

ACAMS 14th Annual

AML & Financial Crime CONFERENCE

MAIN CONFERENCE: SEPTEMBER 28 – 30, 2015 • PRE-CONFERENCE TRAINING: SEPTEMBER 27 • ARIA, LAS VEGAS

Operation Fashion Police and the Persistent Threat of Trade Based Money Laundering

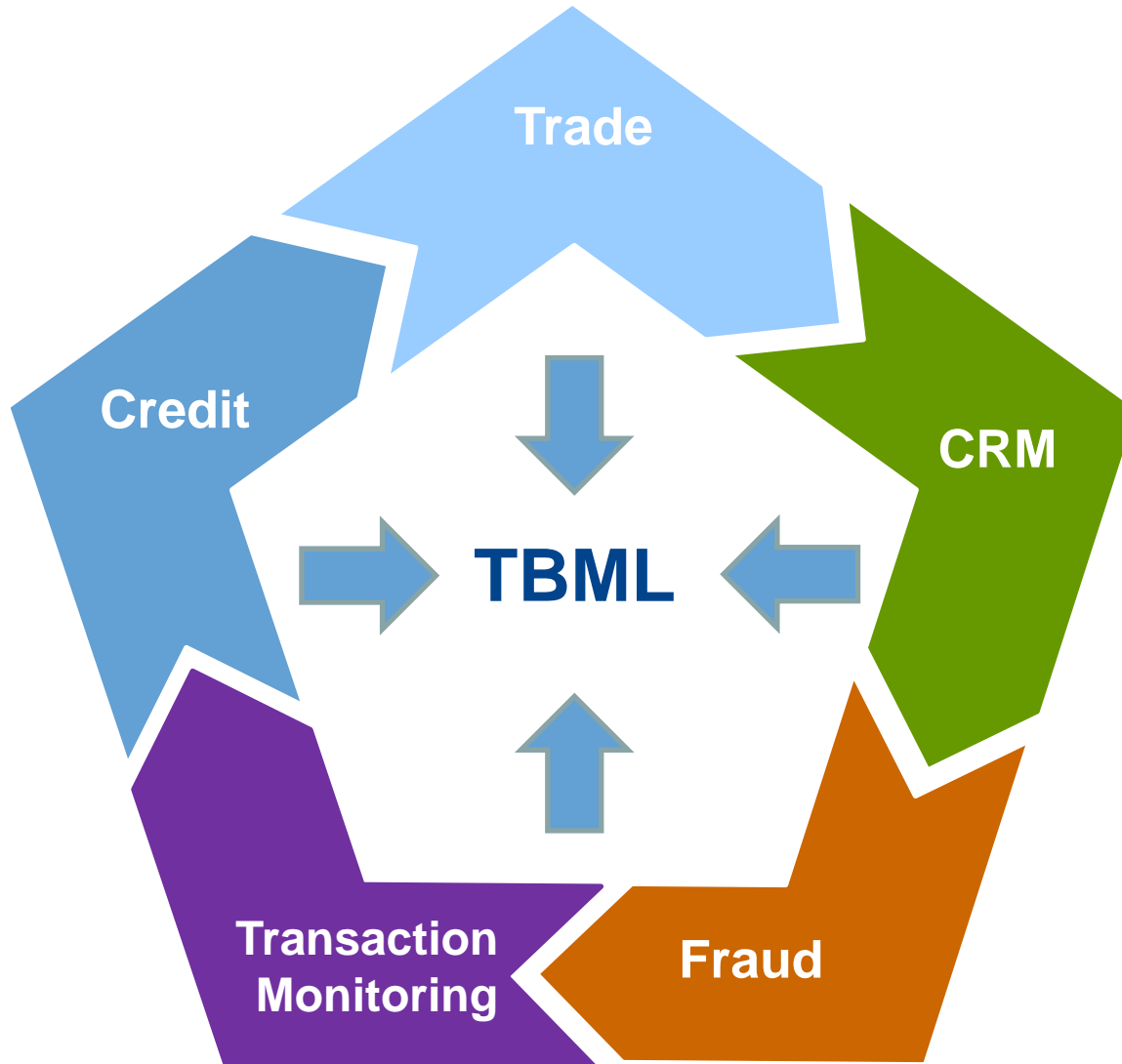
September 28, 2015

3:00 – 4:15PM

Thomas Obermaier

Chief Executive Officer Regulatory DataCorp (RDC)

The Trade-Based Money Laundering Moat



Red Flags to Algos

<u>Red Flags</u>	<u>Detection Proxy</u>
1 Over/Under Invoicing Multiple Invoicing Over/Under Shipment False Description of Trade Goods	Working Capital Problems: Market Pricing Discrepancy Pay vs. Ship Discrepancy AR Surprises
2 Barter Transaction Unrelated Third Parties/Strange Middlemen	Means of Exchange vs. "VIG" Thresholds "VIG" Thresholds
3 Terrorist Financing	WMD Component Match Corridors
4 High Risk Jurisdictions	Corridors High Risk List
5 Funnel Accounts	Blowout Tracking
6 Shell/Front Companies	"Hamlet" Testing
7 Questionable Business Rationale	"d'oh" Rules

ALGOS to Coding

1

Red Flags

Over/Under Invoicing

Multiple Invoicing

Over/Under Shipment

False Description of Trade Goods

Algo Family

Market Pricing Discrepancy

Pay vs. Ship Discrepancy

AR Surprises

Algo Proxies

Market Pricing Discrepancies

- Multiple standard deviations from unit price metric
- Unit Price Metric = Unit Cost vs. Pricing Benchmark @ quantity
- Pricing Benchmarks:
 1. Commodities: Market Price
 2. Pret-a-porter: (MSRP * .5)
 3. All Others: historical pricing
 4. Weakness: Bespoke products

Pay v Ship Discrepancies

- Payment term abnormalities
 - Three variables: good, quantity, payment terms
 - Odd terms: Net 5, Net 720
 - In excess of specific payment term mean
 - ✓ Commodities: >30 days
 - ✓ Pre-a-porter: >45 days
 - ✓ Durables: >90 days
- Shipment term abnormalities
 - Four variables: good, quantity, ship dates, trajectory
 - Unusual Routes: outside of “established routes”
 - At least 3 sigma's on short and long tail of historical data
- Pay v Ship abnormalities
 - Historical Δ 's between payment terms and shipping
 - Watch for too short or too long, usually with sweet spot two to five sigma's out

AR Surprises

- Very useful for open accounts
- Focus on fulfillment ratios:
 - Too fast: Paid upon generation or weak thereafter
 - Too slow: Age due to inexperience operators

Internal Data

- Trade or Credit Systems:
 - Pricing/Quantity/Unit Cost
- Transaction Monitoring Systems

- Trade Systems:
 - Terms
 - Historicals
- Credit Systems
- Transaction Monitoring Systems

- Trade Systems
 - Terms
 - Historicals
- Credit Systems
 - Routes

- Credit Systems
- Trade Systems

External Data

Market Data
MSRP Data

Shipping Route Data

ALGOS to Coding

	<u>Red Flags</u>	<u>Algo Family</u>	<u>Algo Proxies</u>	<u>Internal Data</u>	<u>External Data</u>
2	Barter Transaction Unrelated Third Parties/Strange Middlemen	Means of Exchange vs. VIG VIG Thresholds	<u>Means of Exchange Goods</u> • Food, Energy, Metals, High Tech Devices, Consumer Durables <u>VIG Discrepancy</u> • VIG = “skim” = interest rate, fees • Metric = percentage of overall deal • Parameters • >1% rule for commodities at scale • Even commission rates • >5% rule for most goods (ex bespoke)	• Credit Systems • Trade Systems • Transaction Monitoring Systems	Grey material on BMPE
3	Terrorism Financing	WMD Component Match Unusual Corridors Trouble Corridors	<u>WMD Component Match</u> • Master list of bad goods vs. invoice • Focus on subcomponents <u>Unusual Corridors</u> • Stops at “Hot Spots” (non-Humanitarian) <u>Troubled Corridors</u> • All Goods to Hot Spots or Adjacent Hot Spots		
4	High Risk Jurisdiction	Corridors	✓ Corridors ✓ Unusual Goods/Delivery Match (Jalapenos to Norway?) ✓ Unusual Trade Routes ✓ Concentrated GDP Ratio ✓ High Risk Unit	• Trade (Shipping Data)	Negative Media Grey Literature
5	Funnel Accounts	Blowout Tracking	• Hub & Spoke	• Transaction Monitoring	
6	Shell/Front Companies	“Hamlet Testing”	• Operating Company • High Risk Jurisdictions • Corporate Depository Binominal • Time in Operation		
7	Questionable Business Rationale	D’oh Rules	• Product/Timetable Mismatch: Shrimp don’t last 6 months (focus on perishable commodities) • Significant OE	• Trade Systems • Credit Systems	Negative Media