Financial Monitoring Unit (FMU)

Government of Pakistan

RED FLAG INDICATORS FOR TRADE BASED MONEY LAUNDERING (TBML)

TRADE BASED MONEY LAUNDERING (TBML)

Trade-based money laundering (TBML) is a sophisticated method used by criminals to legitimize the proceeds of crime through the international trade system. It involves manipulating trade transactions, such as falsifying invoices, to disguise the true source of funds and make them appear legitimate. TBML can be manifested in various ways, including over-invoicing or under-invoicing goods, misclassifying goods to evade customs duties, and using fraudulent shipping documents. By employing these tactics, criminals can transfer the proceeds of their illegal activities into the legitimate financial system, making it challenging for law enforcement agencies to trace the origin of the funds.

Red Flag Indicators for Trade-Based Money Laundering (TBML)

In order to form the suspicion to report STR-TBML to Financial Monitoring Unit, the following red flag indicators can assist financial institutions in detecting transactions related to Trade-Based Money Laundering (TBML). While these red flags may appear suspicious individually, a single red flag alone may not conclusively indicate potential TBML. These indicators are designed to help financial institutions, and a combination of these red flags, along with an analysis of the customer's financial activity, profile, and current transactional patterns, may suggest potential TBML activities. The red flag indicators can be broadly categorized into:

- Structural Risk Indicators
- Trade Activity Risk Indicators
- Trade Document & Commodity Risk Indicators

Red Flags regarding Structural Risk:

- The entity’s corporate structure is overly complex, illogical, or unconventional, involving shell corporations or companies registered in high-risk jurisdictions.
- The trade entity is registered or has offices in jurisdictions with weak AML/CFT compliance.
- The trading entity is registered at non-commercial addresses such as high-density apartment complexes, industrial buildings, or post office boxes, rather than a commercial address.
- The company lacks a legitimate online presence, with little information available or vague details that do not clearly describe the company's operations.

- The entity does not engage in standard business activities, such as payroll transactions, taxes, and operating cost transactions.
- The owners lack the appropriate experience needed to run an organization, potentially indicating they are disguising the beneficial owners.
- The entity has a history of involvement in money laundering or has been under investigation for other criminal activities.
- The number of staff is inconsistent with the entity's trading volume.
- The entity's name closely resembles that of an established company in the same industry.
- The business experiences unexplained periods of dormancy.
- The entity fails to comply with standard business procedures, such as filing VAT returns.
- Financial records are overly complex, unusual, or exhibit exceptionally low profit margins.
- The company uses abnormal or inconvenient shipping routes.
- A recently established company engages in high-volume, high-value trades.
- Commodity purchases significantly exceed the entity's financial profile.
- Commercial transactions involve multiple brokers who are not connected through their business activities.
- Frequent changes in company ownership, especially involving offshore entities, that lack a clear business rationale.

<u>Red Flags regarding Trade Activity</u>

- The stated business does not align with its trading activities, such as a clothing manufacturer exporting precious metals.
- A new or reactivated entity quickly engages in high-value or high-volume trades in a high-barrier industry.
- An entity engages in complex trade transactions with multiple third parties from different industries.
- Involvement of intermediaries or shell companies in transactions without a clear business need.
- A company utilizes non-standard shipping routes for its industry.
- An entity employs complex financial products without clear justification, such as using unusually long lines of credit or combining multiple trade finance products.
- Significant fluctuations in a company's financial statements without corresponding changes in its business operations.

- An entity's purchase of commodities is financed by a sudden influx of capital from an unrelated third party.
- An entity lacks a clear business strategy or operational plan yet engages in substantial financial transactions.
- A business maintains minimal physical presence or operations despite large-scale financial transactions.

<u>Red Flags regarding Trade Document & Commodity</u>

- A company frequently changes its banking partners or financial service providers without a clear reason.
- Unusual or unexplained transfers between a company's accounts and personal accounts of its executives or employees.
- Transaction values that do not align with the stated value of goods or services, suggesting possible over- or under-invoicing.
- Inconsistent information between trade documents (e.g., invoices, bills of lading) and actual goods shipped or received.
- Use of cash or other unconventional payment methods in large-scale transactions.
- Trading in products or markets known for higher risks of money laundering, such as precious metals or high-value electronics.
- Patterns of repeated discrepancies or irregularities in trade transactions that suggest deliberate manipulation.
- Trade documents, bills, or contracts contain inconsistencies. For instance, item descriptions are incorrect, invoiced quantities do not match, or the accounting numbers are inconsistent.
- Trade documents do not make financial sense. Prices may be inconsistent with market values, or costs do not align with the purchasing power of the entity.
- Contracts are vague or overly simplistic, with generic descriptions of goods or services.
- Customs documents are falsified, missing, rejected, or duplicated from old documents.
- There is an inconsistency between the value of imports or exports and the company's foreign transactions.
- Commodities are shipped through multiple jurisdictions without sufficient economic justification.

- Trade documents show discrepancies between the declared weight or volume and the actual shipment.
- Invoices reflect unusually high or low unit prices that do not match typical industry standards.
- Goods described in the trade documents are not consistent with the entity's usual line of business.
- Trade documents show frequent amendments or corrections without a clear reason.
- The quality or grade of commodities listed in the trade documents does not match the actual goods received or shipped.
- Trade documents indicate transactions with entities located in high-risk jurisdictions or tax havens without a clear business justification.
- Discrepancies between the names or addresses of parties involved in the trade documents and those listed in the company's official records.
- Bills of lading and other shipping documents contain conflicting information about the shipment details.
- Documents reveal the use of unusually complicated shipping routes that lack clear economic rationale.
- Trade transactions involve commodities that are typically used for money laundering, such as precious metals, high-value electronics, or luxury goods.
- Documentation shows the use of multiple intermediaries or shell companies without a clear business purpose.
- Trade terms are inconsistent with standard industry practices, such as unusual payment terms or delivery conditions.

Disclaimer:

These red flags are developed for guidance purpose and may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential ML / TF activity. However, a combination of these red flags, in addition to analysis of overall financial activity and client profile may indicate a potential ML / TF activity. While every effort has been made to ensure the accuracy and check all relevant references/ resources, errors and omissions are possible and are expected. Financial Monitoring Unit (FMU), its officers and its stakeholders are not responsible for any mistakes and/or misinterpretation.