AN OVERVIEW OF TRADE BASED MONEY LAUNDERING (TBML)

S.Sivananthan FCIB (London)

From time immemorial international trade has been the pivotal in facilitating exchange of goods for global sustainability, with its origin in barter system to today's monetary settlement.

The 2030 Agenda for Sustainable Development of the United Nations defines international trade as

"An engine for inclusive economic growth and poverty reduction, [that] contributes to the promotion of sustainable development".

Interestingly crime is equally ancient as international trade, though the design and mode have now changed. As you are aware the bad actors move the ill-gotten monies to hide its origins through the financial system or physical movement of money (e.g., using cash couriers) or by physical movement of goods through the trade system or a combination of all. Professionalism applied and the incentive of huge money gains make bad actors to quickly innovate to counter the capability of the regulators.

It is said the annual trade-based money laundering is estimated to be hundreds of million or even trillions of dollars. A comprehensive mapping of known TBML [court] cases worldwide from 2011 to 2021 has identified just US$60 billion in money laundering. (Global Finance Forum). It is estimated that the annual global TBML is US$ 2 trillion.

The consequences of TBML are rather serious to many countries as they lose considerable revenue, become vulnerable to high security risk, and may face undesirable social implications.

In addition to money laundering other challenges to us are sanction violations, fraudulent cross-border transactions and terrorist financing and the use of dual-purpose goods for nuclear proliferation which are inherent risks in international trade.

An initial note to all young readers is that most of the transactions we come across in our day today banking activity are legal and conform to ethical standards, but in a basket of apples there can be a few bad apples. Hence, it is for a skilful banker to identify them. In this scenario, I am reminded of our being expected (during my time)to carry out a transaction in good faith, with due diligence , without negligence and in the ordinary course of business. I think these four cardinal principles are more appropriate now than the days gone by as we had mostly applied them when opening an account or either collecting or paying a cheque. Although the present-day transactions are complex, still the application of these principles would immensely assist in the risk assessment to unwind complexities.

WHAT IS TRADE BASED MONEY LAUNDERING (TBML)

"The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origin or finance their activities". (FATF)

The objective of TBML is to facilitate movement of money and not movement of goods.

As we know the objective of the bad actors is to hide the origins or source of the illicit proceeds and attempt to convert dirty money into good money and international trade is a convenient medium to conduct this. They exploit the vulnerabilities in documentary credit (Letter of Credit) and Documentary Collection (Collection Bills) to achieve their ends.

Since TBML relates to international trade the International Monetary Fund (IMF) considers that this methodology enables illicit financial flow (IFF). IMF defines IFF as.

" Illicit financial flows refer to the movement of money across borders that is illegal in its source (e.g., Corruption, smuggling, Cybercrime, Illegal drugs Human trafficking, Illegal trade in forestry products Counterfeiting, Illegal trade in small arms and Illegal wildlife trade), its transfer (e.g., tax evasion), or its use (e.g., terrorist financing)"

The following techniques are used in TBML.

OVER INVOICING OF GOODS AND SERVICES:

By misrepresenting the price of the goods or services in the invoice and other documentation (stating it at above the true value) the seller or the service provider gains excess value because of the payment. In this arrangement both the importer and exporter will be involved.

UNDER INVOICING OF GOODS AND SERVICES:

By misrepresenting the price of the goods in the invoice and other documentation (stating it at below the true value) the buyer or recipient of service gains excess value when the payment is made.

MISPRICING

It is similar to under-invoicing or over-invoicing where an incorrect price of the goods is declared, and this enables firms to transfer funds while shipping goods which are worthless.

Over and under-pricing and mispricing appear to be straightforward, but how are we to very this. The banks would have their own methodology for price check to ascertain the variance and act accordingly. However, this is an arduous task and given below is a list which illustrates many factors which impacts it.

1. The date that the contract was signed.

2. The Incoterms relating to the trade and freight cost

3. The quality of the product (e.g., staple of cotton).

6. The competitive landscape.

8. Client purchasing or selling power

9. Client and counterparty relationship

10. Prices may justifiably differ for two items classified as the same item type.

(Source: ICC - financial crime compliance checks on the price of goods in trade transactions – are price checking controls plausible?)

MULTIPLE INVOICING OF GOODS AND SERVICES

By issuing more than one invoice for the same goods or service a seller can justify the receipt of multiple payments. It is a re-use of existing documentation for the same shipment or delivery of services. This will be harder to detect if the colluding parties use more than one financial institution to facilitate the payments/transactions.

OVER SHIPPING

The seller ships more than the invoiced quantity or better quality of goods thereby misrepresenting the true value of goods in the documents. The effect is like under invoicing. The importer and exporter are both involved in this technique.

UNDER SHIPPING

The seller ships less than the invoiced quantity or quality of goods thereby misrepresenting the true value of goods in the documents. The effect is like over invoicing.

FALSELY DESCRIBED GOODS AND SERVICE

The quality of a good or service is misrepresented to describe them as more expensive or as entirely as a different item, to justify value movement. The parties deliberately attempt to structure a transaction to ensure that financial institutions or other parties involved in the transaction don't become suspicious. They may do this by omitting information from relevant documentation or falsifying it or disguising it.

COMPLEX TRANSACTIONS INVOLVING MULTIPLE INTERMEDIARIES

Bad actors can create a complex structure involving multiple intermediaries which may include shell or non-existent companies where even the UBO (Ultimate Beneficial Owner) may not be transparent makes it difficult to identify TBML.

PHANTOM SHIPPING

No goods are shipped, and all documentation is completely falsified. The importer and exporter who will normally be in two different countries collude with each other and create a scenario which is non-existent or fictitious , and no goods pass between them. However, the so-called importer will make a payment to the exporter.

The bad actors may use any one of the above techniques, but in practice can mix these methods to make the transaction more complex. They can make a shipment which may be a genuine legitimate movement of goods to test customs compliance procedures and later use multiple invoices for phantom shipments.

PRODUCTS AT HIGH RISK OF TBML

It is identified that following characteristics of tradable goods lead to heightened TBML risks:

- They are easy to sell.
- They have wide pricing margins.
- They have extended trade cycles, meaning that they are shipped through multiple jurisdictions.
- High-value, low-volume products (e.g., precious stone)
- Low-value, high volume products (e.g., second-hand textiles)
- They are difficult for customs authorities to examine.

The cycle of money laundering involves Placement (The launderers deposit their ill-gotten money into the banks) Layering (The launderer moves the funds across various countries through bank transfers to distance them from their source) and integration (The launderer will purchase real estate, luxury assets, or invest in business ventures) In TBML it involves both placement and layering as there is a movement of funds to another jurisdiction which makes it easier for them to place the money and create a difficult situation for the authorities to trace the origins.

MERCHANDISE THAT INVOLVES TBML

Although it can involve any type of goods, the popular goods are.

- Luxury goods, including designer clothes, jewels, and gold.
- precious metals and stones.
- Fuels and mining products.
- Art and antiquities.
- Electronics and mobile phones, since they are portable, easy to ship, easy to sell and have high value.
- Used vehicles.
- Textiles, mostly second-hand clothes.

By types of products used, the most common included cars/transportation (24 percent of all types of products mentioned), metals and minerals (17 percent), agricultural products (13 percent), and textiles (11 percent). In total, 68 specific products were identified ranging from garlic and jellyfish to silk flowers and perfume. The single most common specific product was cars.(Source: Global Financial Integrity)

Low value good supply chain is more attractive to the bad actors,as the set-up cost is rather low and may not attract higher level of scrutiny by the authorities. It would also give an opportunity to supply multiple markets and being a low value product give less suspicion. In the event they want to exploit the high value goods, they may penetrate and misuse the established supply chains. An ideal gateway for them is companies with a cash flow crisis and they enter as a “silent partner” and use the business and its supply chain to launder the illicit funds.

We could further elaborate on this.

AUTO PARTS AND VEHICLES

The trade in auto parts, vehicles (including second -hand vehicles) and luxury vehicle is exploited as a medium for TBML. The damaged cars are repaired and transported from one jurisdiction to another where a legitimate market is available for sale. The right price is declared at the point of export but declare considerably a lower value at transhipment points. The payments are also routed through a different network of companies in alternate jurisdictions.

GOLD, PRECIOUS METALS AND MINERALS

Gold is a proxy for cash. Gold is part of precious metals which will also include silver and platinum. Gold is a sought-after commodity for TBML due to the following characteristics.

- East to melt and cast into any design.
- Trade is mostly carried out in cash.
- Negotiable internationally.
- Usage as a currency.
- Durable
- Odourless (this makes is easy to smuggle)
- Anonymity as no need to record it.
- Safe investment and store of wealth from illegal activity.
- Rather difficult to trace .

The minerals will include diamonds, emeralds, sapphires, and rubies. They become equally attractive for TBML as they have a stable value and compact. To aid TBML the price of minerals or gold is either manipulated or false invoices created for a fictitious sale to cover a transfer of illicit funds. On the face of it may look like a legitimate buying and selling transaction. Gold and precious minerals are also being used as an alternative currency for settlement of drugs and weapons.

ART AND ANTIQUITIES

It is understood that the trade in art, antiquities and other cultural objects is a billion-dollar industry which creates an opportunity to exploit this market for TBML. The high price of these items and international nature of the market makes it attractive to bad actors.

The estimated value of global sales of art and antiquities in 2021 reached USD 65.1 billion, increasing by 29% from the previous year.(FATF)
The value of these items is generally subjective and can be easily manipulated. Some of these items may not be bulky and would be portable and smuggled with ease. These transactions are mostly carried out privately and anonymously.

AGRICULTURAL PRODUCTS AND FOODSTUFFS

Agricultural products are exploited and food supply chains of highly perishable items such as fresh fruits and vegetables are abused to facilitate TBML. The bad actors use these legitimate supply chains as a medium to introduce illicit cash into the financial system. This is an example of low value and high-volume transaction.

CLOTHING AND SECOND-HAND TEXTILES

The wide variation in prices of clothing and especially second-hand textiles make it very attractive in terms of mis-description of the price to support the laundering activity. This is an example of a low value high volume transaction.

Further the second-hand textiles may look a genuine transaction, but the goods will have no value and simply dumbed by the importer on receipt.

PORTABLE ELECTRONICS (MOBILE PHONES, LAPTOPS, ETC.)

These items can be deliberately misrepresented and incorrectly valued giving an opportunity to move significant illicit proceeds.

LUXURY GOODS INCLUDING DESIGNER CLOTHES AND JEWELS

These goods are also attractive for TBML due to their high value, anonymity of the transaction,portabililty,level of cash used in the sector and involvement of different high- risk jurisdictions. As these goods hold their value beyond a country`s borders and makes it even more attractive for TBML.

Apart from the sectors mentioned above TBML can take place in trades relating to construction material, scrap metal, fuel and energy products and alcoholic and soft drinks.

SERVICES THAT INVOLVE TBML OR SBML

SBML is a challenge for regulators and law enforcement as there is no physical good that they can inspect to determine whether the invoice is an accurate representation of the monies transferred.

Trade in NFTs which is high in risk is another challenge we encounter. NFTs refer to “Non-fungible tokens”. “Non-fungible tokens” use cryptocurrencies’ blockchains to sell original versions of digital artefacts. This can give rise to digital trade-based money laundering due to lack of customer due diligence and “know your customer” (KYC) on those facilitating such transactions.

SHELL, FRONT, OR SHELF COMPANIES

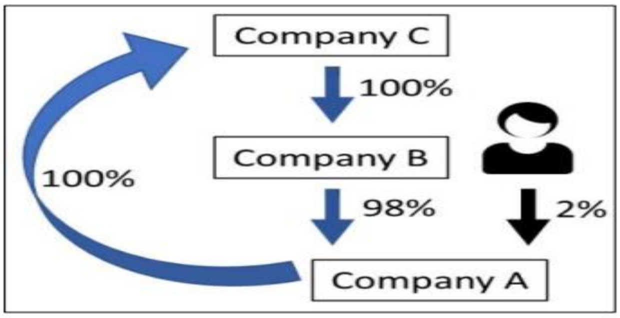
Shell company :incorporated with no independent operations, significant assets ,ongoing business activities, or employees.

Front company: fully functioning company with the characteristics of a legitimate business, serving to disguise and obscure illicit financial activity. It is said that the TBML threat posed by front companies is greater than shell companies.

Shelf company: incorporated company with inactive shareholders,directors,and secretary and is left dormant for a longer time even if a customer relationship has already established.

We would also come across many sole proprietorship businesses/private limited companies formed by unrelated people (proxies) and registered with false addresses but controlled by the same group of people. Formation of shell, front and shelf companies have been assisting in TBML and they use these companies as part of their financial settlement process to integrate physical cash into the business and use banks to transfer funds from one jurisdiction to another. They also create a complex company structure to make it difficult to identify the UBO (Ultimate Beneficial Owner). The spread of ownership across various jurisdictions where the controls are inadequate, complex ownership, unrestricted use of legal persons as directors and formal nominee shareholders and directors where the identity of the nominator is undisclosed make the structure complex. However, the exploitation of legitimate supply chains is equally being seen in TBML.

The banks have a threshold of either 10% or 25% shareholding to identify the ultimate beneficial owner. The undermentioned organogram will show how this can be circumvented by the bad actors and the expertise a banker would be expected to apply.



Source: "More beneficial ownership loopholes to plug"

RED FLAGS

A " Red Flag" is a warning which signals of a possibility of money laundering or terrorist financing risk, which will need further probe into the transaction with an Enhanced Due Diligence supported by more information and documents to be obtained. However, the "Red Flag" alert needs to be viewed with an open mind as it depends on the nature of the client's business and the nature of the underlying transaction. A "Red Flag" of concern for one customer may be common practice for another customer. In case of doubt, it should be escalated to senior management.

"Red flags" – a detail/feature of a transaction that appears unusual and may, in isolation or in combination with other details, give rise to suspicions of financial crime. **(FCA UK Definition)**

RED FLAGS RELATING TO BUSINESS

- Disproportionate growth of a new company into their existing markets.
- Companies diversifying into unrelated sectors at the same time.
- A company involved in one type of business unexpectedly venturing into a new business (Example: A steel company that starts dealing in pharmaceuticals).
- Having significant cash payments.
- Receipt of payments from previously unknown third parties and likewise making payments to unexplained third parties.
- Unusual complex supply chains with multiple transhipments .
- Using of letters of credit to carry out trade with a country which is not in their usual business activity.
- The business receiving an advance payment for a shipment from a new seller from high -risk jurisdiction.
- Payments received in multiple accounts and in turn payments made from multiple accounts.
- A customer significantly deviates from their historical pattern of trade activity (i.e., in terms of value, frequency, or merchandise).
- Companies sharing the same address, provide only a registered agent's address, or have other address inconsistencies.
- Excessive/aggressive/pressured contact by the business.
- Pre-accepted discrepancy(s) by the applicant and/or the applicant is over-keen to waive. discrepancy(s).
- Customer being reluctant to provide clarification on financial, commercial, technical, or other questions raised.

RED FLAGS RELATING TO JURISDICTIONS

- Transhipment of goods through high-risk/sensitive jurisdictions without an acceptable reason. Shipment from a high-risk jurisdiction (FATF lists high risk jurisdictions as a grey list which is reviewed by them periodically. Jurisdictions having deficiencies in money laundering and counter terrorist financing controls are included in the grey list and considered to be high risk. Banks have their own list of high-risk countries which will include more countries than the grey list.
- Transhipment through high-risk jurisdictions without a valid reason.

- Not being straightforward and businesses ordering goods from a different country other than the jurisdiction of the stated end-user.
- Trading in goods which would not normally be imported or exported from that jurisdiction(Example: Exporting oil to an oil producing country)

RED FLAGS RELATING TO GOODS

- Shipment locations of the goods, shipping terms, or descriptions of the goods are inconsistent with the Letter of Credit. This may include changes in shipment locations to high-risk countries or changes in the quality of the goods shipped.
- Significant discrepancies appear between the descriptions of the goods on the bill of lading (or invoice) and the actual goods shipped.
- Beneficiary or applicant refuses to provide documents to prove shipment of goods (possible phantom shipping or multiple invoicing).

RED FLAGS RELATING TO DOCUMENTS

- Applicant-issued documents called for in the letter of credit.
- Bill of lading consigned: 'to be advised between applicant and beneficiary'. Consignment should be to a named party (usually the Applicant, Broker, Bank or to the order of shipper blank endorsed).
- Bill of lading describing containerised cargo, but without container numbers or with sequential numbers or non-standard numbers.
- LC includes a condition for a 'switch bill of lading'.
- Re-presentation of an official document immediately after a turn-down for discrepancy
- LC received as unauthenticated SWIFT or untested telex message.

RED FLAGS RELATING TO TRANSACTIONS

- Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction.
- The transaction is an offshore shipment (Example: buyer/seller located in USA, while movement of goods occurred offshore of USA).
- Transaction involves an unusual intermediary or number of intermediaries.
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment. Any changes in the names of parties also should prompt additional OFAC review.
- The LC contains non-standard clauses, or phrases such as:
  - request to issue a 'ready, willing and able' message, or a 'letter of interest',
  - LC is 'unconditional, divisible and assignable',
  - transactions requiring 'proof of product',
  - funds are 'good, clean and cleared, of non-criminal origin',
  - A party to a transaction is a shell company.

RED FLAGS RELATING TO PAYMENT

- Unexplained changes to payment instructions.
- Request to pay a third party.
- The transaction involves the receipt of cash (or other payments) from third party entities that have no apparent connection with the transaction.
- Changing the LC or BC place of payment, e.g., payment is to be made to beneficiary's account held in another country other than the beneficiary's stated location.

- Unusually favourable payment terms, such as payment substantially far above or below expected market price, interest rate substantially far above or below known prevailing rate, or lump-sum cash payment.
- The transaction involves an unusual trigger point for payment (e.g., before goods are shipped, with no documentation required).
- Changing the LC beneficiary or BC payee name and address just before payment is to be made. Including requests for assignment of proceeds or transfer at the time documents are presented.
- LC or BC purportedly covers the movement of goods but fails to call for presentation of transport documents. LC covers steel shipment but allows a forwarder's cargo receipt (FCR).

RED FLAGS RELATING TO SHIPMENT

- Trade transactions where the quantity of goods exceeds the known capacity of the shipping containers or the tanker capacity. Or where abnormal weights for goods are suspected.
- The shipment does not make economic sense. For example, the use of a forty-foot container to transport a small amount of relatively low-value goods.
- Shipping documents show weights and measures inconsistent with the goods shipped or method of shipment.

An extract from the article of BC Tan risk solutions director for Thomson Reuters given below talks of current developments.

- "Technology has the potential to greatly enhance trade compliance, reducing TBML and disrupting criminal networks in the process. However, the first and most important step is to encourage the industry to transition away from paper-based document filing, much as we have seen the financial services sector do. Once this happens, automation and overlaying innovative technologies can be very quickly applied.
- Pattern Matching : Trade is extremely complex, and large complex problems often benefit the most from novel technologies. Artificial intelligence and machine learning software offer the capabilities to identify suspicious trades, much as they identify suspicious transaction behaviours within the financial services industry.
- Supply Chain Transparency: For many firms, supply chain information is a highly proprietary 'secret sauce'. Organisations may not be forthcoming with such information because they see it as a means of gaining a competitive edge.
  However, this must change if firms and individuals are to be certain of who they are trading with. Supply chain transparency requires companies to know what is happening upstream in the supply chain and communicate this information internally and externally. Supply chain transparency also provides greater overall resilience, as other issues such as third-party risk management, concentration risks, and disruption risks can be better managed."

He also draws our attention to a perpetual KYC which can monitor companies and changes in behaviour and ownership which will eventually unlock greater transparency of evolving risk.

PROLIFERATION FINANCING

Another important aspect we need to be aware of is proliferation financing . Proliferation financing is defined as

"The act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.(Source: FATF). Dual- use items are goods that can be used for both civilian and military applications and the banks use different tools to check on dual goods.

OCEAN AND HIGH SEAS

The ocean comprises 72% of the planet with an area of 360 million square kilometres and high seas is part of the ocean.

The high seas refer to the ocean water column that lies beyond the boundaries of any one country, also known as areas beyond national jurisdiction.(Source: NOAA Ocean Exploration)

This enormous size of the ocean and the high seas afford a safe passage or location for the bad actors to carry out the activities in an invisible manner and the vessels play an important role here. Hence, we need to have at least an elementary knowledge of the vessels as the study of shipping is a deep study by itself.

HOW DO WE IDENTIFY A VESSEL

Like a bank having a unique number for each staff as a measure to identify, each vessel has a number which is called the IMO number to identify it. The number consists of three letters "IMO" followed by a seven-digit number (e.g., IMO 9328571, this is an assumed number) which is never re assigned to another ship. This number is permanent and should be marked in the hull in a legible and unambiguous manner and does not change even if there is a change in the ship`s type, ownership ,name or flag.

The prefix IMO refers to International Marine Organisation. International Maritime Organization (IMO)was established by the United Nations as a specialized agency to promote safe, secure, environmentally sound, efficient, and sustainable shipping through cooperation. The IMO number is provided by them. The IMO prescribes and control the issue of IMO numbers by virtue of the regulations called SOLAS (Safety of Life at Sea). As the name implies this international maritime safety treaty regulates safety of life at sea, covering any ocean-going vessel. IMO being an international organisation has immensely contributed to improve maritime safety and prevent maritime fraud.

MISUSE OF IMO NUMBERS

The activity of the bad actors is becoming more sophisticated that they obtain ship registration numbers with false identification to evade identity by deceiving IMO and researchers believe that there are cases where IMO has been deceived in to giving "clean" identification numbers to sanctioned ships. This paves the way for the practice called ant-identity laundering for making blacklisted ships appear to be legitimate. These pose great challenges to the regulators, bankers, and the shipping industry. The IMO number can be manually changed on the ship's hull. When checking If the vessel's name does not match with the IMO number it can be a clear red flag.

AIS (AUTOMATIC IDENTIFICATION SYSTEM)

AIS gives another identity to the vessels and facilitates transmission of its position to enable other vessels to be aware of its position. AIS devices also broadcast vessel course and speed information. However, its usage as a vessel tracker is what we may be interested. Ground stations and satellites pick up this information, making vessels trackable even in the most remote areas of the ocean. The International Maritime Organization also requires large ships, to broadcast their position with AIS to avoid collisions.

DO VESSELS TURN OFF AIS ?

A ship's crew mostly turn off its AIS broadcast for a variety of legitimate reasons, but the bad actors may do so to hide the identity of the vessel to conceal clandestine activity which may involve entering another country's waters without authorization or transferring goods.

Screening and monitoring of vessels through checks is a considerable challenge to the trade finance team.

The current guidelines on AIS outages and the need for banks and others to monitor for disablement is one such area. OFAC refers to the illicit STS transhipment of cargo or sanctioned port calls usually being undertaken by vessels when they have switched off their AIS signal.

FEATURES OF A VESSEL

Vessel type, age, and size are an integral part of managing maritime risk, but to what extent we assimilate this into our due diligence is questionable, as different risk weighting based on type, age, and size may need to be applied.

EVASION OF MARITIME AND TRADING SANCTIONS

Both OFAC (Office of Foreign Assets Control)and OFSI (Office of Financial Sanctions Implementation) emphasize a series of emerging patterns used to evade maritime and trading sanctions, such as:

- False flags and Flag hopping
- AIS outages and signal spoofing
- Ship-to-ship (STS))cargo transfers
- Falsified documents.
- High-risk trading routes.
- Irregular voyage movements such as detours and indirect routes.
- Ownership and management structures of vessels which are unnecessarily complex.
- Obscured or manipulated International Maritime Organisation (IMO) numbers.

Further, we will need to be mindful of the following as well to manage the maritime risk.

- A vessel may have had a port call at a sanctioned or high-risk port calls during past 12 months.
- The vessel and or the owners may be in the sanction list.
- The vessel flag may be a sanctioned flag.
- The route of the vessel(e.g., EU to China which might go through the Persian Gulf)the port of loading and the port of discharge/unloading.
- Voyage irregularities such as indirect routing, unscheduled detours, or shipments through one or more jurisdiction(s) for no feasible economic reason
- Involvement of a party (individual, entity, vessel, etc.) listed on an internal bank watch list due to previous involvement in transhipment activity involving a sanctioned jurisdiction.
- Travelling near sanctioned countries within ‘sanctioned run’ distance
- Shipments to landlocked countries or locations that border sanctioned jurisdictions.
- The type of cargo and its end use.
- Frequent changes in the vessel name.
- Port calls during the past 12 months and if low may be a red flag.
- Changes to vessel’s ownership from one company to another and we may find all the companies are owned by the same owners or the Ultimate Beneficial Owner. The ownership of the vessel also can be multi layered inclusive of shell or front companies in the layers.

Banks will have access to subscription-based resources which allow for checks on ownership structures, vessel flag information, details of home ports and recently visited ports.

DOCUMENT FALSIFICATION

The following documents(not limited to the following) are said to validate the vessel.

1. Bills of Lading (BL)
2. Insurance certificates and further documentation
3. Invoices
4. Ship Registration Certificate and further documentation issued by the Flag State
5. Paperwork that reveals information on vessel’s origin and destination
6. Paperwork on parties involved and their details

Hence, we are expected to scrutinise these documents carefully and obtain further documents or information if necessary to ensure that they are authentic.

SPOOFING

This stealing the identity of another vessel.

VOYAGE IRREGULARITIES 0R ROUTE INCONSISTENCIES

The bad actors in sanction evasion or other illicit activities intend to disguise the route. They may use indirect routes, unplanned detours and transit or transhipment through low-risk countries. This is carried out by unwarranted amendments and the vessel too will be lingering in the seas for a long period.

SHIP-TO-SHIP TRANSFERS ("STS")

The cargo may be transferred from one ship to another in the high seas for illicit purposes. The cargo usually transferred are petroleum products and coal. STS operations is said to take place in the night. However, it should be noted that these transfers can take place for a legitimate reason if the vessel is too large for a destined terminal.

FLAG HOPPING OR FALSE FLAGS

The flag of the vessel indicates the nationality and provides an identity to it, but sometimes the flag is changed multiple times. The vessel can change its registration from one country to another and acquire the flag of latter country. Frequent change of the flag is called flag hopping and may signal suspicion. They can even use false flags. The latter happens when the vessel is registered in country but identifies it as registered in another country.

I have only superficially touched upon a subject that is so vast and my intention is to create an interest among the young bankers to encourage them to pursue this study further. It can also assist them in day-to-day compliance relating to Trade Finance transactions. My sincere appreciation and gratitude to the Editor and the committee for giving an opportunity to pen a few lines .

References and acknowledgements :

International Chamber of Commerce article on financial crime compliance checks on the price of goods in trade transactions – are price checking controls plausible?

The Financial Action Task Force Trade-Based Money Laundering Risk Indicators - March 2021

Article by Emmanuel Mathias and Bert Feys for IMF August 2014

FCA Thematic Review Banks' control of financial crime risks in trade finance July 2013

FATF/Egmont Trade-based Money Laundering: Trends and Development file:///C:/Users/Pc/Downloads/Trade-Based-Money-Laundering-Trends-and-evelopments%20(2).pdf

OFSI Maritime Guidance Financial sanctions guidance for entities and individuals operating within the maritime shipping sector. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/948299/OFSI_Guidance_-_Maritime_.pdf

A policy memo by Global Financial Integrity, Fedesarrollo Transparency International Kenya and ACODE.

Complex Ownership Structures: Addressing the Risks for Beneficial Ownership Transparency February 2022 Andres Knobel.

United Nations website.

Stephenson Harwood LLP 2023.