



Trade Base Money Laundering (TBML)

FERNANDO HERRERA




“FINISHED FILES ARE THE RESULT OF
YEARS OF SCIENTIFIC STUDY COMBINED
WITH THE EXPERIENCE OF YEARS”

TAKE YOUR TIME, BUT ONLY COUNT ONCE. REMEMBER, IT IS ONLY ABOUT PERCEPTION.



“FINISHED FILES ARE THE RESULT OF
YEARS OF SCIENTIFIC STUDY COMBINED
WITH THE EXPERIENCE OF YEARS”

TAKE YOUR TIME, BUT ONLY COUNT ONCE. REMEMBER, IT IS ONLY ABOUT PERCEPTION.



US\$ 16.4 trillion (2015)

- ESTIMATED GLOBAL TRADE IN BY THE ORGANIZATION FOR ECONOMIC CO-OPERATION & DEVELOPMENT (OECD).
- GLOBAL TRENDS SUCH AS ADVANCES IN COMMUNICATIONS AND LOWER TRANSPORTATION COSTS, COMBINED WITH THE DIGITAL REVOLUTION, GLOBAL VALUE CHAINS, AND GREATER URBANIZATION, HAVE PRODUCED MORE INTERCONNECTED ECONOMIES & SOCIETIES THAT LINK TOGETHER NATIONAL ECONOMIES AND CREATE VAST NEW MARKET OPPORTUNITIES.
- “EVERYONE” IS HAPPY.



US\$ 2.1 trillion

UNITED NATIONS OFFICE ON DRUGS & ORGANIZED CRIMES (UNDOC-2011)
REPORTS THAT THIS AMOUNT IN ILLEGAL CASH IS LAUNDERED ON A YEARLY
BASIS AROUND THE WORLD.



Scope of the Problem?

OVERVIEW



THE US\$ KEEPS THE WORLD MOVING

(US\$ 100 BILL IS THE MOST COUNTERFEITED MONEY DENOMINATION OVERSEAS)*

**"CAN YOU FIND THE FORGERY?" CNBC SEPTEMBER 3 2015



WHAT DOES US\$ 10,000 LOOKS LIKE ?



WHAT DOES US\$ 100,000,000 LOOKS LIKE ?

FITS “NICELY” ON AN INTERNATIONAL STANDARDS ORGANIZATION (“ISO”) SIZE PALLET (THE COUCH IS MADE FROM US\$ 46.7 MILLION OF CRISPY US\$100)




*Putting things into
more context*

US\$24 million cash stuffed in buckets recovered at suspected drug dealer's home in Miami Lakes.

The Miami Herald – June 29, 2016



- ACCORDING TO THE OFFICE OF MIAMI-DADE STATE ATTORNEY; THE MONEY CONFISCATED REPRESENTS ONE OF THE LARGEST SEIZURES EVER IN THIS JURISDICTION.
- BUNDLES OF US\$ 100 BILLS FOUND IN 24 ORANGE 5-GALLON BUCKETS IN HIDDEN ATTIC COMPARTMENTS.
- SUSPECTS UNDER CUSTODY ARE OWNERS OF AN 'INDOOR GARDENING' STORE (BUSINESS WHILE LEGITIMATE, CATERERED ILLEGAL MARIJUANA GROW-HOUSE INDUSTRY)



Money laundering is the process of transforming the proceeds of crime (i.e. drug and/or human trafficking, extortion, corruption, and/or tax evasion) into legitimate assets.

DISGUIISING/CONCEALING NATURE OR EXISTENCE OF SOMETHING ILLEGAL
ARE WE ARE DEALING WITH PERCEPTIONS ?



MOST ANTI-MONEY LAUNDERING LAWS OPENLY DISTINGUISH MONEY LAUNDERING (WHICH IS CONCERNED WITH SOURCE OF FUNDS) WITH TERRORISM FINANCING (WHICH IS CONCERNED WITH DESTINATION OF FUNDS).

TRADE BASED MONEY LAUNDERING (TBML)

- TBML INVOLVES THE EXPLOITATION OF THE INTERNATIONAL TRADE SYSTEM FOR THE PURPOSE OF **TRANSFERRING VALUE AND OBSCURING** THE TRUE ORIGINS OF ILLICIT WEALTH .
 - TBML SCHEMES VARY IN COMPLEXITY **BUT TYPICALLY INVOLVE** MISREPRESENTATION OF THE PRICE, QUANTITY OR QUALITY OF IMPORTS OR EXPORTS.
 - FINANCIAL INSTITUTIONS MAY INTENTIONALLY OR UNINTENTIONALLY BE IMPLICATED IN TRANSACTIONS (I.E. THROUGH THE PROCESSING OF WIRE TRANSFERS, PROVISION OF TRADE FINANCE, AND/OR ISSUANCE OF LETTERS OF CREDIT).
 - HISTORICALLY, THE U.S. GOV'T HAS FOCUSED ON TBML SCHEMES INVOLVING DRUG PROCEEDS FROM LATIN AMERICA, PARTICULARLY THE BMPE.
- TBML ACTIVITY IS GROWING VOLUME & GLOBAL REACH *.

* ACCORDING TO THE CONGRESSIONAL RESEARCH SERVICE (CRS) IN 2016

TBML OFTEN ASSOCIATED WITH

- SIGNIFICANT LOSSES IN POTENTIAL CUSTOMS AND TAX REVENUE,
- CIRCUMVENTION OF FX CAPITAL RESTRICTIONS,
- CORRUPTION OF CUSTOMS AUTHORITIES AND TAX REVENUE,
- EXPLOITATION OF FREE TRADE ZONES,
- LAUNDERING OF PROCEEDS ASSOCIATED WITH BLACK AND GREY MARKET GOODS,
- COUNTER VALUATION AMONG INFORMAL MONEY BROKERS (I.E. HAWALADARS) AND TRADE IN GOLD AND PRECIOUS GEMS.

BASIC TBML TECHNIQUES*

1.- OVER –AND UNDER- INVOICING OF GOODS & SERVICES

- MOST COMMONLY USED METHODS FOR LAUNDERING FUNDS ACROSS BORDERS.
- BY INVOICING A GOOD OR SERVICE BELOW MARKET VALUE, AN EXPORTER CAN SHIFT FUNDS TO THE IMPORTER BECAUSE THE PAYMENT TO THE EXPORTER IS LESS THAN THE VALUE THAT THE IMPORTER RECEIVES WHEN THE GOODS ARE SOLD AT MARKET VALUE.
- SIMILARLY, BY INVOICING A GOOD OR SERVICE AT A PRICE HIGHER THAN MARKET VALUE, THE EXPORTER TRANSFERS VALUE FROM THE IMPORTER BECAUSE THE PAYMENT TO THE EXPORTER IS GREATER THAN THE VALUE THE IMPORTER RECEIVES WHEN THE GOODS OR SERVICES ARE SOLD AT MARKET VALUE.
- THESE TYPES OF TRANSACTIONS GENERALLY REQUIRE COLLUSION BY BOTH PARTIES AND CAN HAVE SIGNIFICANT TAX IMPLICATIONS.
- COMPLEX PRODUCTS AND PRODUCTS THAT TRAVEL THROUGH SUPPLY CHAINS ARE MORE APT TO BE USED IN THESE TYPES OF OVER- AND UNDER-INVOICING ACTIVITIES BECAUSE THEY COMPLICATE THE ABILITY OF CUSTOMS OFFICIALS TO DETERMINE THE TRUE MARKET VALUE OF SUCH GOODS AND SERVICES.

*ACCORDING TO THE FINANCIAL ACTION TASK FORCE (FATF), AN INTER-GOVERNMENTAL BODY.

BASIC TBML TECHNIQUES

2.- MULTIPLE INVOICING OF GOODS & SERVICES

- BY PROVIDING MULTIPLE INVOICES FOR THE SAME TRANSACTION, A MONEY LAUNDERER OR TERRORIST FINANCIER CAN JUSTIFY MULTIPLE PAYMENTS FOR THE SAME GOODS OR SERVICES.
- IN ADDITION, BY USING A NUMBER OF FINANCIAL INSTITUTIONS TO MAKE THESE MULTIPLE PAYMENTS, A MONEY LAUNDERER OR TERRORIST FINANCIER CAN INCREASE THE LEVEL OF COMPLEXITY OF THE TRANSACTION AND COMPLICATE EFFORTS AT DETECTION.
- IF THE TRANSACTION IS DETECTED, A LAUNDERER CAN OFFER A NUMBER OF PLAUSIBLE EXPLANATIONS THAT COMPOUND EFFORTS BY OFFICIALS TO DETECT THE ACTIVITIES.

BASIC TBML TECHNIQUES

- OVER –AND UNDER-SHIPMENTS OF GOODS & SERVICES
- FALSELY DESCRIBED GOODS AND SERVICES
- SHORT SHIPPING
- OVER SHIPPING
- PHANTOM SHIPPING

Examples of Abnormal U.S. Trade Prices

High U.S. Import Prices	Low U.S. Export Prices
Plastic buckets from Czech Rep. US\$ 972/unit	Live cattle to Mexico US\$ 20.65/unit
Cotton dishtowels from Pakistan US\$ 153/unit	Bulldozers to Colombia US\$ 1.74/unit
Ceramic tiles from Italy US\$ 4,480 sq. meter	Missile Launchers to Israel US\$ 52.03/unit
Razors from the U.K. US\$ 113/unit	Forklift trucks to Jamaica US\$ 384.14/unit
Toilet tissue from China US\$ 4,121/kg	Prefabricated buildings to Trinidad US\$ 1.20/unit

SOURCE: WRITTEN STATEMENT FOR THE HEARING ON "[TRADING WITH THE ENEMY: TRADE-BASED MONEY LAUNDERING IS THE GROWTH INDUSTRY IN TERROR FINANCE](#)" BEFORE THE TASK FORCE TO INVESTIGATE TERRORISM FINANCING OF THE HOUSE FINANCIAL SERVICES COMMITTEE – FEBRUARY 3, 2016 J. CASSARA

ACADEMIC STUDY - RESULTS

- STUDY OBSERVED AT U.S. IMPORT AND EXPORT DATA FROM THE U.S. DEPARTMENT OF COMMERCE, CENSUS BUREAU AND THE U.S. MERCHANDISE TRADE DATABASE.
- ANALYZED DATA OBSERVED ALL EXPORT-IMPORT TRNS THAT OCCURRED USING U.S. COMPANIES OVER A 12-YEAR PERIOD.
- THE STUDY FOUND THAT BY **UNDER-VALUING EXPORTS** AND **OVER-VALUING IMPORTS**, COMPANIES ALLEGEDLY MOVED BETWEEN US\$168 BILLION AND US\$230 BILLION A YEAR OUT OF THE U.S. (BETWEEN 2003 AND 2014).
- THE AMOUNT MOVED OUT OF THE U.S. THROUGH **FALSE INVOICING** LARGELY INCREASED EACH YEAR DURING THAT PERIOD.
- THE PRODUCTS SUBJECT TO **HIGH** U.S. IMPORT PRICES VARY FROM "HUMAN BLOOD" TO "UNWORKED DIAMONDS", TO "ARMORED FIGHTING VEHICLE", TO "RAW CANE SUGAR", ETC.
- PRODUCTS SUBJECT TO **LOW** U.S. EXPORT PRICES VARIED FROM "PREPARED EXPLOSIVES", "INK CARTRIDGES", "LADDERS", "SPARK PLUGS", "CONTACT LENSES" AND "MILITARY RIFLES".

Role of Financial Institutions in TBML*

- FINANCIAL INSTITUTIONS COULD BE INVOLVED IN TBML SCHEMES WHEN THEY ARE USED TO SETTLE, FACILITATE, OR FINANCE INTERNATIONAL TRADE TRANSACTIONS, INCLUDING THROUGH
- LETTERS OF CREDIT (IN WHICH A BANK GUARANTEES FOR ONE OF ITS CUSTOMERS THAT THE GOODS/SERVICES ORDERED TO A SELLER ABROAD WILL BE PAID IN FULL; THE BANK ADDITIONALLY INSURES ITS CUSTOMER THAT PAYMENT WILL NOT BE PROCESSED PRIOR TO CONFIRMED RECEIPT OF SHIPPED ITEMS);
- LETTERS OF GUARANTEE (SIMILAR TO LETTERS OF CREDIT, BUT WHEN A BANK ONLY GUARANTEES A SUM OF MONEY TO THE BENEFICIARY);
- PROVISIONS OF TRADE FINANCIAL SERVICES; AND/OR
- WIRE TRANSFERS.

* SOURCE: FINANCIAL ACTION TASK FORCE, TBML, 2006

THE U.S. IS COMBATING TBML VIA ...

- THE U.S. DEPARTMENT OF THE TREASURY'S FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN) ISSUES ADVISORIES & GEOGRAPHIC TARGETING ORDERS (GTOS) AND APPLIES SPECIAL MEASURES TO JURISDICTIONS DETERMINED TO BE OF PRIMARY MONEY LAUNDERING CONCERN.
- THE U.S. IS ALSO AN ACTIVE PARTICIPANT IN THE INTERGOVERNMENTAL FINANCIAL ACTIONS TASK FORCE (FATF). SEVERAL TBML METHODS & BEST PRACTICES TO COMBAT TBML HAS BEEN ADDRESSED BY FATF IN THEIR PERIODIC REPORTS.
- THE U.S. DEPARTMENT OF HOMELAND SECURITY (DHS), THROUGH ITS IMMIGRATION & CUSTOMS ENFORCEMENT HOMELAND SECURITY INVESTIGATIONS (ICE/HSI) UNIT MAINTAINS A TRADE TRANSPARENCY UNIT (TTU). THIS UNIT EXAMINES TRADE ANOMALIES AND FINANCIAL IRREGULARITIES ASSOCIATED WITH TBML, CUSTOMS FRAUD, CONTRABAND SMUGGLING AND TAX EVASION.

FINCEN'S GEOGRAPHIC TARGETING ORDERS (GTOs)

- FINCEN APPEARS TO RELY MORE GTOS (A TOOL THAT WAS FIRST AUTHORIZED IN 1988).
- A GTO IMPOSES ADDITIONAL, BUT TIME-LIMITED, RECORDKEEPING AND REPORTING REQUIREMENTS ON DOMESTIC FINANCIAL INSTITUTIONS OR NON-FINANCIAL BUSINESSES IN A PARTICULAR GEOGRAPHIC AREA TO ASSIST REGULATORS AND LAW ENFORCEMENT AGENCIES IN IDENTIFYING CRIMINAL ACTIVITY.
- IN THE ABSENCE OF EXTENSIONS, GTOS MAY ONLY REMAIN IN EFFECT FOR A MAXIMUM OF 180 DAYS. VIOLATORS MAY FACE SUBSTANTIAL CIVIL OR CRIMINAL LIABILITY.
- IN APRIL 2015, FINCEN ISSUED A GTO THAT LOWERED CASH REPORTING THRESHOLDS AND TRIGGERED ADDITIONAL RECORDKEEPING REQUIREMENTS FOR CERTAIN FINANCIAL TRANSACTIONS FOR ABOUT 700 MIAMI-BASED ELECTRONICS EXPORTERS.
- THE GTO REQUIRED TARGETED BUSINESSES TO FILE FORMS WITH FINCEN REPORTING ANY SINGLE TRNS OR RELATED TRNS IN WHICH THEY RECEIVE MORE THAN US\$3,000 IN CASH—A STRICTER STANDARD THAN THE ORDINARY US\$10,000 FILING THRESHOLD FOR CASH TRANSACTIONS IMPOSED PURSUANT TO BANK SECRECY ACT (BSA).
- FINCEN STATED THAT THE NEW REPORTING REQUIREMENTS ARE AIMED AT COMBATING COMPLEX TBML-RELATED SCHEMES EMPLOYED BY THE SINALOA AND LOS ZETAS DRUG AND TRANSNATIONAL CRIME ORGANIZATIONS.
- IN OCTOBER 2015, FINCEN RENEWED THE GTO FOR AN ADDITIONAL 180 DAYS.

Global Hotspots

TBML CONCERNS HAVE SURFACED IN FOLLOWING JURISDICTION*

- | | | | | |
|------------------------|------------------------------------|---------------|-----------------|-----------------|
| 1) AFGHANISTAN | 2) AUSTRALIA | 3) BELIZE | 4) BRAZIL | 5) CAMBODIA |
| 6) CANADA | 7) CHINA | 8) COLOMBIA | 9) GREECE | 10) GUATEMALA |
| 11) HONG-KONG | 12) INDIA | 13) IRAN | 14) IRAQ | 15) JAPAN |
| 16) KENYA | 17) LEBANON | 18) MEXICO | 19) PAKISTAN | 20) PANAMA |
| 21) PARAGUAY | 22) THE PHILIPPINES | 23) SINGAPORE | 24) ST. MAARTEN | 25) SWITZERLAND |
| 26) TAIWAN | 27) THE UNITED ARAB EMIRATES (UAE) | 28) URUGUAY | 29) VENEZUELA | |
| 30) WEST BANK AND GAZA | | | | |

* U.S. DEPARTMENT OF STATE 2016 ANNUAL REPORT ON MONEY LAUNDERING & FINANCIAL CRIMES

Global Hotspots

MOST FREQUENT IDENTIFIED TRANSACTIONS INVOLVED*:

- 1) MEXICO
- 2) CHINA
- 3) PANAMA

COUNTRIES WITH THE MOST RAPID GROWTH IN POTENTIAL ACTIVITY

- 1) DOMINICAN REPUBLIC
- 2) VENEZUELA

*BASED ON AN ANALYSIS DERIVED FROM SUSPICIOUS ACTIVITY REPORTS (SARS) FILED BETWEEN JANUARY 2004 AND MAY 2009 WITH FINCEN

“Operation SNAKE” (2014)

- EUROPEAN UNION (EU) AND CHINESE CUSTOMS JOINED FORCES TO TARGET UNDERVALUATION OF GOODS AT CUSTOMS.
- TARGETED THE UNDERVALUATION OF IMPORTS INTO THE EU (CAUSING LOSSES TO PUBLIC BUDGETS).
- INVESTIGATORS WORKED WITH CHINESE CUSTOMS OFFICIALS BETWEEN FEBRUARY & MARCH 2014 TO EXAMINE 1,500 CONTAINERS BROUGHT INTO THE EU.
- WHERE THE OWNERS GREATLY UNDERVALUED THE CONTENTS FOR CUSTOMS DECLARATION PURPOSES. THE CRIMINALS ‘MIS-DESCRIBED THE GOODS, GAVE FALSE WEIGHTS AND QUANTITIES AND SOUGHT TO BRING IN COUNTERFEIT GOODS.’
- AS A RESULT OF THE INVESTIGATION, A NUMBER OF ‘MISSING TRADERS AND NON-EXISTENT IMPORTERS’ – NAMES CREATED TO BYPASS EU TAX AUTHORITIES WERE IDENTIFIED (THIS TRIGGERED CRIMINAL AND ADMINISTRATIVE INVESTIGATIONS ACROSS A NUMBER OF EU COUNTRIES).
- ACCORDING TO EU SENIOR OFFICER FOR INVESTIGATIONS, ‘WE TARGETED IMPORTS OF FOOTWEAR AND CLOTHES FROM CHINA.
- IN A MONTH, AUTHORITIES SPOTTED POTENTIAL UNDERVALUATION IN THE COST TO THE EU BUDGET IN THE ORDER OF 80 MILLION EUROS. (GENUINE & DECENT LOSSES THAT WOULD AFFECT THE EU BUDGET).
- GIVEN THE VOLUME OF TRADE AND THE QUANTITIES SHIPPED, ORGANIZED GROUPS WERE CLEARLY INVOLVED (THIS IS NOT A TOURIST BRINGING IN A PACK OF CIGARETTES OR A COUPLE OF BOTTLES OF ALCOHOL)’



Alternative Complex Remittances Systems of Currencies Exchange (‘Informal Value Transfer Systems’ IVTS)

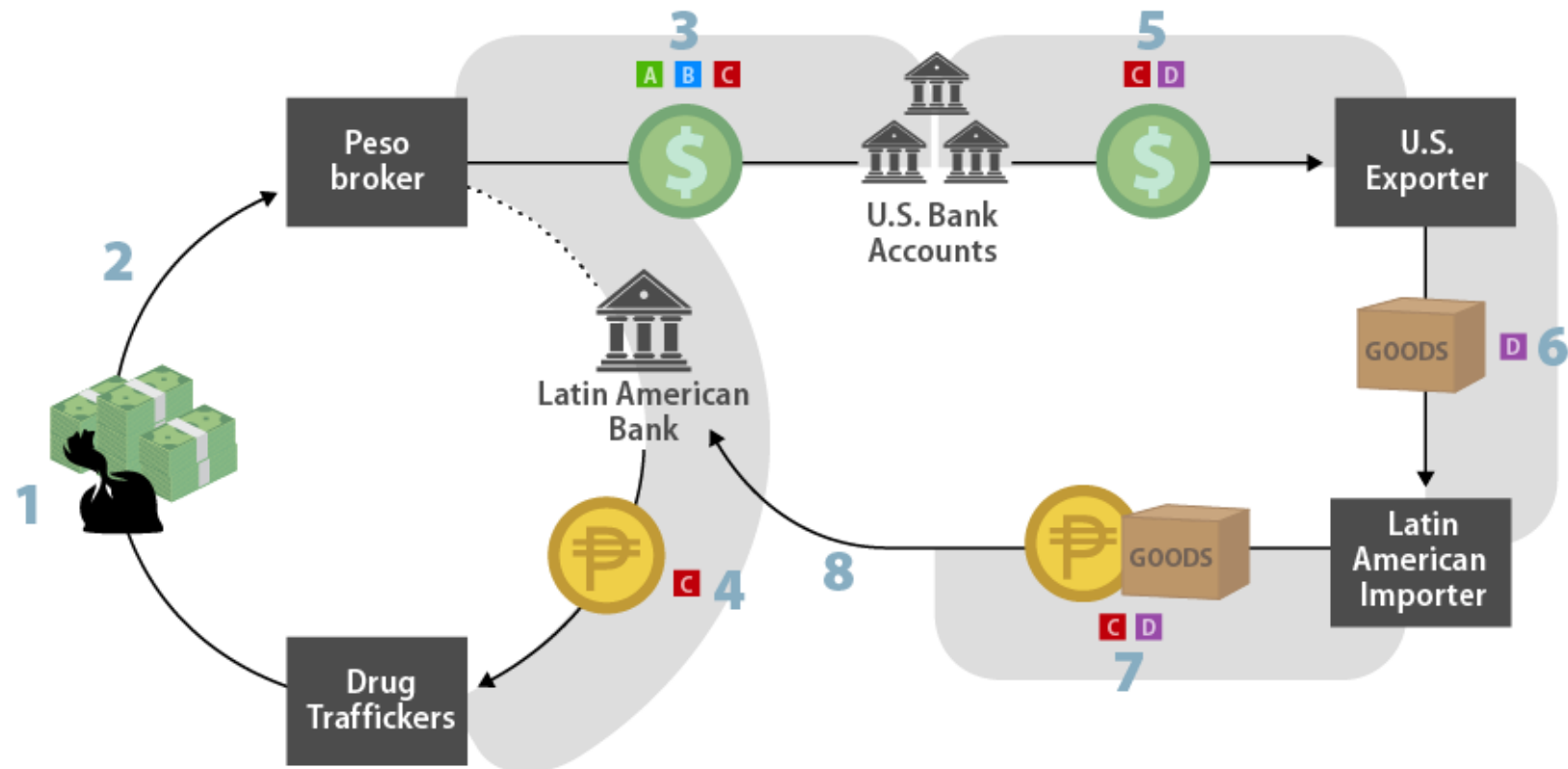
OVERVIEW

Black Market Peso Exchange (BMPE)

- THE COLOMBIAN BMPE IS THE MOST COMMON FORM OF TBML.
- THE BMPE IS A COMPLEX METHOD OF TBML (ORIGINALLY USED TO CIRCUMVENT RESTRICTIVE POLICIES ON CURRENCY EXCHANGE IN COLOMBIA).
- TO CIRCUMVENT RESTRICTIVE POLICIES AND RESTRICTIONS, BUSINESSES HAVE USED PESO BROKERS THAT DEAL IN THE BLACK OR PARALLEL CURRENCY MARKET.
- COLOMBIAN DRUG TRAFFICKERS, HAVING A SURPLUS OF U.S. DOLLARS, HAVE TAKEN ADVANTAGE OF THIS SYSTEM TO RECEIVE PESOS IN COLOMBIA IN EXCHANGE FOR DRUG DOLLARS IN THE U.S.
- SIMILAR SYSTEMS EXIST IN OTHER LATIN AMERICAN COUNTRIES, SUCH AS VENEZUELA, ARGENTINA, BRAZIL AND PARAGUAY, AS WELL AS IN DUBAI, U.A.E.
- THROUGH A SYSTEM LIKE THE BMPE, A PESO BROKER BRINGS TOGETHER WILLING SELLERS OF LARGE AMOUNTS OF U.S. DOLLARS WITH COMPANIES THAT HAVE A LARGE DEMAND FOR U.S. DOLLARS TO PURCHASE U.S. EXPORTS.

Typical TBML TRN involving BMPE (scenario)

1. DRUG TRAFFICKERS SELL DRUGS IN THE U.S. FOR U.S. DOLLARS.
2. THE DRUG TRAFFICKING ORGANIZATION ARRANGES TO SELL THESE U.S. DOLLARS TO A “PESO BROKER” AT A DECENT DISCOUNT OVER OFFICIAL EXCHANGE RATES IN EXCHANGE FOR CURRENCY OF THE ORGANIZATION’S HOME COUNTRY (I.E. COLOMBIA OR MEXICO).
3. THE PESO BROKER PAYS THE ORGANIZATION FOR THE U.S. DOLLARS IN PESOS FROM THE BROKER’S BANK ACCOUNT LOCATED IN THE HOME COUNTRY.
4. THE PESO BROKER STRUCTURES DEPOSITS OF THE U.S. DOLLARS INTO THE BROKER’S AFFILIATED U.S. BANK ACCOUNTS, KNOWN AS FUNNEL ACCOUNTS, IN ORDER TO EVADE REPORTING REQUIREMENTS OF THE U.S. BANK SECRECY ACT (BSA).
5. THE PESO BROKER LOCATES IMPORTERS IN THE BROKER’S HOME COUNTRY THAT IMPORT GOODS FROM THE U.S. AND NEED U.S. DOLLARS TO PAY THEIR U.S. SUPPLIERS.
6. THE PESO BROKER ARRANGES TO PAY THE U.S. SUPPLIER ON BEHALF OF THE IMPORTER IN U.S. DOLLARS FROM THE BROKER’S BANK ACCOUNT IN THE U.S. UPON RECEIPT OF THE U.S. DOLLAR FUNDS, THE U.S. SUPPLIER EXPORTS THE GOODS TO THE IMPORTER’S COUNTRY.
7. FINALLY, THE IMPORTER, UPON RECEIVING THE GOODS, SELLS THEM IN THE HOME COUNTRY AND PAYS THE PESO BROKER THE ARRANGED EXCHANGE FEE IN PESOS, DEPOSITING THEM INTO THE BROKER’S LOCAL BANK ACCOUNT. THIS REPLENISHES THE PESO BROKER’S ACCOUNT WITH LOCAL CURRENCY WITH WHICH THE BROKER CAN COMMENCE A NEW TBML TRN.



Illustrative steps of a black market peso exchange

1 Drug traffickers smuggle illegal drugs into the United States and sell them for U.S. dollars ("narco dollars"). **2** Drug traffickers sell the narco dollars at a discount to a peso broker. **3** The peso broker consolidates the narco dollars in a U.S. bank account and **4** pays the drug traffickers with pesos from a Latin American bank account. **5** The peso broker uses narco dollars to pay a U.S. exporter for legitimate goods on behalf of a Latin American importer. **6** The Latin American importer receives the legitimate goods and **7** sells them in Latin America for pesos. **8** The Latin American importer repays the peso broker with pesos.

Some Red Flags BMPE*

1. PAYMENTS FROM THIRD PARTIES FOR GOODS & SERVICES MADE BY A MIDDLEMAN APPARENTLY UNRELATED TO THE BUYER OR THE SELLER OF THE GOODS;
2. WIRES BETWEEN AN ORIGINATOR AND A BENEFICIARY WITH NO APPARENT BUSINESS RELATIONSHIP;
3. A CUSTOMER'S INABILITY TO PRODUCE DOCUMENTATION TO SUPPORT A TRANSACTION;
4. SIGNIFICANT DISCREPANCIES BETWEEN THE DESCRIPTIONS OF GOODS ON TRANSPORT DOCUMENTS, COMMERCIAL INVOICES OR PACKING LISTS;
5. WIRE TRANSFERS RECEIVED AS PAYMENTS FOR GOODS INTO U.S. BANK ACCOUNTS WHERE THE IMPORTER WHO ORDERED THE WIRE DOES NOT RESIDE IN THE COUNTRY FROM WHERE THE WIRE ORIGINATED;
6. MULTIPLE DEPOSITS OCCURRING IN VARIOUS LOCATIONS WHEN THE ACCOUNT OWNER RESIDES ELSEWHERE.

IN ADDITION, ANY OF THESE RED-FLAG INDICATORS, IN CONJUNCTION WITH SHIPMENTS TO DUTY-FREE ZONES OF HIGH-DOLLAR MERCHANDISE SUCH AS ELECTRONICS, AUTO PARTS, PRECIOUS METALS AND THE LIKE COULD BE AN INDICATION OF TRADE-BASED MONEY LAUNDERING OR BMPE ACTIVITY



Toys & BMPE?

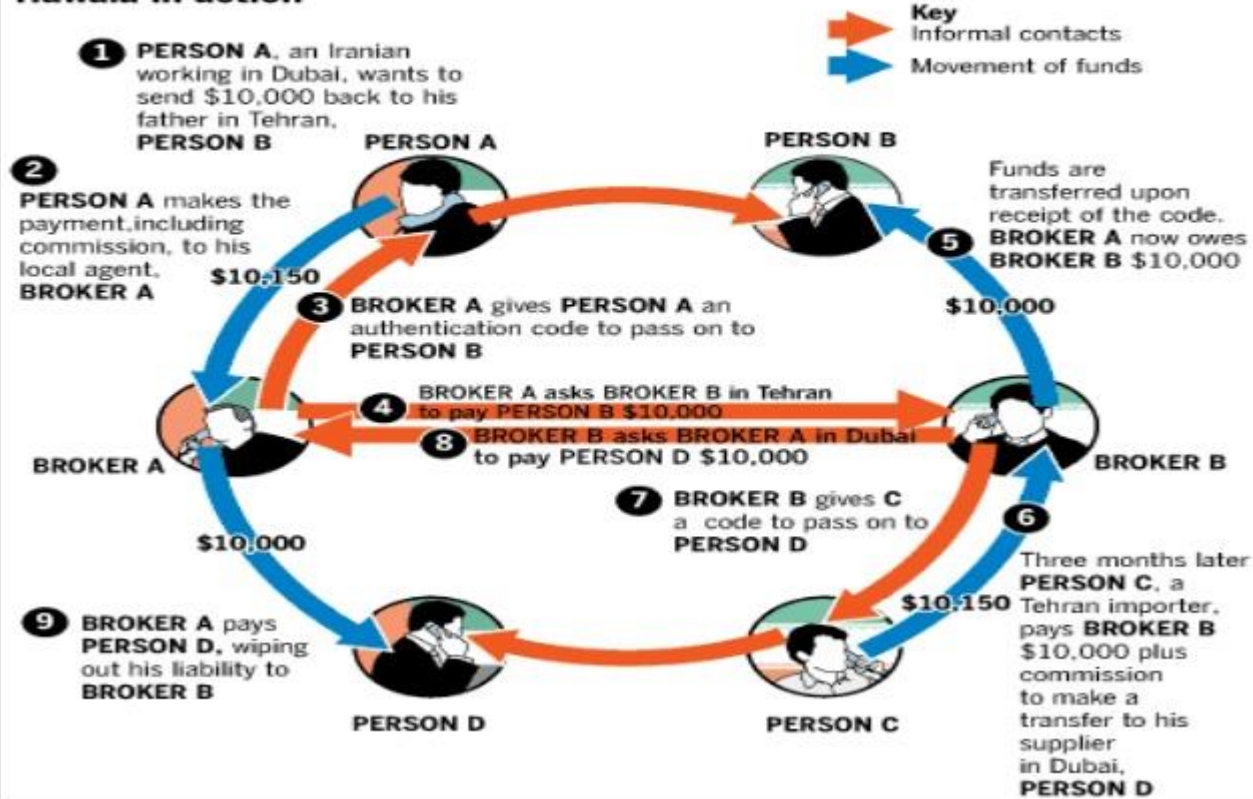
Toys-for-Drugs BMPE Scheme

- IN THE LATE 2000S, OWNERS OF THE LOS ANGELES-BASED “TOY WHOLESALER WOODY TOYS, INC.” RECEIVED MILLIONS OF DOLLARS IN CASH PAYMENTS GENERATED FROM COLOMBIAN AND MEXICAN NARCOTICS TRAFFICKING AND LAUNDERED SUCH FUNDS IN A BMPE SCHEME.
- THE CASH PAYMENTS REPORTEDLY WERE PLACED DIRECTLY INTO THE COMPANY’S BANK ACCOUNT FROM MULTIPLE LOCATIONS IN SMALL DEPOSITS THAT WERE CONSISTENTLY UNDER US\$10,000 TO AVOID REPORTING REQUIREMENTS (I.E., STRUCTURING).
- THE TOY COMPANY USED THE CASH DEPOSITS TO PURCHASE TOYS FROM CHINA, WHICH, IN TURN, WERE EXPORTED TO COLOMBIA.
- THE COLOMBIAN PESOS GENERATED BY THE TOY SALES IN COLOMBIA WERE USED TO REIMBURSE THE COLOMBIAN DRUG TRAFFICKERS THROUGH THE BMPE.
- SOME OF THE EMPLOYEES OF WOODY TOYS HAD PREVIOUSLY WORKED FOR “ANGEL TOY COMPANY”, WHOSE OWNERS HAD ALSO BEEN IMPLICATED IN A SIMILAR TOYS-FOR-DRUGS BMPE SCHEME.

*ACCORDING TO U.S. DEPARTMENT OF HOMELAND SECURITY’S TRADE TRANSPARENCY UNIT

Hawala

Hawala in action



- ANCIENT SYSTEM USED AROUND THE WORLD TO CONDUCT LEGITIMATE REMITTANCES.
- HAWALA (FEI CH' IEN – “FLYING MONEY” (CHINA)) CAN PLAY A ROLE IN MONEY LAUNDERING.
- HAWALA WORKS BY TRANSFERRING MONEY WITHOUT MOVING IT.
- THE SYSTEM IS BASED ON TRUST AND PERFORMANCE. MAIN REASON FOR USAGE IS COST EFFECTIVENESS.

HAWALA – Hypothetical

(ONE VERY LIKELY BUSINESS PARTNER SCENARIO IS AN IMPORT/EXPORT BUSINESS).

1) BROKER A (DUBAI) MIGHT IMPORT DVD BLUE RAYS AND CDS OF INDIAN AND PAKISTANI MUSIC AND 22 CARAT GOLD JEWELRY FROM BROKER B (TEHERAN), AND EXPORT ELECTRONIC DEVICES TO BROKER B (TEHERAN).

2) IN THE CONTEXT OF SUCH A BUSINESS, INVOICES CAN BE FABRICATED/MANIPULATED TO 'CONCEAL' THE MOVEMENT OF MONEY.

3) IF BROKER A (DUBAI) NEEDS TO PAY BROKER B (TEHERAN) THE US\$ 10,000 THAT HE HAS GIVEN TO PERSON B, BROKER A CAN DO IT BY "UNDER INVOICING" SHIPMENT TO BROKER B.

4) BROKER A COULD, FOR EXAMPLE, SEND BROKER B \$20,000 WORTH OF ELECTRONIC DEVICES, BUT ONLY INVOICE BROKER B FOR US\$15,000. BROKER B PAYS BROKER A US\$15,000 AGAINST THIS INVOICE.

5) THE EXTRA VALUE OF GOODS, IN THIS CASE US\$5,000 IS THE MONEY THAT BROKER A OWES BROKER B.

“Operation Katowice” (2016)

- PRODUCED SEARCHES WHICH DERIVED ON HAVING 2 INDIVIDUALS UNDER CUSTODY IN LONDON.
- TAXI DRIVER WAS CAUGHT WITH £ 250,000 IN HIS SKODA (USED AS TAXI) AND APPROXIMATELY £ 40,000 UNDER HIS MATTRESS.
- WHILE CONDUCTING THE SEARCHES AUTHORITIES UNCOVERED A “LEDGER BOOK” WHICH LISTED TRNS TOTALING £1.7 MILLION (COVERING JUST ONE MONTH PERIOD).
- THE INVESTIGATION DID NOT ESTABLISH WHICH CRIME (I.E. DRUG DEALING, TAX FRAUD, ETC.) HAD GENERATED THE CASH.
- TAXI DRIVER AND PARTNER AT FIRST DENIED CHARGES (BUT CHANGED THEIR PLEAS WHEN FACED WITH EVIDENCE)



Enjoying chocolates

GROUP EXERCISE




*US\$ 1,000 Donkeys
(ea.) to China ?*

“China’s demand for African donkeys prompts export bans”

The Guardian September 13, 2016

- THE THRIVING EXPORT MARKET IN AFRICA FOR DONKEYS IS NOT WITHOUT CONSIDERABLE DRAWBACKS FOR LOCAL PEOPLE.
- **THE PRICE OF DONKEYS HAS RISEN SUBSTANTIALLY FROM US\$34 TO US\$147/PER UNIT**, A SIGNIFICANT RISE FOR FARMERS AND MERCHANTS WHO NEED TO BUY DONKEYS TO MAINTAIN THEIR LIVELIHOODS.
- OFFICIALS AROUND THE REGION ARE ALSO WORRIED THAT THE DEMAND FOR EXPORTS WILL DECIMATE LOCAL DONKEY POPULATIONS.
- DONKEY POPULATION HAS DROPPED BY ALMOST HALF IN SEVERAL COUNTRIES IN AFRICA.
- IN RESPONSE, SEVERAL GOVERNMENTS IN AFRICA HAS BANNED DONKEY EXPORTS.



“China’s quest to buy up global supply of donkeys halted by African nations”

DONKEY HIDE (SKIN) IS USED TO MAKE CHINESE REMEDY *EJIAO* (US\$350 FOR 500G), BELIEVED TO IMPROVE BLOOD CIRCULATION.

The future

IS THERE AN “APP” FOR THIS?

USAGE OF ARTIFICIAL INTELLIGENCE (AI)

IMPLEMENTING BLOCKCHAIN TECHNOLOGY (I.E. “SMART CONTRACTS”)

“IBM to Acquire Promontory, a Financial Consulting Firm.”

“What Watson is doing to transform oncology by working with the world’s leading oncologists, we will now do for regulation, risk and compliance,” IBM, said in a statement. “

The New York Times September 29, 2016

PROMONTORY BECAME ONE OF THE TOP FINANCIAL CONSULTING FIRMS T ITS EMPLOYEES, INCLUDING MANY FORMER FINANCIAL REGULATORS FROM AROUND THE WORLD, ADVISED BANKS ON REGULATORY MATTERS.

IN A STATEMENT, IBM SAID THAT PROMONTORY AND ITS 600 EMPLOYEES AROUND THE WORLD WOULD MESH WITH ITS OWN OFFERINGS, INCLUDING ITS WATSON ARTIFICIAL INTELLIGENCE PLATFORM.

IN PARTICULAR, PROMONTORY IS EXPECTED TO HELP TRAIN WATSON, WITH THE GOAL OF AIDING IBM’S FINANCIAL CLIENTS ON MANAGING THEIR REGULATORY OBLIGATIONS AND POTENTIALLY REDUCING THE COSTS OF DOING SO.

Blockchain Technology & A.I. (Numbers at a glance)

92% BELIEVE INDUSTRY NEEDS BETTER UNDERSTANDING OF HOW AI TECHNOLOGY CAN BE APPLIED TO PAYMENTS.

72% SEE STRONG POTENTIAL FOR AI TO HELP ELIMINATE INEFFICIENCIES IN PAYMENT PROCESSING.

67% SAY ADOPTION OF AI BY BANKS WILL INCREASE SIGNIFICANTLY IN THE NEXT TWO (2) YEARS.

ARTIFICIAL INTELLIGENCE (A.I.) IS ONE OF THE EMERGING TECHNOLOGIES FOR WHICH MANY SEE POTENTIAL IN FINANCIAL SERVICES (BUT PRACTICAL IMPLEMENTATION IS STILL IN EARLY STAGES).

Suggested approach

UNDERSTANDING CUSTOMER BEHAVIOR (CONSISTENCY W/PROFILE) & IMPORTANCE OF KYC)

ASSESSING THE THREAT LEVEL (PERIODIC RISK ASSESSMENT IS PARAMOUNT)

PAYING ATTENTION TO POSSIBLE RED FLAGS

“TRUSTING BUT VERIFYING” – ASKING THE RIGHT QUESTIONS

INNOVATE, DETECT, ESCALATE AND PROTECT (WITHOUT TROUBLING HONEST CUSTOMERS)

Thank you.