PIERCING THE ILLUSION: SHELL COMPANIES AND THE LIMITS OF CORPORATE VEIL IN CROSS-BORDER FINANCIAL CRIME

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ABSTRACT

The doctrine of separate legal personality, established in Salomon v. A. Salomon and Co. Ltd. (1897) A.C. 22, (1896) UKHL 1, remains a foundational principle of corporate law. However, the rapid boost and increase of shell companies in cross-border financial structures has exposed structural vulnerabilities in this doctrine. While shell entities may serve legitimate commercial purposes, they are increasingly deployed in layered corporate networks to facilitate money laundering, tax evasion, sanctions circumvention, and terror financing.

This paper examines whether the traditional doctrine of lifting the corporate veil is adequate to address complex transnational financial crimes executed through multi-jurisdictional shell companies. It argues that veil-piercing jurisprudence, historically designed to remedy domestic fraud or sham incorporation, is ill-equipped to respond to sophisticated global financial engineering. It also argues that while veil-piercing is an important judicial tool, it is often reactive, inconsistent, and inadequate against the modern financial crime structures that exploit domestic legal systems. Courts often confront jurisdictional fragmentation, opaque beneficial ownership structures, and regulatory arbitrage that undermine enforcement efforts.

Through a doctrinal and comparative analysis of Indian, United Kingdom, and United States legal frameworks, including the Companies Act 2013, the Prevention of Money Laundering Act, the United Kingdom's beneficial ownership regime, and the United States Corporate Transparency Act, this paper contends that beneficial ownership disclosure mechanisms represents a more

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effective regulatory response than traditional veil lifting alone.

The study concludes that while the corporate veil remains conceptually relevant, its enforcement architecture requires readjustment in the era of cross-border data exchange, and director accountability may offer a more sustainable framework for preventing misuse of corporate structures without undermining legitimate commercial activity.

1. INTRODUCTION

The architecture of modern corporate law rests upon the foundational principle of separate legal personality, firmly established in Salomon v. A. Salomon and Co Ltd[1]. This doctrine, coupled with the concept of limited liability, has historically enabled economic growth by encouraging investment, risk-taking, and entrepreneurial expansion. By treating a company as a distinct legal entity, separate from its shareholders and directors, the law creates a protective veil, commonly referred to as the "corporate veil", which shields individuals from personal liability arising out of corporate actions.

However, the rapid globalisation of finance, combined with advances in digital transactions and regulatory arbitrage, has significantly transformed the landscape within which this doctrine operates. In recent decades, shell companies, being entities with little or no substantive operations, have emerged as central instruments in complex, cross-border financial structures. While such entities may serve legitimate purposes, including tax planning, asset holding, and corporate structuring, they are equally susceptible to misuse. Increasingly, shell companies are deployed in multilayered corporate networks to obscure beneficial ownership, facilitate money laundering, evade taxation, bypass international sanctions, and enable other forms of financial crime.

High-profile financial disclosures, such as the Panama Papers (2016) and the Pandora Papers (2021), have revealed the scale and sophistication of such practices, implicating political figures, corporations, and high-net-worth individuals across jurisdictions. These revelations underscore a critical tension, while corporate law seeks to promote economic efficiency through legal

[1] (1897) AC 22; (1896) UKHL 1

personality and limited liability, these very mechanisms are increasingly exploited to facilitate illicit financial flows on a global scale.

Traditionally, courts have responded to misuse of corporate structures through the doctrine of 'lifting' or 'piercing' the corporate veil. This judicial tool allows courts to disregard the separate legal personality of a company in cases involving fraud, sham transactions, or evasion of legal obligations. Landmark decisions such as Gilford Motor Co Ltd v. Horne[2] and Jones v. Lipman[3] illustrates instances where courts intervened to prevent individuals from abusing corporate structures as mere facades. Similarly, Indian jurisprudence, including Delhi Development Authority v. Skipper Construction Co (P) Ltd[4], has recognised the necessity of piercing the veil in cases of fraud and improper conduct.

Yet, these doctrines were largely developed in the context of domestic corporate misuse. The contemporary reality of cross-border financial crime presents challenges of a different magnitude. Modern financial crimes are often executed through intricate, multi-jurisdictional corporate chains involving layers of shell companies incorporated across secrecy jurisdictions. In such scenarios, identifying the true beneficial owner becomes exceedingly difficult, as legal ownership is fragmented across multiple entities, often controlled through nominee directors and opaque trust structures. The territorial limitations of national courts further complicate enforcement, as no single jurisdiction may have complete visibility or authority over the entire corporate network.

In this context, the traditional doctrine of veil piercing appears increasingly reactive and limited in scope. It operates primarily as an ex post remedy, dependent on judicial intervention after wrongdoing has been established. However, by the time courts are able to intervene, the financial trail may have dissipated across jurisdictions, rendering enforcement ineffective. Moreover, the high evidentiary threshold required to justify veil piercing often allows sophisticated actors to remain insulated from liability, particularly in cases involving regulatory arbitrage and complex financial engineering.

[2] (1933) Ch 935; (1933) AII ER Rep 109
[3] (1962) 1 WLR 832; (1962) 1 All ER 442
[4] (1996) 4 SCC 622

Recognising these limitations, regulatory frameworks across jurisdictions have begun to shift towards greater transparency, particularly through the introduction of beneficial ownership disclosure regimes. In India, the Companies Act, 2013 has introduced provisions relating to Significant Beneficial Ownership, complemented by enforcement mechanisms under the Prevention of Money Laundering Act, 2002. Similarly, the United Kingdom has established the Persons with Significant Control (PSC) Register, while the United States has enacted the Corporate Transparency Act to mandate disclosure of beneficial ownership information. These measures reflect an emerging consensus that transparency, rather than reactive veil piercing alone, may offer a more effective response to the misuse of corporate structures in financial crime.

Against this backdrop, this paper examines the continued relevance of the corporate veil in the context of cross-border financial crime facilitated through shell companies. It seeks to address whether the traditional doctrine of veil piercing is structurally adequate to deal with contemporary forms of financial misconduct, or whether a shift towards transparency-based regulatory mechanisms is necessary. Through a doctrinal and comparative analysis of legal frameworks in India, the United Kingdom, and the United States, this study argues that while the corporate veil remains a foundational principle of corporate law, its current enforcement mechanisms are insufficient to address the complexities of global financial crime.

The paper ultimately contends that the future of corporate accountability lies not in abandoning the corporate veil, but in recalibrating its operation through enhanced transparency, stronger disclosure norms, and coordinated cross-border regulatory efforts.

1.1. RESEARCH QUESTION

To what extent does the traditional doctrine of veil piercing address cross-border financial crimes involving shell companies?

1.2. RESEARCH GAP

The existing literature deals with the doctrine of veil piercing and the misuse of shell companies separately. In addition, most of them focus on domestic legal systems and fail to address how differences in jurisdiction and weak international coordination weaken the effectiveness of corporate veil piercing in cross-border financial crimes. Therefore, there exists insufficient legal analysis on whether the traditional corporate veil-piercing doctrine is capable of addressing the modern financial crimes, thus necessitating this study.

1.3. METHODOLOGY

This research adopts the doctrinal and comparative legal methodology of study to examine whether the conventional corporate veil-piercing is adequate in addressing modern financial crimes. It relies on academic literature such as research papers, articles, etc. It also relies on the analysis of the leading judicial precedents from India, the United Kingdom (hereinafter referred to as the UK) and the United States of America(hereinafter referred to as the USA). Further, this research compares the legal frameworks of India, the UK, and the USA.

1.4. PROPOSED CHAPTERIZATION

- Chapter 1: Conceptual Foundations: Corporate Personality and Veil Doctrine
- Chapter 2: Shell Companies: Structure, Legitimacy and Abuse
- Chapter 3: Cross-Border Financial Crime Architecture
- Chapter 4: Why Veil Piercing Fails in a Transnational Context
- Chapter 5: Comparative Regulatory Response
- Chapter 6: Reform Proposals and Conclusion

CHAPTER 1:

2. CONCEPTUAL FOUNDATIONS: CORPORATE PERSONALITY AND VEIL DOCTRINE

The doctrine of corporate personality constitutes the bedrock of modern company law, enabling corporations to function as independent legal actors within the commercial sphere. This principle, coupled with the concept of limited liability, has historically facilitated economic expansion and capital formation. However, the same legal constructs that promote legitimate enterprise have also created opportunities for misuse, particularly in the context of complex financial structures. Understanding the conceptual foundations of corporate personality and the doctrine of lifting the corporate veil is therefore essential to evaluating their adequacy in addressing contemporary financial crime.

2.1 The Salomon principle and Separate Legal Personality:

The principle of separate legal personality was definitively established in Salomon v. A. Salomon & Co Ltd[5], where the House of Lords held that a duly incorporated company is a legal entity distinct from its shareholders. In this case, Mr. Salomon had incorporated his business and retained substantial control over the company. When the company became insolvent, creditors argued that the company was merely an agent of Salomon and that he should be held personally liable. Rejecting this contention, the court affirmed that once a company is legally incorporated, it must be treated as a separate person, regardless of the degree of control exercised by its shareholders.

This decision marked a turning point in corporate jurisprudence by firmly embedding the idea that corporate obligations are distinct from those of its members. The company can own property, enter into contracts, sue and be sued in its own name. Subsequent decisions, such as Lee v Lee's Air Farming Ltd[6], further reinforced this doctrine by recognizing that an individual could

[5] (1897) AC 22; (1896) UKHL 1
[6] (1961) AC 12; (1960) 3 AII ER 420; (1961) UKPC 33

simultaneously act in multiple capacities, such as shareholder, director, and employee, without undermining the company's separate personality.

The Salomon principle has since been universally accepted across common law jurisdictions, including India, where it underpins the structure of corporate regulation under the Companies Act, 2013. It serves as the legal foundation upon which modern corporate enterprise is built.

2.2 Rationale for Limited Liability:

Closely linked to the concept of separate legal personality is the principle of limited liability, which restricts the liability of shareholders to the extent of their investment in the company. This doctrine is central to the functioning of corporate capitalism, as it reduces the financial risk associated with business ventures and encourages wider participation in investment activities.

The economic rationale for limited liability is multifaceted. First, it promotes capital formation by enabling investors to diversify their portfolios without exposing themselves to unlimited personal risk. Second, it facilitates the transferability of shares, thereby enhancing liquidity in financial markets. Third, it allows corporations to undertake large-scale, high-risk projects that might otherwise be unfeasible if investors were personally liable for corporate debts.

From a policy perspective, limited liability strikes a balance between encouraging entrepreneurship and ensuring accountability. Creditors, in theory, price the risk of limited liability into their contractual arrangements with the company. However, this balance becomes problematic when corporate structures are deliberately manipulated to externalize risk while internalizing profits. In such cases, the protective shield of limited liability may be exploited as a mechanism for evading legal obligations, particularly in cross-border contexts involving shell companies and layered ownership structures.

2.3 Traditional Grounds for Lifting the Corporate Veil

While the doctrine of separate legal personality is fundamental, it is not absolute. Courts have, in exceptional circumstances, disregarded the corporate form to hold individuals accountable for misuse of the corporate structure. This process, commonly referred to as "lifting" or "piercing" the corporate veil, serves as an equitable remedy to prevent injustice.

Traditional grounds for veil lifting have evolved through judicial interpretation and are generally limited to situations involving fraud, sham or façade, agency relationships, and evasion of legal obligations.

One of the earliest and most prominent examples is Gilford Motor Co Ltd v Horne[7], where a former employee sought to circumvent a non-compete clause by forming a company through which he continued his competing activities. The court held that the company was a mere façade intended to conceal the true purpose of evading contractual obligations, and accordingly lifted the corporate veil.

Similarly, in Jones v Lipman[8], the defendant attempted to avoid specific performance of a contract for the sale of land by transferring the property to a company under his control. The court characterized the company as a "mask" used to evade legal obligations and pierced the veil to grant relief to the claimant.

Courts have also lifted the veil in cases involving fraud or improper conduct, where adherence to the corporate form would result in injustice. However, it is important to note that veil piercing remains an exceptional remedy, applied sparingly to preserve the integrity of corporate personality as a general rule.

2.4 Indian and UK Jurisprudence on Veil Doctrine:

The approach to veil lifting in both Indian and UK jurisprudence reflects a cautious balancing of competing interests: the need to uphold corporate personality on the one hand, and the necessity of preventing abuse on the other.

[7] (1933) Ch 935; (1933) AII ER Rep 109
[8] (1962) 1 WLR 832; (1962) 1 All ER 442

In India, the Supreme Court has recognized the doctrine of lifting the corporate veil in several cases. In Life Insurance Corporation of India v Escorts Ltd[9], the Court observed that while the corporate veil may be lifted in cases of fraud, improper conduct, or where the company is acting as an agent or trustee, such intervention must be exercised with restraint. The Court emphasized that the separate legal identity of a company should not be disregarded lightly.

A more assertive approach was taken in Delhi Development Authority v Skipper Construction Co (P) Ltd[10], where the Court pierced the corporate veil to hold individuals accountable for fraudulent misuse of corporate entities in a real estate scam. The judgment underscored the principle that the corporate form cannot be used as a shield for fraud or illegality.

In the United Kingdom, the modern position on veil piercing was clarified in Prest v Petrodel Resources Ltd[11], where the Supreme Court distinguished between the “evasion principle” and the “concealment principle”. The Court held that veil piercing is justified only where a company is used to evade an existing legal obligation, and not merely to conceal wrongdoing. This decision significantly narrowed the scope of veil piercing, reinforcing its status as a limited and exceptional remedy.

Together, Indian and UK jurisprudence demonstrate a consistent judicial reluctance to disregard corporate personality except in clear cases of abuse. While this cautious approach preserves the stability of corporate law, it also reveals inherent limitations in addressing sophisticated forms of financial misconduct, particularly those involving cross-border shell company networks.

The conceptual framework of corporate personality and limited liability remains indispensable to modern economic systems. However, the traditional doctrine of veil piercing, developed in response to relatively straightforward instances of fraud or evasion, faces significant challenges in the context of contemporary financial crime. As corporate structures become increasingly complex and transnational, the effectiveness of these doctrines must be critically re-evaluated. This tension sets the stage for a deeper examination of shell companies and their role in facilitating cross-border financial crime.

[9] AIR 1986 SC 1370
[10] (1996) 4 SCC 622
[11] (2013) UKSC 34; (2013) 2 AC 415

CHAPTER 2:

3. SHELL COMPANIES: STRUCTURE, LEGITIMACY AND ABUSE

A shell company is generally understood as a corporate entity with little or no independent operational activity, often existing primarily on paper. According to the Association of Certified Fraud Examiners, shell companies typically have no physical presence, employees, or significant economic activity, and may function merely as conduits for financial transactions[12].

Similarly, the Financial Action Task Force (FATF) defines shell companies as entities that may have no physical presence and generate little or no economic value, often structured to enable anonymity[13].

Structurally, shell companies frequently rely on nominee directors, layered ownership, and offshore incorporation, which collectively obscure the identity of the true beneficial owner[14]. The concept of beneficial ownership, referring to the natural person who ultimately controls or profits from a company, is central to understanding shell company structures.

3.1 Legitimate uses of shell companies:

Despite their controversial reputation, shell companies serve several legitimate commercial purposes. They are commonly used as holding entities, special purpose vehicles (SPVs), and instruments for corporate restructuring, mergers, and investment management[15].

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[12] Association of Certified Fraud Examiners, *Shell Companies: What They Are and How They Work*, available at https://www.acfe.com/fraud-resources/shell-companies last visited 25th March, 2026.
[13] Financial Action Task Force (FATF), definition of shell companies, discussed in beneficial ownership frameworks, Are beneficial ownership laws important? Exploring the impact of Panama, FinCEN, and Pandora Papers on beneficial ownership laws in the UK and the US - ScienceDirect, available at https://www.sciencedirect.com/science/article/pii/S2949791424000344 last visited 26th March, 2026.
[14] What is Use of Shell Companies in Anti-Money Laundering? - AML Network, https://amlnetwork.org/aml-glossary/use-of-shell-companies/ last visited 25th March, 2026.
[15] What Are Shell Companies? | NameScan Insights, https://namescan.io/insights/knowledgebase/shell-firms/ last visited 23rd March, 2026.

Shell companies may also be utilised for tax planning and asset management, provided such arrangements comply with applicable legal frameworks[16]. In capital markets, shell entities are frequently employed in structured finance transactions, where their lack of operational activity is functionally necessary rather than indicative of illegitimacy.

3.2 Shell Companies as instruments of financial crime (Abuse):

Notwithstanding their lawful uses, shell companies are widely recognised as key enablers of financial crime. Their structural opacity makes them particularly useful in money laundering, tax evasion, corruption, and fraud schemes[17]. In the context of anti-money laundering (AML), shell companies are frequently used during the 'layering' stage, where illicit funds are routed through multiple entities to obscure their origin and create complex financial trails[18].

Law enforcement authorities, including the Federal Bureau of Investigation, have highlighted that shell companies enable criminals to hide, move, and access illicit proceeds by concealing beneficial ownership[19]. The use of shell entities in global financial scandals, such as the Panama Papers, demonstrates how such structures can be exploited to conceal wealth and evade regulatory scrutiny[20].

3.3 Offshore jurisdictions and regulatory arbitrage:

The proliferation of shell companies is closely linked to offshore jurisdictions that offer low taxation, minimal disclosure requirements, and high levels of financial secrecy. These jurisdictions facilitate regulatory arbitrage, allowing individuals and corporations to exploit differences between national legal systems to minimise oversight and liability.

16 Shell Companies: Regulations, Examples, Issues, Effects & More | UPSC Notes, https://testbook.com/ias-preparation/shell-companies last visited 22nd March, 2026.

17 Shell Companies Database, available at https://amlnetwork.org/watchdog-database/shell-companies/ last visited 24th March, 2026.

18 See also, What is Use of Shell Companies in Anti-Money Laundering? - AML Network, https://amlnetwork.org/aml-glossary/use-of-shell-companies/ last visited 25th March, 2026.

19 Combating Illicit Financing by Anonymous Shell Companies — FBI, https://www.fbi.gov/news/speeches-and-testimony/combating-illicit-financing-by-anonymous-shell-companies last visited 25th March, 2026.

20 What Are Shell Companies? | NameScan Insights, https://namescan.io/insights/knowledgebase/shell-firms/ last visited 23rd March, 2026.

A major concern in this context is the use of nominee shareholders and directors, which enables companies to conceal the identity of their true controllers and frustrate regulatory enforcement. International bodies such as the Financial Action Task Force have emphasised the need for transparency in beneficial ownership to prevent the misuse of legal entities for money laundering and terrorist financing.

CHAPTER 3

4. CROSS-BORDER FINANCIAL CRIME ARCHITECTURE

Cross-border financial crime architecture refers to the financial, legal and institutional structures through which illegal financial activities are planned, executed and concealed across multiple jurisdictions. Unlike domestic financial crimes, they exploit regulatory gaps and differences in national legal systems to avoid detection and liability. This architecture operates through layered systems, inter alia, nominee directors, creation of shell companies, offshore entities, to mention but a few. The architectures strategically distribute ownership, management and financial transactions across borders to hide beneficial ownership. According to the Financial Action Task Force (FATF), beneficial ownership of assets and transactions is obscured through:

i) the creation of complex ownership and control structures,

ii) having formal and informal nominee shareholders and directors where the nominator's identity remains undisclosed.

iii) use of shell, front or shelf companies, especially when foreign ownership is spread across jurisdictions.[21]

Further, the architects use tax havens and secrecy jurisdictions to enable anonymity, thereby making it difficult for regulators to trace assets or establish legal liability.

4.1. Key Components of Cross-Border Financial Crime Architecture

- Shell and Offshore Companies: They exist on paper and they lack physical presence. They are used to camouflage the sources of illicit funds by utilizing the layering mechanism across jurisdictions. They're also being used for tax evasion by corporations and/or high-net-worth individuals through shifting profits to low/no tax jurisdictions. For instance, the Panama Papers Leak of 2016, wherein over 11.5 million financial and legal records were leaked, which exposed a system that enabled crimes, corruption and wrongdoing hidden by secretive offshore companies to evade tax, hide wealth, amongst others.[22] The scandal exposed more than 214, 000 tax havens involving high-profile people, government officials, and entities from 200 different nations.[23] Shell companies also conceal bribes, kickbacks and launder proceeds of corruption.[24]Shell and offshore companies are used to separate legal ownership from real control.

- Complex Corporate Layering: This connotes the usage of a web of entities such as shell companies, nominee directors and trusts across jurisdictions to create a complicated ownership structure which makes it difficult for investigators to trace the beneficial owner or identify the true beneficiary of the funds.

- Weak Coordination Among Enforcement Agencies: The disparities in legal systems and limited information sharing across borders, delays and sometimes

[21] FATF, https://www.fatf-gafi.org/en/publications/Methodsandtrends/Concealment-beneficial-ownership.html (last visited Mar. 20, 2026).
[22] ICIJ, https://www.icij.org/investigations/panama-papers/ (last visited Mar. 20, 2026).
[23] Will Kenton, *The Panama Papers Scandal:Who was Exposed and Consequences*, Investopedia (Mar. 20, 2026, 00:38 AM), https://www.investopedia.com/terms/p/panama-papers.asp.
[24] Aiste Joksaite, *What is a Shell Company and How Can You Protect Your Business?* Ondato (Mar. 20, 2026, 12:52 AM), https://ondato.com/blog/shell-companies/#

prevent effective investigation and prosecution,[25] and thus the financial criminals exploit these gaps where risk signals fracture as transactions move between jurisdictions.

- Regulatory Arbitrage: The actors will capitalize on the loopholes, inconsistencies or differences in regulatory systems to circumvent unfavourable regulations.[26]

- International Financial Systems: Illicit actors leverage the speed and interconnectedness of modern banking to move funds rapidly. They make use of correspondent banking, where a bank provides services to another bank, often in a different country,[27] enabling cross-border payment and the criminals exploit these systems to hide the originator and beneficiary of funds.

Therefore, this structural complexity challenges conventional legal doctrines like the doctrine of veil piercing and the doctrine of separate corporate personality, which were primarily established for domestic corporate misconduct. Hence, the failure of traditional doctrines to effectively address the exploitation of corporate structures to evade liability in cross-border financial crimes.

CHAPTER 4:

5. WHY VEIL PIERCING FAILS IN A TRANSNATIONAL CONTEXT

The doctrine of veil piercing fails and often proves ineffective in transnational financial crime because of jurisdictional, legal and structural limitations that arise when corporate misconduct spans multiple countries.

[25] Financial Crime Academy, https://financialcrimecademy.org/financial-crimes-enforcement-network=fincen/# (last visited Mar. 20, 2026).
[26] Adam Hayes, *Regulatory Arbitrage: What It Means and Examples*, Investopedia (Mar. 20, 2026, 09:03 am), https://www.investopedia.com/terms/r/regulatory-arbitrage.asp.
[27] Sanctions.IO, https://www.sanctions.io/blog/wofsberg-aml-principles# (last visited Mar. 20, 2026).

There is the issue of inconsistent legal standards. Simply put, there is no uniform international law which governs veil piercing; standards vary across jurisdictions, for instance, the UK's narrower evasion principle vs. the US alter ego test, thereby making it difficult to apply a consistent standard to a multinational corporation.

To pierce the corporate veil, the claimants are required to prove that the parent company exercised day-to-day control over the subsidiary.[28] The ambit of the doctrine of veil piercing can be circumscribed to two main scenarios, that is, fraud and complete domination of subsidiary affairs by the parent company. However, multinational corporations,[29] especially those engaged in illicit activities, often structure their systems and operations in such a way that the subsidiary appears independent, thereby making it difficult to prove that the parent company did, in fact, control the wrongful act.

Transnational cases often involve conflicts of law issues. Thus, even if a court of one country pierces the veil and issues a judgment, enforcing the judgment against assets located in another jurisdiction may be difficult. Additionally, courts are often reluctant to apply laws of another country, especially if they undermine local laws protecting investments, etc.

Furthermore, jurisdictional fragmentation is another reason why veil piercing fails in the transnational context, where the principle of separate legal entity, as established in Salomon v. A Salomon & Co. Ltd,[30] is exploited by shell companies to evade liability. Veil Piercing is governed by domestic corporate law, meaning that each country applies different thresholds and legal standards. Thus, when shell companies operate across various jurisdictions, courts may fail to pierce the veil due to a lack of jurisdiction over foreign entities,[31] thereby making it hard to impose liability on the true beneficiaries.

[28] Gayathri Gireesh et al, *Examining the Doctrine of Veil Piercing vis-a-vis Environmental Parent Company Liability in India*, National Law School of India University (Mar. 21, 2026, 16:06 PM), https://ceerapub.nls.ac.in/examining-the-doctrine-of-veil-piercing-vis-a-vis-environmental-parent-company-liability-in-india/
[29] *Id.*
[30] *Supra* note 5, (1897) AC 22; (1896) UKHL 1
[31] Medvedskaya Anastasia, *The Doctrine of Veil Piercing in Investment Law*, Jus Mundi (Mar. 21, 2026, 16:53 PM), https://jusmundi.com/en/document/publication/en-corporate-veil-piercing#

It is noteworthy that transnational financial crimes often rely on layered structures of shell companies spread across offshore jurisdictions to obscure illicit activities. This utilization of multiple layers of shell companies, which often lack physical presence, by the illicit actors creates a dead-end in the money trail, shielding the true beneficiaries and hiding the origin of funds.[32] Each entity maintains a separate legal personality, making it difficult for the authorities to trace and prove fraud, control or the abuse necessary to justify piercing the corporate veil.

Beneficial ownership secrecy remains a significant challenge in combating transnational financial crimes. Many jurisdictions allow nominee directors and confidential ownership structures. Even though legitimate privacy concerns exist, the misuse of such mechanisms allows individuals to hide their identity behind corporate structures[33] and consequently, courts struggle to identify the individuals behind corporate entities without access to reliable beneficial ownership information.

Cross-border investigations face significant evidence gathering limitations, primarily because they depend on the slow, often politically dependent process of Mutual Legal Assistance Treaties (MLATs)[34] and letters rogatory. Additionally, the lack of timely and admissible evidence makes it difficult for courts to meet the high evidentiary threshold required for veil piercing, a remedy used only in exceptional cases of fraud or where a company is merely a facade used for illicit activities or for evading legal obligations. For example, in Northwest Airlines v. Kalitta Flying Service Inc. (2006) where it was held that the corporate veil could be pierced since the corporation was used as a mere instrumentality for the personal benefit of the owner, who was using it to avoid contractual obligations.[35]

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[32] AM Solution, http://www.amlsolution.co/en/content/9470/ep4-the-role-of-shell-companies-in-money-laundering-and-financial-crimes# (last visited Mar. 21, 2026).
[33] World Bank, https://thedocs.worldbank.org/en/doc/734641611672284678-0090022021/original/BeneficialOwnershipTransparency.pdf (last visited Mar. 21, 2026)
[34] Naeem Allahrakha, *Addressing Barriers to Cross-Border Collection of E-Evidence in Criminal Investigations*, 2 IJLP 1, 2(2024), https://www.researchgate.net/publication/381857935_Adressing_Barriers_to_Cross-Border_Collection_of_E-Evidence_in_Criminal_Investigations.
[35] Goutham Ratna and Jyotirmoy Banerjee, *Corporate Accountability and the Doctrine of Piercing the Corporate Veil*, 7 IJLSC 57, 64 (2025), https://ijlsi.com/wp-content/uploads/Corporate-Accountability-and-the-Doctrine-of-Piercing-the-Corporate-Veil.pdf.

In essence, the failure of veil piercing in the transnational context is attributed to it being a domestic legal remedy applied to a globalized structure, thus creating a mismatch between traditional corporate law principles and modern cross-border financial crimes.

CHAPTER 5:

6. COMPARATIVE REGULATORY RESPONSE

The regulatory response to shell companies and cross-border financial crimes vary accross jurisdictions.

6.1. India

India enforces a strict, statutory compliance-oriented approach to address financial crimes. The Companies Act of 2013 mandates the identification of Significant Beneficial Owners (SBO) and permits lifting of the corporate veil to expose fraud. Section 447 of the Act allows the courts to pierce the corporate veil in cases involving fraud, tax evasion, or misuse of corporate structure. The Companies (Significant Beneficial Ownership) Rules, 2018 stipulate that any individual holding a beneficial interest of at least 10% either directly or indirectly must disclose such interest; consequently, entities are obligated to register such beneficial owners and ensure that the relevant forms are filed with the Registrar of Companies and the Reserve Bank of India (RBI).[36] Additionally, there is the Prevention of Money Laundering Act (PMLA), 2002, which empowers authorities to investigate and attach assets linked to illicit financial activity. However, there remain enforcement challenges which include delays in investigation, limited cross-border efficiency and complex corporate structures.

6.2. The United Kingdom

[36] Vrinda Patodi and Aakankasha Singh, *Beneficial Ownership Disclosure: Navigating Compliance Challenges in India*, Obhan Mason (Mar. 23, 2026, 13:02 PM), https://obhanmason.com/blog/beneficial-ownership-discolsure-navigating-compliance-challenges-in-India/

The UK adopts a relatively a transparency-focused regulatory model while retaining the traditional approach to corporate legal personality. The principle established in Salomon v. A. Salomon & Co. Ltd[37] remains central, maintaining that a company is a separate legal entity from its shareholders and directors. The Companies Act of 2006 and the Insolvency Act 1986 provide for the grounds for veil piercing, which include fraud, sham companies, and wrongful or fraudulent trading. In Prest v. Petrodel Ltd[38], the court considered two principles concerned with piercing the corporate veil, that is, the 'concealment principle' which involves the interposition of a company(s) to conceal the true nature of an arrangement, and the 'evasion principle' which is when a person is under an existing legal obligation or liability, or subject to an existing legal restriction which they deliberately evade or whose enforcement they deliberately frustrate by interposing a company under their control.[39]

The UK has adopted a transparency-driven approach to curb the misuse of corporate structures through the Persons with Significant Control (PSC) Register. It is a legal requirement to inform the Companies House of the individuals/relevant legal entity(ies) 'behind' UK legal entities.[40] Under this Register, UK companies and Limited Liability Partnerships must identify and register individuals with more thatn 25% of shares/voting rights, or who exercise significant control, at Companies House.[41] The regime seeks to look beyond nominal ownership to find the ultimate beneficial owner.[42]

The UK has also adopted Anti-Money Laundering (AML) Regulations, wherein financial institutions and professional intermediaries are subject to strict obligations under the Money Laundering Regulations of 2017. Regulated firms are required to apply Customer Due Diligence (CDD), including identifying ultimate beneficial owners, before

[37] *Supra* note 5
[38] [2013] UKSC 34
[39] Ben Rutledge, *Piercing the Corporate Veil Series: The 'Evasion Principle' and the 'Concealment Principle'*, Keidan Harrison (Mar. 23, 2026, 22:33 PM), https:/keidanharrison.com/2021/11/piercing-the-corporate-veil-series-the-evasion-principle-and-the-concealment-principle/.individuals
[40] Deloitte, https://taxscape.deloitte.com/article/people-with-significant-control-(psc)-register.aspx# (last visited Mar. 23, 2026).
[41] *Ibid.*
[42] *Ibid.*

establishing business relationships and Enhanced Due Diligence (EDD) for high-risk clients, that is, clients in industries or countries with a higher risk of financial crime, like those in politically exposed positions or operating in sanctioned regimes.[43]

6.3.The United State of America

The USA has a fragmented regulatory framework because corporate law is primarily state-based. Veil piercing varies across states, though courts generally apply doctrines such as the alter-ego doctrine and instrumentality rule to impose liability.[44] The Corporate Transparency Act mandates that corporations and Limited Liability Companies report Beneficial Ownership Information to the Financial Crimes Enforcement Network (FinCEN) to combat money laundering.[45] The variations in state laws allow corporations to choose jurisdictions with more relaxed oversight, allowing for potential regulatory arbitrage. Despite the enhanced federal oversight from the CTA, the decentralized nature of corporate law means that the effectiveness of veil piercing and liability imposition still depends heavily on the specific state law governing the corporation.

While all three jurisdictions recognize corporate veil piercing and beneficial ownership transparency as tools against financial crime, their effectiveness differs. India relies on statutory regulation, the UK emphasizes disclosures, and the US prioritizes enforcement. However, none fully overcome the challednges poses by transnational corporate structures, thereby highlighting the need for stronger international regulatory harmonization.

CHAPTER 6:

[43]Sanctions.IO, https://www.sanctions.io/blog/complete-guide-to-aml-regulations-for-professional-services (last visited Mar. 23, 2026).

[44] Cornell Law School, https://www.law.cornell.edu/wex/percing_the_corporate_veil# (last visited Mar. 23, 2026).

[45] Mayling C. Blanco, *Corporate Transparency Act: New Beneficial Ownership Reporting Requirements for All Entities with US Operations*, Norton Rose Fulbright (Mar. 24, 2026, 02:03 AM), https://www.nortonrosefulbright.com/en/knowledge/publications/f99c3denhanced40/corpoate-transparency-act.

7. REFORM PROPOSALS

This analysis has demonstrated that traditional doctrines such as veil piercing are insufficient to address the complexities of cross-border financial crime facilitated through shell companies. While these doctrines remain conceptually relevant, their reactive and jurisdiction-bound nature limits their effectiveness in a globalised financial system. Accordingly, there is a pressing need to shift toward a proactive, transparency driven regulatory framework that targets the structural enablers of financial crime rather than merely its consequences. Thus, the proposed key reforms aimed at enhancing corporate accountability while preserving the legitimate utility of corporate structures are as follows:-

1. Strengthening beneficial ownership transparency: At the core of any effective reform lies the need to ensure accurate, timely, and accessible beneficial ownership information. To ensure this, jurisdictions should mandate comprehensive disclosure of ultimate beneficial owners (natural persons), regular updating of ownership information, and independent verification mechanisms to ensure data accuracy.

   Merely requiring disclosure is insufficient if the information remains unverified or outdated. Therefore, regulatory authorities must be empowered to conduct audits, impose penalties for non-compliance, and cross-check ownership data with financial and tax records.

2. Establishing interconnected global beneficial ownership registries: While many jurisdictions have introduced domestic beneficial ownership registers, their effectiveness is limited by the absence of cross-border integration. Given the transnational nature of financial crime, isolated national databases cannot provide a complete picture of corporate ownership structures.

   Thus, a key reform would involve the creation of interoperable global or regional registries, enabling real-time information sharing between jurisdictions. Such a system would reduce information asymmetry, facilitate faster investigations, and enhance coordination among enforcement agencies.

3. Regulating nominee directors and shareholders: The use of nominee directors and shareholders is a major obstacle to identifying beneficial ownership. While such arrangements may serve legitimate purposes, they are frequently exploited to conceal control and evade accountability. Regulatory reforms should include mandatory disclosure of nominee arrangements, imposition of legal duties on nominees to identify the true beneficial owner, and criminal penalties for deliberate concealment or misrepresentation.

4. Expanding director and corporate liability: To enhance deterrence, legal frameworks must impose greater accountability on directors and controlling individuals, particularly in cases involving structured financial misconduct. This may extend liability to ‘shadow directors’ and de facto controllers.

5. Enhancing cross-border regulatory cooperation: The effectiveness of any regulatory framework depends on the ability of jurisdictions to cooperate in investigating and prosecuting financial crime. Thus, reforms should focus on streamlining mutual legal assistance procedures, establishing joint investigative frameworks, and promoting real-time information exchange between financial intelligence units.

6. Leveraging technology for financial transparency: Advances in technology offer significant opportunities to enhance regulatory oversight and combat financial crime. Regulatory authorities can leverage AI for transaction monitoring and anomaly detection, blockchain based systems for secure and transparent record keeping, and data analytics to identify patterns of suspicious activity.

7. Recalibrating the role of veil piercing: Rather than abandoning the doctrine of veil piercing, reforms should focus on redefining its role within a broader regulatory framework. Veil piercing should function as a complementary remedy, applied in conjunction with transparency measures rather than a primary tool of enforcement.

The challenges posed by shell companies and cross-border financial crime cannot be addressed through isolated or reactive legal measures. Instead, they require a comprehensive and coordinated regulatory response that prioritises transparency, accountability, and international cooperation.

Ultimately, the goal is not to dismantle the corporate veil, but to ensure that it is not misused as a shield for illegality. A redefined approach, one that combines traditional legal doctrines with modern regulatory tools, offers the most promising path forward in addressing the evolving landscape of financial crimes.

8. CONCLUSION

In conclusion, this research demonstrates taht while the doctrine of piercing teh corporate veil remains an important legal mechanism for preventing the abuse of corporate personality, it is increasingky inadequate in addressing cross-border financial crimes facilitated through shell companies. The morden architecture of transnational financial crime operates through jurisdictional fragmentation, layered corporate structures and beneficial ownership structures, all of which undermine traditional corporate law principles developed for domestic commercial contexts.

The comparative analysis of India, the UK and the USA reveals that despite differing regulatory approaches, each system en counters simmilar structural limitations. Veil piercing contginues to function as an exceptional remedy rather than a systematic solution, constrained by high evidentiary threshold, territorial jurisdiction and inconsistent legal standards across the globe.

Consequently, this research concludes taht the failure lies not merely in enforcement, but in the conceptual mismatch between territorially bounded legal doctrines and globally networked corporate activity. Effective regulation of cross-border financial crime requires greater international coordination, harmonized beneficial ownership disclosure standards and a shift fro reactive veil piercing doctrines towards preventive regulatory transparency mechanisms.