

# Navigating Financial Waters

ICAI, Dubai Chapter

## Trade Finance & Compliance

Amit Keshri  
Chief Compliance Officer  
**Bank of Baroda, UAE**

31 Jan 2024

# How Trade Finance Compliance is related to you

Global Trading Hub

Free Zone Establishments

Multiple Nationalities

Export/Import Business Opportunities

## **For Auditors/CFOs/Consultants/Professionals:**

- Understanding the risk profile of your customers/vendors
- Mitigating any Sanctions or Money Laundering concerns
- Be ready with documentation requirements of Banks

## **For Bankers:**

- Helps in knowing your customer
- Mitigating Money Laundering & Sanctions Risks
- Mitigating Terrorist Financing & Proliferation Risks

# What is Trade Finance

- Financial Instruments & Products that are used to facilitate International/Domestic Trade & Commerce
  - Letter of Credit
  - Bills for Collection
  - Bank Guarantee
  - Bills Purchase/Discount

# Why Trade Finance is sensitive

- High Value Transactions
- Cross Border Transactions
- Dealing with High Risk Countries
- Involvement of Multiple Parties
- High Risk Goods
- Possibility of Ghost Shipping
- Sanctions Circumvention

HOME / LIFE AND LIVING / BANKING IN UAE

## Dubai: Bank fined Dh11.1 million for inadequate anti-money laundering systems

DFSA said these weaknesses also meant that the bank failed to identify and report suspicious transactions

by Waheed Abbas



HOME / BUSINESS

## UAE: Up to Dh5m fine, life imprisonment for violating money-laundering, terror financing laws

The country has tightened the law as part of the membership of the Financial Action Task Force

HOME / UAE / CRIME

## UAE Central Bank fines firm Dh1.8 million for money laundering

It has been asked to remediate the violations as well as rectify issues related to the composition of the board of directors



HOME / UAE

## UAE fines 225 firms Dh77 million in 2023 for violating anti-money laundering laws

50 establishments were suspended in Q3 for not registering in the system

HOME / FINANCE / BUSINESS

## UAE Central Bank fines money exchange house Dh4.8 million for violating laws

Company did not have in place the 'required risk analysis' and due diligence policies and procedures

# Trade Based Money Laundering (TBML)

TBML is a method used to launder illicit funds through International Trade System

## As per FATF

The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origin.



# Key Indicators of TBML

- Unusual Transaction
- Significant Deviations in Business Patterns
- Geographical Concerns
- High Value or High Risk Goods
- Problematic Parties
- Dual Use Goods
- Apparent Inconsistencies in Proposed Transaction

# Unusual Transaction

- A transaction that is notably inconsistent with a customer's business, Line of activity, strategy or profile.
- **Example.** If a customer that manufactures steel seeks a LC for the purchase of a quantity of wood pulp products that is beyond its own usage of paper, further questions should be asked.



# Significant Deviations in Business Patterns

- Significant changes from a customer's historical pattern of trade activity or business strategy in terms of markets, monetary value, frequency of transactions, volume, price, or merchandise type.
- **Example.** A customer based in China sells tea to a buyer in Australia sending two shipments per month for 3 years. Then the customer begins to send 5 shipments per month at a significantly higher price.

# Geographical Concerns (1/2)

- Conducting business in, with, or through jurisdictions that are at a higher risk for money laundering, terrorism financing or other financial crimes (proliferations/sanctions).
- Payments or shipping items to, or from, higher money laundering risk jurisdictions including countries identified by FATF as “non-cooperative jurisdictions”

# Geographical Concerns (2/2)

- **Example.** A customer typically trades in Southeast Asia using LC for payment as both seller and buyer.
- Without notice, it starts buying goods from Angola
- This change should trigger further more scrutiny of the transaction

# High Value or High Risk Goods (1/2)

- ▶ Transactions involving goods that are of high risk or high value.
- ▶ Some goods such as weapons and certain types of chemicals are inherently high risk goods and need to be treated accordingly.
- ▶ Other goods are not dangerous but of high value and easily transferable, heightening the risk of masking payments and illicit movement of funds

# High Value or High Risk Goods (2/2)

- **Example.**

**High Value.** A customer in Canada sells diamonds to a company in Lebanon. The bank should determine whether the sale of diamonds fits the customer's profile. If not, further due diligence is required to determine if this sale has a legitimate business purpose.

## **High Risk.**

Customer produces and sells tear gas. Buyer is a company in Russia. This product could fall within sanctions. In addition, its buyers need to be checked carefully to ensure that the product does not fall into the hands of sanctioned parties.

# Dual Use Goods

- Dual use goods are goods with both a civil and military purpose, suggesting the possibility that goods may be utilised for illegitimate ends.
- **Example.** Bank's customer produces and sells fertiliser. Fertiliser can be used for agriculture and for weapons. Customer receives a large order from a new buyer in Algeria. Diligent examination of the customer, the buyers, its location, and the route and mode of shipment are warranted.

# Apparent Inconsistencies in Proposed Transaction (1/3)

- An apparent inconsistency is a significant difference between two representations of a transaction, whether in the terms of an undertaking such as a letter of credit, and some other document.
- **Apparent inconsistencies include**
  - Obvious over or under invoicing of goods;
  - Obvious misrepresentation of quantity of goods shipped; and
  - Payment tenor or terms are inconsistent with the type of goods.

# Apparent Inconsistencies in Proposed Transaction (2/3)

- **Example.**
- Your customer sells high quality coal at a rate typically above the market price due to the quality of the product which burns more efficiently.
- A given shipment reflects a 50% reduction in price.
- The usual price is charged for a much lower quantity of coal.
- The goods are sold at market price with one year repayment terms



# Apparent Inconsistencies in Proposed Transaction (3/3)

- **Other examples:**
- The data in an invoice differs from that in a bill of lading with respect to shipment, the type of goods as well as the quality, description, or weight of the goods.
- The goods are over priced or under priced compared to the fair market price.
- Documents amended frequently or significantly
- Documents have non standard clauses.
- High and unexplained charges.

# Controls & Measures

# Due Diligence of the Documents and Underlying Parties (1/2)

- Obtain the underlying documents
  - ▶ Letter of credit (L/C) , Bill of Exchange
  - ▶ Commercial Invoice
  - ▶ Packing list
  - ▶ Shipping documents - Bill of lading, Air waybill, Truck Receipt or Delivery receipt
  - ▶ Certificate of Origin of Goods
- Due diligence
  - ▶ Business Activities are matching
  - ▶ Business Rationale
  - ▶ Underlying Goods
  - ▶ Checking Under invoicing or Over invoicing

# Due Diligence of the Documents and Underlying Parties (2/2)

- Listing of the underlying parties
  - ▶ Buyer
  - ▶ Seller
  - ▶ Shipper
  - ▶ Vessel
  - ▶ Port of loading
  - ▶ Port of discharge
  - ▶ Goods traded, etc.
- Screening the Underlying parties
  - ▶ Screen through Global Watch Lists
  - ▶ Register to UAEIEC website for UN and UAE listing
  - ▶ Screen through UAE IEC for UN and UAE listing
  - ▶ Screen for DUG in UAE IEC website

# Thank you