



## **Trade-based AML Controls**

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# 1. Background and Common AML Vulnerability

# 1. *Anti-Money Laundering - Background*

- In recent years, government agencies have been focusing their attention on Trade Based Money Laundering activities
- Why – because trade has increasingly been used to launder money for criminal purposes
- Reasons for trade's popularity:
  - *The tremendous volume of trade makes it easy to hide individual transactions*
  - *The complexity that is involved in multiple foreign exchange/cross border transactions*
  - *The limited resources available to agencies wanting to detect money laundering*

# 1. *Common AML Vulnerability*

- Lack of clear policy and inconsistent approach to risk assessment with no specific trade finance money laundering risk assessment.
- Inability to demonstrate that money laundering risk had been taken into account when processing particular transactions.
- Trade processing staff do not make adequate use of customer due diligence information gathered by relationship managers or trade sales teams.
- Little or no management information on financial crime risks in the trade finance business.
- No escalation of potentially suspicious transactions for further review and more senior level sign-off on the basis of money laundering concerns. Transactions were usually escalated for sanctions reasons or because the value of the transaction had exceeded a pre-determined threshold.
- No specific trade finance financial crime training for relevant staff.
- Inadequate systems and controls over dual-use goods.



## **2. Examples of Good Practice and Deliverables**

## 2. Examples of Good Practice

<b>Formalized specific AML procedure</b>	A formal consideration of money laundering risk is written into trade operating procedures
<b>Documentation of Evidence</b>	The money laundering risk in each transaction is considered and evidence of the assessment is kept
<b>AML Knowledge</b>	Trade processors must have good trade knowledge, customers' expected activity, and sound understanding of trade based money laundering risks
<b>Independent verification of information</b>	Third party data sources are used where appropriate to verify information given in LC or other relevant documents
<b>Quality Assurance</b>	Regular, periodic quality assurance is conducted by suitably qualified staff who assess the judgements made re: money laundering risk and suspicious transactions
<b>Trade-specific AML Training</b>	Bespoke training is undertaken to equip staff with the skills, knowledge and expertise to identify risks and take appropriate action

## 2. Examples of Deliverables

<b>Implement AML policies &amp; procedures using red flags to identify suspicious transactions</b>	Policies and procedures implemented globally, and imbedded within the workflow processes
<b>Quality assurance with respect to policies and procedures</b>	Middle Office undertaking sampling of transactions with monthly certifications. Risk Control Function reviews implementation of these controls
<b>Trade-specific AML training</b>	Manager-led training conducted with assessment passed by all relevant staff
<b>Role-specific FCR training for broader audience, including RMs and compliance staff</b>	Training material developed and integrated within wider Compliance training
<b>Raising awareness of FCR within Trade Finance</b>	Poster campaign and other supporting media like screen savers. Quiz and competition circulated to all relevant Middle Office sites



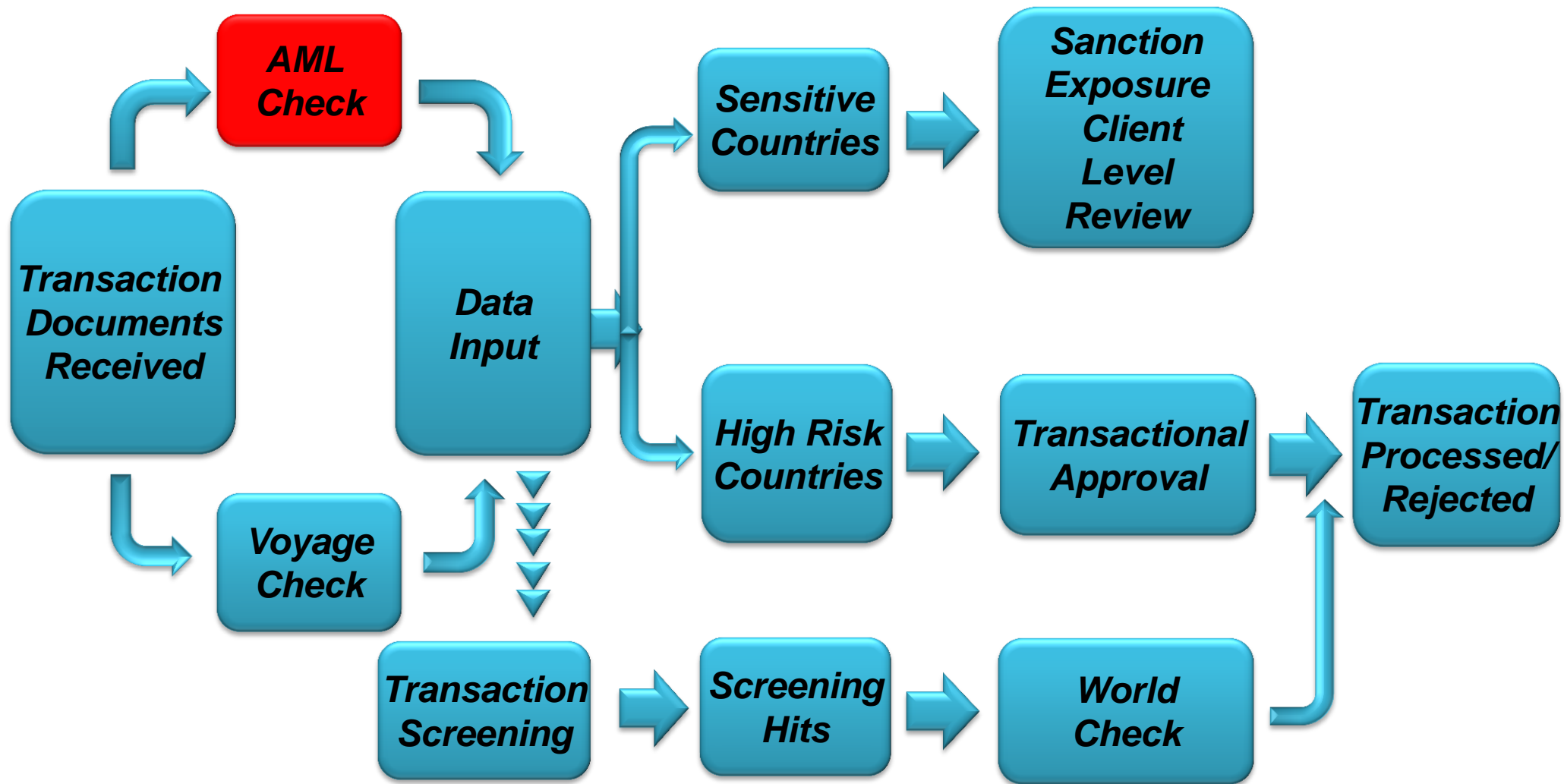
## 2. Examples of Deliverables

<b>On-going communications in support of awareness of the Thematic Review</b>	Communication undertaken via Intranet stories, senior management update calls, and mentions in townhall meetings
<b>Identify potential additional keywords for use in screening relating to dual-use goods</b>	List of goods introduced into screening system
<b>Enhanced risk-based approach to additional shipping checks</b>	Approach defined and implemented, to include higher risk jurisdictions, and where suspicions have been raised
<b>Enhanced FCR-related MI available at the appropriate risk forums</b>	MI pack prepared



### **3. Illustration of Controls and Framework**

# Example of General Overview of Transaction Processing



### 3a. Screening Hits

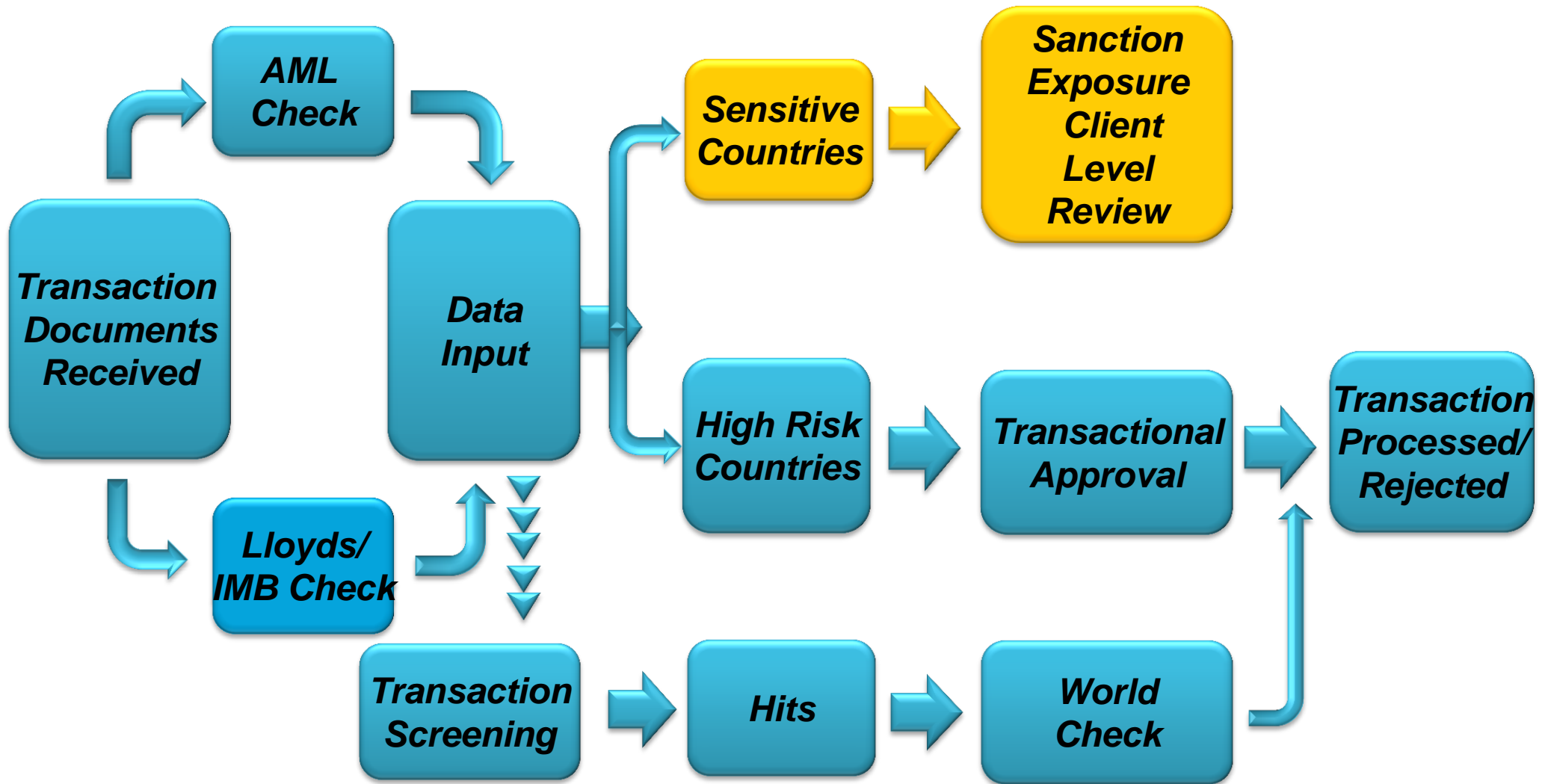
- An automated screening utility against a *blacklist database* comprising *organizations*, *individuals*, goods, *vessels* and *countries* compiled by regulatory-competent authorities.
- Measures the resemblance between blacklisted entries and entry in the system. Everything *matched within a similarity threshold flagged as a possible “hit”*.
- The Hit can be related to *Sanctions or Terrorist Financing*.

## 3b. Voyage Check

### What is Voyage Check?

- *Purpose*: Manage Financial Crime Risks:
  - Shipment exists? → Fraud & AML Risks
  - Shipping route? → Sanction Risk
- *How (examples)*: (a) Lloyds Intelligence, (b) Carrier's Website, (c) IMB Check.
- *Document required*: Transport Documents, e.g. B/L or Airway Bill.
- *Criteria for voyage check*:
  - Transaction amount  $\geq$  a threshold
  - Red Flags

### 3c. Sensitive Countries



## 3c. Sensitive Countries

### Framework

- *Trade Transaction is only a trigger event.*
- *Relationship Level Management* where *RM performs the Sanction Exposure Review.*
- Sanction Exposure Review will be sent to RM or designated party.

### **3d. AML Check**

- Pre-transaction AML monitoring process
- Use of Checklist with Red Flags and standardised workflow for identifying Red Flags
- Escalation process
- Documentation of evidence of AML risk assessment for each transaction
- Independent verification of information
- Monthly Management certification



### 3d. *Examples of red flags*

- Undefined charges over XX% of the total value (e.g. 25%)
- Price of goods manifestly unusual
- Pre-accepted discrepancy's by the applicant
- Applicant is overly keen to waive discrepancies
- Shipment locations of the goods or shipping terms on transport document are inconsistent with the Letter of Credit
- Request for proceeds of the transaction to be paid to an unrelated or unexplained third party
- Dual Use Goods – e.g. “Industrial Ceramics” or “Composite Materials”
- Goods involved are AML High Risk, e.g. Sugar, Cement, Precious Gemstones, Liquor, Scrap Metals
- Beneficiary name indicates potential military involvement (e.g. Ministry of Defence, MOD)

### 3d. AML Check – Examples of Clearly Defined Key Roles and Responsibilities

Middle Office	Relationship Managers / Business
1. Ensure that comprehensive training on technical trade as well as AML is provided to all its staff	1. Ensure that trade based AML training is received
2. Gather and review transactional information	2. Fully familiar with AML policy and procedure
3. Identify AML risks in a transaction and raises Red Flags as appropriate	3. Understand and recognise AML red flags in trade transactions
4. Investigate and verify information from reliable sources	4. Perform Customer Due Diligence
5. Make decision, or escalate as appropriate, on AML risks	5. Provide and confirm information about customers



**THANK YOU**

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