TRADE BASED MONEY LAUNDERING
ADVANCED PROGRAMME

25TH MAY 2022
KATHMANDU
   - International Trade and Investments
   - ML/TF Risks – International Norms
   - Cross-border Trade and Investment – ML/TF Typologies

2. **Transaction Due Diligence and Transaction Monitoring**

3. **Managing Risks - Organisational & Strategies**
   - CDD for Trade Business
   - Managing Risks & Organisational Responsibility
   - Institutional Co-ordination, Public Private Partnership
1. GLOBAL FINANCIAL FLOWS - ML/TF RISKS, TYPOLOGIES, INTERNATIONAL NORMS
CROSS-BORDER TRADE AND INVESTMENT ML/TF RISKS AND INTERNATIONAL NORMS
International Trade and Investments
Global Financial Flows Mix - 2020

- Goods Trade: 21%
- Services Trade: 72%
- FDI: 4%
- Personal Remittances: 2%
- ODA: 1%

Total: USD 24.78 Tn

Source: oecd.org
Source: data.worldbank.org
Merchandise Imports 2020

Total: USD 17.89 Tn

Nepal: USD 9.86 bn (0.6%)

(USD Tn) (%)
USA: 2.41 13.47
China: 2.06 11.51
Germany: 1.17 6.54
India: 0.37 2.07

Source: data.worldbank.org
Merchandise Exports 2020

Total: USD 17.71 Tn

Nepal: USD 856 mn (~0%)

(USD Tn) (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (USD Tn)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2.59</td>
<td>14.62</td>
</tr>
<tr>
<td>USA</td>
<td>1.43</td>
<td>8.07</td>
</tr>
<tr>
<td>Germany</td>
<td>1.39</td>
<td>7.85</td>
</tr>
<tr>
<td>India</td>
<td>0.28</td>
<td>1.56</td>
</tr>
</tbody>
</table>

Source: data.worldbank.org
Services Imports/ Exports 2020

Source: data.worldbank.org
Personal Remittances 2020

Total: USD 651.05 bn

Source: data.worldbank.org

(USD Bn) (%)
Nepal: 8.11 1.25
India: 83.15 12.77
Global Trade: 2017 - 2021

Source: unctad.org
Global Trade: Regional Growth

Trade growth remains very strong in all regions
Q4 2021 relative to Q4 2020 and Q4 2019

Source: unctad.org
Commercial Services Trade: 2008-20

Chart 2.8
World trade in commercial services by sector quarterly, 2008-2020
(Year-on-year percentage change)

Source: WTO-UNCTAD-ITC.
Note: Trade as average of exports and imports.
Do you remember?

1. Which of the following is among the top three for both imports and exports of merchandise?
   (a) UK  (b) Russia  (c) Germany (d) Japan

2. What is the share of Nepal in Global merchandise imports?
   (a) 1.5% (b) 0.9% (c) 2.2%   (d) 0.6%

3. During 2021 the growth rate of goods export for developing countries was _____ that of developed countries.
   (a) half  (b) twice  (c) one-third (d) three times
Nepal Global Trade 2021

- **Exports:** $1.72 bn (Source: moneycontrol.com)
- **Imports:** $15.42 bn (Source: oec.world/en/profile)
- **Trade Balance:** $1.54 bn
- **40.65% of GDP (2020)**

(Source: macrotrends.net/countries, hubco.in)
Nepal: Top Ten Exports 2020

Top 10 Categories: 96%

Total: 874.32 (USD mn)

- Textiles: 30%
- Animal and Vegetable Bi-Products: 29%
- Vegetable Products: 14%
- Foodstuffs: 8%
- Metals: 4%
- Chemical Products: 4%
- Plastics and Rubbers: 4%
- Transportation: 4%
- Arts and Antiques: 1%
- Footwear and Headwear: 1%
- Other Categories (11): 1%

(Source: oec.world/en/profile)
Nepal: Destination Countries 2020

Top 10 Countries:: 93%

Total: 874.32 (USD mn)

- India
- United States
- Germany
- United Kingdom
- China
- Turkey
- Czechia
- France
- Canada
- Switzerland
- Other Countries (96)

(Source: oec.world/en/profile)
Nepal: Top Ten Imports 2020

Top 10 Categories: 91.5%

- Machines: 16%
- Mineral Products: 16%
- Metals: 15%
- Vegetable Products: 13%
- Chemical Products: 10%
- Textiles: 7%
- Transportation: 7%
- Foodstuffs: 7%
- Plastics and Rubbers: 6%
- Other Product Categories (11): 2%

Value: 8.2 (USD bn)

(Source: oec.world/en/profile)
Nepal: Origin Countries 2020

Top 10 Countries: 95.1%

- India: 71%
- China: 14%
- United Arab Emirates: 2%
- Hong Kong: 2%
- Singapore: 2%
- Canada: 1%
- United States: 1%
- South Korea: 1%
- Australia: 1%
- Thailand: 1%

Other Countries (73): 5%

Total: 8.2 (USD bn)

(Source: oec.world/en/profile)
1. Global Trade contributed _____ % to Nepal’s GDP in 2020?
   (a) 20% - 25%  (b) 26% - 30%  (c) 51% - 60%  (d) 40% - 45%

2. Which of the following is among the top four destinations of Nepal merchandise?
   (a) U.K.  (b) France  (c) Canada  (d) Switzerland

3. Which of the following is among the top three services imported in Nepal?
   (a) Insurance services  (b) Computer and information services  (c) Transpiration  (d) Consultancy services
Global Incidence ML/TBML - TF Risk
Nepal - NRA
Basel AML Index 2021

110 Countries

High Risk
- 9 - 9.9
- 8 - 8.9
- 7 - 7.9
- 6 - 6.9
- 5 - 5.9
- 4 - 4.9
- 3 - 3.9
- 2 - 2.9
- 1 - 1.9
- 0 - 0.9
Low Risk
- lack of data

TBML – USD 1 tn

2 to 5% of GDP

USD 0.8 to 2 tn

Haiti
1/ 8.49

China
17/ 6.70

Pakistan
28/ 6

Bangladesh
33/ 5.84

India
70/ 5.15 (2020)

Andora
110/ 2.73

Nepal
14/ 7.57 (2019)
TBML – Global Problem

80% Illicit flows - TBML

Developing Countries

Zambia to Switzerland: Copper

S. Africa to China: Iron Ore

Nigeria to US: Oil

S. Africa: Gold exports

Chile to Netherlands: Copper

Côte d’Ivoire to Netherlands: Cocoa
Case: Smuggling: TBML

➢ CHA: Rajendra Shejwal
➢ Importer: Sudhir Tanna
➢ Businessman: Kumudchandra Patel
➢ Imported 117 tons of Green Peas
➢ Packing: Gunny bags in 6 containers
➢ Declaring:
  • Goods - Bamboo Beans
  • Value - ₹10 lakh
➢ Actual value (assessed): ₹200 lakh
➢ DGFT Notification Of 2019:
  • Imports restricted:
    • Green Peas, Yellow Peas, Dung Peas, Kappa Peas
    • Minimum Import Price - ₹200 per kg

TOI: 20/12/2021
Corruption Perceptions Index 2020

- Nepal: 117/180 (33)
- India: 85/180 (40)
- South Sudan: 180/180 (11)
- Bangladesh: 147/180 (26)
- Pakistan: 140/180 (28)
- China: 66/180 (45)
- Denmark: 1/180 (88)

More than 2/3 < 50
Average 43
Case: Corruption ML

Malaysian Money Trail
Documents prepared by investigators for the Malaysian government reflect what they believe to be the flow of money into Prime Minister Najib Razak’s personal accounts.

- **SRC International**
  - Energy company owned by the Finance Ministry

- **Gandingan Mentari**
  - A subsidiary of SRC International

- **Ihsan Perdana**
  - Carries out corporate social responsibility work for state investment fund 1Malaysia Development

- **Tanore Finance**
  - British Virgin Islands company

**Transfers**
- **50 million ringgit**
  - Transfers December 2014-February 2015

**MARCH 21 AND 25, 2013**
- **$681 million**
  - Transfers in two tranches from Falcon Private Bank in Singapore

**Prime Minister Najib Razak’s accounts at AmIslamic Bank**

**Note:** 10 million ringgit = $2.65 million
Source: Malaysian government investigation

Source: says.com

Source: sjakartapost.com

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Source: thewallstreetjournal.com
Global Terrorism Index 2022

135 Countries

- Countries had an attack: 58
- Countries had at least one death: 44

Regions - highest incidence:
- South Asia
- Sub-Saharan Africa

Pakistan [10] 7.825
India [12] 7.432
Bangladesh [40] 4.411
Nepal [34] 4.693
China [67] 1.863

Source: visionofhumanity.org

Major Threats
- Corruption
- Tax evasion
- Financial Crimes
- Hundi

Threats of Concern
- Drug Trafficking
- Organised crime
- Extortion
- Arms related offences
- Domestic Terrorism
- Frauds
- Counterfeit currency
- Environment related
- Robbery
- Smuggling (black marketing)
- Forgery

Low Risk
- Counterfeiting & piracy of products
- Kidnapping
- Illegal restraint
- Hostage taking
- International terrorism
- Stolen goods trafficking
- Insider trading
Nepal: NRA – Focus Areas

Issues of Serious Concern

- Large business related credit products (Highly vulnerable)
- Excess financing of projects (Siphoning off funds)
- Current deposit (Medium high)
- Saving accounts (Medium)

TBML

Capital Flight

(Source: marketbusinessnews.com)

(Source: compliancealert.org)

Vigilance
Border management

(Source: moneycomtrol.com)
Do you remember?

1. As per Corruption Perception Index ranking of Nepal among 180 countries is _____.
   (a) More than 100 (b) Between 21 – 60 (c) Between 61 – 100 (d) Less than 20

2. As per MER of Nepal _______ is among major threats.
   (a) Drug trafficking  (b) Organised crime  (c) Financial crime  (d) Extortion

3. As per NRA of Nepal ______ is an issue of serious concern.
   (a) Corruption  (b) TBML  (c) Counterfeit currency  (d) Human trafficking
International Norms AML/CFT
**FATF: Organisation**

**FATF Composition**
- Members: 39
- Jurisdictions: 37
- Regional Organisations: 2
- Observers: 1 Jurisdiction
- Associate Members: 9 FSRBs
- Observer Organisations: 23 Global and Regional Organisations

**APG Composition**
- Members: 41
- Jurisdictions: 31
- Observers: 8
- Observers: 32 Global and Regional Organisations

**FATF Members**
- Members: 41
- Jurisdictions: 37
- Observers: 1 Jurisdiction
- Observers: 32

**APG Members**
- Members: 41
- Jurisdictions: 31
- Observers: 8
- Observers: 32 Global and Regional Organisations
FSRBs

FATF-Style regional bodies

- APG
- CFATF-Caribbean FATF
- GAFISUD-South American FATF
- MENAFATF-Middle East & North African FATF
- GIABA-Groupe Inter-gov d’Action contre le Blanchiment Afrique
- EAG-Eurasian Group
- ESAAMLG-Eastern & Southern Africa AML Group
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<td>FATF/Egmont Trade-based Money Laundering: Trends and Developments - Dec 2020</td>
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<td>Money Laundering and the Illegal Wildlife Trade - Jun 2020</td>
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<td>Money laundering and terrorist financing risks and vulnerabilities associated with gold - Jul 2015</td>
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<td>Money laundering and terrorist financing through trade in diamonds - Jan 2014</td>
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<td>Illicit Tobacco Trade - Jul 2012</td>
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<td>Specific Risk Factors in the Laundering of Proceeds of Corruption - Assistance to reporting institutions - Jul 2012</td>
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# APG/ EAG Guidance Papers

## APG
- APG Yearly Typology Reports (2002 onwards)
- APG Trade Based Money Laundering Typologies Report 2012

## EAG
- Typology of corruption offences and money laundering (Russia) - 2016
- Use of companies registered in offshore jurisdictions for redistribution of proceeds of crime and money laundering (Russia) - 2016
- Tax crimes and money laundering typology research (Russia, Ukraine) - 2013
- "External trade transactions as means of money laundering – 2009
- Use of Offshore Companies and Offshore Jurisdictions for Money Laundering – 2006
Wolfsberg Guidance Papers

- Wolfsberg Group, ICC and BAFT Trade Finance Principles 2019
- Sanctions Screening Guidance 2019
- Payment Transparency Standards 2017
- Statement on Payment Message Standards 2007
- SWIFT Relationship Management Application Due Diligence Guidance 2016
- Anti-Money Laundering Principles for Correspondent Banking 2014
- RBA Guidance 2006
- Correspondent Banking Due Diligence Questionnaire Guidance
1. Nepal is a member of _____.
   (a) EAG (b) FATF (c) APG (d) Wolfsberg Group

2. The latest guidance on TBML was issued by FATF/ Egmont in _______.
   (a) 2012 (b) 2020 (c) 2018 (d) 2021

3. Due diligence questionnaire for correspondent banks is published by _______.
   (a) Wolfsberg Group (b) BCBS (c) FATF (d) Egmont Group
INTERNATIONAL TRADE AND INVESTMENTS & ML/TF TYPOLOGIES
Modes of Trade Finance & Investments
Trade Modalities (I)

- Normal Modes
  - Clean Payment
  - Open Account
  - Collection Bills
  - Documentary Credit
  - Documents Against Payment
  - Documents Against Acceptance
  - Advance Payment

(Source: trade.gov)
Trade Modalities (II)

- Merchanting Trade
- High Seas Sales
- Countertrade
- Barter Trade
Trade Modalities (III)

Delivery to | Payment by
---|---
Third Party

Shipment by | Payment to

Importer

Exporter

(Source: wikepedia.com
(Source: indiamart.com
(Source: hightechreclaim.com

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Trade Finance

Standard Working Capital facilities
Pre-shipment finance
Post-shipment loans
Supply chain finance
Forfaiting
Import loans
Invoice discounting
Structured trade finance
Factoring
Commodity finance
Foreign Investments: Modes

FDI

Greenfield Venture

Wholly Owned Subsidiary

Joint Venture

Strategic Alliance

Acquisition

Merger

Licensing

Franchising

Non-Equity Modes of Production

Overseas Assembly

Overseas Mixing
Foreign Investments: Instruments

**EQUITY**
- Capital in branch
- Equity Share
- Preferred Share
- Retained Earnings
- Reserves

**DEBT**
- Bonds
- Debentures
- Commercial Paper
- Promissory Notes
- Non-participating Preferred Shares
- Loans
- Deposits
- Trade credits
- Accounts receivable
- Interest earnings

**HYBRID**
- Convertible Preferred Share
- Convertible debenture
- Convertible bond
TBML: Facilitating Factors

Open Account System: 80% of Trade

Documentary Credit: 0.1% of Payments

Rising Trade Volumes

Newer Trade Routes

Global Trade

Wider Product Range

Complex Patterns

Global AML Focus

Strengthening Laws

Incisive Regulatory Oversight

Tighter Transaction Monitoring

Usual ML Modes Difficult

Faster Process

Complex

Variety

Volumes

Ease of Intermingling

New Technology

Online

Wide Reach

Digitalisation

Rising Trade Volumes

0.1% of Payments

80% of Trade

Newer Trade Routes

Global AML Focus

Incisive Regulatory Oversight

Usual ML Modes Difficult

Tighter Transaction Monitoring

Strengthening Laws

Global Trade

Wider Product Range

Complex Patterns

Documentary Credit

Open Account System

TBML: Facilitating Factors

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Criminals Triad Strategy

- Terrorist Organisations
- Organised Criminal Groups
- Professional Money Launderers

Front Entities
- Control of Commercial Entities
- Links With Commercial Entities
Case: Professional Money Launderer

Group of ML Operators
- Shell Companies
  - 25 Companies - 10 Persons
  - Landscaping, Interior design, Electronics, Metal recycling, Plastics recycling, Construction supplies, Beauty supplies,
  - Accounts in Canada, China, Panama, US
- Legitimate Businesses
  - Included in Network - Financial and real estate businesses
  - Small Finance Company
- Logistic Company
  - Central Entity of the Operations

Helping Drug Traffickers – Modus Operandi
- Drug Sales in cash - False invoices
- Cash - accounts of shell companies
- Transferred - Logistics company/ Shell companies

Further Fund Transfers
- Mexican Drug Trafficking Organisation
- Controlled entities (China, Mexico, US)

Trading Activity
- In Panama and Mexico
- Funds - goods purchased - to other foreign countries
- Sold at these - Funds to Drug trafficking or ML entity
1. Which of the following trade modality carries highest TBML risk?
(a) Documentary credit  (b) Open account (c) DA bills (d) DP bills

2. Which of the following is not among the ‘criminal triad’ entities?
(a) OCG (b) PML (c) TO (d) Lone terrorist

3. An importer and dealer of cars, of 15 years standing, _____ engage in TBML.
(a) will not (b) highly likely (c) may probably (d) will definitely
Cross-border ML/TF Typologies
TBML Modalities: Basic

Variations
- Price
  - Over-Pricing
  - Under-Pricing
- Quantity
  - Over-Shipping
  - Under-Shipping
- Quality
  - Superior Goods
  - Inferior Goods

Invoicing
- Double
- Phantom
- Not paid
Case: Over invoicing

Billed: High value metal
Shipped: Cheap metal

1. X to J -
   Excess: $45mn

2. Y to K -
   Excess: $24mn

3. Z to K -
   Excess: $31mn

J and K transfer $45mn and $55mn to other entities in UK (control of Mr. & Mrs. R)
Case: Underinvoicing

UK - Exports

$ 50 mn

$ 5 mn

$ 27 mn

$ 3 mn

$ 41 mn

$ 10 mn

High Value Metal

UAE - Imports

COMPANY X

EST. 1994

COMPANY K

OWNERS MRS & MR R

COMPANY Z

Money

OWNERS MRS & MR R

X, Y and Z transfer

$ 45mn, $24 mn, and $ 31 mn

to other entities in UAE

(controlled by J and K)

Shipped: High value metal

Billed: Cheap metal

(1) J to X -
Shortfall: $ 45mn

(2) K to Y -
Shortfall : $ 24mn

(3) K to Z -
Shortfall : $ 31mn

Shipped: High value metal

Billed: Cheap metal

(1) J to X -
Shortfall: $ 45mn

(2) K to Y -
Shortfall : $ 24mn

(3) K to Z -
Shortfall : $ 31mn

X, Y and Z transfer

$ 45mn, $24 mn, and $ 31 mn

to other entities in UAE

(controlled by J and K)
Case: Counterfeiting of Medical Goods

- **Country A**: Govt. agency pays €5 mn - domestic Company ABC - import of face masks from Country B.
- **Delivery**: A portion - all masks unfit for hospital use.
- Company ABC - transferred funds to Company XYZ in Malaysia.
- Company XYZ -
  - Received funds from an entity in Country C - indicating facemask related.
  - Same day, USD 150 000 from Company DEF (health care products) (Country A).
  - Funds received by company XYZ - to various entities in Country C and Country D.
TBML Modalities: Emerging (I)

- Shell Companies
- Complex Transaction
- To/ From High-Risk Countries
- Advance Payments
- Payments to/ from Third parties
- Crypto-currencies
- Merchanting Transactions
- High Seas Sales
- SEZ/ FTZ Connected
Case: Customs - Drug Smuggling

Bandar –e- Abbas Port

Mundra Port

2988 kg Heroin
2 Containers
“Semi-processed talc stones”
• Illegal drugs - Colombian to USA - sold for cash.
• Scrap gold - bought with cash - recast as gold bars.
• Lead bars from Uruguay to the US - invoiced gold bars.
• Shipment arrives, lead bars destroyed - replaced by recast gold bars.
• Gold bars sold - money to Uruguay - eventually to Panama.
Case: Merchanting Trade - Fraud

- Company L (India) - Company M (Singapore) - Company N (South Korea)
- Nickel & Copper Scrap - M to ship to N
- L to pay M; to receive from N
- L gets O to open L/C fvg M (Import) – pays commission to O
- L issues bonds/guarantees favoring O for payment from N (Export).
- M gets L/Cs discounted
- After initial rounds – N did not pay.
- Import: More L/Cs opened (by O for L)
- O did not get paid - heavy losses.
Case: Crypto-currencies

USA

Importers

Pay for Goods in Bitcoins

Goods

Bitcoins

Bitcoins

Manufacturers

Drug Peddlers

Sell Bitcoins to Importers for cash

Goods

Bitcoins

Bitcoins

Goods

Bitcoins

Bitcoins

Goods

Bitcoins

Bitcoins

Underground Banking System

Give Bitcoins for Cash

China
Case: Trade Credit

- Overseas Supplier B - worthless goods to Company A - grossly inflated invoices.
- Company A – Trade credit Bank D – disbursement to Supplier B.
- Supplier B – funds to Customer C.
- Company A “sold” - worthless goods to Customer C - inflated value.
- Factoring Entity E - Discounted invoices
- Funds : Repaid Trade credit (Bank D).
- Customer C paid: Factoring company E.
- Series of cross border sham purchases / sales involving the same worthless goods.
Case: Third Party Payments

- **Country X**
  - Sale Partner A (CM1); Sale Partner B (CM2)

- **Country Z**
  - Car Maker – CM1; Car Maker – CM2

- **Other Countries**
  - Payments received from accounts of third parties (TPs) – A (€ 50 mn); B (€ 30 mn)
  - UBO of A and B – Mr. C (Country X)
  - One of the TPs - a ‘core company’ of a “Laundromat”

- **TPs**
  - TP1
  - TP2
  - TP3
  - TP4
  - TPn

- **Cars Exported**
  - Country X
  - Country Z

- **Countries**
  - Several Countries

- **Sources**
  - flatcon.com
  - groupda.com
  - podium.com
  - nbcnews.com
  - businessstandard.com
TBML Modalities: Emerging (II)

- Carousel / Drawback Frauds
- Hawala & Black Market Peso Trade
- Barter Trades
- Related Party Transactions
- Dual Use Goods
- Investment Transactions
- Capital Flight
- Shell Banks
- Offshore Financial Centres
Carousel / Draw backs

Aimed at claiming export incentives / tax draw backs

Fictitious exports

Multiple movement: Between jurisdictions that permit tax refunds
Case: Hawala Settlement

- US “hawaladar” - to transfer funds - to Pakistani counterpart - settlement.
- US operator - funds to the US importer
- Pakistani exporter - funds - settle outstanding of Pakistani counterpart.
- Pakistani exporter gets extra 20% VAT rebate on the higher prices.
Case: Black Market Peso Exchange

Black market peso exchange
How the money-laundering scheme works in the fashion district,
according to federal officials:

1. The peso broker directs the proceeds to garment wholesalers with clients in Mexico

2. The Mexican importer pays the drug cartel, either directly or through the peso broker

Sources: Times reporting by Joe Mozingo

Javier Zarracina Los Angeles Times
Case: Investment Transaction

Company A based in the United Kingdom

Company A signs a bogus contract with UK based Company B in which A agrees to lend B a large, fictitious, amount of money

The debt is guaranteed by companies in the Russian Federation and by a Moldovan citizen

Based on the court order, the Russian companies have to transfer the black money to Company A in a bank account in the European Union

Company A takes Company B to a Moldovan Court where the debt is “certified”

THE LAUNDROMAT
$ 20 BILLION
Dual Use Goods: Examples

What are Dual Use Goods
• Goods
• Software
• Technology
• Documents and diagrams which can be used for both civil and military applications.

Ranging from:
• raw materials to
• components to
• complete systems, such as aluminium alloys, bearings, or lasers.
• production or development of goods, such as machine tools, chemical manufacturing equipment and computers.
Case: PrivatBank

Largest Bank
Ukraine

Kolomoisky Boholyubov (co-owners) Nationalised - 2017
$1.9 bn siphoned ($3 bn with interest)

42 Shell Companies in Caribbean Tax Havens

Through 3 Companies

To Various Offshore Shell Cos.

To 3 Companies in BVI

Shell Companies

Accountancy and Law Firms
Case: Offshore Financial Centre

- Sale proceeds - from A’s offshore account - to personal account of its Manager (Belgium) - then to several foreign companies.
- A also receives transfers from a company in the diamond business.
- These funds - commingled with other receipts - through Belgium sent to same foreign companies.
Case: Complex Transaction

- A, B, Y and Z, foreign nationals - Real estate
- Dec. 2019: Mr. A - Property deal - FJD 12.5 mn
- Jan. 2020: Mr. Y (Country Q) FJD 2.8 mn – to Agency’s a/c.
- Mr. B (Country E), business partner, - owner in agreement
- Offer rejected - refund - to Mr. Z (Country Q.)
- Only Mr. A dealing - email / instant messaging - in control.
- A, B and Y never travelled to Fiji.
- Mr. Y and Mr. Z – same date of birth.
- Mr. A link - OCS importing drug in Country I
- Mr. B and Mr. Z (Country Q nationals) – Country E citizens under Govt. Scheme
TBML Modalities: Emerging (III)

- Surrogate Shoppers (Daigou)
- Infiltration of Supply Chain
- OCG/ PML/ TF - Third Party
- TBML - TBTF
- Compensation Schemes
Case: TBML - TBTF

Buyer: U.S. Company 1
Distributor: U.S. Company 2
US Entity

Illegal Weapons & Drug Sales

Customs Bonded Warehouses
Free Trade Zones

International Suppliers
Domestic Suppliers
Abu Sayyaf Group (TO) (Philippines)

Source: cnbc.com
Source: indiatvnews.com

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Case: Terrorist Financier - Third Party

**Trade:**
- Exports: Country A to Country B ($X)
- Funds: MVTS Network (via Hawala) ($X)

**Settlement Mode:**
- Cash courier MVTS (A) to MVTS (C) ($X)
- Bank transfer MVTS (C) to MVTS (B) ($X)

**Infiltrated Settlement Mode:**
- Terrorist Financier (Country D) to MVTS (C) ($Y)
- Bank transfer MVTS (C) to MVTS (B) ($Y)
- MVTS (A) to Terrorist Organisation (A) ($Y)
- Cash courier MVTS (A) to MVTS (C) ($X - $Y)
Case: Illicit Cash Integration

- Norwegian company purchases from German company
- Delivery to a “branch” in the Balkans.
- Payment by wire transfer.
- Norwegian company invoices Balkan company higher amount (administrative costs.)
- Balkan company pays cash into Norwegian company’s bank account.
Case: Surrogate Shoppers

Australia

- Cash from illicit Commodities also Bitcoin Diamonds

MLO
- Cash ‘pooled’
- Distributed to Daigou Coordinators

Daigou Coordinators
- Distribute to Daigou Shoppers

Daigou Shoppers
- Purchase Consumer Items

Country X

Consumer items
- Exported to Daigou Coordinator

Daigou Coordinator
- Sells – realises profits

Offsetting arrangements between DCs in both countries
Case: Compensation Scheme

- Brazilian / Portuguese nationals
- Set up/ take over Belgian companies
- Construction or cleaning industry
- Employ non-declared workers
- For limited time – specific transactions
- Replaced by new companies/ new managers
- Receive cash from criminal networks - as building maintenance services
- Funds to wholesalers in Asia
- Buy merchandise for Belgian retailers
- Imported and sold - related TBML scheme.
Case: Trust Structures

- Mr. Z (Country A national) – owns assets.
- Mr. Z – funds of Foundation in Country P – to Company A – to Company B.
- Singapore: Trust Company X – Asset Managers (Country S)
- Two Trust Structures – Trustee - Trust Company X
- BO – Mr. Z (Country P)
- Country B: Companies A and B – bank accounts in Singapore.
Crypto-currencies/ Capital Flight
Crypto-currencies

- Digital coins ‘mining’
- Secrecy in transactions
- Exchange: Fiat to Crypto/Crypto to Crypto
- Estimated: USD 76 bn Illegal funds - Bitcoin
- Criminals: Break the chain
- Added layer – ‘Tumbler’
Crypto-currencies: Growing

>18000

No. of Cryptocurrencies (Mar. 2022)

Monero/ Dash
More anonymity
Bitcoin

Cryptocurrencies
Stablecoins
Tokens
Non-fungible Tokens (NFT)

Bitcoin
Litecoin
Ethereum
XRP
Stellar

Bitcoin (BTC)
November 2020 - $30,000
November 2021 - $68,000
May 2022 - $29,500

Total market cap of more than $1.30 tn – 20/5/22

Venezuela has a Bitcoin Stash

Venezuela’s central bank is running internal tests to determine whether it can hold cryptocurrencies in its coffers. The efforts come at the behest of state-run Petroleos de Venezuela, which is seeking to send Bitcoin and Ethereum to the central bank and have the monetary authority pay the oil company’s suppliers with the tokens. US sanctions against Nicolas Maduro’s regime have isolated Venezuela from the global financial system. It isn’t clear how PDVSA came to own Bitcoin and Ethereum. But the oil producer has struggled to get paid by customers via conventional channels because major banks are hesitant to do business with a sanctioned entity. Last month, the firm received $700 million payment in Chinese yuan and it wants the central bank to use the crypto to pay entities PDVSA owes money to. – Bloomberg
Crypto-currencies: Crimes

- 97% Bitcoin Payments of Criminals at Unregulated Exchanges
- 80% ICOs Fake
- DeFi protocols – Quick swapping between different cryptocurrencies

• Crypto tumbler – when converting to fiat currency
• Purchase prepaid cards
• Withdrawn Exchanges/ATMs

97% Bitcoin Payments of Criminals at Unregulated Exchanges

80% ICOs Fake

CAUTION
Most ICOs Are Fake: A Buyer’s Guide

DeFi protocols – Quick swapping between different cryptocurrencies

Ransom
Circumvent Sanctions

Ransomware

Darkweb Txns

Drugs Cards Info

$8.6 bn Laundered (2021)
June 2021: UK
London Metropolitan Police Economic Crime Command seized crypto assets worth £114 mn.

July 2021: US
Roger Nils-Jonas Karlsson (Swedish) awarded 15 years jail - Defrauded victims > US$ 16 mn - promised astronomical returns - to purchase shares using cryptocurrencies such as Bitcoin. Funds to his personal bank accounts - Purchased expensive homes, a racehorse and a resort in Thailand.

July 2021: Hong Kong
Arrested 4 men of ML syndicate - HK$ 1.2 bn with the stablecoin tether. Local bank accounts and through a cryptocurrency exchange. - February 2020 to May 2021. HK$ 880 mn in 40 e-wallets.

June 2021: China
Over 1,100 persons arrested - Cryptocurrencies - launder illegal proceeds - telephone and Internet scams - > 170 ML groups.

Source: tookitaki.ai
Capital Flight: What & Why?

**Capital flight**
- Large outflows of assets from a country/region/city
- Due to some events
- Negative economic consequences

**Legal** - Repatriation of invested capital by foreign investors. Domestic capital invested overseas as permitted.

**Illegal** - Illicit financial flows (IFFS) - disappear from within a country and do not return to the country.

**Causes of Capital Flight**
- **Higher Taxes** – Increasing tax rates significantly
- **Currency Manipulation** – Exchange rates propped up or depressed
- **Political Uncertainty** – Unstable, radical change in policies.
- **Economic Performance** – slow or negative growth
Capital Flight: Effects & Examples

- **French Wealth Tax**
  - 1989 - 0.5 to 1.5% on wealth > €800,000
  - 1989 to 2007: Capital flight € 200 bn

- **Asian Financial Crisis**
  - Collapse of exchange rate – many countries
  - Indonesia, Korea, Malaysia, the Philippines, Thailand: Net capital outflows > $80 bn

- **Greek Financial Crisis**
  - Kicked in 2012
  - May 2014 to 2015: Capital flight € 64 bn

- **Russian Financial Crisis**
  - 2014: Russia invaded Ukraine; Annexed Crimea
  - 2014: Capital flight $150 bn

(Source: boycewire.com)
Free Trade Zones/ Offshore Financial Centres/ Tax Havens
Free Trade Zones (FTZs)

- Designated area: Different economic and commercial regulations

Incentives:
- Duty/ tax exemptions
- Forex laws relaxed
- Simple procedures
- Duty free imports

Support:
- Export development
- FDI
- Local employment

Benefits:
- Logistic cost reduced
- Forex earnings increase
- More employment
- Attracts investments

“Countries within which tariffs and non-tariff trade barriers between the members are generally abolished but with no common trade policy toward non-members” - OECD

Spread:
- Around 5400 (1000 in last 5 years)
- Developed and Developing countries

Negatives:
- Opportunity for criminals
- ML/TF risks higher

No DTA Sales
Partial DTA Sales
Free DTA

Dominican Republic
Manaus (Brazil)
FTZ: Vulnerability - Modalities

Some Major FTZs
- Hong Kong
- Singapore
- Colón (Panama)
- Copenhagen
- Stockholm
- Gdańsk (Poland)
- Los Angeles
- New York City

Lax AML/CFT regime

Relaxed supervisory oversight

- Private
- Public
- Public-Private

Weak procedures:
- Goods inspection
- Entities registration

Inadequate co-ordination:
- Customs and Zone authorities

Conventional TBML Schemes + Complex Layers

- Cash
- Front Companies
- Currency Exchange
- Illicit proceeds for purchase
Case: FTZs Abuse - TF

(Colón Free Trade Zone, Panama) (Source: Administración de la Zona Libre de Colón/Wikimedia Commons/CC0 1.0)

- FTZ: Central point - Bulk cash drug money
- Modality: BMPE
- Through: FI’s + Trading Companies (Asia based)
- Bank accounts: In Country X

Criminals (Drug Cartels)
Terrorists (Hizbullah – Lebanon Boko Haram – Nigeria)
MNCs (Corrupt Practices)
Offshore Financial Centres/ Tax Havens

- Have relatively large numbers of financial institutions – Primarily in business with non-residents
- Financial systems – External assets and liabilities out of proportion to domestic intermediation - to finance domestic economies
- Some or all of these services – Low or zero taxation; Moderate or light financial regulation; Banking secrecy and anonymity.; Strong asset protection

Tax Havens:
- Base Havens
- Treaty Havens
- Special Concession Havens

Regulation Havens

Secrecy Havens
OFCs/ Tax Havens

- Finance
- Insurance
- Broking
- Holding-company/ HO Services
OFCs: Sink and Conduit

Countries linked:
Ownership between its firms

Node color:
Sink-OFC value

Node size:
Conduit-OFC value

Countries: 6
Entities: 13

Source: ofc-metre.org
OFC/ Tax Havens

✓ Each US State: Own corporate laws.
✓ Most - As a secrecy haven
✓ Little or no information on companies

- United States
- United Kingdom
- Germany
- France
- Austria
- Belgium
- Denmark
- Switzerland
- Ireland
- Iceland
- Luxembourg
- Netherlands
- Singapore
- Greece
- Portugal
- Spain
- Brunei
- Campione
- Ceuta and Melilla
- Botswana
Case: Tax Havens Abuse

Top 10 Tax Havens According to the Panama Papers
By number of offshore entities incorporated

- **NEVADA**: 1,260
- **HONG KONG**: 1,331
- **SAMOA**: 13,418
- **NIUE**: 9,611
- **BRITISH VIRGIN ISLANDS**: 151,588
- **PANAMA**: 48,373
- **BAHAMAS**: 15,946
- **BRITISH ANGUILLA**: 3,253
- **SEYCHELLES**: 15,580
- **SINGAPORE**: 668
Case: Panama/ Paradise Papers

Panama, Paradise leak probe found ₹20k cr stashed income

Govt: ₹154cr Already Recovered in Taxes From Many Evaders

New Delhi: A multi-agency investigation into Panama and Paradise paper leaks have revealed undisclosed income of more than Rs 20,000 crore so far, with Rs 154 crore already recovered in taxes from many of these evaders who had stashed their unaccounted wealth in overseas tax havens, the central government informed Parliament on Tuesday.

"As on October 1, total undisclosed credits amounting to Rs 20,358 crore have been detected with respect to 930 India linked entities in the Panama and Paradise Paper leaks,” the finance ministry has said in a written response to a question in Rajya Sabha.

Tharoor flags pendency, vacancies in judiciary

Initiating the debate after law minister Kiren Rijiju introduced the High Court and Supreme Court Judges (Salaries and Conditions of Service) Amendment Bill, 2021 in Lok Sabha on Tuesday, Congress MP Shashi Tharoor expressed concern over the long pendency of court cases and alleged there were examples of the judiciary’s “insensitivities”, including rejection of several applications on the plight of migrant labourers during the Covid-19 pandemic. TNN

922 residents of erstwhile enclaves retain citizenship

Nine hundred and twenty two residents of erstwhile Indian enclaves located in Bangladesh chose to retain their Indian citizenship and crossed over to India after ratification of the Indo-Bangladesh land boundary agreement in 2015, the home ministry told the Lok Sabha on Tuesday.

MoS(Home) Nityanand Rai also informed that the government had sanctioned Rs 1006 crore for the “rehabilitation package for returnees”. TNN

The income tax department has initiated prosecution cases against many of these entities under the Black Money Act after searches and seizures of documents from their premises and assessment of cases. According to the ministry, in 52 cases of Panama and Paradise Paper leaks, criminal prosecution complaints have been filed under the Black Money (Undisclosed Foreign Income and Assets) Act. Further, in 130 cases proceedings under the Black Money Act have been initiated, the ministry said.

In the recently disclosed Pandora papers leak, the central government has constituted a multi-agency group to investigate the cases. It has members from the Enforcement Directorate, the income tax department, the RBI and the Financial Intelligence Unit India.
Shell Banks

No physical presence* - Country where incorporated & licenced

Unaffiliated to regulated financial group - supervised

* Having meaningful mind and management

Indications: PO Box No. Just a representative to receive communication

Most countries: Not registered/ licenced Not permitted to deal with them

Have no AML regime Don’t deal with them Don’t permit them to transact
1. In Black Market Peso Exchange the underlying modality is mainly ____ , else _____.
   (a) under-invoicing  (b) over-invoicing (c) phantom shipping (d) non-payment

2. During Covid 19, there was a significant rise in ______.
   (a)  phantom shipping  (b) counterfeiting of medical goods (c) human trafficking (d) drug trafficking

3. OFCs are of these types: _____ and _____.
   (a) Open/ Close (b) Domestic/ Global (c) Conduit/ Sink (d) Manufacturing/ IT Services
2. TRANSACTION DUE DILIGENCE AND TRANSACTION MONITORING
Transaction Structure/ Documents Scrutiny
Transfers: Key elements

- Purpose
- Persons
- Places
## Transfers: Main types and Modes

<table>
<thead>
<tr>
<th>From / To</th>
<th>Person</th>
<th>Business</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Person</td>
<td>P2P</td>
<td>P2B</td>
<td>P2G</td>
</tr>
<tr>
<td>Government</td>
<td>G2P</td>
<td>G2B</td>
<td>G2G</td>
</tr>
</tbody>
</table>

### Intra-bank
- **Same bank**
- **Cheque/Online**

### Inter-bank
- **Clearing house**
- **Wire Transfer**

### Correspondent Banks
- **Direct between two banks**
- **Via – intermediary bank**

### Via Agents
- **Sourcing**
- **Payment**
Cross-border Transfers: Typical

- **P2P**
  - No economic transaction
  - To family
  - To friends

- **P2B**
  - Purchase on net
  - For Services
  - Investments

- **B2B**
  - Corporates: Goods/Services
  - Businesses: Investments
  - SMEs/NGOs
Trade Transaction: Parties

- Exporter
- Importer
- Merchant Agent
- Shipping Lines/Transporters
- Freight Forwarders/Clearing & Forwarding Agent
- Banks
- Insurers
- Certifying Authority
- Any other Parties
Trade Transaction: Documents

- Proforma Invoice
- Purchase Order
- Letter of Credit

- Commercial Invoice (Consular)
- Bill of Exchange
- Packing/Weight List

- Forwarder’s Receipt
- Bill of Lading/Airway Bill
- Customs Clearance
- Export Duty Receipt

- Certificate of Origin
- Test/Analysis Certificate
- Inspection Certificate
- Insurance Certificate
- ATA Carnet

- Customs Duty Receipt
- Bill of Entry

Makes Offer
Gets Order
Ships Goods
Goods Delivered
Trade Transaction: Information

**Proforma Invoice** –
- Trade Parties: Name/ Add.
- Item: Description, Price, Quantity, Weight, Value
- Incoterms (Payment, etc.)
- Transport: Mode
- Freight: Cost
- Delivery: Type
- Insurance
- Date of loading
- Packaging: Type, Boxes
- Validity date

**Commercial Invoice (Additional)** –
- Locations:
  - Cities (Origin/ Destination); Ports (Loading / Discharge),
  - Goods: Origin country, Processing Country

**Bill of Lading** –
- a) House Bill of Lading (Forwarder’s Receipt): Cargo Information
- b) Master Bill of Lading: Additional – Shipper, Consignee, Notify Party
- Types: On-board, Received for Shipment, Straight BL, Port-to-Port (Multi-modal)
- (Freight Bill – an Invoice also has the details)

**Packing List** –
- Commodity: Description
- Packages: Size and Number
- Package-wise Details: Quantity, Weight

**Other Documents** –
- Purchase Order
- Letter of Credit
- Certificate of Origin
- Test Certificate
- Insurance Certificate
- Customs Duty
TBML: Transaction Elements

- Customer
- Countries
- Sanctions
- Shipment
- Transaction
- Counterparty
- Intermediary
- Documents
- Goods
Scrubtny Perspective

Scenario Based Approach

- ML/TF Typologies
- Deviation - Past Pattern
- Unusual complexity
- Unusual Connection
- Anomalous Activities
Transaction Structure

- Do we check the documents or do we learn the underlying structure?
- Who is the exporter/importer?
- Who is the notify party/payment bank/destination?
- Third party shippers?
- What are payment terms?
- Are there third parties involved? Why? What’s their role?
## Transaction Patterns

<table>
<thead>
<tr>
<th>Transaction history</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade patterns – commodities/ destinations/ payment terms/ volumes</td>
</tr>
<tr>
<td>Payments patterns – payments by unrelated third parties?</td>
</tr>
<tr>
<td>Repeated import and export of the same high-value commodity (Carousel transactions)</td>
</tr>
<tr>
<td>Commodities traded do not match the business involved</td>
</tr>
<tr>
<td>Unusual shipping routes or trans-shipment points</td>
</tr>
<tr>
<td>Packaging inconsistent with the commodity or shipping method</td>
</tr>
<tr>
<td>Use “gatekeepers” professional services (lawyers, accountants, brokers, etc.)</td>
</tr>
</tbody>
</table>
Documents Scrutiny

- Genuineness of documents; Complete documents
- Description in documents – proper form, spellings, conventions
- Details of all parties – complete, appropriate and clear
- Goods, shipping details complete and correct
- Inter-se/ cross-check comparison of information
1. Which of the following elements can be known from the documents scrutiny?
   (a) Trade pattern  (b) Usual shipping route  (c) Payment pattern  (d) Counterparty

2. Understanding transaction pattern helps in ______.
   (a) Noticing carousel transactions  (b) due diligence of counterparty  (c) knowing country risk  (d) due diligence of facilitators

3. Which of the following form the major share in fund transfers?
   (a) Government to Business  (b) Business to business  (c) Person to person  (d) Business to person
Sanctions
# Sanctions Compliance: Risks & Transaction Elements

<table>
<thead>
<tr>
<th>Financial Risk</th>
<th>Purpose</th>
<th>Legal Risk</th>
<th>Other Country</th>
<th>Reputation Risk</th>
<th>Goods/ Service</th>
<th>Correspondent</th>
<th>Trade Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade/ Investment/ Other remittances</td>
<td></td>
<td></td>
<td></td>
<td>Dual use? Proliferation?</td>
<td>Relations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intermediaries (Agents/ Forwarders)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Shipping Company/ Vessels/ Routes</td>
<td></td>
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<tr>
<td></td>
<td>Counterparty Home Country Diligence</td>
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<tr>
<td></td>
<td>Bank/ FIs</td>
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</tr>
</tbody>
</table>
Sanctions: Some Issuing Authorities

United Nations

USA

UK

EU

Canada

Australia
Sanctions: Purposes

- Drugs and Narcotics Promotion
- Proliferation of WMD
- Terrorism & Terrorist Financing
- Political Supremacy
- Control on Natural Resources
Sanctions Programmes: Types & Nature of Restrictions

- **Country Sanctions**
- **Comprehensive Country Sanctions**
- **Designated Persons (Country)**
- **Designated Persons (Organisation)**
- **Designated Persons (Activity)**

**Types & Nature of Restrictions**
- Total Trade Embargo
- Export Ban: Specific Goods
- Import Ban: Specific Goods
- Financial Services Ban
- Ban on Investment
- Asset Freeze
- Financial Support Ban
- Arms Embargo
- Travel Ban
Sanctions: Potential Violations

1. Prohibited transaction with a sanctioned country/person
2. Goods re-exported to a sanctioned country or person
3. Non-US subsidiary deal outside the US – in some case may be violative

- **Banks**: Financial transaction to/from a sanctioned country
- **Banks**: Financial transaction for a sanctioned transaction
EU Sanctions: Applicability

- **EU Territory**
- **Member: Nationals**
- **Member: Aircraft, Vessels**
- **Entities: Formed under laws of Member**
- **Business in whole or part in EU**
- **Link with EU**
- **No extra-territorial application**

- EU entity – not to use non-EU entity to circumvent
UK Sanctions: Applicability

UK and Non-UK Persons in UK
UK persons – Whole World

Companies set up in UK
UK companies working overseas
# US Sanctions (OFAC): Applicability

<table>
<thead>
<tr>
<th>US Persons</th>
<th>Non-US Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>“US persons” must comply with OFAC Primary Sanctions all of the time</td>
<td>Non-US persons must follow OFAC Primary Sanctions sometimes</td>
</tr>
<tr>
<td>“US Persons” include:</td>
<td></td>
</tr>
<tr>
<td>• US citizens/permanent residents (anywhere)</td>
<td>Non-US persons’ activities fall under US enforcement jurisdiction when they involve a “US Element”:</td>
</tr>
<tr>
<td>• All persons physically located in the United States – regardless of citizenship</td>
<td>• US Persons</td>
</tr>
<tr>
<td>• Entities domiciled in the US, including their foreign offices</td>
<td>• The US financial system</td>
</tr>
<tr>
<td>• Overseas branches of US financial institutions</td>
<td>• US-origin goods and technology</td>
</tr>
<tr>
<td>• US-owned or controlled companies overseas but only for Iran and Cuba</td>
<td>▪ Overlap with the Commerce Department’s Export Administration Regulations (EAR)</td>
</tr>
<tr>
<td>• Entities owned or controlled by US financial institutions but only for North Korea</td>
<td></td>
</tr>
</tbody>
</table>
US Sanctions: US Financial System

- US banks
- US banks’ foreign branches
- Foreign subsidiaries – US FI’s (Cuba, Iran & N. Korea)
- Non-Us banks’ US branches
- US correspondent accounts
US Sanctions: SDNs

US Persons, wherever located, (including the US financial institutions) are prohibited from dealing, directly or indirectly, in property of, or providing services to, SDNs

Property and “interests in property” are blocked (frozen) when under US jurisdiction

Property is broadly defined and includes:
- Funds / Cash
- Wire Transfers
- Real Estate
- Contracts
- Credit
- Etc.
Entities owned fifty percent or more by SDNs are “blocked” and are treated like their SDN owners.

Property and interests in property of the blocked entities are also blocked (frozen).

If more than one SDN has a share in an entity, the shares are added together for the purposes of the Fifty Percent Rule.

The Fifty Percent Rule also applies to Sectoral Sanctions.

If more than one SDN has a share in an entity, the shares are added together for the purposes of the Fifty Percent Rule.
US Comprehensive Sanctions

US Persons (including the US financial system) are prohibited from:

- New investment in
- Importation into the United States (directly or indirectly) of any goods, services, or technology from
- Exportation, re-exportation, sale, or supply (directly or indirectly) of any goods, services, or technology to

Basic Features:

- General Licenses (e.g. Agri goods, Medical goods, etc.)
- Not applicable to non-SDN/ Blocked nationals located outside
- Transshipment or Transit prohibited (Iran)
US Sanctions: Secondary Sanctions

- Leverage the US financial system/markets
- To discourage non-US companies/individuals to act contrary to US foreign policy/national security objectives

- Apply to specified activities and “significant transactions”
- E.g., Executive Order 13846, Countering America’s Adversaries Through Sanctions Act (CAATSA)

- Include restrictions on correspondent accounts
- Applies even if no involvement of a US Element (unlike Primary Sanctions)
Sanctions: Name Screening

- New Customer Boarding
- List Updated
  - Customer Base
  - Incremental
- Periodic Updation
- Confirming Check
- Handling Transaction
Correspondent Banks
Correspondents: Risk Factors

- Nature of Activity
- Owners
- Constitution
- Board/Management
- Home Country
- Network
- AML/ CFT Framework
High Risk Correspondents

- Community Banks
- Offshore Banks
- Banks Owned by PEPs/Dubious Persons
- Banks in Weak/High Risk Jurisdictions
### Correspondents: Enhanced DD

<table>
<thead>
<tr>
<th>Board/ Committee approved Policy – Parameters for relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information: Management, Activities, Purpose</td>
</tr>
<tr>
<td>Local regulations, AML Policy, Compliance level</td>
</tr>
<tr>
<td>Identity of third parties using the account</td>
</tr>
<tr>
<td>Not with shell banks, Nor used by shell banks</td>
</tr>
<tr>
<td>High risk/ FATF listed countries - cautious</td>
</tr>
<tr>
<td>Wolfsberg CBDD - Questionnaire ; Guidance</td>
</tr>
</tbody>
</table>
Do you remember?

1. Which of the following are not included in the US financial system?
   (a) US bank’s foreign branches (b) Non-US banks having branches in US (c) US branches of non-US banks (d) US correspondent accounts

2. Which of the following countries is not under comprehensive sanctions?
   (a) Iran (b) North Korea (c) Russia (d) Syria

3. Which of the following factors does not affect the risk level of a bank?
   (a) Home country (b) Nature of activity (c) KYC-AML framework (d) None of the above
Red Flag Indicators
TBML: Transaction Elements
## TBML Indicators: Customers

- Multiple goods - diverse industries/sectors
- Frequent changes: goods/business lines
- Significant pattern change (Sudden spurt)
- Newly set-up: high value transaction
- Structure unusually complex/ illogical
- Shell company: Employees; Activity, Registered address
- Location, Services used – not matching business
Shell Company Indicators

Transaction not matching: Activity; Size; Location

Country of incorporation – High risk, Weak AML,

Associate: Of customer/ intermediary

Newly set-up: High value transaction
TBML Indicators : Intermediary

- Through Agent: Not trade practice
- Associated: Shipping Co.; Forwarders; Warehouses
- Goods: Not their usual business line
- Country: Not their usual route
- Country of incorporation
- Shipping company: Not of repute; Not known
TBML Indicators: Goods

Restricted goods: Exim Regulations

Dual use (high tensile strength aluminum alloys); High Risk (defense items, chemicals, crude oil)

High ML Risk: High value; Low volume; Valuation difficult (Diamonds, Precious stones, Electronic)

Inconsistent with line of business: Quantity/ Type

Pricing not in line with market price

Not usually traded by the countries
Circular trading: Both imports/ exports

Structure: Unduly complex

Payment: Tenor/ mode not per trade practice; Late changes in mode

High-seas sales/ Merchant Trade: High proportion

Round values: Frequent/ several; High turnover - low balance

Cash deposits – transferred to FTZ/ OFC; Trade receipt – paid to multiple accounts

Payments: To or From Third party/ Different country;
TBML Indicators: Shipment

- Shipping Mode: Unusual; Not making sense
- Route: Not usual; Uneconomical
- Ambiguity or uncertainty about mode
- Container: Too large/ small for the quantity
- Vessel: Not on IMB records; Blacklisted
TBML Indicators: Documents

- Inconsistencies: Future dated; Vague/Improper terms; Format
- Information: Vague; Partial; Absent - Goods, Particulars of parties
- Inter-se differences: Goods; Quantity; Price; Value; Payment; Source/Destination; Transport
- Fees, Prices not matching market/previous transactions
- LCs: Frequent extension/repeated amendments; Counterfeit documents
- Absence of usual documents/Unusual Documents included
- Complex/high value trade – simple document

Source: globalnegotiator.com
### TBML Indicators: Sanctions/ High Risks

<table>
<thead>
<tr>
<th>Parties; Agents; Facilitators; Banks; Vessels; Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>BO’s of connected entities; Vessel owners - Sanctions</td>
</tr>
<tr>
<td>Any connected entity: Under sanctions</td>
</tr>
<tr>
<td>Any leg: Sanctioned/ High risk jurisdiction</td>
</tr>
<tr>
<td>Landlocked country: Neighboring sanctioned country</td>
</tr>
<tr>
<td>Post advance remittance documents reveal sanctions</td>
</tr>
</tbody>
</table>

Source: ibimco.org
Enhancing Capabilities - Use of Technology
Enhancing Capabilities

- Obtaining specific info on various elements
- Integrating disparate controls
- Capturing and collating massive data
- Synthesising transaction events spread over time
- Capturing and flagging changes
- Using advanced technology
Technology Capabilities

Technology – Better Searches
Data analytics - Detect Patterns
Standardise Systems
Integrate Systems
Adopting Technology

- Flexibility
- AI/ML/NLP/Analytics
- Unstructured and Scattered Information
- OCR
- Scalable
- Many Documents Large Information
- Cost-effective
- RPA/Blockchain
- Events – spread over time/place
3. MANAGING RISKS - ORGANISATIONAL & NATIONAL STRATEGIES
CDD FOR TRADE BUSINESS
CDD: RBA

- Higher DD
- Trade Customers
- Varying Risk
- Trade Customers
- CDD
- Graded EDD
Trade Customers: Base EDD

- **Customer’s Owners Location Business Activity**
- **Trade Countries**
- **Trade Routes/Transport Modes**
- **Trade Partners (Place)**
- **Goods Traded**

**Sanctions/Crime Lists Screening**

**Banks & Intermedia ries**

**IEC Code, Membership of Associations, Exporter Status, Track Record – Business Data, DDB Claimed, Duty Paid**

**Business: Specific Products, Goods**

**Customers, Suppliers**

**EDD of Beneficial Owners**
Trade Customers: Additional EDD

- Product/ Goods Turnover (Vs. Country Data)
- Country-wise Turnover (Vs. Country/ Global Data)
- Trade Routes – Goods (Vs. Global Data)

- Trade Partners: Due Diligence
- Banks: Standing, Business Profile
- Trade Intermediaries: Due Diligence
## Trade Transactions/ Projects DD

### Customer:
- BO’s/ Owners’ DD
- Background
- Business Activity
- Locations

### Counterparties:
- Constitution
- Beneficial Owners
- Locations
- Activities
- Commercial reports

### Due Diligence:
- Professionals
- Intermediaries
- Any Other Entities

### Relationship History
- Type of Transaction
- Goods/ Services
- Trade/ Payment Mode

### Vetting Documents
- Other suppliers (Projects)
- Market conditions

### Ship DD
- Ship movements
- Commercial Crime Services

### Any warning notices/ adverse reports
Higher Risk Transactions

Understanding Transaction Structure

Assessing Need for Structure

Examining Legitimacy
Higher Risk Trade: Enhanced CDD

Ownership/ Background: Counterparty, Intermediaries, Any Other Entities

Relationship with Trading Partner Type of Transaction

Vetting: Bill of lading, Market condition, Ship movements, Commercial Crime Services

Any warning notices/ adverse reports
Trade Customers: Profile Maintenance

- CDD Details
  - Updation: Transaction based; Periodical

- Unusual Features Noticed

- LEA Queries

- STRs Filed
MANAGING RISKS & ORGANISATIONAL RESPONSIBILITY
Bank’s Role

- Customers
- Due Diligence
- Transactions
- Risk Assessment
Consequences of ML/FT Risks

- Correspondent Relationships
- Employee Prosecutions
- Monetary Penalties
- Business Permissions Suspension
Mitigating Risks: Approach

Prevention
- Primary Measure
- Objective: Deciding Customer/ Transaction acceptance
- Purpose: Gauging the risk
- Due Diligence: Understand the nature of association; Gather adequate relevant information
- Maintain Customer Profile: updated
- Maintain history

Detection
- Secondary measure
- Objective: Reporting to FIU/ LEA/ Regulator
- Complements prevention measures
- Draws on the history/ profile maintained
- Measures: Transactions scrutiny; Transactions analysis; Review customer profiles; Media scrutiny
- Flag doubtful cases
- File STRs
Do you remember?

1. Which of the following is not essential attribute of technology to be adopted for ML/TF risk management?
   (a) Flexible (b) state-of-the-art (c) scalable (d) cost effective

2. Due diligence of trade customers should be ________.
   (a) differentiated inter-se as per risk level (b) same as for other customers (c) confined to information obtained from them (d) uniform for all trade customers

3. Consequences for banks due to ML/TF risks include ________.
   (a) Monetary penalty (b) Business permission suspension (c) Employee prosecution (d) All of the above
Risk Based Approach
Risk Based Approach

1. Identify Risk
2. Understand Risk
3. Assess Risk
4. Modulate Efforts
Determinants of Risk

- Business Lines
- Products/ Services
- Customers
- Correspondents

- Delivery Channels
- Countries/ Regions (Operating)
- Countries (Transactions)/ Regions (Customer)
- Associates

Business
Relation
Customers: Risk Factors

- Business Line
- Commodity/Product
- Country Linkages
- Financial Level
- Turnover
- Customer Linkages
Countries: Risk Factors

- Political system
- Social Situation
- FATF Grading
- Leg/Reg Regime
- Sanctions
- Location
High Risk Regions

- Near International Ports
- Border – Terrorist Location
- Crime Infested
- Terrorist Centers/Locations

(howmuch.net/articles/)
Information Needs
Risk Management: De-risking

- Risk Mitigation
  - Risk Management
    - CDD
    - Transaction Monitoring
    - Terminate/Restrict Existing Relationship
    - Not Entering New Relationship
  - Risk Elimination (De-risking)
    - A customer/bank
    - A class of customers/banks
    - A customer/bank
    - A class of customers/banks
    - Correspondent bank
    - Foreign mission
    - Non Profit Organisation
    - Money Service Business
    - PEP
De-risking: Causes and Effects

**Causes**
- Profitability/Cost concerns
- Prudential/Regulatory requirements
- Global crisis impact
- Reputational/Sanctions risk

**Effects**
- Increase risk and opacity
- Pushing to into less/unregulated channels
- Affect financial stability
- Affect competition
- Financial exclusion

Affect competition

Profitability/Cost concerns

Prudential/Regulatory requirements

Global crisis impact

Reputational/Sanctions risk

Increase risk and opacity

Pushing to into less/unregulated channels

Affect financial stability

Financial exclusion
De-risking: Desired Approach

- Case – by –case RBA
- Given case Risks cannot be mitigate
- Terminate/Restrict Relationship
- Not enter in Relationship
Roles of Various Teams
Strengthening Due Diligence

Ongoing Customer Due Diligence

- Validation – Profile and Transaction Information
- Periodic Updation

Transaction Due Diligence

- Verification: Documents, Information, Counterparty, Vessels, Products
- Validation: External Sources, Global Data, Country Data, Other Agencies/Authorities, Past Transactions
Strengthening Transaction Monitoring

### Scenario-Based
- Detection - scenarios covering several elements
- Relatively lower number of alerts
- Lesser degree of manual efforts
- Use of advanced IT capabilities – AI/ML

### Factors-Based
- Corridor monitoring
- Trends monitoring
- Product/commodity monitoring
- Country monitoring
Role of First Line

**Business (First Line)**

- **Product Development**: Build in checks and controls
- **Policies/Strategies**: Avoid/cautious grossly abused sectors/regions
- **Customer Relations**: Effective due diligence
- **Transactions Diligence**: Verify bonafides ante handling
- **RFIs**: Effective investigation
- **Confidentiality**: ‘No tipping off’ customer
- **Sharing**: With Operations and Compliance Teams

**Operations/IT (First Line)**

- **Forex Regulation**: Permitted; Bonafide purpose
- **Credibility**: Commercial/environment knowledge
- **Documents**: Genuine, Inter-se discrepancies, Missing
- **Anomalous**: Prevent; Disseminate to AML Team
Bank B
5 – Executed
30 - Queried

$851 mn
- System flagged for ‘Jupiter’
- In ‘Jupiter Branch’ of Bank C
- ‘Jupiter Seaways Shipping’ under sanction
- Scrutiny: same address as other 4 transfers to the branch

Bank A
Feb 4, 2016: System Hacked
Transfer Instructions Sent

35 Instructions
$951 mn

Bank D
Intermediary Bank

$20 mn
Blocked and reverted

Bank E
Beneficiary Bank

Bank C
$81 mn (5 a/cs.) Withdrawn
(Recovered $18 mn – 2018)

4 Accounts of Individuals
Opened – May 2015
- No transaction
- Nominal balance

Beneficiary: ‘Shalika Foundation’
- Too large for the NGO
Stronger Second Line

- Awareness of new typologies
- Lessons from regulatory actions
- Learning from peer institutions
- Industry level intelligence sharing
Roles of Compliance/ Audit

Compliance / AML
(Second Line)

- **Detection**: Suspicious transactions; Doubtful transactions
- **Reporting**: STRs
- **Analysis**: Identifying patterns; Concentrations (branches/ businesses/ countries)
- **Research**: Typologies; Trade Systems
- **Sensitising**: Business and Operations Teams

Audit
(Third Line)

- **Assurances**: Periodical transaction audit, Systems Audit
- **Reviews**: External agencies
- **Anomalous Transaction**: Dissemination to AML Compliance team
- **Report**: To Board/ ACB
Enhancing Capabilities

Identify Risky Transactions

Upgrade Technology

Foresee Emerging Risks
INSTITUTIONAL CO-ORDINATION, PUBLIC PRIVATE PARTNERSHIP
Roles of Various Players
Role of Central Bank/ Policy Makers

- Sharing NRA Findings
- Sensitising DNFBPS Producers & Traders Trade Services Providers
- Beneficial Owner Information
- High Risk banks/ countries Info
- Forex Provisions
- Remittances Data Customs Documents

Findings on High Risk banks/ countries Info

Beneficial Owner Information
Role of FIU

Capabilities
- Diverse Sources (AAs/ LEAs/ FIUs)
- Wider Information Coverage
- STRs Contents
- Personnel Strength
- Skills – Technical and Analytical
- Technology (Analytics/ Visualisation/ Matching)

Analysis
- Strategic approach
- Non-STR Data Analysis
- Linkage with STR Information
- Detecting Linked Entities/ Shell Entities
- Enhanced Risk Understanding
- TBML Schemes Knowledge

Training & Awareness
- Propagating TBML Cases
- Skilling/ Feedback: Reporting Businesses; High risk information
- Sensitising Businesses/ Individuals
Role of Customs

Expert Knowledge
- International trade
- Flows of Goods
- Supply Chains
- Access to documents/data
- Identify suspicious modalities
- Share with banks/FIU

Capacity Building
- Documents Examination
- Financial Intelligence Scrutiny
- Cargo Analysis
- Advanced analytical techniques
- Enhanced focus: ML perspectives too

Strategy
- FIU – co-ordination
- Collaboration – Customs – Documents Comparing
- Detecting: Hot Routes, Trade Crimes, TBML/TF, Illicit shipments
- Crime cash conversion to Exports
- New Schemes TBML/TF
Co-ordination: Banks

MLRO Group – Sharing Experiences, Evolve strategies

Educate customers

Evolve Due Diligence Standards

Co-ordination with FIU/ RMA
Information Value

- Financial System Data
- Trade Data
- Beneficial Ownership
- Real Estate /Vehicle, Registries
- Crime Data
- Public Domain Data

Synthesising Information
1. Which of the following is not among the causes for de-risking approach followed by some banks?
(a) Global crisis  (b) Profitability concerns (c) Regulatory requirements (d) FATF Norms

2. Which of the following functions usually cannot be a source for detecting suspicious transactions?
(a) Audit (b) Vigilance (c) Compliance (d) Human Resources

3. Customs Department usually cannot provide insights into ______.
(a) flow of goods (b) trade payment practices (c) suspicious modalities (d) supply chains
Public Private Partnerships

- Co-ordination Group
- Authorities & Businesses
- Diverse Expertise
- Disseminate Risk Information
- Valuable Intelligence
- Increased Dialogue
- Specific Areas

- Valuable Intelligence
- Increased Dialogue
- Specific Areas
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- Increased Dialogue
Co-Ordination: Initiatives

World Initiatives

- Anti Money Laundering Centre (AMLC) (Nether lands)
- FINTEL Alliance (Australia)
- JMLIT (UK)
- ICEGATE (India)
- Anti Financial Crime Alliance (AFCA) (Germany)
- Trade Transparency Units (USA)
USA: Trade Transparent Units

2004

Trade Transparency Unit
In Homeland Security Investigations (HSI) Arm

First TTU – Colombia
No. of Countries - 17

Argentina, Australia, Brazil, Colombia, the Dominican Republic, Ecuador, Guatemala, Mexico, Paraguay and the Philippines

- Partner with another country for Trade Data exchange
- Customs Mutual Assistance Agreements
- Compares and analyses trade data of both ends
- Collaboration: Customs, FIUs, Investigation Agencies

Operation Fashion Police (2012)
- Los Angeles Fashion District
- US Garment Stores & Drug cartels
- Exported to Colombia and Mexico

- Building awareness,
- Strengthening TBML detection
- Improving international cooperation
UK: JMLIT

2015

Joint Money Laundering Intelligence Task force
National Economic Crime Centre

- Financial Conduct Authority
- 5 LEAs: the NCA, HMRC, Serious Frauds Office, City of London Police, Metropolitan Police Service
- 40+ financial institutions; Cifas

- Obtain and share information
- Produce operational, strategic and tactical intelligence
- Expert groups 6 areas (with TBML)

TBML Group
- Exchanges information
- Working techniques and ways of cooperating
- Helped identify perpetrators of the terrorist attack in Manchester in 2017
- Overvalued/smuggled goods identified: gold, food, counterfeit drugs, household appliances, textiles, cigarettes and vehicles

- Supported > 500 legal investigations
- Over 130 arrests
- Seizure/restraint of > £13m
- Over 5,000 suspect accounts
- Over 3,500 internal investigations
- 30 ‘JMLIT Alert’ reports shared with FI’s
- Helping set up similar units in Key partner countries

National Economic Crime Centre
• Obtain and share information
• Produce operational, strategic and tactical intelligence
• Expert groups 6 areas (with TBML)
Germany: AFCA

2019

Anti Financial Crime Alliance (AFCA), Germany

Authorities:
1. Federal Financial Supervisory Authority
2. Federal Criminal Police Office
3. Financial Intelligence Unit
4. Hessian Ministry of the Interior and for Sport
5. Ministry of the Interior, Digitization and Migration Baden-Württemberg
6. MWAE Ministry for Economic Affairs, Labor and Energy (Brandenburg)
7. Senate Department for Economics, Energy and Public Enterprises (Berlin)
8. Customs Criminal Police Office

Private Sector:
Banks/ Financial Institutions – 23
Non–financial Sector - 7


December 2019 - a private sector led task force focusing on TBML.
ICEGATE - India

2007

Indian Customs Electronic Gateway

245 Customs Locations
43542 users; 1.25 mn Traders

e-Filing Services:
• Trade, Cargo Carriers and other Trading Partners (trade, transport and regulatory agencies)
• 1.25 million importers/exporters
• Import Goods Declaration, Export Goods Declaration, e-Payment of Customs Duty, Goods & Services Tax Refund, Verification of Licences, Registration of Products with Customs, Signing Utility

Electronic Data Interchange (EDI) - Trading Partners
• Importers/ Exporters/ Clearing House/ Airlines / Shipping Agents/ Shipping Line;
• Air/ Sea Custodians/ Inland Container Depots;
• Banks; Directorate General of Foreign Trade; Reserve Bank of India;
• Directorate General of Commercial Intelligence & Statistics; Directorate of Valuation

Export / Import Data Processing and Monitoring System (EDPMS/ IDPMS) (2014)
• Reserve Bank of India
• Customs authorities
• Authorised Dealer Banks
Monitoring of import / export transactions
Fintel Alliance - Australia

2017

Australasian Initiative

Finance sector - 11 Non- finance sector - 2

29 Public – Private Entities

Support: 9 Task Forces
Operations: 24 Crimes
LEAs: 255 Reports
COVID-19 SARs: 2,000

Authorities - Australia: (14)
1. Australian Securities and Investments Commission (ASIC)
2. Australian Competition and Consumer Commission (ACCC)
3. Australian Government Treasury
4. Australian Taxation Office
5. Department of Home Affairs
6. 9 LEAs

Authorities – Others: (2)
1. New Zealand Police - Financial Intelligence Unit
2. National Crime Agency (UK)

2020: TBML Working Group

- Experts: Govt.; LEAs; Fin. Ind.
- Monthly meetings
- Focus:
  ✓ Developing TBML Indicators
  ✓ Information-sharing framework
  ✓ Public-private collaboration (under Australian Border Force)
  ✓ Training on trade financing

Two hubs for collaboration:
- Operations Hub – Exchange/ Analysis of real time financial intelligence
- Innovation Hub – Co-design/ Test new technology solutions for financial intelligence processing; Assess impact of emerging technologies
AMLC - Netherlands

2018

- Anti Money Laundering Centre, Netherlands
- Police, the Public Prosecution Service, FIU, Regulators, FIOD and Investigative services
- Banks, Accountancy firms and civil-law notaries

2020 - under FEC
- Cash integration TBML in the automotive sector
- To know your sector (KYS)
- Typologies and TBML indicators tailored to the sector

- Theme Based
- Project Based

- Formulation of new typologies,
- Phenomenon descriptions
- Major ML investigations begun
- Unique database built/managed