



Highlights of [GAO-06-376](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

COMPANY FORMATIONS

Minimal Ownership Information Is Collected and Available

Why GAO Did This Study

Companies form the basis of most commercial and entrepreneurial activities in market-based economies; however, “shell” companies, which have no operations, can be used for illicit purposes such as laundering money. Some states have been criticized for requiring minimal ownership information to form a U.S. company, raising concerns about the ease with which companies may be used for illicit purposes. In this report, GAO describes (1) the kinds of information each of the 50 states and the District of Columbia and third party agents collect on companies, (2) law enforcement concerns about the use of companies to hide illicit activity and how company information from states and agents helps or hinders investigations, and (3) implications of requiring states or agents to collect company ownership information.

What GAO Recommends

While not making recommendations, GAO observes that if a requirement to collect company ownership information is considered, it would be useful for policymakers to consider (1) options that balance the conflicting concerns among states, agents, and law enforcement agencies; and (2) uniformly applying any such requirement to all states or agents.

www.gao.gov/cgi-bin/getrpt?GAO-06-376.

To view the full product, including the scope and methodology, click on the link above. To view the results of GAO’s survey of state officials responsible for company formations, click: www.gao.gov/cgi-bin/getrpt?GAO-06-377SP. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

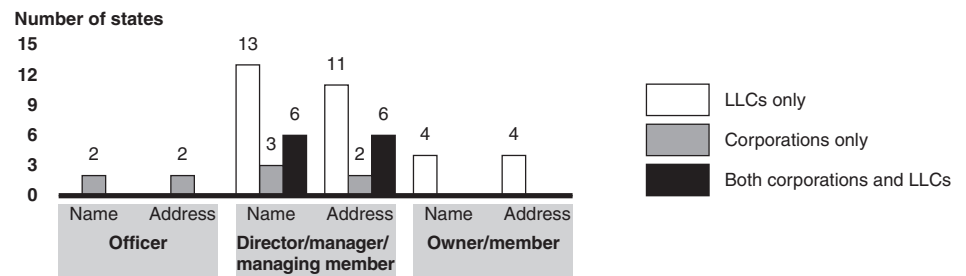
What GAO Found

Most states do not require ownership information at the time a company is formed, and while most states require corporations and limited liability companies (LLC) to file annual or biennial reports, few states require ownership information on these reports. With respect to the formation of LLCs, four states require some information on members, who are owners of the LLC. Some states require companies to list the names and addresses of directors, officers or managers on filings, but these persons may not own the company. Nearly all states screen company filings for statutorily required information, but none verify the identities of company officials. Third-party agents may submit formation documents to the state on a company’s behalf, usually collecting only billing and statutorily required information for formations. These agents generally do not collect any information on owners of the companies they represent, and instances where agents told us they verified some information were rare.

Federal law enforcement officials are concerned that criminals are increasingly using U.S. shell companies to conceal their identity and illicit activities. Though the magnitude of the problem is difficult to measure, officials said U.S. shell companies are appearing in more investigations in the United States and other countries. Officials told us that the information states collect has been helpful in some cases because names on the documents, such as names of directors, generated additional leads. However, some officials said that the information was limited and that cases had been closed because the owners could not be identified.

State officials and agents said that collecting company ownership information could be problematic. Some state officials and agents noted that collecting such information could increase the cost of company filings and the time needed to approve them. Some officials said that if they had additional requirements, companies would go to other states or jurisdictions. Finally, officials and agents expressed concerns about compromising individuals’ privacy because owner information disclosed on company filings would be part of the public record, which has not historically been the case for private companies.

Information Collected on Ownership and Management at Formation



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