

Testimony for the Record
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Chairman Crapo, Ranking Member Brown, Members of the Committee, thank you for having me here today to discuss eliminating anonymous shell corporations by collecting beneficial ownership information in order to preserve our national security and protect our people from harm.

A Russian arms dealer nicknamed the “The Merchant of Death,” who sold weapons to a terrorist organization intent on killing Americans. Executives from a supposed investment group that perpetrated a Ponzi scheme that defrauded more than 8,000 investors, most of them elderly, of over \$1 billion. A complex nationwide criminal network that distributed oxycodone by flying young girls and other couriers carrying pills all over the United States. A New York company that was used to conceal Iranian assets, including those designated for providing financial services to entities involved in Iran’s nuclear and ballistic missile program. A former college athlete who became the head of a gambling enterprise and a violent drug kingpin who sold recreational drugs and steroids to college and professional football players. A corrupt Venezuelan treasurer who received over \$1 billion in bribes.

These crimes are very different, as are the dangers they pose and the damage caused to innocent and unsuspecting people. The defendants and bad actors come from every walk of life and every corner of the globe. The victims—both direct and indirect—include Americans exposed to terrorist acts; elderly people losing life savings; a young mother becoming addicted to opioids; a college athlete coerced to pay extraordinary debts by violent threats; and an entire country driven to devastation by corruption. But all these crimes have one thing in common: shell corporations were used to hide, support, prolong, or foster the crimes and bad acts committed against them. These criminal conspiracies thrived at least in part because the perpetrators could hide their identities and illicit assets behind shell companies. Had beneficial ownership information been available, and more quickly accessible to law enforcement and others, it would have been harder and more costly for the criminals to hide what they were doing. Law enforcement could have been more effective and efficient in preventing these crimes from occurring in the first place, or could have intercepted them sooner and prevented the scope of harm these criminals caused from spreading.

Financial sanctions could have been leveraged sooner to disrupt global threats, block assets within U.S. jurisdiction, identify sanctions evaders, and incentivize behavior change. With clearer information on the actors behind front companies, the efficacy of the Office of Foreign Assets Control’s (OFAC) sanctions and the Financial Crimes Enforcement Network’s (FinCEN) anti-money laundering authorities would improve, enabling us to more effectively secure our nation and achieve our foreign policy goals.

Case Examples

Viktor Bout was engaged in international arms trafficking for many years, arming some of the most violent conflicts around the globe. Known as “The Merchant of Death,” Bout was finally apprehended when he agreed to sell millions of dollars’ worth of weapons to confidential informants representing they were acting on behalf of the Fuerzas Armadas Revolucionarias de Colombia (the “FARC”), a U.S. designated terrorist organization, with the specific understanding that the weapons were to be used to attack U.S. helicopters in Colombia. Specifically, he agreed to sell 700-800 surface-to-air missiles, over 20,000 AK-47 firearms, 10 million rounds of ammunition, five tons of C-4 plastic explosives, “ultralight” airplanes outfitted with grenade launchers, and unmanned aerial vehicles. To support his vast arms dealing business, Bout incorporated at least twelve shell corporations in Texas, Florida, and Delaware.

Robert Shapiro, owner of Woodbridge Group of Companies LLC, and his former Directors of Investments were charged with orchestrating a massive Ponzi scheme from 2012 to 2017. They promoted speculative and fraudulent securities to potential investors, targeting elderly investors who had Individual Retirement Accounts (“IRAs”) through high-pressure sales tactics, deception, material misrepresentations, and investor manipulation. Shapiro and his group were responsible for fraudulently stealing \$1.2 billion from more than 8,000 retail investors, most of them elderly retirees. At one point, Shapiro and his co-conspirators had approximately 600 employees working for them, and used roughly 100 U.S. shell corporations to hide assets and further their Ponzi scheme.

Kingsley Iyare Osemwengie and 17 other co-conspirators used call girls, couriers, commercial carriers, and the U.S. mail to distribute oxycodone pills all over the United States, thereby contributing to our current opioid addiction epidemic. More than 70 couriers took nearly 800 flights to 40 different U.S. cities that the conspiracy used to move drugs and money. Osemwengie and other co-conspirators netted millions of dollars of drug proceeds that allowed them to live opulent lifestyles. They maintained luxury residences in Las Vegas, Nevada, and Miami, Florida and drove high-end automobiles, including two Mercedes-Benzes and four Bentleys. Osemwengie’s complex oxycodone network hid the source of their income behind several U.S. shell companies.

Bank Melli, a bank owned and run by the Government of Iran that was designated under a counter-proliferation authority and now is subject to counterterrorism sanctions, hid the fact that it owned and operated a skyscraper on Manhattan’s Fifth Avenue generating millions upon millions of dollars for the Iranian government and its malign activities, right under the nose of U.S. authorities. Bank Melli violated U.S. sanctions by, among other things, creating two shell companies in New York to generate revenue for the Iranian regime.

Owen Hanson, leader of the violent “ODOG Enterprise,” operated an international drug trafficking, gambling, and money laundering enterprise in the United States, Central and South America, and Australia from 2012 to 2016. Hanson trafficked hundreds of kilograms of cocaine, heroin, methamphetamine, MDMA (“ecstasy”), anabolic steroids, and Human Growth Hormone (“HGH”), including to numerous professional athletes, earning millions of dollars in illegal proceeds. He also operated a vast illegal gambling operation focused on high-stakes wagers

placed on sporting events, using threats and violence against his gambling and drug customers to force compliance. Hanson set up numerous domestic shell companies to launder the proceeds of his crimes, hide assets, and continue his criminal enterprise.

Alejandro Andrade Cedeno, a former Venezuelan national treasurer, received over \$1 billion in bribes from co-conspirators in exchange for using his position as Venezuelan national treasurer to select them to conduct currency exchange transactions at favorable rates for the Venezuelan government. He received cash as well as private jets, yachts, cars, homes, champion horses, and high-end watches from his co-conspirators. As part of his plea agreement, Andrade agreed to a forfeiture money judgment of \$1 billion and forfeiture of all assets involved in the corrupt scheme, including real estate, vehicles, horses, watches, aircraft, and bank accounts. This corrupt Venezuelan public official funneled the proceeds of his bribery to U.S. shell companies.

Impact on National Security and Safety of Citizens

Stories of ordinary people and taxpayers victimized by criminals exploiting and hiding behind the secrecy of shell companies are all too common. Opaque corporate structures such as shell corporations facilitate anonymous access to the financial system for every type of criminal and terrorist activity. Narcotraffickers, corrupt leaders, rogue states, terrorists, and fraudsters of all kinds establish domestic shell companies to mask and further criminal activity, to invest and buy assets with illicit proceeds, and to prevent law enforcement and others from efficiently and effectively investigating tips or leads. We recognize that corporations, limited liability companies, partnerships, and other entity structures play a vital role in domestic and global commerce, but they are also vulnerable to abuse, and currently pose a gap—a dangerous gap—in our national security apparatus that we need to address.

FinCEN's recent Customer Due Diligence Final Rule (CDD rule), which requires the collection of beneficial ownership information when opening an account at a bank or other financial institution, is but one critical step toward closing this national security gap. The second critical step in closing this national security gap is collecting beneficial ownership information at the corporate formation stage.

One of the most effective ways to deter criminals and to stem the harms that flow from their actions—including harm to American citizens and our financial system—is to follow the money, expose illicit activity, and prevent networks from operating undetected or secretly benefiting from the enormous power of our economy and financial system. Identifying and disrupting illicit financial networks not only assists in the prosecution of criminal activity of all kinds, but also allows law enforcement to halt and dismantle criminal organizations and other bad actors before they harm our citizens or our financial system.

It also allows us to use economic statecraft to expose and dissuade nefarious activity that threatens our country and the integrity of the global financial system, including through OFAC's sanctions and FinCEN's authorities, such as identifying primary money laundering concerns under Section 311 of the USA PATRIOT Act.

Money laundering and its associated crimes and bad acts undermines the rule of law and our democracy because it supports and rewards corruption and other crimes, allowing it to grow and fester. As such, our efforts to combat money laundering directly affect the safety and security of the American public, the stability of our nation, and its national security.

As a former State and Federal prosecutor, I know firsthand how difficult it is to trace assets hidden through a variety of legal entities. To determine the true owner of a shell company or front company in the United States today requires law enforcement to undertake a time-consuming and resource-intensive process. It often requires human source information, grand jury subpoenas, surveillance operations, witness interviews, search warrants, and foreign legal assistance requests to get behind the outward facing structure of these shell companies. This takes an enormous amount of time—time that could be used to further other important and necessary aspects of an investigation—and wastes resources, or prevents investigators from getting to other equally important investigations. The collection of beneficial ownership information at the time of company formation would significantly reduce the amount of time currently required to research who is behind anonymous shell companies, and at the same time, prevent the flight of assets and the destruction of evidence.

Global Impact

As cross-border crime continues to proliferate—and it is most certainly proliferating—our efforts to combat the most sophisticated white-collar and cyber criminals require law enforcement to work with our partners all over the world to seek the evidence and witnesses necessary to build their cases. We need to collaborate with our foreign counterparts, not only to investigate crimes that have been committed and to cooperate on sanctions, but also to intercept ongoing crimes and to prevent crimes from occurring in the first place. We must be nimble in order to coordinate quickly, effectively, and fluently with our counterparts abroad. Criminals and other bad actors do not have borders and do not comport with the rule of law. To combat them, we need to work seamlessly with our foreign counterparts in a way that is efficient and effective.

Just as we receive significant assistance from our foreign partners in our investigations and prosecutions, we too must provide significant assistance to them in researching the beneficial owners of U.S. shell companies. This coordination is especially important when crimes are being planned by overseas actors targeting victims in the United States, or when bad actors use our financial system or opaque corporate structures to victimize people globally, including in the United States. The bottom line is that we need our foreign partners to have important information in a timely way, in order to stop and arrest criminals overseas to prevent harm caused to us here at home. This balanced model of reciprocity in information sharing is a vital tool in modern prosecution—whether the prosecutor is sitting in the United States, Europe, South America or elsewhere.

However, identifying beneficial ownership information in the United States can only be achieved today through a long, drawn-out process with many hoops, twists, and turns. This often dissuades some of our partners overseas from working with us. Indeed, the Financial Action Task Force (FATF)—a global inter-governmental body responsible for developing and

promoting policies to protect the global financial system against money laundering and other threats, composed of thirty eight members, including all the G-7 countries and our most reliable partners—recognized and highlighted in the 2016 Mutual Evaluation this issue as one of the most critical gaps in the United States’ compliance with its standards. FATF noted that the lack of beneficial ownership information significantly slows investigations because determining the true ownership of bank accounts and other assets often requires that law enforcement undertake a time-consuming and resource-intensive process. While we have since implemented customer due diligence requirements, more must be done. Collecting beneficial ownership information at company formation would assist us and our foreign partners as we collaborate to stop criminals, seize and forfeit illicit assets, and protect the public.

As more and more of our allies begin to collect beneficial ownership information at the incorporation stage in their countries and make it accessible to law enforcement, the U.S. risks becoming a safe haven for bad actors looking to hide their assets. As Americans, we have always led in the areas of rule of law, security, and law enforcement. Our failure to lead here is perplexing to the global community that has come to rely on and expect our leadership.

Conclusion

In conclusion, the time to address this important issue is now. As Treasury Secretary Mnuchin has stated several times in Congressional testimony, beneficial ownership information at corporate formation is an important issue to the Department of the Treasury. It is critical for the security of our nation and its citizens that Congress act to eliminate one of the most useful tools used by criminals to perpetrate their crimes, hide their proceeds, and subvert law enforcement. That is why we appreciate this Committee’s work on this issue, and we hope to work with Congress on developing a bipartisan solution to collecting this important information to protect our national security and the people of our nation. I am happy to take any questions you may have.