TRANSARENCY IN TRADE
WHY IT’S IMPORTANT TO YOU
AND HOW IT IMPACTS YOUR BUSINESSES

About 80 percent of illicit financial flows from developing countries are now channeled through trade-based money laundering (TBML), according to Global Financial Integrity (GFI), a research and advocacy organization. As other methods of money laundering have become easier to detect, malicious actors have moved to TBML involving commercial firms doing international business.
It’s critical that companies do their part in maintaining the integrity of the trade supply chain. Does your company, along with your clients and suppliers, understand and manage it appropriately? The consequences of your firm becoming an unwitting participant in TBML can be severe, including potential civil and criminal penalties as well as reputational damage.

What Is TBML? Why Is It Important to Address Its Dynamics?
TBML is a criminal process that involves the misuse of trade channels to conceal the movement of “dirty money.” TBML uses trade goods in ways that facilitate illegal value transfer. Any firm that engages in business internationally is exposed to the risk of money-laundering schemes.

TBML schemes and typologies vary. The most basic involve fraudulent trade practices like over- and under-invoicing, under-shipments of goods and services, and falsely describing goods and services. More intricate schemes integrate these basic fraudulent practices into a complex web of transactions and movements of goods.

Identifying Potential TBML: Red Flags
Some of the potential red flags indicating higher probability of TBML are:

- **Corporate Structure.** Shell companies, which do not have business operations or significant assets, are often used by money launderers and financers of terrorism. Information on the beneficial owners is not easily available.

- **High-Risk Location.** Countries with a higher incidence of drug trafficking, organized crime, terrorism and/or lax enforcement of anti-money laundering (AML) laws are particularly susceptible to TBML due to the lack of oversight and transparency. Trade transactions involving such countries bear an increased risk of TBML.

- **Third-Party Involvement.** Payments for your products/services are coming from unrelated third parties.
• Payment by Monetary Instruments. Receipt of multiple cashier’s checks, or of money orders or traveler’s checks, as payment for goods or services.

• Carousel Transactions. Repeated importation and exportation of the same high-value commodity to create complexity via unusual shipping routes or transshipment points.

• Customs Misrepresentation. Falsely documenting goods, including the quantities, value and/or end destinations of the goods, manipulates and threatens the credibility of the trade system, thereby pulling your firm into the money-laundering scheme.

• Business Information Risk. Recognizing names of high-risk individuals, hard-to-value goods or riskier industries increases awareness of potential TBML situations.

Activities that should raise suspicion also include:

• Aberrations from normal ordering history
• Ordering a new line of products not consistent with customer’s line of business
• High volume and/or frequency of orders given the size of business or geography
• Urgency in submitting purchase orders
• Pattern of prepaying orders, then returning products or canceling orders, and requesting a refund check or wire
• Customer not concerned about product quality or prices offered
• Customer not knowledgeable about products, market trends or general business sense for the industry in which it is working
• Unusual payment methods

Managing Red Flags with a Risk-Based Approach

One key to combating the problem of TBML is gaining cooperation among financial institutions, regulators and businesses. Trade-related businesses now actively seek out anti-money laundering consulting services to develop robust compliance programs.

The consequences of not being aware of who you are doing business with and where the money is coming from can be serious. As an exporter or importer, it is paramount to manage the red flags listed above and implement systems to recognize when any one of these red flags comes into play and to respond appropriately. Training is an effective mechanism for raising concerns about TBML and trade finance issues within your company.

One of your goals should be to have all trade compliance data and processes on one platform that can be easily accessed across the organization and throughout the supply chain. Leveraging existing resources is the most cost-effective starting point. A more efficient process would involve the use of electronic compliance screening for a TBML compliance program.
GUIDELINES FOR MAINTAINING THE INTEGRITY
OF YOUR COMPANY’S SUPPLY CHAIN

By taking the following steps, you can help your company improve compliance and reduce risk:

- Create a culture of compliance and high ethical standards.
- Develop an appropriate company-wide risk management program.
- Develop a comprehensive and risk-based “Know Your Customer” due-diligence program.
- Consider the following factors when dealing with potential customers, clients, vendors, business partners and outside sales representatives:
  - Who are the owners of the entity?
  - Is there any negative news about the individuals or the entity?
  - What is the entity’s source of funds?
  - What is the geographic risk?
  - What is the entity’s corporate structure?
  - What is the entity’s business model, sales volume and revenue?
  - Verify the entity’s existence by searching publicly available documentation and databases.

Act Now
Following the guidelines in this article will help your company avoid becoming a conduit for TBML. It is important to remember that no one activity by itself is a clear indication of TBML. Red flags should be considered in light of the normal transaction activity expected for the individual customer.

Financial institutions participate in trade finance by providing pre-export financing, issuing or confirming letters of credit, discounting drafts and acceptances, or offering fee-based services such as documentary collections. Banks will ask you for information about transactions and counter-parties as part of greater due diligence based on the complexity of the transaction.

For Further Reference

FATF’s (2008) Best Practices Paper highlights education and awareness of TBML as paramount to combating it, as an understanding of TBML is required to assess what information needs to be gathered about trade.


Case Western Reserve Journal of International Law 41 (8): 85–118

EAG Working Group on Typologies 2009 International trade-based money laundering.


Financial Crimes Enforcement Network (FinCEN) 2010. Advisory to financial institutions on filing suspicious activity reports regarding trade-based money laundering.


Trade-Based money laundering: Risks and regulatory responses by Clare Sullivan and Evan Smith (Australian Institute of Criminology [AIC] Reports)

www.acuity.com/compliance/dual-use-goods/trade-finance-screening


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