



Trade-based AML Controls

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1. Background and Common AML Vulnerability

1. *Anti-Money Laundering - Background*

- In recent years, government agencies have been focusing their attention on Trade Based Money Laundering activities
- Why – because trade has increasingly been used to launder money for criminal purposes
- Reasons for trade's popularity:
 - *The tremendous volume of trade makes it easy to hide individual transactions*
 - *The complexity that is involved in multiple foreign exchange/cross border transactions*
 - *The limited resources available to agencies wanting to detect money laundering*

1. Common AML Vulnerability

- Lack of clear policy and inconsistent approach to risk assessment with no specific trade finance money laundering risk assessment.
- Inability to demonstrate that money laundering risk had been taken into account when processing particular transactions.
- Trade processing staff do not make adequate use of customer due diligence information gathered by relationship managers or trade sales teams.
- Little or no management information on financial crime risks in the trade finance business.
- No escalation of potentially suspicious transactions for further review and more senior level sign-off on the basis of money laundering concerns. Transactions were usually escalated for sanctions reasons or because the value of the transaction had exceeded a pre-determined threshold.
- No specific trade finance financial crime training for relevant staff.
- Inadequate systems and controls over dual-use goods.



2. Examples of Good Practice and Deliverables

2. Examples of Good Practice

Formalized specific AML procedure	A formal consideration of money laundering risk is written into trade operating procedures
Documentation of Evidence	The money laundering risk in each transaction is considered and evidence of the assessment is kept
AML Knowledge	Trade processors must have good trade knowledge, customers' expected activity, and sound understanding of trade based money laundering risks
Independent verification of information	Third party data sources are used where appropriate to verify information given in LC or other relevant documents
Quality Assurance	Regular, periodic quality assurance is conducted by suitably qualified staff who assess the judgements made re: money laundering risk and suspicious transactions
Trade-specific AML Training	Bespoke training is undertaken to equip staff with the skills, knowledge and expertise to identify risks and take appropriate action

2. Examples of Deliverables

Implement AML policies & procedures using red flags to identify suspicious transactions	Policies and procedures implemented globally, and imbedded within the workflow processes
Quality assurance with respect to policies and procedures	Middle Office undertaking sampling of transactions with monthly certifications. Risk Control Function reviews implementation of these controls
Trade-specific AML training	Manager-led training conducted with assessment passed by all relevant staff
Role-specific FCR training for broader audience, including RMs and compliance staff	Training material developed and integrated within wider Compliance training
Raising awareness of FCR within Trade Finance	Poster campaign and other supporting media like screen savers. Quiz and competition circulated to all relevant Middle Office sites

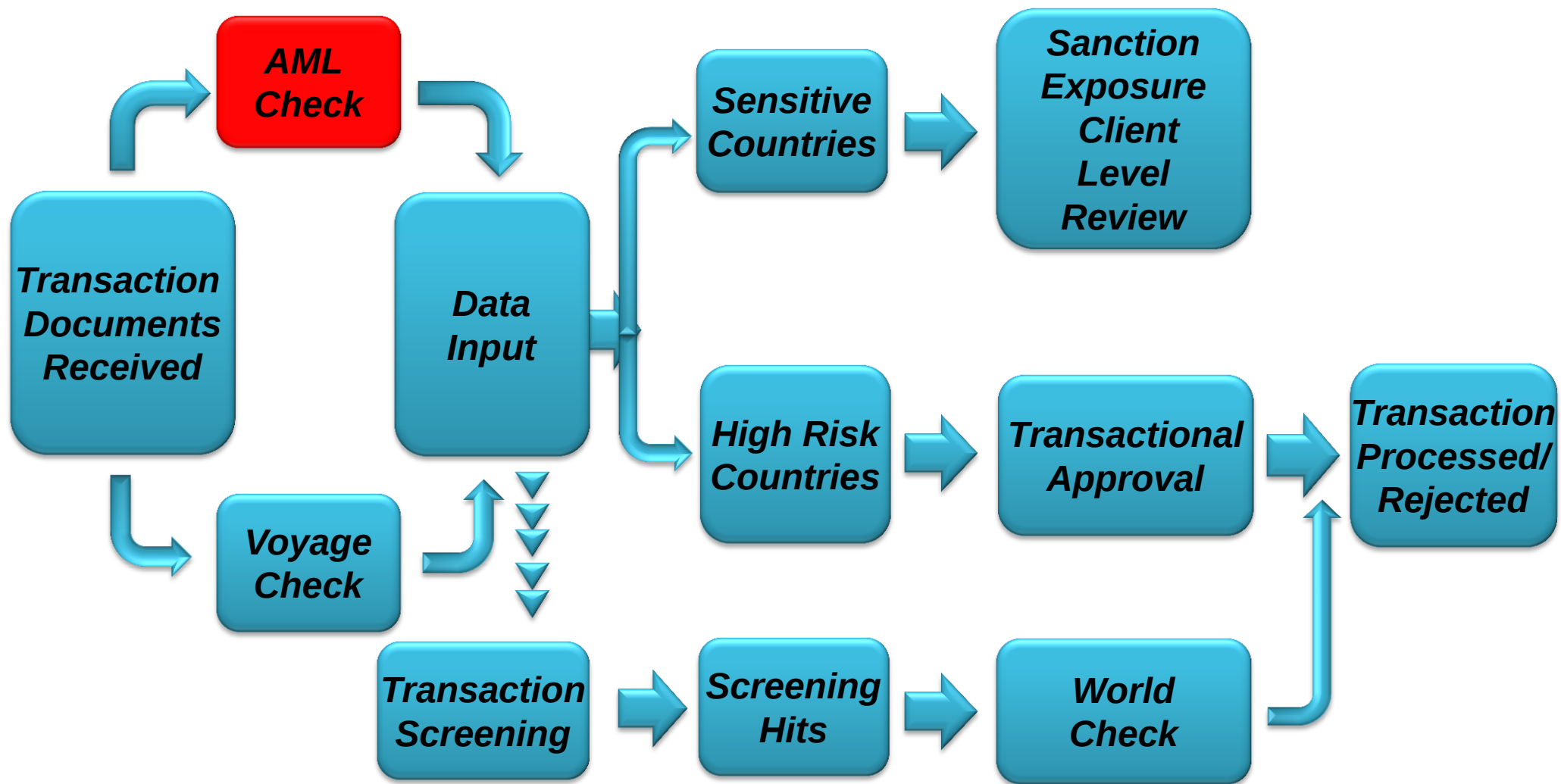
2. *Examples of Deliverables*

On-going communications in support of awareness of the Thematic Review	Communication undertaken via Intranet stories, senior management update calls, and mentions in townhall meetings
Identify potential additional keywords for use in screening relating to dual-use goods	List of goods introduced into screening system
Enhanced risk-based approach to additional shipping checks	Approach defined and implemented, to include higher risk jurisdictions, and where suspicions have been raised
Enhanced FCR-related MI available at the appropriate risk forums	MI pack prepared



3. Illustration of Controls and Framework

Example of General Overview of Transaction Processing



3a. Screening Hits

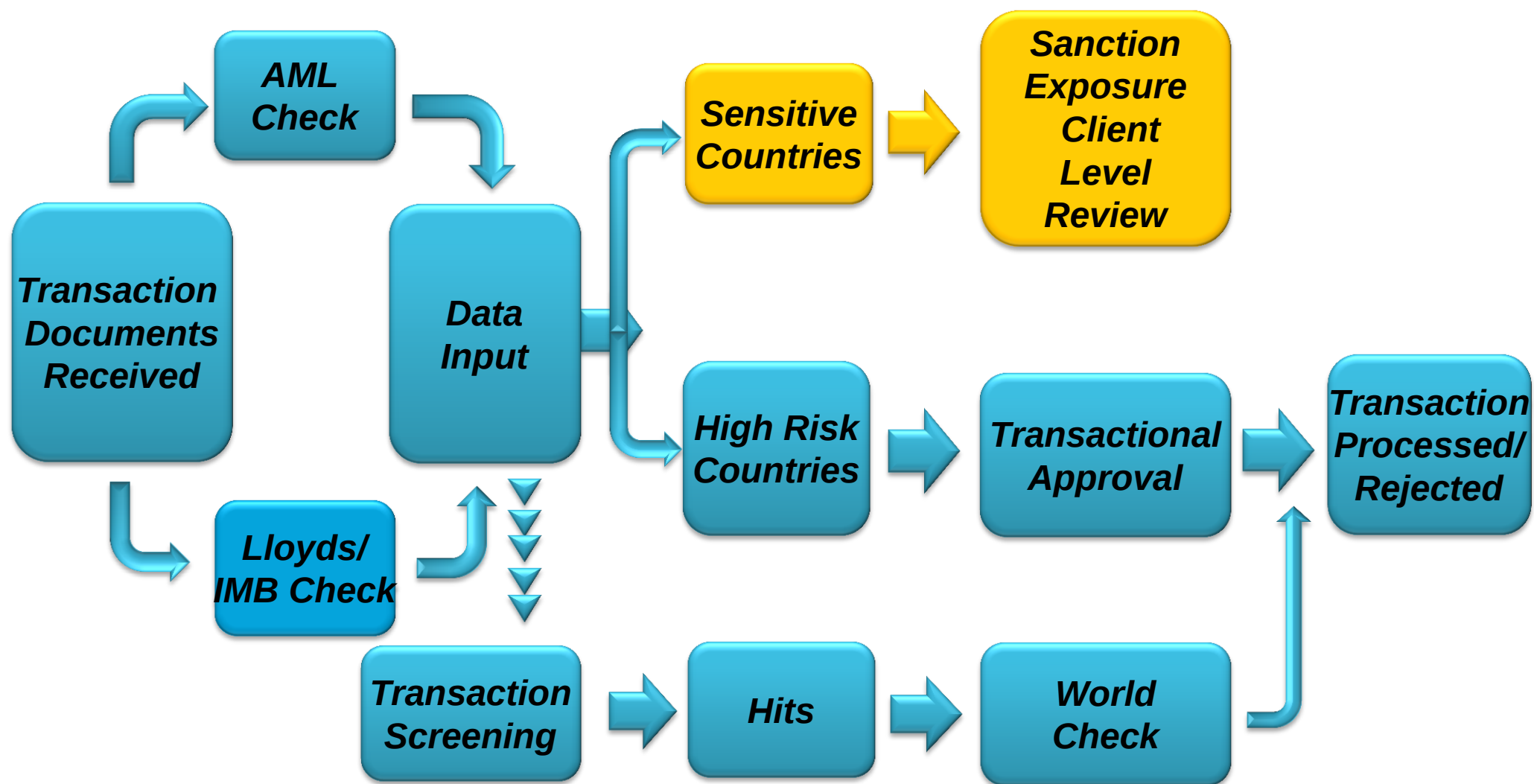
- An automated screening utility against a *blacklist database* comprising *organizations*, *individuals*, goods, *vessels* and *countries* compiled by regulatory-competent authorities.
- Measures the resemblance between blacklisted entries and entry in the system. Everything *matched within a similarity threshold flagged as a possible “hit”*.
- The Hit can be related to *Sanctions or Terrorist Financing*.

3b. Voyage Check

What is Voyage Check?

- *Purpose:* Manage Financial Crime Risks:
 - Shipment exists? → Fraud & AML Risks
 - Shipping route? → Sanction Risk
- *How (examples):* (a) Lloyds Intelligence, (b) Carrier's Website, (c) IMB Check.
- *Document required:* Transport Documents, e.g. B/L or Airway Bill.
- *Criteria for voyage check:*
 - Transaction amount $\geq$ a threshold
 - Red Flags

3c. Sensitive Countries



3c. Sensitive Countries

Framework

- *Trade Transaction is only a trigger event.*
- *Relationship Level Management* where *RM performs the Sanction Exposure Review.*
- Sanction Exposure Review will be sent to RM or designated party.

3d. AML Check

- Pre-transaction AML monitoring process
- Use of Checklist with Red Flags and standardised workflow for identifying Red Flags
- Escalation process
- Documentation of evidence of AML risk assessment for each transaction
- Independent verification of information
- Monthly Management certification

3d. *Examples of red flags*

- Undefined charges over XX% of the total value (e.g. 25%)
- Price of goods manifestly unusual
- Pre-accepted discrepancy's by the applicant
- Applicant is overly keen to waive discrepancies
- Shipment locations of the goods or shipping terms on transport document are inconsistent with the Letter of Credit
- Request for proceeds of the transaction to be paid to an unrelated or unexplained third party
- Dual Use Goods – e.g. “Industrial Ceramics” or “Composite Materials”
- Goods involved are AML High Risk, e.g. Sugar, Cement, Precious Gemstones, Liquor, Scrap Metals
- Beneficiary name indicates potential military involvement (e.g. Ministry of Defence, MOD)

3d. AML Check – Examples of Clearly Defined Key Roles and Responsibilities

Middle Office	Relationship Managers / Business
1. Ensure that comprehensive training on technical trade as well as AML is provided to all its staff	1. Ensure that trade based AML training is received
2. Gather and review transactional information	2. Fully familiar with AML policy and procedure
3. Identify AML risks in a transaction and raises Red Flags as appropriate	3. Understand and recognise AML red flags in trade transactions
4. Investigate and verify information from reliable sources	4. Perform Customer Due Diligence
5. Make decision, or escalate as appropriate, on AML risks	5. Provide and confirm information about customers



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