November 14, 2006

COMPANY FORMATIONS

Minimal Ownership Information Is Collected and Available

GAO
Accountability• Integrity• Reliability
Highlights

Highlights of GAO-07-196T, a testimony to Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Companies, which are the basis of most commercial activities in market-based economies, may be used for illicit as well as legitimate purposes. Because companies can be used to hide activities such as money laundering, some states have been criticized for requiring too little information about companies when they are formed, especially concerning owners. This testimony draws on GAO's April 2006 report *Company Formations: Minimal Ownership Information Is Collected and Available* (GAO-06-376), which addressed (1) the information states and other parties collect on companies, (2) law enforcement concerns about the role of companies in illicit activities and the information available on owners, and (3) the implications of collecting more ownership information. GAO surveyed all 50 states and the District of Columbia, reviewed state laws, and interviewed a variety of industry, law enforcement, and other government officials.

What GAO Recommends

While not making recommendations, GAO observes that any requirement to collect company ownership information must take into consideration (1) the conflicting concerns of states, law enforcement agencies, and other parties about collecting such information and (2) the need to uniformly apply any requirement in all states.

www.gao.gov/cgi-bin/getrpt?GAO-07-196T.

To view the full product click on the link above. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

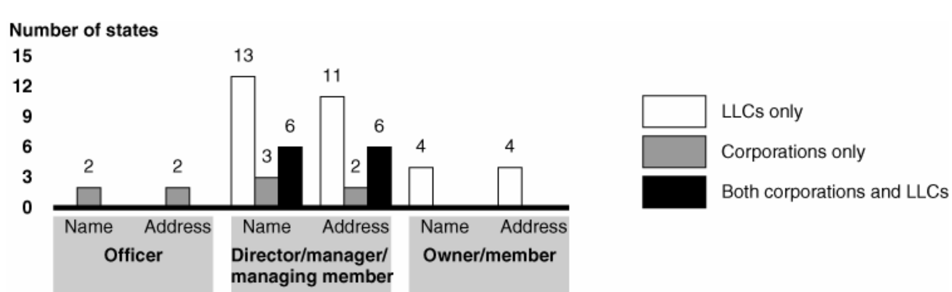
What GAO Found

Most states do not require ownership information at the time a company is formed or on the annual and biennial reports most corporations and limited liability companies (LLC) must file. Four of the 50 states and the District of Columbia require some information on members (owners) of LLCs (see figure). Some states require companies to list information on directors, officers, or managers, but these persons are not always owners. Nearly all states screen company filings for statutorily required information such as the company's name and an address where official notices can be sent, but no states verify the identities of company officials. Third-party agents may submit formation documents for a company but usually collect only billing and statutorily required information and rarely verify it.

Federal law enforcement officials are concerned that criminals are increasingly using U.S. "shell" companies—companies with generally no operations—to conceal their identities and illicit activities. Though the magnitude of the problem is hard to measure, officials said that such companies are increasingly involved in criminal investigations at home and abroad. The information states collect on companies has been helpful in some cases, as names on the documents can generate additional leads. But some officials said that available information was limited and that they had closed cases because the owners of a company under investigation could not be identified.

State officials and agents said that collecting company ownership information could be problematic. Some noted that collecting such information could increase the cost and time involved in approving company formations. A few states and agents said that they might lose business to other states, countries, or agents that had less stringent requirements. Finally, officials and agents were concerned about compromising individuals' privacy, as information on company filings that had historically been protected would become part of the public record.

Information Collected on Ownership and Management at Formation



Source: GAO survey of state officials responsible for company formation.