

# TBML TIP SHEET

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## Trade-Based Money Laundering Techniques to Know



# Trade-Based Money Laundering Techniques to Know

Trade-based money laundering (TBML) can be difficult to identify in practice. Familiarize yourself with the TBML techniques below, including various forms of trade misinvoicing. This will help you assess scenarios that may involve TBML.

## What

Review the examples of TBML techniques. In each case, two colluding companies based in two countries use TBML to make criminal proceeds appear the result of a legitimate trade transaction.

## How to Use








Refer to the examples below when examining potential cases of TBML. Map out the key parties, payment flows, and invoice information to identify potential techniques. This can help determine whether TBML is involved and what flags to analyze further, such as the recipient of potentially criminal profits. Based on your internal controls, determine next steps, such as whether to proceed with the transaction.

## Notes

Pay attention to which party (the exporter or the importer) benefits in each transaction, as this can help you identify the technique used.

Similarity with a case below does not necessarily indicate the presence of TBML.



Technique	Example
 <b>Over-invoicing</b>	<p>A company exports paperclips worth \$100,000 but invoices the importer for \$150,000. The importer sells the paperclips for the fair market value of \$100,000 and transfers \$50,000 of criminal proceeds to the exporter.</p>
 <b>Under-invoicing</b>	<p>A company exports sports cars worth \$1 million total but invoices the importer for \$900,000. The importer sells the cars for the fair market value of \$1 million, gaining \$100,000. This allows the exporter to transfer \$100,000 of criminal proceeds to the importer.</p>
 <b>Multi-invoicing</b>	<p>A company exports an order of cement worth \$100,000, but issues 5 duplicate invoices to the importer. The companies may process the invoices through multiple banks to avoid detection. This allows the importer to transfer the value of the duplicate invoices (\$40,000, plus the original \$100,000) to the exporter, while using trade documents that reflect accurate prices and quantities.</p>
 <b>False description of goods/services</b>	<p>A company exports 1,000 counterfeit handbags, which it falsely describes and invoices as designer goods. The importer pays for luxury handbags, transferring the price difference to the exporter.</p> <p>Alternatively, the exporter falsely describes the handbags as knockoffs when they are designer goods (which may be stolen). The importer pays the lower price and resells the luxury bags, profiting from the difference in value.</p>
 <b>Over-shipment</b>	<p>A company exports one ton of scrap metal, but falsely reports it as weighing 0.5 tons on transaction documents and therefore worth less. The importer pays for 0.5 tons and then resells the full ton, which transfers value to the importer.</p>
 <b>Under-shipment</b>	<p>A company exports one ton of scrap metal, but falsely reports it as weighing several tons more on transaction documents and therefore worth more. The importer pays the full invoiced amount, thereby transferring value to the exporter.</p>
 <b>Phantom shipment</b>	<p>An agricultural products exporter invoices its import partner for a shipment of sugar. The invoice reflects a reasonable price and quantity, but the shipment container was empty (i.e. the goods were never shipped). The importer nevertheless pays for the goods, transferring value to the exporter.</p>

 For further examples, see FATF's [APG Typology Report on Money Laundering](#) (2012) and the FATF/Egmont Group report on [Trade-Based Money Laundering: Trends and Developments](#) (2020).

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## TBML Guidance Index



# TBML Guidance Index

This index lists key TBML resources published by international organizations that set standards and best practices for the banking industry. These resources provide guidance tailored to banks in emerging markets.



## How to Use

The index organizes publications by entity and publication date (from most recent to oldest). Publications are hyperlinked for easy access. A brief description summarizes each document. Entities are:

[Bankers Association for Finance and Trade](#)  
(BAFT)

[International Finance Corporation](#)  
(IFC)

[Financial Action Task Force](#)  
(FATF)

[United Nations Office on Drugs and Crime](#)  
(UNODC)

[International Chamber of Commerce](#)  
(ICC)

[The Wolfsberg Group](#)

The last column categorizes each publication by 4 TBML guidance themes to facilitate easy use. To find all publications related to a theme, use your computer's search function (Ctrl+F) and type the theme. Themes are:



Publication	Description	TBML Themes
<b>Bankers Association for Finance and Trade</b>		
<b><u><a href="#">Respondent's Playbook for Obtaining and Maintaining a Correspondent Banking Relationship (2019)</a></u></b>	Addresses the significant decline of correspondent banking relationships worldwide due to de-risking and guides respondent banks in recovering from or reducing the likelihood of being de-risked. Available free to BAFT members and for purchase by non-members.	Risk controls and mitigants
<b><u><a href="#">Combatting Trade-Based Money Laundering: Rethinking the Approach (2017)</a></u></b>	Proposes collaborative approaches to address TBML that engage the public and private sectors.	Risk controls and mitigants
<b>Financial Action Task Force</b>		
<b><u><a href="#">Trade-Based Money Laundering: Trends and Developments (2020)</a></u></b>	Helps the public and private sectors detect trade-based money laundering. Using numerous case studies, it explains how criminals exploit trade transactions to move money rather than goods.	Typologies; techniques; red flags; risk controls and mitigants
<b><u><a href="#">Financial Flows Linked to Production and Trafficking of Afghan Opiates (2014)</a></u></b>	Raises awareness about financial flows related to the Afghan opiate trade and identifies methods used by traffickers to transfer funds and facilitate distribution of the opiates.	Typologies; techniques; red flags
<b><u><a href="#">Money Laundering and Terrorist Financing through Trade in Diamonds (2013)</a></u></b>	Identifies the money laundering and terrorist financing (ML/TF) vulnerabilities and risks of the "diamond pipeline," which covers all stages in the diamond trade.	Typologies; techniques; red flags
<b><u><a href="#">Terrorist Financing in West Africa (2013)</a></u></b>	Identifies the main categories of typologies and methods used by terrorist groups and supporters in five West African countries to collect, transfer, and use funds. Includes case studies, indicators, and red flags.	Typologies; techniques; red flags
<b><u><a href="#">Asia/Pacific Group Typology Report on Trade-Based Money Laundering (2012)</a></u></b>	Highlights the misuse of international trade to launder the proceeds of crime via methods such as alternative remittance services, shell companies, off-shore banks and promissory notes. Includes case studies.	Typologies; techniques; red flags

Publication	Description	TBML Themes
<b>Financial Action Task Force, <i>continued</i></b>		
<b><u><a href="#">Money Laundering Vulnerabilities of Free Trade Zones (2010)</a></u></b>	Covers the role of Free Trade Zones (FTZs), which play a significant role in global trade and attract cross-border remittances. FTZs can suffer reduced application of AML/CFT measures, trade in high-risk types of goods, and other TBML risks.	Typologies; techniques; red flags
<b><u><a href="#">Best Practices on Trade Based Money Laundering (2008)</a></u></b>	Emphasizes "misuse of the trade system 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 into the formal economy." Discusses TBML techniques such as over/under-invoicing and falsely described goods and services.	Typologies; techniques; red flags; risk controls and mitigants
<b><u><a href="#">Trade Based Money Laundering (2006)</a></u></b>	Calls attention to the challenge of TBML. Suggests ways to effectively utilize trade data to detect and investigate ML/TF in the international trade system.	Typologies; techniques; red flags; risk controls and mitigants
<b>International Chamber of Commerce</b>		
<b><u><a href="#">Financial Crime Compliance Checks on the Price of Goods in Trade Transactions— Are Price Checking Controls Plausible? (2019)</a></u></b>	Outlines ways to check the price of goods and their feasibility, demonstrating the difficulties in implementing effective price checking for trade finance transactions.	Risk controls and mitigants
<b><u><a href="#">How Does Global Trade and Receivables Finance Mitigate against Proliferation Financing? (2019)</a></u></b>	Considers how financial institutions can use a risk-based approach to identify high-risk customers and transactions for proliferation finance. Also addresses dual-use goods that have both civilian and military uses.	Risk controls and mitigants
<b>International Finance Corporation</b>		
<b><u><a href="#">Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT) Risk Management in Emerging Market Banks (2019)</a></u></b>	Advances emerging market banks' knowledge and understanding of AML/CFT, with attention to topics such as respondent banking and trade finance. Includes detailed guidance on how to conduct risk assessments.	Risk controls and mitigants

Publication	Description	TBML Themes
<b>International Finance Corporation continued</b>		
<b><a href="#">Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism Requirements in Trade Finance: A Guide for Respondent Banks (2018)</a></b>	Summarizes key AML/CFT guidance and recommendations for trade finance, as well as emerging approaches to compliance. Includes quick references on what each piece of guidance means for your bank.	Risk controls and mitigants
<b>United Nations Office on Drugs and Crime</b>		
<b><a href="#">Risk of Money Laundering through Financial Instruments (2013)</a></b>	Consolidates the dialogue between the public (law enforcement authorities) and private (reporting entities/financial sector and non-reporting entities/real sector), for a better understanding of the financial and commercial instruments used in ML/TF.	Typologies; techniques; red flags
<b>Wolfsberg Group</b>		
<b><a href="#">Sanctions Screening Guidance (2019)</a></b>	Provides guidance on how financial institutions should conduct sanctions screening.	Risk controls and mitigants
<b><a href="#">The Wolfsberg Group, ICC, and BAFT Trade Finance Principles (2019)</a></b>	Outlines the role of banks in addressing risks of financial crime associated with trade finance activities, and compliance with national and regional sanctions and embargoes.	Risk controls and mitigants
<b><a href="#">Payment Transparency Standards (2017)</a></b>	Provides industry standards to enhance transparency regarding parties to transactions in international payments.	Risk controls and mitigants
<b><a href="#">Wolfsberg Anti-Money Laundering Principles for Correspondent Banking (2014)</a></b>	Details the principles for correspondent banking relationships, which are an essential tool to mitigate TBML risks. Assists respondent banks in understanding the expectations of correspondent banks when they conduct due diligence of correspondent banks	Risk controls and mitigants
<b><a href="#">Guidance on a Risk Based Approach for Managing Money Laundering Risks (2014)</a></b>	Articulates relevant considerations which institutions may find useful in developing and implementing a risk-based approach.	Risk controls and mitigants



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## Data Analysis and Reporting by Respondent Banks



# Data Analysis and Reporting by Respondent Banks

Data analysis and reporting are important tools that can enable respondent banks to improve their operations and relationships with correspondent banks.



## What

Analyze **payment flows** and **financial crime management data** and share findings with appropriate internal and external audiences.



## Why

Improve risk management and demonstrate effective controls to correspondent banks.



## How

Leverage tools, ranging from spreadsheets and data dashboards to end-to-end monitoring/reporting software solutions, to gather data, identify trends and anomalies, and report findings.



## Benefits

Expanded data for **identification of red flags**, conducting **ML/TF risk assessments**, and **enhanced engagement** with correspondent banks.

## Tips for improving data analysis and reporting

Your bank may already collect data on payments and financial crime risks for internal or external reporting (e.g., to regulators), but going beyond these obligations can improve your operations and relationships. Below are some tips on how to do this.

### Payment Flows

1. Compile **key data** related to payment flows, such as: customer and beneficiary names, including nested relationships; country of origin and destination; and payment timing, volume, and value.<sup>1</sup>
2. Analyze this information for individual customers and in aggregate to identify **expected or baseline values** (e.g., the typical value and timing of payments from Customer A to Beneficiary B).
3. Identify **anomalies and red flags** (e.g., sudden increase in payment frequency) and take appropriate measures.
4. Report on your **procedures** for analyzing payment flows and responding to anomalies to correspondent banks. This demonstrates your risk management capabilities and awareness of typical red flags.
5. Be prepared to **explain the legitimacy of payment flows** and **answer any questions** your correspondent bank may have.



<sup>1</sup> See IFC's Good Practice Note: [Anti-Money Laundering and Countering Financing of Terrorism Risk Management in Emerging Market Banks](#), 2019, p. 37 for more information on transaction monitoring.

## Financial Crime Management



Periodically capture **key data** on financial crime risks to which your bank is exposed.



Share this information with **your bank's management** to inform the risk-based approach.







Share with correspondent bank counterparts as needed to demonstrate that **internal controls** and information systems are calibrated effectively.



Use this information in **suspicious activity reports** if needed.

### Key Data to Include

 <p><b>Risk Overview</b></p>	<p>Prepare a summary of the financial crime risks to which the respondent bank is exposed, including information about emerging threats and any changes to the bank's risk assessment.</p>
 <p><b>Legal and Regulatory Updates</b></p>	<p>Report on legal and regulatory developments in the respondent bank's jurisdiction and other locations (e.g., jurisdictions where customers are located) and the impact these have on the bank's approach to risk management.</p>
 <p><b>Controls</b></p>	<p>Provide an overview of how effective the respondent bank's financial crime systems and controls are at identifying and responding to red flags. For example, report at what stage the bank identified red flags leading to a suspicious activity report. This includes information on staff training.</p>
 <p><b>Relationships</b></p>	<p>Report relevant information about individual business relationships:</p> <ol style="list-style-type: none"> <li>1. Number and nature of new business relationships, including high risk relationships;</li> <li>2. Number and nature of business relationships that were terminated due to financial crime concerns;</li> <li>3. Number of transaction monitoring alerts;</li> <li>4. Details of any true sanction hits; and</li> <li>5. Information about suspicious activity reports considered or submitted</li> </ol>

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## Know Your Customer & Other Collaborative Resources



# Know Your Customer & Other Collaborative Resources

Know Your Customer (KYC) registries and other resources based on collaboration across the financial sector and with government enable respondent banks to engage more effectively with correspondent banks.



## What

Provide **standardized, validated data** on your bank to correspondent banks & other partners through a utility such as the SWIFT KYC Registry. Identify ways to **engage with government partners**. Be aware of other KYC resources you can use, such as the Legal Entity Identifier.



## Why

Improve **operational efficiency** and enhance your risk-based approach to client onboarding and monitoring. Signal **commitment to best practices** to correspondent banks and other partners.



## Benefits

Simplified, reliable **information sharing** with correspondent banks & other partners.

## KYC Registries or Utilities

Some KYC registries are fee-based, **private sector platforms** that address the need for more efficient and cost-effective information sharing among financial institutions. What differentiates these platforms from due diligence tools is the ability for two banks to exchange KYC information via the platform.

- **The SWIFT KYC Registry** allows users to maintain standard, validated KYC information and documents on their company on a secure platform and share it with others upon request, minimizing time spent duplicating KYC questionnaires. The financial institution (FI) requesting the KYC information pays the fee. Providers control access to their information. The target audience is correspondent and respondent banks, and multinational corporations.
- Other major third-party KYC utilities include **Refinitiv KYC, IHS Markit's KYC Services**, and **Accuity's Bankers Almanac**.

In other cases, FIs and trade finance institutions have launched **national or regional KYC utilities**, typically to exchange and verify information on corporate customers. The utility may share information with law enforcement.

- Examples include Nordic banks' [Invidem](#), the [South African KYC service](#), and AfrExImBank's [MANSA](#).

Finally, some **governments** have established KYC utilities used by regulators, law enforcement, and relevant FIs.

- Examples include [India's Central KYC Registry](#) and the [United Arab Emirates' e-KYC utility](#).

## Platforms for engagement with government

Participating in information-sharing initiatives among financial institutions, law enforcement agencies, and regulators is another way for banks to **signal commitment to best practices**. There are several different approaches to setting up these initiatives. Look for, and **consider joining or advocating** the creation of, similar engagement platforms in your jurisdiction.



### Mandatory approach

Mexican law requires FIs to report all cash transactions, international transfers, and other potentially risky operations to a centralized database for AML/CFT purposes.



### Public-private partnership

The United Kingdom's Joint Money Laundering Intelligence Taskforce brings together FIs, law enforcement, and regulators to better detect, protect against, and investigate money laundering, with an emphasis on TBML.



### Informal approach

Many countries have opportunities for public-private engagement via industry associations. For example, the Federation of Egyptian Banks invites the Central Bank and financial intelligence unit to compliance officer meetings on countering money laundering and terrorist financing.



## Other KYC and ownership resources

Other global and regional platforms provide information for banks and potential business partners. These platforms complement, but do not replace, a robust KYC and client onboarding process.



### Legal Entity Identifier (LEI)

The LEI is a standardized code that functions as a unique identifier for legal entities participating in financial transactions. The code provides information on “who is who” and “who owns whom,” although ownership data varies for subsidiary entities. Over 1.8 million entities worldwide have obtained an LEI. The [LEI Search 2.0](#) database is free to use.



### Beneficial ownership registries

In contrast to KYC registries, beneficial ownership registries are mandated and operated by a national government or a nonprofit entity such as the Extractive Industries Transparency Initiative. They may be open access or have tiers of access, with some information available to the public for a nominal charge. Since ownership thresholds vary by country, registries differ in coverage.

Examples include many [national and sectoral registries](#) (scroll down for list). Open Ownership maintains a [register](#) that aggregates information from Denmark, Slovakia, Ukraine, the United Kingdom, and other sources. The [Open Corporates](#) database is another option.



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## Conducting a TBML Risk Assessment



# Conducting a TBML Risk Assessment

Your bank should periodically conduct an enterprise-wide risk assessment for trade-based money laundering (TBML). A robust understanding of your TBML risks will help you design appropriate risk controls and communicate your controls to business partners such as correspondent banks.





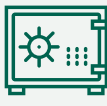
The steps to this process are:



<b>How often?</b>	Typically, banks conduct these assessments annually or more often if the risk profile changes. For example, entering a new country, serving a new sector, and adding a new banking product can change the risk profile.
<b>Keep in mind:</b>	<p>Risk assessments involve a substantial amount of data gathering, analysis, and expertise. As a first step, you will evaluate your inherent risks and internal controls, as discussed below.</p> <p>The results of your risk assessment can aid management in making risk-based business and control decisions. Any observed deficiencies should be tracked and monitored until remediated.</p>
<b>More info:</b>	See IFC's 2019 Good Practice Note, " <a href="#">Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) Risk Management in Emerging Market Banks</a> ," section 3.3, pp. 19-24 for further guidance.

## STEP 1 Identify Inherent TBML Risk

Look for risks in each of these five categories in your risk assessment process. Summarize the risks you identify, then rate each category on a risk scale (low, medium, and high risk).




 <p><b>Customer base</b></p>	<p>Rate customer risk based on factors such as: type, ownership, industry, transnational activity, government connections, and past services provided by your bank. Certain types of customers, such as cash-intensive or money services business, present higher risk.</p>
 <p><b>Products and services</b></p>	<p>Identify the risks related to each of your current products, as well as any products you plan to offer soon. Some products, such as trade finance, cross-border remittances, and cross-border cash delivery are higher risk for TBML.</p>
 <p><b>Delivery channels</b></p>	<p>Identify the channels by which you provide services (e.g., online vs. face-to-face), as channels that are not in person may pose higher risk.</p>
 <p><b>Jurisdictions</b></p>	<p>First, determine the jurisdictions where your bank operates, as well as where your customers do business. For customers, this may include where they are located, incorporated, have significant supplier or client relationships, and the nationality of controlling owners.</p> <p>Next, identify jurisdictions that are subject to applicable economic sanctions, or at high risk for money laundering (based on FATF <a href="#">gray/black lists</a> and <a href="#">Mutual Evaluation Reports</a>) to assess risks across jurisdictions.</p>
 <p><b>Other operational risks</b></p>	<p>Other factors can affect your inherent risk, such as customer attrition, turnover in your compliance department, regulatory enforcements, and reliance on third-party providers.</p>

**STEP 2**

**Assess Internal Controls**

How well do your internal controls mitigate your inherent risk? Based on the risks you identified in step 1, assess your controls on a scale (e.g., satisfactory, needs improvement, unsatisfactory).

This assessment should include data from the bank’s historical operations and transactions, as well as external sources such as country risk reports. The below image illustrates some categories of risk controls you may have in place.

Sample Control Categories	Illustrative Risk Levels:
<ul style="list-style-type: none"> <li>• AML/CFT Corporate Governance, Management Oversight and Accountability</li> <li>• Policies and Procedures</li> <li>• Customer Due Diligence (CDD), Enhanced Due Diligence (EDD), Simplified Due Diligence (SDD) and Politically Exposed Persons (PEPs)</li> <li>• Previous Other Risk Assessments</li> <li>• Management Information System (MIS)/ Reporting</li> <li>• Record Keeping and Retention</li> <li>• Designated AML/CFT Officer</li> <li>• Detection and Suspicious Activity Report (SAR) Filing</li> <li>• Monitoring and Controls</li> <li>• Training</li> <li>• Independent Testing and Oversight</li> <li>• Other Controls</li> </ul>	<div style="margin-bottom: 10px;">  <p><b>Satisfactory:</b> Substantially meeting all control requirements</p> </div> <div style="margin-bottom: 10px;">  <p><b>Needs Improvement:</b> Meeting between 75% and 90% of control requirements</p> </div> <div>  <p><b>Unsatisfactory:</b> Meeting less than 75% of control requirements</p> </div>

Source: Deloitte Risk and Financial Advisory

### STEP 3

## Determine Residual Risk

Once you have identified your inherent TBML risk and assessed how well your internal controls mitigate it, you can determine your residual risk.

You may use a matrix like the one below to calculate your residual risk. For each risk category, locate the risk level (low, medium, or high) on the right-hand top row. Then, locate your rating of the controls for that category in the column at left. For example, if your customer-related inherent risk is medium and your internal controls for customer-related risks are unsatisfactory, then your residual risk would be high.

The result of the risk assessment process is the breakdown of inherent risks, internal controls, and residual risks for each business unit. Communicate these results and the methodology used to your bank's senior management.

### Illustrative Residual Risk Approach:

- Residual risk is determined by balancing the inherent risk with the overall strength of the risk management activities/controls
- The residual risk rating is used to assess whether the ML/FT risks within the business unit as well as for the institution as a whole are being adequately managed
- The residual risks should be calculated across each business unit
- The residual risks should be available in a visual heatmap format

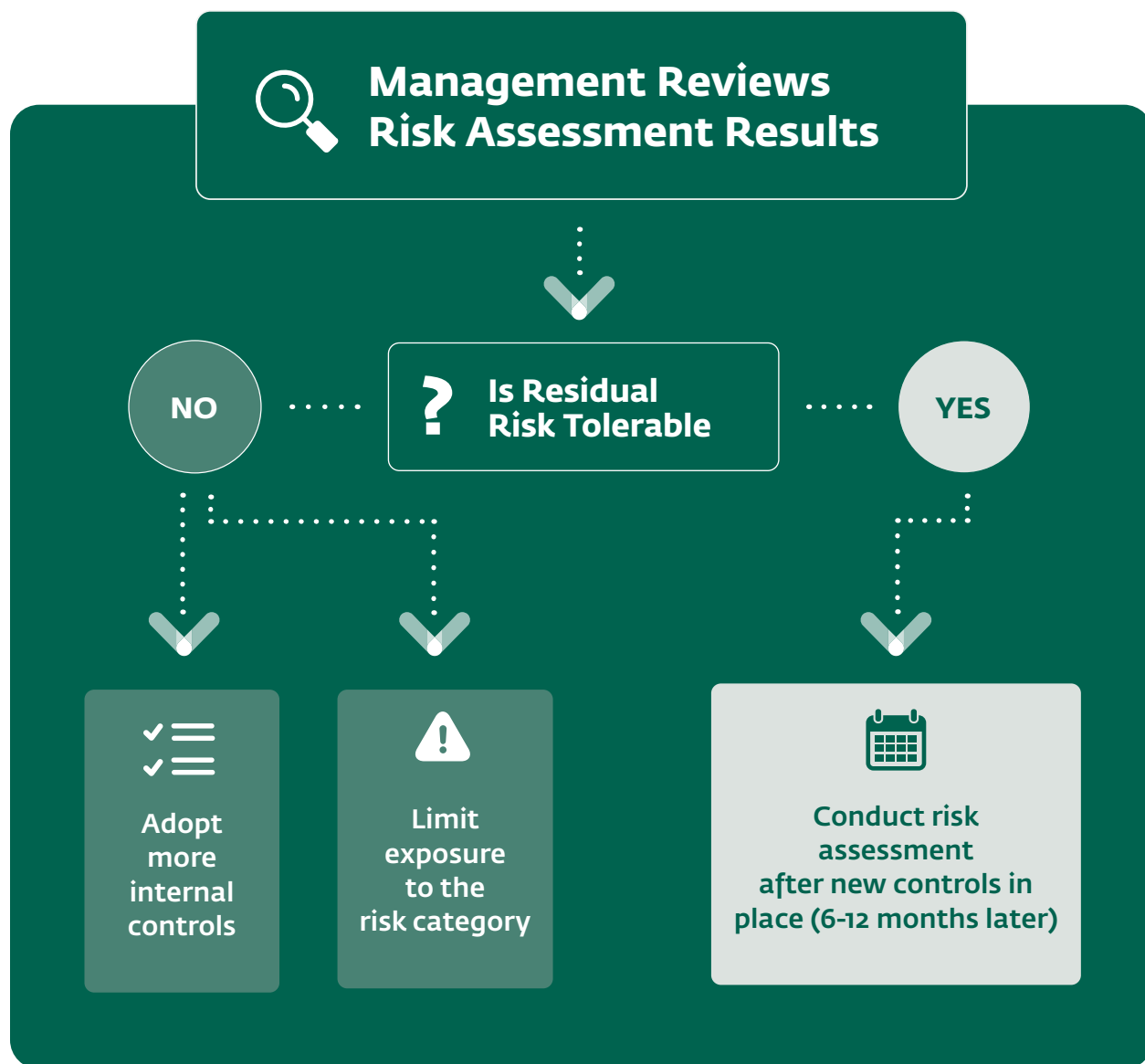
### Illustrative Residual Risk Matrix:

Residual Risk Determination		Inherent Risk		
		Low	Medium	High
Control Assessment	91-100% Satisfactory	Low	Low	Medium
	75-90% Needs Improvement	Low	Medium	High
	<75% Unsatisfactory	Medium	High	High

Source: Deloitte Risk and Financial Advisory

Next, the bank’s management should determine how to address low, medium, and high residual risk areas. For each area, the bank should determine whether the residual risk is tolerable. If yes, bank staff should nonetheless consider enhancing internal controls to mitigate residual risks.

If the residual risk is not tolerable, the bank may consider limiting its exposure to that risk category. This may mean avoiding transactions in a risky currency, involving a risky jurisdiction or good, or that transit via/near a risky jurisdiction, such as sailing past a sanctioned country. Alternatively, the bank may seek to enhance its internal controls to further mitigate the inherent risk.



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# TBML Risk Factors Checklist



# TBML Risk Factors Checklist

Use this checklist as part of the TBML risk assessment process to consider the inherent TBML risks posed by the bank's trade business areas. Items marked with a star\* are commonly considered **red flags** and should be escalated to senior management if detected. **Please note this list is not exhaustive.**

## Customer Base Risks

- Use of shell companies
- Concealed beneficiary identity
- Opaque entities and use of complex corporate structures
- Negative information about the customer
- Involvement of agents in trade transactions
- Dealing in goods at risk for TBML, e.g., commodities
- Dealing in prohibited goods\*
- Difficulty identifying whether the customer, trade partner, or business is legitimate\*

## Bank's Product and Service Risks

- Payment methods used by clients (e.g., exposure to cash transactions, ability to have payments funded from cash receipts)
- Types of financial products offered (e.g., cross-border trade finance and remittances)

## Bank and Customer Jurisdiction Risks

- Political risk
- Use of tax havens, offshore financial centers, and secrecy havens
- Patterns in the jurisdictions to/from where goods are usually shipped or transhipped, including use of freeports, free trade zones, special economic zones, and high-risk trade corridors
- Neighbors of sanctioned countries
- Sanctions circumvention routes
- Countries and jurisdictions at high risk for money laundering or TBML (e.g., on FATF blacklist)\*

## Bank's Delivery Channel Risks

- Reliance on correspondent banks and other intermediaries
- Provision of services online and/or without verification of customer identity
- Potential for circumvention of exchange controls or trade barriers in banking\*



### Bank's Operational Risks

- Bank role(s) in the trade transaction
- Bank structure (branches & subsidiaries)
- Other operational dynamics, such as customer growth or attrition, or loss of compliance staff, can create pressures (e.g., rapid growth in customers can lead to weak adherence to policies and procedures; customer attrition can motivate risk-taking). Banks should address these pressures by ensuring strong policies and procedures and training staff on these.

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## Best Practices in Know Your Customer (KYC)





# Best Practices in Know Your Customer (KYC)

Every bank should have a robust and well-designed KYC process to identify and manage potential trade-based money laundering (TBML) risk. This tip sheet includes various forms of due diligence to conduct as part of your KYC process.



### What is KYC?

KYC is a process that enables your bank to identify and know your customer and their business activities by collecting appropriate information, conducting additional research, and asking the right questions.

### Why does KYC matter?

KYC helps you identify TBML risks associated with each customer and their line of business and decide whether these risks are within your bank's risk appetite.

### Benefits of KYC

Benefits of KYC include efficient TBML risk management and prevention of risks such as compliance risk, reputational risk, and financial loss risk.

## Tips for Effective KYC

If you want your KYC process to be effective in identifying potential TBML, **timing** of KYC and **scope** of Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) are essential. A KYC process will include CDD and may include EDD.



**CDD** is the standard due diligence that must be performed for all customers regardless of the risk level.



**EDD** is the additional due diligence above CDD that must be performed for high-risk customers to ensure risks are managed and regulatory obligations are met. Please see the below guidance for successful KYC procedures.

**When should you conduct KYC?**



1. At the time of establishing the relationship or the customer's opening an account
2. Before starting a trade transaction
3. When there is new or conflicting customer information or a transaction pattern that could affect the risk profile, e.g., increase in transaction volume or change in country of operations
4. At the time of sale of high-risk financial products
5. Periodically, on a schedule determined by the customer's risk level

**What should CDD research cover to identify TBML risks?**



1. Nature of the business (e.g., business model, ownership, control) and its reputation
2. Expected and historical (for existing customers) transaction activity (e.g., transaction types, currency, volume, frequency, previous suspicious transactions)
3. Origination and method of payment
4. Principal counterparties (e.g., major suppliers and buyers) and their locations
5. Goods and services being exchanged and whether they present inherent risk

**What factors related to TBML should trigger further EDD research?**



1. High-risk entities (e.g., politically exposed persons [PEPs], high-net worth individuals)
2. High-risk industries and trade goods (including dual-use items)
3. High-risk jurisdictions (e.g., sanctioned jurisdictions, tax havens, FATF-listed countries)
4. High-risk bank products, complex transaction structures, and high-value/volume transactions
5. Sanctions exposure

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## Benchmark Pricing Resources



# Benchmark Pricing Resources

A key challenge in countering TBML is how to verify appropriateness of the price of a good or service. These resources help you compare the transaction price with local averages, global benchmarks, and other sources.



## What

This document is a **compilation of resources** to assist in determining an appropriate price for a transaction, based on the type of goods or services involved and the locations of the seller and customer.

Table 1 provides **pricing resources for specific types of goods**, including free and paid databases. Table 2 offers **guidance for hard-to-price goods**.



Gather



Identify databases



Compare



Is it normal?



Ask more questions

## How to Check Prices



Gather **transaction documents** (e.g., invoices, trade documents, information about the business types, and past transactions with your bank).



Gather information from these sources about the **type, origin, unit price, and total price** of goods or services traded. Does this make sense based on what you know about the business?



If something is unclear, **find the item traded** (or a close approximation) in Table 1 below, then select appropriate databases based on the countries involved and other concerns, such as cost to access the database.



Use the database to **understand normal price ranges** for that good. Be aware that prices may vary based on time of year and other conditions and be sure to check the date/time of the most recent data. Based on this information, does the transaction price appear normal?



Decide whether to stop here or **investigate further**, e.g., by **asking your client** for more information about the transaction.



If you cannot identify a price range, use Table 2 on **hard-to-price goods** to identify key concerns and potential questions to ask your client.





### Notes

Price verification is a **key challenge** because there is no single, global price for most goods. Use your knowledge of the client's business, typical local prices, and the resources below to identify situations when you need to investigate further.

## Table 1: Resources for Specific Types of Goods

The following definitions will help you use this table:



### Multiple Countries

The resource provides price information for that item in multiple countries, ranging from 150+ countries to a few countries in each continent. If a database does not cover your country (or the source/destination country), you can choose from geographically and economically similar countries. You can also use information for other countries (e.g., the USA) to get a broad sense of the price.



### Benchmark

The key leading indicator for that commodity price, e.g., the price of a barrel of Brent crude oil.



### Price Ranges


The resource does not give a specific price for the item, but instead provides a sense of the normal price range.



### Paid






While some sources are either free or always paid, resources marked paid\* require payment for full access (e.g., historical price data), but you may be able to access some information for free.

TBML TIP SHEET 8: **BENCHMARK PRICING RESOURCES**

Resource	Description	Notes	Cost
 <b>Commodities (energy/fuel, metals, agriculture, etc.)</b>			
<b>United States Federal Reserve Economic Data</b>	Historical and recent prices for energy, metals, agricultural commodities, timber, fibers, and rubber (sort by "world" geography)	Benchmark	Free
<b>International Monetary Fund Primary Commodity Data Portal</b>	Monthly prices for energy, agriculture, fertilizer, and metal commodities	Benchmark	Free
<b>International Trade Centre Market Analysis Tools Portal</b>	Price and market data for 300+ agricultural commodities and cotton, sortable by variety and quality. Designed for developing country exporters	Multiple countries	Free for users in developing countries
<b>United Nations Food and Agriculture Organization GIEWS FPMA tool</b>	Monitoring and analysis of monthly prices for key agricultural commodities. Domestic prices portal provides retail and/or wholesale prices across the country (coverage varies)	Multiple countries	Free
<b>FEWS Net</b>	Excel download of local prices for agricultural products and fuel for sub-Saharan Africa and Haiti.	Sub-Saharan Africa, Haiti	Free
<b>S&amp;P Global Platts</b>	Energy, metal, petrochemical, and agricultural commodities	Benchmark	Paid*
<b>London Metals Exchange</b>	Industrial and precious metals	Benchmark	Paid*
<b>Independent Commodity Intelligence Services</b>	Chemicals, fertilizers, and energy	Benchmark	Paid*
<b>Benchmark Mineral Intelligence</b>	Lithium, graphite anode, cobalt, and nickel	Benchmark	Paid*
<b>Chicago Board of Exchange</b>	Major agricultural commodities	Benchmark	Paid*



TBML TIP SHEET 8: **BENCHMARK PRICING RESOURCES**

Resource	Description	Notes	Cost
 <b>Medicine and healthcare equipment</b>			
<a href="#">World Health Organization/Health Action International</a>	Surveys of medicine prices and availability in various countries, conducted at least once 2003-2015. See also <a href="#">list of links to national and regional price sources</a>	Multiple countries	Free
<a href="#">ECRI Supply Guide</a>	Database of prices for medical supplies, implants, medical office, and industrial equipment designed for hospitals	USA focus	Paid
 <b>Vehicles &amp; transportation</b>			
<a href="#">National Association of Auto Dealers</a>	Prices for new and used cars, motorcycles, boats, and other vehicles	USA focus	Free
<a href="#">International Air Transport Association MRO SmartHub</a>	Commercial airline maintenance, repair, and overhaul price intelligence, including prices for spare aircraft parts	Multiple countries	Paid
 <b>Construction &amp; construction equipment</b>			
<a href="#">Compass International</a>	Reports on global construction costs, including for specific industries	Multiple countries	Paid
 <b>Luxury items (jewelry, gems, fine art, etc.)</b>			
<a href="#">Christie's</a>	Past and live auction prices for gems, jewelry, luxury goods (e.g., handbags), art, and other hard to price items, useful to establish a price range	Price ranges	Free
<a href="#">International Gem Society Gem Price Guide</a>	Retail prices for precious gems	USA focus	Paid
 <b>Other databases</b>			
<a href="#">Global Financial Integrity GFTTrade</a>	Identify potential trade misinvoicing by comparing a transaction against historical averages. Includes hard-to-price goods such as designer handbags	Multiple countries	Paid

## Table 2: Guidance for Hard-to-Price Goods and Services

Other goods and services can be difficult to value accurately due to factors such as rapidly changing prices, unclear quality or purpose, and illicit trade. As a result, these items can be at high risk for TBML. Keep in mind the following guidance when dealing with these goods:

Good or Service	Guidance
<b>Mobile phones, computers, and components (e.g., microchips)</b>	These items vary in sophistication and price (microchips can cost \$50 or over \$50000), and supply and demand can fluctuate. Based on your Know Your Customer (KYC) processes, determine whether it makes sense for your client to trade in these goods. Compare their current to historical trade volume and prices. Inquire as to the end use of any components purchased.
<b>Cement</b>	Cement is widely produced and used, so it is hard to confirm a shipment's origin, quality, and purpose. Inquire as to the factory location and ownership (if different from your customer), the quality or grade, and the end use. Changes over time can be a red flag.
<b>Scrap metal</b>	The quality of scrap metal is hard to classify, but its price should be less than that of the new metal (see Table 1). Identify the source of the metal. Since some countries restrict trade in certain types or sources of scrap metal, ensure compliance with relevant regulations.
<b>Tobacco, cigarettes, and liquor</b>	In addition to varying quality, there is potential for illicit trade, including smuggling, counterfeit goods, and "cheap whites" (cigarettes legal in the jurisdiction where they were produced, but illegal in the importing country). Establish robust KYC and transaction due diligence processes to comply with relevant regulations. See the 2012 <a href="#">FATF report on Illicit Tobacco Trade</a> .
<b>Consulting fees &amp; professional services</b>	Vague descriptions create opportunities for TBML. Consider the billing method (hourly, daily, or deliverable-based), the qualifications and nationality of the provider, and consistency across invoices (e.g., are some paid daily while others are deliverable-based?). Develop relationships with industry associations to learn about common practices and fee structures.

**CBR** Business Risk  
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# Sanctions Screening: When, How, and What to Screen



# Sanctions Screening: When, How, and What to Screen

To reveal potential sanctions exposure in your bank's trade finance operations, you should have a trade finance-specific sanctions screening policy and procedures. These should cover **when** to conduct screenings, **how** to screen, and **what** data to screen.



## When to screen



Banks should screen data at **multiple points** during the life cycle of the trade transactions as new or additional information becomes available. The points at which data should be screened may vary based on the product or service involved.

Potential **triggers for screening** include: the start of the transaction (e.g., at issuance or advisement), upon payment, upon settlement, when documents are received, and when an amendment is requested.



## How to screen



Banks should determine the **appropriate method** for screening (e.g., relevant sanctions lists, manual vs. automatic, screening technology, scheduled vs. ad hoc screening), as well as how staff should assess potential matches to **determine whether the transactions** involve true sanctioned parties or are false positives.





**What to screen**

Banks should develop a **standardized** list of critical transaction data elements to screen from payment messages (e.g., SWIFT messages), as well as data from trade transaction documentation to collect and screen.

While **critical data fields** will vary based on the product or service, your bank should consider screening these fields:

- **Jurisdictions:** Counterparty location, counterparty bank's location, country of origin and designation, shipping route (including ports of loading, transshipment and discharge), vessel registration
- Participating **banks**
- **Vessels:** Name(s) (including prior names), owner(s), International Maritime Organization (IMO) number
- **Goods/commodities:** For dual-use items and other high-risk items
- **Importer** and **exporter** or **consignee**
- **Notification parties**
- Other **trade parties:** Insurance company, agents, brokers, freight forwarder and carrier, shipping company, intermediaries
- **Customer:** Name(s) and beneficial owners



# TBML TIP SHEET

10

**CBR** Business Risk  
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## Training Design & Implementation Considerations




# Training Design & Implementation Considerations

Banks should develop TBML-specific training that teaches staff to:

- ✓ Be sensitive to the bank’s exposure, both domestically and internationally
- ✓ Carry out their role and responsibilities in tackling TBML
- ✓ Increase TBML awareness and capacity to identify and mitigate TBML risks
- ✓ Recognize potentially suspicious transactions, dual-use goods, alerts, and sanctions risk

Training requires thoughtful consideration of several aspects for effective implementation and success. Ensure the training plan addresses these design and implementation considerations:



**CONSIDERATION**

**Staff Needs**

**DESCRIPTION**

Conduct an assessment to ensure the training addresses the staff’s needs. Common needs include the following staff TBML skill and knowledge requirements:

- International trade risks and links to TBML
- Typologies, case studies, and alerts
- Dual-use goods and high-risk goods for TBML
- Screening of documents and customer profiling
- Sanctions screening of trade documentation
- Alert investigation, escalation, and closing
- Effective second-level post-transaction reviews
- Suspicious client detection and reporting
- Balancing the bank’s profit motive and risks (e.g., ensuring the profit motive does not drive excessive risk-taking)



**CONSIDERATION**

**Participation and Customization**

**DESCRIPTION**

Make the customized training mandatory. Design trainings at varying complexity levels to support staff involved in:

- Relationship management
- Transaction processing
- Operations
- Risk management
- Compliance
- Other relevant staff involved in trade transactions



CONSIDERATION

**Timing**

DESCRIPTION

Training should be delivered at employee onboarding, periodically as defined in the bank's procedures, and when triggered by an event (e.g., a violation of the bank's procedures).

Training content should reflect new trends and information learned from professional associations (e.g., a compliance association), as well as from any incident reports filed by the bank.



CONSIDERATION

**Documentation**

DESCRIPTION

Retain training records. Training records should include the training materials, participants required to attend, attendees, and evidence of completion.

A mechanism should be in place to ensure that those who did not complete training are tracked to enforce the training requirement.



**Training Development Resources**

A high level of insight is critical to front-line practitioners' ability to identify and mitigate TBML risks present at their bank. **Several resources exist for developing effective trainings:**

- Industry bodies offer specific guidance that addresses the TBML risks facing banks
- FATF papers and regulatory agencies, such as customs administrations, regulatory authorities, and financial intelligence units, are good sources of country-specific information
- Case studies can offer insight into the methods, risk indicators, and alerts based on actual TBML occurrences



# TBML TIP SHEET

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**CBR** Business Risk  
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## Systematic Analysis of Transaction Activity



# Systematic Analysis of Transaction Activity

How can you identify trade-based money laundering red flags? How can you remember which aspects of a transaction to analyze? Conduct a **systematic analysis of transaction activity**, which makes a stronger case for a correct TBML diagnosis and ensures you cover key transaction aspects.

**There are two steps to this process:**

## Analyze

**Analyze** the trade documentation, customer profile, trade partner relationships, and transaction structure

## Investigate

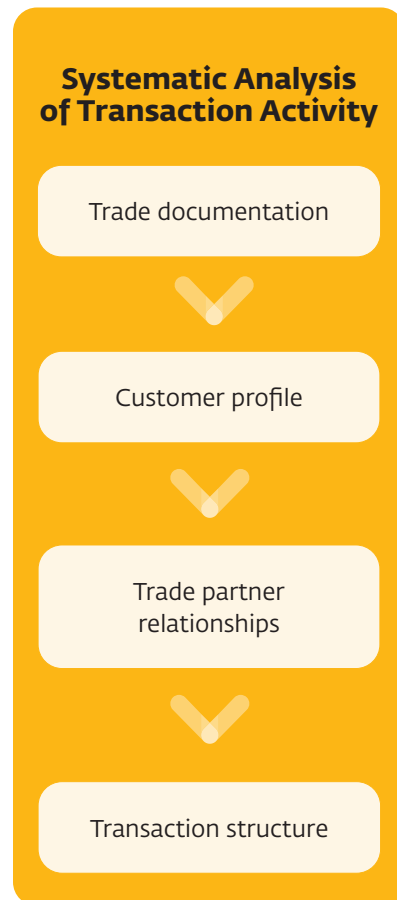
**Investigate** any red flags. Determine whether to **resolve** or **escalate** each red flag.

## STEP 1 Analyze

**Trade documentation:** Ensure each piece of trade documentation (e.g., commercial invoices, bills of lading) is complete and consistent with the information contained in other trade documents.

**Customer profile:** Conduct appropriate customer due diligence (CDD) at onboarding. Use CDD information to assess whether individual trade transactions are consistent with the customer’s business purpose and expected transaction activity.

**Trade partner relationships:** Analyze the customer’s trade partners and how the customer is related to them (e.g., how the customer and partner know each other). When businesses conduct high-value or high-volume transactions, you should look for multiple similar past transactions.



**Transaction structure:** Examine unusual or complex transaction structures.

Does the transaction:

- Make sense for the goods/services involved?
- Involve unconventional or complex supply chain structures?
- Include shell or front companies, unusual or many intermediaries, or companies registered in high-risk jurisdictions?
- Involve shipments to or through offshore tax havens or high-risk jurisdictions?

## STEP 2 Investigate and Resolve or Escalate

Did you identify any red flags in your systematic analysis? If so, investigate each red flag and determine whether to resolve it or escalate it to a higher level of review.

### Investigate

Conduct additional research on the red flag(s). Where appropriate, seek additional information from your customer, but be careful not to indicate that you are investigating potential TBML, as this may cause them to change their answers.

You may also seek information from other staff at your bank, or from third-party sources such as external references who can verify the customer's business. Document your findings.

### Resolve

If the investigation fully resolved your questions, you may conclude the red flag did not indicate TBML and can resolve your investigation.

Follow your bank's policies and seek guidance from your managers at this stage. You should never resolve a red flag because it seems easier than escalation.

### Escalate

If you cannot resolve the red flag or are uncertain, escalate the case to a higher level of review, such as Level 2 or Level 3 staff. Provide the results of your systematic analysis and investigation thus far.

