



Strategic Analysis on Trade-Based Money Laundering UAE-FIU 2021

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1. CONTENT AND OBJECTIVES

This report is part of the Strategic Analysis Plan (SAP) adopted by the UAE FIU considering the requirements of the *National Assessment of Inherent Money Laundering and Terrorist Financing Risks in the United Arab Emirates* (NRA) and following *UAE National Action Plan (NAP) to Implement the Anti-Money Laundering and Combating Terrorism Financing National Strategy 2020-2023*.

The purpose of this report is to:

- Promote the awareness of the risk of TBML to enhance the compliance with the AML/CFT requirements.
- Provide the Reporting Entities (REs) with an updated list of indicators (or red flags) related to TBML.

2. METHODOLOGY, SOURCES AND TIMELINE

This report is based on the strategic analysis of data and information held by the UAE FIU, as well as data and information obtained from other UAE Authorities and the REs, particularly in the period of January 2020-June 2021.¹

¹ The data and information analyzed include but are not limited to STRs and SARs databases, Cash declarations, information received from UAE Authorities and information received from counterpart FIUs.

3. INTRODUCTION

The economy of the UAE is considered to be the fourth largest in the Middle East. UAE is recognized as a country with diverse and multicultural population with a secure and stable economy and strong institutions. It has an accessible financial system, a dynamic market, strategic geographic location between Asia, Europe, the Middle East and Africa and its well-developed international trading and financial hub.

The Gross Domestic Product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time, in the UAE it was worth 421.14 billion US dollars (1.5 trillion) in 2019, and a GDP of 345.8 in 2020.²

The government has created activity-specific free zones (FZs) within the seven Emirates that have independent competency in some areas. Broadly speaking, the FZs can be placed into two categories, which are the Financial Free Zones (FFZs) and Commercial Free Zones (CFZs). The UAE has two FFZs and these are the Dubai International Financial Centre (DIFC) in the Emirate of Dubai and the Abu Dhabi Global Market (ADGM) in the Emirate of Abu Dhabi. These are unique in nature as they are set up by Federal decree and are based on Common Law legal principles.

There are just over 500,000 Companies/Legal Entities registered in the UAE, with the vast majority in the mainland (e.g., Dubai and Abu Dhabi).

² See UAE Federal Competitiveness and Statistics Centre:

[https://uaestat.fcsc.gov.ae/vis?fs\[0\]=3ylrqeERqvGgDtXPR7wB2m0xKJDUGMyt53hQdX%2C0%7CGDP%20-%20Quarterly%23NAT_QG%23&pg=0&fc=3ylrqeERqvGgDtXPR7wB2m0xKJDUGMyt53hQdX&df\[ds\]=staging%3ASIS-CC-stable&df\[id\]=DF_QGDP_CUR&df\[ag\]=FCSA&df\[vs\]=1.7.0&pd=2012-Q1%2C2020-Q4&dq=.Q.....<\[rw\]=QUARTER<\[cl\]=MEASURE%2CQGDP_UNIT%2CUNIT_MEASURE<\[rs\]=TIME_PERIOD](https://uaestat.fcsc.gov.ae/vis?fs[0]=3ylrqeERqvGgDtXPR7wB2m0xKJDUGMyt53hQdX%2C0%7CGDP%20-%20Quarterly%23NAT_QG%23&pg=0&fc=3ylrqeERqvGgDtXPR7wB2m0xKJDUGMyt53hQdX&df[ds]=staging%3ASIS-CC-stable&df[id]=DF_QGDP_CUR&df[ag]=FCSA&df[vs]=1.7.0&pd=2012-Q1%2C2020-Q4&dq=.Q.....<[rw]=QUARTER<[cl]=MEASURE%2CQGDP_UNIT%2CUNIT_MEASURE<[rs]=TIME_PERIOD)

<https://www.worldbank.org/en/country/gcc/publication/uae-economic-update-april-2020>

These national features of the UAE are positive and needed for its growth, however, as for other countries; they can be subject to criminal exploitation. Criminals can exploit the inherent characteristics of the UAE in a number of ways for ML/TF, – including but not limited to – moving large sums of cash generated from proceeds of crimes, Trade-based Money Laundering (TBML), moving large sums of illicit funds through the large financial system and/or smaller remittance values through money value transfer services (MVTs), acquiring and/or trading luxury and high value items including gold and real estate, hiding their identities behind complex structures of companies, using consultancy and trade companies wittingly and unwittingly, and exploiting regulatory arbitrage due to the decentralized government structure and large number of regulators.

To issue this report, including new Indicators, the UAE FIU gathered and analyzed a broad range of data and information, including STRs and SARs databases, Cash declarations, data and information received from UAE Authorities and foreign Financial Intelligence Units, data and information received from the Reporting entities (REs). In this context, the UAE FIU worked in close cooperation with the Federal Customs Authority (FCA) given the relevance of data and information relating to declarations of cash and all customs requirements.

4. OVERVIEW OF THE RELEVANT DATA AND INFORMATION UNDERLYING THE STRATEGIC ANALYSIS

1. Suspicious Reports received by UAE FIU

In the period of January 2020 to June 2021, the UAE FIU received about 8,772 STRs/SARs directly or indirectly related to TBML (which represents around 34% of overall received STRs and SARs). More precisely, 2,183 STRs/SARs were exclusively based on indicators (red flags) or reasons for reporting related to TBML.

2. Inward Spontaneous Dissemination (ISD) and Inward Request of Information (IRI) from foreign Financial Intelligence Units

In the period of January 2020 to June 2021, the UAE FIU received total of 1,146 ISDs and IRIs, out of which 5 ISDs and 48 IRIs contained concerns related to TBML. Further, during the same period the UAE FIU had sent out a total of 183 SDs and RFIs, out of which, 11 contained concerns related to TBML.

3. Review of Federal Customs Authority's (FCA) Cash Declaration Records

For the purpose of assessing the volume of funds coming in and going out of the UAE with respect to trading, UAE FIU performed a review on all the cash declaration records related to it during the period starting January 2020 up to June 2021. In essence, AED 18,324,256,878 was the total value of cash imports and cash exports based on the traveler's declared purpose upon arrival to or departure from UAE.

EMERGING TRENDS

All data and information gathered (presented in this report) along with a sample of Suspicious Reports as well as selected ISDs/IRIs have been subject to in-depth analysis by the UAE FIU to identify related trends and typologies.

By the end of the review, emerging techniques associated to possible trade-based money laundering activities were identified.

1. THE USE OF BACK-TO-BACK LETTERS OF CREDIT

Back-to-back letters of credit (LoCs) are commonly used as a guarantee to finance trade transactions in a three-party agreement including a seller, a buyer and an intermediary. It consists of two distinct LoCs – one LoC issued by the buyer's bank with the intermediary as the beneficiary and another LoC issued by the intermediary in favor of the seller claimable upon fulfillment of the contract's terms and conditions. Although its ordinary use is to provide assurance in the facilitation of the trade finance transaction, some exploit it to facilitate money laundering.

For example, a UAE entity holding a bank account in an offshore jurisdiction was provided with back-to-back letters of credit facility. As per information received from counterpart FIU, while gathering all the presentation documents, it was found that the shipment backed by the LoCs were genuine, however, supporting documents were not. Moreover, the goods were released before the offshore bank could present the bill of lading to the buyer's bank.

2. PRESENTATION OF FICTITIOUS DOCUMENTS

Rigorous review of the supporting documents is essential in the verification of a trade transaction. This role is usually presumed by relevant Financial Institutions (FIs), when providing trade finance to their customers. Supporting documents can include contract, invoice, pro-forma invoice, bill of lading, transportation and insurance documents. Due to non-standardized trade documentation globally, it is challenging to detect anomalies in the evidences presented by the suspect.

For instance, one of the main concerns observed during the analysis is the discrepancies found in the supporting documents particularly invoices and bills of lading. Shipments are supported by bills of lading that are not verifiable through the International Maritime Bureau (IMB). The discrepancies mentioned, include but are not limited to, wrong vessel or ship, missing chassis number or container number, wrong dates, incorrect description of shipment, incorrect parties, spelling mistakes, unmatched with invoice. In some circumstances, the supporting document is completely fake or plagiarized.

3. PHANTOM SHIPMENTS (OR FICTITIOUS TRADES)

Shipments that only exist on paper without actual movement of goods are called phantom shipments. In this scheme, two parties collude with each other and supporting evidences like fake invoice and transportation document are created dishonestly. The seller sends all the supporting documents to the buyer of goods which may not essentially exist or dispatched. In return, the same buyer makes the payment against the sham goods.

4. OVER-INVOICING/UNDER-INVOICING

Over-invoicing or under-invoicing is the misrepresentation of the price of goods to be traded. Over-invoicing is shipping goods at a higher price than its market value, thus, the buyer is transferring high economic value to the seller (advantage to the seller). Oppositely, under-invoicing is shipping goods at a lower price than its market value, hence, the buyer is transferring lower economic value to the seller (advantage to the buyer). This modus operandi is evident in some of the received STRs/SARs as well as requests received from UAE FIU's international counterparties. To give an illustration, a foreign company committed tax evasion and funds misappropriation. Funds were transferred to UAE and justified as payment for goods, which were suspected to be over-invoiced.

5. ACCOUNTS USED AS A PASS-THROUGH

Due to the UAE's strategic location, it became an attractive jurisdiction for criminals to funnel their funds to obscure its ultimate source and destination. Despite of the country's stringent financial system, offenders continuously attempt to find loopholes to be exploited for illicit purposes.

Legal entities are mostly abused in this scheme as conduits or intermediaries in the routing of funds between two or more jurisdictions. It was observed that, free zone entities, mainly, are the subject of the counterpart FIUs' inquiries due to their involvement in the identified or suspected ML layering activities. To give an example, a free zone entity in the UAE received significant amount of funds from an offshore company in a high-risk jurisdiction. The said parties are not in the same line of business nor presented supporting evidences to sustain their actual purpose.

6. THE USE OF SHELL AND FRONT COMPANIES

A Shell company is a company that exists on paper without physical presence, whereas a front company is a company with legitimate front business, but is set up and controlled by money launderer opportunists. Over the years, with the UAE's intention to encourage trade and boost its economy, it lowered its barriers and started implementing minimum requirements to start up a business, therefore, evolving to be an attractive location to open new businesses.

As a result, the number of registered legal entities surged up to 500,000, which is accompanied by higher level of TBML risks. For instance, a company (shell) offering consultancy services can bill its customer against consultancy service provided at a high price. Since there is no standard pricing for this kind of service

due to its variation, it is not easy to determine the appropriate monetary value. On the other hand, front-end companies can be exploited to commingle legitimate and illegitimate trade making illicit funds appear clean once incorporated with licit funds.

6. EXAMPLE CASE

Person ASA is listed in a 'sanction list', for the involvement in bribery, kickbacks and procurement fraud with senior government officials. Separately, a company partially owned by person ASA has been publicly implicated in the importation of amphibious assault vehicles. Person ASA owns or controls another five companies, which have also been designated under X sanctions list. Person ASA's designation relates to having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, corruption, including the misappropriation of state assets, the expropriation of private assets for personal gain, corruption related to government contracts or the extraction of natural resources, or bribery.

The UAE FIU has received a total of 14 STRs connected with Person ASA. They relate to disproportionate activities in accounts belonging to Person ASA or companies owned or controlled by Person ASA, as well as Person's ASA appearance in the media following sanctions against Person ASA and companies with which Person A has been associated. Four of these enquiries carried out by the FIU UAE have been disseminated to the Law Enforcement Authorities in the UAE based on – amongst other reasons – "Corruption money laundered for procuring military vehicles under the pretext of trade".

Red Flag Indicators:

- Unusual activities in Person ASA's accounts and his associate companies
- The involved company has an illogical complex structure.
- Person ASA was identified to be linked to multiple companies in the UAE.
- Associate companies are designated under sanction list.

- Adverse news or extensive derogatory remarks found pertaining to Person ASA and its associates.
- Multiple STR records on the owner and the companies owned by him.

7. SECTORAL INDICATORS (OR RED FLAGS) RELATED TO POSSIBLE TBML

1. Trade Structure and Organization

- The corporate structure of a trade entity appears unusually complex and illogical, such as the involvement of shell companies or companies registered in high-risk jurisdictions.
- A trade entity is registered or has offices in a Country with weak AML/CFT compliance.
- A trade entity is registered at an address that is likely to be a mass registration address, e.g., high-density residential buildings, post-box addresses, commercial buildings or industrial complexes, especially when there is no reference to a specific unit.
- The business activity of a trade entity does not appear to be appropriate for the stated address, e.g., a trade entity appears to use residential properties, without having a commercial or industrial space, with no reasonable explanation.
- A trade entity lacks an online presence or the online presence suggests business activity inconsistent with the stated line of business, e.g. the website of a trade entity contains mainly boilerplate material taken from other websites or the website indicates a lack of knowledge regarding the particular product or industry in which the entity is trading.
- A trade entity displays a notable lack of typical business activities, e.g., it lacks regular payroll transactions in line with the number of stated employees, transactions relating to operating costs, tax remittances.
- Owners or senior managers of a trade entity appear to be nominees acting to conceal the actual beneficial owners, e.g., they lack experience in business

management or lack knowledge of transaction details, or they manage multiple companies.

- A trade entity, or its owners or senior managers, appear in negative news, e.g., past money laundering schemes, fraud, tax evasion, other criminal activities, or ongoing or past investigations or convictions.
- A trade entity maintains a minimal number of working staff, inconsistent with its volume of traded commodities.
- The name of a trade entity appears to be a copy of the name of a well-known corporation or is very similar to it, potentially in an effort to appear as part of the corporation, even though it is not actually connected to it.
- A trade entity has unexplained periods of dormancy.
- An entity is not compliant with regular business obligations, such as filing VAT returns.

2. Trade activities

- Trade activity is inconsistent with the stated line of business of the entities involved, e.g., a car dealer is exporting clothing, or a precious metals dealer is importing seafood.
- A trade entity engages in complex trade deals involving numerous third-party intermediaries in incongruent lines of business.
- A trade entity engages in transactions and shipping routes or methods that are inconsistent with standard business practices.
- A trade entity makes unconventional or overly complex use of financial products, e.g. use of letters of credit for unusually long or frequently extended periods without any apparent reason, intermingling of different types of trade finance products for different segments of trade transactions.

- A trade entity consistently displays unreasonably low profit margins. in its trade transactions, e.g. importing wholesale commodities at or above retail value, or re-selling commodities at the same or below purchase price.
- A trade entity purchases commodities, allegedly on its own account, but the purchases clearly exceed the economic capabilities of the entity, e.g., the transactions are financed through sudden influxes of cash deposits or third-party transfers to the entity's accounts.
- A newly formed or recently re-activated trade entity engages in high-volume and high-value trade activity, e.g., an unknown entity suddenly appears and engages in trade activities in sectors with high barriers to market entry.

3. Trade documents and commodities

- Inconsistencies across contracts, invoices, or other trade documents, e.g., contradictions between the name of the exporting entity and the name of the recipient of the payment; differing prices on invoices and underlying contracts; or discrepancies between the quantity, quality, volume, or value of the actual commodities and their descriptions.
- Contracts, invoices, or other trade documents display fees or prices that do not seem to be in line with commercial considerations, are inconsistent with market value, or significantly fluctuate from previous comparable transactions.
- Contracts, invoices, or other trade documents have vague descriptions of the traded commodities, e.g., the subject of the contract is only described generically or non-specifically.
- Trade or customs documents supporting the transaction are missing, appear to be counterfeits, include false or misleading information, are a resubmission of previously rejected documents, or are frequently modified or amended.

- Contracts supporting complex or regular trade transactions appear to be unusually simple, e.g., they follow a “sample contract” structure available on the Internet.
- The value of registered imports of an entity displays significant mismatches to the entity’s volume of foreign bank transfers for imports. Conversely, the value of registered exports shows a significant mismatch with incoming foreign bank transfers.
- Commodities imported into a country within the framework of temporary importation and inward processing regime are subsequently exported with falsified documents.
- Shipments of commodities are routed through several Countries without economic or commercial justification.

4. Trade Accounts and Transactions

- A trade entity makes very late changes to payment arrangements for the transaction, e.g., the entity redirects payment to a previously unknown entity at the very last moment, or the entity requests changes to the scheduled payment date or payment amount.
- An account displays an unexpectedly high number or value of transactions that are inconsistent with the stated business activity of the client.
- An account of a trade entity appears to be a “pay-through” or “transit” account with a rapid movement of high-volume transactions and a small end-of-day balance without clear business reasons, including:
 - o An account displays frequent deposits in cash which are subsequently transferred to persons or entities in free trade zones or offshore jurisdictions without a business relationship to the account holder.

- Incoming wire transfers to a trade-related account are split and forwarded to non-related multiple accounts that have little or no connection to commercial activity.
- Payment for imported commodities is made by an entity other than the consignee of the commodities with no clear economic reasons, e.g., by a shell or front company not involved in the trade transaction.
- Cash deposits or other transactions of a trade entity are consistently just below relevant reporting thresholds.
- Transaction activity associated with a trade entity increases in volume quickly and significantly, and then goes dormant after a short period of time.
- Payments are sent or received in large round amounts for trade in sectors where this is deemed as unusual.
- Payments are routed in a circle – funds are sent out from one country and received back in the same country, after passing through another country or countries.

8. GLOSSARY

TBML	is the process of disguising the proceeds of crime and moving value using trade transactions to legitimize their illegal origin or finance their activities (the aim, unlike trade-related predicate offences, is not the movement of goods, but rather the movement of money, which the trade transactions facilitate).
TBTF	is the process of disguising the movement of value using trade transactions to finance terrorism, whether from legitimate or illegitimate sources.