

**Congress of the United States**  
Washington, DC 20510

February 27, 2007

The Honorable Janet Napolitano  
NGA Chair  
National Governors Association  
444 N. Capitol St., Suite 267,  
Washington, D.C. 20001-1512

Dear Governor Napolitano:

As the Governors assemble for their winter meeting in Washington, we write to urge the Governors to work with law enforcement and Congress to address a serious problem that impacts every state, facilitates crime, undermines our national security, and requires state action to address. The central problem is that the 50 states are currently forming nearly 2 million companies in the United States each year with little to no information about who is behind those companies. While the vast majority of those companies operate legitimately, a small percentage do not, functioning instead as conduits for organized crime, money laundering, terrorist financing, securities fraud, tax evasion, and other misconduct.

Four recent reports describe the many security risks created by the lack of transparency in the company formation processes of many states. These reports paint a vivid picture of the ease with which rogue U.S. companies may exploit lax ownership disclosure requirements to anonymously engage in domestic and international criminal activity. Moreover, these reports identify numerous difficulties faced by U.S. law enforcement in identifying the beneficial owners of these companies and preventing and prosecuting this criminal activity. The four reports are:

- *U.S. Money Laundering Threat Assessment*, a joint report issued in December 2005 by the Departments of Justice, Treasury, Homeland Security, and others, which includes a chapter on the law enforcement problems caused by anonymously-owned U.S. shell companies and trusts;
- *Company Formations: Minimal Ownership Information Is Collected and Available*, an April 2006 report issued by the Government Accountability Office that reviewed the laws of all 50 states, determined that most states have no information on the true owners of the companies being set up within their borders and described a variety of related law enforcement concerns;
- *Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism: United States of America*, a

June 2006 report issued by the Financial Action Task Force (FATF), which found that the United States was not in compliance with a FATF standard requiring states to obtain beneficial ownership information for the companies they form and set a two-year deadline for the United States to meet its commitment to comply with FATF standards; and

- *The Role of Domestic Shell Companies in Financial Crime and Money Laundering: Limited Liability Companies*, a November 2006 report issued by the Department of Treasury's Financial Crimes Enforcement Network that described the problems encountered by law enforcement when dealing with limited liability companies with unknown owners.

In addition, two recent articles from USA Today and Forbes, copies attached, describe the current loopholes in some state laws and illustrate some of the serious problems confronting law enforcement as a result of the states' minimal company ownership information requirements.

It is important for the states to recognize and act on this important issue as soon as possible, in light of the United States' obligation to act within FATF's two-year framework. To that end, we have introduced legislation that would require company formation agents to know their clients before forming companies on their behalf and protect the U.S. financial system against money launderers and terrorist financing, by directing Treasury to include company formation agents in anti-money laundering regulations. We hope that you will support this legislation and encourage states to make this issue a priority. We would also appreciate your views on whether a federal standard in this area would help create a level playing field and ensure that no state obtained a competitive advantage by failing to obtain needed ownership information.

Thank you for your help in this matter. Should you or your staff have additional concerns or questions, please have your staff contact Laura Stuber in Senator Levin's office at 202/224-9579; Ian Solomon in Senator Obama's office at 202/224-2854; or Al Fitzpayne in Congressman Emanuel's office at 202/226-7644.

Sincerely,

Rahm Emanuel

Barack Obama

Carl Levin

Attachments

## USA Today article

[http://www.usatoday.com/money/companies/regulation/2007-02-23-tax-havens-usat\\_x.htm](http://www.usatoday.com/money/companies/regulation/2007-02-23-tax-havens-usat_x.htm)

# Corporate owners hide assets, identities

Updated 2/23/2007 8:43 AM ET  
By Kevin McCoy, USA TODAY

Roughly four miles from the famed Las Vegas casino strip, ABC Equity's corporate office is registered in a modest business suite located off West Sahara Avenue.

Great Fortune 600 is registered in the same suite. So are DK Financial, Hill 99, Stock Savant, ZZYX Holdings — and more than 1,000 other corporations.

They share something in common besides their business address. Each lists the same man as its sole corporate officer in Nevada incorporation records. He is William Reed, a businessman with a suspended law license and the target of a Federal Trade Commission lawsuit that alleges he and a convicted felon teamed in a business that promoted forming Nevada corporations to shield assets "from 'capricious federal judges and any government agency.' "

## **BACKGROUND:** [Got \\$95 and 5 minutes? That's about all it takes](#)

A USA TODAY computer-aided review shows that the two men and their business, Asset Protection Group, are part of a thriving mini-industry that has capitalized on real or perceived gaps in domestic incorporation laws and virtually non-existent government oversight to promote some U.S. states as secrecy rivals of offshore havens.

A multi-agency U.S. Money Laundering Threat Assessment issued in 2005 cited Nevada, Wyoming and Delaware as the states with laws most conducive to anonymous corporate ownership. USA TODAY's review, which examined databases of all Nevada and Wyoming incorporations but was unable to obtain comprehensive data for Delaware, found:

- A Florida man who served a federal prison term for an international currency trading scam used his secret ownership of a Nevada corporation to launch a similar fraud after he was released. More than 120 victims lost \$8 million.
- Interpol or other international investigators probing suspected crimes overseas have contacted the Wyoming Secretary of State's office about corporations registered by a businessman whose Internet-based venture advertised using Wyoming firms to shield assets.
- The sole publicly listed officer for nearly 100 firms incorporated in Wyoming is a woman whose listed address is a postal box in the Republic of Seychelles, an Indian Ocean nation that has been the focus of corporate secrecy concerns.

USA TODAY's findings buttressed the money laundering report's warning that a "race to the bottom" among states vying to set minimal corporate information requirements has enabled companies to hide the identities of their owners, thereby making it harder for law enforcement agencies to track suspected tax evasion, money laundering and other crimes.

### **Law enforcement agency concerns**

"The purpose of corporations originally was to provide limited liability, not anonymity," said Sen. Carl Levin, D-Mich., chairman of the Senate Permanent Subcommittee on Investigations, which held a recent hearing on the issue. "Now they're providing both limited liability and anonymity, and the law enforcement folks ... are very upset. They want to know who it is that's behind these corporations."

Concern about camouflaged corporate ownership prompted the IRS to list the tactic this week in its 2007 "Dirty Dozen" tax scams. The IRS said anonymous entities are facilitating "underreporting of income, non-filing of tax returns ... money laundering, financial crimes and possibly terrorist financing."

Most states don't require companies to provide ownership information when they incorporate. And they exercise virtually no oversight on the corporations' internal operations. In part, that's because most corporations operate legally, generate new jobs and fuel economic expansion, plus registration fees.

Nevada and Wyoming officials said their laws encourage legitimate businesses with reasonable registration requirements. "The law isn't unscrupulous. It's the individuals that use it in an improper manner," said Tom Cowan, head of the securities division in the Wyoming Secretary of State's office.

But law enforcement officials say relaxed state requirements let the mini-industry facilitate formation of shell companies that have no employees, exist chiefly on paper, yet conduct financial transactions.

### **Nominees shield real owners**

Most states require companies to list the names of their officers in incorporation filings. However, a 2006 Government Accountability Office report showed most states do not bar the use of nominee officers, who may be straw men who camouflage the identities and activities of the real owners.

Secrecy marketers in the mini-industry provide nominee officers for Nevada and Wyoming corporations for an annual fee. They also tout the use of so-called bearer shares, an ownership system in which controlling shares may be physically transferred from one person to another in secret.

Referring to corporations whose owners are shielded by nominee officers, bearer shares and other tactics, the money laundering report said "Delaware, Nevada and Wyoming are

often cited as the most accommodating jurisdictions in the United States for the organization of these legal entities."

The Nevada Secretary of State's website even proclaims: "No IRS Information Sharing Agreement."

Secretary of State officials in Nevada and Wyoming said in interviews that while they cooperate with law enforcement agencies, current laws in most cases don't let them challenge or investigate incorporations. "We're a filing office, and we don't make the law," said Nevada Deputy Secretary of State Scott Anderson, head of the Commercial Recordings Division.

Nonetheless, the officials said their state legislatures are expected to respond to law enforcement concerns by enacting changes as early as this year to close real or perceived loopholes.

That's welcome news for John Colledge, head of the Reno office of Immigration and Customs Enforcement. He complained that corporate anonymity, a "large stumbling block," thwarted him in 2004 when he checked a bank's tip about a Swiss man who had formed two Nevada corporations.

The man had flown from Zurich to Reno and opened corporate accounts that received thousands of euros and quickly redirected the funds overseas, Colledge said. Although he suspected that the funds were being laundered, Colledge said he could not get enough information to determine for sure.

"To fly from Zurich to Reno for a long weekend is a very unusual sort of thing. I think most of us (in law enforcement) who have some experience in this international area historically would look at somebody flying from Reno to Switzerland to do something in reverse," said Colledge.

The operations of Asset Protection Group demonstrate the level of anonymous activity available under some states' incorporation laws. The firm attracted clients in part with a promotional video in which actor Robert Wagner warned that without asset protection, "You could lose everything you've worked so hard for, in a flash."

Wagner publicist Alan Nierob called the video "a one-shot deal," and said his client didn't endorse Asset Protection Group.

USA TODAY's analysis found that more than 1,000 Nevada corporations list William Reed, a 56-year-old executive identified in the Federal Trade Commission lawsuit as Asset Protection Group's operator, as the sole officer. Each corporation listed the firm's office address as its own.

A Colorado Supreme Court disciplinary panel suspended Reed's law license in 1997 for "dishonest" conduct in transferring purported ownership interests to employees of his

former law firm, a court record shows. Reed did not seek reinstatement. Separately, under questioning in an October deposition for the Federal Trade Commission case, Reed said he was under IRS investigation.

### **Misleading claims alleged**

Government lawyers in the case allege that Reed teamed with Richard Neiswonger, 55, who headed Asset Protection Group's marketing affiliate. Court records show Neiswonger was sentenced to 18 months in federal prison in 1998 after pleading guilty to money laundering and wire fraud charges. The case involved misleading marketing claims in a previous business.

The Federal Trade Commission lawsuit alleges Reed, Neiswonger and Asset Protection Group used misleading income projections to defraud scores of consultants who paid \$9,800 each in hope of marketing the firm's privacy tactics.

Defense attorneys said Reed, Neiswonger and Asset Protection Group did nothing wrong. They have asked U.S. District Judge Stephen Limbaugh to dismiss the lawsuit. Limbaugh named a receiver to administer Asset Protection Group pending the outcome of the case.

The receiver, Robb Evans & Associates, alleged in court filings that Asset Protection Group may have facilitated money laundering by a suspected crime ring thousands of miles away. Police in Fairfax County, Va., notified Asset Protection Group in May that suspects in a string of identity thefts had used the company "to set up multiple corporations and open bank accounts," the receiver reported in a court filing.

"I have reviewed bank statements for two of the corporations, and over \$500,000 in apparently stolen funds (from the suspected Virginia identity thefts) was deposited in these accounts," M. Val Miller, an attorney working with the court receiver, wrote.

Fairfax police said no arrests had been made in the case. Miller said detectives told the receiver's office the suspects were believed to have fled the country.

Anderson, the Nevada deputy secretary of state, said the agency did not know about the federal allegations against Reed, Neiswonger and Asset Protection group.

### **Felon may have secretly run corporation**

The Secretary of State's office became aware of another Nevada corporation, Par Three Financial, in 2005 after the Securities and Exchange Commission filed a federal court complaint that accused the firm and its secret owner of using a pyramid scheme to scam investors. In such a scheme, money from newly recruited investors is used to pay those who invested earlier.

Nevada records show Par Three was based in Las Vegas and at various times listed a Carson City businessman or a Nevada attorney as its sole publicly listed officer. But, the

SEC lawsuit alleged, the company was secretly controlled by Melvin Ruth, a Florida felon who served nearly three years in federal prison after he pleaded guilty to conspiracy to commit mail and wire fraud in a scam involving stolen investments.

In November 2003, shortly after he was released from prison, Ruth allegedly used Par Three to mount a similar scam. The firm offered potential investors a monthly return of at least 2% on loans to check-cashing stores, company and court records show. Par Three raised at least \$8 million from more than 120 investors who were unaware of Ruth's role, the SEC alleged.

In December 2005, the SEC got a court judgment that permanently restrained Ruth and anyone working with him from violating securities laws. The judgment ordered Ruth to pay a civil penalty and give up ill-gotten gains, with interest. Ruth died last year of cancer complications amid efforts to recover Par Three assets that could repay investors, said his lawyer, Carl Schoeppl.

USA TODAY's review of incorporations found that Wyoming, like Nevada, has multiple examples where a single person is the sole officer for a string of companies.

Guillermo Jalil, for instance, runs AssetProfile.com, which sells Wyoming corporations and provides nominee officers. State records list him as an officer of more than 100 corporations, from A+ Shadow Systems to Yokohama Technologies.

Investigators from Interpol, the international law enforcement agency, have contacted the Wyoming Secretary of State's office about several of the corporations registered by Jalil, said Cowan, the securities division chief. None of the inquiries directly involved Jalil, who operates legally and sells corporations that typically may be used outside the USA, Cowan said.

In a recent interview, Jalil said he had not been contacted by Interpol and knew nothing about the inquiries to the Secretary of State. He said he conducts background checks on anyone seeking nominee officers for a corporation.

### **Ownership transparency obstacles**

Jalil contended that the IRS and law enforcement investigators can check on any company by examining bank records. Claiming that corporation secrecy laws can block investigators "doesn't sound like reality to me," Jalil said.

But the internal workings of some corporations prove particularly resistant to transparency. Wyoming incorporation records show that at least 90 companies created since 2002 list Stella Port-Louis as the sole listed officer. Many of the firms, such as Export Deutschland AG and Motorcomsa S.A., have foreign corporate names.

The only address for Port-Louis listed in the records is a postal box in the Republic of Seychelles. A USA TODAY interview request mailed in January to Port-Louis' postal

box could not be delivered. Port-Louis did not respond to a message relayed via Registered Agency Services, the Cheyenne company that is the local agent for the corporations that list her as an officer.

JoLyn Jordan, an official of Registered Agency Services, a firm that files incorporations, said she believed Port-Louis was a nominee for owners outside the USA. "I don't know who she is, or if she's for real," said Jordan. Asked how to determine if they were shell firms created for crime, Jordan said, "You don't know."

Jack Blum, an international tax expert and former special counsel to the Senate Foreign Relations Committee, said money laundering investigations have historically focused on the Seychelles. While saying he had no information about the Port-Louis firms, he said the filings seemed designed to frustrate.

"Whoever's trying to research it will go batty," said Blum.

*Contributing: Barbara Hansen*



## Forbes magazine article

[http://www.forbes.com/home/free\\_forbes/2007/0212/096.html](http://www.forbes.com/home/free_forbes/2007/0212/096.html)

### Shell Games

Elizabeth MacDonald 02.12.07

#### **With no federal oversight, the states are helping to shelter crooks, money launderers and, possibly, terrorists.**

Shawqi Omar has been cooling his heels in a U.S. military brig in Iraq since he was arrested in Baghdad in October 2004. The 44-year-old Kuwaiti native with American and Jordanian citizenship was charged, along with the late terrorist and leader of al Qaeda in Iraq, Abu Musab al- Zarqawi, with plotting an aborted chemical attack on the Jordanian intelligence agency. The FBI has also taken an interest: Five of Omar's relatives have been charged with using U.S. shell companies in Utah and California to commit bank fraud and money laundering and possibly to fund terrorist activities in the Middle East. One defendant has copped a plea to accusations of fraud and money laundering and awaits sentencing; three others have pleaded not guilty, and one was dismissed for medical reasons. "The fact that U.S. shell corporations can be used to commit criminal activity is increasingly a major weakness in our system," says Gregory Bretzing, supervisor of the FBI's joint terrorism task force in Salt Lake City.

Once ideal vehicles for tax evasion, shell companies--that is, corporations with no operations, no employees and no physical assets--have lately become shelters for far more nefarious criminal activities, says Stuart Nash, an associate deputy attorney general at the Justice Department. Crooks benefit in several ways. A U.S. company address lends credibility in global trade and painless access to American bank accounts. And thanks to loose laws of incorporation in many states, it's easy for offenders to remain anonymous--and to elude the authorities. Unlike publicly held companies, private entities are not obliged to reveal ownership. And without such information the police come to a dead end, unless they can tease the information they need out of bank records.

How widespread is the problem? No one really knows for sure because the states "have no idea who is behind the companies they have incorporated," says Senator Carl Levin (D--Mich.), who is trying to force the states to insist on greater transparency. "The United States should never be the situs of choice for international crime, but that is exactly what the lax regulatory regimes in some of our states are inviting." The Financial Crimes Enforcement Network, the U.S. Treasury bureau investigating money laundering, says roughly \$14 billion worth of suspicious transactions involving private U.S. shells and overseas bank accounts came in from banks from 2004 to 2005, the latest Treasury data available. That's up from \$4 billion for the long stretch between April 1996 and January 2004. Now, estimates the FBI, anonymously held U.S. shell companies have laundered \$36 billion to date just from the former Soviet Union.

State governments provide plenty of cover for bad guys. Every year they incorporate 1.9 million or so private companies, but no state verifies or records the identities of owners,

much less screens ownership information against criminal watch lists, according to a study by the Government Accountability Office. "You have to supply more information to get a driver's license than you do to form one of these nonpublicly traded corporations," says Senator Levin.

In many cases the documents of incorporation require only a company name, an address where official notices can be sent and the names and signatures of folks handling the paperwork--not of the owner or controlling shareholder. You can submit the forms in person, by mail or, increasingly, via the Web in a process that takes from 5 minutes to 60 days, depending on the state. The median fee is \$95. A network of registration agents here and abroad help set up a vast number of shells each year. Once the minimal work is complete, the corporation, a perfectly legal entity, can conduct business and, in many cases, open a bank account.

Why doesn't Delaware crack down on anonymous incorporation? It would be a futile gesture; the crooks would just take their business to Nevada. Also note that chartering out-of-state corporations is a big industry in an itty-bitty state, which brought in \$4.6 million a year in franchise fees in 2005 and kept many a lawyer occupied in Wilmington. Richard Geisenberger, Delaware's assistant secretary of state, says investigating the owners of new corporations would be untenable. "Costs are tremendous, and benefits are likely to be illusory," he says. "Crooks will give you false information absent a verification system." Then there's a "principle" at stake. "Consensus is that having disclosure of all of the shareholders would violate privacy and be a major burden to the state's resource allocation," says Laurie Flynn, chief legal counsel for the secretary of state of Massachusetts. "We have to stop terrorism, but we need to keep commerce [flourishing]."

Given the paucity of information, nailing criminals means relying on bank records. That's what happened in the Omar case. Shawqi Omar's relatives used two shell companies incorporated in Salt Lake City and San Diego, as well as two other front companies, to defraud local banks of at least \$327,000 taken in the form of loans. The FBI says that, in at least one instance, a stateside family member wired \$150,000 to an account in Amman, Jordan. The bureau is investigating whether that money was used to fund terror in Iraq.

Sometimes it's a foreign investigator who gets stonewalled. Authorities from overseas, mostly from Russia and Ukraine, sent in 143 demands for private-company data to the Justice Department in 2005. They almost always came away empty-handed. Uncle Sam couldn't investigate, much less prosecute, a Nevada corporation it declines to name that received 3,700-plus suspicious wire transfers totaling \$81 million from such locations as the Bahamas, British Virgin Islands, Latvia and Russia. The situation has made a mockery of American demands that other nations do more to stop financial crimes. The U.S. has been pressuring the Financial Action Task Force on Money Laundering, a 33-nation organization Washington helped set up in 1989.

The shell problem was spectacularly demonstrated in the **Bank of New York** (nyse: [BK](#) - [news](#) - [people](#)) case. Peter Berlin, a Russian immigrant, with the help of his wife, Lucy

Edwards, a Russian national as well, and a bank vice president, opened up accounts in 1996 at the bank for two private shells, Benex International and BECS International. According to allegations in a criminal case, they laundered \$7 billion over the next three and a half years. The money came from Russian businessmen seeking to duck customs duties and hide profits from tax authorities. Convicted of money laundering, Berlin and Edwards were given five-year suspended sentences and six months' house arrest; they were ordered to pay fines of \$20,000 apiece and pay the IRS \$685,000.

Bank records helped finger Garri Grigorian, a 44-year-old native Russian. He struggled with a job at a fast-food joint in Sandy, Utah, then opened a deli--and, according to the feds, from October 1998 through January 2001 he laundered \$133 million on behalf of customers of Intellect Bank in Moscow. He did it by setting up two U.S. shells and opening bank accounts to give the appearance of legitimate wire transfers to and from Intellect Bank. For his troubles he got \$800,000 and interests in an apartment building and a golf course. Grigorian was caught because he made the mistake of using his own name to set up a bank account. He was sentenced in August 2005 to 51 months and ordered to pay \$17 million in restitution to Russia for unpaid taxes and customs duties on money transferred out of that country.

Sometimes these schemes imperil strategic interests. Uncle Sam has charged Evgeniy O. Adamov, Russia's former atomic energy minister, and Mark Kaushansky, a onetime Westinghouse engineer, of using a couple of U.S. shells to divert \$15 million that was supposed to upgrade nuclear safety at power plants in Russia and eastern Europe. In September Kaushansky pleaded guilty in federal court to conspiracy and tax evasion. Adamov is being tried in Russia.

Incorporation agents are not shy about promoting the privacy offered by U.S. laws. Atrium Incorporators of London promotes Delaware on its Web site as "an offshore tax haven for non-U.S. residents." Advantages: "Owners' names are not disclosed to the state," and "the company is not required to report any assets." Another Web site, corp95.com, promises that for as little as \$69, plus filing fees, it can set up a corporation in Nevada, which "may provide for anonymous ownership and bearer shares." The site also offers "shelf" corporations, already incorporated businesses that have sat dormant but have some operating history.

"The upside is, you can develop a credit history easier with a shelf company," says Wayne Andre, 59, who runs Nevada First Holdings in Las Vegas, which offers shelf companies--and much more--to convince creditors that a shell is really in business. Andre also rents out his own employees to serve as directors or officers to a prospective company in order to help the real owners "retain a higher level of anonymity," a company advertisement says. Such execs for hire can use their own names to obtain an employer identification number from the IRS on behalf of the new company's owners. And if you need a business address or telephone services, Nevada First can help there, too; it has already assigned 1,800 addresses for "suites" within its Vegas offices.

As for hanky-panky among his clients, "We don't have a single company we know of that's done criminal activity," says Andre. Yet he himself took a wrong turn. In 1998 he pleaded guilty to embezzling \$2 million from his clients and was later sentenced to four years in prison. Using the name Wayne McMiniment at the time, he offered incorporating services and set up bank accounts but retained signature authority over them, diverting funds, supposedly headed for offshore accounts, for his own "lavish lifestyle," says a court document.

Other shell promoters have ended up in the slammer. Paul D. Harris of Elizabeth, Colo. was sentenced in January 2006 to five and a half years in prison on tax fraud charges. Through his company, Tower Executive Resources of Denver, Harris set up shells used to conceal \$9 million in taxable income for clients, who sheltered funds in secret bank accounts in the Turks and Caicos Islands and other offshore hideaways.

What's to be done? "The systemic vulnerability we face in the United States from shell companies can only be addressed by Congress through legislation to specifically regulate shell companies," says Dennis M. Lormel, senior vice president of Corporate Risk International in Reston, Va., the former chief of the financial crimes section in the FBI. If the states don't fix the problem themselves, Senator Levin says he will have to introduce legislation seeking a uniform standard. His solution: require states to force owners of companies they incorporate to disclose the owners' names on state incorporation forms. But there seems to be little urgency among his peers.