



Identifying Red Flags relating to Trade-Based Money Laundering

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Intelligence Analysis



Overview

→ Importance of Tackling TBML

→ What distinguishes TBML?

→ What Patterns are identified?

→ TBML Red Flags



Importance of Tackling TBML

→ TBML accounts for 80% of illicit financial flows worldwide

- EUR 572 billion – EUR 1.5 trillion



→ TBML across EU is, as an average, between 9% and 17% of GDP.



→ One of the most rated typologies for ML Residual Risk – NRA 2023

- Residual risk – rated as medium high for the banking sector ;and
- TBML exploits Malta's geographical location and transshipment activity.





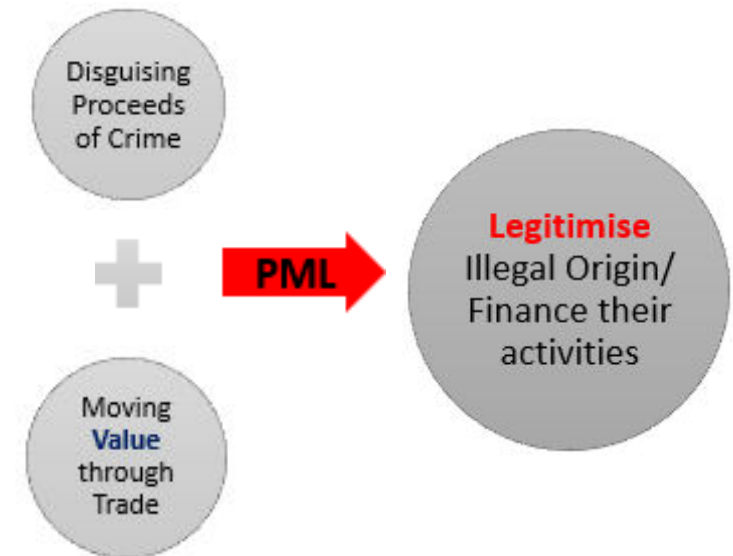
What distinguishes TBML?

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→ Trade-related predicate offences

- Criminals = same UB of those illicit proceeds; and
- Generate more illicit wealth from the proceeds of crime.

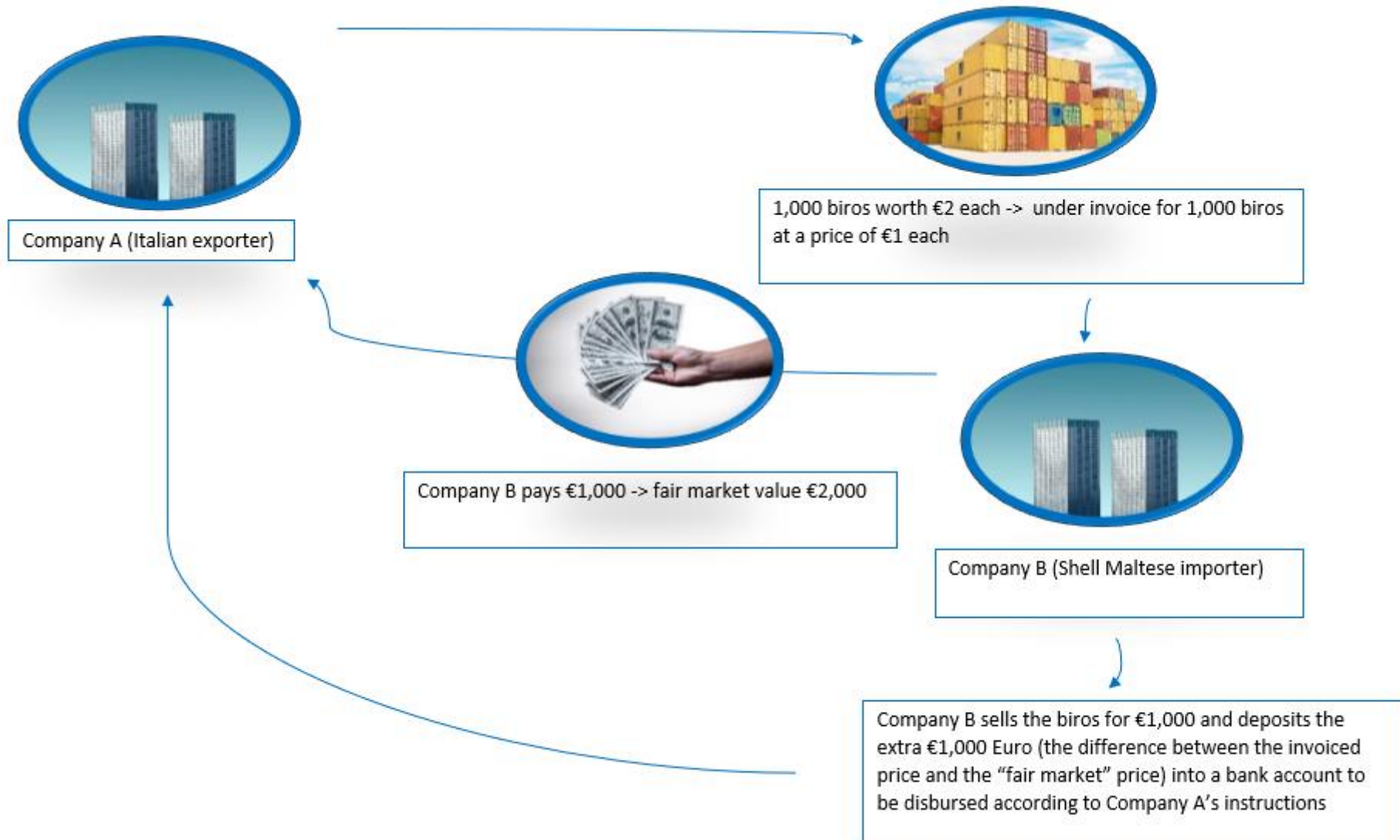
→ TBTF – Proceeds to be moved can come from both legitimate and illegitimate sources – Complexity ↑





What Patterns are Identified? Circular

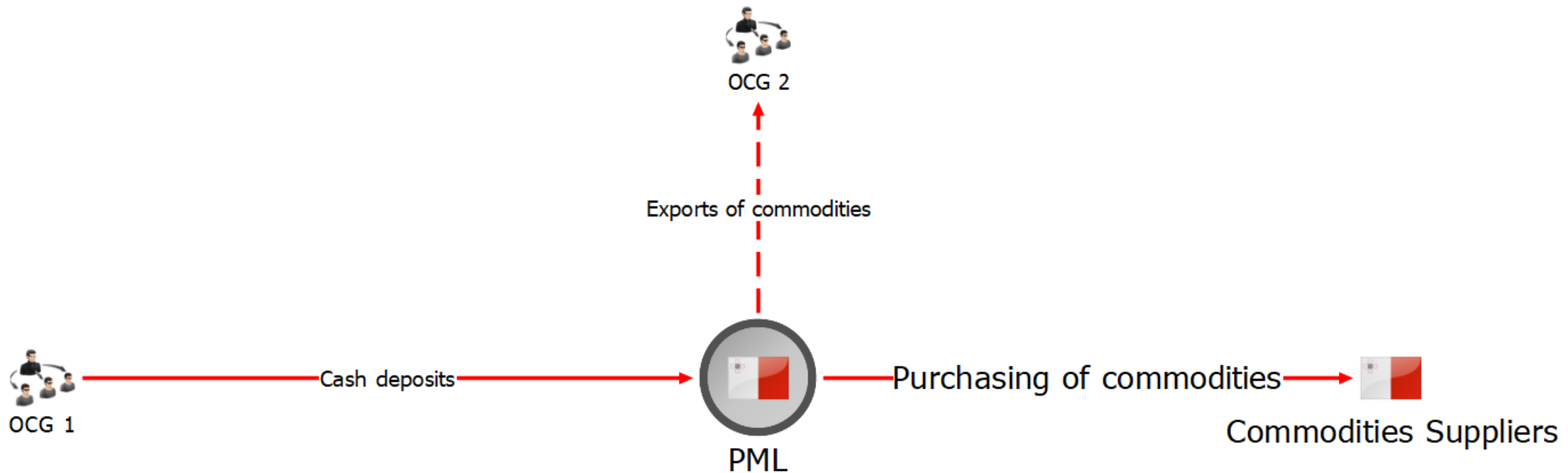
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What Patterns are Identified? Linear

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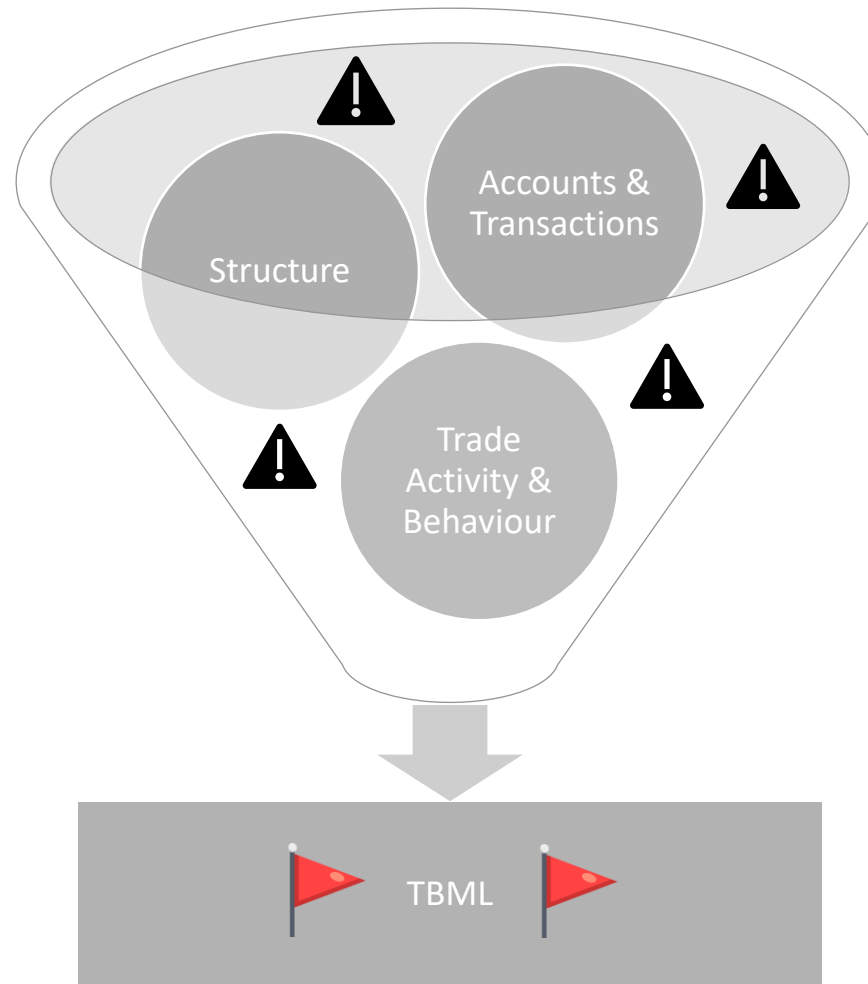
What Patterns are Identified? (Cont.)

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- It is crucial to focus on the associated predicate offence but the process of ML shall be analysed as well.
- In professional ML networks, TBML, is carried out by one group of criminals, while the predicate offences are committed by other criminals.
- Different sectors are vulnerable to TBML:
 - High-value, low volume sectors – Precious Metals; and
 - Low-value, high volume sectors - Grain.
- Common themes conducive to TBML exploitation were identified:
 - Goods with wide pricing margins – Precious metals and artworks – False Description, Under-invoicing, third party payments and diversion of goods;
 - Goods with extended trade cycles - Textiles, oil and gas – Phantom Shipments, False Description, Over-invoicing and multiple invoicing ; and
 - Goods which are difficult for customs authorities to examine - Grains and chemicals – Phantom Shipments, False Description, Over-invoicing and multiple invoicing.



TBML Red Flags





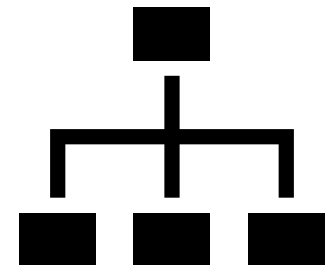
TBML Red Flags – Structural (Cont.)

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→ Complexity of Trade Entity: The structure of the trade entity appears unusually complex and illogical, often involving the use of shell companies and high-risk jurisdictions.

→ Incongruence in Operations:

- Discrepancies in the stated registered address;
- Lack of a robust online presence;
- Absence of payroll and operating costs; and
- Complete ownership of internal controls and accounting.

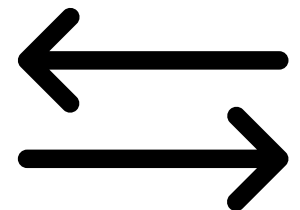




TBML Red Flags - Accounts and Transaction (Cont.)

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- Late Changes in Payment Arrangements: Trade entities frequently make very late changes to payment terms for transactions.
- Conduit Account Activity: Small balances in conduit accounts remain consistent year after year.
- Unusual Signatory Rights: Irregularities in who has signing authority on accounts.
- Efforts to Deposit Cash: Significant attempts to deposit cash into accounts.
- Involvement of Shell Companies: The presence of shell or front companies in transactions.
- Transaction Volume Fluctuations: Rapid increases in transaction volume followed by a period of dormancy.





TBML Red Flags - Trade Activity & Behaviour (Cont.)

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- Inconsistent Trading Activity: Evidence of non-related and inconsistent trading patterns.
- Complex Trade Deals: Transactions involving multiple third parties that complicate the trade process.
- Low Profit Margins: Unjustified variances in trading activity, often leading to very low profit margins.
- Inability to Sustain Trade:
 - Overly complex use of financial products;
 - Sudden influxes of cash deposits or third-party transfers to the entity's accounts; and
 - Absence of capital injections.
- Mismatched Trade Data: Discrepancies between registered imports and exports compared to bank transfers, facilitating artificial trade and value manipulation.





TBML Red Flags - Documentation (Cont.)

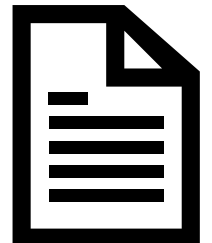
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Documentation Inconsistencies:

- Variation in consideration prices across different documents that do not align with market value.
- Discrepancies between the name of the exporting entity and the recipient of payment.
- Missing documentation.

Falsifications:

- Unusually simple contracts and invoices.
- Vague descriptions lacking detail.





Thank you for listening!

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