



TRADE-BASED MONEY LAUNDERING: A Law Enforcement Perspective

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Outline:

- **TBML in the ML Process**
- **What is TBML?** (definition and schemes)
- **Challenges of TBML** (strategic, organizational)
- **The way forward?** (policy options)
- **The future of TBML?** (tactical considerations)



3 Stages of Money Laundering:

Placement



Layering

← TBML



Integration

Definition:

“The movement of illicit funds through commercial transactions and organizations that are and/or appear to be legitimate.”

- Main method used by OC / terrorist financiers to transfer value or finance activities. (FATF)
- Received limited attention within Canadian AML regime (GoC)
- Not capital flight or trade fraud.
- Requires a complicit seller / buyer or dual-presence
- Often involves easily liquidated / distributed goods
- Includes goods and services (ex. consulting)



Schemes:



Transferring goods to finance illicit product / activities

- Ex. Vehicles to Africa for drugs
- Ex. Stolen vehicles to Africa → Diamonds → \$ to cartel for drugs
- Ex. Baby food to China?
- Ex. Sale of antiquities / oil to finance terrorism

Schemes:



Various forms of customs fraud:

- **Misrepresentation of price or quantity** (ex. timber, wine, fruit)
- **Misrepresentation of quality** (ex. gold hardware, granite)
- **Multiple invoicing / phantom shipments** (ex. voided car purchases)
- **Misidentifying final recipient / destination of good** (ex. dual-use goods)

Schemes:



Customs Fraud + ...

- Layering
- Shell companies
- Offshore accounts
- Nominees
- Legal Trusts
- Third-party payment methods / Freight-forwarders
- Transit through FTZs or non-cooperative jurisdictions
- Use of crypto-currencies
- Co-mingling with real estate / casinos

Strategic Challenges:

- **Multiple stake-holders (domestic & international) required to tackle TBML presents coordination / logistical challenges.**
 - INT'L: Multiple countries/agencies, differing governance/legal regimes
 - DOMESTIC: Information consumers / providers
- **Trade volume (ie. a needle in a needle stack)**



Strategic Challenges (con't):

- **Measures to combat TBML cannot hinder legitimate trade (limits available options).**
 - Ex. “Traders” not included in current AML/CTF reporting regime.
 - FINTRAC does not collect all relevant data (ie. Letters of Credit, EFTs under \$10K, domestic EFTs, trade transactions handled by lawyers).



Organizational Challenges:

- **Opaque / paper-based trade systems and long supply chains prevent effective monitoring (ie. buried data).**
- **Ill equipped to detect suspicious transactions (ie. hard-to-value goods).**
- **Information sharing at domestic & international level is ad-hoc, case-by-case, target-specific, manual. Difficult to extrapolate trends, indicators, scope.**



Organizational Challenges (con't):

- **Raising awareness of TBML and flagging it in files**
 - Requires training and expertise in trade finance.
- **Addressing IT shortcomings**
 - Multiple databases with restricted access.
 - New software needed to analyze TBML at aggregate level.
- **Developing FININT to address intel gaps**
 - Training CI handler's to solicit FININT



The Way Forward?

Due to complex nature of TBML a variety of measures will need to be pursued concurrently:

- Training in TBML and Trade Finance
- Inter-agency working group
- Partnerships with other countries/agencies (MOUs and bi-lateral agreements)
- Leverage LOs / ADOs abroad
- Modernize IT
- Engaging information collectors to address intelligence gaps



Future of TBML? (Tactical considerations)

- **Flexibility in determining the predicate offence** (ex. customs / tax fraud offences)
- **Professionalization of TBML** (presence of amalgamated and seemingly uncorrelated transactions)
- **Fewer x-border cash transactions** (ex. drugs for precursors)
- **Prepare to be confused** (ex. Ghost VINs)
- **Co-mingling with casinos and real estate**
- **Investigational paradigm shift**



QUESTIONS?

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