Guidelines for
Prevention of Trade Based Money Laundering

(Draft)

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Preface

Bangladesh is one of the fastest growing economies in Asia and looking forward to transforming itself into an advanced economy by 2041. Its trade in FY17 has increased to almost 573 times of FY73. However, recent various publications including FATF, APG and GFI have drawn to her attention that international trade system is being heavily abused for money laundering purpose. Developing nations are mostly vulnerable to that risk, which is a significant threat to their growth and sustainable development. Recognizing these developments and being a peace-loving internationally compliant country, Bangladesh is fully committed to remain at the forefront of global efforts to fight against Trade Based Money Laundering (TBML) risk. Against this backdrop and considering the fact that international trade transactions are mainly held through banking system of the country, this Guideline is issued for the first time by BFIU to guide banks so as to establish appropriate measures and techniques to combat such risk.

Trade process involves multiple parties and essentially combating this crime requires unified measures by all concerned govt. agencies. As such, while preparing this Guideline, major stakeholders were consulted and domestic relevant policies, rules and regulations were reviewed to get optimum results. It is understood that TBML varies from country to country in nature, extent and vehicle. Hence, the Guidelines have been framed giving particular focus on Bangladesh context. A number of case examples experienced in Bangladesh have been discussed in Appendix A to justify TBML Alerts incorporated in Appendix B and C. Illustrations of the alerts, review, disposition and escalations guidance have been detailed in a way so as to guide smooth compliance function. However, crime and therefore alert and precautionary measures are never static. Therefore, alerts and measures as given in the Guidelines are never exhaustive. This Guidelines is an attempt to guide how TBML risk emerges, when a bank should be alert and how due diligence measures should be applied.

BFIU considers that the Guidelines will assist banks not only in meeting the legal and regulatory obligations under the Money Laundering Prevention Act, 2012 and Anti-Terrorism Act, 2009 but also in implementing effective measures to further mitigate their money laundering and terrorist financing (ML/TF) risks.

BFIU therefore expects every bank to adopt the practices that this Guideline recommends where necessary, to improve their anti-money laundering and counter-terrorist financing (AMLCFT) systems, taking into consideration the ML/TF risks to which they are exposed.

The focus group consulted and obtained inputs from relevant agencies and documents such as Guidance Paper on Combating TBML issued by The Hong Kong Association of Banks, Guidance on Anti-Money Laundering and Countering the Financing of Terrorism Controls in Trade Finance and Correspondent Banking issued by Monetary Authority of Singapore, BASEL due diligence principles for banks, UK thematic review by FCA, LC views white paper on trade finance compliance, APG Typology Report on TBML, FATF Typology reports on TBML, The Wolfsburg group, ICC and BAFT trade finance principles, etc.

List of Acronyms

ADs	Authorized Dealers
AIT	Advance Income Tax
AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
ATA	Anti-Terrorism Act
BAFT	Bankers Association for Finance and Trade
BASIS	Bangladesh Association of Software and Information Services
BB	Bangladesh Bank
BCSIR	Bangladesh Council for Scientific and Industrial Research
BE	Bill of Entry
BEPZA	Bangladesh Export Processing Zone Authority
BEZA	Bangladesh Economic Zone Authority
BFIU	Bangladesh Financial Intelligence Unit
BL	Bill of Lading
BTB	Back to Back
BUET	Bangladesh University of Engineering and Technology
C & F	Clearing and Forwarding
CAMLCO	Chief Anti-Money Laundering Compliance Officer
CCI&E	Chief Controller of Import and Export
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CI	Commercial Invoice
EDD	Enhanced Due Diligence
ERC	Export Registration Certificate
ERQ	Exporters Retention Quota
EZ	Economic Zone
FATF	Financial Action Task Force
FCA	Financial Crime Authority
FE	Foreign Exchnage
FERA	Foreign Exchange Regulation Act
GFET	Guidelines for Foreign Exchange Transactions
IMP Form	Import Form
IRC	Import Registration Certificate
IPO	Import Policy Order
LC	Letter of Credit
LCAF	Letter of Credit Authorization Form
LTR	Loans Against Trust Receipt
ML	Money Laundering
MLPA	Money Laundering Prevention Act
MPLR	Money Laundering Prevention Rules
NBR	National Board of Revenue

NPL	Non-performing Loan
OIMS	Online Import Monitoring System
PEZ	Private Economic Zone
PF	Proliferation Financing
PI	Proforma Invoice
PSI	Pre-Shipment Inspection
RBA	Risk Based Approach
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TF	Terrorist Financing
TMBL	Trade Based Money Laundering
TTP	Trade Transaction Profile
TTI	Total Tax Incidence
USD	US Dollar

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Chapter 1: Introduction

1.1 Background

Criminals change their strategy off and on to divert attention of law enforcement. Unless and until society gets affected intensely, it rarely responds. Likewise trade based money laundering drew attention of global bodies not long ago. In its 2006 study the Financial Action Task Force (**FATF**) recognized trade based money laundering as one of the main methods by which criminal organizations and terrorist financiers move money for the purpose of disguising its origins and integrating it back into the formal economy. Concerns in this area are almost unanimously agreed by all relevant agencies and authorities.

The recommendations as suggested in this Guideline are aimed at guiding effective control measures in combating TBML; however, they do not modify or supersede any applicable laws, regulations and requirements applicable to all banks operating in Bangladesh. These Guidelines must be read together with the following laws, related regulations and guidelines:

(a) Money Laundering Prevention Act, 2012;
(b) Anti-Terrorism Act, 2009;
(c) Foreign Exchange Regulations Act, 1947;
(d) Customs Act, 1969;
(e) The Import and Export Control Act, 1950;
(f) Import Policy Order and Export Policy in force;
(g) ML & TF Risk Management Guidelines issued by BFIU for Banks;
(h) Guidelines for Foreign Exchange Transactions, 2018;
(i) Circulars issued by BFIU;
(j) Circulars and Circular Letters issued by Foreign Exchange Policy Department, Bangladesh Bank.

1.2 Scope, Area and Applicability of this Guideline

a) The Guideline is not meant for mitigation of money laundering risk only. Terrorist financing and proliferation risk mitigation are also equally aimed at.

b) Though recommendations of this Guideline are mainly on the trade related activities of banks with their customers and relevant third parties, trade based money laundering risks of bank-to-bank relationships should also be taken adequate care of.

c) Instructions given in this Guideline are applicable to all the scheduled banks, their authorized dealer branches (ADs), Off-shore Banking Units (OBUs) and any other branches, units or divisions engaged in trade related activities.

1.3 Products & Services Related to Trade

Though exhaustive list of trade related products and services is not practicable, some indicative examples of products or services that fall within the scope of this Guideline are:

- All types of Commercial Documentary Credits
- All types of Bank Guarantees
- All types of Standby LCs
- All types of Bills for Collections
- Open Account Transactions
- Cash in Advance
- All kinds of trade finance and payments
- Import and export of services and software.
- Trade finance products (such as factoring, forfeiting, etc.) which do not exist or are not allowed in Bangladesh have not been covered in this guidelines. Before such products are allowed by banks, ML & TF risks of these products must be assessed and consulted with BFIU.

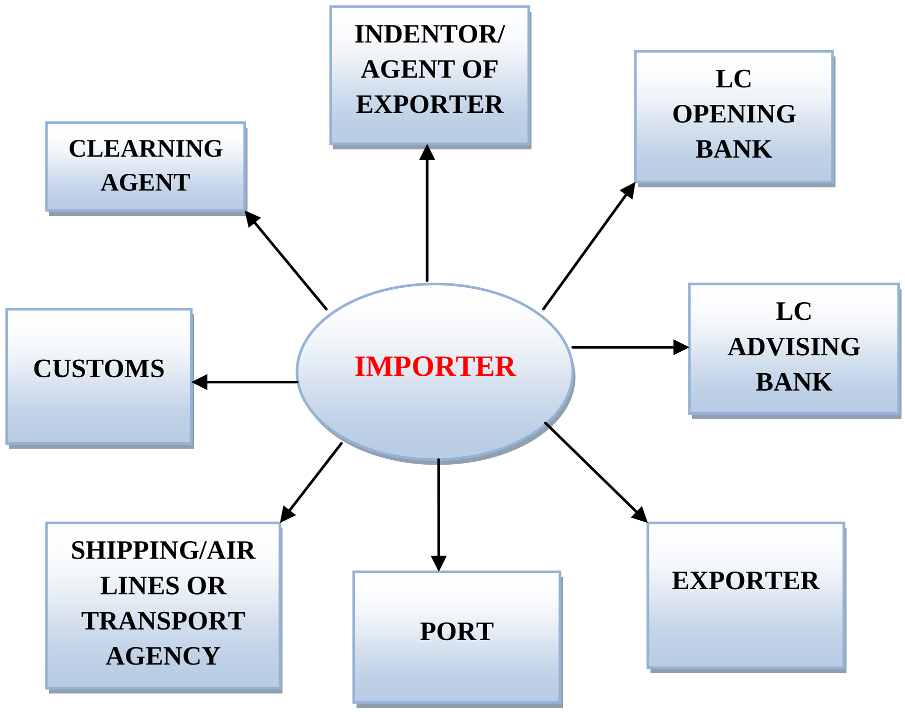
1.4 Scope/Definition of Customers

As per Money Laundering Prevention Rules, 2013 any person or entity maintaining an account or a business relationship of any type, the beneficial owner of the account or business relationship, the person or institution involved in a financial transaction that may pose reputational or other risk to the institution is a customer. In any single transaction through banking channel, there must be at least two parties involved. Depending on the nature of transaction, there may be engagement of three or more parties in a single transaction. Outside the banking channel, there are also some other intermediaries involved in trade.

1.4.1 Parties Involved in Trade

Many actors actively participate in international trade in various points and these actors differ from one country to another based on the local regulatory requirements involved in the process. Even the actors involved in import are slightly different from the actors in export. The major players in import and export business of Bangladesh are as follows:

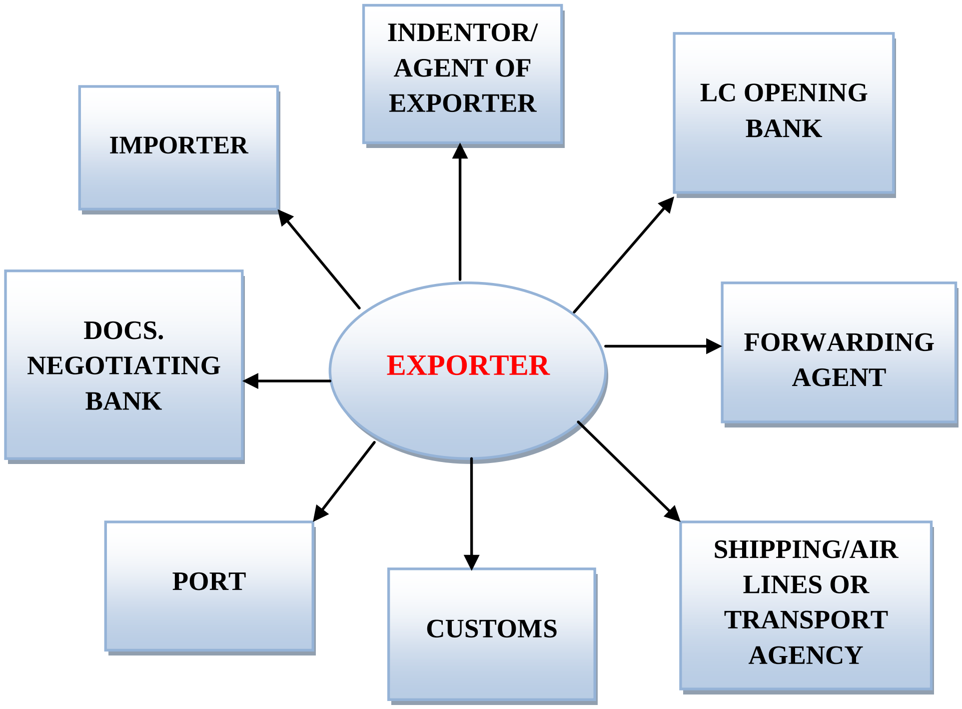
1.4.1.1 Parties involved in Import



The importer is the primary player in the import market which is surrounded by other actors in the process and they are:

a. Buyer and seller furnishes sale/purchase contract.
b. LC Opening Bank issues/opens the documentary letter of credit (LC) in favor of the importer.
c. LC Advising Bank advises the LC to the exporter/supplier.
d. Exporter/Supplier supplies the goods/services as per the terms agreed in the LC.
e. Shipping Lines/Airlines/Transport Agency transports the goods from supplier's end to the buyer's end.
f. Port Authority is the custodian of the imported goods till those are released properly.
g. Customs Authority is responsible to assess and collect duties-taxes on the imported goods.
h. Clearing Agent acts as the agent of importer to release the goods from the customs.
i. Indenter is the agent of Supplier.

1.4.1.2 Parties Involved in Export



Though the process of export is literally the reverse to the import, some actors change their roles in the process. However, the exporter is obviously the primary player in the market and the other actors in the process support export surrounding the primary player. These actors are:

a. Buyer and seller furnishes sale/purchase contract.
b. LC Advising Bank advises the LC to the exporter/supplier.
c. Importer/Buyer makes payment to the exporter as per the terms agreed in the LC.
d. Forwarding Agent acts as the agent of exporter to arrange shipment of the goods.
e. Shipping Lines/Airlines/Transport Agency transports the goods from supplier's end to the buyer's end.
f. Port Authority is the custodian of the goods to be shipped for export properly.
g. Customs Authority is responsible to assess and collect duties-taxes on the exported goods.
h. LC Negotiating Bank negotiates the transport documents.
i. Indenter is here the Agent of Buyer.

1.4.1.3 Instructing Parties

In a trade finance transaction, banks are not always involved into transactions at the request or instruction from its own customer. In addition to bank's own customer, the instructing party may be for example but not limited to:

For	Instructing party	Commercial Bank's role
Documentary Credit	Issuing Bank	Advising Bank, Nominated Bank, Confirming Bank, Transferring Bank
	Advising Bank	2nd Advising Bank
Documentary Collection	Remitting Bank	Collecting and/or presenting bank [if collecting bank and presenting bank are the same]
	Collecting Bank	Presenting Bank, [if collecting bank and presenting bank are not the same]
Cash In advance	Ordering Customer/ institution	Inward remittance receiving bank
Guarantee backed by counter guarantee including standby LC	Counter guarantor/Issuer	Guarantor, Advisor, Confirmer, Nominated person etc.

1.4.1.4 Counter Parties

There must be at least one counter party in a trade finance transaction. Counter party may be for instances but not limited to as under:

For	Counter Parties
Documentary Credit	Issuing Bank, Nominated Bank, Confirming Bank, Advising Bank, 2nd Advising Bank, Beneficiary, and Applicant etc.
Documentary Collection	Principal, Remitting bank, Collecting bank, Presenting bank, Drawee etc.
Cash in Advance	Ordering Institution, Customer, Exporter etc.
Guarantee/Standby LC	Issuer, Counter guarantor, confirmer, guarantor etc. Counter parties in trade finance transaction can be broadly categorizes in two forms: ✓ Banks or financial institutions ✓ Any party other than banks or financial institutions

Depending on the risk and vulnerabilities of the instructing and counter parties mentioned above, banks shall frame their detailed due diligence measures in line with this guidelines, relevant BFIU circulars, local regulations and international best practices.

1.4.1.5 Related Parties to Trade

In order to execute a trade transaction, there are inherently more parties involved other than buyer and seller. For the purpose of this guideline, those parties are called "related parties to trade". "Related parties to trade" include traders, brokers, and shipper/consignor, notify parties, shipping lines, freight forwarders etc. Reasonable due diligence measures shall have to be conducted on "related party to trade" as well.

1.4.2 Trade Related Services

Although lion share of trade is backed by underlying goods, trade of service items such as software, data entry, repair/renovation/refilled/overhauling, transporting, carrying, delivering etc. is also on the rise. Service import and export therefore should be dealt with adequate due diligence. All the documents and invoices should be verified and checked whether the competitive price of the service has been quoted or not. In software and service trade, certificate issued by BASIS and documents evidencing customs assessment and payment of duties and taxes will not be enough. Genuineness and reliability of the software and service and that of the importer and supplier should be ensured so that transactions arising out of such arrangement may not pose ML, TF and PF threats. Banks should guide trade processing staff on how to ensure them.

Chapter 2: Landscape of Trade Based Money Laundering in Bangladesh

2.1 Introduction

This chapter provides an overview of trade based money laundering in Bangladesh. In particular, the chapter highlights on regulatory framework as well as the scope and vulnerabilities of Bangladesh trade. As this global offence of trade based money laundering differs in extent and mechanism from country to country, Bangladesh's experience in trade based money laundering has been depicted here to guide bankers towards adopting proper mitigation measures.

2.2 Regulatory Framework Governing Bangladesh Trade

Several Acts, regulations and instructions from competent authorities form the regulatory framework of trade in Bangladesh economy. The Foreign Exchange Regulation Act, 1947 lays the foundation of regulatory framework by which the Bangladesh trade is mostly governed. The Import and Export Control Act, 1950 controls the import and export of goods to and from Bangladesh respectively, while the Customs Act, 1969 defines the operational customs procedures of import and export in Bangladesh. The Bangladesh Bank Order, 1972 empowers Bangladesh Bank (BB) as the Central Bank of the country to formulate and implement intervention policies in the foreign exchange market and to hold and manage the official foreign reserves of Bangladesh. On the other hand, the Importers, Exporters and Indentors (Registration) Order, 1981 empowers the Chief Controller of Import and Export (CCI&E) to issue license as Import Registration Certificate (IRC), Export Registration Certificate (ERC), Import Permit (IP) and Export Permit (EP) to importer and exporter of Bangladesh to perform trade. The Government of Bangladesh formulates import and export policy for the country namely the Import Policy Order (IPO) and the Export Policy for a three year period. BEPZA, BEZA, EZ and PEZ regulations regulate the import and export of Special Economic Zones. Various Ministries, Departments and Divisions of Govt. import against permission of these authorities. Apart from these, BB issues instructions under FERA in the form of FE circulars and FE circular letters from time to time to regulate foreign exchange market of the country. Guidelines for Foreign Exchange Transactions (GFET) summarizes all the instructions issued for authorized dealers (ADs) and money changers. These local regulations primarily construct the regulatory framework of Bangladesh foreign trade.

Since trade involves extra-territorial parties, some other international rules, regulations and practices are also part of the broader regulatory framework. Notable of them are regulations designed by the General Agreement on Tariffs and Trade (GATT), Uniform Customs and Practice for Documentary Credits (UCPDC), Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR- 725), Uniform Rules for Collections (URC-522) and Incoterms-2010. It is to be noted that the local regulations generally prevail over the international ones.

2.3 Regulatory Framework in Combating TBML in Bangladesh

As per Money Laundering Prevention Act, 2012 smuggling of money or property has been defined as money laundering while in the Act smuggling of money or property has been defined as-

i) transfer or holding money or property outside the country in breach of the existing laws in the country; or
ii) refrain from repatriating money or property from abroad in which Bangladesh has an interest and was due to be repatriated; or
iii) not bringing into the country the actual dues from a foreign country, or paying to foreign country in excess of the actual dues;

It can be easily comprehended that in Bangladesh context, international trade is one of the avenues abusing which smuggling of money or property and illicit outflow can take place.

As per the Act, however, any person who commits or abets or conspires to commit the offense of money laundering is liable to be punished for minimum 4 years and maximum 12 years of imprisonement, in addition to that a fine equivalent to twice the value of the property involved in the offence or BDT 1 million whichever is higher shall be imposed. The punishment for an entity in this regard is a fine of not less than twice the value of the property or BDT 2 million whichever is higher; in addition to that license is also liable to be cancelled.

The law of the land, therefore, prohibits smuggling of money or property in the strictest term and provides stringent punishment for the offence. Despite such stringent legal provisions Banks may willingly or inadvertently become vulnerable to this offence.

2.4 Scope of TBML in Bangladesh

Generally criminals use trade finance to obscure the illegal movement of funds through misrepresentation of price, quality or quantity of goods and services. And to do this, in most cases, there might be collusion between the seller and the buyer. The collusion may well arise because both parties are controlled by the same person/entity. The transfer of value in this way may be executed in a number of ways such as Over Invoicing, Under Invoicing, Multiple Invoicing, Short shipment, Over Shipment, Phantom Shipment, and Complicated Payment Structure, discount, price changes or without making any payment at all etc. Bangladesh is not an exception in this regard. However, some of the vulnerabilities are given below.

2.4.1 Import Procedure and Avenues for TBML in Bangladesh

i. Import procedure in Bangladesh generally begins by obtaining an Importer registration Certificate (IRC) from the Office of the Chief Controller of Import and Export (CCI&E) under the Importers, Exporters and Indenters (registration) Order, 1981. According to this Order, an importer can get one IRC for commercial and one for indusrial import. Importers may take the opportunity to have more than one IRC to use one in TBML as throughout the import procedure and reporting of the transactions importers are identified through IRCs not through their names. Moreover, family members of a trader having same business address may obtain IRCs and abuse them to commit TBML.

ii. Letter of Credit Authorization Form (LCAF) is mandatory for importer as it is the declaration of amount, value, HS code and the description of the goods as per Customs First Schedule and terms of import. Majority portion of imported goods are imported on CFR basis where Freight Charges are borne by the importer. In some cases it has been seen that freight charges reached almost 55% of the FOB value. In fact, freight and other charges can also be a medium of TBML.

iii. After declaration of LCAF, importers are approved to buy foreign currency from the authorized dealer (AD) branches based on the letter of credit (LC)/Sales-purchase Contract subject to the value of LC/Contract not exceeding the value declared in the concerned LCAF. Importers having FC/ERQ accounts can be involved in payment against LCs/Contracts exceeding the value of the LCAF and thus facilitating TBML.

iv. Value of goods to be imported can be medium of TBML as value can be quoted less than the actual price (Under invoicing) of the goods with a deliberate intention to evade import duties and taxes. On the other hand, capital machinery and raw materials (of which import duties are lower) can be imported quoting more than the actual price (Over invoicing) of goods as a medium of TBML.

v. Banks are responsible to make payment against the import documents if found in order and no discrepancy arises. Yet, documents can be received directly by the importer and the goods can be released from the customs. In that case, banks may make payment based on the customs certified bill of entry (BE) submitted by the importer. This practice takes place while releasing goods with copy documents. TBML can occur in these situations as there are opportunities to fabricate the import documents and related BE by the ill motive importer.

vi. Banks are permitted to make advance payment against import without prior approval of BB based on a repayment guarantee from a bank abroad. This guarantee is not needed for remittance upto USD 5,000 (and USD 25,000 from ERQ accounts). Moreover, fabricated/fake/false bank guarantee can create a scope of TBML through payment of advance remittance against import.

vii. After making payment against the goods to be imported, importers are liable either to import the goods or to bring back the amount remitted in proper banking channel (Article 4(3), FERA, 1947). BB marks out the duration of the process 4 months after the date of making payment. Failure to transport the goods within the prescribed duration makes the related Bill of Entry (BE) overdue and no importer can get any import facility (opening LC/making advance payment, or enhancement of existing LC/Contract value) from any bank in Bangladesh having overdue BE against any of its previous import without the prior approval of BB. Importers may take the opportunity to surrender the IRC (intended to avoid the import liability and also to be involved in TBML) against which BE is being overdue and get another IRC for a fresh start.

viii. The incidence of loss or damage of the goods-in-transit or before release as well as cancellation of shipment may be used as a medium of TBML. Compensation against the damaged goods or return of the remittance against cancelled shipment can be received from sources/third parties directly not related to the exporter of the goods. Again, loss of goods before release from the customs can be concocted (intended to evade tax and commit capital flight) to get the insurance claim and get waiver from submission of the BE.

ix. The ADs are allowed to open back-to-back (BTB) import LCs against export LCs operating under the bonded warehouse system, subject to observance of domestic value addition requirement. Misuse of the bonded warehouse facility (intended to evade tax) by selling the imported goods to the local market can also be an example of TMBL in import. Again, BTB LCs opened against arranged/fake master LCs can also be used in TBML where no export occurs showing some 'valid' reasons though raw materials imported duly against the BTB LCs.

x. Exporters are allowed to export on CMT basis as well as to import the raw materials on Free of Cost (FOC) basis. Since this FOC import does not require any bank endorsement and there is no matching of Bill of entry with the value, customers can manipulate the FOC items.

xi. Import of non-physical goods (software and others) can be a medium of TBML as keeping track of import process of such non-physical goods is difficult for any reporting/regulatory agency.

xii. Import Policy Order allows actual users to import up to a certain limit (USD 7,000.00 per year) for their personal consumption. As AD banks have no control to monitor this limit through any system individuals might import through different ADs exceeding the limit and sell them commercially to the market illegally.

xiii. Consumers can purchase goods online by making payment through FC cards and later receive goods through courier. Criminal proceeds might be transferred through this online payment.

2.4.2 Export Procedure and Avenues for TBML in Bangladesh

i. Export procedure in Bangladesh generally starts with obtaining Exporter registration Certificate (ERC) from the Office of the Chief Controller of Import and Export (CCI&E) under the Importers, Exporters and Indenters (registration) Order, 1981. According to the order, an exporter can get only one ERC for export. Exporters may take the opportunity to have more than one ERC to use one in TBML, as throughout the export procedure and reporting of the transactions, exporters are identified through ERCs not through their names.

ii. Value of goods to be exported can be a medium of TBML as value can be quoted less than the actual price (Under invoicing) of the goods intended to siphon money abroad.

iii. After shipment of the goods for export, exporters are liable to receive the full foreign exchange proceeds of export {Article 4(3), FERA, 1947}. BB marks out the duration of the repatriation of export proceeds within 4 months after the date of shipment. Failure to receive the full export proceeds within the prescribed duration makes the related Export Bill overdue. Exporter can be out of track having huge amount of overdue export bills intended to commit money laundering through export.

iv. Commission, brokerage or other trade charges to be paid to foreign importers/agents (of which upto 5% ADs can allow) are also sometimes may be abused for TBML.

v. Partial drawing of export bill/Advance Receipt against export can be abused for TBML. It is the responsibility of the ADs to follow up each such case and to ensure that the balance amount is also realized within the prescribed period.

vi. Shutting out of a shipment by a particular vessel and re-shipment in another vessel should be checked. This is because there are opportunities of TBML as transshipment through one or more jurisdictions for no apparent economic reason is suspicious.

vii. The incidence of loss or damage of the exported goods in-transit or before release as well as cancellation of shipment (for which payment has not already been received) may be used as a medium of TBML. Compensation against the damaged goods can be received from other sources/third parties directly not related to the importer of the goods.

viii. Export of non-physical goods (software and others) can be a medium of TBML as keeping track of the export process of the non-physical goods is difficult for any reporting/regulatory agency.

ix. Buying House Arrangement/Buyer Nominated Supplier Arrangement can be a medium of TBML. Shipment of goods can illicitly be delayed by the buying houses through 'arranged game' for getting discount on the exported value. Again, buyer nominated Supplier can quote higher price for the raw materials and money laundering can take place in the guise of trade.

x. Analysis of export data of several years reveals that percentage of cash incentive contributes to boosting certain export goods. These goods are vulnerable to be over invoiced as more proceeds ensure more cash incentive to the exporters.

xi. To ensure a stable forex reserve, export is not barred by the regulators for failure to repatriate export proceeds in time. Some exporters have been seen to take advantage of this and continue exporting to same country/beneficiary for a few years even though most of the proceeds were not realized. Non-repatriation or even long repatriation delay may be linked to siphoning money or TBML.

2.5 Remittance of Royalty and Technical Fees

Under Section 18 of Bangladesh Investment Development Authority Act, 2016, approved industrial enterprises shall have to take approval from Bangladesh Investment Development Authority (BIDA) and other competent authorities for payment of royalty, technical know-how, operational service fees, management fees, technical assistance and franchise fees.

Vulnerabilities:

While making remittance of royalty and other technical fees, banks may expose them to money laundering by not conducting due diligence under the following conditions:

a) Ambiguous agreement between local company and technical service provider;
b) Auditor's certificates regarding net remittable amount;
c) Suspicion remains about the genuineness of the papers (copies of the royalty/technical assistance agreements, documentary evidences); and
d) Lack of adequate due diligence on the underlying trade.

2.6 Avenues for TBML through OBUs, EPZs, EZs and PEZs in Bangladesh

Abuse of trade finance through OBUs and different mode of international trade practised in the EPZs and EZs also sometimes make way for TBML. As OBUs can borrow funds from banks and FIs from both home and abroad they are more vulnerable to TBML. It can provide finance facilities against purchase/supply order, corporate gurantee, personal guarantee of the directors of company etc with borrowed fund. However, recovery of the fund may not be possible due to lack of verification of the authenticity of the documents, willful default of the borrowers and poor or biased customer risk assessment. In such cases Bangladeshi nationals can also siphon money if they have beneficial ownersip or control on the company in whose favour the finacing facilities are provided.

In case of companies in economic zones, directors' liabilities are limited by shares. When the company falls into trouble due to taking more exposure through more foreign/local loan or trade gap, they may transfer, sell or even wind up the company keeping the outstanding liabilities in Bangladesh. The situation arises sometimes that the company makes payment for import without entry of the goods, or export is done but the proceeds are not realized. Keeping these liabilities pending owners/directors transfer, sell or wind up the company and leave the country. Bankers should provide proper information to regulators in time before winding up of these companies. Bankers should apply enhanced due diligence while providing trade and other services to these companies of Economic Zones.

In Bangladesh context letter of credit is safe compared to other mode of trade (such as Open Account, Cash in Advance etc) in TBML perspective. Howevr, it is also undeniable that TBML risk may arise under LC if the LC is between parent and affiliates or if the trade is just an arranged game. Because of this, TBML risk mitigation measure here need to be stringent, otherwise trade should be facilitated by banks through Letter of Credit applying adequate due diligence only.

It appears from the above discussion that potential scope for trade based money laundering prevails in the banking sector of the country. However, to make bankers familiar with the different methods of TBML and also to get further insight of this aspect, some case studies in Bangladesh context are discussed in Appendix A.

2.7 Key Challenges and Difficulties in Preventing Trade Based Money Laundering in Bangladesh

a) Price Verification for Financial Crime Control

According to Import Policy Order, importers are obligated to import goods at maximum competitive prices. Banks are advised in the new GFET 2018, to take usual and reasonable cautionary measures to ensure that the price of the goods concerned is competitive in terms of prevailing price in the international market on the date of contract and/or similar imports in contemporary period. They are also advised to verify the above, if needed, with the help of concerned Bangladesh Mission abroad. Due to lack of relevant business information, such as the terms of business relationship, volume discounting or specific quality, or feature, specifications of goods involved bankers have to be cautious in making meaningful determinations about the appropriateness of the unit price. Moreover, many products are not traded in public markets and their market prices are also not publicly available. Even where goods are publicly traded, the current prices may not reflect the agreed price used in any contract of sale or purchase and these details will not usually be available to the banks involved due to competitive sensitivity of such information.

b) Transfer Pricing

Transfer pricing is a related party transaction commonly used by transnational corporation as part of their financial and tax planning strategy. Multinational organizations use transfer pricing to shift taxable income from jurisdictions with relatively high tax rates to jurisdictions with relatively low tax rates to minimize income tax. Similar strategies are also employed in relation to import duties and value added tax. Combating TBML centring transfer pricing also needs to be overcome.

c) Limited Skilled Manpower

Performing the foreign exchange activities is a very tough job because it involves proper communication with the client, various banks of the country as well as abroad. A single error may cost thousands of dollars. In Bangladesh there are limited skilled manpower who are able to understand and handle the foreign exchange dealings very well. As such, skill development through proper training is a must to address TBML risk.

d) Extreme Competition

Unhealthy competition is driving bankers to constantly hunt for aggressive business and profit target. Thus working under pressure of such target combined with the fear of losing customers and presence of other competitor banks officials sometimes ignore minor trade related due diligence which makes the bank a victim to TBML. Unhealthy competition poses a challenge to combating TBML.

e) Absence of Co-ordination

There should be co-ordination & concerted effort among all the Govt. agencies e.g. National Board of Revenue (specially the Valuations and Audit unit)/, Customs and Bangladesh Bank to assess the value of the imported or exported goods/commodities/services.

f) Absence of MIS and a Central Price Data Base

Lack of MIS and a central data base or uniform price list of various commodities is also a hindrance to preventing under invoicing and over-invoicing by those engaged in trade operations.

g) Duty/Tax structure

At times, bankers disagree with the quoted price in the Proforma Invoice (PI), because they fail to match the given price which is sometimes far away from the actual price of the commodity in the international market. In some items of imports importers can quote higher price in line with customs' rate of duty. Though there is no scope of tax/VAT evasion against such imports it may abused for TBML.

The Challenges and difficulties faced by the industry and the Bangladesh specific trend of trade based money laundering indicates the challenging task the banks have to accomplish to protect themselves from this grave financial crime. The next chapters, therefore, highlight the risk based framework and trade controls that banks must establish to combat trade based money laundering effectively.

Chapter 3: Risk Based Approach and Trade Based Money Laundering Controls

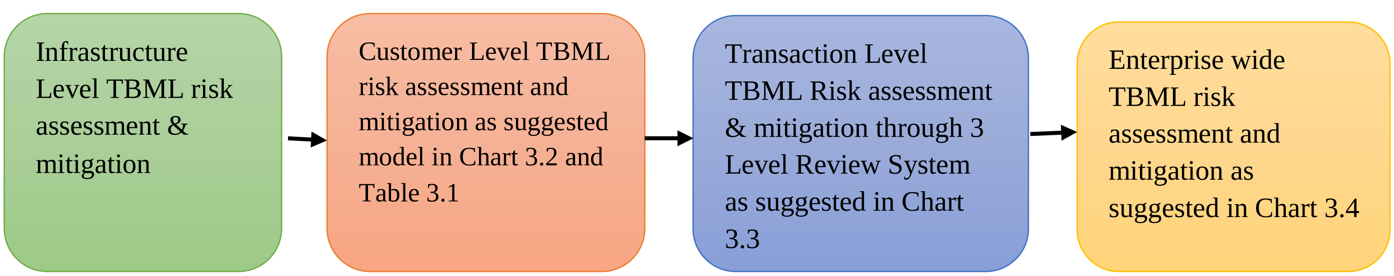
3.1 Introduction

Chapter 1 introduces customers, products, parties, counter parties related to trade. Chapter 2 presents legal framework, trend, typology, key challenges and difficulties in preventing TBML risk in Bangladesh. However, adequate and appropriate risk-based controls are essential to address trade-based money laundering risks. To that end, banks should develop written policies and procedures to assess and mitigate Trade Based ML/TF risks arising from their trade-related customers and activities.

Banks shall assess their TBML risks and frame trade control mechanism in line with the samples given in this chapter. The risk assessment should be documented, reviewed from time to time and updated accordingly.

3.2 TBML Risk Assessment & Mitigation Mechanism

Chart 3.1: TBML Risk Assessment & Mitigation Mechanism:



Trade-based Money Laundering risk may arise and affect due to inadequate infrastructure of the bank, inaccurate assessment of the customer before the on board, poor identification and handling of TBML alert while conducting trade transaction by the officials concerned and; overall for failure of the bank to address the risk at the enterprise or institute level. Hence all the banks are instructed to establish TBML risk assessment and mitigation at infrastructure level, customer level, transaction level and at enterprise level as shown in the flowchart above. First comes infrastructure risk assessment and mitigation as it is impossible to implement mitigation measures without adequate infrastructure. Secondly, high risk customers with dubious trade transaction give birth to trade fraud. Hence Knowing and assessing customer before on board of the customer for trade transaction shall be of great use to combating TBML. Thirdly, TBML risk assessment and mitigation at the transaction level is the most important and vital to combating this offense as it is at this level that the TBML takes place. And finally a holistic approach by the entire institution can be effectively implemented through senior management engagement in TBML risk assessment and mitigation at enterprise level. Details are described below.

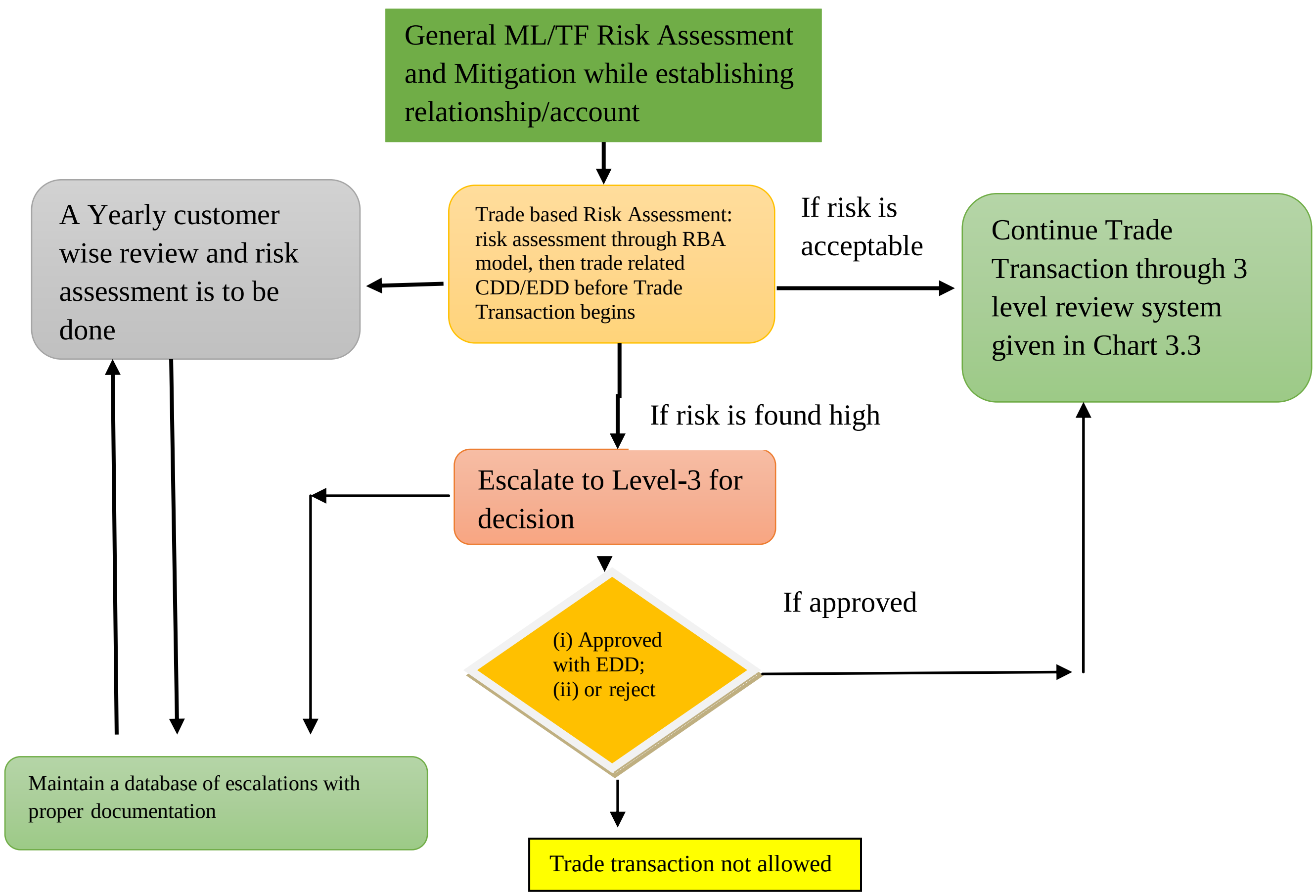
3.2.1 Infrastructure Level Risk Assessment

Banks should develop their own infrastructure for price verification and transaction monitoring in line with their engagement to international trade. The following are indicative suggestions that banks may establish to combat trade based money laundering:

- ✓ A world standard Sanction screening process
- ✓ Own standard for manual screening
- ✓ Own data base based on their regular transactions
- ✓ Subscribe for publically available online commodity pricing website
- ✓ Vessel tracking system.

3.2.2 Customer Level TBML Risk Assessment & Mitigation Mechanism

Chart 3.2: Customer level TBML Risk Assessment & Mitigation Framework



The Chart 3.2 has been described below:

(a) **General ML/TF Risk Assessment and Mitigation**: The customer level risk assessment starts with the establishment of customer relationship. While establishing business relationship/account opening with the trade customer, general ML/TF risk assessment and mitigation measures as outlined in BFIU circular 19 and ML & TF risk management Guidelines issued for banks by BFIU should be followed.

(b) **Trade based Risk Assessment**: As in most cases there are specific products and commodities, various delivery channels and jurisdictions through which TBML occurs, it is quite convenient to have a risk based approach. Trade based risk assessment should be done following the sample model given in Table 3.1 or any other suitable model developed by the bank depending on their respective risk exposure and experience. Bank should design a standard format to collect the required information for this sample model. For fresh/new customers the assessment may be done on the projection submitted in the format by the customers and for the existing and old customers historical data of certain period may be chosen. It is also recommended that banks ensure independent evaluation/assessment of importers and exporters by their own staff and ensure/examine, to the extent practicable, the relationship between importers and exporters through third parties.

(c) **Trade related CDD/EDD:** If a customer's risk level is found low or medium, bank will conduct CDD for the trade customers before trade transaction takes place. However, if a customer is assessed as high risk, this should be escalated to Level 3 for further scrutiny and verification. If Level 3 is satisfied, they may approve the customer for transaction with EDD. If Level 3 is not satisfied considering the magnitude of risk, bank's risk appetite and internal policy, they may reject the customer for trade transaction. After completion of CDD/EDD, the customer will be allowed to go for trade transaction. Details of requirements to conduct CDD/EDD has been described in section 3.2.2.2

(d) **Trade Transaction through 3 Level Review Systems**: When a customer is allowed for trade transaction, trade transaction will take place following Three Level Review System as mentioned in section 3.2.3

(e) **Maintaining a database of escalations with proper documentation:** A database should be established with customers assessed as high risk to facilitate yearly customer wise review and assessment.

(f) **Yearly Customer Wise Review and Assessment**: This yearly review system mentioned above in the Chart 3.2.2 will facilitate input for the enterprise wide risk assessment and assist banks to update TBML trend and typology and devise appropriate policy and strategy at the enterprise level.

3.2.2.1 Customer Level Risk Assessment

The framework as detailed below is a mere sample for guidance. Each and every bank may opt for qualitative and quantitative assessment (Q^2-method), design their own scoring model depending on their respective risk exposure and experience.

Table 3.1: Sample Risk Based Model for Trade Customers

SL	Risk Components	SL	Risk Parameters	Risk Score (0-3)		Composite Risk Level $\frac{(\sum Obt.\_score) * 100}{\sum Max.\_score}$
				Obtained score	Max score	
1	**Trade Customer Demographic**	1	Business History			
		2	Payment Behavior			
		3	Adverse Media Report			
		4	Law Suit Filed			
		5	Others if any			
			Sub Total=			
2	**Geographic locations of trade transactions**	6	Jurisdiction 1			
		7	Jurisdiction 2			
		8	Jurisdiction 3			
		9	Jurisdiction 4			
		10	Jurisdiction 5			
		11	Other Jurisdiction if any			
		12	Complexity			
			Sub Total=			
3	**Products/services**	13	Food Grain			
		14	Industrial Raw Materials			
		15	Capital Machinery			
		16	Trading Goods			
		17	Service Import or Service Export			
		18	Dual-Use Goods			
		19	Other products if any			
		20	Complexity			
			Sub Total=			
4	**Transactions Trend / History**	21	Value of trade transactions			
		22	Number of trade transactions			
		23	Number of escalated TBML alerts			
		24	Number of STR			

Sub Total=			
Grand Total=	$\sum Ob$	$\sum Max.$	

Comprehensive Risk Level	**Threshold in %**	**Actual Risk Level**
High Risk	80 % and above	
Medium Risk	50 % and above but below 80 %	
Low Risk	Below 50%	

In assigning score banks should also take into account the factors described in section 2.4-2.6.

3.2.2.2 Trade Related CDD Requirements

Bank will conduct CDD as per their own Risk Based Framework and will consider the following minimum requirements:

1. Collection of required documents & information such as:
    a. Business nature including major products, jurisdictions and markets;
    b. Delivery / transportation mode for goods or services;
    c. Major suppliers and buyers;
    d. Products and services to be utilized from the bank;
    e. Account activities;
    f. Methods and terms of payment and settlement;
    g. Internal customer risk assessment ratings by the bank;
    h. Any previous suspicious transaction reports filed with BFIU; and
    i. Other information from the relevant staff.

2. Verification of the above documents & information through reliable and independent sources
3. Ascertaining and verifying the identity of the beneficial owners of the trade customer
4. Conducting Enhance Due diligence if required
5. Record Keeping

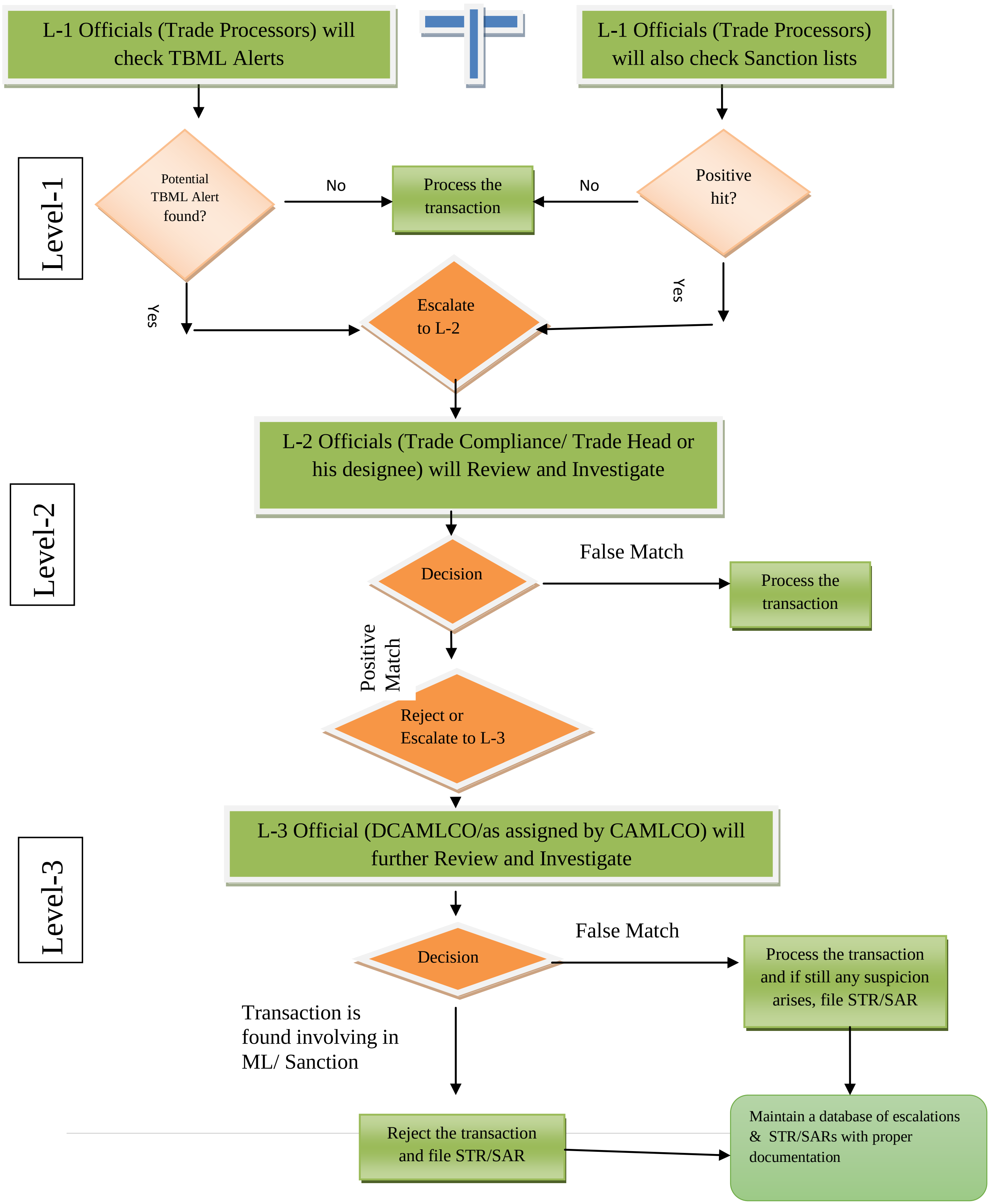
- Banks should have an understanding of the business, the principal counterparties, the countries where the counterparties are located and the goods or services that are exchanged, as well as the expected annual transaction volumes and flows to conduct Customer Due Diligence (CDD) for trade customers.
- CDD information should be updated in accordance with BFIU Circulars and ML&TF Risk Management Guidelines.
- Bank should maintain customer-wise trade transaction profile (TTP) including items of

goods, value, volume, production capacity, end-use of goods and principal counterparty names. TTP should be made available to trade processing staff so that they can easily check that a transaction is within the agreed profile of the customer.

- The CDD processes are expected to include "feed-back loops" where a trigger event in a transaction or normal review process leads to new information or questions about a relationship. This updating of the CDD profile ensures that the information in the CDD profile is current. The event reviews may also lead to the status of the relationship with the customer being escalated for decisions related to additional controls being applied or the exit of the customer.
- Banks are advised to develop their own process of "Customer/transactional level risk assessment" to be conducted based on their product types.

3.2.3 Transaction Level TBML Risk Assessment & Mitigation through 3 Level Review System

Chart 3.3: Flow Chart of Three Level Review System



3.2.3.1 Level 1

3.2.3.1.1 Defining Level 1

Level 1 generally includes the transaction processors, i.e. maker, checker /authorizer /reviewer /verifier.

3.2.3.1.2 Roles and Responsibilities at Level-1

I. Ensure that the customer has a current, approved KYC record in place before processing transactions.
II. Perform TBML Alert Analysis and Screening and execute transaction.
III. Escalate TBML Alerts/Potential hits of the transactions to Level-2, where required.
IV. Escalate Suspicious Transactions/Activities to Level-2.
V. Keep record properly.

3.2.3.1.3: Level - 1 Review, Disposition and Escalation Guidance

Every transaction involving a trade product or service must undergo TBML Alerts analysis and screening. Initial TBML Alert analysis and screening are completed at Level-1 by Trade Transaction Processing Units. The required elements of TBML Alert analysis and screening are set forth as below.

Maker/processor will review the transactions and identify relevant ML/TF/Sanction and TBML Alert and raise them to checker/reviewer/verifier/authorizer who will further review the transactions and TBML Alerts. When needed reviewer will investigate through different channels i.e internet, telephone, email etc. to get more information related to the transaction for the disposition of those TBML Alerts with proper rationales and the mitigating factors. This TBML Alert analysis represents the minimum amount of due diligence required for each trade transaction before it may be executed. In addition, Trade Operations personnel must use their expertise and experience to evaluate each transaction on its merits and escalate any potential concerns to Level - 2. If checker/authorizer cannot disambiguate / resolve the TBML Alert at level-1, he/she will escalate those TBML Alerts to Level – 2. Level-1 disposition should be documented for periodic review.

Illustration 1:

Subject: AML concern ref. 123abc…., Applicant/Buyer: XYZ, Singapore, Consignee: PQR, Columbia. Goods shipped to: Columbia, Beneficiary: ABC Co. Ltd, Bangladesh, Applicant Bank: ABC Bank Ltd, Singapore, Value: USD 50,000.00 Goods: Ready Made Garments

This is an Export Bill in which the goods, "Ready Made Garments" is moving to Columbia.

The following the TBML Alerts are identified:

1. Buyer is from Singapore, goods are consigned and shipped to Columbia.
2. High Risk Country: Columbia.
3. High Risk Goods: Ready Made Garments.

<u>*Resolution by Level-1:*</u>

1. Ok to process since Goods are shipped as per export contract.
2. Ok to process since Buyer has an agent in Columbia to sell the goods.
3. Ok to process since Bangladeshi exporter's line of business is to export readymade garments.

Illustration 2: From: L1 to: L2

Subject: AML concern ref. 123abc…., Applicant: XYZ Trading Co., Lagos, Nigeria, Beneficiary: ABC Co. Ltd, Bangladesh; Issuing Bank: ABC Bank Ltd, Nigeria, Value: USD 50,000.00

This is an export LC in which the goods, "Sugarcane" is moving to Nigeria.

The followings are the TBML Alerts observed:

a. Goods are inconsistent with Beneficiary's business line.
b. Port of loading not provided in the LC.
c. The price per unit of the Sugarcane appears to be high.
d. High risk countries: Nigeria.

After getting resolution/decision from Level 2, Level 1 will act accordingly.

3.2.3.2 Level 2

3.2.3.2.1 Defining Level 2

Level 2 generally includes officials with adequate expertise able to further analyze the merits of an escalation from Level 1 processor and the relevant suspicion itself. They are likely to require extensive knowledge of trade-based money laundering risk and make appropriate use of third-party data sources to verify key information. Level 2 officials may be Trade compliance officer/Head of trade or designee working at Authorized Dealer branch or in the International division (where trade is centralized). In any case he should have adequate seniority and skill to conduct the role of level 2.

3.2.3.2.2 Roles and Responsibilities at Level-2

i. Review and investigate the TBML Alerts raised by level 1
ii. Disambiguate with proper rationale and justification
iii. Document properly

3.2.3.2.3 Level - 2 Review, Disposition and Escalation Guidance

All transactions that contain potential TBML Alerts and sanction hits and that cannot be resolved by level 1 processor must be escalated to L2.

L2 shall deeply analyze the alerts escalated to them and determine their merit. If they can easily resolve them with adequate justification they shall do so with documents and instruct L1 to allow the transaction, otherwise escalate to L3.

Illustration 1: From: L1 to: L2

Subject: AML concern ref. 123abc…., Applicant: XYZ Trading Co., Lagos, Nigeria, Beneficiary: ABC Co. Ltd, Bangladesh, Issuing Bank: ABC Bank Ltd in Nigeria,Value: USD 50,000.00

This is an export LC in which the goods, "Sugarcane" is moving to Nigeria.

The following are the TBML Alerts observed:

a. Goods are inconsistent with Beneficiary's business line.

b. Port of loading is not provided in the LC.

c. The price per unit of the Sugarcane appears to be high.

d. High risk countries: Nigeria.

<u>*Resolution by Level-2:*</u>

a. D&B search on the Beneficiary confirms that it is involved in the export and import of sugarcane and sugar products.

b. The amendment received from the Issuing Bank (IB) confirmed that the port of loading is Chittagong, Bangladesh.

c. The unit price provided is consistent with the current market price available online.

d. High risk countries: Nigeria and Ethiopia.

Since applicant is registered in Nigeria and shipment is also made to Nigeria, it is ok to process the transaction.

Illustration 2:

Subject*: AML concern ref. 123abc….,against an import LC for importing 10 (ten) 1500cc Toyota Cars. Applicant: XYZ Automobile Co., Bangladesh, Beneficiary: ABC Co. Ltd, in Hong Kong. Issuing Bank: XY Bank Ltd, Value: USD 60,000.00*

While scrutinizing the documents TBML Alerts mentioned below have been identified by Level-1 processors and escalate to L-2:

1. Current market price of these 10 cars are $100,000.00 whereas the invoice shows it as $60,000.00 (price variance is identified as $40,000.00)
2. Applicant and beneficiary are related parties.
3. High risk product is involved.

Further Investigations and escalation by Level-2 to Level-3:

Designated L-2 officers have further investigated these TBML Alerts and they could not disambiguate these TBML Alerts. As such they further escalated to Level-3 stating same alerts as mentioned by L-1.

After getting resolution/decision from level 3 they will inform Level 1 accordingly.

3.2.3.3 Level 3

3.2.3.3.1 Defining Level 3

Level 3 generally includes officials with vast experience and expertise on trade based money laundering process. He/she must be able to further assess the merits of an escalation from Level 2 officials. Level 3 generally includes DCAMLCO/official as assigned by CAMLCO.

3.2.3.3.2 Roles and Responsibilities at Level-3

a) Conduct comprehensive review and investigate the TBML Alerts raised by Level 2
b) Disambiguate with proper rationale and justification
c) File STR/SAR where required.
d) Document properly

3.2.3.3.3 Level - 3 Review and Disposition Guidance

L3 must complete a comprehensive review and determine if there are facts that reasonably mitigate the TBML Alerts associated with the transaction or if the transaction appears to be suspicious. If L3 identifies facts that reasonably mitigate each of the TBML Alerts associated with the transaction, then L3 must explain and document the mitigating factors for each alert and allow the transaction to proceed.

If the TBML Alerts are not resolved and the activity or transaction remain suspicious, then L3 shall, prepare a Suspicious Activity Report.

L3 must determine whether the activity or transaction in question should be permitted or rejected and whether the activity or transaction warrants a Suspicious Activity Report or other action consistent with the AML Investigations Standard.

All L2 and L3 escalation dispositions of TBML Alerts or screening hits must be clearly documented.

Illustration 1:

Subject*: AML concern ref. 123abc….,against an import LC for importing 10 (ten) 1500cc Toyota Cars. Applicant: XYZ Automobile Co., Bangladesh, Beneficiary: ABC Co. Ltd, in Hong Kong. Issuing Bank: XY Bank Ltd, Value: USD 60,000.00*

While scrutinizing the documents, TBML Alerts mentioned below are identified by Level-1 processors and escalated` to L-2:

1. Current market price of these 10 cars are $100,000.00 whereas the invoice shows it as $60,000.00 (price variance is identified as $40,000.00)
2. Applicant and beneficiary are related parties.
3. High risk product is involved.

<u>Further Investigations and escalation by Level-2 to Level-3:</u>

Designated L-2 officers have further investigated these TBML Alerts and they could not disambiguate these alerts. As such they further escalated to Level-3 with rationales same as stated by Level 1:

Level 3 designated officer also investigated the TBML Alerts and found that the alerts are valid and rejected the transaction with rationale given below:

- ❖ Under-invoicing is attempted through this LC application since the invoice price is quoted much below the fair market price. So it is recommended to reject the transaction.

Level 3 official filed an STR against this money laundering attempt by the importer in Bangladesh.

Illustration 2:

***Subject**: ML/TF concern ref. 123abc….,against an inward remittance to be processed as advance receipt against export through ARV at the request of exporter ABC Co. Ltd, in Bangladesh. For Value: USD 15,000.00 buyer, XYZ Co. in China.*

TBML Alerts are identified and escalated from L-1 to L-2 described below:

1. Swift message does not mention purpose and there is no reference in the message to connect this remittance with the advance payment. Only customer’s instruction mentions that this is advance receipt for export.
2. The bonafides of buyer is not ensured.
3. Shipment date is unusually longer i.e, 9 month from now, whereas goods is ready made garments that needs maximum 4 month for shipment.
4. This exporter has also received more advance payments earlier against which shipment not yet made.

Further Investigations and escalation by Level-2 to Level-3:

Designated L-2 officers have reviewed these TBML Alerts and they further escalated these alerts to L-3 with the same rationales as stated by L-1 officials.

Level 3 designated officer also reviewed and investigated the TBML Alerts and they disambiguated these alerts with the rationales below:

L-3 Disambiguation with rationales:

1. Though swift message does not mention the purpose or reference, buyer is mentioned as same. Moreover, export contract shows the payment term as advance payment. Besides, exporter has declared the purpose as advance payment against export in the request letter. He also submitted the ARV and copy of the contract against this transaction.
2. Further investigation shows that buyer is a trading company who also trade ready-made garments.
3. Some shipments may take longer period.

It is ok to go ahead with this transaction.

The sample review process as described above is not intended to be prescriptive. Banks should tailor their own review process to their particular needs. Smaller operations are likely to require fewer stages of review due to the volumes of transactions involved and the nature of their businesses.

3.2.3.4 Screening System

1) Sanction screening should be conducted on individual, entity, banks, NGO/NPO, country, port, flag, vessel etc. The screening should also be conducted on sanctioned parties to the transaction, such as seller of the goods, the shipping company, any agents or third parties present in the transaction, port of call of the vessel (origin port, destination port) and its recent voyage history to determine whether it has docked at embargoed countries during its previous voyage and dealt with sanctioned entities or embargoed goods.
2) Care should also be taken to PEPs/IPs screening, adverse media screening, country blacklist screening.
3) For sanction screening it is important to ensure that there is no "risk based approach" –i.e. only screening certain transaction or parties. All parties (known to the bank) related to the transactions at the time and additional parties that come into the picture, as the transaction progresses are required to be screened.
4) A combination of automated and manual controls will be relevant in the context of AML and counter-terrorist financing (CTF) efforts.

   Typically the following elements are, but not limited to, checked via an automated procedure:

   I. Unit prices
   II. Number of items shipped
   III. Shipping marks
   IV. Trade term – often an Inco terms rule followed by a place
   V. Commercial contract etc.

Typically the followings are checked via a manual (in whole or part) procedure:

I. The documentary credit applications
II. The guarantee applications
III. The documents presented under import documentary credits
IV. The documents presented under export documentary credits
V. The documents presented under import documentary collections
VI. The documents presented under export documentary collections.
VII. Guarantee demands
VIII. All incoming and outgoing non-SWIFT messages etc

3.2.3.5 Price Verification

Before a common database facilitating access by all the banks is established (through a joint initiative of BB, Customs and relevant agencies) banks must frame clear policies and procedures to guide trade processing staff in performing price checks. The policies should, at a minimum, mention the level of acceptable price variance and escalation procedures when significant price difference is identified. Provision of different threshold for different types of underlying goods and services may be allowed on the basis of periodic market price assessment. To enhance the effectiveness of the price checks, the process may be centralized or automated; otherwise care must be taken to ensure avoidance of any conflict of interest.

3.2.3.6 TBML Alerts

KYC process is the foundation on which the individual transaction should be evaluated/ investigated for TBML Alerts. However, compliance checks carried out on the trade finance transactions are, to a large degree, Manual. This requires a structured risk-based approach to identify, escalate and investigate unusual/suspicious activities. One such approach is to work with "TBML Alerts."
A non exhaustive list of "TBML Alerts" indicators is provided in the **Appendix B & C.** However, banks should regularly update the TBML Alerts and make them easily accessible to the relevant staff.

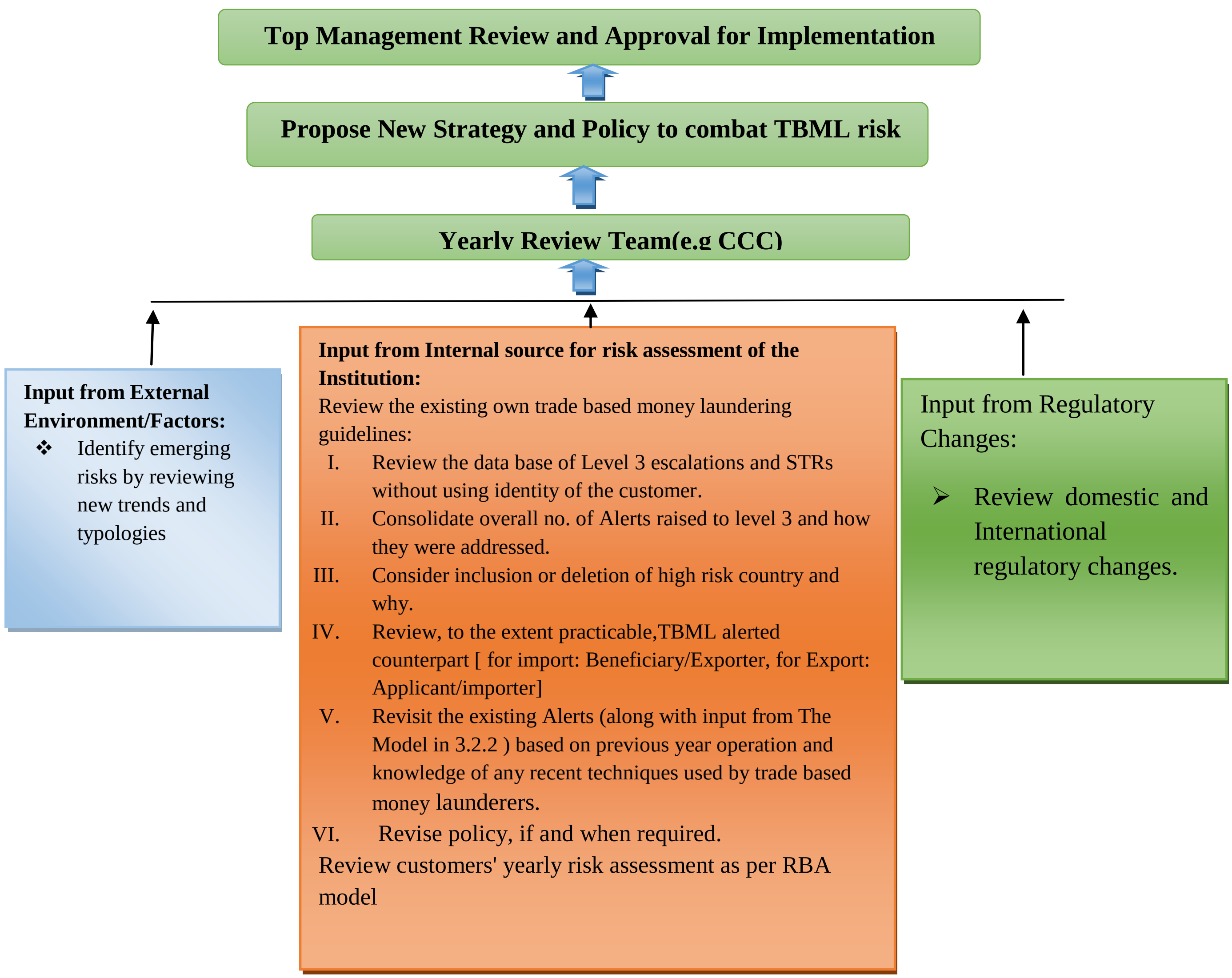
3.2.4 Enterprise/Institute Wide TBML Risk Assessment and Mitigation

i. Review Policy Strategy depending on TBML risk assessment.
ii. Take into account gaps found through annual review as shown in 3.2.4.1
iii. Review new trend and typology related to TBML and include relevant ones for guidance.
iv. Revisit TBML Alerts to mitigate the risks.

3.2.4.1 Institutional/Enterprise-Level Risk Management of Trade Based Money Laundering Framework

The following diagram is a sample how Institutional/business-level risk management of trade based money laundering may work in a bank:

Chart 3.4: Institutional/Enterprise-level TBML Risk Management Framework



3.3 Few More Notes on Trade Controls

a) All relevant staff and officials of the bank must be made aware and remain updated of Trade Controls. Dissemination through regular correspondence should also be emphasized.
b) To assess the effectiveness and adequacy of the Trade Controls, independent review should be done from time to time. Frequency of review should be based on ML/TF risks faced by the bank, emergence of any particular or special need arising out of changes in regulatory instructions etc.
c) Trade Controls should address all possible difficulties that relevant officials may face in combating TBML.
d) Banks should make use of rule-based alert/exception reports or detection scenarios to the extent reasonably practicable.
e) Trade Controls should ensure clear division of roles and responsibilities and ownership of risks relating to critical functions.
f) Trade Controls should require decisions relating to trade transactions, workflow procedures and TBML Alerts to be documented appropriately for audit trail purposes, having regard to the record-keeping standards as mentioned in MLPA, 2012, GFET, 2018 and ML & TF Risk Management Guidelines. They should also include mechanisms to ensure that customer information including applicable trade processes and relevant updates is captured in the relevant bank's customer database, in order to facilitate the assessment and ongoing monitoring of customer activities.
g) Apart from the yearly review of strategy & policy by senior management as mentioned in Chart 3.4 banks should involve senior management in planning and implementation of Trade Controls. Considering size and exposure to TBML risks, banks may decide the period of such review.
h) Trade Controls should be readily identifiable by and made known to all relevant officials engaged in trade-related activities.

3.4 Suspicious Transaction/Activity Reporting

- STR/SAR reporting should be done in accordance with the procedure shown in the Chart 3.3. In this case the risk of tipping-off must be managed.
- Banks should always file an STR/SAR when required to do so under MLPA, ATA and relevant BFIU circulars. However, after the filing of STR/SAR, if banks, upon further analysis, finds that there are no reasonable grounds to suspect that the circumstances involve ML/TF, and BFIU does not give any instruction in this regard, bank may proceed with the relevant transaction and/or continue account operation or other dealings. In complex situation bank may seek opinion from BFIU.

3.5 Training on Trade Based Money Laundering

a) BFIU Circular 19 and ML & TF Risk Management Guidelines provide guidance on AMLCFT training. Banks should ensure that concerned officials understand the trade-based money laundering in both national and international context, bank's exposure to TBML and its own Trade Controls.

b) Banks should make an assessment on its officials in need of trade-based money laundering training. For level 1, 2, 3 officials training is essential. Training should be designed in such a way that the trainees are able to provide, or contribute to, training depending on their background, role and experience.

c) For officials involved in day-to-day trade processes role-based training should also be included. Objective behind such training is to impart training to them on specific risks and responsibilities they may require executing their day to day operations.

d) Trade-based money laundering training should form a core part of a bank's training calendar or training plan. Training records should also be retained properly.

Appendix A: Some instances of abuse of trade in Bangladesh context

(Case examples of big scams have not been included as they are widely known, however lessons should be drawn from those scams and the case studies given in the BFIU Annual reports as well)

Case-1: Money Laundering and Tax Evasion through Non-Release of Goods:

A letter of credit valued USD 20,250 was opened by X bank on behalf of Mr. G for import of refrigerator from China. Bank received the complied presentation of import documents and made import payment duly. Importer retired the documents after paying the bank equivalent Bangladesh currency in cash. When actual price of the goods was assessed high by the Customs, the importer refused to release the goods from Customs citing financial insolvency. Goods were naturally sent for auction and some Mr. H bought the goods being the highest bidder. Later, it was revealed that the importer himself paid the AIT and VAT (9% in total) against the auctioned goods on behalf of Mr. H which indicates that he refused to release the goods (of which TTI is 104.79%) intending to evade tax.

TBML Alerts:

1) Under invoicing was attempted.
2) Lack of up gradation in KYC Process.

Case 2: Money Laundering through Releasing High Valued Goods using Copy Documents:

Mr. M, an importer of trading goods, opens 2 LCs worth USD 12,180 and 5,240 during August 2016 at a Bangladeshi commercial bank for importing Tyres and released the goods from Customs against the second LC using copy documents. Bank was informed by the importer that goods against the other LC were under process of release. No import payments were made due to non-receipt of original shipping documents. Due to non receipt of the payment, complaint was lodged along with necessary documents. The LC as referred to by the complaint of non-payment was for USD 6, 39, 478 and was not opened in any Bangladeshi bank rather it was opened at a finance company of a western country during June 2016. However, analysis reveals that in addition to the LC opened at the western country the two commercial invoices also refer LCs opened at the Bangladeshi bank; and the name, address, IRC and BIN mentioned in the two invoices completely match with the information in OIMS. Moreover, name and quantity of the goods as mentioned in the invoices also bear similarity with the ones mentioned in the Bill of Entry. Therefore, it appears that the LC opened in the western country has connection with the LCs opened in the Bangladeshi commercial bank. In collusion with the exporter, the importer perhaps wanted to avoid tax establishing LCs of lower value and releasing goods through copy documents. As the breach of trust occurred and the exporter didn't receive payment, complaint was lodged and incident came to light.

TBML Alerts:

1. Inadequate assessment of trade customer.
2. Probable collusion between importer and exporter.
3. Opening LC at a less known finance company at a third country.

Case-3: Opening LCs intended to commit Money Laundering

Mr. F, an importer of Fruits, usually operates with P Bank with small scale LCs. He opened accounts with three other banks and at a time opened 21 LCs with the four banks worth USD 9,106,842.50. Banks made import payments based on shipping documents. No single shipment was made against the LCs and the amounts remitted were not repatriated.

TBML Alerts:

1. VesseLContainer was not tracked.
2. Phantom shipment.
3. Sudden increase in the number and amount of LC

Case-4: Money Laundering through Import of old/used Capital Machineries:

Mr. M opened a usance LC for importing reconditioned capital machineries for around USD 16,000.00 in 2016. Within one month and a half shipment was made and document was received by the bank. Though initially discrepancy was established under UCP 600, later on, as stated by the banker due to documentary compliance payment was made by the bank. While releasing machine from Customs, it was found that the minimum economic life exceeds the limit permitted in current IPO and the certifying authority was not nominated by NBR.Customer refused to receive the goods and goods were confiscated by Customs. Meanwhile, import payments were made and the machineries were placed for public auction by the Customs. The amount remitted was not repatriated and thus TBML took place.

TBML Alerts:

1. Import involved high risk goods.
2. Certifying authority was not nominated by NBR.
3. Importer and exporter were somehow related parties.

Case-5: Money Laundering through Discrepant Documents:

Mr. Z, a new importer opened an LC for importing Malt Beverage (lower duties and taxes) from Singapore worth USD 5,460. Goods were shipped and import documents were received by the bank. Upon instigation of the importer, bank official raised a minor discrepancy and held the documents. Meanwhile, Customs imposed higher taxes and duties on the goods while releasing those as it was revealed that the goods were light-alcoholic Beer. Consequently, customer refused to take the goods. Goods were confiscated and placed for public auction by Customs. The highest bidder who got the auctioned goods was the agent of the importer. Thus, importer released the goods, sold it in the market and then informed the bank of his readiness to take the discrepant documents. Therefore, bank made the import payments. In this way, Customs lost the applicable taxes and probably the rest of the prices of the light-alcoholic Beer was paid illegally.

TBML Alerts:

1. Misrepresentation of goods.
2. Importer behavior firstly to raise discrepancy and afterwards his readiness to receive discrepant documents.

Case 6: An attempted TBML at first through Sea port then through Land port:

An attempt was made to remit more than USD 427000 submitting forged documents such as No Objection Certificate of a commercial bank in Bangladesh and that of a western country at a land custom house. A transferrable LC opened in January, 2018 at the bank of a western country mentions import of 500 MT of onion at the rate of 855 USD (per MT). The Bangladeshi commercial bank's NOC showed a signature of branch manager and another signature of President & CEO & CFO while foreign bank's NOC showed a signature of CFO another of President & CEO & CFO. However, Bangladeshi commercial bank didn't have official of such rank. When the Customs official took step to verify, this illegal attempt ended in vain. Matter of concern is that the consignee of the goods was a customer of that commercial bank in Bangladesh.

TBML Alerts:

1. Lack of adequate KYC and verification of trade customer in such situations.
2. Immediate steps have to be taken after getting the verification notices in such circumstances.
3. ADs should be alerted informing them.
4. All Custom Houses and Stations should also be informed in such incidences.

Case 7: SWIFT Password was hacked from back office and used to make fraudulent payment

Step 1-2: SWIFT password was hacked and payment instruction was made to the Nostro A/C to pay USD for the payment against import.
Step 3: Payment was made and statement was sent to back office accordingly. But back office did not check and the middle office also didn't reconcile with the requisition from the branch to pay USD against import payment.
Step 4: Next day another instruction was made to pay GBP but GBP was not available in the Nostro A/C. Treasury Management Department (TMD) was asked to place GBP to the nostro account of GBP but TMD had no requisition in support with the instruction. TMD asked the Nostro A/C to stop the payment. USD payment had already been executed and it was not possible to recover the amount.

TBML Alerts:

1) SWIFT message does not mention underlying transaction reference.
2) Lack of checking by Back Office and no reconciliation by middle office.
3) Rationale behind payment instruction was not verified.

Case 8: Guarantees have been converted into funded liabilities

Step 1: Exporter received contract from a European country to export ships and received advances in various installments from the importers.
Step 2: Advance Payment Guarantee and Performance Guarantee had been issued by the exporter's bank.
Step 3: Counter Guarantees were issued by another foreign bank.
Step 4: Exports were not executed within the stipulated time and contracts were cancelled.
Step 5: Guarantees were encashed by the foreign bank.
Step 6: Local bank created forced loan to pay guarantee amount with interest. The client i.e. the exporter failed to pay the amount and the loan converted to term loan and finally migrated to Non Performing Loans.

TBML Alerts:

1) Exporter's line of business didn't support this particular trade transaction.
2) Evaluation of exporter was not assessed accurately.

Case 9: Laundering through Import & Export using related parties:

Company X in Bangladesh is owned by an IP (Influential Person). This company has got a government project to install a plant for which they opened LC favoring a beneficiary company Y located in Singapore to import capital machineries, spare parts and accessories for value Tk. 2 billion. Accordingly, the Company X made payment against the said LC obligation.
Another company Z in Bangladesh has a sale contract with company Y in Singapore to export agro product to India for value Tk.1 billion and export proceeds are received by company Z from company Y in Singapore through another bank in Bangladesh. This company Z has received cash incentive of Tk. 0.2 billion (@20%) from the Government against exporting these agro-products. Company Z is newly registered as an exporter and obtained ERC from CCI&E. An investigation result shows that Company Y in Singapore is an affiliate company of company X and the owner of company X is also a partner of company Z. Export price of agro product in documents is unusually high and the quantity exported is under-shipped. Thus the government money is embezzled through trade transactions.

TBML Alerts:

1) Transaction is not in line with customer's TTP (Trade Transaction Profile)/ line of business.
2) Importer and exporter are related parties and there is common interest
3) Over Invoicing against agro product export to India
4) Goods shipped from Bangladesh to India but importer is located in Singapore.

Case 10: Trade Fraud by Supplier:

Company ABC in Bangladesh opened an LC to import some capital machineries from Switzerland for USD 50,000.00. LC was confirmed by a foreign bank in Bangladesh. Beneficiary presented a clean document and claimed payment from confirming bank (CB). CB honored the claim of beneficiary and placed claim to issuing bank in Bangladesh. Issuing bank paid by creating a Loan against Trust Receipt. After few days of payment importer placed a claim to the bank that goods received by them is not the desired goods, these are mere some old spoiled machineries which are out of order resulting in out of use. By this time beneficiary closed their account in their bank after receiving the money. Applicant filed a case in the court. An investigation showed that issuing bank as well as the confirming bank did not take the supplier's credit report before opening and confirming LC. Applicant complained against the bank that the loss incurred due to banks' failure to obtain supplier's credit report before opening LC. As such they claimed that banks should bear the loss since they would not be able to repay the import loan.

TBML Alerts:

1) Supplier's credit report was not obtained.
2) Supplier's line of business was unknown
3) Payment term was favorable to beneficiary with less protection to applicant.
4) Importer and exporter are related parties and there is common interest

Case 11: Fund sent to importing country through Hundi and repatriated the same as export proceeds while original export proceeds transferred to a 3rd country:

ABC is a pharmaceutical finished goods exporter in Bangladesh. This company mainly generates its revenue from domestic sale and hardly exports in countries like India, Pakistan and UAE. Most of its export is based on Sales Contract and mode of payment is 90 days from shipment period.

Chronology of events:

a) It uses multiple banks as nominated bank but volume is low. 3 Different banks simultaneously issue EXP favoring this exporter where shipments to countries are India, Pakistan and UAE for different contracts.
b) After making shipment in different countries, submitted export bill in 3 different EXP issuing banks.
c) After 90 days only payment from Pakistan is received but the other EXPs become overdue after 120 days.
d) Exporter contacted with Hundi businessmen to send money from Bangladesh to India. Indian Hundi counterpart deposit fund into banking channel by using dishonest businessmen. Indian importer sends export proceed from their banking channel to ABC co.'s exporting bank. Export proceed is received through MT103 message in the name of exporter without mentioning export bill reference instead of MT202. Exporter submits the request letter to realize these proceeds against that export bill and thus EXP overdue becomes regular.
e) This fund is also used in order to convert it as export proceeds for shipment to UAE.
f) Goods shipped to India and UAE were sold to that local market and sales proceeds were transferred to some offshore HUB.

TBML Alerts:

1) Export proceeds received through MT103 instead of MT202.
2) Swift message does not mention the underlying transaction reference number.
3) Commingling of banking and non-banking channel.
4) Shipment to high risk countries.

Case 12: TBML through Import LC Issuance and Import Payment:

ABC is a very reputed and leading company in Bangladesh in computer and accessories. This company has multiple joint ventures in countries like Singapore, Malaysia, HK, China and India. They are also involved in financial business and have some trust operations in Cayman Island. This company (non EPZ in nature) is also dominant in Bangladesh with good reputation as conglomerate and their main motto of business is “Customer is first”. They are willing to pay higher fees if same day payment is guaranteed. They bank with couple of prominent banks in Bangladesh. The company imports different types of computers, parts and accessories from different countries of the world. They have both industrial and commercial IRCs.

Plot:

a) ABC Company requested their bank “X Bank” to issue one import LC favoring beneficiary in Singapore. PI indicates Import LC value is $1,000,000.00 consisting of import of Computor monitor, keyboard etc. and other accessories. They prefer X bank as it makes payment very swiftly after receiving import documents and customer always likes to pre accept the discrepancy. Customer also wants to avail UPAS benefit as this import is industrial in nature. Though customer opens LC under industrial IRC, their underlying purpose is to sell the imported items commercially.

b) After doing necessary due diligence, bank issues import LC and receives import bill later on. While lodging import bill, document checker finds that some of the items are not available in PI but these are included in CI. When asked by bank, importer confirms that they import product on demand and schedule is very tight. In addition, computer technology is ever changing and frequent changing element. Hence during shipment they changed some of the items with change in unit price.

c) When document checker wants to take more time for scrutiny, customer becomes unhappy about the service and threatened to move business to other banks. Customer also confirmed that their counterpart in Singapore wants payment copy by the same day.

d) Considering size of business and customer pressure, document checker processes the bill and makes payment.

TBML Alerts:

1) Customer is very keen to waive discrepancy and make quick payment.
2) Customer is not concerned about charges.
3) Always accept import document before receiving import bill.
4) Avails UPAS benefit under industrial LC for commercial purpose.
5) Trust in Cayman Island may be owned by both importer and exporter.
6) Customer’s behavior appears unusual/doubtful.

Case 13: Involvement of 3rd Party (unrelated party) for Layering and Integration via Buying House Commission:

'X' is a very reputed and leading company in Bangladesh for garments manufacturing items and accessories. This non EPZ company has multiple joint ventures in countries like Singapore, Malaysia, Hong Kong, China and India. They are also involved in financial business and have some trust operations in British Virgin Islands. They conduct banking with couple of prominent banks in Bangladesh. It imports different raw materials from different countries and exports them to prominent market like US, EU etc. They enjoy bonded warehouse facility for their import for industrial consumption.

Chronology of Events:

a) The company 'X' imports cotton from different countries like Uzbekistan, Zimbabwe through Singapore for USD 75,000.00 keeping master export LC of USD 100,000.00 as lien.
b) 3 months later, exporter submits export bill for USD 100,000.00 with the additional instruction to the negotiating bank that 40% export payment will be paid to the buying house/commission locally as commission which is transferrable from ERQ account.
c) When asked about the excessive commission, exporter replies to the negotiating bank that the quality of goods is inferior in nature and outdated.
d) Convinced with the response, negotiating bank processes the export bill.
e) Buying house receives the fund with legitimacy and thus underlying commission is used to perpetrate money laundering.

TBML Alerts:

1) Imports from landlocked countries which are risky for terrorism and Sanctions.
2) Use bonded warehouse facility for tax evasion.
3) Lack of verification and understanding of the quality of the goods.
4) Is 40% an within acceptable commission?
5) Access to USD for domestic criminal offense.

Case 14: TBML through Over Invoicing:

a) M/s. R Enterprise, a client of X Bank Branch, located in border area, deals in import and export business. Besides, the Client also deals with the cattle business from India to Bangladesh. The client usually imports onion from India. M/s. R Enterprise approaches X Branch to open an LC valued USD 60,000 for importing 100 Metric Ton onion from India favoring M/s. D Enterprise.

b) Under this scenario, X Branch opens the LC in favor of M/s. D Enterprise, India. M/s. R Enterprise receives the goods and sells in the market duly and payment is made accordingly.
c) But it is observed that it sells TK. 25000/- per Metric Ton in the open market while the total import cost per Metric Ton onion is of TK. 50,000/-.
d) Later M/s. D Enterprise smuggles 30 bulls from India to Bangladesh through border-crossing. M/s. R Enterprise receives the bulls, which are sold in the market to get illicit proceeds.

TBML Alerts:

1) The Applicant of the LC made payment to the Beneficiary through banking channel adopting Over Pricing or Over Invoicing.
2) LC is opened through the bank branch located in border area through which goods are shipped.
3) Transaction involved High risk jurisdiction/country is involved.

Case 15: TBML by Two Brothers through Different Methods:

a) Mr. X, an expatriate from Chapainawabganj District lives in Dubai, UAE with free visa. He operates a grocery shop in Dubai. His younger brother Y, credit client of A Branch deals in paddy, rice and cattle business and works as an agent of his elder brother X.
b) X convinces the Bangladeshi expatriates visiting his shop to send their money to Bangladesh through him providing 1 or 2 percent higher rate than banking channel with the surety of making payment to him after confirmation of receiving money by their beneficiaries in Bangladesh either in account or in cash.
c) Upon agreed with the expatriates, he directs his younger brother Y to deliver money to the respective beneficiaries' bank accounts or in cash. Upon confirmation of receiving money by their beneficiaries, the expatriates pay money to X. In the mean time, Y gets bank's credit showing different purposes or earns money from illicit sources and with that money he pays to the beneficiaries in Bangladesh.
d) X with that money buys gold and diamond ornament, gold bar having great demand in Bangladesh for the belief of their purity. Usually he sends gold and diamond ornament through the agent under Bangladesh Customs Baggage Rules.
e) Y receives such gold and diamond ornament, gold bar and sells them in the open market. With that money, he adjusts bank dues against credit and buys real estate in his own and his brother name.

TBML Alerts:

1) The remittance is coming from UAE through Alternative Remittance System and the perpetrator takes credit from a local bank to disburse the money to the local beneficiary.
2) The colluder partners engaged in a valid trade cycle under Customs Baggage Rules.

Case study 16: Money Laundering through Offshore Banking Unit

A Singapore based fundraising and Investment Company named PTFCL approaches to a reputed first generation bank in Bangladesh named X Bank seeking loan of USD 20.00 million. The PTFCL is registered in Singapore to conduct its operations as a financial organization. But the license is cancelled, thereby turning the company fully fake.

PTFCL submits an ordinary application to borrow fund from X Bank in Bangladesh in collusion with Bank’s high officials and Board members. PTFCL did not submit any Articles of Association, Business Profile, Registration Certificate and Memorandum of Article of Association along with its application. Mr. A, a director of PTFCL, a Canadian citizen, signed the loan application on behalf of PTFCL, he signed in the authority of Director of PTFCL.

The X Bank signed the deal with PTFCL to invest USD 20 million on condition that the PTFCL would give return of 8% interest on the loan. PTFCL also promised of investing USD 80 million with the Bank within 95 days of getting loan USD 20 million.

PTFCL creates a subsidiary company named “Ching General LLC” in Dubai to act as Special Purpose Vehicle (SPV) to transfer the borrowed fund. To work as SPV, it was obligatory to be a financial Institution or an investment company but “Ching General LLC” was a trading company. “Ching General LLC” opens an account in UAE based Y Bank. The account with Y Bank was supposed to be jointly controlled by PTFCL and X Bank as per loan agreement. But actually this did not happen.

Later, it is found that the Chairman of X Bank was the nominee of Bank’s fund eg USD 20 million and a joint signatory of the account maintained with Y bank in Dubai.

X Bank finally remits the USD 20 million fund to Y Bank. Later it could not be traced where the fund had gone. It is noted that since X Bank did not have foreign currency, it buys USD with BDT from Interbank Money Market in Dhaka with higher price. Just after remitting the fund, Ching General LLC withdrew the total fund and closed the account maintained with Y Bank.

TBML Alerts:

1. Investment abroad manipulating OBU loans and ultimately leading to Money laundering.

2. Failure of OBU to take legal advice from both local and foreign law firm before investing abroad.

Appendix B:TBML Alerts

TBML Alert, a warning sign, is not in itself an indication that something is wrong but that given the nature of the client's business and the nature of the underlying transaction, the TBML Alert merits further review.

The TBML Alerts may be sub-divided in to the following categories, i.e.

a. The transactions
b. The goods and Size of shipment
c. Transport
d. Payment
e. Country
f. Party/parties
g. Discrepancies
h. Unusual documentation

Banks should take into consideration the TBML Alerts described below while conducting trade operations:

TBML Aler No.	TBML Alerts	Purpose/Rationale with example
Applicant/Beneficiary		
Alert# 1	**a) Importer and exporter are related parties and there is common interest.**	In most cases of illegally transferred fund, applicant and beneficiary are related or connected parties or there are some common interests between them. So bank needs to be aware of whether the applicant and beneficiary of a trade transaction are in any way related to some common interest. In this context, bank should also follow instructions contained in para 2 of Chapter 7 and para 7 (b)(iv) & para 7(c) of Chapter 8 of GFET, 2018.
	b) Transacting parties appear to be affiliated, conduct business out of a residential address or provide only a registered agent's address.	Though affiliated party transactions may be benign that benign transaction can quickly turn problematic if the proper steps are not followed — for example, if the goods are not traded at the most competitive price and the transaction are

		conducted only to give legitimacy. Banks, therefore, need to understand whether transactions between affiliated parties are part of the customer's business'-usual activity or not. Affiliated parties who use trade finance products are normally geographically separated. The bank should technically try to identify whether parties involved are colluding partners or not.
Alert# 2	**Customer behavior**	The behaviour of the customer may give rise to TBML alerts. For example, the customer suddenly becomes anxious and puts pressure on the bank, or offers bribery, threatens to terminate business relationship to execute the transaction.
Alert# 3	**Any of LC/Contract/Guarantee parties are known to be owned or controlled by Politically Exposed Persons (PEPs) or Influential Persons (IPs).**	PEPs & IPs may exert undue influence to conduct trade transaction in their favour. As such banks need to have an effective mechanism to identify PEPs involvement in the trade transactions as applicant or beneficiary or any other party.
3rd Parties		
Alert # 4	**Involvement of the parties in the trade transaction cannot be explained.**	It has been seen that applicant and beneficiary are not willing to explain the rationale of involvement of intermediaries in the transaction. At this backdrop, though banks are not required to know all the parties involved in the transaction, they must understand why they are involved, and involved parties with no apparent logical role in the transaction should be investigated further.
Illustration	Party X approaches Bank I to open an LC favoring beneficiary of Y country. Party X requests bank to advise the LC in any bank in Country Z instead of country Y. However, there is no information in proforma invoice to ascertain the reason of such	

	demand by the beneficiary. In addition to that the beneficiary further demands credit available in another country not related to beneficiary's country. This type of scenario needs further investigation in order to understand different parties' involvement in the transaction.	
Alert # 5	**Too many intermediaries making transaction overly complex.**	An applicant or beneficiary may approach a bank for a trade transaction with too many intermediaries involved in the transaction with an ill motive of executing transaction through creating complexity. As part of due diligence bank should understand the justification of involvement of intermediaries within the trade cycle. Contact from unexplained parties may be an indicator of a transaction that is more complex than it appears or an indication of unusual activity.
The transactions:		
Alert# 6	**Transaction structure appears unnecessarily complex or unusual and designed to obscure the true nature of the transaction.**	Though financially solvent, the applicant may avail trade finance facility from the bank in order to disguise the true nature of the transaction. He may use unusual trade term, involve many countries & intermediaries in the transactions. Banks should review the structure and complexity of an LC/Contract as part of their procedures. If there is unconventional use of financial products or the structure appears to obscure the nature of the transaction, the bank must determine whether the circumstances constitute unusual activity. For example; it is clear from the transactional structure that giving an undertaking to the beneficiary was not the purpose behind issuing the documentary credit.

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<td>Illustration</td>
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Transaction structure appears unnecessarily complex:
Party A enters into the contract with party B for importation of goods through documentary credit. The underlying agreement is that Party B (the beneficiary) will send some regulatory documents directly to the applicant. Documentary credit only requires that all regulatory documents like: Fumigation Certificate, Phyto-sanitary certificate, quarantine certificate etc. be directly sent to the applicant by the beneficiary. The credit also requires being transferable.

Bank X opens a transferable LC with the above condition, which is subsequently transferred to 2nd beneficiary. The issuing bank has received presentation from the transferring bank which indicates that 2nd beneficiary assigned its proceeds to the third parties and requests the issuing bank to pay directly to the third party.

Considering the above case, there are few elements that may be considered as alerts, i.e.

The beneficiary directly sends few regulatory documents directly to the applicant: By doing this, the beneficiary is able to keep the required regulatory documents outside the bank’s operational purview.
The LC is transferable: Under general circumstance, there is no harm in making the LC transferable. But the issuing bank should understand the reasonable ground for transfer. In some situations, the beneficiary sometimes insists on the condition to gain tax benefit and to create gateway to transfer fund from one country to another.
Moreover, the issuing bank should have prior knowledge of the prospective 2nd beneficiaries and if possible restrict transfer within the beneficiaries. By doing this issuing bank has prior knowledge of those with whom they are dealing.
Furthermore, the issuing Bank should also understand whether it will restrict the transfer within the first beneficiary country or give authority to the transferring bank to make the transferred credit available in 2nd beneficiary’s country. The issuing bank should have prior knowledge about 2nd beneficiary’s country with whom the issuing bank intends to deal.
Assignment of proceeds: Even though it is not possible to have prior knowledge about request for assignment of proceeds until receipt of notice of assignment or indication in covering schedule, it is quite unusual to receive assignment of proceeds notice under transferable LC. Even in regular irrevocable LC, if the issuing banks receive assignment of proceeds notice, it indicates that the issuing bank is requested to deal with third parties other than the beneficiary.

Assignment of proceeds under UCP 600 is always subject to applicable law and it will not be enforceable to the issuing bank until it acknowledges the

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<tr><td></td><td colspan="2">assignment of proceeds. The issuing bank should conduct proper due diligence before crediting the documentary credit to third parties.

The above is only one example of how a documentary credit can become unnecessarily complex. The Bank should consider every unusual request beyond its regular standard practice under the purview of trade based money laundering perspective. In fact opening Transferable LCs should be restricted to 2nd or 3rd.

Transaction structure designed to obscure the true nature of the transaction:
Party A enters into the contract with party B for importation of goods through documentary credit. The contact address of party B appears C/O: legal representative name and its address details, or after obtaining credit report of party B prior to opening of LC reveals that party B's line of business is not consistent with underlying goods. In both instances, the exporter may try to hide the true beneficial owner of the transaction.</td></tr>
<tr><td>Alert # 7</td><td>The customer engages in transactions that are inconsistent with the customer's business strategy or profile.
(Transaction is not in line with the customer's line of business or with his/her TTP)</td><td>Any trade transaction that deviates from the customer's existing line of business may have ill-motive to transact against crime proceeds or may simply move money rather than goods through accommodation of bill.
Banks should therefore understand the current trading profile of the customer and its future plans on an ongoing basis as part of trade specific customer due diligence activities. This will assist in evaluating the risk of providing certain trade products to that customer at the outset of a trade relationship and on an ongoing basis thereafter, and will help to identify the extent to which a particular trade transaction deviates from the customer's strategy and future plans.</td></tr>
<tr><td>Illustration</td><td colspan="2">Company X imports garlic, cardamom etc through Bank A regularly. Suddenly he approaches bank to import 10,000 MT of rice which is inconsistent with his regular import items facilitating hiding of the true beneficiary owner of the transaction. This may also be applicable where the customer approaches bank to open LC for larger quantity than his regular import volume without having any reasonable ground or any business expansion.
Company Y generally import metals but suddenly they opened an LC for importing</td></tr>
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<tr><td></td><td colspan="2">some electronics which are unusual and prices are unknown to the market. In this way value can be transferred using such new items of goods. It may be that both the importer and the exporter are sister concern managed by the shareholders. As there may not be any physical movement of the goods, the respective transaction has no economic value other than transfer of money from the importer to exporter in the guise of trade.</td></tr>
<tr><td>Alert # 8</td><td colspan="2">The Trade Finance transaction contains non-standard terminology and/or non-standard clauses.</td></tr>
<tr><td></td><td colspan="2">Documentary credits often stipulate very standard clauses as documents requirement, which is by its nature very traditional. If a bank receives export LC or the customer approaches bank to open import LC with non-standard terminology or clauses, it may be an indication that the counterpart is trying to convince bank of the creditworthiness of the party and legitimacy of the underlying transaction.
Examples:
Non Standard Terminologies in documentary credit:
✓ Assignable
✓ Divisible
✓ Unconditional
✓ Unconditional revolving etc.
Non Standard Clauses in documentary credit:
✓ Ready, willing and able”
✓ “Letter of interest”
✓ “proof of product”
✓ “The funds are “good, clean and cleared, of non- criminal origin”
✓ “This is a bearer instrument letter of credit”
✓ “to be advised between applicant and beneficiary”
✓ “ A prime bank guarantee issued by one of the top 50 or 100 world banks or a cash wire transfer” etc.
The above indications on a documentary credit are very unusual. Therefore Banks should further investigate.</td></tr>
<tr><td>Alert # 9</td><td>Frequent amendment / extension / cancellation pattern.</td><td>Repeatedly amended LCs should be handled with care. It is recommended that, after an excessive number of amendments, the parties should be required to have a new LC issued. Unless a change to a beneficiary name is a correction of a slight misspelling or of the company designation (i.e. “LLP” vs. “Corp.”), such change to</td></tr>
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		the beneficiary name should be handled as a transfer rather than as an amendment.
Alert # 10	**The transaction appears to involve the use of front or shell companies for the purpose of hiding the true parties involved.**	Banks should look at the geographic location and addresses of the parties to a transaction paying special attention to those countries or areas where front or shell companies are known to operate. If a bank suspects that a party could be a front or shell company, it should make a commercially reasonable effort to determine the identity of the suspect entity and whether the entity is designed to hide the true nature of the participants to the transaction.
Alert # 11	**Guarantee/Standby LC fails to reference underlying project or contract.**	When a bank issues guarantee, or receives counter guarantee ultimately to issue guarantee, it may fail to incorporate all the required information including reference of underlying projects. Hence, banks need to ensure the apparent authenticity of the underlying contract, bid etc based on which the guarantee is being issued. If beneficiary of the guarantee is a government entity, then it could be easily verified via their website. In case of private beneficiary extra due diligence should be applied for the underlying contract. e.g copy of the contract, copy of paper announcement etc.
Alert # 12	**Fake underlying transactions against a guarantee/SBLC/LC.**	Banks need to ensure the entity of the applicant, beneficiary and the underlying documents in order to avoid conflict of interest. Guarantee might be fake if both applicant and beneficiary are related entities and there is no such underlying transactions/performance. It can be executed through KYC for the parties in

		order to confirm that no same parties or related/common interest parties are involved in them.
Value/Price		
Alert # 13	**The price is unusual, e.g. very high or very low.**	Pricing of the goods is negotiated by the buyer and seller and may include consideration of quality and costs other than the goods themselves, including, but not limited to packaging, freight, customs duties, documentation preparation fees, inspection fees and insurance. Though it is difficult for banks to ascertain the market price for all the components and circumstances that go into the price of a product, bank personnel should take reasonable care to try to identify any blatant or obvious pricing irregularities that may indicate the inconsistencies of pricing of the goods being shipped. Also note para 20 of Chapter 7 of GFET, 2018.
Illustration	**Typology: 1** Company X approaches Bank I to open LC for importation of mobile phone or car. The price that is revealed in the proforma invoice is very low as compared to local market price. Moreover, the custom authority fixes custom duty of certain amount or percentage based on per piece etc, to prevent duty or tax evasion. The reason for quoting unit price very low may be for adjustment of debt which arises out of conducting transaction through informal or alternate remittance system. **Typology: 2** Company X approaches Bank I to open LC for importation of certain goods. Bank I faces difficulties in knowing the exact unit price due to the nature of goods like capital machinery or chemical mixture etc. In some cases, local duty or taxes is very nominal as the underlying goods have correlation with the economic development of the country.	

	Typology: 3 Company X approaches Bank I to open LC for importation of rice or onion. The importer made certain percentage of advance payment through informal channel and opened LC up to the value where customs authority has reference value for custom valuation. But the actual price is higher than that of reference value. By doing so, the importer is able to avoid custom duty and taxes for the advance payment made. Similarly, excess amount of freight and other charges may also be taken into consideration.	
Alert # 14	**Under Invoicing (against market price)**	Invoicing goods at a price below the fair market price, the exporter can transfer value to the importer. Here the importer receives high value goods at a lower price. After re-selling the goods importer receives full value as such additional value is received by the importer from exporter through under-invoicing. Importer is also able to pay less customs duty/tax by under-invoicing. Trade processors should follow the mechanism and guidelines to be established by their own bank in pursuance with this guidelines.
Alert # 15	**Over Invoicing (against market price)**	Invoicing goods at a price above the fair market price which enables the importer to transfer value to the exporter. In this process exporter receives excess value through over-invoicing. Bank should frame its own policy as instructed in this guidelines and trade processors should follow the same.
Alert # 16	**Invoice showing significant amount of misc. charges e.g. handling charges.**	Money can also be transferred from one country/party to other country/party through an invoice showing significant amount of misc. charges/handling charges/

		unidentified charges/in the invoices of goods/services for laundering purpose. Bank should know the justification behind such unusual charges and act accordingly to prevent ML.
Alert # 17	**There are indications of double invoicing / Multiple Invoicing.**	**Double Invoicing:** Double invoicing is where a subsidiary purchases goods from a parent at too high a price, or a parent purchases from a subsidiary at too low a price. **Multiple Invoicing:** More than one invoice for the same international trade transaction, which enables a money launderer or terrorist financier to justify multiple payments for the same shipment. Though with the establishment of FX Dashboard, multiple invoicing is very hard to do onshore, reasonable care should be taken in case of off shore.
	Payment	
Alert # 18	**The method of payment terms appears inconsistent with the transaction.**	Banks should consider the nature of the goods being shipped to determine whether the payment terms are consistent with the asset conversion cycle of those goods, taking into consideration the market practice and business of the buyer and seller, especially where the buyer may be utilizing the goods to manufacture an end product with a long shelf life or sales cycle such as perishable goods that are normally converted in 180 days but have above 365 days financing.
Alert # 19	**The transaction involves the receipt of payments from third-party entities that have no apparent connection with the transaction.**	As third party payment arrangements can be used to disguise the identity of the true payor and true source of funds, they may expose to the risk of money laundering and/or unwanted

		sanctions evasions. Banks need to know and be satisfied with the underlying arrangement with the 3rd party who pay or receive the payments of the trade transaction.
Illustration	Bank I Opens an LC for raw cotton from Uzbekistan and LC available with any bank in UAE with an advising bank in UAE. After making shipment, while the beneficiary is trying to make presentation, UAE bank refuses to handle the transaction. Later on the beneficiary makes direct presentation to the issuing bank. Bank I makes an attempt to make the payment through MT103, which its foreign correspondent bank refuse to process. Much later, the beneficiary makes the presentation through Latvia where the beneficiary maintains business account and Bank I effects payment accordingly.	
Alert # 22	**Changing the place of payment i.e. payment is to be made to beneficiary's account held in another country other than beneficiary's stated location.**	Banks should take into account that in some instances, beneficiary under an LC directly sends documents to the issuing bank within instruction to effect payment to a third country. This situation may arise either the beneficiary is not able to route trade document through banking channel due to possible sanction hits or trying to park the proceeds in relatively lax jurisdiction.
Alert # 23	**Payment instruction changes in last minute without any reason.**	It should be borne in mind that last minute changes to payment instructions, inconsistent with the terms of the trade instrument, or instructions to effect payment to a third party or account unrelated to the trade instrument could indicate unusual activity.
Alert # 24	**Applicant (customer) controls the payment.**	The Trade Finance transaction includes a feature by which the buyer effectively controls the payment. This could indicate that the seller and buyer are colluding in a non-competitive manner and that they have an underlying relationship outside an expected trading relationship which is not known to the banks.

	Applicant (customer) controls the payment Bank X opens sight LC with a condition that payment will be effected upon receipt of applicant's acceptance regarding receipt of goods in good order. This type of clause enables applicant to control payment. Providing such condition, the applicant can actually delay the payment though inconsistent with its nature of goods or local regulations. In other word, there might be collaboration between the buyer and seller beyond the knowledge of the bank. Bank that opens LC with applicant control documents must be aware about requirement of applicant control and underlying transaction. Such as: quite often import of capital machinery is done with provision of split presentation as under: -15% advance payment -70% upon presentation and -The rest 15% after proper installation of the capital machinery supported by applicant certificate For import of capital machinery, the above split payment is customary. But split presentation or shifting payment obligation from beneficiary's presentation to applicant control document for trading items or industrial raw materials import, may need further investigation.	
Alert # 25	**Claimed/lodged shortly while guaranty validity is a long tenor.**	Long tenor guarantee is normally issued against a long term contract/project/performance (i.e 24 months period). The guarantee claim is supposed to be placed after a reasonable long period of time when applicant fails to execute that long term project/contract. If situation arises that a claim is lodged within a short time after the guarantee is issued, e.g. one month, the guarantee issuing bank should take it as an alert and should perform proper due diligence by confirming the genuineness of the claim from the beneficiary office.
Alert # 26	**Issuance of fraudulent Letter of Undertaking (LoU)**	Bank should have indendent policy in place to operate SWIFT system which includes checker and maker system and periodic auditing. Both by internal and external auditors.

		In addition, SWIFT system should be integrated with their core banking system. (CBS).
Illustration	Two employees of a XYZ Bank send unauthorized Letters of Undertakings (LoUs), essentially bank guarantees, to foreign banks, on behalf of their customer M/s. ABC Gems Ltd. owned by "Mr. X". The LoUs were undertaken to make payment in favor of foreign beneficiary for imports if on maturity, importer fails to pay, XYZ Bank would make the payment. On receipt of guarantee foreign bank provides loan to the importer. The tenure of this loan varies from ninety days up to even five years for capital goods. The money gets used to settle the payment for imports. The money raised through this guarantees is not used to make payments for imports rather used to settle earlier loans taken. In effect, every time a firm related to "Mr. X" asks for a bank guarantee it is to settle an older loan taken through a previous bank guarantee. Thus, the amounts go up to around BDT 11,4000 million. LOU's were issued without any collateral or any usual process of the bank through colluding two bank officials of XYZ Bank and the XYZ Bank employee sends these guarantees in the absence of credit limits and collateral security. Secondly, he does not make an entry in the bank's Core Banking System (CBS). In some cases, they make a corresponding entry in the core banking system, but for lower amounts. Even regular audits may not find it. Bank's reconciliation department also could not find out the mismatch. It is revealed that in the said Bank, there is no SWIFT Operating Procedure in place, SWIFT is not integrated with the Bank's Core Banking System (CBS) and the SWIFT operation of that is not centralized and absence of proper Auditing System i.e. IT audits did not take place. On this pretext, the ill motive customer was able to complete the evil scheme with the support of colluding employees of the Bank. Using such valid tools, dishonest officials of the bank in collusion can launder money.	
The goods and size of shipment		
Alert # 27	**There are no goods (Phantom Shipment)**	Banks should be aware that under this circumstances the Beneficiary or applicant refuses to provide documents to prove shipment of goods (possible phantom shipping or multiple invoicing). For Example: LC or BG purportedly covers the movement of goods but fails to call for presentation of transport documents. LC

		covers steel shipment but allows a forwarders cargo receipt (FCR)
Alert # 28	**a. No goods description mentioned in documents** **b. Descriptions of the goods/Services are not clear or are coded or disguised.**	Not having goods' description is itself an alert. Bank should know the goods or services of underlying transaction from the related trade documents, such as LC, BL, invoice etc.
Illustration for Alerts 27 & 28	As we know from documentary credit operation that Banks deal with documents not with underlying goods, service or performance, opening of LC without asking for transport document or allowing copy of transport document to be presented may facilitate phantom shipment. In addition to that documentary credit containing a condition "document acceptable as presented" or "all discrepancy accepted except value and quantity" may also have similar implication. Client may approach for opening of local LC with above clause or without mentioning description of the goods. The inherent agenda in such cases may be to avail loan from the bank under the banner of trade finance.	
Alert # 29	**The customer deviates significantly from its historical pattern of trade activity [in terms of markets, monetary value, frequency of transactions, volume, or merchandise)**	Banks need to understand the customer's traditional business patterns as part of the trade specific customer due diligence process that reviews and examines the customer's business activity, such as the frequency of shipments, the value, volume, types of products and/or services in which the customer typically deals. Banks should have processes that will identify significant variations in these trading patterns.
Alert # 30	**Transaction involves obvious dual use goods.**	Dual use items are goods, software, technology, documents and diagrams, which may have both civil and military applications. Identification of dual use goods is difficult given their possible

		complex and technical nature. While banks may be in a position to identify obvious dual use of goods, corporate clients should be best suited for making this determination. Each bank must refer to its own policies and procedures on how to appropriately identify and address the identification and handling of such goods.
Illustration	Though most of the banks are aware of obvious sanctioned country under OFAC, UNSCR lists and generally do not open LCs where shipment is made from sanctioned port, company X opened LC for import of Bitumen from UAE mentioning any port of UAE and the respective transport document i.e. Bill of lading also mentions shipment from Jebel Ali a UAE port in consistent with the LC terms. But later on upon investigation of shipment routing, it is revealed that the ship indeed started its journey from the Jebel Ali but instead of moving toward Chittagong, it went to Bandar Abbas (an Iranian port) then came back to Jebel Ali and then started journey towards Chittagong. Moreover, Bank should also be careful in importing goods from certain country where underlying goods is not within the exportable basket of the exporting country.	
Alert # 31	**Different HS Code is used.**	In trade documents (i.e. LC, Invoice, EXP etc.) different HS code may be used to avoid high rate of customs duty. Bank should identify the goods description with appropriate HS Code as per Customs First Schedule of Bangladesh.
Alert # 32	**Where the quantity of goods exceeds the known capacity of the shipping containers or tanker capacity or where abnormal weights for goods are suspected.**	Under shipment, over shipment, no shipment might occur when quantity of goods exceeds the capacity of the shipping containers/ tanker. Bank should try to know apparent capacity of the container, tanker etc.
Alert # 33	**High Risk Goods/Services are involved.**	Goods/Services are assigned as high risk when those particular items of goods/services are used for illicit purposes.

Transport		
Alert# 34	**Transportation route / information is inconsistent with underlying transaction**	Commercial banks should take into consideration whether the transport route appearing in documents is unusual or inconsistent. It may be that the transport route does not make sense for the purpose of the customer / goods shipped. It may also be that the actual transport route is inconsistent with the expected and documented transport route.
Alert# 35	**Transshipment through a country for no apparent reason.**	Nature of goods, applicant & beneficiary country distance/location does not justify transshipment or transshipment from a country which is geographically absurd. For example: Shipment of raw cotton from Singapore, which is unusual.
Alert # 36	**The mode or method of shipping is unclear or the shipping route is unclear.**	If the mode of shipment and shipping route is not clear or kept hidden, there might be involvement of some sanctioned / embargoed country/port/location/entities. Banks should perform due diligence to identify the mode and route of the shipment.
Alert # 37	**Goods to be shipped from one country/place but supplier/beneficiary is located in another country/place**	Bank should check the valid reason for the shipment from a 3rd country where beneficiary is not located. There might be underlying illicit arrangement between the beneficiary and the party in 3rd country from where shipment is made.
Alert # 38	**Vessel / Container number cannot be tracked through web search.**	Container number consists of an internationally standard format. The number includes four letters and seven digits, with the last digit referred to as the check digit. (i.e. XXXU1234567). It is used for documentation purposes, including invoice, consular statement, bill of lading and others. Vessels can also be tracked through web link. Banks

		should check the vessel tracking /container tracking through web link to ensure the vesseLContainer number appearing in the documents is valid.
Alert # 39	**The bill of lading describes containerized cargo but without container numbers or with sequential container numbers.**	If Bill of Lading/shipping documents does not contain the container number while the goods are shipped through containerized cargo, banks need to further investigate and ensure that the shipments appearing in the document is valid.
Country/Jurisdiction/Geographical Location/Sanction		
Alert # 40	**a) Customer shipping items to, through, or from higher money laundering risk jurisdictions including countries identified by FATF as stated in FATF Public notice.** **b) Transaction involves High risk jurisdiction/country.** **c) Transaction involves sanctioned entities /countries /individuals.**	Banks should understand where the customer undertakes business and on what basis as part of trade specific customer due diligence activities. As some countries, entities and individuals present heightened risk for financial crimes, care should be exercised to understand the rationale for the customer conducting business in higher risk jurisdictions. To the extent possible, banks should determine if there is a valid reason, and if the business is within their risk parameters. Banks should maintain a list of jurisdictions identified by relevant bodies (e.g. FATF, OFAC, etc.) as presenting a higher risk of money laundering, terrorist financing or other financial crimes. Transaction with UN sanctioned countries, individuals and entities must be avoided. Transaction or relationship with Local sanctioned individuals and entities should also be avoided. All the lists should be made available to the trade operations area and updated as necessary.

Discrepancies		
Alert # 41	a) **Goods' description in the documentary credit.** b) **Clauses in the documentary credit.**	**Examples:** a) There are significant discrepancies between the description of the goods on the bill of lading and the invoice i.e. it is apparent that they are not the same type of goods. b) There are significant discrepancies between the description of the goods on the bill of lading (or invoice) and the documentary credit, i.e. it is apparent that they are not the same type of goods
Illustration	**Clauses in the documentary credit** Bank I Opened LC for or on behalf of the customer X in favor of the beneficiary Y for import of raisin. After opening of LC, the customer remit 15% of actual goods value through informal channel. As soon as the beneficiary Y received fund, the beneficiary Y demanded an amendment for addition of clause "document acceptable as presented" or "all discrepancy acceptable except value and quantity". Bank I issued the amendment reluctantly. Later on, the beneficiary made presentation except pre-shipment inspection certificate and phytosanitary certificate. Upon investigation, it was revealed that quality of the shipped goods was inferior and not fit for human consumption but the fact is that the presentation was complying due to the amendment.	
Alert # 42	**Essential documents presented in copy form or not presented.**	Essential documents such as invoices or transport documents are missing or presented in copy form.
Alert # 43	**Waivers: Amount significantly overdrawn, Advance waivers provided etc.**	The documentary credit / guarantee is significantly overdrawn; i.e. the drawing under the documentary credit/ guarantee is significantly above the outstanding amount of the documentary credit / guarantee
Illustration 42 & 43	**Essential documents presented in copy form or not presented.** **Waivers: Amount significantly overdrawn, Advance waivers provided etc.** Bank I opened LC favoring the beneficiary Y for its new customer X under 50% margin. The beneficiary made presentation of copy of bill of lading instead of original. The customer approached banks to waive the discrepancies, which later on agreed after	

	depositing 100% margin. Bank I effected payment accordingly. After few days, the bank received another presentation under documentary collection with payment instruction to deliver documents against payment for different customer of the Bank I. After checking documents, it was found that the Original Bill of lading of the earlier LC related documents had been presented. Moreover, the beneficiary was also different from the LC. In the meantime, the new customer also disappeared. Bank must take into consideration the type of discrepancy they are given waiver and should have an understanding of its aftereffect. Sometimes, it is also seen in local documentary credit practice that bankers are generally allowing 10% excess payment on the plea of 10% tolerance level with or without LC conditions. While effecting such type of payment, bank should take due care of nature of goods, applicability of tolerance and change in unit price etc.	
Alert # 44	**The customer is overly keen to waive discrepancies.**	Banks need to understand the motive behind the customer's keenness to accept the discrepancies and the gravity of the discrepancies. Although this is not related to trade rules, additional responsibility in respect of KYC (Know Your Customer), DD (Due Diligence) and EDD (Enhanced Due Diligence) have been vested on the bankers. When acceptance is provided by the importer to the discrepant documents, the banker must verify the kind of discrepancy accepted and whether this may pose money laundering risk.
Unusual Documentation		
Alert # 45	**a. Documents required or presented is unusual to related trade transaction.** **b. There are indications that documents have been re-used.**	Banks should be cautious if documents appear to have been altered, fraudulent, are inconsistent or illogical, or when documentary presentations do not include required transport documents, as this could be an indication of unusual activity. Although the failure of documents to appear on their face to comply with the terms and conditions of an LC may be routine discrepancies, certain unusual discrepancies may require additional due diligence. Examples include the presentation of documents

		showing a place of origin, loading, transshipment or destination entirely inconsistent with what is expected, the presentation of documents showing goods description entirely inconsistent with the expected goods, and the presentation of documents showing much higher or lower values or costs than expected.

Appendix C: Product wise TBML Alerts

Some of the important **Products specific TBML alerts are given below. They do not eliminate the alerts mentioned in Appendix B.**

TBML Alerts common to almost all the products below and therefore must be guard against are:

i. Under Invoicing(against market price)
ii. Over Invoicing (against market price)
iii. Underlying goods is not in line with the customer's line of business
iv. Descriptions of the goods are not clear or are coded or disguised.
v. The method of payment appears inconsistent with the risk characteristics of the transaction.
vi. The transaction involves sanctioned entities.

Issuance of LC/LCAF

Price, Quantity and descriptions of Goods:

a. High risk goods or high risk jurisdiction/country is involved.
b. Transaction involves restricted or banned items of goods.
c. Different HS Code is used

Mode and Location of Shipment:

- ✓ Goods to be shipped from one country/place but supplier/beneficiary are located in another country/place and payment to be made to a different 3rd country/place.
- ✓ The mode or method of shipping is unclear or the shipping route is unclear.

Payment Method:

a) Changing the LC Beneficiary or collection 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
b) LC Transfer or Assignment of Proceeds request names a transferee or assignee in an offshore financial haven. Request for Transfer, assignment or other financing under an LC which has expired or not in effect.
c) The customer offers to pay unusually high fees to the Bank.

Applicant, Beneficiary and Other Parties/Entities Involved:

a. Supplier's credit report is not available
b. Supplier's line of business is not in congruence with the goods imported.
c. Transaction is not in line with the customer's TTP (Trade Transaction Profile) or when an exporter steps outside normal business activities.
d. Any of LC parties are known to be owned or controlled by Senior Public Figure

e. Transaction involves an unusual intermediary (e.g. middleman is travel agency handling shipment of machine parts) or too many intermediaries making transaction overly complex.

LC Clauses and Required Documents:

i. Unusual/non-standard clause is inserted in the LC.
ii. LC without regulatory required documents.
iii. Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment

Import Bill (Scrutiny/Acceptance/Payment/Financing) & Export Bill (Scrutiny/Financing/Payment)

Price, Quantity and Descriptions of Goods:

- ✓ Under Shipment (in terms of quantity)
- ✓ Over shipment (in terms of quantity)
- ✓ Discrepancies in Goods description, quantity and shipment locations.
- ✓ Where the quantity of goods exceeds the known capacity of the shipping containers or tanker capacity. Or where abnormal weights for goods are suspected.

Invoice:

- ✓ There are indications of double invoicing.
- ✓ Invoice showing significant amount of misc. charges e.g. handling charges.
- ✓ The documentation appears illogical, fraudulent and/or improperly modified from its original content, or certain documentation is absent that would be expected given the nature of the transaction.

Transport & other Documents:

I. The bill of lading describes containerized cargo but without container numbers or with sequential container numbers.
II. Phantom shipping - where no goods are shipped at all and the documentation is completely falsified
III. The mode or method of shipping is unclear or the shipping route is unclear.
IV. Vessel / Container number cannot be tracked through web search.
V. There are indications that documents have been re-used.
VI. There are dubious unauthorized alterations or amendments to the documents.

Payment Methods:

a) Payment is to be made to Beneficiary's account held in another country other than the Beneficiary's stated location.
b) Payment is to be made to personal A/C of Beneficiary instead of Company A/C.

Others:

- The customer is overly keen to waive discrepancies.
- Transaction involves an unusual intermediary (e.g. middleman is travel agency handling shipment of machine parts) or too many intermediaries making transaction overly complex.

Export LC Advising

- High risk goods or high risk jurisdiction/country is involved as per Appendix B.
- Transaction involves restricted or banned items of goods.

Export LC/Contract Lien and Pre-shipment financing (B2B facility/Packing Credit/Working Capital Loan):

Price, Quantity and descriptions of Goods:

- High risk goods or high risk jurisdiction/country is involved.
- Transaction involves restricted or banned items of goods.

Mode and Location of Shipment:

- Goods to be shipped from one country/place but supplier/beneficiary are located in another country/place and payment to be made to a different 3rd country/place.
- The mode or method of shipping is unclear or the shipping route is unclear.

Payment Method:

Applicant, Beneficiary and Other Parties/Entities Involved:

- Bonafides of Buyer is not known.
- Buyer's line of business is not in congruence with the underlying goods.
- Transaction is not in line with the customer's TTP (Trade Transaction Profile) or when an exporter steps outside normal business activities.
- Any of LC parties are known to be owned or controlled by Senior Public Figure
- Transaction involves an unusual intermediary (e.g. middleman is travel agency handling shipment of machine parts) or too many intermediaries making transaction overly complex.

LC Clauses and Required Documents:

- Unusual/non-standard clause is inserted in the LC.

- LC without regulatory required documents.
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment

IDO/Shipping Guarantee

IDO/Shipping Guarantee is just copy document endorsement by bank and in addition bank issues a shipping guarantee favouring shipping company. While issuing IDO/Shipping Guarantee, below **TBML Alerts** relevant to IDO/Shipping Guarantee should be taken into consideration:

Price, Quantity and Descriptions of Goods:

i. Under Shipment (in terms of quantity)
ii. Over shipment (in terms of quantity)
iii. Discrepancies in Goods' description, quantity and shipment locations.
iv. where the quantity of goods exceeds the known capacity of the shipping containers or tanker capacity. Or where abnormal weights for goods are suspected.

Invoice:

i. There are indications of double invoicing.
ii. Invoice showing significant amount of misc. charges e.g. handling charges.
iii. The documentation appears illogical, fraudulent and/or improperly modified from its original content, or certain documentation is absent that would be expected given the nature of the transaction.

Transport & other Documents:

i. Original import documents against the LC are already in the bank.
ii. There are indications that documents have been re-used.
iii. Transport document is not endorsed to the order of the bank as per LC terms.

Guarantee/Standby Letter of Credit (SBLC)

I. Guarantee/ Standby LC fails to reference underlying project or contract (except for insurance related LCs, where the LC calls for a draft only. This is an acceptable practice).
II. Applicant and beneficiary are related party and there is common interest.
III. Claimed/lodged shortly whilst guaranty validity is a long tenor.
IV. Fake underlying transactions.
V. In case of transfer, there is a possibility to effect payment to a sanctioned or AML related party.

Service Export

a) Swift message does not mention any purpose of the transaction
b) The reference number of underlying service contract/LC/Invoice is not mentioned in the Swift payment message
c) Importer and exporter are related parties
d) Description of service is not clear.
e) Exporter and importer line of business do not support the services.
f) Exporter is not capable of providing those underlying services.
g) Payment received from a third party not mentioned in underlying contract.
h) Price of service unusually high or low.

NOTE: All the **TBML Alerts** stated above are subject to change based on change in the nature and magnitude of trade based ML/TF.

Appendix D: Trade data and brief analysis

Top 100 items Import LC/Contract opened during 2013-2017 in Bangladesh has been given below for Guidance only. How tax structure impacted import into Bangladesh can be inferred from the table.

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
1	52010000	Cotton, not carded or combed	12,250.44	0%
2	99000000	Services	12,134.40	
3	10011990	Wheat and Meslin-> Other	4,655.32	0%
4	15119090	Palm Oil (Excl. Cude)&Its Fractns....Nes.Incld.Refiend Palm Oil	4,581.69	20.07%
5	89080000	Vessels and other floating structures for breaking	4,258.56	1,500 BDT/MT + 800 BDT/MT 4%
6	17011400	Other cane sugar	4,010.88	Specific Customs taxes and duties based on SRO
7	27101262	High speed diesel oils,	3,651.20	34.07%
8	52094200	Denim, With >=85% Cotton, >=200g/M2	3,458.05	89.42%
9	25231020	Cement Clinkers, Imported by Vat Registered Manufacturers of cement	3,055.80	625.40%
10	27101911	Other Fuel Oils, Furnace Oils, TV	2,982.42	34.07%
11	85171210	Cellular (Mobile/fixed wireless) te lephone set	2,814.81	28.50%
12	27101150	Petroleum Oils And Oils Obtained From Bituminous Minerals,Other Than Crude; Preparations Not Elsewhere Specified Or Included,Containing By Weight 70% Or More Of Petroleum Oils Or Of Oils Obtained From Bituminous Minerals,These Oils Being The Basic Constituents Of The Preparation;Waste Oils --> Other Medium Oils And Preparations	2,793.63	34.07%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
13	15071000	Crude Oil, whether or not degummed	2,670.27	20.07%
14	62171000	Clothing Accessories, Nes	2,305.62	127.84%
15	72083920	F./hot-rolled ....Imp. by VAT regdT.Former& pre-fab. building manufacind.	2,077.77	37.07%
16	12019090	Soya beans, whether or not broken other than Seed, EXCL. Wrapped/canned upto 2.5 Kg	1,844.28	0%
17	27090000	Petroleum Oils And Oils Obtained From Bituminous Minerals, Crude TV	1,755.46	31.07%
18	72044900	Ferrous waste and scrap, nes	1,647.71	1,500 BDT/MT + 800 BDT/MT 4%
19	39021000	Polypropylene, In Primary Forms	1,597.70	31.07%
20	72071100	Semi-Products Of Iron/Steel, <0.25% Carbon, Of Squarish Section	1,597.01	844.08%
21	31021000	Urea, Whether Or Not In Aqueous Solution	1,524.80	0%
22	31053000	DiammoniumHydrogenorthophosphate (Diammonium Phosphate)	1,471.73	0%
23	10063000	Rice --> Semimilled Or Whollymilled Rice,Whether Or Not Polished Or Glazed	1,468.61	Variable (10%-28%)
24	23040000	Oil-Cake And Other Solid Residues, Of Soya-Bean Oil	1,265.00	15.57%
25	27011900	Other Coal, Not Agglomerated, Nes	1,184.27	25.07%
26	31031020	Mineral Or Chemical Fertilisers,Phosphatic --> Triple Superphosphates	1,177.73	0 %

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
27	27101269	Other gas oils (EXCL. Lithg diesel oil &high speed disel oils)	1,166.35	86.42%
28	10011090	Wheat And Meslin --> Wheat/Mealing Wheat	1,163.21	0%
29	10063090	Semi-Milled Or Wholly Milled Rice	1,117.10	10%
30	23099010	Preparations Of A Kind Used In Animal Feeding --> Poultry/Dairy/fish feed	1,115.87	10.32%
31	27101169	Petroleum oils and oils obtained from bituminous minerals,other than crude; preparations not elsewhere specified or included,containing by weight 70% or more of petroleum oils or of oils obtained from bituminous minerals,these oils being the basic constituents of the preparation;waste oils --> other	1,084.21	86.42%
32	32041600	Reactive Dyes And Preparations Based Thereon	1,079.40	31.07%
33	39011000	Polyethylene having a specific gravity of less than 0.94	1,073.70	31.07%
34	7031019	Onions, Fresh Or Chilled, Nes	1,072.91	0%
35	52052100	Combed Single Cotton Yarn, With >=85% Cotton, Nprs,>=714.29 Decitex(<=14mn	1,048.67	37.07%
36	84472000	Flat Knitting Machines; Stitch-Bonding Machines	1,040.97	11.12%
37	52081100	Unbleached Plain Woven Fabrics Of Cotton With>=85%Cotton, =<100g/M2	1,026.36	89.42%
38	39041000	Polyvinyl Chloride, Not Mixed With Other Substances, In Primary Forms	954.88	31.07%
39	7134090	Dried Lentils, Shelled, Nes	938.05	0%
40	52114200	Coloured Denim, With <85% Cotton, >200g/M2	874.12	89.42%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
41	7132090	Dried Chickpeas (Garbanzos) Shelled, Nes	826.24	0%
42	31042000	Potassium Chloride	825.21	0%
43	60011000	Long Pile Fabrics, Knitted Or Crocheted	825.21	89.42%
44	52084200	Coloured Plain Cotton Woven Fabrics With >=85% Cotton, >100g/M2	806.50	89.42%
45	10059090	Other Maize, Excluding wrapped/canned upto 2.5 kg	802.35	5%
46	87112021	Piston Engine,Capacity>50cc not >250cc,Motorcycle,In CKD with four stroke engine	781.91	89.42%
47	52093900	Dyed Woven Cotton Fabrics, With >=85% Cotton, >=200g/M2, Nes	779.32	89.42%
48	85021300	Generating Sets With Compression-Ignition Engines, >375 Kva	770.07	26.27%
49	55093200	Multiple Or Cabled Yarn, >=85% Acrylic Or Modacrylic Staple Fibres, Nprs	745.21	37.07%
50	87032211	Recond.Motor Cars &oth. Vehicles,incl.stn. wagons,CBU, cap.>1000cc,but=<1500cc	732.17	127.84%
51	79011190	Zinc, Not Alloyed, >=99.99% Pure, Nes	723.53	31.07%
52	54023300	Textured Yarn of Polyezster	721.07	58.69%
53	4022191	Milk & cream in powd,gran or oth. solid form fat..exceed1.5% imp by VAT reg.Milk&pr	717.65	37.07%
54	52093200	Dyed 3 Or 4-Thread Twill (Incl. Cross Twill), With >=85% Cotton	710.33	89.42%
55	52052400	Com.Sin.Cot.Yarn,With>=85%Cot.,Nprs,<192.31de.But>=125de>52mn But<=80mn	709.19	37.07%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
56	54011000	Sewing Thread Of Synthetic Filaments	701.87	37.07%
57	84522100	Automatic Sewing Machines	677.77	26.27%
58	48109200	Other Paper & P.Board,Multiply Paper & Paperboard	673.83	58.69%
59	52051100	Uncombed Sin.Cot.Yarn,With>=85%Cot.,Nprs,=>714.29 Decitex (<=14mn).	669.69	37.07%
60	27111300	Butanes, Liquefied	652.45	7.07%
61	47032900	Semi- Or Bleached Non-Coniferous Chemical Wood Pulp, Soda..., Nes	650.06	5.07%
62	38099100	Finishing Agents Etc. Of A Kind Used In The Textile Or Like Industries Nes	647.41	31.07%
63	7131090	Dried Peas Shelled, Nes	643.60	0%
64	76011000	Unwrought Aluminium, Not Alloyed	607.45	31.07%
65	55032000	Synthetic Staple Fibres, Of Polyesters, Not Carded, Combed Or Processed	596.96	10.32%
66	74031100	Cathodes And Sections Of Cathodes Of Refined Copper	571.05	31.07%
67	84118200	Gas Turbines, Of A Power >5000kw	567.90	26.27%
68	52052300	Com.Sin.Cot.Yarn,With>=85%Cot.,Nprs,<232.56deci(>43mm)But>=192.31de(<=52mn	566.94	37.07%
69	52083100	Dyed Plain Cotton Woven Fabrics With >=85% Cotton, =<100g/M2	561.76	89.42%
70	84514000	Washing, Bleaching Or Dyeing Machines, Nes	554.40	26.27%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
71	8081090	Apples, Fresh, Nes	539.49	89.42%
72	72072000	Semi-Products Of Iron Or Non-Alloy Steel, >=0.25% Carbon	512.69	844.08%
73	85176290	Other reception, transmission app.(excl. modem, telephonic/telegraphic switch.	481.26	58.69%
74	88039000	Parts Of Aircraft (Excl. Aeroplanes/Helicopters)	462.54	5.07%
75	55096200	Yarn, <85% Acrylic Or Modacrylic Staple Fibres, Mixed With Cotton, Nprs	456.73	37.07%
76	27101921	Lubricationg oil,that is oil such as is not ordinarly used..below 220 f.., tv	454.88	49.08%
77	39076090 39076990	polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins, polyallylesters and other polyesters, in primary forms --> other	454.71	24.99% 26.07%
78	87042219	Motor Vehicles for the transport of goods-> Other, CBU	453.79	N/A, (87042217 -37.06%, 87042216-58.69%)
79	84463000	Weaving Machines For Weaving Fabrics, >30cm Wide, Shuttleless Type	447.83	11.12%
80	84798900	Machines, having individual functions, nes	444.88	26.27%
81	72031000	Ferrous Products Obtained By Direct Reduction Of Iron Ore, In Lumps...	442.55	1,000 BDT/MT + 800 BDT/MT 4%
82	15111010	Crude palm oil imported by VAT registered edible oil refinery industries	431.30	32.07%
83	84713000	Portable Digital AdpMachines,Wt<=10 Kg,Comp.At Least Cpu,Keyboard&Display	427.19	5%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
84	84518000	Machines For Wringing, Dressing, Finishing... Textile Yarns, Fabrics...	424.54	26.27%
85	84223000	Machinery For Filling,Closing...Etc.Bottles,CansEtc,& Aerating Drinks	417.23	26.27%
86	52083900	Dyed Woven Cotton Fabrics, With >=85% Cotton, Nes	409.51	89.42%
87	4021091	Milk And Cream In Solid Forms Of =<1.5% FAT imported by vat reg. Milk and	400.77	37.07%
88	89061000	Warships	397.42	31.07%
89	84452000	Textile Spinning Machines	380.29	11.12%
90	25210000	Limestone flux;Limestone and other calcareous stones,of a kind used for the manufacture of lime or cement --> limestone flux;limestone and other calcareous stones,of a kind used for the manufacture of lime or cement	370.75	68.89%
91	85022000	Generating sets with spark-ignition internal combustion piston engines	370.36	26.27%
92	28362000	Disodium Carbonate	355.03	31.07%
93	55041000	Artificial Staple Fibres, Of Viscose Rayon,NotCarded,Combed Or Processed	351.16	10.32%
94	38089110	Insecticides For Dairy, Poultry and Agricultural purposes	349.92	10%
95	72071900	Semi-Products Of Iron Or Non-Alloy Steel, <0.25% Carbon, Nes	349.60	844.08%
96	10011190	Durum wheat Seed, EXCL. Wrapped/canned upto 2.5 Kg	348.29	0%
97	27101200 27101239	Petroleum Oils And Oils Obtained From Bituminous Minerals,Other Than Crude; Preparations Not Elsewhere Specified Or Included,Containing By Weight 70% Or More Of Petroleum Oils Or Of Oils Obtained From Bituminous Minerals,These Oils Being	347.90	86.42%

SL No.	HSCODE	Commodity Name	LC Value (USD in Millions)	TTI
		The Basic Constituents Of The Preparation;Waste Oils --> Light oils & preparations.		
98	60012100	Looped Pile Fabrics Of Cotton, Knitted Or Crocheted	345.69	89.42%
99	52030000	Cotton, Carded Or Combed	336.91	26.07%
100	48041100	Unbleached Kraftliner, Uncoated Paper & Paperboard In Rolls Or Sheets	334.92	37.07%
	Total:		132,110.16	

Source: Bangladesh Bank Dashboard

The table is an indication that zero tax, low tax and high tax goods are vulnerable to be abused for TBML. Goods imported in huge/bulk amounts are also vulnerable in this context.

a) In the table above we can see that the duty of the cane sugar (H.S Code 1701.14.00) imported during 2013-2017 of which the import/customs duty was BDT 2000, whereas the same type of cane sugar (H.S Code 1701.99.00, 1701.91.00) in which import/customs duty was BDT 4500 was either not imported or was reported as the H.S Code bearing low import duty.

b) Instances are there where even though HS Code was reported correctly price was quoted so low (e.g USD 1.00 for hair drier) that market never justifies and the motive of which was obviously to evade tax.

c) In some cases it has been found that price of the goods like Maize (H.S Code 10059090) imported from China during 2017 ranged from USD 186 to 218 Per MT; the same goods imported from Brazil also ranged from $184 to $222, and the ones imported from India ranged from $210(March 2018) to $252 (Jan 2018). There are also examples where we can see that a customer imported same goods (H.S Code 1302.32.00 for example) from the same country at a price of $3.79/kg in January, 2018 and at a price of $37.55/kg in February, 2018. Though in the later case the import was made through air the price was significantly higher. On 1st January, 2017 while importing Onions (HS Code 0703.10.19) from India price ranged from $130 to $350 and the import duty was 0%. In importing Looped Pile Fabrics of Cotton, Knitted or Crocheted (HS Code 60012100,) from same country and during the same week price fluctuated tremendously though TTI was 89.42%. There are ample evidences that price fluctuated significantly while importing goods bearing no duty, less duty and high duty (where importer doesn't bother for tax and his motive is to siphon money). Therefore, even before access to a combined database by the banks, they should conduct due diligence establishing and analyzing their own database.

d) During 2016-2017 in some cases it was found that freight charges in the import of fruits like apple ranged from around 26% to 55% of FOB Value. This sort of abnormality should trigger TBML Alert and entails due diligence on the part of the bankers.

e) There are huge number of low value cases where under no commercial value goods are imported which should trigger alerts and entail due diligence on the part of the customs officials. Before endorsing these type of documents bankers should conduct CDD. As import is conducted though LCAF without opening LC, caution should be taken in these sort of cases by bank officials through proper KYC.

f) In some cases it has been seen that some EPZ companies were importing goods (industrial salt etc. for example) from local suppliers and were again exporting to local traders, lack of justification of which triggers alert.