TRADE FINANCE COMPLIANCE

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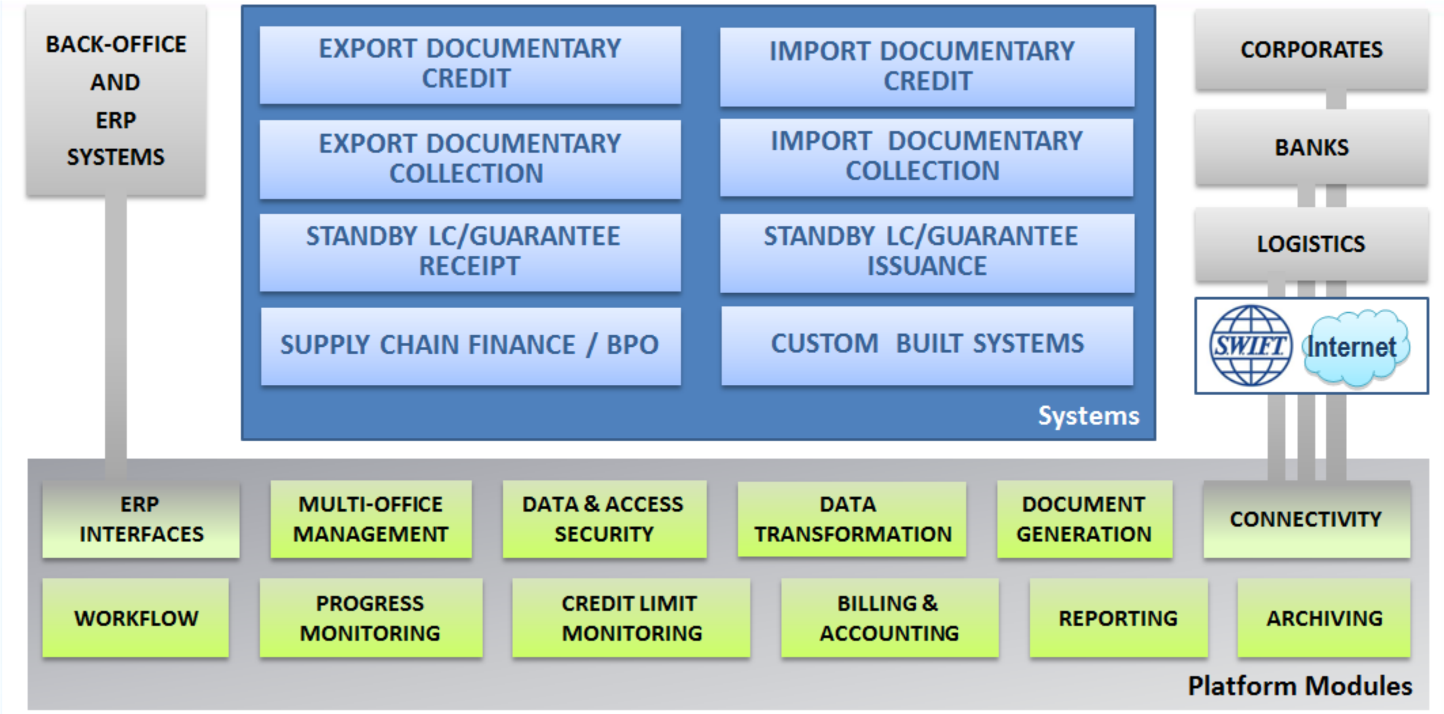

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Sergei Gurin | Account Manager | GlobalTrade Corporation

Preface

This is the first white paper published by lcviews.com. It has been expressed clearly by many Trade Finance banks that there is a need for a more structured and standardised approach to Trade Finance Compliance.

Different parties have made attempts for this, however no such attempt has been made by persons who have a core background from Trade Finance. The drafters of this document have exactly that – and that is what makes this document different from any other document available on this topic today.

Through this it is the hope that the document will make a real difference in the understanding in and approach to Trade Finance Compliance. Of course this is not the “final answer” – but it is an answer that hopefully will help in bringing about a “maturity” in this area.

I would like to express my heartfelt thanks to the co-drafters of the document. They have invested their personal time in this project – free of charge; for the benefit of the Trade Finance community.

I also express my thanks to partners and sponsors. They have been material in ensuring that the document will reach every corner of the Trade Finance community.

You will note that the document is labelled with a version number. The reason for this is that the area of Trade Finance Compliance is a “moving target.” Therefore updates to the documents may be necessary. Please ensure that you are reading the latest version of the document.

In any case, I hope and believe that the document will benefit the Trade Finance community.

Kim Sindberg

November 2015

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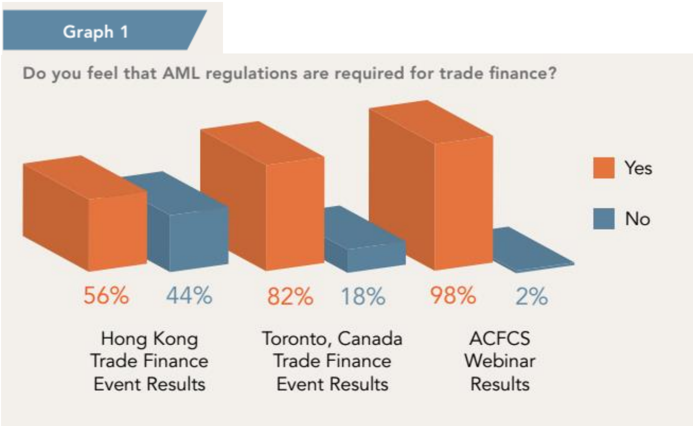
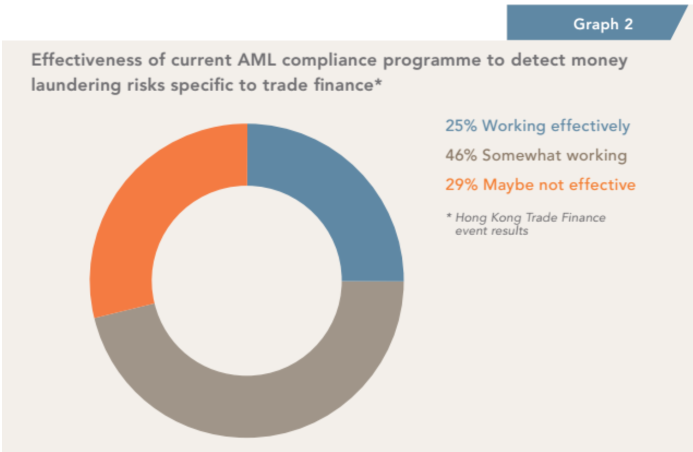
Accuity is pleased to participate in the development of this white paper. Accuity has been working closely with financial institutions globally providing reference data solutions to help facilitate payment transactions and regulatory compliance requirements for over 175 years. Increasingly, there is a compliance challenge for Trade Finance departments to review their client's trade transactions for potential money laundering and sanctioned entities. Trade based money laundering (TBML) is becoming an increasing concern of regulators who are urging financial institutions to implement the necessary controls and procedures to identify and report potential transgressions. Working closely with clients, Accuity has developed a Trade Finance screening solution that is able to identify all goods, companies, seaports, vessels and dual use goods that are sanctioned or controlled. Ongoing market feedback is essential to ensuring we develop solutions that meet our client's regulatory compliance needs.

Accuity conducted a series of TBML workshops globally to educate our clients on current issues related to these challenges and the increasing impact on their Trade Finance operations. In a several face to face and online workshops, clients were asked the following questions:





A majority of participants have indicated AML regulations are required for Trade Finance (Graph 1) and yet only 25% of current AML compliance programs to detect TBML risk feel these programs are working effectively. Clearly there is a knowledge gap that this white paper can help fill.

Accuity is proud to sponsor the development of this white paper and trust readers will find value in it's contents.

Henry Balani
Head of Innovation
Accuity

Introduction

1. The purpose of this document is to offer an overview and approach to Compliance within the Trade Finance area.

2. Five years back only a few banks had any structured approach to compliance within the Trade Finance area. Today it is a key activity for any serious Trade Finance bank. Still, the area seems immature; and there is a need for people involved in Trade Finance to have a better "compliance understanding", just as there is a need for Compliance people to have a better "Trade Finance understanding." This document aims to aid in achieving this objective.

3. Trade finance is a key component in international trade. It is imperative that banks conducting Trade Finance business have the "appropriate" measures, controls and policies in place for the purpose of adhering to the various regulations that apply. I.e. in order to prevent money laundering, terrorist financing and sanctions breaches from taking place.

4. The Financial Action Task Force (FATF), the Wolfsberg Group, the Joint Money Laundering Steering Group (JMLSG) and the UK Financial Conduct Authority (FCA) have all drawn attention to the potential for Trade Finance activities to be misused and to disguise criminal activity.

5. The premise for this document is that it is misleading to label Trade Finance as being particularly risky. Although, Trade Finance activity is sometimes referred to as being "High Risk", it is misleading to consider activities under this as "High Risk" per se. As described in chapter 1, "Trade Finance Risk evaluation", the level of risk will depend on how the products are being used by the individual bank; and this risk-based approach should be the basis for the controls that the individual banks have in place.

6. The issues covered by this document are regulated by international bodies (such as EU and UN) and by applicable local law. Hence, it is mandatory for banks to address these issues. If they do not address these issues and implement appropriate controls there is a possibility of incurring hefty fines and in the worst-case scenario, even possibly losing their license to do business; i.e. banks do not have a choice on whether or not to address the compliance issues.

   However, when working with compliance issues there are many choices to be made. In that respect a core challenge is to find an appropriate balance between being "compliant" whilst still being able to continue business.

   Within the area of Trade Finance it seems that banks have adopted different approaches to compliance and no standardised approach exists. One of the main purposes of this document is to help build such practice.

7. Compliance requirements are not static – they are subject to change and evolution over time and likewise, so may the content of this document. This is why it includes a "version number." Always make sure to reference the latest version of this document.

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8. For the purpose of this document Trade Finance is defined as:

    a. Documentary Credits
    b. Guarantees
    c. Documentary Collections

9. For the purpose of this document "compliance" is defined as the measures put in place by financial institutions in order to mitigate against financial crime risks; e.g. conducting due diligence screening on the following:

    a. Customer
    b. Sanctions regulations
    c. Money laundering / Terrorist financing
    d. Dual-use and embargoed goods

10. It is important to understand that this is not a legal document, but rather a document to aid banks set up their compliance framework. In doing that the legal department may be relevant in different situations.

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1 Trade Finance Risk evaluation

When working with compliance issues in Trade Finance, there is a challenge in agreeing on the Risk Classification of the Trade Finance products. Regulators and people not directly involved in day-to-day Trade Finance activities tend to routinely categorise Trade Finance as being ““High Risk””; a view that the Trade Finance industry sector cannot generally subscribe to.

Banks use different models to classify the risks under Trade Finance products. In general there are various challenges with such models. Here are some of the most significant:

- They tend not to be specific for Trade Finance. Rather, they are often made to fit the payment products. The payment products are by nature very different from the Trade Finance products.

- They tend to evaluate each product in an “absolute” manner, i.e. taking the view from the outset that financial crime risks can be evaluated in the same way in all given situations. This surely is not correct. The risks will depend on how the product is being used.

  An example:

  “Bank A” is a midsize international bank that has a high volume of back-to-back documentary credits involving parties in “High Risk” countries.

  “Bank B” is a small local bank that primarily issues documentary credits (only) for their core customers.

  The two examples clearly illustrates that the risk related to the documentary credit is not absolute. It is clear that the way in which “Bank A” uses the Trade Finance products are far more complex (and risky) than that of “Bank B.” In other words “Bank A” should have more – and more robust – controls in place as compared to “Bank B”, in order to reach the same “residual risk level.”

- They tend to be very abstract: Often it is unsure what the “basis” for conducting the evaluation is. Usually, the evaluation should address the inherent risks; i.e. the risks under the products *before* any controls are in place. However, as argued above the product risk cannot be viewed as “absolute; ” it must be evaluated in the context in which it is being used. Further, to assume that no controls are in place is of course wrong. For example, almost all banks now have established KYC procedures to be conducted on their customer, which significantly reduces the risks of the bank inadvertently facilitating financial crime such as money laundering.

The above being said, it is clear that the Trade Finance products are generally perceived as being “High Risk”.

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Below are some quotes from external sources:

TR13/3.Thematic review. Banks' control of financial crime risks in trade finance (July 2013) (The FCA report)

"The Financial Action Task Force (FATF), the Wolfsberg Group and the Joint Money Laundering Steering Group (JMLSG) have all drawn attention to the misuse of international trade finance as one of the ways criminal organisations and terrorist financiers move money to disguise its origins and integrate it into the legitimate economy. The complexity of transactions and the huge volume of trade flows can hide individual transactions and help criminal organisations to transfer value across borders."

APG Typology Report on Trade Based Money Laundering. Adopted by APG Members at the 15th Annual Meeting (The APG report)

"There is a growing concern on how the rapid growth in the global economy has made international trade an increasingly attractive avenue to move illicit funds through financial transactions associated with the trade in goods and services."

The Wolfsberg Trade Finance Principles (2011) (the Wolfsberg report)

"It does not however believe that currently there is sufficient evident to support an assessment of this area as "High Risk" for AML/Sanctions purposes."

DIRECTIVE 2005/60/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (The EU Directive)

*"In exercising its implementing powers in accordance with this Directive, **the Commission should respect the following principles**: the need for high levels of transparency and consultation with institutions and persons covered by this Directive and with the European Parliament and the Council; the need to ensure that competent authorities will be able to ensure compliance with the rules consistently; **the balance of costs and benefits to institutions and persons covered by this Directive on a long-term basis in any implementing measures; the need to respect the necessary flexibility in the application of the implementing measures in accordance with a risk-sensitive approach**; the need to ensure coherence with other Community legislation in this area; the need to protect the Community, its Member States and their citizens from the consequences of money laundering and terrorist financing." [Emphasis added].*

ICC Trade Register Report 2014 (ICC Report)

"Regulators, banks, and other industry participants and stakeholders lacked a source of information for explanatory/educational purposes and for evidencing the low risk nature of Trade and Export Finance."

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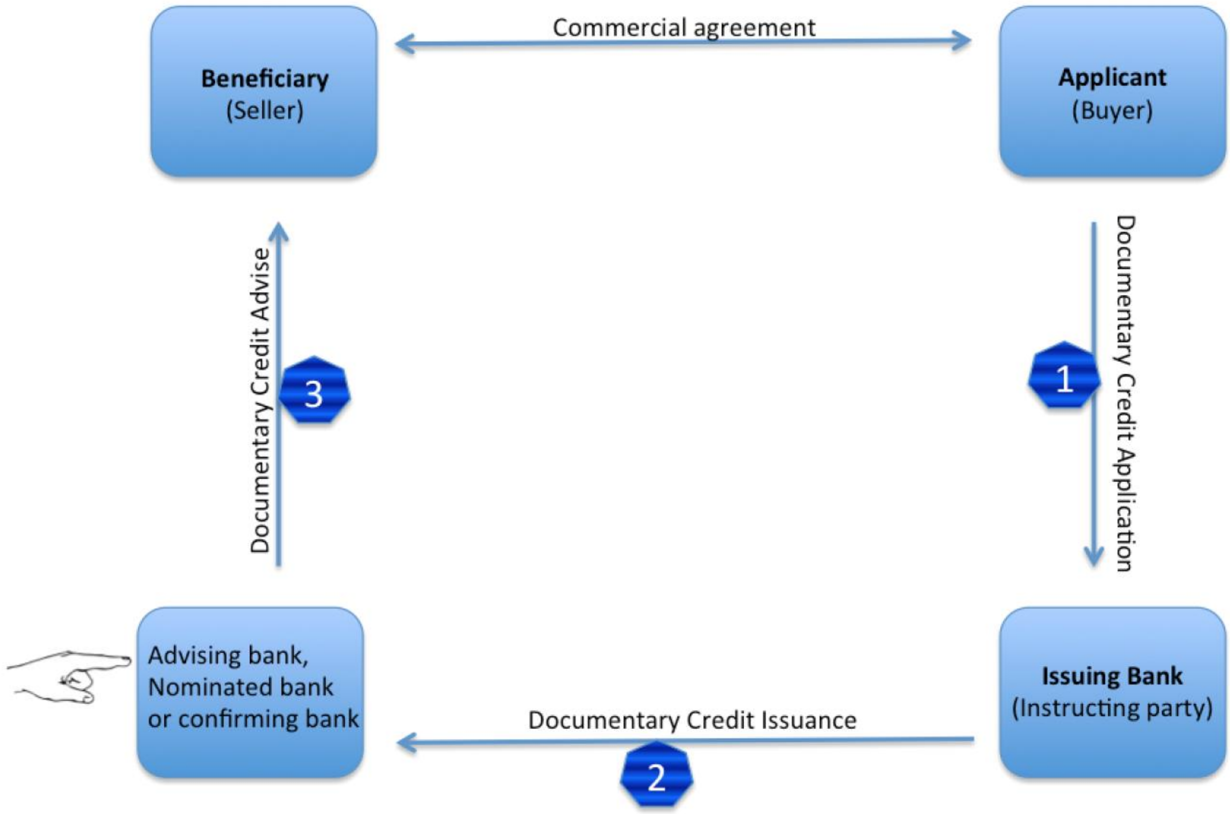
The five above quotes show different approaches. The first two categorising Trade Finance as "High Risk"; whereas the Wolfsberg report clearly states that there is no evidence to support this view. Rather, the ICC Report offers evidence as to the "Low Risk nature" of the Trade Finance products.

The FCA and APG reports make no attempt to offer any evidence to support the "risk category" of the Trade Finance products; even though from the outset both take the view that Trade Finance is "High Risk" by definition.

The EU directive underlines that it respects the balance of costs and benefits in the implementing measures. This seems to have been disregarded by the FCA report when it suggests that banks should be checking public source information for prices of goods such as commodities and carrying out further investigations where there is a significant difference from the market price. One must respect that the people employed at the bank's Trade Finance departments are bankers and not engineers who are expected to be experts in all commodities, in all industries.

It must be added that logically the Trade Finance products are *not* the first choice for fraudsters and other criminals. In today's Trade Finance environment all banks have rigid KYC ("know your customer") procedures in place.

Take as an example the following illustration showing the issuance of a documentary credit.



1: The applicant (buyer) will apply the issuing bank to issue the documentary credit.
In doing so the issuing bank will perform a KYC on the applicant.

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2: Often the documentary credit is issued via SWIFT message MT700. This requires that the issuing bank and the advising bank have exchanged “SWIFT keys.” In today’s environment banks will only do this if they have performed a KYC check on the other bank. Such KYC process includes a check of the KYC procedures of the counterpart bank.

3: Normally, an advising bank will only advise the documentary credit to customers on whom they have performed a KYC check.

From a financial crime perspective, this means that taking into account the bank’s due diligence process, a potential criminal would be required: 1) to set up companies at both ends of the chain (or be in a partnership with a similar willing entity) and to be confident that both companies would pass the bank’s robust KYC scrutiny; 2) to be confident that the transparent paper audit trail (commercial documents to be presented under the documentary credit) does not trigger any alarms by the bank when it further examines the documents before it makes payment and 3) to obtain the cooperation of various independent third parties such as transport companies, inspection companies and insurance companies in progressing the criminal activity.

In other words, there would appear to be far “easier” means to enjoy the proceeds of financial crime or “launder money” than through the use of a documentary credit.

It has been argued that one reason why Trade Finance is classified as “High Risk” is because the documents are presented through the Trade Finance banks; i.e. the documents that may expose that sanctioned parties are involved in the transaction.

In fact this is an “upside down argument:” Had the commercial parties agreed to trade on open account terms, then the same payment for the same transaction would have been effected as a clean payment, i.e. revealing only the amount, the payer and payee. At the very least, in a Trade Finance transaction the Trade Finance Bank(s) have access to the commercial documents and is provided an opportunity to identify unusual or potential suspicious activities.

It has also been argued that another reason why Trade Finance is considered “High Risk” is because the complexity of the transactions is higher than, as an example, that under clean payments. No doubt, for people not directly involved in Trade Finance the activities may seem complex and certainly there are transactions that are unnecessarily complex. However, documentary collections, demand guarantees and documentary credits are as such, historical and standardised products, the operations and efficiencies of which have stood the test of time. The vast majority of the transactions are “plain vanilla” following the same pattern every time – and (most importantly) based on standardised rules drafted by the International Chamber of Commerce and universally adopted.

However, notwithstanding the above it must be acknowledged that for the purpose of Trade Finance activities and under the products there are risks of sanctions breaches, money laundering, terrorist financing and shipment of dual-use embargoed goods, and of course, the Trade Finance departments must put in measures to prevent such risks!

The point however is that the measures should be proportionate and undertaken on a risk-based approach so that the actual risk is addressed and mitigated, so as to allow for the possibility of the Trade Finance activity to continue. The risk-evaluation of the Trade Finance products must from the outset take into account the actual risk that is related to how, with whom and where the Trade Finance products are being used.

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1.1 A suggested Risk Evaluation approach

In evaluating the risk of financial crime under the Trade Finance products, the following is a suggested approach:

1.1.1 Identify the inherent risk

The first step is to identify the inherent risks associated with the Bank's customers, products, transactions, geographies and channels. The assessment of the inherent risks is primarily a data driven process in order to understand the factual risk picture. Such may include the following:

- <u>Products</u>
  Which Trade Finance products are being used?
  How are the products being used? For example, are there many complex structures?
  Are there products that include specific "High Risk" features"? For example, direct collections where the remitting bank does not have the possibility to check the documents for sanctioned parties.

- <u>Industries/goods</u>
  What are the industries / product mix? Do they involve High or "Normal Risk" categories?

- <u>Geography/Countries</u>
  What is the mix of countries? Does it involve "High Risk" and "Normal Risk" countries?
  This can be based on the bank's own evaluation or on the country list offered by FATF[1].

- <u>Customers</u>
  What is the mix of customers? Does it involve "High Risk" and "Normal Risk" customers?
  Often the KYC process will identify "High Risk" features" of the individual customer, and such may require an enhanced due diligence to be performed.

- <u>Relationship banks</u>
  What is the mix of correspondent banks? Does it involve "High Risk" and "Normal Risk" banks?
  Often the KYC process on the bank will identify "High Risk" features" of the individual bank, and such may require an enhanced due diligence to be performed.

- <u>Third parties</u>
  Do the transactions involve "High Risk" third parties, such as Agencies, Shipping lines, Carriers, Insurance companies and Surveyors?

- <u>Channels</u>
  What are the current communication channels being used and how do they affect the risk picture?

  The summary / result of the above will be the basis for documenting the inherent risk.

[1] http://www.fatf-gafi.org/countries/

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1.1.2 Identify the existing controls

The second step is to assess and identify existing controls. Controls include policies, instructions, procedures, processes, organisation and systems.

This will include a detailed description of the controls that are in place. For example:

- Governance
- Processes and procedures
- Manual compliance checks (Red Flags and sanctions)
- Automated compliance checks (e.g. name screening for sanctioned parties)
- Monitoring done:
    - By the Trade Finance department
    - By the Compliance department
    - By Internal Audit department
- The staff's knowledge of regulatory compliance, experience in documentary examination and general awareness
- Training given
- Documentation (of the compliance checks and alerts escalated)
- The internal and external systems used
- The information provided to the management

1.1.3 Evaluation of the residual risk

The third step is to evaluate the residual risk

The Identification and assessment of the inherent risk (1.1.1 above) and existing controls (1.1.2 above) form the residual risk picture, and will identify any "gaps" that need be put into place.

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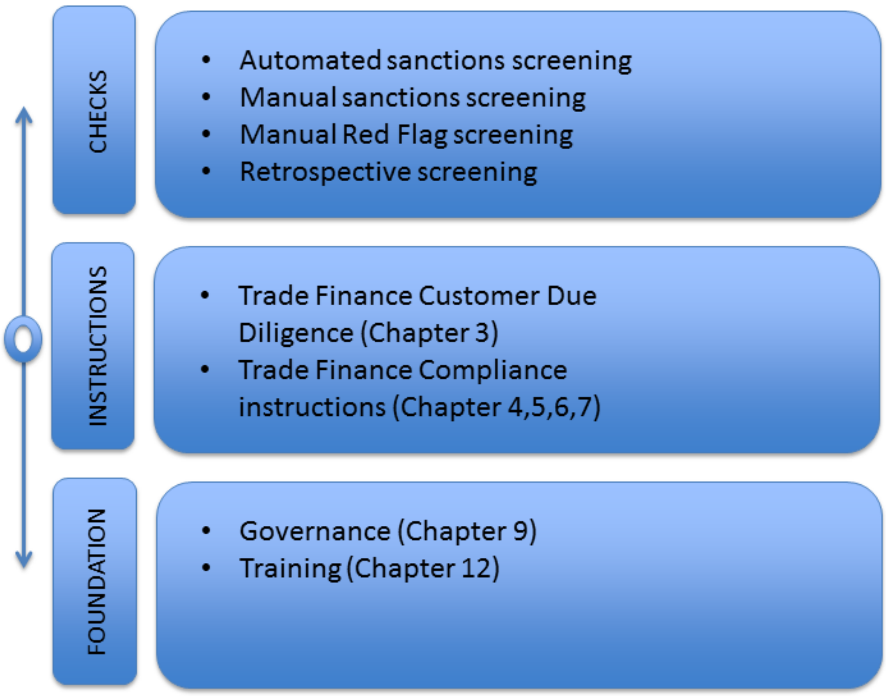
2 Approach to Trade Finance Compliance

The Trade Finance department is by nature different from the Payments department of a bank. Therefore, the compliance approach to Trade Finance activities needs to be different from the compliance approach to clean payments. When setting up compliance measures banks tend to think in individual controls: One control to mitigate one specifically identified risk. Of course, the risks need to be identified and the controls in place need to address those risks. However, since the Trade Finance department's activities are by large handled in manual routines, a more holistic approach would offer a more robust model. As such, it makes sense to work with a "compliance model" rather than simply have a line of individual "compliance controls" in place. If structured well such "compliance model" would create synergies i.e. the full benefits of such model may be higher than the sum of the individual elements. In addition such model would allow a better way to explain the compliance process to external parties, such as the local regulators.

The following pages walk through the individual elements such a model might include.

Below is a simple drawing showing an overview of the elements that should be in place.



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3 Customer Due Diligence

Banks have so-called “KYC guidelines” – i.e. instructions as to what kind of knowledge the banks must have about its “customers.” In this respect both corporate companies and other financial institutions may be considered as “customers.”

One purpose of such guidelines is to have in place control measures on a customer level against money laundering and terrorist financing.

“KYC” is short for “Know Your Customer” – and is an industry standard recognised term to describe the process within a company of verifying the identity of its counterparts. Often the following terms are also used:

- *CDD: Customer Due Diligence*
  The process under which checks are performed during the “on boarding” of a new customer

- *SDD: Simplified Due Diligence*
  The process under which simplified checks are performed for selected customers deemed to be “Low Risk”, such as domestic public authorities.

- *EDD: Enhanced Due Diligence*
  The process under which enhanced checks are performed for customers deemed to contain ““High Risk” elements, such as a customer who operates in “High Risk” markets, or deals in “High Risk” commodities.

- *ODD: Ongoing Due Diligence*
  The process under which continuous checks are performed on the client relationship and periodically updating the relevant due diligence information. E.g. on a yearly basis.

Such KYC guidelines are drafted in accordance with directives from local law and regulatory authorities (e.g. the EU) as well as the bank’s internal policies and procedures. Normally the KYC process are performed by the unit responsible for the customer relationship, i.e. it is <u>not</u> (normally) the Trade Finance department that perform the KYC[2].

However at a transactional level it is the primary responsibility of the Trade Finance department to ensure that KYC process has been completed on the “relevant” party or parties.

In general, KYC process is required to have been completed on parties where there is a business relationship. This includes, but is not limited to:

- Parties with whom the bank has entered into a general agreement

- Parties with whom the bank has entered into a special agreement

[2] For that reason this process is not elaborated further upon in this document.

- Parties (mainly business entities, government entities or a municipality) with whom the bank has a regular flow of transactions

- Parties (mainly banks) with whom the bank has exchanged SWIFT keys

In addition to the above, banks will in general require a KYC process to have been completed on parties on whom the credit risk has been booked. Often a credit risk goes hand in hand with an agreement. For example, when issuing a documentary credit it is based on a documentary credit application (the "agreement") signed by the applicant and the credit risk is booked on the applicant. However, it need not always be the case that an agreement needs to be in place with the party on whom the credit risk is booked. For example when confirming a documentary credit the issuing bank will book the risk on the issuing bank, but as such there need not be an agreement between the issuing and confirming bank; merely an authorisation or request to confirm from the issuing bank.

Banks may also require that a KYC process (or other "appropriate due diligence") is completed on at least one of the commercial parties (i.e. the buyer and/or the seller). There may be different reasons for this, for example:

- When working with Red Flags (see Chapter 7 "Red Flags in Trade Finance Transactions") the individual transaction must be evaluated on the basis of the "normal pattern of business" of the corporate customer. In order to conduct this evaluation, the bank must of course understand the "normal pattern of business" of the customer. This can for example, be achieved via a KYC process.

- In the event of a dispute or obstacles this is often resolved directly between the commercial parties. However, where there already exists a business relationship between the bank and the corporate customer it is more likely that the bank will agree to assist its customer in resolving the dispute and vice versa.

Below are some basic scenarios from the perspective of a bank, wherein its role changes depending on whether the bank is involved from the side of the buyer or seller.

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3.1 Documentary Credit

The documentary credit is defined as follows:

" … any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation."

Practically every documentary credit is issued subject to the ICC rules "Uniform Customs and Practice for Documentary Credits." The current version is ICC Publication No. 600 – referred to as UCP 600.

Listed below are the usual parties involved under a documentary credit transaction:

The buyer	The buyer is termed **Applicant.** The applicant is the party at whose request the documentary credit is issued.
The buyers bank	The buyer's bank is termed the **Issuing bank.** The issuing bank is the bank that issues a documentary credit at the request of an applicant or on its own behalf.
The seller	The seller is termed **Beneficiary.** The beneficiary is the party in whose favour a documentary credit is issued.
The sellers bank	The seller's bank may assume different roles under the documentary credit, e.g.: **Advising bank:** The bank that advises the credit at the request of the issuing bank. **Second advising bank**: The bank whose services are being used by an advising bank. **Confirming bank**: The bank that adds its confirmation (a conditional, irrevocable undertaking) to a credit upon the issuing bank's authorization or request. **Nominated bank:** The bank with which the credit is available or with any bank, in the case of a credit available with any bank.

Information Box:

The Uniform Customs and Practice for Documentary Credits (UCP) was first published in 1933, and has since been revised in 1951, 1962, 1974, 1983, 1993 and latest in 2007. The 2007 version is known as UCP 600.

In addition – and related – to the UCP 600 the ICC have published the International Standard Banking Practice for the Examination of Documents under UCP 600 (Known as ISBP 745) as well as eUCP V1.1 Supplement to UCP 600.

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3.1.1 Export Documentary Credit

In this context an "export" documentary credit is a documentary credit seen from the perspective of the bank of the seller. For the purpose of KYC, the below perspective is that of the seller's bank.

There may well be other "variations" than the ones mentioned below and these variations should be reviewed on the basis of the above principles.

KYC approach from the perspective of the bank of the seller:

Party	KYC/Due Diligence approach
Applicant (1)	Completion of KYC process is not required; but a due diligence process is; e.g. screening the party against relevant sanctions lists.
Issuing Bank (2) The issuing bank is the "instructing party" to the bank of seller.	If the bank of the seller takes on a credit risk (e.g. by confirming the documentary credit), it will require that a KYC process has been completed on the issuing bank. If the documentary credit is issued via SWIFT (normally as a MT700 message) most banks will require that a KYC process has been completed on the sender of the SWIFT message. If an agreement has been made with the issuing bank (e.g. in terms of a risk price agreement) then it is required that a KYC process has been completed.
Beneficiary (3)	In today's regulatory environment many banks will only agree to advise documentary credits to their own customers; i.e. where a KYC process has already been completed. There may be situations where there is no "legal requirement" for a formal KYC process to have been completed on the beneficiary. In such situations the bank should make sure to have the appropriate knowledge of the party in question. Both, to ensure that it is a legitimate company, but also to be able to do a Red Flag check (see chapter 7). Such appropriate knowledge may be gathered in the form of a full KYC process but in some situations it may also be a "light KYC", i.e. with less rigid checks. The level of knowledge in such cases will depend on the outcome of the risk assessment as well as the internal policies of the individual bank. If a formal agreement is entered into with the beneficiary then it is required that a KYC process is completed.
Reimbursing bank (if any)	A reimbursing bank is a bank from whom the bank of the seller can claim the funds. A formal KYC process is not required to be completed but a due diligence is; e.g. screening the party against relevant sanctions lists.

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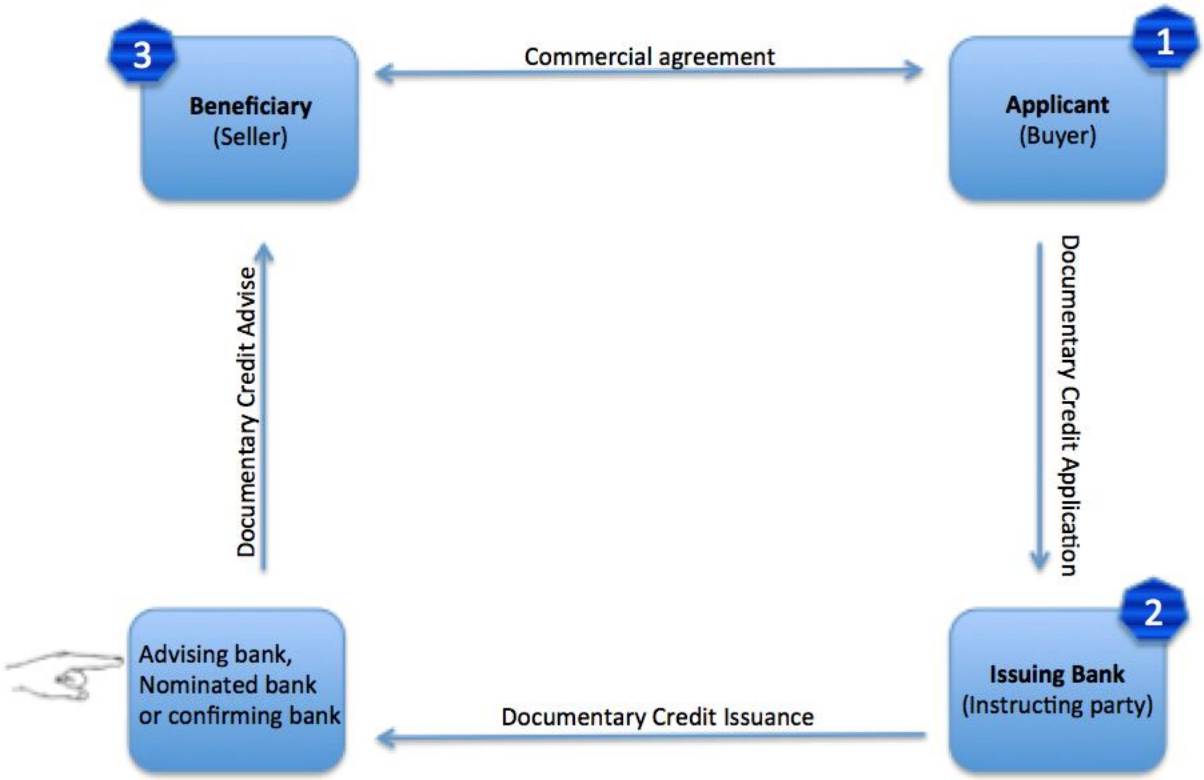

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3.1.2 Import Documentary Credit

In this context an "import" documentary credit is a documentary credit seen from the perspective of the bank of the buyer; i.e. the issuing bank. For the purpose of KYC, the below perspective is that of the buyer's bank.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

<u>KYC approach from the perspective of the bank of the buyer (issuing bank):</u>

Party	**KYC/Due Diligence approach**
Applicant (1) The applicant is the "instructing party" to the issuing bank.	Completion of a KYC process is required since: • The documentary credit application signifies an agreement between the applicant and the issuing bank. • By issuing the documentary credit the issuing bank has a credit risk on the applicant.
Advising-, Second Advising-, nominated-, confirming Bank (2)	If the documentary credit is issued via SWIFT (normally as a MT700 message) most banks will require that a KYC process is completed on the receiver of the SWIFT message. If there is an agreement made with the advising, nominated, confirming bank (e.g. a risk price agreement) then it is required that a KYC process is completed.
Beneficiary (3)	Completion of a KYC process is not required; but a due diligence process is; e.g. screening the party against relevant sanctions lists.

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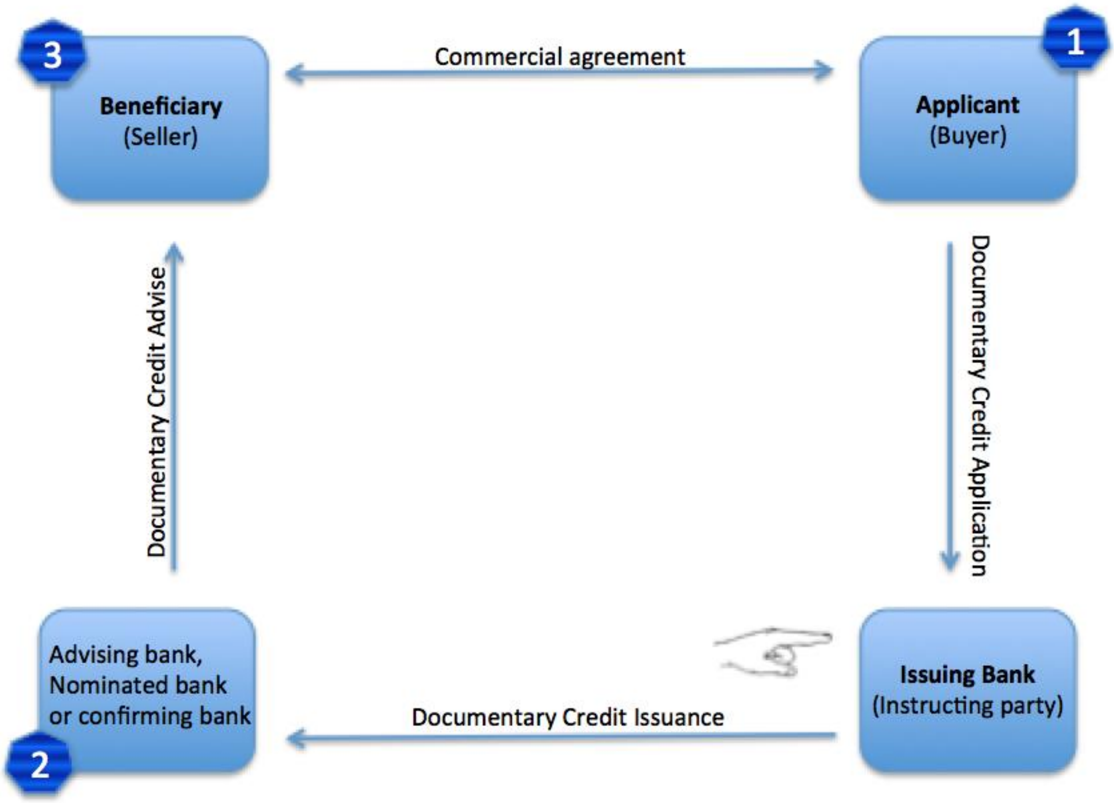

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3.2 Guarantee / Standby letter of credit

Guarantees are defined as follows:

" … any signed undertaking, however named or described, providing for payment on presentation of a complying demand. "

Most guarantees are issued subject to the ICC rules "Uniform Rules for Demand Guarantees." The current version is ICC Publication No. 758 – referred to as URDG 758. There are however many guarantees that are issued without reference to the international rules.

The following scenarios also apply to standby letters of credit.

Standby letters of credit are generally issued subject to either the ICC rules "Uniform Customs and Practice for Documentary Credits" (the current version is ICC Publication No. 600 – referred to as UCP 600) or International Standby Practices (referred to as ISP98).

The following parties are usually party to a guarantee / standby letter of credit:

The commercial party that applies for the issuance of the guarantee / standby letter of credit	The definition of this party will vary depending on the applicable set of rules to be applied, i.e.: **Applicant / Instructing party** **Principal**
The bank issuing the guarantee / standby letter of credit	The definition of this party will vary depending on the applicable set of rules to be applied, i.e.: **Guarantor / Counter guarantor** **Issuing bank** **Issuer**
The commercial party the guarantee / standby letter of credit is issued in favour of	This party is termed **Beneficiary.**
The bank advising the guarantee / standby letter of	This party is termed **Advising bank** or **Adviser**.

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credit	
The bank confirming the standby letter of credit	This party is termed **Confirming bank** or **confirmer**.

Information Box:

The Uniform Rules for Demand Guarantees (URDG) was first published in 1992 – URDG 458. In 2010 a revised version was published – URDG 758.

The International Standby Practices (ISP98) was created by The Institute of International Banking Law & Practice (IIBLP). It has been published by IIBLP and ICC (ICC brochure 590).

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3.2.1 Guarantee issuance

In this context a "guarantee issuance" means a guarantee seen from the perspective of the bank of the applicant; i.e. the guarantor. For the purpose of KYC, the below perspective is that of the guarantor.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

KYC approach from the perspective of the guarantor:

Party	KYC/Due Diligence approach
Applicant (1) The applicant is often the "instructing party" to the guarantor. As it appears in the text to the right "Applicant" and "Instructing Party" can however be two different entities.	Completion of a KYC process is required since: • The guarantee application signifies an agreement between the applicant and the guarantor. • By issuing the guarantee the guarantor has a credit risk on the applicant. For guarantees it is not uncommon that there is both an instructing party and an applicant. For example, in the case where a "Mother" company is applying for a guarantee in the name of its "Daughter" company, the "Daughter" company is mentioned in the guarantee as "Applicant". In such cases it is required that the KYC process is completed on the "Mother" company (the instructing party).
Advising Bank (2)	If the guarantee is issued via SWIFT (normally as a MT760 message) most banks will require that KYC is completed on the receiver of the SWIFT message. If there is an agreement made with the advising bank (e.g. a risk price agreement) then it is required that a KYC process is completed. Many guarantees are issued in paper form, and in such case there may be no requirement for a KYC process but a due diligence process is nevertheless needed to be completed; e.g. screening the party against relevant sanctions lists.
Beneficiary (3)	Completion of a KYC process is not required; but a due diligence process is; e.g. screening the party against relevant sanctions lists.

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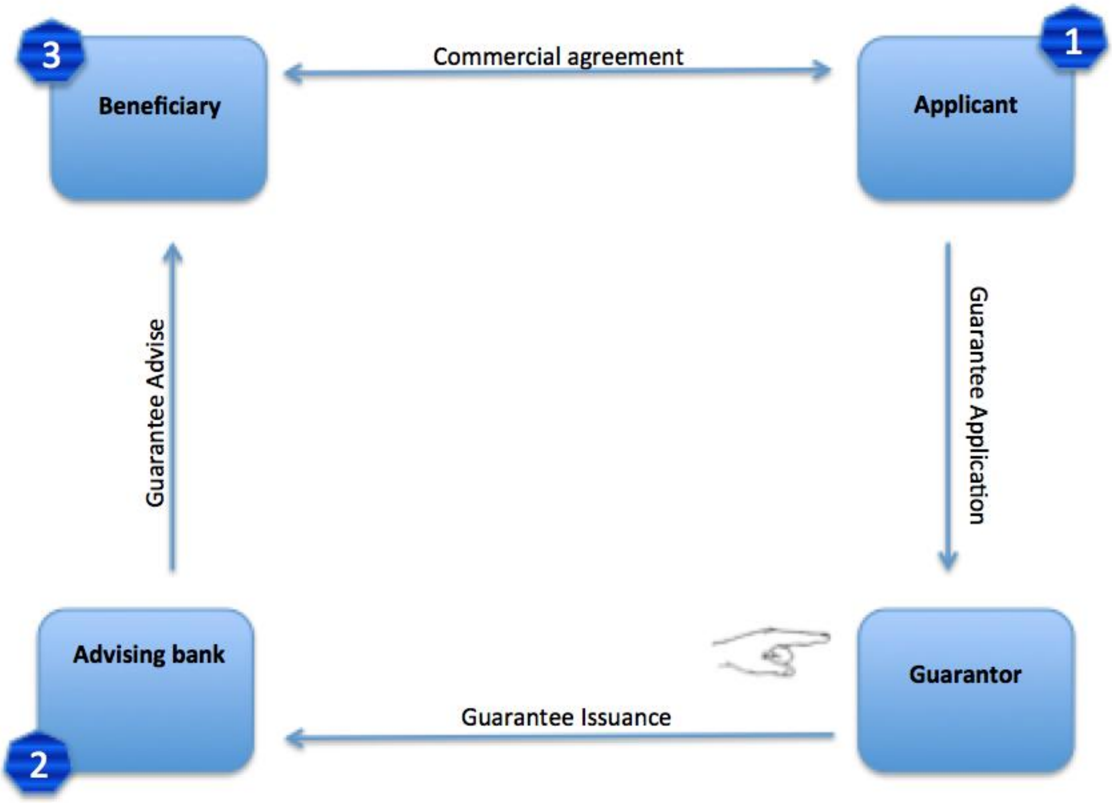

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3.2.2 Guarantees – Issuance (based on counter guarantee)

In this context a "guarantee issuance based on a counter guarantee" means a guarantee seen from the perspective of the bank issuing the guarantee in favour of the beneficiary; i.e. the guarantor. For the purpose of KYC, the below perspective is that of the guarantor.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

KYC approach from the perspective of the guarantor:

Party	KYC/Due Diligence approach
Applicant (1)	Completion of KYC process is not required; but a due diligence process is; e.g. screening the party against relevant sanctions lists.
Counter guarantor (2) The counter guarantor is the "instructing party" to the guarantor.	Completion of a KYC process is required since: • Often the issuance of a guarantee on the basis of a counter guarantee is based on an agreement between the two banks. This means that a KYC process is required to be completed on the counter-guarantor. • If the guarantee is issued via SWIFT (normally as a MT760 message) most banks will require that a KYC process is completed on the sender of the SWIFT message. • By issuing the guarantee, the guarantor has a credit risk on the counter guarantor.
Beneficiary (3)	In today's regulatory environment many banks will only issue a guarantee on the basis of the counter-guarantee where a KYC process has been completed on the beneficiary. There may be situations where there is no "legal requirement" for a formal KYC process to have been completed on the beneficiary. In such situations the bank should make sure to have the appropriate knowledge of the party in question. Both, to ensure that it is a legitimate company, but also to be able to do a Red Flag check (see chapter 7). Such appropriate knowledge may be gathered in the form of a full KYC process but in some situations it may also be a "light KYC", i.e. with less rigid checks. The level of knowledge in such cases will depend on the outcome of the risk assessment as well as the internal policies of the individual bank. If a formal agreement is entered into with the beneficiary then it is required that a KYC process is completed.

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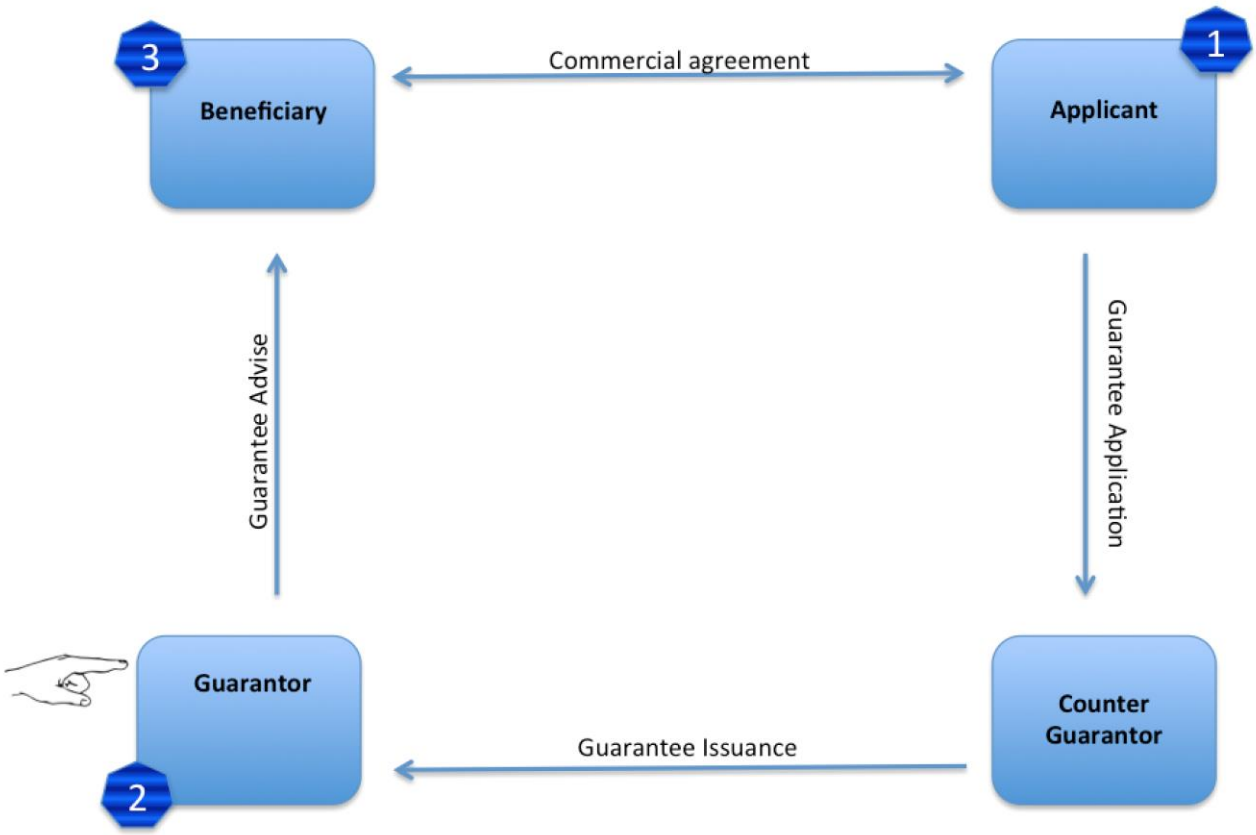

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3.2.3 Guarantee Advise

In this context a "guarantee advice" means a guarantee from the perspective of the bank advising the guarantee to the beneficiary; i.e. the advising bank. For the purpose of KYC, the below perspective is that of the advising bank.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

KYC approach from the perspective of the bank of the beneficiary:

Party	KYC/Due Diligence approach
Applicant (1)	Completion of KYC process is not required but a due diligence process is; e.g. screening the party against relevant sanctions lists.
Guarantor (2) The guarantor is the "instructing party" to the advising bank.	If the guarantee is issued via SWIFT (normally as a MT760 message) most banks will require that a KYC process is completed on the sender of the SWIFT message. If there is made any agreement with the issuing bank (e.g. in terms of a risk price agreement) then it is required that a KYC process is completed. Many guarantees are issued and advised in paper form, and in such case there may be no requirement for a KYC process but a due diligence process is nevertheless needed to be completed; e.g. screening the party against relevant sanctions lists.
Beneficiary (3)	In today's regulatory environment many banks will only agree to advise guarantees to their own customers; i.e. where a KYC process has already been completed. There may be situations where there is no "legal requirement" for a formal KYC process to have been completed on the beneficiary. In such situations the bank should make sure to have the appropriate knowledge of the party in question. Both, to ensure that it is a legitimate company, but also to be able to do a Red Flag check (see chapter 7). Such appropriate knowledge may be gathered in the form of a full KYC process but in some situations it may also be a "light KYC", i.e. with less rigid checks. The level of knowledge in such cases will depend on the outcome of the risk assessment as well as the internal policies of the individual bank. If a formal agreement is entered into with the beneficiary then it is required that a KYC process is completed.

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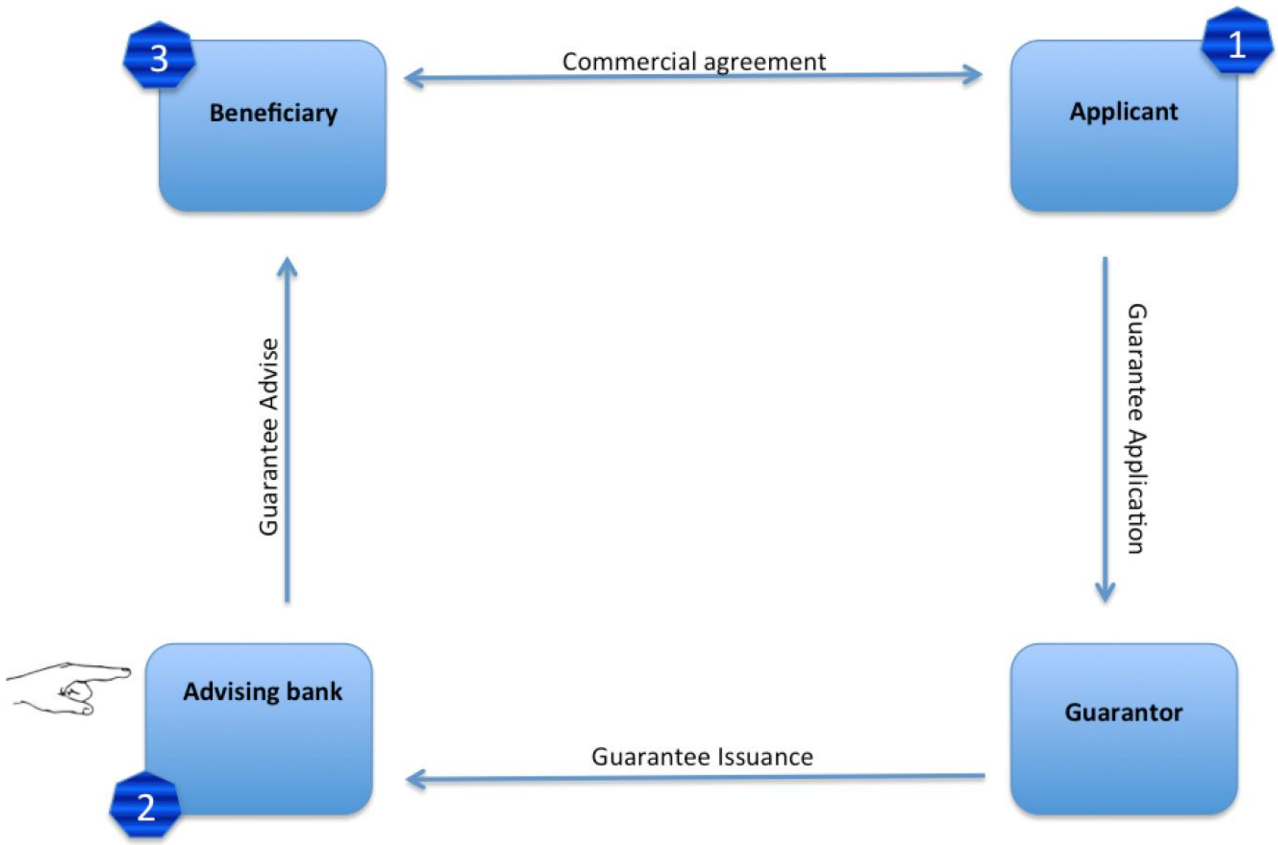

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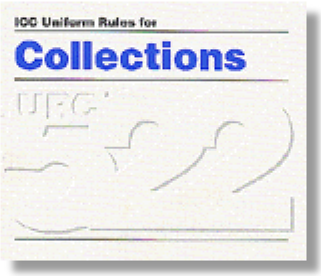
3.3 Collections

Collection means the handling of documents in accordance with instructions received, in order to deliver documents against payment or acceptance of bills of exchange.



Collections are handled in accordance with the ICC rules "Uniform Rules for Collections." The current version is ICC Publication No. 522 – referred to as URC 522.

The following are usually parties to a collection:

The seller	The seller is termed **Principal.** The principal is the party entrusting the handling of a collection to a bank.
The sellers bank	The sellers' bank is termed **Remitting bank**. The remitting bank is the bank to which the principal has entrusted the handling of a collection
The buyer	The buyer is termed **Drawee.** The drawee is the one to whom presentation is to be made in accordance with the collection instruction.
The buyers bank	The buyers' bank is either termed **Collecting bank** or **Presenting bank.** The collecting bank is defined as any bank, other than the remitting bank, involved in processing the collection. The presenting bank is defined as the collecting bank making presentation to the drawee.

Information Box:

The Uniform Rules for Collections (UCP 522) was published in 1996.

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3.3.1 Export Collections

In this context an "export" collection is a collection seen from the perspective of the bank of the seller. For the purpose of KYC the below perspective is that of the bank of the seller.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

KYC approach from the perspective of the bank of the seller:

Party	KYC/Due Diligence approach
Principal (1) The principal is the "instructing party" to the bank of seller.	Completion of a KYC process is required since the collection instruction signifies an agreement between the principal and the remitting bank.
Collecting bank (2)	There is no requirement for a KYC process to be completed on the collecting bank, since there is no underlying agreement with the collecting bank. However, for the purpose of payment and communication it is beneficial to be able to communicate via SWIFT. Most banks will require that a form of KYC has been completed as a condition precedent to exchanging SWIFT keys. Due diligence will however be required to be completed, e.g. screening the party against relevant sanctions lists.
Drawee (3)	Completion of a KYC process is not required but a due diligence process is; e.g. screening the party against relevant sanctions lists.

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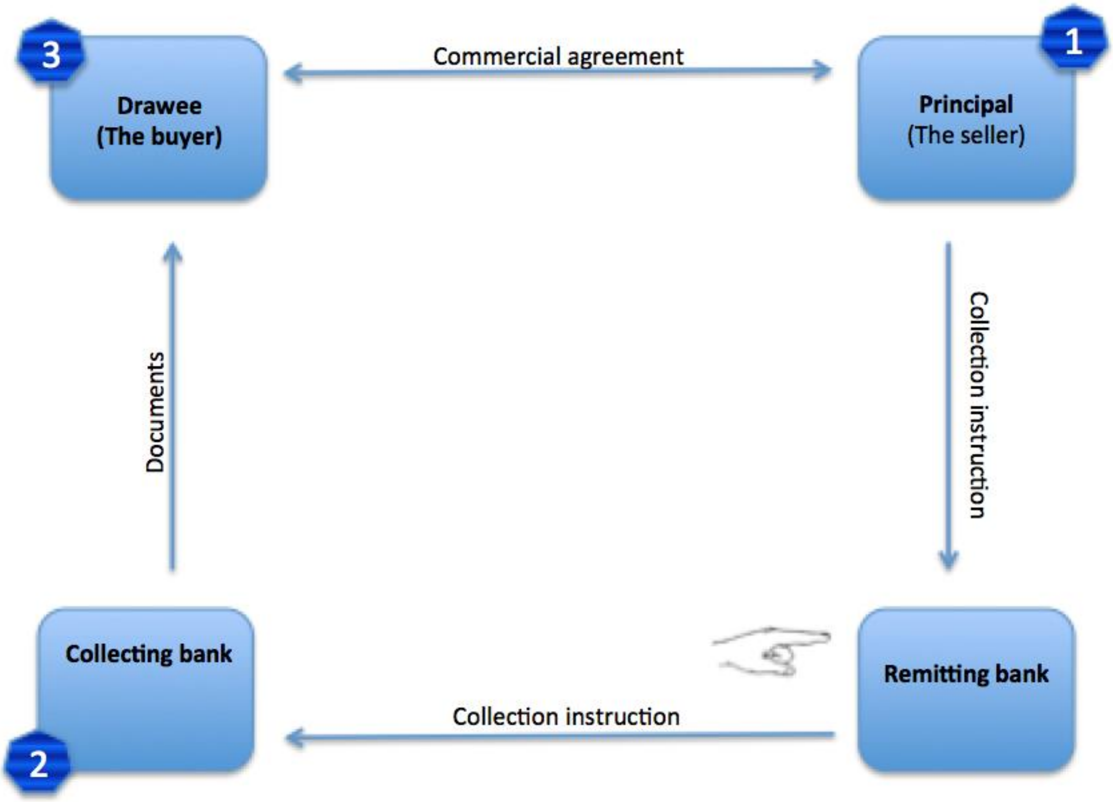

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3.3.2 Import Collections

In this context an "import" collection is a collection seen from the perspective of the bank of the buyer. For the purpose KYC the below perspective is that of buyers bank.

There may well be other "variations" than the below and these should be reviewed on the basis of the above principles.

KYC approach from the perspective of the bank of the buyer:

Party	KYC/Due Diligence approach
Principal (1) The principal is the "instructing party" to the bank of seller.	Completion of a KYC process is not required but a due diligence process is; e.g. screening the party against relevant sanctions lists.
Remitting bank (2)	There is no requirement for a KYC process to be completed on the remitting bank, since there is no underlying agreement with the remitting bank. However, for the purpose of payment and communication it is beneficial to be able to communicate via SWIFT. Most banks will require that a form of KYC has been completed as a condition precedent to exchanging SWIFT keys. Due diligence will however be required to be completed, e.g. screening the party against relevant sanctions lists.
Drawee (3)	In today's regulatory environment many banks will deal only with their own customers; i.e. where KYC has been completed. If an agreement has been made with the drawee, then it is required that a KYC process is completed.

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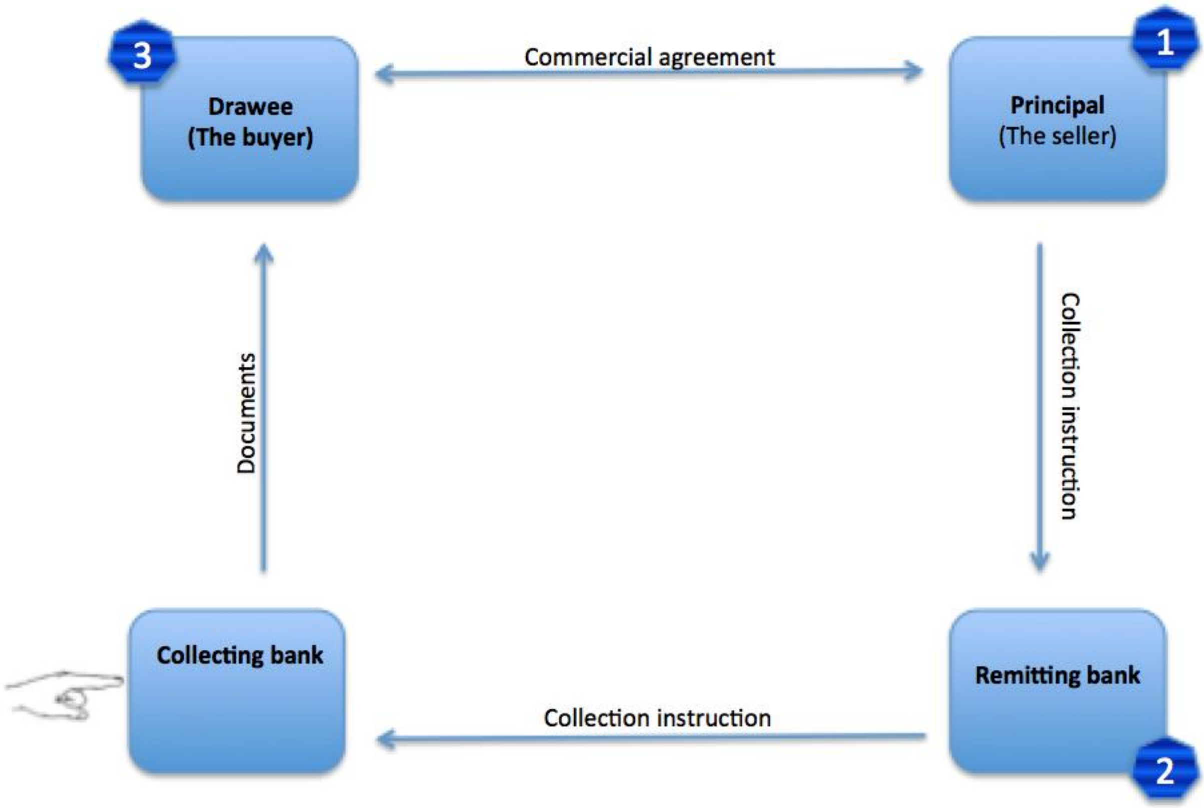

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4 Sanctions handling by banks

Financial sanctions are restrictive measures imposed on individuals or entities in an effort to curtail their activities and to exert pressure and influence on them (imposed for political reasons). These restrictive measures include, but are not limited to, financial sanctions, trade sanctions, restrictions on travel or civil aviation restrictions.

Various international bodies and countries (like UN Security Council, EU and US) have issued sanctions against persons, companies, commodities and countries.

Banks handling Trade Finance transactions have an obligation to ensure that the individual transaction does not violate the sanctions regimes that apply to them.

Since Trade Finance transactions are available to banks in both an electronic form (e.g. SWIFT messages) and paper form (e.g. the documents presented under a documentary credit), the sanctions checks performed are a combination of both automated checks and manual checks.

For sanction screening it is important to emphasise that regulators do not allow a "risk based approach" – i.e. only screening certain transaction or parties. All parties (known to the bank) related to the transactions at the time and additional parties that come into the picture, as the transaction progresses are required to be screened.

Typically the following elements are checked via an automated procedure:

- The SWIFT messages related to Trade Finance (see Appendix 1)

This normally consists of a name screening against persons, companies and names of vessels.

Although the goods' description is part of some of the above messages (like the MT700 field 45A: Description of Goods and/or Services) often the commodity is not screened in the SWIFT message. The reason is that this is a free format text field used for various elements of information such as:

- Unit prices
- Number of items shipped
- Shipping marks
- Trade term – often an Incoterms rule followed by a place
- Commercial contract.

See appendix 2 for a sample goods' description.

For a future update of the SWIFT messages it is recommended that the goods description field (45A) in the MT700, MT710 and MT720 messages, is split into different "segments." The purpose of which should be to isolate the core description of goods, so that it can be used for an automated screening against the relevant lists.

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Typically the following is checked via a manual (in whole or part) procedure:

- The documentary credit applications
- The guarantee applications
- The documents presented under import documentary credits
- The documents presented under export documentary credits
- The documents presented under import documentary collections
- The documents presented under export documentary collections.
- Guarantee demands
- All incoming and outgoing non-SWIFT messages

4.1 Sanctions sources

There are many sources used for sanctions screening. For the manual sanctions screenings a bank may check the involved parties directly through the relevant sanction list.

For example, a bank located within the European Union will reference the "Consolidated list of persons, groups and entities subject to EU financial sanctions[3]"

A bank in the US will reference the "Specially Designated Nationals List" (SDN) of the U.S. Department of Treasury (Office of Foreign Assets Control- OFAC)[4].

Other countries will have their own lists that must be checked by the persons and companies within that jurisdiction.

A non-exhaustive overview is available here:

Body / Country	Reach of sanctions
The United Nations (UN) Security Council	Imposes sanctions, subject to implementation in all UN Member States, to respond to situations that pose a threat to international peace and security.
The European Union	Imposes financial and economic sanctions that are binding in all EU Member States (Adopts the UN measures or on an autonomous basis, sometimes in cooperation with the US).
The United States	OFAC – The Office of Foreign Asset Control of the US Department of Treasury administers and enforces economic and trade sanctions based on US laws and US foreign policies.
Other countries	Adopt the UN measures in accordance with their own national legislation. May also take measures on an autonomous basis and in cooperation with other countries.

[3]http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm
[4]http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx

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In many countries it is “standard” practice to comply with OFAC’s SDN list, and certainly when it applies to any transactions with any connection to the U.S. e.g. if the transaction is in US-Dollars.

The above list assumes that banks are required to conduct a name-based screening.

Recently however, a new “regime” of sanctions has been introduced by the European Union and the U.S., namely the sectoral sanctions towards Russia. This requires a “scenario based sanctions screening based on elements that include:

- Named persons, parties and entities
- Certain Commodities:
    - Military goods
    - Dual-use goods/technologies (having both civilian and military use), if used for military purpose
    - Certain technologies suited to the oil industry for use in deep water oil exploration and production, Arctic oil exploration and production, or shale oil projects in Russia.
- Financing of certain Russian financial institutions

Pursuant to the above scenario-based screening, different countries have imposed sanctions on Russia and Ukraine as follows:

1. The European Union has issued two lists:

- EC 833/2014 Ukraine List
- EC 2014/512/CFSP Ukraine List

2. OFAC has issued Executive Order 13662, the so-called SSI list.

3. Canada, by amending the Special Economic Measures (Russia) Regulations (SOR/2014-316)

In general it is deemed that if a party is owned 50% or more by a sanctioned party, then the sanctioned status is “inherited.” Often these parties are not mentioned on the sanctions lists, and for that reason it will often not be sufficient to do the sanction screening directly against the official lists but rather, subscribe to a system that keeps track of the beneficial owners etc. These are systems such as “Compliance Link Trade Finance” from Accuity, “Risk & Compliance” from Dow Jones or “World Check” from Thomson Reuters.

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4.2 Sanction clauses in trade finance transactions

Some banks include so-called sanction clauses into their Trade Finance instruments (documentary credits and guarantees). These have been the subject of many discussions within the Trade Finance community and the ICC has issued "*1238 ICC Guidance Paper on The Use Of Sanctions Clauses In Trade Finance-Related Instruments.*"(ICC Banking Commission 13 June 2014).

The below is an abstract of the document:

Scope and purpose of the ICC Guidance Paper

THE USE OF SANCTIONS CLAUSES IN TRADE FINANCE-RELATED INSTRUMENTS SUBJECT TO ICC RULES, INCLUDING DOCUMENTARY AND STANDBY LETTERS OF CREDIT, DOCUMENTARY COLLECTIONS AND DEMAND GUARANTEES

The purpose is to highlight certain issues arising from the use of sanction clauses and recommend best practice.

Introduction

The use of sanction clauses in Trade Finance instruments has become a problematic issue for banks involved.

Sanctions are imposed by the United Nations, the EU Council or individual countries to achieve political and economic ends.

Sanctions may restrict a bank's ability to perform its role under ICC rules. International banks may be confronted with different sanctions regimes imposed in the multiple jurisdictions in which they operate.

Sanction Clauses

Many banks include "sanctions clauses" in their documentary credits, guarantees or collections. The reason is that they seek to notify their counterparties (correspondent banks or beneficiaries) that sanctions may impact their obligations under the Trade Finance instrument.

Sanction clauses are different in nature and no standard exist. Some are pure information and do not extend beyond applicable laws and regulation. Other may bring into question the irrevocable, independent nature of the documentary credit, demand guarantee or counter-guarantee, the certainty of payment or the intent to honour obligations.

Examples of Sanction clauses

ICC offers a list of sanction clauses:

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1: An example of an informative sanctions clause that does not extend beyond applicable laws and regulation:

Quote

"Presentation of document(s) that are not in compliance with the applicable anti- boycott, anti-money laundering, anti-terrorism, anti-drug trafficking and economic sanctions laws and regulations is not acceptable. Applicable laws vary depending on the transaction and may include United Nations, United States and/or local laws."

Unquote

2: An example of a sanctions clause that refers to internal policies that are unknown to the nominated bank (by doing so it brings into question whether the bank will comply with its irrevocable obligation):

Quote

"[Bank] complies with the international sanction laws and regulations issued by the United States of America, the European Union and the United Nations (as well as local laws and regulations applicable to the issuing branch) and in furtherance of those laws and regulations, [Bank] has adopted policies which in some cases go beyond the requirements of applicable laws and regulations. Therefore [Bank] undertakes no obligation to make any payment under, or otherwise to implement, this letter of credit (including but not limited to processing documents or advising the letter of credit), if there is involvement by any person (natural, corporate or governmental) listed in the USA, EU, UN or local sanctions lists, or any involvement by or nexus with Cuba, Sudan, Iran or Myanmar, or any of their governmental agencies."

Unquote

3: An example of a sanction clause that may permit exercise of discretion beyond the requirements of applicable law:

Quote

"Trade and economic sanctions ('sanctions') imposed by governments, government agencies or departments, regulators, central banks and/or transnational organizations (including the United Nations and European Union) impact upon transactions involving countries, or persons resident within countries currently including Balkans, Belarus, Cote d'Ivoire (Ivory Coast), Lebanon, Liberia, Rwanda, Sierra Leone, Somalia, Syria, the Democratic Republic of Congo, Uzbekistan, Afghanistan, Iran, Iraq, Myanmar (Burma), North Korea, Cuba, Zimbabwe and Sudan. Issuing bank and all of its related bodies corporate might be subject to and affected by, sanctions, with which it will comply. Please contact issuing bank for clarification before presenting documents to issuing bank for negotiation or undertaking any dealings regarding this credit involving countries or persons affected by sanctions. Issuing bank is not and will not be liable for any loss or damage whatsoever associated directly or indirectly with the application of sanctions to a

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transaction or financial service involving issuing bank. Issuing bank is not required to perform any obligation under this credit which it determines in its discretion will, or would be likely to, contravene or breach any sanction. This clause applies notwithstanding any inconsistency with the current edition of the International Chamber of Commerce Uniform Customs and Practice for Documentary Credits."

Unquote

ICC offers the following recommendations:

Quote

It is recommended that banks should refrain from issuing trade finance-related instruments that include sanctions clauses that purport to impose restrictions beyond, or conflict with, the applicable statutory or regulatory requirements. It is also advisable for practitioners to be aware of the risks posed by such clauses if included by other banks involved in their transactions.

In trade finance transactions involving documentary credits or demand guarantees subject to ICC rules, practitioners should refrain from bringing into question the irrevocable, independent nature of the credit, demand guarantee or counter-guarantee, the certainty of payment or the intent to honour obligations. Failure to do so could eventually damage the integrity and reputation of documentary credits and demand guarantees which may have a negative effect on international trade.

Unquote

(This review is written by LC Views. For the full transcript of the Official ICC Opinion please contact International Chamber of Commerce (ICC).

Reference:

ICC Guidance Paper on The Use Of Sanctions Clauses In Trade Finance-Related Instruments Subject To ICC Rules, Document number 470/1238.)

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4.2.1 IIBLP Sanctions Clause

The Institute of International Banking Law & Practice (IIBLP) have drafted a "standard sanctions clause" as follows[5]:

We disclaim liability for delay, non-return of documents, non-payment, or other action or inaction compelled by a judicial order or government regulation applicable to us [or our service providers].

They label the clause as follows: The Institute takes no position on whether or not an LC should contain a so-called "Sanctions" clause but, if one is to be included, suggests consideration of the above text.

The drafters of this document support this text, and suggest that banks use it as a standard, when using a sanctions clause.

[5] The IIBLP have generously approved their Sanctions Clause to be used in this document. They however refer to Endnote 19 to ISP Form 1: the 6th paragraph:
Particularly if the standby does not choose applicable law, the issuer may wish to consider including a "sanctions" clause covering sovereign compulsion excusing the issuer, e.g.: "Issuer disclaims liability for delay, non-return of documents, non-payment, or other action or inaction compelled by a judicial order or government regulation applicable to Issuer." The forms are available here: http://iiblp.org/resources/isp-forms/

5 Money Laundering / Terrorist Financing

AML: Anti Money Laundering

There must be in place a process to prevent Trade Finance transaction being used to facilitate money laundering.

CTF: Counter terrorist financing risks

There must be in place a process to prevent Trade Finance transaction from being used to finance terrorist activity.

These are more challenging issues than screening the transaction against sanctions lists. For AML and CTF there are no “lists” available for persons and entities engaged in criminal activities. Instead the main “tool” to be used in this respect is a list of Red Flag indicators following a screening process.

A “Red Flag” is a warning sign that indicates that the transaction may be susceptible to the above risks and therefore is required to be made subject to a through scrutiny for money laundering and terrorist financing, i.e. a so-called “enhanced due diligence” is required to be carried out.

A suggested list of Red Flags is available in chapter 7 “Red Flags in Trade Finance Transactions”.

It may be possible to conduct “retrospective screening” in order to identify changes in trading patterns. This is however not a common practice within the Trade Finance area.

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6 Dual Use- Embargo Goods

There must be in place a process that aims to identify if the goods covered by the Trade Finance transaction is used to transport illegal goods such as weapons of mass destruction or narcotics.

The requirements related to the goods are primarily imposed on exporters and importers and not the banks. It is however not uncommon that regulators impose requirements related to the goods on the banks. It is not clearly formulated what exactly the banks must check.

However the Monetary Authority of Singapore have stated the following[6]:

> […] Interpretation of "dual-use" requires a degree of technical knowledge that checkers of L/Cs may not always possess. In addition, the description of the goods may appear in the documents using a wording which does not allow the identification of such goods as "dual-use". Without the necessary technical qualifications and knowledge across a wide range of products and goods, the ability of a bank to understand the varying applications of dual-use goods will be limited. However, banks may refer to sources of information that may be relevant to assessing the risk that particular goods may be "dual-use", or otherwise subject to restrictions on their movement (e.g. Strategic Goods Control List from Singapore Customs and European Commission's TARIC database).
>
> It is important that banks ensure that staff are aware of the risks of dual-use goods and the common types of goods with dual use, and are capable of identifying red flags which suggest that dual-use goods may be supplied for illicit purposes.
>
> References to public sources of information and other guidance should be provided to staff and formalised in the bank's policies and procedures to ensure that dual-use goods in trade finance transactions can be identified whenever possible. Such transactions should be highlighted and escalated as part of the bank's due diligence process.

This issue is one of the most difficult to address effectively by the banks in Trade Finance departments. For example, EU companies must reference the EU Dual-Use List (Annex I of EC Reg'n 428/2009). This is a 240 page list of classified dual-use items; i.e. goods, software, technology, documents and diagrams normally used for civilian purposes but which may have military applications or contribute to the proliferation of weapons of mass destruction.

The following lists are relevant in that respect:

- Export Control Checker tool of the Department for Business, Innovation and Skills (BIS) (incorporates the EU Control Lists including the Dual-Use List) http://www.ecochecker.bis.gov.uk/

[6] GUIDANCE ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM CONTROLS IN TRADE FINANCE AND CORRESPONDENT BANKING, page 11.

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- European Commission's TARIC Database
  http://ec.europa.eu/taxation_customs/customs/customs_duties/tariff_aspects/customs_tariff/index_en.htm

- Wassenaar Agreement Control List (wide range of dual use goods/technologies)
  http://www.wassenaar.org/controllists/index.html

- Missile Technology Control Regime Annex (weapons systems dual use goods/technologies)
  http://www.mtcr.info/english/annex.html

- Nuclear Suppliers Group Control List (nuclear –related exports)
  http://www.nuclearsuppliersgroup.org/en/nsg-documents

- Australia Group Common Control List (chemical and bio-chemical related dual use goods/technologies)
  http://www.australiagroup.net/en/controllists.html

There are various ways to screen the goods. One is via IT support; i.e. a screening of the Trade Finance transactions for certain key words (commodity names).

However, for the greater part, Trade Finance transactions are not electronic in nature. For example, the documents presented under documentary credits and collections are in paper form. It is close to impossible for the Trade Finance officer to conduct a thorough manual check (e.g. all of the above lists) of every goods description in the documents they examine.

For that reason the main "tool" to be used in this respect is a Red Flag indicator.

A suggested list of Red Flags is available in chapter 7 "Red Flags in Trade Finance Transactions".

There are however also electronic solutions available for goods screening but these are still not widely used. See chapter 13 "Compliance Tools" for more information.

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7 Red Flags in Trade Finance Transactions

To a large extent Trade Finance activities of a bank are evidenced through a manual process, i.e. based on manual routines; checking paper documents etc.

This makes it by nature, different from the activities of a bank's payment area, which is based on, automated "straight through" processes.

The result is that compliance checks carried out on the trade finance transactions to a large degree are manual. This requires a structured risk-based approach to identify, escalate and investigate unusual/suspicious activities. One such approach is to work with "Red Flags."

A Red Flag is a "warning sign" indicating that the transaction must be further investigated, i.e. a Red Flag is not in itself an indication that something is wrong but that given the nature of the client's business and the nature of the underlying transaction, the Red Flag indicators merit further review.

The purpose of the below is to suggest a list of "Red Flags" that the Trade Finance Transactions should be evaluated against. This should of course, be based on the policies and procedures of the individual banks, both in content and structure[7].

At the outset, the Red Flags will be identified and evaluated on the basis of the material available and as such a bank should only check the information available to it. Further material / information may be collected as part of the ongoing investigation process as and when required.

The evaluation of Red Flags and their investigation relies primarily on the bank's customer due diligence process (see chapter 3 "Customer Due Diligence"); i.e. to the extent that the bank knows its customers well and has satisfied itself that the customer operates a sound and legitimate business.

Therefore the KYC process is the foundation on which the individual transaction is evaluated/investigated for Red Flags.

For that reason the Red Flags identification and investigation is not a black and white process. What may be a "problematic Red Flag" for one customer may be common practice for another customer.

Below is a list of Red Flags divided into different categories.

[7] As an example of a different structure of Red Flags BAFT has issued the "Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections" (March 2015).

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7.1 Category 1: The transaction

Some Red Flags may arise from the structure of the transaction. This may both be based on the commercial transaction (i.e. how the transaction is structured by the buyer and the seller), but also on the Trade Finance transaction (i.e. how the Trade Finance products are being used to support the commercial transaction).

The commercial transaction

This relates to how the transaction has been structured by the commercial parties.

The core principle is: If you do not understand it – do not do it!

If the structure of the transaction does not make sense, then it must be further investigated.

7.1.1 Red Flag 1: The commercial transaction is Illogical / incomprehensible

The commercial transaction appears illogical or incomprehensible; i.e. the structure does not make sense.

It may involve unrelated countries for no apparent reason.

This Red Flag must be evaluated against the normal transaction flows of the customer in question.

The purpose of the Red Flag is to reveal if the structure is designed to obscure the true nature of the transaction.

7.1.2 Red Flag 2: The commercial transaction is unusual complex

The commercial transaction appears unusually complex. This could be based on the jurisdictions involved; the parties involved, or a combination of both.

This Red Flag must be evaluated against the normal transaction flows of the customer in question.

The purpose of the Red Flag is to reveal if the structure is designed to obscure the true nature of the transaction.

7.1.3 Red Flag 3: It cannot be explained why the parties are involved in the transaction

Some parties are involved in the transaction where it is not clear why they are involved.

This Red Flag must be evaluated against the routine transaction structure of the customer in question.

Banks are not required to know all the parties involved in the transaction, but they must understand why they are involved, and involved parties with no apparent logical role in the transaction should be investigated further.

7.1.4 Red Flag 4: The transaction does not make economic sense

The commercial transaction does not appear to make any economic sense, i.e. it should be questioned as to why the customer is involved in it.

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The aim of this Red Flag is to identify obvious over- or under pricing of the goods.

The Trade Finance transaction

7.1.5 Red Flag 5: Unconventional use of Trade Finance products

The Trade Finance product is used in an unconventional (unusual) manner. For example, it is clear from the transactional structure that the documentary credit has not been issued for the purpose of giving an undertaking to the beneficiary.

The purpose of the Red Flag is to reveal if the structure is designed to obscure the true nature of the transaction.

7.1.6 Red Flag 6: The Trade Finance transaction contains non-standard terminology

The Trade Finance transaction contains non-standard terminology, which indicates that the drafter is not familiar with the standard terminology used in Trade Finance transactions.

Examples:

- Assignable
- Divisible
- Unconditional
- Unconditional revolving

7.1.7 Red Flag 7: The Trade Finance transaction contains non-standard clauses

The Trade Finance transaction contains non-standard clauses, which indicates that the drafter is not familiar with the standard terminology used in Trade Finance activities.

Examples:

- “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”
- “Prime bank guarantee issued by one of the top 50 or 100 world banks or a cash wire transfer”

7.1.8 Red Flag 8: The amount is unusual, e.g. very high or low

The amount of the transaction is unusual, e.g. very high or very low.

The amount charged for the goods appears not to be in line with market norms; i.e. too high or too low.

Both above may be an indication of over- or under invoicing or transfer pricing

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7.1.9 Red Flag 9: Amendment / extension / cancellation pattern

The transaction involves the use of repeatedly amended or frequently extended LCs.

This may indicate an unusual trading relationship, wherein the trading pattern does not follow normal business flows or business profile.

7.1.10 Red Flag 10: Applicant (customer) controls the payment

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.

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7.2 The goods and size of shipment

Some Red Flags arise from the nature of the goods or the size of the shipment.

7.2.1 Red Flag 11: The goods shipped are out of line with customer's known business

The type of goods shipped appears inconsistent with the exporter's or importer's regular business activities. This could indicate that the customer is involved in transactions that are not legal or that the customer itself is being misled into doing business that is fraudulent.

7.2.2 Red Flag 12: "High Risk" commodity

The type of commodity shipped is designated as "High Risk" under money laundering or under "dual-use goods" considerations.

This Red Flag must be evaluated against the routine transactional structure of the customer, i.e. whether or not the goods shipped appear to be within the normal line of business for the customer.

7.2.3 Red Flag 13: There are no goods (Phantom Shipment)

The transaction may indicate that there are no goods actually being shipped.

If there are actually no goods being shipped, the transaction may be attempting to cover up for an illegal money transfer disguised as a sale of goods.

(This Red Flag assumes that it is expected that goods are shipped. For example, such considerations may not be relevant for a financial guarantee.)

7.2.4 Red Flag 14: No goods description mentioned

No goods' description mentioned in the Trade Finance instrument and/or the documents presented.

If there is no goods' description, it will not be possible to conduct the Red Flag evaluation with relation to the goods.

(This Red Flag assumes that it is expected that goods are shipped. For example, such considerations may not be relevant for a financial guarantee.)

7.2.5 Red Flag 15: Size of shipment

The size of the shipment appears inconsistent with the scale of the exporter's or importer's normal business activities.

The purpose of this Red Flag is to identify a change in the trading pattern of the customer.

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7.3 Transport

Some Red Flags relates to the underlying transport, both the actual transport route and also how it is documented in the Trade Finance transaction.

7.3.1 Red Flag 16: Transport route / information

The transport route appears 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 documented transport route.

A Red Flag may also be raised if the bill of lading does not indicate a container number or indicates a "non-existent" container number or sequential numbering.

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7.4 Payment

The method of payment appears inconsistent with the transaction.

7.4.1 Red Flag 17: Payment (instruction) is illogical

The payment or the instructions to make the payment appears to be illogical for the particular transaction.

For example, where the buyer is using the goods to manufacture an end product with a long shelf-life or sales cycle such as perishable goods that are normally converted in 180 days but requests 365 day financing.

7.4.2 Red Flag 18: Third party funding

The transaction involves the receipt of payments from third-party entities that have no apparent connection with the transaction.

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7.5 Country

There may be Red Flags related to the country or countries involved in the transaction.

7.5.1 Red Flag 19: “High Risk” country involved

The transaction involves a country designated as "“High Risk”" for money laundering activities.

This Red Flag must be evaluated against the normal transaction structure of the customer in question, i.e. whether or not the involved country is one that the customer normally trades with.

7.5.2 Red Flag 20: Transhipment through a country for no apparent reason

The commodity is transhipped through one or more countries for no apparent commercial or logistical reason; this may indicate that no real shipment has taken place.

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7.6 Party / parties

Some Red Flags may relate to party or parties involved in the transaction.

7.6.1 Red Flag 21: Company structure

The company structure of the involved parties may give rise to Red Flags.

It may be that the buyer and the seller are members of the same group / company. In such situations there is an increased risk that the buyer and the seller may be colluding to defraud the banks or other involved parties in some way.

It may also be that the transaction involves the use of front (or shell) companies, with the intention of hiding the actual parties involved.

7.6.2 Red Flag 22: Third parties

The transaction involves unexplained / illogical / unconnected third parties.

7.6.3 Red Flag 23: Customer behaviour

The behaviour of the customer may give rise to Red Flags.

For example, the customer suddenly becomes anxious and puts pressure on the bank to conclude the transaction faster than expected.

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7.7 Discrepancies

Some Red Flags relate to the discrepancies found in the documents presented under a documentary credit

7.7.1 Red Flag 24: Goods' description in the documentary credit

Some of the Red Flags arise from the goods' description, i.e.

- There are significant discrepancies between the description of the goods on the bill of lading and the invoice i.e. it is apparent that they are not the same type of goods.
- 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.

7.7.2 Red Flag 25: Clauses in the documentary credit

Some Red Flags arise from one or more clauses found in the LC.

Examples:

- "Documents acceptable as presented"
- "All discrepancies accepted"

7.7.3 Red Flag 26: Critical documents presented in copy form or not presented

Critical documents are missing from the transaction, such as invoices or transport documents.

7.7.4 Red Flag 27: Amount significantly overdrawn

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.

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7.8 Documentation is unusual

Some Red Flags refer to the documents/documentation being part of the transaction.

7.8.1 Red Flag 28: Unusual documents are called for

In some cases unusual (non-typical) documents are called for / presented, which may indicate that an attempt is being made to enhance the credibility of the transaction. Examples of such documents include:

- "Irrevocable Corporate Purchase Order" (ICPO)
- "Comfort letter" from their banks
- An authorisation to carry out a "Soft Probe"
- A signed Non-Circumvention Non-Disclosure Agreement", supposedly published by the ICC

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8 Transaction Monitoring in Trade Finance

When conducting Trade Finance activities it is important that each transactions undergoes a due diligence process.

As explained above, the bank must ensure that the transaction that it is handling does not involve sanctioned parties and/or does not involve criminal activities. However, it is also necessary for the bank to conduct a risk/reward evaluation and decide whether to handle the transaction (or its level of involvement under it) from a risk and/or commercial perspective.

The purpose this chapter is to offer a holistic approach to the transactional due diligence in Trade Finance.

8.1 The various "levels" of transactional due diligence

When talking about transactional due diligence in Trade Finance it is important to be aware of the various "levels" that should be taken into account. These are both "regulatory requirements" and internal requirements; i.e.:

8.1.1 Level 1: Customer due diligence in Trade Finance transactions

This includes an evaluation on whether or not a KYC process has been performed on the relevant/right party or parties. This is described above in chapter 3 "Customer Due Diligence".

8.1.2 Level 2: "Regulatory" compliance checks

This includes the following

- Measures to mitigate against sanctions violations
- Measures to mitigate against the transaction being used for money-laundering purposes.
- Measures to mitigate against the transaction being used for financing terrorist activities.
- Measures to mitigate against the transaction being used for the shipment of goods breaching non-proliferation treaties, "weapons of mass destruction" and dual use goods (including software, technology, documents and diagrams) which have the potential to be used for civil and military purpose.

This is described above in the following chapters "4 Sanctions handling by banks", "5 Money Laundering / Terrorist Financing" and "6 Dual Use- Embargo Goods".

8.1.3 Level 3: Trade Finance due diligence

In addition to the foregoing measures a holistic Trade Finance due diligence process must be completed in order to evaluate the transaction and to decide whether or not the bank wants to be involved in it at all.

This relies heavily on the knowledge and experience of the Trade Finance officers and managers.

8.2 Co-operation between the 3 levels

When performing transactional due diligence, in practice a clear distinction between the 3 levels mentioned above must be made.

As such, levels 1 and 2 are often regulated by instructions, but it is important to bear in mind that these have a specific focus.

For example:

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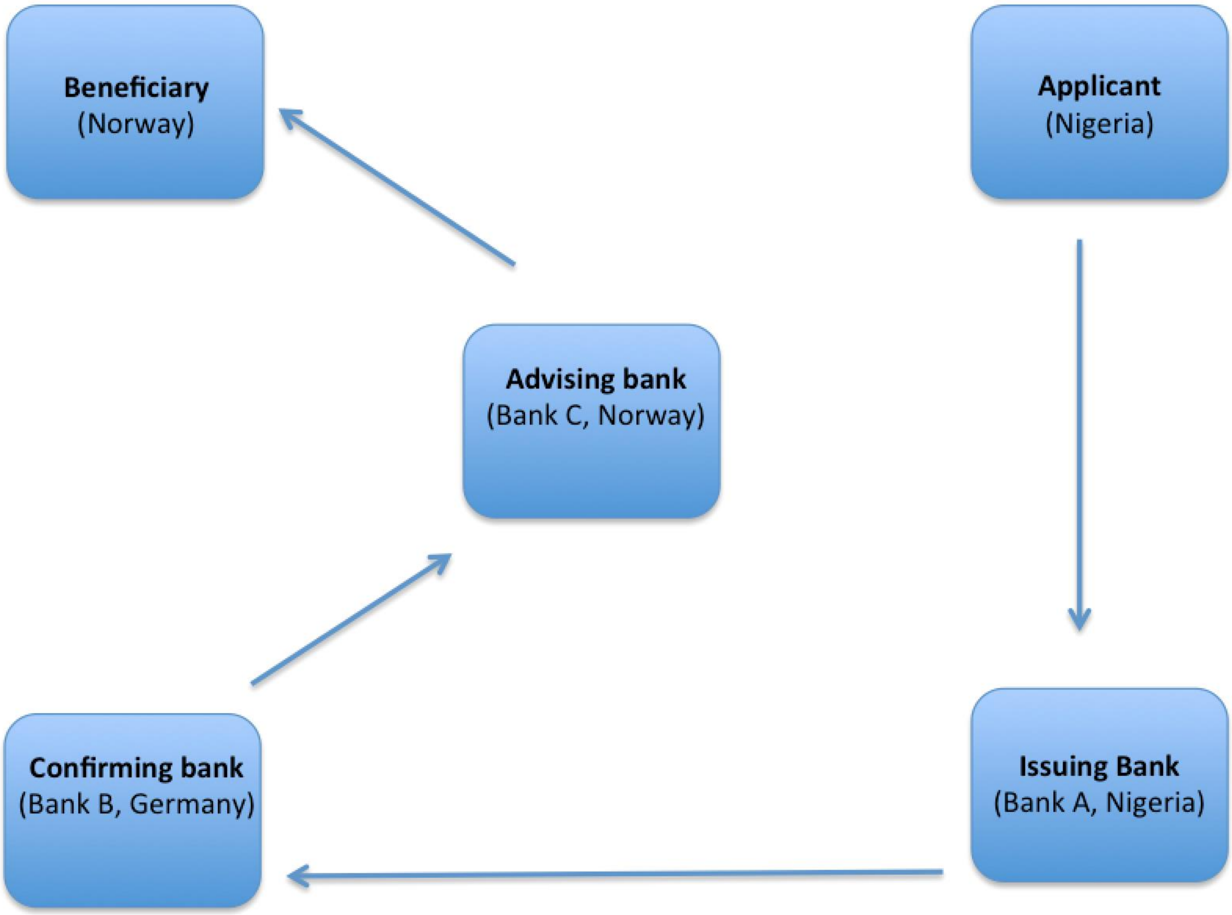
A documentary credit is issued by Bank A in Nigeria, advised to Bank C in Norway via Bank B in Germany (via a MT710). Bank B has confirmed the documentary credit, and the beneficiary has asked Bank C to add their "silent confirmation."

The flow looks as follows:



Bank C has not completed KYC on Bank A – but has completed KYC on Bank B and the beneficiary.

- For the purpose of KYC compliance – it is "sufficient" that bank C has performed KYC on Bank B and the beneficiary because these are respectively, the direct instructing party and the party to whom the payment is to be made.

- For the purpose of addressing potential commercial crime risk - a compliance check must be performed:
    - The documentary credit must be screened by Bank C against the applicable sanctions lists.
    - The documentary credit must be evaluated for Red Flags in order to avoid being involved in money laundering, terrorist financing, dual-use- or embargoed goods, etc.

- However, although the transaction may appear "clean" from a KYC perspective and a compliance check perspective, it may well be that Bank C does not want to get involved in / or to confirm the documentary credit:

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Often, this form of indirect routing of a documentary credit structure, involving a 3rd advising/confirming bank (in this case Bank B) gives rise to more problems than other more direct documentary credit routings.

The main challenge is that it might be very difficult for the beneficiary to present documents that are acceptable (complying) to the 3rd bank (in this example Bank B). There may be many reasons for this: it may be due to ambiguities in the documentary credit; it may be that Bank C's evaluation of whether or not a complying presentation has been made differs from Bank B's evaluation. It is a fact that often such 3rd banks will scrutinize the documentary credit documents extremely carefully.

In this case it may also be that Bank C is not "nominated" under the documentary credit, and for such reason it might not wish to extend any undertaking to the beneficiary vis-à-vis a silent confirmation.

Consequently, for this type of transaction Bank C should carefully consider its involvement under the transaction.

To summarise, the fact that a transaction may appear to be "clean" for the purpose of KYC and compliance checks does not necessarily mean that it is a transaction that needs to be handled by Bank C without further consideration. Its involvement and level of involvement should be carefully considered.

8.3 Transactional Due Diligence in Practice

As mentioned above, Trade Finance Due Diligence is often not regulated by instructions and for this reason it may be hard to apply in practice. Below are some warning signs that should cater for careful consideration on how to approach the transaction:

8.3.1 Act on the Red Flags

As a part of the compliance checks, each transaction should be evaluated for Red Flags. The main purpose of this is to identify potential money-laundering, terrorist financing as well as shipment of "dual-use goods." However, the Red Flags may also serve a purpose beyond this.

For example, the transaction in the example above should trigger a Red Flag. The investigation may show that for this customer / transaction this makes sense. However, this investigation may well be used to look beyond this – and consider carefully if and to what extent the bank should be involved in the transaction.

8.3.2 Careful attention to Trade Finance rules and practices

Trade Finance rules and practices (such as UCP 600, URDG 758 and ISBP 745) aim to ensure smooth and standardised handling of Trade Finance transactions and careful attention should be paid when the structure of the transaction causes unnecessary obstruction and increases risk.

For example, as illustrated in the example above where the bank is asked to "silently" confirm the documentary credit without being recognised as a nominated bank. In such cases the position of the bank and its recourse to the issuing bank is less secure than the situation under which the silent confirmation is made under a documentary credit where the bank has been nominated to pay or negotiate.

8.3.3 Careful attention to the wording of the documentary credit / Guarantee

Likewise, there may be clauses or requirements in the Trade Finance instrument that should call for further evaluation. For example:

- A clause to the effect that UCP 600 article 35 – second paragraph – does not apply should be taken very seriously. This causes uncertainty as to who bears the risk should the documents be lost in

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transit.

- A clause to the effect that the guarantee will only expire when the original guarantee is returned to the guarantor although it also includes a fixed expiry date. Such a clause raises questions as to the when the guarantee may deem to have expired.

- Sanction clauses in the incoming documentary credit that are unclear, ambiguous or places doubt as to the actual obligation of the issuing bank. For example:

  "OUR BANK PROCESS TRANSACTIONS IN ACCORDANCE WITH LOCAL AND INTERNATIONAL LAWS AND REGULATIONS, AND RESERVES THE RIGHT TO COMPLY WITH FOREIGN SANCTIONS AS WELL. CONSEQUENTLY DOCUMENTS ISSUED BY OR SHOWING ANY INVOLVEMENT OF PARTIES SANCTIONED BY ANY COMPETENT AUTHORITY OR CONTAINING ANY INFORMATION THEREON MIGHT NOT BE PROCESSED BY OUR BANK AT OUR SOLE DISCRETION AND WITHOUT ANY LIABILITY ON OUR PART."

  This clause allows the issuing bank to be the sole arbitrator as to whether or not to honour their obligations regardless of whether the identified sanctions actually apply to them.

- Requirements in a documentary credit that are unclear or ambiguous, for example:

  "B/L presented in incomplete number of page is not acceptable"

  "*Free trade sample of 4000 litres of Sulphuric Acid allowed in the invoice"*

  "Simple receipt from the beneficiary that the goods have been handed over to the applicant in lieu of transport document is acceptable"

  Such clauses are unclear as to the exact intention.

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9 Governance

It is important that the roles and responsibilities for managing the financial crime risks in Trade Finance are clear and well documented. The following parties are relevant in this respect:

9.1 Compliance staff

Compliance staff (that is not part of Trade Finance) carries out a range of roles, often including AML and sanctions responsibilities. Often there are officers dedicated to the Trade Finance area.

9.2 Trade Finance Compliance staff

Some banks have dedicated Trade Finance compliance staff, e.g. to be used as first level of escalation and also to ensure that the Compliance set-up is well implemented and works well together with the processing of the Trade Finance transactions.

Often this is also the team that carries out the Compliance training.

9.3 Trade processing staff

The trade processing staff (Trade Finance Officers) is the “first line of defence” against financial crime. Often they are the ones to carry out the “manual” compliance checks.

As such, a sanction screening can be carried out by anyone (who is trained to do so); i.e. looking up the names that appear in the transaction does not require any specific Trade Finance knowledge or training. However the Red Flag evaluation is in fact a manual and much more demanding task. In evaluating a Trade Finance transaction for Red flags it is important to know the customer and the Trade Finance products well. For this reason the Red Flag evaluation is best performed by the trade processing staff.

9.4 Relationship Managers

As a defence against financial crime the relationship managers dealing with corporate customers are an important defence. i.e. the basis for conducting compliance in Trade Finance is that the transaction involves well known customers; i.e. where KYC has already been performed.

9.5 Internal audit

Banks should conduct periodical internal audit reviews of the Trade Finance business. This includes of course the Compliance set-up and that compliance is carried out according to the given instructions.

9.6 Trade Finance management

It is important that the Trade Finance Management has a comprehensive view of evolving financial crime risks within the Trade Finance business. Management therefore needs to receive regular and meaningful information regarding the activities and trends related to the compliance set-up.

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9.7 Governance example

Effective communication between these functions is clearly important in managing financial crime risk.

It is also important that the instructions clearly describe the levels of escalation. For example:

Each part of the transaction must be evaluated for Red Flags.

The evaluation for Red Flags is performed by the Trade Finance Officer handling the step/case, i.e.

- On the documentary credits issued
- On the documentary credits received
- On the import documentary collections
- On the export documentary collections
- On the guarantees issued
- On the guarantees received
- On the documents presented under import documentary credits
- On the documents presented under export documentary credits
- On the documents presented under import documentary collections
- On the documents presented under export documentary collections.
- On guarantee demands
- On all ingoing and outgoing messages
- On all payments

Any alerts identified in this process must be escalated to a Trade Finance Compliance Officer, who must investigate the alert, and who may consult the following in the investigation process:

- The Compliance unit
- The AML unit
- The Legal unit
- The Relationship Manager (Both for the corporate customer and for the involved bank)

If the Trade Finance Compliance Officer determines that the alert is a "false positive", (s)he will release the transaction; logging the decision and background for the decision accordingly.

If the Trade Finance Compliance Officer determines the alert is or may be a true hit, (s)he will block the transaction.

The blocked transaction will be escalated to the AML unit, who will review and may decide to conduct a dialogue with the relevant authorities.

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10 Investigation

When an alert is identified in the compliance check it must be escalated for further investigation.

The form of investigation will be dependent on the case in question, but can include the following:

- Are the goods embargoed – or on a Dual-Use Goods lists?
- Additional documentation (e.g. trade documentation) may be requested.
- Check if the buyer and seller are part of the same group or controlled by the same entity. This in order to identify any "collusion risk".
- Check if the goods are normal for the buyer and the seller i.e. if they have a history in dealing in the goods and the goods are within their normal course of business.
- Check if the transaction is a new/one-off transaction.
- Check (if possible) if the price of goods is in line with the market norms.
- Check the transaction for trade-based sanctions such as embargoes on the goods/services with the countries involved.
- Check if a government license is required to deal/transport/import/export the goods, if they are restricted/controlled and if so, obtain a copy of the license.
- Check the transport route of the vessel via a vessel-tracking tool. This to ensure that the actual transport route matches what is described in the documents.
- Check the involved parties for adverse media.
- Check the container number (verify that it follows the standard – e.g. via pier-to-pier)
- Check if the transaction involves Free Trades Zones.

These additional checks (depending on the alert) should be conducted on any escalated transaction.

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11 Logging and monitoring

When it comes to conducting compliance checks it is of course important to carry out the checks. However, equally important is to document (log) what has been checked as well as the result of the check.

As such it is important that:

- Every compliance check done is logged accordingly[8]; e.g.
    - For the automated sanctions screening the handling of the alerts must be documented. I.e there must be a clear paper trail showing the handling, escalation and conclusion reached.
    - For the manual sanctions screening it must be documented that the sanction screening has been done, by whom and when.
    - For the Red Flag evaluation it must be documented that it has been done, by whom and when.

Any alert identified in the compliance check must be escalated to the next level, and duly investigated. Once an alert is escalated the investigation and result of the investigation must be logged.

In addition to the above, the Trade Finance department should conduct a regular "quality assurance" check, i.e. monitor that the compliance checks are done in according with instructions, and that the quality is of the required standard.

[8] It should be noted that it is not crystal clear how much information must be added when the individual compliance check is logged. This is as such a balancing act; on one hand it is not possible (or for that matter beneficial) to write a full novel for each compliance check. On the other the compliance must not be a "mechanical" process where boxes are just ticked off.

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12 Compliance Training

Training is a key factor when addressing compliance in Trade Finance activities and a structured approach is needed.

The purpose of the training is to:

- Increase the awareness among the Trade Finance staff of the risks related to sanctions, money laundering, terrorist financing and non-proliferation treaty breaches, weapons of mass destruction and dual use goods. i.e. to ensure that "compliance" is part of the DNA of Trade Finance and that it becomes second nature and familiar as the ICC rules covering the Trade Finance products.

- Keep the Trade Finance staff updated on the compliance set-up.

- Share information about actual cases.

For the purpose of training it is important that:

- It is conducted on a regular basis; e.g. "bi-yearly".

- That it is Trade Finance specific; i.e. that it is directly linked to the Trade Finance products, and to the compliance checks to be made within Trade Finance department. Optimally, the training should be based on experiences and actual cases.

- That it is conducted by the Trade Finance unit, and not by the compliance department of the bank.

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13 Compliance Tools

Tools exist to help the parties carry out compliance checks. Most of these relate to the screening for sanctions but can extend past this. Below are examples of such tools:

13.1 Accuity

Accuity's Compliance Link Trade Finance screening solution allows your enterprise to streamline Trade Finance screening processes while protecting your business against trade based sanction issues arising from money laundering activities.

It's streamlined platform and connectivity options, which allow for an integrated solution or interactive lookup tools, when combined with the latest sanctions watch lists makes it a one stop solution for your Trade Finance screening needs.

Specifically, Compliance Link Trade Finance allows you to screen the following trade data in one go. The solution's high level of configurability also provides for additional screening fields important for your trade finance operations:

- Shipper name
- Consignee name
- 3rd party shipping
- Vessel/aircraft name
- Port of loading
- Transhipment port
- Port of discharge
- Destination
- Goods description
- Beneficiary bank
- Vessel registration (IMO Number)

More information regarding Accuity's world class Trade Finance screening solutions can be found here:

http://www.accuity.com/compliance/trade-finance-solutions/

13.2 DowJones – Risk & Compliance

Dow Jones Risk & Compliance data solutions are designed to help mitigate regulatory, commercial and reputational risks.

Dow Jones Risk & Compliance provides destination Online Tools, Data Feeds and Due Diligence reports to suit financial institutions as well as corporations in various industries globally.

The main feature is the search page where the names of companies, persons, vessels etc. can be keyed in, and are checked according to the search criteria.

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13.3 IMB – International Maritime Bureau

The ICC International Maritime Bureau (IMB) is a specialised division of the International Chamber Of Commerce (ICC).

The IMB provides an authentication service for trade finance documentation (such as bill of lading checks). It also investigates and reports on a number of other topics, notably documentary credit fraud, charter party fraud, cargo theft, ship deviation and ship finance fraud.

13.4 Pier-to-pier

PIER2PIER is a website dedicated to sea freight forwarders, import-, export and shipping companies.

Amongst other services they offer “container services” e.g. allowing the ownership a container to be checked via the container prefix. Similarity it is possible to verify the container number.

13.5 Safe watch filtering

SafeWatch Filtering is a comprehensive Enterprise-wide, multi-jurisdictional, and multi-business unit solution that screens persons and transactions against different watch lists, and manages all related regulatory requirements.

13.6 Thomas Reuters - World Check

They monitor over 400 sanction, watch and regulatory law and enforcement lists, and hundreds of thousands of information sources.

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14 Compliance Checklist

The below is a checklist with the purpose of highlighting the issues that should be taken into account when setting up a compliance model within Trade Finance:

Topic	Issue
Risk Assessment	At the outset of any compliance set-up, a through risk assessment should be conducted so that there is a good understanding of the actual risks. See chapter 1.1 “A suggested Risk Evaluation approach”
Governance structure	Any compliance set-up should be based on a solid governance structure; i.e. who checks what, who decides what and who to escalate to whom? See chapter 9 “governance”
Instructions	Any compliance set-up should include clear instructions. E.g. the following: • Trade Finance Customer Due Diligence I.e. instructions as to which parties in a Trade Finance transaction KYC must be completed on. See chapter 3 Customer Due Diligence. • Trade Finance Compliance instructions I.e. instructions as to what must be compliance checked, see Chapter 4 “Sanctions handling by banks” Chapter 5 “Money Laundering / Terrorist Financing” Chapter 6 “Dual-Use / Embargo Goods” Chapter 7 “Red Flags in Trade Finance Transactions” Chapter 10 “Investigation”
Sanctions screening	There must be controls in place ensuring that both electronic messages and paper messages are screened against the relevant sanctions lists. See chapter 4 “Sanctions handling by banks”
Red Flag screening	There must be controls in place ensuring that all transactions are checked for Red Flags. See chapter 4 “Sanctions handling by banks”
Training structure	There must be a structure for training in place. See chapter 12 ”Compliance Training”
Logging and monitoring	There must be a structure in place for: 1: How to log the compliance activities carried out (what has been checked, found, escalated, investigated). 2: How to monitor and evaluate the quality of the compliance set-up. See chapter 11 “logging and monitoring”
Management information	It is important that the Trade Finance Management have a comprehensive view of evolving financial crime risks within the Trade Finance business. Management therefore need to receive regular and meaningful information regarding the activities and trends related to the compliance set-up.

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15 Appendix 1: SWIFT messages related to Trade Finance

Collection messages:

- MT430 – Amendment of Instructions
- MT499 – Free Format Message

Documentary credit / guarantee messages:

- MT799 – Free Format Message
- MT700 – Issue of a Documentary Credit
- MT701 – Issue of a Documentary Credit
- MT705 – Pre-Advice of a Documentary Credit
- MT707 – Amendment to a Documentary Credit
- MT710 – Advice of a Third Bank's or a Non-Bank's Documentary Credit
- MT711 – Advice of a Third Bank's Documentary Credit
- MT720 – Transfer of a Documentary Credit
- MT721 – Transfer of a Documentary Credit
- MT730 – Acknowledgement
- MT732 – Advice of Discharge
- MT734 – Advice of Refusal
- MT740 – Authorisation to Reimburse
- MT742 - Re-imbursement Claim
- MT747 – Amendment to an Authorisation to Reimburse
- MT750 – Advice of Discrepancy
- MT752 – Authorisation to Pay, Accept or Negotiate
- MT754 – Advice of Payment/Acceptance/Negotiation
- MT756 – Advice of Re-imbursement or Payment
- MT760 – Guarantee
- MT767 – Guarantee Amendment
- MT768 – Acknowledgement of a Guarantee Message
- MT769 – Advice of Reduction or Release
- MT790 – Advice of Charges, Interest and Other Adjustments
- MT791 – Request for Payment of Charges, Interest and Other Expenses
- MT792 – Request for Cancellation
- MT795 – Queries
- MT796 – Answers
- MT798 – Proprietary Message

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16 Appendix 2: A sample goods description from SWIFT MT700

Example: A goods description in a documentary credit may look as follows:

45A: Description of Goods &/or Services

NAME OF GOODS: ANTI-HEELING SYSTEM

QUANTITY: 1 SHIPSET

UNIT PRICE: USD42,420.00/SHIPSET

TOTAL AMOUNT: USD42,420.00

CIF NANTONG PORT, CHINA (INCOTERMS 2010)

AS PER PROFORMA INVOICE NO 652-B DATED 20-01-2015

COUNTRY OF ORIGIN: SWEDEN

SHIPPING MARK:

CMHI(JS)-151-2-CG-071

NANTONG, CHINA

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17 Literature

TR13/3.Thematic review. Banks' control of financial crime risks in trade finance (July 2013) The report from the UK Financial Conduct Authority (FCA)(published July 2013): "Thematic Review TR13/3 Banks' control of financial crime risks in trade finance." http://www.fca.org.uk/news/tr13-03-banks-control-of-financial-crime-risks-in-trade-finance
APG Typology Report on Trade Based Money Laundering. Adopted by APG Members at the 15th Annual Meeting
The Wolfsberg Trade Finance Principles (2011) http://www.wolfsberg-principles.com/standards.html
DIRECTIVE (EU) 2015/849 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32015L0849
ICC Trade Register Report 2014 Trade Register Report 2014 provides empirical evidence that, in all forms, trade and export finance is a low risk bank financing technique. http://www.iccwbo.org/News/Articles/2014/Global-trade-set-to-benefit-from-ICC-report/
Singapore's inaugural national risk assessment (NRA) report on money laundering and terrorist financing risks. http://www.mas.gov.sg/news-and-publications/press-releases/2014/singapore-antimoney-laundering-and-counter-financing-of-terrorism-regime-assessed-to-be-robust.aspx
The EU page on Dual Use Goods: "Dual Use Controls" http://ec.europa.eu/trade/import-and-export-rules/export-from-eu/dual-use-controls/

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The EU list of Dual Use Goods http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uriOJ:L:2012:129:0012:0280:EN:PDF
Guidance for Identifying Potentially Suspicious Activity in Letters of Credit and Documentary Collections (BAFT, March 2015)
MAS Information Paper: GUIDANCE ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM CONTROLS IN TRADE FINANCE AND CORRESPONDENT BANKING (Monetary Authority of Singapore, October 2015)

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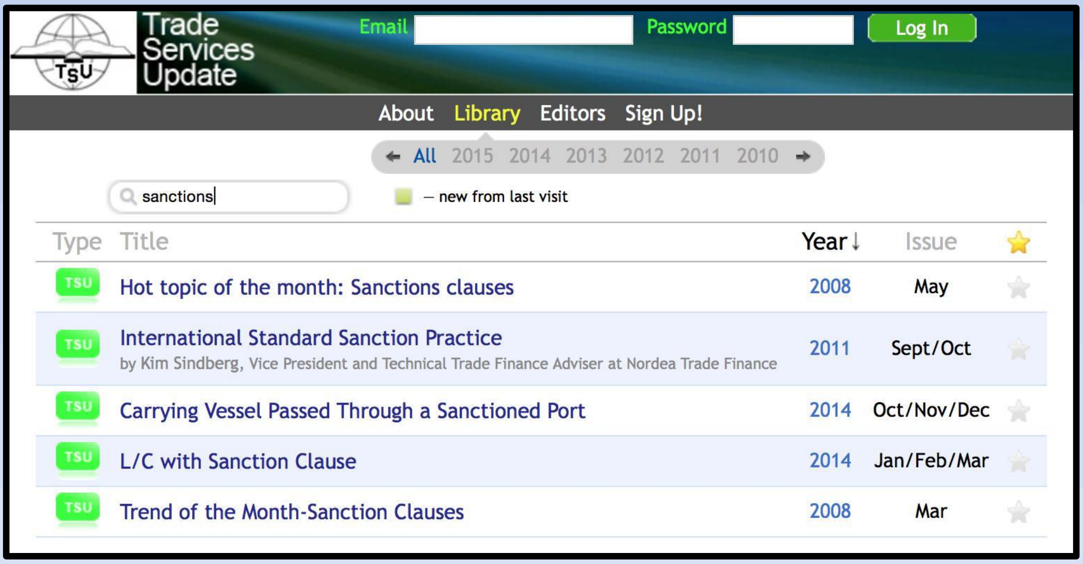
- Negotiation
- ICC Opinions
- Compliance (such as sanctions and money laundering)
- LC discrepancies



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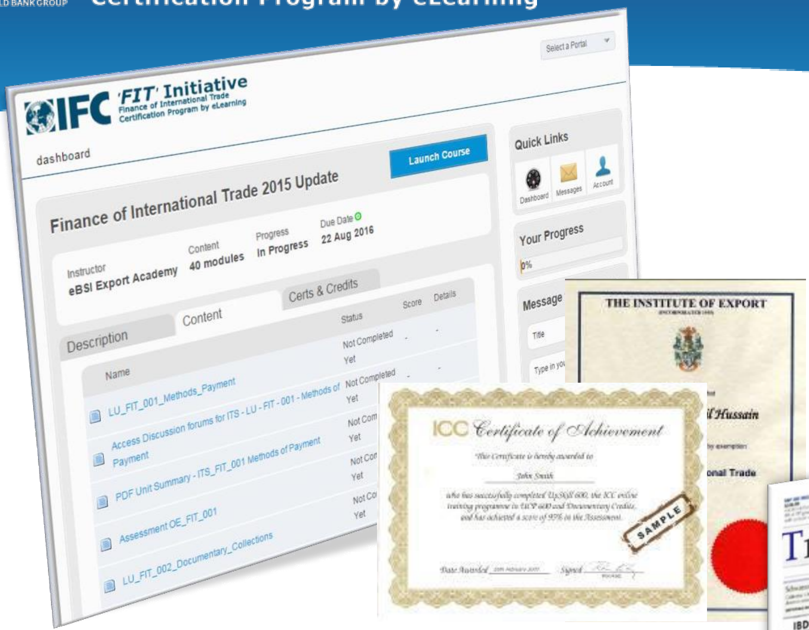

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- Builds capacity in **technical international trade and finance skills**.
- Uses **accelerated learning techniques** to speed up the learning curve in what is considered to be a technical area of expertise.
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- Learner joins **network of participants** with similar focus on developing international trade finance knowledge and skills.
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- Increases the penetration of the use of traditional trade finance instruments into the corporate market as such trade instruments have been acknowledged as involving less risk than conventional lending or general banking facilities.
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- Now Launching in India

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- *Documentary Credits Fundamentals*
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- *Short & Medium Term Finance*
- *Factoring Fundamentals*
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- That IATA codes cannot be used to identify the carrier;
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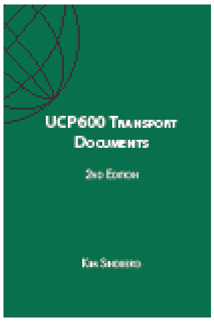
- Whether or not a "delivery agent at port of discharge" must have its address at the port of discharge.



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