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**КРАЙНЯЯ СТЕПЕНЬ РАЗДЕЛЕНИЯ И ФУНКЦИОНАЛЬНАЯ
ЭКВИВАЛЕНТНОСТЬ: ДВА МЕХАНИЗМА УКЛОНЕНИЯ
ОТ БЕНЕФИЦИАРНОГО ВЛАДЕНИЯ В ДЕЛЕ
EXTREME FRACTIONALISATION AND FUNCTIONAL
EQUIVALENCE: TWO MECHANISMS OF BENEFICIAL
OWNERSHIP EVASION IN THE SCB/VTP CASE**

Аннотация. В данной статье представлены две теоретические концепции, вытекающие из расследования мошенничества в банковской сфере, возбужденного вьетнамским банком SCB/Ван Тхинь Пхат в 2024 году. Концепция крайней дробления описывает, как строгие пороги раскрытия информации стимулируют распространение сложных сетей фиктивных компаний. Концепция функциональной эквивалентности рассматривает семейные номинальные структуры как операции, идентичные коммерческим оффшорным компаниям, предоставляющим корпоративные услуги.

Abstract. This article introduces two theoretical concepts derived from Vietnam's 2024 SCB/Vạn Thịnh Phát banking fraud prosecution. Extreme fractionalisation describes how strict disclosure thresholds incentivise the proliferation of complex shell company networks. Functional equivalence frames family-based nominee structures as operations identical to commercial offshore corporate service providers.

Ключевые слова: Уклонение от раскрытия информации о бенефициарном владении, крайняя дробление, функциональная эквивалентность, Вьетнам, «Панамские документы».

Keywords: Beneficial ownership evasion, extreme fractionalisation, functional equivalence, Vietnam, Panama Papers.

1. Introduction

The worldwide anti-money laundering (AML) architecture presumes the ability to identify individual beneficial owners. But there are two mechanisms that systematically undermine this premise: the fragmentation of ownership below reporting levels and the replacement of formal nominations with socially rooted personal networks. In this work we call these interacting phenomena extreme fractionalisation and functional equivalence. They together form a compliance structure that is structurally arbitrageable.

We apply these ideas to the 2024 SCB/Vạn Thịnh Phát prosecution in Vietnam, cross-referenced with the 2016 Panama Papers. The SCB case is a unique empirical laboratory: Truong Mỹ Lan ordered bank officials to authorise 2,500 illegal loans totalling more than \$44 billion to 1,100 shell firms she controlled, leading to \$27 billion in losses during 2012–2022. The operation stayed undetected for a decade, by systematically bribing more than twenty officials, including a top central bank regulator, making it ideally suited to stress-testing the beneficial ownership disclosure theory.

2. Extreme fractionalisation: when stricter thresholds produce larger networks

Beneficial ownership thresholds serve as administrative filters, triggering disclosure only above specified levels (historically 25%, though dropping to 10%, 5%, or 1%) [3]. While lower thresholds are intuitively expected to widen the regulatory net, the SCB case exposes a



counterintuitive dynamic: Truong Mỹ Lan's network of over 1,100 shell companies was a direct structural adaptation to regulation. Each entity held a stake below the 5% disclosure threshold for Vietnamese credit institutions. Individually sub-threshold, the aggregate network maintained total control over SCB's loan book. This is extreme fractionalisation.

This empirical evidence reveals a critical paradox: lowering thresholds to close disclosure gaps actually incentivises the creation of larger, more complex shell networks. Dividing control below a 25% threshold requires four nominal owners; a 5% threshold requires twenty; a 1% threshold requires one hundred. Large-scale actors easily absorb these network compliance costs, resulting in greater opacity.

Consequently, threshold-based architecture produces a selection effect, filtering out small violators while leaving sophisticated networks intact. Sustainable reform requires abolishing numerical thresholds entirely in favor of zero-threshold disclosure for all individuals exercising ownership or control [5].

3. Functional equivalence: family networks as commercial nominees

Beneficial ownership evasion is traditionally associated with offshore financial centres and commercial corporate service providers (CSPs). As documented by Findley et al. and the Panama Papers, CSPs use formal nominee arrangements, such as powers of attorney and pre-signed resignation letters to legally separate nominal ownership from real control [6].

The SCB case demonstrates that precisely equivalent opacity can be achieved without commercial CSPs, offshore jurisdictions, or contractual anonymity. Truong Mỹ Lan substituted the commercial nominee relationship with her niece served as legal representative, and hundreds of further individuals with personal ties to the Truong family served as nominal legal representatives across the 1,100+ shell entities [2]. No formal contract was required because the operative mechanism was not contractual anonymity but relational obligation: family loyalty, personal trust, and social dependency.

The regulatory outcomes are identical: compliance processes encounter only the nominal owner, while real control is exercised invisibly through informal channels. This identity of outcome represents functional equivalence.

The theoretical implication is significant: beneficial ownership evasion is not merely an offshore secrecy problem. It is a systemic flaw inherent to any financial system, developed or transitional, where intermediaries, whether commercial or social, can legally sever nominal ownership from real control without generating detectable compliance signals.

4. Interaction of both mechanisms: a comparative view

Extreme fractionalisation and functional equivalence are individually powerful mechanisms for evading beneficial ownership disclosure. Their interaction, however, produces regulatory outcomes of a qualitatively different order. In the SCB case, extreme fractionalisation created a network too large for any individual compliance check to aggregate; functional equivalence ensured that each node in the network passed that check individually. The two mechanisms are therefore mutually reinforcing: fractionalisation defeats threshold-based disclosure, while equivalence defeats identity-based verification.

Table 1.

Comparative Mechanisms: Panama Papers vs. SCB/Vạn Thịnh Phát

Analytical Dimension	Panama Papers (Offshore Model)	SCB / Vạn Thịnh Phát (Vietnam)
Anonymity mechanism	Contractual: power of attorney, nominee declaration, pre-signed resignation	Relational: family obligation, personal loyalty, social dependency
Intermediary type	Commercial CSPs operating in secrecy jurisdictions	Family members and personal associates of the beneficial owner



Threshold exploitation	Ownership distributed across 214,000+ entities in multiple jurisdictions	1,100+ shell companies each below Vietnam's 5% disclosure threshold
KYC/CDD defeat	Nominee director presents as clean; real owner absent from filings	Nominal representative passes identity checks; real controller invisible
Enforcement failure mode	Plausible deniability for CSPs; offshore secrecy laws	Systematic bribery of 20+ domestic supervisors and officials
Detection period	Decades (pre-2016 exposure)	Ten years (2012–2022)
Regulatory outcome	Functional opacity; beneficial owner unidentifiable	Functional opacity; beneficial owner unidentifiable

Source: Author's compilation based on ICIJ (2016) [7], court records SCB/VTP (2024) [1], Findley, Nielson & Sharman (2014) [6].

Table 1 highlights structural symmetry across both cases. Surface-level differences: commercial versus relational intermediaries, offshore versus domestic shell structures, which affect mechanism, not outcome. This validates the functional equivalence concept, proving that reforms targeting only offshore jurisdictions fail to address domestic opacity. Furthermore, these interacting mechanisms exploit risk-based regulation. Extreme fractionalisation ensures individual entities stay below enhanced due diligence thresholds, while functional equivalence ensures that any applied scrutiny encounters only clean nominal owners.

5. Policy implications

The analysis generates three targeted policy implications. First, zero-threshold registration. Any fixed numerical threshold creates an exploitable boundary. Implementing zero-threshold registration for all direct or indirect owners eliminates the mathematical basis for extreme fractionalisation [5], capturing control exercised through both commercial and informal social mechanisms. Second, redefining nominee relationships. KYC and CDD standards must treat family and personal networks as operationally equivalent to commercial nominees. FATF guidance should mandate enhanced due diligence whenever a legal representative has family ties to, or personal dependency on, a suspected beneficial owner. Third, interoperable registries with automated aggregation. Centralised, cross-jurisdictional registries using unique identifiers must automatically aggregate holdings. This renders fractionalised networks visible in real time, making global registry interoperability an urgent priority.

6. Conclusion

This article introduces extreme fractionalisation and functional equivalence to explain how large-scale beneficial ownership evasion circumvents regulatory systems. Extreme fractionalisation exploits threshold-based disclosure, turning lower limits into incentives for larger shell networks. Functional equivalence proves that social nominees achieve identical opacity to commercial offshore providers, framing tax-haven secrecy as a broader systemic governance failure.

The SCB case and the Panama Papers demonstrate that transitional domestic banking systems suffer equivalent regulatory failures through this shared structural logic. Lasting reform requires zero-threshold disclosure, nominee-aware KYC standards, and automated cross-jurisdictional registry aggregation.

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