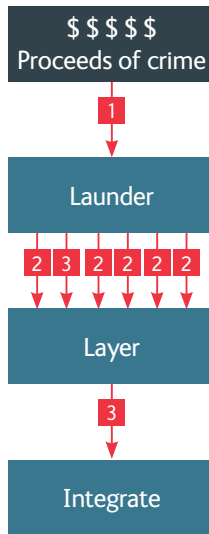


# Trade Based Money Laundering



## Invoice Fraud



### Mechanics

- 1 Launder** – criminals place, deposit and wash illicit money through financial institutions via small quantities deposits so not to trigger financial alerts.
- 2 Layer** – that money is then transferred to and from multiple bank accounts, banks and jurisdictions to hide its origins.
- 3 Integrate** – The criminals then integrate the illicit sums back into the real economy through transactions such as real estate, asset and stock purchases.

# Invoice Fraud

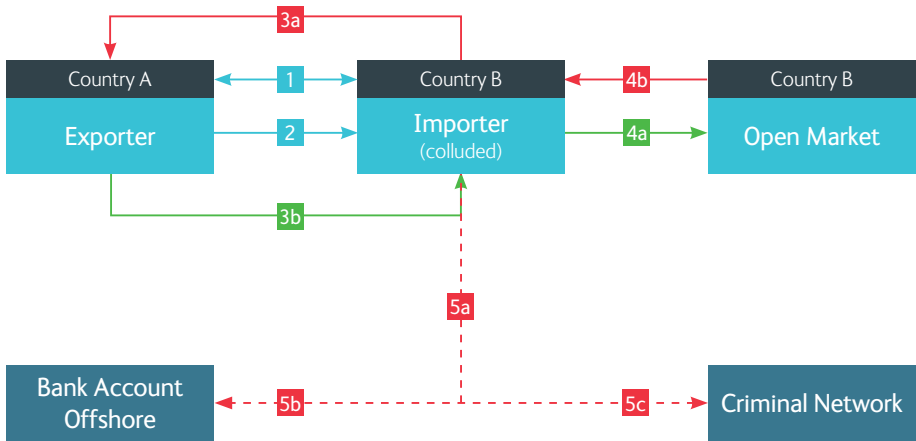
## What is it?

1. Trade Based Money Laundering is commonly abbreviated to TBML.
2. TBML uses similar techniques to traditional money laundering, namely launder, layer and integrate which are all designed to make it impossible to detect or investigate the original illicit origin or purpose.
3. Vast majority of TBML involves invoice fraud and associated manipulation of supporting documentation.

## Core features

1. Buyer and seller collude and conspire to manipulate the price of goods and services through deliberate false pricing.
2. Primary techniques include:
  - over/under invoicing and shipments
  - multiple invoicing
  - misrepresenting the goods or falsely describing the goods
3. Shipping techniques include:
  - short shipping – shipping fewer goods than invoiced and misrepresenting value of goods
  - over shipping – exporter ships more goods than invoiced and thus misrepresenting the value of goods
  - phantom shipping – fraudulent documents presented and no goods actually shipped
4. Invoice fraud can be used as a method of moving money in or out of a country without the need for physical cash transfers
  - Moving money out:
    - import at an overvalue
    - export at an undervalue
  - Moving money in:
    - import at an undervalue
    - export at an overvalue

# Underinvoicing



## Mechanics

- 1** Exporter and Importer are colluding together to deliberately move value offshore from Exporter's country of origin. Exporter has goods to sell to Importer with real worth of \$1 million.
- 2** Exporter issues an Invoice of \$500,000 to Importer – misrepresenting the real price and value.
- 3a** Importer pays Exporter in accordance with the Invoice as per any normal trade
- 3b** Exporter ships goods to Importer.
- 4a** Importer on sells goods in the open market at market value
- 4b** Importer receives \$1 million by selling the goods at true market value
- 5a** Importer can keep the proceeds.
- 5b** Deposit proceeds into an offshore account to split with the Exporter.
- 5c** Monies used for criminal organization that may have been the power behind original arrangement.

# Underinvoicing

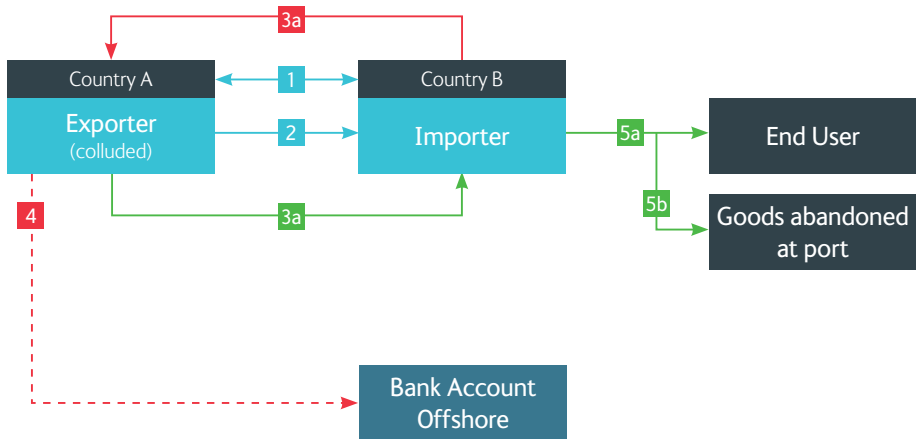
## What is it?

1. Underinvoicing is a form of value transfer which involves deliberately underreporting the market value of a commercial transaction on an invoice.
2. Exporter is able to transfer value to the Importer (i.e. moving money into a country) while avoiding scrutiny associated with direct form of money transfer.
3. The importer then on sells the good on the open market at market price for far higher than Importer paid.

## Core features

1. This form of Trade Based Money Laundering involves genuinely or fraudulently buying and selling trade goods that transfer value.
2. The value of the trade good is misrepresented (at an undervalue) in order to transfer additional value or settle debts between an importer and exporter.
3. False sets of books and accounting records are often created to match the fraudulent invoices.
4. Common examples of moving money offshore at an undervalue include:
  - Bulldozers being shipped to Colombia at \$1.74 each
  - Prefab buildings sold to Trinidad at \$1.20/unit

## Overinvoicing



### Mechanics

- 1** Exporter and Importer are colluding to move misrepresented value out of Importer's country and into Exporter's country. Exporter enters into a Contract of Sale with Importer for goods worth \$1 million
- 2** Exporter issues an Invoice of \$1.5M to Importer
- 3a** Exporter ships the goods directly to Importer
- 3b** Importer pays for goods via Letter of Credit or Open Account
- 4** Exporter deposits the extra money of \$ 500,000 into Exporter's offshore bank account and potentially to a criminal network
- 5a** Importer sells for goods for true value to end customer for \$1 million
- 5b** Sometimes if goods are of such low value then abandoned at port as goods are secondary to the primary objective of moving money offshore

# Overinvoicing

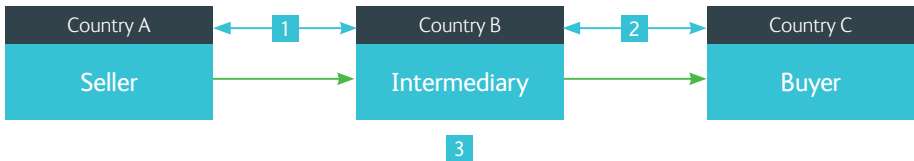
## What is it?

1. Overinvoicing is a form of value transfer which involves deliberate overinvoicing goods above their market value.
2. The Exporter is thereby able to receive value from the Importer as the Importer payment is higher than the goods actual value on the open market.
3. Can be used as a method to move money out or offshore if Importer pays over valued invoices thereby avoiding domestic capital and exchange controls.

## Core features

1. The value of goods is inflated to transfer value to the Exporter from the Importer.
2. Common examples of overinvoicing include:
  - China imported toilet tissue from the UK at an overinvoiced price of US\$4,121 per kilo.
  - Plastic buckets were being exported from the Czech Republic and invoiced at US\$972 per unit.
  - In Pakistan, a Madrassa, which was an Islamic school linked to radical jihadist groups such as Al Qaeda and Islamic State had received huge amount of money from offshore and foreign sources. To mask and legitimise the vast inward cashflows that was then being passed on to, and used for, terrorist financing. The Madrassa issued invoices for animal hides and carpets at vastly inflated amounts.
  - Argentina was subject to a fraud whereby a fraudulent Exporter was selling gold plated coins or solid gold coins to the USA and invoicing the goods accordingly. This allowed huge amounts of criminal money to move from USA to Argentina and also for the Exporter to claim false government incentives for the export of solid gold coins.

# Tax and Transfer Pricing



### Mechanics

- 1** Seller sells the product to Intermediary at an artificially low price
  - Seller's Government receiving little tax revenue
- 2** Intermediary sells the products to Buyer at a very high price
  - Where the sale price per unit between corporations is almost as high as the final retail price per unit offered for sale in the Buyer's country
  - Buyer has a very low tax bill and the government receives little tax revenue
- 3** Given Intermediary buys at a low price and sell them at a very high price
  - Intermediary profits are high because Intermediary that is based in a tax haven jurisdiction, it has little (if any) tax liability

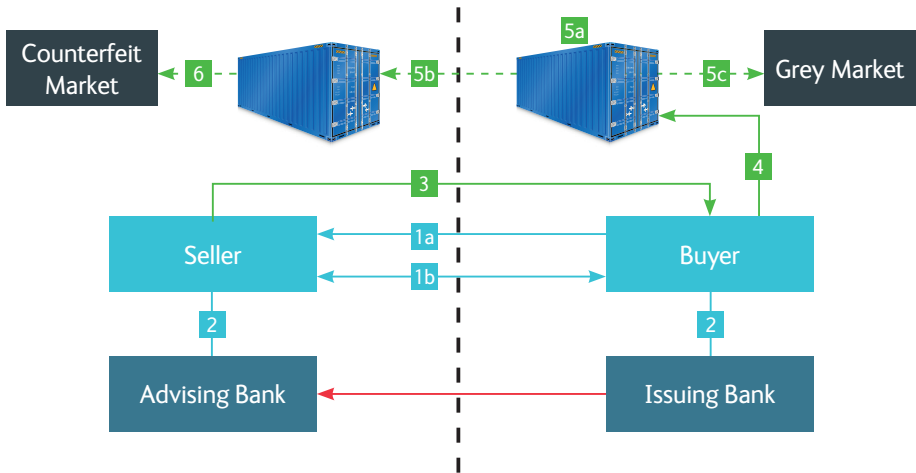


## Tax and Transfer Pricing

### What is this?

Where two related companies that trade with each other artificially distort the price at which the trade is recorded via the use of a tax haven, to minimise the overall tax bill.

# U-Boating Shipments



## Mechanics

- 1a** A fraudulent Buyer approaches a Seller (e.g. a large sophisticated multinational company), presenting a large and seemingly legitimate purchase order for goods sold into a legitimate market the Seller has no current presence or customers.
- 1b** The Seller asks the Buyer for a Letter of Credit and enters into a Contract of Sale.
- 2** The Buyer makes an application to the Issuing Bank to issue a Letter of Credit to Seller. Advising Bank notifies Seller of open Letter of Credit
- 3** Seller ships goods to Buyer.
- 4** Upon taking control of the goods, the Buyer transships the goods via an intermediary location.
- 5a** The containers are then mixed, stripped, stuffed and reloaded with counterfeit items.
- 5b** Fraudulent containers are then shipped back to the country of origin, where customs laws provides duty-free treatment for goods returned.
- 5c** Original genuine goods are then sold into new market at higher prices than original intended in that jurisdiction but without Seller knowing of the corrupt scheme.
- 6** A co-conspirator located in the Seller's jurisdiction takes control of the goods and sells and distributes them at a steep discount to prevailing prices usually on the black market.

# U-Boating Shipments

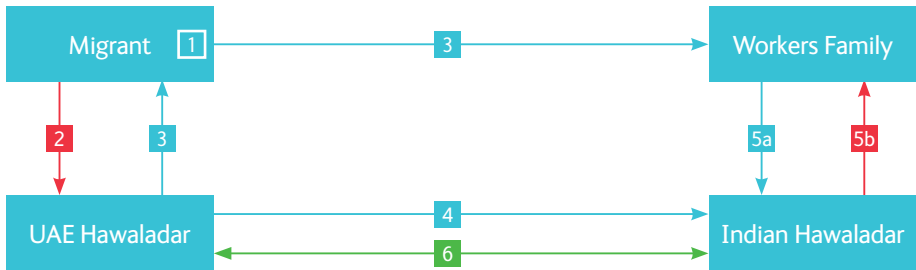
## What is it?

U-Boating is a commercial trade diversion scheme which involves the diversion of genuine products from its intended international market back to its country of production, thereby avoiding duty on the returning goods. The goods will often be resold on the black market or other illegitimate distribution channels.

## Core Features

1. Diverters seek out well-known commercial brands in order to add a veneer of authenticity.
2. Diverters use shell companies and other fronts to facilitate the transaction.
3. The transaction is usually presented in such a way that the Buyer helps the Seller “break into a new market”.
4. Counterfeit goods are usually introduced into the transaction, and it can be very difficult to determine the difference between goods acquired in the grey market and goods acquired through legitimate trade.
5. These schemes require an international network of conspirators.

# Hawala Payment Systems



## Mechanics

- 1 A Worker in the UAE gets paid in local currency in the U.A.E.
- 2 The Worker contacts a UAE Hawaladar and gives it the amount he wants to transfer to his family in India.
- 3 The Worker receives a code number, which he sends to his family.
- 4 The UAE Hawaladar contacts his associate in India with the information about the transfer.
- 5a The Worker's family present the client or code as evidence to demand payment. Code is usually in form of text message code. Traditionally used to be more elaborate coded playing cards or chits.
- 5b The Indian Hawaladar delivers the equivalent in Indian rupees in cash to the Worker's family. A small percentage is deducted as commission for the transaction.
- 6 No money is transferred between UAE & India but at the end of multiple transactions coming each way (i.e. in reverse India to UAE) via other customers, Hawaladar settles difference whether in cash, gold or jewellery, rather than transfer net cash cross border.

# Hawala Payment Systems

## What is it?

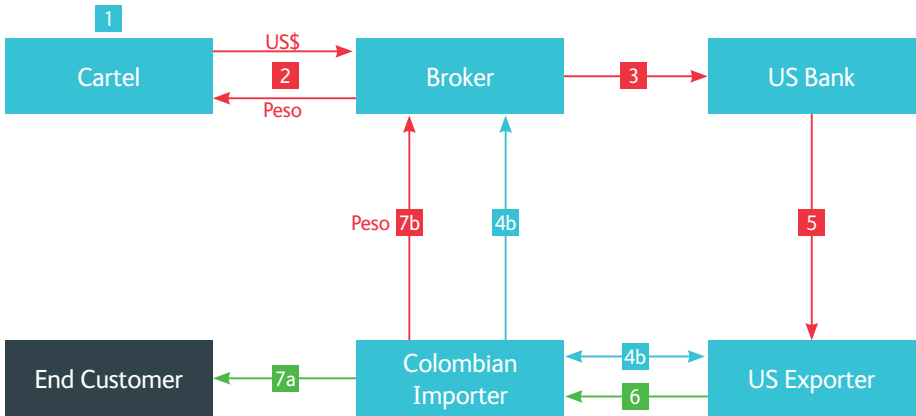
Hawala systems refer to informal money transfer systems occurring in the absence of or in parallel to regulated banking sector channels, used predominantly in the Middle East and South Asia and particularly by migrant communities to transfer money back to their hometowns.

The value of earnings is transferred without actual money movement. Also known as “flying money” or Fei Chien in China.

## Core features

1. The systems are based on trust, making them difficult to detect.
2. The exchange rate offered is generally more favourable than the official exchange rate.
3. The transaction can often take place immediately.
4. The transaction is anonymous.
5. The transferor does not need a bank account or to show proof of identity.
6. The Hawaladar – the broker who handles the transfer usually provides free delivery of funds to the recipient.
7. No money passes between the two Hawaladars – they promise to settle the debt at a later date.
8. The Hawaladar may front his Hawala business with a legitimate business, and earn additional money from these side businesses.

# Black Market Currency Exchange



## Mechanics

- 1** A Cartel smuggles drugs into the United States and sells them on the street and receives and accumulates large quantities of Dollars.
- 2** A Colombian peso exchange Broker, with connections in US and Colombia, buys the Dollars at a discount from the Cartel gang in the US, paying for them in clean pesos to the Cartel in Colombia.
- 3** The Broker directs his representatives in the US to place the Dollars into US financial institutions in a way that does not trigger any reporting requirements.
- 4a** A Colombian Importer enters into a contract with a US Export to import goods. US Exporter will only send goods if Importer pays in advance.
- 4b** Rather than go to licenced money exchange, the Colombian Importer requests the Brokers pay the US Exporter Dollars in the US in exchange for the Importer paying the Broker in pesos in Colombian.
- 5** The Broker arranges for the Dollars to be transferred to US Exporters for the purchase of the goods from his Dollar account derived from illicit sums.
- 6** The US Exporter receives the Dollars and then the goods are shipped to Colombia.
- 7a** The goods are sold in Colombia.
- 7b** The pesos are given to the Broker, which it can then use to conduct further business with cartels purchasing their illegitimate Dollars.

# Black Market Currency Exchange

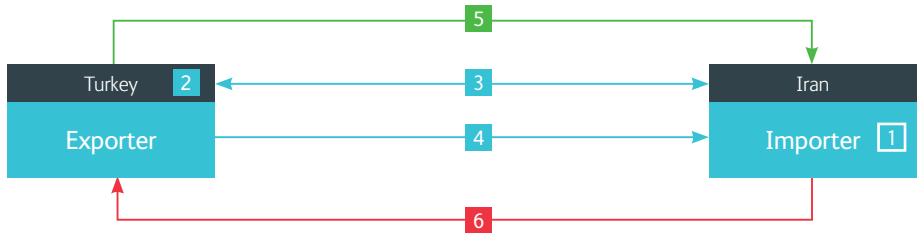
## What is it?

The Black Market Currency Exchange is the illegal foreign exchange market in certain countries, forming part of the underground economy outside of legal banking and foreign exchange channels. The Colombian Black Market Peso Exchange is an example, which developed as a result of the Colombian government restricting access to foreign currencies.

## Core features

1. A broker uses runners to 'structure' drug proceeds – they are directed to make a series of relatively minor deposits in a large number of financial institutions, in a manner that does not trigger financial reporting requirements.
2. Illicit proceeds are typically comingled with legitimate receipts.
3. Dollars can also enter the system through the use of third party checks and money orders.

# Sanctions Circumvention



## Mechanics

- 1 Iran is subject to trade sanctions. Therefore commercial entity cannot import goods or send monies out. Iran wants to send money offshore but no offshore bank will accept money transfer from Iran due to sanctions blacklist. On humanitarian grounds, however, certain goods and foods are permitted to be imported into Sanctioned countries.
- 2 Iranian company sets up a front company in Turkey. Common ownership held in an offshore shelter.
- 3 Colluded Exporter and Importer enter into contract of sale and purchase of sugar.
- 4 Exporter sends invoice for sugar at highly inflated price of US\$240 per lb. Usual price is between 10 – 30 cents per lb.
- 5 Turkey Exporter ships sugar to Iranian Importer.
- 6 Iranian Importer pays inflated invoice and moves misrepresented value offshore and no doubt subjecting any bank, financial institution or logistics provider to potential sanctions breach and enforcement actions.



# Sanctions Circumvention

## What is it?

A method or scheme whereby an entity linked to or located in a sanctioned country devises a trade based fraud in order to circumvent strict international financial and trade sanctions.

## Core Features

1. Office of Foreign Assets Control (OFAC) is the administrative department that implements and monitors sanctions under US law.
2. Sanctions can be targeted against countries, entities or individuals.
3. There are very heavy fines imposed on those institutions involved in OFAC violations.
4. OFAC have extraterritorial reach.
5. Emphasis on positive due diligence to ensure that a transaction does not involve OFAC violations.
6. Breach is "knowing" violation but test includes a standard of "should have known".
7. EU sanctions generally follow US sanctions and attract criminal liability for breaches of commercial risks.
8. Essential for financial institutions to screen trade documents against current sanctions lists and then identify and escalate any red flags.