



Ending Anonymous Shell Companies

Those wishing to hide illicit funds do not need to go offshore to hide assets. Anonymous shell companies formed in the United States have been used to hide assets for a range of dangerous and illicit activities, including by arms dealers, money launders, terrorist financiers and corruption by foreign governments. In some cases, less information is provided to incorporate a company than to obtain a driver's license or even a library card. The use of shell corporations to hide illegal activity makes them a challenge for law enforcement and a threat to national security. The United States trails the rest of the world and has been criticized by the Financial Action Task Force, the inter-governmental body for combating illicit finance, for being a shelter for criminals and kleptocrats seeking to launder money by adopting the corporate form and cloaking their ownership.

In 2016, the Financial Crimes Enforcement Network (FinCEN) adopted its Customer Due Diligence rule that mandates banks know their customers by collecting and conducting ongoing monitoring of account and corporate ownership information. Currently there is no requirement to provide ownership information at the time of formation or when ownership changes. Without a federal database, banks' efforts to know their customers and aid law enforcement is even more difficult as financial institutions work to identify illicit shell companies and protect national security.

BPI's Position

To combat terrorism and financial crimes, Congress should act to end the formation of anonymous shell companies in the United States. Bank Secrecy Act (BSA) regulations require banks to know their customer and determine true beneficial owners of each entity it provides services. The failure to require legal entities to register ownership information represents a significant gap in the U.S. regulatory system that allows criminals, money launderers, kleptocrats, and terrorist financiers to obscure their identities from law enforcement. FinCEN should collect and protect this information and allow access by law enforcement and financial institutions legally obligated to determine ownership for their BSA/anti-money laundering obligations.

Recommendation: Congress should enact legislation to require FinCEN to collect of ownership information at the time of incorporation and whenever such information changes and ensure such information is accessible to relevant stakeholders, such as FinCEN, law enforcement and financial institutions.

Better Leads for Law Enforcement

Criminals often layer anonymous corporations with complex overlapping structures making it difficult for law enforcement to determine the true financial interest of the entity. All too often criminal investigations hit a dead end when law enforcement encounters a company with hidden ownership. There may be valid reasons as to why corporate owners would want to keep their ownership secret from the broader public; however, it is difficult to imagine a valid reason why corporate owners would want to keep their ownership secret from the state incorporating them, law enforcement, and a financial institution that is legally obligated to determine that ownership in the exercise of its BSA/AML obligations.

Without a federal requirement to disclose corporate ownership information, banks are stymied in their ability to assist law enforcement. Having a single federal registry would provide a verifiable and centralized source of corporate ownership information, meeting the needs of law enforcement and helping financial institutions satisfy their regulatory obligations. It is vital that once such information is collected, it is available to law enforcement and financial institutions to facilitate investigations and protect national security. Better corporate ownership information will aid law enforcement in their efforts against money laundering, drug trafficking and other illegal activities.

