

June 4, 2018

The Honorable Jeb Hensarling
Chairman, Financial Services Committee
2228 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, Financial Services
Committee
2221 Rayburn House Office Building
Washington, DC 20515

The Honorable Steve Pearce
Chairman, Subcommittee on Terrorism and
Illicit Finance
2432 Rayburn House Office Building
Washington, DC 20515

The Honorable Ed Perlmutter
Ranking Member, Subcommittee on Terrorism
and Illicit Finance
1410 Longworth House Office Building
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Chairman, Subcommittee on Financial
Institutions and Consumer Credit
U.S. House Financial Services Committee
2230 Rayburn House Office Building
Washington, DC 20515

The Honorable Lacy Clay
Ranking Member, Subcommittee on Financial
Institutions and Consumer Credit
2428 Rayburn House Office Building
Washington, DC 20515

RE: Discussion Draft Counter Terrorism and Illicit Finance Act

Dear Chairmen Hensarling, Pearce and Luetkemeyer and Ranking Members Waters, Perlmutter and Clay,

We thank the sub-committees' members for holding the hearing on "Legislative Proposals to Counter Terrorism and Illicit Finance" last November. We would like to offer comments regarding the discussion draft of the "Counter Terrorism and Illicit Finance Act",¹ and more specifically regarding its Section 9: "Transparent Incorporation Practices". We urge the committee to preserve the strong definition of "beneficial owners" adopted in that draft, and to ensure access of foreign law enforcement to the beneficial ownership data through the usual official channels.

We are the leaders of nongovernmental organizations delivering or advocating for both humanitarian and development assistance in countries affected by war, natural disasters, and chronic poverty. We and those we serve rely on the support of millions of generous Americans.

Based on decades of experience in international development, we have concluded that incorporation transparency is essential to alleviate poverty in the world. Corruption, tax evasion, arms trafficking, and human trafficking are scourges that afflict developing countries. These crimes have in common the fact that the trail of investigations into them often ends with anonymous shell companies.

¹ U.S. House. 115th Congress, 1st Session. *H.R. _____, Counter Terrorism and Illicit Finance Act: Discussion Draft dated November 14, 2017.* <https://financialservices.house.gov/uploadedfiles/bills-115hr-pih-ctifa.pdf>.

Corruption is one of the principal barriers to economic development and poverty alleviation.² Not only does it waste public resources that could otherwise fund schools, clinics and other social services, but it also discourages private investment, and fosters distrust between citizens and their government, which makes countries ungovernable and prone to civil strife. The World Bank has documented 150 cases of grand corruption. 102 of the anonymous shell companies that enabled these crimes were registered in the United States – more than in any other country.³

Almost a third of rich Africans' wealth – about \$500 billion – is estimated to be held offshore, much of it undeclared to tax authorities, which may cost African governments \$14 billion a year.⁴ That is equivalent to the sums needed to pay for healthcare to save the lives of 4 million children and to employ teachers and allow every African child to go to school.

At least \$2.2 billion worth of arms and ammunition was illegally imported by countries under arms embargoes between 2000 and 2010,⁵ fueling civil wars that destroy lives and livelihoods and set countries decades backward on their development paths. Viktor Bout, known as the Merchant of Death, used a global network of shell companies, including twelve incorporated in U.S. states, to become the world's largest arms trafficker before being captured.⁶

We witness horrific stories of refugees fleeing war zones only to fall prey to human traffickers.⁷ Anonymous companies from Kansas, Missouri and Ohio were instrumental to trick victims from overseas in a \$6 million human trafficking scheme.⁸

At their Summit in Lough Erne (United Kingdom) in 2013, G7 members including the United States committed to make progress to ensure that both tax and law enforcement authorities in all countries where companies operate are able to find out who really owns them. Other countries have delivered on their promises, and earlier this month the British government has even committed to extend incorporation transparency to its overseas dependencies including notorious tax havens like the British Virgin Islands, host of the most companies cited in the Panama Papers. The United States is a prime location for anonymous companies, providing them with a veneer of respectability as well as access to a deep financial system and strong rule of law. It is high time that our country delivers on this international commitment.

We therefore applaud the committee's initiative to address the issue of anonymous shell companies by requiring the collection of beneficial ownership information for law enforcement authorities.

² Transparency International, "Corruption: Cost for Developing Countries", <http://www.transparency.org.uk/corruption/corruption-statistics/corruption-cost-for-developing-countries/#.WiheslWnHcs>

³ World Bank (2011) "The Puppet Masters". <https://star.worldbank.org/star/publication/puppet-masters>

⁴ Oxfam, "Paradise Papers: The Hidden Costs of Tax Dodging", <https://www.oxfam.org/en/even-it/paradise-papers-hidden-costs-tax-dodging>

⁵ Oxfam, "Saving Lives with Common Sense", <https://www.oxfamamerica.org/explore/research-publications/saving-lives-with-common-sense/>

⁶ Global Witness, "The Great Rip-Off", <http://greatripoffmap.globalwitness.org/#!/case/57938>

⁷ Oxfam, "You Aren't Human Anymore", https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/mb-migrants-libya-europe-090817-en.pdf

⁸ Global Witness (Op. Cit.)

We urge the committee to strengthen the draft to ensure that the legislation will be truly effective for law enforcement authorities to fight the scourges of corruption, tax evasion, arms trafficking and human trafficking both in the United States and abroad. That means the bill should:

1. Preserve the strong definition of “beneficial owners” adopted in the discussion draft.
2. Ensure that foreign law enforcement has access to beneficial ownership information through the usual official channels so that it can be used in criminal and civil prosecutions.
3. Require foreign nationals to file their beneficial ownership information with FinCEN, including submitting a scanned copy of the relevant pages of their non-expired passport.
4. Ensure that the legislation is equipped with an adequate enforcement mechanism and penalties.

We thank you for your attention and your commitment to combatting illicit finance. If you would like more information, please contact Linda Delgado at linda.delgado@oxfam.org.

Sincerely,

David Beckham, President
Bread for the World

Marie Clarke, Executive Director
ActionAid USA

Tom Hart, North American Executive Director
The ONE Campaign

Eric LeCompte, Executive Director
Jubilee USA Network

Abby Maxman, CEO
Oxfam America