

Trade Based Money Laundering

Fintelekt Anti-Money Laundering
1st Annual Summit (Bangladesh)

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Kamlesh Rangan
Director & Operations Lead
AML CoE, India
Email: kamlesh.rangan@in.ey.com

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y', extending from the top right towards the center.

Building a better
working world

Contents

Impact of TBML

Regulatory perspective

Typologies & Red flags

Enforcement & Penalties

Managing TBML

Analytics & Process automation



Trade Based Money Laundering (TBML)

The Financial Action Task Force (FATF) defines trade-based money laundering as the “process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”

Annually, we are possibly losing billions of dollars in lost taxes to trade-mispricing alone.

— John Cassara, former U.S. intelligence officer and Treasury special agent

[Trade is] the weakest link in the anti-money laundering infrastructure built since the 1980s.

— Nikos Passas, professor of criminology and criminal justice, Northeastern University

A global network of trade transparency units would help us bring the opaque system used by Hezbollah and many others into the light of day.

— Rep. Stephen Lynch (D-Mass.)

Global impact

- ▶ 80% of illicit financial flows from developing countries are channelled through TBML methods
- ▶ Trade misinvoicing outflows from developing countries in 2013 were \$878 billion
- ▶ Under-invoicing of gold exports from South Africa amounted to \$78 billion from 2000-2014
- ▶ Between 1996-2014, under-invoicing of oil exports from Nigeria to US was \$70 billion
- ▶ During 2000-2014, under invoicing of iron ore exports from South Africa to China was \$3 billion
- ▶ \$29 billion in copper exports between 1995-2014 from Zambia to Switzerland did not appear in the books
- ▶ \$16 billion in copper exports from Chile to Netherlands between 1995-2014 was not recorded
- ▶ 31% of Côte d'Ivoire's cocoa exports to Netherlands worth \$17 billion between 1995-2014 did not get accounted



Source: The United Nations Conference on Trade and Development, Global Financial Integrity – IFF Report and Public domain

Regional impact

Bangladesh

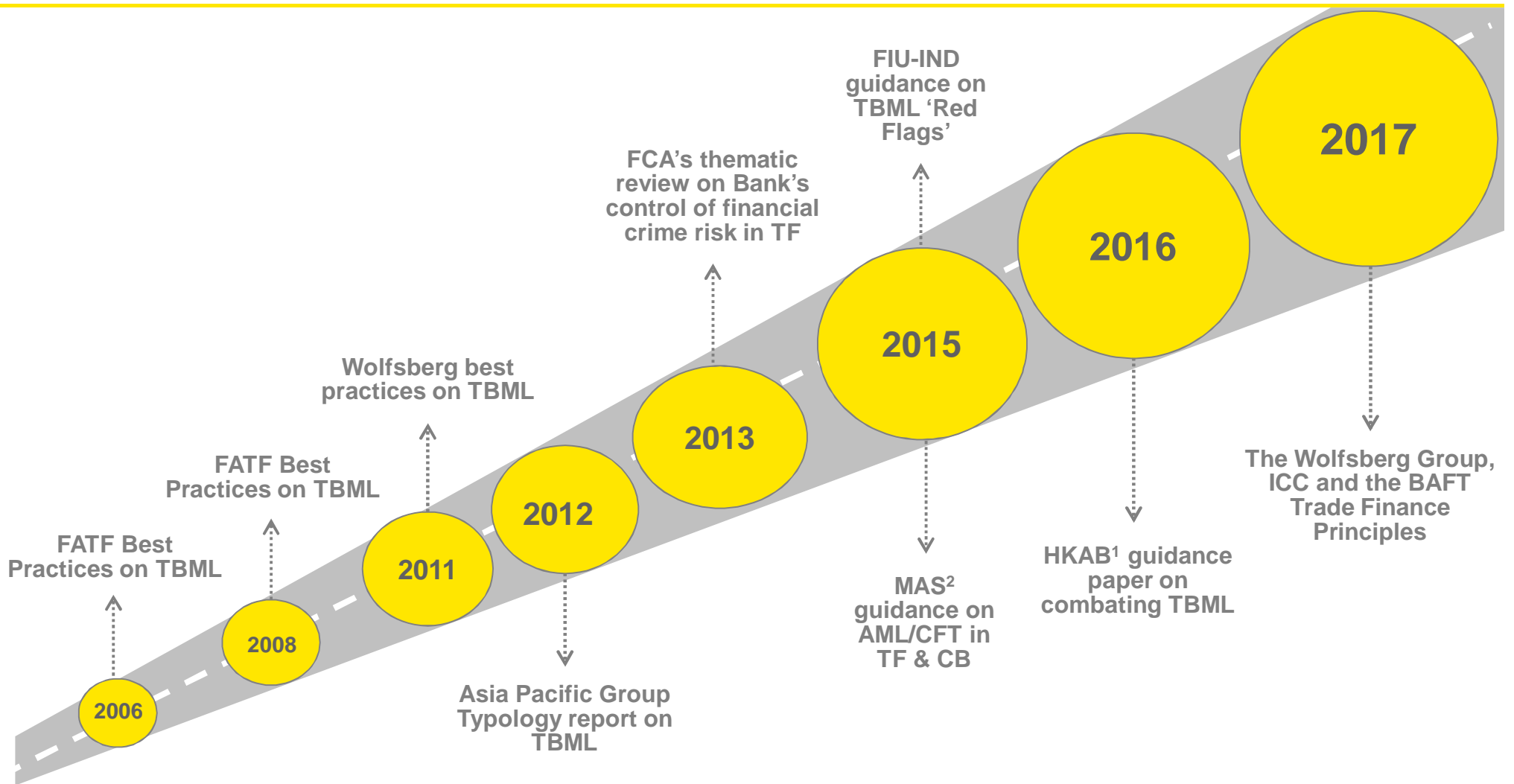


- ▶ Criminals are using developing countries including Bangladesh as safer routes for TBML
- ▶ Terrorist organizations based in Bangladesh are suspected to move funds through TBML channels
- ▶ Nearly 80% of money laundering conducted in Bangladesh is under cover of export-import business
- ▶ Trade misinvoicing outflows between 2004-2013 were \$49 billion
- ▶ Maximum export earnings of Bangladesh are from Ready Made Garments (RMG). Back-to-back Letter of Credit (BBLC) worth millions of dollars are issued everyday, which are vulnerable to TBML

Source: Global Financial Integrity – IFF Report and Public domain

Regulatory perspective

Global initiatives related to TBML



1. Hong Kong Association of Banks

2. Monetary Authority of Singapore

Common typologies

1

Under-invoicing

Exporting the goods with invoicing lower amount than market standard which helps importer to sell the goods in the market and generate the funds.

2

Over-invoicing

Exporting the goods with invoicing higher amount through which importer transfer the funds to exporter more than correct value.

3

Multiple Invoicing

Creating more than one invoice for the same consignment exported to justify the reason of multiple payments. Multiple payments can be generated from various financial institutions.

4

Over & Under Shipment

Displaying over/ under shipment exported for receiving unreal credits in the account through trade transactions.

5

Misleading description of goods

Method of Incorrect description of goods can be used to launder the money. e.g. exporter display expensive goods in the invoice to receive more than actual funds.

6

Front & Shell Companies

Front & shell companies help the exporter/ importer to create trade transaction by creating false identity to launder the money

7

Barter Transactions

Exchanging one good for another good in which no financial transaction take place. There are no money trail available for such transactions.

8

Funnel Accounts

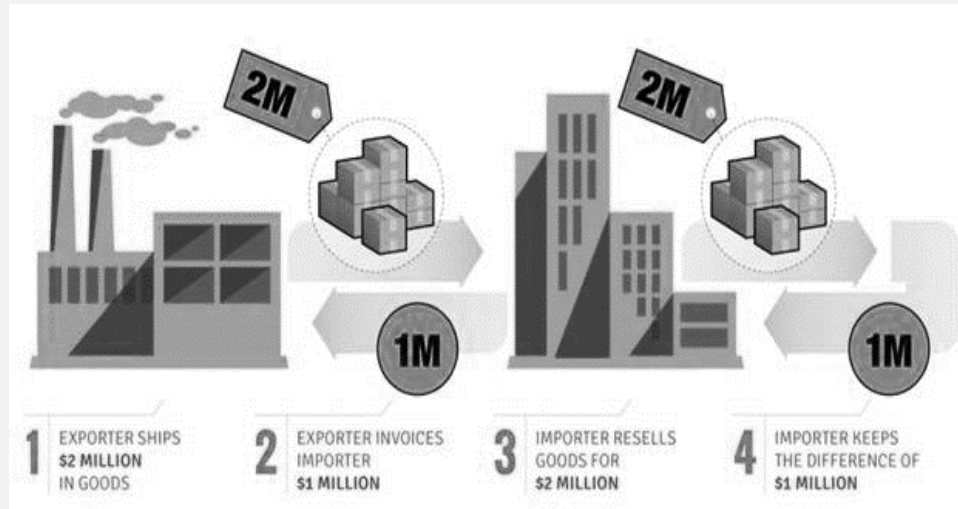
Funnel accounts are used in which multiple cash deposits/ fund transfers are received from different business locations for trade transaction to launder the money.

Common typologies

Sample case studies

01

Price manipulation in Trade Finance



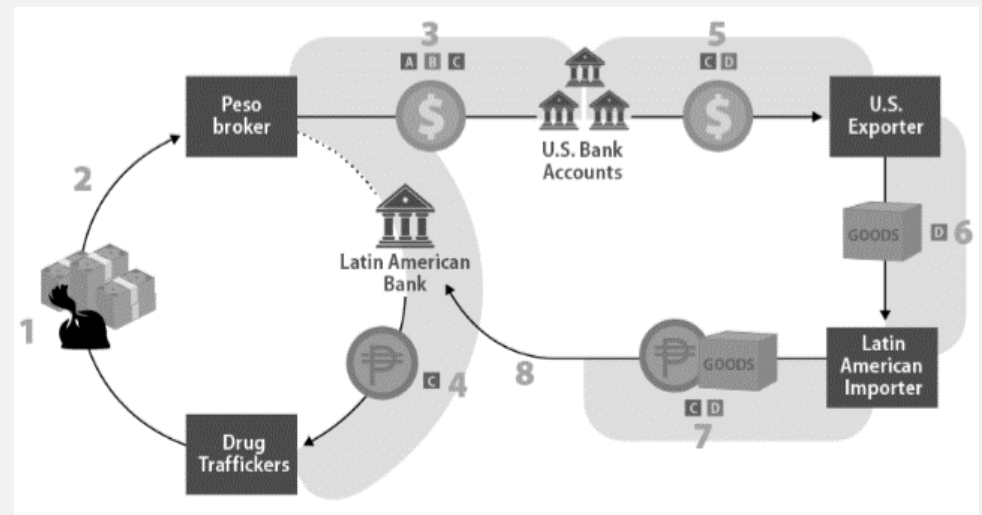
1. Exporter from Bangladesh ships goods worth \$2 million to Importer based in UAE
2. Exporter under invoices the goods for \$1 million only
3. Importer resells the goods in the market for \$2 million
4. Importer pays Exporter the invoiced amount of \$1 million and keeps the difference of \$1 million
5. As a result, Exporter launders / moves \$1 million out of the country

Image credit: Combating Terrorism Technical Support Office

02

Black Market Peso Exchange (BMPE)

1. Drug traffickers smuggle illegal drugs into U.S. and sell them for U.S. dollars ('narco dollars')
2. Drug traffickers sell narco dollars at discount to peso broker
3. Peso broker consolidates narco dollars in U.S. bank account
4. Pays drug traffickers with pesos from Latin American bank account
5. Peso broker uses narco dollars to pay U.S. exporter for legitimate goods on behalf of Latin American importer
6. Latin American importer received legitimate goods
7. Sells them in Latin America for pesos
8. Repays peso broker with pesos



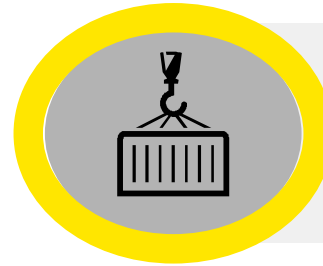
Source: FATF, TBML, June 23, 2006

Major red flags



Price manipulation

Significant discrepancies between value of the commodity or goods reported on invoice and the fair market value.



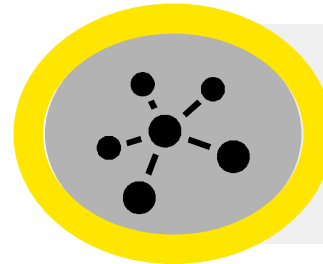
Mode of shipment

Shipment does not make economic sense, e.g., the use of an oversized container for a small volume of goods.



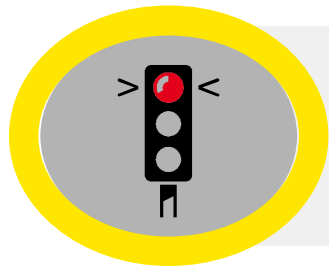
Inconsistent documentation

Shipment locations, shipping terms, or description of goods not consistent with letter of credit.



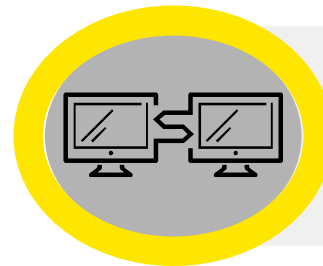
Unrelated business

Type of commodity being shipped is not in line with the exporter or importer's regular business activities.



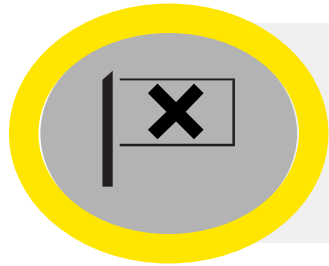
High risk products

Commodity being shipped is among those designated as "high risk" for money laundering activities.



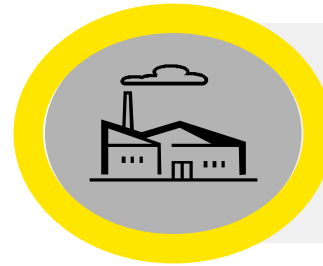
Mode of payment

Method of payment appears inconsistent with the risk characteristics of the transaction.



High risk jurisdictions

Commodity is shipped to (or from) a jurisdiction designated as "high risk" for money laundering activities.

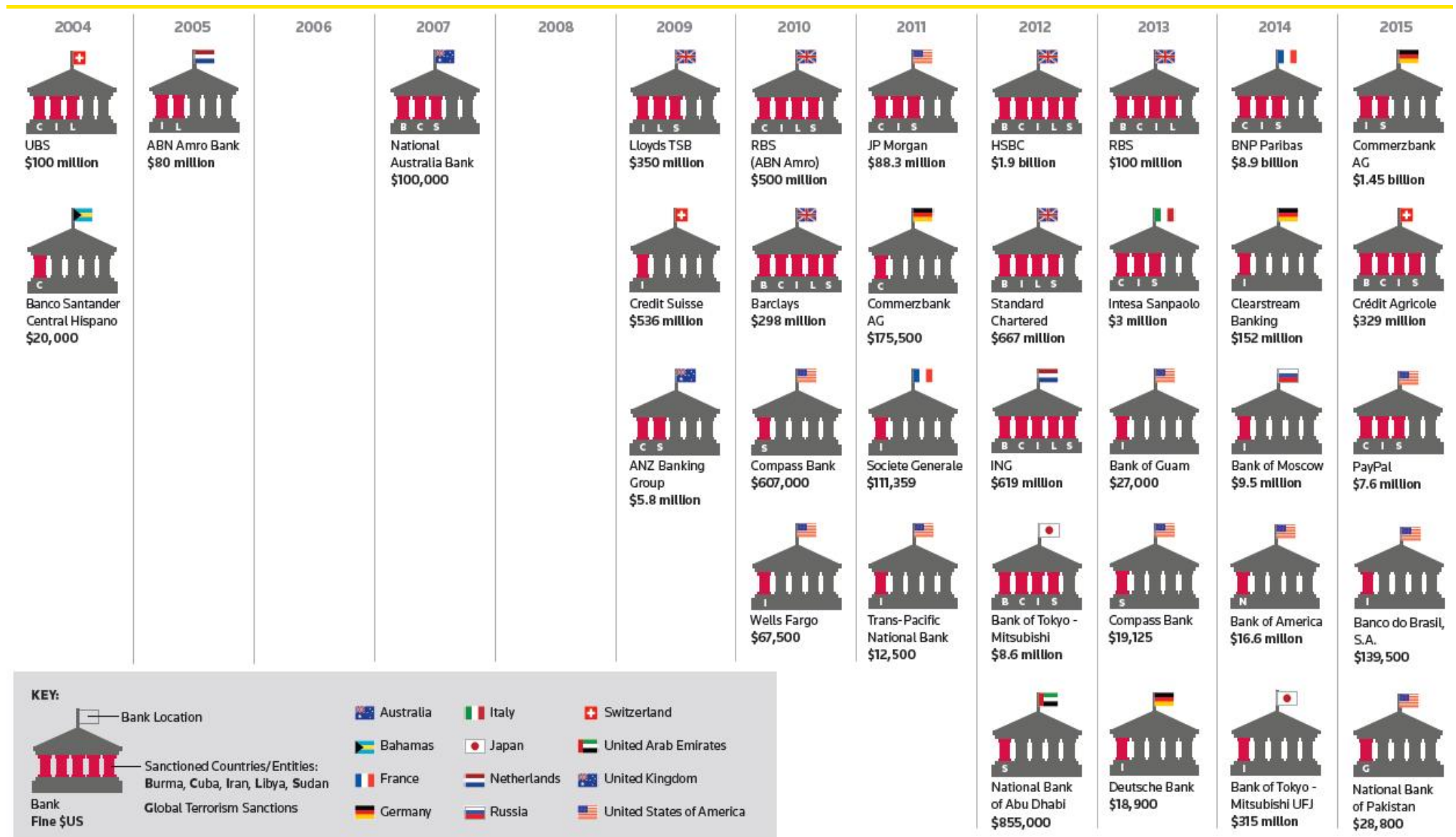


Entity type

Use of front (or shell) companies.

Enforcement & Penalties

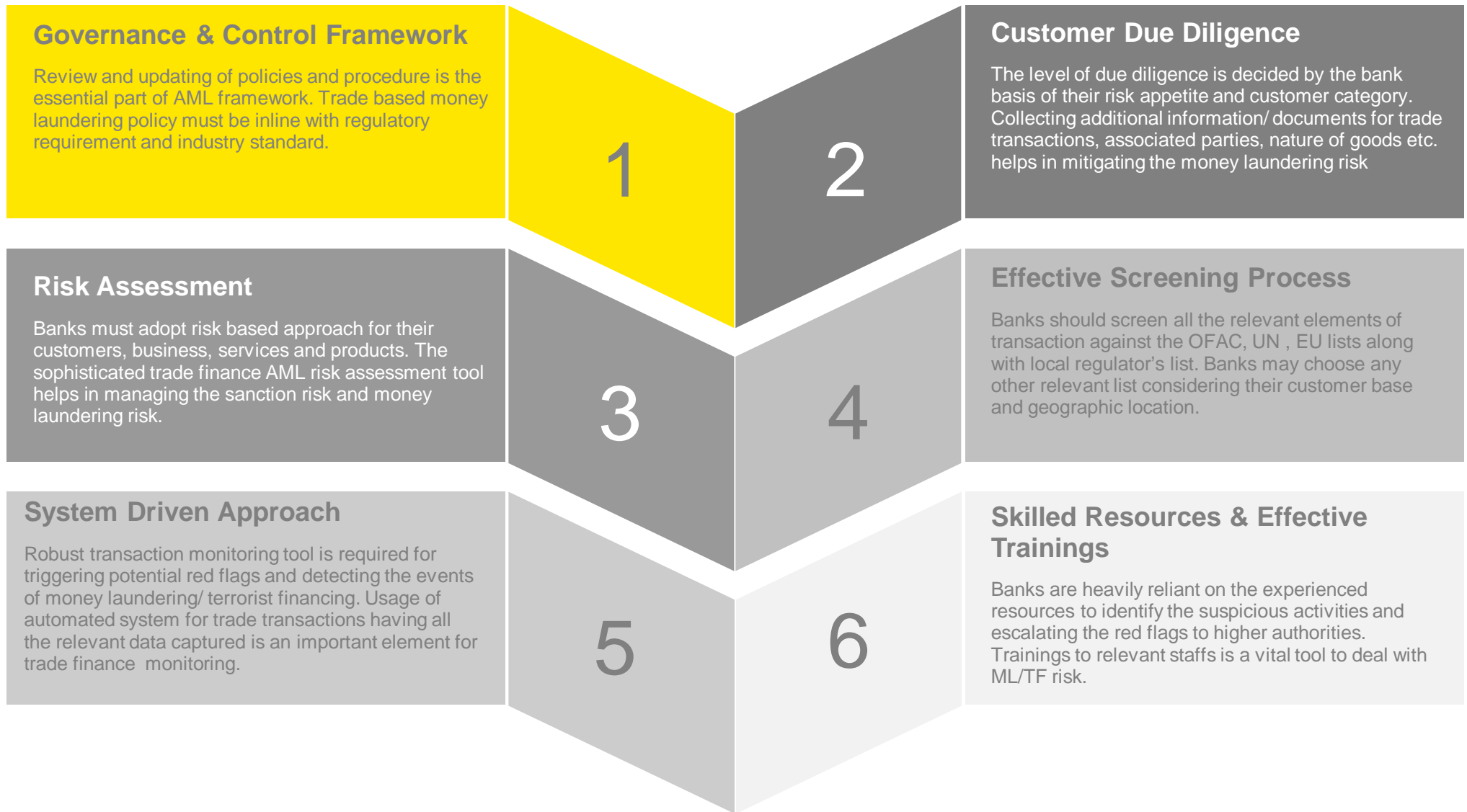
Fines on banks that breached US Sanctions



Source: 2015 Thomson Reuters GRC01713/5-15

Managing TBML

Pillars of a robust TBML framework



Analytics & Process automation

Advanced techniques to counter TBML



Text mining



Weight analysis



Web crawling



Price analysis



Link analysis



Country analysis



Visual analytics



Image analytics

Thank you