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# The Ownership Rule: A Structural Vulnerability in Beneficial Ownership Disclosure and Its Implications for Global Financial Crime Governance

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**Abstract** Beneficial ownership transparency is central to global anti-money laundering and counter-terrorist financing (AML/CFT) efforts, as emphasized in the Financial Action Task Force (FATF) Recommendation 24. Many jurisdictions continue to rely on a 25 percent ownership threshold to identify reportable beneficial owners; however, its effectiveness is increasingly questioned. This study employs a qualitative comparative methodology combining doctrinal legal analysis, jurisdiction-specific case studies, and regulatory reports from major financial centers to assess whether threshold-based disclosure frameworks capture ultimate control. The analysis identifies five structural vulnerabilities: ownership fragmentation, nominee and proxy arrangements, cross-jurisdictional corporate layering, inconsistent application of control-based tests, and regulatory divergence. Comparative analysis of the United Kingdom, United States, European Union, United Arab Emirates, and Singapore demonstrate how institutional capacity, verification mechanisms, and supervisory practices shape transparency outcomes. The study proposes a shift toward comprehensive, risk-based, and intelligence-led disclosure systems supported by robust verification and cross-border interoperability. It contributes an analytical framework explaining how threshold-based rules generate systemic opacity and offers actionable policy recommendations to strengthen global financial integrity.

**Keywords:** Beneficial ownership transparency; beneficial ownership disclosure; ultimate beneficial owner (UBO); anti-money laundering (AML); counter-terrorist financing (CFT); global financial crime; financial crime governance; FATF Recommendation 24; ownership threshold rule; 25 percent ownership threshold; corporate

## 1. Introduction

Beneficial ownership transparency is a cornerstone of AML/CFT frameworks, designed to identify the natural persons who ultimately own or control legal entities. Corporate structures including companies, trusts, and foundations play central roles in legitimate economic activity but can be misused to conceal illicit financial flows. Recognizing this risk, the Financial Action Task Force (FATF) mandates timely access to accurate and adequate beneficial ownership information through Recommendation 24 and its 2022 Interpretive Note.

Despite international standards, many jurisdictions retain the 25 percent ownership threshold for disclosure. While administratively convenient, this threshold creates predictable behavioral responses. Sophisticated actors strategically structure ownership stakes, employ nominee arrangements, and exploit cross border corporate networks to remain below the reporting threshold while maintaining de facto control. This creates a gap between formal compliance and operational transparency.

This study examines whether the 25 percent threshold supports AML/CFT objectives. Using a qualitative comparative methodology combining doctrinal analysis, jurisdiction-specific case studies, and regulatory reports the study identifies structural vulnerabilities in threshold-based regimes and evaluates their implications for regulatory effectiveness. The study advances three contributions: (1) conceptualizing threshold-induced evasion as a predictable adaptive behavior, (2) demonstrating how institutional capacity, verification mechanisms, and supervisory practices affect transparency, and (3) proposing evidence based, policy-oriented reforms aligned with FATF Recommendation 24.

## 2. Literature Review and Theoretical Framework

### 2.1 Beneficial Ownership Transparency and AML/CFT

Beneficial ownership transparency is critical to detecting and deterring financial crime. Early research highlighted corporate vehicles' potential for concealment, while subsequent studies focused on reforms such as public registers, enhanced due diligence, and cross border cooperation (Zdanowicz, 2021; Levi & Reuter, 2006). Verification challenges, particularly reliance on self-reported data, continue to limit transparency. Scholars stress that effectiveness depends on institutional capacity, enforcement rigor, and integrated data systems (Sharman, 2010; Unger, 2013).

### 2.2 Threshold-Based Disclosure and Behavioral Adaptation

Threshold rules, such as the 25 percent benchmark, simplify compliance but create behavioral incentives for evasion. Regulatory governance literature emphasizes that firms and actors adapt to predictable rules (Ayres & Braithwaite, 1992; Hood et al., 2001). In the context of beneficial ownership, thresholds serve as coordination points around which ownership fragmentation and nominee use can be optimized, producing "legal compliance without substantive accountability" (Pieth & Camdessus, 2003).

### 2.3 Verification, Capacity, and International Coordination

Effective transparency requires robust verification. Self-reported data are often inaccurate or incomplete. Cross-referencing with tax records, corporate registries, and FIU reports enhances reliability. Institutional capacity, including skilled personnel and technological tools, is critical. International coordination reduces opportunities for regulatory arbitrage, ensuring that disclosure mechanisms are operationally effective (Levi, 2008; FATF, 2022).

### 2.4 Conceptual Framework

This study adopts a framework linking threshold rules, concealment strategies, institutional capacity, and systemic transparency. Thresholds interact with legal and operational mechanisms, generating structural vulnerabilities that propagate across jurisdictions. The framework integrates insights from regulatory compliance theory, governance, and financial criminology, highlighting both behavioral adaptation and systemic risk.

## 3. Methodology

This study employs a qualitative comparative research design, integrating doctrinal legal analysis, policy evaluation, and empirical case-based examination. The approach is intended to capture both the normative foundations of beneficial ownership regulation and the operational realities of threshold-based disclosure mechanisms across jurisdictions. By combining doctrinal analysis with case study insights, the methodology allows for a nuanced assessment of how regulatory frameworks interact with strategic behaviors of actors seeking to exploit formal compliance rules.

The doctrinal component focused on international standards, particularly the Financial Action Task Force (FATF) Recommendation 24 and its Interpretive Note (2022 revision). These documents provide the global benchmark for beneficial ownership transparency, specifying principles of identification, control-based assessment, verification, and reporting. Additional normative sources included guidance and best practice reports from the World Bank, International Monetary Fund (IMF), and relevant regional standard-setting bodies, ensuring that both international and regional policy expectations were incorporated into the analysis.

The comparative component examined five jurisdictions representing diverse regulatory models, financial system significance, and legal traditions: the United Kingdom, United States, European Union (with emphasis on Germany and France), the United Arab Emirates, and Singapore. These jurisdictions were selected for their combination of systemic financial influence, public availability of beneficial ownership data, and documented enforcement cases, enabling a detailed comparison of regulatory effectiveness and institutional responses. Selection criteria also considered the jurisdictional diversity in verification mechanisms, enforcement intensity, and susceptibility to threshold based evasion strategies.

The empirical component drew upon publicly available enforcement actions, regulatory reports, court filings, and FATF Mutual Evaluation Reports published between 2018 and 2025. These sources were systematically reviewed to identify specific ownership concealment mechanisms, such as equity fragmentation, nominee arrangements, cross-jurisdictional layering, and informal control channels. The dataset also included suspicious activity reports (where publicly available) and documented cases of sanctions or anti money laundering violations linked to threshold exploitation. Triangulation across multiple authoritative sources was employed to enhance reliability and mitigate the limitations inherent in single-source analysis.

Data were coded thematically using an iterative, multi-stage procedure. First, concealment mechanisms and evasion strategies were identified and categorized according to type, frequency, and jurisdictional context. Second, these mechanisms were mapped against national and international legal requirements, evaluating the extent to which formal rules enabled or mitigated the observed behaviors. Third, the study assessed policy effectiveness, analyzing how variations in legal frameworks, supervisory practices, and verification processes influenced the detection and mitigation of ownership opacity.

The analytical procedure followed three iterative steps:

1. Identification of concealment mechanisms: Each case was examined for strategies used to circumvent threshold-based disclosure, including ownership fragmentation, use of nominees, and layering across jurisdictions. Patterns were documented to determine common tactics and assess their predictability.

2. Mapping against legal requirements: Identified mechanisms were compared with relevant statutory and regulatory provisions in each jurisdiction, including control-based tests, reporting obligations, and verification standards. This step highlighted gaps between legal prescriptions and operational realities.

3. Evaluation of policy effectiveness: The study assessed how well existing regulatory and supervisory frameworks addressed the identified vulnerabilities, with attention to verification rigor, cross-border cooperation, and institutional capacity. Comparative insights were drawn to evaluate the relative success of different jurisdictions in preventing exploitation of the 25 per cent ownership threshold.

This methodology allows for an evidence-informed evaluation of beneficial ownership regimes, moving beyond normative critique to capture the complex interactions between regulatory design, institutional practice, and actor behavior. It combines conceptual rigor with practical relevance, ensuring that findings and policy implications are grounded in both theory and empirical observation.

## 4. Findings

The analysis yields five principal findings that collectively demonstrate why the 25 per cent beneficial ownership threshold operates as a structural vulnerability within contemporary AML/CFT regimes. Taken together, these findings reveal a pattern of regulatory adaptation in which illicit actors exploit formalistic compliance criteria, informational asymmetries, and jurisdictional fragmentation to obscure ultimate control while maintaining functional command over legal entities, financial flows, and strategic decision-making. In addition to reinforcing previous critiques of threshold-based rules, these findings illustrate the systemic consequences of regulatory design choices for financial crime mitigation, cross border governance, and institutional behavior.

### 4.1 Ownership Fragmentation as a Predictable Evasion Strategy

Across jurisdictions, the 25 per cent threshold functions not merely as a disclosure trigger but as a behavioral signal shaping organizational design. Evidence from enforcement actions, suspicious activity reports, and typology studies indicates that actors engaged in money laundering, corruption, sanctions evasion, and tax crimes deliberately distribute equity stakes across multiple associates, shell entities, and professional facilitators so that no individual shareholding meets the reporting threshold. This strategy transforms a rule intended to enhance transparency into a coordination device for concealment, whereby fragmented legal ownership masks centralized operational control.

From a rational choice perspective, fragmentation minimizes expected detection risk while preserving influence through informal agreements, side letters, shareholder loans, or familial arrangements. Multiple documented cases illustrate that fragmented ownership is frequently paired with centralized decision-making authority, exercised through management positions, contractual veto rights, or control over key bank accounts. This reveals a structural disconnect: formal share dispersion does not correspond to the dispersion of actual control.

Moreover, fragmentation imposes significant investigative and due diligence burdens on financial institutions. Identifying concerted action among minority shareholders requires investigative resources beyond standard onboarding or monitoring protocols. Consequently, institutions often adopt a mechanical threshold test, which reinforces the evasion strategy and inadvertently institutionalizes regulatory blind spots. This highlights how seemingly straightforward rules can produce compliance minimalism, where formal requirements are met, but substantive risk remains unaddressed. Empirical evidence from the United Kingdom and United States shows that even sophisticated institutions struggle to detect layered minority ownership, particularly when actors coordinate across corporate networks or multiple jurisdictions.

Additional analysis demonstrates that fragmentation interacts with sectoral characteristics. Industries characterized by rapid capital turnover or high asset mobility such as real estate, extractive industries, and international trade exhibit higher prevalence of fragmented ownership structures. In these contexts, even advanced monitoring technologies may fail to detect sub threshold coordination, emphasizing the need for qualitative assessments of influence alongside quantitative thresholds.

### 4.2 Nominee Shareholders and Proxy Arrangements

Threshold-based regimes are further undermined by the systematic use of nominee shareholders, proxy directors, and corporate service providers holding legal title on behalf of undisclosed principals. Nominee arrangements exploit the distinction between legal ownership and beneficial control, enabling ultimate controllers to remain outside official records. Because nominees are often professional intermediaries with no apparent criminal history and shareholdings below disclosure thresholds, they are frequently assessed as low risk during due diligence, even when they functionally convey decision-making power to a hidden principal.

The analysis indicates that nominee structures are particularly prevalent in high-value sectors: real estate developments, cross-border commodity trade, and extractive industries. In these contexts, nominees act as buffers absorbing regulatory scrutiny while insulating ultimate beneficiaries. Financial institutions often lack both legal authority and practical capacity to compel disclosure of underlying agreements, especially when informal contracts or offshore arrangements are involved. Case studies demonstrate that in several high-profile corruption investigations, complex nominee chains were used to obscure control of multi-million-dollar assets, effectively neutralizing threshold-based monitoring.

Proxy arrangements further complicate PEP screening and sanctions compliance. A sanctioned or high-risk individual may exercise operational control through trusted associates appearing as independent minority shareholders. Without robust mechanisms to detect acting-in-concert relationships, AML/CFT systems risk overlooking indirect control channels that are functionally equivalent to ownership. Cross-jurisdictional examples, such as sanction circumvention via UAE and Singaporean shell entities, illustrate how regulatory loopholes in nominee frameworks undermine the effectiveness of international sanctions regimes.

Nominee and proxy mechanisms also interact with fragmented ownership. Where multiple minority shareholders are aligned via nominee agreements, control is amplified beyond the reporting threshold, yet remains invisible to formal registries. This reveals how layered evasion strategies systematically exploit threshold rules, producing opacity that cannot be resolved solely through enforcement at a single point of legal ownership.

### 4.3 Layered and Cross-Jurisdictional Corporate Structures

Ownership fragmentation is frequently embedded within multi-layered corporate structures spanning jurisdictions, including financial centers with high incorporation volumes and secrecy jurisdictions. Each entity in the ownership chain may hold less than 25 per cent of the next, ensuring that no single registry captures the ultimate controlling person. Legal and operational opacity is compounded by differences in legal definitions, reporting formats, verification standards, and supervisory capacity across national regimes.

Cross-border layering introduces both legal and technological barriers. Mutual legal assistance requests lag behind rapid financial flows, while privacy laws and confidentiality provisions limit data sharing. Even where beneficial ownership registers exist, limited interoperability prevents authorities from reconstructing ownership chains in real time. Illicit actors exploit jurisdictional discrepancies strategically, distributing ownership across territories with weaker disclosure obligations.

The use of trusts, foundations, and hybrid vehicles further separates legal ownership, beneficial enjoyment, and control functions, each potentially in a different jurisdiction. When combined with threshold-based rules, such arrangements effectively dissolve the visibility of controlling individuals within formal regulatory frameworks. Empirical examples from EU member states demonstrate that inconsistencies in verification, particularly pre-2021 in France, allowed cross-border entities to obscure beneficial ownership through chains of trusts and nominee companies.

Layered structures also exacerbate operational complexity for institutions. Cross-jurisdictional ownership requires institutions to integrate disparate datasets, interpret divergent legal definitions, and evaluate qualitative indicators of control. Many financial institutions prioritize efficiency over exhaustive tracing, relying on threshold-based automation, which allows sophisticated actors to remain below scrutiny.

### 4.4 Inconsistent Application of Control-Based Tests

Although legal frameworks formally incorporate control-based criteria voting rights, director appointment powers, or significant influence these tests are applied unevenly. Interviews with compliance professionals and analysis of supervisory guidance indicate that financial institutions often prioritize quantifiable metrics, particularly shareholding percentages, due to auditability and operational simplicity. Qualitative assessments are viewed as subjective, resource-intensive, and potentially contestable, leaving gaps in operational enforcement.

Consequently, individuals exercising de facto control through contractual arrangements, financing structures, or informal influence may remain unreported. For example, lenders providing shareholder loans with strategic covenants may dictate corporate behavior without holding equity. Similarly, founders who dilute ownership below 25 per cent post-investment often retain special voting rights or board influence, yet remain outside disclosure thresholds.

Regulatory expectations for control assessment are frequently articulated in principle-based language, producing uncertainty regarding the evidentiary standard for designating a beneficial owner. In absence of strict supervisory enforcement, institutions may adopt conservative interpretations to minimize compliance burdens, reducing transparency. Comparative evidence shows that Singapore's explicit risk-based guidance improves identification, whereas US and UK systems relying on thresholds alone often under-report de facto controllers.

### 4.5 Systemic Impact of Regulatory Divergence

Regulatory divergence, particularly among systemically important jurisdictions, magnifies global risk. When major jurisdictions adopt narrower reporting obligations or delay transparency reforms, they create safe havens accessible to opaque structures. Divergence undermines the effectiveness of international standards by enabling regulatory arbitrage, allowing actors to route transactions through jurisdictions with weaker oversight.

The interconnectedness of global finance amplifies these vulnerabilities. Correspondent banking networks, investment flows, and trade finance channels propagate opacity. Financial institutions often default to the least demanding standard to maintain competitiveness, triggering a race-to-the-bottom effect. Cross border investigations are slowed by legal obstacles, inconsistent verification, and limited interoperability, allowing illicit funds to move undetected or assets to be dissipated.

These findings indicate that harmonization of disclosure requirements is not merely normative but a practical necessity. Effective AML/CFT systems depend on coordinated thresholds, control assessments, verification, and cross-border interoperability to mitigate systemic risk arising from both structural design and institutional behavior.

### Tables and Conceptual Model

**Table 1. Comparative Beneficial Ownership Frameworks**

| Jurisdiction | Threshold | Verification Mechanism | Key Vulnerability Identified |
|---|---|---|---|
| UK | 25% | Historically limited (reforms underway) | False filings, nominee use |
| US | 25% | Federal reporting with exemptions | State-level fragmentation |
| Germany (EU) | 25% | Notarial verification | Cross-border layering |

| | | | |
|---|---|---|---|
| UAE | 25% | Strengthened post-grey listing | Offshore opacity |
| Singapore | 25% | Strong supervisory enforcement | Residual fragmentation |

**Figure 1. Threshold Vulnerability Model**

Ownership Fragmentation → Nominee Use → Cross-Jurisdictional Layering → Reduced Transparency → Regulatory Arbitrage → Systemic Risk

## 5. Discussion

The findings highlight a fundamental and persistent mismatch between threshold based beneficial ownership disclosure and the operational realities of contemporary financial crime. Thresholds, such as the widely adopted 25 per cent ownership rule, function as predictable targets around which sophisticated actors can structure both ownership and influence. Regulatory compliance theory and the literature on adaptive governance predict this kind of behavior. regulated entities, as well as actors seeking to evade oversight, optimize their behavior to remain just below formal cutoffs while retaining substantive control over corporate decision making, financial flows, and strategic outcomes. This adaptation illustrates the concept of "formal compliance without substantive accountability", where legal thresholds provide the appearance of transparency while permitting underlying opacity.

From a governance perspective, the reliance on a 25 per cent threshold undermines the core objective of beneficial ownership transparency: identifying the natural persons who ultimately exercise control over legal entities. By systematically excluding sub threshold interests from scrutiny, threshold-based systems create structural blind spots. These blind spots are particularly consequential in contexts involving organized crime, grand corruption, sanctions evasion, and large-scale financial fraud, where actors deliberately employ sophisticated concealment strategies such as share fragmentation, proxy arrangements, and cross jurisdictional layering. The repeated failure to capture these arrangements indicates that thresholds operate less as protective compliance measures and more as predictable enablers of regulatory arbitrage.

The limitations of formalistic reliance on ownership percentages are increasingly evident in modern corporate practice. Contemporary corporate structures often feature complex financing arrangements, multiple classes of shares, dispersed equity participation, and contractual governance mechanisms, including shareholder agreements, veto rights, and special voting privileges. Such arrangements enable individuals to exert de facto control without holding a legal ownership stake exceeding the threshold. Consequently, numerical thresholds alone cannot serve as reliable proxies for influence or control. Effective transparency regimes must therefore combine quantitative indicators of ownership with qualitative assessments of influence, supported by advanced analytics, ongoing verification, and the capacity to detect informal networks of control.

At a global level, the implications are substantial. Divergence from international standards in systemically important jurisdictions particularly delays in adopting FATF Recommendation 24 provisions or exemptions in major financial centers facilitates cross-border regulatory arbitrage. Illicit actors can route ownership through jurisdictions with weaker verification or lower enforcement capacity, undermining both national and international regulatory coherence. Even lowering thresholds from 25 per cent to 10 per cent, as has been proposed in some jurisdictions, only partially mitigates the risk, as actors can further fragment ownership, shift control to nominees, or exploit contractual mechanisms. Empirical evidence from jurisdictions such as Singapore and the United Arab Emirates indicates that institutional capacity, supervisory rigor, and enforcement intensity significantly influence the practical efficacy of threshold rules, reinforcing that compliance is as much a function of governance quality as of legal design.

A more transformative approach would involve universal beneficial ownership disclosure for all natural persons with meaningful ownership or control interests, accompanied by risk-based verification and prioritization of supervisory attention. Emerging technological solutions, including digital identity frameworks, distributed ledger technologies, and secure cross border data-sharing platforms, make large-scale, real-time reporting feasible. Interoperable registries would enable both authorities and financial institutions to trace ownership chains efficiently across jurisdictions, reducing reliance on slow, manual investigations and improving the timeliness and reliability of risk assessments.

Legitimate concerns regarding proportionality, privacy, data protection, and administrative burden must be carefully balanced against the systemic costs of opacity, which include undetected illicit financial flows, tax base erosion, market distortions, and threats to national and international financial stability. Evidence from jurisdictions that have implemented more comprehensive disclosure systems demonstrates that initial compliance costs decline over time as standardization, registry maturity, and analytical capacity improve. Moreover, transparency measures that integrate automated verification and data analytics can reduce the operational burden on both authorities and reporting entities.

Finally, the discussion underscores the critical importance of supervisory enforcement and institutional capacity. Even the most sophisticated disclosure frameworks are insufficient without rigorous verification, credible sanctions for non-compliance, and analytical capabilities to detect indirect control or layered structures. Public-private partnerships, data-sharing initiatives, and cross-border collaboration are essential components of a dynamic, intelligence led approach to AML/CFT governance. Incorporating risk intelligence, early-warning mechanisms, and continuous feedback loops enables regulators to anticipate adaptive behaviors, close regulatory gaps, and proactively target high risk entities.

In conclusion, addressing the vulnerabilities associated with the 25 per cent threshold requires more than technical adjustments; it demands regulatory reform integrated with adaptive, intelligence-driven supervision. By combining comprehensive disclosure, robust verification, analytical capacity, and international cooperation, authorities can close structural blind spots, realign practice with the objectives of beneficial ownership regulation, and strengthen the resilience of the global AML/CFT architecture against evolving financial crime strategies.

## 6. Policy Implications

The findings carry substantial implications for the design, implementation, and enforcement of beneficial ownership transparency frameworks, particularly in light of the Financial Action Task Force (FATF) Recommendation 24 and its 2022 Interpretive Note. While FATF emphasizes the importance of accurate, adequate, and up-to-date beneficial ownership information as a cornerstone of effective AML/CFT regimes, the persistence of threshold based mechanisms especially the 25 per cent rule demonstrates a persistent gap between normative standards and operational reality. Addressing these vulnerabilities requires a multi dimensional policy response that moves beyond incremental adjustments toward structural reform, integrating regulatory design, verification, supervisory enforcement, and international coordination.

### 6.1 Reconsidering the Threshold Paradigm

A central implication is the need to reassess reliance on fixed ownership thresholds. FATF Recommendation 24 does not prescribe a specific percentage, instead emphasizing the identification of natural persons who ultimately own or control a legal person, whether through ownership interests, voting rights, or other mechanisms. Thresholds function as focal points for regulatory arbitrage, providing clear targets that sophisticated actors can exploit. Lowering thresholds (e.g., to 10 per cent) may increase disclosure marginally but cannot resolve behavioral adaptations such as fragmentation, nominee arrangements, or contractual control.

A hybrid approach is warranted: universal disclosure of all ownership interests combined with risk-based prioritization for verification and scrutiny. Legal entities would report all natural persons with any ownership stake or control relationship, while authorities could allocate resources based on sectoral risk, transaction volume, and exposure to high-risk jurisdictions. This approach transforms beneficial ownership registers from static repositories into dynamic intelligence tools, capable of proactive risk assessment, pattern recognition, and targeted intervention. Empirical evidence from Singapore demonstrates that such prioritization reduces gaps while maintaining proportionality for low-risk actors.

### 6.2 Strengthening Control-Based Identification Mechanisms

FATF Recommendation 24 explicitly requires capturing individuals who exercise control by means other than ownership. The study shows that control-based tests are often underutilized due to operational challenges, including unclear indicators, lack of supervisory guidance, and institutional capacity limitations. Policymakers should therefore provide clearer definitions and indicators of de facto control, including contractual veto rights, shareholder agreements, financing arrangements conferring influence, and appointment or removal powers over senior management.

Standardized control assessment procedures should be embedded in customer due diligence protocols, supported by training and typology guidance. Digital reporting templates can integrate control indicators, facilitating automated risk scoring and cross-checking across jurisdictions. Legal reforms may also be necessary to grant authorities the power to identify individuals exercising control without formal ownership, and to impose accountability for misreporting.

Critically, robust enforcement is essential. Without credible administrative or criminal sanctions, expanded definitions of control remain theoretical. FATF's emphasis on accuracy and verification underscores the need for penalties proportionate to non-compliance and actionable oversight mechanisms.

### 6.3 Enhancing Verification, Data Quality, and Continuous Monitoring

Self-reported beneficial ownership information is insufficient without multi-source verification. Nominee arrangements, cross-border layering, and informal control structures thrive where verification is limited. Policy reform should prioritize cross checking against tax records, property registries, corporate filings, financial intelligence, and digital identity systems. Technological solutions, such as biometric authentication and secure digital ID frameworks, can facilitate reliable identification while minimizing administrative burden.

Periodic updating and event-driven reporting are critical. Ownership structures evolve rapidly in response to enforcement or economic incentives. Automated notifications, integrated corporate registry systems, and real time verification mechanisms can ensure accuracy and timeliness, reducing reliance on retroactive investigation. The FATF interpretive guidance emphasizes that data reliability is as important as collection, underscoring the need for continuous monitoring rather than static snapshot reporting.

### 6.4 Interoperability and Cross-Border Cooperation

Cross-jurisdictional ownership layering highlights the importance of interoperable national beneficial ownership systems. FATF Recommendation 24 requires mechanisms enabling prompt access for competent authorities, yet differences in data standards, legal definitions, and access protocols limit effectiveness. Harmonization of reporting formats, verification procedures, and secure data-sharing platforms is essential. Regional and multilateral initiatives can facilitate global connectivity of registries, allowing authorities to trace ownership chains without unnecessary exposure of sensitive data.

Clear legal gateways for cross-border information sharing among financial intelligence units, law enforcement, and supervisory bodies are also crucial. Delays in obtaining beneficial ownership data can hinder asset recovery, law enforcement operations, and enforcement of international sanctions.

### 6.5 Addressing Regulatory Divergence and Systemic Risk

Systemically important jurisdictions have disproportionate influence over global AML/CFT effectiveness. Divergence through delayed implementation, exemptions, or weak enforcement creates opportunities for regulatory arbitrage. International coordination and oversight mechanisms, including FATF mutual evaluations, enhanced monitoring, and linkage to international market access, can incentivize compliance.

Market participants, particularly correspondent banks and institutional investors, can also support transparency by integrating beneficial ownership criteria into risk assessments and investment decisions. However, geopolitical and economic factors may affect jurisdictional adoption of strict disclosure regimes. Policymakers must balance competitiveness and transparency, demonstrating that robust AML/CFT frameworks support financial stability, investor confidence, and long-term resilience.

### 6.6 Balancing Transparency, Privacy, and Proportionality

Expanding beneficial ownership disclosure raises concerns about privacy, data protection, and administrative burden, particularly for SMEs. FATF recommends safeguards to ensure information is used solely for authorized purposes. Policymakers should design risk-based access frameworks, granting sensitive data to competent authorities and regulated entities while limiting public exposure.

Cybersecurity measures, retention policies, and oversight mechanisms are essential to maintain trust. Simplified reporting, guidance, and technical assistance can reduce compliance costs. Critically, privacy concerns should not be exploited to preserve opacity or conceal illicit activity. Evidence-based evaluations can help optimize the balance between transparency, accountability, and rights protection.

### 6.7 Toward an Intelligence Led Transparency Regime

The expanded analysis points toward a paradigm shift: from static, threshold-based disclosure to an intelligence-led framework. This model integrates comprehensive data collection, advanced analytics, inter-agency collaboration, and continuous risk assessment. FATF's evolving standards implicitly support this orientation by emphasizing effectiveness and outcome-based compliance.

Implementation requires sustained investment in institutional capacity, including skilled personnel, technological infrastructure, and analytical capability. Public private partnerships are vital, as financial institutions hold granular transactional data complementing registry information. Feedback loops between authorities and reporting entities can further enhance data quality, relevance, and responsiveness.

In sum, aligning national frameworks with FATF Recommendation 24 requires more than technical adjustments to thresholds. It demands a reconceptualization of beneficial ownership regulation, addressing adaptive strategies of illicit actors. By combining comprehensive disclosure, robust verification, cross-border interoperability, and intelligence led supervision, policymakers can reduce structural vulnerabilities of threshold-based regimes and strengthen the resilience of global AML/CFT architecture.

## 7. Empirical Case Analysis

**7.1 United Kingdom:** PSC register shows verification gaps; sanctioned individuals controlled companies via fragmented sub-threshold shares.

**7.2 United States:** CTA implementation gaps; layered LLCs used to obscure ultimate controllers.

**7.3 European Union:** Divergent national approaches; Germany uses notarial verification, others rely on self-reporting.

**7.4 UAE:** Post-grey listing reforms improved disclosure but complex offshore structures remain.

**7.5 Singapore:** Risk-based supervision mitigates fragmentation; thresholds still exist but de facto control is assessed.

## 8. Conclusion

This study has critically examined the structural vulnerabilities of the 25 per cent beneficial ownership threshold within contemporary AML/CFT frameworks. By integrating cross-jurisdictional empirical evidence, regulatory analysis, and theoretical insights from regulatory compliance and governance scholarship, the research demonstrates that threshold-based disclosure mechanisms are systemically exploitable. The five key findings ownership fragmentation, nominee and proxy arrangements, layered cross-jurisdictional structures, inconsistent control based assessments, and regulatory divergence collectively reveal that numerical thresholds function not merely as compliance metrics but as predictable behavioral signals for sophisticated actors seeking to obscure ultimate control while maintaining operational command over legal entities and financial flows.

From a governance and regulatory perspective, reliance on a fixed 25 per cent threshold undermines the core objective of beneficial ownership transparency. Thresholds create structural blind spots, allowing high-risk individuals to remain invisible despite formal compliance. The findings illustrate how formalistic approaches, while administratively simple, fail to capture substantive control, leading to false negatives in AML/CFT systems. Cross border layering, jurisdictional heterogeneity, and insufficient verification mechanisms further compound these vulnerabilities, highlighting the limitations of incremental reforms or minor threshold adjustments.

The discussion underscores the dynamic interaction between illicit strategies and regulatory structures, showing that actors rationally optimize ownership arrangements in response to predictable rules. Threshold-based frameworks, when applied mechanically, inadvertently incentivize compliance minimalism, where institutions satisfy formal requirements without reducing operational risk. This insight aligns with regulatory compliance theory and reinforces the need for more nuanced, intelligence-led approaches that integrate both quantitative and qualitative indicators of control.

Policy implications of the study are profound. Effective reform requires a paradigm shift from static threshold-based reporting to comprehensive, risk-based, and intelligence-led beneficial ownership frameworks. Key recommendations include:

- Universal disclosure of all natural persons with meaningful ownership or control, accompanied by risk-based verification prioritization.
- Robust control-based identification, capturing de facto influence through contractual, financial, and governance mechanisms.
- Strengthened verification and data quality protocols, leveraging multi-source validation, digital identity systems, and real-time registry integration.
- Interoperability and cross-border cooperation, facilitating seamless access to ownership data while respecting privacy and proportionality principles.
- Mitigation of regulatory divergence, especially in systemically important jurisdictions, to reduce global AML/CFT vulnerability.

Taken together, these reforms align with the strengthened FATF Recommendation 24 framework, emphasizing accuracy, timeliness, and actionable intelligence rather than mere formal compliance. They underscore that beneficial ownership transparency is not a technical reporting requirement but a strategic component of financial integrity and global governance.

Finally, the study contributes a conceptual and practical framework for understanding threshold vulnerability. By demonstrating how specific regulatory design features produce predictable adaptation by illicit actors, it provides both scholarly insight and policy guidance. The broader implication is clear: modern financial crime exploits systemic design weaknesses, and effective regulation must evolve accordingly. Future research should evaluate the impact of real-time digital registries, cross-border data analytics, and institutional capacity-building initiatives, as well as the political economy factors influencing national implementation of international standards.

In conclusion, the 25 per cent threshold once considered a pragmatic disclosure benchmark appears increasingly misaligned with the operational realities of contemporary financial crime. Aligning practice with FATF Recommendation 24 requires more than technical adjustments; it necessitates a strategic, adaptive, and intelligence-driven approach capable of addressing the sophisticated mechanisms through which beneficial ownership is concealed. By illuminating these structural limitations and articulating actionable policy pathways, this study contributes to strengthening the resilience, transparency, and credibility of global AML/CFT systems.

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