Solution spotlight

Trade-based money laundering

The Financial Action Task Force (FATF) recognises misuse of trade as one way criminal organisations and terrorist financiers disguise the proceeds of illegal activities, using trade transactions to launder illicit origins or finance activities. Trade-based money laundering (TBML) generally involves the exploitation of complex cross-border financial instruments used to export and import goods, with the involvement of different parties and jurisdictions complicating due diligence processes and AML checks. With banks providing a range of trade-based services - issuing, confirming, advising, negotiating, nominating, accepting, discounting, reimbursing and paying and sometimes providing credit to involved parties - TBML is often hidden among genuine trade activities across entities and geographies, adding to the challenge of detection. To combat TBML, firms must strengthen their AML/CFT controls across trade finance and correspondent banking activities.

What are TBML risk indicators and how can they be used?

Recently, TBML risk indicators – moving beyond common red flags such as over- and under-invoicing, short- and over-shipping, obfuscation of the type of goods and phantom shipping – have been developed from a sampling of data received by FATF and the Egmont Group of FIUs while working on a TBML project. While the presence of a single risk indicator simply suggests unusual activity and does not - on its own - prove TBML, it should prompt further monitoring and examination. TBML RIs have been loosely categorised as:

Structural

- Unusually complex corporate structures
- Registered - or has offices - in a jurisdiction with weak AML/CFT compliance
- Entity, its owners or senior management appear in negative news
- Name closely mimics that of a well-known corporation

Trade activity

- Activity inconsistent with stated lines of business
- Financial products used unconventionally or in an overly complicated way
- No online presence
- Entity displays a notable lack of typical business activities

Trade document and commodity

- Inconsistencies across contracts, invoices or other trade documents
- Fees or prices not aligned with commercial considerations
- Significant mismatches in value of registered imports
- Shipments routed through jurisdictions without obvious economic or commercial justification

Account and transaction activity

- (Very) late changes to payment arrangements
- Payment made by a party other than the consignee for no clear economic reason
- Cash deposits (or other transactions) consistently just below reporting thresholds
- Payments sent or received in large round amounts.

Keypoint's FRC team

Keypoint's financial regulatory compliance (FRC) team includes highly experienced UCP-600-certified professionals who have designed and implemented AML/CFT controls for trade finance and correspondent banking activities. Our team can work with your trade and compliance teams to identify trade-related risk indicators and help integrate red flags into your transaction monitoring scenarios.

Want to know more? Please contact us.

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