

**Testimony Before the House Appropriations Committee
Subcommittee on Financial Services and General Government For Fiscal Year 2023
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Chairman Quigley, Ranking Member Womack, and members of the Subcommittee, thank you for the opportunity to submit testimony regarding the FY 2023 Financial Services and General Government Appropriations Bill. My organization, Citizens for Responsibility and Ethics in Washington (CREW), is a nonpartisan nonprofit organization dedicated to combating corruption and building an ethical, inclusive and accountable government. With this purpose in mind, I am offering legislative text and testimony today regarding the need to continue studying how to improve and expand our country's anti-corruption legal regime.

For decades, the United States' corporate secrecy laws have played a central role in facilitating global corruption. This reality was thrown into sharp relief by the bombshell revelations stemming from the Pandora Papers, a trove of financial and legal data leaked to the International Consortium of Investigative Journalists (ICIJ).¹ Like the Panama Papers and Paradise Papers before them, the Pandora Papers reveal a global financial system that remains unable to curtail the flow of corrupt money that continues to benefit the rich and powerful.

Last year, President Biden labeled corruption as a core national security threat, demonstrating that our current corporate transparency laws have become not only an international, but also a domestic, security concern.² The country's status as a haven for illicit finance has shaped parts of the U.S. economy, from trusts in South Dakota that harbor alleged money launderers to a luxury real estate boom that has permitted the super-rich from around the world to park their wealth in Malibu mansions.³ Due to our extraordinarily weak corporate secrecy laws, disadvantaged communities have been disproportionately impacted, further deepening economic and racial inequalities.⁴ We are now the world's second-worst tax and financial secret haven, trailing only the Cayman Islands. If we continue to ignore financial

¹ International Consortium of Investigative Journalists, The Pandora Papers, <https://www.icij.org/investigations/pandora-papers/>.

² Memorandum on Establishing the Fight Against Corruption as a Core United States National Security Interest, Jun. 3, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/06/03/memorandum-on-establishing-the-fight-against-corruption-as-a-core-united-states-national-security-interest/>.

³ "Offshore havens and hidden riches of world leaders and billionaires exposed in unprecedented leak," ICIJ, Oct. 3, 2021, <https://www.icij.org/investigations/pandora-papers/global-investigation-tax-havens-offshore/>.

⁴ Gabe Lezra, "U.S. Real Estate Secrecy Links Global Corruption, Domestic Inequality," *Just Security*, Mar. 23, 2022, <https://www.justsecurity.org/80790/u-s-real-estate-secrecy-links-global-corruption-domestic-inequality/>.

corruption as a national security threat, we will undermine any global or domestic anti-corruption effort.⁵

In 2021, Congress passed the Corporate Transparency Act (CTA) to fix our country's broken anti-corruption laws and address the United States' role as a prime facilitator of global corruption. The CTA directs the Financial Crimes Enforcement Network (FinCEN) to develop a centralized database of all the beneficial owners of American corporations and other similar legal entities, and make that information available to law enforcement agencies upon request. Such beneficial ownership registries are a staple of modern anti-money laundering, financial corruption, and terrorist financing (AML) regimes.⁶

While the CTA is a strong first step towards bringing the United States' AML regime in line with international standards, it still leaves us lagging behind other Financial Action Task Force (FATF) member countries, because it does not make the registry information publicly available. Public registries, such as those in place in the United Kingdom and the European Union, have shown immense promise in combating illicit cash flows. They are quickly becoming a best practice among FATF members.⁷ For instance, the expanded public accessibility requirements have helped the EU's fight against illicit money: when Luxembourg opened its public beneficial ownership registry, journalists and accountability groups quickly identified numerous shell entities owned by notoriously corrupt individuals. In particular, "[a]mong the beneficial owners identified by journalists were an arms dealer at the center of one of the biggest corruption scandals in France, the Kremlin-connected leader of one of the largest Russian criminal organisations, an ex-son-in-law of Tunisia's former dictator under sanctions between 2011 and 2020, and several members of the 'Ndrangheta, Italy's most powerful crime syndicate."⁸

⁵ "Financial Secrecy Index 2020 reports progress on global transparency – but backsliding from US, Cayman and UK prompts call for sanctions," Tax Justice Network, Feb. 18, 2020, <https://taxjustice.net/press/financial-secrecy-index-2020-reports-progress-on-global-transparency-but-backsliding-from-us-cayman-and-uk-prompts-call-for-sanctions/>.

⁶ *See, e.g.*, Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU, Paragraph 30, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843>.

⁷ Registers of True Owners of Anonymous Companies On Track to Become a Requirement Worldwide, Transparency International, Oct. 22, 2021, <https://www.transparency.org/en/press/registers-true-owners-anonymous-companies-requirement-worldwide>. *See also* "Out in the Open: How Public Beneficial Ownership Registries Advance Anti-Corruption," Transparency International, Sep. 10, 2021, <https://www.transparency.org/en/news/how-public-beneficial-ownership-registers-advance-anti-corruption>.

⁸ Lucinda Pearson, "OpenLux demonstrates the value of open beneficial ownership registers--and their shortcomings," Transparency International EU, Feb. 16, 2021, <https://transparency.eu/openlux-beneficial-ownership-registers/>.

These public registries function well because they make use of the public sector's proven ability to decode and decipher huge financial datasets, as exhibited by the Pandora Papers. FinCEN estimates there are now approximately 30 million domestic corporations that would need to report beneficial ownership information in the United States, and approximately three million more domestic entities are created each year.⁹ That amount of data would be very hard to parse without help from outside institutions that have the requisite expertise. The ICIJ and its partner organizations have proven that they have what it takes to help law enforcement make sense of these webs of interlocking corporate interests and decode the larger schemes of corruption.

The fight against corruption is never complete. As states improve their legal regimes to prevent the influx of corrupt and illegal cash, bad actors will develop new ways to circumvent these new rules. Therefore, it is critical that the United States continue to study ways to build upon the CTA. While we recognize the CTA does not include a robust role for public interest stakeholders and anti-corruption groups in combating illicit money, there is strong evidence from other FATF countries that non-governmental organizations can use public beneficial ownership registries to help fight international financial corruption makes the creation of a public registry a worthwhile subject for study.

For the foregoing reasons, CREW recommends inclusion of the following report language in the FY 2023 Appropriations Bill:

Public beneficial ownership registries: The Committee requests that the Government Accountability Office (GAO) complete a study of the public beneficial ownership registries currently in force in the United Kingdom and European Union member states, and provide a report on its findings [and recommendations to the Committee] not more than 180 days following the enactment of this Act. This should include, but is not limited to: a description of each legal regime GAO assesses; a list of notable successes including, but not limited to instances where non-governmental organizations or actors provided law enforcement with information leading to the arrest or capture of money-launderers, terrorist financiers, or other corrupt individuals or organizations; a list of instances where non-governmental organizations or actors publicized potential or ongoing violations of the country's public corruption, anti-money laundering, or terrorist financing laws and regulations; and a brief summary of the costs associated with the implementation and maintenance of each legal regime GAO assesses.

Thank you for the opportunity to address the Subcommittee.

⁹ 86 Fed. Reg. 69920, 69921.