



Identifying Key Red Flags in the Provision of Directorship Services

Intelligence Analysis Section

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OVERVIEW



CSPs in the Local Context



Key Statistics



Red Flag Indicators




CSPS IN THE LOCAL CONTEXT



THE IMPORTANT ROLE OF CSPS

- CSPs are entities/individuals **providing corporate services** by way of business, including the **formation of companies**, provision of **directorship and company secretary services**, and the provision of **registered office, business, or correspondence addresses** for businesses.
- CSPs act as **gatekeepers** within the Maltese Financial system. The structures they set up may have wide-ranging effects and uses within the financial sector.
- The fundamental role carried out by CSPs is further reflected via the Amendments carried out to the Company Services Providers Act in 2020, with the **scope of the Act extended** to warranted professionals, as well as providers previously exempted under the “De Minimis Rule”
- As per the 2023 NRA, **91.5%** of legal persons registered with the MBR in 2022 were incorporated by a CSP.

KEY THREATS TO LOCAL CSPS

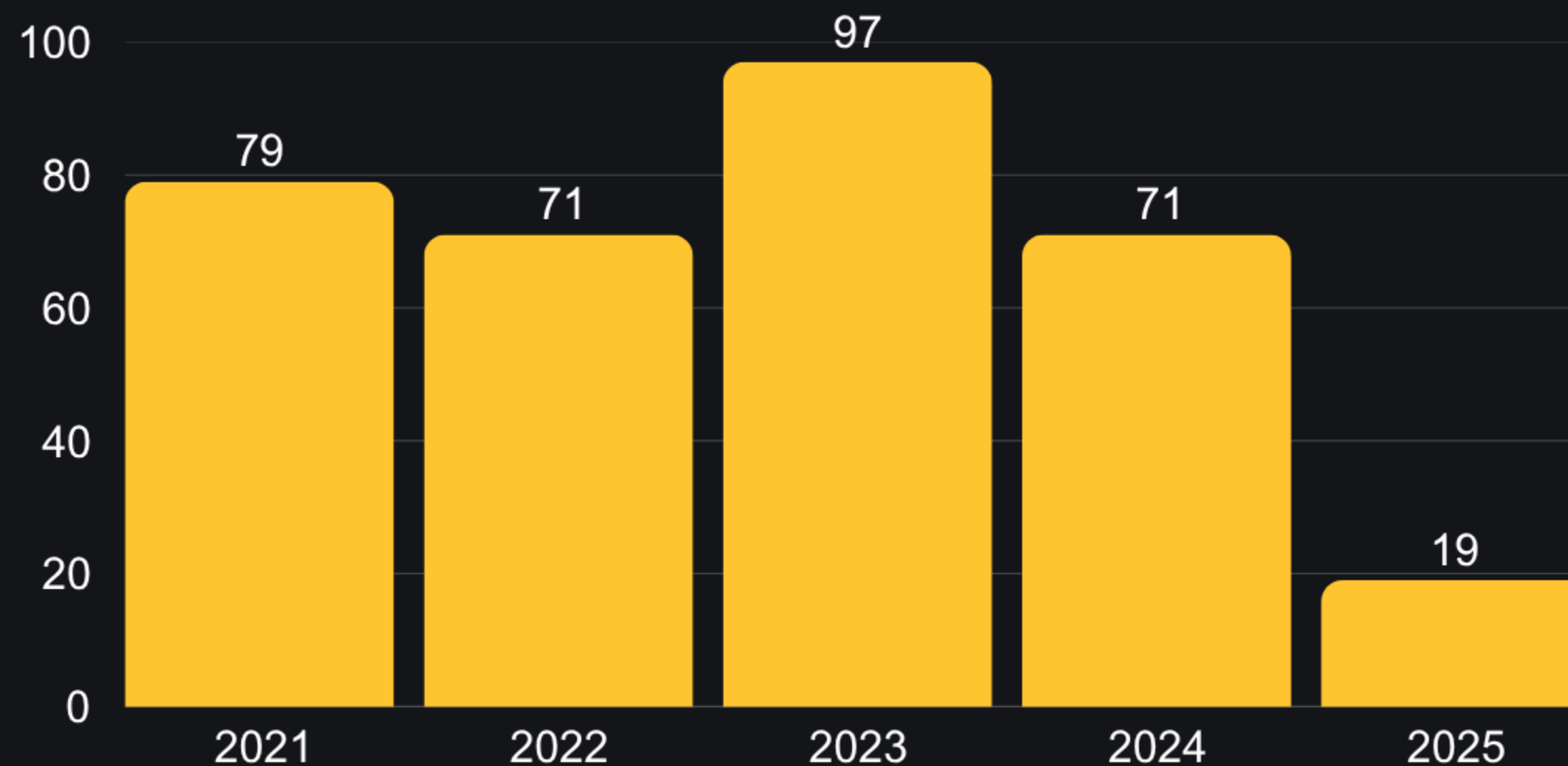
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- In the 2023 NRA it was identified that a **major threat** to CSPs is the **abuse of Maltese registered legal persons** with **no nexus or substance in Malta** for the purpose of **ML or BO Concealment**.
 - A **high threat-level** was identified in situations where **only registered offices services** were being provided to these legal persons.
 - On the other hand, a **medium-high threat-level** for the abuse of Maltese registered legal persons was identified in situations where **company formation services and Directorship services** were provided.
 - Additional threats include the use of **multinational complex structures** whereby, through company formation and registered address services provided, CSPs may be utilised by criminals within the **layering stage to move funds through multiple entities**. Furthermore, such complex structures may also serve to **obscure the identity of the UBO** of the entities.

KEY STATISTICS

KEY STATISTICS – REPORTS SUBMITTED BY CSPS

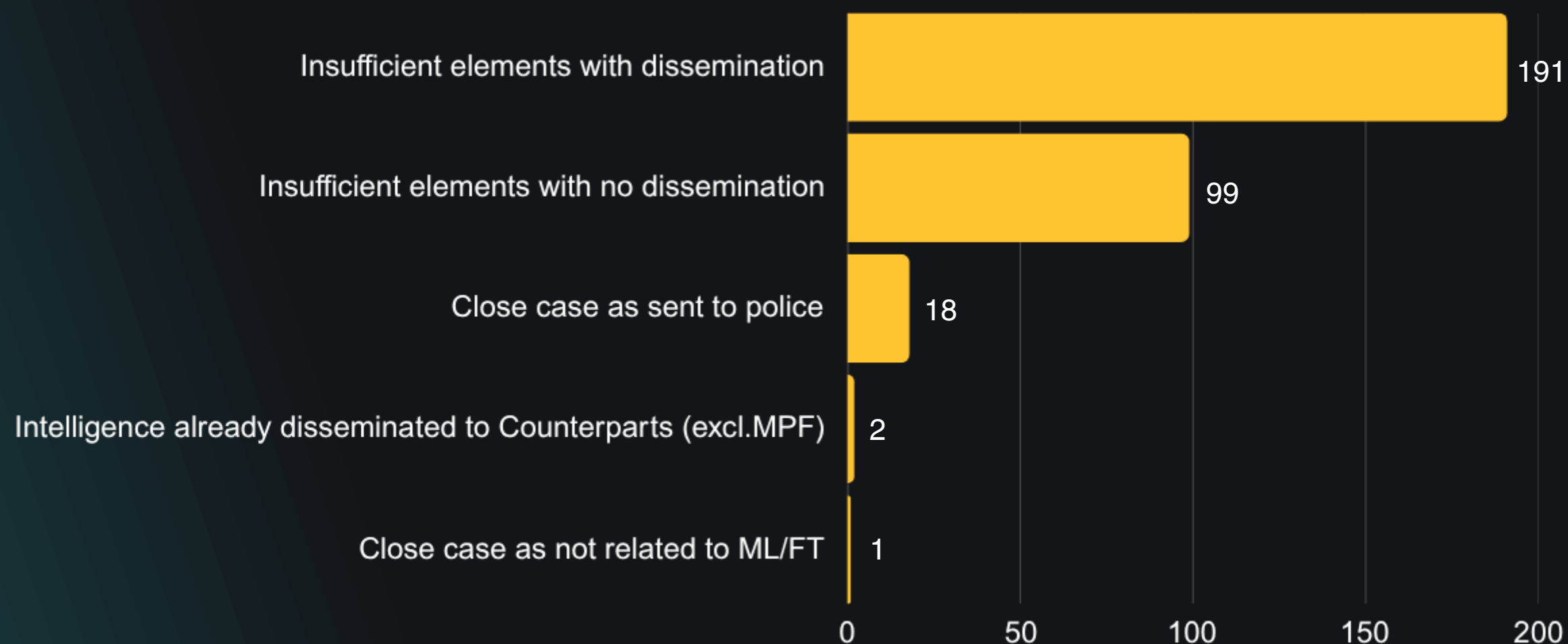
→ **337 Reports** Submitted over the period January 2021 – April 2025

Chart 1: Reports by CSPs Per Year



KEY STATISTICS – REPORT OUTCOMES

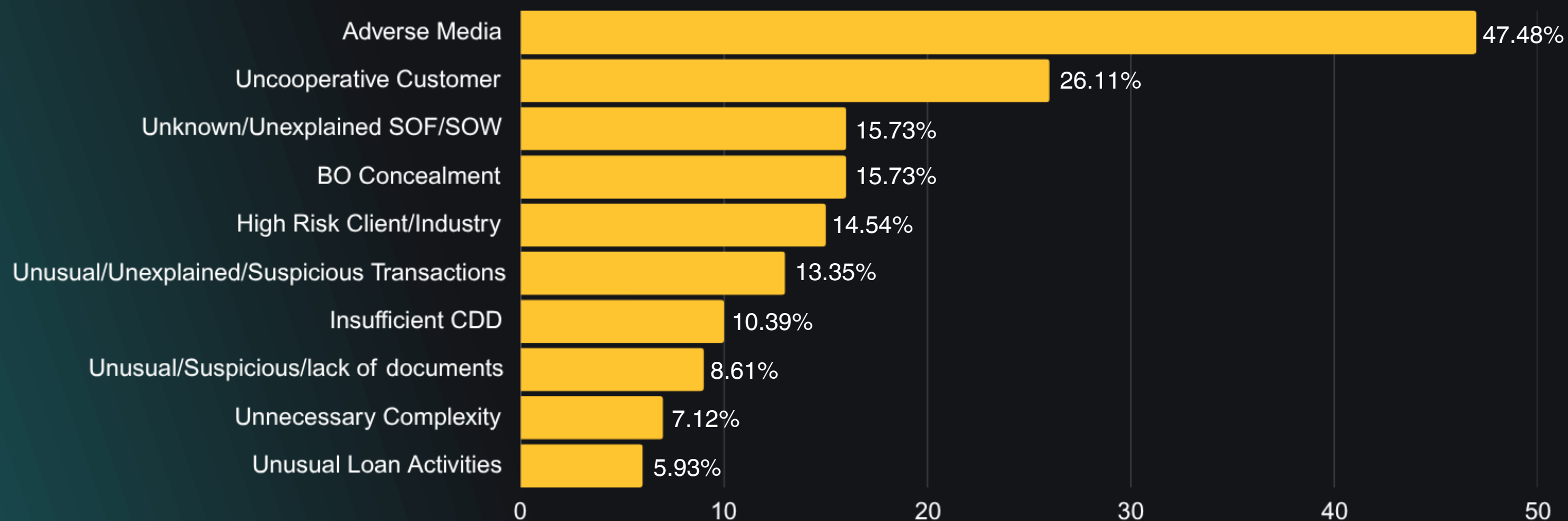
Chart 2: Outcome of Reports submitted by CSPs



→ Reports Received typically result in intelligence disseminations to local supervisory authorities or to our foreign counterparts (191 disseminations out of 311 concluded reports)

KEY STATISTICS – MOST COMMON REASONS FOR SUSPICION

Chart 3: Top 10 Selected Reasons for Suspicion in Reports Submitted by CSPs



→ Note: The percentages within the chart do not add up to 100% since a single report may have more than 1 reason for suspicion selected.

KEY RED FLAG INDICATORS

VULNERABILITIES OF CSPS

- The Services provided by CSPs may be targeted by criminals to:
 - a) **Obscure** the **identity of beneficial owners**
 - b) Support the **channeling of illicit funds** through layers of the corporate structure
 - c) **Obscure** the **criminal origin** of illicit funds
- Criminals may attempt to hinder Law Enforcement Authorities' abilities to trace the origin and ownership of assets using various corporate structures, potentially including the following:

Legal Structure	Characteristics	Illicit Use Case
Shell Company	No significant assets, ongoing business activities or employees	Conceal beneficial ownership/enhance the perception of legitimacy.
Shelf Company	<p>Inactive shareholders, directors, secretary.</p> <p>Left dormant for a long period of time even though a customer relationship has been established.</p>	<p>Access companies which have been "sitting on the shelf" for a long time.</p> <p>Create impression that the company is reputable since it has been established for many years.</p> <p>Increase complexity of entity structures, further concealing true Beneficial Ownership.</p>

The FATF logo is a red shield with a white border. Inside the shield, the letters "FATF" are written in white at the top. Below the letters is a stylized white emblem consisting of three curved, overlapping shapes that resemble leaves or petals.

FATF – RECOMMENDATIONS FOR CSPS

The FATF has established **40 Internationally Recognised Recommendations** that serve as a standard to combat ML/FT. The below recommendations pertain to **Designated Non-Financial Businesses & Professions (DNFBPs)**, including CSPs.

- ➔ **R22: CDD, Record-Keeping & Ongoing Monitoring Requirements for CSPs**
 - CSPs must apply full CDD, record keeping and ongoing monitoring (FATF Recommendations 10,11,12,15,17) when preparing or carrying out transactions related to:
 - **Formation** of Legal Persons
 - **Acting/arranging** for other persons to act as **Director/Secretary** of a Legal Person.
 - Providing **registered office, business correspondence/administrative address** for a Legal Person.
- ➔ **R23: Obligation to Report Suspicious Transactions**
 - CSPs are required to report suspicious transactions when engaging in any of the above activities on behalf of/for a client.

ML/FT RISKS & RED FLAGS

ML/FT Risks faced by SPs providing Directorship Services can be organised into **3 main categories**:



Country/Geographic Risk



Client Risk



Other Indicators pertaining to Transactions & Services

- Entities engaged in the provision of Directorship Services should also refer to **Malta's National Risk Assessment**, the findings from which will help inform on key red flags and threats within the Local Sphere.
- The Amount and degree of ongoing monitoring & review should be **Risk-Based** in nature depending on the nature of the client relationship.

COUNTRY/GEOGRAPHIC INDICATORS

The provision of services by a CSP may be higher risk when there are connections to higher risk countries:



Origin/Current **Source of Funds** of the Legal Entity



Location of **Major Operations/Assets** of the Legal Entity



Citizenship/Tax Residence of the UBO/Controlling Persons.

CLIENT INDICATORS



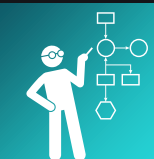
Lack of **Transparency/Cooperation**



Unusual/Inconsistent **Activity**



Unusual **Urgency**



Suspicious **Structural Changes**



Adverse Information Surrounding the Client

OTHER INDICATORS PERTAINING TO TRANSACTIONS & SERVICES

Money Launderers may attempt to utilise certain services provided by CSPs for illicit purposes, as indicated below:



Misuse of Legal Structures & Control Mechanisms



Unusual Capital Contributions



Improper Transaction Accounting



Unusual Transactional/Counterparty Relationships



A-typical Payment Methods



Thank you



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