

Overview of Trade-Based Money Laundering

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OBJECTIVES



What is Trade-Based Money Laundering (TBML)?



TBML vs. Trade-Related Predicate Offences



Trade-Based Terrorist Financing (TBTF)



Why is TBML appealing to criminals & who is involved in TBML schemes?



Types & techniques of TBML



Economic sectors and products vulnerable to TBML activity



TBML and its risks to subject persons



WHAT IS TRADE-BASED MONEY LAUNDERING (TBML)?

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

TBML may be *transnational*.



TBML VS. TRADE-RELATED PREDICATE OFFENCES (1):

The aim of **TBML** unlike trade-related predicate offences is **not the movement of goods**, but rather **the movement of money**, which the trade transactions facilitate.



TBML VS. TRADE-RELATED PREDICATE OFFENCES (2):

Trade-Related Predicate Offences	Trade-based money laundering
Movement of goods	Movement of money , which the trade transactions facilitate
Generate more illicit wealth from the proceeds of crime; Eg: smuggling and fraud	Legitimise the illegal origin of the proceeds of crime
Criminals involved are usually the ultimate beneficiaries of the proceeds of these crimes	Used by PML to launder the proceeds of crime for their clients



TRADE-BASED TERRORIST FINANCING (TBTF):

**Same trade
processes as TBML**

**Legitimate or
Illegitimate Sources**

**Finance
Terrorism**



WHY IS TBML APPEALING TO CRIMINALS & WHO IS INVOLVED IN TBML SCHEMES?

**Under
reported**

Cross-border

Complex

These parties all have designated roles to ensure the illicit transactions go through without detection.



**Organized
Crime Groups**



**Professional
Money Launderers**



Terrorist Groups



**Dishonest Politically
Exposed Persons**

TYPES OF TBML (1):

There are **3 main types of TBML**



Documentary Trade-Based Money Laundering



Open Account Trade-Based Money Laundering



Service Based Money Laundering



TYPES OF TBML (2):

Documentary Trade-Based Money Laundering (DTBML)



Involves a **regulated financial institution** in the transaction to help **finance the movement of goods between two counterparties**.



These transactions will be **supported by banking or documentary trading instruments** such as, Documentary Letters of Credit, and Documentary Bills for Collection.

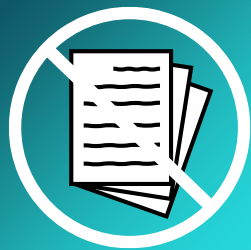


TYPES OF TBML (3):

Open Account Trade-Based Money Laundering (OATBML)



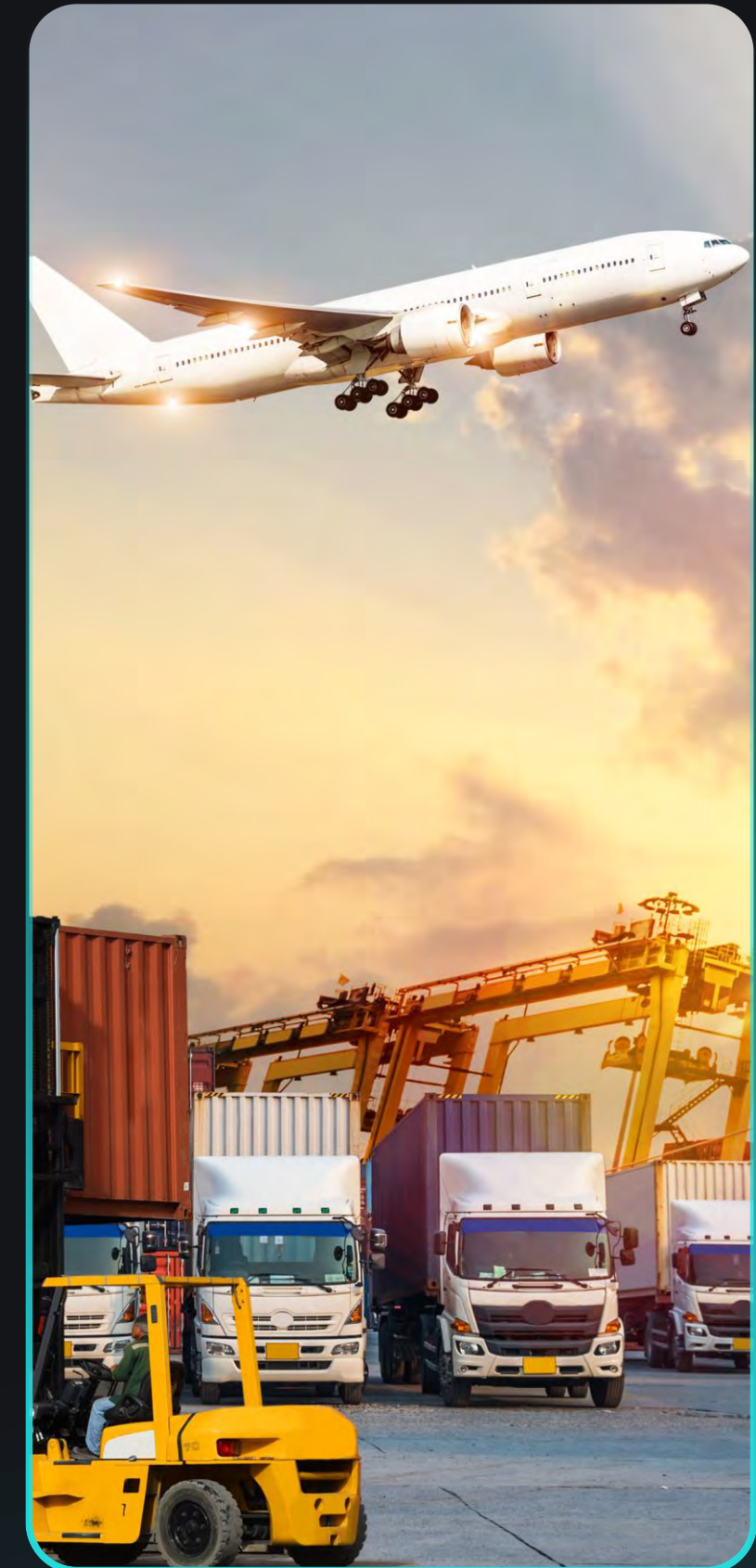
Involves a **movement of goods between two counterparties** where payment is made without an intermediary bank.



No banking or documentary trading instruments.



Goods are shipped and delivered **before payment is due.**



TYPES OF TBML (4):

Service Based Money Laundering (SBML)



Revolves around **services rather than transfer of goods.**



Fictitious services such as **legal services, tour and travel services, accountancy services, consultancy services,** etc.



TECHNIQUES OF TBML (1):



**Over & Under or
Multiple Invoicing**



**False
Description**



**Over & Under
Shipment**



**Diversion of
Goods**



**Counterfeit
Goods**



**Shell/Front
Companies**



**Third-Party
Payments**



**Black Market
Trading**

TECHNIQUES OF TBML (2):

Over & Under Invoicing of Goods or Services

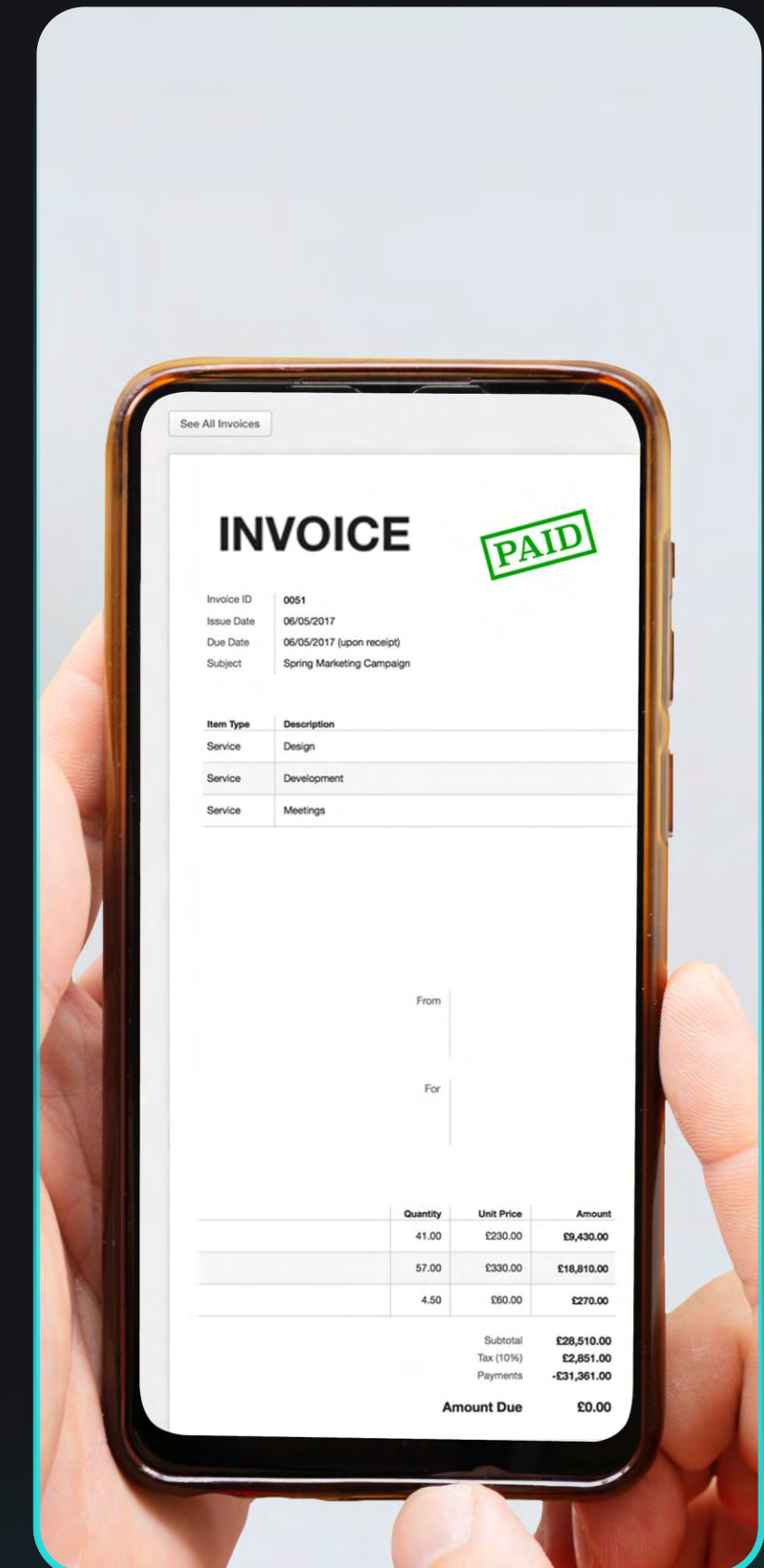


In both **Over & Under Invoicing** there is the **misrepresentation of the price** of the goods or services.



The **importer and exporter** are **complicit** in this misrepresentation.

Example:



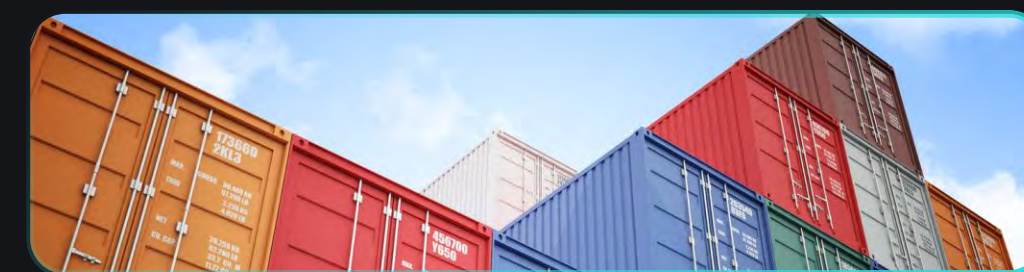
EXAMPLE: OVER INVOICING OF GOODS AND SERVICES



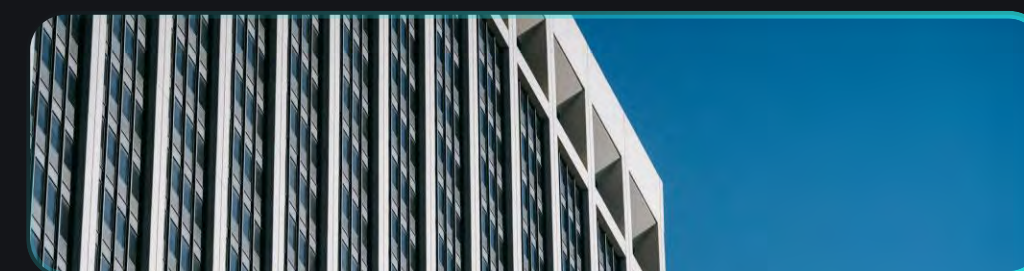
Company A
(a Maltese exporter)



Company B pays €3,000 to
Company A -> fair market value is
€2,000 Euro



Ships 1,000 biros worth €2 each -> over
invoices for 1,000 biros at a price of € 3 each



Company B (colluding Italian Importer)

€1,000 Euro (the difference between the invoiced price
and the “fair market” price) are deposited into a bank
account and disbursed according to Company B’s
instructions

EXAMPLE: UNDER INVOICING OF GOODS AND SERVICES



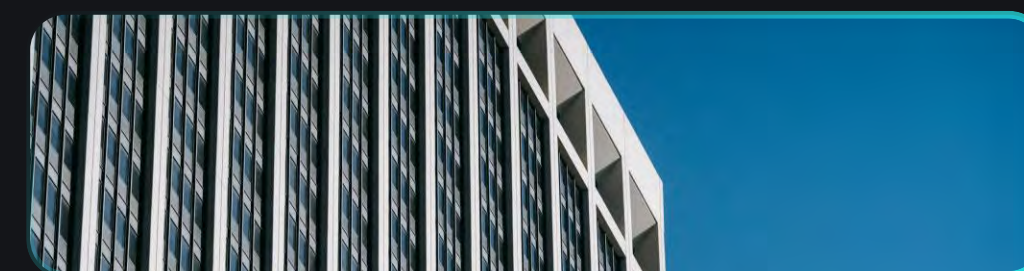
Company A
(Italian exporter)



Company B pays €1,000 -> fair market value €2,000



1,000 biros worth €2 each -> under invoice for 1,000 biros at a price of €1 each



Company B (colluding Maltese importer)

Company B sells the biros for €2,000 Euro and deposits the extra €1,000 Euro (the difference between the invoiced price and the "fair market" price) into a bank account to be disbursed according to Company A's instructions

TECHNIQUES OF TBML (3):

Multiple Invoicing of Goods or Services



No **misrepresentation of the price.**

**Several
Invoices**



**Same trade
transaction**



TECHNIQUES OF TBML (4):

False Description



Involves the **misrepresentation of the quality or type of good or service.**

Over & Under Shipment of Goods or Services



Phantom shipments.



Requires **complicity** between the **importer and exporter.**



TECHNIQUES OF TBML (5):

Diversion of goods



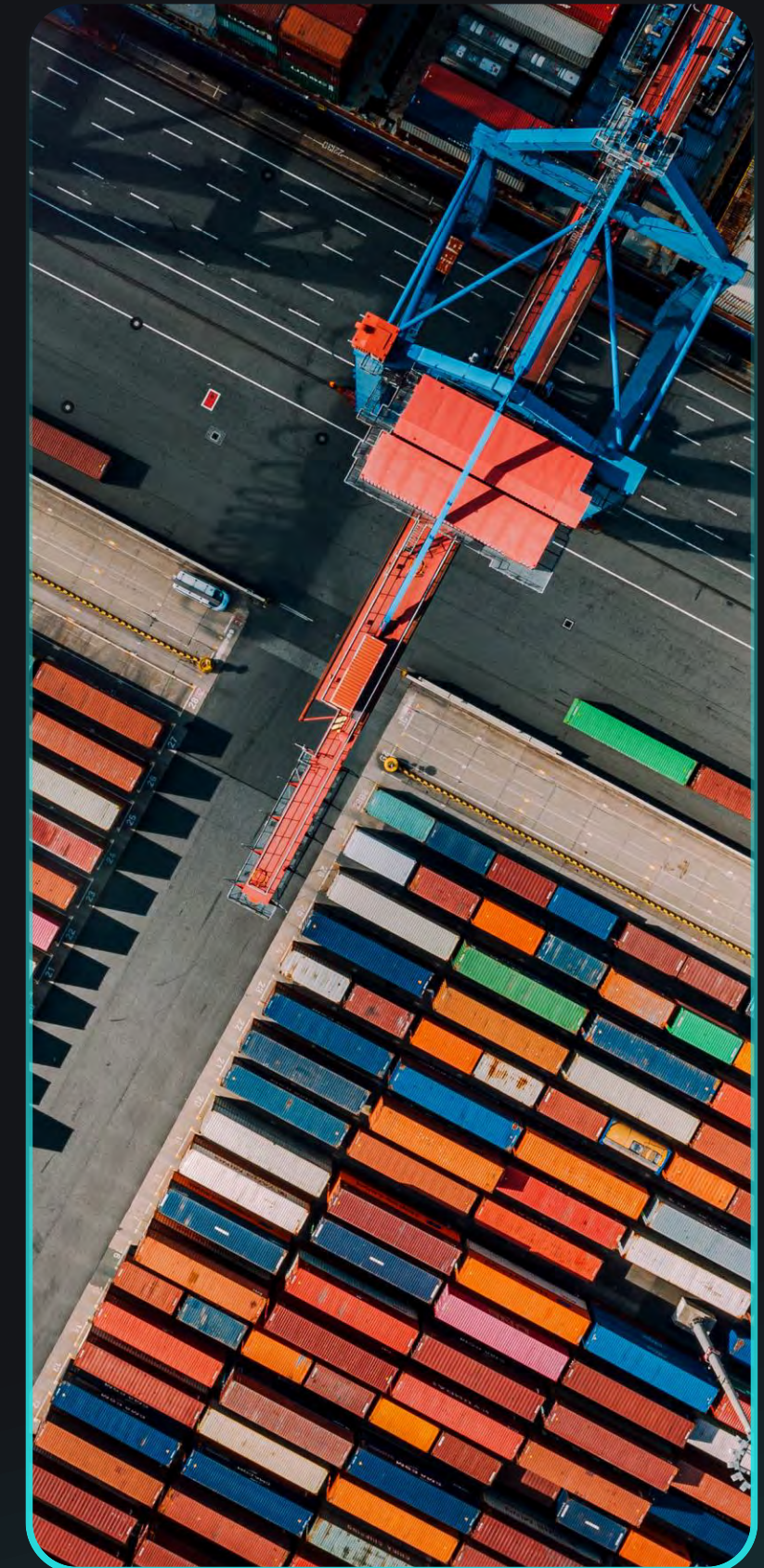
Different destination



Manipulation



Trade transactions & flow of money





TECHNIQUES OF TBML (6):

Other techniques of TBML include:

- Counterfeit goods at **inflated prices**.
- Shell/Front Companies to create **fictitious trade transactions**.
- Using **unrelated third parties** to make payments which **obscure the money trail**.
- Black Market Trading.

ECONOMIC SECTORS AND PRODUCTS VULNERABLE TO TBML ACTIVITY:

- High-value, low-volume sectors or products.
- Low-value, high volume sectors or products.
- Wide pricing margins.
- Extended trade cycles.
- Difficult for customs authorities to examine.



TBML AND ITS RISKS TO SUBJECT PERSONS:

- Criminals may be targeting specific services offered by subject persons, such as accountancy services in SBML.
- Complexity and layers involved in TBML schemes make it difficult to detect.
- Subject persons may unknowingly be facilitating TBML by servicing their customers.



Thank you



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