



Commission de Surveillance  
du Secteur Financier

# ML/TF SUB-SECTOR RISK ASSESSMENT

Specialised Professionals of  
the Financial Sector providing  
corporate services (Trust and  
Company Service Providers)

January 2026

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## Foreword

Since the initial publication in 2020 of the sub-sector risk assessment of specialised professionals of the financial sector ("Specialised PFS") providing corporate services (referred to as trust and company service provider or "TCSP"), the understanding by the Commission de Surveillance du Secteur Financier ("CSSF") and Specialised PFS of money laundering and terrorist financing risks in this specific area has been further developed.

This has been favoured by the public private partnership put in place with the Association of Luxembourg Compliance Officers (ALCO), the Luxembourg Alternative Administrators Association (L3A), the Luxembourg Association of Family Offices (LAFO), the Luxembourg Private Equity Association (LPEA), the Association Luxembourgeoise du Risk Management (ALRiM) and the Luxembourg FIU. Such a public-private dialogue helps providing clarity on risks related to specialised PFS activities, defining regulatory explanations and aims at identifying specific areas or issues where more regulatory guidance is needed.

The growth of the financial sector has increased the TCSP sector's exposure to the evolving threat of money laundering and terrorism financing. Specialised PFS providing corporate services act as gatekeepers of the financial sector through notably domiciliation agent services and directorship services.

This risk assessment is a valuable tool for all stakeholders to better understand the ML/TF risks associated with TCSP activities and the measures necessary to combat them. Specialised PFS providing corporate services are expected to use this sub-sector risk assessment to review and strengthen their understanding of ML/TF threats and vulnerabilities and further contribute towards the development of proportionate and effective controls. To this end, the assessment details observed best practices, common findings from supervision, and targeted recommendations that the private sector should adopt. CSSF will monitor professionals' adherence to these recommendations as part of its supervisory activities.

Following the adoption of the 4th Mutual Evaluation Report of Luxembourg by the Financial Action Task Force ("FATF"), I would like to thank everyone who contributed to this effort.

This updated sub-sector risk assessment aims to equip financial stakeholders with the tools to adapt their AML/CFT initiatives, thereby ensuring Luxembourg's continued status as a secure and resilient financial hub.

**Marco Zwick**

Director, CSSF

# 1. Purpose and scope of the document

The AML/CFT supervision of the *Commission de Surveillance du Secteur Financier* (“CSSF”) aims to maintain a comprehensive and deep understanding of the ML/TF threats, vulnerabilities and risks to which the Luxembourg financial sector is exposed to and to continue to promote the understanding of ML/TF risks and AML/CFT obligations and the implementation of risk mitigating measures.

In 2020, Luxembourg published an updated National Risk Assessment (“2020 NRA”) to identify, understand and assess the country’s ML/TF risks and support the definition of the national AML/CFT strategy. The 2020 NRA included an assessment of the inherent risks and mitigating factors associated with trust and company service providers (“TCSPs”) and mentioned that these could be misused or abused for ML/TF purposes. The 2020 NRA concluded that for Specialised PFS providing corporate services there was a *High* inherent risk. The quality of the implemented mitigation measures allowed to reduce the residual risk to *Medium*.

In 2025, Luxembourg published its latest update of the national risk assessment on money laundering (“2025 NRA”). The inherent ML risk level of Specialised PFS providing corporate services remains *High*. Overall key risk drivers continue to be fragmentation/complexity, international nature of business followed by product/activity and client risk.

Table 1: Specialised PFS providing corporate services ML risk assessment outcome

Sub-sectors	Inherent risk	Residual risk
Specialised PFS providing corporate services	High	Medium

In May 2022 the Luxembourg Committee on the Prevention of Money Laundering and Terrorist Financing adopted the Vertical Risk Assessment on Terrorist Financing<sup>1</sup> (the “VRA TF”).

The VRA TF does not consider the sub-sector of the Specialised PFS providing corporate services as a vulnerable sector.

Table 2: Specialised PFS providing corporate services TF risk assessment outcome

Sub-sectors	Inherent risk	Residual risk
Specialised PFS providing corporate services	Medium	Low

In 2020, the CSSF published its first sub-sector risk assessment dedicated to Specialised PFS providing corporate services (TCSP activities). The present updated sub-sector risk assessment (“SSRA”) provides for the link between the 2025 NRA, the VRA TF and entity-level risk assessments performed by the CSSF. It fulfils multiple objectives, in particular:

- Reflect the CSSF’s own understanding of specific ML/TF risks in the sub-sector.
- Further improve the CSSF supervisory activities and sub-sector specific supervisory strategy, where relevant.
- Act as an input into CSSF’s entity-level risk assessments.
- Serve as a source for the industry in performing their own ML/TF risk assessments.
- Promote the understanding of ML/TF risks and AML/CFT obligations in the industry.

<sup>1</sup> Ministry of Justice, *Terrorist Financing – Vertical Risk Assessment*, May 2022.

- Support public-private interaction.

The scope of this assessment focuses on TCSP activities carried out by Specialised PFS.

This sub-sector risk assessment covers also the risk of proliferation financing to which Specialised PFS may be exposed (cf. chapter 5.2.4.).

Non-TCSP activities such as registrar agent, professional depositaries of financial instruments, professional depositaries of assets other than financial instruments, operators of a regulated market authorised in Luxembourg, currency exchange dealers, debt recovery professionals, professionals performing lending operations, professionals performing securities lending, family offices and mutual savings fund administrators, do not fall under the scope of this assessment.

High level summaries on Banks and Investment Firms performing TCSP activities are provided in appendix D and appendix E.

**NOTE:**

While this assessment does not cover other professionals carrying out TCSP activities such as asset management companies or other professionals whose supervision falls outside the remit of the CSSF (that may perform TCSP activities as ancillary services), these professionals might, however, find the information contained in this assessment helpful to reflect upon and strengthen their AML/CFT framework.

## 2. Introduction

This section introduces TCSP activities performed by Specialised PFS. A detailed understanding of TCSP activities is key to identify, understand and assess ML/TF risks to which professionals are exposed.

FATF defines TCSPs as providers of the following services to third parties<sup>2</sup>:

1. Acting as a formation agent of legal persons.
2. Acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons.
3. Providing a registered office, business address or accommodation correspondence or administrative address for a company, a partnership, or any other legal persons.
4. Acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement.
5. Acting as (or arranging for a person to act as) a nominee shareholder for another person.

### 2.1. Sub-sector overview

Several factors have contributed to the development of the financial sector. Indeed, Luxembourg enjoys a high degree of political stability, and an advanced legal and regulatory framework. As a leading international financial centre, it also benefits from high quality professionals, good infrastructure and connections to other European and international markets, making it attractive to investors and corporations. In addition, the country is also a major centre of activity for international investment asset managers.

TCSPs play an important role in the global economy. Luxembourg counted 82 Specialised PFS and 2 Support PFS providing TCSP services. The Specialised PFS represent over 6 500 employees as at 31 December 2024, with balance sheet assets of EUR 1.2 billion and profit of EUR 118 million.

TCSPs are often involved in the formation, management and administration of legal entities and arrangements, fulfilling as such a gatekeeper role to the wider financial community.

The TCSP activity involves four main types of stakeholders:

1. **TCSPs** conduct on behalf of their clients the services of incorporation, provision of directorships and corporate secretarial services, domiciliation of companies and trustee of an express trust. To be noted that other services can also be provided by TCSPs.
2. **Business relationships (clients)** employ TCSP services to effectively administer and structure their assets and businesses. They can be natural, legal persons or legal arrangements and they can take multiple legal forms. In general, the structures serviced by Specialised PFS are legal persons/legal arrangements.
3. **Beneficial owners (BOs) of clients** are any natural person(s) who ultimately own or control the client or on whose behalf a transaction or activity is being conducted<sup>3</sup>.

<sup>2</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>3</sup> The AML/CFT Law, Article 1(7).

4. **Third parties** support TCSPs and clients with specialised services. They can act either as business providers, or advisors, or service providers (e.g. lawyers, accountants, etc.).

Each stakeholder is described in detail in the sub-sections that follow.

### **2.1.1. Specialised PFS acting as Trust and Company Service Provider (TCSP)**

In Luxembourg, TCSPs are not authorised under the laws as a separate business sector. In fact, different types of professionals can carry out the activities identified in the FATF definition of TCSPs, including Specialised PFS if they are licensed to do so. TCSPs have to be registered either with one of the supervisory authorities or one of the competent self-regulatory bodies as per Article 7-2 of the law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended (the “AML/CFT Law”).

In Luxembourg, the AML/CFT Law defines five types of TCSP activities<sup>4</sup>:

1. **Incorporation:** Forming companies or other legal persons.
2. **Directorship and secretarial services:** Acting as or arranging for another person to act as a director, manager, member of the board of directors, member of the executive board or secretary of a company, a partner of a partnership, or a similar position in relation to other types of legal persons.
3. **Domiciliation:** Providing a registered office, business address, correspondence or administrative address or business premises and, where applicable, other related services for a company, a partnership or any other legal person or arrangement.
4. **Fiducie/trust:** Acting as, or arranging for another person to act as, a *fiduciaire* in a *fiducie* (as defined the 2003 *Fiducies* and Trust Law), a trustee of an express trust or an equivalent function in a similar legal arrangement<sup>5</sup>.
5. **Nominee shareholder:** Acting as, or arranging for another person to act as, a nominee shareholder for another person<sup>6</sup>.

This sub-sector risk assessment reviews the TCSP activities conducted by Specialised PFS and Support PFS supervised for AML purposes by the Specialised PFS department.

<sup>4</sup> The AML/CFT Law, Article 1(8).

<sup>5</sup> Specialised PFS cannot act as *fiducie* under the Law of 27 July 2003 on Fiducies and Trusts.

<sup>6</sup> The Anglo-Saxon concept of “nominee shareholder” does not exist in Luxembourg civil and commercial law. The closest concept used with regard to Luxembourg legal persons is that of “proxy”. Under Luxembourg law the proxy must identify the principal and disclose the existence of the proxy relationship to any relevant stakeholder. TCSPs that offer proxy arrangement services to shareholders are all subject to the AML/CFT Law and must implement customer due diligence requirements in relation to their customers, including identifying and verifying the identity of the beneficial owner and obtaining information on the purpose and intended nature of their business relationship.



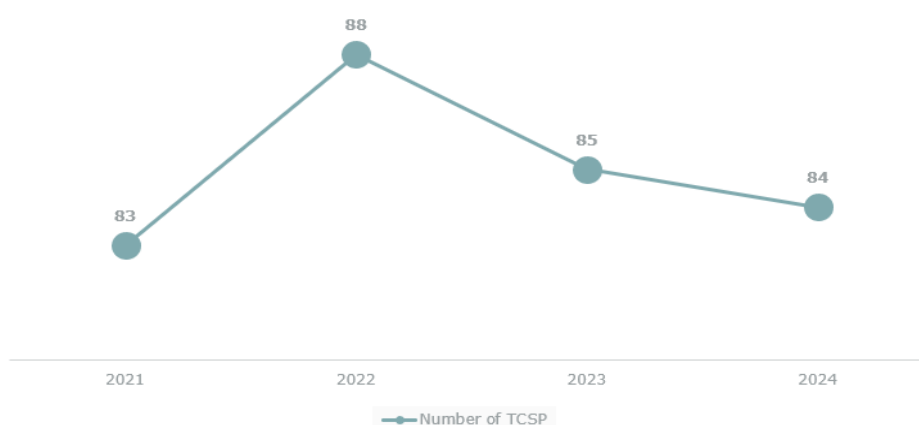
Specialised PFS performing TCSP activities hold the licenses defined in the following table:

Table 3: Mapping of Specialised PFS providing TCSP activities

Specialised PFS licences	TCSP Activities			
	Incorporation of companies	Provision of directorship and secretarial services	Domiciliation of companies	Fiducie/trust
Corporate domiciliation agents	✓	✓	✓	✓ <sup>7</sup>
Professionals providing company incorporation and management services	✓	✓	x	✓ <sup>8</sup>

To be noted that, in 2024, 82 out of 96 of the Specialised PFS and 2 Support PFS held at least one license allowing it to provide TCSP activities. A majority of Specialised PFS hold however both licences.

Table 4: Number of Specialised PFS (including Support PFS) acting as TCSP per year (2021-2024)



The Specialised PFS sector has a relative degree of fragmentation<sup>9</sup>. Indeed, Specialised PFS can have various licenses, each enabling the provision of different services. Many of the Specialised PFS also offer other services not falling in the TCSP definition. For instance, in Luxembourg, the prominence of funds has led many Specialised PFS to request other licenses such as Registrar Agent and Professional Depository of Assets other than Financial Instruments. In addition, Specialised PFS can supplement their services to clients with ancillary services such as accounting services and filing of tax related documents.

<sup>7</sup> Specialised PFS are authorised to provide trust services but cannot act as *fiducie* under the Law of 27 July 2003 on *Fiducies* and Trusts, Article 4.

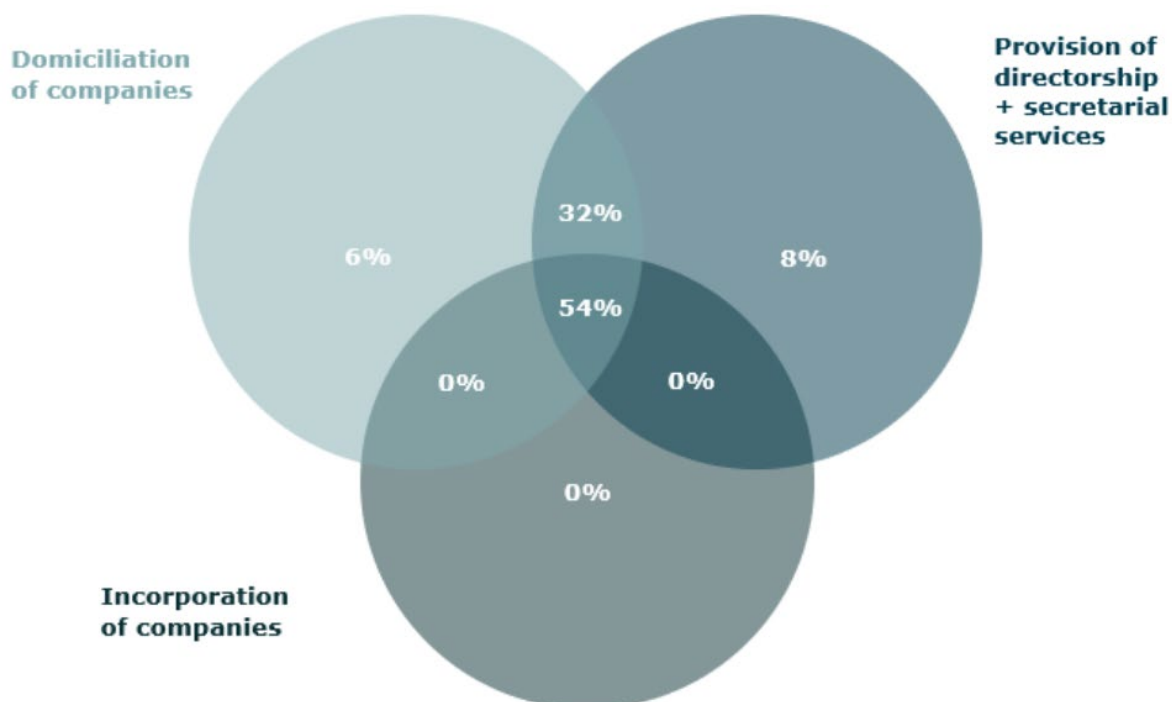
<sup>8</sup> Specialised PFS are authorised to provide trust services but cannot act as *fiducie* under the Law of 27 July 2003 on *Fiducies* and Trusts, Article 4.

<sup>9</sup> 2025 NRA.

For the purposes of this risk assessment, TCSP activities conducted by Specialised PFS are grouped into three categories:

- 1. incorporation of companies,**
- 2. provision of directorship and secretarial services,** and
- 3. domiciliation of companies.**

*Table 5: Percentage of Specialised PFS which reported income from TCSP activities in 2024<sup>10</sup>*



As at 31 December 2024, 54% of the Specialised PFS reported income in all three categories of TCSP activities, 32% reported income in two categories of activities, and 14% reported income in just one category of TCSP activity.

<sup>10</sup> CSSF internal data as at 31.12.2024.

The next table shows the generated income for the three categories of activities.

*Table 6: Percentage of Specialised PFS performing TCSP activities and their income<sup>11</sup> generated from TCSP activities in 2021, 2022, 2023 and 2024<sup>12</sup>*

TCSP activities	% of Specialised PFS 2021	Income 2021	% of Specialised PFS 2022	Income 2022	% of Specialised PFS 2023	Income 2023	% of Specialised PFS 2024	Income 2024
Incorporation of companies	61%	8,8m	58%	7,7m	46%	7,5m	52%	7,1m
Provision of directorship and secretarial services	81%	64,2m	80%	69,1m	76%	76,5m	77%	79,2m
Domiciliation of companies	86%	24,8m	84%	28,7m	83%	32,5m	84%	33m

There is a significant difference of the generated income between the different categories of TCSP services. This is because incorporation services are invoiced as a one-off fee and domiciliation activities are invoiced as a standard annual fixed fee, while directorship and secretarial services are invoiced predominantly on a time spent basis.

To be noted in this context that, based on information available to the CSSF, in general, Specialised PFS do not wish to provide directorship and secretarial services on a standalone basis, but rather insist on providing domiciliation services in addition. This allows Specialised PFS to have a more holistic view of their clients which in return allows them to define i.a. tailor-made due diligence measures for the ongoing monitoring.

The 2025 NRA defines six dimensions to determine the sectorial vulnerabilities ((i) structure, (ii) ownership/legal structure, (iii) products/activities, (iv) geography, (v) clients/transactions, and (vi) channels). Based on these six dimensions, the 2025 NRA concludes as follows:

- (i) Luxembourg counted 85 specialised PFSs (out of a total of 100 entities) providing corporate services with over 6 400 employees as of December 2023, with balance sheet assets of EUR 1,02 billion and profits reaching EUR 90 million. The sector remained quite fragmented with top-five entities accounting for 40% of the market's revenues in 2023.*
- (ii) Vulnerabilities stemming from foreign ownership are assessed to be moderate, as 55% of specialised PFSs providing corporate services were under Luxembourg ownership, 19% under EU ownership (excluding Luxembourg) and 26% under non-EU ownership.*
- (iii) In Luxembourg, the ML risk remains driven by the fact that these Specialised PFSs offer TCSP activities. They are often involved in the establishment and administration of legal persons and arrangements, playing a key role as gatekeepers of the financial sector.*
- (iv) Specialised PFSs providing corporate services' clientele were almost entirely made up of legal persons (99%). More than half (61%) of the client companies' BOs resided in non-EU countries and 1,46% resided in a high-risk country. Exposure to a non-EU clientele remains a significant vulnerability to ML for this sub-sector.*

<sup>11</sup> In Euros.

<sup>12</sup> CSSF internal data as at 31 December.

- (v) *With the overall number of clients of specialised PFS providing corporate services being rather limited (with over 30 000 client companies in 2023 and 20 000 in 2020), exposure to ML risks is considered to be moderate. Nevertheless, specialised PFSs providing corporate services have identified one in five client companies as high risk and around 4% of client relationships involve PEPs (e.g. a PEP being the BO, legal representative, etc.). Although this share has decreased over the observation period, this figure remains high, driving ML client risk.*
- (vi) *Channels used by the sub-sector pose moderate ML risks. Most players have direct relationships with clients and intermediaries are business providers (accountants, ...) including the group to which the PFS belongs.*

### **2.1.2. Business relationships (Clients)**

Specialised PFS provide services<sup>13</sup> to Luxembourg and foreign funds (regulated and non regulated) for which it is often required to set up one or more related vehicles (such as special purpose vehicles, wholly owned subsidiaries, general partners, etc.). As a result many vehicles are related to investment funds.

Another category of business relationships (clients) are international legal persons or legal arrangements (such as multi-nationals, small and medium sized commercial companies) and to a lesser extent wealthy individuals.

Clients employ TCSP services in order to effectively administer and structure their assets and businesses. They often request the incorporation of a vehicle, and it is not uncommon for one client to set up several vehicles (see hereafter). In general, these vehicles are domiciled with the Specialised PFS and clients often request in addition directorship services. To complement the TCSP services, some clients request accounting and tax services or other ancillary services.

Clients use different types of vehicles "*through which a wide variety of commercial activities are conducted and assets are held*"<sup>14</sup>. TCSPs interact with these vehicles when setting them up and managing and/or administrating them. They can be categorised based on the vehicle type or legal form.

<sup>13</sup> Not only limited to TCSP activities.

<sup>14</sup> OECD, *Behind the Corporate Veil*, 2001.

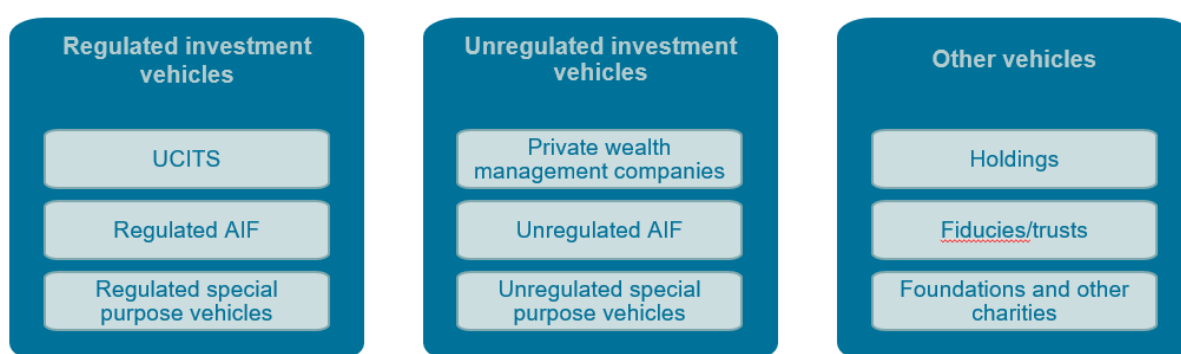
### 2.1.2.1. Vehicle type

Vehicles are used for the pooling and transfer of ownership of assets for different purposes. There are three vehicle types:

1. **Regulated investment vehicles** are undertakings pooling assets from investors with the intention of generating positive returns for investors. They are governed and supervised pursuant to sectoral laws of the financial sector.
2. **Unregulated investment vehicles** serve the same purpose as regulated vehicles.
3. **Other vehicles** are those used for the mere purpose of holding assets. They may be regulated or unregulated.

These vehicles can be further categorised based on their functions and characteristics.

Table 7: Vehicles categorisation<sup>15,16</sup>



These categories are comprised of additional sub-categories, which are governed by sectoral laws such as for example the law of 22 March 2004 on securitisation (as amended), the law of 15 June 2004 relating to the investment company in risk capital (as amended), the law of 13 February 2007 relating to specialised investment funds (as amended), the law 17 December 2010 relating to undertakings for collective investment (as amended), and the law of 23 July 2016 on reserved alternative investment funds (as amended).

### 2.1.2.2. Legal forms

The vehicles identified above can be set up under different legal forms:

- **Corporate legal forms** are those where the legal entity has a standalone legal personality. These entities are considered independent from their partners or shareholders and will have rights and obligations such as the capacity to enter into contracts, suing and being sued. They fall under the FATF definition of legal persons.
- **Contractual legal forms** are those based on a contractual agreement and thus have no separate legal personality from the parties involved in the agreement. They fall under the FATF definition of legal arrangements.

<sup>15</sup> Regulated AIF include regulated non-AIF SIF and SICAR.

<sup>16</sup> Unregulated AIF include any entity not regulated by the Law of 17 December 2010 – Part I (“UCITS Law”), Law of 15 June 2004 (“SICAR Law”), or Law of 13 February 2007 (“SIF Law”) but meeting the criteria of the AIFM Law.

Table 8: Legal form categorization

Legal form	Corporate								Contractual				
Category	Sociétés commerciales			Sociétés civiles				Foundations	Non-profit organisations		Fonds commun de placement	Intl. trust	Fiducies
Sub - category	Limited liability companies	Société en commandite	Société cooperative						Inlt. NPOs	Other ASBL			
Legal entity	SA, SAS, Sàrl, SàrlS <sup>17</sup>	SCA, SCS, SCSp <sup>18</sup>	SC <sup>19</sup> , SCoSA <sup>20</sup>	Société universelle tous biens présents <sup>21</sup>	Société universelle de gains <sup>22</sup>	Société particulière <sup>23</sup>	Société civile immobilière	Fondation d'utilité publique <sup>24</sup>	ASBL <sup>25</sup>	FCP <sup>26</sup>	Intl. trust <sup>27</sup>	Fiducie <sup>28</sup>	

Each of these legal forms will have a series of characteristics and requirements based on which they can be segmented. These characteristics and requirements will help clients decide which legal form is the most appropriate for their business and asset planning purposes.

In February 2022, Luxembourg published the ML/TF Vertical Risk Assessment – Legal persons and legal arrangements<sup>29</sup> (“VRA LP/LA”). The VRA LP/LA assessed (i) the risk of misuse of the country’s corporate sector for ML/TF purposes, (ii) the specific ML/TF risk of each type of legal person and each type of legal arrangement created in Luxembourg, and (iv) how these vehicles could be misused or abused for ML/TF purposes. The VRA LP/LA concluded that *Société anonyme* and *Société à responsabilité limitée* were rated as “high” inherent risk. The quality of the implemented mitigation measures allowed to reduce the residual risk to “medium”. Other legal forms such as *Société cooperative* (“SC/SCoSA”), *Société par actions simplifiée* (“SAS”), *Société à responsabilité limitée simplifiée* (“SARL-S”), *Société en commandite par actions* (“SCA”), *Société en commandite simple*

<sup>17</sup> *Société anonyme* as defined by the Law of 10 August 1915, as amended (“Companies Law”), Article 410-1, *Société par actions simplifiée* as defined by the Companies Law, Article 500-1, *Société à responsabilité limitée* as defined by the Companies Law, Article 710-1, *Société à responsabilité limitée simplifiée* as defined by the Companies Law, Article 720-1.

<sup>18</sup> *Société en commandite par actions* as defined by the Companies Law, Article 600-1, *Société en commandite Simple* as defined by the Companies Law, Article 301-1(1), *Société en commandite spéciale* as defined by the Companies Law, Article 320-1.

<sup>19</sup> *Société cooperative* as defined by the Companies Law, Article 811-1.

<sup>20</sup> *Société cooperative organisée comme une société anonyme* as defined by the Companies Law, Article 820-1.

<sup>21</sup> As defined by Luxembourg Civil Code, Article 1837.

<sup>22</sup> As defined by Luxembourg Civil Code, Article 1838.

<sup>23</sup> As defined by Luxembourg Civil Code, Article 1841.

<sup>24</sup> *Fondation d' utilité publique* as defined by Law of 21 April 1928 (“NPOs Law”), Article 27.

<sup>25</sup> *Association sans but lucratif* as defined by Law of 21 April 1928 (“NPOs Law”), Article 1.

<sup>26</sup> *Fonds commun de placement* defined as “any undivided collection after performance of filing and registration with the Trade and Companies’ Register requirements of assets made up and managed according to the principle of risk spreading on behalf of joint owners who are liable only up the amount contributed by them [...]” in 2016 RAIF Law, the 2007 SIF Law and the 2010 UCI Law.

<sup>27</sup> As defined by the Den Hague Convention of 1st July 1985 and ratified by the Law of 27 July 2003 (“Fiducies and Trust Law”).

<sup>28</sup> For definition see Law of 27 July 2003 (“Fiducies and Trust Law”), Articles 4 and 5.

<sup>29</sup> Ministry of Justice, *ML/TF Vertical Risk Assessment – Legal Persons and Legal Arrangements*, 2022.

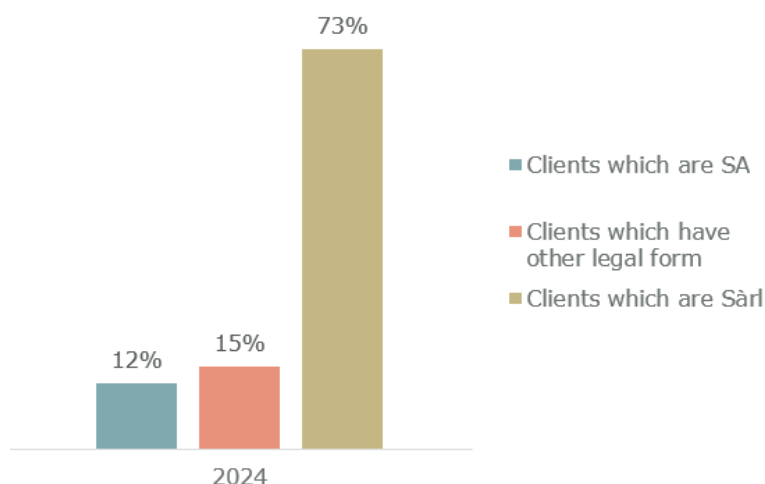
("SCS") and *Société en commandite spéciale* ("SCSp") have been assessed as having a "medium" or "low / very low" inherent risk and a residual risk of "low" and "very low".

Table 9: Entity type risk assessment

Entity type	Inherent risk	Residual risk
<i>Sociétés commerciales</i>		
<i>Société anonyme</i>	High	Medium
<i>Société à responsabilité limitée</i>	High	Medium

As of 31 December 2024, Specialised PFS reported that 12% of their clients to which they provide TCSP activities had the legal form of a *Société anonyme* and 73% had the legal form of a *Société à responsabilité limitée*. 15% have other legal forms (e.g. SC/SCoSA, SAS, SARL-S, SE, SCA, SCS, SCSp and SNC).

Table 10: Percentage of clients which are *Société Anonyme*, *Société à Responsabilité Limitée* or having another legal form for 2024<sup>30</sup>



### 2.1.3. Beneficial owners (BOs)

The BO(s) of the vehicles set up, managed and administrated by TCSPs is (are) the natural person(s) who ultimately own(s) the vehicle, on whose behalf the vehicle's transaction is being carried out, and/or who control(s) the vehicle. The determination of the BO of a vehicle depends on its legal form since it depends on the ownership structure and control structure<sup>31</sup>.

Article 1(7) of the AML/CFT Law defines the "beneficial owner" as "any natural person(s) who ultimately owns or controls the customer or any natural person(s) on whose behalf a transaction or activity is being conducted".

<sup>30</sup> CSSF internal data as at 31 December 2024.

<sup>31</sup> See Circular CSSF 19/732 as amended by Circular 24/861 for further details on clarifications on the identification and verification of the identity of BOs.

For the identification of the BO of companies, the AML/CFT Law provides the below threefold cascading process. As such are defined as BO, *any natural person who:*

- (i) “[...] *ultimately owns or controls a legal entity through direct or indirect ownership of a sufficient percentage of the shares or voting rights or ownership interest in that entity, including through bearer shareholdings, or through control via other means, other than a company listed on a regulated market that is subject to disclosure requirements consistent with European Union law or subject to equivalent international standards [...].*

*A shareholding of 25% plus one share or an ownership interest of more than 25% in the customer held by a natural person shall be an indication of direct ownership. A shareholding of 25% plus one share or an ownership interest of more than 25% in the customer held by a corporate entity, which is under the control of a natural person(s), or by multiple corporate entities, which are under the control of the same natural person(s), shall be an indication of indirect ownership”.<sup>32</sup>*

- (ii) “[...] *controls through control via other means*”.<sup>33</sup>
- (iii) “[...] *holds the position of senior managing official*”.

For the identification of the BO of fiducies, trusts, foundations and similar legal arrangements, the AML/CFT Law defines all following persons:

- (i) *the settlor(s),*
- (ii) *the fiduciaire(s) or trustee(s),*
- (iii) *the protector(s), if any,*
- (iv) *the beneficiaries, or where the individuals benefiting from the legal arrangement or entity have yet to be determined, the class of persons in whose main interest the legal arrangement or entity is set up or operates,*
- (v) *any other natural person exercising ultimate control over the fiducie or trust by means of direct or indirect ownership or by other means.*

Luxembourg has set up in 2019 a Register of Beneficial Owners (“RBE”)<sup>34</sup> which is managed by the Luxembourg Business Registers (“LBR”). Legal persons registered with the *Registre de Commerce et des Sociétés* (“RCS”) are required to register their BO(s) at the RBE. BOs have a legal duty to provide the relevant BO information to the registered legal person<sup>35</sup>. In addition, this BO information must be held by the registered legal person at its registered office in Luxembourg, together with all relevant supporting documents<sup>36</sup>. Any person, having access to the RBE, has the obligation to report to the RBE any discrepancies they identify between the data in the RBE and the information in their own records within 30 days of that discovery<sup>37</sup>.

<sup>32</sup> To be noted that a percentage of more than 25% is only an indicative threshold to meet this criterion. Professionals may implement a lower threshold following a risk-based approach.

<sup>33</sup> See Article 1(7)(a) (aa), (bb), (cc) and (dd) of the AML/CFT Law for “*control through other means*”.

<sup>34</sup> Law of 13 January 2019 establishing the Beneficial Owner Register, as amended (the “RBE Law”).

<sup>35</sup> The RBE Law, Article 17(1).

<sup>36</sup> The RBE Law, Article 17(2).

<sup>37</sup> The RBE Law, Article 8.



In addition, Luxembourg has set up in 2020 a Register of Fiducies and Trusts (“RFT”)<sup>38</sup> which is maintained by the *Administration de l’Enregistrement, des Domaines et de la TVA* (“AED”). Trustees and fiduciaires are required to obtain and keep at the place of administration of the trust or fiducie, information on the BOs of any trust administered in Luxembourg and of any fiducie for which they act as trustee or fiduciaire<sup>39</sup>. Every fiducie or express trust of which a trustee or fiduciaire is established or resides in Luxembourg is required to submit detailed information on all BOs to the RFT<sup>40</sup>. Any person, having access to the RFT, is required to promptly report to the AED any discrepancies found between the data in the RFT and the information in their own records<sup>41</sup>.

#### 2.1.4. Third parties

Third parties act in the TCSP industry as either advisors, service providers or business providers.

**Advisors** typically advise clients. For example, they provide advice relating to the incorporation of structures and planning of assets. Advisory services may be provided by a range of professions such as for example accountants, tax advisors, lawyers and wealth advisors.

**Service providers** typically provide services (such as bank accounts, accounting and tax services) to clients, vehicles and the TCSPs. Service providers may be for example banks, accountants and other TCSPs.

**Business providers** are professionals that facilitate the first contact between the TCSP and the client. Once this first introduction has taken place, they may not be involved in any ongoing transaction between the TCSP and the client. These introductions are common in the industry.

It is not uncommon that foreign TCSPs refer business relationships to local TCSPs to conduct the requested services. For example, as Specialised PFS are in many cases part of international groups, a group company of the Specialised PFS may refer a client.

It is also very common that the above-mentioned advisors introduce new clients to TCSPs.

Based on the above, the network of clients, third parties and TCSPs can span across multiple jurisdictions, and be comprised of multiple layers<sup>42</sup>.

## 2.2. Sub-sector ML/TF context

The CSSF continues to apply a risk-based approach to AML/CFT supervision, in line with i.a. FATF guidelines and recommendations and Luxembourg and European requirements. This implies identifying, assessing and understanding ML/TF risks faced by the TCSP sector, its specific products and services, the customers and jurisdictions, the channels of delivery involved, and taking AML/CFT measures commensurate to those risks to mitigate them effectively.

<sup>38</sup> Law of 10 July 2020 establishing a Register of Fiducies and Trusts, as amended (the “RFT Law”).

<sup>39</sup> The RFT Law, Article 2.

<sup>40</sup> The RFT Law, Article 13.

<sup>41</sup> The RFT Law, Article 19.

<sup>42</sup> Lord et al. *Other People’s Dirty Money*, 2019.

FATF has identified the TCSP sector as particularly exposed to ML/TF, *“Criminals may seek the opportunity to retain control over criminally derived assets while frustrating the ability of law enforcement to trace the origin and ownership of the assets. Companies and often trusts and other similar legal arrangements are seen by criminals as potentially useful vehicles to achieve this outcome. While shell companies<sup>43</sup>, which do not have any ongoing business activities or assets, may be used for legitimate purposes such as serving as a transaction vehicle, they may also be used to conceal beneficial ownership, or enhance the perception of legitimacy. Criminals may also seek to misuse shelf companies formed by TCSPs by seeking access to companies that have been ‘sitting on the shelf’ for a long time. This may be in an attempt to create the impression that the company is reputable and trading in the ordinary course because it has been in existence for many years. Shelf companies can also add to the overall complexity of entity structures, further concealing the underlying beneficial ownership information”<sup>44</sup>.*

According to a thematic review performed by the CSSF in 2024 on the use of shelf companies by Specialised PFS providing corporate services, only 5% of Specialised PFS set up shelf companies. This service remains limited and is typically available only to existing business relationships. The Specialised PFS continue to provide services to the shelf companies after their sale, e.g. domiciliation- or directorship services. In the context of this thematic review, the CSSF has not identified a misuse of shelf companies. Please see appendix B for further details.

According to FATF, *“the services provided by TCSPs are vulnerable to exploitation by criminals and other professional intermediaries involved in these schemes”<sup>45</sup>*. Indeed, TCSPs are involved in the establishment and management of legal persons and legal arrangements (corporate vehicles) which *“are an attractive way to disguise their identity and conceal the origin and/or destination or ultimate purpose of funds through manipulation of the financial system”<sup>46</sup>*. To identify, understand and assess the risk of TCSPs, it is also important to identify the financial risks and ML/TF typologies relevant to the legal persons and legal arrangements.

Similarly to the previous sub-sector risk assessment, the CSSF has used amongst other sources the “FATF Guidance for a Risk-Based Approach for Trust and Company Service Providers (June 2019)”, the “FATF Terrorist Financing Risk Assessment Guidance (July 2019)”, the Luxembourg 2025 NRA and the Vertical Risk Assessments to update this sub-sector risk assessment.

Furthermore, since the last sub-sector risk assessment, FATF has published several reports on financial crimes to assist firms and supervisors in understanding and mitigating the risks associated with their activities. Several reports contain information on the ML/TF risk exposure of the TCSP sector or the legal persons/legal arrangement to which TCSPs provide services.

The most relevant include:

- **Money Laundering and the Illegal Wildlife Trade** (2020): This report includes a section on common techniques used to launder proceeds from the illegal trade and the use of shell companies.

<sup>43</sup> To be noted that shell companies are prohibited in Luxembourg.

<sup>44</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>45</sup> FATF and Egmont Group, *Concealment of Beneficial Ownership*, 2018.

<sup>46</sup> FATF, *Guidance on Beneficial Ownership of Legal Persons*, 2023.

- **FATF/Egmont Trade-based Money Laundering: Trends and Developments** (2020): “The report aims to help public and private sector with the challenges of detecting trade-based money laundering” and explains that “there is often a significant intersection between TBML/TF schemes and the exploitation of shell or front companies”.
- **Trade-Based Money Laundering: Risk Indicators** (2021): This report provides risk indicators for this typology of ML including some indicators related to corporate structures.
- **Guidance on Proliferation Financing Risk Assessment and Mitigation** (2021): This report contains a section on “How are DNFBPs misused for the purposes of the potential breach, non-implementation, or evasion of PF-TFS?”.
- **Money Laundering from Fentanyl and Synthetic Opioids** (2022): This report contains information on traffickers using shell and front companies to launder drug proceeds, but also to procure drugs, precursor chemicals and production equipment with the proceeds.
- **Risk-based Approach Guidance for the Real Estate Sector** (2022): “A previous FATF report identified and summarised several activities that may be indicative, although not conclusive, of money laundering via the real estate sector. This Guidance adds to these typologies to include [...] the use of non-financial professionals and the use of corporate vehicles or complex structures [...]”.
- **Money Laundering and Terrorist Financing in the Art and Antiquities Market** (2023): This report contains a section on the role of intermediaries and legal persons, fictitious sales and false auctions, and under- or over-pricing in the domain of Art and antiquities market. The report states that “According to a recent article by the International Consortium of Investigative Journalists (ICIJ), more than 1,600 works of art appeared to have been traded using shell companies and trusts in offshore financial centres [...]. This suggests that the misuse of corporate structures may be a common technique to disguise ownership of items and conceal funds laundered in the cultural objects market”.
- **Guidance on Beneficial Ownership of Legal Persons** (2023): This report helps understanding the vulnerabilities associated with legal persons and explains why different mechanisms for collection of beneficial ownership information of legal persons is important for the competent authorities in their ML/TF investigations/work.
- **Crowdfunding for Terrorism Financing** (2023): This report covers “formal crowdfunding platforms and crowdfunding activities on social media, messaging applications or other dedicated websites. It also considers hybrid means of crowdfunding that combine digital and physical fundraising. The variety in possible crowdfunding methods means that multiple funding sources and financial intermediaries can be involved, wittingly or unwittingly, to crowdfund support for TF”.
- **Beneficial ownership and transparency of legal arrangements** (2024): This report focuses on transparency requirements applicable to legal arrangements which refers to express trusts or other similar legal arrangements. It addresses the trust-specific features and related AML/CFT transparency obligations.
- **Horizontal Review of Gatekeepers’ Technical Compliance Related to Corruption** (2024): This report assesses the current state of play and identifies areas that FATF members must prioritise for further improvement. It is a deep dive into the actions that FATF members have taken to apply important aspects of the FATF Recommendations to gatekeepers.
- **Complex Proliferation Financing and sanctions evasion schemes** (2025): The report provides a detailed analysis of the evolving methods and techniques used to evade PF-

related sanctions, including those imposed under Recommendation 7 of the FATF Standards, as well as other national and supranational regimes beyond the FATF Standards, to inform the reader on how those seeking to evade PF-related sanctions could be doing so. It outlines how proliferation networks are sourcing dual-use goods, technologies, and knowledge (often through procurement networks and front companies) and using various financial channels to access the global financial system.

- **Comprehensive update on Terrorist Financing risk (2025):** The report reveals terrorists' persistent ability to exploit the international financial system to support their activities and carry out attacks. With the TF methods varying depending on several factors and contexts, the report highlights terrorists' adaptability, underscoring the need for risk-based counter-terrorist financing measures.

In addition, the following reports and documents provide useful sources of information:

- **Circular CSSF 21/782 (2021)** and complementing circulars: Adoption of the revised guidelines, by EBA, on money laundering and terrorist financing risk factors.
- **Europol European Union Terrorism situation and trend report (2023):** The report does not provide any information enabling to link TF and TCSP activities or their clients (legal persons/legal arrangements), however, the report indicates that there was one arrest for right wing terrorist offenses in Luxembourg in 2020.
- **Europol European Financial and economic crime threat assessment 2023:** "The European Financial and Economic Crime Threat Assessment describes the complexities of financial and economic crimes, and the criminal ecosystem that virtually sustains and links all other criminal activities. The report analyses all financial and economic crimes affecting the EU, such as money laundering, corruption, fraud, intellectual property crime, and commodity and currency counterfeiting." More particularly, the report describes money laundering methods and typologies on "the misuse of legal business structures: from restaurants to banks".
- **The 2022 Supranational Report of the European Commission on the assessment of the risk of money laundering and terrorist financing:** This assessment highlights that the "threats and vulnerabilities previously detected in the non-financial area are still largely applicable". More specifically, "as per the FATF reports, it notes how TCSPs can be abused/misused to set up complex structures to obscure financial audit trails, often including the use of shell and front companies. A lack of cooperation and information-sharing between authorities in different jurisdictions creates areas of weaknesses that are easily exploitable by criminals seeking out jurisdictions where AML controls are less effective."
- **Luxembourg ML/TF vertical risk assessment legal persons and legal arrangements (2022):** The report found that:
  1. Regarding corporate risk, "legal arrangements and sociétés commerciales present the highest corporate inherent risk ("Very High)". Considering the impact of mitigating factors, their residual risk is "medium". Sociétés civiles, "other legal persons" and foundations have a "high" corporate inherent risk and a "low" residual risk.
  2. Regarding the entity-type specific risk, "with respect to the inherent entity-type risk, fiducies are the riskiest type of legal persons and legal arrangements ("Very High"), followed by SAs and SARLs ("High"). SASs, SEs, SCAs and NPOs (ASBLs and fondations) present a "Medium" inherent entity-type risk level. The inherent risk level

*of the remaining entity types is "Low" or "Very Low"; and regarding residual risk, fiducies remain "Very High" despite of existing mitigating measures. The residual risk of SA and SARL is "Medium" once mitigating measures are considered. Except for sociétés civiles, SAS, SCA, SCSp and ASBLs (which its residual risk is considered "Low"), the residual risk of the remaining entity types is "Very Low".*

- **Luxembourg Terrorist Financing Vertical risk assessment** (2022): The report did not provide specific risks in relation to TCSPs, but it found that the residual risk of NPOs (a sub-type of legal person) carrying out development and humanitarian projects abroad was "high".
- **Opinion of the European Banking Authority on money laundering and terrorist financing risks affecting the EU's financial sector** (2023): Although the opinion relates to the financial sector excluding therefore the TCSP sector, the report highlights risks which could be relevant to the TCSP sector because of its exposure to the same clients and common risks. The opinion highlights new and continuing risks in relation to politically exposed persons, implementation of restrictive measures, identification of ultimate beneficial owners in case of "complex structures with stacking of companies and front persons", fight against laundering of proceeds of environmental crime as well as tax crimes, de-risking.
- **Opinion of the European Banking Authority on money laundering and terrorist financing risks affecting the EU's financial sector** (2025): Although the opinion relates to the financial sector excluding therefore the TCSP sector, the report highlights risks which the financial sector faces due to the rapid evolution of financial technologies and new financial products such as crypto assets, and the growing interconnection of financial products and services across sectors, have introduced new vulnerabilities.
- **Luxembourg's ML NRA** (2025): The NRA considers that TCSPs are a cross-cutting vulnerability. Specialised PFS providing corporate services still have a high inherent and medium residual risk although the mitigation measures have improved. This is driven by several factors, including: (1) fragmentation and complexity of service providers which include several licenses; and (2) number of non-EU beneficial owners of structures including some in an EU-listed high-risk country.

### 3. Process

This sub-sector risk assessment follows the general CSSF risk assessment approach defined in its ML/TF Risk Assessment Policy.

Sub-sector risk assessments and typologies are conducted at the level of the TCSP sub-sector operated by Specialised PFS. The CSSF collects information by performing desk-based research (international sources, CSSF-specific data and other domestic sources) and gathering input from a panel of experts through bilateral or multilateral meetings and/or workshops. Sources typically include, but are not limited to, reports from FATF and other standard-setting bodies (e.g. typologies, guidance, mutual evaluations), publicly available risk assessments (e.g. EU SNRA), reports published by other competent authorities (e.g. supervisors, FIUs, law enforcement agencies) and information from industry bodies and public-private partnerships. CSSF-specific information reviewed includes entity- and sector-level risk assessments as well as the results from the entity-level data collection questionnaires.

The CSSF creates a risk assessment report based on information collected, which articulates the risk level for the sub-sector (in line with the CSSF risk scoring methodology), the nature of the risk as well as typologies and trends.

Based on this methodology, the Specialised PFS department of the CSSF led this sub-sector risk assessment, incorporating feedback and insights from the below parties:

- **CSSF**: internal AML/CFT teams and sub-sector experts.
- The **Private-public partnership dedicated to Specialised PFS**<sup>47</sup>.
- **Cellule de Renseignement Financier** (CRF).

<sup>47</sup> The Private-public partnership was created in October 2022. The members are the *Commission de Surveillance du Secteur Financier* (CSSF), the *Cellule de Renseignement Financier* (CRF), the *Association of Luxembourg Compliance Officers* (ALCO), the *Luxembourg Alternative Administrators Association* (L3A), the *Luxembourg Association of Family Offices* (LAFO), the *Luxembourg Private Equity Association* (LPEA), and the *Association Luxembourgeoise du Risk Management* (ALRiM), see Expert Working Groups under the following link: [Anti-Money Laundering and Countering the Financing of Terrorism \(AML/CFT\) – CSSF](#).

## 4. Methodology

### 4.1. Methodology of the assessment and scope

The assessment covers the ML/TF threats in chapter 5, the vulnerabilities (inherent risk) in chapter 6, and the mitigation measures put in place by both the CSSF and the private sector in chapter 7.

The methodology is based on the CSSF AML/CFT risk assessment policy and closely aligned to that used in Luxembourg's NRA<sup>48</sup>. It is also aligned to the FATF's Guidance for a Risk-Based Approach<sup>49</sup>.

A clustering aims to group together activities with similar characteristics and risk profiles into a manageable number of classes, to assess their ML/TF risk.

This report groups TCSP activities in **three taxonomies** (activity classes) which are subject to a detailed risk assessment:

- incorporation of companies,
- provision of directorship and secretarial services, and
- domiciliation of companies.

### 4.2. ML/TF risk scoring

ML/TF risk is assessed using a scorecard approach, both before and after considering mitigating measures in place. This is centred on three components:

- **Inherent risk** is the risk of ML/TF occurring through a particular class of the taxonomy before accounting for mitigating measures (including both ML/TF threats and vulnerabilities).
- **Mitigating factors** are the supervisory measures and controls in place to reduce ML/TF risks for a particular class of the taxonomy.
- **Residual risk** is the risk of ML/TF occurring through a particular class of the taxonomy after considering mitigating measures in place.

<sup>48</sup> Note, the NRA ranks risks on a five-point scale (Very High, High, Medium, Low, Very Low) – the CSSF risk assessment policy uses a four-point scale (High, Medium-High, Medium-Low, Low).

<sup>49</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

Table 11: Overview of inherent and residual risk calculation

Inherent risk (i.e. in the absence of mitigating factors)



Residual risk (i.e. with mitigating factors considered)



### 4.3. Data sources

This assessment uses both quantitative and qualitative data. This includes international sources (e.g. from international organisations, foreign competent authorities, industry bodies, academia), other domestic competent authorities (e.g. CRF), CSSF internal data collected as part of its supervisory measures, CSSF expert input, information provided by the private sector (e.g. via annual questionnaire on Financial Crime, interviews and expert working groups) and other domestic sources.

Moreover, the CSSF has sent in 2023 and 2024 a dedicated questionnaire for the review exercise of the SSRA to the members of the private-public partnership. This questionnaire covered amongst others the following topics:

- Additional/new ML/TF risks (threats and/or vulnerabilities) to be covered by/removed from the updated SSRA on TCSP activities.
- Specific TF risks of TCSPs and mitigation measures applied.
- Specific Targeted Financial Sanction risks of TCSPs and mitigation measures applied.
- Specific Proliferation of weapons of mass destruction risks of TCSPs and mitigation measures applied.
- Specific Corruption risks of TCSPs and mitigation measures applied.
- Recommendations/guidance to the private sector.

In addition, the Specialised PFS department of the CSSF performed in 2024 thematic reviews on the use of shelf companies by Specialised PFS performing TCSP activities and in 2025 on the assessment of the risk of terrorist financing ("TF") by Specialised PFS.



## 5. Inherent risk – threat assessment

The objective of this chapter is to understand the environment in which predicate offences are committed to identify their nature and to assess the exposure of Specialised PFS to them (i.e. predicate offences not necessarily directly related to TCSPs but for which illicit proceeds could be channelled through the TCSP sector and therefore possibly the Specialised PFS sub-sector).

Threats are analysed within the inherent risk assessment in chapter 5, that is the risk in the absence of mitigating factors and controls which are analysed in detail in chapter 7 of the present assessment.

### 5.1. ML/TF threat overview

The 2025 NRA identifies predicate offences which may occur in Luxembourg, as well as the criminals perpetrating these offences (i.e., the perpetrators). Starting from the FATF list of designated categories of predicate offences and using a weighted average of external and domestic exposure, it concluded for **external threats** that Fraud and forgery, Tax crimes and Corruption and bribery were “**very high**” threats. On the **domestic threat level**, the 2025 NRA concludes that fraud and forgery, robbery and theft and drug trafficking are “**high**” threats.

This report considers both domestic and external threats. The NRA noted that the threat of ML proceeds from domestic crimes is smaller, due to Luxembourg’s relatively low crime rate and limited presence of organised crime. The threat of ML proceeds from international crime is, however, higher, given the international exposure of Luxembourg’s TCSP industry.

To be noted that since July 2022, the violation of restrictive measures in financial matters has become a predicate offence of ML.

### 5.2. ML/TF threats for Specialised PFS

#### 5.2.1. General ML threats

This section covers predicate offences generating illicit proceeds which could expose the financial sector to ML threats. The objective of the threat assessment is to understand the environment in which predicate offences are committed, to identify their nature and to assess the exposure of Specialised PFS providing TCSP services to them.

This sub-sector risk assessment examines the most relevant threats for these Specialised PFS, considering “very high” and “high” threats highlighted in the NRA. The NRA threats are themselves based on the FATF list of designated categories of predicate offence<sup>50</sup>.

This sub-sector risk assessment outlines why Specialised PFS may be at risk of being abused or misused for ML.

<sup>50</sup> FATF, [Glossary](#)

TF threats are presented separately. Indeed, the assessment highlights the low prevalence of TF via Specialised PFS and provides the reasons behind this observation.

Specialised PFS can be abused or misused to launder the proceeds from threats identified in the NRA. This can occur across the three stages of the ML process – placement, layering, and integration. Typically, such misuse or abuse evolves around concealing the identity of the BO of structures and the origin of funds, as well as channelling illicit funds through the financial system<sup>51,52,53</sup>.

In Luxembourg, TCSPs may be exposed for multiple reasons:

**The sector is large and diverse**, with a variety of licensed professionals and activities that can be conducted. Detection of ML threats may prove challenging in a market where diverse TCSPs and products exist.

**The international nature of the business**, foreign client base and foreign ownership of assets, may increase the likelihood of dealing with illicit proceeds. To a lesser extent, TCSPs may also be requested to provide services subject to laws from other jurisdictions (for example for assistance in the incorporation of foreign companies and the provision of directorship services), which can make them more vulnerable from a ML perspective. With regards to TCSPs, most BOs/clients are indeed coming from foreign countries, with some being based in higher risk jurisdictions. However, the number of offshore structures serviced by TCSPs has significantly been reduced over the past years.

**Challenges in BO identification and origin of funds/wealth** as a result of the diverse nature of clients which includes legal entities and arrangements in the shareholding structure which may enable the beneficial owner to hide his identity, particularly in instances where the primary relationship is with an intermediary advising the client<sup>54</sup>. The verification of the origin of wealth for these BOs is also particularly challenging because it could be from multinational corporate groups, family fortune or unexplained gains realised in the past, etc.

**Intermediation of the relationships** between a TCSP and client because of the presence of intermediaries (e.g. lawyers, accountants, business providers, advisors). This can reduce transparency around client identity.

**Services** offered by TCSPs may be abused or misused to conceal the identity of the beneficial owner or their source of funds and facilitate the laundering of illegal proceeds<sup>55</sup>.

Regarding the vehicles serviced, these are mainly legal entities and a limited number of legal arrangements.

Table 12: Percentage of clients being legal entities

% Legal entities				
2020	2021	2022	2023	2024
97%	95%	99%	97%	95%

<sup>51</sup> FATF, *Money Laundering using TCSPs*, 2010.

<sup>52</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, 2018.

<sup>53</sup> FATF, *The Misuses of Corporate Vehicles, including TCSPs*, 2006.

<sup>54</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>55</sup> FATF, *Money Laundering using TCSPs*, 2010.

The number of legal arrangements serviced is significantly lower due to the facts that (1) Specialised PFS are not allowed to provide fiduciary services under the 2003 Fiducie and Trust Law, and (2) their use is not common practice in Luxembourg.

Table 13: Percentage of clients being legal arrangements

% Legal arrangements				
2020	2021	2022	2023	2024
1%	3%	1%	2%	4%

The remaining minor percentages are relating to clients being natural persons.

### 5.2.2. Specific ML threats significant for Specialised PFS

There are three specific predicate offences that are most relevant for Specialised PFS performing TCSP activities, which are: fraud and forgery, tax crimes, corruption and bribery (see Table 14 below).

The figures of SARs/STRs provide an overview of predicate offences suspected by Specialised PFS. However, it should be noted that it is possible that predicate offences are being perpetrated, or attempted, without SARs/STRs being filed. Nevertheless, these figures reflect the trends in terms of predicate offences.

The following sub-sections explain each threat, present global typologies, and then focus on specific risks for Luxembourg<sup>56</sup>.

Table 14: Overview of predicate offences perpetrated within Specialised PFS

Predicate offence	Number of SARs/STRs filed in			
	2020	2021	2022	2023
<b>Fraud and forgery</b>	54	85	99	143
<b>Tax crimes</b>	38	34	31	37
<b>Corruption and bribery</b>	28	21	23	23

In 2024, 15 SARs/STRs were made relating to the circumvention of international financial sanctions<sup>57</sup>.

<sup>56</sup> Red flags indicators are available in appendix F.

<sup>57</sup> CSSF internal data.

## Fraud and forgery

As per the 2025 NRA, “*fraud and forgery*” refers to a broad set of deceptive practices as defined in Luxembourg’s *Penal Code*<sup>58</sup> and *law of 10 August 1915 on commercial companies, as amended*<sup>59</sup>. TCSPs could be abused or misused to launder the proceeds of these offences, or to facilitate the predicate offence itself.

According to the FATF, the international nature of the TCSP sector, combined with the lack of transparency in specific jurisdictions regarding the BO of structures can facilitate the integration of these illicit funds into the economy. Additionally, the TCSP industry is exposed to the risk of fraudulent abuse or misuse given its role as gatekeeper in the financial sector<sup>60</sup>.

**Luxembourg’s** position as an international payments and investment hub, together with its stable regulatory framework, and its central European location contribute to the number of TCSPs operating from Luxembourg. The concentration of TCSPs in the country increases the likelihood that national and international criminals may attempt to commit fraud by abusing or misusing the services provided by a TCSP. Exposure is increased by the fact that TCSPs may facilitate the financial flows through the economy and the management of structures used in international transactions.

## Tax crimes

Tax crimes involve the intentional breach of law to evade tax payments. Tax evasion (“*escroquerie fiscale*”) and aggravated tax fraud (“*fraude fiscale aggravée*”) are predicate offences in Luxembourg<sup>61,62</sup>.

**Globally**, TCSPs are vulnerable to tax crimes due to the international nature of their activities and their local expertise of regulatory and fiscal requirements. As a result, criminals can abuse or misuse TCSPs’ technical expertise to devise tax evasion schemes. These schemes may leverage structures in offshore jurisdictions to conceal their assets. TCSPs such as Specialised PFS can set up and manage these offshore structures. However, it is to be noted that this service has been considerably decreasing since 2016.

Tax fraud can also be committed via TCSPs using third-party loan-backed schemes. These schemes involve money being sent to companies owned or controlled by, or on behalf of, the same individual and returned as a private third-party loan. They tend to operate following two steps<sup>63</sup>:

1. **Payment of business invoices:** An individual directly or through a company A pays an invoice or a series of invoices to Company B, which will often be located offshore, and the individual is also the beneficial owner of Company B. The purpose is to reduce the taxable

<sup>58</sup> *Code Pénal* Articles 175, 179 to 182, 184, 186, 187, 187-1, 194 to 197, 208, 211, 212, 215, 216, 221, 223 and 489 to 496-4.

<sup>59</sup> Law of 10 August 1915 on commercial companies (as amended), Articles 1500-8 and 1500-11.

<sup>60</sup> FATF, *Money laundering using TCSPs*, 2010.

<sup>61</sup> Law of 23 December 2016 and Circular CSSF 17/650, 2017 (as amended).

<sup>62</sup> Aggravated tax fraud is defined according to the tax thresholds evaded or the level of reimbursement obtained. For tax evasion, increased gravity is related both to the amounts involved and the fact that means have been employed with a view to deceiving the tax authorities. Both offences relate both to direct (e.g. income/inheritance tax) and indirect taxes (VAT).

<sup>63</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, 2018.

income of the individual or company A by apparently increasing their business expenses paid to Company B.

2. **Third-party loan:** Once the funds have been pooled into the accounts of Company B, they are returned to the original individual or company A. Fake loan agreements can be produced between the Company B as lender and Company A as borrower. In this way, the money is returned to the beneficial owner in a manner that assisted him in evading income taxation.

**Luxembourg's** TCSP sector is vulnerable to tax crimes due the international nature of wealth managed and of its operations. In particular, the diverse geographic origin of TCSP clients expose Luxembourg to the risk that *foreign* individuals may misuse/abuse TCSPs for tax crimes. In contrast, misuse/abuse related to *domestic* tax crimes is much lower. This is due to Luxembourg's tax system and small shadow economy (domestic tax evasion is estimated to be lower in Luxembourg than most other OECD countries, ~0.9% of GDP)<sup>64</sup>.

Luxembourg has put in place a legal and regulatory framework to combat international tax evasion. For example, Luxembourg has introduced legislation to implement the Organisation for Economic Co-operation and Development (OECD) Common Reporting Standard (CRS) for the automatic exchange of financial information. Luxembourg is also actively involved in the OECD Base Erosion and Profit Shifting (BEPS) initiative and has enacted legislation to address BEPS Action 13, on country-by-country reporting. As noted above, the legislator has added in December 2016 aggravated tax fraud ("*fraude fiscale aggravée*") and tax evasion ("*escroquerie fiscale*") to the list of predicate offences for ML, decreasing the likelihood of such crimes by extending AML/CFT measures to these offences (e.g. KYC and Suspicious Activity Reporting (SAR) obligations).

Moreover, the CSSF has adopted Circular CSSF 17/650<sup>65</sup>, as amended by Circular 20/744, drafted jointly with the Parquet/CRF, which aims at (i) providing further details by both authorities concerning the practical application of these new provisions by the professionals of the financial sector supervised by the CSSF, and (ii) providing a list of indicators to assist the professionals.

After the law of 21 December 2018 implementing Directive (EU) 2016/1164 ("ATAD 1"), the Luxembourg Parliament adopted on 19 December 2019 the law transposing the Council Directive (EU) 2017/952 of 29 May 2017 ("ATAD 2").

The Chamber of Deputies adopted in March 2020 the law on reportable cross-border arrangements transposing the Directive (EU) 2018/822 and in May 2023 the law introducing obligations on reporting platform operators transposing Directive (EU) 2021/514, commonly known as "DAC6" and "DAC7" respectively. In October 2023 the European Union adopted the Directive introducing tax transparency rules for crypto assets ("DAC8") which will enter into force on 1 January 2026.

According to the 2025 NRA, the level of tax and banking transparency has significantly increased in recent years. Nonetheless, there remains a risk that Luxembourg non-residents continue trying to

<sup>64</sup> CESifo Group, *Size and Development of Tax Evasion in 38 OECD Countries*, 2012. The shadow economy includes "all market-based legal productions of goods and services that are deliberately concealed from public authorities for the following reasons: avoid payment of taxes, avoid payment of social security contributions, avoid certain legal labour market standards and avoid complying with certain administrative procedures" (CESifo, F. Schneider, *Estimating the size of the shadow economies*, December 2016).

<sup>65</sup> Circular CSSF 17/650, February 2017. While aggravated tax evasion was added as a new predicate offence, tax evasion was already criminalised prior to 2017. With the 2017 tax reform the legislation has been strengthened, and both offences are now also a predicate offence for ML.

abuse or misuse *Luxembourg Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions* (e.g., lawyers and accountants) to avoid paying taxes in their residence country<sup>66</sup>.

### **Corruption and bribery**

*Corruption and bribery* include the relevant offences defined in Luxembourg's Penal Code, specifically: domestic bribery (private to public) as defined in Articles 240 et seq.; domestic bribery (private to private) as defined in Articles 310 et seq.; and corruption of foreign public officials as defined in Article 252. These crimes have a significant impact on the development and health of economies worldwide<sup>67</sup>, undermining the rule of law and the principle of fair competition and often contributing to political instability and abuse of human rights<sup>68</sup>.

**Globally**, TCSPs may be exposed to wealthy individuals and Politically Exposed Persons (PEPs). This makes them vulnerable to misuse/abuse for corruption and/or bribery. TCSPs and the structures they set up and manage can be abused or misused by criminals in order to channel funds for bribery and corruption purposes, and to distance themselves from the origin of these funds. Globally, corruption and bribery are estimated to account for 2% of total proceeds of crime<sup>69</sup>.

According to the 2025 NRA, in Luxembourg, the external threat exposure from corruption and bribery may be impacted by several factors:

- *Affluent and wealthy bribers or bribed individuals could invest/place proceeds generated from corruption and bribery in Luxembourg or use the generated returns for this type of illicit activities. Considering this, sophisticated sectors collecting and investing funds for wealth and asset management purposes may be targeted by those persons.*
- *Legal and financial professionals (from Luxembourg or abroad) could provide advice, set up holding companies or facilitate the takeover of legitimate companies in Luxembourg for the purpose of laundering the proceeds of corruption.*
- *Luxembourg legal persons could be used as companies for ML of proceeds of corruption in a wider scheme, i.e. complicit (or abused) legal and financial professionals setting up the structure of holding companies.*
- *Considering the limited size of the domestic market, Luxembourg is an internationally oriented economy. Luxembourg businesses could, therefore, be misused to (wittingly or unwittingly) launder proceeds generated from corrupt activities, corruption-related proceeds or act themselves as bribers or bribed persons<sup>70</sup>.*

ML is composed of three stages (as illustrated in the following three tables):

1. **Placement:** This first stage involves introducing illegally obtained money into the financial system. The objective is to distance the physical funds from their criminal origin, typically by depositing them into financial institutions or using them to acquire assets.

<sup>66</sup> 2025 NRA.

<sup>67</sup> UNODC, *Annual report*, 2017.

<sup>68</sup> Transparency International, [Why corruption matters, 2019](#).

<sup>69</sup> UNODC, *Annual report*, 2017.

<sup>70</sup> 2025 NRA.

2. **Layering:** During this stage, the funds are moved through a series of complex financial transactions to disguise their illicit source. This process may include multiple transfers, currency exchanges, or purchases, making the money trail difficult to follow.
3. **Integration:** In the final phase, the cleaned money is reintroduced into the legitimate economy. At this point, the funds appear to be lawful and can be used without raising suspicion.

Table 15: Illustration of ML scheme using TCSPs<sup>71</sup>

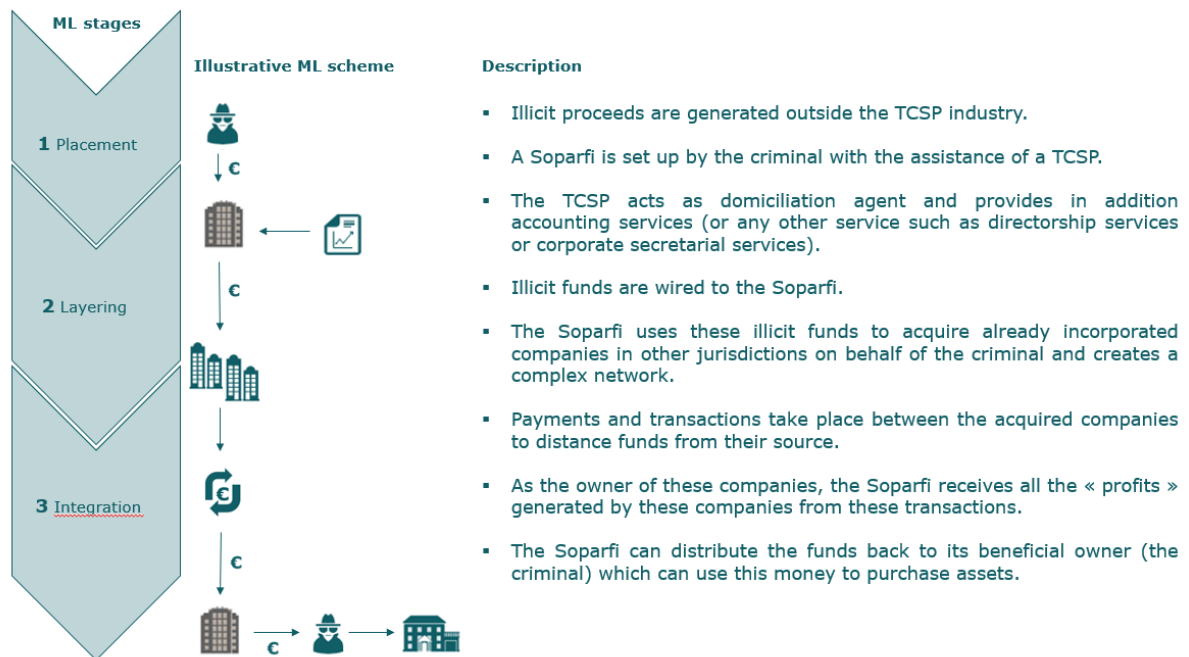
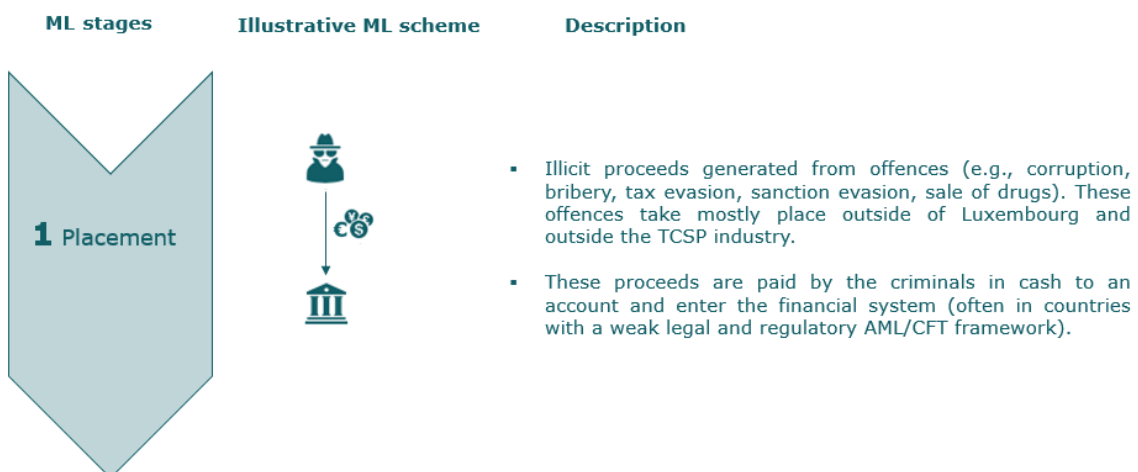


Table 16: Illustration of placement of illicit funds using a soparfi<sup>72</sup>



<sup>71</sup> Inspired by case studies presented in FATF, *Money Laundering using TCSPs*, 2010. Description has been adapted to Luxembourg context.

<sup>72</sup> Inspired by case studies presented in FATF, *Money Laundering using TCSPs*, 2010 and FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, 2018. Description has been adapted to Luxembourg context.

Table 17: Illustration of layering of illicit funds using directorship services<sup>73</sup>


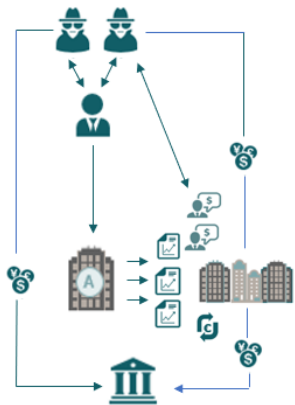
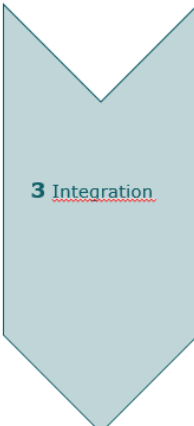
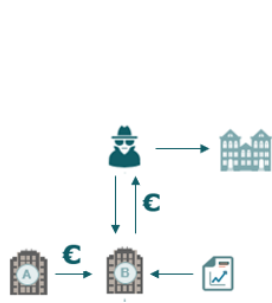
ML stages	Illustrative ML scheme	Description
 <p>2 Layering</p>		<ul style="list-style-type: none"> <li>▪ The TCSP is contacted by the criminals, his/her representative or a strawman.</li> <li>▪ The TCSP sets up a Soparfi (company A) of which criminals are the beneficial owner (through a strawman).</li> <li>▪ The Soparfi has a bank account under its own name to which the criminals, or one of their associates, make payments (via wire transfer or cash) in the amount of the share capital of the Soparfi.</li> <li>▪ The TCSP provides domiciliation and corporate services and/or directorship services to the Soparfi.</li> <li>▪ The Soparfi invoices fees for fictitious services e.g. in relation to consultancy services to other legal entities set up by the criminals across multiple jurisdictions.</li> <li>▪ The legal entities from the criminals, or one of their associates, make payments to the account of the Soparfi to settle the invoices.</li> <li>▪ Third party advisors, representing the criminals, instruct the TCSPs to carry out wire transfers between the legal entities.</li> <li>▪ These transactions create layers, which permit the criminals to distance the illicit funds from their source.</li> </ul>

Table 18: Illustration of integration of illicit funds using third-party loans<sup>74</sup>

ML stages	Illustrative ML scheme	Description
 <p>3 Integration</p>		<ul style="list-style-type: none"> <li>▪ The Soparfi holds illegal proceeds obtained through a number of previous layer transactions.</li> <li>▪ The criminal requests a TCSP to incorporate a new Soparfi (company B) to which the TCSP provides domiciliation and directorship services.</li> <li>▪ Wire transfers are made into Company B from the Soparfi (Company A).</li> <li>▪ As a director of Company B, the TCSP approves a direct loan for the criminal, which is worth the amount of wire transfer by A.</li> <li>▪ The criminal can now use these funds to purchase real estate.</li> </ul>

<sup>73</sup> Inspired by case studies presented in FATF, *Money Laundering using TCSPs*, 2010 and case study presented in van der Does de Willebois et al., *The Puppet Master*, 2011. Description has been adapted to Luxembourg context.

<sup>74</sup> Inspired by case studies presented in FATF, *Money Laundering using TCSPs*, 2010. Description has been adapted to the Luxembourg context.



### 5.2.3. TF threats for Specialised PFS

Terrorism Financing (“TF”) refers to the financing of terrorist acts and of terrorists and terrorist organisations<sup>75</sup>. TF encompasses raising, movement, and use of funds by terrorist actors and is an important threat to global security<sup>76</sup>.

TF has the following three main stages:

1. **Raising funds:** This initial phase focuses on acquiring money to finance terrorist operations. The funds may originate from lawful sources, such as donations or legitimate businesses, or from unlawful activities, including various forms of crime (as for money laundering).
2. **Moving funds:** After the money is obtained, it is moved or transferred in order to hide its origin and ensure it reaches terrorist organisations. This process may utilise banks, money transfer services, or informal financial networks.
3. **Using funds:** In the final phase, the money is spent to facilitate terrorist acts, which can include buying weapons, covering logistical expenses, or funding other operational requirements.

There has been a significant change in how terrorists and terrorist organisations finance their operations. While they initially relied heavily on donations from sympathizers, they now increasingly turn to illegal activities as their primary sources of funding. These activities include extortion, drug trafficking, and kidnapping, which are primary offences of money laundering.

TF risk and risk of terrorism are not the same risks, but these can be interlinked. For example, a country having active operating terrorist organisations (thus having a terrorism risk) will probably also face an increased risk of TF. However, it does not mean that a country with no or few terrorist attacks, i.e. low risk of terrorism, does not face a risk of TF. TF has a cross-border nature because funds can be raised in one jurisdiction and used in another jurisdiction<sup>77</sup>. Luxembourg is a significant international financial centre and has significant cross-border activities, therefore, Luxembourg may potentially be abused for TF.

TF risk is not limited to the risk of financing a terrorist act. Terrorists have additional financing needs such as funds for propaganda, recruitment, training, travel, daily living expenses and other operational needs of an individual terrorist or terrorist group<sup>78</sup>.

The 2020 NRA concluded that the threats of terrorism and terrorist financing (TF) are moderate overall<sup>79</sup>. In May 2022 the Luxembourg Committee on the Prevention of Money Laundering and Terrorist Financing adopted the Vertical Risk Assessment on Terrorist Financing<sup>80</sup> (the “VRA TF”).

<sup>75</sup> Luxembourg Criminal Code, *Chapitre III-1. - Du terrorisme, Section I. - Des infractions à but terroriste*, Article 135-5.

<sup>76</sup> FATF, *International standards on combating money laundering and the financing of terrorism and proliferation – the FATF recommendations*, 2012.

<sup>77</sup> FATF, *Terrorist Financing Risk Assessment Guidance*, 2019.

<sup>78</sup> Ministry of Justice, *National Risk Assessment of Money Laundering and Terrorist Financing*, 2020.

<sup>79</sup> The 2025 NRA on Money Laundering states that a dedicated risk assessment will cover risks relating to TF.

<sup>80</sup> Ministry of Justice, *Terrorist Financing – Vertical Risk Assessment*, May 2022.

The VRA TF states that “*the main TF risks for Luxembourg emanate from the threat that terrorists, terrorist organisations and their financiers might exploit the vulnerabilities of certain sectors essentially for moving funds*” and therefore assesses the terrorist financing vulnerable sectors.

The VRA TF does not consider the sub-sector of the Specialised PFS providing corporate services as a prima facie vulnerable sector.

Also, there are no known cases where Specialised PFS have been abused or misused for the purpose of TF. Indeed in 2022, one SAR was made by a Specialised PFS relating to TF, in 2023 three SARs, and in 2024 two SARs were made. The SARs were all made based on adverse media on the beneficial owners but were not related to transactions performed by the client entities in Luxembourg.

The assessment that the threat of TF via TCSPs in Luxembourg is relatively lower than the threat of ML stems from several factors, which include:

- **Short-term requirements** to move cash from one party to another (especially uncommon and unrelated parties). This is less compatible with the TCSP industry where the process of set-up, management and administration of companies typically involves longer time periods.
- **Low value transactions** involved in TF are unsuited to an industry which generally deals with higher value transactions.
- **Preference by terrorists and terrorist organisations for alternative remittance channels** (e.g. Hawala, Hundi, cash couriers), and lack of reliance on formal banking and payment channels that are used by the TCSPs.
- **Knowledge requirements** as the products and services offered by TCSPs are often complex and require financial knowledge.
- **Multiple stakeholders:** notaries, lawyers, banks.

Despite the threat being relatively lower than for ML, TF via the TCSP sector cannot be ruled out, particularly those cases involving the abuse or misuse of structures such as corporate and state-sponsored terrorism<sup>81</sup>.

Indeed, the ML/TF Vertical Risk Assessment on Legal Persons and Legal Arrangements (the “VRA LP/LA”) points out that “*the corporate sector may be misused for TF purposes, by channelling legitimate funds to support terrorist activities or groups*”<sup>82</sup>.

According to the VRA LP/LA, the relevance of TF to legal persons and legal arrangements consists in following issues:

- “*Potentially associated with NPOs;*
- *Donations to genuine causes may be diverted to terrorist activities or organisations under the guise of aid payment;*
- *NPOs may be misused to raise funds and to support terrorist activities”.*

However, there is limited evidence that Specialised PFS providing corporate services are misused for TF purposes, as reflected by the very low number of Terrorist Financing Suspicious Activity Reports and Terrorist Financing Suspicious Transaction Reports submitted to the CRF.

<sup>81</sup> For definitions see RUSI, *From Lone Actors to Daesh: Rethinking the response to the diverse threats of terrorist financing*, 2018.

<sup>82</sup> Ministry of Justice, *ML/TF Vertical Risk Assessment – Legal Persons and Legal Arrangements*, 2022.

Moreover, it is important to highlight that only one Specialised PFS providing corporate activities reported having two Luxembourg NPOs as direct clients. These NPOs are linked to the Luxembourg government and invested in Luxembourg and neighbouring countries. As a result, the CSSF considers the risk to be very low<sup>83</sup>.

#### 5.2.4. PF threats for Specialised PFS<sup>84</sup>

The FATF defines “proliferation of weapons of mass destruction (WMD)” as the transfer and export of nuclear, chemical, or biological weapons, their means of delivery, and related materials. This encompasses the movement and distribution of these weapons and their components, which pose a significant threat to international peace and security<sup>85</sup>.

The working definition by FATF of **proliferation financing** (“PF”) is given as “*the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations*”<sup>86</sup>.

PF has the following three main stages:

1. **Raising funds:** the origin of the funds can be from illegal activities (as for money laundering and terrorist financing) or from legal activities (as for terrorist financing).
2. **Obscuring funds:** integration of funds into the financial system by using opaque and complex ownership structures, intermediaries, false documentation, etc., with the aim to conceal the true purpose and destination of the funds. This is particularly relevant for Specialised PFS performing TCSP activities.
3. **Procurement of proliferation sensitive goods, material and technology:** using the obscured funds to procure and ship goods, technology, or materials necessary for WMD programmes. This may involve the acquisition of dual-use goods (items that have both civilian and military applications) and the organisation of complex logistics to deliver these materials to their final destination.

According to the law of 19 December 2020 regarding restrictive measures in financial matters (“2020 Law”), professionals under the supervision of the CSSF, including Specialised PFS, shall apply the restrictive measures in financial matters to the States, natural and legal persons, entities or groups as appearing on a list annexed to an act of the European Union or of the United Nations or as identified by a Grand-ducal Regulation. These acts include i.a. to comply with the United Nations Security Council Resolutions (“UNSCRs”) relating to the prevention, suppression and disruption of proliferation of WMD and its financing. Designation/listing criteria for UNSCRs are:

<sup>83</sup> See appendix C for more information on the thematic review performed in 2025 on Terrorist Financing.

<sup>84</sup> See also the CSSF website regarding the fight against proliferation financing: [International financial sanctions – CSSF](#)

<sup>85</sup> FATF, *Guidance on counter proliferation financing*, 2018.

<sup>86</sup> FATF, *Combatting proliferation finance: A status report*, 2010 ([link](#)).

- (a) persons or entities engaging in or providing support for, including through illicit means, proliferation-sensitive activities and programmes;
- (b) acting on behalf of or at the direction of designated persons or entities;
- (c) owned or controlled by designated persons or entities; and
- (d) persons or entities assisting designated persons or entities in evading sanctions or violating resolution provisions<sup>87</sup>.

In the context of this chapter, “proliferation financing risk” refers only to the potential breach, non-implementation or circumvention of relevant restrictive measures in financial matters.

Unlike ML and TF threats, PF threats can be posed in/directly by persons and entities designated pursuant to relevant resolutions of the UNSCR or the European Union (e.g. Council regulation (EU) 2018/1542 of 15 October 2018 concerning restrictive measures against the proliferation and use of chemical weapons, as amended) and the international networks they have created to disguise their activities. As a result, the financing needs and methods of designated persons and entities may not necessarily be the same as those of money launderers and terrorists<sup>88</sup>.

In the context of potential breach, non-implementation or evasion of PF related restrictive measures in financial matters, Specialised PFS should note that the financing can be sourced from both legitimate and illegitimate activities for raising funds or for obtaining foreign exchange and may not necessarily involve laundering of proceeds. Possible examples of exploitation of legitimate activities may include procuring or trading of dual-use goods or goods subject to export control or the trade in natural resources in contravention of relevant UNSCRs. As for illegitimate activities, possible examples may include smuggling of cash, gold, and other high-value goods, cyberattacks, drugs trafficking, export of arms and natural resources such as sand, etc. These activities can occur across multiple jurisdictions. Frequently, designated persons and entities use front and shell companies to conduct such businesses. Doing so is a deliberate strategy to obscure the fact that economic resources, assets, and funds are being ultimately made available to designated persons or entities.

The source of proliferation financing risks would depend upon (i) the risk of a potential breach or non-implementation of financial restrictive measures, and (ii) the risk of evasion of financial restrictive measures<sup>89</sup>.

Specialised PFS may, within the framework of their existing restrictive measures in financial matters and/or AML/CFT compliance programmes, identify, assess, monitor, manage and mitigate proliferation financing risks and are not expected to establish duplicative processes for proliferation financing risk assessment or mitigation.

The primary driver of these risks for Specialised PFS providing corporate services is that these services are deemed high risk in international guidance given they could be misused to obfuscate links between transactions and designated persons/entities. The United Nations Security Council indicated that designated persons and entities, and those persons and entities acting on their behalf have quickly adapted to financial restrictive measures and developed complex schemes to make it difficult to detect their illicit activities.

<sup>87</sup> FATF, *Guidance on counter proliferation financing*, 2018.

<sup>88</sup> FATF, *Guidance on proliferation financing risk assessment and mitigation*, 2021.

<sup>89</sup> FATF, *Guidance on proliferation financing risk assessment and mitigation*, 2021.

In Luxembourg, the Specialised PFS sector has an overall high inherent risk of breach, non-implementation or evasion of financial restrictive measures driven by its sector's large size, services and client types. The large number of smaller players increases the inherent risk.

There are, however, no known cases where Specialised PFS have been abused or misused for the purpose of PF. In terms of direct client relationships as at 31 December 2024, 12 Specialised PFS reported having a total of 31 clients dealing in dual-use goods.

It can be stressed here, with respect to dual-use goods, that the implementation of restrictive measures on commercial matters relating to these goods, laid down by the European Union, the Office du contrôle des exportations, importations et du transit (OCEIT) in the Ministry of the Economy is the competent authority. It also controls the export, transfer, transit and import of goods of a strictly civil nature, defence-related products and dual use goods, brokering and technical assistance, intangible transfers of technology of these items. While not being a competent authority for restrictive measure on financial matters, it may be necessary in case of questions relating to prohibitions linked to dual-use goods<sup>90</sup>.

There is only a low distribution risk associated with Specialised PFS. Over recent years, contact with some new clients was established through remote communication channels (telephone, email, online, video conference) which increases the potential risk for ultimate BOs to be hidden. Some Specialised PFS use third parties to enter in contact with potential clients, although KYC is still rarely outsourced other than for Specialised PFS that are part of larger groups (in which case KYC may be done centrally by those groups and regulated under their home jurisdictions, and Luxembourg AML/CFT Law, the CSSF Regulation No 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing (the "CSSF Regulation 12-02") and the Grand-ducal Regulation of 1 February 2010 providing details on certain provisions of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended (the "AML/CFT Grand-ducal Regulation") require KYC to be in any case reviewed and accepted locally by Luxembourg-based Specialised PFS).

Specialised PFS providing corporate services can be exploited by individuals or entities seeking to conceal the origins and destinations of funds, making it difficult to track transactions associated with PF. However, they **act as gatekeepers**, providing an additional level of on-going monitoring and scrutiny concerning the activities of the companies they administer. This acts as a mitigating factor when it comes to PF threat exposure.

<sup>90</sup> Ministry of Economy – Office du contrôle des exportations, importations et du transit (OCEIT) (previously Office des Licences), 19-21 Boulevard Royal L-2449 Luxembourg, email: [oceit@eco.etat.lu](mailto:oceit@eco.etat.lu)

## 6. Inherent risk – vulnerability assessment

Vulnerabilities are the intrinsic properties in a system or structure (including weaknesses in systems, controls, or measures) which make it open to abuse or exploitation by criminals for ML, TF or PF. The existence of vulnerabilities in a system makes the use of that system attractive for money launderers and terrorist financiers<sup>91</sup>.

Indeed, criminals may seek the opportunity to retain control over criminally derived assets while frustrating the ability of law enforcement to trace the origin and ownership of the assets. Companies and often trusts and other similar legal arrangements are seen by criminals as potentially useful vehicles to achieve this outcome. While shell companies<sup>92</sup> which do not have any ongoing business activities or assets, may be used for legitimate purposes such as serving as a transaction vehicle, they may also be used to conceal beneficial ownership, or enhance the perception of legitimacy. Criminals may also seek to misuse shelf companies<sup>93</sup> formed by TCSPs by seeking access to companies that have been 'sitting on the shelf' for a long time. This may be in an attempt to create the impression that the company is reputable and trading in the ordinary course because it has been in existence for many years. Shelf companies can also add to the overall complexity of entity structures, further concealing the underlying beneficial ownership information<sup>94</sup>.

Vulnerability is driven by multiple risk factors which are relevant in the TCSP industry. This section assesses the common vulnerabilities of the Specialised PFS before focusing on the relative exposure of each service relating to a TCSP activity.

The vulnerability assessment considers four main risk factors: (1) **Client risk**, (2) **Country/Geographic risk**, (3) **Product, service and transaction risk**, and (4) **Distribution/Delivery channel risk**.

For each main risk factor there are several underlying key risk factors (red flag indicators).

The summary of the vulnerability assessment (cf. Table 19) outlines the three TCSP activity classes and their respective inherent risk. It is important to note that Specialised PFS are authorised to perform one or more of these activities, as per their license. In general, Specialised PFS, when providing TCSP services, provide incorporation services, domiciliation services, directorship services and corporate secretarial services.

Table 19: Summary of vulnerability assessment

Activity class	Inherent Risk (IR)
Incorporation of companies	High
Provision of directorships and corporate secretarial services	High
Domiciliation of companies	High

<sup>91</sup> Definition of the FATF, *Global Money Laundering & Terrorist Financing threat Assessment*, July 2010.

<sup>92</sup> A shell company is an incorporated company with no independent operations, significant assets, ongoing business activities, or employees.

<sup>93</sup> A shelf company is an incorporated company with inactive shareholders, directors, and secretary, which has been left dormant for a longer period even if a customer relationship has already been established.

<sup>94</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

In the context of this sub-sector risk assessment, the vulnerability assessment was conducted at the level of each activity class. Vulnerability arises from TCSP activities offered to clients which may potentially abuse or misuse the TCSPs for ML/TF purposes. The objective of the present sub-sector risk assessment is to determine the level of ML/TF risk to which is exposed each activity class.

The vulnerability of the sector or sub-sector is mitigated by factors, which are all the elements in place that contribute to combat ML/TF. This includes all the controls and supervisory measures in place at TCSP level (e.g. supervisory and internal AML/CFT framework) to reduce ML/TF risks.

The assessment of mitigating factors is conducted in this sub-sector risk assessment at the level of each taxonomy (activity class). Mitigating factors may be distinguished with the following dimensions: (1) ML/TF risk appetite, ML/TF risk assessment and risk based approach, (2) AML/CFT supervision, (3) ongoing monitoring, and (4) procedures and trainings.

The mitigating factor assessment is used to determine specific actions and recommendations where gaps are identified.

For the three activity classes the four main risk factors are common. Moreover, the underlying key factors (red flag indicators) for each main risk factor also remain more or less the same. Consequently, the below assessment covers the three activity classes (specificities in relation to an activity class are highlighted separately, as the case may be).

## 6.1. Client risk

The client of TCSPs may be an individual who is a settlor or beneficiary of a trust, or beneficial owner of a company, or other legal entity that is, for example, trying to obscure the real beneficial owner or natural person exercising effective control of the trust, company or other legal entity. The client may also be a representative of a company's or other legal entity's senior management who are, for example, trying to obscure the ownership structure<sup>95</sup>.

Specialised PFS providing corporate services should consider amongst others the following risk factors<sup>96</sup>:

- The client is active in a high risk industry (e.g. pharmaceutical, healthcare, emerging technologies, oil and gas, arms, luxury goods, dual-use goods, etc.).
- The relationship includes PEPs or persons closely associated with or related to PEPs (e.g. beneficial owner, director).
- The services are requested in unusual circumstances (e.g. pressure from client or intermediary, tight deadlines, etc.).
- Structure of the relationship makes it difficult to identify the beneficial owner and to understand the ownership structure (e.g. use of shell and/or shelf companies, bearer shares, informal arrangements such as family or close associates acting as nominee shareholders, use of trust structures to obscure ownership, etc.).

<sup>95</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>96</sup> Non-exhaustive list - risk factors mentioned in FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019 and EBA, *Guidelines on customer due diligence and the factors that credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions*, as adopted in 2021 by Circular CSSF 21/782 and complementing circulars.

- Nature of the relationship makes it difficult to understand the business of the relationship or of the nature of their transactions (e.g. vehicles splitting company incorporation and asset administration over different countries, all without any apparent legal or legitimate tax, business, economic or other reason, use of trust structures for tax evasion, etc.).
- Unusual complexity in control or ownership structures without a clear explanation, with certain transactions, structures, geographical location, international activities or other factors which are not consistent with the Specialised PFS's understanding of the client's business or economic purpose behind the client.
- Clients reluctant to provide customer due diligence documents.
- Inexplicable changes in ownership (e.g. special attention for cases of evasion of financial restrictive measures).
- Unusually high levels of assets or unusually large transactions compared to what might reasonably be expected of clients with a similar profile (e.g. clients with low or modest income buying high value assets such as for example luxury cars, etc.).
- Payments received from unknown third parties (e.g. payments from an entity which is not a party to the transaction and/or has no relation with the client).
- Clients who have funds that are obviously and inexplicably disproportionate given the circumstances (e.g. age, income, occupation or wealth).
- Clients who avoid face-to-face meetings.
- The legal structure has been altered frequently and/or without adequate explanation (e.g. name changes, transfer of ownership, change of beneficiaries, change of trustee or protector, change of partners, change of directors or officers, etc.).
- Choice of Specialised PFS without adequate justification by the client given the size, location or specialisation of the Specialised PFS.
- Clients who request that transactions be completed in unusually tight or accelerated timeframes without a reasonable explanation for accelerating the transaction, which would make it difficult or impossible for the Specialised PFS to perform a proper risk assessment or to review the transaction documents.

Additional risk indicators in relation to PF<sup>97</sup>:

- During on-boarding, a customer provides vague or incomplete information about their proposed trading activities. Customer is reluctant to provide additional information about their activities when queried.
- During subsequent stages of due diligence, a customer, particularly a trade entity, its owners or senior managers, appear in financial restrictive measures lists or negative news, e.g. past ML schemes, fraud, other criminal activities, or ongoing or past investigations or convictions, including appearing on a list of denied persons for the purposes of export control regimes.
- The customer is a person connected with a country of proliferation or diversion concern, e.g. through business or trade relations.
- The customer is a person dealing with dual-use goods or goods subject to export control goods or complex equipment for which he/she lacks technical background, or which is incongruent with their stated line of activity.

<sup>97</sup> FATF, *Guidance on proliferation financing risk assessment and mitigation*, 2021.



- A customer engages in complex trade deals involving numerous third-party intermediaries in lines of business that do not accord with their stated business profile established at onboarding.
- A customer affiliated with a university or research institution is involved in the trading of dual-use goods or goods subject to export control.

The findings from the CSSF's off-site and on-site supervision, combined with the suspicious transaction reports submitted by Specialised PFS to the CRF, demonstrate that the above-mentioned client risk factors are relevant and appropriate and have therefore to be considered by Specialised PFS.

As at 31 December 2024, 436 beneficial owners were tax resident in a country that does not comply with international tax transparency standards. Specialised PFS reported in addition, that 3.4% of their clients have PEPs as beneficial owners and/or legal representatives. In total there were 479 beneficial owners classified as PEP.

### **6.1.1. Result of inherent client risk**

Based on the above, the inherent ML, TF and PF risks of the client factor are assessed to be *high*.

## **6.2. Country/Geographic risk**

The provision of services by Specialised PFS may be of higher risk when characteristics of such services are connected to a higher risk country. Therefore, Specialised PFS providing corporate services should consider amongst others the following risk factors<sup>98</sup>:

- The origin, or current location of the source of funds in the trust, company or other legal entity.
- The country of incorporation or establishment of the company or the trusts.
- The location of the major operations or assets of the trust, company or other legal entity.
- The country in which any of the following is a citizen or tax resident: a settlor, beneficiary, protector or other natural person exercising effective control over the trust or any beneficial owner or natural person exercising effective control over the company or other legal entity.

While there is no universally accepted definition of what constitutes a higher risk country or geographic area, Specialised PFS should exercise heightened vigilance and due diligence when dealing with certain regions. They should therefore consider the following factors<sup>99</sup>:

<sup>98</sup> Non-exhaustive list - risk factors mentioned in FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019 and EBA, *Guidelines on customer due diligence and the factors that credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions*, as adopted in 2021 by Circular CSSF 21/782 and complementing circulars.

<sup>99</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

- Countries/areas identified by credible sources<sup>100</sup> as providing funding or support for terrorist activities or that have designated terrorist organisations operating within them.
- Countries identified by credible sources as having significant levels of organised crime, corruption, or other criminal activity, including being a major source or a major transit country for illegal drugs, human trafficking, smuggling and illegal gambling.
- Countries subject to sanctions/restrictive measures, embargoes or similar measures issued by international organisations such as the United Nations, European Union, Luxembourg.
- Countries identified by credible sources as having weak governance, law enforcement, and regulatory regimes, including countries identified by FATF statements as having weak AML/CFT regimes.
- Countries identified by credible sources to be uncooperative in providing beneficial ownership information to competent authorities, a determination of which may be established from reviewing FATF mutual evaluation reports or reports by organisations that also consider various co-operation levels such as the OECD Global Forum reports on compliance with international tax transparency standards.

Clients from Specialised PFS reside predominantly within the European Union (around 93%). Less than 1% of the clients reside in a high-risk jurisdiction according to the risk ratings as made by the Specialised PFS<sup>101</sup>.

Clients' BO are predominantly residing outside the European Union (around 64%), of which 4% in high-risk jurisdictions and 0,01% in jurisdictions having active terrorist groups.

36% of the clients' BO reside within the European Union.

The next table indicates that most BOs reside in Anglo-Saxon countries, with the United Kingdom and the United States consistently occupying the top spots in the top 10 countries list over the past four years. These are followed by Luxembourg, Switzerland, Germany, France, Italy, Belgium, Spain, and Jersey. While there have been slight year-to-year fluctuations in the percentages of BOs, which occasionally affect the rankings, the overall distribution has remained largely unchanged.

<sup>100</sup> "Credible sources" refers to information that is produced by reputable and universally recognised international organisations and other bodies that make such information publicly and widely available. In addition to the FATF and FATF-style regional bodies, such sources may include, but are not limited to, supra-national or international bodies such as the International Monetary Fund, the World Bank and the Egmont Group of Financial Intelligence Units.

<sup>101</sup> CSSF internal data.

Table 20: Top 10 countries of residence of BOs in 2021, 2022, 2023 and 2024<sup>102</sup>

2021	2022	2023	2024
United Kingdom (17%)	United Kingdom (17%)	United Kingdom (18%)	United Kingdom (16%)
USA (15%)	USA (13%)	USA (11%)	USA (14%)
Switzerland (7%)	Luxembourg (12%)	Luxembourg (10%)	Switzerland (10%)
Luxembourg (7%)	Switzerland (8%)	Switzerland (10%)	Germany (7%)
Germany (6%)	Germany (6%)	Germany (6%)	France (5%)
France (5%)	France (6%)	France (5%)	Luxembourg (5%)
Italy (3%)	Italy (3%)	Italy (4%)	Italy (4%)
Belgium (3%)	Belgium (3%)	Jersey (3%)	Jersey (3%)
Spain (2%)	Spain (2%)	Belgium (3%)	Belgium (2%)
Jersey (2%)	Jersey (2%)	Spain (2%)	Spain (2%)

Country risk should also be considered regarding the country of residence of the business providers. In this context, it can be noted that in 2024 a vast majority of the business providers were established in Luxembourg followed by far by the USA, Germany, United Kingdom and Switzerland.

Table 21: Top 5 countries of residence/establishment of business providers 2024<sup>103</sup>

<b>Country</b>	<b>Percentage of business providers</b>
Luxembourg	66%
USA	8%
Germany	5%
United Kingdom	5%
Switzerland	4%

Exposure to an international clientele remains a significant vulnerability to ML<sup>104</sup> and TF. However, it is to be noted that Specialised PFS exposure to jurisdictions linked to TF is *low*<sup>105</sup>.

According to the annual AML/CFT questionnaires of the past years, no Specialised PFS had or has a client or a beneficial owner resident in DPRK or Iran.

<sup>102</sup> Data on BOs as per Article 1(7)(a)(i) of the AML/CFT Law (senior managing officials are excluded).

<sup>103</sup> CSSF internal data.

<sup>104</sup> 2025 NRA.

<sup>105</sup> Based on CSSF internal data.

### 6.2.1. Result of inherent country/geographic risk

Based on the above, the ML inherent risk of the country/geographic factor is considered to be *medium*, while the inherent TF and PF risks are *low*.

### 6.3. Product, service and transaction risk

Specialised PFS providing corporate services should consider the following risk factors associated with their products, services or transactions<sup>106</sup>:

- Level of transparency, or opaqueness of the product, service or transaction.
- Complexity of the product, service or transaction.
- Value or size of the product, service or transaction.
- How complex is the transaction, and does it involve multiple parties or multiple jurisdictions? Are transactions straightforward?
- To what extent do products or services allow payments from third parties or accept overpayments where this would not normally be expected? Where third-party payments are expected, does the Specialised PFS know the third-party's identity? Or are products and services funded exclusively by fund transfers from the customer's own account at another financial institution that is subject to AML/CFT standards and oversight that are comparable to those required in Luxembourg?
- Does the Specialised PFS understand the risks associated with new or innovative products or services, in particular where these involve the use of new technologies?
- Use of virtual assets and other anonymous means of payment and wealth transfer within the transaction without apparent legal, tax, business, economic or other legitimate reason.
- Transactions using unusual means of payment.
- The postponement of a payment for an asset or service delivered immediately to a date far from the moment at which payment would normally be expected to occur, without appropriate assurances that the payment will be made.
- Successive capital or other contributions in a short period of time to the same company with no apparent legal, tax, business, economic or other legitimate reason.
- Acquisitions of businesses in liquidation with no apparent legal, tax, business, economic or other legitimate reason.
- Repayment of debts during bankruptcy proceedings using forged documents, which may indicate an attempt to conceal illicit funds or manipulate the insolvency process.
- Transactions involve possible companies with opaque ownership structures, front companies, or shell companies, e.g. companies do not have a high level of capitalisation or display other shell company indicators.
- Companies remaining dormant for long periods of followed by a surge of activity.
- Companies conducting financial transactions in a circuitous manner.

<sup>106</sup> Non-exhaustive list - risk factors mentioned in EBA, *Guidelines on customer due diligence and the factors that credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions under Articles 17 and 18(4) of Directive (EU) 2015/849*, as adopted in 2021 by Circular CSSF 21/782 and complementing circulars, FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019, and FATF, *Guidance on proliferation financing risk assessment and mitigation*, 2021.

- Transactions where the originator or beneficiary of associated financial institutions is domiciled in a country with weak implementation of relevant UNSCR obligations and FATF Standards or a weak export control regime.

Maritime risk indicators:

- A trade entity is registered at an address that is likely to be a mass registration address, e.g. high-density residential buildings, post-box addresses, commercial buildings or industrial complexes, especially when there is no reference to a specific unit.
- The destination of a shipment is different from the importer's location.
- Inconsistencies are identified across contracts, invoices, or other trade documents, e.g. contradictions between the name of the exporting entity and the name of the recipient of the payment; differing prices on invoices and underlying contracts; or discrepancies between the quantity, quality, volume, or value of the actual commodities and their descriptions.
- Shipment of goods have a low declared value vis-à-vis the shipping cost.
- Shipment of goods incompatible with the technical level of the country to which it is being shipped, e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry.
- Shipment of goods is made in a circuitous fashion (if information is available), including multiple destinations with no apparent business or commercial purpose, indications of frequent flags hopping, or using a small or old fleet.
- Shipment of goods is inconsistent with normal geographic trade patterns, e.g. the destination country does not normally export or import the goods listed in trade transaction documents.
- Shipment of goods is routed through a country with weak implementation of relevant UNSCR obligations and FATF Standards, export control laws or weak enforcement of export control laws.
- Payment for imported commodities is made by an entity other than the consignee of the commodities with no clear economic reasons, e.g. by a shell or front company not involved in the trade transaction.

Trade Finance risk indicators:

- Prior to account approval, customer requests letter of credit for trade transaction for shipment of dual-use goods or goods subject to export control.
- Lack of full information or inconsistencies are identified in trade documents and financial flows, such as names, companies, addresses, final destination, etc.
- Transactions include wire instructions or payment details from or due to parties not identified on the original letter of credit or other documentation.

### **6.3.1. Product and services**

#### **6.3.1.1. Incorporation of companies**

The incorporation of companies and/or the signing of a contract for legal arrangements require the registration of the legal entity in the "*Registre de Commerce et des Sociétés*" (RCS). The beneficial owners of legal entities must be recorded in the "*Registre des Bénéficiaire Effectifs*" (RBE) and of

legal arrangements in the “*Registre des Fiducies et des Trusts*” (RFT). As stated before, Specialised PFS mainly service legal entities. It is worthwhile noting that it is not a requirement that a Specialised PFS is directly involved in a legal entity’s incorporation. The nature of ML/TF risks relating to the provision of this service is high because a criminal may abuse or misuse this service to set up a complex network of structures that permits the concealment of their identity and the source of the funds<sup>107,108</sup>.

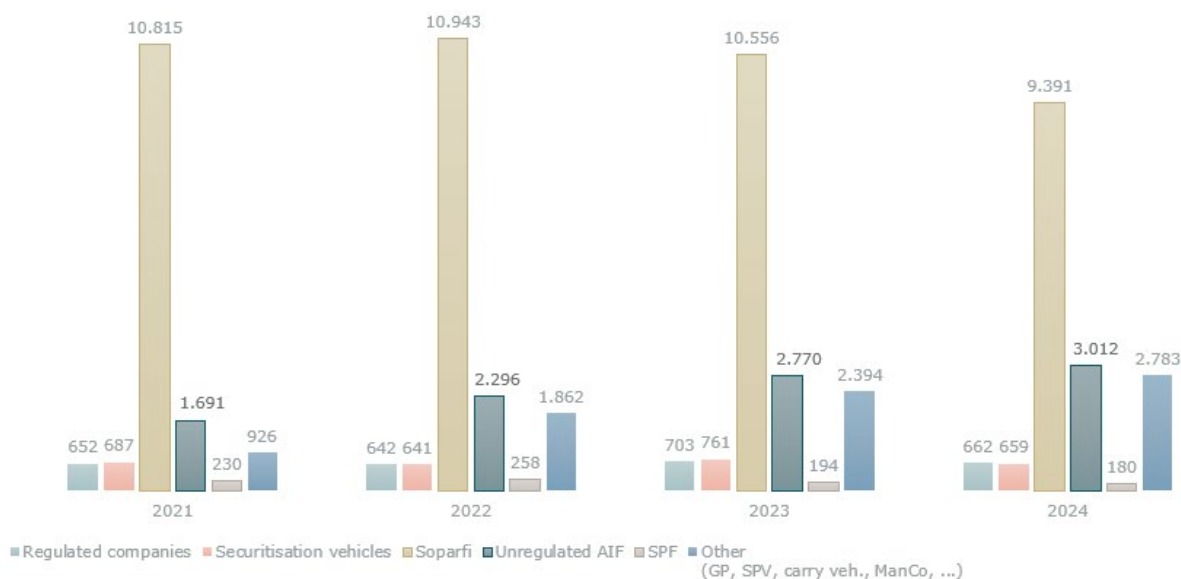
In 2024, 43 Specialised PFS provided this service.

### 6.3.1.2. Domiciliation of companies

Specialised PFS provide domiciliation services mainly to companies which are not regulated (cf. Table 22). In general, the domiciliation of vehicles in the form of regulated legal entities has a lower associated ML/TF risk which can be explained by the market entry controls performed by the supervisory authorities<sup>109</sup>.

In addition, companies domiciled by Specialised PFS are predominantly commercial companies. These companies fall under the law of 10 August 1915 on commercial companies, as amended, whereas legal arrangements such as trusts are governed by a contract. Commercial companies have a medium residual ML/TF risk<sup>110</sup>.

Table 22: Categorisation of companies domiciled by Specialised PFS<sup>111</sup>



<sup>107</sup> FATF, *Money Laundering using TCSPs*, 2010.

<sup>108</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, 2018.

<sup>109</sup> For regulated entities under the prudential supervision of the CSSF, such as funds, please refer to the sub-sector risk assessment of the collective investment sector.

<sup>110</sup> Ministry of Finance, *ML/TF VRA Legal persons and legal arrangements*, 2022.

<sup>111</sup> CSSF internal data.

In 2024, around 81% of the companies domiciled by Specialised PFS are non-supervised by the CSSF<sup>112</sup>. Out of these 81%, we note however that 8% are owned directly by funds supervised by the CSSF.

Table 23: Categorisation of companies domiciled by Specialised PFS<sup>113</sup> in terms of supervised and non-supervised

		Number in 2021	Number in 2022	Number in 2023	Number in 2024
<b>Supervised by the CSSF</b>	<b>UCITS, SICAR, SIF, securitisation vehicles, ...</b>	652	642	703	662
	<b>SOPARFI</b>	10,815	10,943	10,556	9,391
<b>Non- supervised by the CSSF</b>	<b>RAIF/AIF</b>	2,305	3,149	3,780	4,206
	<b>Securitisation vehicles</b>	518	564	659	659
	<b>Société de gestion de Patrimoine Familial</b>	230	258	194	180
	<b>Others</b> <i>(GP, SPV, carry vehicle, registered ManCo, etc.)</i>	926	1,862	2,394	2,783

There is a continuous increase over the years in the number of RAIF/AIF and in the category "Other". The latter increase is directly linked to the increase in the number of Funds as the category "Other" is mostly composed of general partners, limited partners and special purpose vehicles which are part of the Funds structures. The numbers for UCITS part I, UCI part II, SIF, SICAR, Securitisation Vehicle, SPF and SOPARFI have been fluctuating over the years.

ML/TF risks relating to the provision of domiciliation services are higher, because a criminal may abuse or misuse these services to set up a complex network of structures that permits the concealment of their identity and of the source of the funds. Moreover, Specialised PFS which do offer domiciliation services without providing directorship services for the same company might not be informed of transactions or changes relating to the company, making it therefore easier to launder money. However, many Specialised PFS providing domiciliation services also insist on providing directorship services which enables them to have a better control and be able to detect and report suspicious activities without delay (cf. Table 5).

In addition, the Law of 31 May 1999 governing the domiciliation of companies prohibits the provision of a registered seat on a standalone basis (without providing other services); the professional is

<sup>112</sup> CSSF internal data.

<sup>113</sup> CSSF internal data.

required to provide certain services associated with the provision of a seat<sup>114</sup>, e.g. directorship services, accounting services, corporate secretarial services, etc.

In 2024, 73 Specialised PFS provided this service.

### **6.3.1.3. Provision of directorship and secretarial services**

Specialised PFS can be abused when assisting clients in managing structures, helping clients to navigate through complex fiscal and local reporting requirements. Indeed, the director provided by the Specialised PFS will often be considered as the originator or approver of decisions and actions conducted as only his name will appear. This may potentially “conceal” the identity of the beneficial owner given that his name will not appear on the instruction.

However, there are also often cases where the beneficial owner is appointed as a director in addition to the one provided by the Specialised PFS. In practice, in those cases the Specialised PFS requires the set-up of class A and B signatures to be able to countersign all decisions taken by the structure.

Nevertheless, there are still cases, mostly in small size Specialised PFS, where no signature classes have been set-up and where the beneficial owner has sole signatory power. The latter can bind the vehicle with its sole signature without the involvement of the director provided by the Specialised PFS, which increases the exposure to ML/TF risk.

On the other hand, when managing these structures, the directors provided by the Specialised PFS become personally liable for the decisions and actions, which are sometimes the execution of the advice previously provided by legal/tax advisors. Therefore, they must ensure that they apply a critical mind-set and an appropriate level of controls over actions and transactions they are approving, which reduces the level of exposure to ML/TF risk.

Moreover, the directorship services enable the Specialised PFS to be aware of all the transactions of the structure (by participating to board meetings and signing documents). It should, however, be noted that the level of exposure to ML/TF risk may only be reduced where the number of mandates per director remains limited.

Corporate secretarial services are typically less vulnerable to ML/TF because they generally involve the execution of activities that have no or very limited overlap with actions which are typically carried out with the purpose of laundering illicit funds (e.g. international transactions). Clients remain responsible over decisions and actions executed by the structure. As such, clients or their beneficial owners will be recorded as the originator or approver of decisions, hence limiting the opportunities to conceal their identity. Therefore, the potential for administration services to be abused or misused for ML/TF purposes is limited compared to domiciliation and directorship services. Nevertheless, there may be instances which present a higher risk, such as the use of administrative services to give substance to the company to be eligible for Luxembourg tax regime.

Over the past years, it has been noted that more and more clients are asking for administrative services to provide additional substance to the vehicles. Clients often need guidance and assistance from the Specialised PFS for the fulfilment of these administrative tasks such as corporate secretarial matters.

<sup>114</sup> Law of 31 May 1999, Article 2(1)a).



In 2024, 67 Specialised PFS provided directorship services and 64 provided secretarial services.

### 6.3.2. Transactions

Clients of Specialised PFS carry out transactions in a various range of sectors. As at 31 December 2024, a vast majority of Specialised PFS reported that their clients invest directly or indirectly in Real Estate, Private Equity<sup>115</sup>, Debts<sup>116</sup> and Infrastructure<sup>117</sup>. Some Specialised PFS reported servicing clients investing in the maritime/shipping sector and in dual-use goods.

The next table provides more granularity on investments made in different sectors.

Table 24: Investments performed by clients of Specialised PFS (in numbers and percentage)

Investments in	Number and percentage of reporting Specialised PFS	Number and percentage of clients
<b>Private Equity</b>	72 (86%)	10.750 (34%)
<b>Real Estate</b>	72 (86%)	7.990 (25%)
<b>Debts</b>	66 (79%)	4.328 (14%)
<b>Infrastructure</b>	44 (52%)	1.769 (6%)
<b>Pharmaceutical</b>	35 (42%)	541 (2%)
<b>Maritime/shipping</b>	24 (29%)	212 (1%)
<b>High Value Assets<sup>118</sup></b>	24 (29%)	89 (0,3%)
<b>Sport Sector<sup>119</sup></b>	20 (23%)	83 (0,3%)
<b>Arm Trade and Defence</b>	18 (21%)	76 (0,2%)
<b>Virtual Assets</b>	15 (18%)	42 (0,1%)
<b>Virtual Currency business</b>	15 (18%)	32 (0,1%)
<b>Dual-use Items</b>	11 (13%)	30 (0,1%)
<b>Import - Export<sup>120</sup></b>	21 (25%)	84 (0,3%)

<sup>115</sup> Private equity are capital investments made in companies that are not publicly traded.

<sup>116</sup> For example corporate and government bonds, corporate debt securities, and money market instruments.

<sup>117</sup> For example roads, airports, ports, oil and gas lines and renewable energy plants such as wind and solar plants, as well as public utilities such as waterworks, power companies and waste disposal companies.

<sup>118</sup> For example cars, jewellery, watches, luxury boats, precious metals and precious stones, artefacts and antiquities arts, antiquities.

<sup>119</sup> For example betting, image rights, sponsorship and advertising arrangements.

<sup>120</sup> For example raw materials, timber, fisheries.

Considering the above-mentioned investment sectors and the potential exposure to risks of corruption of several of them (e.g. defense procurement, pharmaceutical sector or infrastructure contracting), Specialised PFS should take into consideration their exposure to the risk of laundering the proceeds of both active and passive corruption in that regard.

### **6.3.3. Result of inherent products, services or transactions risks**

Based on the above, the inherent ML risk of the products, services or transactions factors is considered to be *high*, while the inherent TF and PF risks are *medium*.

## **6.4. Distribution/Delivery channel risk**

The distribution/delivery channel describes the various ways in which a Specialised PFS finds new clients including communication channels. This factor affects ML/TF inherent risks in a consistent way across all Specialised PFS activities because Specialised PFS usually offer several services to the same client. Therefore, there is no specific distribution channel which could be associated to each activity class.

When assessing the risks associated with how clients obtain products or services, Specialised PFS should consider risks and factors such as<sup>121</sup>:

- Whether the customer is physically present for identification purposes. If not, whether the Specialised PFS used a reliable form of non-face-to-face customer due diligence (“CDD”) and takes steps to prevent impersonation or identity fraud. The extent to which the business relationship is generally conducted on a non-face-to-face basis.
- Any introducers or intermediaries the Specialised PFS might use and the nature of their relationship with the client.
- Whether the customer has been introduced by another part of the same financial group and, if so, to what extent the Specialised PFS can rely on this introduction as reassurance that the customer will not expose the firm to excessive ML/TF risk, and what the Specialised PFS has done to satisfy itself that the group entity applies CDD measures considered to be equivalent to Luxembourg AML/CFT standards.
- Whether the customer has been introduced by a third party, for example a bank or entity that is not part of the same group or an intermediary, and if so:
  - whether the third party is a regulated person subject to AML obligations that are considered to be equivalent to Luxembourg AML/CFT standards, and whether the third party is a financial institution, or its main business activity is unrelated to financial service provision;
  - whether the third party applies CDD measures, keeps records to Luxembourg standards, is supervised for compliance with obligations considered to be equivalent

<sup>121</sup> Non-exhaustive list - risk factors mentioned in EBA, *Guidelines on customer due diligence and the factors that credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions under Articles 17 and 18(4) of Directive (EU) 2015/849*, 2021 as adopted in 2021 by Circular CSSF 21/782 and complementing circulars.

to Luxembourg AML/CFT standards, and whether there are any indications that the third party's level of compliance with applicable AML/CFT legislation or regulation is inadequate, for example whether the third party has been sanctioned for breaches of AML/CFT obligations;

- whether they are based in a jurisdiction associated with higher ML/TF risk. Where a third party is based in a high risk third country that the EU Commission has identified as having strategic deficiencies, firms must not rely on that third party. However, to the extent permitted by national legislation, reliance may be possible provided that the intermediary is a branch or majority-owned subsidiary of another firm established in the European Union, and the firm is confident that the intermediary fully complies with group-wide policies and procedures in line with Article 45 of Directive (EU) 2015/849.
- what the Specialised PFS has done to satisfy itself that:
  - the third party always provides the necessary identity documentation;
  - the third party will provide, immediately upon request, relevant copies of identification and verification data or electronic data referred to, inter alia, in Article 27 of Directive (EU) 2015/849;
  - the quality of the third party's CDD measures is such that it can be relied upon; and
  - the level of CDD applied by the third party is commensurate to the ML/TF risk associated with the business relationship, considering that the third party will have applied CDD measures for its own purposes and, potentially, in a different context.
- Whether independent or tied agents are used, to what extent they are involved on an ongoing basis in the conduct of business, and how this affects the firm's knowledge of the customer and ongoing risk management.

Based on the consolidated data from the CSSF annual questionnaires on Financial Crime of the past years (the "Questionnaires on Financial Crime"), it is noted that services can be either offered face-to-face in a meeting with the BO or with the representative of the client, or non-face-to-face. A vast majority of Specialised PFS in all activity classes have declared that their procedures are covering customer due diligence for entering into business relationship on a non-face-to-face basis.

Sometimes professionals use third-party introduction. The use of third parties may increase exposure to ML/TF risk in distribution channels, as third parties may conduct introduction of clients to Specialised PFS through remote channels. Indeed, non-face-to-face business can increase the difficulty for Specialised PFS to accurately verify the identity of clients and their BOs.

It should however be noted that reliance on third parties for CDD purposes is limited in Luxembourg to third parties fulfilling specific conditions<sup>122</sup>. In practice, the CSSF notes that third-party introducers are companies belonging to the same group as the Specialised PFS and that the latter has access to information held by the group on the shared client.

<sup>122</sup> The AML/CFT Law, Article 3-3.

#### **6.4.1. 6.4.1.Result of inherent distribution/delivery channel risk**

Based on the above, the inherent ML risk of the distribution/delivery channel factor is assessed to be *medium*, while the inherent TF and PF risks are *low*.

#### **6.5. Overall inherent risk**

Off-site and on-site supervision, and the suspicious transaction reports submitted by Specialised PFS to the CRF confirm the existence of the before-mentioned risk factors are adequate and relevant.

Given the above, the overall inherent ML risk is *high* which is in line with the 2025 NRA and the VRA Legal Persons and Legal Arrangements.

The overall inherent TF risk is *medium* which is in line with the VRA TF.

The overall inherent PF risk is *medium*.

## 7. Mitigating factors and residual risk assessment

This section identifies and assesses the mitigating measures in place, both at supervisory and control levels, to reduce ML/TF inherent risk. These are grouped into four main areas: (1) **ML/TF risk appetite, ML/TF risk assessment and risk-based approach**; (2) **AML/CFT supervision**; (3) **ongoing monitoring**, and (4) **procedures and trainings**.

In addition, it is to be noted that Specialised PFS look to provide the full scope of services and in general they provide indeed more than one service which allows them to have a more holistic view of their clients.

### 7.1. Risk mitigation by Specialised PFS

Risk mitigation factors are similar for all activity classes since the same processes and systems apply for all activity classes. As a result, mitigation factors are presented in a general way in the present sub-sector risk assessment.

#### 7.1.1. ML/TF risk appetite, risk self-assessment and risk-based approach

Specialised PFS are required to define their ML/TF risk appetite in a written statement which is approved by the board of directors (or equivalent body) and implemented by the authorised management. This statement must be communicated to all staff in a precise, clear, and comprehensive form. The answers provided by Specialised PFS in the Questionnaires on Financial Crime show that Specialised PFS have a defined ML/TF risk appetite.

Specialised PFS are required to take all necessary steps to **identify, assess and understand their ML/TF risks**. For example, this includes risk assessments for customers, countries, products, services, distribution channels and the degree of complexity and transparency of the control structure of the vehicle to be implemented. The risk assessment should then drive the application of the professional's risk-based approach to AML/CFT.

The review of the AML/CFT risk self-assessments for the Specialised PFS over the last five years shows that the quality of the AML/CFT risk self-assessments has significantly improved. This improvement is also the result of the awareness raising by the CSSF (e.g. through guidance, welcome visits, face-to-face meetings, on-site inspections, conferences, etc.).

Specialised PFS are required to implement a risk-based approach and to apply control measures in relation to customer due diligence (CDD) at on-boarding, as well as throughout the life of the business relationship.

The risk-based approach implemented by a Specialised PFS is monitored by the CSSF on a continuous basis, notably through the Questionnaires on Financial Crime, through the ongoing off-site supervisory measures, including the review of the annual closing documents (i.e. external audit report, internal audit report, RC report, Compliance report (if applicable)). In addition, the risk-based approach is also analysed during on-site inspections.

Based on these supervisory measures, the CSSF concludes that the Specialised PFS have implemented a risk-based approach which covers the different key risk factors.

### **7.1.2. Customer due diligence and ongoing monitoring**

When customers are on-boarded, Specialised PFS are required to complete a **due diligence process**, including the assessment of ML/TF risk. This involves identifying the customer and verifying the identity by using reliable, independent source documents and data. It also involves identifying the beneficial owner and obtaining information on the purpose and intended nature of the business relationship. This process entails screening against PEP, sanctions lists and other information lists (e.g. using open-source database from a professional data provider).

Where ML/TF risks are higher, an **enhanced due diligence (EDD)** will need to be performed. Situations bearing a higher risk include, but are not limited to, business relationships and transactions with natural and legal persons from higher risk countries (e.g. as identified by FATF) and with PEPs. In certain circumstances, senior management approval may be required before establishing such business relationships whereas in the above-mentioned cases (PEP and high-risk countries) it is compulsory. According to the annual Questionnaire on Financial Crime, all Specialised PFS have a client acceptance policy based on a risk-based approach and different levels of internal authorisation in place.

In addition to CDD at on-boarding, Specialised PFS are required to conduct **ongoing due diligence** on the business relationship **and transaction monitoring**. This includes ensuring that documentation and data collected during CDD is kept up to date, as well as conducting periodic due diligence on existing client relationships based on materiality and risk (e.g. re-screening new/changed client data against sanctions, PEP and other high-risk lists during periodic and event driven reviews).

In addition, on an ongoing basis, Specialised PFS are required to **scrutinize the transactions undertaken by clients** to verify that they are consistent with their knowledge of the customer, the business and risk profile, and source of funds. These activities include checks against sanction, PEP, and other information lists as well as transaction monitoring (identifying potentially suspicious activities, behaviours, and transactions).

Specialised PFS have defined AML/CFT policies and procedures detailing the approach as regards customer due diligence and ongoing monitoring of the business relationship. Generally, the CSSF considers that the quality of the customer due diligence is good. However, based notably on weaknesses detected in the context of on-site inspections, the CSSF also considers that professionals should further improve the quality of the customer due diligence by obtaining a more holistic view of all the factors linked to a client relationship.

In addition, Specialised PFS have declared that they always identify and take reasonable measures to verify the identity of the Beneficial Owners for structures (legal persons, legal arrangements), including for structures whose ownership and control structure is complex or opaque (several layers) or involves bearer shares.

According to CSSF information, all Specialised PFS confirm that they have a transaction monitoring in place. While only a minority has automated systems in place regarding unusual transactions or patterns of activities/client transactional profile, a vast majority uses automated systems regarding the identification of PEPs and/or persons and states/countries mentioned in Targeted Financial Sanctions lists.

Specialised PFS are also required to maintain all necessary records on transactions, as well as records obtained through CDD measures, account files and business correspondence, and the results of any analysis undertaken.

All Specialised PFS have confirmed that they have implemented the necessary measures to comply with the automatic exchange of tax information and anti-money laundering in tax matters (according to Circular CSSF 15/609 on Developments in automatic exchange of tax information and anti-money laundering in tax matters and Circular CSSF 17/650 regarding the application of the AML/CFT Law and of the Grand-ducal Regulation of 1 February 2010 providing details on certain provisions of the AML/CFT Law to predicate tax offences, as amended by Circular CSSF 20/744).

### **7.1.3. Procedures and trainings**

TCSPs are obliged to develop internal policies, procedures and controls, including appropriate compliance management arrangements, and adequate screening procedures to ensure high standards when hiring employees. TCSPs must also develop an ongoing employee training programme which considers the complexity of their clients and their operations<sup>123</sup>.

At market entry, the Specialised PFS department reviews all AML/CFT procedures. Ongoing supervision of these procedures is done through the annual Questionnaire on Financial Crime, through off-site supervision and through on-site inspections.

TCSPs must periodically provide their employees with appropriate AML/CFT training. In ensuring compliance with this requirement, TCSPs take account of any AML/CFT training for new starters and continuing professional development requirements for their professional staff.

The overall risk-based approach and the various methods available for training and education give TCSPs flexibility regarding the frequency, delivery mechanisms and focus of such training, bearing in mind that AML/CFT training should occur on a regular basis. TCSPs implement training programmes that provide appropriate AML/CFT information that is:

- a) tailored to the relevant staff's job description and responsibility (e.g. client contact, administration);
- b) at the appropriate level of detail (e.g. considering the nature of services provided by the TCSP);
- c) at a frequency suitable to the risk level of the type of work undertaken by the TCSP; and

<sup>123</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

d) used to test to assess staff knowledge of the information provided<sup>124</sup>.

According to CSSF information, Specialised PFS have in place ongoing employee training and awareness-raising programmes to ensure staff understands ML/TF risks and AML/CFT obligations.

Specialised PFS in all activity classes confirm that they have trained their first and second lines of defence and the senior management and board members on AML/CFT matters.

#### **7.1.4. Internal controls and governance**

Strong leadership and engagement by senior management and the board of directors (or equivalent body) in AML/CFT is an important aspect of the application of the risk-based approach. Senior management must create a culture of compliance, ensuring that staff adheres to the firm's policies, procedures and processes designed to limit and control risks<sup>125</sup>.

The CSSF raises awareness on a continuous basis among senior management to create and foster the above-mentioned compliance culture. Awareness raising is performed notably during welcome visits, face-to-face meetings, on-site inspections and conferences.

Specialised PFS have appointed a person responsible for compliance with the professional obligations ("RR") and a compliance officer in charge of the control of compliance with the professional obligations ("RC") as well as internal and external auditors.

Based on the CSSF's assessment of the compliance internal controls (such as implementation of policies and procedures, regular review of these procedures, appropriate training for the staff, risk management systems to determine whether a client, potential client, or beneficial owner is a PEP or a person subject to applicable financial sanctions, etc.), the CSSF considers that the overall level of the compliance culture is satisfactory.

However, based on the results of off-site supervision and on-site inspections, the CSSF considers that there is still room for improvement in relation to the cooperation with authorities, hiring of sufficient AML/CFT staff as well as the continuity of staff.

### **7.2. Risk mitigation by the CSSF**

The mitigating factors employed by the CSSF are grouped into four main factors, each of which is described below: (1) **Understanding ML/TF risks**; (2) **Market entry process**; (3) **Off- and on-site supervision**; and (4) **Enforcement rules**.

#### **7.2.1. Understanding of ML/TF risks**

Supervisors should communicate their regulatory expectations. This guidance may be in the form of high-level requirements based on desired outcomes, risk-based rules, and information about how supervisors interpret relevant legislation or regulation, or more detailed guidance about how

<sup>124</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>125</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.



particular AML/CFT controls are best applied. Guidance issued to TCSPs should also discuss ML/TF risk within their sector and outline ML/TF indicators and methods of risk assessment to help them identify suspicious transactions and activity<sup>126</sup>.

The CSSF promotes an understanding of ML/TF risks and AML/CFT obligations through multiple channels. These channels include publication of guidance, Circulars CSSF, public conferences, and feedback to supervised professionals. For instance, since 2019, a conference dedicated to Specialised PFS to discuss AML/CFT topics takes place on an annual basis. Moreover, in October 2022, the CSSF implemented a private-public partnership dedicated to Specialised PFS.

The CSSF also performs a risk assessment on all Specialised PFS. This includes a risk assessment based on findings by internal and external control functions, existence of policies, controls and procedures, provision of ongoing employee training and awareness-raising programmes to ensure staff understand ML/TF risks, AML/CFT obligations and the obligation to cooperate with authorities.

According to the FATF, supervisors should consider communicating with other relevant domestic supervisory authorities to secure a coherent interpretation of the legal obligations and to minimise disparities across sectors (such as legal professionals, accountants and TCSPs)<sup>127</sup>. In that context, the Specialised PFS department meets on an annual basis with the organisation of public accountants (OEC), the Luxembourg Bar Association (lawyers) and AED (tax administration) to discuss new typologies as regards TCSPs, to exchange on new supervisory expectations, to discuss case studies and to share supervisory experiences.

### **7.2.2. Market entry process**

The CSSF operates AML/CFT market entry controls at the instruction of a Specialised PFS, (including a licensing process) and at any subsequent change within the ownership structure. These controls are designed to ensure that criminals and their associates are prevented from holding or being the beneficial owner of a significant or controlling interest in a supervised entity, and from holding a management function. Fit and proper checks are carried out on the management and ownership structure of the Specialised PFS at the time of instruction of the application file and during the lifetime of the Specialised PFS. The CSSF also reviews the AML/CFT policies and procedures of the professional during the market entry process.

### **7.2.3. Off- and on-site supervision**

The CSSF adopts a risk-based approach to the supervision of compliance with AML/CFT obligations. This is achieved through both off-site and on-site activities.

Off-site supervisory activities include:

- Welcome visits at the Specialised PFS within the first year of the issuance of the Specialised PFS licence.

<sup>126</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>127</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

- Ongoing desk-based review of AML/CFT relevant information and documentation (such as for example the review of the closing documents of the Specialised PFS).
- Regular interactions with the professional, including face-to-face meetings and/or calls performed on a risk basis.
- An annual Questionnaire on Financial Crime with specific questions depending on the activities of the Specialised PFS to collect additional information.
- Dedicated questionnaires on specific relevant ML/TF-related topics, such as depository of bearer shares<sup>128</sup>, shelf companies<sup>129</sup>, terrorist financing<sup>130</sup>, risk appetite statements, etc.

The on-site inspection department has performed in the past four years over 35 AML/CFT on-site inspections which were either full scope, targeted or thematic inspections.

The CSSF has significantly increased its AML/CFT staff number in the Specialised PFS department, from 1.5 FTE in 2019 to 5 FTE in 2024.

#### **7.2.4. Enforcement rules**

Both the off-site and on-site supervision departments can trigger remediation and enforcement and have at their disposal a wide range of supervisory tools. Enforcement follows the “*Procédure Administrative Non-Contentieuse (PANC)*” process<sup>131</sup>.

The CSSF sanctioning powers were further strengthened and broadened in February 2018 and March 2020, enhancing CSSF’s ability to verify compliance with AML/CFT obligations.

In addition, the CSSF would like to remind that pursuant to the AML/CFT Law, the CSSF is required to systematically publish administrative sanctions, unless the disclosure would seriously jeopardise the financial markets, an ongoing investigation or cause disproportionate damage to the parties involved<sup>132</sup>.

Moreover, in order to provide professionals with additional guidance and information with regard to requirements and supervisory expectations, and in line with the same Article 8-6 (1) of the AML/CFT Law, these publications contain details on the type and nature of the breaches identified.

<sup>128</sup> See appendix A for the thematic review performed in 2021 and 2022 on depositories of bearer shares in accordance with Article 430-6 of the law of 10 August 1915 on commercial companies (as amended).

<sup>129</sup> See appendix B for the thematic review performed in 2024.

<sup>130</sup> See appendix C for the thematic review performed in 2025.

<sup>131</sup> Law of 1 December 1978, Grand Ducal Regulation of 8 June 1979.

<sup>132</sup> The AML/CFT Law, Article 8-6.

### 7.3. Overall residual risk assessment

The next tables summarise the residual risk of **each class**<sup>133</sup>.

Table 25: Summary of mitigating measures – residual ML risk assessment

Element	Inherent Risk (IR)	Mitigation	Residual Risk (RR)
Incorporation of companies	High	Significant	Medium
Provision of directorships and secretarial services	High	Significant	Medium
Domiciliation of companies	High	Significant	Medium

The residual ML risk remains *medium* within Specialised PFS providing incorporation of companies, directorship and secretarial, or domiciliation services.

Table 26: Summary of mitigating measures – residual TF risk assessment

Element	Inherent Risk (IR)	Mitigation	Residual Risk (RR)
Incorporation of companies	Medium	Significant	Low
Provision of directorships and secretarial services	Medium	Significant	Low
Domiciliation of companies	Medium	Significant	Low

The residual TF risk is rated as *low* which is in line with the VRA TF.

Table 27: Summary of mitigating measures – residual PF risk assessment

Element	Inherent Risk (IR)	Mitigation	Residual Risk (RR)
Incorporation of companies	Medium	Significant	Low
Provision of directorships and secretarial services	Medium	Significant	Low
Domiciliation of companies	Medium	Significant	Low

The residual PF risk is rated as *low*.

<sup>133</sup> The level of residual risk is determined by reducing the level of inherent risk by the level of mitigating factors.

## 8. Most frequent off- and on-site findings

The CSSF hereby shares the **most frequent on-site inspection and off-site supervision findings** for the Specialised PFS providing corporate services (TCSP activities):

Item	Description
<b>Bad practices</b>	<ul style="list-style-type: none"><li>• ML/FT risk appetite statement not sufficiently elaborated.</li><li>• Risk self-assessments too general, lacking entity-specific details and under-estimating the level of inherent and residual ML/TF risks.</li><li>• Incomplete documentation/information on the origin of funds, source of wealth, the identity of legal persons and beneficial owners, as well as powers of attorney holders.</li><li>• No assessment and/or understanding of the purpose and intended nature of the relationship.</li><li>• Insufficient understanding and scrutiny of transactions undertaken throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the professionals' knowledge of the customer, the business and risk profile, including, where necessary, the source of funds and ensuring that the documents, data or information held are kept up to date.</li><li>• AML/CFT trainings not tailor-made to activities performed by the Specialised PFS, not providing red flags nor case studies, not providing information on new developments, techniques, methods and trends in ML/TF.</li><li>• Incomplete client database.</li><li>• Delays in treatment of hits related to PEPs and Targeted Financial Sanctions.</li><li>• No controls in relation to the functioning of screening system (e.g. timely uploading of targeted financial sanction lists after their publication).</li><li>• Lack of robust oversight on 3<sup>rd</sup> parties when AML/CFT tasks or CDD are outsourced.</li><li>• ML/TF suspicion not reported (or reported late) to the CRF.</li><li>• Insufficient frequency of Targeted Financial Sanctions screening.</li><li>• Late filing of Targeted Financial Sanction reporting to Ministry of Finance and other relevant public authorities.</li><li>• Incomplete and/or outdated documentation on internal policies and procedures.</li><li>• Absence of 4-eye principle on data recording, name screening and transaction monitoring.</li><li>• Inadequate risk scoring of clients and insufficient formalisation of client risk assessment.</li></ul>

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**Legal and Regulatory requirement/Best practices**

- Establishing a clear ML/TF risk appetite statement and communicating it throughout the organisation.
  - Promoting a strict compliance culture throughout the organisation, especially in the first line of defence.
  - Performing at least yearly AML/CFT training programmes for all employees, including typologies relevant to the TCSP industry, red flags, case studies to help employees to recognise transactions which may be related to ML/TF.
  - Ensuring the assessment and understanding of the purpose and the nature of the business relationship.
  - Performing Targeted Financial Sanctions to ensure screening is done immediately after an update in the respective lists.
  - Performing PEP screening at least every six months.
  - Performing adverse media screening.
  - Performing transaction monitoring by using automated systems (except when the professional can prove that the volume and nature of the customers and the transactions to be supervised do not require such automation) including rules of volume, pattern and frequency.
  - Ensuring close oversight over branches, subsidiaries and all delegates and service providers performing AML/CFT controls on behalf of the Specialised PFS.
  - Providing control functions (especially RC and Compliance) with the necessary authority, independence, means and management support.
  - Ensuring clear allocation of responsibilities between first and second lines of defence.
  - Ensuring an appropriate “tone from the top” such that there is direct participation of the management body in the AML/CFT strategy and framework definition, including regular reporting.
-

## 9. Areas for further IMPROVEMENT

This section outlines high-level recommendations to enhance the regulatory and supervisory framework. Each of these recommendations will be integrated as part of the CSSF's current AML/CFT strategy and action plan.

### 9.1. CSSF recommendations to the private sector

Specialised PFS should take a proactive approach to mitigating ML/TF risks. They should use this risk assessment to increase their understanding of ML/TF threats and vulnerabilities and develop proportionate and effective controls.

In line with the AML/CFT Law, the CSSF Regulation 12-02, the AML/CFT Grand-ducal Regulation and recently published circulars, the CSSF has issued important recommendations which apply to TCSP professionals. The CSSF will continue to monitor adherence to these as part of its supervisory activities and has identified hereafter some examples of how professionals may show compliance with them.

<b>Recommendations</b>	<b>How professionals may show compliance (examples)</b>
<b>1 Take appropriate steps to identify and assess firm-wide ML/TF risks</b>	Documented and comprehensive ML/TF risk assessment in place, that considers all relevant risk factors (e.g. country/geographic risk, client risk, transaction/service, product, and delivery channel risk) and clearly reflects findings of this sub-sector risk assessment, the NRA and documents issued by the European Supervisory Authorities.
<b>2 Integrate information provided in this Sub-Sector Risk Assessment and the 2025 NRA and documents issued by the European Supervisory Authorities in the internal risk assessments</b>	Risk self-assessments should make a clear reference to this Sub-Sector Risk Assessment, the 2025 NRA, the VRAs, the SNRA and documents issued by the European Supervisory Authorities as published by the CSSF.
<b>3 Implement a clear ML/TF risk appetite and strategy</b>	Documented ML/TF risk appetite discussed and approved by board of directors (or equivalent body), covering types of clients, geographies, products/services that the professional wishes to accept (or avoid) and resources and tools required to properly mitigate ML/TF risks. Communicate ML/TF risk appetite and strategy in a precise, clear and comprehensive form to the whole staff.

<p><b>4 Employ robust CDD process to reliably identify beneficial ownership and critically appraise the origin of funds/source of wealth</b></p>	<p>Documented CDD/EDD procedure in place that states clearly how to identify beneficial ownership and which enhanced measures should be taken in high risk cases (e.g. PEPs, involvement of higher risk countries).</p>
<p><b>5 Adopt enhanced due diligence measures for clients identified as high risk, including entities whose legal structure has been altered frequently and/or without adequate explanation</b></p>	<p>Obtain information on the purpose and intended nature of the relationship and assess and understand the purpose and the intended nature of the relationship.</p>
<p><b>6 Review client relationships on a periodic basis to determine whether the ML/TF risk has changed</b></p>	<p>Formalisation of periodic reviews and event-driven risk assessments on existing clients.</p>
<p><b>7 Ensure appropriate controls are in place where third parties are used for CDD</b></p>	<p>Documented procedure governing CDD performed by third party, with evidence of the TCSP verifying the robustness of any checks conducted by the third party (e.g. sample testing, on-site visits, receipt of client documentation).</p>
<p><b>8 Ensure that name screening against Targeted Financial Sanctions (TFS) lists is performed immediately upon publication of a list as required notably by EU regulations</b></p>	<p>TFS screening is rules-based and not risk-based. Implement daily TFS screening or be in a position to demonstrate that a mitigation measure has been put in place to ensure TFS screening immediately after release of a new TFS list.</p>
<p><b>9 Ensure scrutiny of transactions undertaken throughout the course of the relationship and ensure that the transaction monitoring process is effective and adapted to the activity performed and the type of client</b></p>	<p>Ensure that the transactions being conducted are consistent with the knowledge of the customer, the business and risk profile and the source of funds.</p> <p>Implement automated transaction monitoring rules if the number of clients prevents adequate manual ongoing monitoring, except when the professional can prove that the volume and nature of the customers and the transactions to be supervised do not require such automation.</p>

<p><b>10 Report without delay suspicious activities and transactions to the CRF (copy the CSSF if the suspicious activity/transaction relates to an entity or person supervised by the CSSF).</b></p> <p><b>Report without delay persons, entities or groups targeted by international financial sanctions to the Ministry of Finance and copy the CSSF.</b></p>	<p>Report promptly, on own initiative, to the CRF and/or Ministry of Finance. Accompany the report by all supporting information and documents having prompted the report.</p> <p>Define clear responsibilities for reporting and internal communication channels in order to avoid delays</p>
<p><b>11 Collaborate closely with the Luxembourg competent authorities</b></p>	<p>Provide prompt, complete and accurate responses to information requests.</p>
<p><b>12 Take appropriate steps to ensure compliance with the latest revisions to Luxembourg Law, and consult CSSF for clarifications where necessary</b></p>	<p>Example: new added ML/TF predicate offences (e.g. since July 2022 sanction evasion).</p> <p>Ensure that BO details registered with “<i>Registre des Bénéficiaires Effectifs (RBE)</i>” are up-to-date and file any amendments or any changes within one month.</p>
<p><b>13 Promote the understanding of ML/TF techniques, trends, methods and a good compliance risk culture throughout the organisation</b></p>	<p>Special ongoing training programmes to employees on new developments, methods, techniques, trends in ML/TF, to help them recognise transactions which may be related to ML/TF, along with targeted training for those employees and, where applicable, third parties providing higher risk services and/or servicing higher risk clients.</p> <p>Participate in events organised by authorities (e.g. CSSF, CRF).</p>
<p><b>14 Ensure that resources dedicated to AML/CFT are commensurate with the professional’s level of risk</b></p>	<p>Level of human and technical resources and budgets allocated to AML/CFT activities adapted to the level of risk/risk appetite and volume of work (also at service provider in case of outsourcing).</p>



## 9.2. CSSF initiatives

The CSSF has also identified opportunities and defined initiatives to further enhance its approach to supervise AML/CFT for TCSP activities. These are structured around five main themes:

- The CSSF will further promote the understanding of ML/TF risks and AML/CFT obligations among Specialised PFS. This will include continuing to organise relevant conferences on AML/CFT, to participate as guest speaker at relevant industry events on AML/CFT, to organise on a regular basis PPP meetings with industry associations and the CRF, and to publish additional guidance where useful and necessary.
- The CSSF will continue the improvement of data to support its supervisory activities, for example by refining and enhancing the questionnaire on Financial Crime completed annually by supervised professionals.
- The CSSF will continue to exchange views with Specialised PFS during welcome visits, face-to-face meetings with senior management, RR and RC, and dedicated calls with RC (on a sample basis).
- The CSSF will further improve the understanding of specific AML/CFT related topics by addressing specific questionnaires to professionals. In 2022, 2023, 2024 and 2025, the CSSF sent the supervised professionals questionnaires on depositaries of bearer shares, shelf companies, risk appetite statement and TF assessment.
- The CSSF will continue to exchange views with other local (e.g. AED, OEC, Bar association) and foreign authorities and bodies (e.g. roundtable held by the Office for Professional Body Anti-Money Laundering Supervision (OPBAS) – a unit within the UK Financial Conduct Authority).

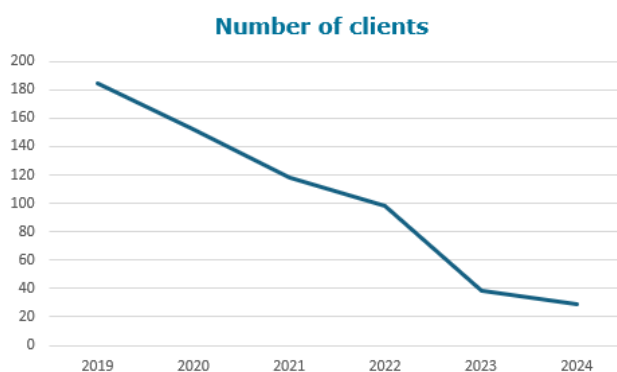
## APPENDIX A – Thematic review on depositaries of bearer shares

In 2021 and 2022, the CSSF conducted a thematic review on Specialised PFS acting as depositaries of bearer shares in accordance with Article 430-6 of the law of 10 August 1915 on commercial companies (as amended). The purpose of this mission was to get a better understanding of this activity (hereafter referred to as the “Activity” or “Service”) and to assess the ML/TF risks relating to this Activity.

In 2021 meetings took place with four and in 2022 with two Specialised PFS. The professionals were selected based on the highest number of clients requesting this Service.

The CSSF observed that this Service was only provided to historical clients to which the Specialised PFS provided domiciliation and/or directorship services and was not provided on a standalone basis. In addition, the number of clients requesting this Activity has been decreasing over the past years. With the implementation of the *Registre des Bénéficiaires Effectifs* (“RBE”) there is no rationale anymore to have bearer shares. Consequently, clients either liquidate or convert the bearer shares into registered shares. No new clients are requesting this Service.

The below table shows the decline in number of clients.



All the Specialised PFS confirmed that they ensure that the deposited bearer shares represent 100% of the share capital of the client and that there were no cases where less than 100% of the bearer shares were deposited.

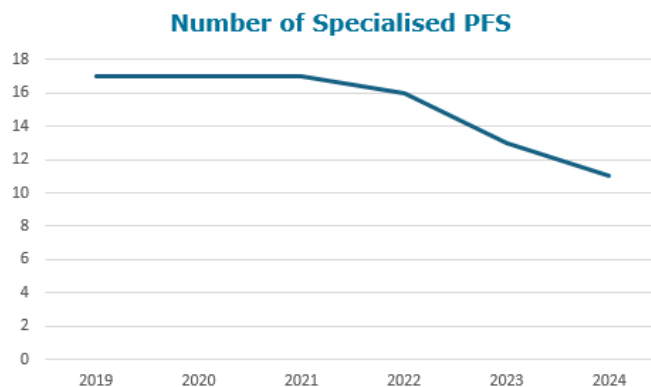
In case of transfer of bearer shares or release of bearer shares, all professionals confirmed that these have been done in accordance with Articles 430-6(4) and 430-6(6) of the law of 10 August 1915 on commercial companies, as amended.

All the Specialised PFS confirmed having the register and bearer share certificates stored in a safe with limited access.

The Specialised PFS screen the owners of the bearer shares no matter the holding percentage and confirmed that the beneficial owners of the clients are recorded at the RBE.

All Specialised PFS have procedures in place covering the Activity.

In addition, the CSSF observes that over the past years, the number of Specialised PFS providing this Service is also declining.



### Conclusion

The CSSF did not identify, through the thematic review, any additional ML/FT risks associated with the performance of this Activity. The number of historical clients requesting this Activity is declining and no new clients are requiring this service. The CSSF therefore concludes that the residual risk in relation to this Activity is medium.

## APPENDIX B – Thematic review on the use of shelf companies

During its most recent mutual evaluation of Luxembourg, the FATF placed particular interest on the risks associated with the misuse of legal persons and legal arrangements, such as *shelf companies*. Further to the FATF report on “*Concealment of Beneficial Ownership*”, *shelf companies* are defined as “*incorporated company with inactive shareholders, directors, and secretary and is left dormant for a longer period even if a customer relationship has already been established*”.

In the second quarter of 2024, the CSSF conducted a on the use of *shelf companies* by Specialised PFS providing TCSP services. The purpose of the mission was to get a better understanding on the use of shelf companies and to evaluate the ML/TF risks related to these companies. In this respect, a questionnaire was sent to 84 Specialised PFS performing TCSP services. The questionnaire consisted of 16 questions.

Shelf companies																								
Questions Nr.	Questions	Answers																						
Q.1.	Does your Entity set up <i>shelf companies</i> ?																							
If the answer to Q.1. is 'No' , please go to question Q.1.a.																								
Q.1.a.	Does your Entity intend to set up <i>shelf companies</i> in the future ? If 'Yes', please provide further details.																							
If the answer to Q.1. is 'Yes' , please go to questions Q.2. to Q.15.																								
Q.2.	Please explain which are the reasons why your Entity sets up <i>shelf companies</i> .																							
Q.3.	Does your Entity intend to continue offering this service?  If 'Yes', please provide further details.																							
Q.4.	Is the change of beneficial ownership recorded without delay in the RBE when your Entity sells a <i>shelf company</i> ?																							
Q.5.	What is the profile of the clients who buy <i>shelf companies</i> from your Entity (for instance, private person, multinational group (e.g. private equity firms), what is the origin jurisdiction of the Beneficial Owners: EU/Equivalent jurisdictions outside of the EU/Non-equivalent jurisdictions outside of the EU, etc.)?																							
Q.6.	Do the <i>shelf companies</i> sold by your Entity become part of complex structures (i.e., structures with multiples layers, with certain layers being registered in offshore jurisdictions, etc.)?																							
Q.7.	Does your Entity provide this service on a standalone basis?																							
Q.8.	Does your Entity continue to offer services to the <i>shelf company</i> once it has been sold? If 'Yes', which services?																							
Q.9.	How many <i>shelf companies</i> did your Entity sell over the past years:	<table border="1"> <tr><td>2013</td><td></td></tr> <tr><td>2014</td><td></td></tr> <tr><td>2015</td><td></td></tr> <tr><td>2016</td><td></td></tr> <tr><td>2017</td><td></td></tr> <tr><td>2018</td><td></td></tr> <tr><td>2019</td><td></td></tr> <tr><td>2020</td><td></td></tr> <tr><td>2021</td><td></td></tr> <tr><td>2022</td><td></td></tr> <tr><td>2023</td><td></td></tr> </table>	2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		2023	
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Q.10.	Over the last 5 years, how many Suspicious Transactions Reports and/or Suspicious Activity Reports has your Entity filed with the FIU in relation to previously sold <i>shelf companies</i> ?																							
Q.11.	Over the last 5 years, how many reports linked to a person or legal entity mentioned on a Targeted Financial Sanction list has your Entity filed with the Ministry of Finance in relation to previously sold <i>shelf companies</i> ?																							
Q.12.	Over the last 5 years, how many times has the FIU contacted your Entity in relation to previously sold <i>shelf companies</i> ?																							
Q.13.	How many <i>shelf companies</i> does your Entity have on stock as at today?																							
Q.14.	If the answer to Q.13. is other than 0, please explain what does your Entity intend to do with these <i>shelf companies</i> .																							
Q.15.	Does your Entity encounter difficulties in opening bank accounts in relation to the <i>shelf companies</i> it has set up?																							

Only four out of 84 Specialised PFS reported setting up shelf companies and selling these thereafter. This service is, nonetheless, ancillary and does not represent a central component of the core

business of these Specialised PFS. To be noted that one professional informed having the intention to provide this service in the future.

Out of the mentioned four Specialised PFS, three confirmed that this service is only provided to existing clients, who need quickly a company in the context of an upcoming investment opportunity which is time sensitive. In addition, these Specialised PFS continue to provide services to the shelf company after it has been sold such as domiciliation or directorship services. One Specialised PFS informed that it sets up shelf companies not only for its own clients but also for clients of another Specialised PFS.

One other Specialised PFS informed that its sister company sets up and sells shelf companies, to which this Specialised PFS provides services after these have been sold.

With regard to bank accounts for shelf companies, Specialised PFS explained that it is generally faster to update the beneficial owner of an existing account than to open a new account for a company still in the process of incorporation. However, only a limited number of banks are willing to open accounts for shelf companies at the time of their incorporation, and this usually happens only if the bank already knows who the future client will be and has an established relationship with them. Indeed, the banks require the new owner to undergo their customer due diligence process before granting access to the existing account.

The four Specialised PFS confirmed having procedures in place regarding this service.

These Specialised PFS also confirmed that the change of the beneficial owner is submitted to the *Registre des Bénéficiaires Effectifs* ("RBE") within the legal deadline of one month after the sale of the shelf company.

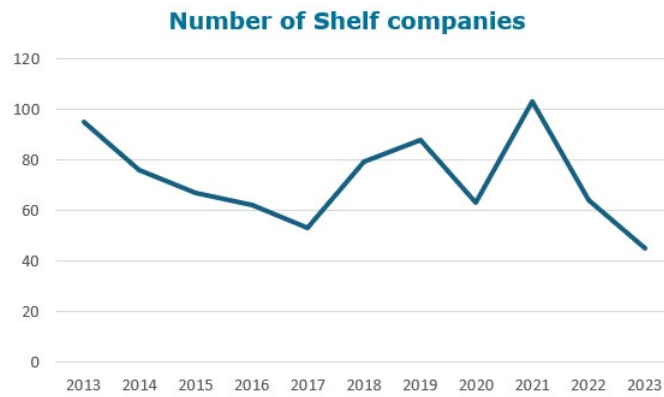
Only one Specialised PFS declared having filed eleven suspicious transaction/activities reports to the Financial Intelligence Unit in relation to previously sold shelf companies of which 10 prior to 2021. The reports were mainly filed further to adverse media and suspicions of tax fraud.

None of the Specialised PFS had submitted a report to the Ministry of Finance concerning previously sold shelf companies in connection with Targeted Financial Sanctions.

The CSSF observed that over the past decade, the number of shelf companies has generally declined, though there were some fluctuations in the data. These fluctuations can be attributed to the fact that from 2013 to 2020, the data was reported by only two Specialised PFS. The increase in 2021 is due to the fact that the data has been collected from all the four Specialised PFS that actually provided this activity.

The table below shows the development<sup>134</sup>.

<sup>134</sup> CSSF internal data.



**Conclusion**

The CSSF did not identify, through the thematic review, any additional ML/FT risks associated with the provision of this service compared to the ML/TF risks present when companies are incorporated by the Specialised PFS on behalf of a client and are immediately owned by that client. The CSSF therefore concludes that the residual risk is medium.

However, to ensure ongoing monitoring of this service and related ML/TF risks, the CSSF has decided that all the Specialised PFS must submit, together with the annual closing documents, a report detailing the number of shelf companies established and sold during the previous financial year.

## **APPENDIX C – Thematic review on Terrorist Financing**

In 2025, the CSSF conducted a thematic review on the level exposure of Specialised PFS providing corporate services to the risk of terrorist financing (“TF”). The purpose of the mission was to get a better understanding on how this risk is assessed and mitigated by the professionals.

The thematic review was divided into three parts. Under part 1, Specialised PFS were asked to provide information on how TF risk is covered by their risk self-assessment. Under part 2, in relation to a sample of beneficial owners of clients residing in Israel and the United Arab Emirates, the CSSF analysed potential TF risks. Under part 3, the CSSF investigated on TF risks of clients having non-profit organisations (NPOs) within the shareholder structures.

Based on data collected from all Specialised PFS providing corporate services, the CSSF held telephone calls with a sample of professionals having declared a higher exposure to TF risks.

### **Part 1: coverage of TF risks in the risk self-assessment**

The CSSF noted that some Specialised PFS had not covered TF risks in their 2023 risk self-assessment.

The CSSF also noted that a limited number of Specialised PFS did not make a clear distinction between ML and TF risks.

Overall, the CSSF noted that professionals tended to overestimate their exposure to TF risks. While this is not an issue as such as this highlights a more prudent approach, the thematic review allowed these professionals to reconsider their TF risks exposure. The CSSF noted that several Specialised PFS updated their risk self-assessment accordingly.

### **Part 2: TF risks exposure of beneficial owners of clients residing in Israel and the United Arab Emirates**

The CSSF noted that the BOs from both countries are mainly high net worth individuals, mainly active in the real estate business and to a lesser extent in other businesses (e.g. oil, fund industry, agriculture, trading, pharmaceutical, automotive, property management, construction).

The thematic review did not identify any specific TF related risks in relation to the sample of clients’ files analysed by the CSSF.

### **Part 3: TF risks of clients having non-profit organisations (NPOs) within the shareholder structures**

The CSSF noted that Specialised PFS have very limited number of clients having non-profit organisations within their shareholder structures. The CSSF did not identify any relevant shortcoming in the context of the thematic review.

### **Conclusions**

Overall, the thematic review allowed to the CSSF to conclude that the understanding of TF exposure among Specialised PFS providing corporate services has already improved to a level that is satisfactory in light of their exposure. Moreover, the thematic review did not identify any major deficiencies in relation to AML/CFT legal and regulatory requirements.

However, the CSSF considers that Specialised PFS must continue to further sharpen their awareness of any potential TF risks and, as a result, must make a clear distinction between ML and TF risks. Professionals also have to duly cover TF risks when performing their risk self-assessment.

Even though the exposure to TF risks of Specialised PFS providing corporate services is limited, professionals must ensure that they cover TF risks in their risk self-assessment and identify any potential TF risk indicators in their business relationships.



## **APPENDIX D - High level summary on Banks performing TCSP activities**

Banks in Luxembourg hold a universal licence authorising them to provide all 5 categories of TCSP services foreseen by the Law of 5 April 1993 on the financial sector.

According to data from the latest financial crime questionnaire and based on information from CSSF's ongoing supervision, the TCSP services that banks provide are not stand-alone services marketed publicly, but merely add-on services linked to their core banking activities and key clients.

Excluding online banks (which typically have a very large number of small, retail accounts for natural persons), less than 7% of all the accounts opened with traditional Luxembourg banks are in the names of legal persons or legal arrangements. Accounts of legal persons or legal arrangements, and the services dedicated to these clients, are thus the exception rather than the rule.

According to the 2024 Questionnaire on Financial Crime, of the 115 banks that were active in Luxembourg, only 27 were offering services in any one of the five TCSP categories, such as, acting as domiciliary agent, offering directorship or board secretary services or, rarely, acting as fiduciary/trustee or as shareholder representative. Only 5 banks provided company formation services for their clients.

In general, all of the TCSP services provided by banks in Luxembourg are however always offered as ancillary services only, to key client relationships whose focus lies mostly in either the fund industry or private banking. Accordingly, banks have a very good understanding and knowledge of the client relationship, the beneficial ownership structure and the legitimate purpose and tax compliance of the legal person or arrangement to whom the services are provided, thus minimising ML/TF risk.

## **APPENDIX E - High level summary on Investment Firms performing TCSP activities**

Investment firms in Luxembourg are required to hold a licence of corporate domiciliation agent<sup>135</sup> to provide the services of domiciliation, or a licence of professionals providing company incorporation and management services<sup>136</sup> to provide the services of incorporation, directorship and secretarial services. Moreover, investment firms can act as fiduciaire or trustee of a fiducie or a trust in accordance with the Law of 27 July 2003 on trusts and fiduciary contracts.

According to the 2024 questionnaire on Financial Crime, out of 90 investment firms that were active in Luxembourg as at 31 December 2024, 13 were offering TCSP services, with domiciliation being the most common activity carried out (11 entities offering this service), followed by the provision of directorship and secretarial services (8 entities), the incorporation of companies (4 entities) and fiducie/trust services (1 entity). The number of investment firms providing TCSP activities has decreased since 2019 (from 17 investment firms in 2019 to 13 in 2024), and represent 14% of the investment firm sector as at 31 December 2024.

According to data from the 2024 questionnaire on Financial Crime complemented by other information collected via the CSSF's ongoing supervision, TCSP services represent approximately 9% in average of the total turnover of the 13 investment firms offering them.

Moreover, TCSP activities are mostly provided as an ancillary service in the context of wealth management. Indeed, investment firms engaged in TCSP activities typically specialize in portfolio management: as at 31 December 2024, 77% of the investment firms providing TCSP activities were portfolio managers.

Furthermore, it can be noted that the extent and variety of TCSP activities performed is limited: as at 31 December 2024, around 54% of investment firms providing TCSP activities only carried out one TCSP activity, and mostly domiciliation services. Therefore, the TCSP services are ancillary to the core business activities that these investment firms provide.

Regarding the beneficial owners (BOs) of the structures set up, managed and administrated by investment firms providing TCSP activities, and based on the data collected from the 2024 questionnaire on Financial Crime, BOs residing in an EU country account for 51%, while the share of BOs residing in high-risk countries remain marginal (3.81%).

In conclusion, TCSP services provided by investment firms in Luxembourg are carried out as ancillary services only, alongside investment activities and services, and notably wealth management activities, by a limited number of investment firms. These services are delivered to key existing clients well known to the investment firms in the context of their portfolio management services. In this context, investment firms have a very good understanding and knowledge of the client relationship, their beneficial ownership structure and their legitimate purpose and tax compliance. The ML/TF risk related to TCSP activities is therefore minimised.

<sup>135</sup> The Law of 5 April 1993 on the financial sector, as amended, Article 28-9.

<sup>136</sup> The Law of 5 April 1993 on the financial sector, as amended, Article 28-10.

## APPENDIX F - RED FLAG INDICATORS

The tables below detail red flag indicators for three categories of predicate offences that are particularly relevant to TCSPs in Luxembourg: fraud, tax crimes (fiscal offences) and corruption and bribery. Note that the presence of an indicator does not in itself justify any conclusion that a predicate offence has been committed.

Further details on ML/TF red flag indicators can be found in publications including:

- CSSF, ML/TF risk assessment of the collective investment sector, 2025 update (2025)
- CSSF, ML/TF risk analysis of private banking, 2023 update (2024)
- CSSF, Circular 19/732 on clarifications on the identification and verification of the identity of ultimate beneficial owners, as amended by Circular 24/861 (2024)
- CRF, Annual Activity Report 2023 (2024)
- FATF, Guidance for a risk-based approach, TCSP sector (2019)
- FATF and Egmont Group, Report on concealment of beneficial ownership (2018)
- FATF, ML through the physical transportation of cash (2015)
- FATF, ML and TF vulnerabilities of legal professionals (2013)
- FATF, Specific factors in laundering the proceeds of corruption (2012)
- FATF, Money Laundering using TCSPs (2010)

*Red flag indicators for fraud offences relevant to TCSPs<sup>137,138</sup>*

Category	Common red flag indicators (non-exhaustive)
<b>Client characteristics</b>	<ul style="list-style-type: none"> <li>• Legal person or arrangement is incorporated in a jurisdiction with higher risk of tax crimes or international trade and/or financial centre</li> <li>• Legal entity has banking activity outside of its domiciliation jurisdiction without any apparent justification</li> <li>• Legal entity has a relationship with foreign professional intermediaries in the absence of genuine business transaction in the professional's country of operation</li> </ul>
<b>Client structure</b>	<ul style="list-style-type: none"> <li>• Complex structures are used which do not appear to legitimately require that level of complexity or which do not make commercial sense</li> <li>• Informal nominee shareholders and directors are used (e.g. close associates or family members)</li> <li>• Legal structure has been altered frequently and/or without adequate explanation (e.g. name changes, transfer of ownership, change of beneficiaries, change of trustee or protector, change of partners, change of directors or officers)</li> <li>• Conflict of interest is evident between entity, relationship manager, external advisor and/or intermediary</li> </ul>
<b>Involvement of intermediaries</b>	<ul style="list-style-type: none"> <li>• Employee of professional intermediary/third party firm is acting as nominee director or shareholder.</li> <li>• Power of representation (or Attorney) is given in unusual conditions and the stated reason for it is unclear or illogical</li> <li>• Client is introduced by an unknown / unfamiliar intermediary</li> </ul>

<sup>137</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>138</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, July 2018.

<b>Suspicious activities and transactions</b>	<ul style="list-style-type: none"> <li>• Bearer shares are used without appropriate registration with a custodian</li> <li>• Professional requests unusual contract terms</li> </ul>
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*Red flag indicators for tax crimes (fiscal offences) relevant to TCSPs<sup>139,140</sup>*

<b>Category</b>	<b>Common red flag indicators (non-exhaustive)</b>
<b>Client location and structure</b>	<ul style="list-style-type: none"> <li>• Legal person or arrangement is incorporated in a jurisdiction with higher risk of tax crimes or international trade and/or financial centre</li> <li>• Legal person uses a complex set-up without clear economic or patrimonial justification, or which appears designed to conceal information (e.g. trusts from jurisdiction with no requirement to disclose beneficiaries)</li> </ul>
<b>Client characteristics</b>	<ul style="list-style-type: none"> <li>• Legal person has no real business activities</li> <li>• Legal person is not paying taxes, superannuation, retirement funds contributions or social benefits</li> <li>• Legal person has been identified as non-tax compliant in Luxembourg or another jurisdiction</li> </ul>
<b>Involvement of intermediaries</b>	<ul style="list-style-type: none"> <li>• Legal person is receiving loans from private third parties without any supporting loan agreements, collateral or regular interest repayments</li> <li>• Legal person and TCSPs are receiving directions and decisions via foreign professional intermediaries</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Complicated transaction routings are used without sufficient explanations or trade records</li> <li>• Findings of anomalies in documentation justifying transactions, and notably atypical or unusual transactions (e.g. no VAT number, no invoice number, circular transactions)</li> </ul>
<b>Hold mail</b>	<ul style="list-style-type: none"> <li>• Request to have hardcopy documents retained for a short time only or personal collection with long time spans in between</li> <li>• Hold mail not collected and the client or their beneficial owners have not visited Luxembourg for an extended period</li> </ul>
<b>Suspicious activities and transactions</b>	<ul style="list-style-type: none"> <li>• Legal person or arrangement is used exclusively to facilitate transit transactions and does not appear to generate wealth or income</li> <li>• Funds are sent to, or received from, a foreign country when there is no apparent connection between the country and the client</li> <li>• Funds are sent to, or received from, a jurisdiction with higher risk of tax crimes or international trade</li> <li>• Payment or reception of fees to or from foreign companies without business activities or without substance or link between the counterparties and whose purpose seems to be economically unjustified re-invoicing</li> <li>• Transactions are executed in an apparent cyclical way</li> </ul>

<sup>139</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>140</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, July 2018.

Category	Common red flag indicators (non-exhaustive)
<b>Client characteristics</b>	<ul style="list-style-type: none"> <li>• The client is a PEP or a person closely associated or related to PEPs</li> <li>• Legal entity has no real business or commercial activity</li> <li>• Client base includes industries or sectors (e.g. pharmaceutical, healthcare, emerging technologies, oil and gas, arms, luxury goods, dual-use goods, etc.) where opportunities for ML/TF via bribery and corruption are particularly prevalent</li> <li>• Client has flawed background or reputation (e.g. convicted of a criminal offence; subject or linked to a judicial investigation; subject to negative press articles; corruption identified in previous audit reports)</li> </ul>
<b>Involvement of intermediaries</b>	<ul style="list-style-type: none"> <li>• Legal entity or TCSP has a relationship with foreign professional intermediaries in the absence of genuine business transaction in the professional's country of operation, especially if those intermediaries are located in non-transparent jurisdictions</li> <li>• Nominee shareholder(s) and director(s) are used when clients involved are PEPs or persons closely associated or related to PEPs</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Client refuses to provide required documentation</li> </ul>
<b>Suspicious activities and transactions</b>	<ul style="list-style-type: none"> <li>• Legal entity or arrangement is exclusively facilitating transit transaction and does not appear to generate wealth or income</li> <li>• Funds are sent to, or received from a jurisdiction with higher risk of tax crime, an international trade or country with known high levels of corruption</li> <li>• Bearer shares are used without appropriate registration with a custodian</li> <li>• Connections between parties are questionable, or generate doubts, and cannot be sufficiently explained by the client</li> <li>• Transactions are executed from a business account but appear to fund personal purchases, including assets and recreational activities</li> </ul>
<b>Links to bribery and corruption</b>	<ul style="list-style-type: none"> <li>• Link between the client and/or beneficial owner and a negatively known company</li> <li>• Link between the client and/or beneficial owner and a convicted person</li> <li>• Link between the client and/or beneficial owner and a person who has been involved in a corruption case</li> <li>• Link between the client and/or beneficial owner and a person who has been the subject of a judicial inquiry</li> <li>• Link between the client and/or beneficial owner and a corruption case</li> <li>• Link between the prospect new client and/or beneficial owner and an existing client who has been involved in a corruption case</li> <li>• Link between a company related to the client and/or beneficial owner and the award of public contracts</li> <li>• Link between funds from a client and/or beneficial owner and a corruption case</li> </ul>

<sup>141</sup> FATF, *Guidance for a Risk-Based Approach*, TCSP sector, 2019.

<sup>142</sup> FATF and Egmont Group, *Report on Concealment of Beneficial Ownership*, July 2018.

## APPENDIX G - ACRONYMS

Acronym	Definition
<b>AED</b>	Administration de l'Enregistrement, des Domaines et de la TVA
<b>AIF</b>	Alternative Investment Fund
<b>AML</b>	Anti-Money Laundering
<b>AML/CFT Law</b>	Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended
<b>AML/CFT Grand-ducal Regulation</b>	Grand-ducal Regulation of 1 February 2010 providing details on certain provisions of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended
<b>BEPS</b>	Base Erosion and Profit Sharing
<b>BO</b>	Beneficial Owner
<b>CRF</b>	Cellule de Renseignement Financier / Financial Intelligence Unit
<b>CFT</b>	Countering the Financing of Terrorism
<b>CSSF</b>	Commission de Surveillance du Secteur Financier
<b>CSSF Regulation 12-02</b>	CSSF Regulation No 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing, as amended
<b>EBA</b>	European Banking Authority
<b>EDD</b>	Enhanced Due Diligence
<b>EU</b>	European Union
<b>FATF</b>	Financial Action Task Force
<b>KYC</b>	Know Your Customer
<b>ML/TF</b>	Money Laundering and Terrorist Financing
<b>MNC</b>	Multi-national company
<b>NRA</b>	National Risk Assessment
<b>OEC</b>	Ordre des Experts Comptables

<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OPC</b>	Organismes de Placement Collectif
<b>PANC</b>	Procédure Administrative Non-Contentieuse
<b>PEP</b>	Politically Exposed Person
<b>PF</b>	Proliferation Financing
<b>PPP</b>	Public-Private Partnership
<b>Specialised PFS</b>	Specialised Professional of the Financial Sector ( <i>Professionnels du Secteur Financier spécialisés</i> )
<b>RCS</b>	Registre de Commerce et des Sociétés
<b>RBA</b>	Risk Based Approach
<b>RBE</b>	Registre des Bénéficiaires Effectifs
<b>SAR</b>	Suspicious Activity Report
<b>SSRA</b>	Sub-sector Risk Assessment
<b>SIF</b>	Specialised Investment Fund
<b>SICAR</b>	Société d'Investissement en Capital à Risque (Venture Capital Fund)
<b>STR</b>	Suspicious Transaction Report
<b>TCSP</b>	Trust & Company Service Provider
<b>TF</b>	Terrorist Financing
<b>TFS</b>	Targeted Financial Sanctions
<b>UCITS</b>	Undertakings for Collective Investments in Transferable Securities
<b>UNODC</b>	United Nations Office on Drugs and Crime
<b>UNSCR</b>	United Nations Security Council Resolution
<b>VRA</b>	Vertical Risk Assessment