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The Implementation of Beneficial Ownership Principles in Initial Public Offering (IPO) Prospectuses: A Strategy to Mitigate Money Laundering Risks Posed by Fictitious Controlling Shareholders

Paltiada Saragi
Universitas Kristen Indonesia
Corresponding Author: Paltiada Saragi paltiada.saragi@uki.ac.id

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A B S T R A C T

This study aims to analyze the optimization of Beneficial Ownership (BO) principles in IPO prospectuses to mitigate money laundering risks posed by fictitious controlling shareholders. Employing a normative juridical method with statute and conceptual approaches, the research evaluates 20 IPO prospectuses issued at the Indonesia Stock Exchange between 2020 and 2024. The study assesses the effectiveness of ownership transparency regulations in detecting ultimate beneficiaries within complex corporate structures. Results indicate that current BO disclosures often remain administrative formalities, lacking the substantive verification needed to uncover layered ownership schemes used to conceal illicit funds. Consequently, the paper implies that strengthening substantive due diligence and integrating centralized BO databases are critical to maintaining capital market integrity and meeting international standards.

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INTRODUCTION

The capital market serves as the lifeblood of the modern economy, functioning as a vehicle for corporate funding as well as a vital instrument for public investment. Investor confidence within this ecosystem relies heavily on the implementation of the full disclosure policy through prospectuses during Initial Public Offerings (IPOs). However, the integrity of the capital market currently faces serious challenges from money laundering practices that exploit the complexity of opaque and layered corporate ownership structures (Jayadi, H., & Saragi, P., 2022). The phenomenon of using fictitious controlling shareholders (nominee shareholders) serves as a loophole for the infiltration of illicit funds into the legal financial system, where officially listed individuals often act merely as figureheads without actual control over the company's strategic decisions (Halimatussaqdiyah, H., et al., 2025).

The urgency of this transparency is becoming increasingly prominent in line with the demands of international standards. Although Indonesia has adopted the principle of Beneficial Ownership (BO) through Presidential Regulation Number 13 of 2018, its implementation in prospectuses is still often viewed as a mere administrative formality. In current practice, the identification of beneficial owners is frequently hindered by layered ownership schemes intentionally designed to disguise the origin of funds and the true identity of the controllers (Nugroho, Sunarmi, Siregar, & Munthe, 2020). This obscurity creates legal and reputational risks for issuers, considering that the use of nominee agreements in corporate structures remains a primary instrument abused in money laundering practices in Indonesia (Prabanggana, 2024).

Furthermore, the reconstruction of criminal liability regulations for beneficial owners is critical to providing legal certainty and justice for stakeholders in the capital market (Simanjorang, 2024). This paper contributes to the enrichment of knowledge by examining the urgency of BO disclosure as a strategic instrument for financial crime risk mitigation. The novelty of this article lies in its in-depth analysis of legal loopholes regarding fictitious controllers and the formulation of data integration steps to strengthen corporate transparency in support of compliance with global standards. This study aims to analyze the optimization of the application of Beneficial Ownership principles in IPO prospectuses to mitigate money laundering risks while identifying strategic steps to prevent the dominance of fictitious controlling shareholders in the legal financial system (Lestari, F. K., 2025).

THEORETICAL REVIEW

Full Disclosure Principle

The full disclosure principle serves as the fundamental cornerstone of the capital market, mandating issuers to disclose all material information accurately and timely to the public. In the context of an Initial Public Offering (IPO), this principle is manifested through the prospectus document, which functions as an instrument for investor protection as well as the basis for investment decision-making. Comprehensive information disclosure aims to eliminate information asymmetry between company management and prospective investors, while simultaneously preventing fraudulent practices in the financial market (Rasidi, A, 2024).

Beneficial Ownership

The theory of beneficial ownership focuses on identifying the natural person who ultimately possesses control or receives the ultimate benefits from a legal entity, transcending the legal structure stated in the company's deed. This principle allows authorities to conduct "piercing the corporate veil" to detect parties hiding behind fictitious controlling shareholders. The implementation of BO transparency becomes a crucial instrument in mitigating money laundering risks, as it compels the disclosure of the intellectual actors behind layered ownership schemes often misused to disguise the origins of illicit funds.

Money Laundering in Capital Markets

According to Lestari, F. K. (2025), money laundering is an attempt to conceal or disguise the origin of assets obtained from criminal acts so that such assets appear to originate from legitimate activities. In the context of the capital market, common modi operandi include market manipulation and the use of proceeds from crime to purchase stock instruments during an Initial Public Offering (IPO). The capital market becomes a vulnerable sector due to its high liquidity characteristics and the ability to transfer funds across jurisdictions rapidly (Macnaughton, A, 2021). Money launderers often utilize the layering stage, which involves separating criminal proceeds from their source through a series of complex financial transactions to obscure the audit trail, including through stock purchases using the names of other parties. The integration of illicit funds into the legal financial system through IPOs creates serious reputational risks and undermines the integrity of the national financial system.

Nominee Agreement Concept

The practice of using a nominee or "name borrowing" refers to a situation where the shares of a company are recorded in the name of a person (nominee), while the beneficial ownership and actual control remain in the hands of another person (beneficiary). Although Article 33 of Law Number 25 of 2007 concerning Investment explicitly prohibits agreements stating that share ownership in a limited liability company is for and on behalf of another person, this practice is still rampant through legal smuggling. In this scheme, the beneficial owner uses the nominee as a shield to evade legal obligations, conceal assets derived from crime, or circumvent foreign share ownership limits (Prabanggana, 2024). The

existence of nominees creates a distortion of transparency, as the identity of shareholders listed in the prospectus does not reflect the actual controller, thereby complicating the process of asset tracking and law enforcement (Simanjorang, 2024).

Piercing the Corporate Veil Doctrine

To overcome the legal obstacles created by nominee ownership structures, corporate law recognizes the doctrine of piercing the corporate veil. This doctrine allows the separation of liability between shareholders and the company to be set aside, so that controlling shareholders or beneficial owners can be held personally liable for the company's actions, especially if the company is used as a tool to commit fraud or crime (Adrian Sutedi, 2018). In the context of money laundering through IPOs, the application of this doctrine serves as a juridical foundation for capital market authorities and law enforcement to pursue beneficial owners hiding behind corporate structures that are formally legal but substantially flawed.

METHODOLOGY

This study employs a normative juridical research method focused on the examination of norms within positive law. Given the study's focus on the harmonization of corporate transparency regulations, the primary method utilized is the Statute Approach. This approach involves analyzing all regulations pertaining to the capital market, the anti-money laundering regime, and corporate transparency to identify consistency and coherence among the rules.

The primary legal instruments that serve as the objects of analysis in this study include:

1. Law Number 8 of 1995 concerning Capital Markets, serving as the main legal framework for public offering activities and the principle of disclosure.
2. Law Number 8 of 2010 concerning the Prevention and Eradication of Money Laundering Crimes, which serves as the foundation for the criminalization of money laundering practices and reporting obligations.
3. Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (UU P2SK), as the latest regulation strengthening the integrity of the financial sector.
4. Presidential Regulation Number 13 of 2018 concerning the Application of Principles for Recognizing Beneficial Ownership, which serves as the basis for the obligation to disclose corporate controller identities.
5. Financial Services Authority Regulation (POJK) regarding the implementation of Anti-Money Laundering and Counter-Terrorism Financing (AML-CFT) programs in the financial services sector (Number, P. O. J. K, 8).
6. FATF (Financial Action Task Force) International Standards, serving as the global reference regarding beneficial ownership transparency adopted into national law (Force, F. A. T. 2023).

In addition to the statute approach, this study is supported by a Conceptual Approach derived from the legal doctrine of "lifting the corporate veil." Data collection was conducted through library research on primary, secondary, and tertiary legal materials, which were then analyzed qualitatively to generate prescriptive conclusions regarding money laundering risk mitigation mechanisms through IPO prospectuses.

RESEARCH RESULTS

Steps of Regulatory Analysis

To achieve objective and comprehensive research results, this study was conducted through a series of systematic analysis steps. Given the normative juridical characteristic of this research, "testing" was not performed via a statistical laboratory, but rather through a test of legal norm coherence involving the following stages:

1. Legal Inventory: Collecting all regulations related to Capital Markets (Law No. 8/1995), Prevention of Money Laundering (Law No. 8/2010), and Presidential Regulation No. 13/2018 concerning Beneficial Ownership.
2. Gap Identification: Mapping the differences between das sollen (ideal obligations in FATF standards) and das sein (disclosure practices in IPO prospectuses).
3. Compliance Scoring: Assessing the effectiveness of beneficial owner disclosure clauses in the sample prospectuses using legal transparency indicators.

Sample Description and Analysis Steps

This study conducted a document analysis (content analysis) on 20 (twenty) Initial Public Offering (IPO) Prospectuses published on the Indonesia Stock Exchange during the 2020–2024 period. The sample was selected purposively with criteria of issuers possessing foreign ownership structures or utilizing Special Purpose Vehicles (SPV), as this category bears the highest inherent risk regarding the concealment of beneficial owners. The analysis was carried out by dissecting the "Ownership Structure" and "Information Regarding Shareholders" chapters in each prospectus, and subsequently assigning a compliance score based on the depth of information transparency presented.

Compliance Assessment Matrix

Based on the mapping results of the 20 sample prospectuses, the data indicates that the majority of issuers have not yet reached the standard of substantive transparency. The distribution of Beneficial Ownership (BO) disclosure quality is presented in detail in Table 1 below.

Table 1. Distribution of BO Disclosure Compliance Levels in IPO Prospectus Samples (n=20)

Compliance Category	Score Range	Number of Issuers	Percentage	Violation Typology Findings
Low Compliance (Formal Compliance)	50.00 – 100.00	12	60%	Disclosure stops at foreign corporate entities without tracing the individuals behind them. Strong indication of Nominee use.
Medium Compliance (Administrative Compliance)	100.01 – 150.00	5	25%	Attached BO declaration letter, but inconsistent with data in the Audited Financial Statements. Ownership structure severed at the 2nd or 3rd layer.
High Compliance (Substantive Compliance)	> 150.00	3	15%	Disclosed complete structure up to the Ultimate Beneficial Owner (UBO) as a natural person, accompanied by source of funds track record.

Qualitative Findings

The qualitative analysis identifies three primary weaknesses within the current system. First, there is a Regulatory Implementation Gap. While de jure, corporations are mandated to disclose Beneficial Owners, de facto disclosures frequently cease at the level of administrative formality without substantive verification. Second, the prevalence of modi operandi utilizing layered ownership schemes and nominee agreements serves to conceal the true identity of the ultimate controllers. Third, the failure of capital market supporting professionals (gatekeepers' failure), wherein Notaries and Underwriters often conduct passive document verification without performing in-depth investigations (piercing the corporate veil).

DISCUSSION

The Failure of Formal Compliance in Mitigating Money Laundering

The in-depth discussion of issuer compliance data demonstrates that the majority of disclosures in prospectuses remain trapped within Low to Medium criteria. This indicates that compliance is merely formal compliance (paper compliance), not substantive compliance. This phenomenon aligns with the findings of Prabanggana (2024), who, in his recent research, asserts that the abuse of beneficial ownership positions through the nominee agreement concept remains rampant. This loophole arises because the civil law system in Indonesia still provides a gray area for "name borrowing" practices, complicating material proof, even though the Investment Law has normatively prohibited it.

In the context of the capital market, this formal compliance creates an illusion of transparency. When a prospectus states the owner's identity without validation, it facilitates the entry of illicit funds. Simanjorang (2024) argues that without a reconstruction of criminal liability regulations based on justice values, corporations will continue to hide behind the corporate veil to sever the chain of criminal liability for the true beneficial owners. The failure of prospectuses to detect these intellectual actors is clear evidence of the current risk mitigation system's weakness.

Urgency of Strengthening Due Diligence Mechanism

Referring to the developed risk model, the key variable to reduce money laundering risk is the improvement of due diligence quality. Nugroho, Sunarmi, Siregar, & Munthe (2020) emphasize that money laundering prevention strategies in the financial sector must shift from a passive approach to aggressive early detection. Within the IPO framework, the Financial Services Authority (OJK) needs to mandate Underwriters not to merely accept issuer statements at face value, but to conduct cross-verification with integrated external databases (Saragi, P, 2023).

Furthermore, this urgency is reinforced by the fact that complex ownership structures are often specifically designed to obscure the origin of assets. The application of Strict Liability principles for corporations and their management, as proposed in recent corporate criminal law discourse, becomes a vital instrument. Without strengthening this mechanism, layered ownership structures will continue to be a "Trojan horse" for the entry of criminal proceeds into the capital market, ultimately damaging the integrity of the national financial system.

Harmonization with International Standards

The final discussion focuses on Indonesia's strategic position after becoming a full member of the Financial Action Task Force (FATF) (Force F.A.T, 2023). The implementation of strict Beneficial Ownership transparency in prospectuses is no longer merely an option, but an imperative obligation. Global standards demand that member countries be able to provide fast and accurate access to beneficial ownership information. Therefore, synchronization between prospectus data and the General Legal Administration (AHU) system becomes a non-negotiable step to maintain the credibility of the Indonesian capital market in the eyes of global investors.

CONCLUSIONS AND RECOMMENDATIONS

Based on the normative juridical analysis and empirical evaluation of IPO prospectuses, this study draws two main conclusions. First, the current Beneficial Ownership (BO) disclosure mechanism in prospectuses has not been effective as a money laundering risk mitigation instrument. The majority of issuer compliance levels remain at the administrative formality stage (paper compliance), where disclosure often stops at the corporate shareholder or nominee layer, without touching the Ultimate Beneficial Owner. This condition creates significant regulatory loopholes for the entry of illicit funds through layered ownership schemes.

Second, the high risk of money laundering in the capital market is directly proportional to the complexity of ownership structures that are not balanced by adequate due diligence quality. Capital market supporting professionals, particularly Underwriters, currently lack sufficient authority or incentives to conduct substantive verification (piercing the corporate veil). Consequently, prospectuses fail to function as a filter for criminal proceeds, ultimately threatening the integrity of the financial system and the reputation of the Indonesian capital market internationally.

As an implication of the research results, the following strategic implementation steps are recommended :

1. Strengthening Risk-Based Due Diligence Regulation: The Financial Services Authority (OJK) needs to revise regulations regarding public offerings by mandating the implementation of Enhanced Due Diligence (EDD) for issuers with complex ownership structures or those affiliated with tax haven jurisdictions. Underwriters must be required to conduct physical and investigative validation, not merely relying on issuer declaration letters.
2. National Database Integration: The government needs to accelerate the integration of the Beneficial Ownership database system at the Directorate General of General Legal Administration (AHU) with the capital market supervision system. This data interconnection allows for real-time cross-verification to detect discrepancies between beneficial owner profiles reported in prospectuses and demographic data or tax profiles.
3. Implementation of Cancellation and Criminal Sanctions: Stricter sanctions need to be applied in the form of postponement or cancellation of the IPO effective statement if concealment of beneficial owner identities is found. Additionally, criminal law enforcement against beneficial owners who use nominees for money laundering purposes must be maximized to provide a deterrent effect.

ADVANCED RESEARCH

While this study provides a novel conceptual framework regarding money laundering risk models in IPOs, several inherent limitations must be acknowledged. First, this study employs a normative juridical approach utilizing qualitative content analysis on a purposively selected sample of prospectuses. Consequently, the findings are primarily prescriptive-evaluative and cannot be statistically generalized to quantitatively represent the conditions of all issuers in the Indonesian capital market. Second, the scope of this study is restricted to the Initial Public Offering stage (prospectus documents); thus, it does not encompass an analysis of transaction supervision effectiveness in the secondary market, where layering practices and market manipulation often persist post-IPO.

For the future advancement of knowledge, this study suggests that subsequent research should expand the analytical scope by employing empirical quantitative methods. Future researchers could examine statistical correlations between the level of ownership structure complexity (ownership opacity index) and stock price volatility or the frequency of regulatory sanctions. Furthermore, comparative studies with other jurisdictions possessing more mature Beneficial Ownership regimes (such as Singapore or the European Union) are highly recommended to provide a comprehensive comparative law perspective, thereby strengthening regulatory reform in Indonesia.

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