U.S. Customs and Border Protection

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CTPAT's Warning Indicators for Trade Based Money Laundering and Terrorist Financing

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As part of their risk assessment and business partner requirements, Customs Trade Partnership Against Terrorism (CTPAT) Members must have a written, risk based process for screening new business partners and for monitoring current partners. Factors that must be included in this process are checks on the financial soundness of the business and activity related to money laundering and terrorist funding -and how to deter/mitigate these activities. There is marked overlap between money laundering and terrorist financing, as both criminals and terrorists use similar methods to raise, store, and move funds. The following indicators of potential trade-based money laundering (TBML) and terrorist financing activities may be used by CTPAT Members as part of their screening and monitoring process.

Additional analysis may be necessary to determine if one of the activities described below may support a criminal act. CTPAT Members should (CTPAT Exporters must) research information available through other entities, such as a financial institution; the U.S. Department of Treasury, Office of Foreign Asset Control; the U.S. Department of Commerce, Bureau of Industry and Security; and the U.S. Department of State, Directorate of Defense Trade Controls. Another source of information is the Financial Action Task Force (FATF), an inter-governmental body established in 1989 whose objectives are to set standards and promote effective implementation of legal, regulatory, and operational measures for combating money laundering and terrorist financing threats. Specific to TBML, Members should also consult Immigration and Customs Enforcement's (ICE) Trade Transparency Unit's website, www.ice.gov/trade-transparency.

It is important to remember that no one activity by itself is a clear indication of TBML or terrorism financing activity. A single indicator on its own may be insignificant, but combined with other indicators, CTPAT Members could have reasonable grounds to suspect that the transaction or business partner is part of an illegal activity.

TBML – It occurs when criminals use the international trade system to disguise illicit proceeds by altering Customs and banking paperwork to make transactions appear legitimate. These proceeds are then used to finance additional criminal activity, which may include funding terrorist activities or organizations.

Warning Indicators – Circumstances that should alert an individual that illegal or improper conduct is likely to occur and, therefore, requires further inquiry.

Reporting Suspicious Activities

CTPAT Members may report suspicious activity related to TBML and terrorism financing by:

- ✓ Contacting your local ICE office www.ice.gov/contact/field-offices
- ✓ E-mailing ICE at ReportTBML@ice.dhs.gov
- ✓ Calling toll free 1-866-DHS-2423

CTPAT Key Warning Indicators

The following is a non-exhaustive list. Based on risk, CTPAT Members should take into account those indicators most applicable to the functions that they perform in the supply chain. Additionally, CTPAT Members should consider the subsequent Supplementary Warning Indicators, which include specific indicators related to Business Partners, Documentation, and Transactions.

1. **Receipt of Cash**: The transaction involves the receipt of cash (or other payments like wire transfers, checks, bank drafts or postal money orders) from unrelated third party entities or an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of the goods (not identified in the original letter of credit or other documentation). This may be done to obscure the true origin of the funds (e.g. Wires where no apparent business relationship appears to exist between the originator and the beneficiary). Each person engaged in a trade or business who, in the course of that trade or business, receives more than $10,000 in cash in one transaction or in two or more related transactions, must file a Financial Crimes Enforcement Network (FinCEN) Form 8300: *Report of Cash Payments Over $10,000 Received in a Trade or Business*. FinCEN is part of the U.S. Department of the Treasury. Its mission is to safeguard the financial system from illicit use, and combat money laundering and promote National security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

2. **Incorrect Pricing**: Obvious over or undervaluation or pricing of goods. Significant discrepancies appear between the value of the goods reported on the bill of lading or invoice and the known fair market value of the goods. In a trade context, where goods are highly overvalued, the importer could be moving funds out of its country. Conversely, where the goods are highly undervalued, the exporter could be moving funds out of its country. The misrepresentation may also be in relation to or type or grade of the goods. For example, a relatively inexpensive good is supplied but it is invoiced as being more expensive, of different quality, or even as an entirely different item so the documentation does not accurately record what is actually supplied.

Graphics depicting two common TBML schemes: Overvaluation (left) and undervaluation (right).
Source: ICE – Trade Transparency Unit

3. **Goods Discrepancies**: Significant discrepancies appear between the description of the goods on the bill of lading or invoice and the actual goods shipped -e.g. quantities, weights, and type of goods.

Graphics depicting a "false invoicing" scheme.
Source: ICE – Trade Transparency Unit

4. **Lack of Purpose or Justification**: The transaction involves the use of front or shell companies without a clear and legitimate commercial purpose or some reasonable justification. These types of companies are used to hiding money laundering activity and the identities of individuals involved so as to obscure the money trail. If activity is traced to the company, it is literally an empty shell.

5. **False Reporting**: Any type of false reporting, such as commodity misclassification.

6. **Carousel Transactions**: The repeated importation and exportation of the same high-value commodity.

7. **Inconsistent Commodities**: Commodities being traded do not match the business involved, go through unusual shipping routes or transshipment points, and/or packaging is inconsistent with commodity or shipping method.

8. **Lack of Documentation**: Business partner's inability to produce appropriate documentation (i.e. invoices) to support a requested transaction.

9. **Inconsistent Sizing**: The size of the shipment or type of commodity being shipped appears inconsistent with the known Business partner profile, structure or business strategy. Business partner has no experience in the goods in question, or the size or frequency of the shipments appear inconsistent with the scale of the Business partner's regular business activities (e.g. a sudden surge in transaction size).

10. **High Risk Jurisdictions**: The commodity is shipped to or from a jurisdiction designated as "high risk" for money laundering and/or terrorist activities. The U.S. Department of State issues the "Jurisdictions of Primary Concern". On this list are major money laundering countries (defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking"). The Financial Action Task Force (FATF), on the other hand, identifies jurisdictions with weak measures to combat money laundering and terrorist financing in two FATF public documents that are issued three times a year.

11. **High Risk Commodity**: The type of commodity being shipped is designated as “high risk” for trade-based money laundering activities (e.g. precious metals, stones, consumer electronics, military goods, laser systems, flying objects, etc.).

12. **Inconsistent Shipping Routes**: The commodity is trans-shipped through one or more jurisdictions for no apparent economic or other logistical reason.

13. **Dual-Use Commodities**: The commodity includes dual-use goods, products and technologies normally used for civilian purposes but which may also have military applications.

14. **Letter of Credit Use**: The transaction involves the use of repeatedly amended or frequently extended letters of credit without reasonable justification or for reasons like changes of the beneficiary or location of payment.

15. **Sanctioned Individuals/Organizations**: The transaction involves individuals or organizations listed in U.S. sanctioned lists. Business partner’s transactions involve individual(s)/entity(ies) identified by media or law enforcement as the subject of a terrorist financing or national security investigation.

16. **Suspicious Countries**: The parties to the transaction (owner, beneficiary, etc.) are from countries known to support terrorist activities and organizations.

17. **Uncharacteristic Purchases**: Business partner conducts uncharacteristic purchases (e.g. camping/outdoor equipment, weapons, ammonium nitrate, hydrogen peroxide, acetone, propane, etc.).

18. **Identity Variations**: Business partner provides multiple variations of name, address, phone number or additional identifiers.

19. **High Risk Jurisdiction Travel**: Business partner mentions he/she will be or have conducted travel to high-risk jurisdictions (including cities or districts of concern), specifically countries (and adjacent countries) under conflict and/or political instability or known to support terrorist activities and organizations.

20. **Proxies under Singular Control:** Numerous sole proprietorship businesses/private limited companies set up by seemingly unrelated people (proxies) are found to be controlled by the same group of people. For the setting up of such businesses false addresses are registered.

Supplemental Warning Indicators

Additional Warning indicators, by category, that CTPAT Partners may want to use in order to screen potential business partners or monitor current business partners and transactions.

A. Business Partner's Warning Indicators

1. **Unjustified Transaction Structure**: Uncommon transaction structure or overly complex transaction structure without a clear and legitimate commercial purpose or some reasonable justification.

2. **Deviation from Normal Trade Activities**: The Business partner significantly deviates from their historical pattern of trade activity (i.e. in terms of value, frequency or merchandise) with dubious pricing of goods and services.

3. **Suspicious Addresses**: The Business partner or parties have suspicious addresses. For example different transacting businesses may share the same address or the businesses only provide a registered agent's address.

4. **Discrepancies Waiving**: The Business partner is overly keen to waive discrepancies.

5. **High Fee Acceptance**: The Business partner offers to pay unusually high fees.

6. **Unclear Party Identity**: The bank is approached by a previously unknown party whose identity is not clear, who seems evasive about its identity or connections, or whose references are not convincing, or payment instructions are changed at the last minute.

B. Documentary Warning Indicators

1. **Letter of Credit Inconsistencies**: The shipment locations of the goods, shipping terms, or descriptions of the goods are inconsistent with the letters of credit. This may include changes in shipment locations to high risk countries or changes in the quality of the goods shipped.

2. **Excessively Amended Terms**: The documents show excessively amended terms.

3. **Non-Standard Language**: The documents contain non-standard clauses or phrases or have other unusual characteristics.

4. **Unauthorized Document Changes**: There are dubious unauthorized alterations or amendments to the documents.

5. **Refusal of Documents**: The beneficiary or applicant refuses to provide documents to prove shipment of goods (indicates possible phantom shipping or multiple invoicing).

6. **Coded/Disguised Goods**: There are indications that the descriptions of the goods are coded or disguised.

7. **Letter of Credit Requests**: The Business partner requests (a) a letter of credit without calling for a transport documents or documents evidencing shipment or delivery of goods; or (b) an amendment to a letter of credit removing the transport document or document evidencing shipment or delivery of goods as required in the original terms.

8. **Lack of Transport Documents**: The transaction is without transport documents evidencing movement of goods.

9. **Undocumented Cargo**: The bill of lading describes containerized cargo but without container numbers or with sequential container numbers.

10. **Re-use of Documents**: There are indications that documents have been re-used.

11. **Unclear Charges**: The invoice shows “Other/Undefined” charges as an unreasonably high percentage of total transaction value.

12. **Documentary Credit**: A documentary credit if overdrawn by more than an unreasonably high percentage of the original value

13. **Over Shipped Goods**: The goods in respect of a documentary credit are over shipped by an unreasonably high percentage of the original quantity.

14. **Inconsistent Dating**: A letter of credit is dated later than its date of presentation.

15. **Resubmitted Rejected Documents**: The Business partner re-submits a document rejected earlier as a result of financial crime risk concerns.

16. **Inconsistent Naming**: The non-negotiable bill of lading is consigned ‘to be advised between applicant and beneficiary’ (consignment should be to a named party).

17. **Trade-Related Claims**: The Business partner makes a trade-related claim on a stand-by L/C before or a short period of time after its issuance.

18. **Inconsistent, Modified Documentation**: The documentation appears illogical, fraudulent and/or improperly modified from its original content, or certain documentation is absent that would be expected given the nature of the transaction.

C. Transaction Warning Indicators

1. **Information Concealment**: The transaction structure is designed to conceal information or make it difficult for AIs to obtain certain information or the true nature of the transaction. This may include indications that a shipment is structured to disguise proliferation risks.

2. **Unreasonably High Percentage**: The percentage that constitutes "unreasonably high" should be determined by the authorized institution in accordance with the criteria set out in the introduction to this part.

3. **Inconsistent Good Movement**: The transaction involves an uncommon or complicated movement of goods and/or third parties without an obvious purpose.

4. **Inconsistent Payment Method**: The method of payment appears inconsistent with the risk characteristics of the transaction.

5. **Unclear Shipping Mode**: The mode or method of shipping is unclear.

6. **Round Dollar Transactions**: The Business partner has unusually frequent round dollar transactions.

7. **Multiple Intermediaries**: The transaction involves an unusually high number of intermediaries, too many or unnecessary parties, or transferable letters of credit.

8. **Inconsistent Tenor**: The tenor of a relevant transaction is not in line with the nature of the underlying commodity financed – for example, in relation to a perishable good.

D. Vulnerable Goods Warning Indicators

1. **High Risk Goods**: The transaction involves goods vulnerable to trade-based money laundering, such as gems; jewelry; cigarettes and other tobacco products; consumer electronics and home appliances; telephone cards and other stored value cards; precious metals; military goods and war material (these include items such as arms, ammunition, bombs, missiles, sensor integration equipment, armored vehicles, electronic equipment, laser systems, flying objects, tear gases and other irritants, certain components used for the production of arms and software developed for the use of war materials); or obvious dual-use goods.