

## CHAPTER 4:

### **CONTROLLING TRADE BASED MONEY LAUNDERING THROUGH RISK BASED APPROACH**

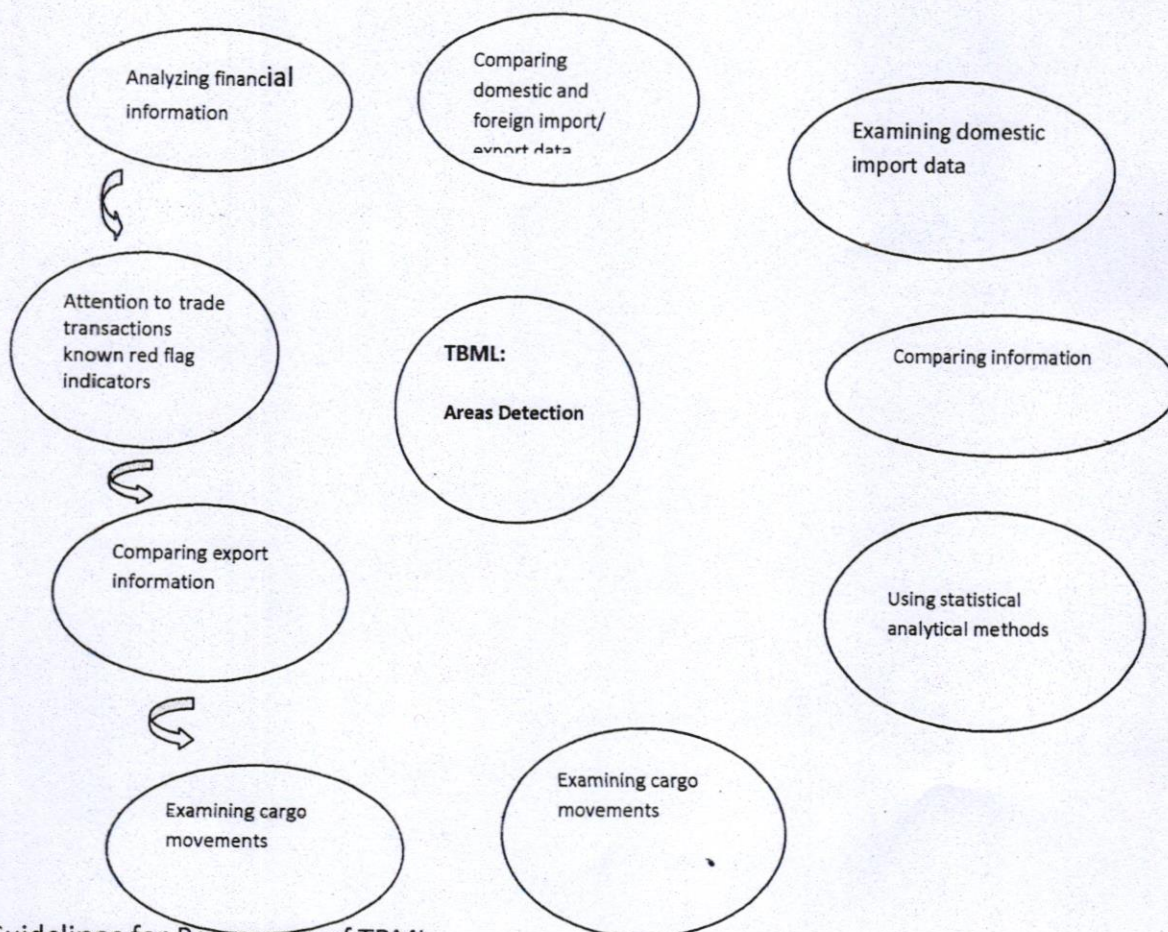
#### **4.1 Introduction**

A Bank shall have to assess its TBML risks and develop trade control mechanism. The risk assessment should be documented, reviewed from time to time and updated accordingly.

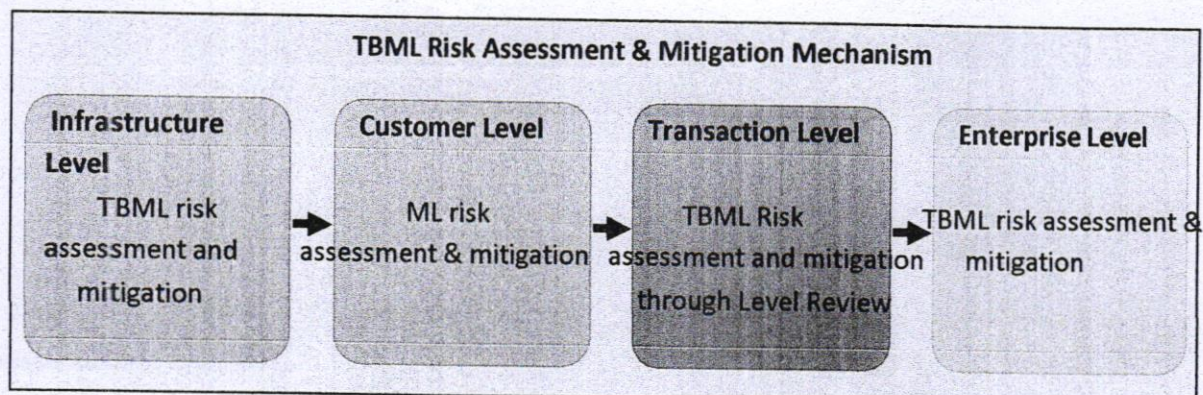
A risk-based approach requires financial institutions to have systems and controls that are commensurate with the specific risks of money laundering and terrorist financing facing them. Assessing this risk is, therefore, one of the most important steps in creating a good AML/CFT compliance program. As money laundering risks increase, stronger controls are necessary. However, all categories of risk—whether low, medium or high—must be identified and mitigated by the application of controls, such as verification of customer identity, customer due diligence policies, suspicious activity monitoring and economic sanctions screening. Bank shall assess its TBML risks and develop trade control mechanism. The samples mechanism will be vetted by BFIU. The risk assessment shall be documented, reviewed from time to time and updated accordingly. The Bank will conduct a comprehensive risk assessment of the trade finance business, taking into account their customer base, geographical locations, products offered and emerging risks.

#### **4.2 TBML Risk Assessment & Mitigation Mechanism**

##### **Trade Based Money Laundering Areas Detection for Mitigation Strategy**



Trade based Money Laundering risk may arise and affect due to inadequate infrastructure of a bank, inaccurate assessment of the customer before on board, poor identification and handling of TBML alert while conducting trade transaction by the officials concerned and; overall for failure of a bank to address the risk at the enterprise or institute level. Hence, the bank has establish TBML risk assessment and mitigation at infrastructure level, customer level, transaction level and at enterprise level as shown in the flowchart below.



First comes the 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 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.

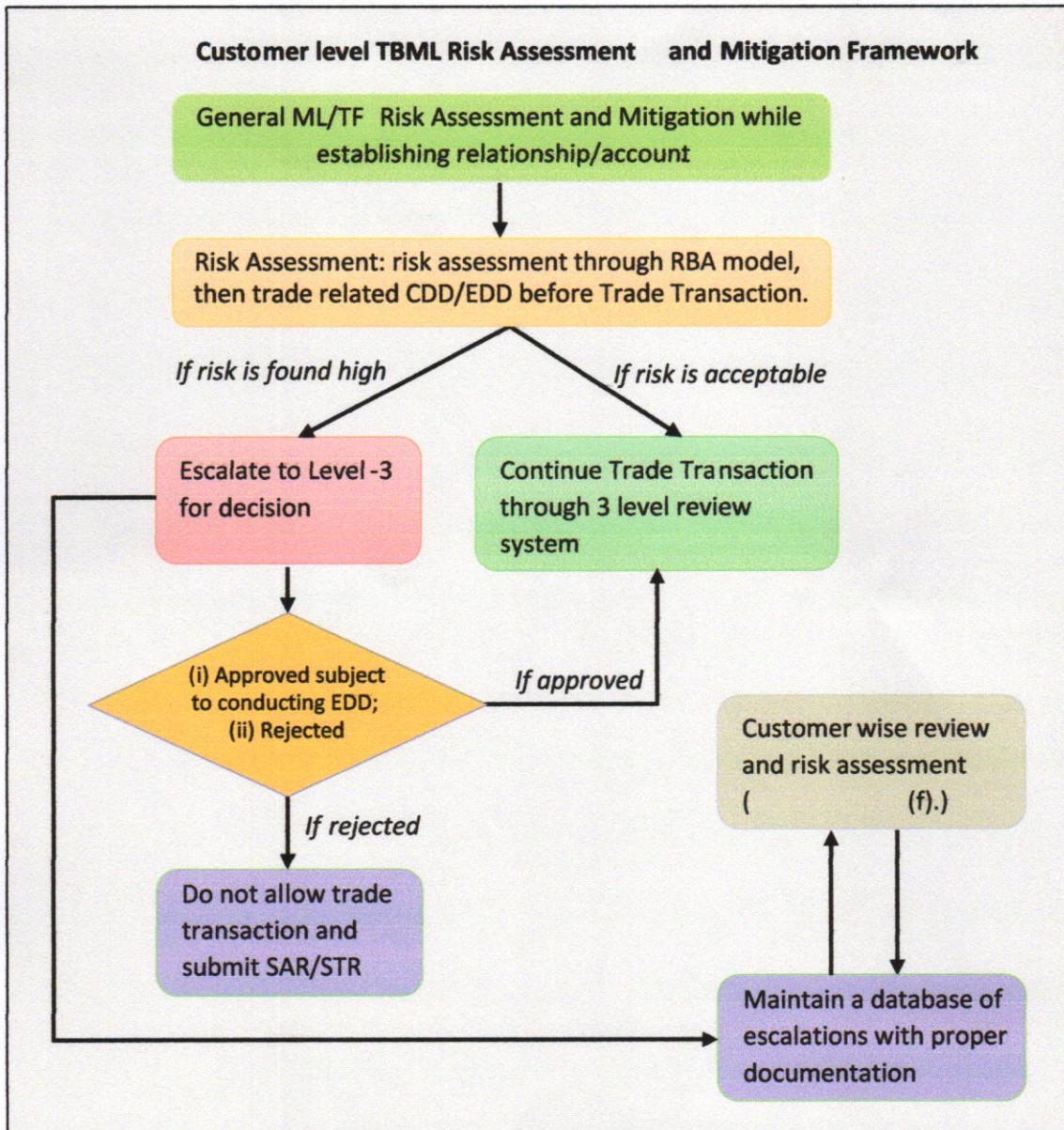
#### **4.3 Infrastructure Level Risk Assessment**

The Bank has developed its own infrastructure for transaction monitoring and screening in line with their exposure to international trade and will maintain price verification. The Bank shall at a minimum establish the following to combat trade based money laundering:

- Automated Sanction screening process;
- Procedure of manual screening process;
- Own data base based on transactions;
- Subscribe for publically available online commodity pricing website;
- Vessel tracking system.

#### 4.4 Customer Level TBML Risk Assessment and Mitigation Mechanism

- (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 relevant BFIU circular and ML & TF risk management Guidelines issued for banks by BFIU shall be followed.
- (b) Risk Assessment related to Trade: As in most cases there are some products and commodities, various delivery channels and jurisdictions through which TBML occurs, it is quite convenient to have a risk based approach. Risk assessment should be done following the sample model given by the Bank (subject to vetting by BFIU) depending on their respective risk exposure and experience. Banks 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 may be chosen.
- (c) As recommended by the BFIU the Bank will ensure independent evaluation/assessment 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. Customer level risk assessment for newly on-boarded trade customer is to be done before initiation of trade transactions. For existing trade customers, customer level risk assessment will be done as early as possible but should not be later than next periodic review of KYC in pursuance with BFIU circular 26.
- (d) Trade related CDD/EDD: If a customer's risk level is found low or medium, the 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 after conducting EDD. If Level 3 is not satisfied considering the magnitude of risk, the 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.
- (e) 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 .
- (f) 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.
- (g) Review and Assessment of Customers: For high risk customers review and assessment frequency shall be one year, for medium risk customers this frequency shall be every three years and for low risk customers it shall be 5 years. The review system mentioned above will facilitate input for the enterprise wide risk assessment and assist the Bank to update TBML trend and typology and devise appropriate policy and strategy at the enterprise level.



#### 4.5 Customer Level Risk Assessment

The framework as detailed below is a sample for guidance and reference only. The Bank may opt for qualitative and quantitative assessment, should design their own feasible scoring model depending on their respective risk exposure and experience and get the model vetted by BFIU.

**Sample Risk Based Model for Trade Customers**

Risk Components	SL	Risk Parameters	Risk Level			Risk Score (0-3) <sup>1</sup>			
			Low	Medium	High	Obtained score	Max score		
			1	2	3				
Trade Customer Demographic	1	Business History	5 years and above	Less than 5 years	New Client				
	2	Payment Behavior <sup>2</sup>	All payment made on due time	1-10% of total payment not made on due time	more than 10% of total payment not made on due time				
	3	Adverse Media Report	No adverse media report	Adverse report on social media or in other than daily newspaper	Adverse media report published in daily newspapers or electronics media				
	4	Law Suit Filed	No Law Suit	The client has been involved in litigation in past ,but no adverse judgements and not current under litigation	Adverse judgement in past or the client is currently involved in litigation				
			others						
	5	Business entity	Government	private limited	proprietorship/partnership/others				
	6	Export proceeds	Advance TT	Letter of credit	Collection/contract				
	7	PEPs/IPs in management/owner	Have no PEPs/IP	Having PEPs/IPs before 36 month before	Having PEPs/IP.				
<b>Sub Total</b>									
Geographic location of trade Transaction	8	Basel AML index	Countreies are ranked from 51-rest	Countreies are ranked from 11-50	Countreies are ranked from 1-10				
	9	FATF public documents	-	Juridictions no longer subject to monitoring list	Jurisdiction under increased monitoring list				
	10	corruption perceptions Index of Tranperency International	Countreies are ranked from 1-20	Countreies are ranked from 21-150	Countreies are ranked from 151-rest				
	11	port location	All Sea por texcept adjacent to sanction countries	Sea port Adjacent to sanction country	Land port/port of Landlocked country				
	12	complexity	only 1 counterparty jurisdiction in a Trade Transaction	2 counterparty jurisdiction in a Trade Transaction	More than counterparty jurisdiction in a Trade Transaction				
	<b>Sub Total</b>								

	13	Food Grain	Import by Government	Import Commercially	Import Industrial		
products/ services	14	Industrial Raw Materials	-	Industrial Raw Materials Imported by Industrial importer	Industrial Raw Materials Imported by commercial importer		
	15	Industrial Raw Materials	-	Import under Not Bonded Warehouse facilities	Import under Bonded Warehouse facilities		
	16	Capital Machinery	govt. related Energy/power sector machinery	Textile/leather/jute/garment/ Agro food processing industry	Energy/power/ Agro food Machinery		
	17	Trading Goods	TTI 0-30%	TTI 31-50%	TTI 51%and above		
	18	Service Import or Service Export	-----	Service related with import goods	Only service		
	19	Defense-Goods	Import by Government	Import by government Authorized representatives	import privately		
	20	Dual-Use Goods	No Dual use goods	The client deals in low risk dual use goods (such as Common electronic parts, computer equipment, home appliances electronic parts	Some activities with high risk dual use goods (such as iron, ammonium nitrate		
	21	Other products (if any)	-	-	-		
	22	Multiple Products	Less than 5 products	products range 5-10	More than 10 products		
	23	Export Goods	Cash Incentive 0-5%	Cash Incentive 5-20%	Cash Incentive above 20%		
	24	Export Goods	Traditional item	-	Non Traditional item		
<b>Sub Total=</b>							
Transac tions trend/ history	25	Value of trade transactions (commercial)	Less than USD 200000.00 in past year in total trade	more than USD200000 to less than USD 200000 in past year in total trade	more than USD200000 past year in total trade		

26	Value of trade transaction (industrial)	Less than USD 100000.00 in past year in total trade	more than USD100000 to less than USD 200000 in past year in total trade	more than USD200000 past year in total trade		
27	Number of trade transactions (commercial)	1-20 per year	21-50 per year	over 50 per year		
28	Number of trade transactions (industrial)	1-200 per year	201-500 per year	over 500 per year		
29	Number of escalated TBML alerts	1 to 10	11 to 20	more than 20		
30	Number of STR	0	1 but last two year ago	At least 1 within two years		
<b>Sub Total=</b>						
<b>Total obtained mark*100</b> <b>Composition of Risk Level = .....</b> <b>Total Maximum</b>						
<b>Comprehensive Risk Level</b>	75 % and above					
High Risk	50 % and above but below 75 %					
Medium Risk	Below 50%					

#### 4.6 Trade Related CDD Requirements

The Bank will conduct CDD in line with risk based framework and consider the following requirements as suggested below. The Bank may decide on whether the trade related CDD requirements will be performed at the time of establishing relationship/opening account with the customer along with conducting general CDD or separately before starting trade transaction.

1. Collection of required documents & information such as:
  - a. Nature of business including major goods, services and jurisdictions the customer deals with;
  - b. Usual delivery / transportation mode for goods or services;
  - c. Major suppliers and buyers;
  - d. Products and services to be utilized from the bank;
  - e. Existing/anticipated account activities;
  - f. Usual methods and terms of payment and settlement;
  - g. Any observations/ratings on the customer by concerned departments of the bank;
  - h. Any previous suspicious transaction/activity reports to BFIU;
  - i. Other information from the relevant staff; and
  - j. Trade Transaction Profile.
2. Verification of the documents & information mentioned in 1 above 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.
6. Understanding business, production capacity, end-use of goods, 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.
7. Updating CDD information in accordance with BFIU Circulars and ML & TF Risk Management Guidelines.
8. Maintaining customer wise trade transaction profile (TTP) including items of goods,value, volume, nature of business, and principal counterparty country etc. TTP should be made available to Level 1, 2 & 3 so that they can easily check that a transaction is within the agreed profile of the customer. Until TTP is integrated within core banking system, it may remain offline outside of the core banking system. Level 2 shall conduct TTP review and decide on certain transactions escalated by Level 1. If necessary Level 3 may also consult TTP while taking ultimate decision on transactions escalated by Level 2. Post facto review of TTP against trade transactions may be conducted at least annually to identify TBML Alerts.
9. 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. Objective behind updating of the CDD profile is to ensure that the information in the CDD profile is current. The 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.
10. Bank has developed own process of "customer/transaction level risk assessment" based on their risk exposure.

## CHAPTER 5:

### **TBML Risk Management framework – 3 Level Approach**

5.1 Introduction: Depending on TBML risks trade transactions shall be disambiguated at level 1 or shall require escalations to level 2 or level 3 before they are executed or rejected and reported to BFIU as STR/SAR. All three levels, their roles and responsibilities, escalation, review and disambiguation systems have been described below:

#### **5.2 Level -1**

##### **5.2.1 Defining Level -1**

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

##### **5.2.1.1 Roles and Responsibilities at Level -1**

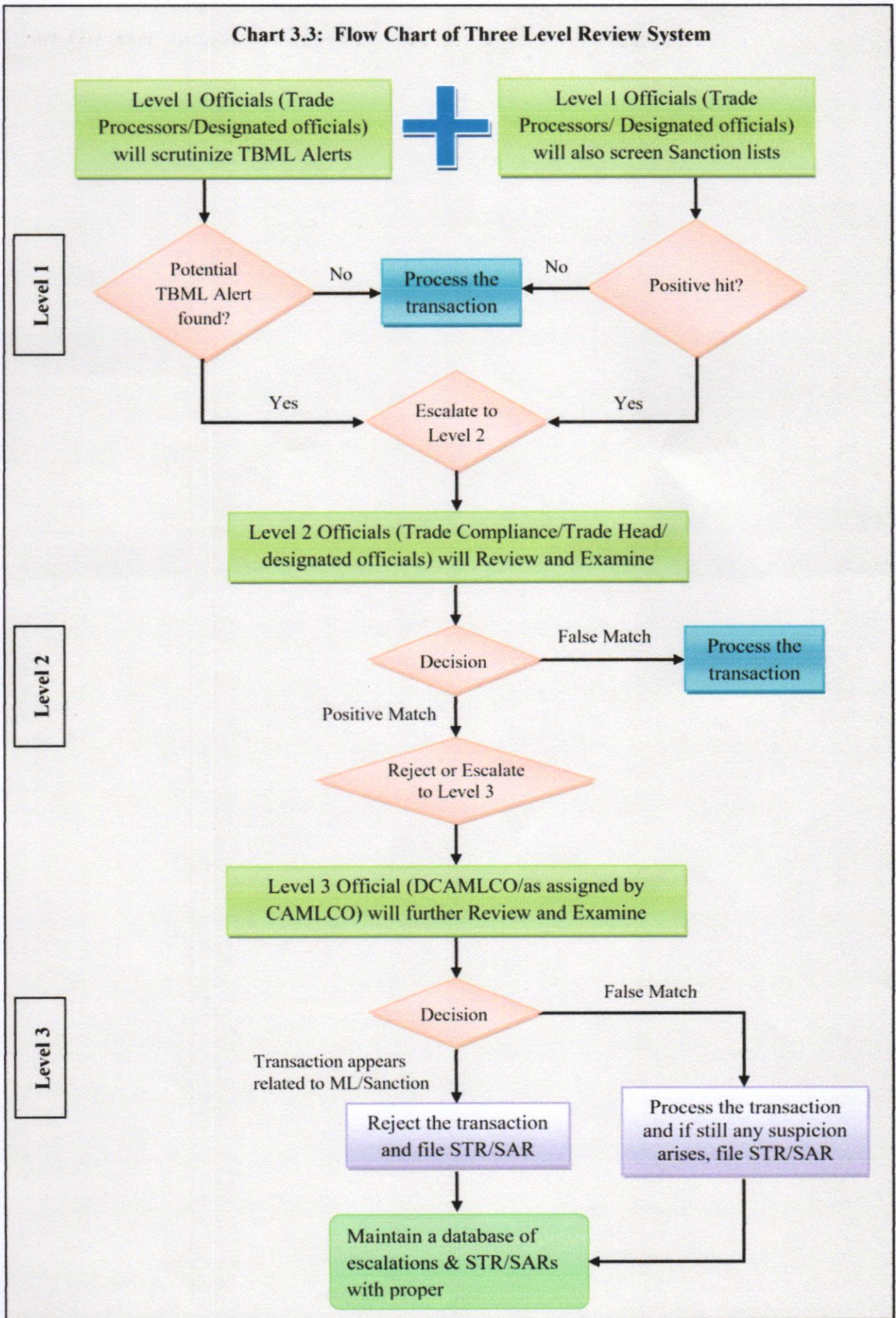
- i. Ensure that the customer has a current, approved KYC record and TTP in place before processing transactions.
- ii. Perform TBML Alert analysis and Sanction screening and execute transaction.
- iii. Escalate TBML Alerts/Potential hits of the transactions to Level 2, where required.
- . Escalate Suspicious Transactions/Activities to Level 2.
- v. Keep record properly.

##### **5.2.1.2 Level 1 Review, Disposition and Escalation Guidance**

Every trade transaction should undergo TBML Alerts analysis and sanction screening. Initial TBML Alert analysis and screening should be completed at Level 1. The required elements of TBML Alert analysis and screening are set forth as below.

Maker or processor will review the transactions and identify relevant ML, TF, Sanction and TBML Alert and raise them to checker, reviewer, verifier, authorizer or designated officials who will further review the transactions and TBML Alerts. When needed, reviewer will examine 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, Level 1 officials should use their expertise and experience to evaluate each transaction on its merits and escalate any potential concerns to Level 2. If checker, authorizer, or designated officials cannot disambiguate or 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.

**Chart 3.3: Flow Chart of Three Level Review System**



### **Illustration 1:**

Subject: AML concern ref. 123abc..., Applicant or 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: Handicrafts

This is an Export Bill in which the goods, "Handicrafts" is being shipped to Columbia.

The following TBML Alerts are identified:

1. Buyer is from Singapore; goods are consigned and shipped to Columbia.
2. High Risk Country: Columbia. (as referred to in [www.fatfgafi.org/countries/#high-risk](http://www.fatfgafi.org/countries/#high-risk), for high-risk countries)
3. High Risk Goods: Handicrafts.

### **Resolution by Level-1**

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 handicrafts.

### **Illustration 2: From: Level 1 to: Level 2**

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 goods, "Sugarcane" is being shipped 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. Price per unit of the sugarcane appears to be high.
- d. High risk country: Nigeria.

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

## **5.3 Level 2**

### **5.3.1 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 designated officials. In any case, they should have adequate seniority and skill to conduct the role of level 2.

#### **5.3.1.2 Roles and Responsibilities at Level 2**

- i. Review and examine the TBML Alerts raised by level 1.
- ii. Review TTP on certain Alerts.
- iii. Disambiguate with proper rationale and justification.
- iv. Document properly.

### 5.3.1.3 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 should be escalated to Level 2.

Level 2 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 Level 1 to allow the transaction, otherwise escalate to Level 3. However, if TBML risk appears very low to Level 2, yet for certain reasons they cannot resolve TBML Alerts, they may allow transactions escalating the Alert(s) to Level 3. If, after the transaction Level 3 finds the transaction suspicious, STR shall be submitted.

Illustration 1: From: Level 1 to: Level 2

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 being shipped 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. Price per unit of the Sugarcane appears to be high.
- d. High risk country: Nigeria.

**Resolution by Level 2:**

- 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 confirmed that the port of loading is Chattogram, Bangladesh.
- c. Unit price provided is consistent with the current market price available online.
- d. High risk country: Nigeria.

Since applicant is registered in Nigeria and shipment is also made to Nigeria, it is ok to process the transaction. Level 2 shall instruct Level 1 to conduct 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 escalated to Level 2:

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

### **Further analysis and escalation by Level 2 to Level 3:**

Designated Level 2 officers have further scrutinized 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 Level 1.

After getting resolution/decision from Level 3 they will in form Level 1 accordingly.

### **5.4 Level 3**

#### **5.4.1 Defining Level 3**

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

#### **5.4.1.2 Roles and Responsibilities at Level 3**

- i. Conduct comprehensive review and examine the TBML Alerts raised by Level
- ii. Consult TTP if necessary.
- iii. Disambiguate with proper rationale and justification.
- iv. File STR/SAR where required.
- v. Document properly.

#### **5.4.1.3 Level 3 Review and Disposition Guidance**

Level 3 shall 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 Level 3 identifies facts that reasonably mitigate each of the TBML Alerts associated with the transaction, then Level 3 shall 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 remains suspicious, then Level 3 shall prepare a Suspicious Activity/Transaction Report.

Level 3 shall determine whether the activity or transaction in question should be permitted or rejected and whether the activity or transaction warrants a Suspicious Activity Report. If Level 3 is apparently satisfied with the available information, he/she may approve the transaction with a remark for further scrutiny or more information for complete satisfaction on post facto basis. Before submission of STR/SAR to BFIU, CAMLCO shall ensure compliance with due procedure, required data and documents in line with the instructions given in relevant BFIU circular.

All Level 2 and Level 3 escalation dispositions of TBML Alerts or screening hits should be properly 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 Level 2:

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

3. High risk product is involved.

**Further Examination and escalation by Level 2 to Level 3:**

Designated Level 2 officers have further examined these TBML Alerts and they could not disambiguate these alerts. As such they further escalated to Level 3 with same rationales:

Level 3 designated official also examined 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 or competitive 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 Advance Receipt Voucher (ARV) at the request of exporter ABC Co. Ltd, in Bangladesh. For Value: USD 15,000.00 buyer, XYZ Co. in China.

TBML Alerts identified and escalated from Level 1 to Level 2 are 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 (nine) months, whereas goods are ready made garments that need maximum 4 months for shipment.

4. This exporter has also received more advance payments earlier against which shipment has not yet been made. Further examination and escalation by Level 2 to Level 3

Designated Level 2 officers have reviewed these TBML Alerts and they further escalated these alerts to Level 3 with the same rationales as stated by Level 1 officials. Level 3 designated official also reviewed and examined the TBML Alerts and disambiguated these alerts with the rationales below:

Level 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 examination shows that buyer is a trading company who also trades ready-made garments.

3. Some shipments may take longer period. It is ok to go ahead with this transaction as the exporter has track record of shipment default after receiving advance payment. In this case advance payment of the customer should be released.

## **CHAPTER 6:**

### **Integrated TBML controls with existing AML/CTF program, Economic Sanction and Capacity building**

#### **6.1 Integrated TBML controls with existing AML/CTF program**

BKB as a reporting organization is subject to the AML & CTF laws. In line with the requirement of the laws and as per BIFU's directives, it will accomplish and maintain an effective TBML prevention program to keep the Bank risk free from money laundering and terrorist financing. The Bank will follow "Integrated TBML controls with existing AML/CTF program" in preventing TBML. "Stay alone" theory is not effective to combat TBML. The Bank deals with various lines of banking business such as Corporate, SME, Retail, MFS, Foreign Trade etc. So, it is assumed that an integrated TBML control will be successful in combating TBML. The commencement of "Integrated TBML Control" should be a combined effort of the Customer selection, Customer Identification, Customer On-boarding, Conduction and making of the robust KYC profile of the customer, complying with the Customer Due Diligence requirements, and specific TBML and sanction controls initiated by trade operation people of the Bank.

#### **a. KYC Profile and TBML:**

Knowing the Customer adequately is the fundamental for TBML control. The Know Your Customer (KYC) program for trade customer is not only limited only knowing the customer but also:

- The source of fund;
- Nature of Business;
- Business history including Nature of goods traded;
- trade cycle;
- Adverse media news;
- Ownership structure of the business;
- Relationship between the nature of business and Service/Product to be Imported/Exported;
- The demand and supply of the Service/Product in the country to be Imported/Exported etc.
- Trading partners or counterparties of the customer (including buyers, sellers, shippers, consignees, notifying parties, shipping agents, etc.);

#### **i. Trade control- Specific Customer Due Diligence**

- Collect customer information related to trade-based activities;
- Regularly update customer information related to trade-based activities;
- Get more information when inconsistencies are identified: A robust information sharing system will be established among relevant Department, Unit, Branches and management to be ahead of time;

- Performed on all parties to the transaction: The transaction monitoring will be done “each and every” basis, rather, sample test theory.

## **ii. General**

- Establish policies and procedures based on a written risk assessment: The Bank periodically review the Policy Guidelines on TBML taking into account changes in the operating environments and regulatory developments. The Policy Guidelines on TBML will be reviewed annually, and if necessary the Policy Guidelines will be updated incorporating the necessary changes/updates. The updated Policy Guidelines will be implemented without delay.

iii. **1st Line of defense** - Front office staff Know clients normal trade activity;

iv. **2nd Line of defense** - Compliance trade/finance unit Review and analyze business plans and finance requests to determine legitimacy;

v. **3rd Line of defense** - Internal audit Review effectiveness of anti-TBML controls.

## **b. Roles and responsibilities**

- Appoint a compliance officer;
- Staffing Expertise in the TBML combat;
- Train appropriate staff;
- Conduct an independent TBML audit;
- Monitor for suspicious transactions and red flags;
- File SARs as appropriate.

## **6.2 Some of the Trade Controls the Bank will consider are:**

- All relevant staff and officials of the Bank will be made aware and remain updated of trade controls. Dissemination through regular correspondence should also be emphasized.
- To assess the effectiveness and adequacy of the trade controls, independent review shall 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.
- Trade Controls should address all possible difficulties that relevant officials may face in combating TBML.
- The Bank shall make use of rule based alert/exception reports or detection scenarios to the extent reasonably practicable. Some examples of detection scenarios based on TBML Alerts .
- Trade Controls should ensure clear division of roles and responsibilities and ownership of risks relating to critical functions.

- Trade Controls should require decisions relating to trade transactions, work flow 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 mechanism 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-
- Apart from the yearly review of strategy and policy by senior management the Bank will 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.
- The trade transactions conducted through any IT or Technological Platform of a bank will be governed under the directives of Bangladesh Bank issued from time to time.
- Relevant senior officials having awareness of contemporary intelligence & knowledge on geopolitics and other cross border regulatory restrictions which are not as much stringent as that of Sanction but may lead to regulatory and legal hassle should guide the transaction level officials on due diligence measures to be exercised in such situations.
- Trade Controls should be readily identifiable by and made known to all relevant officials engaged in trade related activities.

### 6.3 Sanction Screening System

Economic sanctions are a way to financially isolate a target. Increasingly, countries are using economic sanctions instead of military force as an instrument of foreign policy. Sanctions can generally fall into one of the following categories.

- a. **Targeted sanctions:** aimed at specifically named individuals, such as key leaders in a country or territory, named terrorists, significant narcotic traffickers and proliferators of weapons of mass destruction. These sanctions often include the freezing of assets and travel bans where possible.
- b. **Sectoral sanctions:** aimed at key sectors of an economy to prohibit a very specific subset of financial dealings within those sectors to impede future growth.
- c. **Comprehensive sanctions:** generally prohibit all direct or indirect import/export, trade brokering, financing or facilitating against most goods, technology and services. These are often aimed at regimes responsible for gross human rights violations and nuclear proliferation.

Bangladesh krishi bank will deploy the automated sanction screening system. The Bank will also continue its efforts to have automated real time Vassal Tracking System. Dedicated expertise will be employed to monitor both the systems, review and escalate applicable issues to the higher level.

Most jurisdictions impose sanctions regimes, particularly to comply with sanctions imposed by the United Nations and for members, the European Union. As expected,

1) Sanction screening shall be conducted on individual, entity, banks, insurer, NGO/NPO, country, port, flag, vessel etc. The screening should also be conducted on all the parties involved in the transaction and geographic location to the transaction, such as seller of the goods, the shipping company, any agents or third parties, countries or ports etc. that appear in the transactions.

2) 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.

3) BKB has subscribed to the extensive loyds Vessel Tracking System which facilitates Vessel tracking (origin port, transshipment, destination port) and its voyage history are tracked to determine whether it has docked at embargoed countries during its previous voyage and dealt with sanctioned entities or embargoed goods. It should be borne in mind that vessels may change their names but cannot change their IMO number; hence cross-checking IMO number through a reliable source is recommended.

4) Beneficial owner, commercial operator and registered owner of the vessel involved in the transaction to trace the history of former ship owners with focus on country of residence;

5) Port of loading, ports-of-call and port of discharge (including whether the goods originate from, or are sold to any sanctioned country) and the trade routes proposed to be used;

6) Care should also be taken to PEPs/IPs screening, adverse media screening, High Risk Country screening;

7) 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 automated /manual procedure:**

- i. Unit prices
- ii. Number of items shipped
- iii. Shipping marks
- iv. Trade term – often an Incoterms rule followed by a place
- v. Commercial contract
- vi. The documentary credit applications
- vii. The guarantee applications
- viii. The documents presented under import documentary credits
- ix. The documents presented under export documentary credits
- x. The documents presented under import documentary collections
- xi. The documents presented under export documentary collections
- xii. Guarantee demands
- xiii. All incoming and outgoing SWIFT messages etc.

#### **6.4 The Bank shall at a minimum designate officials to handle:**

- i. Sanction screening results analysis/escalation
- ii. Vassal tracking report analysis/escalation
- iii. TBML related transaction monitoring alert analysis/escalation.

#### **6.4.1 The key factors the Bank will consider regarding Sanction Screening**

One of the key components of a successful Sanctions Screening Program is a strong technology framework that can process data quickly and efficiently, employ an efficient and effective matching algorithm, and possess a clear audit trail of observations and resolutions. The Sanction Screening system of the Bank shall consider-

- Appropriate data shall be collected and consistent data formats maintained;
- Multiple versions of customer and related party records will be maintained;
- Applicable watch lists shall be kept current;
- All indicia in the watch lists should be utilized in the Sanctions Screening process;
- Matching algorithms should consider multiple parameters;
- Alerts should be risk rated or prioritized;
- Methodology for alert escalation and disposal should be clearly defined;
- Case management feature;
- Ability for ad hoc screening;
- Customizable KPI reports;
- A strong Business Continuity Plan etc.

#### **6.5 Capacity Building**

Capacity building is a continuous process. Combined efforts of knowledge, skill and good practices can ensure sustainable enhancement of capacity of human resources. The global trend in implementing technology and innovative ideas to manage TBML risk has made fierce challenge for the expertise to be updated. Formal training, research/analysis, maintaining the approved standard can assure some comfort to build the capacity of the officials.

#### **6.5.1 Training on Trade Based Money Laundering**

Trade based money laundering training will be considered as a core part of the Bank's training calendar or training plan. The AML division of the Bank will arrange training on TBML in association with the Training Institute. Training related records should also be retained properly. At a minimum the following issues will be considered:

- a) The Bank will arrange effective training/workshop time to time training on TBML. The main objective is to 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; Guidelines for Prevention of TBML

- b) The Bank will conduct training need assessment on preventing TBML. 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 shall also be included. Objective behind such training should be to impart training to them on TBML specific risks and responsibilities;
- d) Role-based training will be included for staff involved in day-to-day trade processes. Such staff may include, for example, relationship managers and trade-related operations teams. The goal of role-based training is to educate staff about the specific risks and responsibilities applicable to them, to assist in preventing, identifying, mitigating and reporting potential trade-based money laundering. For example, a document checker in trade operations will require greater in-depth training on irregular data that may be found on invoices, L/Cs and other trade finance-related documents, which they would be expected to handle on a day-to-day basis;
- e) The trade-based money laundering training should be a spoke. To this end, Staff training will be refreshed at regular intervals and relevant training records shall be properly retained to make the program effective and fresh. This will assist the employee to remain aware about the latest scenario of TBML and will also help them to understand about the expanded illicit utilization of the banking channel, risk prone area etc.;
- f) The Bank may consider providing foreign training for its employee if needed.

#### **6.6 Suspicious Transaction/Activity Reporting**

- a) STR/SAR reporting shall be done in accordance with the procedure. Before submission, the STR/SAR will be escalated to DCAMLCO/level and CAMLCO to ensure compliance with instructions of relevant BFIU circular. Risk of tipping off shall also be managed.
- b) In complex situations the Banks may seek opinion from BFIU.

#### **6.7 Price Verification**

The Bank will develop its own database and 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 should be taken to ensure avoidance of any conflict of interest. With the growth of global trade and digitization fueling the next leg up of the trade finance business, the traditional documentary trade business will become more efficient as companies start leveraging technologies such as blockchain, electronic bills of lading and electronic issuance to reduce or even entirely eliminate manual processes. While these developments evolve, it is vital for the banks to establish a strong foundation for mitigating the regulatory compliance risks, which is a combination of processes, controls, sound data model and technologies, so that all relevant transactional data is captured, Guidelines for Prevention of TBML

### Institutional/Enterprise -level TBML Risk Management Framework

#### Input from External Environment/ Factors:

➤ Identify emerging risks by reviewing new trends and typologies.

#### Input from Internal source for risk assessment of the Institution:

Review the existing own trade based money laundering guidelines:

- i. Review the data base of Level 3 escalations and STRs without using identity of the customer.
- ii. Consolidate overall no. of Alerts raised to level 3 and how they were addressed.
- iii. Consider inclusion or deletion of high risk country and why.
- iv. Review, to the extent practicable, TBML alerted counterpart [ for import: Beneficiary/Exporter, for Export: Applicant/importer]
- v. Revisit the existing Alerts (along with input from The Model in 3.2.2) based on previous year operation and knowledge of any recent techniques used by trade based money launderers.
- vi. Revise policy, if and when required. Review customers' risk assessment as per RBA model.

#### Input from Regulatory Changes:

➤ Review domestic and International regulatory changes.

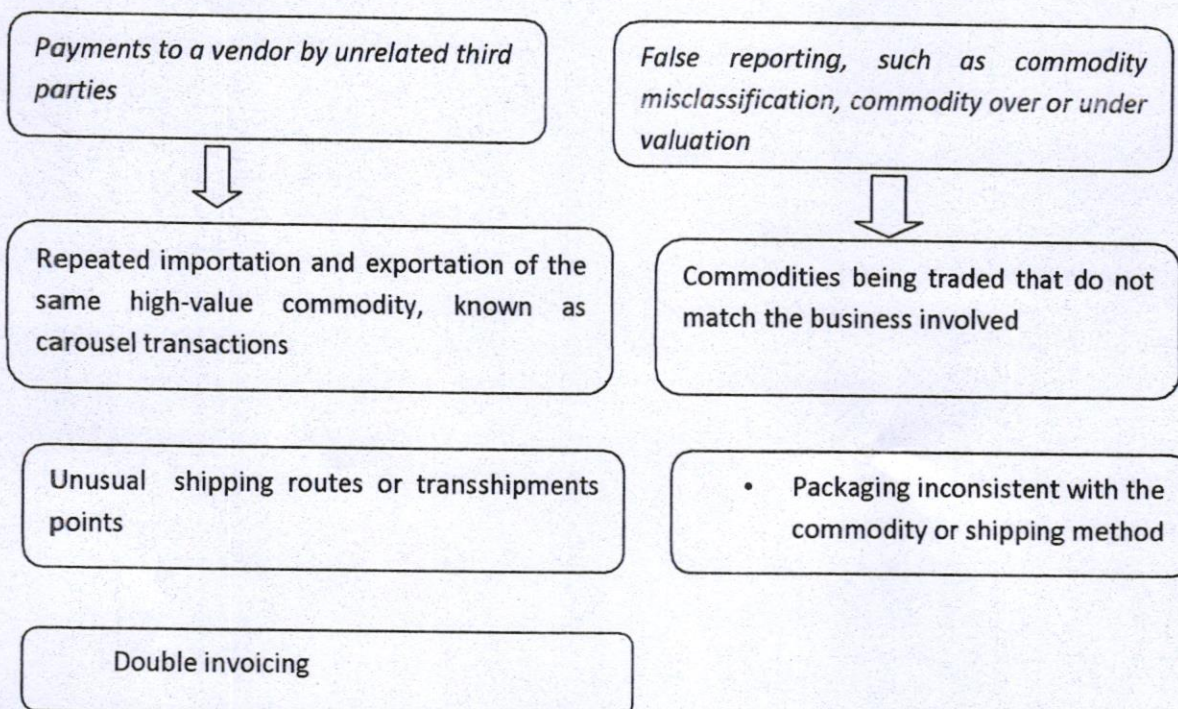
Yearly Review Team (e.g CCC )

Propose New Strategy and Policy to combat TBML risk

Review and Approval by Board/MCC for Implementation

## APPENDIX A: TBML Red Flag

Below are some of the red flag checks of potential TBML activity which the Bank will potentially look for introducing in their pre- and post-transaction screening processes classified by various areas requiring scrutiny.



### Business structure:

- The type of item being shipped is not in line with the exporter's or importer's regular business activities, e.g., manufacturer of toy exporting IT equipment;
- The size of the shipment appears inconsistent with the scale of the exporter's or importer's regular business activities e.g., a third of the turnover;
- Customers conducting business in high-risk jurisdictions;
- Customers in high-risk activities, including those subject to export/import restrictions such as weapons, chemicals, metals, gems, crude oil.

### Transaction, goods and payments structure:

- Transaction structure appears unnecessarily complex to obscure the transaction's true nature, e.g., the use of multiple intermediaries/parties or shipment locations;
- Goods do not comply with applicable import or export regulations, or involve dual-use and high-risk goods;
- Obvious over or under pricing of goods and services relative to fair market value, example gold jewelry at \$500 an ounce when the market value is at \$950 per ounce;

- Deal involves receipt of cash (or other payments) from third-party entities that have no apparent connection with the transaction;
- Frequent amendments to LCs without a reasonable justification; or that include changes to the beneficiary or location of payment;
- LCs are routinely cancelled or utilized;
- Method of payment inconsistent with risks e.g., advance payment for a new supplier in a high-risk country;
- Multiple or double invoicing;
- Obvious misrepresentation of quantity or type of goods imported or exported;
- Unusual trigger point of LC payments e.g., before goods are shipped without documentation.

**Shipment structure:**

- Shipping which uses small Non-Vessel Operating Common Carrier(NVOCC) with the potential of collusion, or high-risk/sanctioned vessels;
- Shipping via high-risk or trans shipment jurisdictions or unconnected subsidiaries;
- Shipment by firms/individuals from foreign countries other than city of exporter;
- Shipment that does not make economic sense (e.g., the use of a 40-foot container to transport a small amount of relatively low-value goods);
- Mismatch in port of loading with vessel location check;
- Shipment locations or description of goods that are not consistent with LC.

**Documentation:**

- Packaging inconsistent with commodity or shipping method;
- Difficulty in determining the ultimate consignee (recipient) (i.e., via agent);
- Shows a higher/lower value or cost than declared to customs or paid by the importer;
- Significant discrepancies between the descriptions of the goods on BL, invoice, or other documents (i.e., certificate of origin, packaging list, etc.);
- Significant discrepancies between the actual goods shipped and the descriptions of the goods on the BL and/or invoice (can only know through inspections);
- Common red flags for LC fraud including incorrect use of banking terms ,spelling mistakes ,and error in grammar and composition.

### **Intermediaries/deal parties/third party:**

- Transactions from unrelated parties in high-risk jurisdictions;
- Transactions involving third parties which are highlighted during sanctions screening as having unacceptably high risk;
- Negative news on parties;
- A transaction that involves front or shell companies;
- Connected applicant/beneficiary e.g., beneficial ownership, signers, shell companies, common shareholders, etc.;
- Originators and recipients of payments have ties to high-risk countries;
- Transactions from unrelated parties in high-risk jurisdictions;
- Transactions involving third parties which are highlighted during sanctions screening as having unacceptably high risk
- Negative news on parties
- A transaction that involves front (or shell companies)
- Connected applicant/beneficiary (e.g., beneficial ownership, signers, shell companies, common shareholders, etc.)
- Originators and recipients of payments have ties to high-risk countries

Sample SWIFT Message Having Poor Data Quality Some of the data quality issues identified in this sample is explained below.

#### **▪ Multiple information stored in a single field:**

Field 50: Applicant and Field 59: Beneficiary include the applicant and beneficiary name as well as addresses as free text information. Applicant and beneficiary names are required to be screened for sanctioned entities and the address information can potentially be used to screen for dealings with high-risk countries and tax havens.

▪ **Poor spelling on name and address information:** A typing error such as 'STAR International' spelled as 'STAR International' in Field 59 can result in a poor screening result and requires standardization.

▪ **Poorly fielded address information:** Common issues include postal/zip codes and counties/states that are entered in generic address lines rather than in dedicated fields as shown in Fields 50 and 59. The fields only indicate a city name instead of the country, leading to a need of standardizing the address information prior to screening.

▪ **Ambiguity in port Information:** Port information is another critical field which can be monitored to screen and identify the red flag if any of the shipment locations is from a high-risk/sanctioned country or tax haven. Some issues in this information include a misspelled port name such as 'Sydney' spelled as 'Sidney' in Field 44E: Port of Loading, leading to ambiguity in the identification of whether the port is in Australia or the town of Sidney in Canada. Such an ambiguity can be resolved by using the contextual information. For instance, "Australia" is mentioned in Field 44E with a reasonable probability. However, in another example Field 44F: Port of Discharge, states the port as "George Town," which can be the Port of George Town in Australia, or the city of George Town in Malaysia, or even George town in Washington D.C. Such cases would perhaps require manual intervention for reaching a decision and should be flagged out as exception. Further enrichment can be considered using third-party data sources, such as world cities and port databases.

▪ **Free text description of goods and services:** Field 45A: Description of Goods and Services, is another field which can potentially trigger red flags pertaining to high-risk goods, over and under invoicing, etc. In Field 45A, the goods being shipped are furniture and related raw materials, which seems to be the business STAR International is dealing in. However, there is appearance of dual-use goods such as fluorophosphate glass and zirconium fluoride matching with European Union (EU) Dual-Use Goods List Item #6C004.e; and a chemical compound P2O5 which indicates phosphate glass also matching with EU Dual-Use Goods List Item #6C004.e. Such issue with nonstandardized information appearing as free text makes the screening automation hard to achieve and requires free text parsing, recognition and standardization capabilities.

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 into 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