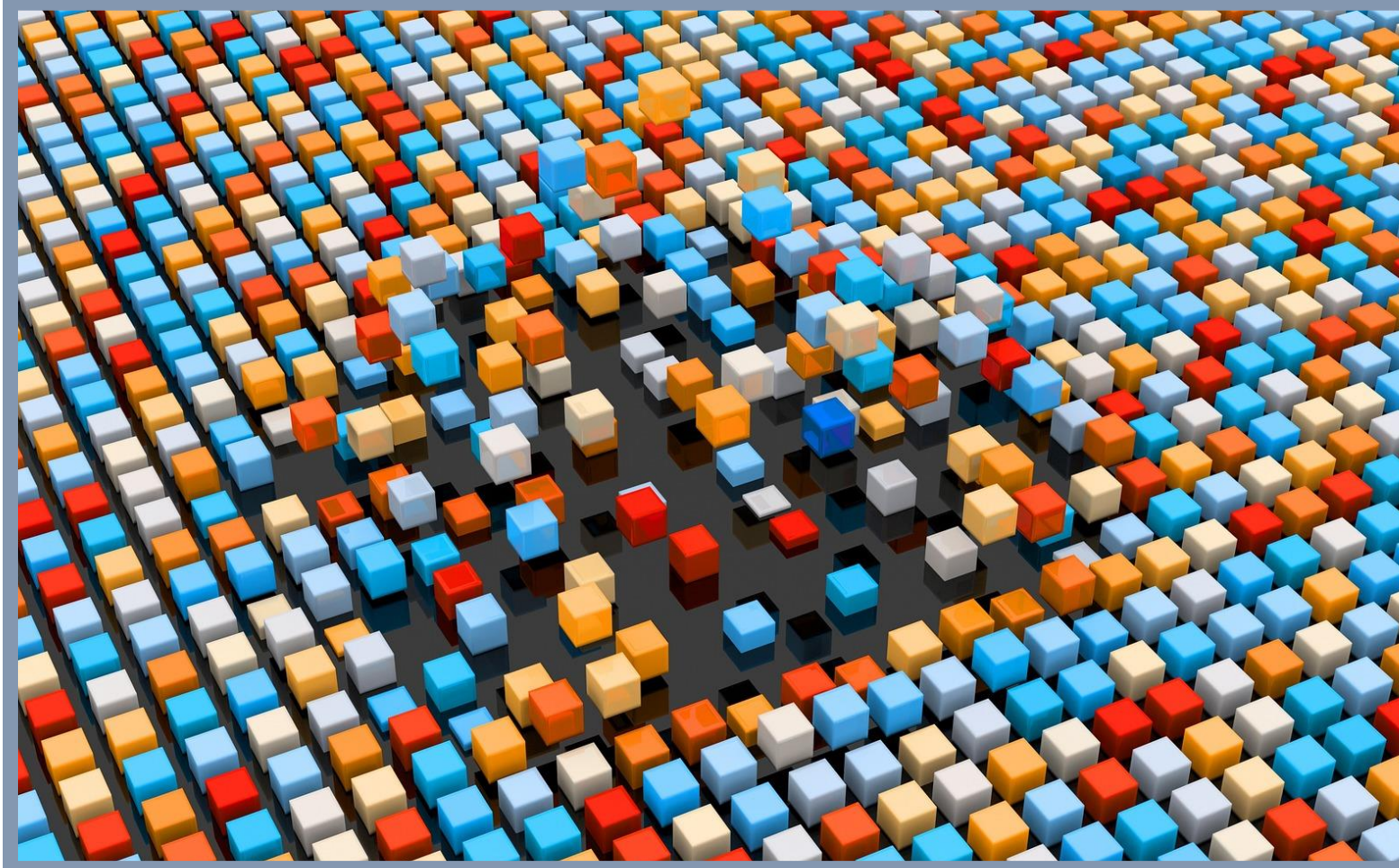
REPUBLIC OF ESTONIA
FINANCIAL INTELLIGENCE UNIT

MONEY LAUNDERING RISKS IN ESTONIA RELATED TO CORPORATE SERVICE PROVIDERS



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EXECUTIVE SUMMARY

Vulnerability of jurisdiction

- The corporate transparency in Estonia is decreased and the vulnerability concerning the risks of domestic as well as international money laundering and terrorism financing increased, in the founding and transferring possibilities of corporate and non-profit organisations that have become simpler, faster and more economical with the assistance of e-services, combined with the low level of diligence and high risk appetite among the providers of corporate services, when servicing non-resident clients.
- The Estonian corporate transparency would be significantly improved by making the data of the e-business register available to the public free of charge, incl. the data on beneficial owners and the verification by the registrar of the actual correctness of the data presented.

Misuse of corporate services

- The offering of corporate services is very active in Estonia and a part of the services are clearly directed at the international market.
- The activities of many Estonian corporate service providers (CSPs) on the market for corporate services increase the lack of Estonian corporate transparency and resulting there from, the possibility of using legal entitities for criminal purposes.
- The results of supervision, the national risk assessment, as well as the current analysis, indicate that the awareness of CSPs is on average low in the field of prevention of money laundering and terrorism financing prevention (AML/CTF), risk systems are incomplete, measures of due diligence are insufficiently applied and the obligation of informing the Financial Intelligence Unit (FIU) of suspicious transactions is fulfilled only by very few service providers.
- The use of the address and contact person service offered by CSPs is very widespread among Estonian legal entities. The 96 addresses of CSPs alone are used as the addresses of more than 10% of all Estonian corporate and non-profit organisations (over 26 000 legal entities). These companies often correspond to many indicators of shell enterprises: nominal directors, lack of employees and declared turnover and failure to submit annual reports for several consecutive years.
- The provision of the service of a professional company manager by CSPs is very widespread that includes the risk that the figureheads hired as nominal directors and shareholders are hired to conceal the actual controlling structures or the nominal directors are used for freeing oneself from a company that is becoming insolvent.
- The current analysis shows that some CSPs offer packages that also include the presentation of fictitious beneficial owner data to the registrar. The provision and use of the services of a nominal director and a fictitious beneficial owner are prohibited in the Estonian jurisdiction.

Risks associated with activity licences

- The CSPs must have an activity licence issued by the FIU, due to the risks of money laundering and terrorism financing characteristic of the sector. The study established based on the data of the Business Register on relationships between persons that there are in total 195 active Estonian companies that actually provide corporate services. The analysis resulted in revealing that only 120 of them had valid licences. Forty percent of the companies that factually have characteristics of providing service, operate without a licence on the Estonian corporate services market.
- At the end of 2020, there were 311 licenced CSPs in Estonia, of which close to 19% had no current or previous relationship to other Estonian legal entities, according to the Business Register. Companies with no characteristics of factually providing service, but with an activity licence are often connected with e-residents and more than half of these e-residents originate from third countries (e.g. the Ukraine, Russia, China, Japan, Republic of South Africa, Malaysia).
- There is a risk that formally licenced service providers may be misused in international service based money laundering. Close to 10% of the licenced CSPs have many activity licences issued by the FIU. The licences that have most frequently been additionally applied for are the licences of a financial institution and for virtual currency service providers (VASPs).
- The activities of some CSPs are focused on the application of activity licences for ready-made companies, most often the activity licence for VASPs, as well as the trade of such ready-made companies on the international market. In the course of the initial application of the activity licence, the FIU is given the misleading understanding that the company will start providing service once the activity licence is received. However, in reality most of the companies temporarily suspend activities once the activity licence is granted. The suspension lasts until the company is sold, after which an application is presented to the FIU for the amendment of the activity licence.
- The procurement of licenced companies with the intention of selling them, makes the market of licenced companies non-transparent. The FIU has significantly toughened its process of issuing activity licences, due to the typology that has become apparent. This should prevent the misuse of companies with activity licences.
- Many CSPs assist foreigners in applying for activity licences of the FIU without checking the background of the company and persons. The FIU has often detected the presentation of false data, with the consequence of not issuing the activity licence or declaring existing licences as void. The FIU has also sent reports of criminal offences to the Police and Border Guard Board (PBGB).
- Many companies with activity licences granted by the FIU that have been sold by CSPs without the application of due diligence measures have arisen again later into the interest of the FIU due to different scams or cyber crimes. In case a client of a CSP, e.g. a VASP, should later be related to some criminal offence – committing it itself or mediating criminal means –, the CSP may have criminal liability if it has fulfilled due diligence measures insufficiently or assisted in the receiving and maintaining of the activity licence (offering a place of activity, contact person, board member etc.).
- As of spring 2020, the Estonian Money Laundering and Terrorist Financing Prevention Act (MLTFPA) sets a place of activity in Estonia as a prerequisite for obtaining an activity licence for a VASP. Nevertheless, some CSPs continue to apply for VASP activity licences for ready-made companies they have founded themselves, presenting fictitious

places of activity and contact details of the person responsible for AML in the application. The presentation of false data is prohibited by law. Such activities make the business reputation of these CSPs and contact persons questionable for the FIU. The evaluation of the business reputation, however, is part of the proceedings for issuing and amending an activity licence by the FIU.

- The offering of the services of a contact person (in the meaning of the MLTFPA § 17) and a professional board member have led to a situation where the same contact person or board member is connected with many licenced companies. This raises doubts about the contact person being capable of fulfilling his/her job duties with competency and properness, as well as to fulfil the obligations stipulated in the MLTFPA. The contact persons related to CSPs generally do not send STRs to the FIU. The reliability of board members also becomes questionable if they provide the service of a board member and contact person to very many companies in the same sector. It may result in a conflict of interest, as well as raise suspicion that the company is only fictitiously managed from Estonia to fulfil the requirements of the activity licence.
- So far, the MLTFPA has allowed the service providers not to apply due diligence measures upon making or mediating occasional transactions outside a business relationship, including in the occasional sale of a ready-made company. The latest national risk assessment, however, highlights the sale of companies with activity licences for financial institutions, virtual currency services and corporate services to non-residents and e-residents as a service with risk of money laundering and terrorism financing. The due diligence standard for AML/CTF presumes that the CSP treats the risks related to such a service in its internal risk evaluation, adapts its rules of procedure and applies due diligence in accordance with enhanced procedures.
- An increase of the CSPs' risk awareness concerning the VASP sector can be noticed: many CSPs who introduce their services to e-residents on a special service platform of Enterprise Estonia (EAS) have abandoned servicing companies that deal with virtual currencies. This however expresses a de-risking policy by service providers, rather than risk management policy, and is not a good business practice in itself.

Risks of crime related to corporate services

- According to the knowledge of the FIU, Estonian companies, including companies founded through the mediation of service providers, are used in domestic and international crime as shell and buffer companies.
- The FIU has received information concerning the board members, procurators, shareholders or beneficial owners of more than 1/5 of the licenced and factual CSPs that were analysed in the study (77 companies out of 378), but it must be taken into consideration that such mentioning result principally from the suspicious activities of the clients of service providers, with which the providers of corporate services as a rule do not have an immediate connection.
- Providers of corporate services concerning which the FIU has developed suspicions of money laundering usually do not arise to the forefront because of the plenitude of Estonian companies associated with them, but still there are a number of licenced CSPs with a large market share that have received the attention of the FIU.
- The large cases of money laundering of the recent past associated with Estonia illustrate that corporate services that are with an international grasp and the focus of which is on concealing the beneficial owners of companies, as well as supporting the proprietary

transactions of clients have inherent in them the risk of organised money laundering: such service providers may be a part of the international money laundering infrastructure.

- The activities of natural persons, in the case of which the specialisation on the provision of money laundering services may be suspected, are often distributed between companies of many different fields of consultation services. From the aspect of organised money laundering, the FIU assesses that most attention is required on so called multi-service providers that provide accounting services, legal advice, different migration services, financial services (e.g. financial advice and investment in financial instruments; acting in the sector of virtual currencies), cash transport or real estate services besides corporate services.
- At the time of completion of the study, there were no persons connected to CSPs in Estonia that had been convicted of money laundering or assisting in it, but some natural persons associable with the provision of corporate services are under criminal investigation.
- The FIU emphasises that in case the client of the CSP commits crimes or mediates criminal means, the insufficient fulfilment of due diligence measures by the CSP or the assisting of the client, may also make the CSP criminally liable.

INTRODUCTION

Pursuant to § 8 of the Money Laundering and Terrorist Financing Prevention Act (hereafter MLTFPA), all legal and natural persons are considered as providers of trust management and corporate services (hereafter CSPs) who in their economic or professional activities provide at least one of the following services to a third party:

- establish legal persons;
- act as a representative of another person on the board of a corporate entity;
- execute transactions with units or represent a shareholder of a non-listed company;
- provide a mailbox/contact person service;
- act as a representative of trust or trustee.

The prerequisite of providing corporate services in Estonia is an activity licence (MLTFPA § 70 (1) (2)). The applications for activity licences are processed and the correspondence of the activities of the service provider with the requirements of the MLTFPA are verified by the Financial Intelligence Unit (hereafter FIU). The analysis and supervision practice of the FIU has highlighted cases where unlicenced Estonian companies still offer one or more sub-service of corporate services on the Estonian market. The current study has taken the concept of CSPs also to include those companies that have not applied for an activity licence of the FIU, but who regularly offer at least one of the aforementioned services.

The CSPs are a kind of gateway to Estonia for non-residents, through offering business activity support services (hereafter corporate services) that foreign criminals may misuse for entering the Estonian market. In 2018, a report on the concealing of beneficial owners was published jointly by the Financial Action Task Force (FATF) that establishes the international standards for AML/CTF and the Egmont Group that globally unites financial intelligence units. The report thoroughly treats the vulnerability of professional mediators in the field of corporate services, in a situation in which, in the criminal world there is strong demand for legal entities to conceal criminal proceeds and its beneficial owners. Corporate services are often provided by so called multi-service providers that in addition to the aforementioned corporate services deal with legal and tax advising, mediate communication with authorities, as well as assist clients in gaining access to financial services. The know-how and services held by the service providers can also be used by Estonian criminals to hide their assets with the assistance of Estonian shell companies or also outside of Estonia. The current study addresses, among others, the potential of multi-service providers that provide corporate services in shaping the local money laundering infrastructure.

The 2019 FATF guidance material on the risk based approach to the offering of corporate services,[1] stresses that a thorough evaluation of the risks of money laundering and terrorism financing (ML/TF) in the sector together with procedural rules and due diligence measures applied by the service providers are the prerequisites for mitigating the risks of the sector. Relying on risk assessments, international studies and typologies, the FIU's analytical

findings and criminal information, as well as public sources[i], the FIU has evaluated the CSPs as one of the sectors with the highest risk of money laundering among its supervised sectors.

The 2020–2021 Estonian national risk assessment (NRA) on AML/CTF evaluated the vulnerability of CSPs in the field of money laundering as 3.31 on a scale of 0-4 that points to an above average vulnerability and places the CSPs in fourth place on the level of vulnerability after the sectors of FinTech, real estate and non-governmental organisations[2]. It is also worthy of mentioning in the context of the current study that among the state-level vulnerabilities in the field of money laundering, the highest score in the recent NRA (score 2.75) was the vulnerability arising from the possibility of exploiting legal persons[3]. The vulnerability of CSPs was evaluated as average in the previous national risk assessment in 2015 that among obliged entities not offering financial services and in the evaluation results of the module of professional employees highlighted them as service providers with a relatively higher risk of money laundering. The 2015 national risk assessment also evaluated corporate and trust transparency. The vulnerability score was 0.50 ('average') that also pointed to the higher risk level of the given sector, among the aspects evaluated in the state vulnerability module.[4]

A decade ago, the FATF released a report on money laundering with the assistance of CSPs that focused on a comparison of corporate services in different countries as well as developing typologies of the money laundering sector. The report found that it is appropriate to classify the risks of money laundering associated with CSPs into three categories: 1) risks arising from jurisdiction as a whole; 2) risks arising from the CSPs; 3) risks arising from the activities of professional mediators.[5] The current study has generally utilised the given triple division of risk sources, as well as analysed the corresponding vulnerabilities and measures of risk mitigation in the Estonian system of AML.

- Vulnerability of jurisdiction: the legal entities of a concrete country can be misused for criminal purposes due to the non-transparency of corporate services that results from systemic shortcomings in the management of questions related to the establishment, use and disclosure of beneficial owners of corporate and non-profit organisations.
- The vulnerability resulting from the low due diligence standard of service providers[6] in the prevention of money laundering.
- The risk of operating on the market of multi-service providers of the consultation sector that have integrated themselves with organised criminals or professional money launderers.

i The supervisory subjects of the FIU are service providers and certain professional representatives concerning whom the FIU has the competence to execute supervision over the fulfilment of the requirements of the MLTFPA. Mainly concerned are companies outside the financial sector and professional representatives

Data sources, research questions and methodology

The purposes of the current study are to determine the number of Estonian companies providing corporate services, what services are provided, the level of diligence of the companies and the characteristics of the activities of service providers with a higher risk. The report of the study is targeted at obliged entities, supervisory institutions dealing with AML, investigative institutions dealing with money laundering and related crime, as well as policymakers of the sector of CSPs for better understanding the associated risks and planning risk mitigating activities. The data analysis part of the study is an input for the FIU for planning the risk based supervisory activities.

A significant number of natural and legal persons covered by the umbrella concept of providing corporate services, according to the research hypothesis do not have the required economic activity licence. The data of licenced service providers are recorded in the Register of Economic Activities (hereafter *MTR*)[ii]; service providers operating within Estonia that have not applied for an activity licence have been mapped on the basis of the Business Register data. The study for clarifying the so called factual CSPs, has relied on the related persons presented for companies included in the Business Register and the results have been compared with the activity licence data recorded in the MTR.[iii] The data of the Business Register have been used for obtaining an overview of the activities of licenced companies as well as all companies with characteristics of factually providing corporate services.

The Chapter I of the study treats the general picture in Estonia of the services provided in the framework of corporate services, relying on public sources, statistical data and information collected by the FIU. The Chapter II of the study presents the results of the analysis of data concerning companies with activity licences and with characteristics of factually providing services. The Chapter II uses the data of the results on proceedings of activity licences, supervision and misdemeanours, executed by the FIU in 2008-2020, for characterising the level of diligence of CSPs. An analysis of the data of the database of the FIU on the reporting activity of the sector is also included. The study has analysed data from the websites of companies and the virtual marketplace managed by Enterprise Estonia (hereafter EAS) for more specifically mapping the services of the companies active in the sector[7]. The virtual marketplace collects information on local providers of corporate activity support services for e-residents planning entrepreneurship in Estonia. The Chapter III of the study treats the risks of crime inherent in corporate services, incl. the observance of so called multi-service providers or CSPs the activities of which cover more than the services defined in the RahaPTS.

Through analysis of the data of the database of the FIU and public sources (media coverage, so called Panama papers etc.), the study provides a choice of service providers (natural as

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ii Included are data on MTR registrations, activity licence applications and data on proceedings 2008-2020 (data as of 11.01.2021).

iii The methodology for determining factual service providers is described in greater detail in Chapter 2.2. The base data for the analysis on the known or presumed service providers, their representatives and legal entities associated with the service provider, together with the economic indicators and field of activity data of the companies, originate from the Business Register as of 19.11.2020.

well as legal persons) that have a higher risk of money laundering or other criminal offences. The risks associated with them are presented in Chapter III. The study has used anonymised examples and sanitised cases of service providers operating on the Estonian market to characterise the pattern of activities, scope and risks associated with higher risk CSPs.

1 THE SPECTRUM OF CORPORATE SERVICES

1.1 The lack of corporate transparency

The core of the risk of money laundering that is directly inherent in offering corporate services is in the professional establishment and management of anonymous companies. Shell companies that offer anonymity are on an international level, instruments of tax evasion and money laundering: they are used by organised crime groups, as well as the global financial elite – e.g. oligarchs and the beneficiaries of large corporations – to conceal their assets from tax administrations and investigative institutions. Money launderers and other criminals search for jurisdictions where the beneficial owners of legal entities can remain anonymous. They therefore target CSPs and providers of adjacent consultancy services (e.g. tax advice, legal advice, asset management) in countries that stand out due to the lack of corporate transparency, either through weak legislation or insufficient enforcement of regulation. CSPs are more vulnerable in jurisdictions where the AML system does not efficiently screen such legal entities that have been established without a clear legitimate economic reason. The risk of money laundering associated with legal entities is not only realised in the offshore regions with low tax rates, but also in the so called onshore jurisdictions with a weak control system.[8]

The FATF standard foresees that countries must ensure that competent authorities have the possibility to quickly obtain adequate, accurate and up to date information on the control structures of the company and beneficial owners[9]. The FATF does not however set conditions for countries, how the access to such data should be organised. The analysis compiled in 2019 by Transparency International on the availability of data on beneficial owners concluded that the FATF standards should be specified, regarding the given question: the data collected on beneficial owners through obliged entities in the AML/CTF system are not trustworthy nor quickly accessible. Transparency International considers that those countries are more successful in ensuring the transparency of corporate services that have established a register of beneficial owners, but especially those that have ensured public access to the register, as well as ensuring that the data is constantly verified and up-to-date.[10]

The transparency of the data on the beneficial owners of corporate entities and the availability of such information are currently very lively discussed subjects worldwide, as in reality the possibilities of accessing information are very different from country to country[11]. The countries of the European Union are relatively at the forefront in ensuring corporate transparency, as the so called IV AML Directive"[12], obligated the Member States to establish registers of beneficial owners and to ensure that the information held in the register is adequate, accurate and up to date.

The AML/CFT regulation of Estonia obligates the board of a private legal entity to collect data on its beneficial owner; a partnership, limited partnership, limited company, public limited company and commercial association must input data on beneficial owners into the information system of the Business Register and when the data changes, update them within 30 days (MLTFPA § 76 and 77).

The Estonian Banking Association has criticised that the information displayed in the Business Register on beneficial owners is merely of a declarative nature, as the registrar does not verify the data input, into the Business Register system[13]. There are also weaknesses concerning the transparency of beneficial ownership information of Estonian companies: the data on beneficial owners in the e-Business Register environment, as well as all other data outside of the register card of the Business Register, are accessible against a fee (a payment of €1 must be made for a single query of data of beneficial owners). Only competent authorities and obliged entities of the MLTFPA are exempted from the fee when accessing beneficial owner data. The paid access to the data of the e-Business Register makes the work of foreign competent authorities more difficult in verifying the people related to Estonian companies. The international requests of information that concern the control structure of Estonian companies and beneficial owners, increase the workload of the FIU in the field of international cooperation.

Estonian corporate transparency could be significantly improved by making the data of the e-Business Register, inclusive the data of benefical owners, available free of charge, as well as by obligating the registrar to monitor the actual correctness of the data presented. The obliged entities of the MLTFPA should additionally inform the registrar of indications of incorrect registration data regarding the control structure of companies and beneficial owners in the information collected during the application of due diligence measures. In June 2021 the legislator supplemented the MLTFPA § 20 with the section 2^4, according to which an obliged entity must as of 7.03.2022 inform the registrar within a reasonable period of time, of a deviation of the data on beneficial owners identified in the course of applying due diligence measures, from the data on beneficial owners presented through the Business Register information system. The stipulation highlights as exceptions the cases where the obliged entity identifies activities or circumstances where there is a suspicion of money laundering, terrorism financing or related criminal offences, in the course of providing economic or professional activity, official acts or services: the obliged entity must then inform the FIU immediately (MLTFPA § 49 section1).

1.2 Indicators of shell companies

There is no established literal translation in Estonian for the English term *shell company*: the term covers companies that exist only legally but do not have a physical place of business or employees. It is in itself possible to use such business entities for legitimate purposes (e.g. holding companies holding assets of another company). Shell companies or companies that merely exist on paper that are active without a legitimate economic purpose, in the meaning of the current study, are used by criminals for example as invoice mills, as issuers of fictitious consultancy invoices and loans.[14]

The report of the FATF published in 2018 treating the problem of concealing beneficial owners lists the following indicators of shell companies[15]:

- the company has nominal owners and directors, especially so called wholesale directors and shareholders that namely, represent at the same time a large quantity of shell companies;

- the company is registered to an address to which are additionally registered a large number of companies (usually the addresses belong to CSPs that manage in the name of their clients, shell companies);
- the company only has a postbox address (this is often used as an alternative to the services of professional CSPs);
- the company does not deal with actual business activities;
- the company executes only transit transactions: money flows through the company within a short period of time and does not generate business income;
- the company lacks employees or only has one employee;
- the company does not pay taxes or pension contributions;
- the company lacks a physical place of business.

1.3 Establishment and sale of legal persons

It is seen from the data of Statistics Estonia (Table 1) that the balance of private legal persons recorded in the register in Estonia is positive, every year a couple to a couple of tens of thousands of companies are added to the total number. The numbers of self-employed, public limited companies and commercial associations are thereby decreasing. The increase in the total number of legal entities results mainly from the large number of additional private limited companies (the annual increase in the last five-year period has been in the range 6 000-19 000 private limited companies). There has on average been an addition by a couple of hundreds also of limited partnerships, in the general number of which, worthy of attention is the increase by close to 2 000 in 2020, compared to the previous year. The number of non-profit organisations recorded in the register has fluctuated quite a bit by years.

Table 1. Number of legal persons recorded in the register in Estonia in 2016–2020 as of the end of the year

Legal form of the legal person	2016	2017	2018	2019	2020
Private limited company	169 030	175 288	194 354	202 849	220 165
Self employed	31 555	30 633	30 218	29 552	28 601
Non-profit organisation	32 066	29 999	22 026	21 779	22 574
Limited partnership	2 929	3 052	3 089	3 469	5 431
Public limited company	3 284	3 092	2 997	2 893	2 816
Commercial association	1 707	1 713	1 726	1 707	1 696
Partnership	2 447	1 363	1 367	1 364	1 439
Foundation	786	790	812	812	816
Branch of a foreign company	558	564	562	515	519
European Economic Interest Grouping	18	19	19	19	19
European company	8	7	11	12	12

Source: Statistics Estonia

The digital solutions assist in making it very easy, fast and affordable for natural persons to establish legal entities in the Business Register in Estonia[16], but for different reasons there still is a market for the establishing and selling of companies, also for CSPs.

The MLTFPA names among the sub services of corporate services acts related to the establishing of a corporate or other legal entity, for a third party and transferring of participations (MLTFPA § 8).

It becomes apparent from the presentation of services on the websites of CSPs in Estonia that clients are offered advice on questions related to the establishment, as well as the sale of ready-made companies and also assistance in changing owners of corporate entities and formalising the amendment of the register data. The most affordable price for a ready-made Estonian company starts from 215 Euros, companies with such a price are without previous activity. The most expensive items on sale are so called shelf companies with a previous history of activity[17]. Companies used as shell companies are supplemented with a seeming trustworthiness, through a long period of activity, mentionable turnover and entry in the value added tax register, such companies are many times more expensive (Figure 1).

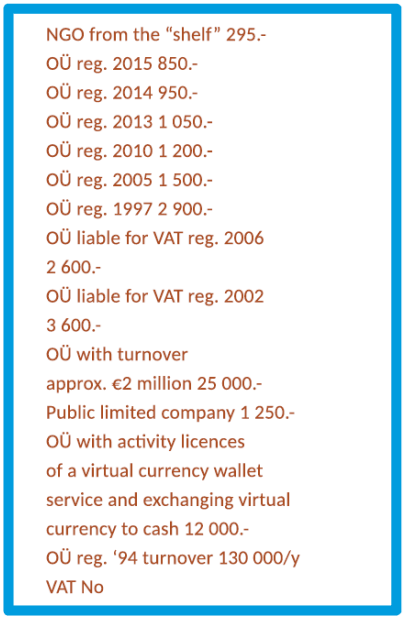


Figure *1.* Extract from the price list of shelf companies from the website of a provider of corporate services

The figure shows that many CSPs offer for sale, among others, also companies with an activity licence for virtual currency services with a starting price of 12 000 Euros[iv]. The determination of the price of a VASP company is affected by that in itself the state fee for applying for a VASP licence is relatively high – 3 300 Euros. The price ceiling may also be affected by the limit value stipulated in legislation that obligates CSPs to apply due diligence measures in the case of occasional transactions starting from a transaction value of 15 000 Euros. The FIU hereby stresses that if a CSP provides service in a business relationship or the contract assumes repeated separate acts, then the due diligence measures must be applied already from the start of establishing the business relationship.

The statistics show that indisputably the most preferred form for a company in Estonia is the private limited company. It is desired to purchase a private limited company, with a paid up share capital, due to a lower reporting burden. Ready-made companies in the form of a private

iv The problems of trading with companies that have a virtual currency service activity licence have been treated in more detail in Chapter 2.4 of the study.

limited company that CSPs trade, are often companies that have been established with a formally paid share capital (in previous years often non-cash contributions were also used, whereas share capital was considered e.g. a computer and office furniture). Some service providers formalise the required 2 500 Euro share capital as an in cash contribution to the "cash" of the company that the buyer of the shelf company transfers back to the service provider[v]. Such scheming is also reflected in the just established ready-made company sales price. A person establishing a company on their own through the e-Business Register, in addition to paying the state fee of €145 for establishing a private limited company must also prepare a share capital contribution of 2 500 Euros to the eStart-up account or court deposit account, while the price of a ready-made company with a fictitious contribution of share capital starts from 215 Euros.

The statistics of legal entities recorded in the register, listed in Table 1 shows that the number of limited partnerships is relatively large and in a growing trend, at the same time companies in the given legal form are not very much noticeable in the normal economic turnover. It can be assumed that the relatively large number of limited partnerships in the Business Register, results to a certain degree that also in the practice of establishing ready-made companies in Estonia, the company is initially established as a limited partnership[vi] and is later transformed into a private limited company.

In December 2020, there were 67 persons who had established 30 or more such Estonian legal entities that were recorded in the register at the time of executing the analysis, according to the data of the Estonian Business Register. The mentioned 67 potential CSPs were in total behind 9 749 corporate entities and non-profit organisations that were in operation, being liquidated or bankrupt. Mainly legal persons were in the role of founders, according to these data (Figure 2).

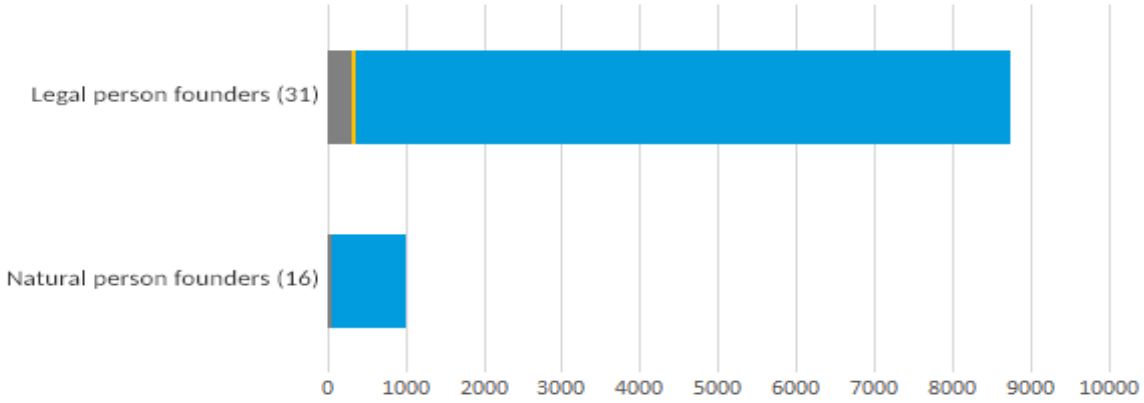


Figure 2. Companies registered in the Business Register, established by legal and natural persons

Source: Business Register as at 10.12.2020

v The FIU has observed in the recent years that the banks refuse to open accounts for shelf companies. Some years ago it was still normal that in the case of the sale of the company, the first transaction on the bank account of the company was the transferring back of the amount of the share capital to the CSP.

vi The state fees and notarial fees associated with establishing a limited partnership are small, in comparison to those of a private limited company. The state fee for recording a limited partnership in the register is 13 Euros.

Such figures leave the impression of the relatively modest role of CSPsin the establishing of Estonian companies, but the indicators of the connections of the companies recorded in the register do not provide a full picture of the field of establishing and selling shelf companies. It became apparent from the analysis in the preparatory phase of the current study, of the data of Estonian legal entities that were deleted from the Business Register in the period 01.01.2015-24.04.20 that in the period examined, close to 4 300 such legal entities were deleted, the founders of which were 24 supposed CSPs. It is worth noting that 47% of these companies were deleted on the basis of § 60 section 3 of the Commercial Code or for the reason that the company left for a long period of time, unfulfilled the obligation to present to the registrar its annual report and 77 companies were compulsorily dissolved on the basis of a court order. One of the strongest indicators according to the experience of the FIU that it is possible that a shell company is concerned, is the not presenting of an annual report, wherefore based on the Estonian experience it is possible to add to the FATF indicators of shell companies, the omission to submit an annual report, for many consecutive years.

The provider of corporate services OÜ E is at the top of the leaderboard of founders of deleted companies in the period 2015–2020, with 1 750 deleted companies. In 2011 the registrar had to delete the activities of OÜ E, also on the basis of § 60 section 3 of the Commercial Code, as the company did not present annual reports. The managers of the company continue to actively operate on the market of CSPs. There are similarly in circulation still today, on the market for shelf companies, companies founded by OÜ E.

1.4 Postbox service

The sub-service of the corporate service mentioned in § 8 section 2 of the MLTFPA – allowance for the client to use a seat or activity address or address for receiving postal items – may conditionally be called a postbox service, in certain cases also a contact person service.

The investigative journalists of Estonia have repeatedly pointed out the problem that the addresses of certain CSPs are a point of concentration for hundreds or even thousands of current and former presumable shell companies. The use of the address of the CSP as the legal or business address of the company, together with the lack of desire by the company to present the registrar its annual report, indicates that a shell company may be concerned. Synonymous with a shell company is the term *letter box company*. The OECD has defined such so called letter box companies as companies whose actual economic activity does not take place in the jurisdiction in which the company is founded and that correspond only with the minimum legal requirements of a place of registration[18].

The analysis of the legal addresses of all of the Estonian companies recorded in the Business Register in December 2020 shows that approximately **10,5%** of Estonian commercial and non-profit organisations (26 349 legal entities) have been registered to 96 addresses (these 96 are legal addresses for 100 or more companies). Table 2 presents the ten most widespread business addresses of Estonian companies recorded in the Business Register, included also are data on the status of the registered company (active, liquidated or bankrupt).

Table 2. Top ten legal addresses of Estonian companies

	Company in liquidation	Bankrupt company	Active company	Total
6 Sepapaja St, Tallinn	175		3 491	3 666
5 Narva Road, Tallinn	53	4	1 204	1 261
Männimäe, Pudisoo village, Kuusalu Rural Municipality	6		1 170	1 170
12 Rännaku Ave, Tallinn	9		706	715
8-241c Rävala Ave, Tallinn	4	10	602	616
7-2 Sakala St, Tallinn	21		579	600
3 Lossi St, Kuressaare			599	599
5 Tornimäe St, Tallinn	16	3	534	553
30 Laki St, Tallinn	6		547	553
2 Väike-Paala St, Tallinn	1	1	546	548

Source: Business Register as at 10.12.2020.

In the period 2008-2017 the Commercial Code allowed for an Estonian corporate entity to present to the registrar of the Business Register, data on a competent person for the delivery of procedural documents and his/her Estonian address to which could be delivered procedural documents of the company. As of 2018 the Commercial Code foresees he institution of a contact person: The § 63 of the Commercial Code stipulates that into the Business Register is recorded the data on the contact person of the company, to whom the procedural documents and declarations of intent of the company are addressed and deemed as to have been delivered. In July 2020[19] an amendment of the law entered into force that made the appointment of a contact person on the basis of the Commercial Code § 63[1] section 2 compulsory, only in the case if the board of the corporate entity is located in a foreign country. The legislation thereby in the case of a board located in a foreign country, allows to appoint as the contact person of the company only a notary, lawyer, law firm, statutory auditor, auditing company, non-resident tax representative or CSP as auditor, to act as a contact person for the company, non-resident tax representative or corporate service provider. The address of the contact person, on the basis of the same stipulation, is considered as the address of the corporate entity[vii].

The analysis of the data of the companies associated with Estonian e-residents[viii], showed that among the providers of the postbox service, arise to the forefront with an abundance of clients, precisely the providers of the service of a contact person. The top three addresses mentioned in Table 2, match the top three registry addresses used by Estonian legal entities, related to e-residents.

vii The name of the contact person or business name, personal identification or registry code, address in Estonia for declarations of intent and delivery of procedural documents directed at the company, as well as the e-mail address of the contact person, are entered in the Business Register according to § 64 section 2¹ point 9¹ of the Commercial Code.

viii The basis were the data of the Business Register and the data of the UUSIS database, of e-residents as of 21.09.2020 that is managed by the PBGB.

1.5 Professional company manager service

A sub-service of the corporate service in the meaning of § 8 section 2 of the MLTFPA is the service of a professional company manager or the functioning of the CSP in the position of manager of a corporate entity or other legal person, as well as the organisation of placement of another person into the position of the manager.

In the analysis of the subject of professional entity managers, took into consideration in addition to board members (incl. liquidating board members) and branch managers, the information in the Business Register on representatives of companies or representing procurators. A procurator according to § 16 section 1 of the Commercial Code is a company representative that on the basis of the corresponding letter of attorney (procuration), has the right to represent the company in the execution of all transactions related to economic activity. An entry is made in the Business Register according to § 21 section 1 of the Commercial Code, about the appointment of a procurator.

A vivid brief introduction to the service of a professional director can be found in the presentation of services of the international consulting firm J Raphael Corporate Consulting Limited[20]. A professional director is a company external third party that is appointed to the board. It is required in some low tax jurisdictions (e.g. Singapore) that a company registered there, has at least one board member that is a resident (such a service could be called the service of a resident director), but professional directors are principally used for ensuring the anonymity of the actual corporate directors, in jurisdictions (such as Estonia) where it is required to publish the data of board members and/or shareholders, in the commercial register.

The service of a director used for the purpose of concealing the transparency of the management structure of a company may be called, the service of a nominal director, concerned is a so called figurehead behind whom are concealed the actual managers and beneficial owners. The presentation of services of J Raphael Corporate Consulting Limited has delicately highlighted that also in jurisdictions where the data on the management of a company is not made public, it is in the interest of “reasons of privacy and confidentiality”, relevant to use a professional director, as in the course of business activities a board member must sign contracts and different legal documents. The signing of documents by a nominal director ensures the complete anonymity of the actual corporate directors. The company J Raphael Corporate Consulting Limited offers the using of a letter of attorney for mitigating the risks, associated with using a professional director, with which the beneficial owner of the company maintains complete control over the company: only the actual managers have the right to manage the company and guide its business activities, as well as open and command the bank accounts of the company. The offered service package also foresees that the nominal director signs an undated resignation application that the actual managers of the company can realise at a time appropriate for them.

According to the data of the Business Register, in December 2020 there were13 such natural persons connected with Estonian companies that were the managers or liquidating board members of 50 or more Estonian legal persons recorded in the Business Register. These 13 natural persons were active as the nominal directors of 1 701 active, in liquidation or bankrupt companies and non-profit organisations. Nine of the companies they managed were in liquidation and 16 were bankrupt. 89% of such companies with professional directors had

only one board member, according to the data of the Business Register; in those cases where the company had many board members, they were usually the representatives of CSPs. This leads to the conclusion that professionals are used more frequently in Estonian companies as nominal directors, not that a non-resident management board member is looking for an additional board member that resides in Estonia. In December 2020 there were also two e-residents among the supposed nominal directors.

Businesses and non-profit organisations were observed in the analysis of the data of Estonian legal persons with possible nominal directors, the managers of which managed at least 30 companies recorded in the register. There were in total 2 760 such companies, of which close to 82% were private limited companies, 13% limited partnerships, close to 5% non-profit organisations, additionally 19 public limited companies. Such companies according to the data of the Business Register, did not have any kind of relationship with non-residents (with the exception of the aforementioned two e-resident service providers). It is possible in some cases that the provider of corporate services may have been capable of making the non-resident actual manager or shareholder, as well as beneficial owner completely invisible. It is however probable in the case of most companies with nominal directors that are recorded in the register that concerned are companies "on the shelf" that are awaiting to be sold to the client: 63% of the companies observed were those that lacked turnover or it remained below 100 Euros.

The investigative journalists of Estonia have pointed out that figurehead nominal directors are often used for freeing from companies that are becoming insolvent. The given claim is supported by the results of the current data analysis: there were among the Estonian legal persons deleted from the Business Register in the period 01.01.2015-24.04.2020, 78 natural persons with a potential to be nominal directors or professional directors that had been in the board of 50 companies, deleted in the given period. They were in total related to 10 998 deleted companies, according to the data observed. 5 654 of which were deleted by the registrar on the basis of § 60 section 3 of the Commercial Code or because of not presenting an annual report, as well as 148 were compulsorily dissolved with a court order. The first dozen of persons that were the heads of deleted companies (Table 3), only partially overlaps with the list of the most frequent persons in the role of a company manager recorded in the register.

Table 3. The first dozen of managers of companies deleted from the Business Register in 01.01.2015—24.04.2020

Nominal director	Company compulsorily dissolved with a court order	Deleted because of not presenting an annual report	Other deleted companies	Total
HR	31	1 149	924	2 104
PS	26	949	770	1 745
LM	4	399	334	737
AV	7	269	262	538
OM	5	297	223	525
IA	6	255	222	483
KN	8	236	236	480
RK	8	165	292	465
KO	1	200	139	340
AK	4	117	196	317
RP	1	186	129	316
EM	1	155	144	300

Source: Business Register data as of 24.04.2020

It can be seen looking at the data of the last six years on the deletion of companies with nominal directors (Figure 3) that there are in 2017 and 2019 significantly more such companies deleted than in 2015, 2016 and especially in 2018. The registrar has taken on larger clean ups among companies not presenting annual reports in 2017 and 2019, while in 2018 only very conservatively. The data for 2020 in the study is only until April and unfortunately does not provide an overview if the trend for deleting shell or shelf companies from the Business Register has continued.

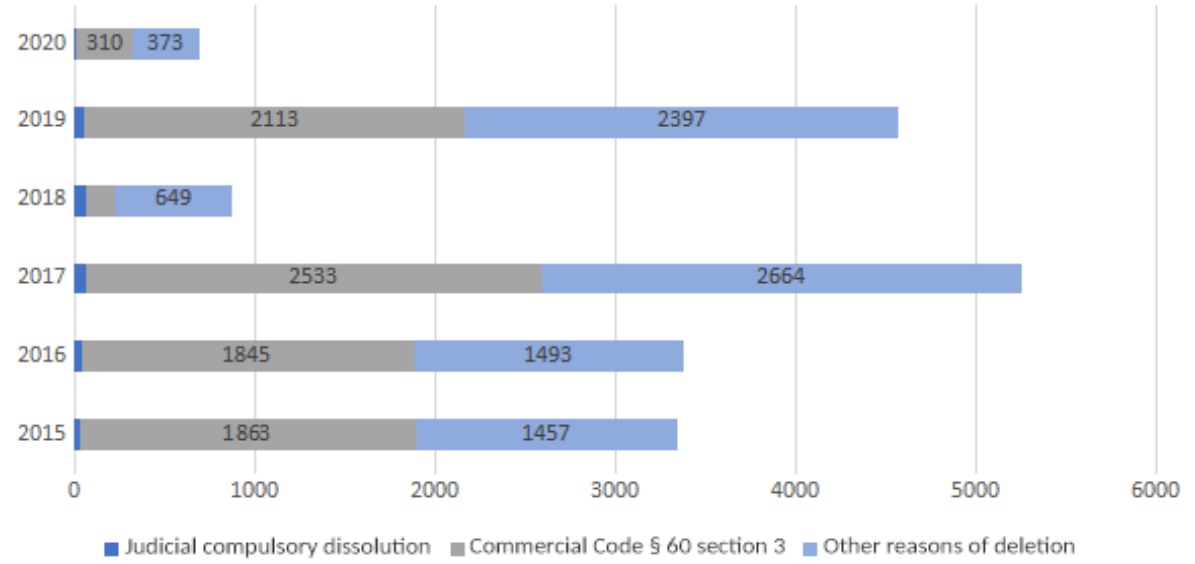


Figure 3. Deletion of companies with professional directors from the Business Register

* The basis Commercial Code § 60 section 3 means the deletion of the company by the registrar, due to not presenting an annual report.

Source: Business Register as of 24.04.2020

In 2018, the FIU has explained to the public that according to the intentions of the regulation presented in the Estonian Commercial Code, the member of the board of an Estonian corporate entity cannot be merely nominal[21]. The § 180 of the Commercial Code stipulates that the board of a private limited company represents and manages the private limited company, as well as fulfils different reporting and organisational obligations. The being of a nominal member of the board is in contradiction of the purpose of the given stipulation, without having an actual overview of the activities and obligations of the company, as well as possibilities of influence. The use of the services of a nominal director also makes it more difficult for obliged entities to apply due diligence measures, relative to legal persons. The MLTFPA places on obliged entities the task of identifying in the course of the application of due diligence measures, the beneficial owner of the legal entity, as well as to understand the ownership and control structure of the person participating in the transaction. The FIU concludes that the offering of the services of a nominal director contradicts the Commercial Code, as well as the requirements of the MLTFPA and does not allow to effectively mitigate the risks of money laundering and terrorism financing.

1.6 Services of a nominal shareholder and fictitious beneficial owner

The MLTFPA lists as a sub-service of corporate services the execution of transactions with shares and the representation of the shareholder of a not listed company that is conditionally viewed here as the service of a nominal shareholder. Persons that usually are interested in such a service are those who do not want to reveal their position in the ownership or control structure of the company.

The website of J Raphael Corporate Consulting Limited, used for opening the contents of the service of a professional director[22], also provides a compact insight into the back side of the so called professional shareholder service. The CSP finds a third party on whose name are formally registered the shares of the company seeking anonymity, but who does not become the owner of the shares. A professional shareholder may be a legal person established by the service provider, precisely for the given purpose, for example in some offshore jurisdiction. A professional shareholder agreement is signed with the appointment of a professional as a shareholder, in which are named the beneficial owners of the company, for whom the professional shareholder holds the shares in the management of trust. The agreement ensures that the beneficial owner is known only to the CSP but is not published in the Business Register. The service provider delivers to the client also signed by its representative, but undated letter of intent to transfer the shares that the client can use at an appropriate time.

The demand for a nominal shareholder service is driven by the desire of companies to conceal the beneficial owner. The background to the given demand is the international standard of FATF, the increasingly more forceful establishment of which forces obliged entities to direct attention towards the transparency of the control structures of their corporate clients. A part of the Estonian credit institutions, still in the middle of the last decade accepted without problems, non-resident corporate clients, whose representatives presented in the process of identifying beneficial owners nominee shareholder agreements,

trust declarations or documents of equal value, for proving the positions of the beneficial owner in the control structure of the legal person. It is apparent from the reports presented to the FIU that banks have in the last years made significant efforts for terminating client relationships with such companies.

The MLTFPA § 9 section 1 defines as a beneficial owner, a natural person who through ownership or other ways of control, has the final commanding impact over a natural or legal person or in whose interests, benefit or in whose name, the transaction or activity is executed. The identification of the beneficial owner and the verification of the information (MLTFPA § 20 section 1 point 2), is one of the most important due diligence measures applied by obliged entities that must allow the obliged entity to understand the ownership and control structure of the client or of the person involved in an occasional transaction. The violator of the obligation is under the threat of a misdemeanour penalty: for a natural person a fine or arrest, a legal person a fine of up to 400 000 Euros (MLTFPA § 85). The MLTFPA directs obliged entities to avoid business relationships with companies, the actual owner of which desires to remain concealed; the aim is to essentially paralyse the business activities of companies that lack transparency, to minimise their damage to society[23].

The data analysed in the course of the study on self-employed CSPs and their clients, indicated that a whole row of natural persons that deal with factual provision of services are very often present in the register of so called beneficial owners in the Business Register. The data of all beneficial owners according to the register were analysed, concerning all companies that were or had been connected with legal or natural person CSPs, in order to clarify possible presentation of false data to the registrar[ix]. It was revealed that for 3 881 of such companies, were recorded in the Business Register as beneficial owners the board members or shareholders of legal person CSPs: in total 296 persons, among them 96 natural persons that according to the basis of the methodology used in the current study, are established as natural person CSPs. Dominant among the named 3 881 companies are private limited companies and limited partnerships; the division of companies by legal form and status is reflected in Table 4.

Table 4. Legal form and status of companies with CSPs as beneficial owners

Form of legal person	In liquidation	Bankrupt	In the register
Private limited company	47	4	2 366
Limited partnership	1		1 262
Non-profit organisation			176
Public limited company			12
Foundation			6
Partnership			4
Commercial association			2
European Economic Interest Grouping			1
Total	**48**	**4**	**3 829**

Source: Business Register (as of 10.12.2020)

ix The methodology for calculating the relationships of companies and selection of a sample of persons with characteristics of providing factual corporate services is further detailed in Chapter 2.2.

18 natural persons in the case of whom, on the basis of the methodology used in the current study, became apparent characteristics of a factual service provider (see chapter 2.2) and 8 other natural persons related in the role of a board member, procurator or shareholder of a provider of corporate services, appear in the register of beneficial owners as the beneficial owner of 30 or more service clients. Six CSPs or natural persons related to the provision of services are recorded in the register as the beneficial owners of more than 100 companies. The first place belongs to HR who is allegedly the beneficial owner of 321 Estonian corporate entities, whose profile of activities (in other roles covered by the current analysis he is or has had 9 465 connections with Estonian legal entities), supports the suspicion that the person is among others, also active as a nominal beneficial owner. KO who has a total of 4 316 connections with Estonian legal entities rises to the forefront, based on data analysed through offering consultation services through two private limited companies and being the beneficial owner of 116 companies. The beneficial owner of 70 companies as recorded in the register data is MK, who deals with the provision of corporate services, as well as consulting services and also as a trustee in bankruptcy. MK has a total of 448 connections with companies. Noticeable in the ranking of connections in the data of the given analysis, with 10 865 connections is the natural person corporate services provider PS, who is recorded in the Business Register as the beneficial owner of 67 companies.

The majority of the companies that have recorded in the register as the beneficial owner, persons with characteristics of a factual CSP have been recently established and probably concerned are ready made companies, waiting for a buyer. The top 10 beneficial owners and the turnover data in the Business Register of the companies associated with them (Table 5), still reveal that some persons are named as the beneficial owner of companies that have considerable amounts of characteristics of being active.

Table 5. Ranking of the top ten beneficial owners based on the number of related companies of which the person is the beneficial owner

Beneficial owner according to the register	All companies	Total amount of declared turnover of the companies	… companies with turnover	… recently established companies*	…with minimal turnover (0-100 €)
1. HR	**321**	€19 658 658	**6%**	69%	26%
2. AM	**309**	€6 293	**1%**	54%	45%
3. ER	**229**	€30 588	**1%**	99%	0%
4. KO	**116**	€406 449	**5%**	95%	0%
5. TS	**92**	€7 184 182	**11%**	89%	0%
6. MO	**71**	€67 222	**4%**	96%	0%
7. MK1	**70**	€2 144 293	**100%**	0%	0%
8. EM	**68**	€309 197	**13%**	87%	0%
9. PS	**67**	€608 858	**19%**	81%	0%
10. MK2	**66**	€6 019 096	**11%**	89%	0%

* recently established companies have been considered as those who have not yet presented an annual report.

Source: Business Register (as of 10.12.2020)

These findings indicate that the service package of some CSPs may also include the presentation of fictitious beneficial owner data to the registrar. The service provider with the

provision of such a service violates the obligation placed on an obliged entity to determine the beneficial owner that qualifies as a misdemeanour stipulated in the MLTFPA § 85. A company that uses the service of a fictitious beneficial owner in turn commits a misdemeanour stipulated in § 95 of the MLTFPA that consists of knowingly presenting false data concerning one's beneficial owner. The client of the service of a fictitious beneficial owner can be punished with a fine of up to 32 000 Euros, the FIU that proceeds over the misdemeanours stipulated in the MLTFPA, has the possibility to appoint a fine up to 400 000 Euros to the obliged entity service provider.

1.7 Trust

Estonian law does not recognise the institution of trust, but at the same time it is established as a sub-service of corporate services: acting as a trustee or as a representative of a partnership, association or other legal person or appointing another person to the given position (MLTFPA § 8 (4).

The amendments of the MLTFPA that entered into force in July 2020[24] replaced the concept of a trust fund used in the AML regulation since 2008 with the concept of trust, as the concept of a trust fund in the Investment Funds Act was defined as an investment fund in the form of a limited partnership. The latter is a legal entity, whereas the institution of trust that is primarily used in common law countries is not. The amendment of the MLTFPA was did not intend to establish the institution of trust in the local jurisdiction. The MLTFPA § 7^1 therefore defined trust as a legal relationship, created or emerging on the basis of the legislation of the country recognising it, according to which the trustee commands the collection of property formed by the settlor in its own name, but in the interests of beneficiaries or in accordance with other established purposes, whereby the property given into trust is not counted to be a part of the property of the trustee nor are claims of creditors towards the trustee settled on its account.[25]

Article 31 of the European Union Anti-Money Laundering Directive V, obligates the Member States to disclose whether the structure or tasks of the legal entities regulated in their law are similar to the structure or tasks of trust. Estonia has informed the European Commission that in our legislation such legal entities are lacking.[26] The service of trust remained to a large extent outside of the focus of the given study, as the analysis relied primarily on the data of the Estonian Business Register and other state registers, where such legal relationships are not recorded. At the same time, it remains unknown if or to what extent the Estonian CSPs offer their clients the service of trust, on the basis of legislation of some country that recognises trust. It did not become apparent from the reports sent to the FIU that the Estonian CSPs also act as trustees.

2 CORPORATE SERVICE PROVIDERS IN ESTONIA

2.1 Service providers with an activity licence

Since midyear 2014, Estonian CSPs are obligated to have an activity licence. In the period 28.01.2008-01.07.2014, the earlier Money Laundering and Terrorist Financing Act (hereafter old MLTFPA) stipulated in § 52 section 1 point 2 merely the obligation of registration in the MTR for CSPs. On 01.07.2014[27], the amendment of the old MLTFPA came into force that placed on the FIU the duty of resolving applications for activity licences.

A company is issued an activity licence according to the MLTFPA § 72 if:

- the company, its member of the management body, procurator, beneficial owner and owner have an impeccable business reputation, as well as lack a valid punishment for an offence against a state authority or money laundering crime or any other intentional criminal offence;
- a contact person for the communication with the FIU (appointed by the obliged entity on the basis of the MLTFPA § 17) corresponds with the requirements stipulated in the MLTFPA.

At the beginning of 2021, additional requirements came into force for the contact person appointed by the obliged entity to the FIU: the new stipulation foresees that the person being appointed as a contact person must be someone who works permanently in Estonia, in addition to the required preparation, experience and impeccable reputation for the fulfilment of duties. The appointment of the contact person requires the approval of the FIU. If the FIU concludes after verification that the reputation of the person is not impeccable, the obliged entity can extraordinarily terminate the employment contract with the contact person due to loss of trust.

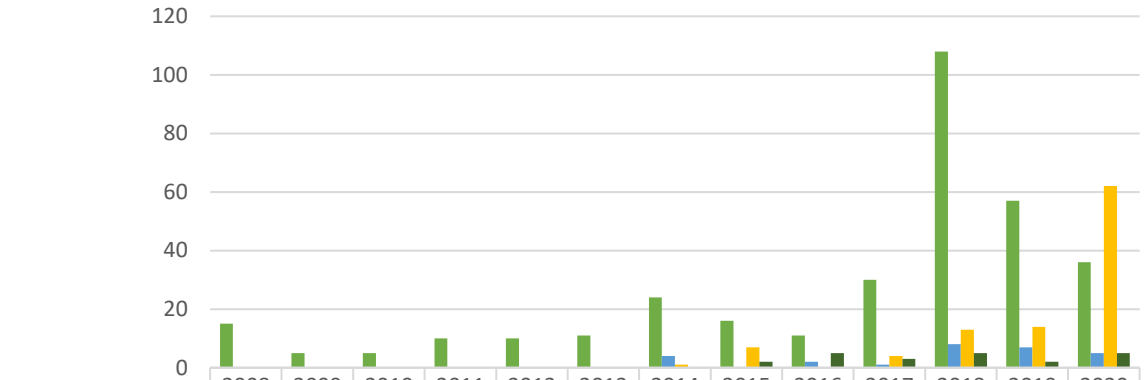
The person will be subjected to a misdemeanour liability on the basis of the § 372 of the Estonian Penal Code, if operating as an unlicenced CSP.

The data of the Register of Economic Activities show that as of 11.01.2021 there were 315 licenced CSPs in Estonia, incl. one company to which had accidentally been issued two activity licences for corporate services. The side to side comparison of the Business Register and MTR data revealed that four companies owning an activity licence for corporate services recorded in the MTR, were deleted from the Business Register. It can be concluded by taking into account the aforementioned corrections that at the end of 2020 there were 311 licenced CSPs in Estonia.

The analysis of the data in the MTR concerning CSPs shows that since 2008 there has been a total of 471 different companies that have entered into the MTR applications for obtaining, amending, correcting registration data or notifying of forfeiting economic activity, concerning the registration of provision of corporate services (2008-2013) or an activity licence (from 2014). 56 companies in the period 2008-2013 registered themselves in the MTR as a CSP. Since 2014 they have been considered as licenced CSPs in the MTR, as in that year the requirement of registration was replaced by an activity licence obligation. 46 of them remain

recorded in the register as licenced CSPs, but the activity licences of ten companies have been declared as invalid.

In the period 2014-2020, the FIU issued activity licences to a total of 281 companies, of which 12 had lost their validity by the beginning of 2020. The FIU since receiving the procedural competence to issue activity licences in 2014, has refused to issue an activity licence to a total of 27 companies (more details in Chapter 2.5). For the years 2008-2020, the dynamics of registrations and issuance of activity licences, refusal to issue, amendment and declaring as invalid, are depicted in Figure 4.



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Licences issued	15	5	5	10	10	11	24	16	11	30	108	57	36
Licences refused							4		2	1	8	7	5
Change of licence							1	7		4	13	14	62
Archived licences								2	5	3	5	2	5

Figure 4. Registrations and activity licences of CSPs, 2008—2020

Source: MTR data as of 11.01.2021

The current study used the data of the Business Register as of 19.11.2020 for creating an overview of the activities of known and presumed CSPs. The input for the corresponding data query concerning the licenced CSPs were the MTR data as of 10.11.2020 (304 active licenced or formerly licenced companies). Included in the analysis, for obtaining an overview of licenced CSPs were data on companies that as of 10.11.2020 had an activity licence that had been declared void or who had temporarily abandoned their activity licence.

The analysis of the fields of activity of the Business Register shows that the licenced CSPs declare primarily different consulting services as their field of activity. The most widespread among fields of activity are accounting and tax advising, advising in the field of business and management, activities of legal advisers and law offices, as well as other legal acts. The spectrum of principal and secondary fields of activity is quite wide and quite often includes also financial services (Table 6). Table 6 reflects the deficiencies of the Business Register data on fields of activity: four companies had not indicated their data on fields of activity in the register.

Table 6. Economic fields of activity of licenced CSPs

Field of activity	Secondary field of activity	Principal field of activity	Total
Accounting, tax advising	26	93	119

Business advising and other advising in the field of management	22	51	73
Activities of legal advisers and law offices	6	40	46
Other legal acts	10	28	38
Other unclassified activities supporting corporate activities	6	14	20
Renting and handling of own or leased real estate	14	5	19
Provision of financial services not classified elsewhere		16	16
Bookkeeping, accounting and auditing; advising in the field of taxation		7	7
Investing in bonds, securities and other similar financial instruments	1	5	6
Office management, combined secretary service	4	1	5
Supporting fields of activity to financial services not classified elsewhere	1	4	5
Fund management		5	5
Other activities in the field of information technology and computers	2	2	4
Financial advising	2	2	4
Programming	2	2	4
Activity in the field of professions, research and technology not classified elsewhere	3	1	4
Other fields of activity (51)	43	24	67
Total	**142**	**300**	**442**

Source: Business Register as of 19.11.2020

2.2 Persons with characteristics of factual service provision

The concept of corporate services includes resulting from the MLTFPA § 8, all legal and natural persons that in their economic or professional activities provide third parties at least one service listed as a sub-service of corporate services. The classification of corporate service has not changed significantly since representatives of the corresponding sector were added to the obliged subjects of the MLTFPA, established on 28.01.2008 and declared as void in the old MLTFPA on 27.11.2017, though at that time under the name providers of trust fund and corporate services (old MLTFPA § 3 section 1 point 9). It was also already foreseen in the old MLTFPA that the requirements are to be applicable to notaries, lawyers, bailiffs, trustees in bankruptcy, temporary trustees in bankruptcy and other providers of legal service, if they are active in the name of the client, in a financial or real estate transaction, manage the planning of the transaction or execute professional acts or provide professional services that are related to the founding, activities or procurement of means, required for the management of a corporate entity.

Approached from the contents of the sub-services of corporate services listed in the MLTFPA § 8 (founding of legal persons, acting as a representative of another person on the board of a company; executing transactions with shares; representing a shareholder of an unlisted company; contact person service) the study conditionally defines as factual service providers

such legal and natural persons currently active on the market that according to the data of the Business Register have or have had connections with at least 50 Estonian legal persons, in the role of a founder, contact person, person competent to receive procedural documents, shareholder, general partner, limited partner, representative of the authorised limited partner, board member, branch manager or procurator. The establishment of the threshold of the number of connections in the named roles was preceded by an analysis of all of the connections reflected in the Business Register; certain roles were excluded from the calculation because of the quantifying approach, as they did not directly characterise sub-services of corporate services (e.g. liquidator and trustee in bankruptcy roles that still have been analysed in the treatment of so called complex services).

It became apparent in the course of the data analysis that in determining factual provision of corporate services, it is important to take into consideration not only the data on services offered through legal persons, but also through natural persons. It is for this reason that to the indicators of connections of legal person potential service providers, were added the connection indicators of board members, procurators, shareholders and beneficial owners. The current study did not include a mapping of the number of persons in work relationships with CSPs that are in different roles, related to legal persons of Estonia. The future analysis of such data could provide additional information for clarifying potential service providers and understanding their activities.

The core data of the study has treated **195** active Estonian companies, as legal person factual CSPs. The characteristics of factual provision of services in some cases has been established indirectly, through the board members of the company and the connections of shareholders with other companies. Natural persons exceeding the threshold of 50 connections were classified as potential natural person CSPs. Their data was compared with the data of possible legal person CSPs and the indicators of connections of related natural and legal person service providers were added. Such connections took into consideration in addition to quantitative indicators, the activities of the company in the consultation sector. If the natural person was associated with many companies in the field of consultation, it was assumed that the natural person may offer service through all of these companies, wherefore they were all classified as factual service providers. Figure 5 that depicts the general division of factual service providers with and without activity licence, on the basis of connections, indicates that despite in the calculation of connections of companies, as well as connections of representatives of companies, factual providers of service more often operate through licenced companies. Yet there is a significant amount of factual unlicenced service providers active on the market.

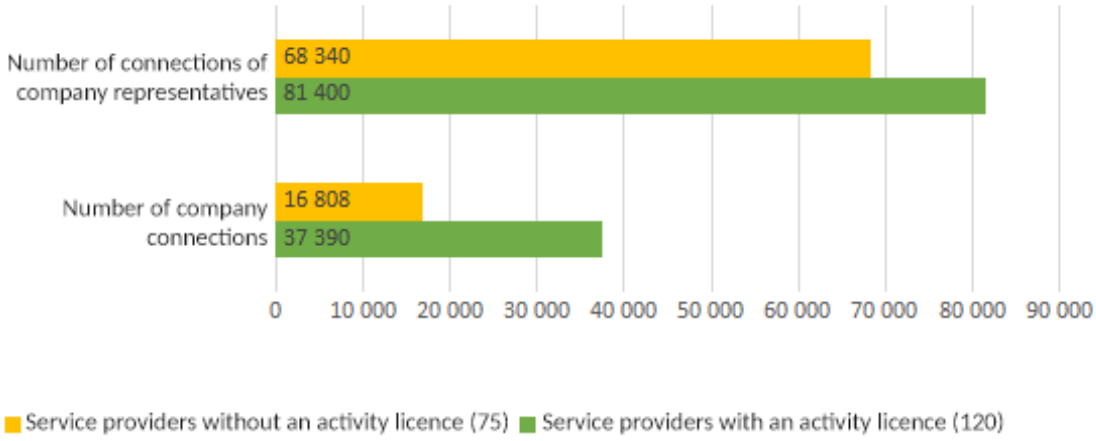


Figure 5. Factual service providers on the basis of connections

Among 120 licenced companies of corporate services that were in the selection of factual service providers, 50 were classified as such based on the number of connections of the company, as well as representatives of the company, 35 based on company connections, 31 on the connections of company representatives, 4 however by adding the connections of the company and its representatives. Out of 75 unlicenced companies, 16 happened to be in the selection of factual service providers due to the number of connections of natural persons, 8 due to the number of company connections, 42 service providers qualified based on both characteristics, 9 however on the basis of the added indicators of the company and its representatives.

The current study reveals on the basis of the Business Register data on fields of activity, a rather diversified picture of principal fields of activity of companies that have been classified as factual providers of corporate services (Table 7).

Table 7. Principle fields of activity of CSPs

Main field of activity of the service provider	Service providers with activity licences	Unlicenced service providers	Total
Accounting, advising in the field of taxation	26	93	119
Business advising and other management advising	22	51	73
Other legal acts	6	40	46
Activities of legal advisers and law offices	10	28	38
Other supporting activities for business activities not classified elsewhere	6	14	20
Holding company activity	14	5	19
Renting and handling of own or leased real estate		16	16
Providing of other financial services that have not been classified elsewhere with the exception of insurance and pension funds		7	7
Financial advising	1	5	6
Activities of lawyers and law firms	4	1	5
Investment in bonds, securities and other similar financial instruments	1	4	5
Other services not classified elsewhere		5	5
Research and development activities in other fields of science and technology	2	2	4

Construction of residential and non-residential buildings	2	2	4
Other supporting activities of financial services with the exception of insurance and pension funds	2	2	4
Other real estate management or management related activities	3	1	4
Other fields of activity (14)	43	24	67
Total	**142**	**300**	**442**

Source: Business Register as of 19.11.2020

In the calculation of the connections of persons, on the basis of the Business Register data and comparing of the results with the fields of activity data, it became apparent that a large number of legal persons, foremost through the role of the company shareholder or beneficial owner, are/were many forestry and agricultural companies, companies dealing with energy (foremost solar parks), as well as providers of pharmacy services. Such were still removed from the final selection of factual CSPs, as the data of the fields of activity of the company and public data did not indicate that the corresponding companies were active in the consultation sector and would be providing services, belonging under corporate services to third parties. The same approach was used in the case of energy companies and providers of pharmacy services, so they were removed from the final selection of CSPs.

The methodology used did not allow to consider natural persons that were known to no longer be active under legal persons, in the list of factual service providers.

As a result of exclusions, the final selection of the current study included 195 legal persons that were conditionally considered as factual service providers; the given selection includes 120 licenced companies for corporate services. From the 195 companies, 187 companies are active in the legal form of a private limited company, three as a limited partnership, three as a public limited company, one as a partnership and one as a commercial association. The principal indicators of the annual reports of the factual CSPs are presented in Table 8.

Table 8. Principal economic indicators of factual CSPs

Time of presenting annual report	Number of companies	Number of employees	Turnover(€)	Profit(€)
2020	1	1	361 743	259 870
2019	124	376	32 022 985	5 798 593
2018	44	118	10 840 854	9 717 804
2017 and earlier	26	28	1 211 112	200 065
2020	1	1	361 743	259 870
Total	**195**	**523**	**44 436 694**	**442**

Source: Business Register as of 19.11.2020

It is noticeable in the data of Table 8 that despite legal entities having had an extended deadline of until 30 October 2020 for presenting annual reports, there was as of November 2020 only one factual provider of corporate services that had presented an annual report. The last annual report presented for close to 36% of the factual service providers was in 2018 or earlier.

2.3 Companies with an activity licence, but without factual characteristics of providing service

One of the aims of the study was to clarify persons with characteristics of actually providing service. It became apparent based on the data of the Business Register as of 19.11.2020 that 57 CSP companies (close to 19% of the licenced CSPs) or persons associated with them, did not have a single connection to other Estonian legal persons. The analysed data thus lacks references that these companies operate on the Estonian market as providers of the service of establishing companies or offering the services of a contact person, nominal director or shareholder. It remained unclear in the course of the analysis of the data used in the study, why these companies had applied for an activity licence of CSP. Sufficient data is lacking to conclude that these companies deal with offering the service of trust, but the latter is not to be excluded. It is possible in the future supervisory measures of the FIU to clarify if the company is active in the given sector and the MLTFPA § 75 section 3, allows for declaring the activity licence as void, if the company has not started offering service within half a year after becoming licenced.

Most of the licenced companies but without external characteristics of providing service, have according to the EMTAK classification as the principal field of activity "Providing financial services not classified elsewhere, with the exception of insurance and pension funds" that is not very informative. Out of the named 57 companies, 14 have or have previously had other activity licences issued by the FIU: nine companies for providing virtual currency services, three for being active as a financial institution, as well as two for dealing with buying and wholesale of precious metals and stones.

Close to 10% (30 companies) of the licenced CSPs have many activity licences of the FIU. There are thereby among the licenced companies a total of 19 companies that were not classified as factual providers of service in the given study, based on the data of connections of the Business Register (14 because of a lack of connections and 5 because of the scarcity of connections) (Figure 6). Most frequently in parallel to applying for a corporate services activity licence have been applications for financial institution and VASP activity licences.

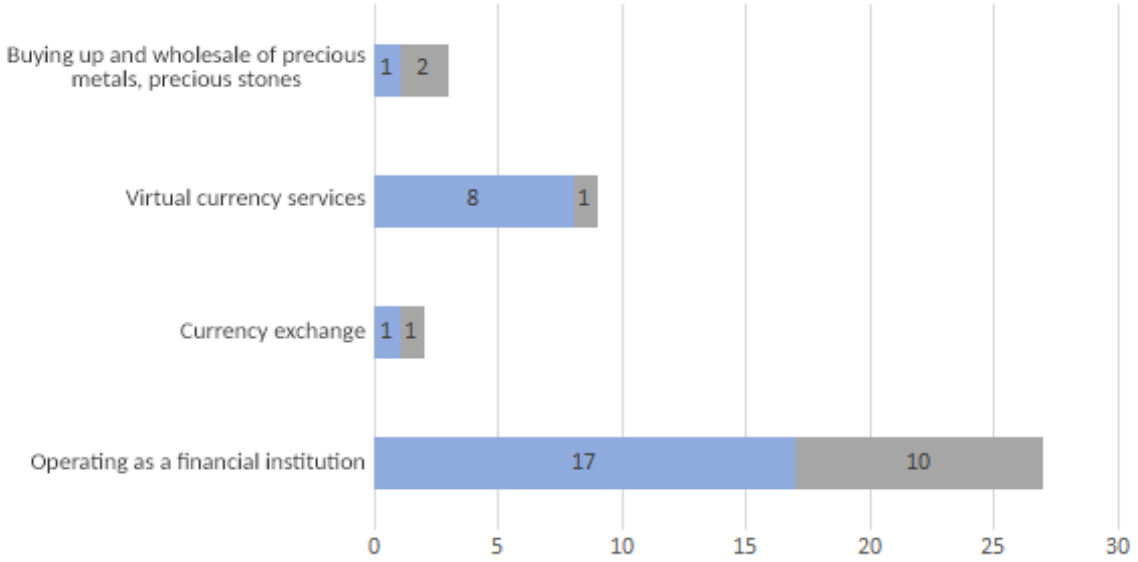
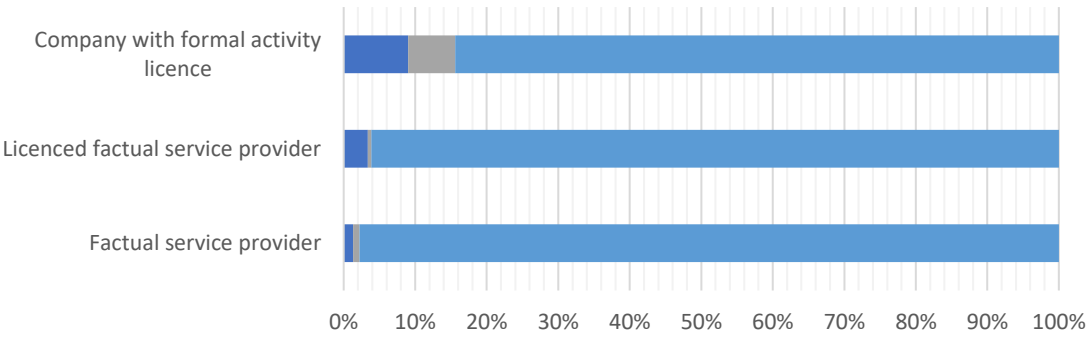


Figure 6. Fields of activity of CSPs with many activity licences of the FIU

Source: MTR as of 10.11.2020

The analysis of the data of the Business Register and e-residents highlighted that companies with an activity licence, but without characteristics of a factual service provider that because of a scarcity or lack of connections were not classified as factual service providers in the given study, included relatively more such companies that had one or many representatives that were non-residents or e-residents (Figure 7).



	Factual service provider	Licenced factual service provider	Company with formal activity licence
e-Resident(s) as representative(s)	3	14	37
Non-Resident(s) as representative(s)	2	2	27
Only resident representatives	223	397	346

Figure 7. Division of CSPs based on the residency of managers, shareholders, and beneficial owners

Source: Business Register as of 19.11.2020 and UUSIS as of 24.11.2020

As among licenced companies without or with limited factual characteristics of providing service were mostly with e-residents, then an additional analysis was made of the countries of origin of the e-residents associated with the companies (Table 9).

Table 9. Origin of the e-residents related to CSPs

Country[x]	Factual service provider	Factual licenced service provider	Company with formal activity licence
The Ukraine		1	8
Russia		3	4
Poland		2	4
China			4
Latvia			3
Germany			2
Czech Republic			2
Finland			2
Japan		2	2
Republic of South Africa			2
Italy			1
France			1
Andorra			1
Malaysia			1
Great Britain	2		
Belorussia		4	
Spain		2	
The Philippines	1		
Total	**3**	**14**	**37**

Source: Business register as of 19.11.2020 and UUSIS as of 24.11.2020

The analysis of data shows that e-residents are most frequently related to such Estonian companies that are licenced for providing corporate services, but do not have occurrence of characteristics of factual service provision. More than half of such e-residents originate from third countries (the Ukraine, Russia, China, Japan, Republic of South Africa, Malaysia), with persons from the Ukraine, Russia, Poland and China being in the forefront.

2.4 Trading with companies with an activity licence

The business environment of Estonia and e-state services make it easy and economical also for non-residents and e-residents to establish companies in Estonia. There are on the market CSPs that sell ready-made companies to non-residents and e-residents, as well as continue to offer postbox or contact person services, thus creating and maintaining an apparent connection to Estonia of companies controlled by non-residents.

Enterprise Estonia (hereafter *EAS*) in the framework of the e-residency programme[28], has created a so called marketplace intended for non-residents planning entrepreneurship in Estonia, where as of January 2021 35 companies are offering different support services of entrepreneurship, incl. sale of ready-made companies, contact person service, virtual office

x Many connections of one company with the same country were counted as one.

service, accounting, financial advising, tax advice. It is mentioned on the EAS marketplace information page that 90% of the e-residents use service providers when establishing a company[29].

As a result of the efforts of the FIU, the market participants have started to better understand the risks of money laundering and terrorism financing accompanying VASPs. Although the FIU is vigorously reducing the number of licenced VASPs on the Estonian market, it is still noticeable among the support services advertised on the EAS marketplace that some domestic CSPs continue to provide a special service of procuring activity licences for virtual currency services. However, many of the service providers who introduce themselves on the EAS marketplace have indicated there that they do not service companies dealing with virtual currencies.

The Estonian VASP licence is advertised internationally as a sign of quality to the service provider that allows the service provider to confirm to clients that their property is in a secure place, wherefore Estonian ready-made companies that have a virtual currency service activity licence have become a sales article for companies also offering corporate services internationally. The website of the group Eternity Law International for example trades with Estonian ready-made companies, incl. licenced VASPs[30]. It is not apparent from their website where the company or the parent entity of the group is registered. At the contact address in Tallinn of the group, 19 Tuukri St, can be found a company with a similar name that does not have an activity licence of the CSP issued by the FIU.

Due to the explosive growth of VASPs registered and licenced in Estonia in 2018–2019, the plenitude of companies merely formally connected with Estonia on the given market and the accompanying enhanced risk of money laundering and terrorism financing, the legislator had to take steps to curb the growth. On 10.03.2020 a new version of the MLTFPA came into force, in which among others, the prerequisites of the mentioned activity licence have been supplemented in § 72 section 1, to include the requirement that VASPs must have a place of activity located in Estonia. The requirement of a place of activity serves the general purpose of the MLTFPA, to protect the trustworthiness and transparency of the Estonian economic system, as well as to mitigate the high risk of money laundering in the virtual currencies sector. The given change in legislation has allowed the FIU to refuse to issue activity licences in situations where in the opinion of the FIU, it does not correspond with the requirements stipulated in legislation: for example the presumed place of activity does not allow for the proper application of due diligence measures, security and storage of data or it is not possible for the FIU to conduct onsite supervision proceedings there. The non-correspondence of applicants to the tougher circumstances of the object of inspection and the consequent decision of the FIU to refuse to issue an activity licence or to void activity licences, has been accompanied by many legal disputes for the FIU, including an ongoing administrative court dispute with a CSP that as one direction of business has the sale of ready-made companies with virtual currency licences to non-residents.

It is not vitally believable for the FIU that tens of future providers of virtual currency services would desire to provide service in one and the same place of activity (especially taking into consideration the concrete place of activity), with the same board and business model. Similarly in the opinion of the FIU, service providers acting in such a way are not capable of observing all of the requirements stipulated in the MLTFPA, as well as the clustered location might not permit the FIU to reasonably execute onsite supervisory inspections. In the opinion of the FIU, some of the CSPs have started to offer fictitious places of activity to ready-made

companies for which they themselves apply for VASP licences. The legislator has prohibited the use of a fictitious place of activity to VASPs.

The formalising of companies with activity licences for the purpose of sales, makes the market of companies with activity licences non-transparent and at the same time is very burdensome for the FIU, as well as the management body. In the course of the application for the initial activity licence, the FIU is given the misleading impression that the company will start providing service, once the activity licence is granted. In reality most of the companies however suspend activities upon receiving the activity licence, until the company is sold. At the time of the sale, the FIU is presented with an application for the amendment of the activity licence, in the proceedings of which the FIU must verify all circumstances similarly to the proceedings of the initial activity licence. The FIU has significantly altered its process for issuing activity licences, due to the typology that has become apparent and the FIU considers in the course of the issuance of the initial activity licence, the presentation of false data as a circumstance of evaluating the proper business reputation of the service provider.

The offering of the service of a contact person (in the meaning of the RahaPTS § 17) as well as a board member, have led to a situation where the same contact person or board member is connected with many companies. This makes it questionable if the contact person is capable of competently and properly fulfilling his/her job duties, as well as the obligations stipulated in the RahaPTS, if he/she is connected with very many companies. The trustworthiness of the board member also becomes questionable, if the person provides the service of board member and contact person to very many companies in the same sector: that in terms of a potential conflict of interests, as well as the suspicion that the company is only seemingly managed from Estonia, to fulfil the requirements for obtaining an activity licence.

The FIU has significantly toughened its process of proceedings for activity licences. The FIU has consequently thereof detected situations, where the company no longer corresponds with the circumstances of the object of inspection that are the basis for the issuing of the activity licence and has declared the activity licences as void, in proceedings for amendments. There is a considerable risk for the purchasers of a ready-made company with an activity licence of the FIU that they still will end up receiving a company without an activity licence.

Many CSPs assist foreigners in the application of activity licences from the FIU, thereby not verifying the background of the company and persons. The FIU has on many occasions detected the presentation of false information in the proceedings for an activity licence and therefore refused to issue an activity licence or declared existing ones as void. The FIU has also made reports of criminal offence to the police concerning the presentation of false information. The omitting of applying due diligence measures in the sales process of the company (and activity licence), allows for dishonest persons to misuse Estonian companies and the economic system. Cases can be found where companies with the activity licence that have been sold by CSPs without applying measures of due diligence, have later emerged again in the FIU's sphere of interest because of different fraud schemes or cyber crimes.

So far, the service providers have treated the sale of ready-made companies as transactions outside of business relationships, where due diligence measures are left unapplied. The latest NRA, however, highlights the sale of shelf companies with a virtual currency service,

financial institution or CSP activity licence to non-residents and e-residents as an activity with a high risk of money laundering and terrorism financing[31]. The standard of diligence for AML/CTF assumes that the CSP treats the risks associated with high risk services in its internal risk assessment, adapts its rules of procedure and applies measures of due diligence in an enhanced order.

2.5 Level of due diligence of corporate service providers

The guidance material published by FATF in 2019 on a risk based approach to offering corporate services stresses the role of service providers for mitigating the risks of money laundering of the sector, through the application of appropriate rules of procedure and due diligence measures in the course of providing service[32].

In the framework of the national risk assessment published in spring of 2021, a survey was conducted among CSPs, as a result of which it became apparent that close to 3/4 of the respondents were unable to mention the ML/TF risk typologies occurring in their sector. As the survey also indicated that the service providers in the CSP sector are with a rather high risk appetite, the companies should in counterbalance ensure that there is awareness, evaluation and mitigation of the risks of money laundering and terrorism financing that accompany their activity.

The MLTFPA § 19 obligates CSPs to apply measures of due diligence in the following cases:

- when establishing a business relationship;
- when making or mediating an occasional transaction outside of a business relationship with a value greater than 15 000 Euros;
- when verifying or updating data collected in the application of due diligence measures, if a suspicion has arisen that the previously collected documents or data are insufficient or inaccurate;
- when there is suspicion of money laundering or terrorism financing.

Outside of business relationships or in the case of occasional transactions (e.g. after the transfer of a business without following providing of contact person or virtual office services), service providers may currently refrain verifying the identity of the person, if the transaction remains below the limit value of 15 000 Euros. The new NRA has reached the conclusion that because of such a limit value, the risks accompanying the occasional transactions of corporate services, often remain without evaluation and application of mitigating measures, wherefore the work group of the NRA recommends broadening the application of due diligence measures to all transactions mediated by CSPs.

CSPs are not in the meaning of the International Sanctions Act (ISA) persons with specific obligations, yet according to directly applicable EU regulations they are obligated to freeze the property of persons recorded in the lists of sanctioned persons. The national risk assessment finds that the residual risk in the sector is high, as sanctioned persons may with the purpose of creating a company, misuse the CSPs. The work group of the NRA having evaluated the risks of the spreading of weapons of mass destruction, also recommends

changing the regulation such that the prerequisite for using all services in the corporate services sector, is the identification of persons.[33]

An important indicator for the FIU of the level of due diligence of the sector, is the number of reports forwarded to the FIU by obliged entities or the fulfilment of the reporting obligation. The FIU has received from the companies considered in the current study as factual CSPs and all companies correspondingly licenced, in the 12 year period (2008–2020) 1 339 reports (Table 10), but thereby 1 280 originate from one notifier. The reports are predominately cash transaction reports that are not associated with the activities of the given service provider in offering corporate services, but being active in the financial sector. The remaining 60 reports have been sent by 23 different companies.

Table 10. Reports submitted by licenced and factual CSPs, 2008-2020

	Factual CSPs with activity licences	Factual CSPs without activity licence	Licenced service providers
Number of notifiers	20	4	24
Number of reports	51	1288	1339

Source: FIU data as of 17.12.2020

Based on the reports found in the database of the FIU, where the field of activity associated with the report or the interaction of the principal field of activity of the service provider and the contents of the report, directly indicate the offering of corporate services, it is possible to highlight that in 2019, the CSPs sent 11 reports to the FIU, of which three were for suspicious transactions (STR), three for unusual transactions (UTR), four for unusual activity of clients (UAR) and one for the connection of the client to the risk of terrorism financing. Throughout 2020 the FIU received from eight CSPs a total of 12 reports: four of them were STR, two UTR and six UAR.

In the spring of 2020, the FIU sent a feedback on reporting to service providers in the consultation sector, in which it evaluated the activeness of reporting as very low among CSPs and considered that the quality of the reports sent leaves to be desired: the FIU must ask the notifier for additional explanations and documents, often the reports lack documentation and information on the measures of due diligence applied; there is little input of the service provider itself as a part of the reports are copied from the complaints of persons that have addressed the service provider. It is also apparent from the reports presented to the FIU that there are service providers that in business relationships accept the situation that in the application of due diligence measures, the client does not present all of the requested transaction documents or is willing to continue the client relationship in a situation where the obliged entity already has a suspicion that the client will commit an offence.[34]

In the feedback sent in the spring of 2021 to companies in the consultation sector, the FIU positively highlights the increased report of a few CSPs and the good quality of their reports, but notes that the general reporting activity of CSPs is unproportionately low, considering the risky service profile and plenitude of service providers, which indicates a low application of due diligence measures in the sector[35].

2.6 Results of the licencing and supervisory proceedings of the FIU

Already in 2008 the old MLTFPA in § 37 section 1 point 4 and § 47 section 1, stipulated it into the competency of the FIU, to be the supervisory institution of CSPs. From 2014 when an obligation for licencing for the CSPs was established instead of the registration obligation, the FIU also executes the licencing proceedings that assist in controlling the entry of service providers to the market.

In the years 2018–2020 the FIU has made a total of 15 refusing and 239 approving, activity licence decisions whereby the FIU issued 48 activity licences for corporate services, to companies the beneficial owner of which is from a foreign country, but concerning seven such applicants made a negative decision (Figure 8).

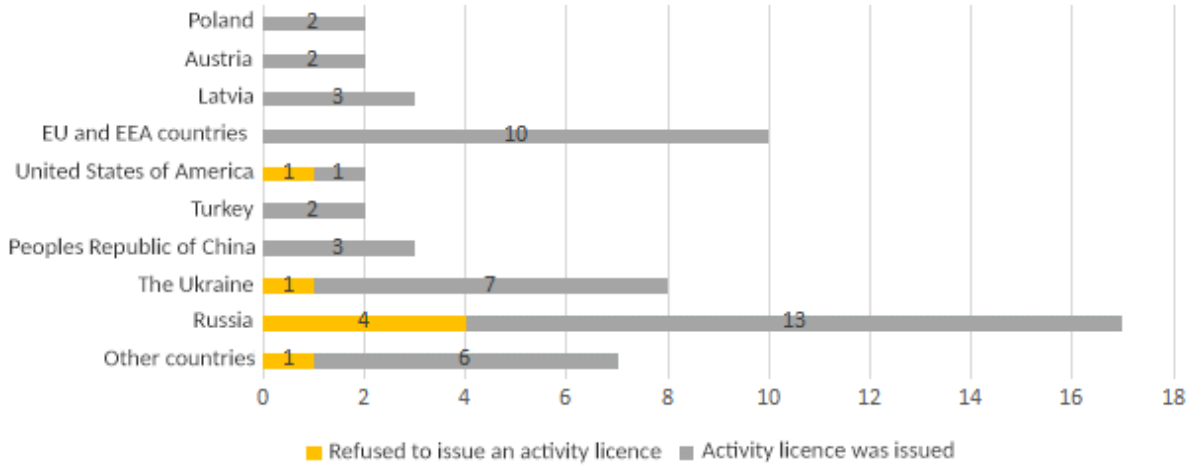


Figure 8. Results of the applications of activity licences by the residency of the beneficial owner of the applicant (2018-2020)

Source: Data of the FIU as of 31.12.2020

The FIU has among others refused to issue an activity licence twice, because the company representative had a valid criminal penalty, five times because a proper certificate of the criminal record (in the case of representatives from foreign countries) was not presented, three times due to the non-correspondence of the contact person to the requirements and twice because of inadequate or missing procedural rules[xi].

The amendments of the MLTFPA that came into force on 10.03.2020 that concerned the circumstances of verifying the activity licence, caused to be demanded the proof of the trustworthiness and correct business reputation of the member of the service provider management body or procurator. In 2020 the FIU on one occasion did not satisfy the activity

xi An obliged entity must according to the RahaPTS § 14 section 1, establish rules of procedure with which are efficiently mitigated and managed in the framework of the risk assessment, the risks identified related to money laundering and terrorism financing. The obliged entity to verify that the rules of procedure are fulfilled must establish internal audit rules that describe the functioning and application of the conformity check, of the internal audit system, incl. the procedures for checking employees.

licence application for corporate services for the reason that the applicant lacked a correct business reputation.

The results of the supervisory proceedings of the FIU, show that a large proportion of the service providers checked, are incapable of effectively evaluating and detecting risks present in the sector. In the period 2008-2020 the FIU has executed a total of 32 supervisory proceedings among CSPs. In 24 proceedings the FIU detected significant deficiencies and in two cases initiated misdemeanour proceedings. The misdemeanour proceedings were both initiated by the FIU in 2020 as exceptional, as it became apparent that there were unlicenced CSPs active on the market.[36] The Figure 9 depicts the supervisory measures of the FIU on a timeline.

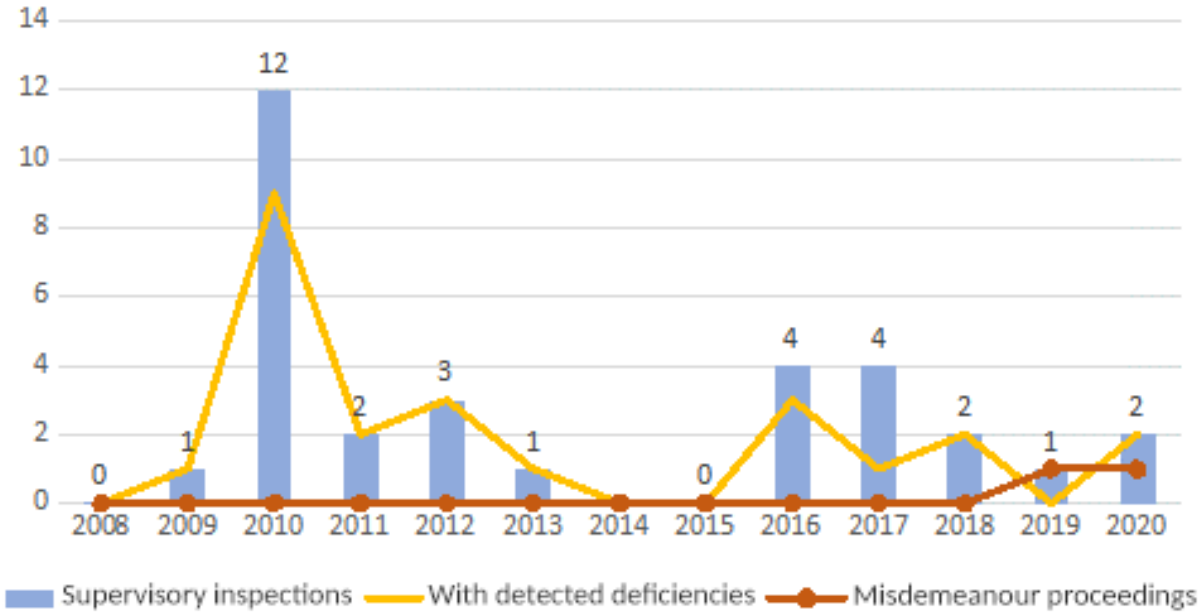


Figure 9. The supervisory activities of the FIU regarding the CSPs in the period 2008-2020

Source: Data of the FIU as of 31.12.2020

3 MONEY LAUNDERING RISKS OF CORPORATE SERVICES

3.1 Organised money laundering

The 2018 FATF report on professional money laundering has described and analysed based on the practice of different countries, ways how professional money launderers offer criminals and criminal organisations money laundering and related services. This can be done either by offering a "full service" in the form of ensuring a complete money laundering infrastructure or also as a “tailor made service”, by building up the money laundering scheme, according to the needs and orders of the concrete client. The services offered by professional money launderers include among others, different consulting services, the establishment and management of companies and other legal persons, nominal directors at companies and bank accounts, compilation of false documents, mixing of legal and illegal income, movement and placement of illegal cash, acquisition of property, finding possibilities of financing and investment, indirect acquisition and commanding of property, conducting of legal proceedings, as well as the recruiting of money mules and the organisation of their work.[37]

The large money laundering schemes of the recent past that have deeply impacted Estonia, have shown how extensively legal bodies are used for executing organised money laundering schemes. The recent leakage for example of the so called FinCEN files that concerned the sending of approx. 2 500 suspicious activity reports (SAR) sent by the FinCEN in the period 1999 to 2017 to the USA financial intelligence unit revealed to the public that thousands of limited liability partnerships or LLPs and limited partnerships or LPs, registered in the United Kingdom**,** were established by service providers that were connected through money laundering schemes, handled by banks of the Baltic States; more than a thousand of such companies had overlapping addresses and the same nominal directors. The British Government intends to give the registrar of the commercial register there (Companies House), the right to monitor the correctness of the data presented to the register and to remove false records. The government also desires to leave the right of establishment of legal persons only to the CSPs that are obligated to apply due diligence measures.[38]

Criminals use the assistance of CSPs foremost in the second phase of money laundering or in the spreading phase, in which money acquired through crime is dispersed to hide its tracks, often to the accounts of shell companies. Money launderers and terrorism financiers use the assistance of CSPs in the parallel establishment of different legal entities in many countries, as the use of different jurisdictions in making transactions complicates the work of law enforcement authorities in the verification of the mobility of money and beneficial owners. The criminals need the know how commanded by the service providers, to find jurisdictions that do not require the identification of the beneficial owner, refuse to disclose such information to law enforcement authorities or that have a weak system of prevention of money laundering. As part of the relationship of trust between the service provider and the client, the CSPs often have the possibility to possess a certain control over the accounts and

property of their clients, with which is accompanied the risk that the CSP is included directly in the activities of money laundering (e.g. establishing secondary accounts and managing the money laundering transactions of clients).[39] A very good example of such behaviour is the presumed organised money laundering through the Estonian branch of the Danske Bank, in which the bank internal operators of the money laundering scheme mediated to clients also shell companies in offshore areas[40] (Figure 10).

No.	Jurisdiction	Company formation Price USD	Comment	NEW €
1	Belize	900,00		980
2	BVI	1000,00		1400
3	Anguilla	800,00	850-950 евро;750-850 >5	980
4	Cyprus	2500,00		2000
5	Hong Kong	2500,00		2050
6	Liechtenstein Found	см. отдельный прайс		
7	Marshal Islands	850,00	min 10 co/month, 950 if less	1100
8	New Zealand	1050,00		1400
9	Panama	1100,00		1250
10	Singapore	3500,00		2850
11	UK LLP	800,00	min 10 co/month, 1000 if less	850
12	USA: Colorado	650,00		
13	USA: Delaware	700,00		
14	Denmark K/S	4200,00	EURO	4750
15	Ireland	2800,00	EURO	
16	Name reservation	100,00		
	Delivery NOT included for new companies			
	Delivery Included for shelf companies			

Удобная юрисдикция для открытия счета в Danske Bank

Figure 10. Price list for the purchase of offshore companies sent by the Swiss Registry Consulting to the Danske Bank Estonia Branch Manager of Non-Resident Accounts

Source: OCCRP

The OCCRP names as the core of the extensive money laundering scheme, of the middle level employees of the Danske Bank Estonia branch, the company Beta Consult Corp, registered in the Marshall Islands. It becomes apparent from the data of the Business Register that at the time when the Danske money laundering machine was launched in 2008 that an accused in the Danske criminal matter founded and Estonian company with a similar name, the main activities of which are accounting and tax consulting. According to the data of the website of the company, the activity profile of the company besides accounting services, also includes the founding of companies in Estonia, recording required amendments in the Business Register, registration of companies and natural persons in the Business Register and with the Tax and Customs Board, as well as the organisation of notarial acts.

At the time of completion of the study, no CSP in Estonia has yet been convicted of money laundering or assisting in it. As of the beginning of 2021, the Harju County Court is discussing a criminal matter where the Office of the Prosecutor General charges three persons of committing money laundering to the extent of 2.88 million Euros, with the assistance of the payment institution GFC Good Finance Company[41]. In May 2019 the GFC Good Finance Company lost its activity licence by the decision of the Financial Supervision Authority, due to significant violations of the requirements of the MLTFPA, as well as the Payment Institutions and E-money Institutions Act[42]. One of the accused has also been under the attention of the FIU, in connection with the provision of corporate services.

The CSPs that have come under the attention of the FIU and investigative institutions because of suspicions of money laundering, usually are not noticeable with the plenitude of Estonian companies associated with them, although there are exceptions. Information often is received by the FIU, concerning companies that have characteristics of a self-employed

service provider, whose activities are often distributed among many companies in different fields of consultation.

3.2 Service providers in the information received by the FIU

Out of the 378 factual and licenced CSPs that were analysed in the current study, 77 were such that had board members, procurators, shareholders or beneficial owners, concerning whom the FIU has received reports or requests for information. It should however be taken into consideration that the CSPs appear in the information of the FIU, primarily due to the suspicious activities of their clients, with which the service provider usually does not have immediate connections.

The 2015 FIU yearbook pointed to the increasing tendency that persons of foreign countries use Estonian companies as so called *"offshore*" companies, where in Estonia is located only the receipt of documents that are not essentially related to the economic activities of the company. The bank accounts of such companies usually contain transit transfers and not actual economic activities. The FIU recommended at that time that credit and financial institutions registered in Estonia by companies controlled by non-residents that do not have economic activity in Estonia, be treated in the same way as non-resident legal entities, in the case of which enhanced due diligence measures should be applied.[43]

The international requests for information received by the FIU indicate that the trend to use Estonian companies as shell companies has continued and even intensified. The analysis of the FIU on the foreign communication of 2020 shows that the FIU last year, treated 24 such cases as a result of incoming foreign requests (more than 6% of the incoming foreign requests), where the connection with Estonia was merely in the suspicious activity described in the requests concerned with a legal person or persons registered in Estonia that did not have a bank account or actual activity in Estonia[xii]. As much as 12% of the incoming foreign inquiries concerned cases where the legal persons involved were FIU licenced VASPs[44]. The information received by the FIU through foreign inquiries concerning CSPs most often concerns the presumed participation of their clients in investment fraud and other cyber dependent crimes, related to virtual currencies.

3.3 Money laundering risks of offering multi-services

The CSPs should not be automatically associated with organised money laundering. Corporate services however with a focus not on offering so called "convenience services" that support business activities, but on creating non-transparent corporate structures and concealing beneficial owners, as well as supporting transactions with the property of clients,

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xii The foreign cooperation specialists of the FIU have noticed that often the banks active in Estonia, have already in previous years closed the accounts of such companies.

still have inherent in them the risk that such service providers are a part of the international money laundering infrastructure. In this context there is reason to talk about the money laundering risks, associated with the provision of combined services.

The 195 Estonian companies treated in the second chapter of the study that are factual CSPs, operate according to the register data in 30 different main fields of activity (see Table 6 in Chapter 2.2). Expectedly the principal fields of activity of the majority of the companies belong to the consultancy sector (130 service providers), followed by the financial sector (22 service providers), corporate support services (20 service providers) and real estate (10 service providers).

The data of fields of activity shows that CSPs classify their activities in the EMTAK system primarily as accounting and tax advice, business and management advice, legal advice (incl. law firms) and corporate support activities.

The illustrating of the risk of money laundering inherent in providers of legal services, is assisted by the news reflected in the summer of 2018 in the Estonian media that an Estonian lawyer had acted as the cover owner of the businesses of a Russian businessman, suspected of corruption. The businessman was closely connected with the building of the ski jumping towers for the Sochi Olympic Games. The financing of the construction caused initiation of criminal investigations in Russia. It was already apparent from previous *offshore* leaks that he was running the activities of his shell companies through an Estonian lawyer and an international corporate services company with Estonian roots. The so called Panama leak documents show that the lawyer under question was also a nominal shareholder for two companies registered in the British Virgin Islands and that in the years immediately preceding the Sochi Olympic Games. The lawyer himself confirmed to journalists that he provided the service of a nominal shareholder to a Russian businessman.

Although providers of accounting services often combine their activities with audit services, the current study did not identify among those identified as self-employed CSPs, persons that would have been actively servicing clients, in the role of an auditor. A total of six persons have acted as a trustee in bankruptcy and three as a temporary trustee in bankruptcy, in the duties of a liquidator.

It is very common in Estonia that in the liquidation of companies, are used persons specialised in liquidation, whose orchestrated liquidation process may not follow the interests of the creditors of the company. Based on the data analysed in the current study[xiii], it was determined that 27 natural persons had been a liquidator or less frequently a board member in the role of a liquidator, by more than 50 companies that by now have been deleted from the register, are in liquidation or bankrupt. The most active liquidator, KM has been the liquidator even in 918 companies, 26 of them have gone bankrupt. Six further natural persons have been the liquidators of more than 100 legal persons.

The service portfolio of providers of consultancy services may also include services in the field of migration, also with very different levels of risk. For example one of the service providers observed in the study, according to the data of the company website, offers consultation on the application for a temporary residence permit, together with the preparation of a contract of employment, as well as with a calculation of the salary

xiii Data of the Business Register as of 19.11.2020

corresponding to requirements, while another still in the spring of 2021 advertised on its website colourfully the services of applying for an Estonian residence permit, as well as the services of acquiring the citizenship of European and third countries. According to the company's price list at the time, the client was promised a residence permit for Estonia for 3 000-6 000 Euros, on the basis of belonging to the board of an Estonian company (thereby without making a capital contribution). Probably it still was not ensured that such service could be provided as the same company in the autumn of 2021, among migration services only offers the citizenship of Vanuatu that can be acquired for 1 Bitcoin.

The risk of money laundering that accompanies migration services is illustrated by an international case in which a Malaysian financier needed to find cover, from law enforcement authorities because of the embezzlement of a billion dollars, through purchasing in 2015 for 2.5 million Euros a “golden passport” of Cyprus that the island country made possible in the framework of the programme “Citizenship through investment”, available to wealthy foreigners. A recent study by OCCRP journalists shows that the financier was assisted in the mediation of the Cypriot citizenship and luxury real estate by a consultancy firm in Great Britain that had determined its client indeed to be a high risk politically exposed person (so called PEP), but still served him/her through the mediation of Cypriot companies. The service provider earned 60 000 Euros for the citizenship and even 650 000 Euros for organising the real estate transaction, using for removing the transparency of the purchase transaction of the luxury villa, shell companies and figureheads.[45]

The European Commission has analysed the schemes of Cyprus, as well as other member states, allowing “large investors” citizenship and residence permits [46]and the subject has also reached the European Union wide risk assessment on the prevention of money laundering and terrorism financing (SNRA). The latter states that the granting of citizenship or residence permits against money placement, is a growing trend in the member states and increases the risk of security, money laundering, tax evasion and corruption in these countries.[47]

The current analysis highlighted as an indicator of the risk of money laundering the circumstances that a row of service providers (more frequently unlicenced for the provision of corporate services, so called "factual service providers") define themselves through fields of financial activities (investment in financial instruments, financial advice, other undefined financial services) as well as fields of activity related to real estate management.

The specialisation of CSPs in parallel, also to services in the real estate sector, references the higher money laundering risk of the service provider, as criminals use the real estate sector for the placement of criminal income, as well as integration into legal business activities. In the opinion of the FIU, an indicator of higher money laundering risk are also the frequent transactions of CSPs, in cash and the international transport of cash.

In chapter 2.4 of the study, the problem found treatment that one of the sales articles of CSPs on the market for international legal entities are FIU licenced companies, especially those licenced as a VASP. It cannot be excluded that licenced VASPs, as well as companies licenced as a financial institution or CSP, may be misused as shell companies in the so called service-based money laundering, a neighbouring phenomenon of the trade-based money laundering, where the trade of services or other intangible assets is used as a cover for the movement of criminal assets. Besides remote gambling, software companies, consultancy and advisory services and trade in trademarks, the fresh report of FATF on trade based money

laundering mentions different financial services, incl. services related to virtual assets, as more vulnerable to service-based money laundering[48].

The recent case treated by the FIU concerning Estonian companies, illustrates the risk of criminal misuse of FIU licenced CSP and other companies , of which a part were founded by an Estonian CSP, some were assisted by the service provider in the licencing application for a VASP. The alleged beneficial owner with a Balkan like name, communicated with the CSP through many intermediaries that remained anonymous. The intermediaries wrote from encrypted ProtonMail e-mail accounts or communicated by telephone, with the calls always coming from numbers in different countries that references the use of virtual numbers. Having heard of the requirement that a prerequisite of a VASP is the location of the board in Estonia, the board member that was a citizen of a foreign country was promptly replaced by a professional board member offered by the service provider. Of the five companies founded in Estonia associated with the case, the FIU refused in 2020 to licence two of them, one had been licenced in 2019, two had not presented a licence application. The FIU held however previous background information on one company that assisted in associating its figurehead of Macedonian origin with an unlicenced crypto company, with criminals of Israeli-Austrian origin that among others had coordinated an extensive fraud scheme with binary options.

SUMMARY

The FIU's study of CSPs confirms that Estonia as a jurisdiction is quite vulnerable in regard to corporate transparency and the misuse of legal persons for criminal purposes. There are many indicators that Estonian companies are used as shell companies in international crime. The state plans to increase the accessibility of the data in the Business Register and on beneficial owners, as well as focus on ensuring their accuracy to balance the domestic and international risks, associated with the possibility of founding and transferring businesses and non-profit associations that through e-services is made easy, fast and economical in Estonia. Corporate transparency can be taken to a new level by making the data in the e-Business Register, incl. data on beneficial owners, accessible free of charge as well as by the registrar verifying the factual accuracy of the presented data.

The current problem of the lack of corporate transparency is aggravated by the circumstances that there are relatively many unlicenced companies on the corporate services market and the CSPs as "gatekeepers" have a low level of diligence, in the field of AML/CTF that clearly does not correspond with their risk appetite. The national risk assessment, the results of supervising of the FIU, as well as the analysis of the data of the reports presented to the FIU, illustrate that the awareness of CSPs on AML/CTF is low, risk systems inadequate, measures of due diligence are applied inadequately and only a very few service providers fulfil the reporting obligation. The current study at the same time, showed that the market for corporate services in Estonia is very active and a part of the services are clearly targeted at the international market.

The use of the address and contact person services, on the basis of the Business Register data is very widespread among Estonian companies. The addresses of CSPs are a place of concentration for hundreds or even thousands of current and former legal persons. The analysis of the legal addresses of all Estonian companies recorded in the Business Register, showed that more than 10% of Estonian business and non-profit organisations (more than 26 000 legal entities) are registered to 96 addresses: such addresses are seats for 100 or more companies. Some of these companies may be shell or buffer companies used for purposes of money laundering or tax crimes, as alone based on the register data they often correspond with many characteristics listed by the FATF, as indicators of shell companies (contact details indicative of service providers, nominal directors, lack of employees and declared turnover). According to the Estonian practice can be added to the FATF indicators of shell companies, the not presenting of annual reports for many consecutive years.

Inherent in the provision of a professional company manager service to the CSP, is the risk that figureheads hired as nominal directors and nominal shareholders, are hired to conceal the actual control structures. It is also very common in Estonia domestically, to use nominal directors for freeing oneself from companies that are becoming insolvent. The analysis indicates that the service package of tens of CSPs, also includes the presentation of fictitious data on beneficial owners to the registrar. The services of a nominal director as well as fictitious beneficial owner, are both prohibited in the Estonian jurisdiction.

As of the end of 2020 there were 311 FIU licenced companies as CSPs in Estonia. The hypothesis that there are numerous companies active on the Estonian market that have not applied to the FIU for corresponding licencing, but in the case of which the data on connections in the Business Register indicates that they regularly offer services specified in

the MLTFPA as sub-services of corporate services, found confirmation in the course of the study. The study established 195 active Estonian companies as legal entities factually providing corporate services, for which the study established as a conditional threshold, connections to 50 or more persons in the Business Register. The analysis highlighted that although factual service providers operate more frequently through licenced companies, there are still active on the market a very significant amount of factual unlicenced CSPs (75 legal entities out of 195, which is almost 40% of factual service providers).

On the other hand, it became apparent in the analysis of the factual characteristics of service provision that close to 19% of the companies (57), having as of the end of 2020 become a licenced CSP, themselves nor their board members, procurators or shareholders, did not have according to the data of the Business Register any current or previous connection with other Estonian legal persons. The FIU sees danger signs in that licenced companies without characteristics of factual service provision are often connected with e-residents and more than half of the corresponding e-residents originate from third countries (the Ukraine, Russia, China, Japan, Republic of South Africa, Malaysia).

Close to 10% of the licenced CSPs have many activity licences issued by the FIU, of which 2/3 are active on a limited extent or are without factual characteristics of providing service. Most frequently in parallel to the activity licence for the provision of corporate services has been the application also of activity licences for a financial institution and VASP. It is not to be excluded that FIU licenced formalised service providers could be misused in service-based money laundering.

The VASP licence issued by the FIU is internationally advertised as a quality sign to the VASP. That has made the Estonian ready-made companies with a VASP licence a valued commodity among non-residents. As of spring 2020, the MLTFPA sets the possession of an Estonian place of activity as a prerequisite for VASP licence in Estonia. However, in the estimation of the FIU, many CSPs are bypassing this requirement by offering a fictitious place of business to tens of its ready-made companies for which FIU licencing is applied for. The FIU has presented the Ministry of Finance proposals for amending the MLTFPA for making such an operational model impossible. The resolution of the problem has also been named a state priority in the NRA. There is, on the other hand, a noticeable increase in risk awareness among CSPs, as many CSPs introducing themselves on the service platform of Enterprise Estonia targeted at e-residents have abandoned servicing companies dealing with virtual currencies.

CSPs should not be automatically associated with organised money laundering. The major cases of money laundering related to Estonia still show that a corporate service that is with an international reach and the focus of which is not on providing so called "convenience services" supporting business activities, but on concealing the beneficial owners, as well as supporting the transactions with property of clients, have inherent the risk that such service providers are a part of the international money laundering infrastructure.

At the time of completion of the study, there was not a single person connected to the provision of corporate services in Estonia that had been convicted of money laundering or assisting in it, but some natural persons associable with provision of corporate services are under criminal investigation. The CSPs that have been noticed by the FIU and investigative institutions due to the suspicion of money laundering usually do not arise to the forefront due to the plenitude of Estonian companies associated with them. Still, over the years the FIU has also received plentiful suspicion-based information concerning some licenced CSPs

with a large market share. More than 1/5 of the factual and licenced CSPs analysed in the given study (77 out of 378 companies) are such that concerning their board members, procurators, shareholders and beneficial owners, the FIU has received reports or information inquiries.

The activities of natural persons in the case of whom has arisen the question of specialising in the offering of money laundering services, are often divided between companies in many different sectors of consultation. In the evaluation of the FIU, from the aspect of money laundering services, most attention require the providers of so called multi-services that besides corporate services offer accounting services, legal advice, different migration services, financial services (e.g. financial advice and investment in financial instruments; acting in the virtual currencies sector), cash transport or real estate services. Less related to money laundering, but domestically in Estonia worthy of attention of law enforcement authorities, is the acting of CSPs also as a trustee in bankruptcy or liquidator.

THE TYPOLOGIES OF MONEY LAUNDERING AND RISK INDICATORS ASSOCIATED WITH CORPORATE SERVICES

- Wholesale establishment and selling of shelf companies without applying due diligence measures, relative to the buyer; the selling of companies to non-residents is with a higher risk.
- Establishment and management of companies with characteristics of shell companies:
  - the company is registered to an address associated with the CSP, to which are also registered a large number of other companies;
  - the company has only a postbox address, a physical location of activity is lacking;
  - the company has nominal directors and shareholders whose names appear as the representatives of a large number of companies at the same time;
  - the company does not deal with actual business activities;
  - the company only executes transit transactions: money flows through the company within a short period of time and does not produce business income;
  - the company lacks employees or only has one employee;
  - the company does not pay taxes or pension contributions;
  - the company refrains from presenting annual reports for many consecutive years.
- The provision of anonymity services – the provision of a fictitious place of business, nominal director, nominal shareholder, fictitious beneficial owner service, trust.
- The provision of corporate services to a client that is registered or the seat of the representative or beneficial owner of which, is in a jurisdiction that has been established by the FATF, as a region with a weak regime of AML/CTF[49].
- Provision of virtual office services to clients with whose representatives physical contact is lacking or is minimal and that use services that increase anonymity, e.g. encrypted e-mail addresses, payments in virtual currencies.
- The application for an economic activity licence for shell companies (e.g. virtual currency service, financial institution, corporate service), management and selling of licenced companies; the selling of licenced companies to non-residents, especially to citizens of third countries.
- The factual provision of corporate services without having corresponding licencing.
- Parallel work of a natural person CSP, in a credit or payment institution or with a VASP.
- Executing disposition with the property of clients, e.g. with securities or real estate, disposition of the current account of the client.
- Parallel activities of a self-employed CSP, as a trustee in bankruptcy or liquidator.
- The provision of asset management services (management of securities or real estate) or cash transport services, in parallel with corporate services.
- Acting as a multi-service provider in the sector of consulting: combining of corporate services with legal or financial advising, migration services, accounting or auditing services.

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