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Trade Based Money Laundering (TBML)

Trade-Based Money Laundering (TBML) is a money laundering technique where the origins of illegally obtained monetary proceeds are disguised by using both trade and/or commercial financing to move value across international borders. The use of trade and/or commercial financing serves the purpose of laundering these proceeds and promoting other illicit activities. In addition to concealing illicit proceeds, the damage to worldwide customs organizations is estimated at approximately $9 trillion between 2008 and 2017. Investigations into TBML require the ability to examine both trade and financial information. Homeland Security Investigations (HSI) unique law enforcement capabilities position HSI as the only law enforcement agency dedicated to investigating TBML due to its ability to examine both data sets.

The Financial Action Task Force (FATF) is an intergovernmental organization that serves as a combined regulatory watchdog whose member countries temporarily fund to undertake projects and achieve mandates FATF provides. FATF was created in response to the difficulties nations experienced in trying to cooperate and enforce an effective global anti-money laundering (AML) policy. In October 2001, as a direct response to the 9/11 attacks in the United States, the FATF's mandate was expanded also to include the Combating of Terrorism Funding (CFT).

The FATF defines this typology as camouflaging the proceeds of criminal activity and moving money using trade transactions to cover up their unauthorized origin or finance activities. TBML uses international trade, which occurs over multiple jurisdictions, while other forms of money laundering may be of a singular jurisdiction. Cross-border transactions provide opportunities to take advantage of differences in the legal systems of various jurisdictions. A jurisdiction may have less restrictive Customs checks (Free Trade

Zones) and less stringent Anti-Money Laundering (AML) laws set up than a trading partner(s). The high volume, regularity, and speed of international trade increase vulnerabilities.

TBML requires the intermingling of the trade and finance sectors. Criminals seek to take advantage of the vulnerabilities of both sectors. Merely having an AML regime for the finance sector becomes inadequate unless such a regime effectively covers the corresponding trade sector. Moreover, cross-referencing trade data with that of trade finance becomes essential when investigating TBML.

The long supply chain necessary for international trade makes it more vulnerable to TBML. The chain of manufacturer, trader, consigner, consignee, notifying party, financier, shipper, insurer, and freight forwarder broadens the scope for criminals to abuse the system because of all the vulnerabilities that exist.

Although TBML is used to move illicit proceeds, money laundering must adhere to basic business principles. TBML is just a type of investment vehicle for illicit proceeds, whereas we use a financial planner/wealth manager or invest ourselves. We invest in vehicles for growth and return on investment.

Types of TBML Schemes:

OVERVALUATION SCHEME: Reporting goods as worth more than they are worth (over-invoicing). Allows the importer to move illicit proceeds out of the country under false representations made in the invoice (compare invoice, Bill of Lading, or "BOL" to known Fair Market Value or "FMV"). In this scenario, the exporter will be able to pay an amount in excess, allowing the exporter to retain the illegal profits.

UNDERVALUATION SCHEME: Reporting goods as less than what they are worth (under-invoicing). Allows the exporter to move illicit proceeds (in the form of goods) out of the country under the false representations made in the invoice (compare invoice, BOL to known FMV). The importer will be able to sell on an open market at a higher price and retain the profit. **Both companies (importer/exporter) must agree to be co-conspirators of these two schemes.**

DOUBLE/MULTIPLE INVOICING SCHEME: Invoicing more than once for a single trade transaction. Invoices are often sent to multiple/different financial institutions. This is a complex technique that makes it more difficult to identify the money being laundered. If it is, however, detected, legitimate explanations can also be provided by colluding parties (e.g., payment terms have been changed, correction to the initial payment, late fee, etc.).

FALSE INVOICE SCHEME: Ghost shipments of invoiced transactions; shipment never existed.

VALUE TRANSFER SCHEME: In a TBML value transfer scheme, criminals manipulate trade transactions to transfer value covertly. They exploit the complexity of international trade, including the movement of goods, services, and funds, to obscure the origin or destination of illicit funds. The primary goal is to integrate illegal proceeds into the legitimate financial system by disguising them as legitimate trade transactions.

FALSE DESCRIPTION SCHEME: Reporting different commodities than what is shipped.

LOST REVENUE SCHEME: Criminals intentionally manipulate trade transactions to cause financial losses or divert revenue for illicit purposes.

The Process of TBML

TBML is used to convert illicit funds obtained from criminal activities, such as drug trafficking, into seemingly legitimate currency. TBML is a complex and illicit money laundering scheme that exploits international trade transactions. It requires collaboration between money brokers, criminal organizations, and legitimate businesses to facilitate the conversion of illicit funds into seemingly legitimate assets. The process involves several steps, outlined below:

1. **Criminal proceeds:** Criminal organizations generate significant cash from illegal activities, such as drug sales, often in the form of U.S. dollars.
2. **Money broker:** The criminal organization contacts a money broker who operates within the TBML network. The money broker is an intermediary between criminals and legitimate importers/exporters.
3. **Negotiation:** The money broker negotiates with the criminal organization to determine the amount of money they want to launder and the desired currency they wish to receive in exchange. The agreed-upon amount is typically denominated in the local currency of the country where the TBML operates.
4. **Legitimate importer/exporter:** The money broker identifies a legitimate importer/exporter who wants to buy goods from or sell goods to the criminal organization. This importer/exporter is usually involved in legitimate businesses and needs foreign currency to conduct their international trade operations.
5. **Currency exchange:** The importer/exporter agrees to purchase the illicit cash from the criminal organization at a discounted rate using their local currency. The exchange rate is negotiated between the parties involved.
6. **Goods trade:** The importer/exporter purchases goods from legitimate suppliers using their local currency. These goods are typically selected based on the demand in the criminal organization's home country.
7. **Export documentation:** The importer/exporter generates documentation, such as invoices, shipping records, and customs declarations, to make the trade appear legitimate. These documents are manipulated to reflect inflated prices or quantities, helping to justify the large amount of money involved in the transaction.
8. **Goods shipment:** The goods are shipped to the criminal organization's home country and sold on the black market or through legitimate channels. The proceeds from these sales, now in the local currency, replace the original illicit funds.
9. **Payment to the importer/exporter:** The criminal organization transfers the agreed-

upon amount of local currency to the importer/exporter's bank account or provides cash payment through a trusted associate. This payment represents the laundered funds and appears to be a legitimate payment for the goods.

10. **Conversion and distribution:** The importer/exporter may sell the local currency acquired from the criminal organization to other businesses or individuals needing it for their legitimate trade operations. This act helps further integrate the illicit funds into the financial system.

Red Flag Indicators

While financial institutions do not have free access to trade data, indicators of suspicious activity associated with TBML can still be detected by anti-money laundering (AML) compliance officers.

The following red flags in financial activity may be indicative of TBML:

- Rapid movement of money from one or several accounts into and out of multiple financial institutions.
- Owning several business/personal bank accounts and rapidly moving deposited monies through the accounts.
- A dramatic increase in the frequency or number of deposits with no logical explanation for the rise.
- A change from traditional banking deposits, i.e., checks, money orders, credit/debit cards, cash, or international wire transfers.
- A company's stated type of business does not match the commodities bought and sold.
- A change in business activity where a bank account holder changes the type of business they are engaged in, and the change results in a dramatic increase in deposited money over a very short period.
- A customer with a business that has very few customers to justify the large volumes of money moving through the business accounts.
- A review of the business account reveals that the company is involved in the export of Commodities identified as everyday TBML items include electronics, vehicles, precious metals, and gemstones.

HSI encourages the public to report suspected suspicious activity through its Tip Line. You may remain anonymous.

We'd love to hear your thoughts! Please share your feedback to cornerstone@hsi.dhs.gov.

Homeland Security Investigations

HSI's mission is to protect the United States by investigating global crimes that impact our local communities. We have over 10,000 employees stationed in over 235 U.S. cities and more than 50 countries worldwide. This gives us an unparalleled ability to prevent crime before it reaches our communities.