

Testimony of Sheila Krumholz
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Combating Kleptocracy: Beneficial Ownership, Money Laundering, and Other Reforms

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Chairman Graham, Ranking Member Feinstein, and members of the Committee, thank you for allowing the Center for Responsive Politics to submit this written testimony to the U.S. Senate Committee on the Judiciary regarding our political system's susceptibility to the influence of foreign kleptocrats operating behind a veil of secrecy through shell companies, LLCs, and other opaque vehicles.

The Center for Responsive Politics is a nonpartisan nonprofit research organization tracking money in U.S. politics and its effect on elections and public policy. Our vision is for Americans across the ideological spectrum to be empowered by access to clear, unbiased information about money's role in politics and policy so they can use that knowledge to strengthen our democracy. Our mission is to produce and disseminate peerless data and analysis on money in politics to inform and engage Americans, champion transparency, and expose disproportionate or undue influence on public policy.

Congress enacted the Federal Election Campaign Act to deter the use of wealth to unduly influence or corrupt government, and to ensure a democratic system of integrity worthy of the voters' trust and confidence.

Federal campaign finance law prohibits foreign nationals from directly or indirectly engaging in activity to influence U.S. elections. This ban broadly extends to foreign governments, foreign political parties, corporations, associations, foreign partnerships, and foreign citizens with the exception of those holding dual U.S. citizenship and "green card" holders admitted as lawful permanent residents of the United States.

The Federal Election Commission (FEC) has specified that the prohibition on foreign nationals influencing U.S. elections also makes it unlawful for partnerships and limited-liability companies to attribute any portion of a political contribution to a partner who is a foreign national. Since the unique structure of LLCs often requires the entities to disclose only minimal information necessary for incorporation, LLCs have become attractive vehicles to move funds through different opaque entities like "shell" companies in elaborate, complicated financial transactions funneling money into U.S. elections without ever disclosing its source. Due to lax disclosure requirements, foreign actors who are prohibited from spending in U.S. elections may create LLCs to function as conduits for quietly influencing U.S. elections. LLCs and other shrouded groups that spend millions of dollars on

U.S. elections without disclosing their funding sources can effectively act as proxies for foreign kleptocrats whose influence on U.S. elections is, under federal law, prohibited.

We know that money from anonymous sources is flowing into U.S. elections, and the methods through which it is funneled continue to increase in complexity and opacity. Direct spending in U.S. federal elections reported by groups that do not disclose their donors has exceeded \$1 billion since the Center for Responsive Politics began tracking political spending by nondisclosing groups in 2006. This direct spending by groups that do not disclose donors is increasingly augmented by money funneled through partially disclosing groups that keep some donors hidden or are funded by other more opaque groups, bringing the total spending by groups that do not fully disclose their financiers to more than \$2 billion. In the 2018 election cycle alone, groups that do not fully disclose their donors reported more than \$539 million in spending to the FEC, setting a record for reported spending by these groups during non-presidential years. Furthermore, last cycle, shell corporations, and other groups that do not disclose their donors funneled more than \$176 million to political committees that are required to disclose their donors.

These dark money structures create opportunities for actors who want to undermine American democracy. While the prohibitions on foreign nationals spending or engaging in activities connected to influencing U.S. elections may be the letter of the law, foreign kleptocrats represent an increasingly dangerous threat to our political system. This is especially true given insufficient U.S. oversight of hidden entities such as shell companies and lack of beneficial ownership disclosure requirements, leaving the individuals or interests behind those groups unknown to the public.

This covert foreign interference in the U.S. political system poses a serious threat to our sovereignty and reputation abroad. The U.S. must be a leader on this issue, setting an incontrovertible example of functional democratic systems and oversight. We cannot ignore these weaknesses that have been allowed to creep into the funding of U.S. elections.

The number of LLCs giving to outside groups surged in 2016 to more than 4,000 – nearly quadruple the number in 2012. The funds they gave to groups spending in U.S. elections also increased precipitously in recent election cycles. In the 2016 election cycle alone, more than \$45.5 million came from LLCs at the federal level, nearly double the \$24.1 million from LLCs in the last presidential election cycle four years earlier. LLCs continued to pour money into U.S. elections in the 2018 election cycle with more than \$23.5 million in contributions from LLCs at the federal level. The scale and sophistication of these operations presents grave challenges to the integrity of the American political system.

History provides us with many examples of illegal donations by foreign corporations and nationals laundering money through those who are legally eligible to contribute – evasions that have eroded public trust in the system. Among the most troubling are campaign finance violations that involved attempts by foreign individuals, corporations, and even governments to influence electoral outcomes. Covert foreign interference in the U.S. political system is an issue that supersedes partisanship and

has impacted both sides of the aisle. Dating back to the mid-1990s, large donations to both parties from straw donors tied to foreign actors stirred scandal across the ideological spectrum.

In 2017, the Department of Justice sentenced Mexican businessman Jose Susumo Azano Matsura for illegally funneling hundreds of thousands of dollars in campaign contributions through shell corporations and straw donors supporting a Democratic mayoral candidate in San Diego's 2012 election. And earlier this year, fugitive Malaysian financier Jho Low, who is wanted in a multibillion-dollar money laundering scandal stemming from a Malaysian state-owned investment fund, was indicted for his role in allegedly making illegal foreign contributions to Barack Obama's 2012 re-election campaign and a super PAC supporting it through straw donors. Low has not only been charged in relation to his alleged illegal foreign contributions in support of Obama, but has also been tied to suspicious transfers funneling money into President Donald Trump's joint fundraising committee.

Sources of money flowing into inaugural committees have also been obfuscated by opaque vehicles such as LLCs and other tactics hiding the interests or actors behind donations. One recent example is an LLC called the BH Group, which was created four months before it made a seven-figure donation to the 58th Presidential Inaugural Committee. Through investigative work, the Center for Responsive Politics has traced the company to a network of secretive nonprofit organizations and political operatives. However, the ultimate source of funding continues to be hidden, leaving the American public in the dark about the interests and individuals using their money to shape U.S. politics and policy, and the motives driving their political activities.

Lack of transparency in money flowing into the U.S. political system is also evident in LLCs and opaque offshore accounts effectively acting as conduits for foreign interests spending on influence campaigns required to be reported under the Foreign Agents Registration Act (FARA). Release of CRP's reports revealed a complex network of LLCs, offshore accounts, shell corporations, and other veiled entities financing foreign influence operations targeting the U.S. in the lead-up to Ukraine's recent presidential election. Following that, foreign agents spearheading operations submitted an amendment to FARA disclosures admitting that a Ukrainian politician was the ultimate beneficiary of the influence campaign.

Given our findings, it stands to reason that a lack of sunlight in financial transactions and corporate disclosures behind entities funneling considerable sums into the U.S. political systems poses a significant threat to national security. Taking steps to ensure transparency in spending to influence elections and policy in the U.S. is essential to American sovereignty.

More rigorous beneficial ownership disclosure requirements to make the ownership of shell companies more transparent would provide a vital tool to expose foreign kleptocrats forming U.S. companies for the purpose of influencing U.S. elections.

Without additional disclosure requirements for opaque entities such as shell companies and LLCs, crucial details on the identity of those actually pulling the strings in U.S. electoral and issue campaigns may remain hidden, and Americans will be left in the dark about corrupt foreign interests that use money and secrecy to wield influence over our democracy.