



FACTCOALITION

Financial Accountability & Corporate Transparency

July 9, 2024

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

RE: Hearing titled, “The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System”

Dear Chairman McHenry and Ranking Member Waters,

We thank you for the opportunity to submit a statement for the record for the hearing titled, “The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System” on Tuesday, July 9, 2024. The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations promoting policies to combat the harmful impacts of corrupt financial practices.

Today’s hearing will reflect on the state of the international financial system. While Secretary Yellen said this year ahead of the International Monetary Fund (IMF) Spring Meetings that “we expect that America’s economic strength will continue to underpin global growth,”¹ there remains a risk that the *secrecy* enshrined in America’s financial system may simultaneously *undermine* global growth.

As Secretary Yellen has suggested, “there is a good case that right now, the best place to hide and launder ill-gotten gains is actually the United States.”² It is no surprise, then, that illicit flows from low- and middle-income countries (LMICs) may find their way into U.S. markets. In turn,

¹ U.S. Department of the Treasury, “Remarks by Secretary of the Treasury Janet L. Yellen at Press Conference Ahead of the 2024 Spring Meetings of the International Monetary Fund and World Bank,” April 16, 2024, <https://home.treasury.gov/news/press-releases/jy2255>.

² U.S. Department of the Treasury, “Remarks by Secretary Janet L. Yellen on Anti-Corruption as a Cornerstone of a Fair, Accountable, and Democratic Economy at the Summit for Democracy,” March 28, 2023, <https://home.treasury.gov/news/press-releases/jy1371>.

these criminal and corrupt flows diminish the ability of countries to provide services to their constituents, pay off sovereign debt where relevant, and make sustainable economic advances.³

Any U.S. investment in the IMF requires equal attention to policies to prevent leakage that perpetuates cycles of debt crisis. This includes support for financial transparency reforms in the United States. Ultimately, U.S. financial transparency reforms – such as the Corporate Transparency Act and efforts to bring anti-money laundering safeguards to key U.S. markets – may help support the shared goals of the Committee and the Treasury Department in the context of this hearing: macroeconomic stability, effective management of the global debt crisis, and U.S. leadership in the international financial system to protect our national interests. Likewise, simple steps to improve loan agreements through the IMF can establish transparency and accountability that lead to more responsible lending. Investing in these structural reforms will ultimately help assuage current debt burdens and prevent future crises.

As such, FACT recommends the following.

U.S. Domestic Reforms

- **The Corporate Transparency Act (CTA)**, passed in 2021, requires entities formed or operating in the U.S. to report their true, “beneficial” owners to the Financial Crimes Enforcement Network (FinCEN), removing the veil of anonymity that has for decades allowed international and domestic bad actors to hide their ill-gotten gains in the U.S. financial system. While the CTA went into effect on January 1, 2024, a number of major questions still exist surrounding the protocols that various authorities, including foreign-allies, will employ to access information collected under the law. FACT has long argued that uncomplicated access to the database to be established by FinCEN for authorized users is crucial to the ultimate effectiveness of the CTA in curtailing illicit financial flows into the United States from the rest of the world.
- **Long overdue regulations on U.S. real estate and private investment markets** are also needed in order to stem the tide of illicit funds from the Global South into the U.S. Much of the money laundered through U.S. real estate comes from developing countries,⁴ facilitating criminal activity and corruption while eroding the tax bases of developing

³ The OECD says IFFs from developing countries “strip resources from developing countries that could be used to finance much-needed public services, from security and justice to basic social services such as health and education, weakening their financial systems and economic potential. While such practices occur in all countries – and are damaging everywhere – the social and economic impact on developing countries is more severe given their smaller resource base and markets.” *Illicit Financial Flows in Developing Countries: Measuring OECD Responses*, 2014, <http://dx.doi.org/10.1787/9789264203501-en>.

⁴ Lakshmi Kumar and Kaisa de Bel, “Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat’s Dream,” August 2021, <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>.

economies. New anti-money laundering rules for real estate and private equity professionals were proposed this spring, fulfilling two priorities in the Biden Administration's 2021 Strategy on Countering Corruption.

- **The ENABLERS Act** would give the Treasury Department the authority to instate basic anti-money laundering safeguards for U.S. professionals – such as money-managers, lawyers, and accountants – allowing them to prevent, detect, and flag money laundering risks in the U.S. financial system. Though the ENABLERS Act has not yet been reintroduced in the 118th Congress, the need for these important reforms remains greater than ever.

IMF Reforms

- **Leverage the United States' role in the IMF to secure anti-corruption and transparency measures** as part of loan agreements, as exemplified in calls from Transparency International and its partners during the Sri Lanka IMF loan process.⁵ In these negotiations, civil society urged enhanced transparency and accountability, as well as structural transformations necessary to reduce corruption risks.

Thank you for the opportunity to comment. If you have questions, you can contact Erica Hanichak (ehanichak@thefactcoalition.org).

⁵ Transparency International, "Transparency International Letter To The Imf Urging Good Governance Reforms In Debt Restructuring Negotiations," November 3, 2023, <https://us.transparency.org/resource/transparency-international-letter-to-the-imf-urging-good-governance-reforms-in-debt-restructuring-negotiations/>.