



June 26, 2020

The Honorable Mitch McConnell  
Majority Leader  
United States Senate  
Washington, D.C. 20510

The Honorable Charles Schumer  
Democratic Leader  
United States Senate  
Washington, D.C. 20510

Dear Leader McConnell and Leader Schumer,

The Project On Government Oversight (POGO) endorses the bipartisan Anti-Money Laundering Act, which will crack down on the misuse of anonymous shell companies. Anonymous companies facilitate a wide variety of illicit activities that directly harm U.S. domestic and foreign policy interests: everything from public corruption, government and defense contract fraud, organized crime, intellectual property theft, money laundering, and terrorism financing to the opioid crisis. POGO urges you to take immediate action to protect taxpayers by including this bill as an amendment to the Fiscal Year 2021 National Defense Authorization Act (NDAA).

POGO is a nonpartisan independent watchdog that investigates and exposes waste, corruption, abuse of power, and when the government fails to serve the public or silences those who report wrongdoing. We champion reforms to achieve a more effective, ethical, and accountable federal government that safeguards constitutional principles.

The Anti-Money Laundering Act would comprehensively update the Bank Secrecy Act for the first time in decades and provide a coherent set of risk-based priorities in statute. The bill would require shell companies to report their beneficial owners, preventing exploitation of U.S.-registered companies by rogue nations, terrorists, drug and human traffickers, weapons smugglers, and other criminal operations. It would also require routine coordination and communication between financial institutions, regulators, and law enforcement for the purpose of identifying suspicious financial activities. Finally, it would promote innovations in technology so that patterns of suspicious activity can be more easily tracked and identified.

We believe that good government reform must include the collection of accurate information on the individuals who really own, and benefit financially from, the companies—known as beneficial ownership information. Investigations into waste, fraud, and abuse in government spending have routinely found companies with anonymous or opaque ownership structures to be dangerous facilitators of corruption and misconduct. Congress must stop their misuse.

Anonymous shell companies have been used to steal money from the federal government and harm our national security. A November 2019 report by the Government Accountability Office

found that the Defense Department lost at least \$875 million to fraudulent contractors between 2012 and 2018.<sup>1</sup> The report also found that shell companies were used to circumvent prohibitions on the use of foreign-based manufacturers, including one case in which it was discovered that faulty parts that caused the grounding of 47 combat aircraft were secretly made in India.<sup>2</sup> It also noted that shell company ownership of contractors could be used by “adversarial foreign governments” to conduct “sabotage or surveillance.”<sup>3</sup>

Shell companies have been used by transnational criminal organizations to facilitate the U.S. fentanyl and opioid epidemic. China is the primary source of fentanyl to the U.S., according to law enforcement,<sup>4</sup> and according to the U.S. Postal Service’s inspector general, fentanyl is increasingly coming into the country by the mail system.<sup>5</sup> Chinese fentanyl producers conceal their operations by using shell companies registered in Hong Kong and other Chinese financial centers.<sup>6</sup> Shell companies are also used by domestic importers to help get the opioids into the U.S. and the profits out.<sup>7</sup> The absence of shell companies would make it harder for smugglers to get their products on U.S. streets. With the opioid crisis worsening in recent years, anonymous shell companies are not only threatening our national security, but increasingly the lives of Americans. The Anti-Money Laundering Act would build on recently passed laws to crack down on foreign-made opioids being distributed through the U.S. mail system.

Carefully regulating anonymous shell companies would also play a crucial role in combating international economic espionage and intellectual property theft. It is estimated that the annual cost of intellectual property theft to the U.S. economy exceeds \$255 billion, and could be as high as \$600 billion.<sup>8</sup> Chinese entities often use shell companies both to obscure their involvement in intellectual property theft and shield themselves from U.S. financial sanctions.<sup>9</sup> In addition,

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<sup>1</sup> Government Accountability Office, *Defense Procurement: Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership*, GAO-20-106. (November 2019), 25. <https://www.gao.gov/assets/710/702890.pdf>

<sup>2</sup> Neil Gordon, “Contractors Use Shell Games to Hide Owners, Cheat Taxpayers,” Project On Government Oversight, December 18, 2019. <https://www.pogo.org/analysis/2019/12/contractors-use-shell-games-to-hide-owners-cheat-taxpayers/> <https://www.gao.gov/assets/710/702890.pdf>

<sup>3</sup> Government Accountability Office, *Defense Procurement: Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership*, 27. [see note 1]

<sup>4</sup> Sean O’Connor, U.S.-China Economic and Security Review Commission, *Fentanyl: China’s Deadly Export to the United States*. (February 1, 2017), 3.

[https://www.uscc.gov/sites/default/files/Research/USCC%20Staff%20Report\\_Fentanyl-China%E2%80%99s%20Deadly%20Export%20to%20the%20United%20States020117.pdf](https://www.uscc.gov/sites/default/files/Research/USCC%20Staff%20Report_Fentanyl-China%E2%80%99s%20Deadly%20Export%20to%20the%20United%20States020117.pdf)

<sup>5</sup> “Opioids and the Mail,” United States Postal Service Office of Inspector General, February 5, 2018.

<https://www.uspsoig.gov/blog/opioids-and-mail/>

<sup>6</sup> Alex W. Palmer, “The China Connection: How One D.E.A. Agent Cracked a Global Fentanyl Ring,” *New York Times Magazine*, October 16, 2019. <https://www.nytimes.com/2019/10/16/magazine/china-fentanyl-drug-ring.html>

<sup>7</sup> Financial Crimes Enforcement Network, “Advisory to Financial Institutions on Illicit Financial Schemes and Methods Related to the Trafficking of Fentanyl and Other Synthetic Opioids,” Advisory FIN-2019-A006, August 21, 2019. <https://www.fincen.gov/sites/default/files/advisory/2019-08-21/Fentanyl%20Advisory%20FINAL%20508.pdf>

<sup>8</sup> The National Bureau of Asian Research, *Update to The Report of the Commission on the Theft of American Intellectual Property*, (February 2017), 1.

[http://www.ipcommission.org/report/IP\\_Commission\\_Report\\_Update\\_2017.pdf](http://www.ipcommission.org/report/IP_Commission_Report_Update_2017.pdf)

<sup>9</sup> The National Bureau of Asian Research, *The Report of the Commission on the Theft of American Intellectual Property*, (May 2013), 67. [http://www.ipcommission.org/report/IP\\_Commission\\_Report\\_052213.pdf](http://www.ipcommission.org/report/IP_Commission_Report_052213.pdf)

thousands of Chinese nationals may have overstayed their visas and illegally remained in the U.S. by falsely claiming employment with U.S.-registered shell companies.<sup>10</sup> Some of them may have ended up working for U.S. firms that handle sensitive national security information—one such individual is currently being prosecuted for espionage.<sup>11</sup>

Anonymous companies are also used to avoid U.S. trade or financial sanctions. A New York-based shell company owned part of a Manhattan office building and used it as a front for the Iranian government in violation of U.S. sanctions.<sup>12</sup> According to the Justice Department, millions of dollars in rent were illegally funneled to the government of Iran, unbeknownst to the stores that rented space in that building. With shell companies also being used by other countries, such as North Korea, to skirt U.S. sanctions and procure everything from nuclear components to luxury cars, it is more essential than ever that Congress rein in the practice of anonymous company ownership.

Finally, anonymous companies play a significant role in another issue of concern to your Committee: the rising cost of housing. Housing has long been an effective vehicle for money laundering. At a time when families are increasingly unable to keep up with their rent or mortgage payments, a substantial number of shell company-owned properties go unoccupied. For example, one Boston condominium has 443 units averaging \$2.4 million in assessed value, with over 35 percent owned by shell corporations and trusts, and almost 80 percent of the units not claiming a residential exemption—an indication that the owner is not using the unit as a primary residence.<sup>13</sup> These luxury buildings can be used for money laundering and tax avoidance. Other cities such as New York, Seattle, and San Francisco are also seeing similar trends.<sup>14</sup>

The Anti-Money Laundering Act is important legislation that would curb waste, fraud, and abuse in federal spending and strengthen national security by requiring companies formed in the U.S. to disclose information about their beneficial owners to law enforcement. Collecting such information would give law enforcement and other government agencies a powerful tool to detect and pursue such misconduct. POGO supports this important piece of legislation and urges

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<sup>10</sup> Stephen Stock et al, “Thousands of Foreign Students May Have Overstayed Visas Through Employment at Possible Shell Companies,” *NBC Bay Area News*, November 27, 2019.

<https://www.nbcbayarea.com/news/local/thousands-of-foreign-students-may-have-overstayed-visas-through-employment-at-shell-companies/2178507/>

<sup>11</sup> Todd Lighty, “How a Chicago college student ended up in the middle of an FBI investigation into Chinese spying,” *Chicago Tribune*, September 26, 2019. <https://www.chicagotribune.com/investigations/ct-chinese-espionage-chicago-20190926-xh74yrhorzakjpsnoiyx4aapfm-story.html>

<sup>12</sup> Department of Justice, “Manhattan U.S. Attorney Announces Court Judgment Finding Midtown Office Building Secretly Owned And Controlled By Government Of Iran Subject To Forfeiture For Violations Of The Iranian Transactions Regulations And Money Laundering Offenses,” Press Release, September 17, 2013. <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-announces-court-judgment-finding-midtown-office-building-secretly>

<sup>13</sup> Chuck Collins and Emma De Goede, “Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians,” *Inequality.org*, September 10, 2018. <https://inequality.org/great-divide/toweringexcess/>

<sup>14</sup> Chuck Collins, “Who is Buying Seattle? The Perils of the Luxury Real Estate Boom,” *Inequality.org*, October 15, 2019. <https://inequality.org/great-divide/who-is-buying-seattle/>

the Senate to take immediate action on this bill in order to improve program integrity and financial accountability by including it as an amendment to the NDAA.

Sincerely,

A handwritten signature in blue ink that reads "Danielle Brian". The signature is written in a cursive, flowing style.

Danielle Brian  
Executive Director