INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed



www.ijlra.com

ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

BEHIND THE SHELL: RISK-BASED SUPERVISION OF CORPORATE SERVICE PROVIDERS AND BENEFICIAL OWNERSHIP TRANSPARENCY IN INDIA'S ANTI-MONEY LAUNDERING FRAMEWORK

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ABSTRACT

India has beneficial ownership regime which rests on two statutory pillars one of which is based on declaration which is a significant beneficial owner framework under Companies Act, 2013 and the other is based on due diligence regime of customer in Prevention of Money-laundering Act, 2002. This research paper argues about the connecting institutional layer which is underdeveloped. Corporate service providers (CSPs) that may form and administer an organization which are not subject to single function based supervisory framework. This paper also talks about the information of the beneficial ownership that may not be organised. It proposes CSP supervision based on risk and a statutory system that should be secure and purpose limited data sharing. The proposals have been distinguished from the obligations that are presently in the Indian law.

Keywords: beneficial ownership; shell companies; corporate service providers; money laundering; risk-based supervision; data sharing.

I. INTRODUCTION

A shell company may not be illegal by nature. But, it can be used for money laundering when the people who own or control it remain hidden. It can then become easier to move black money through these shell companies while hiding the identity of those behind it. By ensuring the

ISSN: 2582-6433

transparency in beneficial ownership may help in preventing the misuse of the companies. In March 2022, the Financial Action Task Force (FATF) strengthened recommendation 24, it requires countries to ensure that the relevant authorities have access to accurate and the up to date information about the people who own or control the companies. The FATF's 2023 guidance support cross-checking various records which should encourage the use of information from different sources instead of relying on a single register of beneficial ownership.[1,2.]

India has established a good and extensive statutory framework but there are still two institutional gaps which are regulations and supervision of the corporate service providers (CSPs) which may include intermediaries that are involved in the formation of company, providing registered offices, managing corporate structures. The second gap can be the lack of a proper sharing and verifying information of beneficial ownership among various government agencies. This paper examines the existing legal framework with the doctrinal approach in Part 2, it analyses the regulatory positions of CSPs in Part 3, it proposes a model for supervision in Part 4 and it develops a framework for data sharing among the agencies in Part 5. The Part 6 concludes this research paper.

II. INDIA'S BENEFICIAL OWNERSHIP ARCHITECTURE.

India regulates beneficial ownership with two different statutory frameworks. The first falls under the corporate law. Section 90 of the Companies Act, 2013 requires people who qualify as significant beneficial owners of a reporting company to reveal their own beneficial interests to the company. At the same time, the company should maintain the prescribed register and also file the prescribed return with the registrar of the companies. The 10 percent in the threshold that has been prescribed in Rule 2(1)(h) of the Companies (Significant Beneficial Owners) Rules, 2018, which is amended in 2019 but not in the section 90 of the Companies Act.[3]

This framework is implemented through forms BEN-1, BEN-2 and BEN-4. An individual must submit the necessary declaration using BEN-1, after which the company must file BEN-2 with the Registrar of the companies within 30 days of receiving it. The company may also seek necessary information through BEN-4 but only in the circumstances prescribed in the rules and

[1]Financial Action Task Force, *"Public Statement on Revisions to Recommendation 24"* (Mar. 4, 2022).
[2]Financial Action Task Force, *Guidance on Beneficial Ownership of Legal Persons* (FATF, Paris, 2023).
[3]The Companies Act, 2013 (Act 18 of 2013), s. 90; The Companies (Significant Beneficial Owners) Rules, 2018, r. 2(1)(h), as substituted by the Companies (Significant Beneficial Owners) Amendment Rules, 2019.

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section 90. Although this is significantly based on declaration but the individuals, but section 90 also requires companies to take necessary steps to identify their Significant Beneficial Owners. Its effectiveness not only depends on the declaration but the individuals but also on the inquiries that are carried out by the company. [4]

The second regime is anti-money-laundering law. The PMLA defines a beneficial owner by reference to the natural person who ultimately owns or controls a client of a reporting entity, including a person exercising ultimate effective control over a juridical person. Reporting entities must identify clients and beneficial owners, verify identity and maintain prescribed records. Rule 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 supplies the operative customer due diligence framework. The 2023 amendments reduced the relevant ownership thresholds under the Rules to 10 per cent for companies, trusts and partnership entities, subject to the distinct tests and control provisions applicable to each category.[5,6]

Although the two frameworks still work independently, but the fact that the alignment of the threshold is a step in the right direction. As the information under the PMLA is gathered by reporting entities during customer due diligence and kept under the anti-money laundering framework, information under the Companies Act is filed with the Registrar of the companies is part of declaration. As both systems use similar thresholds doesn't mean their data gets automatically matched up. It also doesn't ensure that the information collected by one agency can be accessed by other agencies. So a company may comply with its formal filing obligations but the accuracy, verification and accessibility of information relating to the ultimate beneficial owner remain inconsistent.

III. CORPORATE SERVICE PROVIDERS: THE MISSING GATEKEEPER

CSPs may play a role of setting up and managing shell companies. The services provided by them include the filing of incorporation documents, arranging nominee directors or shareholders and handling of routine corporate administration. There are certain activities that are covered under FATF's recommendation that are carried out by Trust and Service providers

[4]The Companies (Significant Beneficial Owners) Rules, 2018, rr. 3, 4 and 6, as amended.
[5]The Prevention of Money-laundering Act, 2002 (Act 15 of 2003), ss. 2(1)(fa), 2(1)(wa), 11A and 12; The Prevention of Money-laundering (Maintenance of Records) Rules, 2005, r. 9.
[6]The Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2023; The Prevention of Money-laundering (Maintenance of Records) Second Amendment Rules, 2023; The Prevention of Money-laundering (Maintenance of Records) Rules, 2005, r. 9, as amended.

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(TCSPs), due to which they are placed within the customer due diligence and other preventive requirements that are applicable to the designated non financial businesses. These activities may include forming companies, providing registered offices, arranging directors and providing the nominee shareholders. But, the scope of this is only based on activity which means that every person providing any corporate service should not be subjected to every FATF obligations.[7]

India has adopted an activity based approach to regulating these services. In Notification S.O. 2036(E), dated 3 May, 2023 certain financial transactions carried out by certain transactions in the course of the professional activities of specified professionals were brought within the PMLA definition of the designated businesses and professions. In the notification S.O. 2135(E), dated 9 May, 2023 separately notified that the specified business activities that are carried out on the behalf of another person may include company, acting or arranging another person to act as a director, providing registered offices and nominee shareholding. But, another notification after this also provides certain exclusions which may include specified statutory filings related to company formation if they are carried out by advocates and practicing chartered accountants and company secretaries. Both notifications may be interpreted as in the light of specific activities covered in them and the exclusions provided by them. But this doesn't justify that all professionals involved in company formation should be subjected to the same requirements.[8].

These measures are important because they extend anti money laundering (AML) obligations to the specific activities that are carried out by CSPs. But, they do not create comprehensive sectoral register of CSPs, a uniform framework or introduced a risk based system that should cover all providers performing these functions. But, this distribution between regulating specific activities and at the same time ensuring sector wide supervision is the central of the argument of this paper. The FATF's 2024 mutual evaluation rated India as largely compliant with Recommendations 22, 23 and 24. But, these ratings need to be considered alongside the effectiveness of findings. India has received a moderate rating for both supervision and preventive measures. In other words, just meeting technical compliance requirements does not necessarily mean that the implementation is effective. This gap should support the paper's

[7]Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations*, Recommendations 22 and 23 and Interpretive Notes thereto (FATF, Paris, 2026).

[8]Ministry of Finance, Department of Revenue, Notification S.O. 2036(E), May 3, 2023; Ministry of Finance, Department of Revenue, Notification S.O. 2135(E), May 9, 2023.

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argument for a more systematic approach to supervising the CSP sector.[9]

IV. A RISK-BASED FRAMEWORK FOR CSP SUPERVISION

The proposal rests on one principle: supervisory effort should follow risk. It has five elements.

1. Statutory definition and registration. The Central Government should provide a clear definition of CSP which should be based on function and cover services such as company and LLP formation, provision of registered offices or business addresses, nominee directorship, arrangement of shareholders, filing and administrative support. CSPs should be brought within PMLA through an authorised statutory instrument which should clearly specify the exemptions applicable and its scope. A central registrar should also be established and maintained by proper designated authority. Registrations should be subjected to prescribed conditions including the proper assessment of the owners and management of CSPs. Professionals should be assigned for inspection of their members, but the designated public authority should retain the responsibility for the overall AML supervisory framework.

2. Sector and entity risk assessment. The FIU-IND should publish a sectoral CSP risk assessment that should be informed by suspicious transaction reporting, supervisory findings and enforcement data. Each CSP should be required to prepare an annual self assessment of business risk. Relevant variables should include the proportion of clients with foreign or layered ownership; nominee services; exposure to high risk jurisdictions and political exposure; the quality of reporting and prior enforcement history.

3. Tiered supervision. Risk scores should determine the intensity of oversight. The following intervals are indicative and would require calibration through consultation and sectoral data.

Tier	Risk indicators	Supervisory response
High	High incorporation volumes; nominee services; high-risk jurisdictions or PEP clients; prior breaches	Annual on-site inspection; client-file sampling; quarterly data returns
Medium	Moderate volumes; mixed domestic and foreign clients; limited higher-risk services	Inspection every two to three years; annual thematic review; half-yearly returns
Lower	Small domestic practice; simple structures; clean supervisory record	Desk-based review; annual self-assessment; random inspection

[9]Financial Action Task Force, Asia/Pacific Group on Money Laundering and Eurasian Group, *Anti-Money Laundering and Counter-Terrorist Financing Measures—India: Fourth Round Mutual Evaluation Report* 11, 294-307 (FATF, Paris, 2024).

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4. Substantive duties. Every covered CSP should identify and verify the beneficial owners against the independent and the reliable sources before accepting an engagement or completing incorporation. The engagement should be declined if the required identification cannot be completed. The suspicious transaction reports should be filed if required and the report of the material discrepancies between client declaration and the registry should go through a prescribed channel. The mechanism for declarations should be aligned with the revised FATF recommendation 24 and enacted through domestic rules.[10]

5. Proportionate sanctions. Sanctions should be imposed in a step by step manner, starting with warnings and corrective directions, which should be followed by monetary penalties where necessary. More serious and repeated violations should warrant suspension or deregistration, while cases involving criminal offences should be referred for prosecution. Section 13(2)(d) of the PMLA already provides for monetary penalties in certain cases of non-compliance by reporting entities and related persons. It should not be treated in a manner to impose every proposed sanction on every CSP. Suspension, deregistration and any additional penalties should require clear statutory basis.[11]

V. INTER-AGENCY DATA SHARING

Section 66 of PMLA already provides for a legal framework for sharing of information but, its scope is limited. Under section 66(1), the Director or someone authorised by the director should share information with specified tax, foreign exchange and other authorities. The central government should also notify other authorities performing functions under any other law and subject to the conditions laid down in the provision. But, section 66(2) deals with a separate situation in which the director or the authorised authority believes, on the basis of the information or material available to it, that a contravention of another law has taken place. Such information should be shared with the relevant authorities. Even if these provisions enable information sharing and cooperation among the agencies, they still do not establish the kind of comprehensive beneficial ownership register that is proposed in this paper. In particular, this paper does not rely on any unverified claim regarding a specific GST network notification or an inter-departmental memorandum of understanding.[12]

A purposive architecture would have five features.

[10]The Prevention of Money-laundering Act, 2002 (Act 15 of 2003), s. 13(2)(d).
[11]Financial Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations*, Recommendation 24 and Interpretive Note thereto, *supra* note 7.
[12]The Prevention of Money-laundering Act, 2002 (Act 15 of 2003), ss. 66(1)-(2).

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1. A shared beneficial ownership record. The registry of Ministry of corporate affairs should anchor the system with the data of each company's beneficial ownership and link it to its corporate identity number and the relevant owner's PAN. FIU-IND, the enforcement directorate, the income tax department, the serious fraud investigation office, SEBI and RBI should receive timely and role based access according to their statutory functions. CSPs and other reporting entities should contribute verified information through secure and standardised channels.

2. Discrepancy reporting. If a CSP or any reporting entity identifies a material discrepancy between the registry information and the findings of its own due diligence then it should report the matter to the Registrar through the prescribed process. The Registrar should acknowledge its receipt, review the discrepancy and take appropriate steps to resolve it within a specified timeframe. If the discrepancy remains unresolved, then it should be referred to the relevant authorities with the necessary authorization. This process should also make it clear that just by reporting a discrepancy does not imply any wrongdoing.

3. Proactive analytics. FIU-IND and the Ministry should regularly review the register to identify potential risk indicators which should include multiple companies operating from the same address or sharing directors or CSPs. They should also share the relevant risk patterns and feedback with the CSPs and the financial institutions to help them and make it easier for them to identify suspicious activity. However, these analytics should be used to guide and prioritise further scrutiny rather than being treated as conclusive evidence of the illegal activity.

4. Safeguards. The system should include appropriate safeguards which may include statutory purpose limitation, confidentiality obligations, data retention limits, mechanisms for correcting information and independent oversight. The Digital Personal Data Protection Act, 2023, is being brought into force in phases under Notification G.S.R. 843(E), dated 13 November 2025. As of 13 November 2026, only those provisions scheduled to take effect on or before that date are in force. The main provisions governing data processing is set out in Sections 3–17 and are scheduled to come into force on 13 May 2027. Accordingly, the proposed system should be designed to comply with the legal requirements as and when they become applicable rather than treating the entire Act as already in force.[13]

The Supreme Court's privacy jurisprudence provides a more suitable constitutional framework that helps in examining the proposed data-sharing system. In *Justice K.S. Puttaswamy (Retd.)*

[13]The Digital Personal Data Protection Act, 2023 (Act 22 of 2023), ss. 1(2), 2 and 18-26; Ministry of Electronics and Information Technology, Notification G.S.R. 843(E), Nov. 13, 2025; The Digital Personal Data Protection Rules, 2025, r. 1.

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v. Union of India, the Court recognised privacy as a fundamental right.[14] Therefore, any interference with this right must independently satisfy the requirements of the legality, legitimate aim and the proportionality, while ensuring that the adequate safeguards against excessive data collection, access and use. In contrast, *Vijay Madanlal Choudhary v. Union of India* deals with the validity and interpretation of the specific provisions of the PMLA and does not address the constitutionality of the separate data-sharing framework proposed here.[15] For this reason, the proposed system should incorporate the safeguards which may include purpose limitation, necessity, role-based access, proper audit mechanisms and effective remedies against misuse.

5. Governance. A statutory coordination committee that is comprising representatives from the agencies mentioned above in this paper should be held responsible for publishing annual reports on registry accuracy, the time taken to resolve discrepancies, CSP inspection coverage, access requests and cases of misuse. The committee's mandate, composition, reporting responsibilities and accountability requirements should be clearly defined by the law.

VI. CONCLUSION

India has aligned the important threshold of beneficial ownership with the international standards. But, any formal disclosure does not necessarily reveal the natural person that owns or controls a company. This paper's central argument is that the intermediary layer and the proper structure for information sharing still requires further developments. A registered and a risk based supervisory framework for CSPs should move verification closer to the point by which the companies are formed. A shared and safe data architecture should help that competent authorities to use that information before any corporate structures are misused to put a layer on illegal proceeds.

A durable CSP registration and supervisory system, clear duties of reporting discrepancies and properly formed data sharing structure may require legislative authority. Any reform will preserve a clear distinction between existing obligations and proposed duties and it should be accompanied with privacy and confidentiality.

[14] *Justice K.S. Puttaswamy (Retd.) v. Union of India*, (2017) 10 SCC 1; *Modern Dental College and Research Centre v. State of Madhya Pradesh*, (2016) 7 SCC 353.
[15] *Vijay Madanlal Choudhary v. Union of India*, 2022 SCC OnLine SC 929.

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