Financial Intelligence Unit

Trade-Based Money Laundering

Updated Strategic Analysis Report

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LIST OF ACRONYMS

B/L	Bill of Lading
DPMS	Dealers in Precious Metals and Stones
FATF	Financial Action Task Force
FIs	Financial Institutions
goAML	The Financial Intelligence Unit Reporting System
ICC	International Chamber of Commerce
ICP	Federal Authority for Identity, Citizenship, Customs and Port Security
IEMS	Integrated Enquiry Management System
IMB	International Maritime Bureau
KYC	Know Your Customer
L/C	Letter of Credit
LEA	Law Enforcement Authority
ML	Money Laundering
OSD	Outward Spontaneous Dissemination
PMS	Precious Metals and Stones
RFR	Reason for Reporting
SAR	Suspicious Activity Report
SBML	Service based money laundering
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TBTF	Trade-Based Terrorist Financing
UAE	United Arab Emirates
UAEFIU	UAE Financial Intelligence Unit
UAERRS	UAE Remittance Reporting System

EXECUTIVE SUMMARY

Since the global fight against money laundering (ML) started, criminals heavily utilized the financial system and physical movement of money in laundering their criminal proceeds. However, it was soon realized that criminals misused the trading system to add further complexity to their schemes and conceal the origin of funds by commingling it with the enormous volume of legitimate trade. The Financial Action Task Force (FATF) acknowledged the vulnerability of the global trade system including its interconnected supply chain to money laundering and financing of terrorism, and dedicated several publications addressing trade-based money laundering (TBML) risks (e.g., FATF, 2006, 2008, 2010, 2012, and 2020).[1]

The FATF and Egmont Group (2020) underlined the FIUs role in not only analyzing TBML-related STRs but also in developing sophisticated analyses concerning TBML patterns and schemes. In particular, they emphasized the role of strategic analysis that produces "an increased understanding of the risk for the FIU, other authorities, financial institutions, and the public at large. For TBML-related cases specifically, FIUs can provide these groups with insight into the potential size, scale, and most commonly used methods, thus contributing to an improved understanding of the risks".[2] Within this context, the United Arab Emirates Financial Intelligence Unit (UAEFIU) through this report extends previously identified TBML typologies in 2021,[3] focusing on TBML attributes and emerging patterns and risks.

The UAEFIU conducted a thorough analysis of all TBML-related Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs) received from reporting entities from **01/01/2022 to 31/12/2023.** The UAEFIU analyzed 853 suspicious reports (STRs/SARs) received from financial institutions and other reporting entities related to TBML, of which, **610 reports** (comprising 524 STRs and 86 SARs) revealed TBML patterns and techniques more explicitly. The UAEFIU also examined cases related to TBML initiated by law enforcement authorities via the Integrated Enquiry Management System (IEMS),[4] and intelligence reports exchanged with counterpart FIUs possibly related to TBML. These are in addition to a broad analysis of remittances processed by exchange houses for trade purposes and reported to the UAE Remittance Reporting System (UAERRS) during the reviewed period.

[1] FATF-GAFI (2006) Trade-Based Money Laundering, FATF-GAFI (2008) Best Practice on Trade Based Money Laundering, FATF-GAFI (2010) Money Laundering Vulnerabilities of Free Trade Zones, APG (2012) Typology Report on Trade Based Money Laundering, FATF and Egmont Group (2020) Trade-Based Money Laundering Trends and Developments.

[2] FATF (2020) Trade-Based Money Laundering Trends and Developments, p.52. Available at: www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Trends-and-Developments.pdf

[3] UAEFIU(2021) Strategic Analysis Report on Trade-Bases Money Laundering (TBML). Available at: https://www.uaefiu.gov.ae/en/more/knowledge-centre/publications/trends-typology-reports/strategic-analysis-report-on-trade-based-money-laundering-tbml/

[4] The Integrated Enquiry Management System (IEMS) is established and owned by the UAEFIU to facilitate communication and processing of different requests between domestic competent authorities, regulated financial institutions and the UAEFIU.

The FATF (2020) stressed the importance of collaboration between customs agencies and FIUs in identifying TBML by examining suspicious trade activities and financial transactions and activities. Moreover, it emphasized that "using the outcomes of FIU strategic analysis and other strategic information related to international trade shipments, may help customs services improve their prioritization of cargo and shipment inspections".[5] As such, the UAEFIU examined customs data of cash declared for trade purposes during this period, as well as suspicious reports raised by the Federal Authority for Identity, Citizenship, Customs and Port Security (ICP) directly or indirectly related to TBML.

Consequently, the UAEFIU estimated the magnitude of reported TBML-related suspicions in terms of volume and value, highlighting payment methods, potential jurisdictions of concern, and the scale of methods used in TBML. The analysis illustrated the high frequency of using fictitious documents in TBML-related suspicious reports, representing 41% of the total reports. This is in addition to the methods of phantom shipment, manipulation of invoices, and falsely described goods, representing 61%, 11%, and 5%, of the examined reports, respectively.

Based on the data utilized in this report and available data in the UAEFIU databases, as well as findings of the surveys circulated to reporting entities, customs authorities, law enforcement authorities, and the UAEFIU internally, the UAEFIU underlined the potential predicate offences associated with TBML, such as fraud, tax evasion, and drug trafficking.

The UAEFIU also sheds light on other trade-based crimes and concerns such as trade-based terrorist financing, evasion of customs duties, and sanctions circumvention, in addition to unlicensed hawala.

Furthermore, the UAEFIU underlined potential risks associated with legal persons in relation to TBML, and identified trade parties' roles, highlighting the role of third parties and intermediaries, including trade brokers. More importantly, high-risk commodities and their scale, including foodstuff, building and construction materials, electronics, and gold, in addition to the involvement of dual-use items and the emerging risk associated with used vehicles.

Lastly, the UAEFIU updated its previously developed list of risk indicators to guide reporting entities in monitoring, detecting, and reporting suspicious transactions and activities possibly related to TBML.

[5] (FATF, 2020, p.56)

Utilized Data		**Covering Period** 01/01/2022 to 31/12/2023	
610 STRs/SARs	50 Cases Initiated by Law enforcement	56 Cases Initiated by the UAEFIU	91 International Intelligence reports
8,864 Incoming Cash Declarations	1,445 Outgoing Cash Declarations	Suspicious Reports by UAE Customs	Remittance Data (UAERRS)
Key Findings			
41% Fictitious Documents	61% Phantom Shipments	11% Invoice Manipulation	5% Misdescribed Goods
Items Involved			
14% Foodstuff	10% Construction Materials	9% Auto Spare Parts	9% Electronics
8% Used Vehicles	5% Dual-use Items	5% Gold	
Relevant Predicate Offence			
Fraud	Tax Evasion	Drug Trafficking	Foreign Predicate Offence

1. INTRODUCTION

The global economy has witnessed many challenges over the past few years, especially since Covid-19 and its ramifications. Nevertheless, the United Arab Emirates (UAE) economy remained resilient and achieved distinguished results, showing significant development in different sectors with a noticeable increase in international trade and foreign direct investment (FDI) flows.[6] The UAE's international trade of non-oil exports and re-exports is estimated at AED 755.7 billion over the first three quarters of 2023, showing an increase of 12.3% compared to the same period in 2022 which was estimated at AED 672.8 billion. At the same time, imports reached approximately AED 1013.4 billion, increasing by 16.9% compared to the previous year.[7]

The UAE remains one of the top global commodity trading hubs and is ranked second according to the DMCC 2024 commodity index.[8] The growing volume of global trade and the UAE's position as a global trade hub make it a tempting environment for money launderers to misuse its trading system. Within this context, TBML is recognized as one of the high-risk money laundering typologies in the UAE influencing reporting entities' risk-based approach. [9]

TBML is defined as "**the process of disguising the proceeds of crime and moving *value* through the use of trade transactions in an attempt to legitimize their illicit origin**".[10] Criminals would misstate the value or quantity of goods or services mainly to move illicit money and conceal its origin by mixing criminal proceeds with legitimate funds using the global trade system within business financial transactions. Nevertheless, the International Chamber of Commerce (ICC) in 2018 described TBML as the "least understood financial crime method".[11]

While there is no official estimation of TBML magnitude, the ICC (2018) indicated that hundreds of billions of US dollars are potentially laundered annually through TBML methods.[12] Moreover, the Global Financial Integrity (2023) estimated global TBML to exceed US$60 billion from 2011-2021.[13] Another study estimated the annual average scale of TBML from 26 countries in the European Union (EU) to be between USD 0.9 to 1.8 trillion.[14]

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[6] Ministry of Economy (2023) Economic Annual Report. Available at: https://www.moec.gov.ae/en/economic-report
[7] Central Bank of the UAE (2024) Quarterly Economic Review. Available at: www.centralbank.ae/media/xphj1lek/qer-march-2024-english.pdf
[8] DMCC (2024) The Future of Trade. Available at: https://www.futureoftrade.com/the-future-of-trade
[9] Central Bank of the UAE (no date) Sectoral report: Money Laundering and Terrorism Financing Risk assessment. Available at: https://www.centralbank.ae/media/ziod341t/cbuae-sectoral-report-money-laundering-and-terrorism-financing-risk-assessment.pdf
[10] FATF (2006, 2020).
[11] International Chamber of Commerce (2018) Business alliance sheds light on trade-based money laundering, 'least understood' financial crime.
[12] ICC (2018).
[13] Global Financial Integrity (2023) Trade-Based Money Laundering: A Global Challenge.
[14] Saenz, M., and Lewer, J. J. (2022) Estimates of Trade Based Money Laundering within the European Union. Applied Economics, 55(51), 5991–6003. Available at: https://doi.org/10.1080/00036846.2022.2141444

Illicit funds laundered through trade are associated with different predicate offences, mainly drug trafficking, fraud, and tax evasion. TBML techniques are also adopted in other trade-based financial crimes such as trade-based terrorist financing (TBTF) and sanctions evasion.[15]

TBML schemes in many cases are associated with multiple unlawful activities and violations such as misrepresentation of goods, fabrication of trade documents, customs violations, and unlicensed hawala, among others. These are in addition to the misuse of traditional trade finance [16] through collusion between the exporter (seller) and the importer (buyer) to obscure illicit funds, add legitimacy and further complexity to proceeded transactions.[17] For example, through manipulation of commodity prices, quantity, or quality. Typically, these colluded parties act under the control of the ultimate beneficiary (origin of illicit funds).

The UAEFIU previously identified the following TBML methods with their associated risk indicators in its TBML typology report issued in 2021:

- The use of back-to-back letters of credit
- Presentation of fictitious trade documents
- Phantom shipments
- Over-invoicing/under-invoicing
- The use of front companies in TBML.

In this report, while said methods remain the same, the UAEFIU adds different insights and observations to these techniques and updates previous findings underlying the scale of involved methods and commodities.

2. OBJECTIVES

As part of the Strategic Analysis Plan (SAP) and in line with the UAEFIU's efforts to address and identify patterns of possible money laundering crimes, it is delivering its second report on TBML for the following purposes:

- Update previously identified TBML typologies and identify any emerging patterns, as well as update the list of associated risk-indicators;
- Examine the magnitude of reported TBML-related suspicions;

[15] Ibif.
[16] Trade Finance is "the provision of finance and services by FIs for the movement of goods and services between two points, either within a country or cross border" (The Wolfsberg Group, 2019).
[17] Wolfsberg Group (2019) The Wolfsberg Group, ICC and BAFT Trade Finance Principles, p.8. Available at: https://wolfsberg-group.org/news/17

- Identify any common patterns between customs data available to the UAE FIU and reporting entities-related suspicions;
- Identification of attributes potentially contributing to TBML cases, including involved commodities, characteristics of legal persons, jurisdictions of concern, and sectors impacted by TBML activities;
- Developing an understanding of 'trade finance' instruments misused in TBML;
- Providing case examples to develop the understanding of identified typologies;
- Identifying any observed gaps and proposing solutions to tackle TBML effectively;
- Promote the level of current awareness among the involved actors in investigating and tackling TBML.

3. METHODOLOGY

This report extends previously identified TBML typologies, focusing on TBML attributes and emerging patterns from **01/01/2022 to 31/12/2023**. The report was compiled using three different approaches:

3.1. Available and obtainable data and information within the UAEFIU's databases and stakeholders:

I **All Suspicious Transaction Reports (STRs)** and **Suspicious Activity Reports (SARs)** reported in the UAEFIU's reporting system **(goAML)** directly or indirectly relevant to TBML.[18] These include verification requests sent to different reporting entities via the goAML Message Board.

II TBML cases disseminated by the UAEFIU to Law Enforcement Authorities (LEAs).

III TBML cases initiated by LEAs through the **Integrated Enquiry Management System (IEMS).**

IV International intelligence received by the UAEFIU from other counterpart FIUs, whether spontaneously or by requests**.**

V All remittances conducted by exchange houses during the examined period under the purpose of trade available in the UAE **Remittance Reporting System (UAERRS)**.

VI Cash declaration under the purpose of "trade" during the reviewed period.

VII Suspicious reports raised by the **Federal Authority for Identity, Citizenship, Customs and Port Security (ICP) to** the UAEFIU during the examined period for potential TBML across borders.

[18] Based on related "Reasons for Reporting" (RFRs) as well as keyword searches carried out on the goAML system.

3.2. Survey

Surveys on TBML were sent to institutions and authorities involved in TBML case analysis and investigation including the banking sector, federal and local customs departments, an internal survey to UAEFIU analysts, and law enforcement authorities. The survey was designed in four different templates to accommodate the involved authorities' mandate and the nature of their investigation. The survey aimed to develop an understanding of identified TBML suspicions and investigation, TBML typologies and patterns observed in the UAE, and highlight any potential gaps. Based on a mixed methods approach incorporating multiple open and closed questions, a thematic analysis was conducted using coding textual analysis and inferential statistics.

3.3. Roundtable Discussion

Two roundtable discussions were conducted with domestic and international banks in the UAE to enrich the findings of this report and address TBML patterns and challenges during the past two years. These sessions involved **207 attendees from the compliance, fraud, and trade finance departments**.

This reporting methodology is limited to direct TBML methods associated with international trade based on available data to the UAEFIU. The analysis did not focus on other relevant factors and typologies that require separate attention in future studies based on their specific nature or different methodological approaches. Therefore, the following were excluded from this report's scope:

1. Capital flight using the international trade system
2. Domestic trade-based money laundering
3. Service based money laundering (SBML)
4. Movement of money for tax avoidance
5. Customs violations
6. Trade-based terrorist financing (TBTF)

4. TRADE FINANCE AND PAYMENT

According to the United Nations (UN), global trade in goods and services grew in 2022 to nearly US$ 32 trillion from US$ 28 trillion in 2021.[19] Nevertheless, international trade started to slightly shrink in 2023, decreasing by 5% compared to 2022, notably in goods which had declined by approximately US$ 2 trillion. However, trade-in services increased by US$ 500 billion in 2023.[20] The international

[19] United Nations (2024) Key Statistics and Trends in International Trade 2023. Available at: https://unctad.org/publication/key-statistics-and-trends-international-trade-2023

[20] UNCTAD (2023) Global Trade Update. Available at: https://unctad.org/publication/global-trade-update-december-2023

trade outlook in 2024 remains uncertain due to geopolitical tensions and their impact on the global supply change and volatility of commodity prices, as well as increased trade-restrictive measures such as non-tariff measures.[21] Therefore, it suggests the restructuring of the global supply chain by following a de-risking approach in logistics through the movement of production from conflicted areas and potentially following longer shipping routes.[22]

Trade finance offered by financial institutions to trade parties is a crucial component of international trade which significantly influences the volume of global trade. Trade finance can be described as "**the provision of finance and services by FIs for the movement of goods and services between two points, either within a country or cross border**".[23] It facilitates the relationship between trade parties by offering different products to secure payments from buyers and support businesses' cash flow.

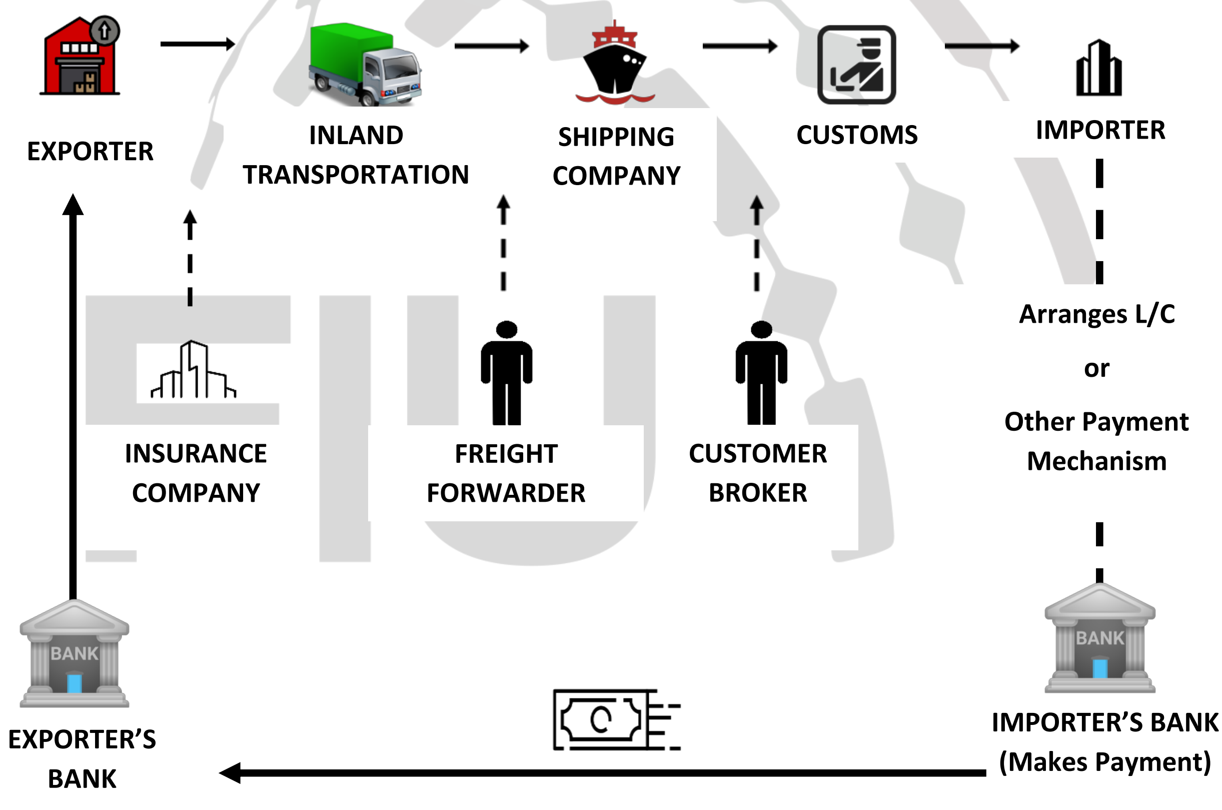


Figure 1: Typical trade transaction[24]

[21] Ibif, p.3
[22] DMCC (2024) The Future of Trade.
[23] Wolfsberg Group (2019) The Wolfsberg Group, ICC and BAFT Trade Finance Principles, p.8. Available at: https://wolfsberg-group.org/news/17
[24] Cassara, J. (2016) The next frontier in international money laundering enforcement: trade-based money laundering, p.150. Hoboken: John Wiley

Trade finance can be misused in TBML, especially through trading under 'Open Account' terms which are widely used in global trade. The following highlights the main trade finance instruments discussed later in this report in relation to TBML:

Open Account

- According to the Wolfsberg Group, almost 80% of international trade processed by financial institutions is paid using open accounts.[25]
- An open account is used in a sale where the payment is due after the shipment of goods or receipt of service, typically in 30, 60, or 90 days, but could be more according to the trade terms.
- Giving flexibility in payment, it is preferred by the importer and criminals alike as it distances the payment from the movement of goods or delivered services making it challenging to verify.
- Unless a financial institution provides other credit services, it is less involved and has less oversight on customer transactions.
- As per the data utilized in this report, survey analysis and roundtable discussions illustrated that financial institutions still perceive open accounts as a main concern and challenge in detecting TBML incidents.

Payment in Advance

- Payment is fully received before goods shipment.
- It is the most preferable method by the exporter.
- Analysis of examined TBML-related STRs during the review period underlined around 7.5% of the total TBML-related suspicious reports were paid in advance through cash or wire transfers.

Note:

Both open accounts and advance payments can be settled through wire and electronic fund transfers via the Swift network.[26] Analysis of STRs during the reviewed period of this report showed that 65% of all payments associated with the total TBML related suspicious reports were processed through wire transfers.

[25] Wolfsberg Group (2019) The Wolfsberg Group, ICC and BAFT Trade Finance Principles, p.8. Available at: https://wolfsberg-group.org/news/17

[26] The Global Coalition to Fight Financial Crime (2022) Trade-Based Financial Crime-Middle East and North Africa.

Documentary Credits

- Documentary credits are also known as Letters of credit (L/C).
- They are “payment instruments that constitute a definite undertaking of the issuer (“the issuing bank”) on the instruction of the buyer (“applicant”) to pay a certain specified amount to a seller (“the beneficiary”) at sight or on a future determinable date (“the maturity date”) provided that documents stipulated in the letter of credit/documentary credit are presented in compliance with the stated terms and conditions”.[27]
- L/C is governed by the International Chamber of Commerce (ICC) sets of rules and international standard banking practice (UCP 600).
- Financial institutions act as an intermediary between the trading parties (could involve more than one party).
- L/C ensures that both trade parties honor their obligations, assure payment for the exporter and delivering the trade deal to the importer by providing goods or services with documentary proof.
- L/C is the exporter’s preferred method of payment. [28]
- Back-to-back credit is a type of documentary credits issued against another credit and it involves an intermediary or a middleman who acts between the supplier and ultimate buyer.[29] Through this method, two L/Cs will be issued: one from the importer/buyer to the intermediary and another from the intermediary to the exporter/seller.
- A standby L/C is utilized as a sort of bank guarantee/secondary obligation in the case of customer default.[30] This method is governed by the ICC practice (ISP98).
- Analysis of STRs during the review period illustrated that letters of credit were used in 5.3% of all payments associated with all TBML-related suspicious reports.

[27] Trade Finance Global (no date) Introduction to Letter of Credit. Available at: https://www.tradefinanceglobal.com/letters-of-credit/
[28] FATF (2020).
[29] ICC Academy (2019) Types of Documentary Credit – a Comprehensive Guide. Available at: https://icc.academy/types-of-documentary-credit-a-comprehensive-guide-2019/
[30] ibif.

Documentary Collection

- Documentary collections are governed by International Chamber of Commerce rules – ICC Publication No. 522.
- The collection bank acts as an intermediary/agent on behalf of the exporter in dealing with trade documents and payment transactions.[31]
- Importer payment is not made until the goods are shipped. The exporter shares shipment documents (e.g. B/L) with his/her bank to collect the payment agreed with the importer.
- One of the major challenges to this instrument is that trade documents have different formats and are not standardized, enabling their misuse in TBML using fictitious documents.[32] As such, the TBML risk lies in conducting a detailed examination and the difficulty of verification.
- Nevertheless, analysis of examined TBML-related STRs during 2022-2023 illustrated that documentary collections were used in only 0.6% of all payments associated with all TBML-related suspicious reports during the review period.

Consignment

- Payment is not made until the international distributor sells the goods to the final consumer.
- Unsold goods can be returned to the exporter based on a contractual arrangement and agreed cost.
- Due to said characteristics, it is the most favorable method by the importer.[33]
- Analysis of the examined TBML-related STRs during 2022-2023 illustrated that consignment payment was used in only 0.3% of all payments associated with all TBML-related suspicious reports during the review period.

5. DATA AND INFORMATION USED IN THE ANALYSIS

This section provides an overview of the information available within the UAEFIU's databases. First, it offers an overview of remittance volume processed through exchange houses relevant to trade

[31] Wolfsberg Group (2019).
[32] FATF (2020).
[33] Ibif.

transactions and then continues with addressing possible TBML attributes in terms of reported TBML suspicions.

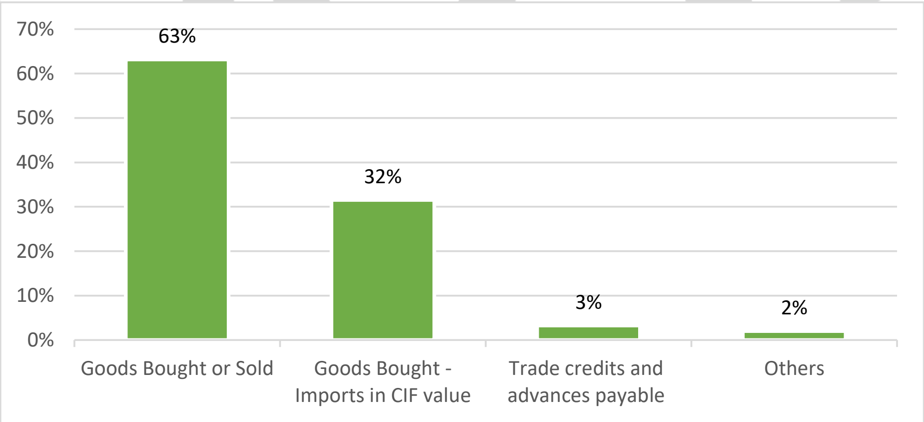
5.1. Overview of the data extracted from the UAE Remittance Reporting System (UAERRS)

The UAEFIU analyzed all remittances (processed through exchange houses) available with the UAERRS relevant to 'trade' purposes during the review period from **01/01/2022 until 31/12/2023**.

During the review period, records of trade-related remittances revealed 59% outward domestic and cross-border transfers, while there were 41% inward domestic and cross-border transactions. 78% of the remitters who conducted trade transactions (based on volume) were classified as legal persons, while 2.5% pertained to individuals (mostly resident individuals), and 19.6% were unidentified/unknown.[34] Cross-border outbound remittances were found to be mostly funded with cash (56%), while cross-border inbound remittances were mainly received by the beneficiaries via cheque (77%).

In terms of the purpose of trade transactions as shown in **Chart 1,** 63% of trade remittances were related to 'Goods bought or sold' (GDS) (inbound and outbound). This is followed by transactions pertaining to 'Goods bought – Imports in Cost, Insurance and Freight (CIF) value' with 32% (mostly cross-border outbound). Trade credits and advances payable represented 3%, while the remaining 2% was interpreted as others which refers to transactions related to trade credits and advances receivable, sea transport, air transport, and goods sold – exports in Free on Board (FOB) value.

Chart 1: Indicated purpose of transaction



[34] Unidentified/unknown due to incomplete information filled in RRS and names written in other language (i.e. Arabic), thus, remitter classification is not clear.

5.2. Analysis of TBML-related STRs/SARs

The UAEFIU analyzed **853 suspicious reports** (STRs/SARs) received from financial institutions and other reporting entities related to TBML from **01/01/2022** to **31/12/2023,** of which, **610 reports** (comprising **524 STRs** and **86 SARs)** revealed TBML patterns and techniques.

Out of 610 suspicious reports, the UAEFIU proactively disseminated 56 cases to law enforcement authorities involving 742 reports, including 177 STRs/SARs, 186 Outward Request for Information, and 53 Outward Spontaneous Dissemination (OSD).

The analysis highlighted that 94% of the TBML-related suspicious reports involved legal persons, while only 6% pertained to natural persons.

Regarding the jurisdiction of establishment or licensing, more than half of the reported legal entities were established on the **mainland (57.4%)**, followed by **commercial free zone jurisdictions (39.5%)** and **'foreign jurisdictions' (0.5%)**, while the remaining were identified as 'unknown' due to a lack of information provided by the reporting entity. Most of these entities' legal form was a **'Limited Liability Company' (91%)**, followed by **'Sole Establishment' (4%)**, and the remaining 3% were 'unknown' due to unavailability of information. Nevertheless, business activities related to the reported legal persons were common and consistent with the involved goods explained later in this report. **Table 1** illustrates the top business activities of reported legal persons.

Table 1: Top business activities of reported legal persons[35]

Business Activity	% out of total reports
General trading	24%
Building and Construction Materials Trading	10%
Goods Wholesalers	10%
Foodstuff and Beverages Trading	10%
Petrochemical products trading	9%
Electronics and Electrical Appliances Trading	8%
Auto Spare Parts and Components Trading	8%
Vehicles trading, mostly used cars	6%
Textiles and accessories trading	6%
Non-Manufactured Precious Metals and Stones Trading	6%
Readymade Garments/clothing	5%
Cargo Services (Air and Sea, including loading and unloading)	5%
Heavy and Construction Equipment & Machinery Spare Parts Trading	4%
Refined Oil Products Trading	4%
Jewellery trading	4%

[35] A legal person might be licensed for more than one business activity.

Business Activity	% out of total reports
Watches, Clocks and Spare Parts Trading	4%
Mobile Phones and Accessories Trading	3%
Computer and Peripheral Equipment Trading	3%
Perfumes and cosmetics trading	3%
Medical, Pharmaceutical, Laboratory Equipment, Surgical Articles & Requisites Trading	3%

In terms of transaction modes involved, the main mode was outward transfers, followed by inward transfers, cash deposits, internal transfers, and cheque deposits (**Chart 2**). The outward and inward transfers included both domestic and international transactions (most frequent) with cash and cheque deposits comprising deposit transactions conducted over-the-counter and cash deposits through Cash/Cheque Deposit Machine (CCDM), while internal transfers reflect suspected credit and debit transactions among accounts within the same financial institution. The top reasons for reporting (RFRs) are listed in **Table 2**.

Chart 2: Mode of transactions in TBML suspected transactions

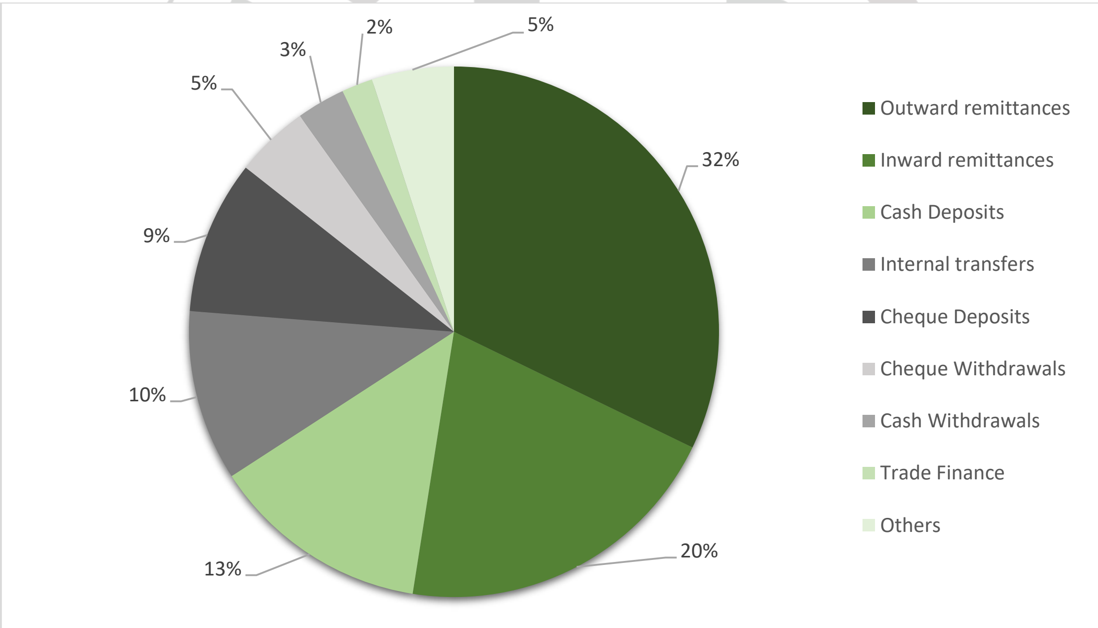


Table 2: Top 10 selected 'Reasons for Reporting'[36]

RFR Code	Reason for Reporting	Count	%
FIFIP	False invoicing or fabricated invoices or price manipulation	259	41%
LADST	Lack of appropriate documentation to support transactions	118	19%
ICANA	Transactions that are inconsistent with the account's normal activity	113	18%
CSJNE	Commodities are shipped through one or more jurisdictions for no apparent economic or logistical reason - sanctions circumvention	97	15%
FMLPM	Customer seeks trade financing on the export or import of commodities whose stated prices are substantially more or less than those in a similar market situation or environment - over or under invoicing	68	11%
LOWBL	Account shows high velocity in the movement of funds	69	11%
DISCR	Discrepancies in the description of goods or commodity in the invoice or of the actual goods shipped	48	8%
OOUPG	Obvious over-or underpricing of goods and services	52	8%
NBRT	No business rationale or economic justifications for the transactions	53	8%
NBRPT	No apparent business relationship between the parties and transactions	44	7%

Ultimately, all TBML-related suspicious reports during the examined period were analyzed and linked to TBML methods and techniques explained later in this report. Out of the 610 reports, **61% were related to phantom shipments, followed by misrepresentation of invoices (11%), falsely described goods (5%), and misrepresentation of shipment quantity (0.009%)**. These were in addition to mixed techniques (3%) and others (20%).[37]

Finally, it should be noted that despite attempts to identify jurisdictions and ports potentially involved in reported suspicions, this was not possible due to that 41% of reports being related to fictitious documents and 61% possibly related to phantom shipments. Furthermore, as per the examined supporting documents (e.g., International Maritime Bureau (IMB) results) and discussion with different reporting entities, the reporting entities might receive a negative result on shipments although other trade documents might indicate the actual shipping, thus a percentage of the indicated phantom shipments are up to interpretation and investigation results.

6. HIGH-RISK ITEMS AND SECTORS

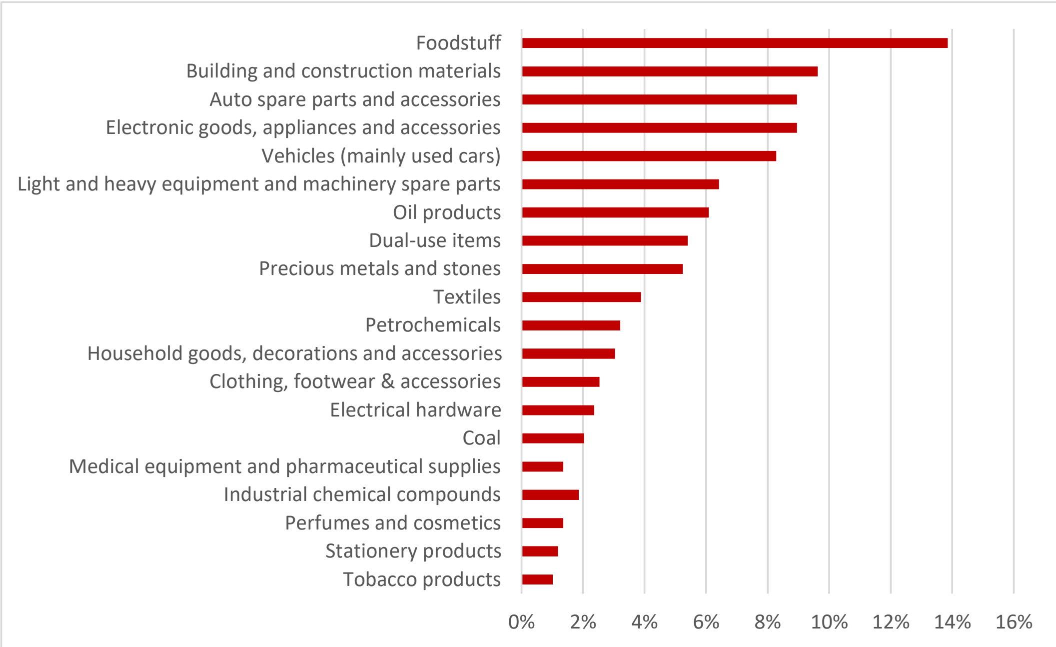
The UAEFIU identified all items involved in reported STRs/SARs and associated trade documents. **Chart 3** illustrates the top involved items in TBML-related transactions, with **foodstuff, representing**

[36] A reporting entity might select more than RFR(s). These RFRs reflect the count of mentions, not the number of reports.

[37] Reports coded as 'others' are reports wherein TBML concerns were not clearly established, mainly due to insufficient documentation. In other instances, there was manipulation of supporting documents (other than invoices), i.e. contracts and transportation documents. These are in addition to other reports that were found mainly relevant to sanction circumvention rather than direct TBML.

14% of total examined goods (specifically rice, followed by nuts, seeds, fruits, and peas), followed by goods relevant to **building and construction materials (10%), auto spare parts and accessories with (9%), and electronic goods, appliances and accessories with (9%)** (including mobile phones, computers, household appliances).

Chart 3: Top items involved in suspected transactions



The following requires the close attention of reporting entities:

6.1. Dual-Use Items

The dual-use items on the list of high-priority items published by international authorities included electric accumulators, communication apparatus, electrical static converters, insulated electric conductors, etc. Other dual-use items were noted while the necessary documents or permits from The Executive Office for Control and Non-Proliferation (EOCN) for conducting such trade were not provided to the reporting entities. Funds received against the trade of dual-use items were noted to be mainly dissipated in smaller transfers in favor of accounts domiciled in a foreign jurisdiction or eventually routed out to the same country of origin of the funds.

6.2. Misuse of Precious Metals and Stones (PMS) in TBML

In a previous strategic analysis report on Dealers in Precious Metals and Stones (DPMS) issued by the UAEFIU in 2022, it was perceived that DPMS entities could be established as 'front' or 'shell' entities to transfer/move illegal proceeds through the financial system in the UAE disguised as trade-based transactions. While said pattern remains the same, it was also noted that PMS could be used in TBML schemes involving price manipulation or false invoicing to conceal a fictitious trade between the buyer and seller. Several of the relevant reports reviewed indicated that the source of funds tied with this scheme might be generated from fraud. Another scenario implied the possible use of PMS as an alternative currency to purchase restricted goods.

6.3. Vehicles as an Emerging Potential Risk

Vehicles (mainly used) emerged as a new concern that had not been illustrated in previous typology reports in such a volume, representing 8% of the total reports.

7. IDENTIFIED TYPOLOGIES AND PATTERNS

This section describes the identified TBML methods and techniques and provides crucial insights to assist reporting entities and other stakeholders in anticipating potential risks/scenarios related to TBML.

7.1. The Potential Source of Funds Associated with TBML Techniques

Identifying the potential source of funds associated with the analyzed TBML-related SARs/STRs was challenging and could not be established in most cases. However, in some reports where the subject of the STR/SAR was linked to either adverse media or with other data available in the UAEFIU's databases, the analysis suggested a connection with predicate offences such as fraud, tax evasion, and drug trafficking. These findings were consistent with findings of the survey circulated to law enforcement authorities.

In particular, different suspicious reports connected the source of funds to well-known fraud scandals. Such links were established during the analysis based on the relationship of common natural and legal persons who might be colluding or working as a network. For example, some subject legal persons were 'trade actors' in other suspicious reports. The use of such actors was noted to be associated in some cases with a structured network of companies (linked to organized crime groups) acting across multiple jurisdictions using invoices that mostly appeared to address customers/entities located in different countries.

7.2. Trade-Based Money Laundering Methods and Techniques

7.2.1. Fictitious Trade Documents

Fictitious documents were used in **41% of the reports** during the examined period. This technique overlapped with the other methods indicated in this section. While techniques used in fabricating or altering trading documents (e.g., bill of lading (B/L),[38] invoices, and delivery notes) varied, the following were commonly observed which challenged the verification of trading details:

- **Possible fictitious shipment documents**

1. Phantom shipments that do not take place or anchor in any of the ports mentioned in the B/L.
2. Alteration in the name of the port of loading or discharge to conceal the actual origin or destination of goods.
3. Unknown country of origin.
4. Altered shipment date.
5. Missing or altered container number.
6. Incorrect description of goods shipped. While there were different scenarios in terms of techniques used in falsely describing item details in the B/L, including quantity, weight, or quality, these occurred mostly for items with high variation value (e.g., used cars, furniture).

- **Possible fictitious invoices**

1. The address details of the trading party on the invoice were different from the company website.
2. A trading party has a line of business (as per public domain) inconsistent with the items indicated in the invoice.
3. Name or address of a trading party that has no presence in the public domain.
4. The contact number of a trading company that has a different country code than its location.
5. The sequence of invoices does not reflect or show a proper order with the corresponding date.
6. The invoice date does not match the payment/transfer date.
7. The invoice date is irrelevant to the dates mentioned/due in the trade document.
8. Multiple invoices that appear to be identical (e.g., same format and font or having the same address) but the names of the seller and buyer are changed.
9. No company stamps or signatures on any of the involved trading party in the invoices.
10. The quantity of items remains the same for all invoices.
11. Spelling mistakes.

[38] Bill of Lading is "a document issued by a carrier, or its agent, to acknowledge receipt of cargo for shipment" (The Global Coalition to Fight Financial Crime (2022), p.19).

12. The payment amount differs from the amount in invoices or trade documents/agreements.
13. Payment is conducted in a currency that is inconsistent with the indicated currency in the invoice.
14. The invoice is addressed to another party rather than the party receiving the payment.
15. The invoice is addressed to the party that is the beneficiary of funds instead of being the payer/remitter of funds.

7.2.2. Phantom Shipments

Most examined STRs used phantom shipments combined with fabrications, alteration in the provided trade/shipping documents, or negative verification results on shipment details. **Phantom shipments were possibly used in 61% of the TBML-related suspicious reports**.

Some reports indicated discrepancies between the invoices and the B/L which raised doubts about the genuineness of the documents, and uncertainties on whether the shipment had occurred. In other instances, there was possible fabrication of shipping documents (counterfeited). Other reports related to ghost-shipping highlighted potential collusion between the importer and exporter in fabricating the trade documents to indicate that goods were sold and shipped.

In a few reports, phantom shipments were associated with fraud or forgery. For instance, entities submitted fraudulent contract agreements, invoices, or shipping documents to obtain 'trade finance' facilities from a financial institution (FI) but no such commodities were shipped between parties, eventually resulting in financial losses.

In terms of transactional patterns relevant to phantom shipment, in most cases, trading transactions were frequently conducted through wire transfers/remittances, followed by the misuse of the letter of credit and documentary collections. Phantom shipment was potentially used to support the high volume of domestic and foreign wire transfers with different local and overseas counterparties. This transactional pattern significantly exceeded the anticipated account turnover with no economic or business rationale.

7.2.3. Manipulation and Misrepresentation of Invoices

"*Anything that can be priced can be mispriced*" (Raymond Baker, financial crime expert).[39] Within the context of TBML, manipulation of invoices through over or under-pricing mainly aims to move funds in or out of a financial system. In other words, **to move the funds out,** criminals would either import

[39] Baker, R. (2005) Capitalism's Achilles Heel – dirty Money and How to Renew the Free-Market System, p.134. London: John Wiley.

overpriced commodities or export undervalued goods, whereas **to move funds in**, criminals would import undervalued commodities or export overpriced goods. [40]

Manipulation and misrepresentation of invoices, whether through manipulation of the invoice value or by using the invoice multiple times, occurred in **11% of the STRs examined in this report**, including the following:

- **Over-invoicing of Goods**

Over-invoicing of goods refers to value transfer or movement of funds through deliberately stating a higher value of a commodity than its actual market price.[41]

The analysis underlined the collusion of trade parties by falsifying the prices of commodities but the seller and buyer were not always the only colluding parties. For example, a domestic entity acting as a trade broker would be in charge of manipulating the invoices, invoicing a company located in a foreign jurisdiction (buyer) so that the foreign entity would send a corresponding amount to the domestic entity (trade broker), part of which is transferred to the seller. The overvalued amount was parked in the domestic account or further paid as a commission to colluding parties or transferred to another foreign jurisdiction for further layering.

In other instances, suspected subjects were noted to be trading with shell entities with no public domain presence or entities that have different lines of business (e.g., a clothing company heavily trading with a company licensed for electronic or spare parts trade). In such cases, variation in traded items was noted, particularly in comparison to the customer's line of business.

It should be noted, however, that over-invoicing may also be used for tax purposes where countries offer corporates some incentives on their overseas exports.

- **Under-invoicing of Goods**

Similar to over-invoicing, the exporter ships the commodity to the importer while the importer sells it in the market at a price higher than the amount in the invoice. [42]

In many STRs, under-invoicing involved deliberate collusion between trade parties to move illicit funds through the manipulation of goods value. In some instances, prices in popular retail stores were utilized with a noted standard deduction in all items in all invoices. Furthermore, different examined trade documents highlighted discrepancies between goods' value and documents relevant to

[40] Cassara, J. (2016) The next frontier in international money laundering enforcement: trade-based money laundering, p.17. Hoboken: John Wiley.

[41] Trade-Based Money Laundering (no date). Simmons & Simmons. Available at: https://files.simmons-simmons.com/api/get-asset/Trade_based_money_laundering.pdf?id=bltf46079bfc4e90532

[42] Simmons & Simmons.

customs clearance, suggesting a potential evasion of customs duties on imported goods. Within this context, it should be noted that under-invoicing could also be used to evade custom tariffs or taxes by reducing corporate income tax liability.

- **Multiple Invoicing**

This technique describes the use of the same invoice more than once for the same trade transaction to justify multiple payments or for invoice discounting facility (trade finance).

This technique was also combined with the fabrication of the B/L or the absence of trade documents. The transactional pattern involved a high volume of wire transfers and cash deposits, of which the transaction date did not coincide with the invoice(s) date. Another observed method is when an entity (seller) approaches a financial institution for receivables discounting/invoice discounting based on the contractual agreement between the buyer and seller.

Lastly, a few cases revealed the use of old invoices to justify remittances to other entities, claiming such payments to be settlements for previously pending contracts with suppliers.

7.2.4. Falsely Described Goods

This technique represented 5% of the examined STRs in this report. This mainly involved the misrepresentation of goods' quality or condition or differences between indicated items in the invoices and those agreed in related trade documents. Fabrication and alteration of invoices and manipulation of trade documents were also common, for example, modification or alteration in the quantity indicated in the supporting trade documents.

Furthermore, this technique involved counterparties in different lines of business or a customer trading in goods that are not consistent with its line of business or licensed activities. Overall, this involved different payment modes but commonly indicated a higher turnover than that declared according to KYC records.

7.2.5. Over or Under-shipment of Goods

This technique was observed in the examined STRs through previously indicated methods, either through an identified mismatch between the quantity of goods in the invoice and the quantity indicated in shipment documents or through phantom shipment where no goods were shipped at all.

7.2.6. Third-port Shipment

The employment of cross-trade or third-port shipment[43] was noted in which the invoices were addressed to a company but the consignee was a different company or the receipt of the payment was not the notified party in the B/L. The goods might have been shipped from the manufacturer, retailer, or wholesaler to the buyer to avoid/reduce freight costs, duty costs, and taxes associated with initially importing the product. Such a conclusion is subject to investigation

The transactional activity of such scenarios showed abnormal account activities, a sudden spike in turnover, and high-value remittances from/to specifically limited counterparties. Moreover, negative media reports or information associated with the counterparties illustrated other trade-related concerns such as the involvement of unlicensed hawala or shell entities.

7.2.7. The Misuse of a Letter of Credit (L/C)

The misuse of L/C remains common in TBML schemes. While the UAEFIU's previous report on TBML issued in 2021 underlined the use of back-to-back credit, the use of L/C as a settlement emerged in the examined STRs. This involved the use of a corporate account to receive credit with L/C settlement in foreign currency, followed by the transfer of the same amount to another corporate account opened in local currency within the same institution. Then, the amount is layered through multiple financial institutions in the UAE. No business-related transactions, such as payments for suppliers or expenses, were noted in the account. At the same time, adverse media on the subject indicated the possible use of this scheme to reimburse VAT from foreign authorities and evade sanctions.

7.3. Trade Parties and Subject's Role

The UAEFIU examined subjects of suspicious reports within the context of their potential role indicated in the trade supporting documents, showing that **31% of the reports involved subjects who were identified as an exporter, 27% were importers, 25% were trade brokers** or who acted as intermediaries, and 6% were relevant to the trader (whether seller or buyer based on the checked invoices). The remaining had other unclear or different roles e.g., the beneficiary of payments claimed under trade purposes, or an unknown role due to the lack of relevant trade documents. Furthermore, the examination of suspect transactions and trade documents illustrated the involvement of the following as trade parties in the reported STRs/SARs:

[43] Cross-trade refers to the shipment of commodities between two countries different than the country where the seller is located, while third-port shipment involves shipment through a third country port (e.g., transshipped).

7.3.1. Front and Shell Legal Persons

The analysis illustrated the possibility of using front/shell entities' bank accounts to move suspected funds associated with different TBML typologies. In some incidents, there was the potential establishment of a network of entities (e.g., with the same owner or frequent beneficiary), whereas, in others, transactions were associated with foreign entities in different countries across Europe, Africa, and the Middle East and North Africa (MENA) region. Establishing a local entity as a third party on behalf of the foreign entity or the end user of goods was also used to facilitate invoice settlement without showing any business transactions. Overall, the analysis indicated the involvement of shell and front entities and suggested the deliberate formation of entities with complex ownership structures (e.g., limited or affiliated companies) to conceal the identification of the ultimate beneficial owners.

7.3.2. Involvement of Individuals

In a few incidents, Individual accounts were involved in different TBML schemes, commonly through overseas inward or outward remittances, multiple cash deposits/withdrawals and transactions with third parties claimed to be trade-related. In most cases, the source of funds and the submitted trade documents could not be substantiated, while the relationship between the remitter and beneficiary remained unknown. In other instances, the personal account acted on behalf of a sanctioned entity with high-value cheque deposits from various entities followed by immediate cash withdrawals leaving the account with a low balance, while the minimum remaining balances were spent for personal expenses.

7.3.3. Third-party

Payments through third parties were mostly recognized where the relationship of some subjects of STRs could not be established either due to the lack of supporting documents or when the recipient or the sender of a fund could not be ascertained in the available trade documents (e.g., B/L and invoices). These are in addition to incidents relevant to when the subject's role was associated with a third-port shipment.

7.4. Other Trade-Based Financial Crime and Typologies

7.4.1. Service-Based Money Laundering (SBML)

While this study methodology excluded ML based on services due to its distinctive nature, there were few STRs involving service providers. In such cases, a potential link was established with the involvement of dual-use items (e.g., software codes and application). This involved fabricating invoices along with customer hesitation to provide sufficient dealing documents and information, combined with a high volume of cash deposits and wire transfers.

In other instances, the involvement of ‘consultancy services’ and ‘marketing firms’ were observed wherein the payments received (amount, date, frequency) were inconsistent with the contractual agreement provided by the customer. The transactional pattern observed in such cases was mostly remittances from offshore entities and domestic inter-bank transfers.

It is recommended to perform a separate examination/analysis focusing on potential ML involving ‘trade-in services’.

7.4.2. Trade-Based Terrorist Financing (TBTF)

A few STRs/SARs suggested that TBML techniques were utilized to move the value of suspicious funds potentially relevant to terrorist groups or conflicted zones. The trade transactions involved the UAE as a third-party shipment and the role of the subjects could not be ascertained in the trade documents. The observed method in said STRs indicated the employment of front companies to facilitate the movement of funds, possible phantom shipments, and fabrication of trade documents (e.g., B/L and invoices). For example, the mismatch in dates and weight of cargo and the items involved were goods with a highly variable market price. Said cases were disseminated by the UAEFIU to LEAs for investigation.

7.4.3. Sanction Circumvention

Phantom shipments, combined with undisclosed transshipment of goods and the manipulation of invoices were commonly employed in cases involving sanction circumvention. Within this context, some countries were frequently noted to be named as the destination or transit country instead of the actual one. Moreover, popular domestic ports were mostly used in the fabricated B/L while the shipment was not involved or transited in the UAE.

7.4.4. Unlicensed Hawala

Unlicensed hawala businesses were suspected in different cases where there was a high volume of transactions with an indication of traded goods in the provided invoices. However, the shipment could not be traced through supporting documents to validate the movement of goods, as well as the origin and destination of goods. Within the same context, underground banking through Far East countries as previously identified by the UAEFIU was noted in a few incidents that employed TBML techniques.

7.4.5. Evasion of Taxes or Customs Duties

Data suggested that under-invoicing might have been employed by multinational entities for tax evasion or avoidance by underreporting the value of commodities and thus understating their revenues to reduce the tax obligation. This technique implied misrepresentation of goods' value due to inconsistencies between the values stated in invoices and local customs clearance documents. Such a conclusion is subject to investigation.

8. SURVEY RESULTS – BANKING SECTOR

The UAEFIU circulated a survey of 20 open and closed questions on TBML to domestic and international banks regulated by the Central Bank of the UAE (CBUAE), Dubai Financial Services Authority (DFSA), and Financial Services Regulatory Authority (FSRA). Responses from (40) banks were received and used for the purpose of this report. The survey outcomes were consistent with the roundtable discussions, as well as the UAEFIU analysis of TBML-related STRs/SARs, and underlined the following:

The data illustrated positive results in terms of financial institutions' capacity to investigate TBML-detected cases. Moreover, it underlined that financial institutions have the required specialists or experts dedicated to TBML investigations and receive TBML training on a periodic basis.

Banks were asked what usually triggers TBML investigations and factors that could guide investigators in detecting TBML incidents. Their responses included trade documentation, the nature of goods and/or lines of business, the geographic route and shipment rationale, customer risk profile, transactional pattern and payment risk, and other monitoring triggers (**as shown in Figure 2**).

Trade documentation

- Negative verification result/lack of documents
- Discrepancies in trade documents
- Negative vessel tracking checks/shipment irregularities (e.g., IMB check)
- Abnormality in trade terms
- Freight anomalies/release of document-free payments

Nature of goods/Line of business

- Inconsistency between shipped goods and the customer's line of business
- High-risk goods (e.g., involving dual-use goods)

Geographic route and shipment rational

- Involvement of high-risk jurisdictions/trade corridors
- Involvement of a third port
- Frequency of shipments rationale
- Shipment geographic rationale

Customer Risk Profile

- Customer screening (including counterparties)
- Suspicious counterparties/frequent changes in counterparties
- Adverse media

Transactional pattern/payment Risk

- Abnormal trade transactions
- Abnormal price of goods
- Third-party payments
- Trade finance activities
- Exceeding the trade transaction threshold

Other monitoring factors or investigation triggers

- Post facto basis/AML transaction monitoring
- Red flag alerts
- FIU/Law enforcement requests

Figure 2: TBML triggers reported by the participants

Banks were also asked whether they identified any risk indicators specifically relevant to TBML and they have shared over 130 indicators. These indicators were reviewed by the UAEFIU team and considered with the other risk indicators developed from analysis indicated earlier in this reports. As such, reporting entities are encouraged to review the list of risk indicators included in this report.

Moreover, most respondents were familiar with FATF guidance relevant to TBML and confirmed that the guidance was sufficient.

In responding to the most common attributes of TBML, participants underlined different techniques as shown in **Chart 4**.

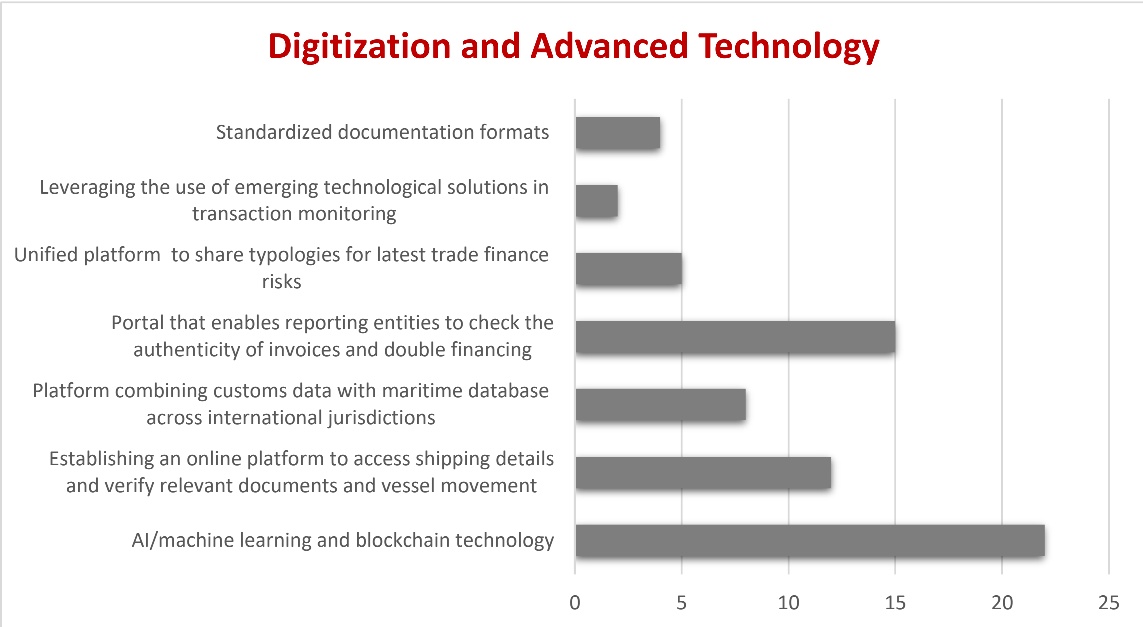
Chart 4: TBML techniques according to the participants

Table 3: Most common goods observed in TBML suspicions as per the participants

	Most Common Goods used in TBML	Number of Respondents
1	Precious metals	22
2	Metal scrap	20
3	Electronic goods	20
4	Bulk Commodities	19
5	Luxury watches	10
6	Counterfeit Products	10
7	Textile materials	10
8	Illicit tobacco products	7
9	coal, oil, and oil products	4
10	Goods where the taxes are high or which are heavily controlled	4
11	Heavy Equipment and Machinery	3
12	Goods Wholesalers /foodstuff	2
13	Used Vehicles	2

Respondents expressed different challenges to identifying TBML incidents. The most frequent challenge was verifying the price of goods and the authenticity of trade and transport documents. Then, dealing with unstandardized global trade documents in different languages was another challenge. Nevertheless, financial institutions also shared different solutions and advanced systems that are utilized to tackle such challenges. Within the same context, 55% of the respondents stressed the importance of new technology in effectively tackling TBML. They emphasized the role of artificial intelligence (AI) and machine-learning techniques to analyze the large volume of trade data and identify patterns and anomalies relevant to illicit trade activities, as well as using blockchain technology for trade documentation and in trade finance transactions (as indicated in **Chart 5**).

Chart 5: Suggested technology and systems by the participants



9. DEVELOPED RISK INDICATORS

The UAEFIU developed a list of risk indicators that are relevant to TBML to guide reporting entities in monitoring, detecting, and reporting suspicious transactional patterns and activities possibly related to TBML. However, it is pertinent to mention that criminal activity cannot explicitly be concluded based on a single indicator, rather a full and proper investigation is required to ascertain such suspicion.

- **Account and transaction activity**

1. A large number of wire transfer transactions with international counterparties without satisfactory justification and reasonable supporting trade documents.

2. Corporate accounts show deposits or withdrawals primarily in cash rather than other instruments commonly used in trade such as cheques or transfers to hide or interrupt the money trail.
3. The transactional pattern and the account activities appear to be transitory with no trading rationale, for example, credits received subsequently debited through international wires.
4. The transactional pattern and account activities are unnecessarily layered and designed to obscure the true origin of funds, especially high-volume transactions that move rapidly.
5. Multiple credits received as "advance payment" in relatively small or round figures, whereas the final payment cannot be linked to any invoices, or the total sum of such payments was greater than the actual invoiced amount.
6. Use of L/C and other methods of trade finance to move money between countries where such trade is not consistent with the client's usual business.
7. Multiple utilization of L/C where payments have been made in advance.
8. L/C is frequently amended or contains unusual clause(s).
9. Vessels calling at high-risk ports during the transaction or a pre-settlement review.
10. Transacting with interlinked accounts (business or personal) while circulation of funds among such accounts ultimately returned to the originating account without any trade rationale or requirement.
11. Unnecessarily routing of funds through personal accounts of individuals associated with the entity in question (BOs, shareholders, signatories, employees, etc.).
12. Complex transaction structure without a clear and legitimate commercial purpose.
13. Payments sent to an entity that is not recognized as a trade party in any of the trade documents (third-party).
14. The involvement of third parties to settle invoices or a payment by the customer to an unrelated party to the trade terms.
15. Payment for imported goods is made by a third party or an entity other than the shipment consignee with no clear commercial reason.
16. A trading party’s name on the invoice is different from the name of the payment beneficiary.
17. The transaction involves sanctioned entities or the transaction route involves high-risk jurisdictions.
18. Transactions in foreign currency just below the threshold amount and claimed to be against provided goods or services without providing any substantial supporting documents, (e.g., trade agreements, service specifications, and invoices).

- **Shipment and goods anomalies**

19. The size of the shipment appears inconsistent with the scale of the exporter or importer’s regular business activities.
20. Goods shipped are not in line with the customer’s line of business.

21. The nature and type of commodity being shipped are designated as dual-use items.
22. Export of controlled goods without licenses.
23. Goods are shipped to or from high-risk jurisdictions.
24. Goods are shipped through a sanctioned vessel.
25. Shipment by road to the neighboring GCC country with forged TCN (Truck Consignment Note).
26. Use of abnormal shipping routes where the shipment is routed through different unreasonable jurisdictions without economic justification.
27. Misrepresentation of the quantity of goods shipped and vessel type and cargo capacity.
28. The Harmonized System (HS) code in invoices cannot be verified through the custom's website.
29. Shipment locations of the goods, shipping terms, or descriptions of the goods are inconsistent with the L/C.
30. The dates listed on the B/L do not coincide with the dates of vessel movement.
31. Significant discrepancies between the description of the goods on a B/L and the invoice or description of the goods on a B/L (or invoice) and the actual goods shipped.
32. Details and descriptions of goods shipped are inconsistent according to the verification records/feedback.
33. Absence of shipping documents or customs clearance documents to substantiate the movement of goods.

- **Difficulty in verification and discrepancies in trade documents**

34. Non-submission of trade documents by the clients for advance payments made to procure the goods.
35. Trade documents provided such as contracts, invoices, or any trade documents have vague or inadequate descriptions of goods.
36. Trade documents appear to be counterfeit with false or misleading information.
37. Resubmission of previously rejected trade documents or frequently modified.
38. The authenticity and verification of provided documents could not be ascertained, or wherein negative verification results/feedback were established especially on shipping documents (e.g. B/L).
39. Discrepancies in the transmission details/information stated in the trade document, especially the B/Ls (e.g. the destination/port of loading/port of discharge).
40. Amounts, values, and quantities indicated in the trade documents or invoices are inconsistent with the custom clearance documents.
41. The certificate of origin submitted by the client does not match the certificate retrieved from the Chamber of Commerce's website.

42. The invoices, agreements, or other trade documents submitted are in a similar format and are designed and stamped by the trade parties (buyer/seller) in an exactly typical way.
43. Significant discrepancies appear between the value of the commodity reported on the invoice and the commodity's fair market value.
44. Trade party or invoice date are irrelevant in comparison to the obtained trade document.
45. The quantity of items remains the same in each invoice despite the difference in goods.
46. Purchase invoices were issued on the customer's letterhead instead of the seller's.
47. Multiple invoices issued in the same typical amount while details of the product types and quantity differ.
48. The provided documents/invoices by the customer demonstrate overall inconsistent information and discrepancies.
49. Irregularities in the trade documents (e.g. several invoices have the same description of goods, no quantity of goods or unit price is mentioned, no VAT account appears on invoices, common addresses used for different entities, documents unsigned or stamped, dates do not match with other contractual dates, etc.).
50. Lack of supporting documents or shipping documents to substantiate the purpose of the transactions.

- **Customer's and counterparty's characteristics**

51. An entity or its counterparty has a peculiar, unreasonable, complex structure that involves multiple and complicated ownership layers, especially when offshore or foreign entities are also part of the said structure, combined with difficulties in identifying the BOs.
52. An entity suspected to be set up as a shell with no adequate presence nor actual business activity recognized with the suspected primary purpose of hiding the BO or facilitating the circulation of funds.
53. Concentration of transactions with very few counterparties.
54. Frequent change in trade parties without a clear business reason.
55. L/Cs issued between related parties.
56. The entity or any of the counterparties' or their director(s), controlling shareholder(s), and/or beneficial owner(s) have been the subject of adverse news from a trusted media source.
57. Unavailability of information about counterparties in trade transactions in the public domain.
58. A legal entity or any of the counterparties' director(s), controlling shareholder(s), and/or beneficial owner(s) or any of its counterparties who has a nexus to a prominently high-risk and/or sanctioned jurisdiction that is considered to pose a high risk of money laundering or terrorist financing.

59. Collaboration of a group of entities in different lines of business and diversified (but not linked) activities that are all commonly controlled or registered under the same/repeated shareholder, signatory, or BO(s) name.
60. Using common or the same addresses and locations by the trading parties (e.g. the supplier's P.O. Box number is the same as the client /buyer).
61. The customer or parties have suspicious addresses/operating from the business center.
62. The company or its counterparty (supplier and buyer) does not have an official corporate email address/presence in the public domain.
63. The company's owner or any of its controlling persons (signatory, shareholder, and employee) is sponsored on their residence visa by one of the trading parties in the invoices.
64. A customer who requested multiple amendments in the trade finance facility (e.g., payment terms and value) with inadequate clarification or documentation to justify the request.
65. The trading counterparty is newly established and has a different line of business.
66. The trading counterparty is owned by the same beneficiary of the company subject to suspicion or their relatives.
67. A trading party offers to pay unusually high fees to the bank.

10. CASE EXAMPLES

Case Example 1: Manipulation of Invoices (Import / Export of Foodstuff)

The UAEFIU received suspicious reports against **Company (X) and its beneficial owner Subject (A). Company (X)**, a General Trading entity, incorporated on the mainland had multiple accounts in different currencies (AED, USD, EUR) with Bank (A).

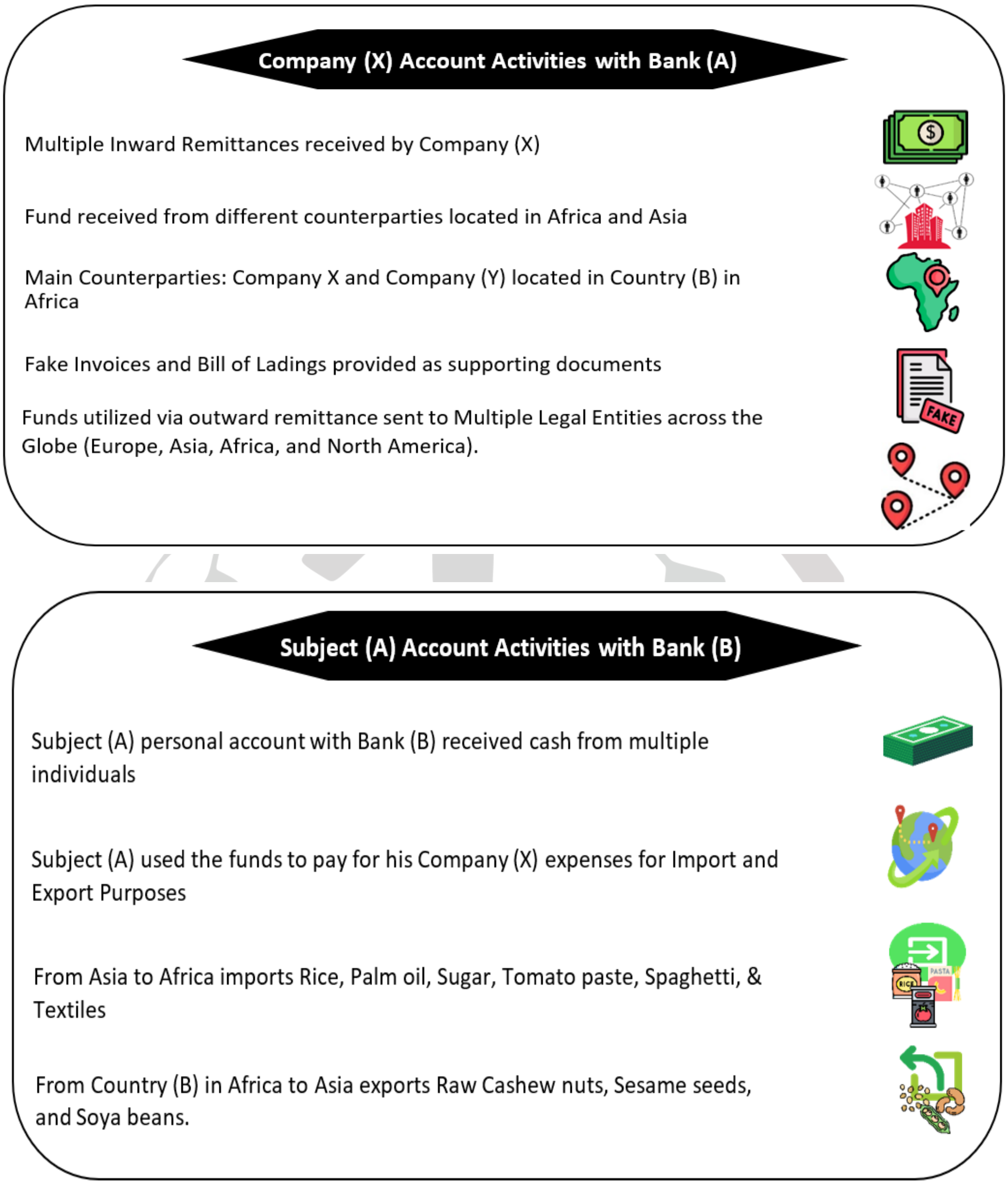
Company (X)'s account with Bank (A) was credited via multiple inward remittances received from countries in Asia and Africa, mainly from **Company (Y)** located in **Country (B)** in Africa. Subsequently, funds were utilized via outward remittance sent to multiple suppliers primarily judicial accounts located in Europe, Asia, Africa, and North America. Company (X) provided B/L(s) which were found to be fabricated and altered, and invoices showed price discrepancies. The company failed to provide any reasonable justification to support its transactions.

Simultaneously, Subject (A)'s personal account with Bank (B) witnessed significant cash deposits followed by inward clearing cheques. Subject (A) stated that these payments were used to manage Company (X) expenses (import and export). Company X was engaged in importing 'foodstuff' and textiles from countries located in Asia to African continents including Country (B), as well as exporting other foodstuff commodities from countries in Africa including Country (B) to Asia. Nevertheless, the provided justification regarding the source of cash did not ascertain the actual source.

Ultimately, the UAEFIU disseminated the case to the LEA with concerns related to TBML using forged bills of lading and tampered invoices.

Red Flags:

- Account turnover significantly exceeding the declared amount;
- Misrepresentation/fabrication of documents; apparently counterfeited invoices;
- Invoice amounts do not match the payments;
- Invoices addressed to different individuals instead of entities;
- High transactional activities not substantiated by genuine business documents;
- Temporary repository of funds;
- Use of personal account for business-related activities;
- Legitimate origin of the initial source of funds; economic rationale behind transactions;
- The ultimate utilization of the funds could not be ascertained;
- No public presence of Company X in open sources and the public domain.



<u>Figure 3:</u> Manipulation of Invoices (Import / Export of Foodstuff)

<u>Case example 2:</u> Manipulation of prices and customs documents

The UAEFIU received two STRs from an exchange house and a bank on **Company (A)** and its owner **Subject (A)**. Company A is a Limited Liability Company (LLC) established on the mainland with a general trading line of business. The company was suspected of price manipulation of goods, while Subject A's personal account witnessed unusual account movement, a lack of supporting evidence, and an unknown source of cash deposits. Other observations noted were relevant to the use of 'Open Account' payments in addition to misleading descriptions of goods/items in the invoices.

Company A was funded by significant deposits through Automated Teller Machines (ATMs), domestic remittances from companies located in UAE, cheque deposits primarily from general trading companies, and international remittances from multiple entities in different countries. These are in addition to remittances received from Subject A's personal account (which was found to be funded mainly by ATM cash deposits made from different locations). The utilization of the funds was in different forms but mostly as cashed-in cheques. Furthermore, Company A conducted outward remittances through exchange houses favoring a company in Country A.

Invoices and custom clearance documents submitted to reporting entities had obvious discrepancies in the prices of goods, in which the custom documents showed a 33% underpricing of the involved goods than the actual market price, as well as over-pricing in other invoices.

While under-invoicing could suggest avoidance of customs duties or TBML, the manipulation of prices using both techniques of under and over-invoicing suggested the company's attempts to move money in and out of the UAE. The UAEFIU sent a request for information to relevant counterpart FIUs and disseminated the case to LEAs for further investigations.

<u>Red Flags:</u>

- Discrepancies in invoices and customer clearance documents;
- Unknown source of ATM cash deposits;
- Unknown source of wealth in the personal account due to a lack of supporting evidence;
- Under/over-invoicing of goods;
- Excessive usage of cashed-in cheques.

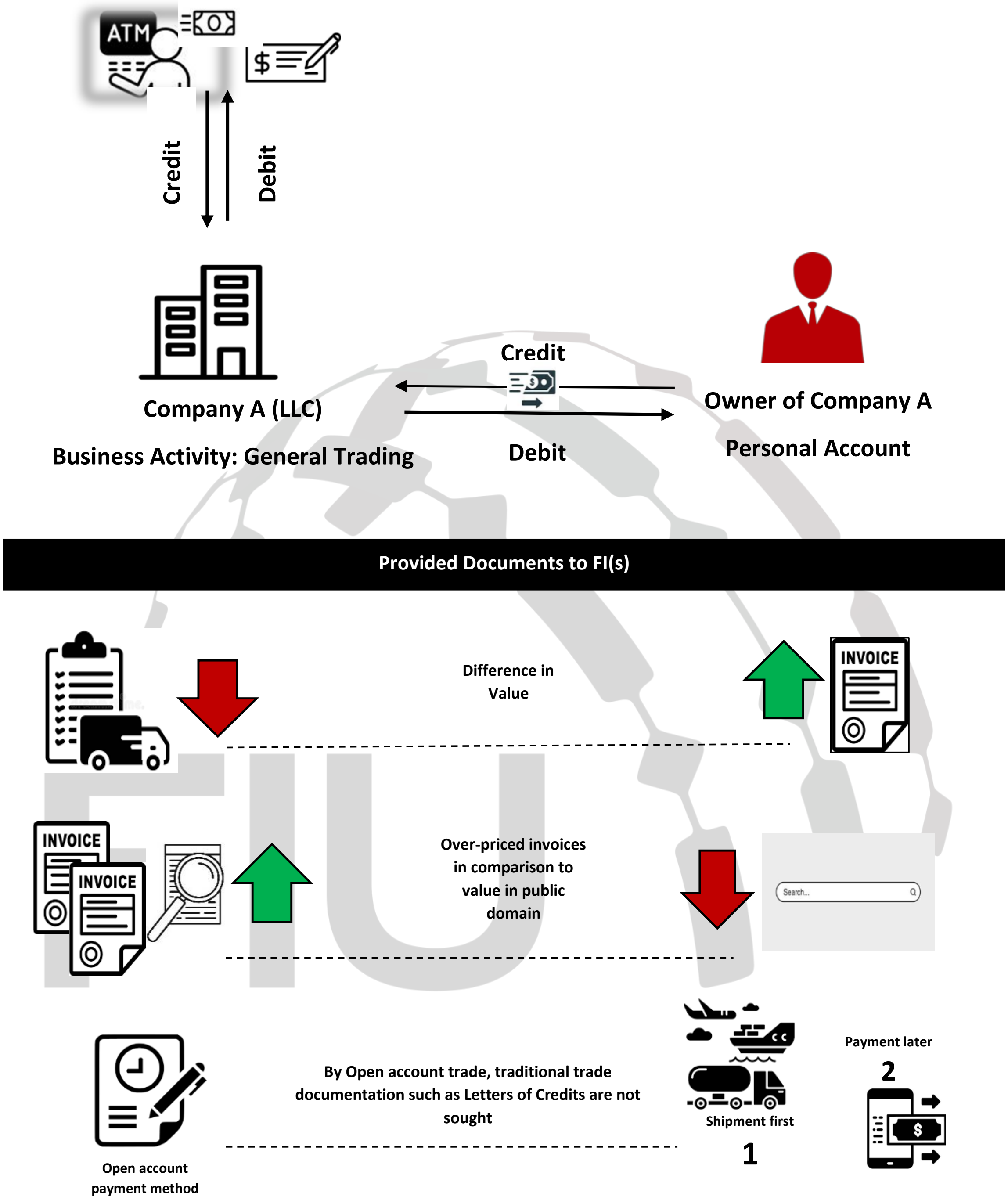


Figure 4: Manipulation of prices and customs documents

<u>Case example 3:</u> Possible involvement of unlicensed 'hawala' in TBML

UAEFIU received several STRs from local Banks in the UAE against **Company A**, an LLC owned by **Subject J**, a national from **Country X** in Asia. Company A was established on the mainland for the business activity of trading household appliances, electronics, mobile phones, and related accessories trading. Company A was reported to the UAEFIU due to receiving funds from multiple domestic counterparties and further transferring large volumes of money to international counterparties (Asian countries) as well as other domestic counterparties within the UAE. The funds were transferred through different financial institutions, while the beneficiary entities were in different lines of business.

During the analysis, Company A was suspected to be involved in fictitious trade with **Company B** (Free Zone entity) and **Company C** (established on the mainland). Reviewing of supporting documents implied collusion between the companies whereby they provided falsely described trade documents as well as no invoices. Ultimately, it was suspected that Company A was possibly acting as an unlicensed hawala employing TBML techniques and front/shell companies. The pattern observed in this case was also similar to the Far-East typology (previously identified by the UAEFIU) which involved using front companies to move unknown sources of funds through Asian countries.

Consequently, the case was disseminated to the LEA for further investigation and on which, the feedback received indicated concerns related to TBML.

<u>Red flags:</u>

- Unknown source of funds;
- The relationship between the main subject and beneficiaries in Country X remain unclear;
- No economic rationale for the high turnover of the subject, which is not in line with declared KYC;
- Subject entity dealing with entities in different lines of business;
- Customer failed to provide relevant documentary evidence to substantiate the account transactions;
- Subject's account seems to be used for facilitating third-party transactions;
- Rotating money across their accounts (funnel account);
- Suspicion of unlicensed hawala activities.

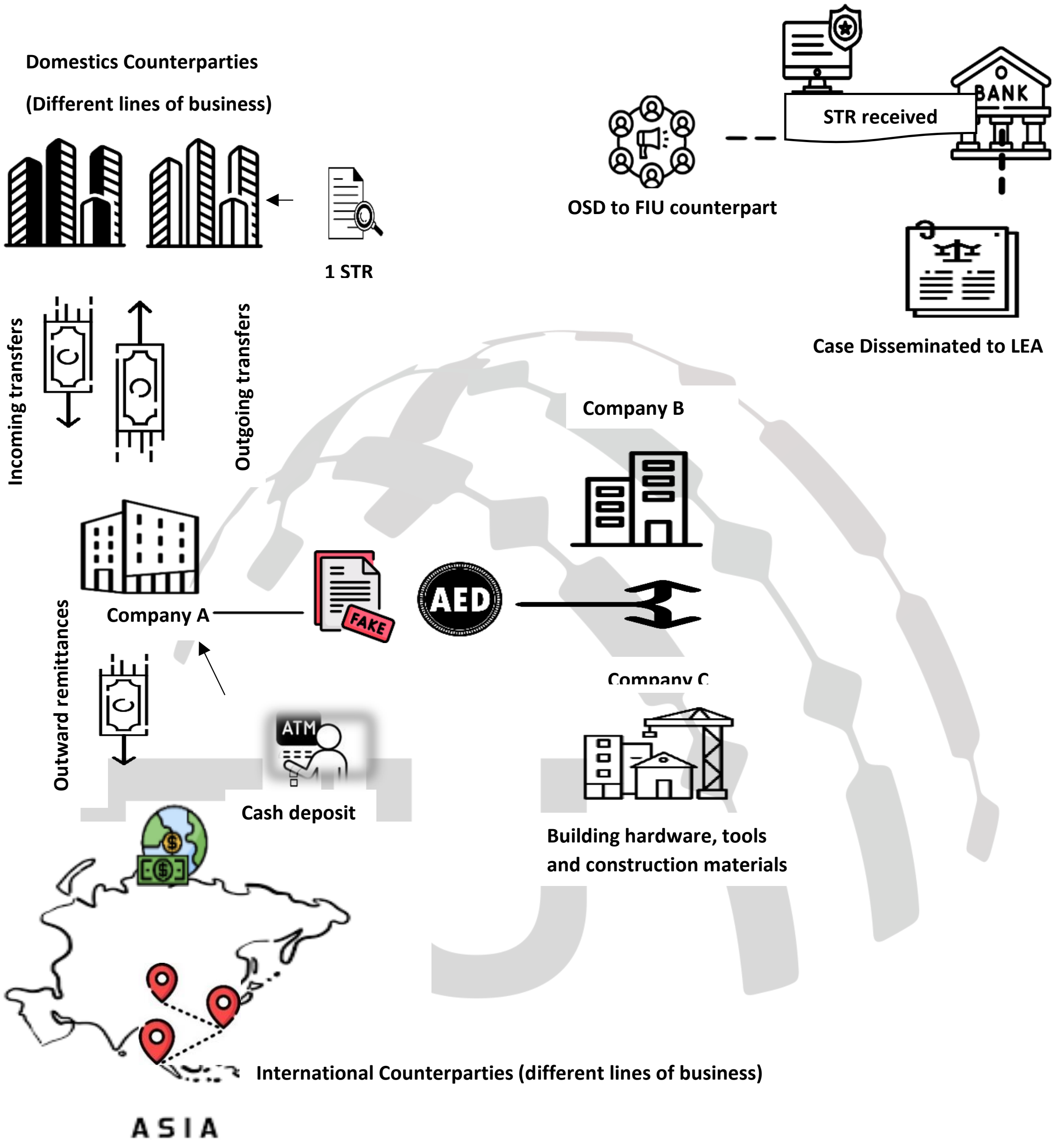


Figure 5: Possible involvement of unlicensed 'hawala' in TBML

Case example 4: Involvement of shell entities and possible fabrication of invoices and B/L

The UAEFIU received STRs concerning two companies, A and B, both LLCs operating within a local free zone. **Company A** was licensed for wholesaling agricultural raw materials, live animals, as well as food and beverages. **Company B** was licensed to trade foodstuff and beverages. Both companies were owned by **Subject H** from Country D and their accounts exceeded the anticipated activities according to the KYC records.

Company A's account is mainly credited by receiving funds from companies abroad, and then funds were sent to domestic and international companies through wire transfers, while Company B's account showed credits mostly as international inward remittances that were further debited through transfers to companies located domestically.

Subject H submitted suspected fabricated documents to the reporting entity concerning Company A. The invoices and bills of lading implied possible fabrication and inconsistencies between the amounts stated and the actual transactions. Moreover, other concerns were raised on the relationship of the parties involved.

The case implied the involvement of shell companies and the abuse of bank accounts as pass-through while employing TBML techniques including false invoices, fabrication of BLs and other trade documents. Consequently, the UAEFIU sent an OSD to Country D's FIU regarding Subject H and disseminated the case to LEA for further investigations.

Red flags:

- Rapid movement of funds observed in contrast to declared KYC information;
- False invoices and fabricated BLs and other documents submitted by the customer;
- Inconsistencies in the actual trade activities and business model;
- Account activity observed with unrelated business counterparties.

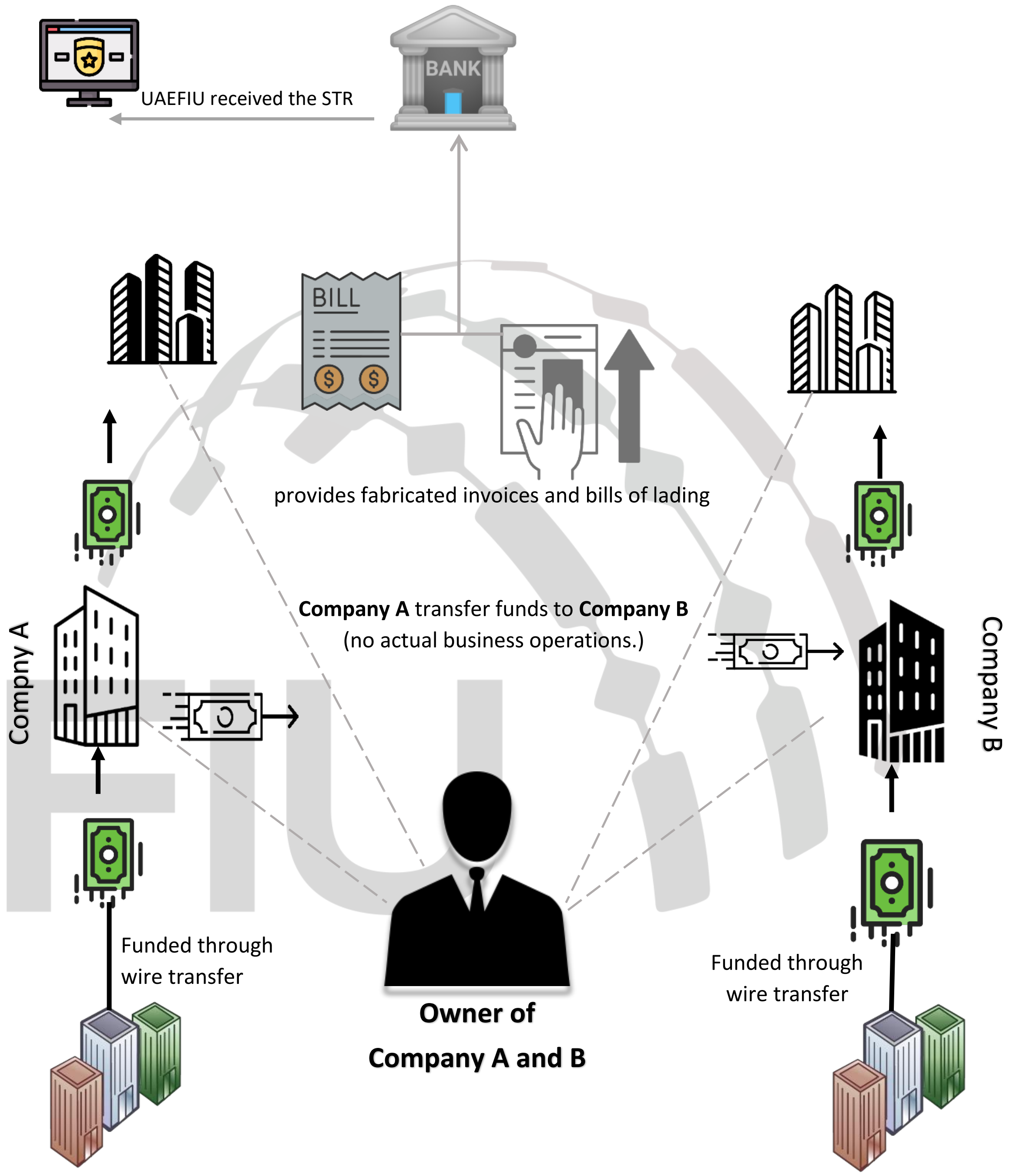


Figure 6: Involvement of shell entities and possible fabrication of invoices and B/L

11. CONCLUSION

This report identified different typologies and patterns related to TBML, highlighting different scenarios and case examples, and providing an understanding of trade finance products and how they could be misused in TBML. The report findings highlight the association of TBML with different trade-based crimes and concerns such as tax evasion, fraud, sanctions circumvention, and violation of customs duties.

Moreover, the UAEFIU underlined high-risk items involved in TBML-related STRs reported from 01/01/2022 to 31/12/2023 and impacted sectors, as well as the identified trade parties' roles in reported STRs/SARs, highlighting areas of potential risks that require further close monitoring and mitigation measures by both public and private authorities.

The UAEFIU developed a list of risk indicators for the consideration of reporting entities in detecting TBML transactional patterns and activities, as well as public authorities in their risk-based approach, inspection, and investigation. It is recommended that reporting entities update their risk indicators and monitoring systems accordingly, taking into consideration the previous strategic analysis report issued by the UAEFIU in 2021.

Lastly, the UAEFIU stress the importance of the following recommendations to tackle the complexity of TBML effectively:

1. Continuity of raising awareness about TBML at different levels.
2. Capacity building and dedicated training programs in TBML as well as trade finance are crucial to enhance the ability to identify TBML techniques and risks.
3. As suggested by the data utilized in this report, new technology such as blockchain and AI could potentially address most of the challenges encountered in the verification of documents and prices, as well as analyze financial and trade data, and detect TBML patterns.
4. Reporting entities are strongly urged to identify the beneficial owners relevant to suspicious funds, differentiating between the beneficial owner and shareholder in their STRs format and indicating where the identification of the beneficial owner was obscured.
5. Reporting entities from the insurance sector, as well as DNFBP sectors such as accountants and auditors and DPMS are encouraged to enhance their engagement with the UAEFIU reporting system in terms of TBML-related suspicions.
6. Reporting entities are also urged to ensure the availability and adequacy of all relevant trade details related to the reported suspicion and supporting documents.