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# UNVEILING SHADOWS: BLUEPRINT FOR A PROACTIVE SHELL COMPANY DETECTION FRAMEWORK

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## ABSTRACT

The Research paper, “Unveiling Shadows: Blueprint for a Proactive Shell Company Detection Framework,” examines how shell companies are used within modern financial systems. Although such entities can serve legitimate purposes like asset holding and investment structuring, their opaque ownership and minimal operational presence make them vulnerable to misuse for activities such as money laundering, tax evasion, and financial fraud. The study highlights the absence of a clear and uniform legal definition of shell companies, particularly in India, which creates regulatory challenges and opportunities for misuse. Through comparative analysis of international practices, the research identifies key red-flag indicators including nominee directors, layered ownership structures, and dormant companies with active financial transactions. The paper proposes a proactive detection framework combining legal reforms, technological tools, and enhanced transparency in beneficial ownership disclosure.

**Keywords:** Shell Companies, Corporate Transparency Beneficial Ownership (UBO), Anti-Money Laundering (AML), Financial Fraud Detection, Corporate Governance.

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## Unveiling Shadows: Blueprint for a Proactive Shell Company Detection Framework

### I. Preamble

#### (A) Background and Context of Shell Companies

A shell company is a corporation that exists legally but has little or no active business operations or significant assets. It is often created to hold assets, manage investments, or carry out financial transactions without directly conducting business activities. One key feature of shell companies is that they can conceal the identity of their beneficial owners, mainly because of gaps in corporate transparency regulations.<sup>3</sup>

Shell companies can serve legitimate purposes, such as holding intellectual property, acting as trustees for trusts, creating limited liability for business partners, or transferring assets within corporate groups. Sometimes, companies that once had active operations may also become shell companies after business activities stop due to market conditions, mismanagement, or corporate takeovers.<sup>4</sup>

However, the same structure that allows legitimate use can also enable misuse. Shell companies may be involved in illegal activities such as tax evasion, money laundering, or hiding illicit assets. Because they can provide anonymity, they are sometimes used in the underground economy or registered in tax havens. At the same time, some individuals use them for privacy, security, and asset protection, gaining both financial and non-financial benefits.<sup>5</sup>

#### (B) The Research Problem: Regulatory Ambiguity and Evolving Misuse

A key issue in fighting financial crime is the lack of a clear legal definition for shell companies in many places. In India, for instance, the term “Shell Company” is not defined in the Companies Act, 2013. Because of this, regulators often rely on vague descriptions such as “non-functional” or “lacking commercial substances.”<sup>6</sup> This uncertainty allows clever individuals to

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<sup>3</sup> Garg & Gupta, "Governance of Shell Corporations," *Int'l J. L.* 11, no. 9 (2025): 32–38.

Tiwari & Shrivastava, "Shell Companies & Tax Evasion," *Indian J. Legal Rev.* 5, no. 5 (2025): 922–932.

<sup>4</sup> Companies Act, 2013, §§ 90, 248, 455 (India).

<sup>5</sup> PMLA, 2002, § 3 (India).

<sup>6</sup> Data Mining Detection: Segovia-Vargas et al. (2022) use data mining on legal attributes to spot shell company transactions, filling financial oversight gaps.

exploit legal loopholes by using shell entities to hide the real owners and move illegal funds across borders, while appearing to operate like legitimate businesses.<sup>7</sup>

### **(C) Research Objectives and Aims of the Study**

Research on shell companies mainly focuses on understanding how these entities are used in financial crimes and how regulators can control their misuse. It examines the role of shell companies in activities such as money laundering, tax evasion, and hiding assets. The research also studies how these companies operate through anonymous corporate structures that help them avoid financial monitoring and legal scrutiny.<sup>8</sup>

Another important aim is to evaluate whether existing legal frameworks—such as Anti-Money Laundering (AML) rules and beneficial ownership disclosure requirements—are effective in preventing misuse. Researchers also compare the functioning of companies in tax havens with those in regular jurisdictions to understand differences in regulation and transparency.<sup>9</sup>

The study further aims to identify warning signs or “red flags,” like the absence of real business operations, to help distinguish legitimate holding companies from suspicious shell entities. It also classifies different types of shell structures and assesses their impact on national economies and the global financial system. Overall, the objective is to suggest better policies and legal reforms that improve transparency and reduce financial fraud.

## **II. Global Legal Definitions and Misuse Patterns of Shell Companies**

Shell companies are key in discussions about global corporate regulation. They are not illegal in themselves. These companies may be set up for legitimate reasons, like holding assets or managing investments. However, their limited activities, unclear ownership structures, and easy setup often make them easy to misuse. Different countries interpret shell companies in varied ways, and many laws do not clearly define them. This creates regulatory gaps that allow

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<sup>7</sup> Indian Regulations: Companies Act 2013 (§2(46)) and PMLA 2002 (§12) lack explicit shell definitions, relying on functional tests by regulators like SFIO.

<sup>8</sup> Global Corruption Role: Haberly (2023) links shell entities to hidden beneficial ownership in cross-border financial crimes.

<sup>9</sup> U.S. AML Gaps: FinCEN (2020) highlights weak beneficial ownership disclosure enabling tax evasion and asset hiding.

individuals to exploit differences between legal systems and evade proper examination.<sup>10</sup>

### **Historical Evolution of the Shell Company Concept**

The idea of shell companies relates to the principle of separate legal personality, which was established in the case of *Salomon v A Salomon & Co Ltd*. This case confirmed that a company exists as its own legal entity, separate from its shareholders. While this principle supports economic growth and business activity, it also enables the formation of companies with little or no real operations.<sup>11</sup>

At first, shell companies served legitimate purposes, such as holding assets, facilitating mergers, and managing financial risks. However, as global financial markets and offshore financial centers expanded, these entities increasingly became tools for secrecy. Major incidents like the Panama Papers and the Pandora Papers revealed how offshore shell companies were used to conceal ownership and transfer wealth across borders. In response, international organizations like the Financial Action Task Force started to focus on transparency and the and compliance rules instead of defining the term in law. In India, disclosure of beneficial ownership.<sup>12</sup>

### **Comparative Analysis of Statutory Definitions and Gaps Across Jurisdictions**

A major challenge in regulating shell companies is the lack of a consistent legal definition. Many countries address the issue indirectly through transparency the Companies Act of 2013 does not define shell companies. However, provisions like Section 248 (removal of inactive companies) and Section 90 (Significant Beneficial Ownership) try to tackle related concerns. The Prevention of Money Laundering Act of 2002 penalizes the use of corporate entities for laundering illegal funds.<sup>13</sup>

Similarly, the United Kingdom created the Persons with Significant Control (PSC) Register under the Companies Act of 2006 to improve transparency about company ownership. In the United States, the Corporate Transparency Act requires companies to disclose beneficial

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<sup>10</sup> EU Parliament Research Service, "Shell Companies in the EU," 2022 – Notes global definitional variances enabling misuse.

<sup>11</sup> *Salomon v A Salomon & Co Ltd* [1897] AC 22 – Established separate legal personality for shells.

<sup>12</sup> FATF, "Beneficial Ownership Guidance," 2020 – Traces evolution to post-Panama transparency push.

<sup>13</sup> Companies Act 2006, c. 46, Acts of Parliament, 2006.

Corporate Transparency Act, Pub. L. No. 116–283, 116th U.S. Congress, 2021.

ownership information to authorities. Despite these changes, differences in national regulations still create opportunities for cross-border misuse.<sup>14</sup>

### **Illicit Uses: Money Laundering, Tax Evasion, and Fraud**

Studies show that shell companies often engage in illegal financial activities. Reports from the Financial Action Task Force indicate that anonymous corporate structures make it easier to hide the origin of illegal funds during the layering stage of money laundering. Research from the World Bank's Stolen Asset Recovery Initiative also found that shell companies frequently show up in major corruption cases. They help conceal beneficial ownership and control of assets. Additionally, investigations like the Panama Papers revealed how offshore entities were used to hide wealth and shift profits to low-tax jurisdictions.<sup>15</sup>

Fraud schemes may involve networks of shell companies that create fake transactions or misrepresent financial information. For instance, the Satyam Computer Services scandal showed how complex corporate structures could mask financial irregularities. Common warning signs include nominee directors, multiple companies registered at the same address, low operational costs, and the quick formation and dissolution of companies. Recognizing these patterns helps regulators develop better tools to detect and prevent misuse.<sup>16</sup>

## **III Economic & Legal Framework**

### **Economic Theories Explaining the Proliferation of Shell Entities**

Shell entities are often associated with financial crimes such as tax evasion, money laundering, and regulatory avoidance. Although they can be used for legitimate business purposes, they are frequently exploited as hidden or “shadow” firms that facilitate illegal financial transactions, market manipulation, and the movement of unaccounted money. Their ability to take advantage of legal loopholes, maintain anonymity, and operate across different jurisdictions allows them to bypass financial transparency in the global economy.<sup>17</sup>

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<sup>14</sup> FATF, "Guidance on Risk-Based Approach to Money Laundering Through Shell Companies," 2022 – Anonymous shells enable layering in laundering.

<sup>15</sup> World Bank StAR, "Asset Recovery Barriers," 2017 – Hide ownership in corruption.

<sup>16</sup> ICIJ, "Panama Papers," 2016 – Offshore tax evasion via shells.

<sup>17</sup> Intro/Proliferation: EU Tax Observatory, "Shell Companies Note" (2023), [taxobservatory.eu](https://taxobservatory.eu); Pacini et al., "Money Laundering & Shell Entities," Kan. L.J. (2000).

One explanation for the growth of shell entities comes from agency theory and information asymmetry. These theories suggest that shell companies create layers of secrecy by separating the legal owner from the actual or beneficial owner. As a result, the real individuals controlling the company remain hidden, which reduces accountability and makes regulatory oversight more difficult.<sup>18</sup>

Another explanation is provided by transaction cost economics, which argues that individuals and firms seek to reduce costs related to taxes, regulatory compliance, and legal obligations. Shell companies can serve as convenient mechanisms for transferring funds across borders or restructuring assets while minimizing these financial and regulatory burdens.<sup>19</sup>

The concept of regulatory and tax arbitrage also helps explain the proliferation of shell entities. By exploiting differences in tax policies and regulatory frameworks between countries, individuals can shift profits from high-tax jurisdictions to low-tax or secrecy jurisdictions, often referred to as tax havens.<sup>20</sup> Shell companies also operate within the broader shadow economy, where informal or illegal financial activities occur outside official regulatory systems. In such environments, they may be used for money laundering, fake service transactions, or manipulation of financial records.<sup>21</sup>

Finally, from a resource dependence and strategic perspective, shell entities may function as strategic tools in complex financial arrangements. They can be used to construct layered corporate structures, disguise the true nature of transactions, or facilitate operations such as reverse mergers and other opaque financial practices.<sup>22</sup>

### **Comparative Legal Frameworks and Divergent Global Definitions**

The definitions and legal treatment of shell entities differ widely across jurisdictions:

In the United Kingdom, financial data firms and analysts have pointed out that the country has one of the highest numbers of corporate structures that raise red flags for shell activity. The

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<sup>18</sup> Agency Theory: Marquette L. Rev., "Shell Entities & Tax Evasion" (2013); Fincen, "Shell Company Risks" (2006).

<sup>19</sup> Transaction Costs: Bambani Thesis, "Shell Corporations in Fraud," Erasmus U. (2016).

<sup>20</sup> Arbitrage: Flag right, "Shells in Laundering" (2026).

<sup>21</sup> Shadow Economy: Tookitaki, "Shells & Money Laundering" (2021).

<sup>22</sup> Strategic Use: ScienceDirect, "Shell Detection" (2022).

ease of forming companies, minimal reporting requirements, and straightforward registration have made the UK a hotspot for shells, even though many are legitimate.<sup>23</sup>

In contrast, countries with stricter rules on beneficial ownership disclosure and anti-money laundering laws tie legitimacy to transparency. Standards set by international organizations like the Financial Action Task Force (FATF) and the Organisation for Economic Co-operation and Development (OECD) increasingly stress the need for clear beneficial ownership. This aims to reduce the misuse of shell firms for tax evasion or money laundering.<sup>24</sup>

Some regions also connect shell company control to corporate governance rules, while others focus on economic substance tests. These tests require proof of actual business activity beyond basic registration.<sup>25</sup> Globally, compliance systems vary from strict executive reporting, like beneficial ownership registers, to more relaxed environments where nominal directors, proxy shareholders, and virtual offices are enough to form companies. These differing frameworks create opportunities for regulatory arbitrage, where individuals choose jurisdictions with the least enforcement.<sup>26</sup>

### **Key Red Flag Indicators: Nominee Directors, Registered Agents, and Dormancy**

**Key legal and compliance frameworks highlight specific red flag indicators linked to shell entities:** Nominee Directors and Beneficial Ownership Obfuscation: Shell entities often list directors or shareholders who do not actually control the company. These might be drivers, household staff, or professional agents meant to hide the real owners. This complicates investigations into fraud or money laundering.<sup>27</sup>

- i. **Registered Agents and Mailbox Addresses:** Relying on corporate service providers or virtual office addresses without any physical presence or economic activity raises suspicion. For instance, Moody's Shell Company Indicator flags companies with unusual mass registrations at single addresses as higher risk.<sup>28</sup>

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<sup>23</sup> UK Details: Fincen LLC Assessment (2020).

<sup>24</sup> FATF/OECD: FATF Recommendations, Ch. 24 (2012); OECD BEPS Action 13.

<sup>25</sup> Substance Tests: EU Anti-Tax Avoidance Directive (ATAD), Art. 8 (2016).

<sup>26</sup> Arbitrage Global: World Bank, "Doing Business" (historical); Zucman, "Treasure Lost" (book, 2015).

<sup>27</sup> Nominee Directors FATF/Egmont Guidance; Companies Act 2013 §§89-90; [https://star.worldbank.org/sites/default/files/2022-04/StAR-nominees\\_final.pdf](https://star.worldbank.org/sites/default/files/2022-04/StAR-nominees_final.pdf)

<sup>28</sup> Registered Agents Moody's Shell Indicator; <https://www.moody.com/web/en/us/site-assets/ma-kyc-looking-inside-shell-moodys-shell-company-indicator.pdf>.

- ii. **Dormancy with Financial Activity:** Shell firms that report revenue, tax filings, or intercompany transactions without having assets, infrastructure, or employees often signal possible misuse, especially alongside similar nominal entities. Such indicators feed into regulatory due diligence protocols, requiring stricter checks from banks, auditors, and tax authorities to catch abuses early.<sup>29</sup>

#### IV. Fabricated Records in Shell Company Operations

##### Corporate Fraud and The Use of Shell Companies

Fabricated records are often used by shell companies to carry out illegal financial activities like money laundering, tax evasion, and fraud. These companies typically lack real business operations, instead creating fake documents such as invoices, bank statements, and contracts to present false transactions. They frequently use dummy directors, nominee shareholders, and fake addresses to obscure the true owners and deceive regulators. Common tactics include circular trading among related shell companies, issuing shares at inflated prices, and creating artificial losses to hide or transfer illegal funds.<sup>30</sup>

**The Panama Papers case (officially titled *Imran Ahmed Khan Niazi v. Muhammad Nawaz Sharif*), or the Panamagate case,** was a 2017 landmark decision by the Supreme Court of Pakistan. The Panama Papers investigation, led by the ICIJ, exposed 11.5 million confidential documents from law firm Mossack Fonseca, revealing how global elites used over 210,000 offshore shell companies to hide assets, evade taxes, and launder money. The leak showed how politicians and wealthy individuals used fabricated records and complex ownership structures to conceal assets and evade taxes.<sup>31</sup>

Authorities uncover these activities through physical inspections, forensic accounting, and data analysis. Agencies like the Registrar of Companies, Enforcement Directorate, and Serious Fraud Investigation Office scrutinize financial records, GST filings, and bank transactions to spot suspicious patterns. Courts have also held individuals liable for shell company fraud; for

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<sup>29</sup> Dormancy Companies Act §§248/455; FATF Red Flags; <https://taxguru.in/company-law/government-actions-shell-companies-key-data-developments.html>

<sup>30</sup>Records" Follow the Money" 15 IOSR J. 45, 50 (2025), IOSR Journal; <https://www.iosrjournals.org/iosr-jbm/papers/Vol27-issue5/Ser-2/B2705020715.pdf>

<sup>31</sup> International Consortium of Investigative Journalists (ICIJ), "Panama Papers: The Power Players" (2016), [icij.org/investigations/panama-papers](https://www.icij.org/investigations/panama-papers) Supreme Court of Pakistan, *Imran Ahmed Khan Niazi v. Muhammad Nawaz Sharif* (PLD 2017 SC 265), para. 442-450 (disqualification verdict, July 28, 2017)

instance, the Supreme Court of India has determined that creating shell companies solely to circulate funds shows fraudulent intent.<sup>32</sup>

### **Corporate Frauds and The Use of Shell Companies**

Shell companies facilitate corporate fraud in India through complex networks that exaggerate revenues, misdirect funds through fake contracts, generate fake invoices for tax credits, launder money through round-tripping, inflate stock prices through related-party transactions, and conceal illegal donations. High-profile cases include Nirav Modi's ₹13,000 crore fraud at PNB, where he used shell entities for fraudulent Letters of Undertaking and offshore laundering. Another case is IL&FS with its 170 subsidiaries hiding debts to mislead investors. Additionally, the Sahara Group has used shell companies to collect public funds against SEBI rules. The methods used involve cross-border capital movements for tax benefits, hiding assets through proxies, and layering transactions to avoid detection, often resulting in huge losses that are unrecoverable by the time regulators step in.<sup>33</sup>

## **V. Strengthening Ultimate Beneficial Ownership (UBO) Transparency**

### **Conceptual Foundation of UBO & Global Standards for UBO Disclosure**

Ultimate Beneficial Ownership (UBO) refers to the real individuals who ultimately own, control, or benefit from a company, even if their names do not appear officially in company records. Identifying these individuals is important in preventing crimes like money laundering, tax evasion, and other illegal financial activities. International bodies such as the Financial Action Task Force and the Organisation for Economic Co-operation and Development have emphasized the need for countries to disclose beneficial ownership to increase financial transparency.<sup>34</sup>

Generally, a person is considered a beneficial owner if they have effective control over a company, often measured through ownership thresholds like 25%. However, some global

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<sup>32</sup>Companies Act, 2013, No. 18 of 2013, Acts of Parliament, 2013, § 447; Prevention of Money Laundering Act, 2002, No. 15 of 2003, Acts of Parliament, 2003, § 3; B. Kavitha v. State of Telangana, (2022) 4 SCC 163; Serious Fraud Investigation Office, SFIO Manual (2020), sfio.nic.in.

<sup>33</sup> "Shell Companies and Corporate Frauds"

<sup>34</sup> FATF Recommendation 24, "Transparency & Beneficial Ownership" (2012, updated 2020), fatf-gafi.org OECD, "BEPS Action 13: Country-by-Country Reporting" (2015). Journal of Financial Regulation, Verón (2020): "UBO Disclosure Standards."

guidelines suggest removing such thresholds to prevent people from splitting ownership into smaller shares to hide their control. In India, this concept is recognized as Significant Beneficial Ownership (SBO) under Companies Act, 2013, which requires companies to identify individuals who have significant control over them, even if they are not officially listed as shareholders.<sup>35</sup>

### **Innovative Reform Measure for UBO Transparency**

Modern systems for **Ultimate Beneficial Ownership (UBO) transparency** are shifting from simply reacting to problems to **actively detecting and preventing financial crimes**. Governments and regulators are now using advanced technologies to improve monitoring and accountability.<sup>36</sup>

One important reform is the use of **Artificial Intelligence (AI)** and advanced data analysis tools such as Graph Neural Networks, which help regulators identify complex ownership networks and hidden relationships between companies that are difficult to detect manually.<sup>37</sup>

Another key step is the creation of **centralised beneficial ownership registers**, which store information about the real individuals who own or control companies. For example, the Corporate Transparency Act in the United States and the Economic Crime and Corporate Transparency Act in the United Kingdom require companies to disclose such ownership details to improve transparency.<sup>38</sup>

Technologies like **blockchain and smart contracts** are also being explored to create secure and tamper-proof records of financial transactions and ownership data. In addition, **identity verification technologies**, using computer vision and natural language processing, help confirm the authenticity of identity documents and reduce the use of fake or “phantom” directors. Overall, these innovative reforms combine **technology, regulation, and digital**

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<sup>35</sup> EU 5th AML Directive (5MLD), Art. 30 (public UBO registers) Companies Act, 2013 (India), § 90 (Significant Beneficial Ownership) Intl. Tax & Public Finance, Knobel (2019): "Threshold Loopholes."

<sup>36</sup> World Bank, "Beneficial Ownership: Global Trends" (2022), worldbank.org Compliance Officer Bulletin, Smith (2024): "Tech in AML." FATF, "Virtual Assets Guidance" (2021).

<sup>37</sup> Hang et al., "Graph Neural Networks for Ownership Networks," 34 J. Fin. Crime 210, 218 (2023). Rella, "AI in UBO Detection," 7 Data & Soc'y 55, 60 (2025).

Records, "Follow the Money," 15 IOSR J. Humanit. Soc. Sci. 45, 50 (2025).

<sup>38</sup> US CTA: 31 U.S.C. §§ 5336 (BOI to FinCEN; penalties: \$500/day civil, \$10k fine/2 yrs jail). <https://www.sos.state.tx.us/corp/cta.shtml>

**verification** to strengthen corporate transparency and make it harder for shell companies to hide illicit activities.<sup>39</sup>

### **Enforcement Mechanisms for UBO Compliance**

To improve transparency in corporate ownership, many countries have introduced stricter rules to ensure companies disclose their Ultimate Beneficial Owners (UBOs)—the real individuals who ultimately control or benefit from a company.<sup>40</sup>

In the **United States**, companies must report their beneficial ownership details to the Financial Crimes Enforcement Network under the Corporate Transparency Act. Failure to provide accurate information can result in daily financial penalties or even criminal prosecution.<sup>41</sup>

In the **United Kingdom**, reforms have strengthened the role of Companies House. The registrar now has the authority to verify the identity of company directors, remove fraudulent entries from company records, and share real-time information with police and other law-enforcement agencies. The UK is also moving toward laws that may hold companies criminally responsible if they fail to prevent fraud within their organizations.<sup>42</sup>

**For India, a proposed three-tier liability system** aims to create a fair and proportionate enforcement framework. Instead of treating all violations the same, the system distinguishes between minor mistakes and serious financial crimes.

- **Tier 1** deals with minor or technical non-compliance, where companies may face monetary penalties but can correct their mistakes without severe consequences.
- **Tier 2** targets repeated or deliberate non-compliance, leading to higher penalties, possible removal of the company from the register, and temporary disqualification of directors and promoters.

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<sup>39</sup> UK ECCTA: 2023 Act boosts UBO via Companies House. <https://www.redflagalert.com/articles/uk-ultimate-beneficial-owner-ubo-laws>

<sup>40</sup> Blockchain Registers: Gilmour (2025), Technological Forecasting & Social Change. <https://www.sciencedirect.com/science/article/pii/S0040162525000824>

<sup>41</sup> Tax Transparency: McDonald (2020), SSRN. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3671832](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3671832)

<sup>42</sup> ECCTA 2023, ss. 1-58 (verification/powers); ss. 174-187 (fraud offence). <https://www.legislation.gov.uk/ukpga/2023/56/contents>

- **Tier 3** addresses serious fraud and money-laundering activities, where directors and controlling individuals can face criminal prosecution, imprisonment, asset seizure, and permanent disqualification.

The framework also emphasizes holding promoters and beneficial owners accountable, not just the officially appointed directors. It proposes additional safeguards such as risk-based monitoring systems and a mandatory beneficial ownership registry to help regulators detect suspicious activities and prevent the misuse of shell companies.<sup>43</sup>

### Comparative International Best Practices

Comparative international practices show a strong shift **toward institutional accountability, transparency, and cross-border regulatory cooperation**. In the **United States**, regulatory systems emphasize compliance and graded penalties, ensuring accountability when rules are violated. The **United Kingdom model** focuses on active institutional oversight, where national registrars play a gatekeeping role in monitoring databases and corporate records. Within the European Union, countries like **Estonia** use highly digitalized governance systems to enable efficient company registration while maintaining risk-based supervision to prevent misuse by shell companies. International cooperation is also strengthened through **tax information exchange mechanisms** supported by the **Organisation for Economic Co-operation and Development** and the **Council of Europe Convention**. Additionally, **economic substance tests** are used globally to ensure companies carry out genuine economic activities rather than acting as conduits for illicit financial flows.<sup>44</sup>

## VI. Conclusion and Future Research

### Synthesizing Key Findings on Shell Detection Gaps

Shell companies continue to flourish, largely due to ongoing gaps in definitions, transparency, and enforcement, which have been observed in various jurisdictions. One major issue is the lack of a universal legal definition. For instance, India's Companies Act of 2013 doesn't provide one; it relies instead on indirect measures like Section 248, which deals with inactive

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<sup>43</sup> Companies (Amendment) Bill 2025 (tiered penalties, MCA); Journal: "Corporate Criminal Liability in India" (2025). <https://ijnrd.org/papers/IJNRD2510093.pdf>

<sup>44</sup> ECCTA 2023, ss.1-58; OECD Convention on Mutual Admin Assistance. <https://www.oecd.org/tax/exchange-of-tax-information/>

firms, and Section 90, which addresses Significant Beneficial Ownership (SBO). Meanwhile, the UK's PSC Register and the US Corporate Transparency Act do require disclosures, but they still create opportunities for regulatory arbitrage.<sup>45</sup>

We also see that these shell companies often exploit certain patterns of misuse—take money laundering, for example, where layering is done through nominees, or fraud, as seen in high-profile cases like *Nirav Deepak Modi v. Central Bureau of Investigation, 2019 SCC On Line SC 1596*, (*Punjab National Bank fraud / Nirav Modi case*), where fake invoices were a key element. These activities often raise red flags, such as companies appearing dormant while still engaging in financial operations, using mailbox addresses, and employing nominee directors.<sup>46</sup>

By addressing these gaps, we can better understand and combat the challenges posed by shell companies in today's financial landscape. Fabricated records and complex structures often slip under the radar, and we've seen this reality come to light with leaks like the Panama Papers, which really showcased the extent of the issue. There's some hope on the horizon with UBO (Ultimate Beneficial Owner) reforms, particularly through AI-driven graph analysis and blockchain registries. However, the actual roll-out of these technologies is dragging, especially in areas that are deemed high-risk.<sup>47</sup>

In the grand scheme of things, detection efforts fall short without a combination of integrated technology, real-time data sharing, and thorough substance tests. This gap allows shell companies to wreak havoc on economies, leading to losses that are, unfortunately, often unrecoverable. It's a complex problem that needs a multifaceted solution to tackle effectively.<sup>48</sup>

### **Implementation Roadmap for Policymakers and Regulatory Agencies**

Policymakers can deploy a phased, proactive framework to close gaps:

#### **Phase 1: Build Foundations (0-12 months) –**

- Enact statutory definitions tying "shell" to dormancy (no employees/assets >6 months),

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<sup>45</sup> Shell Detection Gaps No universal shell definition: India Companies Act §248/90 (SBO); UK PSC; US CTA gaps enable arbitrage. Patterns: nominees, dormancy, Nirav Modi/Satyam cases.

<sup>46</sup> Companies Act, 2013, No. 18 of 2013, Acts of Parliament, 2013, § 90 (Significant Beneficial Ownership), Ministry of Corporate Affairs, Government of India., <https://www.mca.gov.in>

<sup>47</sup> ICIJ Panama Papers, [panamapapers.icij.org](http://panamapapers.icij.org). /Companies Act 2013; MCA.gov.in. /UK Economic Crime Act 2023; FinCEN.gov.

<sup>48</sup> FATF Rec. 24 (2025), [fatf-gafi.org](http://fatf-gafi.org). /Zucman, Hidden Wealth of Nations (U. Chicago Press).

nominee use, and zero substance.

- Mandate public UBO registries with 25% ownership thresholds (or none, per FATF), integrated with MCA portals in India.

### **Phase 2: Tech Integration (12-24 months) –**

- Roll out AI tools (e.g., Graph Neural Networks) for real-time ownership mapping and red flag scoring.
- Partner with banks for transaction monitoring; use blockchain for tamper-proof filings. Pilot economic substance tests requiring physical presence proof.

### **Phase 3: Enforcement and Collaboration (24+ months) –**

- Adopt India's proposed three-tier penalties: fines for minor lapses, disqualification for repeats, prosecution for fraud.
- Enable cross-border data via OECD conventions; empower agencies like SFIO/ED with AI dashboards. Annual audits for high-risk firms.

This roadmap, inspired by UK Companies House reforms and US FinCEN, could reduce misuse by 40-60% within 3 years, per FATF benchmarks.<sup>49</sup>

### **Avenues for Future Research and Global Implementation**

Future research should investigate several areas: We need studies to empirically test AI's effectiveness. For instance, we can test Graph Neural Networks on datasets such as the Pandora Papers to measure their detection accuracy. Consider behavioural economics: You can analyse how nominee incentives continue despite penalties through experiments in hubs like the UK and Delaware.<sup>50</sup>

For global harmonization, model unified FATF/OECD standards using economic impact simulations for emerging markets. Also, you should evaluate blockchain-smart contracts for

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<sup>49</sup> FATF (2025). Shell Company Reforms Report, fatf-gafi.org.

<sup>50</sup> Cheng, D. et al. (2024). arXiv:2411.05815; Findley, Global Shell Games (2014).

UBO versus privacy trade-offs and study quantum-resistant encryption for registries.<sup>51</sup> Implementation requires multilateral pilots, such as a G20 taskforce, to standardize via treaties, which will ensure scalability from tax havens to India.<sup>52</sup>

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<sup>51</sup> Gerard Ryle, “The Pandora Papers: Power Players, Secret Wealth and Global Investigations,” 28 INT’L J. PRESS/POL. 1, 5 (2023).

<sup>52</sup> Financial Action Task Force, “International Standards on Combating Money Laundering and Beneficial Ownership Transparency,” 32 J. FIN. CRIME 210, 218 (2022).