the Prevention of Transfer of Criminal Proceeds Act covers both types of real estate transactions	

Source: GFI analysis of national legislation and regulation (2021)

41. Maloney, M., Somerville, T. & Ungur, B. (2019). Combatting Money Laundering in BC real estate. Expert Panel on Money Laundering in BC Real Estate. https://news.gov.bc.ca/files/Combatting_Money_Laundering_Report.pdf

Why commercial real estate merits separate thinking

a. CRE usually involves multiple ownership interests

The GTO model is singularly based on the accurate identification of the beneficial owner of the property. For residential real estate, which typically has one or two owners, this process is under normal circumstances relatively straightforward. Moreover, in a residential purchase that is in reality a money laundering scheme, the true beneficial owner of the property is also always the person trying to launder their ill-gotten wealth.

Unlike residential real estate transactions, CRE transactions always involve contracts between two or more legal entities. Legal entities are used because the financing and the transaction itself are often incredibly complex and expensive, and all parties to the deal are interested in limiting liability. These deals can be as low as US\$1 million (e.g., a shop or a strip mall), but transactions can also run to the tune of billions of dollars (e.g., hotels, condominium developments). Further, when it involves, for example, large corporations involved in hotel acquisitions, the ownership chain can be extraordinarily lengthy and spread both horizontally across multiple jurisdictions and vertically in terms of the number of layers between the company acquiring the property and the beneficial owner. For example, see the complex legal structures used in the 1MDB scam to acquire Park Lane hotel on page 38. This means that ownership interests can be split between one legal entity or a group of conglomerates with thousands of investors, each owning a small portion. The multiplicity of ownership interests alone can make identifying the beneficial owner challenging if not impossible for many of the gatekeepers included through the G7 approach. Additionally, in cases like the acquisition of the Park Lane Hotel by Jho Low in the 1MDB scam (see Case 1 in Chapter 3 and the diagram on page 38) or the acquisition of the Plaza Hotel by Subrata Roy (see Case 27 – Annex 3), the beneficial owners (who held the majority stake) of the commercial property were also the criminal actors laundering money. But in other cases where the investment has been made through indirect means – as in the case of real estate investment funds or the EB-5 investment program, identifying the beneficial owner does not help identify the money launderer. In those cases, criminals are able to launder millions without being the majority stakeholder (see Cases 7 and 8 in this chapter and Case 12 in Chapter 5). Therefore, unless there is also a requirement to check for source of funds, it becomes easy for criminals to launder money through commercial real estate by simply investing in a minority stake. The same issues outlined above also emphasize the need to select a gatekeeper that has the capacity and resources to undertake this laborious exercise.

b. CRE transactions are long and incredibly complicated

As a major investment decision and investment asset class, putting together a commercial real estate deal is a multi-staged process, from discovery to closing, and it can involve three or more rounds of due diligence. A typical commercial real estate transaction can easily take up to a year, but at a minimum requires a couple of months to complete.⁴² Added to this, as mentioned above, commercial real estate transactions frequently involve multiple parties on both sides of the deal, because several debt and equity players are usually involved as investors. This means that the gatekeeper with reporting obligations should be one that is involved through the life cycle of the deal and has an intimate knowledge of the parties and financial arrangements.

c. Higher incidence of all-cash purchases

On average, all-cash purchases are more prevalent in the commercial real estate sector than the residential real estate market. In 2018, 24% of all U.S. commercial real estate transactions were all-cash transactions.⁴³ This number is significantly higher for foreign investors, with 58% of foreign CRE transactions in the U.S. being all-cash as of 2019.⁴⁴ These types of transactions, especially those from

42. Glickman Kovago & Jacobs (2019, October 14). Why do commercial real estate deals take so long? <https://glickmankovago.com/commercial-real-estate-deals-take-long/>.

43. National Association of Realtors (2019). Commercial Lending Report 2019, p. 14. <https://cdn.nar.realtor/sites/default/files/documents/2019-commercial-lendingsurvey-04-02-2019.pdf>.

44. National Association of Realtors (2020). Commercial Real Estate International Business Trends, p. 8 https://cdn.nar.realtor/sites/default/files/documents/2020-commercial-real-estate-international-business-trends-02-28-2020_0.pdf.

Legal entities used to launder money into commercial real estate.

- Commercial Real Estate
- Art, Jewelry & Yacht
- Law Firm Escrow Account



AML/CFT-vulnerable countries, are recognized as high-risk transactions. Despite having a higher incidence of all-cash purchases, this sector remains unregulated for money laundering.

d. Financing not always through banks but through many secondary lenders

Unlike residential transactions, commercial transactions can be structured and financed not only through bank loans, but also through debt and equity markets. The complexity of the financing arrangements presents its own money laundering risks that are separate from risks associated with more straightforward residential real estate transactions and include money laundering vulnerabilities unique to capital markets and capital market financing.⁴⁵

Real estate agents for commercial real estate distinct from residential real estate

Because commercial and residential real estate transactions are significantly different both in process, goal, clients, and outcome, the real estate agents serving the sectors are also different. Therefore, any outreach conducted to improve SAR filing must be individually targeted to real estate agents that serve these distinct markets.

e. Non-transparent pricing

Residential real estate benefits from online real estate marketplace companies like Redfin and Zillow that provide details on historical pricing and average market rates. Prices on commercial real estate by comparison are non-transparent and are very much confined to specialized databases accessible to professionals working in the space. This can in turn make both supervision and enforcement harder. Situations like in Case 21 (see Annex 3), where a potential buyer was able to tip off the Boston Globe and eventually exposed the bribes for admission at Harvard University, would be much harder to identify and report in the case of a CRE transaction.

f. Some of the entities that invest in CRE are both inherently complex and high risk for money laundering

As many of the country-level real estate fact maps detail throughout this report, institutional investors form the bulk of investors in the CRE sector. Sovereign Wealth Funds (SWFs), family offices, pooled investment vehicles, and citizenship through investment programs like EB-5 all invest in real estate. Except for family offices, every other category investor mentioned here exclusively invests in the CRE sector. In recent years, SWFs like 1MDB, the Fundo Soberano de Angola,⁴⁶ and the Saudi Public Investment Fund⁴⁷ have faced allegations of corruption and laundering money from these funds into real estate. Similarly, EB-5 programs have been utilized to launder money that came from helping the North Korean and Iranian governments evade sanctions (Case 7). Moreover, pooled investment vehicles like private equity funds that do not have AML/CFT obligations have been used to launder corrupt Venezuelan and Colombian drug money into CRE.⁴⁸ These vulnerabilities, stemming from the absence of AML requirements for pooled investment vehicles and family offices, the lack of customer due diligence (CDD) guidance for assessing SWFs, and the difficulty in assessing source of funds for EB-5 programs, all make them high risk vehicles subject to abuse by criminal actors laundering money through CRE.

Under the EB-5 program, administered by the USCIS, investors (and their spouses and unmarried children under 21) are eligible to apply for a Green Card (permanent residence) if they: a) Make a US\$500,000-US\$1 million investment in a commercial enterprise in the United States; and b) thereby create or preserve 10 permanent full-time jobs for qualified U.S. workers.

45. FATF (2009). Money Laundering and Terrorist Financing in the Securities Sector. <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20in%20the%20Securities%20Sector.pdf>.

46. Mendes, C. (2019, March 23). Angola Says it Recovers \$3.35 billion of assets from Quantum. Bloomberg. <https://www.bloomberg.com/news/articles/2019-03-23/angola-says-it-recovers-3-35-billion-of-assets-from-quantum>.

47. Logan, T. (2021, March 30). How eight fancy Boston condos figure into fight over the Saudi throne. The Boston Globe. <https://www.bostonglobe.com/2021/03/30/business/how-eight-fancy-boston-condos-figure-into-fight-over-saudi-throne/>.

48. See Cases 12 and 26

Key Elements:



Commercial real estate



EB-5 investment program



Non-GTO county: Cleveland (OH)

Case 7: Professional money launderers that helped North Korea and Iran evade sanctions invest in U.S. commercial real estate

In two separate cases, professional money launderers that helped North Korea and Iran evade U.S. sanctions invested their lucrative commissions into U.S. commercial real estate through the EB-5 investor program.

Chi Yupeng, owner of a Chinese coal trading company sanctioned by the U.S. for selling coal to North Korea, and his wife, Zhang Bing, invested US\$500,000 in an EB-5 fund. Chi was considered one of the largest facilitators of North Korean trade. Both husband and wife were Chinese nationals and maintained U.S. dollar accounts in their own names at foreign financial institutions. They used these accounts to remit U.S. dollars to a bank account maintained in the U.S. by a family member. These funds were then transferred to a bank account held by a regional EB-5 investment program, for the benefit of Zhang. These funds, along with EB-5 investment funds from other foreign investors totaling US\$7 million, were wired to a U.S. company involved in the construction of commercial real estate.⁴⁹

Chinese national Wang Wei utilized his Beijing-based front companies to purchase U.S. origin technology on behalf of Iranian users without the required license from the U.S. government. Wang then transferred US\$545,000 to the Cleveland International Fund in support of his EB-5 application. This money was invested in the Medical Mart Hotel project in Cleveland, which was to mature in 2020. In 2018, a civil complaint was filed seeking forfeiture of one ownership unit from the fund's investment.⁵⁰

49. United States v. \$4,083,935.00 of funds associated with Dandong Chengtai Trading Limited, \$500,000.00 of funds associated with Chi Yupeng [Defendants in Rem]. Forfeiture In Rem and civil complaint (2018, January 25). <https://www.courthousenews.com/wp-content/uploads/2018/01/Dandong-Chengtai-Trading-ac.pdf>.

50. United States v. one ownership interest in the Cleveland international fund – medical mart fund et al. [Defendants in Rem]. Forfeiture In Rem and civil penalties (2018, July 18). <https://www.justice.gov/usao-dc/press-release/file/1081921/download>

g. Significant role for lawyers in CRE transactions

Because CRE transactions virtually always involve a corporation, LLC, or LLP, additional steps are required to assess the fitness and ability of interested parties to complete the terms of the contract. These required additional steps are referred to as the 'due diligence process' and are almost always carried out by lawyers or law firms advising parties on either side of the transaction. In a CRE transaction, due diligence is spread through the deal's different phases, including before the closing stage.

Attorneys possess an in-depth knowledge of both parties through the due diligence process in CRE transactions.

The due diligence process exists to allow parties to the transaction to "thoroughly inspect the fundamentals of the property, seller, financing, and compliance obligations to reduce and, mitigate financial uncertainties."⁵¹ By contrast, this process is significantly truncated in a residential real estate transaction and primarily involves a title search on the property to check for any liabilities, usually done through a title agent.

h. RESPA does not apply to CRE

The Real Estate Settlement Procedures Act (RESPA) governs residential home sales, and its main objective is to protect homebuyers from fraud and deception. RESPA does not apply to CRE transactions, necessitating the complex and drawn-out due diligence process required for CRE transactions, which in turn enhances the role of legal professionals.⁵²

Finally, criminals that launder money through CRE can be particularly sophisticated money launderers. The higher and non-transparent price point and the complexity of financing and management for large CRE acquisitions can make investing in this space a daunting prospect for the ordinary investor. This complexity and high price point in turn means that criminal actors that utilize large CRE acquisitions to launder their illicit gains are sophisticated money launderers who are often HNIs or high net worth criminal enterprises. The cases of the Kolomoisky brothers (Case 8), the 1MDB scandal (Case 1), the Iranian government acquisition of CRE in New York (Case 13 in Chapter 6), the Taib family's association and use of Sunchase holdings (Case 28, see Annex 3), and Sefira Capital LLC laundering Colombian drug money (Case 12 in Chapter 5),⁵³ all draw a clear picture of HNIs or high-net worth criminal enterprises that are not just looking for quick and easy ways to launder their gains but have the capital to look at long-term horizons and the health of their criminal enterprise.

Sophisticated money laundering techniques therefore require sophisticated and nuanced solutions. For the reasons outlined above, there is a clear need to approach the regulation of money laundering risks in residential and commercial real estate transactions differently. This would include creating new reporting obligations for gatekeepers that are better placed to detect red flags in CRE. An analysis of which gatekeepers need to be responsible for detecting REML risks is discussed in detail in Chapter 5 of this report.

51. Adams, A.D. (2020, November 23). Commercial Real Estate Due Diligence. Goosmann Law Firm. <https://blog.goosmannlaw.com/deal-maker-on-your-side/commercial-real-estate-due-diligence>

52. Herrin, D. & Jared, C. Commercial vs Residential Transactions: The complexities & needed due diligence. National Due Diligence Services. <https://www.alta.org/file.cfm?name=031418commercialvsresidential> (accessed on 2021, June 30).

53. Department of Justice (2021, January 12). Acting Manhattan U.S. Attorney Announces Settlement of Civil Forfeiture Claims Against Over \$50 million Laundered Through Black Market Peso Exchange. <https://www.justice.gov/usao-sdny/pr/acting-manhattan-us-attorney-announces-settlement-civil-forfeiture-claims-against-over>

Key Elements:



Commercial real estate



Non-GTO counties: Louisville (KY), Cleveland(OH), Harvard (IL), Michigan and West Virginia.



Mortgage schemes



Leasing schemes



Third parties



Complex corporate structures

Case 8: Ukrainian oligarchs build commercial real estate empire in U.S. with embezzled funds

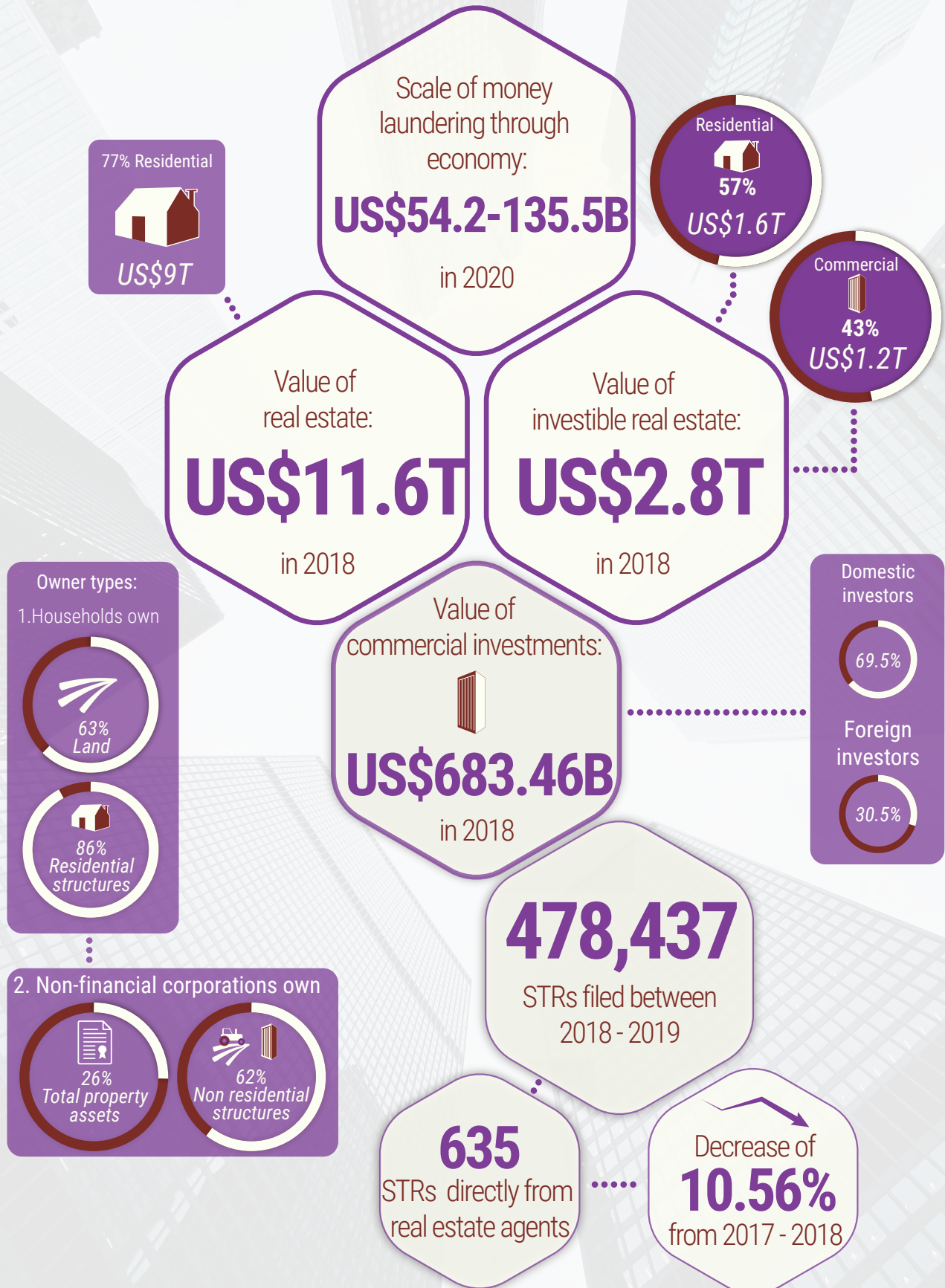
Two Ukrainian oligarchs, Ihor Kolomoisky and Gennadiy Bogoliubov, built a commercial real estate empire in the U.S. allegedly to hide the billions of dollars they misappropriated from PrivatBank, one of the largest banks in Ukraine. In addition to the US\$100 million worth of office towers and parks in Cleveland (OH), Louisville (KY) and Dallas (TX) that the U.S. Department of Justice is seeking to forfeit, their empire encompasses steel plants in Kentucky, West Virginia and Michigan, as well as a cellphone manufacturing plant in Illinois. To funnel the misappropriated funds into U.S. real estate, Kolomoisky and Boholiubov received help from two Miami-based business associates who owned a network of companies in the U.S. under an umbrella LLC called "Optima" These companies were used to purchase and hold real estate, apply for mortgages, and rent out the acquired office space.⁵⁴

One of the entities, Optima Ventures, became the largest holder of commercial real estate in Cleveland during a time when the region was facing economic decline in the aftermath of the 2008-recession. Rather than providing some much-needed economic revitalization, Kolomoisky and Boholiubov's commercial real estate investments left a trail of destruction across the U.S. by defaulting on mortgages, mismanaging their office towers and leaving former factory employees jobless after deserting their manufacturing and steel plants.⁵⁵

54. U.S. Department of Justice. (2020, August 6). Justice Department Seeks Forfeiture of Two Commercial Properties Purchased with Funds Misappropriated from PrivatBank in Ukraine. <https://www.justice.gov/opa/pr/justice-department-seeks-forfeiture-two-commercial-properties-purchased-funds-misappropriated> ; U.S. Department of Justice (2020, December 30). Justice Department Seeks Forfeiture of Third Commercial Property Purchased with Funds Misappropriated from PrivatBank in Ukraine. <https://www.justice.gov/opa/pr/justice-department-seeks-forfeiture-third-commercial-property-purchased-funds-misappropriated>

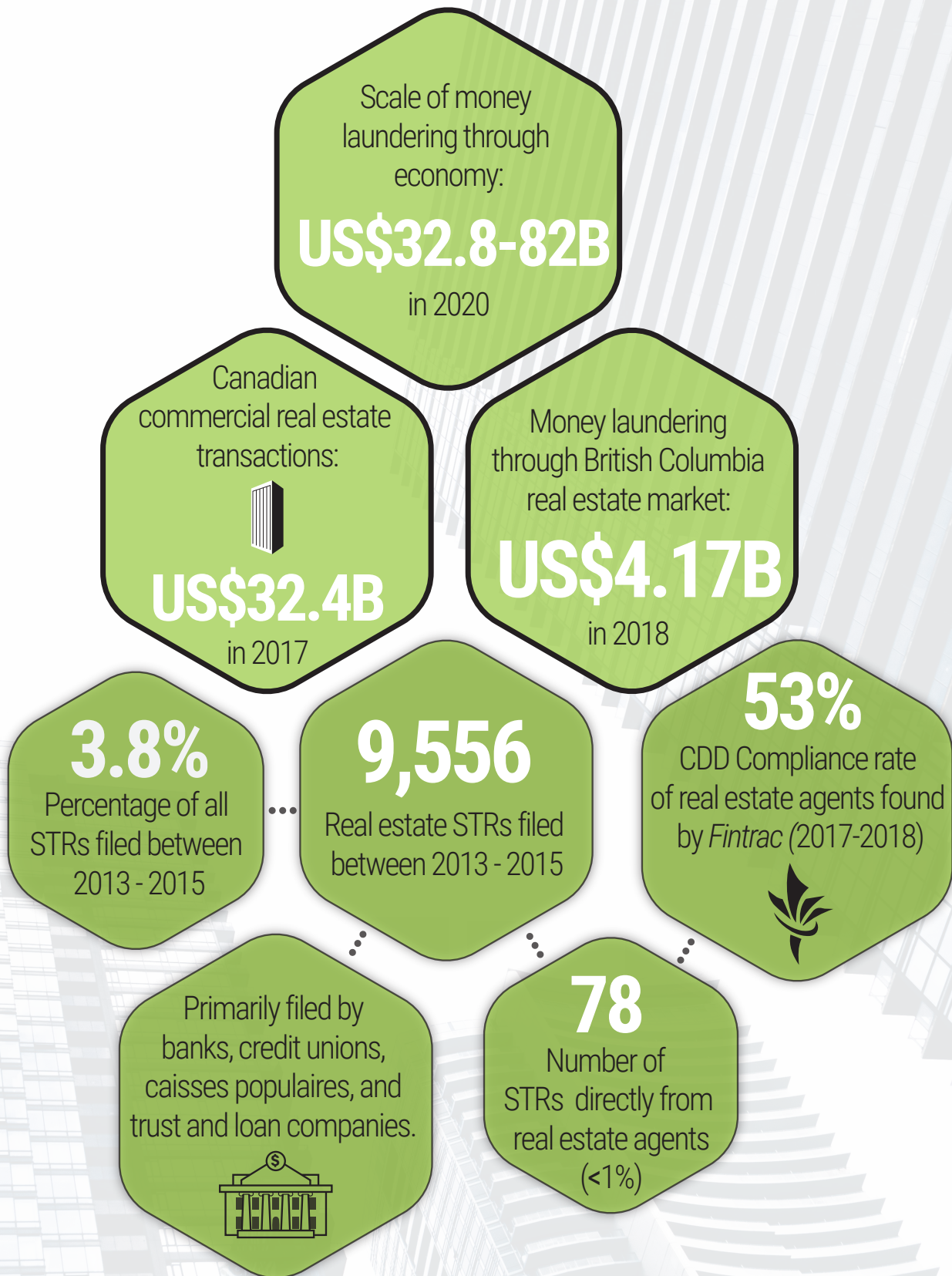
55. Michel, C. & Massaro, P. (2021, June 3). The U.S. Midwest is Foreign Oligarchs' New Playground. Foreign Policy. <https://foreignpolicy.com/2021/06/03/the-u-s-midwest-is-foreign-oligarchs-new-playground/>

U.K. - REAL ESTATE FACT MAP



Source: see Fact Map Bibliography

CANADA - REAL ESTATE FACT MAP



5 | REAL ESTATE GATEKEEPERS – WHO SHOULD BE REGULATED?

Why do gatekeepers matter?

A real estate transaction requires more than just a buyer and a seller. Even a simple home purchase involves a variety of professional facilitators like real estate agents, one or more attorneys, and escrow agents. These professionals are also known as 'gatekeepers', because while they are meant to safeguard the financial system, their professional expertise often provides an entry point for criminals seeking to misuse the financial system and real estate market for money laundering purposes. As a result, gatekeepers can knowingly (see Case 10 below and Case 26 in Annex 3) or unwittingly assist criminals in laundering their illicit proceeds through real estate transactions. As evidenced in Chapter 3 of this report, gatekeepers are critical in facilitating REML schemes. But from the U.S. perspective, questions remain on which real estate gatekeepers are best suited to carry out reporting obligations. This chapter aims to provide greater clarity to that question.

FATF Recommendation 22 requires gatekeepers in the real estate sector to conduct customer due diligence checks.

How does the U.S. differ from the rest of G7 in regulating real estate gatekeepers?

From an enforcement standpoint, the thrust of U.S. policymaking efforts have focused on making title insurance companies the sole gatekeepers responsible for the record keeping and reporting of high-risk real estate transactions through the real estate GTOs. As discussed in Chapter 2, due to the exemption of real estate professionals from AML/CFT obligations under the BSA, title agents, but also other key gatekeepers such as real estate brokers and attorneys, do not have any customer due diligence (CDD) or know-your-customer (KYC) obligations. This stands in sharp contrast to the rest of the G7, where a multitude of real estate gatekeepers are subject to comprehensive AML/CFT reporting and CDD requirements (see table II). Based on the evidence presented in Chapter 3 in this report, the U.S. approach by comparison appears inadequate, but by examining the role of each gatekeeper in isolation, this chapter determines whether their exclusion severely undermines U.S. efforts to tackle REML.




Table II: Comparing U.S. AML obligations for real estate gatekeepers with the rest of the G7

	Real Estate Agents	Attorneys	Notaries	Escrow Agents	Title Insurance Companies ⁵⁶
U.S.	⬇️ No obligations	⬇️ No obligations	No, use of notaries less common	⬇️ No obligations	⬇️ Limited: GTOs require BO identification for cash purchases in the residential market in limited geographic locations
Canada	⬇️ Yes, PCMLTFA Regulations §37 & §39.5 and PCMLTFA STR Regulations §7-7.1 cover both agents and developers. Compliance is unclear.	⬇️ No obligations.	⬇️ Limited: PCMLTFA Regulations §33 and PCMLTFA STR Regulations §4 cover only B.C.-based notaries	⬇️ No obligations.	⬇️ No, despite playing an integral role in the Canadian real estate sector. ⁵⁷
UK	<p>⬆️ Yes, §8(2)(f) of 2017 Regulations.</p> <p>⬆️ Since the 2017 regulations, there has been an overall improvement in compliance and reporting.</p>	⬆️ Yes, §8(2)(d) of the 2017 regulations	⬆️ Yes, §8(2)(d) of 2017 regulations	⬆️ Yes, when legal professionals act as escrow agents (§12).	No, title insurance is not common.
Germany	⬆️ Yes: §2(1) no. 14 GwG. Marked improved in compliance	<p>⬆️ New regulation created in 2020 with ambitious goals and reporting obligations.</p> <p>⬆️ Yes: §2(1) no. 10 GwG & GwGMeldV-Immobilien. Applies to escrow agents when legal professionals function as one.</p>			No, notaries provide title protection.

56. Whereas the involvement of title insurance companies is typical to the U.S., they do not play a prominent role throughout Europe where a licensed notary is typically charged with title protection. The EU's anti-money laundering directives have for long required member states to impose extensive AML requirements on notaries, including CDD/KYC obligations in real estate transactions. This explains the exclusion of title agents from AML obligations in most of the G7.

57. Department of Finance Canada (2018). Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime. <https://www.canada.ca/content/dam/fin/migration/activity/consult/amlatfr-rpcfa-eng.pdf>, p. 26

France	 Yes: L561-2, no.8 Monetary and Financial Code. In recent years there has been a marked improvement in compliance	 Yes: L561-2, no.13 & L561-3 Monetary and Financial Code. Compliance is still challenging. ⁵⁸ Applies to escrow agents when legal professionals function as one.		No, notaries provide title protection.	
Italy	 Longstanding requirements but weak compliance		 Yes, fiduciary companies and legal professionals when they act as escrow agent (Art. 3 Legislative Decree 231/2007)	No, notaries provide title protection.	
	Yes, art. 3 Legislative Decree 231/2007				
Japan	 Yes, art. 2, Act on Prevention of Transfer of Criminal Proceeds. Very weak compliance	 Limited, legal professionals only have client verification obligations. ⁵⁹	 Limited, judicial scriveners only have client verification obligations. ⁶⁰	No, escrow is not common.	No, title insurance is not common in Japan. ⁶¹

Source: GFI analysis of national legislation and regulation (2021)

Title agents versus real estate agents: Does the U.S. approach make sense?

a. The (lack of) rationale for FinCEN to utilize title agents

In the U.S., FinCEN's rationale for utilizing title agents has been that title agents are involved in the majority of U.S. real estate transactions.⁶² Applying that logic, it is not obvious why the U.S. has then opted out of imposing similar AML obligations on real estate agents who are involved in 88% of all residential real estate transactions (see U.S. real estate fact map on pg. 32).⁶³

Moreover, unlike title agents, real estate agents have close, direct access to the client and are involved in all facets of the transaction.⁶⁴ As such, estate agents will be better placed to assess whether a property investment should raise any suspicions (see Case 9). Further, in a 2020 assessment of federal

58. See Chapter 8

59. Art. 2 Act on Prevention of Transfer of Criminal Proceeds covers legal professionals, but they only have client verification obligations, no reporting obligations.

60. Judicial scrivener handle real estate transactions and art. 2 Act on Prevention of Transfer of Criminal Proceeds covers them, but they only have client verification obligations, no reporting obligations.

61. Japanese law requires a real estate notary to sign a document ensuring title prepared by the seller, see Plaza Homes. Guide to buying properties in Japan. <https://www.realestate-tokyo.com/buy/buying-guide-2/> (accessed on 2021, June 30).

62. FinCEN (2016, January 13). FinCEN takes aim at real estate secrecy in Manhattan and Miami. <https://www.fincen.gov/news/news-releases/fincen-takes-aim-real-estate-secrecy-manhattan-and-miami>.

63. National Association of Realtors (2020). 2020 profile of Home Buyers and Sellers. <https://cdn.nar.realtor/sites/default/files/documents/2020-profile-of-home-buyers-and-sellers-11-11-2020.pdf>, p.8.

64. U.S. Government Accountability Office (2020). Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders. <https://www.gao.gov/assets/gao-20-546.pdf>, p.29

Real estate professionals, such as mortgage brokers and real estate agents, were the most common complicit professionals, followed by lawyers.

-U.S. Treasury National Strategy for Combating terrorist and other illicit financing (2020), p.17.

Key Elements:



Real estate broker



Gambian trust to hold corrupt money and purchase property



Title and escrow company



Politically Exposed Persons (PEPs)



Non-GTO county: Potomac (MD)

cases involving real estate forfeitures, the U.S. Treasury found that real estate agents were the most common complicit professionals identified (see Case 10).⁶⁵ So much so, FinCEN in 2017 issued an advisory encouraging real estate agents to file Suspicious Activity Reports (SARs).⁶⁶ In doing so, FinCEN finally acknowledged the unique position of real estate agents in being able to identify suspicious behavior.⁶⁷ But as stated in Chapter 2, this advisory is limited in value because it requests real estate agents to act and file SARs on a voluntary basis.

Case 9: Gambian dictator buys multi-million-dollar home in Potomac next to fellow dictator Teodoro Obiang

Although he made a modest 'official' salary as President of Gambia and had no other known independent sources of legitimate wealth, Jammeh accumulated at least 281 properties and over 100 bank accounts during his tenure in office.⁶⁸ In 2010, Jammeh and his wife Zineb Jammeh purchased a multi-million-dollar mansion in Potomac using a US\$3.5 million bribe that was paid to him by a petroleum company. Prior to the transaction, a real estate broker was advised that a large home was needed for the family and staff of Zineb Jammeh, upon which the broker forwarded details of properties in the area, including the Maryland mansion. Subsequently, the Jammeh family purchased the property through the MYJ Family Trust, wiring US\$3.5 million directly to Paragon Title and Escrow Company in Maryland. The property deed was issued to the trustees of the MYJ Family Trust. Even preliminary enquiries by the broker would have revealed that the Jammeh family had no legitimate means of affording the multi-million-dollar property.

65. U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>, p. 17

66. See chapter 2 for fuller discussion

67. FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf

68. United States v. Real property located in Potomac, Maryland and all appurtenances, improvements and attachments located thereon [Defendant in Rem]. Forfeiture In Rem (2020, July 15). <https://www.justice.gov/opa/press-release/file/1294611/download>.

Key Elements:



Real estate broker



Renovations and flipping homes



Third parties

Case 10: Las Vegas real estate broker launders US\$250 million in Mexican drug cartel money

The leader of an international money laundering and narcotics trafficking organization allegedly used a Las Vegas real estate broker to launder some of the US\$250 million in drug money from Mexican drug cartels in 2015 and 2016. Together they recruited people to act as ‘administrators’ of shell companies that were used to acquire Las Vegas residential properties. After the purchase, the homes were renovated and resold – leaving a clean profit.⁶⁹

b. Missed opportunities to detect REML typologies

This emphasis on only one gatekeeper enables criminals to easily circumvent AML checks. In many U.S. states, such as Florida and New York, title insurance is not legally required in all-cash transactions.⁷⁰ Unlike a legitimate homebuyer or investor, criminals are more likely to take the risk of forgoing title insurance in an effort to legitimize their illicit money. This appears especially to be a money laundering risk when the purchase concerns a new development without previous title history.⁷¹ The American Land Title Association (ALTA) in describing the association’s experience in implementing the GTOs in a 2021 submission to FinCEN stated that “people will jump through hoops” to exploit such exemptions, and that individuals try to “game the system” by going to other providers that do not require the same CDD.⁷²

Finally, by excluding real estate agents FinCEN has limited opportunities to detect REML typologies like successive sales, and price manipulation, as seen in Cases 21 and 22 (see Annex 3) where typically real estate agents are better placed to identify and report on them.

69. United States of America v. Luis Eduardo Rodriguez. Indictment. (2018, June 28). <https://www.justice.gov/usao-sdny/press-release/file/1077121/download>

70. New York State (2005). Re: Title Insurance. <https://www.dfs.ny.gov/insurance/ogco2005/rg050617.htm>; Marina Title (2019). Is Title Insurance a Requirement in the State of Florida? <https://marinatitle.com/title-insurance-requirement-state-florida/>.

71. U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>, p. 18

72. American Land Title Association, letter to FinCEN re: Docket Number FINCEN-2021-0005; RIN 1506-AB49: Beneficial Ownership Information Reporting Requirements.

Legal professionals: a major money laundering loophole

a. *Lawyers play a crucial role in real estate transactions*

According to the FATF, lawyers in particular play a significant role as gatekeepers during real estate transactions.⁷³ Lawyers are better placed than title agents to identify the source of funds of a property buyer. This is not only because they have a more direct relationship with the client, but also because they often play an important intermediary role in the flow of funds to purchase a property.⁷⁴

In its 2018 and 2020 national money laundering risk assessments, the U.S. Treasury Department indicated that the use of interest on lawyer trust accounts (IOLTAs) posed a particularly high money laundering risk, because they anonymized money transmissions without much oversight by banks.⁷⁵

Additionally, lawyers often act as the registering agent for anonymous companies or trusts used to purchase real estate.

As evidenced in Chapter 3, anonymous companies and complex corporate structures are the most common REML typologies. Because attorneys are often responsible for forming these entities, they are best positioned to identify the beneficial owner of the legal entity.

Finally, as discussed in Chapter 4, lawyers play a critical role especially in commercial real estate transactions and are therefore uniquely positioned to detect suspicious behavior, identify the beneficial owner, and ensure that the parties to the transaction are compliant with AML/CFT requirements.

The European Union (EU) too, cognizant of this vulnerability, specifically addressed the role of legal professionals through its anti-money laundering directive (AMLD), which requires them to carry out CDD when they participate in financial or real estate transactions for their client.⁷⁶

Lawyers use Interest on Lawyer Trust Accounts (IOLTA) to pool and handle money from all their clients. Criminals may deposit their illicit proceeds in an IOLTA, and then have their attorney wire it along for a real estate purchase. Banks holding these accounts have no knowledge of the beneficial owners of the funds in the account.

73. FATF (2016). Mutual Evaluation Report United States of America. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>, p.142.

74. U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>; U.S. Department of Treasury (2018). National Money Laundering Risk Assessment 2018. https://home.treasury.gov/system/files/136/2018NMLRA_12-18.pdf.

75. U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>, p. 20-21; U.S. Department of Treasury (2018). National Money Laundering Risk Assessment 2018. https://home.treasury.gov/system/files/136/2018NMLRA_12-18.pdf, p. 34.

76. This includes the buying and selling of real property, the managing of client money, opening or managing bank accounts, and the creation or management of legal entities such as companies or trusts, see Directive (EU) 2015/849, article 2.1(3)(b). The E.U. category of legal professionals includes notaries, who in Europe play an important role in the closing of real estate transactions as notarization is typically required for the transfer of ownership. Moreover, notaries and attorneys will often play the role of escrow agents in a real estate transaction.

Key Elements:



Law firm escrow accounts



Shell companies



Non-GTO counties: Syracuse (NY) and Cincinnati (OH)



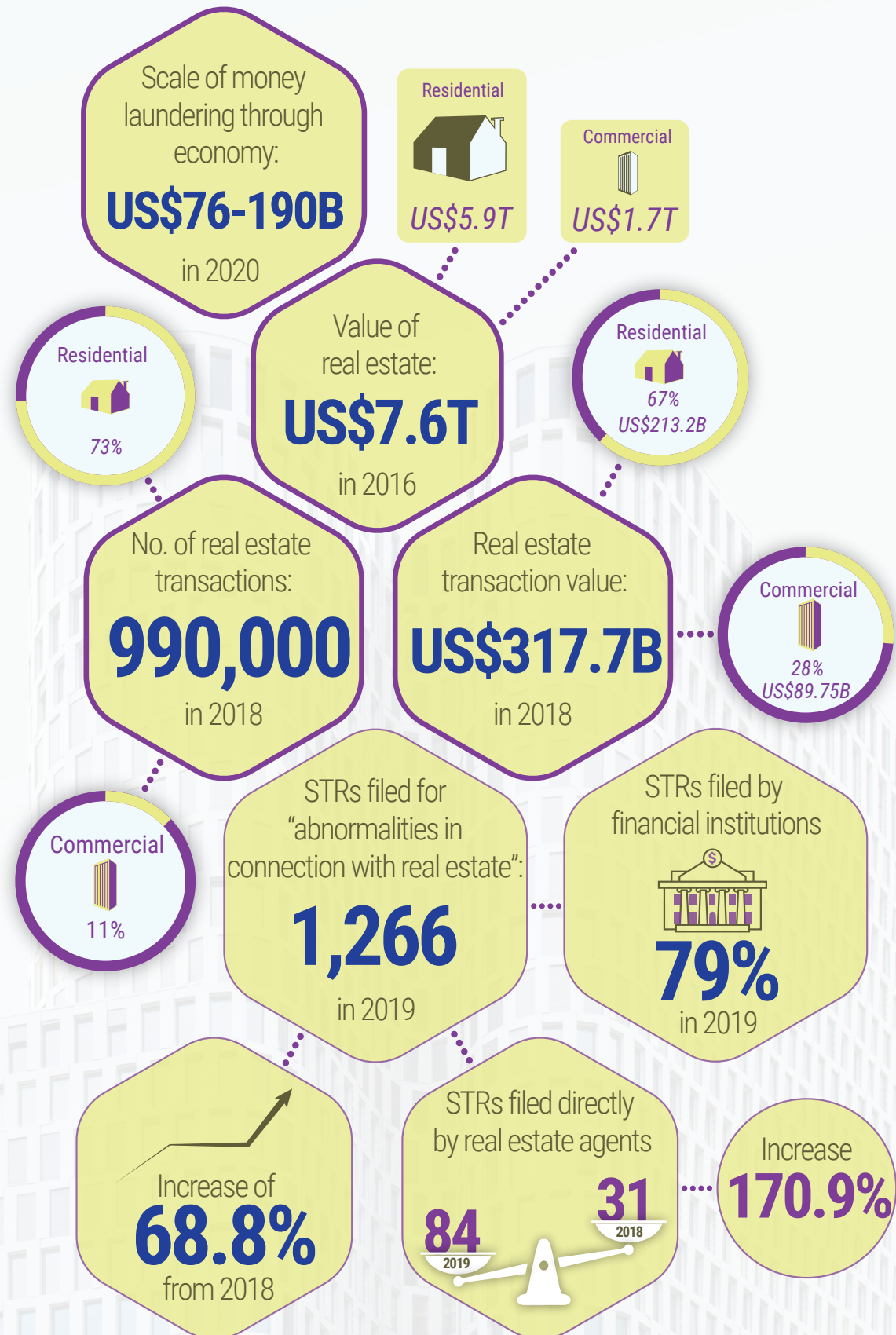
Commercial real estate

Case 11: Law firm escrow accounts used to launder millions in non-GTO counties

Former senior advisor of the Trump Organization and alleged professional money launderer Felix Sater is accused of helping Kazakh officials funneling almost US\$35 million in funds embezzled from a Kazakh bank into U.S. real estate projects.⁷⁷ Sater received assistance from various law firms in the process. His longtime corporate counsel based in Port Washington, New York was allegedly involved in various real estate transactions. In addition, the assets were acquired with money wired through the escrow accounts of several other real estate law firms.

⁷⁷ City of Almaty, Kazakhstan and BTA Bank JSC vs. Felix Sater, Civil Complaint (2019, March 25). <https://www.courthousenews.com/wp-content/uploads/2019/03/Sater.pdf>

GERMANY - REAL ESTATE FACT MAP



Source: see Fact Map Bibliography

OPERATIONS OF ITALIAN AND LEBANESE MAFIA

Properties seized
in a 2018 case in Berlin:

77

Value:

US\$10.8M



Launder millions
through German hotels,
restaurants & houses

80% of 'Ndrangheta's
illicit proceeds laundered
in Germany in 2018

Value:

US\$45.6B

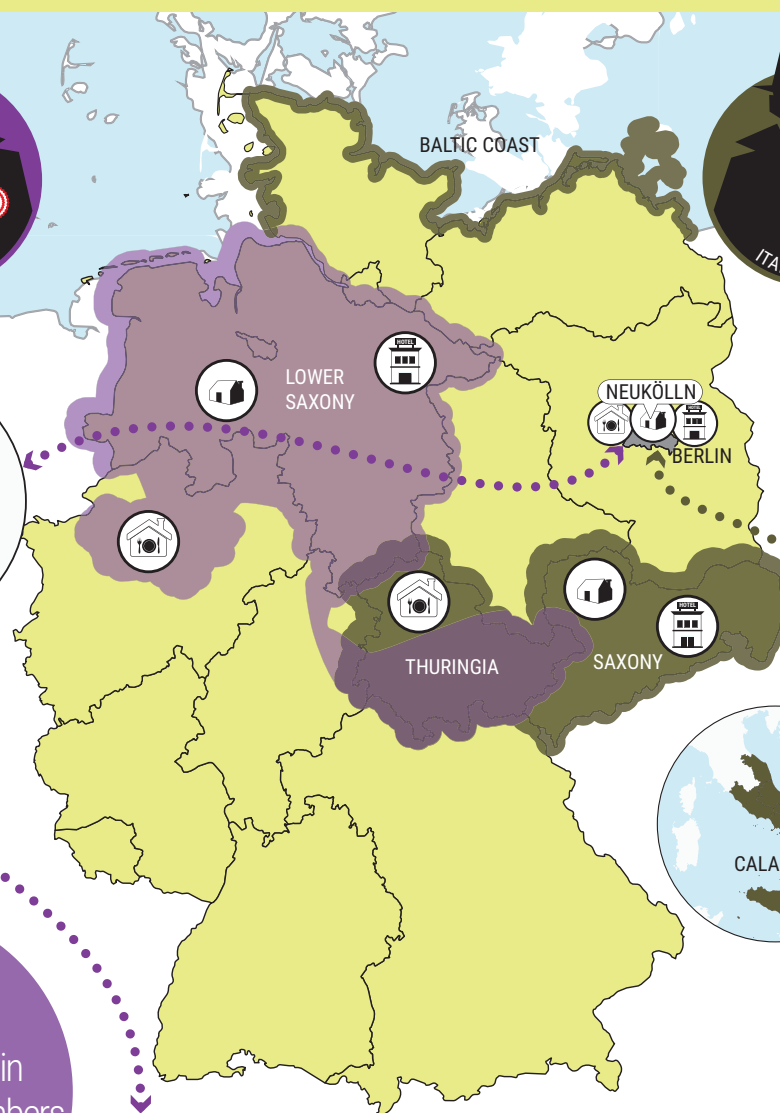
30%
Percentage of criminal
proceeds invested
in German real estate
market

Villa seized by courts
in 2021 belonging to the
head of the
crime family

Notaries and
banks involved raised
no red flags

Properties bought in
names of family members
based in Germany
and in Lebanon

Illicit money cycled
through Lebanon and brought
back into Germany to make
cash real estate purchases



Source: see fact map bibliography

b. Navigating attorney-client privilege

The expansion of AML due diligence and reporting obligations to lawyers nevertheless is controversial. The doctrine of attorney-client privilege is often used as an argument against such an extension. In Canada, for example, legal professionals were exempted from AML obligations under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) after the Supreme Court ruled it unconstitutional due to client confidentiality issues.⁷⁸

Still, applying these obligations to the legal profession is not unprecedented. In the UK, legal professionals are required to conduct CDD, identify the beneficial owners of legal entities, and report suspicious behavior to the UK Financial Intelligence Unit.⁷⁹ While the extension of AML obligations to legal professionals was controversial at first, legal objections to it in Europe have mostly disappeared since the European Court of Justice (ECJ) in 2007 decided that AMLD2 did not constrain client confidentiality, namely the ability to access independent legal advice.⁸⁰

More specifically, the ECJ clarified that this principle would only be undermined if lawyers were required to report information on their clients in the context of judicial proceedings or related legal consultations. However, as the EU Directive as well as the FATF rules merely require lawyers to report suspicious activity in the preparation or execution of transactions of 'a financial nature or concerning real estate', rather than in the context of judicial proceedings,⁸¹ a lawyer's reporting obligation was found to be compatible with client confidentiality. Relying on this decision, the European Court of Human Rights in a later judgement confirmed that attorney-client privilege was only applicable to a lawyer's role to defend a client during trial, and not for their transactional roles, which, according to the Court, could not at their core be vastly different from other similarly regulated professional services, such as accountants.⁸²

c. German legal developments underscore the need to include lawyers in the U.S.

Of all the developments seen across the G7, a new German regulation that entered into force in October 2020 stands out in particular. The German real estate market in recent years has been exposed to a wake of REML cases,⁸³ including reports that 'Ndrangheta was laundering 80% of its criminal proceeds valued at US\$ 45.6 billion in Germany, and 30% of that through the German real estate market (see fact map at page 52).

To address the severe underreporting by legal professionals in German real estate transactions, the new GwGMeld-V Immobilien regulation requires that certain prescribed red flags must always be reported by designated professionals, including lawyers, regardless of client confidentiality. The regulation places legal professionals and notaries as the primary gatekeepers responsible for identifying various REML typologies, including the over- and undervaluation of properties. This requirement is of particular value in commercial real estate transactions, where pricing is often opaque.

Much like the European courts, an administrative court in Berlin in 2021 rejected client confidentiality concerns, stating that the regulation pursued a legitimate goal and was compatible with the confidentiality principle.⁸⁴ In fact, the German regulator's rationale for implementing these AML measures was that the regulation improves legal certainty of client confidentiality by specifying the circumstances under

78. Canada (Attorney General) v. Federation of Law Societies of Canada 2015 SCC 7, [2015] 1 S.C.R. 401, at <https://scc-csc.lexum.com/scc-csc/scc-csc/en/item/14639/index.do>

79. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, <https://www.legislation.gov.uk/ukxi/2017/692/made>.

80. Case 305/05, Ordre des Barreaux Francophones et Germanophone v. Conseil des Ministres, 2007 E.C.R. I-5305, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62005CJ0305&from=EN>.

81. Ibid, § 33.

82. Michaud vs. France, no. 12323/11, ECHR, 2012, §127

83. Transparency International (2018). Geldwäsche bei Immobilien in Deutschland. <https://www.transparency.de/aktuelles/detail/article/massives-problem-mit-geldwaesche-bei-immobilien-politik-wirtschaft-und-behoerden-muessen-endlich-off/>

84. Legal Tribune Online (2021, February 23). Meldepflicht statt Verschwiegenheit für Anwälte. <https://www.lto.de/recht/nachrichten/n/vg-berlin-121258-20-geldwaesche-immobilien-meldepflicht-anwaelte-notare-verschwiegenheit/>

which a reporting obligation exists.⁸⁵ The German approach signals a way for the U.S. and other G7 countries to resolve the tension between AML reporting obligations and client confidentiality in the real estate sector.

Investment Advisers: an overlooked gatekeeper in tackling REML

While typically not thought of as real estate gatekeeper, the analysis in this report would not be complete without outlining the role private investment funds and therefore the role investment advisers play in exacerbating REML risks. As laid out in Chapter 4 and the U.S. real estate fact maps (see pg. 32 & 33), investments into commercial real estate often take place through private investment funds that include private equity funds, hedge funds, and venture capital funds. The complexity and anonymity of these vehicles make them particularly high risk for money laundering.

A recent leak of documents from the FBI revealed that Mexican and Colombian drug trafficking organizations, Russian organized crime, and sanctions evaders use these vehicles to move and hide their illicit finances.⁸⁶ The report went on to note that “the economic trend toward such placement of investment funds [...] presents more opportunities to threat actors to layer and integrate illicit funds without the scrutiny of a financial institution’s AML review”.⁸⁷

Currently, investment advisers can avoid CDD requirements if they take on certain types of investors called ‘qualified purchasers’ or ‘accredited investors’. When investment vehicles limit themselves to these categories of investors, they are only required to assess if the investor can afford the investment and the investment risk.⁸⁸ This means that individuals or organizations involved in money laundering, organized crime, terrorism, and corruption have carte blanche to move their money into these funds with little to no inquiry (see Case 12).

Legal professionals, while still best suited to look at the breadth of the commercial real estate deal, are limited in their ability to carry out KYC on the investors of the investment vehicle. If ever required to do so, it would be the equivalent of a bank having to carry out CDD on every customer of a correspondent bank when taking the correspondent bank on as a client, i.e. effectively being required to conduct KYCC (Know Your Client’s Client). In 2015, FinCEN proposed a CDD rule for investment advisers to address some of these concerns. However, this rule has remained on the books. Without effective rulemaking extending CDD requirements to investment advisers, it becomes impossible to track REML through commercial real estate.

85. Bundesministerium der Finanzen (2020, September 9). Begründung zu Verordnung zu den nach dem Geldwäschegesetz meldepflichtigen Sachverhalten im Immobilienbereich, https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_VII/19_Legislaturperiode/2020-05-25-GwG-MeldV-Immobilien/Verordnung.html p.3.

86. Llyod, T. (2020, July 14). FBI concerned over laundering risks in private equity, hedge funds - leaked document. <https://www.reuters.com/article/bc-finreg-fbi-laundering-private-equity-idUSKCN24F1TP>

87. Ibid.

88. Transparency International-US (2021). Private Investment Funds are a High Risk for Money Laundering <https://us.transparency.org/wp-content/uploads/2021/05/Private-Investment-Funds-are-a-High-Risk-for-Money-Laundering-v3-1.pdf>

Key Elements:



Real estate investment firm



Commercial real estate

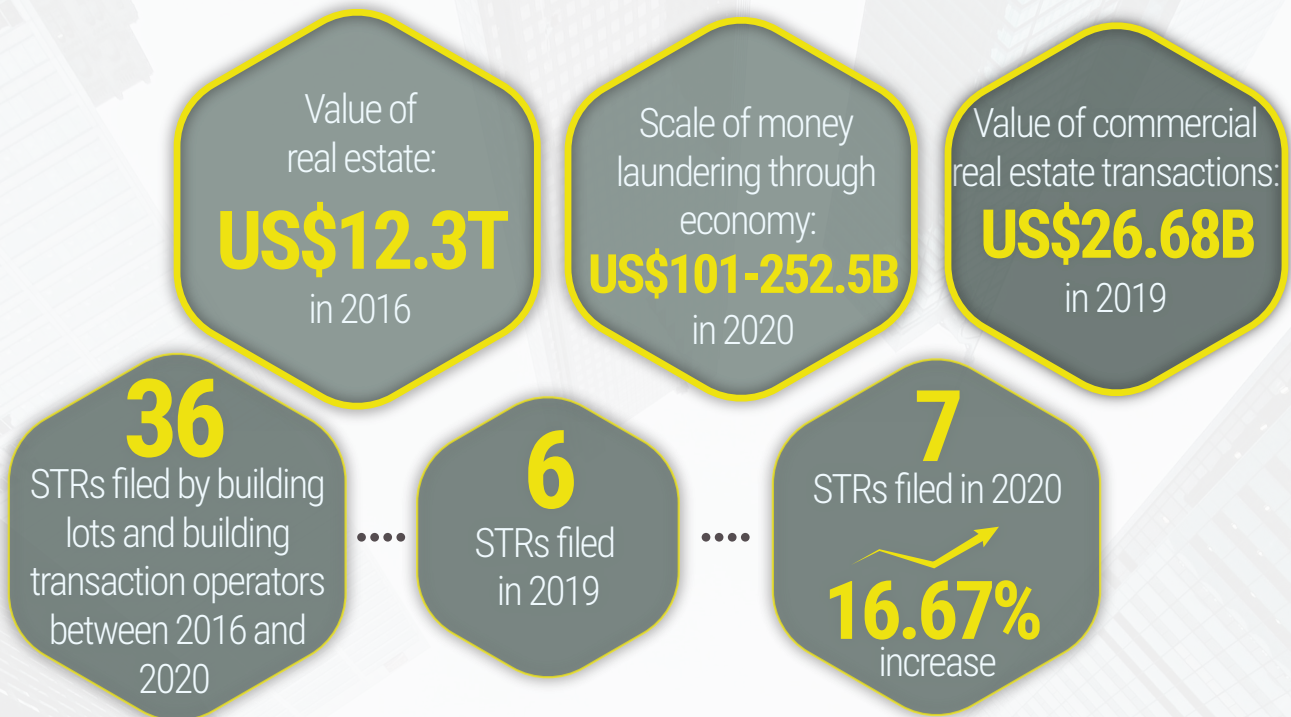
Case 12: Real estate investment firm launders money for Colombian drug traffickers

Sefira Capital LLC, a Florida-based boutique investment company, raised over US\$100 million in capital to invest in real estate projects. From 2016 to 2019, Sefira and its subsidiaries, which own high-end commercial and residential real estate, received millions of dollars in criminal proceeds from drug trafficking organizations that was laundered through the Black Market Peso Exchange. As part of its undercover investigations, the Drug Enforcement Administration (DEA) transferred narcotics proceeds worth millions between 2018 and 2019 at the instruction of money-laundering brokers. In these and other similar investments, Sefira accepted the funds without inquiring as to the source of ownership of these accounts or funds. Likewise, Sefira ignored discrepancies between the purported investment amount and the actual amount Sefira received, and between the identities of the investors and the entities sending the investments to Sefira.⁸⁹

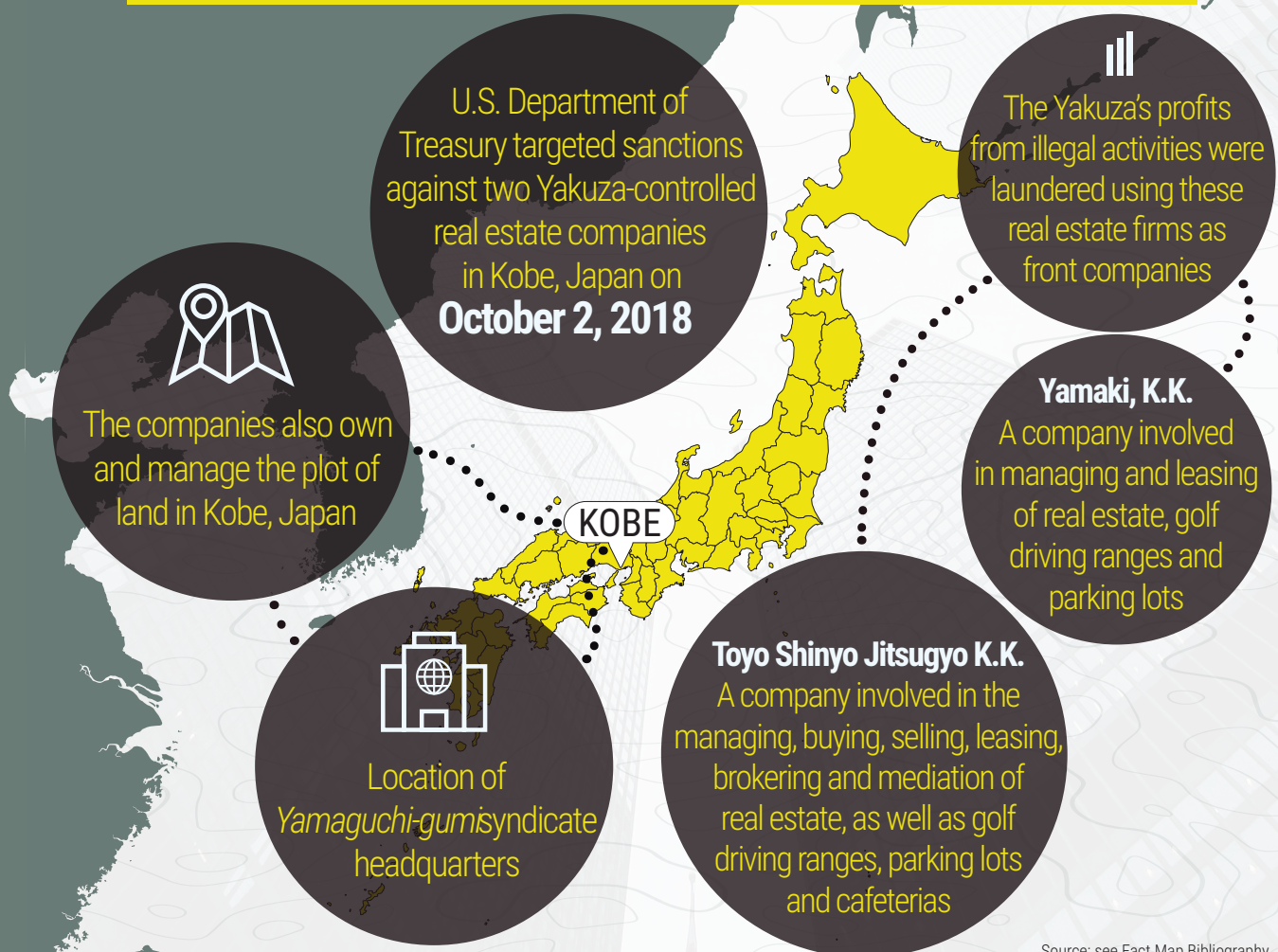
89. U.S. Department of Justice (2021, January 12). Acting Manhattan U.S. Attorney Announces Settlement Of Civil Forfeiture Claims Against Over \$50 Million Laundered Through Black Market Peso Exchange. <https://www.justice.gov/usao-sdny/pr/acting-manhattan-us-attorney-announces-settlement-civil-forfeiture-claims-against-over>



JAPAN - REAL ESTATE FACT MAP



U.S. SANCTIONS ON YAKUZA-CONTROLLED REAL ESTATE COMPANIES



Source: see Fact Map Bibliography

6

BENEFICIAL OWNERSHIP AND LAND REGISTRIES – COMPLEMENTARY DATABASES TO TACKLE REAL ESTATE MONEY LAUNDERING

It is no surprise that a critical measure required to curb real estate money laundering schemes is the establishment of a robust beneficial ownership (BO) registry. As evidenced in Chapter 3, over 80% of REML schemes in the U.S. utilize a legal vehicle or legal arrangement to provide distance, insert additional layers and hide the identity of the real owners. A centralized registry of beneficial owners identifies the natural person behind these legal vehicles, providing law enforcement an invaluable tool to investigate money-laundering cases. It also provides entities with AML/CFT reporting obligations a means to more effectively carry out CDD. The recent passage of the Corporate Transparency Act is a critical first step in addressing the problem of REML in the U.S.⁹⁰ However, the creation of an appropriate registry can pose its own set of challenges. This chapter seeks to highlight some of the lessons that can be drawn from the experiences elsewhere in the G7.

Key Elements:



Complex corporate structures



Commercial real estate



Rental



Renovations

Case 13: Iran government uses US\$500 million Manhattan skyscraper as slush fund

For several decades, the Iranian government managed to violate U.S. sanctions and engage in money laundering by controlling a skyscraper in the heart of Manhattan, New York. The property was first acquired in 1974 for the benefit of the Iranian government, but has since changed its ownership structure several times. Since the 1990s, the skyscraper was owned by 650 Fifth Avenue Company, a partnership between a foundation (owning 60%) and the a shell company established for the benefit of the Iranian-state controlled Bank Melli, Assa Corporation (owning 40%).⁹¹ Between 1996 and 2008, the building generated more than US\$228 million in rental income, which was spent on an US\$11 million renovation of the property,⁹² as well as the acquisition of other properties in New York, Texas, California and Maryland.⁹³

90. Abernethy, J., Bramwell, A. & Pecoraro, A. (2021, January 4). Pulling Back the Curtain: Congress Establishes a Beneficial Ownership Registry for U.S. and Foreign Businesses. JDSUPRA. <https://www.jdsupra.com/legalnews/pulling-back-the-curtain-congress-2944568/>; S. Brown (2021, April 23). NGOs Praise Canada's New Corporate Ownership Registry. OCCPR. <https://www.occrp.org/en/daily/14277-ngo-s-praise-canada-s-new-corporate-ownership-registry>.

91. Wang, V. (2017, June 29). Manhattan Skyscraper Linked to Iran can be seized by U.S., Jury finds. The New York Times. <https://www.nytimes.com/2017/06/29/nyregion/650-fifth-avenue-iran-terrorism.html>

92. Rebusiness Online. (2021, October 12). 650 Fifth Avenue in NYC unveils new look. <https://rebusinessonline.com/650-fifth-avenue-in-nyc-unveils-new-look/>.

93. 08 Civ. 10934 (KBF) (S.D.N.Y. Apr. 18, 2014). <https://casetext.com/case/in-re-650-fifth-ave-3>

BO registries elsewhere in the G7 and lessons for the U.S.

In the last decade, there has been a consistent push for countries to create their own beneficial ownership registries. Today, well over 100 countries have committed to setting up a BO registry,⁹⁴ yet there have been challenges both in fulfilling this commitment and once fulfilled, in the quality of the actual registry itself.⁹⁵ The countries in the G7 encapsulate some of these successes and challenges, and provide valuable lessons as the U.S. sets about creating its very own registry.

The UK was amongst the first countries to set up a truly centralized, public BO registry. However, because the registry does not have a mechanism to verify the information submitted, criminal actors often provided fictitious information, thereby on paper meeting the requirements of the registry but by no means helping create transparency and accuracy. For example, one company listed their address in the UK registry as 'the street of 40 thieves' and their name as 'Ali Babba'.⁹⁶ The U.S., which only last year passed legislation authorizing the creation of national centralized registry, also does not have a mechanism or requirement for verification. How to check and mitigate against pro forma compliance of the registry should be one of the concerns for FinCEN.

The UK BO register additionally does not include trusts, but rather registers them separately through a private register. The register for trusts, while previously private, now permits third party access but only if the third party can prove they have a legitimate interest – a heavy burden that in effect excludes scrutiny and examination.⁹⁷

This is again of relevance in the U.S., because serious questions remain as to whether the registry will cover all types of legal entities and arrangements including trusts that are utilized to purchase real estate (see case 9).⁹⁸ This issue of trusts is particularly relevant because it is unclear if the GTOs fully address or are enforced against real estate purchases made by trusts. It is equally unclear in the U.S. context if foreign legal entities used to purchase residential real estate (case 14 and 22) would fall within the confines of the BO registry's requirements. This is because the purchase of real estate for private use might not qualify as 'doing business', which is a condition to be met before a foreign legal entity is required to disclose beneficial ownership information.⁹⁹ Failing to capture that information in the registry creates a loophole that will be exploited by criminal actors.

The French BO registry, introduced in April 2021, remedies some of the issues with the UK registry by covering all types of legal entities and including only verified information. The model of verification provides a mechanism the U.S. can consider at a later stage to strengthen the efficacy of its own register. Other problems that provide valuable lessons are the experiences from the German BO registry. Germany's registry has suffered from a plethora of issues including verification (similar to the UK), low usage, and fictitious beneficial ownership information.¹⁰⁰ Italy on the other hand has experienced delays in setting up its registry.¹⁰¹ This is despite the fact that BO registries were first mandated by the EU in 2015 (AMLD 4).¹⁰²

94. Harari, M., Knobel, A., Meinzer, M. & Palanský, M. (2020). Ownership registration of different types of legal structures from an international comparative perspective. Tax Justice Network. <https://taxjustice.net/wp-content/uploads/2020/11/State-of-play-of-beneficial-ownership-Update-2020-Tax-Justice-Network.pdf>

95. Granjo, A.F. & Martini, M. (2021). Access Denied? Availability and accessibility of beneficial ownership data in the European Union. <https://images.transparencycdn.org/images/2021-Report-Access-denied-Availability-and-accessibility-of-beneficial-ownership-data-in-the-European-Union.pdf>

96. Armitage, J. (2017, July 17). 'Occupation: Fraudster. Address: Street of 40 Thieves'- how Italians mocked tUK company rules. Evening Standard. <https://www.standard.co.uk/business/occupation-fraudster-address-street-of-40-thieves-how-italians-mocked-uk-company-rules-a3589906.html>

97. "Third parties will have to identify a specific trust, explain why they think that the trust has been used for money laundering or terrorist financing, identify the specific instance of suspected money laundering or terrorist financing and explain how the information will assist in the detection or prevention of money laundering or terrorist financing", from Smithson, J. & Vos, R. (2020, June 15). Major changes to the UK Trust Register – impact for trustee. MacFarlanes. <https://www.macfarlanes.com/what-we-think/in-depth/2020/major-changes-to-the-uk-trust-register-impact-for-trustees/>

98. NDA § 6403(a)(11)(A). The CTA broadly defines areporting companyas any corporation, limited liability company, or other similar entity created by filing a document with the secretary of state or similar office in any state or territory or with a federally recognized Indian Tribe, or formed under the laws of a foreign country and registered to do business in the United States.

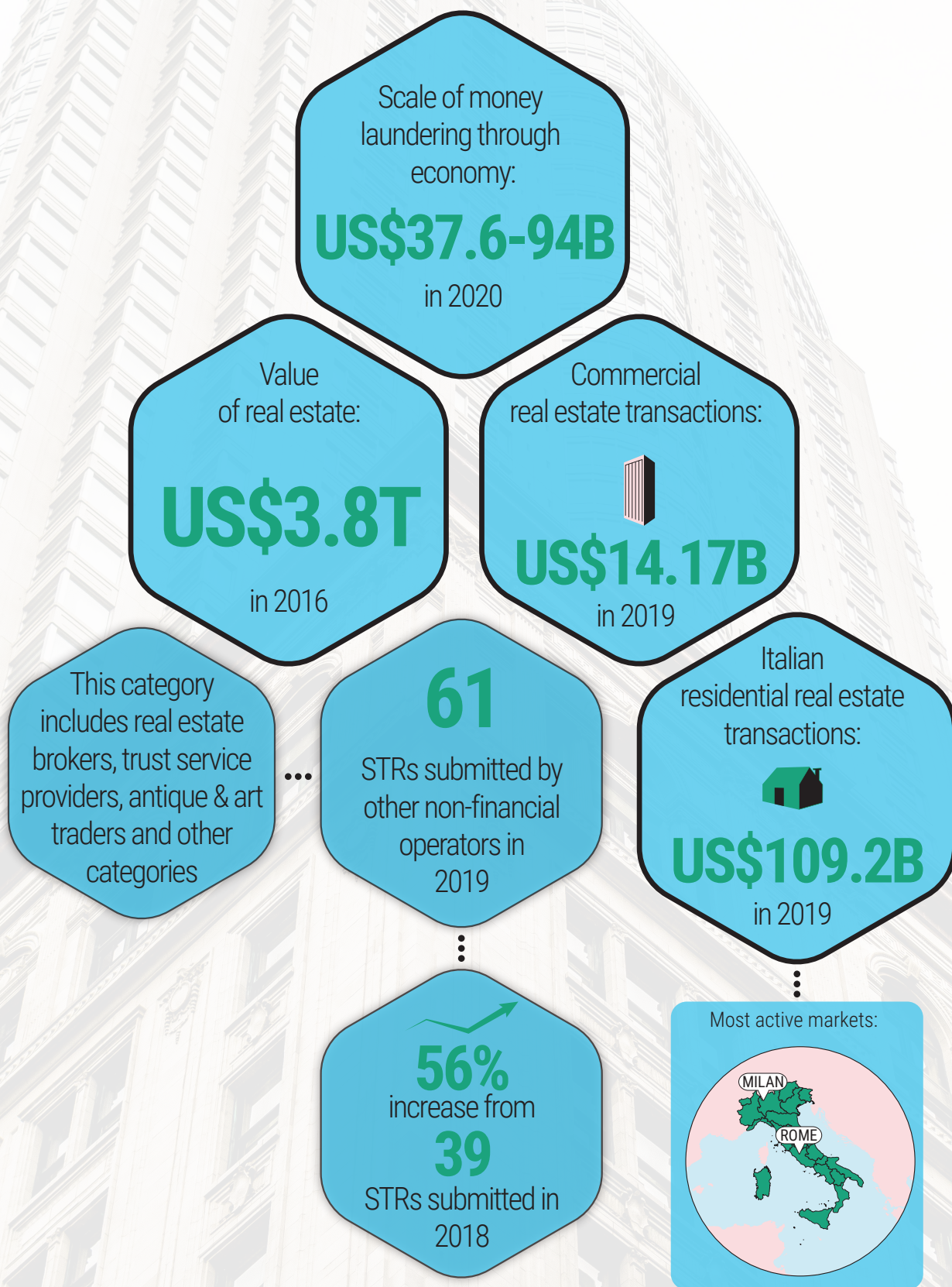
99. Ibid

100. Transparency International (2020, November 6). Transparency Germany criticizes serious gaps in the transparency register. <https://www.transparency.org/en/press/transparency-germany-criticizes-serious-gaps-in-the-transparency-register>

101. Greenbaum, J., Colomba, C., Zeppieri, E. & Rossi, A. (2021, March 23). Delay in the establishment of the Italian UBO Register. Hogan Lovells. <https://www.engage.hoganlovells.com/knowledgeservices/news/delay-in-the-establishment-of-the-italian-ubo-register>

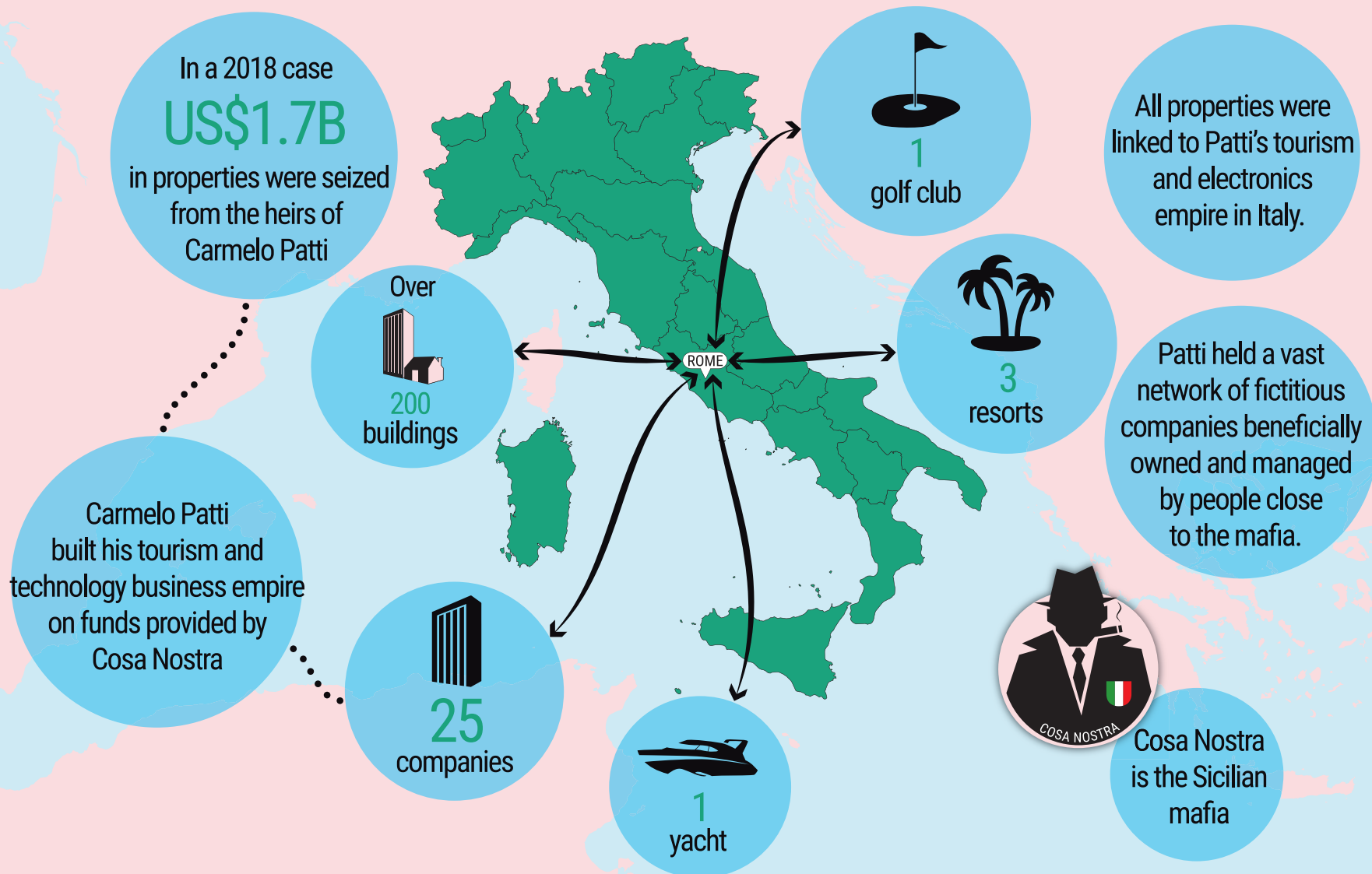
102. Directive (EU) 2015/849 (AMLD4), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L0849&from=EN>

ITALY - REAL ESTATE FACT MAP



Source: see Fact Map Bibliography

FUNDS LINKED TO COSA NOSTRA INVESTED IN ITALIAN REAL ESTATE



Source: see fact map bibliography





Land register: A complement to BO registries

The ability to cross-check land registry information against the beneficial ownership database is a critical second step in addressing the threat of REML. Doing so provides much needed context to the wealth of information housed within the land registry. In this too, the rest of the G7 have been forerunners and can provide useful models for the U.S. to adapt. In the UK, Canada, and France, governments have been quick to recognize how both registries can mutually reinforce each other. In 2017, the UK land registry released a dataset of information on corporate land ownership, that policy advocates were quick to compare with information in the BO registry, and reports based on it provided a wealth of information around potential money laundering cases.¹⁰³ However, after that singular release of data, the UK has never provided additional information that could be utilized for a similar analysis.

France released a similar database of land held by legal vehicles in early 2021, providing a rich area of research when cross-examined against the country's BO registry.¹⁰⁴ British Columbia, the Canadian province which has made the news in recent years for the spate of REML cases originating from China, passed legislation in 2020 that requires any corporation, trustee, or partnership to disclose the interest holders of the land.¹⁰⁵ The land registries are particularly useful because they can be used to capture legal entities that may not be required to register with the BO registry and provide another route to backstop any gaps or delays in establishing a BO registry.

When utilized properly, the two registries - a centralized BO registry and a centralized digitized land registry - are incredibly powerful tools to indicate the scale of opacity within the real estate sector but also the effectiveness and accuracy of the beneficial ownership registry itself.

Table III: Comparing the U.S. BO and Land registry with the rest of the G7

	BO Registry	Land Registry
U.S.	 The U.S. in 2020 passed legislation that would create a beneficial ownership register. However, this may not include trusts and foreign legal entities that purchase real estate.	 Land registry records for corporate owners not centralized, digitized, and easily searchable even at the state level.
UK	 The UK has had a public BO registry since 2016 and is now looking towards providing verified information within the registry ¹⁰⁶	 In 2017, HM Land Registry released its Commercial and Corporate Ownership (CCOD) and Overseas Companies Ownership (OCOD) datasets free of charge. ¹⁰⁷ However, despite promises of additional dataset releases in the following three years, none followed.











103. Trigg, A. (2017, November 7). We've released more HM Land Registry data free of charge. HM Land registry. <https://hmlandregistry.blog.gov.uk/2017/11/07/weve-released-hm-land-registry-data-free-charge/>

104. Ministère de l'économie, des finances et de la relance. (2021, March 31). Carte des parcelles des personnes morales – MAJIC. <https://data.inpi.fr/>; <https://www.data.gouv.fr/fr/reuses/carte-des-parcelles-des-personnes-morales-majic/>

105. However, the efficacy of the registry has been called into question because of the lack of verifiable information.

106. Open Ownership & Global Witness. (2017). Learning the lessons from the UK's public beneficial ownership register. <https://www.openownership.org/uploads/learning-the-lessons.pdf>

107. Trigg, A. (2017, November 7). We've released more HM Land Registry data free of charge. HM Land registry. <https://hmlandregistry.blog.gov.uk/2017/11/07/weve-released-hm-land-registry-data-free-charge/>

Canada	 Canada in 2021 announced its intention to create a public beneficial ownership registry.	 In 2020, British Columbia operationalized a land registry that would require any corporation, trustee or partnership that buys land in B.C. must disclose the interest holders of that land through the Landowner Transparency Registry. ¹⁰⁸ This registry is limited to British Columbia.
France	 France has a public beneficial ownership registry that was introduced in April 2021.	 France recently released a database of land held by legal vehicles. This could be cross-checked with the BO registry.
Germany	 The German BO registry has been plagued with problems since its creation and has suffered from little use because of the challenges with access and accuracy. A draft bill ¹⁰⁹ is expected to plug some of these loopholes and connect the German register with the rest of the EU. ¹¹⁰ However, it still allows legal representatives to be listed as BO if none can be identified.	 The Germany land registry permits access, however, it can only process one request at a time, and the owner of the land is informed of the request including the identity of the requesting party. The registry is ill-suited to carrying out an analysis of legal ownership of land.
Italy	 The BO register has still not been made effective despite a public consultation that ended in 2020. ¹¹¹	 The land register is public, and searches can be made on request for a specific period. It is still challenging to conduct searches on land that is owned through a legal vehicle. ¹¹²
Japan	 There is no BO registry in place.	 Land registry records revealing corporate ownership not accessible.

Source: GFI analysis of national legislation and regulation (2021)

108. The Canadian Press. (2020, November 30). New land registry will increase transparency in real estate market, says finance minister. CBC. <https://www.cbc.ca/news/canada/british-columbia/bc-land-registry-open-1.5822630>.

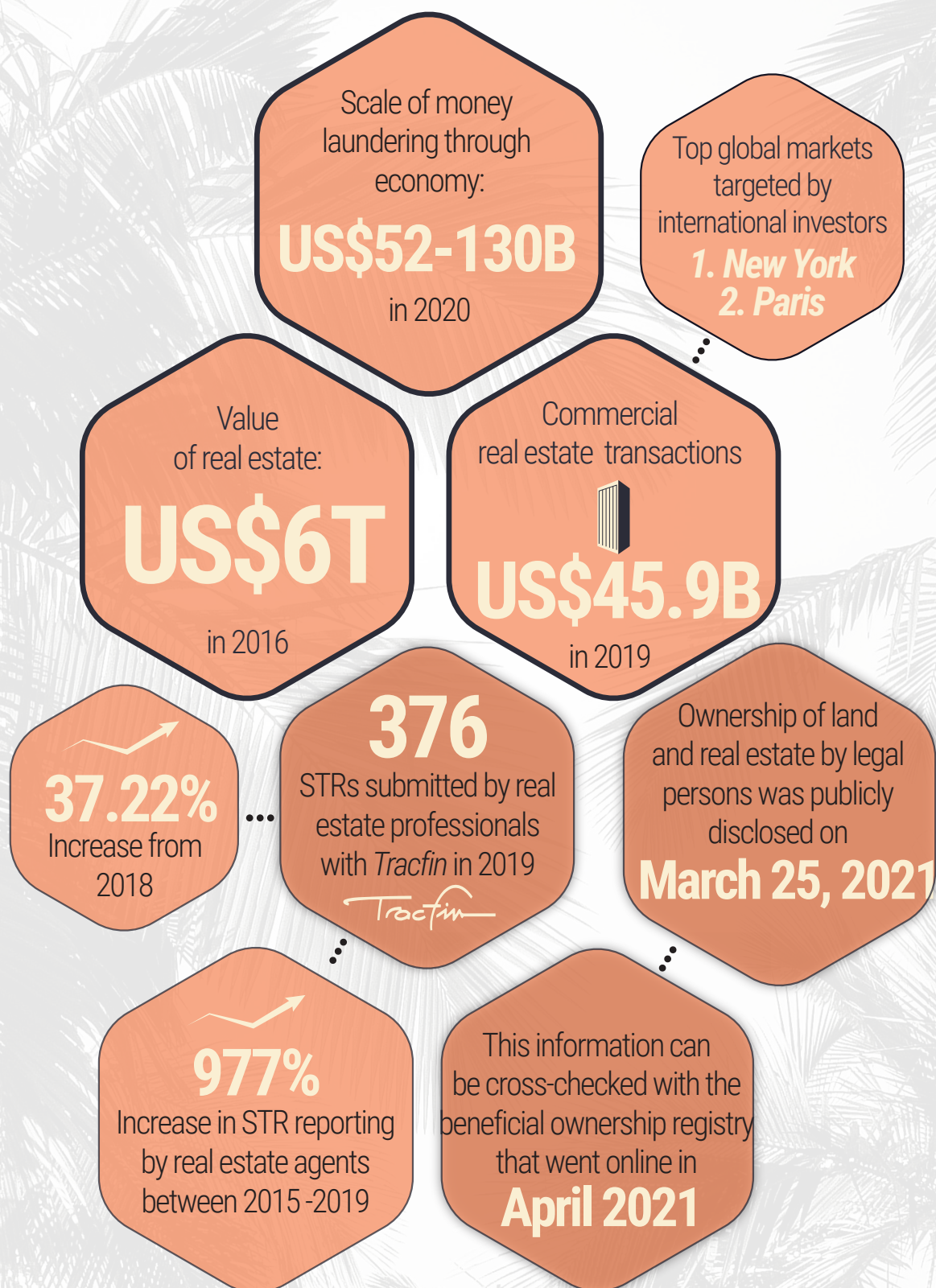
109Transpar. ency Register and Financial Information Act of February 2021

110. Skoruppa, S. & Hoffmann, T. (2021, March 8). Extensive Reporting Requirements to the German Transparency Register for German and Foreign companies to come. Lexology. <https://www.lexology.com/library/detail.aspx?g=2b14624e-8ea4-430f-a1d6-f07e579c431d>

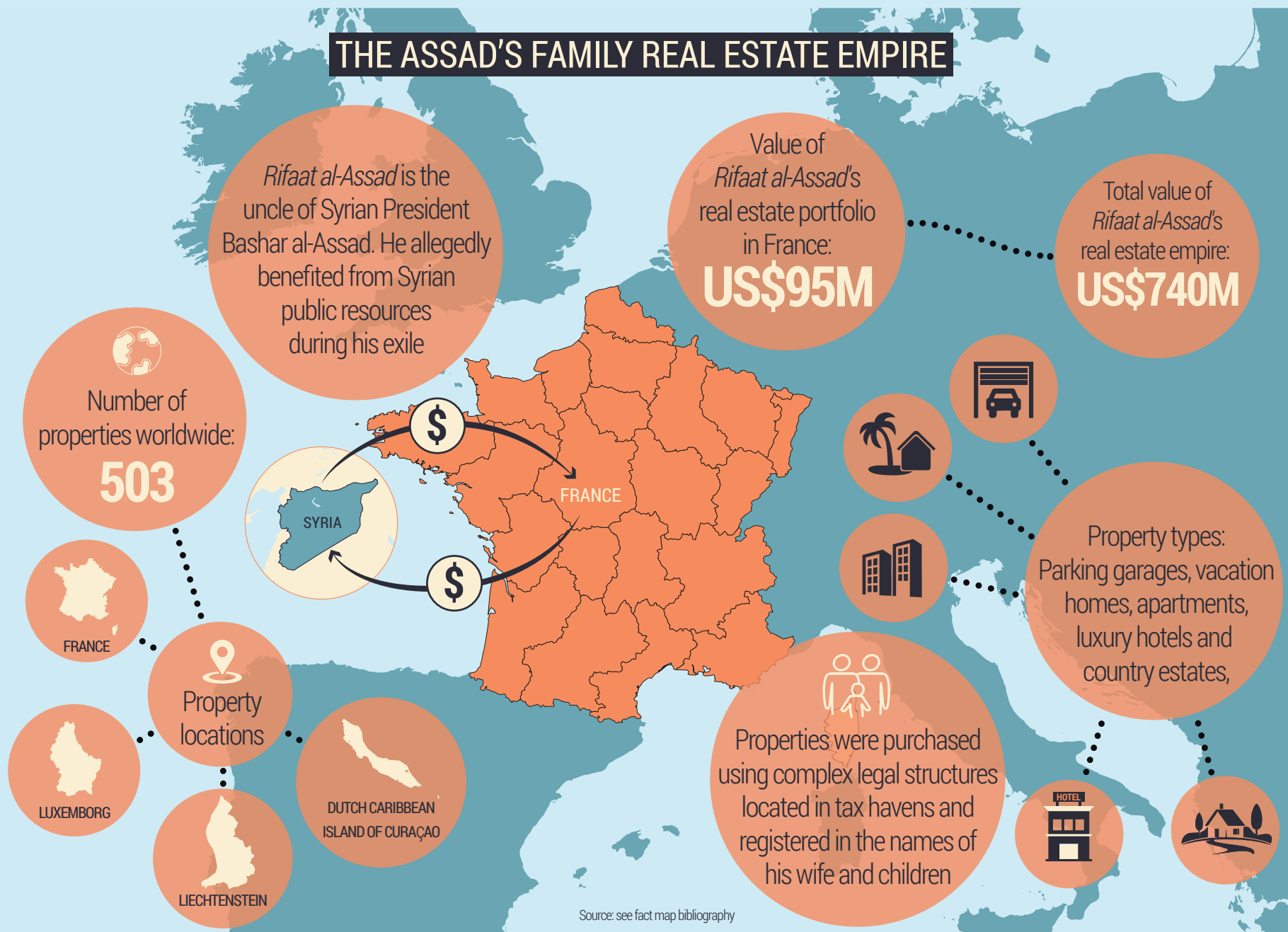
111. Greenbaum, J., Colomba, C., Zeppieri, E. & Rossi, A. (2021, March 23). Delay in the establishment of the Italian UBO Register. Hogan Lovells. <https://www.engage.hoganlovells.com/knowledgeservices/news/delay-in-the-establishment-of-the-italian-ubo-register>.

112. European Land Registry Association. How to get the information. <https://www.elra.eu/contact-point-contribution/italy-agenzia-delle-entrate/how-to-get-the-information-16/> (accessed on 2021, June 6).

FRANCE - REAL ESTATE FACT MAP



THE ASSAD'S FAMILY REAL ESTATE EMPIRE



7 | POLITICALLY EXPOSED PERSONS – UNDER-REGULATED HIGH RISK ACTORS

The last 50 years of research into corruption has proven that there is no dearth of outrageous and blatant ways that politically exposed persons (PEPs) have plundered, looted, and laundered the assets of their home countries. Early money laundering schemes by PEPs often saw them placing their illicit wealth in foreign bank accounts, often in their own names or in those of their relatives, like the US\$800 million held in the name of the former President of Philippines, Ferdinand E. Marcos, in a Swiss bank in the 1980s.¹¹³ (See also The Assad's Family Real Estate Empire on pg. 65) With the increased enforcement of AML/CFT standards, current PEP money laundering techniques have evolved to include purchases of real estate, jewelry, art, horses, yachts, and other classes of high-value assets.¹¹⁴ News reports over the last five years have revealed a series of high-profile cases where PEPs like Teodoro Obiang from Equatorial Guinea,¹¹⁵ the Maduro regime in Venezuela,¹¹⁶ the Kolomoisky family from Ukraine,¹¹⁷ and various Russian PEPs,¹¹⁸ have laundered millions through U.S. real estate. GFI's own analysis in Chapter 3, demonstrates that PEPs were involved in 53.57% of all REML cases in the U.S. Therefore, comprehensive regulation and guidance of these high-risk actors is critical to addressing the problem of REML in the U.S.

FATF's 2003 guidance defined PEPs to include only foreign PEPs. In 2012, FATF revised its standards, and the PEP definition was amended to include foreign PEPs, domestic PEPs and PEPs within international organizations.

113. Butterfield, F. (1986, March 14). Swiss Bank Found with \$800 million in Marcos's name. The New York Times. <https://www.nytimes.com/1986/03/14/world/swiss-bank-found-with-800-million-in-marcos-s-name.html>

114. See Analysis of cases in chapter 3.

115. Chrisafis, A. (2017, October 27). Son of Equatorial Guinea's president is convicted of corruption of France. The Guardian. <https://www.theguardian.com/world/2017/oct/27/son-of-equatorial-guineas-president-convicted-of-corruption-in-france>

116. U.S. Department of Justice (2020, March 26). Nicolás Maduro Moros and 14 Current and former Venezuelan officials charged with narco-terrorism, corruption drug trafficking and other criminal charges. <https://www.justice.gov/opa/pr/nicol-s-maduro-moros-and-14-current-and-former-venezuelan-officials-charged-narco-terrorism>

117. Kramer, A.E. (2021, March 5). U.S. Sanctions Key Ukrainian Oligarch. The New York Times. <https://www.nytimes.com/2021/03/05/world/europe/ukraine-sanctions-oligarch-kolomoisky.html>

118. Layne, N., Parker, N., Reiter, S., Grey, S. McNeill, R. (2017, March 17). Russian elite invested nearly \$100 million in Trump buildings. Reuters. <https://www.reuters.com/investigates/special-report/usa-trump-property/>



Key Elements:



Politically Exposed Persons (PEPs)



Non-GTO county: Dutchess County (NY).



Shell companies



Renovations

Case 14: Chinese bribes for Guinean mines invested in New York mansion

Former Guinean Minister of Mines, Mahmoud Thiam, spent US\$8.5 million in bribes paid to him by Chinese tycoon Sam Pa on a lavish lifestyle in the U.S., including a mansion in Dutchess County (NY). After wiring the money through a bank account in Hong Kong, the US\$3.75 million mansion was purchased by a Malaysian company beneficially owned by Thiam and his wife. In addition, US\$250,000 was paid to a contractor for work on the Dutchess estate.¹¹⁹ While Thiam claimed the money received from Pa was a personal loan, there was no interest or due date, and he never repaid it.¹²⁰ In the meantime, the Chinese tycoon secured lucrative mining rights for his joint venture in Guinea.

Politically Exposed Persons and the absence of U.S. regulation

What, then, is the standard of regulation for PEPs in the U.S.? The last FATF mutual evaluation report of the U.S. in 2016 stated very clearly that the U.S. had “significant shortcomings”¹²¹ in both how the country defined the term PEP, and the limited types of actors responsible for PEP CDD.¹²² **The U.S. is the only G7 country not to have updated its PEP guidance since the revision of FATF recommendations in 2012.** FinCEN itself issued an advisory in June 2018 stating that the term PEP “is not included within FinCEN’s regulations”.¹²³ When looking at the relationship between PEPs and real estate transactions in the U.S., financial institutions alone

are tasked with detecting suspicious PEP behavior instead of intermediaries or gatekeepers that have a more proximate relationship to the real estate transaction.¹²⁴ Even amongst financial institutions, FATF’s 2016 evaluation found that Residential Mortgage Lenders and Originators (RMLOs) “do not seem to be aware of the PEPs requirement” and had a “...low understanding of risks...(which) reflected in the very low number of SARs being reported by them...”.¹²⁵

119. Unites States v. Mahmoud Thiam. Indictment (2017, January 18). <https://www.justice.gov/criminal-fraud/file/937486/download>.

120. Pierson, B. (2017, May 3). Ex-Guinea minister convicted of laundering bribes. Reuters. <https://www.reuters.com/article/us-usa-guinea-corruption-idUSKBN17Z2KJ>.

121. FATF (2016). Mutual Evaluation Report United States of America. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>, p.210.

122. More specifically, the U.S. fails to include domestic PEPs and PEPs from international organizations.

123. https://www.fincen.gov/sites/default/files/advisory/2018-06-12/PEP%20Facilitator%20Advisory_FINAL%20508.pdf. Instead, financial institutions file SAR reports under two categories – separately for a) PEPs and b) Senior Foreign Political Figure – the latter which is a term defined in the USA PATRIOT Act.

124. See chapter 2, specifying that the U.S. has yet to create any AML/CFT obligations for gatekeeper professions.

125. FATF (2016). Mutual Evaluation Report United States of America. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>, pp.122 and 128.

The only other entity that has obligations to monitor real estate transactions are title insurance companies through the GTO mechanism. However, the obligations on title agents, while valuable, are simply 'transparency disclosures' on who the beneficial owner is, and only if a real estate transaction were to conform to a certain set of criteria. The GTO obligations are no substitute for comprehensive AML/CFT checks and do not require title agents to identify PEPs or make an assessment on their source of funds.

Finally, the U.S. definition of PEP has long limited itself to senior foreign political figures and excluded domestic PEPs and those working with international organizations (IOs). Even for foreign PEPs, there is little guidance on the complexities involved in PEP identification in differing geographic and socio-political contexts. For example, a municipal government official in Norway may not be considered a PEP, whereas a similar individual from Italy, Honduras, or Somalia may be considered a PEP.

Table IV: Questions to be addressed when providing guidance on PEPs

a.	Who qualifies as a PEP? Should PEP designations or definitions apply to only one of the sub-categories or to all? Different countries have cherry picked which sub-category their domestic PEP definitions will apply to.	Foreign PEPs
		Domestic PEPs – national, sub-national, municipal
		International Organizations
		Sports Federations like FIFA and IOC
b.	How long does someone remain a PEP?	How soon after taking up the position?
		How long after departing role are you still a PEP?
c.	How far does the circle of close associates and relatives extend for PEP determination?	How many degrees of separation? Son, Daughter, Father-in-law?
d.	Impact of geography and geopolitical risk on a, b, and c.	Levels of corruption, rule of law, conflict, degree of human rights abuse and other conditions can determine and change the answers to a, b, and c.

Source: GFI breakdown of FATF requirements and international best practices (2021)

This absence of detailed guidance as specified in table IV above means that financial institutions base their assessments of what constitutes a PEP at the institutional level. For a financial institution like a bank, this investment can cost upwards of tens of millions of US dollars.¹²⁶ In real estate, this poses a particular challenge for gatekeepers that want to carry out voluntary compliance as recommended by FinCEN in 2017,¹²⁷ but are unfamiliar with how to navigate the complexities of identifying PEPs, and have no guidance from FinCEN in approaching situations like the case involving Peruvian insurance millionaire Gustavo Salazar discussed below (Case 15). This assertion is backed by evidence which shows that historically, implementation challenges have stemmed from poor compliance rates across both developed and developing countries due to a "lack of an enforceable legal or regulatory framework".¹²⁸

126. Bacani, C. (2015, July 23). Governance: Staying away from the FIFA scandal and Politically Exposed Persons. CFO Innovation. <https://www.cfoinnovation.com/risk-management/governance-staying-away-from-fifa-scandal-and-politically-exposed-persons>.

127. FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf.

128. Greenberg, T.S. & Grey, L. (2021). Politically Exposed Persons – Preventive Measures for the Banking Sector. Stolen Asset Recovery Initiative, World Bank. <https://star.worldbank.org/resources/politically-exposed-persons>, p.33.

Table V – Comparison of the U.S. to other G7 countries in defining PEPs and applying them to real estate deals

	PEP definition	Application to real estate transactions
U.S.	⬇️ The term PEP is not included in FinCEN's regulations. ¹²⁹ Financial Institutions are required to identify a 'senior foreign political figure'. ¹³⁰	⬇️ No stated requirements for intermediaries involved in real estate. RMLOs consider the real estate sector low risk and are unaware of their PEP requirements. ¹³¹
UK	⬆️ An individual entrusted with a prominent public function. From 2017 onwards, it covers all three categories of PEPs (foreign, domestic and IO) but specifically excludes sports federations. ¹³²	⬆️ Significant efforts from HMRC to ensure all intermediaries involved in a transaction are required to conduct CDD and enhanced CDD and determine source of income. ¹³³
Canada	⬆️ Holds a designated position on behalf of an IO, or the Canadian government (in effect since 2017), or foreign government (in effect since 2008). ¹³⁴	⬆️ From June 2021, all reporting entities including real estate agents and developers are required to screen for PEPs as part of their CDD. ¹³⁵
France	⬆️ From 2020, the PEP definition has been expanded to include all three categories of PEPs (foreign, domestic and IO). ¹³⁶	⬆️ Attorneys, notaries, attorneys acting as escrow agents, real estate agents are all required to conduct full customer due diligence for PEP. ¹³⁷
Germany	⬆️ German law since 2017 has classified PEPs to include domestic, foreign, and IO PEPs. ¹³⁸	⬆️ Attorneys, notaries, attorneys acting as escrow agents, real estate agents are all required to conduct full customer due diligence for PEP. ¹³⁹

129. FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2018-06-12/PEP%20Facilitator%20Advisory_FINAL%20508.pdf

130. 312 USA PATRIOT Act, §1010.620. Covered FIs are required to take reasonable measures to ascertain the identity of all the nominal and beneficial owners (BO) of such accounts, and ascertain whether any of them is a senior foreign political figure; 31 CFR § 1010.605 Senior foreign political figure. (1) The term senior foreign political figure means: (i) A current or former: (A) Senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether elected or not); (B) Senior official of a major foreign political party; or (C) Senior executive of a foreign government-owned commercial enterprise; (ii) A corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; (iii) An immediate family member of any such individual; and (iv) A person who is widely and publicly known (or is actually known by the relevant covered financial institution) to be a close associate of such individual. (2) For purposes of this definition: (i) Senior official or executive means an individual with substantial authority over policy, operations, or the use of government-owned resources; and (ii) Immediate family member means spouses, parents, siblings, children and a spouse's parents and siblings.

131. US FATF Mutual Evaluation (2016) at p.128 available at <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>

132. Regulation 35 (12) The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 available at https://www.legislation.gov.uk/uksi/2017/692/pdfs/ukxi_20170692_en.pdf

133. UK HMRC (2021) Estate agency business guidance for money laundering supervision <https://www.gov.uk/government/publications/money-laundering-regulations-2007-supervision-of-estate-agency-businesses/estate-agency-guidance-for-money-laundering-supervision>; The Law Society (2019, December 19). Politically Exposed Persons. <https://www.lawsociety.org.uk/en/topics/anti-money-laundering/peps>

134. Domestic PEP and HIO requirements came into effect in June 2017 under the PCMLTFA and associated Regulations. These requirements stem from legislative amendments to the PCMLTFA made in 2014. Requirements for foreign PEPs have been in effect since 2008. PCMLTFA, S.C. 2000, c 17, s. 9.3(3); FINTRAC (2021) Frequently Asked Questions about domestic politically exposed persons and heads of organizations. <https://www.fintrac-canafe.gc.ca/publications/general/faq-pep-eng>





135. FINTRAC (2021). Politically exposed persons and heads of international organizations guidance. <https://www.fintrac-canafe.gc.ca/guidance-directives/client-clientele/pep/pep-eng>

136. Article R561-18 available at https://www.legifrance.gouv.fr/codes/article_lc/LEGIARTI000041592341/.

137. Articles L561-5 and L561-5-1, Article R561-12-1.

138. Global risk affairs (2017, July 10). Controversial German Anti-Money Laundering Law. <https://www.globalriskaffairs.com/2017/07/controversial-german-anti-money-laundering-law/>

139. ibid

Italy	 Very wide and expansive PEP definition with a heavy focus on domestic sub-national categories of PEPs. ¹⁴⁰	 There are longstanding requirements on client identification. However, DNFBPs in Italy have limited experience with CDD outside of client identification. ¹⁴¹
Japan	 Law in force from 2016 onwards only for foreign PEPs. ¹⁴²	 Only for foreign PEPs. Real estate agents subject to full CDD obligations. ¹⁴³ Lawyers and judicial scriveners ¹⁴⁴ limited to enhanced client identification. ¹⁴⁵

Source: GFI analysis of national legislation and regulation (2021)

Much like the U.S., all the other G7 countries have faced similar issues in addressing the risks PEPs pose to their real estate sector. Nevertheless, nearly all of them in the last couple of years have updated their definitions and reporting obligations (see table V) to be in line with best international practices. Countries like the UK have “publicly highlighted the need for estate agents to be alive to risks in relation to PEPs, high-value transactions (super-prime property in London for example) and non-face-to-face clients,”¹⁴⁶ and provided detailed guidance to estate agents explaining how geographic contexts can influence PEP identification.¹⁴⁷ Canada has also issued guidance for the real estate sector on the steps that need to be taken to identify and monitor PEPs.¹⁴⁸ Similarly, in Italy, a decree targeting real estate brokers includes specific references to PEP controlled assets.¹⁴⁹

For the U.S. to address the risks within the real estate sector for money laundering, it must first explicitly recognize the risks that arise from PEPs as frequent actors that employ REML schemes when hiding illicit money. Second, the U.S. must include the term PEP within FinCEN regulation and bring it in line with FATF standards. Third, FinCEN must provide guidance on PEP identification that can be of assistance to those entities monitoring and involved in real estate transactions.

140. FATF (2016). Mutual Evaluation Report Italy. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Italy-2016.pdf>, at p.80

141. Ibid at p.81

142. Act on Prevention of Transfer of Criminal Proceeds, 2015; https://www.npa.go.jp/sosikihanzai/jafic/pdf/e_leaf20161001.pdf

143. Act on Prevention of Transfer of Criminal Proceeds, 2008

144. Judicial Scriveners perform the functions similar to those of both a title agent in the U.S and a notary in the EU.

145. Act on Prevention of Transfer of Criminal Proceeds, 2015; JAFIC (2016) Act on Prevention of Transfer of Criminal Proceeds (factsheet). National Police Agency Japan. JAFIC (2016) Act on Prevention of Transfer of Criminal Proceeds (factsheet). National Police Agency Japan https://www.npa.go.jp/sosikihanzai/jafic/pdf/e_leaf20161001.pdf.

146. FATF (2018). Mutual Evaluation Report United Kingdom. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-Kingdom-2018.pdf>, p.116.

147. UK HMRC (2021) Estate agency business guidance for money laundering supervision. <https://www.gov.uk/government/publications/money-laundering-regulations-2007-supervision-of-estate-agency-businesses/estate-agency-guidance-for-money-laundering-supervision>.

148. FINTRAC (2021). Politically exposed persons and heads of international organizations guidance for non-account-based reporting entity sectors. <https://www.fintrac-canafe.gc.ca/guidance-directives/client-cliente/pep/pep-non-acct-eng>.

149. FATF (2016). Mutual Evaluation Report Italy. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Italy-2016.pdf>, p. 171.

Key Elements:



Politically Exposed Persons (PEPs)



Private lending groups



Family members



Shell companies

Case 15: PEPs launder money from Odebrecht scandal through Florida luxury real estate

In 2016, Latin America's largest corruption scandal was exposed, revealing that Brazilian construction giant Odebrecht had paid more than US\$780 million in bribes to corrupt officials in exchange for public projects. While Odebrecht was fined US\$2.6 billion in a deal with the U.S. and Swiss authorities, the scandal also implicated dozens of politicians worldwide with at least three of them investing their illicit money in Florida real estate.¹⁵⁰

Carlos Polit Faggioni, a top auditor in the Ecuadorian government, relocated to Miami in 2017 after taking US\$10.1 million in bribes from Odebrecht. Together with his son, he acquired at least three Florida properties worth US\$7 million through LLCs registered in his son's and his daughter-in-law's name. At least one of those LLCs secured a loan from M&M Private Lending Group to acquire real estate.

Peruvian insurance millionaire Gustavo Salazar, who was also the former Deputy President of the Badminton World Federation,¹⁵¹ has a couple of things in common with Polit. Salazar was accused in 2017 of facilitating and laundering a US\$100 million Odebrecht bribe to a governor in Peru. His daughter controlled at least eight LLCs, one of which also secured a loan from M&M Private Lending Group to acquire property.

Former Guatemalan senator Manuel Baldizón took US\$3 million in Odebrecht bribes when he was running for president and moved to Miami in 2018. His son is listed as the owner of several LLCs and properties in Florida.

150. Ruiz-Goiriena, R. (2020, October 24). Gaming the system. Miami Herald. <https://www.miamiherald.com/news/local/immigration/article243460476.html>

151. Khanna, A. (2018, May 15). Tainted Deputy President Gustavo Salazar is out of BWF. Insides Port. <https://www.insidesport.co/tainted-deputy-president-gustavo-salazar-is-out-of-bwf-0815052018/>; Following the FIFA scandal Switzerland passed a new law (13.106) in 2014 that classifies the heads of international sporting federations based in Switzerland as PEPs.

8

REAL ESTATE SECTOR COMPLIANCE AND SUSPICIOUS ACTIVITY REPORTING – THE IMPORTANCE OF TRANSPARENCY AND OUTREACH

The preceding chapters of this report used the evidence in Chapter 3 to provide an analysis of the regulatory pieces needed to curb REML in the U.S. But a comprehensive assessment of the U.S. approach and how it compares to the rest of the G7 would be incomplete without evaluating the seriousness with which reporting entities subject to AML/CFT requirements treat this risk and raise red flags to the appropriate regulator.

Why does suspicious activity reporting matter?

When real estate professionals have AML obligations, suspicious activity reports (SARs)¹⁵² are their tools to raise red flags and assist law enforcement in their efforts to curtail REML. When done effectively, SARs provide a wealth of information. Not only do they help law enforcement detect illicit activity, but SARs are also useful to identify money laundering trends and patterns, including geographic areas of risk. Moreover, SAR numbers are a good signifier of the AML-compliance culture, and reveal the penetration of AML/CTF requirements in a reporting entity's day to day operations.

Real estate SARs and GTO reporting numbers: a transparency gap in the U.S.

All across the G7, SAR numbers are disclosed on an annual basis. However, when it comes to the real estate sector, the U.S. does not provide this information with the same level of detail as the rest of the G7 (see table VI). Through their annual reports, France, Germany, UK, and Japan disclose disaggregated data on SARs submitted by all reporting entities, including real estate agents.¹⁵³ Germany in particular discloses data on SARs filed for 'unusual activities in connection with the purchase or sale of real estate' with the numbers broken down by type of reporting entity that filed these reports.¹⁵⁴

Table VI: Comparing U.S. Real estate SAR numbers to the rest of the G7

	Total SARs:	SARs in real estate sector	% of total SARs
U.S. (2020)	2,503,204	Loan company regarding commercial or residential mortgage: 5,384	0.21%
Title agent GTO reports (2016 – 2019)		Title Agents GTO reports (2016-2019): 23,659	
UK (2019 – 2020)	573,085	Real estate agents: 861	0.15%
		Legal professionals: 3,006	0.52%
Canada (2019-2020)	386,102	Unknown	Unknown

152. The U.S. and UK use the term 'suspicious activity reports' (SARs). These are called 'suspicious transaction reports' (STRs) in the rest of the G7.

153. However, when it comes to legal professionals, the G7 countries do not distinguish between those STRs submitted in connection with a real estate transactions and those unrelated to real estate.

154. Financial Intelligence Unit (2019). Jahresbericht 2019. Central Customs Authority. <https://www.zoll.de/DE/FIU/Fachliche-Informationen/Jahresberichte/jahresberichte.html>, p. 38.

France (2019)	95,731	Real estate agents: 376	0.39%
		Notaries: 1,816	1.89%
		Lawyers: 12	0.013%
Germany (2019)	114,914	In connection with a real estate transaction: 1,266	1.1%
		Of which notaries and lawyers: 38	0.03%
		Of which real estate agents: 84	0.07%
		Of which financial institutions: 1000	0.87%
Italy (2019)	105,789	'Other non-financial operators', which includes real estate brokers but also antiquities traders and other Designated Non-Financial Business and Profession (DNFBP) categories: 61	0.058%
		Notaries: 4,630	4.38%
		Lawyers and law firms: 66	0.062%
Japan (2020)	432,202	Real estate agents: 7	0.0016%

Source: GFI compilation of SAR numbers from FIU Annual Reports across G7 (2021)¹⁵⁵

By contrast, despite requiring title agents to file reports under the GTO mechanism, there has been little consistency from the U.S. in disclosing this reporting data. Instead, FinCEN and the U.S. Treasury Department have released only piecemeal information on GTO reporting data (see table VII).¹⁵⁶ Reports from both agencies addressed what percentage of the transactions reported under the GTOs involved a beneficial owner that had also been the subject of a SAR. However, neither FinCEN nor the U.S. Treasury have ever disclosed the total or annual number of reports submitted by title insurers. Only the GAO, in a footnote in their report on the GTOs, disclosed that, as of August 15, 2019, a total of 23,659 reports had been submitted by title insurers. There is thus an overall lack of transparency on the year-to-year reporting data by title insurers on the GTOs, and as such on the title insurance industry compliance with the GTOs. Similarly, despite FinCEN calling on real estate professionals to submit SARs voluntarily in 2017, it has never disclosed how many SARs have been filed in the intervening years. The piecemeal disclosure of information on GTO reporting and the absence of any disclosure on real estate SAR reporting are both equally problematic. The lack of transparency makes assessing the effectiveness of the policy challenging, but also restricts an understanding of how seriously the sector takes the issue.

Despite FinCEN calling on real estate professionals to submit SARs voluntarily in 2017, it has never disclosed the number of SARs filed.

155. Financial Crimes Enforcement Network. Suspicious Activity Report Statistics. <https://www.fincen.gov/reports/sar-stats>, accessed on 2021, June 30; U.S. Government Accountability Office (2020). Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders. <https://www.gao.gov/assets/gao-20-546.pdf>, p.13.; UK Financial Intelligence Unit (2020). Suspicious Activity Reports Annual Report 2020. <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/480-sars-annual-report-2020/file>, p.9; FINTRAC (2020). 2019-20 Annual Report <https://www.fintrac-canafe.gc.ca/publications/ar/2020/1-eng#s12>; TRACFIN (2019). Annual Report. Ministère de l'économie, des finances et de la relance. https://www.economie.gouv.fr/files/files/directions_services/tracfn/RAA%20TRACFIN%202019%20VA.pdf, p.12; Financial Intelligence Unit (2019). Jahresbericht 2019. Central Customs Authority. <https://www.zoll.de/DE/FIU/Fachliche-Informationen/Jahresberichte/jahresberichte.html>, p.38; UIF (2020). Annual Report 2019 Italy's Financial Intelligence Unit. Banca D'Italia. https://uif.bancaditalia.it/publicazioni/rapporto-annuale/2020/annual_report_2019.pdf?language_id=1, p.14; National Police Agency (2020). Annual Report 2020. https://www.npa.go.jp/sosikhanzai/jafic/en/nenzihokoku_e/data/jafic_2020_e.pdf, p. 41.

156. See table VII 'Reporting numbers under real estate GTO'

Table VII: Reporting numbers under real estate GTO

FinCEN (2017)	As of May 2, 2017, 30% of the real estate transactions reported under the GTOs involved a person that had been the subject of SARs.
U.S. Treasury Department (2020)	A review of 18,034 transactions reported under the GTOs between March 2016 and April 2019, shows: ¹⁵⁷ <ul style="list-style-type: none"> • 37% involved a person who was subject of a SAR • 17% matched to a higher risk SAR • 11% involved a foreign subject, of which 19% was subject of a SAR.
GAO (2020)	As of August 15, 2019, title insurers had submitted 23,659 GTO reports, of which 37% (8,652) involved a person who was the subject of a SAR.

Source: Information compiled from FinCEN, Treasury and GAO reports (2021)¹⁵⁸

The value of real estate sector outreach and engagement: Lessons for the U.S.

Generally, table VI shows that the number of real estate SARs is disproportionately low across the G7, indicating that implementation of AML obligations continues to be problematic. Nevertheless, recent years have shown a significant upsurge in SARs submitted in the real estate sector in some G7 countries (see table VIII). This upward trend aligns with increased training and outreach efforts by Financial Intelligence Units (FIUs) to both real estate agents and legal professionals as outlined in table X below. For example, the 2020 GwGmldV-immobilien ordinance in Germany is designed to reduce suspicious transaction reporting (STR) impediments related to client confidentiality, by specifying the red flags that will require reporting.¹⁵⁹ In Canada, France and Japan, efforts have focused on private-public partnerships with professional bodies for lawyers and real estate agents.¹⁶⁰ Canada's efforts stand out in particular. Since 2018, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), has entered into a series of partnerships with Real Estate Councils in B.C and Ontario, and with the Canadian Real Estate Association, to provide a platform for AML training modules and exchange compliance information.¹⁶¹

Table VIII: increase in real estate SARs

France	977% increase in real estate agent STRs between 2015 - 2019
Germany	300% increase in real estate agent STRs between 2017 - 2019
UK	35% increase in SARs submitted by real estate agents between 2018 and 2020
Canada	Between 2003-2013, 127 STRs were submitted by real estate reporting entities. During the following three years until 2016, this number increased to a total of 9,556 STRs.

Source: Calculations by GFI based on numbers provided in annual reports.¹⁶²

157. It is unclear whether the 18,034 transactions encompasses the total number of reports submitted, or whether it is a subset that was reviewed.

158. FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf. p.5; U.S. Government Accountability Office (2020). Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders. <https://www.gao.gov/assets/gao-20-546.pdf>. p.13; U.S. Department of Treasury (2020). National Strategy for Combating Terrorist and Other Illicit Financing 2020. <https://home.treasury.gov/system/files/136/National-Strategy-to-Counter-Illicit-Financev2.pdf>. p. 16.

159. Bundesministerium der Finanzen (2019). Strategie gegen Geldwäsche und Terrorismusfinanzierung. https://www.zoll.de/SharedDocs/Downloads/DE/Links-fuer-Inhaltseiten/Fachthemen/FIU/fiu_strategie_gegen_geldwaesche.pdf?__blob=publicationFile&v=2. p. 13.

160. TRACFIN (2019). Annual Report. Ministère de l'économie, des finances et de la relance. https://www.economie.gouv.fr/files/files/directions_services/tracfin/RAA%20TRACFIN%202019%20VA.pdf. p. 33-34.

161. FINTRAC (2020). 2019-20 Annual Report <https://www.fintrac-canafe.gc.ca/publications/ar/2020/1-eng#s12>. However, FINTRAC does not seem to have extended these efforts to real estate developers, who also have a reporting obligation under the PCMLTFA, and should be equally cognizant of AML risks.

162. TRACFIN (2019). Annual Report. Ministère de l'économie, des finances et de la relance. https://www.economie.gouv.fr/files/files/directions_services/tracfin/RAA%20TRACFIN%202019%20VA.pdf. p. 12; Financial Intelligence Unit (2019). Jahresbericht 2019. Central Customs Authority. <https://www.zoll.de/DE/Fachliche-Informationen/Jahresberichte/jahresberichte.html>. p. 17; and Financial Intelligence Unit (2017). Jahresbericht 2017. Central Customs Authority. <https://www.zoll.de/DE/Fachliche-Informationen/Jahresberichte/jahresberichte.html>. p. 8; UK Financial Intelligence Unit (2020). Suspicious Activity Reports Annual Report 2020. <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/480-sars-annual-report-2020/file>. p. 9; and UK Financial Intelligence Unit (2019). Suspicious Activity Reports Annual Report 2019. <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/480-sars-annual-report-2020/file>. p. 8.

In the U.S., FinCEN has provided training and written advice on the GTOs in collaboration with the ALTA.¹⁶³ However, due to the lack of transparency on reporting numbers, it remains unclear whether this had a positive effect on sector compliance. On the face of it, the piecemeal information that is available on GTO reporting data (see table VII) appears to show that the GTOs have been increasingly effective. As shown by table IX below, the expansion of the GTO reporting requirements was paralleled by an uptick in GTO reports that matched a SAR. This indicates that, as the reporting obligation expanded, a relatively higher number of suspicious real estate transactions could be identified. However, these numbers do not provide us with information on the absolute numbers of transactions reported by title insurers. That is to say, it does not tell us whether compliance within the industry improved, or whether further outreach would be required. In fact, the GAO concluded in 2020 that FinCEN's oversight over title insurance companies remains weak, resulting in a lack of reliable information on title insurance compliance with the GTOs.¹⁶⁴

Table IX: timeline of GTO reporting numbers

March 2016	First GTO issued by FinCEN
May 2017	30% of title agent GTO reports involved a person that had also been the subject of a SAR
September 2017	GTOs expand to include Funds Transfer and 1 county (Honolulu (HI))
November 2018	GTOs expand to include Virtual Currency and 7 more counties
August 2019	37% of title agent GTO reports involved a person that had also been the subject of a SAR

Source: GFI analysis of GTOs and FinCEN, Treasury and GAO reports (2021)

Finally, FinCEN in 2021 issued AML Guidelines for Estate Professionals developed in collaboration with the National Association of Realtors (NAR).¹⁶⁵ As laudable as this effort is, it is of little value as long as real estate professionals remain exempt from AML obligations under the BSA. And as noted above, the lack of transparency around SAR numbers makes it difficult to assess the impact of these voluntary obligations.

Table X: Real estate outreach and training efforts in the U.S. and rest of the G7

U.S.	<ul style="list-style-type: none"> • NAR AML Voluntary Guidelines for Estate Professionals developed in collaboration with FinCEN (2021) • FinCEN Advisory Real estate sector (2017) • Joint training sessions on GTOs for title insurance companies by FinCEN and ALTA (2016) • GTO FAQs and compliance helpline by FinCEN for title insurance companies
UK	<ul style="list-style-type: none"> • HMRC AML Guidance for estate agency and letting agency businesses (2020) • UK FIU & HMRC estate agents guidance webinars to reach small and one-person type businesses (2019) • Flag it Up! -campaign by HMRC targets accountancy, legal and property sectors to promote CDD and SARs (first launched in 2017)

163. Government Accountability Office (2020). Anti-Money Laundering: FinCEN Should Enhance Procedures for Implementing and Evaluating Geographic Targeting Orders. <https://www.gao.gov/assets/gao-20-546/pdf.p.15>.

164. Ibid, p. 16.

165. National Association of Realtors (2021). Anti-Money Laundering Voluntary Guidelines for Real Estate Professionals. <https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals>.

Canada	<ul style="list-style-type: none"> • FINTRAC guidance on ML/TF indicators in real estate (2019, updated from 2016) • FINTRAC Collaboration with British Columbia-Government of Canada Working Group on Real estate to identify AML risks (2018 – 2019) • Memorandum Of Understanding between FINTRAC and Real Estate Council of B.C. to constitute a framework for information sharing and develop AML training modules (2019 – 2020) • FINTRAC assisted Real Estate Council of Ontario in development of AML/CTF training (2019) • FINTRAC collaboration with Canadian Real Estate Association to exchange information (2018 – 2019)
France	<ul style="list-style-type: none"> • Joint DGCCRF – TRACFIN guidelines for real estate professionals (2018) • TRACFIN training on guidelines real estate professionals at federations (2019) • TRACFIN helps professional federations draft in-house brochures (2019) • TRACFIN partnership with Chambers of Commerce and Industry to raise awareness among independent agents who are not part of a federation (2019)
Germany	<ul style="list-style-type: none"> • GwGmV-immobilien ordinance aims to increase previously low STR numbers by legal professionals in the real estate sector by taking away impediments of client confidentiality concerns (2020) • FIU workshops and conference for supervisory authorities, fiscal authorities, law enforcement agencies, and professional real estate associations (2019)
Italy	<ul style="list-style-type: none"> • Risk indicators for real estate sector are included in AML regulation of Ministry of the Interior (2011)
Japan	<ul style="list-style-type: none"> • Since 2007, Liaison Council for Prevention of Transfer of Criminal Proceeds and Prevention of Damage by Anti-Social Forces in Real Estate Industry supports implementation of AML compliance, through: <ul style="list-style-type: none"> » Reaching industry-wide agreement on management. » Preparing a handbook on AML risks and distributing it through trade associations. » Providing education through webinars at real estate associations.

Source: GFI compilation of information from various G7 sources (2021)¹⁶⁶

166. National Association of Realtors (2021). Anti-Money Laundering Voluntary Guidelines for Real Estate Professionals. <https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals>; FinCEN (2017). Advisory to Financial Institutions and Real Estate Firms and professionals. https://www.fincen.gov/sites/default/files/advisory/2017-08-22/Risk%20in%20Real%20Estate%20Advisory_FINAL%20508%20Tuesday%20%28002%29.pdf; HMRC (2021). Understanding risks and taking action for estate agency and letting agency businesses. <https://www.gov.uk/government/publications/money-laundering-understanding-risks-and-taking-action-for-estate-agency-and-letting-agency-businesses/understanding-risks-and-taking-action-for-estate-agency-and-letting-agency-businesses>; HMRC (2017) Help and support for money laundering supervision. <https://www.gov.uk/guidance/help-and-support-for-anti-money-laundering#estate-agency-businesses>; Financial Intelligence Unit (2019). Suspicious Activity Reports Annual Report 2019. <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/480-sars-annual-report-2020/file>; FINTRAC (2019). Money laundering and terrorist financing indicators – Real estate. https://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/indicators-indicateurs/real_mltf-eng; FINTRAC (2020). 2019-20 Annual Report <https://www.fintrac-canafe.gc.ca/publications/ar/2020/1-eng#s12>; TRACFIN (2019). Annual Report. Ministère de l'économie, des finances et de la relance. https://www.economie.gouv.fr/files/files/directions_services/tracfin/RAA%20TRACFIN%202019%20VA.pdf; Bundesministerium der Finanzen (2019). Strategie gegen Geldwäsche und Terrorismusfinanzierung. https://www.zoll.de/SharedDocs/Downloads/DE/Links-fuer-Inhaltseiten/Fachthemen/FIU/fiu_strategie_gegen_geldwaesche.pdf?__blob=publicationFile&v=2; Financial Intelligence Unit (2019, June 26). Geldwäschebekämpfung im Immobiliensektor. Zoll. https://www.zoll.de/DE/FIU/Aktuelles-FIU-Meldungen/2019/fiu_geldwaeschebekämpfung_im_immobiliensektor.html?nn=290366; Ministero Dell'interno (2011) DECRETO 17 febbraio 2011 . Determinazione degli indicatori di anomalia al fine di agevolare l'individuazione delle operazioni sospette di riciclaggio da parte di talune categorie di operatori non finanziari. https://uif.bancaditalia.it/normativa/norm-indicatori-anomalia/Decreto_17_2_2011.pdf; National Police Agency (2020). Annual Report 2020. https://www.npa.go.jp/sosikihanzai/jafic/en/nenzihokoku_e/data/jafic_2020_e.pdf.

9 | RECOMMENDATIONS

GFI proposes the following recommendations for the U.S. real estate sector in line with the developments in policy, regulation, and guidance seen elsewhere in the G7 and consistent with international best practices as laid out by the FATF. Adopting these recommendations would significantly reduce the money laundering risks to the U.S. financial system.

» A comprehensive new rule that addresses REML should replace the GTOs

This new rule should at a minimum:

- a. **Cover the U.S. nationwide:** The prevalence of REML schemes in non-GTO counties is well established. FinCEN should make the GTOs applicable nationwide through a new rulemaking. A new rule that makes the reporting requirements permanent and applicable to the whole country would provide a more effective way for reporting entities and enforcement agencies to monitor and curb serious money laundering risks to the U.S. real estate sector;
- b. **Eliminate the dollar threshold under the GTOs:** The GTO dollar threshold requires title agents to check individually if every home purchase meets the stated monetary trigger. This in turn makes the reporting requirement cumbersome and expensive. Eliminating the monetary thresholds in a new rule would allow for easier standardization of processes and better monitoring within the industry as well as with FinCEN;
- c. **Require real estate agents to identify the beneficial owner where title agents are not used:** Not all states in the U.S. require the use of a title agent for residential real estate transactions. Additionally, there are money-laundering schemes designed to get around the use of a title agent. To prevent the exploitation of obvious gaps within the GTOs, any new rulemaking should require real estate agents to carry out reporting obligations for residential real estate transactions when a title agent is not used.

» Create AML/CFT obligations to specifically target REML

The GTOs do not create any KYC or CDD requirements that target REML. In line with the best practices recommended by the FATF and current developments across the rest of the G7, it is strongly recommended that a new rule create robust AML/CFT processes. This would include creating a risk-based approach that identifies source of funds, client identification, and client verification at minimum but also all other aspects of the CDD process.

» Ensure robust implementation of the beneficial ownership registry

The recent passage of the Corporate Transparency Act, authorizing the creation of a national centralized beneficial ownership registry, is a critical step in addressing the problem of REML in the U.S., but serious questions remain as to whether the registry will cover all types of legal entities and arrangements that are utilized to purchase real estate. In its implementation, the U.S. should ensure that the registry will cover trusts and foreign legal entities used to purchase both commercial and residential real estate in the U.S.

» Bring U.S. regulation of PEPs in line with international best practices

- a. **Issue an advisory on the role of PEPs in REML schemes:** PEPs were involved in over 50% of all U.S. REML cases analyzed by GFI. FinCEN should issue an advisory highlighting the risk of foreign PEPs to REML schemes and require reporting entities to report the purchase of property by a foreign PEP.
- b. **Define the term 'PEP' in regulation and provide appropriate guidance on PEP identification:** FinCEN currently does not define the term PEP in regulation, nor does it provide appropriate guidance on PEP identification. The U.S. should update its PEP definition in line with FATF 2012 reforms and provide guidance on how to identify a PEP including the impact of geographic risk on PEP identification.

» Expand REML typologies targeted

The GTOs target only one specific type of REML: one that involves an all-cash transaction, using a shell company, and very specifically one that is initiated by the buyer. The U.S. reform on REML should at a minimum target the following typologies and target both the buyer and seller: overvaluation, undervaluation, successive sales, use of trusts, leasing, and the use of gatekeepers.

» Create reporting obligations for REML risks in commercial real estate

- a. **Create reporting requirement for REML risks in commercial real estate:** In the U.S., REML in commercial real estate remain untargeted. FinCEN should issue guidance, red flag indicators, and create reporting requirements for REML typologies related to commercial real estate transactions.
- b. **Make attorneys the lead gatekeeper responsible for identifying REML risks in commercial real estate:** Attorneys have a specialized role in commercial real estate transactions. Therefore, along with financial institutions, attorneys should be made the lead reporting entity to identify money laundering risks in CRE transactions.
- c. **Create AML/CFT obligations for investment advisers:** Given the high risks to commercial real estate from opaque investment vehicles, investment advisers should be required to carry out CDD on all prospective investors. FinCEN's 2015 rule requiring CDD for investment advisers should be updated accordingly.

» Create reporting requirements for gatekeepers and real estate professionals

National and international assessments continually highlight the degree to which gatekeepers are complicit in REML schemes. The U.S. should undertake comprehensive gatekeeper reform for the real estate sector. The temporary exemption granted to real estate agents under the BSA should be removed. Additionally, lawyers and attorneys should be subject to AML/CFT requirements when involved in real estate transactions.

» EB-5 reform

EB-5 visas continue to be exploited for REML purposes as well as to evade U.S. sanctions. The EB-5 program needs to be reformed. Key to this are stricter integrity measures for regional centers, more exhaustive due diligence on source of funds and verification of investor identity, including PEP identification, and, finally, disclosing the names of regional centers that have been implicated in money laundering cases.



ANNEX 1: ADEQUACY OF U.S. REGULATORY FRAMEWORK TO TACKLE REML TYPOLOGIES IN COMPARISON TO THE REST OF THE G7

Typology	U.S.	UK	Canada	France	Germany	Italy	Japan
Utilizing Cash	Partially – only for residential purchases over US\$300,000 and only in certain jurisdictions	Full CDD requirements for all real estate transactions					Full CDD for real estate agents. Attorneys and judicial scriveners only carry out client identification and verification.
Use of Gatekeepers	No obligations on lawyers, investment advisers, and real estate agents to understand source of income and identify beneficial owner. Limited obligation on title insurance companies.	Real estate agents, legal professionals and letting agents carry out CDD for real estate transactions	Requirements apply to real estate agents and developers, and only in B.C for lawyers. Poor compliance.	Significant improvements in STR filings	New laws have created ambitious reporting requirements.	Laws effective for over a decade but little knowledge of AML/CFT amongst reporting entities	
		Yes, detailed obligations on lawyers, real estate agents to understand source of income, conduct CDD, and identify beneficial owner					
Front, shell, trusts, and other company structures	Beneficial ownership legislation yet to be implemented. Additionally, not all legal forms/arrangements necessarily covered	Yes, targeted through 2017 regulations	BO registry announced but not yet created. New BO identification regulations for real estate agents came into effect in June 2021. ¹⁶⁷	Full application across all legal structures	The BO register has suffered from challenges including low use and quality of information contained.	Delay in establishing the BO registry ¹⁶⁸	Only covers companies. Legal representatives or director can be listed as BO when none identified. No BO registry
Renovation	GTOs focus only on buyer side REML typologies	Real estate professionals with AML/CFT requirements not best placed to identify renovation REML typologies					
Leases	Covers only purchase of real estate	Yes, but only for monthly leases more than US\$12,000	No, PCMLTFA excludes leases				Covers only purchase of real estate
				Yes, but only for monthly leases more than US\$12,000. But information on the success of enforcing these reporting obligations is limited			

167. FINTRAC (2021). Notice on forthcoming regulatory amendments and flexibility. <https://www.fintrac-canafe.gc.ca/covid19/flexible-measures-eng>

168. Greenbaum, J., Colomba, C., Zeppieri, E. & Rossi, A. (2021, March 23). Delay in the establishment of the Italian UBO Register. Hogan Lovells. <https://www.engage.hoganlovells.com/knowledgeservices/news/delay-in-the-establishment-of-the-italian-ubo-register>

Typology	U.S.	UK	Canada	France	Germany	Italy	Japan
Loans and mortgages			Unregulated private lenders are often used in REML schemes				
	Yes – longstanding AML/CFT requirements. But high-net worth criminal actors are consistently able to receive mortgages without raising red flags			Yes - longstanding AML/CFT requirements. But high-net worth criminal actors always are consistently able to receive mortgages without raising red flags			
Third party purchases	Partially through GTO emphasis on BO identification	Full CDD requirements under 2017 regulations	Can still be hidden through legal vehicles	Full CDD requirements	Full CDD requirements	Full CDD requirements	Can still be hidden through legal vehicles and lawyers only require client verification not CDD
Under valuation	Focus is only on buyer side REML schemes	Industry guidance documents cover these typologies for obliged entities	Yes	Yes, the law explicitly requires attorneys and notaries to file reports if property valuation or successive sale seems suspect	Strong enforcement culture despite weak gatekeeper compliance	Strong enforcement culture despite weak gatekeeper compliance	Weak compliance and weaker regulations
Over valuation							
Successive sales							
Real estate Investment funds	Currently there exist no AML/CFT obligations						The Yakuza has been found in numerous cases to have used investment vehicles to launder money. ¹⁶
Limited enforcement AML/CFT obligations							
Purchase of real estate to generate legitimate income	No requirements on CRE. Applies only when financing is through a financial institution.	BO public registry now moving towards verified BO registry	BO registry not in place. Developers show weak compliance.	BO registry can be compared to land records where property is owned by legal entity	Legal professional and notaries obligations well suited to tackling CRE	Strong enforcement culture even if weak gatekeeper compliance	Can still be hidden through legal vehicles and legal professionals have no CDD requirements
Full CDD obligation extend to all real estate transactions							

169. Empirics Asia. (2017, March 3) Yakuza, the biggest private equity firm in Japan? <https://empirics.asia/yakuza-biggest-private-equity-firm-japan/>.

ANNEX 2: RED FLAG INDICATORS

The red flag indicators identified are based on the case analysis of typologies and real estate money laundering schemes seen across the G7.

No.	RED FLAG INDICATOR
	Type of Transactions
1	High value real estate transactions by foreign PEPs
2	Real estate transactions by foreign PEPs from high-risk AML/CFT jurisdictions, or high appreciation markets
3	PEP controls financial institution that is a counterparty to the transactions
4	Non – face to face real estate transactions
5	Investments in Investor Programs/Citizenship by Investment Program in real estate
6	Sanctions evasion by routing funds through US dollar accounts for subsequent investment in EB-5 programs
7	Purchase of real estate in the name of family members/close associates/gatekeepers
8	Real estate transactions using unregulated private lenders
9	Real estate transaction occurring well above market value (overvaluation)
10	Real estate transaction occurring well below market value (undervaluation)
11	Real estate transaction without valuation report
12	Manipulating real estate listings so that property appears unavailable on the market while the criminal actor can manipulate bids on property
13	Short time duration between purchase of property using legal person/arrangement before subsequent or successive transfer to third parties or self
14	Transfer real estate to trust/nominee/third party/legal person to evade financial institution request for CDD information
15	Short time between purchase of real estate and subsequent transfer either of property ownership directly or ownership of legal person/arrangement that owns the property
16	All-cash payment of lease/rent
17	Rent level is disproportionate compared to value property
18	All-cash payment of renovation
19	New real estate investment and management company with large portfolio but unclear source of start-up capital/funds
20	Fabricating source of funds documents for investor investment programs like EB-5
21	Co-mingling illicit proceeds into well-established legitimate business operations and manipulating accounts to legitimize integration
22	Use of multiple nominee/front bank accounts to funnel and structure payments for real estate transactions
23	The purchaser, the bank making the payment and the property are all located in different locations

Use of Legal Persons/ Arrangements

24	Purchasing real estate through anonymous legal persons
25	Purchasing real estate through legal persons or arrangements created in jurisdictions with weak beneficial ownership requirements/ weak AML/CFT enforcement/ secrecy jurisdictions
26	Complex legal structures that horizontally and vertically lengthen the ownership chain, limit effective CDD, and obfuscate the true beneficial owner
27	Hiding transfer of property through foreign legal persons located in high-risk AML/CFT or weak beneficial ownership jurisdictions
28	Exercising direct and indirect ownership and control of multiple legal persons/arrangements to mask ownership of real estate

Financing

29	Subrogation of mortgages while masking ownership of original mortgage
30	Real estate transactions where the purchaser takes on significant debt in relation to property and payments are furnished through cash payments
31	Mortgage payments service through cash payments or collateral from abroad
32	All-cash purchase of real estate
33	No clear source of income identifiable
34	Disparity between source of income and type of real estate investment
35	All-cash purchase of real estate where funds originate from high-risk AML/CFT jurisdiction
36	Money for real estate transactions received and disbursed through front bank accounts
37	Using virtual currency to make real estate transactions
38	Purchase price paid through a bank account in a foreign country where the contracting party does not reside
39	Purchase of real estate using funds from an unusual third party without logical explanation
40	Purchase of real estate using a mortgage and paying off mortgage very quickly after
41	Registration of property in one name and payment of funds through another name

Gatekeepers

42	Real estate transactions carried through gatekeepers (lawyers, title agents, escrow agents, notaries) in jurisdictions with no CDD obligations on clients
43	Directly wiring funds to intermediary (Title insurance agent, realtor) not required to identify beneficial owner and conduct CDD, with the purpose of undercutting CDD obligations of financial institutions
44	Routing funds for real estate purchases through Interest on Lawyers Accounts or other law firm accounts to receive payments for client services
45	Lawyers manipulating property deed documents to hide suspicious activity (crossing out addresses from high-risk jurisdictions)
46	Real estate agent/broker purchasing, renovating, and re-selling property with unknown funds
47	Purchase (of foreclosed properties) through auction houses to maintain anonymity
48	Wiring purchase funds directly to real estate developer
49	Sanctions evasion through a network of money managers, brokerage firms, real estate investments firms that act as professional money launderers
50	Paying unusually high fees to real estate gatekeeper (agent/lawyer/notary/title agent/escrow agent)

ANNEX 3: REAL ESTATE MONEY LAUNDERING CASE EXAMPLES IN THE U.S.

Key Elements:



Politically Exposed Persons (PEPs)



Non-GTO county: Orleans Parish (LA)



Shell companies



Commercial real estate



Rental

Case 16: Honduras bribe payments laundered through New Orleans real estate

A federal court in 2018 sentenced Carlos Zelaya for conspiring with his brother Mario Zelaya, the Executive Director of the Honduran Institute of Social Security (IHSS), to launder over US\$1.3 million in bribe payments made by two Honduran businessmen between 2010 and 2014.¹⁷⁰ The funds were laundered via international wire transfers, and used to purchase real estate in the New Orleans area. Carlos Zelaya purchased a total of nine properties, both commercial and residential. The properties were purchased using shell companies incorporated in Louisiana by Carlos Zelaya, with wire transfers made by companies incorporated in Honduras. The transfers were made to an escrow account in the name of two separate title companies based in Louisiana. For five of those properties, the purchase agreement was signed by Mario Zelaya, but before closing, Carlos Zelaya directed the title company to change the name of the buyer to C&M Wholesalers LLC (with Mario and Carlos as the sole members). Carlos Zelaya subsequently leased a majority of these properties, receiving rental income.¹⁷¹

170. Papachristou, L. (2018, October 4). US Court sentences Honduran man for money laundering. OCCRP. <https://www.occrp.org/en/daily/8694-us-court-sentences-honduran-man-for-money-laundering>

171. United States v. Real property located at 1404 North Highway etc. Verified Complaint for Forfeiture in Rem. (2015, January 12). https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/01/13/zelaya_forfeiture_complaint_1.pdf

Key Elements:



Non-GTO county: Orange County (CA),
Cameron County (TX) and Utah.



Real Estate Investment
Company



Commercial real estate

Case 17: Money stolen from U.S. government used to purchase luxury real estate

Between 2010 and 2016, Californian businessman and alleged Armenian gangster, Lev Dermen, teamed up with the owners of a Utah-based biodiesel company to steal US\$1 billion from U.S. taxpayers and launder the money through real estate.¹⁷² Using the biofuel tax credit program established by the government to promote clean fuel alternatives, the company fraudulently claimed renewable fuel tax credits from the Internal Revenue Service (IRS). As part of the scheme, they shipped millions of gallons of biodiesel within the U.S. and to foreign countries and back again, to make it seem like the renewable fuel was produced and sold. The stolen money was then sent to multiple U.S. front companies controlled by Dermen, including a Californian real estate investment company, which were used to gift each other mansions and fancy cars. At least US\$25 million of the stolen money ended up in both residential and commercial real estate in Huntington Beach (CA), Mesa (AZ), Brownsville (TX) and multiple cities in Utah. Although several title insurance companies were involved in these purchases, they had no AML obligations because none of these cities are covered by the GTOs.

Key Elements:



Non-GTO county: Anchorage and
Eagle River (AL)



All-cash purchase



Front companies

Case 18: Employee of energy giant ConocoPhilips defrauds US\$7.3 million, hiding the money in Alaskan and Las Vegas real estate.

Forrest Wright, a senior drilling and wells planner for ConocoPhilips Alaska Inc, was indicted in 2020 for using his position to generate fraudulent invoices for his front companies (Eco Edge Armoring LLC and DB Oilfield Support Services) that were supposed to be providing technical instruments and labor to ConocoPhilips, but in reality never did. According to the 2019 DOJ complaint, using an LLC formed and registered in Nevada, Wright purchased 17 properties in Las Vegas which were subsequently managed for him and his wife by a property management company. Wright's accomplice Nathan Keays, a police officer with the Anchorage police department and the owner of Eco Edge Armoring LLC, purchased two garage condos in Eagle River, paid for in cash, using funds embezzled from ConocoPhilips. He also paid off a mortgage for a property in Anchorage and maintained the property using the embezzled funds.¹⁷³

172. U.S. Department of Justice. (2020, March 16). Jury Finds Los Angeles Businessman Guilty in \$1 billion Biodiesel Tax Fraud Scheme. <https://www.justice.gov/opa/pr/jury-finds-los-angeles-businessman-guilty-1-billion-biodiesel-tax-fraud-scheme>

173. U.S. Department of Justice. (2020, September 18). Former High School Classmates Charged In 34 Count Indictment For Defrauding Corporation Of \$7.2 Million. <https://www.justice.gov/usao-ak/pr/former-high-school-classmates-charged-34-count-indictment-defrauding-corporation-72>

Key Elements:



Commercial real estate



EB-5 Investor Program



Politically Exposed Persons (PEPs)

Case 19: Chinese government official launders proceeds of corruption through U.S. Commercial real estate

Jianjun Qiao, a former Chinese government official and manager of a large grain warehouse in China, lied on his and his wife's EB-5 visa application about the legitimacy of their source of funds. In reality, the funds were the product of fraudulent transactions from the grain warehouse he formerly managed in China. After laundering this money through the EB-5 program, they also allegedly used the stolen money to purchase various other U.S. residential and commercial properties. Indicted in 2014, Qiao's wife pleaded guilty in 2017 and agreed to forfeit interest in parcels in Monterey Park, a house in Newcastle and a condo in Flushing.¹⁷⁴ Qiao was extradited to the U.S. in June 2020.¹⁷⁵

Key Elements:



Politically Exposed Persons (PEPs)



Shell companies



Family Members

Case 20: U.S. real estate used to hide foreign state capture

In two separate cases, Latin American government officials received indirect bribes in the form of U.S. real estate, purchased by companies controlled by their corporate bribers. In the first case, a global conglomerate holding company gifted a US\$1.5 million New York apartment to a high-ranking executive at a Brazilian state-owned pension fund in exchange for his approval of a merger involving the company in 2011. The company also paid for the apartment condominium fees and utilities between 2012 and 2017.¹⁷⁶ In the other case, the former Venezuelan National Treasurer received over US\$1 billion in private jets, yachts, Florida homes and champion horses from Venezuelan TV mogul Raul Gorrin between 2007 and 2011, in exchange for the rights to conduct foreign currency exchange transactions at favorable rates.¹⁷⁷ The asset acquisitions were hidden behind a vast network of companies incorporated in Delaware, Florida, New York and Venezuela owned and controlled by Gorrin's wife, his brother-in-law and business partner Gustavo Perdomo, and Perdomo's wife.¹⁷⁸

174. Rosenberg, M. (2017, January 11). Chinese immigrant who bought Eastside home with laundered money pleads guilty to EB-5 visa fraud. The Seattle Times. <https://www.seattletimes.com/seattle-news/crime/chinese-immigrant-who-bought-eastside-home-with-laundered-money-pleads-guilty-to-eb-5-visa-fraud/>

175. U.S. Department of Justice. (2020, June 1). Former Chinese Official Extradited to the United States to Face Charges of Laundering Millions of Dollars of Stolen Money. <https://www.justice.gov/usao-cdca/pr/former-chinese-official-extradited-united-states-face-charges-laundering-millions>

176. U.S. Department of Justice (2020, October 14). J&F Investimentos SA Pleads Guilty and Agrees to Pay More Than \$256 Million in Criminal Fines To Resolve Foreign Bribery Case. <https://www.justice.gov/usao-edny/pr/jf-investimentos-sa-pleads-guilty-and-agrees-pay-more-256-million-criminal-fines>

177. U.S. Department of Justice (2018, November 27). Former Venezuelan National Treasurer Sentenced to 10 years in Prison for Money Laundering Conspiracy Involving Over \$1 Billion in Bribes. <https://www.justice.gov/usao-sdfl/pr/former-venezuelan-national-treasurer-sentenced-10-years-prison-money-laundering>

178. U.S. Department of the Treasury. (2019, January 8). Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders. <https://home.treasury.gov/news/press-releases/sm583>

Key Elements:



Overvaluation



Non-GTO County: Needham (MA)

Case 21: College admission scandal - Harvard University fencing coach disguises bribe through sale of home

In 2016, Harvard's former fencing coach Peter Brand accepted bribes in the college admission scandal in the form of an overvalued home sale.¹⁷⁹ The US\$1 million sale of his home in Needham even caught the attention of Needham's director of assessing. Valued at US\$550,000, he noted that there was *"no rhyme or reason for the sale price [of the home], and we can't explain it one way or the other in relation to the market"*. The buyer of the overpriced home was a businessman from Maryland who resold it at a US\$324,000 loss 17 months later. The real return on his investment? His son was admitted to Harvard and joined the fencing team soon after the acquisition of the home.

Key Elements:



Third parties



Successive sales



Price manipulation



Shell companies

Case 22: Defrauding the Federal Trade Commission

In a 2012 lawsuit, the Federal Trade Commission (FTC) ordered fraudster Tully Lovisa to sell his Las Vegas home and turn over the proceeds. Instead, he devised a scheme to keep control over both the house and the proceeds.¹⁸⁰ Lovisa directed two individuals to submit undervalued offers of US\$155,000 on the home, while deterring other offers by manipulating the real estate listing to make it appear as if the home was not actively on the market. When the FTC approved the sale, Lovisa supplied the money to the individual to purchase the home. Shortly before closing, the purchase rights were assigned to a Panamanian company controlled by Lovisa. In a successive sale, Lovisa sold the home for its true market value: US\$540,000.

Case 23: 'Diamond King' and largest TBML fraudster from South Asia invests stolen funds in New York real estate

Fugitive jeweler Nirav Modi, who is wanted in India for a US\$1.7 billion (₹13,000 crore) bank fraud and trade-based money laundering scheme, allegedly used stolen funds to purchase two luxury apartments in New York worth US\$30 million in 2007. Right before the fraud came to light in 2018, Modi wanted to transfer ownership of one of the properties from one of his companies to his wife. In order to make this happen, the mortgage had to be paid off. As this triggered the bank to ask questions on the ownership structure of the company, the company was instead transferred to a trust established by Modi's sister for the benefit of his wife and children.¹⁸¹ Both apartments are now held in the name of this trust.¹⁸²

Key Elements:



Trust



Shell companies

179. Miller, J. (2019, April 4). He bought the fencing coach's house. Then his son got into Harvard. The Boston Globe. <https://www.bostonglobe.com/metro/2019/04/04/bought-fencing-coach-house-then-his-son-got-into-harvard/EIWVMixUFQ1XweY1xfB1GK/story.html?pi=Article Inline Text Link>

180. United States v. Tully Lovisa, Shaun Sullivan, and Lorraine Chalavoutis. Indictment (2018, July 10). <https://www.justice.gov/file/1141261/download>.

181. Srivas, A. (2018, September 2). Months before PNB scam blew up, Nirav Modi bought property in New York. Business Standard. https://www.business-standard.com/article/current-affairs/months-before-pnb-scam-blew-up-nirav-modi-bought-property-in-new-york-118090200078_1.html.

182. Ghosh, D. (2018, October 1). A Look At Nirav Modi's Luxe New York Home "Bought With Stolen PNB Funds." NDTV. <https://www.ndtv.com/india-news/a-look-at-nirav-modis-luxe-new-york-home-bought-with-stolen-pnb-funds-1924914>

Key Elements:



Politically Exposed Persons (PEPs)



Non-GTO county: Montecito (CA)



Shell companies



Real estate attorneys



Property management company and developer used in layering

Case 24: Nigerian oil minister embezzles US\$1.5 billion and invests in U.S. real estate

Diezani Alison Madueke, the former Nigerian Minister of Petroleum Resources, and her business associates Kolawole Akanni Aluko and Olajide Omokore acquired vast quantities of Nigerian crude oil that were then sold to third party oil trading companies.¹⁸³ Through this scheme, Madueke and her co-conspirators acquired over US\$1.5 billion in profits that were then laundered into real estate, yachts, aircrafts and jewellery. In a 2017 forfeiture complaint, the DOJ sought the forfeiture of US\$144 million in assets, including two condos in Manhattan, two properties in California, properties in London and an US\$80 million luxury yacht acquired by Aluko in 2012. These numbers did not include the 80 properties Madueke had also acquired in Nigeria.¹⁸⁴ Aluko used a series of corporations and LLCs to acquire the properties. To hide the source of the payments, Aluko wired to the money first to a property management company, which in turn wired the money to the title insurance company. In another instance, when Aluko tried to acquire a property in New York, the bank of the title insurance company declined the transaction.¹⁸⁵ Aluko then wired the money directly to the developer of the property. Nearly all of the properties were acquired utilizing the services of various lawyers that acted as registering agents for the companies.

Key Elements:



Shell companies



All-cash transactions



Real estate lawyer



Politically Exposed Persons (PEPs)

Case 25: Manhattan lawyer helped facilitate secretive sales worth hundreds of millions in Trump real estate empire

Between 1999 and 2012, more than 1,300 apartments branded by the Trump Organization were sold for a total of US\$1.5 billion in suspicious all-cash transactions with anonymous shell companies based in Delaware, as well as secretive jurisdictions such as Panama, Cayman Islands and the British Virgin Islands.¹⁸⁶ In the Trump SoHo hotel, more than half of these secretive sales were facilitated by one Manhattan-based real estate lawyer. He signed the deeds of transfer, created shell companies and registered his Manhattan office address and his own name as agent for these entities. Some apartments were sold to politically exposed persons, such as former Haitian dictator Duvalier.

183. Hardy, P. & Pierson, S. (2020, August 28). Civil Forfeiture of Real Estate to Fight Money Laundering: A Round Up. JDsupra. <https://www.jdsupra.com/legalnews/civil-forfeiture-of-real-estate-to-14066/>

184. Sanni, K. (2021, May 21). \$153 million, 80 properties recovered from ex-petroleum minister Diezani – EFCC. Premium Times. <https://www.premiumtimesng.com/news/headlines/461172-153-million-80-properties-recovered-from-ex-petroleum-minister-diezani-efcc.html>

185. United States vs. The M/Y Galactica Star etc. Forfeiture complaint in Rem. (2017, July 12). <https://storage.courtlistener.com/recap/gov.uscourts.txsd.1442692.1.0.pdf>

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Key Elements:



Gatekeepers, including lawyers, real estate investment firms, banks, brokerage firms and money managers



Law firm IOLTA account



Third parties: business associates and family members



Politically Exposed Persons (PEPs)

Case 26: Global network of gatekeepers and facilitators help launder US\$1.2 billion of stolen Venezuelan money into U.S. and European real estate

Along with 13 other defendants from Venezuela, Colombia, Germany and Portugal, the former legal counsel to Venezuela's Ministry of Oil and Mining, Carmelo Urdanata Aqui, was accused by the U.S. DOJ of embezzling US\$1.2 billion from the state oil company (PDVSA) and laundering it through Florida luxury real estate since December 2014.¹⁸⁷ Among the targeted assets were at least 17 South Florida homes, condos and horse ranches ranging in total value from US\$22 million to US\$35 million.

One noteworthy facilitator was Vincente Amparan, a professional money launderer who set up a real estate investment firm in Spain that exclusively functioned as a money laundering front. Urdanata put down a down-payment for a unit in the Porsche Design Tower, a high-end condominium in Miami, as a fee for Amparan's money laundering services. When the developer of the property warned Urdanata that "taking title under a company or trust may trigger FinCEN reporting requirements", he instead formed a new company in his wife's name to purchase the property. After the purchase, the company documents were altered to remove his wife as manager, leaving Amparan in control of the company and thus the condo.

One of the other defendants in the case utilized the services of a law firm to purchase a condo at the Four Seasons in Miami in the name of a company controlled by his relative. The money for the purchase of the property was wired through the interest on lawyer trust account (IOLTA).

187. United States v. Carmelo Urdaneta Aqui. Complaint and Indictment (2018, July 24), <https://www.justice.gov/criminal-fraud/fcpa/cases/carmelo-urdaneta-aqui>, and related cases: U.S. vs. Jose Vincente Amparan Croquer; Gustavo Adolfo Hernandez Friery; Hugo Adolfo Ramalho Gios; Francisco Convit Gruruceaga; Marcelo Federico Gutierrez Acosta y Lara; Abraham Edargo Ortega (Docket No. 18-CR-20685-KMW); U.S. vs. Matthias Krul, Plea Agreement (2018, August 22), <https://www.justice.gov/criminal-fraud/fcpa/cases/matthias-krull>, Court Docket NumberL 18-CR-20682-CMA.

Key Elements:



Commercial real estate

Case 27: Huge India-based Ponzi scheme pays for iconic New York Plaza Hotel

In 2012, India's multi-billion-dollar empire Sahara group acquired the controlling stake in the iconic New York Plaza Hotel for US\$570 million. In the same year, India's Supreme Court ruled that the Sahara group companies violated securities law and illegally raised more than US\$3.5 billion from millions of poor Indian families in what was allegedly an enormous Ponzi scheme.¹⁸⁸ In 2014, Sahara group chairman Subrata Roy was jailed for contempt of court. Despite these long-standing allegations against the Sahara group and Roy, the real estate acquisitions in the United States were never questioned by anyone involved. The Sahara group acquired a 75% stake in the Plaza Hotel from real estate company Elad Properties, with the remaining 25% owned by Saudi Arabia's Kingdom Holdings. A brokerage firm was hired in 2017 to carry out the auction of the property and in 2018 Sahara's stake in the hotel was sold to Qatar-owned fund for US\$600 million.¹⁸⁹

Key Elements:



Politically Exposed Persons (PEPs)



Commercial real estate



Non-GTO county: Goodyear (AZ) and Mountain House (CA)



Complex corporate structures

Case 28: FBI pays US\$56 million in office lease to Malaysian kleptocrat laundering money through U.S. real estate

In 2016, it was reported that the FBI was leasing its field office in Seattle in a building that was ultimately owned by the Taib family, a prominent political family in Malaysia with longstanding accusations of corruption. The building in Seattle was owned through a series of domestic and foreign companies. According to the Sarawak Report, the family channeled profits of timber corruption through a company called Sunchase Holding, which is a multi-billion-dollar real estate group based in Arizona controlled by the Governor of Sarawak, Taib Mahmud.¹⁹⁰ Over the past three decades, Sunchase invested billions of dollars through a network of over 70 subsidiary companies in Arizona. By the end of the 20-year lease term in 2019, the government had paid a total of US\$56 million in rent. In July 2019, the Malaysian Anti-Corruption Commission (MACC) confirmed that it was investigating Taib.

188. Trivedi, U. (2020, November 20). India Tycoon Asked to Pay \$8.4 billion to stay out of jail. Bloomberg quint. <https://www.bloombergquint.com/law-and-policy/indian-regulator-asks-tycoon-to-pay-8-4-billion-to-avoid-jail>.

189. Singh, Y. (2018, July 4). Qatar fund buys Sahara-owned Plaza Hotel in New York for \$600 million. Mint. <https://www.livemint.com/Companies/OBIRV3NcuEiJOVFrCRIFJN/Qatar-fund-buys-Saharaowned-Plaza-Hotel-in-New-York-for-60.html>.

190. Sarawak Report (2016, April 25). FOUND! Sarawak's Stolen Wealth is Locked in Treasure Trove in the United States! <https://www.sarawakreport.org/2016/04/found-sarawaks-stolen-wealth-is-locked-in-a-treasure-trove-in-the-southern-united-states/>.

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