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Report from Washington

Treasury Announces First Enforcement Penalty for Violation of the Outbound Investment Security Program

October 9, 2026

On October 7, 2026, the U.S. Department of the Treasury ("Treasury") announced that it had, in July 2026, issued its first civil enforcement penalty under the Outbound Investment Security Program, often referred to as the Outbound Investment Rule (the "OIR"). Treasury levied a \$200,000 penalty against Amidi, LLC ("Amidi") for failing to submit a required notification of an investment by its controlled foreign entity into a "Chinese embodied artificial intelligence company." Specifically, on April 19, 2025, Amidi's subsidiary—a Chinese fund—invested approximately \$92,478 into Shanghai Qiongche Intelligent Technology Company Limited ("Noematrix"), a private Chinese company that develops "artificial intelligence, robotics, and embodied intelligence." Treasury noted in its press release that it identified the transaction as part of its regular and ongoing compliance and market-monitoring efforts.

The OIR became effective on January 2, 2025, and provides for a targeted national security regulatory framework directed at regulating outbound investment by U.S. persons and, indirectly, entities controlled by U.S. persons, into entities from the People's Republic of China, Hong Kong, and Macau engaged in certain activities in the semiconductors and microelectronics, quantum information technologies, and artificial intelligence sectors. Codified at 31 C.F.R. § 850.101 et seq., the OIR imposes notification requirements for certain categories of transactions involving such entities and prohibits certain other categories of transactions involving such entities.

Secretary of the Treasury Scott Bessent stated, "[t]oday's penalty announcement under the Outbound Investment Security Program underscores Treasury's commitment to safeguarding U.S. national security through robust investment security measures that preserve America's technological leadership and advance President Trump's America First Investment Policy." Assistant Secretary of the Treasury for Investment Security Christopher Pilkerton further stated that the OIR is "an important tool aimed at addressing the advancement of key technologies by countries of concern that could pose risks to U.S. national security" and that Treasury "will continue to ensure that investors comply with the requirements established under the program."

In assessing compliance and determining whether to bring an enforcement action, Treasury has stated that it will evaluate the factual circumstances surrounding the conduct, including the aggravating and mitigating factors outlined in the Outbound Program Enforcement Overview and Guidance (“Guidance”). These factors include the extent to which enforcement action would hold violators accountable and encourage future compliance; the extent to which the offending conduct impaired or threatened to impair U.S. national security; the negligence, intent, or willfulness of any violation, including any efforts to conceal or delay sharing relevant information with Treasury and the seniority of employees who knew or should have known about the conduct; the persistence and timing of the violation; the violator’s response and cooperation with Treasury, any internal reviews conducted, and remediation efforts; and the sophistication and record of compliance, surveyed through company procedures, policies, and training, a culture of and variations in compliance efforts across all levels of the company, company resources dedicated to internal and external legal obligations, and the knowledge of other governmental authorities (foreign, federal, state, local, etc.) on the violator’s compliance efforts with applicable legal regulations. As explained in the Guidance, Treasury considers information from various sources, including requests for information and self-disclosures by potential violators, and encourages the public to submit tips, referrals, or other relevant information on its Outbound Program tips line. Treasury is authorized to pursue the civil penalties for violations available under the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) (“IEEPA”), with the maximum civil penalty being the greater of \$377,700 or twice the value of the transaction that is the basis for the violation. Treasury may also refer criminal violations to the U.S. Attorney General and take action authorized under IEEPA to nullify, void, or otherwise compel the divestment of any prohibited transaction.

Looking Ahead

Treasury’s first OIR penalty demonstrates that the agency is actively monitoring the market and is prepared to pursue enforcement even where the underlying investment is modest. For private equity sponsors and other asset managers, this means that OIR diligence should be considered from the earliest stages of deal sourcing and fund structuring, including assessing portfolio company ties to covered jurisdictions and sectors before signing. For M&A practitioners more broadly, the OIR should be viewed as an important regulatory consideration that can materially affect transaction certainty and value. Parties that integrate OIR considerations into the earlier stages of deals and funds work will be best positioned to navigate this evolving landscape.

Furthermore, investors should continue to remain alert for future expansion of the OIR to avoid inadvertent violations of the program. On December 18, 2025, Congress passed the

Comprehensive Outbound Investment National Security Act of 2025 (“COINS Act”), which is poised to expand the OIR’s jurisdiction to additional countries and technology sectors in coming months or years. Until and unless the Treasury issues new regulations, parties should continue to act in full compliance with the OIR.

Simpson Thacher & Bartlett LLP is experienced in navigating international regulatory and compliance issues, including with respect to sanctions, export controls, and foreign investment, and continues to follow developments of the OIR closely. We are available to discuss further questions on request.

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