

**Prepared Statement by Senator Chuck Grassley of Iowa
Chairman, Senate Judiciary Committee
Hearing on “Beneficial Ownership: Fighting Illicit International Financial Networks Through
Transparency”
February 6, 2018**

Before we start, I want to say that I’m extremely disappointed with the Treasury Department for not providing a witness here today. As a member of the Finance Committee, I asked Secretary Mnuchin if he would provide us with witnesses for our committee hearings, and he assured me that he would. The Treasury Department has fallen flat today by not being here to address this very important issue.

We’re here today to discuss ways to prevent the increasing flow of illegal money through our financial system. The lifeblood of criminal enterprises all over the world is their revenue. Money fuels terrorists, transnational criminal organizations, narco terrorists, and kleptocrats to grow, increase their power, and gain more influence.

These criminals need to find ways to launder their ill-gotten gains. Although the dirty money often comes from the most corrupt, most unstable countries in the world, it often ends up – ironically – in the United States. Why? Because we respect the rule of law, honor property rights, and we have the most stable financial system in the world. Although this issue is not a new one, the nature and scope of the problem has changed over time.

Back in 2011, Senator Feinstein and I held a hearing in the Drug Caucus on “Money Laundering and Bulk Cash Smuggling Across the Southwest Border.” We drew, in part, on conclusions made in the Drug Caucus report to come up with S.1241, the *Combating Money Laundering, Terrorist Financing, and Counterfeiting Act of 2017*. That bill is an effort to address mainly cross-border money laundering.

We had a hearing on S.1241 back in November. One of the recurring themes that came up during that discussion was incorporation transparency in the United States. Every expert had the same message – it’s a huge problem. I look forward to hearing from more experts on this issue today. The recent publication of the Panama Papers also shed light on worldwide corruption, helped by anonymous companies.

In its 2015 National Money Laundering Risk Assessment, the Treasury Department estimated that about \$300 billion in illegal proceeds is generated annually in the US alone. That money comes from many sources, including narco trafficking, international organized crime, foreign corruption and kleptocracy, trade-based money laundering, and garden-variety fraud.

Over the past few years, money has flooded into the United States as the United Kingdom and other European countries have enacted laws and regulations to improve beneficial ownership transparency. The international community usually looks to the U.S. to be the leader in maintaining a robust criminal justice system; promoting transparency; and upholding the rule of

law. In the area of beneficial ownership, we've fallen behind our friends overseas. According to one analysis, the U.S. is second – behind only Switzerland – as the most secret and non-transparent incorporation system in the world.

As one expert put it, it's easier to incorporate a company in the U.S. than it is to get a library card.

Bad actors from all over the world have come to the U.S. as their financial safe haven. For example, Viktor Bout, the notorious Russian arms trafficker, was found guilty in 2011 for conspiring to kill U.S. nationals and sell weapons to terrorists. He used a dozen shell companies formed in Texas, Delaware, and Florida to hide assets in the US.

This issue directly impacts our national security. The recent stories exposing Hezbollah's drug trafficking and money laundering schemes show the broad scope of the problem: Hezbollah maintains a massive drug and illicit financial network designed to generate and hide hundreds of millions of dollars. Some of that money returns to the US as laundered funds. DOJ seized \$102 million from a bank that helped launder Hezbollah drug money – in US dollars – and funnel it back to Lebanon. DOJ also recently prosecuted a case involving Iran's investment in Manhattan real estate through a New York-based anonymous company. The proceeds are eventually used to train terrorists, and infect followers with anti-American, anti-democratic philosophy.

Kleptocracies also pose a grave threat to our national security because they fundamentally destabilize democracy and the rule of law. Incorporation secrecy helps to prop up corrupt countries when officials can hide their stolen funds through stable assets.

We've seen examples of corrupt foreign officials exploiting our financial system. In 2014, DOJ forfeited \$30 million in US assets from the son of Equatorial Guinea's President. He had an official government salary of \$100,000 but amassed more than \$300 million worth of assets through domestic corruption. He acquired various US assets – including a Michael Jackson crystal-studded glove, and tens of millions of dollars in real estate in California – through shell companies using US-based lawyers.

In 2017, DOJ filed an action to seize hundreds of millions of dollars from a US-based lobbyist working on behalf of leaders in Gabon. The lobbyist was caught by U.S. border agents at Dulles Airport in 2013 carrying \$100,000 in cash on behalf of Gabon President Ali Bongo.

In the defense industry, anonymous companies can obtain contracts with the Department of Defense. One report uncovered an Afghan company that was contracted to supply our troops but was secretly owned by the Taliban. That's scary.

We also see the problem play out in the real estate market. America's cities have drawn in billions of dollars of foreign and anonymous buyers over the past decade. In New York City, for example, real estate spending is triple what it was a decade ago. And half of that spending

involved shell companies. This is an issue that touches on real Americans all over the country. It drives up the cost of living for all of us.

The lawyers who help set up these companies are complicit. In one undercover operation publicized by 60 Minutes, journalists approached several U.S. lawyers asking to set up companies to hide assets in the U.S. “without detection” on behalf an African minister who had mysteriously accumulated millions of dollars. Almost all of the lawyers happily agreed, eager to generate the fees. One lawyer who provided suggestions and agreed to meet with the investigator again was James Silkenat, who was the President of the American Bar Association at the time. It’s beyond frustrating to watch our own legal system being used to undermine the rule of law around the world. And, believe it or not, the American Bar Association defends these practices.

As the Treasury Department stated, the “fight against money laundering and terrorist financing is a pillar of U.S. national security and a strong financial system.” The issue of beneficial ownership stands on the front lines of that fight.

Today, we will hear from a number of witnesses who will hopefully shed more light on the scope of this problem, and give us useful feedback on what we can do to help. I welcome our witnesses, and look forward to all of their testimony today.