

**Senate Caucus on International Narcotics Control**  
**“Opaque Shell Companies: A Risk to National Security,**  
**Public Health, and Rule of Law”**

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Chairman Whitehouse, Co-Chair Grassley, and other members of the Caucus – thank you for holding this important hearing. I am here on behalf of the Financial Accountability and Corporate Transparency, or FACT, Coalition and its more than 100 members to discuss the perils that opaque shell companies represent. I will also address what the United States is already doing to clean up its own house, and what more is needed.

**The Public Harms of Anonymous Shell Companies are Not Abstract**

Illicit shell networks span states and continents, threatening American public safety and national security. My fellow witnesses have raised how drug traffickers use anonymous U.S. shell companies as “financial getaway vehicles” to procure fentanyl precursors, peddle products, protect profits, and harm average Americans. These harms are not new. Nor are they abstract. The use of anonymous companies has lethal consequences for our communities.

The evidence is damning in light of our nation’s opioid epidemic. Consider just one case involving a series of pain management clinics in Florida and Tennessee. These shady clinics doled out medically unnecessary opioid prescriptions to the tune of \$21 million in revenue, and funneled kickbacks through a network of Tennessee-based shell companies. Their overprescribing schemes, enabled by these shell companies, led to the death of at least 700 people in just four years.<sup>1</sup> Separately, regarding China’s growing role in the fentanyl crisis, the Drug Enforcement Agency has determined that Asia’s equivalent of the Black Market Peso Exchange relies on “U.S. front companies” to export goods to China as payment for drugs.<sup>2</sup> And these are just two examples of many. In fact, one of our coalition members, Fair Share, published evidence of at least ten cases linking shell companies to the opioid epidemic.<sup>3</sup>

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<sup>1</sup> *U.S. v. Hofstetter, et al.*, Case 3:15-cr-00027-TAV-CCS, 2017, <https://www.justice.gov/opa/page/file/981896/dl>. See also U.S. Department of Justice, “Two Top Leaders in Italy and Five Us Residents Indicted for Racketeering, Health Care Fraud, and Drug Trafficking Conspiracies to Distribute Opioids Resulting in Deaths Involving “Pill Mills” Operating in Tennessee and Florida,” Press Release, January 19, 2018,

<https://www.justice.gov/usao-edtn/pr/two-top-leaders-italy-and-five-us-residents-indicted-racketeering-health-care-fraud-and>.  
<sup>2</sup> U.S. Treasury Department, “2018 National Money Laundering Risk Assessment,” 2018, p. 32  
[https://home.treasury.gov/system/files/136/2018NMLRA\\_12-18.pdf](https://home.treasury.gov/system/files/136/2018NMLRA_12-18.pdf).

<sup>3</sup> Nathan Proctor and John Cassara, “Anonymity Overdose,” Fair Share, 2016,  
<https://thefactcoalition.org/report/anonymity-overdose-how-our-opioid-crisis-and-shell-companies-are-linked/>.

These dangers can also manifest over longer periods, making the risks of anonymous companies all the more insidious. Take the 2021 collapse of Champlain Towers in Florida. This condo is now believed to have been constructed and operated at least partially for narcotics money laundering purposes. Shady LLC owners and neglectful property managers allowed the building to fall into disrepair with relative impunity. As a result, 98 people were killed in an unthinkable tragedy.<sup>4</sup>

### **Criminals Rely on U.S. Shell Companies to Do Business**

Historically, shell companies have made the U.S. vulnerable to financial crimes. Our own Treasury Secretary, Janet Yellen, has admitted that the United States has a dirty money problem. In 2023, she said, “There is a good case that, right now, the best place to hide and launder ill-gotten gains is actually the United States.”<sup>5</sup> The United States is a stable democracy that is home to the world’s largest economy. This means that the United States doesn’t only provide anonymity for the world’s worst actors: in many cases, it promises them the protection of the rule of law as well as a strong return on their investments.

And drug profiteers have taken note. Both down the block and across our borders, drug operations large and small rely on anonymous U.S. companies. In one relatively local case, Baltimore-area dealer Anton Williams used LLCs to conceal his ownership of real estate properties that he used to meet with customers and launder money from his sale of cocaine, heroin, and fentanyl.<sup>6</sup>

Large cartels also make use of U.S. financial secrecy. In 2023, twelve people were indicted in connection with the Sinaloa Cartel’s heroin and meth trafficking operations. The defendants, located in Mexico, the U.S., and Canada, had laundered at least \$16.5 million through Wyoming-based shell companies. The secrecy afforded by the anonymous corporations is essential for the money laundering that sustains the cartels’ tremendous violence.<sup>7</sup>

We also see U.S. shell companies used as part of other, so-called “convergent” crimes often committed in tandem with drug trafficking. This includes environmental crimes. *Miami Herald* reporters and DOJ investigators uncovered how a Peruvian national using the pseudonym “Peter Ferrari” and his associates allegedly laundered billions of dollars worth of illegally sourced gold

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<sup>4</sup> USA Today (October 22, 2021), “The Backstory: Long before the Champlain Towers collapse, there was money laundering. Here’s how we uncovered it,”

<https://www.usatoday.com/story/opinion/2021/10/22/there-was-money-laundering-surfside-heres-how-we-uncovered-it/8532276002/>

<sup>5</sup> U.S. Treasury Department, “Remarks by Secretary Janet L. Yellen on Anti-Corruption as a Cornerstone of a Fair, Accountable, and Democratic Economy at the Summit for Democracy, March 28, 2023, <https://home.treasury.gov/news/press-releases/jy1371>.

<sup>6</sup> U.S. Department of Justice, “Money Launderer and Wholesale Supplier of Narcotics to East Baltimore Monument Street Drug Trafficking Organization Sentenced to 10 Years in Federal Prison and Ordered to Forfeit \$472,000,” Press Release, September 14, 2021,

<https://www.justice.gov/usao-md/pr/money-launderer-and-wholesale-supplier-narcotics-east-baltimore-monument-street-drug>.

<sup>7</sup> U.S. Department of Justice, “Sophisticated Sinaloa Cartel Money Laundering Organization Dismantled,” Press Release, April 11, 2023, <https://www.justice.gov/usao-sdca/pr/sophisticated-sinaloa-cartel-money-laundering-organization-dismantled>.

as a means to launder drug money, using anonymous shell companies and other methods.<sup>8</sup> In another case, China's Wu Transnational Criminal Organization used LLCs based in California and Florida to mask and launder a 10-year long international scheme to illegally harvest and traffick shark fins, and at the same time, operate and launder money from a major multi-state illegal marijuana business. At the time of indictment, federal authorities seized as much as \$7.9 million in total assets, as well as 18,000 marijuana plants.<sup>9</sup>

### **U.S. “Enablers” Facilitate Anonymous Company Abuse**

What's more, is that third-party professionals often serve as the first port of call for money launderers to gain access to the U.S. financial system. If U.S. shell companies are a criminal's financial getaway vehicle, then these so-called “enablers” provide the car keys and the road map that allow these criminals to make their escape. A few examples illustrate this problem:

- Dallas lawyer Rayshun Jackson was found guilty in 2020 of laundering nearly \$500,000 a month in apparent opioid trafficking proceeds through shell companies and all-cash businesses. In a conversation with an undercover agent, a dealer said of Mr. Jackson, quote: “He's a thug, he's just got a law degree.”<sup>10</sup>
- In 2018, an accountant in California was sentenced to 21 months in prison for supporting an international drug trafficking syndicate by creating anonymous shell companies to hide and launder money.<sup>11</sup>
- In 2012, senior members of the Zetas obscured nearly \$20 million dollars in illicit proceeds, and moved those funds through U.S. real estate: namely, Oklahoma horse ranches bought via the brothers' anonymously owned shell companies.<sup>12</sup> It is likely that the Zetas went through a non-financial professional – whether a lawyer, a corporate service provider, or a real estate professional – to launder their ill-gotten profits.

Congress must act to introduce common sense anti-money laundering checks for U.S. financial gatekeepers.

### **Anonymous Companies Facilitate More than Narcotics**

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<sup>8</sup> FACT Coalition: “Dirty Money and the Destruction of the Amazon: Uncovering the U.S. Role in Illicit Financial Flows from Environmental Crimes in Columbia and Peru,” October 20223,

[https://thefactcoalition.org/wp-content/uploads/2023/10/Feb-08\\_English-Full\\_FACT-Report.pdf](https://thefactcoalition.org/wp-content/uploads/2023/10/Feb-08_English-Full_FACT-Report.pdf). See also, “<https://www.ciperchile.cl/2016/08/19/la-trama-oculta-del-mayor-contrabando-de-oro-detectado-en-chile/>.”

<sup>9</sup> U.S. Department of Justice, “International money laundering, drug trafficking and illegal wildlife trade operation dismantled,” Press Release, September 3, 2020,

<https://www.justice.gov/usao-sdga/pr/international-money-laundering-drug-trafficking-and-illegal-wildlife-trade-operation>.

<sup>10</sup> Ibid. See also, U.S. Department of Treasury, “2022 National Money Laundering Risk Assessment,” February 2022, <https://home.treasury.gov/system/files/136/2022-National-Money-Laundering-Risk-Assessment.pdf>.

<sup>11</sup> U.S. Department of Justice, “CPA Sentenced for Role in Racketeering Enterprise,” October 2, 2018, <https://www.justice.gov/usao-sdca/pr/cpa-sentenced-role-racketeering-enterprise>.

<sup>12</sup> US v. Miguel Angel Trevino Morales, et al., Case 1:12-cr-00210-SS, May 30, 2012, <https://federalcrimesblog.wordpress.com/wp-content/uploads/2012/06/us-v-miguel-angel-trevino-morales-et-al-federal-criminal-indictment.pdf>.

It's clear that anonymous shell companies facilitate narcotics trafficking. But we would do well to remember that the tools that benefit drug trafficking organizations are also often used by our adversaries. For instance, The Department of Defense hired a U.S.-Afghan firm for a \$3.3 million contract; the firm was later found to be owned by Afghan locals who also supplied weapons to the Taliban. This procurement failure directly put U.S. troops at risk.<sup>13</sup>

One recent example in particular is haunting: a 2020 case in which individuals moved approximately \$1 billion in Iranian funds held in South Korea through companies registered in the U.S. and elsewhere. The Department of Justice sought the forfeiture of \$20 million in evaded sanctioned funds.<sup>14</sup> The cognitive dissonance in here is palpable. Any U.S. sanctions policy pursued without parallel steps to address U.S. anti-money laundering loopholes is at best, wishful thinking, and at worse, a farce. We need to right course.

We need to make sure that the United States can protect its troops, enforce its own sanctions, and keep money out of the hands of those who would do us harm. The United States can do two things in particular to serve these goals: robustly implement the Corporate Transparency Act, and tackle the problem of professional “enablers.”

### **Stopping the Shell Game with the Corporate Transparency Act**

The first way the U.S. can help stop the shell game is to implement the bipartisan Corporate Transparency Act, or CTA, which marks the most significant update to the U.S. anti-money laundering framework in 20 years. The Corporate Transparency Act was enacted under the Trump Administration and has now launched, as of January 1, under the Biden Administration. The Act reasonably requires corporations, limited liability companies, and “other similar entities” to disclose their true, natural owner to a secure directory housed and maintained at Treasury’s Financial Crimes Enforcement Network, or FinCEN.

Prior to the CTA, all 50 US states required more personal information to get a library card than they did to establish a legal entity.<sup>15</sup> Now, for the first time in decades, law enforcement have new tools to “follow the money.” That’s why the law, when passed, had the support of law enforcement associations like the Fraternal Order of Police, National District Attorneys Association, and the National Narcotics Officers’ Association, as well as more than 100 national security experts.<sup>16</sup> These state-level law enforcement officers understood that these threats

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<sup>13</sup> Global Witness, “Hidden Menace,” July 12, 2016, <https://www.globalwitness.org/en/reports/hidden-menace>.

<sup>14</sup>U.S. Department of Justice, “U.S. Government Collects \$7 Million in Iranian Assets for Victims of Terrorism Fund,” Press Release, January 5, 2021, <https://justice.gov/usao-ak/pr/us-government-collects-7-million-iranian-assets-victims-terrorism-fund>.

<sup>15</sup> Global Financial Integrity, “The Library Card Project: The Ease of Forming Anonymous Companies in the United States,” March 2019, <https://gfintegrity.org/report/the-library-card-project>.

<sup>16</sup> “Fraternal Order of Police Sends Letter of Support on H.Amdt.1,” 2020, <https://thefactcoalition.org/fraternal-order-of-police-sends-letter-of-support-on-h-amdt-1/>. “National District Attorneys Association Sends Letter to House In Support of H.Amdt.1,” 2020, <https://thefactcoalition.org/national-district-attorneys-association-sends-letter-to-house-in-support-of-h-amdt-1/>. “National Narcotic Officers’ Associations’ Coalition Writes to House Leaders In Support of H.Amdt.1,” 2020, <https://thefactcoalition.org/national-narcotic-officers-associations-coalition-writes-to-house-leaders-in-support-of-h-amdt-1>.

happen across states and involve transnational networks. That's why they supported federal action to collect this information to crack down on fentanyl traffickers, cartels, and U.S. adversaries that threaten America.

**It is crucial that the implementation of the Corporate Transparency Act goes well: and so far, it largely has.**

- First, FinCEN smoothly launched the database on January 1, and more than **one million** businesses have already filed information about their true owners.<sup>17</sup>
- Second, according to a recent poll by Small Business Majority, nearly **70 percent** of businesses that have already filed said reporting was easy; just **18 percent** said it was difficult. Anecdotally, businesses with simple ownership have reported that it takes between 10 and 20 minutes to complete the form.<sup>18</sup> What's more, filing is free.
- And third, unless their data needs to be updated, businesses may never need to interact with the relatively esoteric bureau of the FinCEN ever again.

This means that – after nearly twenty years of deliberation on the scourge of shell companies – Congress struck the right balance when passing this bipartisan law to keep our country and our region safe, while also keeping the costs to business low. It is, in part, thanks to the leadership of the co-chairs of this caucus, Senators Whitehouse and Grassley, that this balance was struck.

### *Successful CTA Implementation Requires Further Appropriations*

Nevertheless, the successful implementation of the CTA demands that Congress provide FinCEN with additional resources.

First, FinCEN has much work to do to get the word out to businesses about these new requirements. The best way to keep costs low and to ensure that businesses comply is to make sure that FinCEN has ample resources to build relationships with local governments and businesses associations.

Second, FinCEN needs to provide training to local, state, federal, and international law enforcement officers so that they know that they now have this powerful tool in their toolbelt. Additional resources could help FinCEN establish and communicate appropriate protocols to state, local, federal, and U.S. agencies fielding requests from international law enforcement. As we know, drug trafficking is a transnational enterprise. The value of this new AML tool is limited if we don't facilitate collaboration with trusted law enforcement partners.

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<sup>17</sup> Tweet by the Financial Crimes Enforcement Network, March 25, 2024, <https://x.com/FinCENnews/status/1772277271606276564?s=20>.

<sup>18</sup> Small Business Majority, "Small Business Owners Share Their Experiences With New Beneficial Ownership Information Reporting Requirements," February 15, 2024, <https://smallbusinessmajority.org/our-research/small-business-owners-share-their-experiences-new-business-ownership-information-reporting-requirements>.

Third, it is crucial that FinCEN has adequate funding to verify beneficial ownership information as it is submitted to the database. Doing so maximizes the utility of the information to law enforcement while also minimizing the costs of compliance. By reducing the impacts of human error, FinCEN can simplify filing and help Americans get back to running their small businesses.

The Administration has requested \$216 million for the Bureau to carry out these important reforms. We ask that Congress fund FinCEN in full.<sup>19</sup>

### **Tackling the “Enablers”**

Likewise, the Administration and Congress must take steps to address the money laundering risks posed by financial gatekeepers. Just last month, FinCEN delivered important draft rules that would finally bring common sense, anti-money laundering checks to the residential real estate and private investment sectors – finally bringing an end to twenty-year long “temporary” exemptions from reporting. These rules should be promptly finalized.

Congress must also act where there are gaps. Notably, Senator Whitehouse’s ENABLERS Act, introduced last Congress, would go far to introduce new safeguards for professionals who provide certain financial services to their clients. The bill authorizes the U.S. Treasury Department to require professionals who provide certain financial services to their clients—such as forming or registering a company in the United States—to adopt safeguards that can help detect, flag, and prevent the laundering of criminal funds into and across the U.S.<sup>20</sup> Congress should pass this bill this year, once reintroduced.

I hope we can work together to make sure these tools are effective. I look forward to your questions.

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<sup>19</sup> For more information, see FACT Coalition, “President’s Budget Boosts Funds for Nation’s Crime Fighters,” March 11, 2024, <https://thefactcoalition.org/presidents-budget-boosts-funds-for-nations-financial-crime-fighters>.

<sup>20</sup> Transparency International U.S., “Stop Those Who Enable The Trafficking Of Fentanyl And Other Drugs Into The United States,” 2023, <https://us.transparency.org/resource/enablers-and-drug-trafficking-factsheet>.