Trade-based financial crime compliance

Chapter 5

INDONESIA INTERNATIONAL CHAMBER OF COMMERCE

Learning Objectives

By the end of this chapter, you should have an **understanding of**:

- types of trade-based financial crime;
- risks that financial crime and non-compliance present to banks;
- international bodies with a remit to tackle financial crime;
- operational procedures that banks must follow in financial crime prevention;
- key warning signs of potential criminal activity relating to trade finance transactions;
- the regulatory framework relating to the prevention of financial crime.

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5.1 Open account trade and financial crime

- Dramatic increase in the volume of international trade projected to increase still further with expected growth at 4 per cent per year, an show in figure 5.1
- Banks only deal with documents; banks rarely come into physical contact with the goods being traded;
- With documentary credits, banks will probably have access to shipping, commercial and financial documents such as b/l, commercial invoices and bills of exchange. In contrast, with open account trade, there may be little or no documentation available. As a consequence, financial crime is much harder to detect, particularly in relation to money laundering.

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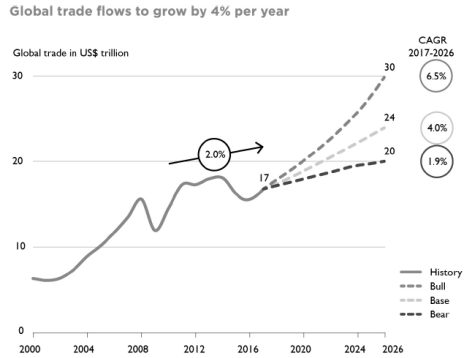
FIGURE 5.1 PROJECTED GLOBAL TRADE FLOWS TO 2026 (USD TRILLION)



5.2 Forms of financial crime

In the sections that follow we will cover money laundering, terrorist financing, sanctions evasion and the underlying activities that drive financial crime.

- Money laundering
- Terrorist financing
- Sanctions evasion
- Underlying activities

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5.2.1Money Laundering

Money laundering refers to the offence of concealing and transferring illegally obtained money, then reintroducing it back into the financial system. Put simply, the purpose of money laundering is to make 'dirty' money obtained through illegal activity look 'clean'.

The 'laundering' process involves changing the ownership of illegally procured assets such as cash, bank accounts, cars, machinery and houses to hide underlying illicit transactions.

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5.2.1Money Laundering (continue)

Historically, the term 'money laundering' was applied only to financial transactions relating to organised crime; however its definition today covers also matters such as tax evasion and false accounting.

There are three recognised stages to money laundering, as shown in Figure 5.2.

FIGURE 5.2 STAGES IN MONEY LAUNDERING

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5.2.1.1 Main methods used in trade-based money laundering

A report by the Wolfsberg Group, ICC and BAFT highlights the main methods used in trade-based money laundering "to obscure the illegal movement of funds". Examples include "misrepresent[ing] the price, quality or quantity of goods" (Wolfsberg Group, ICC and BAFT, 2017).

TABLE 5.1 TRADE-BASED METHODS OF MONEY LAUNDERING

Method	Description
Over-invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it at above the true value) the seller gains excess value as a result of the payment.
Under-invoicing	By misrepresenting the price of the goods in the invoice and other documentation (stating it as below the true value) the buyer gains excess value when the payment is made.
Multiple invoicing	By issuing more than one invoice for the same goods a seller can justify the receipt of multiple payments. This will be harder to detect if the colluding parties use more than one [financial institution] to facilitate the payments and/or transactions.
Short-shipping	The seller ships less than the invoiced quantity or quality of goods, thereby misrepresenting the true value of goods in the documents. The effect is similar to over-invoicing.
Over-shipping	The seller ships more than the invoiced quantity or quality of goods, thereby misrepresenting the true value of goods in the documents. The effect is similar to under-invoicing.

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5.2.1.1 Main methods used in trade-based money laundering

Deliberate obfuscation of the type of goods	Parties may structure a transaction in a way to avoid alerting any suspicion to FIs or to other third parties which become involved. This may simply involve omitting information from the relevant documentation or deliberately disguising or falsifying it. This activity may or may not involve a degree of collusion between the parties involved and may be for a variety of reasons or purposes.
Phantom shipping	No goods are shipped and all documentation is completely falsified.

Source: The Wolfsberg Group, ICC and BAFT (2017)

5.2.1.1 Main methods used in trade-based money laundering

In all of these scenarios, in order for the illegal activity to have the most chance of success, there will be collusion between buyer and seller.

For example, with over-invoicing, the buyer will be well aware that it is being asked to pay an inflated price. The purpose of over-invoicing is, of course, for an illegitimate payment to be made from the buyer to the seller *separate and in addition to* the purported trade transaction.

Source: The Wolfsberg Group, ICC and BAFT (2017)

5.2.2 Terrorist financing

FATF definition includes "unspecified acts carried out with the relevant intention to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict with the purpose of intimidating a population, or compelling action by a government or an international organisation" (FATF, 2016)

Implications of terrorist financing

The reputational risk to any bank that becomes involved in terrorist financing is potentially huge. The implications are not just financial but may be devastating in human terms.

Similarities between money laundering and terrorist financing

There are common features between money laundering and terrorist financing.

- The destination of money used to support terrorism has to be disguised in the same way as the source of laundered funds.
- Both activities involve the financial sector.

Prevention

The key to preventing both money laundering and terrorist financing is the adoption of robust customer due diligence (CDD) procedures

5.2.3 Sanctions evasion

- Sanctions are a tool that can be used to persuade an individual, organisation or country to conform to specific rules or laws.
- Most sanctions are economically and/or politically motivated and may encompass the freezing of assets, including payments; restrictions on trade; cessation of diplomatic, cultural, and sport exchanges; and even military intervention.
- Sanctions may be issued by national and supranational bodies and can take on different forms.
- They can be preventative or reactive in nature, as well as domestic or international in focus.
- While a range of different sanctions may be applied, those most often impacting on financial institutions are financial sanctions.
- These generally restrict or prohibit the passing of funds or economic resources to certain individuals, entities, or even countries.

5.2.3 Sanctions evasion

Sanctions are most often used internationally:
- to change the behaviour of a specific country or regime;
- to pressure a specific country or regime to achieve an outcome;
- to prevent the financing of terrorism;
- when international peace and security is threatened;
- when all diplomatic efforts have failed.

Sanctions relating to terrorist financing
- The United Nations (UN) issues a list of known terroris organisations and individuals.
- Some countries apply financial sanctions against targeted individuals and countries.
- Banks will be subject to these sanctions to the extent that their laws require.
- Financial institutions will migrate these lists into their payment and trade transaction centres and systems. As SWIFT messages go through these centres, they will be screened against the lists.

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5.2.3 Sanctions evasion

Sanctions screening

Many online systems provide a robust screening process that has proved to be far more effective than checks carried out manually by operational bank staff.

Such systems provide a wide range of services and have the ability to track:
- ❑ marine vessels;
- ❑ high-risk organisations; and
- ❑ politically exposed persons (PEPs).

Banks and financial institutions must focus on training and providing their staff with up-to-date knowledge in order for them to deal with the information generated. Detailed records of potential breaches and consequential actions must be maintained and retained.

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5.2.4 Proliferation and proliferation financing

Proliferation
A sudden increase in number or amount

Proliferation financing
"The act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods for non-legitimate purposes), in contravention of national laws, or where applicable, international obligations." (FATF, 2008)

Dual-use items
Goods, software and technology that can be used for both civilian and military applications.

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5.2.4 Proliferation and proliferation financing

Taking a risk-based approach
- The most obvious way that financial institutions can contribute is to adopt a risk-based approach and have an effective policy in place for transactions involving dual-use goods.
- This should begin when customer due diligence (CDD) and know your customer (KYC) checks are carried out on new customers. Enhanced CDD should also incorporate checks on dual-use goods and high-risk jurisdictions.
- Identification of dual-use goods in trade transactions can be challenging given their complex and technical nature.

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5.2.4 Proliferation and proliferation financing

EXAMPLE

If a pharmaceutical company purchases bacterial strains for medical research, such a transaction will probably be considered legitimate. If, however, the buyer is found to be engaged in another industry then clearly all parties involved in the transaction must be investigated further. These investigations must be documented and the suspicions reported as appropriate.

5.2.5 other of financial crime

The following are some issues of which practitioners need to be particularly aware.

- **Forged signatures** − a bank has virtually no chance of recovering on a draft, cheque or promissory note from any party whose signature has been forged.
- **Fake, faulty or non-existent goods** − banks often rely on the goods for security in a trade transaction and if the goods themselves have no value, the bank has no security. An independent inspection of the goods prior to lending may mitigate this risk.
- **Fraudulent claims** − commonly a problem in the insurance industry. A common example is the inflated claim, where either the value of what is lost is exaggerated or the claim is 'added to' by including other goods that were not damaged. Fraudulent claims may also be made against demand guarantees and standby letters of credit

5.2.5 other of financial crime

- **Cybercrime -** Criminals intent on stealing money from banks or their clients by illegally accessing ('hacking') banks' IT systems, and often diverting funds and information for their own benefit. 'Phishing' exercises, where emails purporting to come from banks persuade clients to reveal passwords and other private information to criminals, are regularly found in many people's inboxes and often succeed in their purpose.

- **Fraud related to trade -** Fraud can take place at various points in international supply chains. For fraud related to trade → Lloyds of London Sea-Searcher. Checks and publicly available information from shipping companies that identifies Vessel journeys.

5.3 Effects of financial crime

There are 2 (two) key risks to financial crime :

1. **Reputational risk**
   Bank involved in money laundering or terrorist financing will suffer damage to its reputation that may prove more costly than any actual fines imposed. The more attractive it becomes to criminals, and the less attractive it becomes to other banks as a correspondent. Many banks have undergone a process of rationalising their correspondent banking network to avoid potential exposure to banks without sufficiently high standards of compliance. This process is widely known as **'de-risking'.**
2. **Legal risk**
   The penalties for breaching regulations relating to financial crime can range from fines financial institutions, loss of banking licences, or individually may face imprisonment.
   A bank must ensure that employees are informed of their obligations under the law and receive regular training. Each bank must have written policies and procedures for escalating suspicions related to financial crime and know to whom they must report suspicions.

5.4 Financial Crime Prevention

Financial crime is a global problem, and a number of international bodies have been created to pool resources in the fight against it. promote a risk-based approach to managing financial crime. CDD and KYC are inherent components of the risk-based approach. You will learn about this specifically with reference to account opening and maintenance

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5.4.1 Risk-based approach

The risk-based approach, introduced by the FATF in 2014, requires member jurisdictions to first identify, assess and understand the money-laundering and terrorist-financing risks that they are exposed to. The second recommended step is to implement effective mitigation measures that are commensurate to those risks (FATF, 2014).

The key factors that should be considered when applying a risk-based approach include:

- product type;
- jurisdiction;
- customer type;
- volume and value of transactions.

Applying a risk-based approach means that banks can ensure that their systems and controls will focus greater effort on high-risk areas.

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5.4.2 Financial Action Task Force (FATF)

- FATF is an inter-governmental body [. . .] that set[s] standards and promote[s] effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.
- FATF is therefore a 'policy-making body' which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas" (FATF, 2018b).
- The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally.
- Originally a G7 initiative, the FATF now has 37 members (see Table 5.2) of which 35 are jurisdictions and two, the European Commission and Gulf Co-operation Council, are regional organisations.
- The FATF headquarters is housed at the Organisation for Economic Co-operation and Development in Paris.

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5.4.2 Financial Action Task Force (FATF)

TABLE 5.2 MEMBERS OF FATF (2018)

Argentina	France	Republic of Korea	Singapore
Australia	Germany	Luxembourg	South Africa
Austria	Greece	Malaysia	Spain
Belgium	Hong Kong, China	Mexico	Sweden
Brazil	Iceland	Netherlands	Switzerland
Canada	India	New Zealand	Turkey
China	Ireland	Norway	UK
Denmark	Italy	Portugal	USA
Finland	Japan	Russian Federation	

Source: FATF (2018c)

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5.4.2.1 FATF Recommendations

Following an examination of the techniques used by launderers and trends in money-laundering activity, the FATF published international standards containing 40 recommendations. These recommendations were most recently updated in October 2018.

The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats."

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5.4.2.1 FATF Recommendations

The FATF Recommendations set out the essential measures that countries should have in place to:

- Identify the risks, and develop policies and domestic co-ordination;
- (investigate) money laundering, terrorist financing and the financing of proliferation;
- Apply preventive measures for the financial sector and other designated sectors;
- establish powers and responsibilities for the competent authorities (eg investigative, law enforcement and supervisory authorities) and other institutional measures;
- enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and
- facilitate international co-operation

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5.4.2.1 FATF Recommendations

The 40 FATF Recommendations are grouped in the following categories:

- anti-money-laundering/countering the financing of terrorism (CFT) policies and co-ordination;
- Money laundering and confiscation;
- terrorist financing and financing of proliferation;
- preventative measures;
- transparency and beneficial ownership of legal persons and arrangements;
- powers and responsibilities of competent authorities, and other institutional measures; and
- international co-operation.

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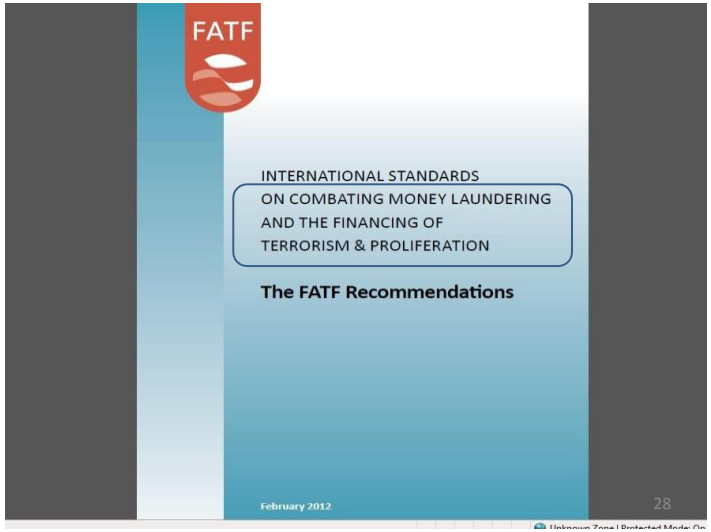

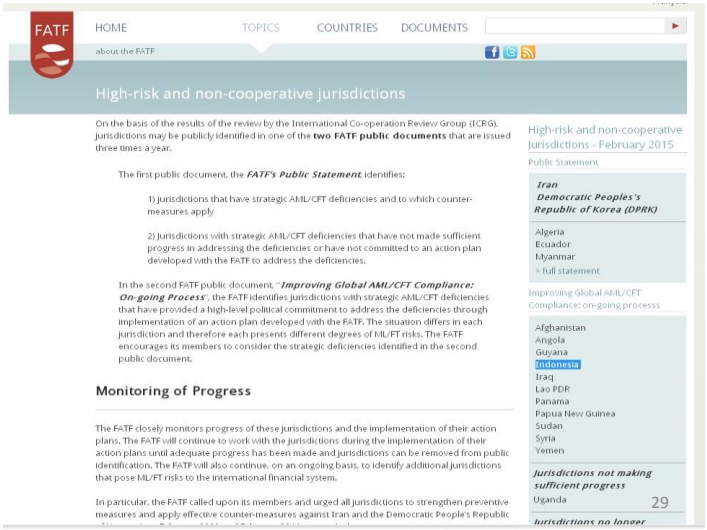

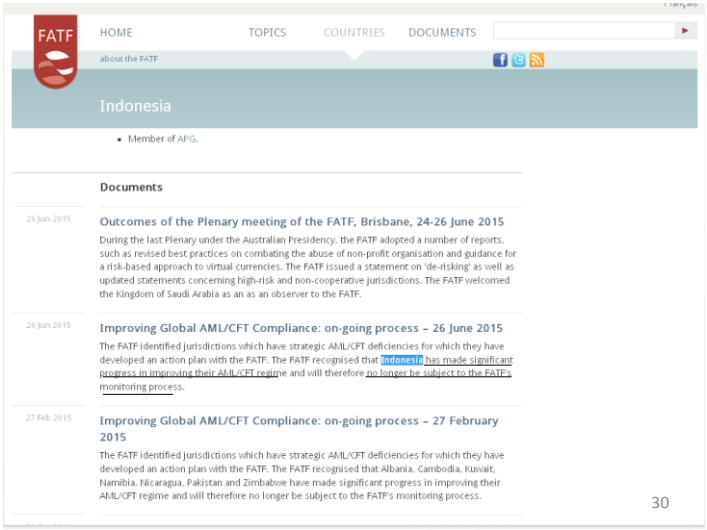

5.4.3 The Wolfsberg Group

The Wolfsberg Group is an association of global banks that has developed frameworks and guidance for the management of financial crime risks. The 13 constituent banks are Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, MUFG Bank, Societe Generale, Standard Chartered Bank and UBS.

TheyOne of the major contributions of the Wolfsberg Group to trade finance is the 2017 report, Trade finance principles, published in conjunction with ICC and BAFT (see sections 5.2.1.1 and 5.4.1).
The report "outlines the standards for the control of financial crime risks associated with trade finance activities. In this paper, the term 'financial crime' refers to money laundering (all crimes including, but not limited to, fraud, tax evasion, human trafficking), bribery and corruption, terrorist financing, the financing of proliferation of weapons of mass destruction and other related threats to the integrity of the international financial system"

5.4.4 Financial intelligence units

Many countries have a financial intelligence unit (FIU) that will provide information on current money laundering and terrorist financing trends.
Examples of FIUs include the following (all websites accessed 2 November 2018):

- UK: www.nationalcrimeagency.gov.uk
- USA: www.fincen.gov
- Hong Kong: www.jfiu.gov.hk
- Singapore: www.cad.gov.sg
- Australia: www.austrac.gov.au
- Canada: www.fintrac.gc.ca

The Egmont Group is a group of FIUs that aims to facilitate International co-operation. They meet regularly to find ways to co-operate, especially in the areas of information exchange, to train, and to share expertise.

5.4.5 Due diligence

Account opening and maintenance

Banks handle their legal responsibilities on a 'risk assessment' basis. That is, they examine **the nature of the businesses they deal with** and the processes involved and apply a risk assessment to each business and process. Opening an account for a new customer, for instance, is an activity where there is a real risk of taking on a customer involved in criminality. To minimise this risk, customer due diligence (CDD) and know your customer (KYC) procedures are required.

The better a bank knows its customers and understands the basics of its commercial relationship with them, the less likely it is to be associated with a firm that will attempt to carry out money-laundering or terrorist-financing activity.

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5.4.5 Due diligence

CDD for trade account customers

"CDD for trade account customers, both borrowing and non-borrowing, requires the [financial institution] to have an understanding of the business model, the principal counterparties, the countries where the counterparties are located and the goods or services that are exchanged, as well as the expected annual transaction volumes and flows" (The Wolfsberg Group, ICC and BAFT, 2017).

CDD requirements are based broadly on the following procedures:

- Account information must include all customer's address information, contact details and taxation information on the customer.
- Account information must be retained and accessible in trade finance processing systems.
- Changes to customer information must be made immediately to computer databases.
- Material changes in ownership must be noted in customer information files.

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5.4.5 Due diligence (continue)

Regulatory requirements

Regulators expect the bank to carry out CDD on the customer that is classified as the 'instructing party' for the purpose of the transaction. They also expect relevant information to be available to trade finance operations staff so that they can ensure the transaction meets the parameters of the account. Parties included as 'applicant or beneficiary' or 'drawer or drawee' will be designated as 'instructing parties' by most regulators.

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5.4.5 Due diligence (continue)

Account maintenance

Once an account is open and transactions are passing through it, bank staff should be aware of money-laundering techniques. Transactions that might put staff 'on notice' include: Transactions that might put staff 'on notice' include:

- requests that do not seem to make commercial sense;
- unusual sums in cash being paid in or transferred;
- the involvement of third parties – if the customer is acting for someone else, then the bank needs to know who they are and be satisfied that they are bona fide;
- transactions that involve 'inappropriate assets' – for example, why would a company selling computer parts from China to France suddenly want to ship an expensive car to Colombia?

Regular reviews of business practices

Trade practitioners need to be aware of their customers' business and business patterns to ensure that no 'irregular' transactions are processed without appropriate review.

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5.4.6 Monitoring key indicators

When international trade transactions appear to be 'outside the norm', or if certain elements are missing from a transaction, additional scrutiny is warranted.

Such 'red flags' include the following:

- missing transport documents evidencing movement of goods.
- description of goods on the transport document not matching the documentary credit terms and / or actual invoice;
- customers resubmitting documents that have already been rejected due to financial crime or suspicion of financial crime;
- military goods;
- goods such as sugar, cement, urea, precious gemstones, luxury cars, mobile phones, tobacco / cigarettes, liquor, and scrap metals;
- dual-use goods (ie products and technologies normally used for
  - civilian purposes but that may have a military application);
- bill of lading consigned to a 'to be advised party' chosen between applicant and beneficiary;

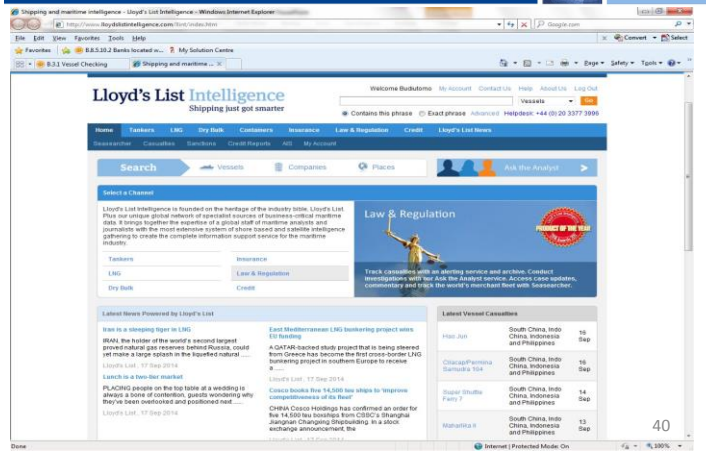
5.4.6 Monitoring key indicators (continue …)

- request for proceeds of the transactions to be paid to an unrelat unexplained third party;
- change of a beneficiary name and address;
- trade-related standby letter of credit claim made within a short time or immediately on / after issuance;
- Direct claim to issuer, where the trade-related standby letter of credit is advised through another bank with the claim to be routed via a nominated bank.
- invoice showing other/undefined charges as being greater than a percentage variance (to be determined by the individual bank) of the total transaction value.
- Documentary credit overdrawn/overshipped by more than a percentage variance (to be determined by the individual bank) of the original value/quantity.
- Bill of lading describing containerised cargo but without container numbers or with sequential container numbers.

5.4.6 Monitoring key indicators (continue …)

- Intermediary trade where price difference/arbitrage is greater th a percentage variance (to be determined by the individual bank) of the transaction value.
- Transaction requires referral.
- Suspecious client contact.
- Pre-accepted discrepancy(ies) by the applicant.
- Applicant is overly keen to waive discrepancy(ies).
- Shipment locations of the goods or shipping terms are inconsistent with the documentary credit.

Lloyd's List Inteligence



5.5 Regulation

Breaches in compliance with regulations and laws, banks paying multi billion-dollar settlements for alleged cases of money laundering, sanctions breaking or misleading clients. Legislation is aimed at the criminal prosecution of individuals involved in processing or facilitating each transaction.

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5.5.1 International regulation

FATF and the Wolfsberg Group, that have produced guidance, standards and principles to help prevent financial crime.
The FATF cannot impose fines or enforce legislative actions. However, its recommendations are used internationally to guide government regulators, who can then impose fines or enforce legislative actions as appropriate.

Review of correspondent relationships
Besides the FATF Recommendations and the trade finance principles published by the Wolfsberg Group in conjunction with ICC and BAFT, various other guidelines are available to help prevent financial crime.
The Basel Committee on Banking Supervision in Switzerland, for example, published a report on the sound management of risks related to money laundering and financing of terrorism in 2014. This was revised in 2016 and further revisions were made in 2017 to the annex on correspondent banking.
These are in line with FATF guidance on correspondent banking published in 2016.
The report by the BIS is "part of a broader initiative to assess and address the decline in correspondent banking coordinated by the Financial Stability Board" (BCBS, 2017).

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5.5.2 Regional regulations

Banks in countries that are members of regional trade groupings are often required to obey laws and regulations made outside their own countries.

In the European Union, for example:

- the European Securities and Markets Authority controls banks and others involved in the securities industry and trading infrastructure;
- the European Banking Authority regulates and enforces EU rules on capital requirements, credit and market risk, liquidity, leverage and resolution of institutions in case of collapse;
- the European Insurance and Occupational Pensions Authority will
- have an interest in banks operating in those areas;
- the European Central Bank in Frankfurt controls banks in areas of the EU that use the euro.

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5.5.2 Regional regulations

New European preventative measures

In May 2018, the European Council strengthened existing EU rules to prevent money laundering and terrorist financing.

Key improvements include:
- broadening access to information on beneficial ownership, improving transparency in the ownership of companies and trusts;
- addressing risks linked to prepaid cards and virtual currencies;
- cooperation between financial intelligence units; and
- improved checks on transactions involving high-risk third countries.

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5.5.3 Domestic regulations

Mutual evaluations

The FATF monitors the effectiveness of its Recommendations and how its network of 204 jurisdictions have implemented technical requirements through FATF-style regional bodies (FSRBs).

Peer reviews of each jurisdiction are conducted regularly through FSRBs to assess levels of implementation, providing "in-depth description and analysis of each country's system for preventing criminal abuse of the financial system" (FATF, 2018e).

As it is beyond the scope of this qualification to cover regulation in every country, you will now learn about the extent to which international standards and guidelines are enforced alongside local legislation in the **UK, USA, Hong Kong, Singapore and China.**

5.5.3 Domestic regulations

UK

- The **Bank of England** has wide responsibilities for monitoring the soundness and suitability of banks operating in the UK.
- Through the **Prudential Regulation Authority**, the Bank assesses risks taken, not only by UK banks but also foreign banks based in the UK.
- The **FCA** polices all financial markets in the UK, watching out for mis-selling and other forms of financial crime.
- Legislation, such as the Bribery Act 2010, has had a positive effect on tracking criminal funds that are inevitably transmitted through the banking system.

5.5.3 Domestic regulations

USA

In the USA many organisations exist to regulate banks including:

- the Office of the Comptroller of the Currency;
- the Federal Reserve System;
- the Department of the Treasury, which includes the Office of Foreign Assets Control (OFAC); and
- the Department of Justice.

The Federal Reserve is the central bank of the USA. It is responsible for regulating the US monetary system, as well as monitoring the operations of holding companies, including traditional banks and banking groups.
The US Department of the Treasury was originally created to manage government revenues but has evolved to encompass several different duties (Council on Foreign Relations, 2018). These include recommending and influencing fiscal policy, regulating US imports and exports (managing OFAC), and collecting US revenues such as taxes; it also designs and mints all US currency.

5.5.3 Domestic regulations

Sanctions enforcement in the USA

As with most jurisdictions, economic and trade sanctions imposed by the USA are based on foreign policy and national security goals. These sanctions are "against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy" (US Department of the Treasury, 2018).

5.5.3 Domestic regulations

Hong Kong
The principal regulators are the **Hong Kong Monetary Authority**, the Securities and Futures Commission, the Office of the Commissioner of Insurance, and the Mandatory Provident Fund Schemes Authority. They are responsible respectively for regulation of the banking, securities and futures, insurance, and retirement scheme industries.

Singapore
Banks are regulated by the **Monetary Authority of Singapore (MAS),** the central bank of Singapore. MAS is also the financial regulatory authority and its main role is to administer statues pertaining to money, banking, insurance, securities and the financial sector in general, as well as currency issuance.

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5.5.3 Domestic regulations

China

The China Banking Regulatory Commission **(CBRC)** has responsibility for combatting financial crime. It is also responsible for prudential regulation, with a mandate to protect the interests of depositors and consumers as well as to maintain market confidence.
The People's Bank of China (PBoC), the central bank, controls monetary policy and other regulatory powers.
The State Administration of Foreign Exchange (SAFE) is responsible for drafting rules and regulations governing foreign exchange market activities and managing the state foreign exchange reserves.

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5.5.4 Domestic regulations with international implications

Domestic regulation can have implications for businesses operating internationally. For example, the US Sarbanes-Oxley Act (SOX) 2002 was passed after the Enron collapse to oblige companies and their officials to work to higher standards of honesty and accuracy.
Most banks around the world need to comply with SOX ; otherwise, they risk being unable to trade in US dollars or even risk facing criminal charges in the USA.

PATRIOT Act
Another important piece of legislation in the fight against money laundering is the USA PATRIOT Act 2001. The acronym stands for Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism.
The Act reduced restrictions on law enforcement agencies' ability to search telephone, email, medical, financial and other records. It also gave these agencies the authority to regulate financial transactions, particularly those involving foreign individuals and entities.

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5.5.5 Environmental and sustainability compliance

Many banks have environmental and sustainability targets, as part of their corporate social responsibility policies. As this area becomes increasingly scrutinised, it adds another layer of potential regulation.

Regional and international regulators have recognised the need to combat and adapt to the impact of climate change. Many support the Paris Agreement and are committed to the UN's Sustainable Development Goals.

Responsible organisations have begun to source raw materials and process goods responsibly due to increased awareness of the potential damaging impacts of uncontrolled development on the environment and its inhabitants. As consumers become more aware of their power as buyers, the pressures for responsible, sustainable farming and manufacturing will mount even further.

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Sustainable trade and its finance is therefore set to grow in the short and long term. Banks and finance providers should be prepared to comply with increasing requirements in this area.

For example : RSPO = Roundtable of Sustainable Palm Oil

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Conclusion

- In this topic we have provided an overview of financial crime, focusing on money laundering, financing of terrorist activity and the proliferation of weapons of mass destruction.
- We have considered the international bodies that have a remit to Prevent financial crime, in particular the FATF and the Wolfsberg Group.
- We have outlined the measures that banks must put in place in order to prevent financial crime and some of the warning signs relating to international trade finance transactions of which practitioners should be aware.
- We have also looked briefly at other common types of financial crime that sometimes take place through the banking system.
- Finally, we have given an overview of the regulatory environment in which banks must operate

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Test your knowledge

Use these questions to assess your learning for Topic 5. Review the text if necessary.

1) Which of the following is not a stage in the money-laundering process?
a. Placement.
b. Layering.
c. Integration.
d. Structuring.

2) What is the full name of the intergovernmental body charged with developing and promoting policies to combat money laundering and terrorist financing?
a. Financially Appropriate Task Force.
b. Focus Action Territory Force.
c. Financial Action Task Force.
d. Final Active Territory Force.

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Test your knowledge

3) How many Recommendations did the organisation from the previous question make?
a. 30.
b. 40.
c. 50.
d. 60.

4) When does the UCP overrule sanctions regulations?
a. In the applicant's country of origin.
b. In the beneficiary's country of origin.
c. On every occasion.
d. Never.

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Test your knowledge

5) What is the name given to a financial transaction where no goods are shipped and all documentation is completely falsified?
a. Spectre shipping.
b. Phantom shipping.
c. Ghost shipping.
d. Zombie shipping.

6) Which organisation acts as a central bank for the USA?
a. Federal Reserve System.
b. OFAC.
c. Bank of America.
d. Office of the Comptroller of the Currency.

ANSWER

1) Answer D is correct (see section 5.2.1). Placement, layering and integration are the three accepted stages of money laundering. In this context, 'structuring' relates to the process of dividing large amounts of cash into multiple smaller amounts.

2) Answer C is correct (see section 5.4.2).

3) Answer B is correct (see section 5.4.2.1).

4) Answer D is correct (see section 5.2.3). Sanctions will always overrule UCP and all other international trade-related rules.

5) Answer B is correct (see section 5.2.1.1).

6) Answer A is correct (see section 5.5.3).

Thank you & Good Luck