

## APPENDIX B:

### TBML ALERTS

Consideration the TBML Alerts described below while conducting trade operations:

TBML Aler No.	TBML Alerts	Purpose/Rationale with example
<b>Applicant/Beneficiary</b>		
<b>Alert# 1</b>	<b>Importer and exporter are related parties and there is common interest.</b>	In most cases of illegally transferred fund, applicant and beneficiary are related or connected parties or there are some common interests between them. So bank needs to be aware of whether the applicant and beneficiary of a trade transaction are in any way related to some common interests. In this context, bank should also follow instructions contained in para 2 of Chapter 7 and para 7(b)(iv) & para 7(c) of Chapter 8 of GFET, 2018.
<b>Alert# 2</b>	<b>Transacting parties appear to be affiliated, conduct business out of a residential address or provide only a registered agent's address.</b>	Party 'A' enters into a contract with party 'B' for import of goods through documentary credit. The contact address of party 'B' appears C/O: legal representative name and its address details, or prior to opening of LC, credit report of party 'B' reveals that party B's
		line of business is not consistent with underlying goods. In both instances, the exporter may try to hide the true beneficial owner of the transaction.
<b>Alert# 3</b>	<b>Customer behaviour.</b>	The behaviour of the customer may give rise to TBML alerts. For example, the customer suddenly becomes anxious and puts pressure on the bank, or offers bribery, threatens to terminate business relationship to execute the transaction.
<b>Alert# 4</b>	<b>Any of LC/Contract/Guarantee parties are known to be owned or controlled by Politically Exposed Persons (PEPs) or Influential Persons (IPs).</b>	PEPs & IPs may exert undue influence to conduct trade transaction in their favour. As such banks need to have an effective mechanism to identify PEPs' involvement in the trade transactions as applicant or beneficiary or any other party.

3 <sup>rd</sup> Parties		
<b>Alert # 5</b>	<b>Involvement of the parties in the trade transaction cannot be explained.</b>	It has been seen that applicant and beneficiary are not willing to explain the rationale of involvement of intermediaries in the transaction. At this backdrop, though banks may not be able to know all the parties involved in the transaction, they should understand why they are involved, and involved parties with no apparent logical role in the transaction should be examined further.
<b>Illustration</b>	Party 'A' approaches Bank 'B' to open an LC favouring beneficiary of country 'C'. Party 'A' requests bank to advise the LC in any bank in Country 'D' instead of country 'C'. However, there is no information in proforma invoice on the basis of which the reason of such demand by the beneficiary can be ascertained. In addition to that the beneficiary further demands credit available in another country not related to beneficiary's country. This type of scenario needs further analysis in order to understand different parties' involvement in the transaction.	
<b>Alert # 6</b>	<b>Too many intermediaries making transaction overly complex.</b>	An applicant or beneficiary may approach a bank for a trade transaction with too many intermediaries involved in the transaction with an ill motive of executing transaction through creating complexity. As part of due diligence bank should understand the justification of involvement of intermediaries within the trade cycle. Contact from unexplained parties may be an indicator of a transaction that is more complex than it appears or an indication of unusual activity.

The transactions		
<b>Alert# 7</b>	<b>Transaction structure appears unnecessarily complex or may be designed to obscure bank in nature of the of the transaction. involve many countries .</b>	<p>Though financially solvent, the applicant avail trade finance facility from the unusual and order to disguise the true nature the true He may use unusual transaction. trade term, intermediaries. transactions.</p> <p>Hence, as part of process banks should review the structure and complexity of an LC/Contract.</p> <p>Banks should analyse financial products and transaction structures and determine if they are intended to obscure the true nature of the transaction. For example; it is clear from the transaction structure that giving an undertaking to the beneficiary was not the purpose behind issuing the documentary credit.</p>

<b>Illustration</b>	<p><b>Transaction structure appears unnecessarily complex:</b></p> <p>Party 'A' enters into the contract with party 'B' for import of goods through documentary credit. The underlying agreement is that Party 'B' (the beneficiary) will send some regulatory documents directly to the applicant. Documentary credit only requires that all regulatory documents like: fumigation certificate, phyto-sanitary certificate, quarantine certificate etc. be directly sent to the applicant by the beneficiary. The credit also requires being transferable.</p> <p>Bank 'X' opens a transferable LC with the above condition, which is subsequently transferred to 2<sup>nd</sup> beneficiary. The issuing bank has received presentation from the transferring bank which indicates that 2<sup>nd</sup> beneficiary</p>
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assigned its proceeds to the third parties and requests the issuing bank to pay directly to the third party.

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

1. The beneficiary sends few regulatory documents directly to the applicant: By doing this, the beneficiary is able to keep the required regulatory documents outside the bank's operational purview.
2. The LC is transferable: Under general circumstance, there is no harm in making the LC transferable. But the issuing bank should understand the reasonable ground for transfer. In some situations, the beneficiary sometimes insists on the condition to gain tax benefit and to create gateway to transfer fund from one country to another.

Moreover, the issuing bank should have prior knowledge of the prospective 2<sup>nd</sup> beneficiaries and if possible restrict transfer within the beneficiaries. By doing this issuing bank has prior knowledge of those with whom they are dealing.

Furthermore, the issuing bank should also understand whether it will restrict the transfer within the first beneficiary country or give authority to the transferring bank to make the transferred credit available in 2<sup>nd</sup> beneficiary's country. The issuing bank should have prior knowledge about 2<sup>nd</sup> beneficiary's country with whom the issuing bank intends to deal.

3. Assignment of proceeds: Even though it is not possible to have prior knowledge about request for assignment of proceeds until receipt of notice of assignment or indication in covering schedule, it is quite unusual to receive assignment of proceeds notice under transferable LC. Even in regular irrevocable LC, if the issuing banks receive assignment of proceeds notice, it indicates that the issuing bank is requested to deal with third parties other than the beneficiary.

Assignment of proceeds under UCP 600 is always subject to applicable law and it will not be enforceable to the issuing bank until it acknowledges the assignment of proceeds. The issuing bank should conduct proper due diligence before crediting the documentary credit to third parties.

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

<b>Alert # 8</b>	<b>The customer engages in transactions that are inconsistent with the customer's business</b>	Any trade transaction that deviates from the customer's existing line of business may have ill-motive to transact against criminal

	<p><b>strategy or profile. (Transaction is not in line with the customer's line of business or with his/her TTP)</b></p>	<p>proceeds or may simply move money rather than goods through accommodation of bill etc. Hence, as part of trade specific due diligence measures, banks should take adequate measures to understand the current trading profile of the customer and its future plans on an on going basis. Ensuring these, banks may identify which trade products are suitable and which trade products are vulnerable for a particular trade customer at the outset of a trade relationship. The measures will also help them identify the extent of deviation of a particular trade transaction from the customer's strategy and future plans.</p>
<p><b>Illustration</b></p>	<p>Company 'X' imports garlic, cardamom etc. through Bank 'A' regularly. Suddenly he approaches bank to import 10,000 MT of rice, inconsistent with his regular import items. The underlying purpose may be to facilitate hiding the true beneficial owner of the transaction. This may also be applicable where the customer approaches bank to open LC for larger quantity than his regular import volume without having any reasonable ground or any business expansion.</p> <p>Company 'Y' generally imports metals but suddenly opened an LC to import some electronics which are unusual and prices are unknown to the market. In this way value can be transferred using such new items of goods. It may be that both the importer and the exporter are sister concern managed by the shareholders. As there may not be any physical movement of the goods, the respective transaction has no economic value other than transfer of money from the importer to exporter in the guise of trade</p>	
<p><b>Alert # 9</b></p>	<p><b>The Trade Finance transaction contains non-standard terminology and/or non-standard clauses.</b></p>	

Documentary credits often stipulate very standard clauses as documents requirement, which is by its nature very traditional. If a bank receives an export LC or the customer approaches bank to open an import LC with non-standard terminology or clauses, it may be an indication that the counterpart is trying to convince bank of the creditworthiness of the party and legitimacy of the underlying transaction.

Examples:

**Non Standard Terminologies in documentary credit:**

- ✓ Assignable
- ✓ Divisible
- ✓ Unconditional
- ✓ Unconditional revolving etc.

**Non Standard Clauses in documentary credit:**

- ✓ Ready, willing and able"
- ✓ "Letter of interest"
- ✓ "proof of product"
- ✓ "The funds are "good, clean and cleared, of non- criminal origin"
- ✓ "This is a bearer instrument letter of credit"
- ✓ "to be advised between applicant and beneficiary"
- ✓ "A prime bank guarantee issued by one of the top 50 or 100 world banks or a cash wire transfer" etc.

The above mentioned indications on a documentary credit are very unusual. In such cases banks should further scrutiny.

Alert # 10	<b>Frequent amendment/extension /cancellation pattern.</b>	An LC that has been repeatedly amended should be treated carefully. After an excessive number of amendments, the parties should be required to have a new LC issued. Correction of a slight misspelling of a beneficiary name or of the company designation (i.e. "LLP" vs. "Corp."), should be handled as a transfer rather than as an amendment.
Alert # 11	<b>The transaction appears to involve the use of front or shell companies for the purpose of hiding the true parties involved.</b>	Banks should look at the geographic location and addresses of the parties to a transaction paying special attention to those countries or areas where front or

		shell companies are known to operate. If a bank suspects that a party could be a front or shell company, it should take adequate steps to determine the identity of the suspect entity and whether the entity is designed to hide the true nature of the participants to the transaction.
<b>Alert # 12</b>	<b>Guarantee/Standby LC fails to reference underlying project or contract.</b>	<p>When a bank issues guarantee, or receives counter guarantee ultimately to issue guarantee, it may fail to incorporate all the required information including reference of underlying projects.</p> <p>Hence, banks need to ensure the apparent authenticity of the underlying contract, bid etc. based on which the guarantee is being issued. If beneficiary of the guarantee is a government entity, then it could be easily verified via their website. In case of private beneficiary extra due diligence should be applied for the underlying contract. e.g copy of the contract, copy of paper announcement etc.</p>
<b>Alert # 13</b>	<b>Fake underlying transactions against a guarantee/SBLC/LC.</b>	Banks need to ensure the identity of the applicant, beneficiary and the underlying documents in order to avoid conflict of interest. Guarantee might be fake if both applicant and beneficiary are related entities and there is no such underlying transactions/performance. It can be executed through KYC for the parties in order to confirm that no same parties or related/common interest parties are involved in them.
<b>Value/Price</b>		
<b>Alert # 14</b>	<b>The price is unusual, e.g. very high or very low.</b>	Buyer and seller negotiate price and the pricing is based on quality and costs of the goods, packaging, freight, customs duties, documentation preparation fees,

		inspection fees, insurance and many other factors. Therefore, it may not be easy for banks to ascertain the market price for all the components and circumstances that go into the price of a product. Bank officials should take adequate measures to try to identify any blatant or obvious pricing irregularities that may indicate the inconsistencies of pricing of the goods being shipped. Also note para 20 of Chapter 7 of GFET, 2018.
<b>Illustration</b>	<p><b>Typology: 1</b></p> <p>Company 'X' approaches Bank 'B' to open LC to import mobile phone or car. The price that as revealed in the proforma invoice is very low as compared to local market price. Moreover, the customs authority fixes certain amount or percentage of duty based on per piece etc. to prevent duty or tax evasion. The reason for quoting unit price very low may be for adjustment of debt which arises out of conducting transaction through informal or alternate remittance system.</p> <p><b>Typology: 2</b></p> <p>Company 'X' approaches Bank 'C' to open LC to import certain goods. Bank 'B' faces difficulties in knowing the exact unit price due to the nature of goods like capital machinery or chemical mixture etc. In some cases, local duty or tax is very nominal as the underlying goods have correlation with the economic development of the country.</p> <p><b>Typology: 3</b></p> <p>Company 'X' approaches Bank 'D' to open LC for import of rice or onion. The importer made certain percentage of advance payment through informal channel and opened LC up to the value where customs authority has reference value for custom valuation. But the actual price is higher than that of reference value. By doing so, the importer is able to avoid custom duty and taxes for the advance payment made. Similarly, excess amount of freight and other charges may also be taken into consideration.</p>	
<b>Alert # 15</b>	<b>Under Invoicing (against market price).</b>	Invoicing goods at a price below the fair market price, the exporter can transfer value to the importer. Here the importer

		<p>receives high value goods at a lower price. After re-selling the goods importer receives full value and thus additional value is received by the importer from exporter through under-invoicing. Importer is also able to pay less customs duty/tax by under-invoicing.</p> <p>Trade processors should follow the mechanism and guidelines to be established by their own bank in pursuance with these guidelines.</p>
Alert # 16	Over Invoicing (against market price).	Invoicing goods at a price above the fair market price value can be transferred from importer to exporter. Bank should frame appropriate policy in this regard and trade processors should follow the same.
Alert # 17	Invoice showing significant amount of misc. charges e.g. handling charges.	<p>Money can also be transferred from one country/party to other country/party showing significant amount of misc. charges/handling charges/ unidentified charges/in the invoices of goods/services for laundering purpose.</p> <p>Bank should know the justification behind such unusual charges and act accordingly to prevent TBML.</p>
Alert # 18	There are indications of double invoicing / Multiple Invoicing.	<p><b>Double Invoicing:</b> This is very much relevant for local trade transaction. Double invoicing is where a subsidiary purchases goods from a parent at too high a price, or a parent purchases from a subsidiary at too low a price.</p> <p><b>Multiple Invoicing:</b> This is also very much relevant for local trade transaction. More than one invoice for the same international trade transaction, which enables a money launderer or terrorist financier to justify multiple payments for the same shipment.</p> <p>Though with the establishment of FX Dashboard, multiple invoicing is very hard to do onshore, reasonable care should be taken in case of off shore.</p>

Payment		
<b>Alert # 19</b>	<b>The payment terms appear inconsistent with the transaction.</b>	An importer or exporter may default willfully and launder money if payment terms of the financing is made without due consideration to the nature and/or conversion cycle of the underlying goods. For example, if an importer is financed for 365 days to import perishable goods like onion etc., when his business is to sell fish, he may abuse the facility and launder money through different ways (send money abroad through over invoicing with bank's finance, or may go willful default and use the money to launder or finance terrorism etc.). Hence, taking into consideration the market practice and business of the buyer and seller banks should determine whether payment terms are consistent with the nature and asset conversion cycle of the goods being shipped and act accordingly.
<b>Alert # 20</b>	<b>The transaction involves the receipt of payments from third party entities that have no apparent connection with the transaction.</b>	As third party payment arrangements can be used to disguise the identity of the true payor and true source of funds, they may expose to the risk of money laundering and/or unwanted sanctions evasions. Banks need to know and be satisfied with the underlying arrangement with the 3 <sup>rd</sup> party who pay or receive the payments of the trade transaction.
<b>Illustration</b>	Bank 'I' issues an LC for raw cotton from Uzbekistan and LC available with any bank in UAE with an advising bank in UAE. After making shipment, while the beneficiary is trying to make presentation, UAE bank refuses to	

	handle the transaction. Later on the beneficiary makes direct presentation to the issuing bank. Bank 'I' makes an attempt to make the payment through MT103, which its foreign correspondent bank refuses to process. Much later, the beneficiary makes the presentation through his bank in Latvia where the beneficiary maintains business account and Bank 'I' effects payment accordingly.	
<b>Alert # 21</b>	<b>Changing the place of payment i.e. payment is to be made to beneficiary's account held in another country other than beneficiary's stated location.</b>	Banks should take into account that in some instances, beneficiary under an LC directly sends documents to the issuing bank within instruction to effect payment to a third country. This situation may arise either the beneficiary is not able to route trade document through banking channel due to possible sanction hits or trying to park the proceeds in relatively lax jurisdiction.
<b>Alert # 22</b>	<b>Payment instruction changes in the last minute without any reason.</b>	It should be borne in mind that last minute changes to payment instructions, inconsistent with the terms of the trade instrument, or instructions to effect payment to a third party or account unrelated to the trade instrument could indicate unusual activity.

Alert # 23	<b>Applicant (customer) controls the payment.</b>	The trade finance transaction includes a feature by which the buyer effectively controls the payment. This could indicate that the seller and buyer are colluding in a non-competitive manner and that they have an underlying relationship outside an expected trading relationship which is not known to the banks.
<p><b>Applicant (customer) controls the payment:</b></p> <p>Bank 'X' issues sight LC with a condition that payment will be effected upon receipt of applicant's acceptance regarding receipt of goods in good order. This type of clause enables applicant to control payment. Providing such condition, the applicant can actually delay the payment though inconsistent with its nature of goods or local regulations. In other word, there might be collaboration between the buyer and seller beyond the knowledge of the bank.</p>		
<p>Bank that issues LC with applicant control documents should be aware about requirement of applicant control and underlying transaction. Such as: import of capital machinery may be done with provision of split presentation as under:</p> <ul style="list-style-type: none"> <li>- 15% advance payment</li> <li>- 70% upon presentation and</li> <li>- The rest 15% after proper installation of the capital machinery supported by applicant certificate</li> </ul> <p>For import of capital machinery, the above split payment is customary. But split presentation or shifting payment obligation from beneficiary's presentation to applicant control document for trading items or industrial raw materials import, may need further analysis.</p>		
Alert # 24	<b>Claimed/lodged shortly while guaranty validity is a long tenor.</b>	Long tenor guarantee is normally issued against a long term contract/ project/performance (i.e 24 months period). The guarantee claim is supposed to be placed after a reasonable long period of time when applicant fails to execute that long term project/contract. If situation arises that a claim is lodged within a short time after the guarantee is issued, e.g. one month, the guarantee issuing bank should take it as an alert and should perform proper due diligence by confirming the genuineness of the claim from the beneficiary office.
Alert # 25	<b>Issuance of fraudulent Letter of Undertaking (LoU).</b>	<p>Bank should have independent policy in place to operate SWIFT system which includes checker and maker system and periodic auditing, both by internal and external auditors.</p> <p>In addition, SWIFT system should be integrated with their core banking system (CBS).</p>

<b>Illustration</b>	Two employees of 'XYZ Bank' send unauthorized Letters of Undertakings (LoUs), essentially bank guarantees, to foreign banks, on behalf of their customer M/s. 'ABC Gems Ltd'. owned by "Mr. X". The LoUs were undertaken to make payment in favor of foreign beneficiary for imports if on maturity, importer fails to pay, 'XYZ Bank' would make the payment
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On receipt of guarantee foreign bank provides loan to the importer. The tenure of this loan varies from ninety days up to even five years for capital goods. The money gets used to settle the payment for imports.

The money raised through this guarantees is not used to make payments for imports rather used to settle loans taken earlier. In fact, every time a firm related to Mr. 'X' asks for a bank guarantee, it is to settle an older loan taken through a previous bank guarantee. Thus, the amounts go up to around BDT 11,4000 million.

LOUs were issued without any collateral or any usual process of the bank through colluding two bank officials of 'XYZ Bank' and the 'XYZ Bank' employee sends these guarantees in the absence of credit limits and collateral security. Secondly, he does not make an entry in the bank's Core Banking Software (CBS). In some cases, a corresponding entry is made in the core banking system, but for lower amounts. Even regular audits may not find it. Bank's reconciliation department also could not find out the mismatch.

It is revealed that in the said Bank, there is no SWIFT operating procedure in place, SWIFT is not integrated with the Bank's CBS and the SWIFT operation of that is not centralized and absence of proper auditing system i.e. IT audits did not take place.

On this pretext, the ill motive customer was able to complete the evil scheme with the support of colluding employees of the Bank. Using such valid tools, dishonest officials of the bank in collusion can launder money.

<b>The goods and size of shipment</b>		
<b>Alert # 26</b>	<b>There are no goods (Phantom Shipment)</b>	Banks should be aware that under these circumstances the beneficiary or applicant refuses to provide documents to prove shipment of goods (possible phantom shipping or multiple invoicing). For Example: LC or bank guarantee purportedly covers the movement of goods but fails to call for presentation of transport documents. LC covers steel shipment but allows a forwarders cargo receipt (FCR).
<b>Alert # 27</b>	<b>No goods description mentioned in documents/</b>	Not having goods' description is itself an alert. Bank should know the goods or
	<b>Descriptions of the goods/services are not clear or are coded or disguised.</b>	services of underlying transaction from the related trade documents, such as LC, BL, invoice etc.

<p><b>Illustration for Alerts 26 &amp; 27</b></p>	<p>As we know from documentary credit operation that Banks deal with documents not with underlying goods, service or performance, issuance of LC without asking for transport document or allowing copy of transport document to be presented may facilitate phantom shipment. In addition to that documentary credit containing a condition “document acceptable as presented” or “all discrepancy accepted except value and quantity” may also have similar implication.</p> <p>Client may approach for issuance of local LC with above clause or without mentioning description of the goods. The inherent agenda in such cases may be to avail loan from the bank under the banner of trade finance.</p>	
<p><b>Alert # 28</b></p>	<p><b>The customer deviates significantly from its historical pattern of trade activity (in terms of markets, monetary value, frequency of transactions, volume, or merchandise).</b></p>	<p>Banks need to understand the customer’s traditional business patterns as part of the trade specific customer due diligence process that reviews and examines the customer’s business activity, such as the frequency of shipments, the value, volume, types of products and/or services in which the customer typically deals. Banks should have processes that will identify significant variations in these trading patterns.</p>
<p><b>Alert # 29</b></p>	<p><b>Transaction involves obvious dual use goods.</b></p>	<p>Dual use items are goods, software, technology, documents and diagrams, which may have both civil and military applications. Identification of dual use goods is difficult given their possible complex and technical nature. While banks may be in a position to identify obvious dual use of goods, corporate clients should be best suited for making this determination. Each bank should refer to its own policies and procedures on how to appropriately identify and address the identification and handling of such goods.</p>

<p><b>Illustration</b></p>	<p>Though most of the banks are aware of obvious sanctioned country under UNSCR lists and generally do not open LCs where shipment is made from sanctioned port, company ‘X’ opened LC for import of bitumen from UAE mentioning any port of UAE and the respective transport document i.e. Bill of lading also mentions shipment from Jebel Ali, a UAE port inconsistent with the LC terms. But later on upon analysis of shipment routing, it is revealed that the ship indeed started its journey from the Jebel Ali but instead of moving toward Chittagong, it went to Bandar Abbas (an Iranian port) then came back to Jebel Ali and then started journey towards Chittagong.</p> <p>Moreover, Bank should also be careful in importing goods from certain country where underlying goods is not within the exportable basket of the exporting country.</p>
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Alert # 30	Different HS Code is used.	In trade documents (i.e. LC, Invoice, EXP etc.) different HS code may be used to avoid high rate of customs duty. Bank should identify the goods description with appropriate HS Code as per Customs First Schedule of Bangladesh.
Alert # 31	Quantity of goods exceeds the known capacity of the shipping containers or tanker capacity or abnormal weights for goods are suspected.	Under shipment, over shipment, no shipment might occur when quantity of mentioned goods exceeds the capacity of the shipping containers/ tanker. Bank should try to know apparent capacity of the container, tanker etc.
Alert # 32	High risk goods/services are involved.	Goods/Services are assigned as high risk when those particular items of goods/services are used for illicit purposes.  Bank management should make relevant officials aware of the high risk goods and services from time to time.
<b>Transport</b>		
Alert# 33	Transportation route/ information is inconsistent with underlying transaction.	Commercial banks should take into consideration whether the transport route appearing in documents is unusual or inconsistent. It may be that the transport route does not make sense for the purpose of the customer/goods
		shipped. It may also be that the actual transport route is inconsistent with the expected and documented transport route.
Alert# 34	Transshipment through a country for no apparent reason.	Nature of goods, applicant & beneficiary country distance/location does not justify transshipment or transshipment from a country which is geographically absurd.  For example: Shipment of raw cotton from Singapore, which is unusual.
Alert # 35	The mode or method of shipping is unclear or the shipping route is unclear.	If the mode of shipment and shipping route is not clear or kept hidden, there might be involvement of some sanctioned/embargoed country/port/location/entities Banks should perform due diligence to identify the mode and route of the shipment.
Alert # 36	Goods to be shipped from one country/place but supplier/beneficiary is located in another country/place.	Bank should check the valid reason for the shipment from a third country where beneficiary is not located. There might be underlying illicit arrangement between the beneficiary and the party in third country from where shipment is made.

Alert # 37	Vessel/Container number cannot be tracked through web search.	Container number consists of an internationally standard format. The number includes four letters and seven digits, with the last digit referred to as the check digit. (i.e. XXXU1234567). It is used for documentation purposes, including invoice, consular statement, bill of lading and others. Vessels can also be tracked through web link. Banks should check the vessel tracking /container tracking through web link to ensure that the vessel/ container number appearing in the documents is valid.
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Alert # 38	The bill of lading describes containerized cargo but without container numbers or with sequential container numbers.	If bill of lading/shipping document does not contain the container number while the goods are shipped through containerized cargo, banks need to further scrutinize and ensure that the shipments appearing in the document is valid.
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**Country/Jurisdiction/Geographical Location/Sanction**

Alert # 39	Customer shipping items to, through, or from higher money laundering risk jurisdictions including countries identified by FATF as stated in FATF Public document.	Banks should understand where the customer undertakes business and on what basis as part of trade specific customer due diligence activities. As some countries, entities and individuals present heightened risk for financial crimes, care should be exercised to understand the rationale for the customer conducting business in higher risk jurisdictions. To the extent possible, banks should determine if there is a valid reason, and if the business is within their risk parameters.
Alert# 40	Transaction involves high risk jurisdiction/country.	Banks should maintain a list of jurisdictions identified by relevant bodies (e.g. FATF) that present high risk in terms of money laundering, terrorist financing or other financial crimes. Transaction with UN sanctioned countries, individuals and entities should be avoided. Transaction or relationship with local sanctioned individuals and entities should also be avoided. All the lists should be made available to the trade operations area and updated as necessary.
Alert# 41	Transaction involves sanctioned entities /countries /individuals.	

**Discrepancies**

Alert # 42	Goods' description in the documentary credit.	<b>Examples:</b>  There are significant discrepancies between the description of the goods on the bill of lading (or invoice) and the documentary credit, i.e. it is apparent that they are not the same type of goods.
Alert# 43	Clauses in the documentary credit.	If clauses in the documentary credit are not examined and addressed carefully by the bank, colluding parties may abuse trade and perpetrate TBML.
Illustration	<b>Clauses in the documentary credit:</b>  Bank 'I' issued LC for or on behalf of the customer 'X' in favour of the beneficiary 'Y' for import of raisin. After issuance of LC, the customer remitted 15% of actual goods value through informal channel. As soon as the beneficiary 'Y' received fund, the beneficiary 'Y' demanded an amendment for addition of clause "document acceptable as presented" or "all discrepancy acceptable except value and quantity". Bank 'I' issued the amendment reluctantly. Later on, the beneficiary made presentation except pre-shipment inspection certificate and phytosanitary certificate. Upon analysis, it was revealed that quality of the shipped goods was inferior and not fit for human consumption but the fact is that the presentation was complying due to the amendment.	
Alert # 44	Essential documents presented in copy form or not presented.	Essential documents such as invoices or transport documents are missing or presented in copy form.
Alert # 45	<b>Waivers: Amount significantly overdrawn, Advance waivers provided etc.</b>	The documentary credit / guarantee is significantly overdrawn; i.e. the drawing under the documentary credit/ guarantee is significantly above the outstanding amount of the documentary credit / guarantee.
Illustration 44 & 45	<b>Essential documents presented in copy form or not presented:</b>  <b>Waivers: Amount significantly overdrawn, Advance waivers provided etc:</b>  Bank 'I' issued LC favoring the beneficiary 'Y' for its new customer 'X' under 50% margin. The beneficiary made presentation of copy of bill of lading instead of original. The customer approached banks to waive the discrepancies, which later on agreed after depositing 100% margin. Bank 'I' effected payment accordingly.  After a few days, the bank received another presentation under documentary collection with payment instruction to deliver documents against payment for	

	<p>different customer of the Bank 'I'. After checking documents, it was found that the original bill of lading of the earlier LC related documents had been presented. Moreover, the beneficiary was also different from the LC. In the meantime, the new customer also disappeared. Bank should take into consideration the type of discrepancy they are given waiver and should have an understanding of its after effect.</p> <p>Sometimes, it is also seen in local documentary credit practice that bankers generally allow 10% excess payment on the plea of 10% tolerance level with or without LC conditions. While affecting such type of payment, bank should take due care of nature of goods, applicability of tolerance and change in unit price etc.</p>	
<b>Alert # 46</b>	<b>The customer is overly keen to waive discrepancies.</b>	<p>Banks need to understand the motive behind the customer's keenness to accept the discrepancies and the gravity of the discrepancies. Although this is not related to trade rules, additional responsibility in respect of KYC (Know Your Customer), DD (Due Diligence) and EDD (Enhanced Due Diligence) have been vested on the bankers. When acceptance is provided by the importer to the discrepant documents, the banker should verify the kind of discrepancy accepted and whether this may pose money laundering risk.</p>
<b>Unusual Documentation</b>		
<b>Alert # 47</b>	<b>Documents required or presented is unusual to related trade transaction.</b>	<p>Banks should be cautious if documents appear to have been altered, fraudulent, are inconsistent or illogical, or when documentary presentations do not include required transport documents, as this could be an indication of unusual activity.</p>
<b>Alert# 48</b>	<b>There are indications that documents have been reused.</b>	<p>Although the failure of documents to appear on their face to comply with the terms and conditions of an LC may be routine discrepancies, certain unusual discrepancies may require additional due diligence. Examples include the presentation of documents showing a place of origin, loading, transshipment or destination entirely inconsistent with what is expected, the presentation of documents showing goods description entirely inconsistent with the expected goods, and the presentation of documents showing much higher or lower values or costs than expected.</p>

## APPENDIX C:

### PRODUCT WISE TBML ALERTS, SOME RELEVANT LISTS AND EXAMPLES

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

TBML Alerts common to almost all the products below and therefore should be guarded against are:

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

#### Issuance of LC/LCAF

##### Price, Quantity and descriptions of Goods:

- a. High risk goods or high risk jurisdiction/country is involved.
- b. Transaction involves restricted or banned items of goods.
- c. Different HS Code is used Mode and Location of Shipment:
  - Goods to be shipped from one country/place but supplier/beneficiary are located in another country/place and payment to be made to a different 3<sup>rd</sup> country/place.
  - The mode or method of shipping is unclear or the shipping route is unclear.

##### Payment Method:

- a. Changing the LC beneficiary or collection payee name and address just before payment is to be made. Including requests for assignment of proceeds or transfer at the time documents are presented.
- b. LC transfer or assignment of proceeds request names a transferee or assignee in an offshore financial haven. Request for transfer, assignment or other financing under an LC which has expired or not in effect.
- c. The customer offers to pay unusually high fees to the Bank.

### **Applicant, Beneficiary and Other Parties/Entities Involved:**

- a. Supplier's credit report is not available.
- b. Supplier's line of business is not in congruence with the goods imported.
- c. Transaction is not in line with the customer's TTP (Trade Transaction Profile) or when an exporter steps outside normal business activities.
- d. Any of LC parties are known to be owned or controlled by senior public figure. Transaction involves an unusual intermediary (e.g. middleman is travel agency handling shipment of machine parts) or too many intermediaries making transaction overly complex.

### **LC Clauses and Required Documents:**

- i. Unusual/non-standard clause is inserted in the LC.
- ii. LC without regulatory required documents.
- iii. Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment. Import Bill (Scrutiny/Acceptance/Payment/Financing) & Export Bill (Scrutiny/Financing/Payment) Price, Quantity and Descriptions of Goods:
  - i. Under Shipment (in terms of quantity)
  - ii. Over shipment (in terms of quantity)
  - iii. Discrepancies in Goods description, quantity and shipment locations.
  - iv. Where the quantity of goods exceeds the known capacity of the shipping containers or tanker capacity. Or where abnormal weights for goods are suspected.

### **Invoice:**

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

### **Transport & other Documents:**

- i. The bill of lading describes containerized cargo but without container numbers or with sequential container numbers.
- ii. Phantom shipment - where no goods are shipped at all and the documentation is completely falsified
- iii. The mode or method of shipment is unclear or the shipping route is unclear.
- iv. Vessel / Container number cannot be tracked through web search.
- v. There are indications that documents have been re-used.
- vi. There are dubious unauthorized alterations or amendments to the documents. Payment Methods:
  - a) Payment is to be made to beneficiary's account held in another country other than the Beneficiary's stated location.

b) Payment is to be made to personal A/C of beneficiary instead of company A/C.

**Others:**

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

**Export LC Advising**

High risk goods or high risk jurisdiction/country is involved as per Appendix B.

- Transaction involves restricted or banned items of goods.

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

**Price, Quantity and descriptions of Goods:**

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

**Mode and Location of Shipment:**

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

**Payment Method:**

**Applicant, Beneficiary and Other Parties/Entities Involved:**

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

**LC Clauses and Required Documents:**

- Unusual/non-standard clause is inserted in the LC.
- LC without regulatory required documents.
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment Shipping Guarantee/IDO/Shipping Guarantee is just copy document endorsement by bank and in addition bank issues a shipping guarantee favouring shipping company. While issuing IDO/Shipping Guarantee, TBML alerts relevant to IDO/Shipping guarantee mentioned below should be taken into consideration:

**Price, Quantity and Descriptions of Goods:**

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

**Invoice:**

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

**Transport & other Documents:**

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

**Guarantee/Standby Letter of Credit (SBLC)**

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

**Service Export**

- a) Swift message does not mention any purpose of the transaction.
- b) The reference number of underlying service contract/LC/Invoice is not mentioned in the Swift payment message.
- c) Importer and exporter are related parties.
- d) Description of service is not clear.
- e) Exporter and importer line of business do not support the services.
- f) Exporter is not capable of providing those underlying services.
- g) Payment received from a third party not mentioned in underlying contract.
- h) Price of service unusually high or low. Mentionable that the TBML alerts described above are subject to be changed based on change in the nature and magnitude of trade based ML/TF.

## APPENDIX D:

### SOME INSTANCES OF ABUSE OF TRADE IN BANGLADESH CONTEXT

#### Case study 1: TBML through bill of entry fabrication

Mr. 'P', an importer, opens an LC amounting USD 7, 58,710.30 for import of edible oil. Bank made payment of the full amount (USD 7,58,710.30) based on shipping documents and endorsed the same in favor of the importer for the purpose of releasing the goods. Instead of those documents, a set of fabricated documents were submitted to the customs as the value of goods arrived under that LC was only USD 54,150.00. However, goods could not be released from customs due to failure in quality inspection. Meanwhile, a fabricated copy of bill of entry valuing USD 7,58,710.30 was submitted to the bank evidencing the proper release of the goods. When the fabrication was revealed by Bangladesh Bank, explanation was called and subsequently the remitted amount (USD 7, 58,710.30) was returned from two different countries other than the beneficiary's country and no evident relation was found with the beneficiary regarding this refund.

#### TBML Alerts:

1. Inadequate assessment of trade customer.
2. Refund from third countries not related to beneficiary.
3. Supplier country was not the producer of the goods.
4. Shipping documents not verified.
5. Bill of Entry not verified by the bank.
6. Though large amount, adequate cautionary measures were not taken.

#### Case study 2: TBML through releasing high value goods using copy documents

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

exporter occurred and the exporter didn't receive payment, complaint was lodged and the incidence came to light.

**TBML Alerts:**

1. Inadequate assessment of trade customer.
2. Probable collusion between importer and exporter.
3. Issuance of LC by a finance company from third country.
4. Proper due diligence in value and unit price verification of the goods was not conducted.

**Case study -3: TBML through phantom shipment**

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

**TBML Alerts:**

1. Lack of proper due diligence for the customer by the three banks.
2. Vessel container was not tracked.
3. Number and value of LC inconsistent with customer's business pattern.

**Case study -4: TBML through import of old/used capital machinery**

Mr. 'M' opened a usance LC to import old/used capital machinery for around USD16,000.00 in 2016. Within one month and a half shipment was made and documents were received by the bank. Though initially discrepancy was established under UCP 600, payment was made by the bank. While releasing machine from Customs, it was found that the minimum economic life exceeds the limit permitted in current IPO and the certifying authority was not nominated by NBR. Goods were confiscated by Customs. Meanwhile, import payments were made and the machineries were placed for public auction by the Customs.

**TBML Alerts:**

1. Import involved high risk goods.
2. Certifying authority was not nominated by NBR.
3. Importer and exporter were some how related parties
4. Old/used machinery import rules and regulations were violated by the bank and the importer.

**Case study -5: TBML through importing different goods**

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

**TBML Alerts:**

1. Misrepresentation of goods for duty and tax evasion purpose.
2. Importer behaviour to raise discrepancy in the beginning and afterwards his readiness to receive discrepant documents.

**Case study 6: TBML attempted at first through sea port then through land port**

An attempt was made to remit more than USD 4,27,500 submitting forged documents such as No Objection Certificate of a commercial bank in Bangladesh and that of a western country at a land custom house. A transferrable LC opened in January, 2018 at the bank of a western country mentions import of 500 MT of onion at the rate of 855USD (per MT). The Bangladeshi commercial bank's NOC showed a signature of branch manager and another signature of President & CEO & CFO while foreign bank's NOC showed one signature of CFO and another signature of President & CEO & CFO. However, Bangladeshi commercial bank branch didn't have official of such rank. When the Customs official took step to verify, this illegal attempt ended in vain. Matter of concern is that the consignee of the goods was a customer of that commercial bank in Bangladesh.

**TBML Alerts:**

1. Lack of adequate KYC and verification of trade customers by the bank in such situations.
2. Immediate steps have to be taken after getting the verification notices in such circumstances.
3. All ADs, Customs and relevant agencies should be informed immediately after such incidences.

**Case study 7: SWIFT password was hacked from back office and used to make fraudulent payment**

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

**TBML Alerts:**

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

**Case study 8: Guarantees converted into funded liabilities**

Exporter received contract from a European country for export of vessel and received advances in various installments from the importer. Advance payment guarantee and performance guarantee were issued by the exporter's bank. Counter guarantees were issued by another foreign bank. Exports were not executed within the stipulated time and contracts were cancelled. Consequently guarantees were encashed by the foreign bank. Local bank created forced loan to pay guarantee amount with interest. The client i.e. the exporter failed to pay the amount and the loan converted to term loan and finally turned into Non Performing Loans.

**TBML Alerts:**

- 1) End use of advanced receipt against prospective Export was not monitored and confirmed by the bank.
- 2) Performance of the exporter was not assessed accurately.

**Case study 9: TBML through import & export using related parties**

Company 'X' in Bangladesh is owned by an Influential Person (IP). This company has been awarded a government project to install a power plant for which they opened LC favoring a beneficiary company 'Y' located in Singapore to import capital machineries, spare parts and accessories of BDT 2 billion. Accordingly, the Company 'X' made payment against the said LC.

Another company 'Z' in Bangladesh has a sale contract with company 'Y' in Singapore to export agro product to India for BDT 1 billion. Export proceeds are received by company 'Z' from company 'Y' in Singapore through another bank in Bangladesh though goods are shipped to India. This company 'Z' has received cash incentive of BDT 0.2 billion (@20%) from the Government against export of the agro-products. Company 'Z' is newly registered as an exporter and obtained ERC from the CCI&E. Findings show that Company 'Y' in Singapore is an affiliate company of company 'X' and the owner of company 'X' is also a partner of company 'Z'. Export price of agro product in documents is unusually high and the quantity exported is under-shipped. Thus the government money is embezzled through trade transactions.

**TBML Alerts:**

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