Circular No: 01/2024
15 Jan 2024

Traders and Declaring Agents

Dear Sir/Madam

ADVISORY: COMBATING TRADE-BASED MONEY LAUNDERING

This advisory serves to remind you on the existing reporting obligations under the Singapore's laws and the importance of adopting internal controls and procedures as preventive measures against trade-based money laundering (TBML).

2 The international trade system is subject to a wide range of risks and vulnerabilities that can be exploited by criminal organisations and terrorist financiers. In part, these arise from the enormous volume of trade flows, which obscures individual transactions; the complexities associated with the use of multiple foreign exchange transactions and diverse trade financing arrangements; the commingling of legitimate and illicit funds; and the limited resources that most customs agencies have available to detect suspicious trade transactions.

3 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 legitimise their illicit origins. This can be achieved through the misrepresentation of the price, quantity or quality of imports or exports. Moreover, TBML techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail. Please see examples of some products at risk of TBML in **Annex A**.

Reporting Suspicious Transactions

4 Under Section 45 of the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act 1992, all traders, including freight forwarders and declaring agents, have the legal obligation to file a Suspicious Transaction Report (STR) to the Suspicious Transaction Reporting Office (STRO) if they know or have reasonable grounds to suspect that any property is connected to criminal activity, in the course of their trade, profession, business or employment. Failure to file a STR may constitute a criminal offence.

5 Traders also have the duty to provide information on property and financial transactions belonging to terrorist and acts of terrorism-financing under Sections 8 and 10 of the Terrorism (Suppression of Financing) Act 2002 to the Police or to do so via a STR. Failure to do so may constitute a criminal offence.

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Filing Suspicious Transaction Reports

6 A list of common indicators of suspicious activities is provided at **Annex B**. This list is not exhaustive and is meant to guide traders and declaring agents to assess the TBML risk of both existing and prospective clients.

7 Traders and declaring agents may submit STRs to the STRO of the Commercial Affairs Department (CAD) via the STRO Online and Notices Reporting Platform (SONAR): https://www.police.gov.sg/sonar. More details on STR filing can be found on STRO's website: https://www.police.gov.sg/Advisories/Crime/Commercial-Crimes/Suspicious-Transaction-Reporting-Office.

8 If you decide to file a STR on an activity identified as a result of, or described in this Circular, please include the reference code "SC-TBML-2024" in the 'Reporting Institution' tab, 'Notice Reference Number' field in the STR form, to facilitate authorities' analysis.

Legal Obligation for Record Keeping and Retention of Documents

9 Under Section 90 of the Customs Act 1960 and Section 46 of the Goods and Services Tax Act 1993, traders and declaring agents are required to keep documents and records relating to the purchase, importation, sale or exportation of your goods for not less than 5 years.

Internal Controls and Procedures as Preventive Measures

10 Traders and declaring agents should adopt robust internal procedures to ensure that your businesses are not being used as a conduit for TBML. Some suggested preventive measures that you may wish to consider are as follows:

a) Know Your Customer checks: It is important for traders and declaring agents to verify the identities of their existing and new customers, and to identify and prevent customer risks. You may screen your customers against customer screening databases and publicly available lists to determine if they are linked to any criminal activity.

b) Carry out ongoing customer due diligence: It is also important for traders and declaring agents to monitor your business relations with clients on an ongoing basis. Depending on the risk profiles of your customers, the extent and nature of monitoring may involve:
   i) Scrutinising transactions undertaken in the course of the business relationship to ensure that the transactions are consistent with the knowledge of the client, its business and risk profiles and where appropriate, the source of funds;
   ii) Paying special attention to unusual patterns of transactions that have no apparent or visible economic or lawful purpose;

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iii) Ensuring customer information is kept up to date and relevant particularly for higher risk categories of clients and transactions; and
iv) To the extent possible, inquiring into the background and purpose of the transactions and documenting findings with a view to making this information available to the relevant authorities should the need arise.

11 You may wish to share this circular with your relevant stakeholders within the trading industry to raise their awareness of the importance of adopting internal controls and procedures as preventive measures against TBML.

Yours faithfully

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for Director-General of Customs
Singapore Customs

This circular is prepared with inputs from the Commercial Affairs Department.

(*This is a computer-generated circular. No signature is required.)*

We hope that this circular has been written in a way that is clear to you. If not, please let us have suggestions on how to improve this circular at customs_documentation@customs.gov.sg.

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Annex A

Products vulnerable to TBML activity

Both high-value, low-volume products and low-value, high-volume products, can be exploited by criminals to launder the proceeds of crime. Some common themes conducive to TBML exploitation are:

- Goods with wide pricing margins;
- Goods with extended trade cycles (i.e., shipping across multiple jurisdictions);
- Goods which are difficult for customs authorities to examine;
- Goods that are difficult to value

Examples of such goods are:

- Precious stones and precious metals (e.g. Diamond, Jade, Gold, and Silver);
- Work of art (e.g. paintings, sculptures);
- Antiques over 100 years old;
- Watches clad with precious metal casings or precious metals;
- Wildlife;
- Waste

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Annex B

Trade-Based Money Laundering Risk Indicators

A risk indicator demonstrates or suggests the likelihood of the occurrence of unusual or suspicious activity. The existence of a single indicator in relation to a customer or transaction alone may not warrant suspicion of TBML, nor will the indicator necessarily provide a clear indication of such activity, but it could prompt further monitoring and examination, as appropriate. Similarly, the occurrence of several indicators could also warrant closer examination. Whether one or more of the indicators suggests TBML is also dependent on the business lines, products or services that an institution offers; how it interacts with its customers; and its manpower and technological resources. The below indicators are non-exhaustive, and you may find more information on some of the TBML risk indicators at the Financial Action Task Force (FATF) website: https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Trade-Based-Money-Laundering-Risk-Indicators.pdf

Structural Risk Indicators

- 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 jurisdiction with weak Anti-Money Laundering and Countering the Financing of Terrorism compliance, such as jurisdictions under the FATF's black/ grey lists.
- 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 be using residential properties, without having a commercial or industrial space, with no reasonable explanation.
- The same/affiliated foreign directors own a group of trade entities, registered for a non-specialized general wholesale trade (large trading businesses of various kinds of goods without specifications).
- A trade entity lacks an online presence or the online presence suggests a business activity that is 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.
- A trade entity with footprint in multiple jurisdictions but with no history of economic activity in those jurisdictions.

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- 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 adverse 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 tax returns.

Trade Activity Risk Indicators

- 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 reselling 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.

Trade Document and Commodity Risk Indicators

- 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;

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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 fluctuate significantly 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 a number of jurisdictions without economic or commercial justification.
- Trade entities use identical invoices and/or address, indicating a possible connection and/or third-party control.

Account and Transaction Activity Risk Indicators

- 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:
  – 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.

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- 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.
- Transactions linked to trade entities with mutual owners, directors, signing officers, particularly where the true beneficial ownership structure is opaque.
- Account funded by high volume or high value wire transfers (often in round amounts) from trade entities in high-risk jurisdictions, with vague, atypical or generic purpose of payment information, such as "for goods” or "for materials”.

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