

Beyond Anecdotes

Data Demonstrate Anonymous Companies Are Dangerous and Prevalent

Numerous stories have been written exposing how anonymous companies are used around the world for criminal purposes, including in media reports stemming from the Panama Papers,¹ Paradise Papers,² and Lux Leaks;³ the Russian⁴ and Troika⁵ Laundromat episodes; Global Witness reports, *The Great Rip Off*⁶ and *Hidden Menace*;⁷ and many more.

In addition to the examples, there is mounting evidence showing the widespread use of anonymous companies to launder money and allow dangerous actors to escape accountability and that the United States is a prime secrecy jurisdiction.

Anonymous Companies Are Dangerous

Grand Corruption: According to a 2011 study by the Stolen Asset Recovery Initiative, a joint effort of the World Bank and U.N. Office on Drugs and Crime, anonymous companies were used to hide the proceeds of corruption in 85 percent of the grand corruption cases reviewed, with U.S. entities being the most common.⁸ “Using public official and secondary sources, 150 grand corruption cases involving senior public officials that span 1980 to [2011] were documented and analyzed. Additionally, the study features the results of questionnaires, investigative research (“mystery shopping”), survey of legislation, roundtable discussions, one-on-one interviews and other research methods that were employed to validate the findings of the study.”⁹

Human Trafficking: According to a 2018 study by the anti-human trafficking group Polaris, anonymous companies play an outsized role in hiding the identities of the criminals behind trafficking enterprises, specifically illicit massage businesses.¹¹ The report found that:

- Of the more than 6,000 illicit massage businesses for which Polaris found business records, only 28 percent of these illicit massage businesses have an actual person listed on the business registration records at all.
- Only 21 percent of all the business records found for illicit massage parlors actually specifically name the owner — although, even in those cases, there is no way to know for sure if that information is legitimate.

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— Polaris, April 2018

The United States Is Vulnerable

GAO Study: According to a 2017 report by the Government Accountability Office (GAO), “GAO was unable to identify ownership information for about one-third of GSA’s 1,406 high-security leases as of March 2016 because ownership information was not readily available for all buildings.”¹² This finding was a leading factor in Congress voting to adopt a provision in the FY2018 National Defense Authorization Act for the Department of Defense to collect beneficial ownership information for all high security office space it leases.

Academic Study: According to a 2014 study by academics from the University of Texas-Austin, Brigham Young University, and Griffith University, the data suggest that among the 103 countries they studied, the United States is the easiest place for suspicious individuals to incorporate an anonymous company.¹³

More Information Required to Obtain a Library Card: According to a 2019 Global Financial Integrity analysis, *The Library Card Project: The Ease of Forming Anonymous Companies in the United States*, in all fifty states and the District of

Columbia, “more personal information is needed to obtain a library card than to establish a legal entity that can be used to facilitate tax evasion, money laundering, fraud, and corruption.”¹⁴

It is data like these that led the Financial Action Task Force — the world’s recognized body for establishing anti-money laundering standards and of which the U.S. is a founding member — to find in its 2016 mutual evaluation of the U.S. that the lack of beneficial ownership information was a significant gap in the U.S. anti-money laundering framework.¹⁵

Collecting Beneficial Ownership Information Has an Impact

The limited data available, since there are very few examples of collecting the information to date, suggests the policy will have a measurable impact.

Geographic Targeting Orders: In 2016, the Financial Crimes Enforcement Network (FinCEN) implemented Geographic Targeting Orders (GTOs) to collect ownership information in certain metropolitan areas for high-end cash financed real estate transactions. An early analysis, FinCEN found that, “Within this narrow scope of real estate transactions covered by the GTOs, FinCEN data indicate that about 30 percent of reported transactions involve a beneficial owner or purchaser representative that was also the subject of a previous suspicious activity report. This corroborates FinCEN’s concerns about this small segment of the market in which shell companies are used to buy luxury real estate in “all-cash” transactions. In addition, feedback from law enforcement indicates that the reporting has advanced criminal investigations.”¹⁶

Geographic Targeting Orders, Part II: According to a 2018 study by the New York Federal Reserve with the University of Miami, *Anonymous Capital Flows and U.S. Housing Markets*, “After anonymity is no longer freely available to domestic and foreign investors, all-cash purchases by corporations fall by approximately 70%, indicating the share of anonymity-seeking investors using LLCs as ‘shell corporations.’”¹⁷

There Is a Bipartisan Legislative Solution

Rep. Carolyn Maloney (D-NY) and Rep. Peter King (R-NY) are sponsors of the **Corporate Transparency Act of 2019 [H.R.2513]**. The bill requires companies to disclose their beneficial owner(s) when they incorporate and keep their ownership information up to-date.

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¹ *International Consortium of Investigative Journalists*, “The Panama Papers: Exposing the Rogue Offshore Financial Industry,” April 3, 2016, <http://bit.ly/2vXw51O>.

² *ICIJ*, “Paradise Papers: Secrets of the Global Elite,” Nov. 5, 2017, <https://www.icij.org/investigations/paradise-papers/>

³ *ICIJ*, “Luxembourg Leaks: Global Companies’ Secrets Exposed,” Nov. 5, 2014, <https://www.icij.org/investigations/luxembourg-leaks/>.

⁴ *Organized Crime and Corruption Reporting Project (OCCRP)*, “The Russian Laundromat Exposed,” March 20, 2017, <https://www.occrp.org/en/laundromat/>.

⁵ *OCCRP*, “The Troika Laundromat,” March 4, 2019, <https://www.occrp.org/en/troikalaundromat/>.

⁶ *Global Witness*, “The Great Rip Off: Anonymous company owners and the threat to American interests,” Sept. 25, 2014, <http://bit.ly/GreatRipOff>.

⁷ *Global Witness*, “Hidden Menace,” July 2016, <http://bit.ly/HiddenMenace>.

⁸ Stolen Asset Recovery (StAR) Initiative, “The Puppet Masters,” *World Bank* and *UNODC*, Nov. 2011, Pages 34 and 121, <http://bit.ly/PuppetMasters>.

⁹ *StAR*, “Fact Sheet: ‘The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It’,” Nov. 2011, <http://bit.ly/2YsrwJ7>.

¹⁰ *Polaris*, “Hidden in Plain Sight: How Corporate Secrecy Facilitates Human Trafficking in Illicit Massage Parlors,” April 2018, <http://bit.ly/2JE041B>.

¹¹ *Polaris*.

¹² *Government Accountability Office*, “GSA Should Inform Tenant Agencies When Leasing High Security Space from Foreign Owners,” Jan. 3, 2017; <http://bit.ly/2JiDFwJ>.

¹³ Findley, Michael et al. “Global Shell Games.” *Cambridge University Press* (March 24, 2014), Page 74, <http://bit.ly/2uTLptQ>.

¹⁴ *Global Financial Integrity*, “The Library Card Project: The Ease of Forming Anonymous Companies in the United States,” March 21, 2019, <http://bit.ly/2VkoXvN>.

¹⁵ *Financial Action Task Force*, “Anti-money laundering and counter-terrorist financing measures — United States,” Fourth Round Mutual Evaluation Report, Dec. 2016; <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>.

¹⁶ Steve Hudak, “FinCEN Targets Shell Companies Purchasing Luxury Properties in Seven Major Metropolitan Areas,” *FinCEN*, Aug. 22, 2017; <http://bit.ly/2Q3yDV5>.

¹⁷ Hundtofte, C. Sean and Rantala, Ville, “Anonymous Capital Flows and U.S. Housing Markets” (May 28, 2018). *University of Miami Business School*, Research Paper No. 18-3. Available at SSRN: <https://ssrn.com/abstract=3186634> or <http://dx.doi.org/10.2139/ssrn.3186634>.

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