

Risk and Compliance

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Due Diligence

Customer Due Diligence

The customers are recommended to be assessed and rated as:

- ▶ **High**
- ▶ **Medium**
- ▶ **Low**

The above rating is in accordance with the features of country, occupation/industry/business and other risk concerns.

KYC

An Anti-Money Laundering (AML) action requires the development of a “Know Your Customer” (KYC) program. The subject of AML/KYC can be broken down to three basic elements:

- Determining the true identity of the customer
- Determining the legitimacy of the source of funds associated with the customer
- Being aware of and reporting any unusual transaction relative to the customer’s known business.

LLI (Lloyd's List Intelligence) Sea Search

- The LLI online search provides information on the vessel, flag registration, vessel owner and details of the shipment route.
- The information allows for further screening of transaction to avoid involving any sanctioned party/country.

IMB (International Maritime Bureau) Checks

The ICC IMB is a specialized division of the ICC

- ❑ Act as focal point in the fight against all types of maritime crime and malpractice
- ❑ Protect the integrity of international trade by seeking out fraud and malpractice
- ❑ Help members to identify frauds, spotting new crime and other threats to trade
- ❑ Provide an authentication services for trade finance documentation, documentary fraud, charter party fraud and ship finance fraud

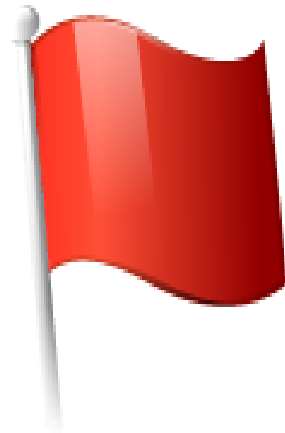
Price Check for Commodity Financin



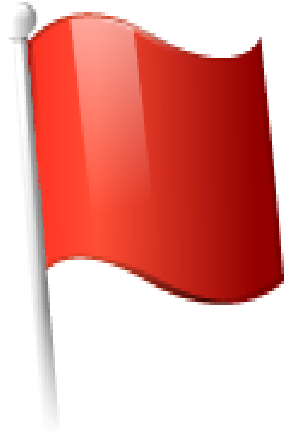
Price checks on the commodities are conducted via some websites such as Patts, Boomberg, LME, etc, prior to booking or by performing mark-to-market (MTM) valuations over the financing tenor. The price check serves the following purposes :

- Establish the commercial reasonableness of the deal
- Allow the bank to initiate risk mitigation measures should the market price deteriorate
- Enhance AML/CFT due diligence especially in relation to over/under-invoicing of goods.

Red flags



Identification of Red Flag in trade transactions ??



1. **Warning sign of danger or a problem**
2. **Indicators that fraudulent activity could exist**
3. **One red flag in isolation may not be cause for concern**
4. **A few together may indicate something is not quite right**
5. **Staff need to recognise red flags and where to escalate concerns**

Consolidated red flags

Consolidated red flags from the following sources for identifying suspicious activity in trade transactions:

- ▶ **The Financial Action Task Force (FATF)**
- ▶ **Wolfsberg Group**
- ▶ **Financial Conduct Authority (FCA)**
- ▶ **Federal Financial Institution Examination Council (FFIEC)**

Samples of Red flags



- ▶ **The customer engages in transactions that are inconsistent with the customer's business strategy or profile**
- ▶ **A customer deviates significantly from its historical pattern of trade activity**
- ▶ **Transacting parties appear to be affiliated, conduct business out of a residential address, or provide only a registered agent's address**
- ▶ **Customer conducts business in jurisdictions that are at higher risk for money laundering, terrorist financing or other financial crimes**
- ▶ **Customer shipping items to or from higher money-laundering risk jurisdictions**
- ▶ **Customers transacting in activities/goods that potentially involve a higher risk of money laundering and other financial crime**

Samples of Red Flags



- ▶ **Obvious over or under pricing of goods**
- ▶ **Obvious misrepresentation of quantity of goods shipped**
- ▶ **The payment terms or tenor are inconsistent with the type of goods**
- ▶ **Transaction structure and/or shipping terms appear unnecessarily complex or unusual and designed to obscure the true nature of the transaction**
- ▶ **The LC contains non-standard clauses or phrases or has unusual characteristics.**
- ▶ **The LC is frequently significantly amended for extensions, changes to the beneficiary, and/or changes to payment location**

Sample of Red flags



- ▶ **The transaction appears to involve the use of shell companies for the purpose of hiding the true parties involved.**
- ▶ **The bank is approached by a previously unknown party whose identity is not clear, who seems evasive about its identity or connection, or whose references are not convincing, or payment instructions are changed at the last minute.**
- ▶ **Trade-related documentation under an LC or documentary collection appears illogical, altered, fraudulent, or certain documentation is absent that would be expected given the nature of the transaction**
- ▶ **Transaction involves obvious dual use goods**

Role of a Bank

- **It is no longer acceptable to say “we deal in documents only.” When a fraud unravels, courts will not be satisfied when the banks plead the apparent compliance of documents, particularly where there was no commercial rationale for the transaction**
- **An effective Know Your Customer (KYC) Program and well trained employees able to identify trade based money laundering techniques are the best tools to combat this action.**
- **Develop Red Flag Reference Guide to assist the staff to alert and report all suspicious activity to Risk Management.**
- **Provide training to staff how to identify high risk trade transactions**

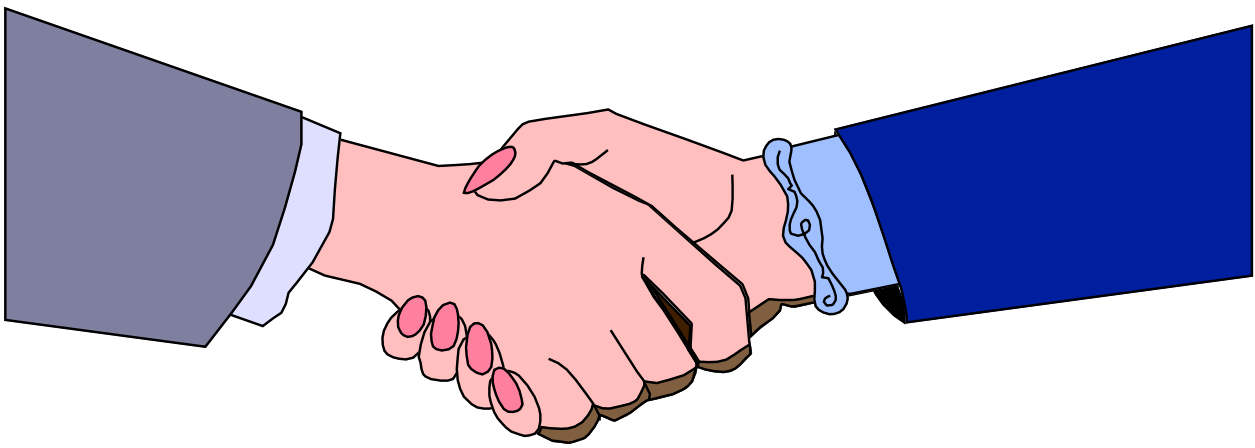


What is the impact on the bank for violation?

- ❑ **Financial Loss – Direct and Indirect**
- ❑ **Reputational Damage**
- ❑ **Regulator Focus**
- ❑ **Operational Impact**
- ❑ **Legal Costs**



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Thank You