

MODULE 7 SUMMARY

Vulnerability of DNFBP sector to money laundering and terrorist financing risks

Members of the working group:

- (Ministry of Finance, head of the working group)
- (Financial Intelligence Unit)
- (Financial Intelligence Unit)
- (Estonian Bar Association)
- (Chamber of Notaries)
- (Tax and Customs Board)
- (Tax and Customs Board)
- (Estonian Chamber of Commerce and Industry, Advisory Committee of Market Participants of Money Laundering and Terrorist Financing Prevention).

1. The aim of the module and brief description of its structure

The aim of this module was to assess the scope within which the **designated non-financial businesses and professions** (hereinafter DNFBPs) are vulnerable.

The structure of the module enables a broader assessment of two aspects: the structural risk inherent in a sector (or activity) and the effectiveness of the control measures applied to that sector. The combination of the assessments given to both aspects forms the vulnerability rate and its numerical indicator.

2. Explanations of the module and assessments

The module is divided into two parts. The upper part of the table reflects the subjects of the Money Laundering and Terrorist Financing Prevention Act (hereinafter RahaPTS). The lower part of the table includes the service providers who are not currently obliged subjects within the meaning of RahaPTS, but whose risk was also considered reasonable to assess by the members of the working group.

The obliged subjects are:

1. Casinos (gambling operators) - § 3 (1) 3) of RahaPTS

2. Remote gambling operators (internet casinos) - § 3 (1) 3) of RahaPTS
3. Real estate agencies - § 3 (1) 4) of RahaPTS
4. Real estate rental companies - § 3 (1) 4) of RahaPTS
5. Traders, incl. precious metal and stone traders, antique and art traders, car and boat traders and scrap metal traders - § 3 (1) 5) and 6¹ of RahaPTS
6. Lawyers - § 3 (2) of RahaPTS
7. Notaries - § 3 (2) of RahaPTS
8. Other legal service providers - § 3 (2) of RahaPTS
9. Auditors - § 3 (1) 7) of RahaPTS
10. Trust fund and company service providers - § 3 (1) 9) of RahaPTS
11. Accounting service providers and tax consultants - § 3 (1) 7) and 8) of RahaPTS
12. Bankruptcy trustees - § 3 (2) of RahaPTS
13. Bailiffs - § 3 (2) of RahaPTS
14. Pawnbrokers - § 3 (1) 6) of RahaPTS
15. Non-profit organizations¹ - § 3 (1) 10) of RahaPTS.

Furthermore, the companies that are not qualified as obliged entities by their field of activity according to the valid RahaPTS were assessed:

1. Betting operators
2. Lottery operators
3. Collection companies.

The table is further divided into (left-right) structural vulnerability indicators and control measures. The assessments are influenced by both structural indicators (vulnerability) and the control measures applied in the sector. It should be noted, however, that the rating scale H-M-L has a different meaning: while for structural indicators it is *H-high*, i.e., a higher price increases the final vulnerability indicator, then for control measures the effect of *H-high* is exactly the opposite (the higher the level of control measures, the lower the final vulnerability indicator).

Column 1: Mutual evaluation report (reference to vulnerability and risk of ML)

This column reflects the recommendations made in the course of international assessments regarding the deficiencies in the sector. Generally speaking, no significant recommendations have been made with regard to DNFBPs in the last MONEYVAL evaluation round (III). The gambling operators, real estate sector, lawyers, notaries, legal service providers and trust and company service providers have been mentioned. The recommendations were mainly related to the need to provide additional guidance to operators or to clarify their obligations. By the time

¹ Are the obliged entities if they are paid in cash in excess of 15,000 euros or the equivalent in another currency, regardless of whether the payment is made as a single payment or in several interconnected payments.

the risk assessment was prepared, all MONEYVAL's recommendations had been implemented and legislative changes had been made.

No risk assessments have been given in this column.

Column 2: structural vulnerability indicators: *size of the businesses and professions*

Each sector is assigned a vulnerability rating for this specific indicator – size of the businesses and professions - on the scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 3: structural vulnerability indicators: *volume turnover*

The higher the turnover of the sector, the harder it is to track each individual transaction.

Each sector is assigned a vulnerability rating for this specific indicator – volume turnover –on the scale H (high) – high vulnerability level, M (medium) – medium vulnerability level and L (low) – low vulnerability level. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 4: structural vulnerability indicators: *cash intensive products and services*

The use of cash increases the sector's vulnerability to money laundering. The sectors that use and accept a lot of cash are particularly vulnerable due to the increased interest in the black money deployment phase. Therefore, the spread of cash use needs to be assessed for each sector. In general, it can be said that the use of cash is not usual and very common in Estonia, as bank transfers and the use of account money are preferred when paying for products and services. Thus, in many cases, the preference for cash may in itself give rise to doubts and increased attention by the obliged entities.

Each sector is assigned a vulnerability rating for this specific indicator – cash intensive products and services - on the scale of H (high) - high level of vulnerability, M (medium) - medium level of vulnerability and L (low) - low level of vulnerability. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 5: structural vulnerability indicators: *frequency or % of international transactions*

One method used to hide and conceal transactions and cash flows is to move money between and through different countries. In order to differentiate between the higher-risk transactions, it is appropriate to compare the volume of transactions carried out within the country with those carried out across borders.

Each sector is assigned a vulnerability rating for this specific indicator – % of international transactions – on the scale H (high) – high vulnerability level, M (medium) – medium vulnerability level and L (low) – low vulnerability level. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 6: structural vulnerability indicators: *percentage (%) of customers who pose higher risk*

The following entities are qualified as higher risk customers for this module:

- politically exposed persons (see § 20 of RAHAPTS);
- non-resident customers;
- private banking customers;
- legal “entities” such as partnerships and trusts;
- holders of bearer shares.

The assessment is based on the estimates of the companies themselves and the share of international transactions in the sector.

Each sector is assigned a vulnerability rating for this specific indicator – % of customers with higher risk – on the scale H (high) – high vulnerability level, M (medium) – medium vulnerability level and L (low) – low vulnerability level. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 7: structural vulnerability indicators: *indicators of potential ML activities/conduct*

The purpose of this column is to provide a reflection, through specific indicators, of the impact of money laundering activities on each sector. The vulnerability of the sector is reflected in the money laundering crimes committed in the sector and, to some extent, in the number of reports made for the sector. Here, it is important to distinguish between suspicious transaction reports sent from the sector (sent by the sector), the higher number of which, on the contrary, indicates the higher awareness of the sector and thus the lower risk.

Each sector is assigned a vulnerability rating for this specific indicator – potential money laundering activity/conduct - on the scale of H (high) - high vulnerability level, M (medium) - medium vulnerability level and L (low) - low vulnerability level. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 8: structural vulnerability indicators: *other Information*

The column should reflect other information that affects the risks of a specific sector.

Each sector is assigned a vulnerability rating for this specific indicator - other information - on the scale of H (high) - high vulnerability level, M (medium) - medium vulnerability level and L

(low) - low vulnerability level. The ratings in this column affect the total calculated rating of vulnerability of the module.

Control Measures

Column 1: Control measures: anti-money laundering and anti-terrorist financing regulations, guidelines, enforcement mechanism

This column indicates which regulations, guidelines and mechanisms for their enforcement apply to a specific sector. In general, all sectors have a similar outcome here, since all are equally subjects pursuant to RahaPTS, guidelines have also been adopted in some areas, and there are no significant differences in the mechanisms to ensure the compliance with the laws.

Each sector is assigned an efficiency rating for this specific indicator – regulations – on the scale of H (high) – high efficiency, M (medium) – medium efficiency and L (low) – low efficiency. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 2: Control measures: existence of a regulatory body and the possibility of on-site supervision

Here it was necessary to clarify whether the sector has a specialized supervisory body that has the capabilities and competence to organize supervision also in the locations of specific companies/professional representatives.

In general, it can be said that Financial Intelligence Unit (RAB) has been granted extensive supervisory rights by RahaPTS and all the sectors mentioned here are, in principle, subject to their supervision. Here, successful co-operation also works with other supervisory authorities - MTA and FI. In addition, different supervision regime is provided for notaries and lawyers, who are supervised by JM/Chamber of Notaries and Bar Association regarding the compliance with the requirements of RahaPTS.

Each sector is assigned an efficiency rating for this specific indicator - supervision - on the scale of H (high) - high efficiency, M (medium) - medium efficiency and L (low) - low efficiency regulations. The ratings in this column affect the total calculated rating of vulnerability of the module.

Column 3: Control measures: supervision resources of money laundering/terrorist financing prevention (budget and number of employees)

The columns specify the resources of the supervisory authorities that supervise the sector.

Bar Association. Carries out supervision within the framework of normal supervisory activities, which are performed by 3 officials and the management board of the Bar Association who

approves the supervision reports. In addition, it should be noted that the Bar Association organizes regular training for its members, at least once a year also on money laundering and/or terrorist financing prevention.

Chamber of Notaries. The activities of notaries are supervised by the Ministry of Justice, including the Chamber of Notaries. The Chamber of Notaries supervises the compliance with the requirements of the Money Laundering and Terrorist Financing Prevention Act and legislation established on the basis thereof within the framework of supervision performed by the Ministry of Justice. In 2011 and 2012, supervision was carried out for total of 30 times, by 2-3 officials (2 JM + 1 Chamber of Notaries), the supervision report was submitted to the Minister of Justice. There are no separate funds in the budget of the Chamber of Notaries for supervision, as it is a part of the daily tasks of the Chamber of Notaries.

RAB - has 4 employees in supervision department (head and 3 supervisory officials). The general annual budget of RAB is 428,235 euros, which also covers all costs associated with supervision. It should be taken into account that in 2014 the amendments to the law will enter into force, by which RAB will start issuing activity licenses for certain activities that were previously subject to registration in the register of economic activities. The authorization procedure entails an increase in the level of control measures related to market entry, although the subject matter of the authorization procedure is limited by law. On the other hand, the additional task requires additional resources for RAB, in addition, various supervisory activities have already been planned for 2014 according to the latest trends and risks, and in this risk assessment the time for implementing the resource-related recommendations is 2015 or later.

MTA – the supervision of gambling is performed by 4 officials.

Column 4: Control measures: standards of professional ethics

The existence of professional ethics and professional standards indicates the degree of regulation in each sector. The more extensive and comprehensive the professional ethics requirements and higher standards, the less likely the sector is to be vulnerable to the phenomena such as terrorist financing and money laundering.

Column 5: Control measures: monitoring of transactions and relevance of suspicious transaction reports

In this column the evaluator has been RAB, who has the competence to assess the adequacy of the report of a specific sector.

3. Assessment of the vulnerability of money laundering

All previous assessments form a part of the final assessment of the vulnerability of money laundering in a particular sector.

Calculation of the final risk level:

Vulnerability of the sector	Control	Final assessment to the vulnerability
L	H	L
L	M	ML
L	L	M
M	H	ML
M	M	M
M	L	H
H	H	M
H	M	H
H	L	VH

Level of vulnerability

For the risk level, the lowest value is 0 and the highest is 1.0. The indicators calculated in this module are an input to Module 2.

Importance

In the formation of assessments and final numerical indicators, line no. 4 also plays a role which indicates the weight of each indicator. The more important indicators have been marked with level 1 and the less important indicators have been marked with level 2. Thus, the difference in the impact of the more and less important indicators is twofold.

Recommendations by FATF

The module also refers to specific FATF recommendations that apply to this sector.

4. Summary

The DNFBP sector is well covered by regulations and it is worth emphasizing that the circle of DNFBPs in the Estonian RahaPTS is wider than required by international standards. The aggregate risk-vulnerability index has been found to be *low* and in a few cases *medium-Low*, which can also be considered a real result.

In order to ensure the comparability of the data, an attempt has been made to use the data of the annual reports submitted by the companies of the respective sector as source data, where this has been possible. In order to simplify the reference base, only the data for 2012 have been taken into account - both in case of annual reports as well as other data.

The excerpts have been made from the annual reports on sales revenue, assets, number of employees and the share of export in sales revenue. The data on exports (i.e. the share of foreign transactions/customers in this module) have also been requested from the companies representing the sector², but the response rate remained low as expected, which is why it has been necessary to include additional comparable data from the annual reports for this indicator.

Vulnerability of DNFBPs by industry

Casinos and remote gambling

Structural indicators

Casinos, i.e. gambling operators within the meaning of the Gambling Act, have been obliged to comply with international standards for the prevention of money laundering and terrorist financing, in particular after the (last-but-one) review of FATF 40 recommendations of 2003-2004. In Estonia, the scope of the Money Laundering Prevention Act was extended to gambling operators already in 2000.

Thus, it can be said that the Estonian gambling operators have quite a long-term experience in following the rules of money laundering prevention.

The report on Moneyval's IIIrd evaluation round includes the following recommendations given to Estonia with regard to gambling:

- a) To ensure that, in addition to identifying customers, verification of the information provided is mandatory.
- b) To ensure better *fit-and-proper* verification of beneficial owners, as the Gambling Act did not use the term "beneficial owners", but referred to the owners of material holdings (significantly less - 10% - than the holding rate of the beneficial owners and included both direct and indirect holdings).
- c) In addition, it was recommended that RAB would extend the guide to remote gambling operators.

The above recommendations have been met and the *fit-and-proper* control of both the owners and the employees of the gambling operators is thorough in practice (this is ensured by the supervisory authority MTA). Also, during the recently concluded Moneyval IV evaluation visit, it was found that Estonia has successfully resolved the issues of the previous round and the control over the sector is effective³.

² The survey organized by the Estonian Chamber of Commerce and Industry was a great help here.

³ Key Preliminary Findings of Estonia MONEVVAL 4th follow up evaluation visit, pg. 6

At the end of 2012 6 companies organized gambling in gambling venues⁴, and as at the end of 2012 the permits for organizing remote gambling had been issued to 5 companies⁵. According to the 2012 annual report, the casinos employed 768 people. The number of companies and individuals operating in the sector is therefore low and, based on this indicator, no additional risk concentration is likely to be observed in the near future. The rating of vulnerability is therefore low - L - *low*.

As the gaming machines of gambling operators, as well as the gaming equipment used for organizing remote gambling, are connected to the databases of MTA through an electronic accounting and control system, the state supervisory authority has access to the up-to-date data of sufficient detail.

The sales revenue of the organizers of games of chance in 2012 was 102,181,149, the volume of assets amounted to 117,208,155 euros. Based on these indicators, it is one of the largest among the business sectors under consideration. The rating is therefore high - H - *high*.

As in the case of remote gambling operators the distinction based on the annual reports was not justified in order to obtain data, the data of the so-called “electronic accounting and control system” of the Tax and Customs Board have been used in this case. The electronic accounting and control system is an electronic communication network that connects the gaming machines of the gambling operator or additional games of chance with other electronic gaming equipment used for organizing gambling or gaming equipment used for organizing remote gambling. The gambling operator should ensure the possibility to connect the electronic accounting and control system to the information system of the Tax and Customs Board in order to provide access to the data required by the Gambling Act, including the turnover data of the operator.

According to the system, the turnover of remote gambling operators in 2012 was 369,450,553 euros, which is high - H - *high*.

Although the share of cash in organizing the games of chance is declining and is being replaced by various card and voucher systems, the services in casinos are often paid for in cash and this is a cash-intensive sector. No cash is used for remote gambling - online gambling. The ratings are therefore, respectively, high - H - *high* and low - L - *low*.

In case of both casinos and remote gambling operators, the share of customers resident in another country is relatively higher than average. Certainly, also for regulatory reasons - for example, one of the permitted locations of casinos is located in the same building as the hotel, and the Advertising Act also allows advertising of casino services on board of aircraft or ship

⁴ As of November 2013, <http://www.emta.ee/index.php?id=32822>

⁵ 8 licenses like this had been issued by the end of 2013.

engaged in international passenger transport or in the airport/port (§ 21 (1) of the Advertising Act). Therefore, it is not necessary to look for separate justifications for the above-average share of foreign residents in the context of anti-money laundering of gambling operators - this is a difference created by the state gambling policy and regulations, which does not involve significant additional money laundering risks. These reasons should also be taken into account in the risk assessment: the risk is low (remote gambling) and medium (casinos).

Regarding the share of higher risk customers, we asked for an assessment from the market participants who have established internal rules of procedure in accordance with § 30 of RahaPTS, including the special cases of application of due diligence measures that are applicable to higher risk customers according to law. Thus, it can be assumed that in order to fulfil the obligations arising from the law, the market participants have themselves assessed the share of high-risk customers and the facts of providing services to high-risk customers are known to the market participants. In the responses of market participants, the share of such customers was assessed as very low (0%), as for the reasons listed in the previous section, non-resident customers in the sector (who are normally served) could not be considered high risk without additional customer risk indicators (especially PEP status). The gambling operators have no contact with bearer shares and trusts as well as private banking.

RAB has not recently identified any significant indications of money laundering in this sector. The sector fulfils the reporting obligation satisfactorily: the reports are sent both on suspicion of money laundering and on the basis of amount.

2012	Casinos	Remote gambling organizers
STR ⁶	10	4*
CTR ⁷	571	

* Remote gambling operators classified suspicious transaction reports as “amount-based” but submitted a “suspicious” report (RAB) in terms of content.

The module assesses the vulnerability ratings of the sector as medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulations in the gambling sector is very high. The Gambling Act (2008) regulates various aspects of organization in detail, but very high requirements are also set for the organizers themselves in order to qualify for a gambling organization activity license and

⁶ Suspicious transaction reports.

⁷ Amount-based reports.

organization license. In assessing the organizers great attention is paid not only to the technical and financial readiness, but also to the reputation and reliability of the organizers' owners, members of the management body (*fit-and-proper* requirements), and the conditions are set for the employees responsible for conduct of gambling. RahaPTS, in turn, imposes obligations in terms of preventing money laundering. Thus, the rating of regulations is high.

The role of the regulatory body is performed by MTA, which has 4 full-time supervisory officials. The rights and competence of MTA in exercising gambling supervision are extensive and in line with the need to ensure the effectiveness of regulations in the sector. RAB also has supervisory powers, which performs supervision over the compliance with the requirements of RahaPTS. If necessary, it is also possible to carry out supervision jointly. 4 employees are involved in supervision in RAB, there are no employees specializing in the gambling sector.

Although the Estonian Gaming Operator Association does not have a code of ethics, the sector has regulated its activities to some extent by the statutes of the Association and self-regulation should be considered effective and complementary, by taking into account the level of detail of state regulation. Therefore, ethical standards have been assessed as high in this sector.

RAB has assessed the adequacy of reports as high and valuable information, which is why the reports sent from the sector are under increased attention.

Summary

The sector's vulnerability rating, together with control measures, is ML - *medium low*. On a scale of 0-1, casinos have a vulnerability of 0.25 and a remote gambling sector has a vulnerability of 0.22.

For the above reasons, it is unlikely that better regulation or supervision of this sector is necessary and the focus should be on maintaining the achieved level. The trends in the sector are changing: the number of gaming venues has rather decreased, while remote gambling operators have added. Therefore, the possibility of training employees could be offered and RAB should cooperate in the field of supervision with MTA.

Training	Supervision	Changes in legislation
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Real estate agencies and real estate rental market

Structural indicators

The real estate agents who mediate purchase and sale transactions and real estate agents who offer rental premises are not very differentiated in Estonia - as a rule, the companies offer both

services at the same time, which is why it is reasonable to look at these sectors together in this analysis.

Only the low awareness of the representatives of the sector was mentioned about this sector in Moneyval's third evaluation round. After the third evaluation round, RAB has performed supervision of the sector and organized trainings. At the same time Moneyval's evaluators have found in the initial assessments of the fourth round of evaluation that real estate agents in particular need additional training and guidance.

This is a significant number of players as well as a large business sector. In 2012 1,087 companies operated in this field of activity, employing an average of 523.5 employees. It is thus a large economic sector, rated high - H - *high*.

As real estate is a carrier of high value, the turnover of companies is correspondingly high, a large part of which is the income from commissions. The sales revenue in 2012 was over 37 million euros, the volume of assets exceeded 171 million. The rating is therefore medium - M - *medium*.

Compared to the bank transfers cash is used less, the resources of credit and financial institutions are heavily involved, and thus additional controls are in place both for the origin of assets and for counterparties by the financial sector.

The share of non-resident and foreign transactions was estimated by the market participants at about 3%. The same share is also reflected in the responses of market participants as to higher risk customers. Although more than half of the companies (564) indicated exports in the annual report, the volumes were small, by reaching only 967,034 euros. Thus, the higher risk customers in this sector are mostly non-resident customers, but their rate of occurrence is significantly low.

In 2012 the RAB received only 1 report from this sector, which was amount-based (the service was intended to be purchased for a large amount of cash); given the size of this sector, 1 report per year may not adequately reflect risks. There were no reports from the real estate rental sector in 2012. However, there are no other data and indicators that could characterize the increased vulnerability of the sector. Thus, the rating is low - L - *low*.

The vulnerability indicators of the sector are assessed by the module as medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulations is highly valued in the real estate sector, the field of prevention of money laundering and terrorist financing is regulated by RahaPTS, and RAB has issued guidelines,

although RAB has not issued guidelines only for a specific sector, but in practice general guidelines are used:

- Form of the report to be submitted to the Financial Intelligence Unit and instructions for its completion
- Guidelines for following due diligence obligations without being in the same place with the person or customer
- Guidelines on the characteristics of money laundering suspected transactions
- Guidelines on the characteristics of terrorist financing suspected transactions

The supervision of the sector's compliance with the rules of RahaPTS is exercised by RAB. The supervision department has 4 employees (head and 3 supervisory officials).

The sector has regulated its own activities by adopting "Good practices"⁸ in the Association of Estonian Real Estate Firms. This control measure should be assessed as high - H - *high*, as it indicates a sense of the need for self - regulation and positive developments.

Although notaries send suspicious transaction reports as to real estate purchase and sale transactions, no reports are received from the notaries for real estate rental transactions, and the reporting activity in the sector should be further promoted.

Summary

The vulnerability rating of the sector was moderately low in case of real estate brokerage - ML - *medium low* and in case of real estate rent it was also moderately low - ML - *medium low*. On a scale of 0-1, the vulnerability rate of the real estate brokerage sector is 0.24 and the vulnerability of the real estate rental market is 0.33.

According to the preliminary assessment it is not necessary to change the regulations, but it is necessary to provide additional training to real estate rental brokerage companies and to develop sector-specific guidance material in RAB.

Training	Supervision	Changes in legislation
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Traders - precious stones and gold

Structural indicators

The regulation of traders is probably one of the issues where the regulation of the prevention of money laundering and terrorist financing in Estonia has gone beyond international standards to

⁸ http://www.ekfl.ee/web/ekfl/head_tavad

the most important extent. International standards expressly require only special rules to be applied to traders in valuables. The stricter regulation is partly due to the Money Laundering Directive III, which stipulates that traders accepting cash payments from 15,000 euros onwards are also subject to the directive. This limit covers all traders, including gemstones and gold traders. However, Estonia's RahaPTS has regulated this area even more strictly: traders in precious stones and metals are the obliged entities pursuant to law regardless of the use of cash. Since 18 May 2012 all persons engaged in the purchase or wholesale of precious metals, precious metal products, except precious metals and articles of precious metal used for production, science and medicine, or precious stones are obliged entities pursuant to § 3 (1) 6¹) of RahaPTS.

The issues related to this sector have not been described in the course of Moneyval's evaluation rounds.

It is not a large sector of economy in terms of the number of companies (17) or the number of employees (80). However, the sales revenue is remarkable at 160,910,843 euros.

However, according to MTA and RAB, this sector still has a relatively high cash flow compared to other traders' sectors and also considering the relatively high price of items to be bought and sold. The share of higher risk customers was not considered high by the supervisory authorities, nor is the share of foreign customers very high. At the same time it is noteworthy that although only 8 companies referred to the export of precious metals in their annual reports, the total export amount is over 22 million euros. Thus, the assessment of this aspect is medium - M - *medium*.

Considering the volumes and companies of the whole sector, the share of higher risk customers is unlikely to be high, which is why this indicator has been assessed as low - L - *low*.

In 2012 no reports were received from the sector - neither a suspicious transaction nor a large amount of cash - which may be due to the lack of awareness in the sector.

Considering the structural indicators, the vulnerability to money laundering in the calculation of the module is medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulations of traders in precious stones and gold is medium. The sector is mainly regulated by RahaPTS. The certain obligations for the companies engaged in the field of precious metals also arise from the Precious Metal Articles Act. However, there is currently no sector-based regulation for precious stones in Estonia (for example, there is no legal definition of precious stones).

The supervision is performed by RAB, which has 4 supervisory officials. There is no organization that sets additional regulations or standards. The tasks of the precious metals testing laboratory are accredited to be performed by the state-owned AS Metrosert (their subunit Assay Office “Eesti Proovikoda”). No self-regulation of the information sector or trade union/professional association was found, so there is no information on professional standards and codes of ethics and it is rated low - L - *low*.

As the sector has not sent any reports itself, but RAB pays particular attention to the reports about this sector, it should be concluded that the adequacy of the reports is currently insufficient (low - L - *low*).

Summary

The sector’s vulnerability rating was medium – M – *medium*. On a scale of 0-1 the vulnerability rate is 0.40.

For the above reasons, the adequacy of regulations in this sector, and in particular control measures, needs to be further analyzed, as well as the need to clarify or amend legislation. At the same time good results can also be achieved through more effective supervision, which, given the low number of companies in the sector, should not require additional resources from RAB. Certainly, due to the low reporting activity and/or the expected low relevance of reports, additional training opportunities and guidance materials need to be provided to the sector.

Training	Supervision	Changes in legislation
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Traders - cars and boats

Structural indicators

The regulation of traders is probably one of the issues where the regulation of the prevention of money laundering and terrorist financing in Estonia has gone beyond international standards to the most important extent. International standards expressly require only special rules to be applied to traders of valuables. The stricter regulation is partly due to the Money Laundering Directive III, which stipulates that traders accepting cash payments from 15,000 euros onwards are also obliged subjects of the directive.

It is a medium-sized economic sector with several companies, more than 3,000 employees, but also the highest aggregate turnover figures: more than 1.5 billion in 2012.

In case of the companies engaged in the sale of cars and boats the use of cash is very rare, only 1.3-11.6% (the companies' own assessment⁹). The customers also very often use the help of a credit or financial institution to buy a car/boat and therefore go through additional checks to prevent money laundering and terrorist financing.

The share of international transactions can vary significantly between different companies, ranging from 0.5% to 8%. 8.2% of the questioned car/boat traders' customers were foreign residents.

The reporting activity of the sector is satisfactory; in 2012 RAB received 20 suspected money laundering and 169 amount-based reports.

The above aspects give a medium - M - *medium* rating for the sector's vulnerability risk in the module.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

There are no additional sector-specific regulations regarding the sale of cars or boats, but RahaPTS applies according to the rate specified by law, i.e. from the receipt or issue of a cash amount of 15,000 euros, whether as a one-off transaction or related transactions.

The supervision is performed by RAB (4 supervisory officials). However, the interest and level of self-regulation of the sector is significant and worth mentioning. The Estonian Vehicle Dealers and Services Association (AMTEL) is active both in training the sector and in advocating for the interests of the sector. Self-regulation is enshrined in the statutes of this association.

RAB considers that the compliance with the reporting obligation is satisfactory and the reports are given above-average attention due to the specifics of the sector.

Summary

Taking into account both structural indicators and control measures, the vulnerability assessment of the sector was medium low - ML - *medium low*. On a scale of 0-1 the sum of the vulnerability indicators is 0.19.

In view of the above, the focus should be on maintaining the status quo, including paying attention to the training of car and boat dealers. RAB should develop sector-specific

⁹ Answers to the survey of the Estonian Chamber of Commerce and Industry in spring 2013.

recommendations and guidance materials to ensure a more uniform implementation of the obligations arising from RahaPTS. Separate consideration should be given to how to improve communication between a large number of businesses and public authorities. It would be possible to additionally involve a representative of AMTEL among the members of the Advisory Committee of Market Participants and support the creation of a subsection on anti-money laundering topics on the website of the respective institution.

Training	Supervision	Changes in legislation
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Traders - art and antiques

Structural indicators

The traders of art and antiques belong to the group of obliged entities within the meaning of RahaPTS, if they accept cash within 15,000 euros from their customer, regardless of whether it is a one-time transaction or several related transactions.

It is a small business sector - 149 companies, 244 employees. The sales revenue in 2012 was a little over 6.3 million euros, at the same time assets cover as much as 13.7 million euros.

The cash turnover can be quite high, non-cash turnover is common only for the companies selling goods through an online store. The turnover is mostly in cash at fairs-exhibitions, where there are quite a lot of buyers-sellers. The share of international customers is also low - only 1-5%. The share of non-resident (i.e. higher risk) customers is 10-15%.

In 2012 no suspicious transactions in this sector were reported to RAB.

The structural indicators give a low - L - *low* level of vulnerability to money laundering regarding the companies selling art and antiques.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

There are no additional sector-specific regulations related to the sale of art or antiques, but from the cash amount of 15,000 euros onwards, RahaPTS also applies to sellers of art and antiques. Similarly to other traders, the supervisory authority is RAB which has 4 supervisory officials. There are no known additional ethical norms and standards. According to RAB, the use of art and antiques for money laundering is not a characteristic trend in Estonia, therefore there is no reason to overemphasize the low reporting activity. RAB's focus on reports is medium.

Summary

Taking into account both structural indicators and control measures, the vulnerability assessment of the sector in this module was medium low - ML - *medium low*. On a scale of 0-1 the sum of the vulnerability indicators is 0.26.

In view of the above, more attention should probably also be paid to training in this sector. However, as RAB estimates that the use of the sector for money laundering is unlikely, there is no need for sector-specific guidelines or amendments to the law.

Training	Supervision	Changes in legislation
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Traders - scrap metal

Structural indicators

No comments or recommendations have been made in the international evaluations in this sector so far. Scrap metal traders belong to the group of obliged entities within the meaning of RahaPTS, if they accept cash within the amount of 15,000 euros from their customer, regardless of whether it is a one-time transaction or several related transactions. However, cash transactions are not allowed in this sector¹⁰.

The number of companies operating in this field is average: although the number of companies remained at 195 in 2012, the average number of employees at that time was 7,042. However, the turnover volumes are higher than average, the total sales revenue according to the annual reports of the financial year 2012 was 844,775,670 euros and the volume of assets reached 695,218,593 euros. Most of the turnover is made in account money - by transfers, but cash turnover cannot be completely ruled out.

The share of international customers and transfers is medium - M - *medium*. Many companies have moved their activities abroad, the total export turnover was 435,135,104 euros. However, there is no data on customer profiles or information on why the sector could be considered attractive to higher risk individuals such as PEPs and non-residents.

The circumstances indicating money laundering have not been linked to this sector, but there have been some problems with tax offences and other types of crime, such as misdemeanours and crimes against property.

¹⁰ § 107 of the Waste Act stipulates that upon the buying-up of waste metal and commercial distribution of bought-up waste metal, the waste metal shall be paid for by way of a non-cash settlement in the form of a transfer from the bank account of the buyer to the bank account of the seller. Cash settlement upon the buying-up and further distribution of waste metal is prohibited.

The traders in scrap metal did not send suspicious transaction reports to RAB in 2012.

The above circumstances give the medium rating of structural indicators in this module the medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulations is assessed as high in this case - RahaPTS expands in accordance with the general regulations of traders and the relevant general guidelines of RAB. The supervision is performed by RAB within the limits of its entire competence (4 supervisory officials).

There are no written ethical and professional standards known in the sector.

RAB pays close attention to the information received from the sector. Although no reports were received in 2012, this may rather indicate a low awareness of the sector and/or a lack of willingness to cooperate.

Summary

The vulnerability of the sector is assessed by the module as medium in the above circumstances - M - *medium*. On a scale of 0-1 the rating is 0.48, which is also the highest indicator in the sample of the obliged entities involved in this analysis.

The mitigation of risks of the sector through regulatory measures should be further analyzed. Given the other types of crime involved, in particular crimes against property, the public interest may be more in line with (or even higher than) the interest in regulating pawnshops, so it is questionable whether covering the sector with anti-money laundering and anti-terrorist financing regulations and requirements is appropriate only for large cash transactions.

RAB should prepare an analysis of the activities of various scrap metal companies from the point of view of crimes against property and the measures necessary to prevent it, including proposals to amend legislation.

Training	Supervision	Changes in legislation
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Lawyers

Structural indicators

The previous (III) round of Moneyval evaluations criticized the lack of awareness of the sector among lawyers. After the third round of evaluation, in-service training has been conducted, and the Bar Association organizes relevant information days on a regular basis. The instruction materials of the Bar Association have also been updated.

Only members of the Bar Association can act as lawyers. There are 846 of them in Estonia, operating in 185 law firms all over Estonia. The share of turnover and cash in the activities of lawyers is small and there should be no additional risks to the sector. By contrast, the share of international clients and cross-border turnover is higher than average: around 20% of turnover is generated by the cross-border provision of services and the number of international transactions per lawyer is estimated at 5-10 per year. According to the submitted annual reports¹¹, the export turnover was 12,502,305 euros.

The occurrence rate of customers with a higher risk profile is not uniform in the sector. 8 out of 10 lawyers confirmed that they had virtually no contact with PEPs or other higher-risk non-resident clients. However, 2 out of 10 lawyers estimated the proportion of such clients to be less than 50%. Therefore, the share of customers with a higher risk profile in the sector as a whole is assessed as low.

The reporting activity and the quality of reports have steadily improved in recent years. In 2012 3 suspicious and 1 amount-based reports were sent. In this sector awareness has visibly improved due to regular training and supervisory procedures. Therefore, despite the small total number of reports, the risks of compliance with the reporting obligation have been assessed as low - L - low.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The measures to prevent money laundering and terrorist financing have been directly or indirectly mentioned in several guidelines approved by the management board of the Bar Association.

- Law firm's rules of procedure for fulfilling the obligation to prevent money laundering and terrorist financing (2008)
- Recommended guidelines for lawyers to prepare a report to Financial Intelligence Unit (2008)
- Guidelines for safekeeping of client assets (2009, 2010)
- Guide to managing the law office (2012)

¹¹ NB! The annual report was not duly submitted by 14 law firms, therefore their indicators have not been taken into account in this analysis.

The Bar Association carries out supervision within the framework of other supervisory activities, including regular on-site inspections in 20-25 offices every year. As part of the inspection, the compliance with the requirements of RahaPTS is also checked - whether the law firm has adopted the necessary internal rules and procedures; the office staff are asked to describe how the rules of procedure are applied in practice. The application of customer due diligence measures is checked on a random basis from customer files to determine which documents are requested to identify the customer, beneficial owner, etc.

The Bar Association exercises supervision within the framework of regular supervisory activities, which are performed by 3 officials of the Bar Association and the management board who approves the supervision reports. Training is organized for members on a regular basis, including at least once a year on the topics of prevention of money laundering and terrorist financing.

Pursuant to § 43 (1) of the Bar Association Act, when providing a legal service, the attorney is independent and follows the law, the legal instruments and resolutions of the bodies of the Bar, the rules of professional ethics, good manners and own conscience. Thus, the requirement for the regulation of professional ethics in this sector already applies at the level of law, and the Code of Conduct of the Bar Association was adopted in April 1999 by the General Assembly of the Bar Association, which, among other things, sets professional and ethical standards for lawyers. The CCBE¹² Code of Conduct was adopted at the annual meeting of the Bar Association in March 2009.

The sector-specific risks should also be taken into account when assessing the adequacy of compliance with the reporting obligation. For example, it is possible for a lawyer to submit a report not on the customer but on another person at the customer’s request: thereby obstructing the work of law enforcement authorities.

The control measures in their set will be rated “high” - H - *high*, which is also justified given the degree of regulation, restrictions and control mechanisms in the sector.

Summary

The vulnerability of the sector is assessed as low - L - *low*. On a scale of 0-1 the rating is 0.14.

In this sector the focus should be on maintaining the achieved level, while continuing to provide regular training and support supervisory activities and providing advice on the development of guidance materials.

Training	Supervision	Changes in legislation
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¹² The Council of Bars and Law Societies of Europe

Notaries

Structural indicators

The awareness of notaries has left a positive impression during the previous evaluation rounds, and during the last evaluation round (III round, 2008) only a recommendation was made to RAB to establish a separate guide for this sector. RAB has complied with this recommendation and established guidelines¹³.

At the time of preparing the risk assessment 94 notaries had been appointed and worked in Estonia. In order to assess the occurrence rate of international clients, it is reasonable to use the data of the Land Board on real estate transactions in this sector. 3.39% of the transferors and 4.07% of the acquirers of the immovable property come from another country. Thus, the occurrence rate and risk of such customers is low - L - *low*. The same applies to the occurrence rate of customers with a higher risk profile.

The reporting activity of notaries is one of the highest among DNFPBs: in 2012 39 suspected money laundering, 2 suspected terrorist financing and 86 amount-based reports were sent.

The satisfactory number of transaction reports reflects the high level of awareness in the sector, which has increased through regular training and supervision. For the above reasons, the indicators referring to money laundering also give a low rating of L - *low*, as does the aggregate vulnerability index based on sector - specific indicators.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

As regards regulations, in addition to the general acts in force, the “Instructions for establishing the rules of procedure for the application of due diligence measures provided for in the Money Laundering and Terrorist Financing Prevention Act and the International Sanctions Act and the rules for internal control of their compliance approved at the meeting of the Chamber of Notaries on 26 March 2010” should be pointed out in case of notaries.

In case of notaries, there is also a so-called SRO or self-regulatory organization: the Chamber of Notaries. The supervision responsibilities and competence are divided between the Chamber of Notaries and the Ministry of Justice. Pursuant to § 5 of the Notaries Act, the Ministry of Justice

¹³ Available at <https://www.politsei.ee/dotAsset/201747.pdf>

exercises supervision over the professional activities of notaries. The Ministry of Justice may involve the Chamber of Notaries in exercising supervision. The Ministry of Justice may delegate the supervision over the compliance with the requirements of the Money Laundering and Terrorist Financing Prevention Act and legislation established on the basis thereof, as well as supervision in other individual matters to the Chamber of Notaries. The Ministry of Justice may issue instructions for the exercise of supervision in the field of delegated supervision and amend the decisions adopted by the Chamber of Notaries in these areas.

Pursuant to § 44 (2) 31) of the same act, the Chamber of Notaries supervises the compliance of notaries with the requirements of the Money Laundering and Terrorist Financing Prevention Act and legislation established on the basis thereof. In addition, the Board of the Chamber of Notaries has approved the procedure for supervision of the prevention of money laundering and terrorist financing on 2 August 2010.

The organizational role of regulations and supervision in control measures is thus rated high - H - *high*.

The activities of notaries are supervised by the Ministry of Justice, by also involving the Chamber of Notaries. The Chamber of Notaries supervises the compliance with the requirements of the Money Laundering and Terrorist Financing Prevention Act and legislation established on the basis thereof within the framework of supervision performed by the Ministry of Justice. In 2011 and 2012 the total of 30 inspections were carried out. 2-3 officials (2 from the Ministry of Justice and 1 from the Chamber of Notaries) are involved in the supervision procedure, the supervision report is submitted to the Minister of Justice. There are no separate funds in the budget of the Chamber of Notaries for supervision, as it is part of the daily tasks of the Chamber of Notaries. Supervision as a control measure can therefore also be assessed as high - H - *high*.

In their activities notaries also follow the restrictions and rules established in the Code of Ethics¹⁴, which is why the assessment of this indicator is high - H - *high*.

According to the information of RAB the high reporting activity of notaries and the adequacy of reports are at a good level. The notaries can be considered a valuable source of information, for example, in connection with the reporting of suspicions in real estate transactions in cash.

Summary

In the sum of structural indicators and control measures, the vulnerability indicator of notaries is low - L - *low*. On the scale 0-1, the indicator is 0.04, but it should be taken into account that the

¹⁴ The Code of Ethics for Notaries is available at: <http://www.notar.ee/5956>

module allows not to consider the turnover indicators and cash turnover in case of notaries, and the corresponding places in the table have also not been assessed.

In case of the given sector, the focus should be on maintaining the achieved level, while continuing to provide regular training and support supervisory activities and providing advice on the development of guidance materials.

Training	Supervision	Changes in legislation
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Other legal service providers

Structural indicators

The latest evaluation report from MONEYVAL (evaluation round III) dwells upon RAB's obligation to identify also other legal service providers who are not the members of the Bar Association.

According to the 2012 annual reports of other legal service providers, this is a medium-sized business sector with 772 companies and 451 employees. The annual sales revenue exceeded 24 million euros and the share of exports in sales revenue was slightly over 5 million euros in case of 390 exporting companies.

The available data do not allow firm conclusions to be drawn about the proportion of legal service providers' customers from other countries or at higher risk.

In 2012, however, the sector received 1 report suspected of money laundering which refers to the existence of certain awareness. It is expected that the reporting activity in this sector could be comparable to, for example, the reporting activity of lawyers.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulation is low, especially compared to the regulated part of the legal services market. General acts in force: RahaPTS, International Sanctions Act and the general guidelines of RAB. As other legal service providers are obliged entities pursuant to § 3 (2) of RahaPTS, only under certain conditions, RAB has used remote control instead of the on-site control while performing supervision. The advantage of the remote control is the raising of awareness of a larger number of subjects in a short period of time, and it is also easier to check the fulfilment of the condition of being an obliged entity within the meaning of RahaPTS. The scientific surveys have also indicated the advantage of remote control in raising the awareness of the requirements of RahaPTS. As a result of the inspection it can be stated that approximately 13% of other legal service providers are obliged entities.

The supervision department of RAB has 4 employees, 3 of whom are supervisory officials and 1 is a manager.

As this is an unregulated profession, there is no data on the requirements of professional ethics, which is why the assessment of this indicator is low - L - *low*. However, it should be acknowledged that, although there are few reports, they have been of a fairly good quality, so that the adequacy rating for the compliance with the reporting obligation is high - H - *high*.

Summary

In the summary of control measures and structural indicators, the assessment of the sector in this module is medium-low - ML - *medium low*. On a scale of 0-1, the risk of vulnerability is defined as 0.21.

The improving of the sector's awareness-raising and supervision is quite resource-intensive due to the size of the sector. The financial need for more effective supervision should be further assessed and a corresponding increase in the budget should be requested by RAB. The provision of training should definitely be continued.

However, as the coverage and involvement of this sector in money laundering schemes has not been proven in practice, it is probably not necessary to introduce additional regulations for legal service providers at the moment.

Training	Supervision	Changes in legislation
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Auditors

Structural indicators

The regulatory developments in this sector in recent years have been remarkable. However, in its report of the third round of evaluations, MONEYVAL has highlighted the sector's shortcomings in general awareness of the issues of money laundering and terrorist financing. RAB, as well as RM, have repeatedly trained auditors.

In structural terms, it is a medium-sized business sector, with 347 employees in 123 companies in 2012. The turnover of just over 21 million and the volume of assets of over 22 million can be rated as M - *medium* in this module.

The audit sector also seems to be characterized by a relatively high share of companies engaged in the export of services. As many as 109 out of 123 also recorded exports in the annual report, the total amount of which amounted to 7,161,192 euros. The share of higher risk customers is less than 2%. The indicators should be assessed as low - L - *low*.

The reporting activity has greatly improved in recent years. In 2012 the total of 17 amount-based reports were sent by the auditors.

Based on the structural indicators, the module's assessment of the sector's vulnerability is low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The level of regulations is high, by involving all general acts and the Auditing Act, so the rating is high - H - *high*.

The supervision is performed by the oversight board of the Board of Auditors and RAB (4 supervisory officials) in the aspects of prevention of money laundering and terrorist financing. The supervision aspects are also rated high - H - *high*.

The Board of Auditors has also established standards and good practice¹⁵, which is why this indicator is also rated high - H - *high*.

RAB has assessed the reporting activity of the auditors as very positive. An important added value of reports in this sector lies in the possibility of “double-checking” the activities of another sector, such as traders. It is also reasonable to use the subject status of this sector in the fulfilment and control of the amount-based reporting obligation. Auditors may provide important information about the economic activities of customers and the transactions that occur there, particularly as regards the identification of a “suspicious matter” in the activities of a particular entity. The adequacy of reports can also be assessed as high - H - *high*.

Summary

In the combination of structural indicators and control measures, the module gives a combined vulnerability index as low - L - *low* and the rating of 0.11 on a scale of 0-1.

For the above reasons, the focus should also be on maintaining the level achieved in this sector, while providing support for regular anti-money laundering and anti-terrorist financing training and better cooperation between supervisory bodies in supervisory activities.

No further regulatory changes are considered necessary by the authors of this analysis.

¹⁵ <http://www.auditorkogu.ee/?p=7&sd=fe0da80e64054d0ccd99987171e0e80a>

Training	Supervision	Changes in legislation
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Trust and company service providers

Structural indicators

The latest MONEYVAL's evaluation report drew attention to the need for pre-authorization of these service providers in accordance with international standards, even if the services are provided only as an ancillary activity. This recommendation was implemented and the definition of trust and company service providers was changed in RahaPTS. According to the applicable law, a trust fund and company service provider is a natural or legal person who, in the course of its economic or professional activities, provides at least one of the following services to a third party:

- 1) establishment of a company or other legal person;
- 2) acting as a manager or member of the management board in a company, partner in a general partnership or in such a position in another legal person, as well as arranging for another person to take up a position specified by him or her;
- 3) enabling the use of the address of a place of business or establishment, including the use of an address as part of contact details or the reception of postal items, and the provision of other related services to a company or other legal person, partnership or other such legal entity;
- 4) acting as a representative of a partnership or other such contractual legal entity or appointing another person to that position;
- 5) acting as a shareholder's representative or arranging for another person to act as a shareholder's representative, except in the case of the companies whose securities are admitted to trading on a regulated market and which are subject to disclosure requirements or equivalent international standards in accordance with the European Community legislation.

Pursuant to § 52 (1) 2) of RahaPTS, all persons providing such services are required to register with the register of economic activities (MTR).

At the time of compiling this analysis, 59 companies had the respective registration, of which 48 companies submitted their annual report on time, and in 2012 they employed an average of 96 people. The total sales revenue of these companies was 4,425,392 euros. 34 companies were engaged in exports with a total turnover of 3,568,944, of which the share of exports was 823,861 euros. Thus, in terms of general indicators, these are rather service providers that play a minor role in the Estonian economy, which is why the given rating is low - L - *low*.

There is no precise data on the practice applicable in this sector - whether it is more of an export service or whether the majority of customers are still local businesses and individuals. However, taking into account the content of the service and the experience of other countries, the share of foreign clients can be assessed as medium - M - *medium*.

There were no reports of suspicious transactions or large amounts of cash in this sector in 2012. It is not known whether the lack of reporting is due to low awareness or a sector-specific way to avoid riskier customers. However, we estimate the lack of reports for this sector to be medium - M - *medium*.

In conclusion, the vulnerability risk due to the structural indicators of the sector corresponds to the rating - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

In terms of regulations, the level is high, the sector is specifically covered by the group of obliged entities within the meaning of RahaPTS, and all other general regulations are also extended. The rating is therefore high - H - *high*.

The state supervision is exercised only by RAB which has 4 officials in its supervision department.

It is known that there are no standards or requirements for professional ethics, nor are the companies in this sector concentrated in a professional association that could also deal with self-regulation.

RAB would consider the reports from this sector to be valuable and would pay increased attention to these, insofar as the service may also include the mediation of potential men of straw in the management bodies of the companies.

Summary

In conclusion, the indicators resulting from both structural indicators and control measures are rated medium low - ML - *medium low*. The rating is 0.36 on the scale 0-1.

Given the relatively small size of the sector and the small number of companies providing such a service, training and risk-based supervision could work best.

As the main risk lies in the general nature of the activity - to provide convenience services to companies - the main need for regulation stems from the objectives of preventing money laundering and terrorist financing. Therefore, it would be worthwhile to further analyze the practices of companies operating in this sector in Estonia and, if necessary, make proposals for the establishment of requirements in legislation.

Training	Supervision	Changes in legislation
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Accounting services and tax consultants

Structural indicators

MONEYVAL has not mentioned accounting service providers and tax advisory service providers in its previous evaluation reports. It is a structurally remarkable business sector.

The large total number of companies is justified, as in general it can be stated that the number of the smallest companies in Estonia is very high, which is why it can be assumed that mostly smaller companies are interested in accounting services as well as tax advice. However, it can be concluded from the 2012 annual reports that the sector is also active in exporting its services to other countries. The share of cross-border transactions is thus rated as medium - M - *medium*. The main group of customers is made up of smaller Estonian private limited companies, NGOs and public limited companies, and the occurrence rate of higher - risk customers is therefore probably low - L - *low*.

Unfortunately, this sector also does not stand out with high reporting activity: in 2012 only accounting service providers submitted reports as follows: 1 report was suspicion based and in 3 cases an amount-based report was submitted.

The aggregate vulnerability calculated on the basis of structural indicators is therefore medium - M - *medium*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

With regard to control measures, it should once again be noted that the sector has been explicitly identified as an obliged entity which is subject to all general requirements and obligations of the prevention of money laundering and terrorist financing. The indicator of the level of regulations is rated as high -H- *high*.

The supervision is performed only by RAB, the supervision department of which employs 4 officials.

The Association of Estonian Accounting Firms has established good practice and the sector is characterized by concentration in professional associations and various associations to represent their interests. In-service training has also been organized fairly well and "good practice" has been established. Thus, this indicator can be rated high - H - *high*.

RAB considers the adequacy of reports to be important, as the sector is sufficiently trained and it can also be expected that information important for the prevention of money laundering will

be received. However, it should be noted that the reporting activity is not high given the size of the sector and this gives the STRs an adequacy rating of high - H - *high*.

Summary

In conclusion, both the structural indicators and the control measures in their set provide an overall medium low - ML - *medium low* rating of the vulnerability of the sector. On a scale of 0-1 the rating is 0.25.

As the overall rating is low enough, the focus should be on maintaining the achieved level. At the same time, supervising the sector with a large number of companies and advising and training them is also resource-intensive. At the same time the risks are reduced by the close interaction of the sector, the interest in ensuring the level of the sector (as indicated by the professional standard set by the companies themselves). Thus, it may be most appropriate to strengthen the relations with the professional associations of the various accounting and tax advisory service providers, provide information and training through them, and to request the necessary information and links to be made available on their websites. Trainings should definitely be continued.

In the present case no further regulatory changes are likely to be necessary.

Training	Supervision	Changes in legislation
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Bankruptcy trustees and bailiffs

Structural indicators

Bankruptcy trustees and bailiffs received a general recommendation in MONEYVAL’s IIIrd evaluation round for the development of model rules of procedure, which has been done. In case of the sector it is worth emphasizing that it is a regulated profession open to the persons with legal training who have also passed an examination and been authorized to take up activities. Thus, 86 trustees in bankruptcy and 50 bailiffs are a small sector that acts in many ways similar to notaries (i.e. they are neither civil servants nor businesses in the ordinary sense of the word). Based on the size of the sector, the rating is therefore medium - M - *medium*.

According to the survey of the members of the Chamber of Bailiffs and Trustees in Bankruptcy, the respective professions estimated the share of their foreign transactions and foreign clients to be 0-5% and the share of higher risk customers to be 0-1%, which in both cases is also assessed as low - L - *low*.

The sector also sends information to RAB: in 2012 the trustees in bankruptcy sent 5 reports and bailiffs sent 1 report with the suspicion of money laundering and one report based on the amount. In both cases, it was rated low - L - *low*.

In terms of structural indicators, both professions are thus a low - risk sector, with an aggregate rating being low - L - *low*.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

Both trustees in bankruptcy and bailiffs are named as obliged entities pursuant to RahaPTS and they are subject to all relevant general regulations.

The supervision is performed by RAB (4 supervisory officials).

The Chamber of Bailiffs and Trustees in Bankruptcy has established extensive regulations for its members: good occupational and professional practice¹⁶.

RAB pays close attention to the reports sent from this sector. Both bankruptcy trustees and bailiffs have different industry-specific risks and potential exposures and information on different financial crimes. In case of bankruptcy trustees, the risk is, for example, the possible sale of bankruptcy assets for cash. In the course of bankruptcy proceedings, various schemes for the management or acquisition of a company may also emerge. In case of bailiffs, the property is transferred by auction and in the form of transfer money. At the same time, similarly to bankruptcy trustees, the information on the management, ownership and transfer schemes of different companies may be available.

In view of the above, the rating of reporting activity and relevance is high - H - *high*.

Summary

The aggregate indicator for structural indicators and control measures for both sectors is low - L - *low*. On a scale of 0-1, the vulnerability indicator is 0.04, which means that, overall, these sectors are not vulnerable to money laundering and terrorist financing.

In view of the above, the focus must be on maintaining the status quo, including the provision of regular in-service training.

Training	Supervision	Changes in legislation
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¹⁶ <http://www.kpkoda.ee/content/avaliku-poolle-lingid/hea-ametitava-0>

Pawnshops

Structural indicators

Pawnshops are not the obliged entities according to international standards, but are mentioned in the FATF supplementary materials as the sector with potential risks.

A pawnbroker is a company which, in the course of its day-to-day business, grants a short-term loan secured by a possessory pledge of movables, i.e. consumer goods or valuables.

As the FATF recommendations do not specifically mention operators in this sector, they have not been addressed in MONEYVAL's evaluation rounds either. Pursuant to § 52 of RahaPTS, pawnbrokers should register with MTR before providing the service. At present, 126 companies have the corresponding registration, of which 98 had submitted the annual report on time. In 2012 286 persons were employed in pawnshops. The turnover of pawnshops is small enough: a little over 6 million euros in total.

According to the financial statements, the share of international transactions of pawnbrokers was small - within 560,970 euros (60 companies exported). There is no evidence of the share of riskier customers. However, given the mechanisms of action in the field, most of the clients of pawnshops are still local residents and it is unlikely that the clients include high-risk persons (such as politically exposed persons). The occurrence rate is therefore low in both cases - L - *low*.

In 2012 the pawnshops have not submitted any suspicious transaction or cash transaction report to RAB. This may be due to the lack of awareness or reluctance to cooperate with or come to the attention of internal security authorities. Therefore, in the column on indicators referring to money laundering, the absence of reports has been assessed as a factor indicating a higher vulnerability, with the rating of M - *medium*.

The overall rating of the structural indicators is low - L - *low* due to the above reasons.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

Pawnbrokers are named as obliged entities in RahaPTS and are subject to all general regulations. Thus, the level of regulations can be assessed as high - H - *high*.

RAB also exercises state supervision over pawnbrokers, RAB has 4 supervisory officials.

Pawnbrokers are not concentrated in professional unions or associations, nor are there any professional ethical requirements and standards. Therefore, the additional control mechanisms

associated with the existence of ethical requirements have been assessed with the lowest possible rating - L - *low*.

Although the risks have been identified as to pawnshops that the perpetrators of property crimes may be interested in their services, the amounts involved in this sector are still relatively small. However, the absence of reports can still be assessed as a control measure with the rating low – L – *low*.

Summary

The aggregate rating of structural indicators and control measures is medium-low - ML - *medium low* for pawnshops. On a scale of 0-1 the aggregate vulnerability is 0.28.

Given the outcome of the aggregate and the structural indicators and control measures, it is important for this sector to continue to supervise the sector effectively. The results of supervision should be further analyzed to identify the key areas of concern and to consider options for reducing sector-specific risk through regulatory measures.

Training	Supervision	Changes in legislation
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Non-profit associations

Structural indicators

In the third evaluation round of MONEYVAL, in connection with non-profit associations (MTÜ), RAB was proposed to develop the guidelines for the identification of suspicious transactions by MTÜs. At the moment they are subject to general requirements.

MTÜs were introduced within the obliged entities pursuant to RahaPTS in 2012, but only in part of major cash transactions. Non-profit associations and foundations within the meaning of the Non-profit Associations and Foundations Act are obliged subjects if they are paid in cash more than 15,000 euros or an equivalent amount in another currency, regardless of whether the payment is made in one payment or in several related payments.

At the same time, the sector is significant: there are more than 22,000 non-profit associations (including apartment associations), employing more than 140,000 people. The size should therefore be assessed as high – H – *high*.

The turnover of the sector - over 769 million euros - is also high - H - *high*.

Unfortunately, general and reliable data on the use of cash could not be found.

These are legal entities carrying out very diverse activities, especially apartment associations that form a large number of MTÜs. It is estimated that MTÜs settle in cash quite a lot, but the amounts are very small - for example, collecting membership fees of sports clubs, but also collecting different fees from the members by the apartment associations, etc. However, cash amounts are significantly below 15,000 euros, which is why the indicator is rated to be low - L - *low*.

MTÜs have no contact with international clients and transactions, which is why this indicator is assessed as low - L - *low*.

Although MTÜs have already been obliged entities under certain laws since 2012, no reports were received from any of them in 2012. The lack of reports is presumably caused primarily by the fact that the preconditions for treating non-profit associations as obliged entities did not enter into force until 18 May 2012. In addition, the threshold of EUR 15,000 in cash is a sufficiently large amount to be reached rather as a related transaction over a period of time. Therefore, it is appropriate to assess the non-reporting as a low structural risk - L - *low*.

In total, the total amount of structural indicators gives the rating of M - *medium* as an indicator of money laundering vulnerability.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision. The level of regulations could be assessed as high - MTÜs are generally obliged entities pursuant to law - but in practice the effect and scope of regulations is reduced by the condition that only those MTÜs that make 15,000-euro cash transactions are the subjects. Given the Estonian context, but especially for the MTÜ sector, this threshold is probably too high. In practice, this means that a large number of MTÜs that make transactions even with potentially large amounts of cash (for example, 5,000 - 10,000) are still excluded from the group of obliged entities. The level of regulations is thus satisfactory only for an insignificant part of MTÜs, which is why this indicator has been assessed with medium rating - M - *medium*.

The supervision is carried out by RAB whose resources (4 supervisory officials) are not sufficient to carry out effective supervision in this sector. It is also difficult to identify a supervised entity status that depends on variable indicators such as the transaction threshold or when that threshold is exceeded (in case of "related transactions"). Therefore, these questions are also assessed as medium - M - *medium*.

Although MTÜs are concentrated in a representative organization - the largest of them, the Estonian Association of Non-Profit Associations and Foundations, there are no professional and ethical standards. The rating is therefore also medium - M - *medium*.

Given the partial coverage of the sector by RahaPTS as obliged entities and the consequent reporting obligation, the lack of reports is rather a sign of low awareness and lack of risk assessments. Thus, the adequacy of the reports is assessed as low - L - *low*.

Summary

The aggregate rating of structural indicators and control mechanisms for this sector is medium - M - medium. On a scale of 0-1 the rating is 0.47.

In view of the above, RAB should be provided with additional resources to supervise the sector. The financial need for more effective supervision needs to be further assessed by RAB and a corresponding increase in the budget should be requested. It should be possible to offer training. Based on the results of the supervision, the appropriateness of the threshold and its compliance with the real money laundering risks in the sector should be further analyzed. If necessary, make proposals to amend the law.

The state authorities should use the opportunity to organize in-service training and information days through a representative organization.

Training	Supervision	Changes in legislation
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DNFBPs that are not currently the obliged entities

Betting operators

Structural indicators

MONEYVAL has not previously analyzed the activities of betting operators during the evaluation rounds. The FATF's recommendations are rather aimed at regulating the activities of casinos (meaning operators of games of chance according to the Estonian Gambling Act).

At the same time, the draft AMLD IV aims to extend the requirements to the entire gambling sector, considering that different types of gambling may be endangered by money launderers to a more or less similar extent. At the same time special attention has been paid to the organization of gambling via internet, which is very common and popular also for such a subtype of gambling as betting. For the purposes of the Gambling Act (§ 3), betting would belong under the totems: totems are the games, the outcome of which depends on whether an event bet on by the player occurs or does not occur or how it occurs, whereas the event bet on by the player is beyond the control of the gambling operator, the winning of a prize depends on whether the bet turns out to be true or not and the amount of the prize depends on the amount of the bet and the winning coefficient determined before the making of the bet (betting) or percentage of the total amount of the bets as determined by the gambling operator, the number of people who bet correctly and the amount of their bets (totaliser).

4 companies in Estonia have received the right to organize totos (incl. betting) ¹⁷.

The use of cash depends mainly on whether the toto organizer has the right to organize remote gambling (via Internet) or it operates in the specific gaming venues. Half of the organizers had also applied for the permission to organize remote gambling, which means that non-cash online games were organized. Thus, the use of cash is not specific to the sector and can be assessed as low - L - *low*.

The companies accept Estonian residents with an Estonian personal identification code as customers. Due to the above, the lion's share (approximately 90%) of the customers' contributions are made through the bank link service. Other payments are made with credit cards issued in Estonia or through an e-money service provider (Moneybookers). It is possible that small contributions may be made from Estonian residents' accounts abroad or with credit cards issued by foreign credit institutions. In general, however, the share of cross-border payments and customers is low - L - *low*.

Unfortunately, there are no statistics on the share of higher risk customers. However, it is also not known that these services are actually used by the customers with a risk profile such as politically exposed persons. For the above reasons, the rating of this indicator is also low - L - *low*.

Gambling is a specific activity, so it is quite common for a gambling operator to be authorized to organize more than one type of gambling. In 2012 RAB received 3 reports from the person who has been issued a toto organizing permit among other gambling licenses, but it is not possible to determine whether the reports were submitted in connection with the organization of toto. However, this fact indicates a higher awareness and willingness to cooperate with law enforcement authorities, so the occurrence rate of the conduct referring to money laundering behaviour can be assessed as low - L - *low*.

In conclusion, the vulnerability of betting operators to money launderers is probably low - L - *low*.

Control measures

Gambling operators are generally covered by the Gambling Act, which in many respects also covers the aspects of money laundering prevention - in particular, a licensing regime is in place and effective state supervision is ensured. The persons who have a permit to organize several types of gambling, including games of chance, in most cases extend the established regulations

¹⁷ The list of licensed gambling operators is available on the website of MTA:

<http://www.emta.ee/index.php?id=32822> - by the end of 2013, there were already 7 toto organizers.

and procedures also to those activities for which there is no direct provision in the law establishing the status of an obliged entity. The level of regulations can therefore already be assessed as medium - M - *medium*.

Betting operators – toto organizers are supervised by MTA, which has entered into a cooperation agreement with RAB and may, if necessary, involve the assistance of RAB experts. MTA has currently 4 full-time supervisory officials, but they do not perform money laundering-specific supervision, but proceed from the requirements of the Gambling Act. Thus, in practice, the supervision intended to ensure the prevention of money laundering and terrorist financing does not exist and the corresponding indicator should be assessed as low - L - *low*.

Toto organizers can join the Estonian Gaming Operator Association, the statutes of which also briefly deals with the ethical standards of the field. However, no separate ethical requirements have been established, so this aspect of self - regulation can be assessed with the rating of medium - M - *medium*.

RAB has found that there are specific risks involved in organizing gambling via Internet (which in many cases is also done by toto organizers) and that reports are carefully investigated. The risk of money laundering due to credit card frauds, for example, is higher. The risks are also somewhat increased by the fact that the individuals may have caused financial problems by gambling and may be motivated to commit (new) crimes to fund continued gambling. Therefore, the control measures in this area need to be further strengthened and the assessment is medium - M - *medium*.

Summary

The aggregate rating of the risk of vulnerability to money laundering offences is medium low - ML - *medium low* for betting operators. This is mainly due to the fact that the current non-money laundering regulation is sufficiently comprehensive and effective to prevent any crime in this area. On a scale of 0-1 the aggregate vulnerability rating is 0.25.

For the above reasons, the level of risk achieved can be considered sufficient and could focus on maintaining this level. However, it should be borne in mind that the procedure of the draft AMLD IV is likely to bring this particular sector under anti-money laundering regulations anyway. On the other hand, in case of existing law, the need for equal treatment of obliged entities and other similar persons should be further analyzed. In case of Estonia, too, practice indicates that the differences in the gambling sector (on the Internet) and in the organization of totos (on the Internet) are marginal, especially in terms of managing various risks.

It is therefore appropriate to wait for the final wording of the draft AMLD IV and to prepare legislative amendments in the framework of the AMLD IV transposition process. At the same time, in-service training can also be offered to toto organizers in good time and support can be provided in updating internal procedures.

Lottery organizer

Structural indicators

The Gambling Act (2008) establishes a state monopoly on the organization of lotteries. The only organizer in Estonia with a lottery license is AS Eesti Loto.

MONEYVAL has not paid attention to the organization of lotteries in the previous evaluation rounds and has not made any recommendations in this sector. However, the organization of lotteries is included in the scope of the draft AMLD IV as a type of gambling. Though, in the course of the procedure for the draft directive, it has also been found that state monopolies are likely to have a low probability of being used for money laundering (albeit depending on their operating practices and restrictions).

In Estonia, lotteries are organized by 1 company with a share capital of 1,022,600 euros. The monopoly status gives the low rating – L – *low* as to the size of sector. At the same time, the turnover of the lottery operator is significant: over 42 million euros in 2012. Thus, this indicator is rated as medium - M - *medium*.

Organizing lotteries is a relatively non-cash activity: 40% of lottery tickets are sold online, where payment is made via the Internet bank. The remaining 60% is sold by resellers (R-Kiosk, Eesti Post, store chains, etc.), where the lottery organizer cannot assess the relation of card and cash payments, so it can be assumed that it is not significantly different from the usual one in Estonia. Thus, in case of lotteries, the intensity of the use of cash is low - L - *low*. There are no international payments related to customers (lottery players). International payments are made only to other lottery companies (jackpot payments and settlements with Viking Lotto and Eurojackpot members) and international lottery organizations (membership fees, participation fees, etc.).

International payments account for about 5% of the total turnover. This indicator is also low – L – *low*.

Regarding the percentage of customers at higher risk, the company did not want to disclose data. However, there are no practical references to a type of service that could be considered to be attractive to persons at high risk. In 2012, AS Eesti Loto did not report any suspicious transactions to RAB. Therefore, this indicator is also assessed with the rating of medium – M – *medium*.

The vulnerability of the lottery organizer to the perpetrators of money laundering is low – L – *low* based on the example of structural indicators.

Control measures

Control measures consist mainly of assessments of two aspects: the level of regulations and the adequacy/inadequacy of supervision.

The activities of the lottery operator are regulated primarily by the Gambling Act. According to the current wording RahaPTS does not apply to the lottery organizer. On the other hand, the requirements of the Gambling Act are also largely applicable to the prevention of money laundering: the requirements for the organization of the lottery, general requirements for gambling operators. Therefore, it is appropriate to assess the level of regulations as medium – M – *medium*.

No supervision of money laundering is carried out, but the lottery operator is subject to the gambling supervision of MTA and the fact that the lottery operator is entirely owned by the state and the Ministry of Finance has been appointed as the controller of the holding is also important. Therefore, effective and transparent ownership control has also been applied to the company.

Money laundering supervision in this case is absent, although gambling supervision is sufficiently thorough and should prevent all kinds of crimes. This indicator should also take into account the fact that ownership rights and supervision are exercised by the state.

Ethical and professional standards are in place in AS Eesti Loto: <https://www.eestiloto.ee/osi/loto/mission/deklaratsioon.html>, in addition, there are various requirements arising from participation in international lottery organizations. Thus, the so - called part of self-regulation can be assessed as high - H - *high*.

The use of lotteries for money laundering has not occurred in Estonia.

Summary

The module assesses the vulnerability of the lottery operator to money laundering as medium low - ML - *medium low*. On a scale of 0-1 the corresponding rating is 0.29.

The future changes in the law should be taken into account. According to the changes, the lottery operator should identify all its customers in 2016 before selling them a lottery ticket. Already now a very large proportion of customers have been identified - more than 40% of the tickets are sold to identified persons through the website. The planned changes are likely to mitigate the risks of money laundering, among other things. An additional analysis of the adequacy of the lottery organizer's obligations should be prepared before taking over AMLD IV and it should be considered whether in case of Estonia it would be reasonable (also, for example, from a certain winning amount or acceptance of a bet) to include the lottery organizer within the circle of obliged entities pursuant to RahaPTS.

Collection service

Structural indicators

Debt handling - collection companies have not been mentioned by MONEYVAL in the previous evaluation reports, nor is the sector included in the circle of obliged entities under international standards. At the same time, in the Estonian sense, it is a medium-sized business sector with 107 companies and 254 employees. The rating is therefore medium - M - *medium*.

In terms of turnover indicators, the collection service is relatively small, the rating is low - L - *low*.

The share of cash is also small, as it is preferable to use transfer services. Thus, the cash intensity rating is also low - L - *low*.

The share of international transactions is about 15%, which is quite low - L - *low*.

Unfortunately, it is not possible to estimate the share of higher-risk customers and politically exposed persons, but there is no information that these indicators could be significant in this sector. As can be seen from the small number of exporting companies, the sector can be considered to be oriented towards the domestic market, therefore the rating is low - L - *low*.

In 2012 no reports of suspicious transactions or large amounts of cash were sent to RAB in this sector. However, there are no known cases where collection companies have been used in money laundering schemes. Thus, the existence of circumstances referring to money laundering in this sector can be assessed as low - L - *low*.

The aggregate rating of structural indicators is low - L - *low*.

Control measures

There is currently no regulation of the collection service in Estonian law. Applicable general acts: TsÜS, VÕS, etc. The sector also lacks a national supervisory authority and a trade union. Both control measures are therefore rated low – L – *low*.

In the absence of any supervision, including related to money laundering, the issue of the resources of supervisory bodies should not be assessed for this sector.

The Estonian Association of Collection Companies (*Eesti Võlanõudjate Liit*) was established in 2001, but it was not possible to find information about the activities of this association on the

Internet and there is no website. There is also no information on the establishment of professional ethics requirements, therefore this aspect should also be assessed as low - L - *low*.

RAB has considered that if the sector belonged to the circle of reporting subjects, the reports received would be valuable sources of information. In the absence of any reports, the assessment of this control measure is also low - L - *low*.

Summary

In conclusion, the vulnerability of collection service providers to money laundering has been assessed as medium high - MH - *medium high*. On a scale of 0-1 the rating is 0.64. There are also no other aspects not covered in this module that could lead to the conclusion that the risk assessments expressed here are not adequate. As the sector is not particularly vulnerable in terms of structural indicators, the weakness of control measures has had a significant impact on this sector in the final assessment.

In view of the above, the possibility of introducing more effective regulation should be further considered. As the collection service currently belongs to the Ministry of Justice (VÖS) and the Ministry of Economic Affairs and Communications (general laws of the business environment) as a business sector, cooperation between different ministries is a precondition for any regulatory development. It should also be further clarified whether the public interest in regulating the sector may also concern other aspects (such as consumer protection issues) that should be taken into account.

Training	Supervision	Changes in legislation
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