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1 OPAQUE SHELL COMPANIES: A RISK TO NATIONAL SECURITY,
2 PUBLIC HEALTH, AND RULE OF LAW

3
4 Tuesday, April 9, 2024

5
6 U.S. Senate
7 Senate Caucus on International Narcotics Control
8 Washington, D.C.
9

10 The committee met, pursuant to notice, at 2:06 p.m., in
11 Room 608, Dirksen Senate Office Building, Hon. Sheldon
12 Whitehouse, chairman of the committee, presiding.

13 Present: Senators Whitehouse [presiding], Hassan, and
14 Grassley.
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1 OPENING STATEMENT OF SENATOR WHITEHOUSE

2 The Chairman. Let me welcome everybody to the hearing,
3 and thank you very much for participating. I'll start with
4 my opening remarks, then we'll turn to the distinguished co-
5 chair, and for his opening remarks and for a brief video
6 that he will play, and then we'll turn to our distinguished
7 panel of witnesses. And I thank you all very much for being
8 here.

9 A modern drug cartel runs more like a Fortune 500
10 conglomerate than like a street gang with departments
11 specializing in logistics, accounting, recruitment, and
12 chemical science. Cartels manage their empires with deadly
13 sophistication. They operate like enormous businesses
14 because they profit like enormous businesses.

15 Globally, drug trafficking revenues total as much as
16 \$652 billion according to estimates from global financial
17 integrity. Mexican cartels like Sinaloa and Jalisco New
18 Generation operate in the billions.

19 Enforcement against these massive organizations usually
20 focuses on their distribution networks, which makes some
21 sense. The product is contraband, and the cases are easy
22 once the drugs are found. But the distribution network is
23 only a part of their operation.

24 They have international supply chains bringing
25 precursor chemicals from China for their fentanyl mills.

1 They have networks of shell entities and accounts to launder
2 their dirty profits. Both their supply chains and their
3 revenue management operate through shell companies and
4 enablers. This includes U.S. shell entities; I am sorry to
5 say.

6 In 2021, Treasury Secretary Yellen said, I'm quoting
7 her here, "There's a good argument that the best place to
8 hide and launder ill-gotten gains is actually the United
9 States." Yes, the U.S. has allowed cartels, terrorist
10 groups, rogue states, Chinese money-laundering
11 organizations, and foreign oligarchs to use phony U.S. shell
12 corporations in their illicit schemes.

13 These shell companies may exist only on paper, but they
14 enable deadly threats to Americans' lives and security.
15 Nearly 108,000 Americans died of overdose in 2022 according
16 to the CDC. 436 were Rhode Islanders. The deaths of those
17 436 people ripples across my small state in a tide of
18 heartbreak. Fentanyl and other synthetic opioids are behind
19 many of these deaths.

20 Fentanyl's death toll is the direct result of shell
21 corporations. Shell corporations that hide the delivery of
22 precursor chemicals and shell corporations that hide the
23 profits from sales. One DOJ indictment last year alleged
24 that cartel operatives designed a network of shell companies
25 in Wyoming to launder millions of dollars for the Sinaloa

1 Cartel.

2 In another case, narco traffickers in New Jersey were
3 charged with using a shell company to buy fentanyl related
4 substances from China, which they pressed into counterfeit
5 pills. The United States recently sanctioned Syrian drug
6 traffickers who used seemingly legitimate businesses to
7 traffic Captagon and launder money. These examples are the
8 tip of an iceberg.

9 While this hearing is focused on the national security
10 and health threats posed by shell companies serving the drug
11 cartels, we cannot not forget that terrorist groups, Putin's
12 oligarch cronies, North Korean operatives and many others
13 who wish harm to Americans use these same opaque corporate
14 structures.

15 Let me be clear. The network of Shell corporations
16 servicing these foes and the enablers who facilitate them
17 are a clear and present threat to our national security. In
18 the battle with narco lords, a little sunlight into the
19 shadows of the dark economy can go a long way. So I thank
20 co-Chair Grassley for our years of work together to shine
21 beams of sunlight into that shadow economy.

22 Our Corporate Transparency Act is one such beam of
23 light. On January 1st of this year, the Treasury Department
24 established a so-called beneficial ownership register to
25 sort out this anonymous shell company mess, at long last,

1 helping law enforcement and national security officials
2 identify who's behind the webs of American shell companies
3 that facilitate corruption and criminality. We can make it
4 no longer true that the best place to hide in longer ill-
5 gotten gains is actually the United States.

6 This year, Treasury also announced proposals to send
7 some daylight into dirty money in the investment advisor
8 industry and in the residential real estate sector. I will
9 be submitting encouraging comments in due course and
10 recommending comments and guardrails also on commercial real
11 estate purchases. It is regrettable that well-paid white
12 collar American professionals, lawyers, investment advisors,
13 brokers, and accountants provide services to bad actors.

14 Again, this is a national security frontier in the
15 global clash of civilizations between rule of law and
16 corruption. My ENABLERS Act would crack down on those
17 aiding and abetting America's enemies by beaming some
18 daylight into key sectors like the legal and accounting
19 industries.

20 We can organize our efforts better against the global
21 dark economy. I've introduced a bill to establish a cross-
22 border financial crime center to coordinate across all
23 federal agencies investigations and information related to
24 financial crimes with a nexus to the U.S. border.

25 Finally, we should provide greater resources to the

1 Treasury Department, the Department of Justice, and other
2 federal agencies on the front lines against financial crime
3 and corruption. Time and again, we have seen those seeking
4 to harm the U.S. use opaque corporations to cover their
5 tracks and evade accountability. We passed the beneficial
6 ownership transparency law to defend our safety and security
7 against enemies who do their dirty work through U.S.
8 anonymous shell companies.

9 And with that, I turn it over to co-chair Grassley.

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1 STATEMENT OF SENATOR GRASSLEY

2 Senator Grassley. First of all, I want to thank you
3 for mentioning our working together on this very important
4 piece of legislation, and I wish we could get more out the
5 cooperation that there is in a bipartisan way in the United
6 States Senate so I wouldn't have people at the back of my
7 town meetings yell out, "How come you guys can't ever get
8 along?" I try to explain to them that we can get along, but
9 I'm not sure they believe it.

10 The Chairman. It always sticks.

11 Senator Grassley. Yeah. Congress often talks about
12 how criminals use shell companies to launder money. The
13 Corporate Transparency Act is an important part of that
14 conversation, but it's only a part of the equation.
15 Criminals also use shell companies and muddled corporate
16 structures to secure the tools of the drug trade.

17 Today, I'd like to focus on one particularly troubling
18 example; U.S.-registered planes are used and are a critical
19 tool by the cartels to move drugs. Before speaking further,
20 I want to show you a brief video how the cartels use these
21 planes to cause chaos, and then I'll carry on about that.
22 So let's see the video if we can. I hope this is not an
23 example that video doesn't work.

24 [Video Presentation.]

25 Senator Grassley. Now, a certain date, on April 20th,

1 2020, Sinaloa Cartel crash landed an American airplane in
2 the Guatemalan forest. The plane was loaded with over 1,600
3 kilos of cocaine, and that cocaine was destined for the
4 United States. U.S. law enforcement tracked the cartels
5 movement and the Guatemalan military spraying into action.
6 The first team to arrive had just 10 soldiers. You know,
7 they were met with a cartel army of 150.

8 This same scene repeated itself hundreds of times in
9 countries throughout Central America leaving many to wonder
10 how cartels get their hands on American planes. The answer
11 is buried in reams of fraudulent paperwork piled up at the
12 Federal Aviation Administration, FAA for short.

13 Criminals disguise by shell companies duped the FAA
14 into registering planes with U.S. tail numbers. Those tail
15 numbers shield the planes from foreign law enforcement
16 scrutiny. This allows millions of dollars' worth of drugs
17 to sail through the airspace undetected. Once the drugs
18 reach their destination, the plane is destroyed, and the
19 criminals walk away with net profits. The FAA is aware of
20 this problem but hasn't changed its registration process.

21 10 years ago, we had a 2013 Inspector General Report
22 warning the FAA about vulnerabilities in this system. Those
23 warnings went largely ignored. Then in 2020, the government
24 accountability office, GAO, report, raised the issue. Once
25 again, GAO recommended the FAA make 15 corrections to its

1 registration process. 4 years later, the FAA has only
2 implemented 3 of those 15 recommendations.

3 We've all seen the damage a plane can do in the hands
4 of an enemy. None of us will ever forget how airplanes
5 turned into weapons of mass destruction during the worst
6 terrorist attack on American soil, 9/11, as you know. But
7 23 years later, the FAA still appears to act like a rubber
8 stamp instead of a watch guard.

9 I want to thank Senator Whitehouse for holding this
10 important hearing and our witnesses for being here. I'm
11 particularly glad to have Ms. Rebecca Shea here to speak
12 about what the GAO 2020 report says. Lastly, I want to
13 thank U.S. law enforcement, military, and our allies who
14 risk their lives to keep us safe from criminals. I look
15 forward to discussing how Congress can provide needed tools
16 for this fight. Thank you.

17 The Chairman. Thanks very much, Senator Grassley.
18 Again, I thank our witness for being here. I'll give them
19 each quick introduction, and then you'll each have five
20 minutes to make your oral remarks and your full testimony
21 will be made a part of the record of this hearing Qw2qw23

22 Our first witness, Elaine Dezenski, serves as Senior
23 Director and Head of the Center on Economic and Financial
24 Power at the Foundation for Defense of Democracies. Ms.
25 Dezenski is a globally recognized expert and thought leader

1 on geopolitical risks, supply chain security, and anti-
2 corruption and national security.

3 Ms. Dezenski was a senior director at the World
4 Economic Forum from 2010 to 2015, where she led the
5 Partnering Against Corruption Initiative and launched the
6 forum's Global Risk Response Network. She's held both
7 political and career positions at the U.S. Department of
8 Homeland Security, including Deputy and Acting Assistant
9 Secretary for Policy and Director of Cargo and Trade Policy.

10 Donald Im retired from a 32-year federal law
11 enforcement career in 2022. Mr. Im served as an Assistant
12 Special Agent in charge in DEA's Special Operations Division
13 where he led the Office of Financial Operations, the Middle
14 East and Asia Section, and the Chemical, Pharmaceutical and
15 Cyber Section.

16 Throughout his career, Mr. Im supported and led
17 investigations into the illicit financial schemes of the
18 Cali Cartel, Asian triads, Hezbollah, Chinese, and Mexican
19 synthetic opioid producers and their corporate enablers. I
20 thank Mr. Im for his years of service and for being here
21 today.

22 Rebecca Shea is a director on the Forensic Audit and
23 Investigative Service team at the Government Accountability
24 Office, where she oversees audits to identify fraud, waste,
25 and abuse across a wide array of government programs and

1 agencies. In 2020, she led a GAO team in examining issues
2 with the Federal Aviation Administration's aircraft
3 registration process, which Senator Grassley referred to,
4 failures that enable cartel operatives, oligarchs, and other
5 bad actors to secretly obtain highly desirable U.S.
6 registration numbers. Ms. Shea has worked at GAO for 25
7 years and holds a doctorate in sociology from Vanderbilt
8 University.

9 Erica Hanichak is the Government Affairs Director at
10 the Financial Accountability and Corporate Transparency
11 Coalition, the FACT Coalition, where she leads the group's
12 engagement with federal policy makers. Before joining the
13 FACT Coalition, Ms. Hanichak worked with U.S.-based
14 nonprofits focused on advancing transparent corporate
15 governance, accountability, and rule of law in the Middle
16 East.

17 Her work supported the passage of bipartisan
18 legislation targeting the networks that fuel mass human
19 rights violations in Syria and the Middle East, and she
20 campaigned to augment counterterrorism financing measures, and
21 prevent the diversion and abuse of U.S. humanitarian aid.

22 I appreciate all of you being here, and Ms. Dezenski,
23 please proceed. I would also like to recognize that Senator
24 Hassan has joined us, a valuable member of this caucus.

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1 STATEMENT OF ELAINE DEZENSKI, SENIOR DIRECTOR AND HEAD,
2 CENTER ON ECONOMIC AND FINANCIAL POWER, FOUNDATION FOR
3 DEFENSE OF DEMOCRACIES

4 Ms. Dezenski. Chairman Whitehouse, Co-Chair Grassley,
5 members of the caucus, thank you so much for the opportunity
6 to be here to discuss the Corporate Transparency Act and the
7 important work to abolish the opaque corporate structures
8 that facilitate transnational criminal activity, undermine
9 accountability, and threaten U.S. national security.

10 No financial tool has aided drug cartels, corrupt
11 oligarchs, and enemies of America more than the anonymous
12 Shell company. It is the gold standard of secrecy, allowing
13 dirty money to move effortlessly across state lines and over
14 national borders without any risk that the underlying actors
15 are identified.

16 In 2021, Congress passed the Corporate Transparency
17 Act, or CTA, outlawing American anonymous shell Companies by
18 requiring all U.S. companies to provide information about
19 beneficial owners; the real persons behind the corporate
20 form. Reliable, beneficial ownership information provides a
21 critical boost to law enforcement, allowing investigators to
22 truly follow the money, rather than chasing endless strings
23 of shell companies trusts offshore entities and disguised
24 owners.

25 The CTA replaces the proverbial law enforcement dead

1 end with a critical door to essential information. Drug
2 trafficking operations have long exploited anonymous shell
3 companies to launder money and aid in the transport of
4 deadly narcotics into the U.S. In February, 2022, a New
5 York man pleaded guilty to laundering \$650 million in drug
6 proceeds through anonymous shell corporations, sending the
7 funds to both domestic entities and foreign entities in
8 China and Hong Kong.

9 In 2018, Chinese national Fujing Zheng, and his father,
10 Guanghua Zheng, were indicted for operating a global
11 synthetic drug trafficking organization that shipped
12 fentanyl analogs and over 250 other drugs to 25 countries
13 and 35 states within the U.S. often relying upon shell
14 companies for distribution and money laundering. The drugs
15 sold by the Zhengs are confirmed to have resulted in at
16 least two known fatalities in Ohio.

17 For every case uncovered, it is reasonable to assume
18 that there are countless cases where the successful use of
19 an anonymous vehicles stymies law enforcement and the cases
20 never closed. In other words, the examples that follow are
21 likely just the tip of the financial iceberg. For an
22 illicit industry that is estimated to generate as much as
23 \$650 billion a year globally.

24 In Idaho, a victim paid thousands of dollars to an
25 online website called Pharmacy Website that purported to

1 sell prescription drugs. In reality, the pills contained
2 other substances including fentanyl and its analogs. The
3 DEA extradited a Dominican citizen for trafficking narcotics
4 through the Pharmacy Website, but only after the Idaho
5 victim died of an opioid overdose in 2017. Consistent with
6 what we see across drug trafficking networks, the expedited
7 suspect had used shell companies to launder money from the
8 website.

9 And just last month, a Las Vegas man, Christopher
10 Housley was sentenced to eight years for importing
11 processing and distributing hundreds of thousands of opioid
12 pills. How did he pay for the drugs and launder the
13 proceeds from their sale? Not surprisingly, it was Shell
14 corporations.

15 Unfortunately, through anonymous shell companies, we've
16 tied our own hands, gifting drug cartels and their money
17 launderers a magic curtain to shield their identity and hide
18 their wealth. And the national security risks of anonymity
19 extend far beyond drug trafficking alone. Terrorists,
20 kleptocrats, and America's adversaries have been actively
21 exploiting anonymous shell companies for decades to further
22 nefarious plots and make America and the world less safe.

23 No example illustrates this risk as concretely as a
24 Viktor Bout, the notorious international arms dealer who was
25 convicted in 2011 for selling millions of dollars in

1 weaponry to terrorist organizations that aimed to kill
2 Americans, as well as fuel conflicts in Africa, Latin
3 America, and the Middle East. Bout leveraged an
4 international network of anonymous shell companies to hide
5 his activities, including at least a dozen U.S. shell
6 companies set up in Texas, Florida, and Delaware.

7 Bout is not alone in seeing the appeal of anonymous
8 front companies. Vladimir Putin's allies have used
9 anonymous shell companies to buy \$15 million mansions in
10 Washington DC, while the Iranian government has used
11 anonymous companies to cover up ownership of a 5th Avenue
12 skyscraper in Manhattan.

13 The terrorist group, Hezbollah, has used shell
14 companies to purchase properties and businesses dodging
15 sanctions and continuing to enjoy access to the global
16 financial system. African dictators have used anonymous
17 shell companies to buy Malibu mansions, while corrupt
18 Malaysian officials used anonymous shell companies to help
19 steal billions from public coffers.

20 Unless the U.S. addresses the risk of anonymity in the
21 financial system, we leave ourselves vulnerable to
22 manipulation, corruption, and attacks by illicit actors and
23 rogue powers. Collecting beneficial ownership information
24 on the companies that operate in America is a
25 straightforward and powerful tool to defend the homeland.

1 There is no legitimate reason to delay the implementation of
2 the Corporate Transparency Act. On behalf of the Foundation
3 for Defense of Democracies, thank you for inviting me to
4 testify.

5 [The prepared statement of Ms. Dezenski follows.]

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1 The Chairman. Thank you very much. Special Agent Im,
2 or former Special Agent Im, I guess, I should call you.

3 Mr. Im. Retired. Thank you, Senator Whitehouse.

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1 STATEMENT OF DON IM, ASSISTANT SPECIAL AGENT IN CHARGE
2 (RETIRED), SPECIAL OPERATIONS DIVISION, DRUG ENFORCEMENT
3 ADMINISTRATION

4 Mr. Im. Chairman Whitehouse, Co-Chair, Senator
5 Grassley, and members of the committee, I'm pleased to
6 appear before you here today to discuss critical challenges
7 law enforcement faces in deterring fentanyl, heroin,
8 cocaine, methamphetamine, drug trafficking, narco,
9 terrorism, and other serious organized crimes.

10 Denying the proceeds of illicit activities is one of
11 the most effective means to diminish criminal and terrorist
12 organization's ability to operate and benefit from their
13 unlawful actions. However, identifying the true beneficial
14 owners of their illicit wealth are difficult when these
15 organizations are able to establish anonymous registered
16 companies that conceal, protect their identities as well as
17 their high value assets.

18 I retired from the DEA in late 2022 after 31 years
19 conducting and supporting hundreds of money laundering,
20 financial, narcotic, and narcoterrorism investigations. And
21 from my time as a DEA special agent and an Army Reserve
22 officer assigned to the U.S. Special Operations Command, we
23 always encountered businesses, bank accounts, many of which
24 were either in the name of a straw person, a proxy, a front
25 company, or even a registered limited liability corporation,

1 an LLC, with no true person associated with the LLC, nor a
2 physical presence.

3 Whether elements of the Cali, Sinaloa Cartels, or
4 Russian organized crime, Chinese triads, Lebanese Hezbollah,
5 Al-Qaeda, Taliban, or even ISIS, each of these entities have
6 used or continue to operate front companies in some form or
7 fashion to conceal their operations and wealth. Many of
8 these are protected and hidden behind a veneer of legitimate
9 law firms and accounting firms in countries throughout the
10 world.

11 In my few years with the DEA Special Operations
12 Divisions, we identified numerous online pharmacies,
13 shipping real pharmaceutical drugs stolen from thousands of
14 break-ins or counterfeit pharmaceutical drugs, repackaged,
15 and sold online, and shipped through U.S. mail parcel
16 system.

17 Many of these fake online pharmacies established either
18 a shell company to open bank accounts as well as
19 cryptocurrency wallets to receive payments. The challenges
20 of identifying true beneficiaries of these payments were
21 difficult, at best, when such anonymous companies operate in
22 both the open and dark web.

23 From 2004 to 2016, the DEA Special Operations Division,
24 with over 32 different agencies, was able to identify
25 Lebanese Hezbollah drug money laundering operations and

1 activities that use automobile dealership companies in the
2 United States to Africa. Legitimate and front companies
3 were used to establish various bank accounts that received
4 and/or sent millions of dollars in drug profits throughout
5 the world.

6 Thousands of used vehicles were shipped in false
7 invoicing, money laundering schemes to Africa and Middle
8 East. All the while, the Lebanese Canadian Bank allowed
9 tens of millions of dollars in drug proceeds to flow freely
10 into various front companies and bank accounts controlled by
11 Hezbollah. DEA undercover operations were able to
12 successfully identify these entities in the United States,
13 South America, Africa, Middle East, Europe, Australia,
14 ultimately arresting key Hezbollah actors, drug cartels,
15 money brokers, and in coordination with the Treasury
16 Financial Crimes Enforcement Network, ultimately led to the
17 shutdown of the Lebanese Canadian Bank using 311 sanctions.

18 Most criminal enterprises established by front shell
19 companies were combined hybrid to create subsidiary
20 companies with tentacles and highly elaborate corporate
21 structures that can also operate nonprofit, social, or
22 political organizations as cover.

23 Thereafter, the myriad of registered entities can
24 access banking, investment, cryptocurrency, and other
25 financial and shadow bank institutions that offer various

1 financial instruments such as credit cards, debit cards tied
2 to bank accounts with an unlimited slush fund or bank and
3 non-bank loans that obscure and conceal the true beneficiary
4 or the illicit source of funds.

5 Whether for tax evasion, drug, human, arms trafficking,
6 or other crimes, terrorist financing, fraud, or government
7 corruption, we have always had difficulty in tracing,
8 identifying the principals behind these activities.

9 Recently has been disclosed that Chinese organized
10 criminal networks and money laundering organizations have
11 been successfully laundering billions of dollars of Columbia
12 and Mexican drug cartel proceeds for the past two decades
13 using legitimate front and shell companies throughout the
14 world. Currently, Chinese organized criminal networks are
15 laundering billions of dollars' worth of marijuana
16 cultivated throughout thousands of indoor grows and farms in
17 the United States.

18 Using trade-based money laundering, and parallel funds
19 and asset transfers, these proceeds ultimately end up as
20 either high value assets investments for wealthy Chinese
21 government officials throughout North America, Asia, Europe,
22 or bulk transported to Mexico, South and Central America,
23 all the while facilitating and amassing the cartel's wealth
24 that allows them to continue its deadly destructive criminal
25 crimes and undermining the rule of law.

1 Thank you, and I welcome any questions you may have.

2 [The prepared statement of Mr. Im follows.]

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1 The Chairman. Thank you very much. I'll turn next to
2 Rebecca Shea, whose work was mentioned by Senator Grassley
3 in his opening statement, and take the opportunity as she
4 prepares to deliver her oral testimony to put into the
5 record the minority report of Senator Charles E. Grassley
6 Co-Chair, entitled *National Security Assessment: Criminal*
7 *Exploitation of the Federal Aviation Administration*
8 *Registry*. Is there objection?

9 Senator Grassley. No.

10 The Chairman. Without objection.

11 [The information referred to follows.]

12 [COMMITTEE INSERT]

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1 The Chairman. Please proceed, Ms. Shea.

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1 STATEMENT OF REBECCA SHEA, DIRECTOR,
2 FORENSIC AUDITS AND INVESTIGATIVE SERVICE,
3 U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

4 Ms. Shea. Chairman Whitehouse, Co-Chairman Grassley,
5 and members of the caucus, thank you for the opportunity to
6 discuss GAO's work on criminal and national security risks
7 associated with opaque ownership information in FAA aircraft
8 registrations.

9 FAA's civil registry is the largest in the world with
10 approximately 300,000 aircrafts approved to operate with a
11 well-known "N" number on the tail of the plane. U.S.
12 registration is preferred because of the standards for
13 aviation safety and maintenance that support resale value.
14 The low aircraft registration fee, \$5 for a seven-year
15 period, is an added draw, but bad actors also appreciate
16 having an "N" number because it can facilitate flying in and
17 out of and around the U.S. with less scrutiny than aircraft
18 with foreign registrations.

19 Requirements for registration generally involve U.S.
20 citizenship for individuals or corporate aircraft donors,
21 but there are also various ways for non-citizen individuals
22 and entities to meet these requirements through the use of
23 legal structures like LLCs, shell companies, trusts, and
24 voting trusts.

25 While legal, these structures and the intermediaries

1 that help applicants establish them can also serve to hide
2 the identity of the true owner of the aircraft. If those
3 owners are up to no good, investigator's ability to track
4 them down is complicated when their information is
5 unavailable, layered, or obscured. We highlight a number of
6 cases in our 2020 report where hidden ownership was
7 associated with drug trafficking, sanctions evasion, money
8 laundering, and other activities.

9 For example, in one case, an individual under OFAC
10 sanctions for narcotic trafficking used a front man who
11 laundered drug proceeds for him to register his aircraft
12 with FAA. The front man owned five U.S. companies,
13 including an LLC that registered the aircraft using a voting
14 trust to meet the citizenship requirements.

15 The 2020 National Drug Threat Assessment noted that,
16 increasingly, traffickers use private airplanes and
17 secondary airports to augment commercial smuggling. In
18 addition, aircraft are high value assets useful for money
19 laundering through purchase with illicit funds, and as part
20 of trade-based money laundering schemes.

21 With these known risks and the volume of aircraft
22 involved, FAA has an important role in managing and
23 preventing these risks by verifying the information
24 applicants submit and collecting relevant data to support
25 law enforcement.

1 However, in our 2020 report, we found FAA relies on
2 applicant's self-certification and collects a minimal amount
3 of information. For most registrants, this includes two
4 documents. The application form with their name and
5 address, which FAA accepts is factually valid and a bill of
6 sale for the aircraft. For those using more complex
7 structures like trusts to meet eligibility requirements, FAA
8 collects trust documents stored in imaged PDF files at the
9 time of our review.

10 According to registry officials, their role is to
11 record and maintain publicly available information on
12 aircraft registration. FAA checks that the form is complete
13 and signed, and relies on applicant's self-certification
14 that the information provided is truthful and accurate.

15 But if you've heard one thing from GAO and the various
16 IGs in almost every hearing and report on pandemic fraud
17 over the past four years, it is that self-certification is
18 not a control. It's a tool for prosecution, not prevention.
19 It shows the person knew they falsely attested to something
20 when they signed. It's not a control to prevent people from
21 lying.

22 And yet, it is the way FAA continues to do business,
23 essentially, as a rubber stamp for every application that
24 comes incomplete. According to registry officials at the
25 time, they believed fraud was the responsibility of other

1 FAA organizations. And this is simply not accurate. All
2 federal programs are required to manage fraud risks with a
3 focus on prevention.

4 In 2020, we made 15 recommendations to FAA to close
5 these critical gaps in information verification processes.
6 FAA has taken action on three related to risk assessment,
7 which is foundational to other recommended changes.

8 However, FAA has a lot more work to do on the remaining 12
9 recommendations to help prevent exploitation of the U.S.
10 Civil Aircraft Registry for criminal purposes.

11 I appreciate the caucus's interest in this important
12 topic, and I look forward to your questions. Thank you.

13 [The prepared statement of Ms. Shea follows.]

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1 The Chairman. Thank you very much. And finally, Ms.
2 Hanichak.

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1 STATEMENT OF ERICA HANICHAK, GOVERNMENT AFFAIRS DIRECTOR,
2 FINANCIAL ACCOUNTABILITY AND CORPORATE TRANSPARENCY
3 (FACT) COALITION

4 Ms. Hanichak. Chair Whitehouse, Co-Chair Grassley, and
5 other members of the caucus, thank you for holding this
6 important hearing. I'm here on behalf of the Financial
7 Accountability and Corporate Transparency, or FACT
8 Coalition, and it's more than 100 members to discuss the
9 dangers that opaque shell companies present to Americans.

10 Illicit shell networks spans states and continents,
11 threatening American public safety and national security.
12 My fellow witnesses have raised how drug traffickers use
13 anonymous shell companies as financial getaway vehicles to
14 pedal products, protect profits, and harm average Americans.
15 These harms are not new, nor are they abstract.

16 The use of anonymous companies has lethal consequences
17 for our communities. The evidence is damning in light of
18 our nation's opioid epidemic. Consider just one case
19 involving a series of pain management clinics in Florida and
20 Tennessee. These clinics doled up medically unnecessary
21 opioids to the tune of \$21 million. This criminal
22 overprescribing scheme led to the death of at least 700
23 people over four years. 700 people. And that's just one
24 case amongst dozens where criminals have used shell
25 companies to enrich themselves while exacerbating this

1 public health crisis.

2 Historically, shell companies have made the U.S.
3 vulnerable to financial crimes. As the chairman raised
4 Treasury Secretary, Janet Yellen, has said, "There is a good
5 case that right now the best place to hide and launder ill-
6 gotten gains is actually the United States."

7 United States is a stable democracy and home to the
8 world's largest economy. This means that the United States
9 doesn't just shield the world's worst actors behind shells.
10 In many cases, it promises them the protection of the rule
11 of law, as well as a strong return on their investments.
12 And drug profiteers have taken note.

13 Both down the block and across our borders, drug
14 operations, large and small, rely on anonymous U.S. shell
15 companies. In 2023, 12 people were indicted in connection
16 with the Sinaloa Cartel's heroin and meth trafficking
17 operations. The defendants located in the United States,
18 Mexico, and Canada, laundered at least \$16 million through
19 Wyoming-based shell companies.

20 The secrecy afforded by anonymous corporations proves
21 vital for sustaining drug cartels and the violence they
22 inflict in our cities. We also see U.S. shell companies
23 used as part of other crimes that drug traffickers commit to
24 finance their operations, including environmental crimes.
25 For instance, a Peruvian national, using the pseudonym Peter

1 Ferrari and his associates allegedly moved billions of
2 dollars' worth of illegally sourced gold through the United
3 States as a means to launder drug money using anonymous
4 shell companies and other methods.

5 As raised by other witnesses, anonymous companies also
6 endanger our national security. One example is particularly
7 striking in which individuals moved \$1 billion in Iranian
8 funds held in South Korea through companies registered in
9 the United States and elsewhere. Decades of U.S. sanctions,
10 and they still chose to move it through the United States.

11 The cognitive dissonance here is palpable. Any U.S.
12 sanctions policy pursued without parallel steps to close
13 anti-money laundering loopholes is, at best, wishful
14 thinking, and at worst, a farce. We need to correct course.
15 One way the United States can help stop the Shell game is to
16 implement the bipartisan Corporate Transparency Act, or CTA,
17 which marks the most significant update to U.S. anti-money
18 laundering laws in 20 years.

19 It requires certain entities to name their true owner
20 to a secure directory, hence the Financial Crimes
21 Enforcement Network, or FinCEN. Prior to the CTA, all 50
22 U.S. states required more information to get a library card
23 than they did to form a U.S. legal entity. Now, law
24 enforcement officers have new tools to follow the money.

25 It's crucial that the implementation of the Corporate

1 Transparency Act goes well and so far, it largely has.
2 First, FinCEN successfully launched the database on January
3 1st, and more than one million businesses have already filed
4 information about their true owner. Second, according to a
5 recent poll, by small business majority, nearly 70 percent
6 of businesses that have already filed said reporting was
7 easy. Just 18 percent said it was difficult.

8 Anecdotally, businesses with simple ownership have
9 reported that it takes less than 20 minutes to complete the
10 form and filing is free. Unless their data needs to be
11 updated, businesses may never need to interact with FinCEN
12 again.

13 That means that after nearly 20 years of deliberation
14 on the scourge of Shell companies, Congress struck the right
15 balance when passing this bipartisan law to keep our country
16 and our region safe, while also keeping the cost of
17 businesses low. Congress passed this law, but now it needs
18 to fund its implementation. Congress should meet the
19 President's request of \$216 million for FinCEN for the
20 upcoming fiscal year.

21 Beyond the Corporate Transparency Act, the U.S. must
22 also apply anti-money laundering protections to third-party
23 professionals. If U.S. shell companies are the financial
24 getaway vehicle, then these so-called enablers often provide
25 criminals the car keys and the roadmap that allows them to

1 make their escape into the U.S. financial system.

2 Both the administration and Congress must act to
3 prevent the circumnavigation of our laws. Thank you, and I
4 look forward to your questions.

5 [The prepared statement of Ms. Hanichak follows.]

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1 The Chairman. Thanks so much. Let me start with where
2 Ms. Hanichak ended, which is dealing with enablers. And if
3 you don't mind me asking, Ms. Dezenski, Mr. Im, and Ms.
4 Hanichak, each to describe the importance of the role of
5 getting after these white-collar professional enablers in
6 addition to protecting against these opaque anonymized shell
7 corporations.

8 Ms. Dezenski. Thank you for the question. Very
9 important. So enablers, we're talking about the accountants
10 and the lawyers, as you said, art dealers, financial
11 advisors, persons with professional functions, persons who
12 are in positions of authority with respect to establishing
13 trusts and corporate entities, and sometimes serving as
14 fiduciaries.

15 These are the people who grease the system. And that's
16 why it's so important to get to this part of the supply
17 chain, if you will, when we're talking about shutting down
18 this malign influence. If we have people in these trusted
19 positions who are not accountable for the people that
20 they're representing, that's a problem. So, we need to
21 close this loophole just as much as we need to establish a
22 beneficial ownership registry. It all works in concert.

23 But without the gatekeeper's piece of this and really
24 going after that through new legislation, we won't have
25 filled all the gaps.

1 The Chairman. Am I correct in concluding that the
2 professional gatekeeper, professions that you just
3 described, all operate by virtue of licenses?

4 Ms. Dezenski. That's my understanding.

5 The Chairman. So these are people with professional
6 licenses who are going about these acts.

7 Ms. Dezenski. Yes.

8 The Chairman. Mr. Im, your role from the investigative
9 side and the role of the enablers?

10 Mr. Im. Well, throughout the years of conducting
11 investigations and supporting investigations, these so-
12 called facilitators are the ones that actually allow these
13 bad actors to reap their profits and continue their crimes.
14 However, the issue isn't really just going after the
15 facilitators. That is going after the bad actors, but the
16 facilitators.

17 In many ways, these lawyers, the bankers, the
18 accountants, and so forth, these businessmen only get a
19 reduced sentence, a very light sentence. So there's no
20 incentive for that person to cooperate. And when we don't
21 have any incentive for those individuals to cooperate, we
22 can't get to the next level. If we can't get to the next
23 level, we'll never be able to get to the bad actors.

24 And that's always been the issue, is that a lot of the
25 bankers don't go to jail. Accountants don't go to jail.

1 Lawyers don't go to jail. And that's the issue.

2 The Chairman. Many of these professionals provide
3 services to multiple bad actors. Correct?

4 Mr. Im. Right, they do.

5 The Chairman. So, if you could get one to cooperate,
6 the law enforcement benefit would be widespread.

7 Mr. Im. Absolutely. Absolutely.

8 The Chairman. And Ms. Hanichak, you spoke directly to
9 this in your testimony, but is there anything else you'd
10 like to add after -- these services.

11 Ms. Hanichak. Yes. I echo my colleagues in calling
12 for this really important reform. I mean, we spend a lot of
13 time when we talk about drug trafficking, focusing on busts,
14 chasing after the products. But these aren't crimes of
15 passion, these are crimes of profit, and the best place that
16 we can actually tackle the problem of drug traffickers is to
17 go after their pocketbook.

18 And so, it truly is the role of many of these enablers
19 to facilitate drug traffickers and other bad actors in
20 bringing their money into global financial incentives,
21 including the United States.

22 I'm thinking of one example in particular from Texas
23 that I was going through Department of Justice press
24 releases recently. And he was found guilty in 2020 of
25 laundering nearly \$500,000 a month as on the behalf of a

1 narcotics ring, particularly on opioid trafficking. And in
2 a conversation with an undercover agent, he said of his
3 lawyer -- one of the dealers said of the lawyer, "He's a
4 thug. He just got a law degree."

5 And so, there are professionals that make this a matter
6 of business. We all know the stereotypical mafia lawyer,
7 but there are those that are unwittingly caught up in those
8 schemes. And so, I think the ENABLERS Act, which you
9 raised, would do a really great job to making sure that
10 these professionals are not unwittingly caught up in
11 something. Thank you.

12 The Chairman. Thank you. Let me just ask Ms. Dezenski
13 and Ms. Hanichak. We've talked a lot about the law
14 enforcement public safety concerns related to these shell
15 corporations, and Mr. Im is obviously very expert in that
16 area. There's enormous amount of overlap between the law
17 enforcement national security concerns and what you might
18 call military, diplomatic, or non-law enforcement national
19 security concerns.

20 Could I ask each of you, briefly, because my time has
21 run out, to highlight a few of the non-law enforcement,
22 national security concerns where important U.S. safety and
23 diplomatic and strategic initiatives may be implicated.

24 First, Ms. Dezenski, then Ms. Hanichak, and then I'll
25 turn it over to Senator Grassley.

1 Ms. Dezenski. Thank you for the question. So, I think
2 that the place to start on this is recognizing that opacity
3 is the key enabler of corruption in kleptocracy. So, when
4 we're talking about challenges with America's foreign
5 adversaries and other kleptocratic regimes, there's really
6 no better tool to exert malign influence than the anonymous
7 shell corporation.

8 So that's really the connection point when we're
9 talking about national security and the ability to use our
10 own system for the purposes of malign actors. It's, but one
11 way that it's done, but it's one of the most important.

12 And so this is absolutely critical when we think about
13 how do we push back against state-sponsored corruption, how
14 do we push back against dictators who are pilfering their
15 own coffers, and moving that money into Western financial
16 systems like ours. There's all of this points to the
17 beneficial ownership question and how we close that down.

18 So, there's really no way to separate the national
19 security interest from what we're talking about.

20 The Chairman. Ms. Hanichak, final thoughts before
21 Senator Grassley?

22 Ms. Hanichak. I'd only add one particular example that
23 really illustrates this from a diplomatic but also very much
24 military angle. There is a case a few years back in which a
25 U.S. entity was hired on by the Department of Defense as a

1 U.S. contractor. That same entity was later found to be
2 related to folks in Afghanistan locals that were also
3 supplying weapons to the Taliban directly putting our troops
4 in danger. So, this presents a very real and present
5 national security threat.

6 The Chairman. Senator Grassley.

7 Senator Grassley. Ms. Shea, your team compared
8 registry data to the State Department major money laundering
9 country list and found 251 registrations with addresses
10 located in these countries. Your team also compared the
11 registry to the Office of Foreign Asset Control records and
12 found six planes registered to entities subject to U.S.
13 sanctions.

14 Does the FAA have access to the same records you used
15 to conduct your analysis?

16 Ms. Shea. FAA does have access to that information.
17 For that kind of analysis, it's public information. The
18 sanctions list is public and all citizens are required to
19 comply with it.

20 Senator Grassley.

21 Follow-up question to the same one. What did the FAA
22 tell you about its authority to deny registration to
23 sanctioned individuals and due diligence it conducts?

24 Ms. Shea. FAA told us that it does not have the
25 authority to deny registration to OFAC-sanctioned

1 individuals or in situations where an aircraft is
2 sanctioned.

3 I'll leave that -- whether that's accurate or not to
4 the lawyers. But one of the things that that does indicate
5 is a significant red flag in a risk that FAA should be
6 managing, and as a result of that, be in very close
7 collaboration and communication with law enforcement about
8 that and OFAC about that; how to be handling that particular
9 issue.

10 And one of the things that we also found in relation to
11 that sanctioned individual, the case there, while there's
12 two different registries -- there's the owner registry and
13 the dealer registry. And while FAA had placed a flag for
14 that sanctioned individual in the owner registry, there was
15 no communication between the dealer and owner registries.

16 And the intermediary that had established the
17 registration for the sanctioned individual, who was later
18 sanctioned himself, he was also registered as a dealer. And
19 because there was no connection and awareness on FAA's part,
20 he had registered that air aircraft for over a year as a
21 dealer. So he was able to use and fly that aircraft, you
22 know, through a valid certificate in the dealer registry
23 because FAA was not able to connect those two data sources.

24 Senator Grassley. If the FAA were a private company
25 registering aircraft in the U.S. for that \$5 fee and it

1 failed to check with the OFAC registry, would it be in
2 violation of U.S.-sanctioned law?

3 Ms. Shea. It would be in violation of U.S. sanctions.
4 All U.S. citizens are required to comply with sanctions
5 designations. And I would also add, if that U.S. company or
6 charging just a \$10, \$5 fee, it would long have been out of
7 business. Yeah.

8 Senator Grassley. Yeah. I referred to the report that
9 I released, and it's about your recommendations. To this
10 day, 12 of your recommended corrective actions are
11 outstanding despite FAA agreeing with them. In your
12 experience, has the FAA been unusually slow and dangerously
13 negligent in acting on your recommendations?

14 Ms. Shea. So, I will give FAA little bit of grace for
15 2020. We issued our report and recommendations in March of
16 2020, but it has been three years since then, and they have
17 only completed action on three of the recommendation related
18 to fraud risk assessment. That's a good foundation. It's a
19 start, but there are many things that should not have taken
20 as long as they have, taken three years in order to
21 implement.

22 Senator Grassley. In your 2020 report, Ms. Shea, you
23 noted that the FAA identified a risk that terrorists may
24 access the FAA registry. Could you explain the access
25 terrorists have to the registry as well as their ability to

1 register aircraft?

2 Ms. Shea. So, one of the things that we talk about in
3 our report is FAA's rubber-stamp approach, essentially, to
4 accepting registrations. They collect limited amount of
5 information, and they're looking to see that the application
6 form and a bill of sale is present and the application is
7 complete. They do not verify that information.

8 And in our review, FAA did not mention anything about
9 checking the terror watch list, for example, to identify
10 whether terrorists are seeking to register their aircraft.
11 But because of the approach that they take, you know, the
12 essentially not requiring significant information and the
13 minimal verification, I don't see how they could possibly
14 know if terrorists were registering aircraft in the U.S.

15 Senator Grassley. So, my last question, I think you
16 just answered, and so I'll make it as a statement. Your
17 report is more or less saying that the FAA hasn't taken any
18 steps to deny terrorists access.

19 Ms. Shea. I don't think they would know if they have
20 or have not.

21 Senator Grassley. Okay. Thank you.

22 The Chairman. Would you like a second round?

23 Senator Grassley. Yeah.

24 The Chairman. Yeah. Senator Grassley's interested in
25 pursuing a second round. I just wanted to thank him for his

1 work --

2 Senator Grassley. Or do you want?

3 The Chairman. -- in this area? No, I'm good.

4 Senator Grassley. Okay.

5 The Chairman. And look forward to working with him on
6 remedial legislation and our appreciation to JO for all
7 their support as we look at this problem. And with that,
8 let me turn it back to Senator Grassley.

9 Senator Grassley. Well, I'll just have two questions
10 then, and probably submit some for answer in writing.

11 [The information referred to follows.]

12 [COMMITTEE INSERT]

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1 Senator Grassley. I've got one more for Ms. Shea and
2 one for Mr. Im. In 2020, GAO recommended that the FAA
3 create written agreements for information sharing with law
4 enforcement. It's been four years and the FAA still hasn't
5 assigned an agreement. Why did you make the recommendation?

6 Ms. Shea. We made that recommendation based on quite a
7 few interviews that we had conducted with agents in the
8 Homeland Security Investigations, the Trade Transparency
9 Unit the Drug Enforcement Agency, and even FAA's own Law
10 Enforcement Assistance Unit.

11 And in those discussions, we heard over and over about
12 the difficulties that law enforcement has in identifying the
13 beneficial owner of aircraft that are associated with money
14 laundering cases, or associated with drug trafficking cases,
15 and the difficulty that they had with the information that
16 FAA collects that could support those investigations. But
17 also, the difficulty in receiving that information from FAA.

18 One of the data points in particular relates to
19 declarations of international operations. With these DIOs,
20 they help expedite the registration for an aircraft so that
21 the owner can take the aircraft out of the U.S. within three
22 days. And you would imagine that when somebody registers an
23 aircraft at the same time that they file a declaration for
24 inter international operation, the DIO presents a money
25 laundering risk, and that investigators know this.

1 So these could be very valuable pieces of information
2 to the investigators if they were to receive them timely.
3 Takes a lot of time to identify and trace funds so that they
4 can issue warrants and seizures. But FAA provides them on
5 an ad hoc basis, sometimes, you know, monthly, certainly
6 after the point at which the aircraft is already left the
7 U.S.

8 So that was one of the areas where we recommended that
9 FAA do a better job of sharing daily information with law
10 enforcement. I don't think it would require much because
11 there's no barriers that FAA identified to us in sharing
12 those. They already share them, but just doing that on a
13 daily basis. That was one of the things that we
14 recommended, and it's unclear to us why FAA has not done
15 that as yet.

16 Senator Grassley. Well, it seems like four years is
17 not a reasonable period of time to negotiate information
18 sharing agreement. Are you aware of any barriers to
19 entering such agreements?

20 Ms. Shea. No. I'm not aware of any barriers. Again,
21 FAA did not raise any. They share them on an ad hoc basis,
22 so that means that they can share them.

23 And one of the things that we've also done is added
24 some of these recommendations to GAO's priority
25 recommendation lists so they get enhanced attention. We do

1 a biannual report focusing on a couple of special
2 recommendations, and some of these are among them.

3 Senator Grassley. Mr. Im, your question is only for
4 comparative purposes to what Ms. Shea has said. You served
5 31 years at DEA, I believe, and collaborated with other
6 agencies. On average, how long did it take the DEA to sign
7 an information sharing agreement with other agencies?

8 Mr. Im. Less than a year. Some it took within a
9 matter of months.

10 Senator Grassley. Okay. So, did you say originally no
11 more than a year.

12 Mr. Im. No more than a year from what I recall.

13 Senator Grassley. Yeah. Thank you very much. I am
14 done.

15 The Chairman. Thanks. Let me turn to Mr. Im's
16 experience for a moment also related to -- well, let me make
17 a confession first. I said in my opening remarks that I
18 felt there was more effort against the narcotics empires on
19 the distribution side than with respect to their supply
20 chains, or with respect to their finances and financiers.

21 And I'll confess that I have been guilty of that
22 myself. I've done those investigations. I've made those
23 arrests. I've made those cases and laid out the drugs on
24 the table with the guns, and the cash, and all of that.
25 Even where we did a -- my major money laundering case, it

1 was actually a seizure of contraband from the money
2 launderer. He was keeping assets in gold bars, and we
3 seized all of them. So, it was very much similar to what
4 you would consider to be a traditional bust and seize case.

5 I didn't see back -- this was some time ago, back when
6 I was U.S. Attorney, and then as Attorney General. A whole
7 lot of infrastructure to plug into, if you were a U.S.
8 Attorney or a state Attorney General with criminal
9 enforcement responsibilities, to look at the finance side at
10 how these organizations operated through the dark economy.

11 I know there's going to be a very rough number or
12 comparison, but I would say it's probably 90 percent of the
13 enforcement effort goes to the distribution element of these
14 cartels operations with 10 percent left for supply chain and
15 finance. Am I very wrong about that? Has that gone up? Is
16 that an order of magnitude that comports with your
17 experience? How much more room is there for effort on the
18 finance side?

19 Mr. Im. No, that's a good question. Unfortunately,
20 financial drug money laundering investigations have gone
21 down. In the 2000, it was pretty robust. DEA was seizing
22 annually, at least \$1 billion, \$1.5 billion a year in drug
23 cartel or other drug proceeds off the streets, including
24 removing their assets, and even going after banks.

25 However, it just decreased dramatically. I know DEA

1 financial operations used to have a division. Now it's just
2 a unit. Our capability to go after the -- from the street
3 level to the even online pharmacies, or dark web and
4 internationally, it's not as robust as it used to be, or it
5 could be.

6 The Chairman. Relatedly, we would see ATF
7 investigations that bumped into money laundering aspects and
8 disposition of finances from the sale of illicit products.
9 You'd see, obviously, DEA, FBI would run into all of this.
10 State police investigations might very well run into this.

11 My sense is there's not a very robust office for
12 coordinating between agencies, the various points in which
13 criminal enterprises that the agencies are investigating
14 touch on the dark money, dark economy networks through which
15 the finances tend to flow. Is that your sense as well, and
16 do you think there's a heightened need for interagency
17 coordination around money laundering and the dark economy?

18 Mr. Im. No, absolutely, Senator Whitehouse. We tried
19 that on numerous occasions, even going back to the 1990s
20 where DEA using its Title 21 Narcotic authorities allowed
21 for the maximum punishment when it comes to crimes, and
22 attempted to host inter-interagency component of law
23 enforcement, including the intelligence community, to really
24 identify the big players involved.

25 And using all these authorities; bringing in the IRS,

1 bringing in Customs or HSI, bringing in the FBI, and going
2 after the financial underpinnings of these entities, whether
3 if it was involved with drugs or tax evasion. Having that
4 component in like the Special Operations Division, SOD,
5 where there's only over 32 agencies.

6 And I had a component of that when I was over there at
7 the Special Operations Division. And I'll give you an
8 example where we identified an organization that was
9 actually purchasing drugs using IRS income tax refund
10 checks. And we expanded it out and determined, with the
11 IRS, that there were \$26 billion in fraud that was taking
12 place using income tax refund.

13 So having an entity working together in a same location
14 like the Special Operations Division, it can go a long way.

15 The Chairman. Where should it be housed?

16 Mr. Im. The Special Operations Division has over 32
17 some odd agencies. It's been there since 1992. It has
18 intelligence community, has law enforcement, has Defense
19 Department entities there as well.

20 The Chairman. So that would be a natural place.

21 Mr. Im. It'd be not only a natural place, it'd be
22 probably the most effective place there is right now,
23 because there are also prosecutors there as well.

24 The Chairman. Yeah. On that coordination question,
25 last word to Ms. Dezenski or Ms. Hanichak, if you care to

1 add anything?

2 Ms. Dezenski. Thank you. Not much to add. I would
3 just emphasize that, you know, particularly if we're talking
4 about solving the narcotics challenge, and the connection
5 into beneficial ownership, and kind of closing the financial
6 loop.

7 I think part of the challenge for law enforcement is
8 that it just takes too long to get to the bottom of these
9 financial transactions, and following the money has just
10 been too difficult and too time consuming. And the
11 resources have to go somewhere, and they may go more towards
12 the interdiction than spending the time.

13 So, this reinforces why the beneficial ownership
14 information is so critical, and why the information sharing
15 across law enforcement also at the state and local level
16 becomes absolutely essential to solving these cases quickly
17 and allowing for better interdiction sooner in the
18 investigation process. So, it's all related. I think
19 that's the kind of the key here.

20 And based on my experience now, going back to the post
21 9/11 days at DHS when we were looking for the terrorist
22 threat, the bomb in the box, knowing how difficult it is to
23 find the needle in the haystack, we really have a similar
24 problem around the fentanyl challenge where most of the
25 focus has been on interdiction.

1 And it, certainly, needs to be there, but being able to
2 really cut the financial elements of the money laundering
3 transactions and the role of Chinese money launderers in the
4 U.S, how those funds are flowing, potentially getting some
5 cooperation from China, at some point, would make a huge
6 difference in terms of balancing out what we do on the
7 interdiction side with the front-end work that could stop
8 the flow before it actually hits the border.

9 Ms. Hanichak. I would only add that this brings us
10 back to your point around FinCEN funding. So, Elaine raised
11 the need for beneficial ownership information to be a core
12 component of the investigative tools.

13 One of the most important things FinCEN could do is to
14 make sure that law enforcement, the state, local, federal,
15 but also international level, know that they have this new
16 tool in their toolbox so that it can actually be used for
17 their investigations.

18 One thing that I'm considering, in addition, besides
19 this training element to the beneficial ownership side, is
20 that these cases are often transnational. So, we have to
21 think about how information can be shared, beneficial
22 ownership information in particular, transnationally, and
23 what types of trainings are done around that. But also, who
24 do we have in place in a region that can be supportive to
25 international law enforcement and making these types of

1 requests.

2 We've looked at this mostly on around the environmental
3 criminal issue, but also when as it applies to narcotics
4 considering putting FinCEN liaisons in U.S. embassies might
5 be something that could help facilitate this additional
6 focus on the financial element rather than just the
7 interdiction. Thanks.

8 The Chairman. Great. Well, thank you all. Let me
9 particularly thank Ms. Shea. I think your work is in the
10 best traditions of GAO, who we love to work with, and I
11 would, I will be supporting Senator Grassley in his efforts
12 to pursue legislative remedies to solve this problem. And I
13 thank him for his attention here.

14 For the other witnesses, I'll close with my customary
15 observation that we are, as a famous author once proposed in
16 a clash of civilizations, but I think that author got the
17 boundaries of the clash just a bit wrong. I see the
18 boundaries in that clash of civilization as between rule of
19 law and kleptocracy and corruption.

20 And I think that when you look at the national security
21 dangers that America has faced, whether it be the invasion
22 of Ukraine made possible by corrupt leaders and oligarchs in
23 Russia whether it's extremism in the Middle East funded
24 through secret channels, whether it's covert and cyber
25 efforts by China to steal American intellectual property and

1 interfere with American democratic processes, or whether
2 it's international corruption in the various security
3 dangers that that creates. Over, and over, and over again
4 it all touches on a vibrant, secret, dark economy that will
5 help whatever corrupt criminal or whatever autocrat comes to
6 it with money.

7 Very often those are American and European, rule of law
8 white-collar professionals who for money are willing to aid
9 and abet the conduct of some of our most dangerous enemies.
10 And we really have to get to the bottom of it. We have to
11 understand that it is a national security danger to our
12 country.

13 It is not just some peripheral thing that happens off
14 in some strange foreign country that we otherwise don't pay
15 any attention to, but maintains fake accounts and opaque
16 corporations and all of that. It is a dark network that
17 supports an enormous amount of really dangerous behavior,
18 and it does it for money, and we need to put a spotlight
19 into it because the national security imperatives of our
20 country demands it.

21 And I think the other three witnesses who are here all
22 spoke to that and understand it. And I want to thank you
23 for your work to advance that understanding, and
24 particularly for your testimony here today.

25 With that, the hearing will be adjourned. Do we need

1 to hold the record open for any purpose at this point?

2 Unidentified Speaker: Do you want to submit questions
3 for the record?

4 Unidentified Speaker: We'll want to probably submit
5 questions to the record.

6 The Chairman. Okay. So, there'll be questions for the
7 record coming your way most likely. When they do, please
8 try to answer them as quickly as possible. But for now, the
9 hearing is adjourned.

10 [Whereupon, at 3:12 p.m., the hearing was adjourned.]

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