# Shutting Fraudsters out of Trade

**Second Edition**

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ICC Germany

MonetaGo

Global Fraud Prevention for Finance and Trade

# Foreword

**With the second edition of this white paper, we offer the global business community improved recommendations and practical solutions to reduce the risk of fraud in international trade.**

The increasing complexity of trade transactions, combined with the growing sophistication of fraudulent activities, poses a major challenge to the integrity and stability of global trade. Banks play a central role in the international trading system and are at the forefront of fraud mitigation. However, addressing these complex challenges requires a concerted effort by all stakeholders. In addition to the need for vigilance on the part of those involved, this includes comparable regulations in different countries, the introduction of global standards, collaboration within the industry and the use of the latest technologies.

The aim of the first edition of this White Paper in October 2002 was to raise awareness and stimulate dialogue on this issue. I am pleased that this second edition has been developed thanks to intensive and productive exchanges with representatives of the German financial sector.

As the institutional representative of 45 million businesses in more than 170 countries, the International Chamber of Commerce promotes international trade and provides the business community with practical tools, standards and services to better address the challenges of globalization as we move towards a more inclusive and sustainable future. We have an overriding interest in ensuring that trade finance continues to function, and we strongly believe that a rules-based, digitized trade system would significantly improve the transparency, traceability and security of trade transactions. The ICC Digital Standards Initiative, with the support of ICC Germany and the ICC global network, is working to make legally binding and resilient paperless trade a reality. This white paper on “Shutting Fraudsters out of Trade” is part of that effort.

Join us and the ICC network in making trade work for everyone, everywhere, every day.

**Oliver Wieck**
**Secretary General, ICC Germany**

# Executive Summary

As businesses around the world struggle with the current global economic conditions, access to trade finance becomes more critical than ever. Facing battered balance sheets, supply chain crises and new heights of inflation weighing on prospects for growth and survival, the business community will continue to rely on financial institutions to navigate them through these difficult times. But a significant challenge for financial institutions in this climate will be supporting the provision of credit to legitimate businesses while still minimizing their own risks by shutting fraudsters out of trade. And financial institutions should not have to act alone in addressing such risks. Governments, regulators, trade associations and the business community also play a vital part in accelerating the adoption of practices that will both reduce fraud risk and help the world's business community flourish.

The impacts of trade finance fraud are not felt evenly throughout the world. When fraudsters infiltrate trade, it impacts not only those directly involved, but also the millions who rely on trade finance. And it is those in developing markets who often bear the brunt of these impacts, as jobs and savings are lost and standards of living are reduced after the withdrawal of credit by lenders in response to increased risk in the market. Significantly, the fraud that leads to these impacts is not so easy to detect, as the types of fraud and identities of fraudulent actors are varied and difficult to predict. For example, not all fraud related events start off with bad actors. Often, a legitimate business will get into trouble and start inflating revenues through accounts and create cash flow through trade frauds. Uncovering such fraudulent events is difficult and requires a broad-based approach spanning government, business, finance, and trade groups. The result will be sustainable economic growth for both developing markets and the world at large. A broad consensus-based approach is vital to resolving this problem. Businesses want access to every available dollar, and the ever-growing Trade Finance Gap—as documented by the ADB most recently at USD 1.7 trillion—continues to limit access to funding. Similarly, governments are trying to increase tax revenues by minimizing the value added tax gap, defined as the overall difference between the expected VAT revenue and the amount collected. The value added tax gap in Europe alone has been calculated at €134 billion in VAT revenues in 2019. In both circumstances, inefficiencies can be remedied through the implementation of similar solutions and processes, which when implemented will result in net economic gains to both the businesses implementing the solutions and society as a whole.

To address these issues, this paper makes recommendations specific to financial institutions, trade associations, governments and regulators to further enhance investments into shutting fraudsters out from trade, which include:

**Authenticated Data Sources:**
The adoption of authenticated data sources to further safeguard trade finance. This includes authentication sources such as the Legal Identity Identifier from GLEIF and other sources verifying the authenticity of trade documents. This will build from the investments financial institutions have made in securing trade finance

**Platform Solutions to Reduce Fraud Risk:**
Financial Institutions should adopt a global approach to detection of trade fraud typologies. This can be accomplished by leveraging ecosystem-bridging platforms and services to detect fraudulent activities being perpetrated against multiple Financial Institutions at the same time.

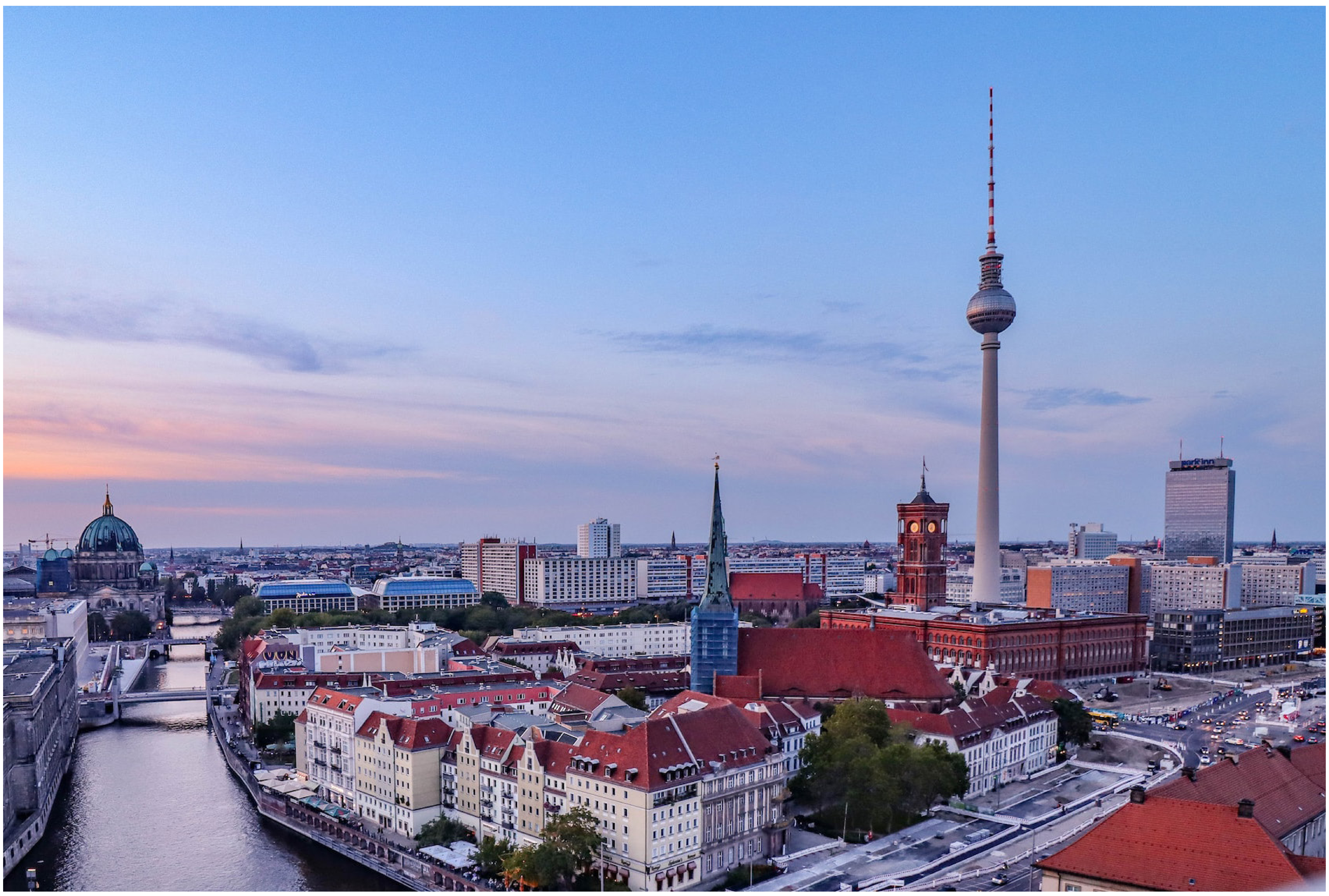
**Best Practices for Trade Documents:**
Trade associations should adopt and release best practices for the business community to create documentary trade documents such as commercial invoices, bills of lading, warehouse receipts and packing lists, leveraging standards from the WTO-ICC Standards toolkit. Additional best practices from financial institutions should be released addressing the manner in which these documents can be used across the financial ecosystem.

**Governments and regulators removing barriers:**
Assisting this adoption drive by enabling legal obligation on the issuer of trade related documents to ensure accuracy, and for the relevant authorities to verify where it is possible.

# 1. Financing a prosperous world

**Trade is a force for economic growth, job creation and prosperity. Trade finance is a critical enabler for trade, and thus to economic development, and in many cases, the movement of goods across borders, particularly in emerging markets, cannot occur without it.**

Trade is a critical part of the global economy, driving not just economic development but also social prosperity. The World Trade Organization estimates that some 80 to 90 per cent of Trade relies on trade finance, most of it on a short-term basis. Trade is particularly critical in emerging markets, where it catalysis inclusion and development.



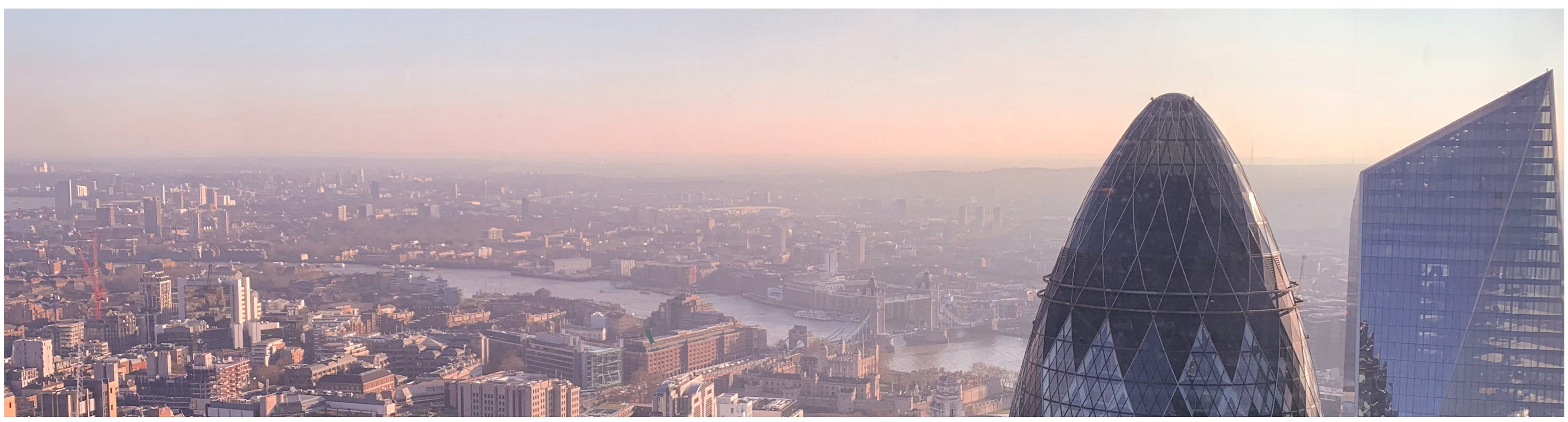
Trade Finance provides businesses of all sizes with access to the financial system. The world has 333 million companies supporting a global community of almost 8 billion people, all of whom rely on the world's business community to earn a living and live in a prosperous and more peaceful world. The International Chamber of Commerce estimates that trade finance enables USD 10 trillion of trade annually. Take for example the Asian Development Bank trade finance gaps, growth and jobs survey, which estimates that the global trade finance gap is now 1.7 trillion USD, up from 1.5 trillion in 2018. Furthermore, the survey finds that small and medium-sized enterprises are the most impacted, with 40% of rejected trade finance applications coming from such entities.

As we start to dig deeper into the problem, we find that such high rejection rates for these small business is actually caused by some of the safeguards that market participants and regulators have put in place to try and protect trade finance from being used for illicit purposes: customer due diligence requirements.

## 1.1 The Basics of enabling Trade:

Aside from information on direct customers via customer due diligence (CDD) processes, there are two foundational categories of information used by the financial ecosystem when processing transactions to enable trade for businesses. The first is Know Your Customer (KYC) data, which requires financial institutions to have a mechanism in place to effectively validate legal entities and counter party data. The second category is the underlying documentation used to finance trade, which must be valid and accurate to properly assess risk. There are different levels of requirements for open account and documentary trade, with this document focusing more on documentary trade fraud recommendations. The documents that Financial Institutions use in providing trade finance often represent goods and services in trade, adding additional importance to ensuring their validity and accuracy.

The following foundational concepts and terms in trade finance are important for understanding the context in which this paper's proposed solutions are applied:



**Legal entities and counter-party data:**
Trade is an activity that is conducted between legal entities. Understanding who you are trading with or providing financing to is a critical part of mitigating risk in trade and trade finance. Establishing ultimate beneficial ownership, and identifying shell companies are two examples of critical risk management practices around counter-party evaluation. Post the financial crisis and the realization of the challenges faced in tracking legal entities in trade, the G20 came together to establish the Global Legal Entity Identifier (LEI) System.

In 2011, the G20 called on the Financial Stability Board (FSB) to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the Global LEI System as a broad public good that provides unique identification of legal entities participating in financial transactions. The Global Legal Entity Identifier Foundation (GLEIF) was established by the FSB in 2014 to support the implementation and use of the LEI. Additionally, the Bank of International Settlements has also highlighted Corporate digital identity as having the potential to dramatically simplify the identification and verification of companies and to reduce the risks and costs of doing business.

**Trade Documents:**
To reduce the risk of non-payment from buyers, Financial Institutions offer sellers letters of credit to enable trade-in transactions. These trades are enabled by using documents from buyers and sellers. Documents of ownership (more commonly known as documents of title) are used in trade processes by Financial Institutions to verify the ownership of goods throughout a trade's life cycle.

The International Chamber of Commerce Uniform Customs and Practices for Documentary Credits publication expressly sets out the expectations for how these documents are presented throughout the trade process. Documents, including commercial invoice, bills of lading, packing lists and warehouse receipts, are commonly leveraged to enable trade. Ensuring the validity and accuracy of these documents are a prerequisite to safe trading. While Documents are required in letters of credit processes, it's important to recognize that much trade is facilitated without documentation, so any open account or prepayment through a simple payment won't require the recommendations surrounding access to quality, verifiable and reliable documentation.

## 1.2 The Basics of fraud in trade:

Trade relies on knowing who the legal entities are, what is being financed, who possesses it, and the value of goods to ensure they are not unknowingly over-financed. Those who commit trade fraud take advantage of lapses within existing risk-mitigation processes, which enable such fraud to re-occur. The following are some examples of trade finance fraud:

**Vendor impersonation:**

Importers and domestic buyers are fooled to a larger extent than ever by fraudsters impersonating their suppliers. This is often done without much knowledge of the supplier, where the buyer is tricked into thinking their supplier has changed bank accounts. It is also perpetrated by breaching the suppliers' systems through a malware attack. In both typologies, the fraudsters usually generate invoices purported to come from the legitimate supplier who usually has a longstanding relationship with the buyer. The unwitting buyer then remits funds to the fraudsters account, thinking a regular commercial purchase has been settled. FinCEN has repeatedly given notice of this practice occurring in the United States, including in this advisory which estimates that US businesses have lost 9bn in business-email-compromise fraud during the 2016–2019 pre-pandemic period. It remains rare for financial institutions to offer compensation to clients who have suffered losses from such schemes.

**Multiple financing:**

The world's financial ecosystem is highly Regulated, and data, especially any type of customer data, is often protected by very strict rules and regulations. These range from basic customer confidentiality agreements and anti-competition rules to other regulatory rules hindering information sharing.

These rules are constructed to ensure a healthy trade finance ecosystem. But the unintended consequence of these barriers is that fraudsters can have the same trade financed by multiple financial institutions in multiple jurisdictions since financial institutions face difficulty in sharing information. Fraudsters rely on this current inability to verify whether trades have been financed by someone else.

**Fraudulent financial intermediaries:**

The layering of trades transactions to obscure the participation of potentially fraudulent financial intermediaries or fraudulent transactions. Name plate Financial Institutions (not always fraudulent) and fraudsters will layer LCs through many advising Financial Institutions. Clearly not all the Financial Institutions in the layering chain control for documentary credits that may have dubious origins.

**Fraudulent documents:**

Fraudsters rely on financial institutions not having visibility on the authenticity of documents used in trade. Without proper systems put in place by financial institutions, fraudsters can readily manipulate invoices so that they don't accurately represent the inventory associated with them.

**Fraudulent legal entities:**
As a global community we want to ensure we don't finance terrorism, or sanctioned organizations and as such go through the work required to validate against these registries globally. In addition, knowing that the legal entity you are dealing with is validly subsisting and has been verified against available data sources further enables trust and transparency in trade. Despite the work done in recent years to improve KYC operations, it is still easy for bad actors to misrepresent and leverage fake companies and addresses in trade applications.

**Over-Under invoicing:**
Over-under invoicing is a type of trade-based money laundering technique used to move money illegally across borders. It involves deliberately misrepresenting the value of goods in import and export transactions. The process can be used for various illicit purposes, including tax evasion, money laundering, and circumventing import/export restrictions. As an example of Over-invoicing: a Fraudster inflates the value of the goods being exported. If the actual value of the goods is $10,000, the exporter might declare the value as $15,000 on the invoice. The extra $5,000 is then transferred to an offshore account, effectively hiding or laundering money.

The following are some examples of trade fraud:

**Misrepresentation of goods:**
Delivery of goods or services with inaccurate content, false descriptions of goods and services, and counterfeit goods. The challenge presented is that this fraud cannot be prevented by relying only on the basis of authentic invoices or shipping documents, as the fraudsters producing these documents are intentionally creating a disconnect between the documents supporting the trade and its underlying value.

**AIS spoofing:**
Automated Identification system (AIS) spoofing occurs when a fraudster leverages the GPS of another vessel to disguise its own vessels location signals. This together with falsification of commercial documents enable fraudsters to shield the origins information associated with a trade, specifically designed to evade sanctions requirements.

**Fraudulent diversion of funds:**
Fund, for example, receivables are paid into a common cash collection account (cash management bank), and whilst borrower has undertaken to make a payment of the received sales proceeds to the financing bank, these funds are ultimately diverted and utilized elsewhere.

The persistence of fraud in trade hurts all market participants: existing players experience a loss of profitability from their existing trade business, which can potentially lessen their provision of trade facilities to existing and future customers and markets, reducing the total profits that could have been earned from extension of these business lines. Moreover, it also prevents new and smaller players from accessing the necessary facilities at efficient price levels, if at all. The fallout from fraud on the trade ecosystem is examined more in depth in the next section.

# 2. The cost of fraud on the trade ecosystem

There are no public data sources on the total cost of trade fraud on the global economy. To date, this has been a problem of unknown size and scope. But, through leveraging the experience of numerous trade finance experts, this section sets out to provide a hypothetical synopsis of the cost of fraud. This should be considered a starting point for such calculations, and the collection of additional data and insight over the next few years to further mature this position should be pursued.

In a hypothetical USD 5 trillion global trade financing portfolio, USD 50 billion (1% of 5 trillion) of transactions are at risk from the frauds discussed in this White paper. But since this USD 50 billion of exposure to fraudulent activity will not all be defaulted on concurrently, and may not all be realized as losses since some fraudsters will pay off one fraudulent financing while moving to the next, we will reduce this amount. Accordingly, we will assume 10% of the fraudulent financing is defaulted on as a result of disruption to the fraudsters' business (e.g., major commodity price shocks, geopolitical conflict flare-ups, other external events).

On this assumption, the cost of realized fraud from business disruptions caused by external shocks is USD 5 billion. This is corroborated by the recently reported exposures of lenders to Hin Leong, Agritrade and other corporates in Singapore, where collectively the exposure to these defaulters reached USD 6–7 billion. Although the recurrence of such defaults is difficult to predict, their tail risk is substantial and can be devastating. From a documentary position, recent prominent cases under the misrepresentation of goods fraud example impacted both Trafigura and Pescanova, cases raised in the public domain. In open accounts there have been additional fraud examples impacting stakeholders across Spain (Abengoa), United Kingdom (Carillion and ArenaTV) and in Brazil (Americanas). The reality is that fraud impacts stakeholders across the various regions of the world and isn't specific to one region over another.

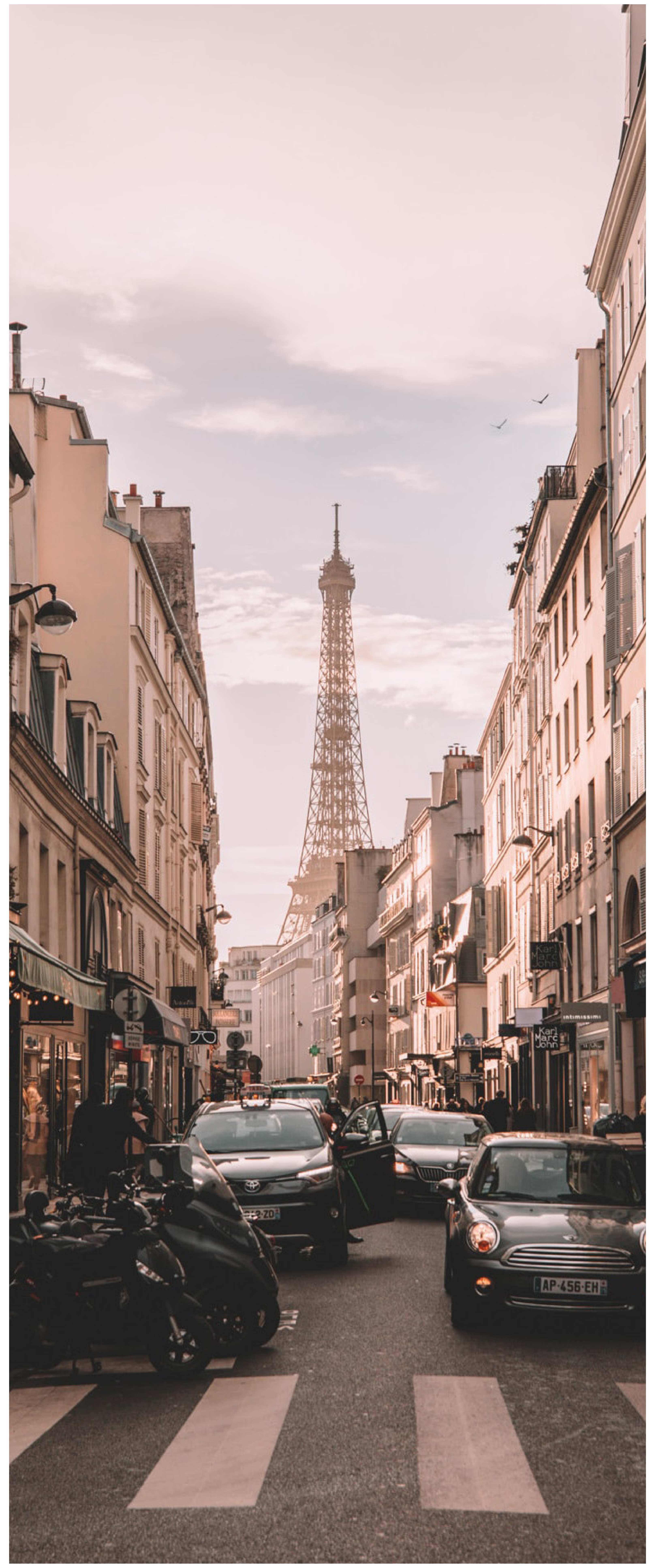
The likelihood of occurrence is different from the likelihood of loss realisation. Frauds are occurring even when they are not apparent. This is analogous to the situation surrounding trade-based money laundering, where members of the global financing system are readily aware of the amounts reportedly being laundered but are unable to determine or otherwise disclose what amounts their institutions have laundered on behalf of these criminals. In such situations, the likelihood of loss may be assigned an assumption. Under this alternative assumption, in the case of trade fraud, one could assign 5% probability for loss realisation. If this is accepted into lenders' risk models the global impact of fraud, assuming industry began to expressly account for such losses, would be USD 50 billion * 5% = USD 2.5 billion.

**When margins are thin, lenders would need to calibrate their economic models carefully to reflect the true risks to their business.**

Focusing on Singapore, where several high-profile defaults occurred in 2022, Bloomberg estimates that in the 6 years to 2020, the potential losses to Financial Institutions from trade finance defaults linked to frauds totaled USD 9.26 billion. According to sources, Hin Leong's defaulted debt sold for 8 cents on the dollar. As a result of such losses, a number of global trade finance financial institutions curtailed their trade finance activities: SocGen closed their traders and commodities finance business in Singapore, and ABN AMRO exited trade finance completely. The exit of ABN AMRO alone from global trade finance has left an estimated USD 21 billion financing gap.

In a world where effective resources exist to screen for the relevant fraud risk, the lenders that have identified and culled fraudsters from their system will be left with a healthier and more valuable portfolio. Ongoing continuous vigilance through the use of such resources will be needed to ensure that customers and lenders themselves are kept honest, and that new threats are mitigated.

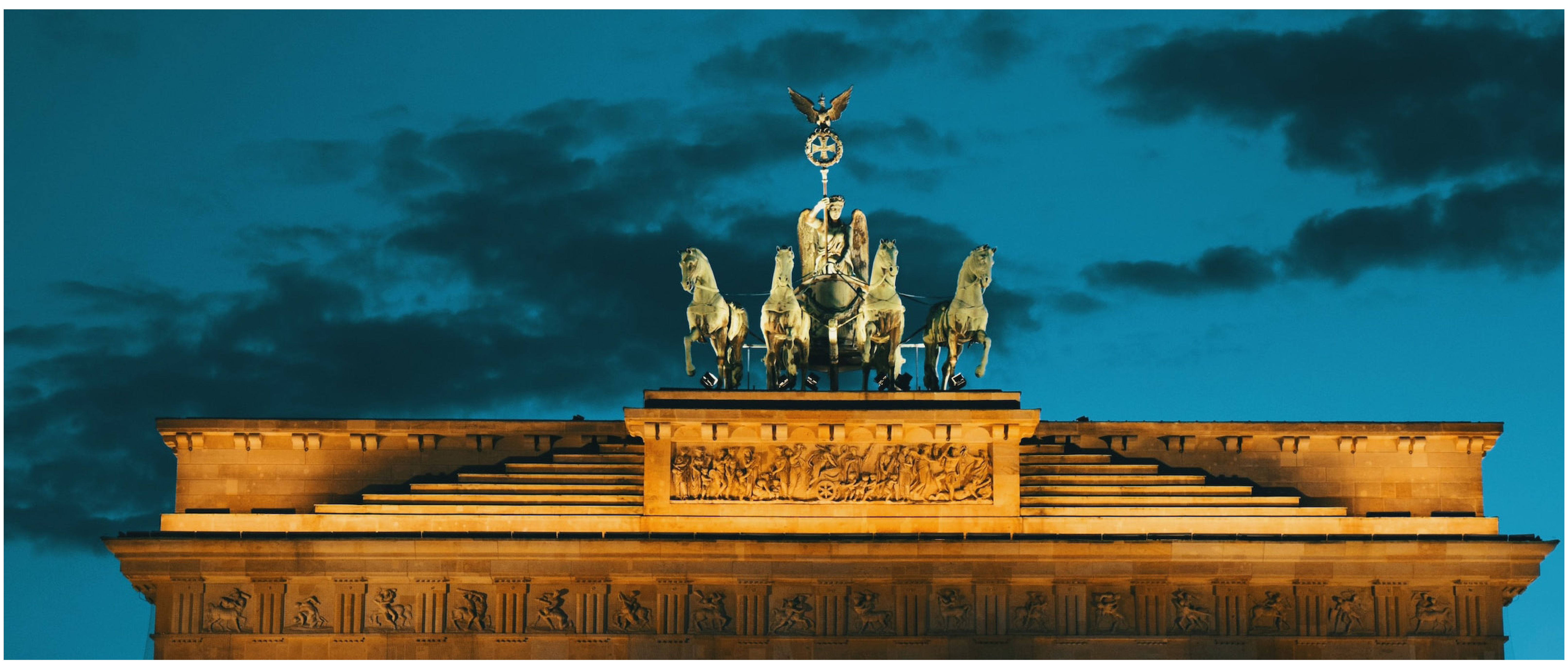
Whilst industry has hitherto not adopted the practice of quantifying fraud risk and incorporating it into their economic models for lending, it is intuitively understood by many that the cost of risk to trade finance includes an element of fraud (albeit unquantified), and that the correlation is positive between cost of fraud and cost of risk. Quantification is challenging as it relies on identification to enable measurement, a substantial challenge that many in the ecosystem are investing considerable time and capital to resolve. One problem here is that not all fraud is identified or known. But doing so is important, since if the cost of fraud can be reduced, this translates into lower cost of risk, which means higher profitability and the potential shared benefit to customers of lower pricing for trade finance transactions.



# 3. The continuum of investing in fraud prevention

Much has been documented of the value unlocked through trade digitization. The International Chamber of Commerce has found that digitization of trade will enable the UN Sustainability objectives 1 (No poverty), 8 (Decent work and economic conditions), 12 (Responsible consumption and production) and 16 (Peace justice and strong institutions).

The G7 as well has highlighted that paper-based transactions, which still dominate international trade, are a source of cost, delay, inefficiency, fraud, error and, harm to the environment. It is our shared view that by enabling businesses to use electronic transferable records, efficiencies will be generated resulting in both economic savings and a more resilient global economy. The adoption of electronic transferable records will play a crucial role in trade recovery across the G7. As both the efficiency and velocity of trade is increased, the cornerstones of trade (identifiable and verifiable identity together with high-quality authentic data sources and documents) will generate much value. Still, parties issuing and creating content must ensure that quality is upheld, as technology is not a replacement for ethical or moral values.



## 3.1 Value to Financial Institutions

The reality is that most Financial Institutions in the ecosystem have already invested heavily in fraud prevention activities and are playing a leading role in reducing risks and resolving challenges. Ecosystem-wide activities are required to further reduce risks, along with business communities enabling access to trusted, reliable and verifiable information.

These investments in fraud-prevention digitization promote a wide range of financial institutions' objectives, such as shareholder value, sustainable development goals, margin optimization, customer acquisition and wallet share growth. And these investments are good for business: financial institutions who do not lose money on fraud and avoid regulatory censure by maintaining functioning financial crime compliance programs tend to prosper. This deeper insight into both the identity of parties involved in trade and the transaction itself provides new sources of value, enables both the definition and allocation of existing liquidity, and promotes new growth opportunities and markets to Financial Institutions.  Basel 4 included new standards for credit and operational risks, and a credit valuation adjustment. Basel reforms set limits on the amount of money a financial institution can use to finance its customer base. As such, there is a limit to what each financial institution can allocate to create value for both its shareholders and businesses in different regions and economic sectors. As a result, financial institutions must be proactive and creative in implementing digital solutions that increase efficiency and productivity. The benefits from implementing such solutions are extensive.

**Improved profitability of trade business:**
Over the last 8 years, the trade finance industry, itself, has been hit by a significant number of high-profile fraud cases, which have impacted the ability of financial institutions to provide access to trade finance funding. Losses from such fraud are felt in two ways: (1) as an impact of the loss event itself; and (2) reduction in the availability of trade finance post-event due to the 'brakes being applied'. Whilst the high-profile high-value international cases are well known and reported, there is an equally damaging impact on trade caused by high volumes of lower value losses within both international and domestic trade. These can be found impacting a wide range of common products used in the market, such as receivables finance, invoice finance, and asset-based lending to name just a few. These losses are often mis-classified or mis-reported as general operational or credit losses, but actually 'hide' common types of fraud-driven activities and losses.

**Improved employee experience:**
The experience of the employees accountable for detecting fraud should be a consideration when it comes to combating fraud. Holding substantial accountability and requiring substantial expertise experience, time, and data to validate transactions, employees of financial institutions face significant pressure to complete transactions and deliver results. With sufficient training and systems to support the decision making of these experts, their capabilities can be further enhanced, allowing them to do their job better by detecting fraudulent transactions before they are financed, helping to reduce job related stress and pressure and approve employee well being.

**De-risking innovation:**
Innovation and improvement budgets are generally geared towards new ways of reducing process steps, removing human engagement with activities and finding more effective mechanisms for engaging stakeholders. Balancing these portfolios of investments with foundational de-risking activities will lead to sustainable growth, as changing the status quo in itself is a risk-creation event. Ensuring legal entities are legitimate, the collateral used is accurate, documents presented are validated, and that no other entities have financed the collateral will be foundational to sustainable value creation.

**Operational efficiencies and productivity:**
Productivity initiatives are focused on removing manual, time-consuming tasks and automating these. In addition to the benefits of automation, this enables access to both improved data quality internally and lower operational risk associated with manual paper-based tasks.

**Entering new markets:**
Adding certainty to identity, knowing more about your transactions and ensuring that trade hasn't been financed by others, especially in emerging markets will be critical to ensuring not only a business expansion but also mitigation of reputation risks and license to operate.

## 3.2 Value to Trade Associations

Trade associations have played an instrumental role in helping the world's business community transition through periods of change, whether from removing barriers hindering access to trade finance to unlocking the value of digitization. These organizations are effective mechanisms for elevating awareness of these important challenges and issues, creating guidelines, rules, and frameworks for implementing change, and advocating for the adoption of these principles to enable a more prosperous world. Some of the key drivers to further enhance best practices associated with safeguarding against fraud include:

**Continuum of delivering value to members:**
As highlighted in the ICC Trade Register, the decline in the use of trade loans and other non-risk mitigating trade products was significant, dropping by 13.5%, largely owing to reduced underlying volumes and lender risk appetites. As highlighted in the report, cost of funding could rise as investors lose appetite, especially in the wake of high-profile defaults in the news. This will push investors to favor more traditional asset classes. These adjustments could counter the progress made on Sustainable Development Goal (SDG) 1 (no poverty), SDG Goal 8 (decent work and economic growth), SDG Goal 12 (responsible consumption and production), and SDG Goal 16 (peace, justice, and strong institutions).

**Expanding membership:**
Furthering the distribution of knowledge to help reduce the risk of fraud in trade, changing the risk appetite of investors and financiers, and enabling more trade in emerging markets will not only enable both traditional and non-traditional financiers to expand their portfolios into new regions, but also bring more business from those regions as they become active participants in the global economy. This in turn will lead to new members joining, similar to what was seen during the pandemic where associations that focused on resolving business challenges noticed a clear and considerable uptake in memberships.

## 3.3 Value to Governments

Full employment and revenue collection to fund basic services are foundational pillars of any functioning society. Having a productive economy with a healthy business community is core to these objectives. The global community is heading into a macroeconomic landscape that will require governments to optimize its ability to offer services to its communities while maintaining competitive revenue collection policies. Doing so will require that the following issues be addressed:

**Expand tax revenue base by reducing the VAT gap:**
Effective revenue collection is critical to sustaining government operations. The VAT gap plays a large part in this. This gap is the overall difference between the expected VAT revenue and the amount collected. According to the European Commission 2021 report, EU Member States lost an estimated €134 billion in VAT revenues in 2019. In the UK, the VAT GAP is estimated at 6.9%. The reality is that access to quality, reliable, verifiable data on documents (like invoices) will enable more efficient and effective VAT projection and collection processes between businesses and government. The same data that will help reduce fraud in trade finance.

**Expand corporate tax base:**
A lower risk environment increases economic activity and promotes inclusion, providing financial and social benefits. If more companies can do more business and lose less money by preventing fraud, a hypothetical 1% increase in corporate revenue would generate an additional EURO 699m in taxes. Recent examples in the press have shown that Financial Institutions extract themselves from markets perceived to be higher risk, directly impacting the corporate tax collection potential in such markets.

**Trade finance gap:**
The global trade finance gap has grown since its initial measurement in 2014. While the GAP has grown from 1.4 trillion to 1.7 trillion, the percentage of global trade impacted has grown from 7.4% to 9.7%. Businesses surveyed in the report showed that 31%, the highest valued item, believed a lack of access to finance will be their firm's major barrier for the next five years. In response to the trade finance gap, trade associations, governments, intergovernmental agencies and multilateral Financial Institutions have started supporting digitization efforts.

## 3.4 Value to Regulators and Central Banks

Reducing fraud aligns well with the core objectives of regulators, who are focused on creating an environment that fosters an efficient financial system that can allocate savings to productive users of funds at the lowest cost. An efficient financial system should offer a large range of financial instruments and institutions to assist investors in balancing risk, liquidity, and returns. Fraud is a predicate crime to money laundering. In doing their jobs, regulators help to reduce fraud, leading to less illicit funds being laundered through the financial system. Digitizing fraud solutions can help regulators in meeting the following objectives:

**Market Stability:**
As highlighted by the ICC Trade Register, documented defaults can lead to a contraction in liquidity allocated to businesses. While many fraud-related defaults do not rise to the attention of the press, large-scale events do. Four examples of such events that have impacted the markets are:

**Arena Television:** An ongoing criminal investigation is being conducted into the business practices of individuals associated with Arena Television Limited. With 55 lenders owed £282 million between them. Of those, 46 creditors, owed a total of £182 million, "do not have recourse to any assets", and there is "a shortfall of several thousand assets"

**DeZheng Resources / Qingdao:** defaults were documented in the press almost a decade ago and impacted the financial services market by over 4 billion dollars. Fraudulent documents, duplicate financing and collateral fraud all played a part in this scheme.

**Hin Leong:** This scheme, uncovered in March of 2020, involved fraudulent documents and duplicate financing with an impact of over USD 3.5 billion.

**Phoenix Commodities:** A court in Australia has heard claims that documents underpinning a financing arrangement for collapsed trader Phoenix Commodities may have been fabricated. Dubai-headquartered Phoenix collapsed in April 2020, reportedly owing US$1.2bn to creditors.

Regulators have an interest in preventing such events outside of their borders, as these international events can have a direct impact on access to trade finance and liquidity within their own borders when financial institutions respond by reducing the flow of finance in that business area or product. This reduction in access is generally not equally spread but is felt mostly by the middle and lower end of the market. Fraud events also occur at a national level.

**Protect the interest of consumers and market participants:**
Building out from the examples listed above, each of these events not only impacts the companies directly involved, but also extends into the financial institutions that allocated financing to these users. This impact can be viewed through two lenses.

**Balance sheet and Profit and Loss impact of Financial Institutions involved:**
The actual defaults these organizations write off due to the fraudulent activity. The cost of litigation and the cost of process reviews and implementation of new risk controls to mitigate events.

**Missed opportunities:**
With capital locked up in unproductive activities, it cannot be used by other customers to create value. This directly impacts the business community. These impacts are generally felt by SME/MSMEs, while multinational companies with longer-term relationships confidently weather the storm.

# 4. Working to reduce fraud

We have seen how trade plays a critical role in the financial, economic, and social prosperity of nations. We have also seen how fraudulent activities in trade causes direct and indirect damage. While trade is generally considered a safe asset class, with many stakeholders already investing heavily into fraud mitigation activities, we recommend some additional actions that will further safeguard trade, bringing it forward to the next generation. These recommendations are made with full acknowledgment that this will be a long journey. Many of these recommendations align with existing investments that some in various communities are already making, and to that extent we seek to promote such practices to the ecosystem level.

## 4.1 Recommendations for the Financial Institutions community

Reducing fraud unlocks substantial value propositions for financial institutions, including increased profitability of trade business (through reduced losses, capital allocations and operating costs), the ability to offer better and more consistent customer experience for trade clients, increased ability to attract new clients and enter new markets in a safer way, and more efficient operations through de-risking trade and implementing digital innovation portfolios. The tasks below are recommended to both enhance the visibility into trade finance and safeguard the asset class:

| Task | Recommended action | Outcome |
|---|---|---|
| **Strengthen the ICC Trade Register** | The ICC Trade Register provides a rich source of valuable data on the health of the trade finance industry in relation to defaults across various regions and product lines. More financial institutions should contribute to the rich data set used to compile this report. Additionally, institutions should provide further insight into the reasons for default to ensure a rich data source highlighting the likelihood of occurrence of fraudulent activities across various markets. | Strengthening the position of the ICC Trade register as a tool used to assess the health of trade finance globally. Provide further insights into the drivers of defaults to enable the financial services industry to further reduce the likelihood of occurrence. |
| **Incorporate data authentication sources within trade processes** | Leverage source data from GLEIF to further strengthen the identity data leveraged throughout processes. Offer LEIs to customers as an optional service. Further, expand on the identity standards referenced in the WTO-ICC Standards toolkit under section 2 subsection 2.1.<br><br>Leverage additional sources that provide insight into the validity and accuracy of transportation documents. | Grow the quantity of LEIs globally. Richer legal entity identifier data used within the trade ecosystem enables reliable, trusted, verifiable legal entity identifiers to be incorporated into trade processes. |
| **Capture the minimum trade meta data from commercial invoices and title documents** | Incorporate WTO-ICC Standards toolkit into operations. This specifically includes capturing data from PDFs that can be leveraged to detect fraud. Specifically highlighting the requirements set aside in section 3 under the standards for commercial transaction documents. This includes data on commercial invoices, bills of lading, warehouse receipts and packing lists in trade processes. | Accessible, searchable meta data on commercial invoices, bills of lading, warehouse receipts, and packing lists. Financial Institutions able to detect fraud internally across various branches and regions of the world leveraging captured meta data on legal entities, commercial invoices, bills of lading, and warehouse receipts. |

| Task | Recommended action | Outcome |
|---|---|---|
| **Ecosystem level verification** | Leverage ecosystem bridging platforms and services to detect fraudulent activities being perpetrated against multiple financial institutions at the same time. Across first and second lines of defense, Financial institutions should adopt a global approach to detection of trade fraud typologies. This is particularly critical for investigations teams tasked with deciding whether unusual activity detected in trade should result in reporting to law enforcement via suspicious activity reports and escalation for client exit consideration. Additionally, strongly urge the provisioning of data collection and verification tools that leverage uniform standards to further reduce the risk of fraud. | Detection and prevention of trade finance fraud such as duplicate financing, identification of fake documents and collateral fraud. |
| **Engage in the G20 roadmap to enhance cross-border payments** | Become a validation agent in the Global LEI System and ensure clients who are active in cross-border payments have an LEI. | Help to prevent fraud with regards to financial transactions and misidentification. |
| **Wolfsberg Trade Finance Principles** | Implement the standards outlined for the control of financial crime risks (FCRs) associated with Trade Finance activities. Section 3 outlines Financial Crime Risks and the elements relating to trade finances transactions that FIs should be aware of. Consider Section 6, which consolidates recommendations across multiple stakeholder groups that can further reduce risks. | Clarity on the role of financial institutions in the management of processes to address the risks of financial crime associated with trade finance activities and aid compliance with national and regional sanctions and embargoes and with the Non-Proliferation of Weapons of Mass Destruction ("NPWMD") requirements of the United Nations ("UN"). |
| **Implement GSCFF and BAFT Global Trade Industry Council (GTIC) recommendations** | Adopt the Open Account, Supply Chain Finance as well as the corresponding industry recommendations and principles of GSCFF and BAFT/GTIC. | Enable those in the financial services industry to build strong, sustainable payables finance supply chain programs while mitigating inherent risks posed by bad actors. |

| Task | Recommended action | Outcome |
|---|---|---|
| **Uplifting capabilities** | Continued investment in internal trainings on cybercrime, AML, fraud as a whole will further ensure that the employees focused on both detection and prevention of fraud in trade finance is positioned to achieve their objectives. Additionally, leverage experienced employees to share red flags and experiences with more junior staff to ensure adequate knowledge transfers. | Empowered employee group who can detect and prevent fraud using the historical knowledge of more senior industry experts. |

## 4.2 Recommendations for Trade Associations

This paper recommends four activities trade associations can undertake to keep fraudsters out of trade finance. These activities have been modeled to align to the core capabilities of associations and with a longer time horizon which can be leveraged to achieve the desired results.

| Task | Recommended action | Outcome |
|---|---|---|
| **Create awareness of the impact of fraud** | Establish work groups to define industry objectives to prioritize fraud-risk prevention. Host webinars and panels to educate the global community on the impact of fraud and provide additional practical steps to be taken to minimize its impact on access to finance. | Generate the desire to further reduce global trade default rates by decreasing defaults linked to fraudulent activities. Enable financial institutions to further enhance their fraud detection capabilities to mitigate liquidity flowing to fraud driven operations. |
| **Raise awareness of the G20 roadmap to enhance cross-border payments** | Advocate for Financial Institutions to engage in the G20 roadmap and facilitate the global unique identifier for legal entities involved in cross-border payments. | Support the global initiative to create a global payments ecosystem that facilitates faster, more transparent cross-border payments. This ecosystem is a fundamental tool to de-risking and allowing for easier identification of fraudsters. |
| **Launch practical international collaborative project** | With many trade finance fraud examples requiring ecosystem engagement to both detect and prevent fraud events, a neutral body is needed to convene the financial services community around solutions that can resolve various fraud examples at scale. Trade associations are the perfect avenues for convening stakeholders around solutions that can practically resolve these in the shorter term. | Scale our solutions in the ecosystem which will lead to a reducing in fraud across the financial services community. |

| Task | Recommended action | Outcome |
|---|---|---|
| **Create best practice guidelines for Financial Institutions** | Advocate for financial institutions to adopt the WTO-ICC Standards toolkit in their core businesses and enable efficient paths of information submission from businesses who have leveraged these standards to create supporting content. Provide best practice guidelines for the verification of commercial invoices, bills of lading, warehouse receipts and packing lists.<br><br>Advocate for Financial Institutions to provide benefits to cooperating business community members by shortening either on-boarding or financing timelines. Advocate for financial institutions to leverage this higher quality data to both further enrich the ICC Trade Register, and, mature internal checking for multiple financing. Provide best practices to help guide the banking community towards achieving the above recommendations. | Reduction in fake companies financed. Reduction in fraudulent documentary trade transactions financed. Removal of major risk-related events from media impacting reputational damage of individual financial institutions and the financial industry as a whole. |
| **Create best practice guidelines for the business community** | Advocate for businesses to adopt the WTO-ICC Standards toolkit standards in their core businesses. Specifically, the use of standards for purchase orders, invoices, warehouse receipts, bills of lading and packing lists should be adopted. By ensuring that public standards form the basis of the information underlying trade financing decisions, financial institutions will be able to use this information more efficiently.<br><br>Provide best practice guidelines for the producers of commercial invoices, bills of lading, warehouse receipts; explain how to create quality, reliable and verifiable documents that can be used in trade processes. Advocate for businesses to adopt the LEI. Release best practices for businesses to achieve these goals.<br><br>Additionally set aside governance best practices for how relevant information is to be captured, maintained and shared within the ecosystem to ensure access to higher quality, reliable data. | Financial institutions will have access to standardized, higher quality data from the business community. This will have a direct impact on how efficiently financial institutions can leverage this information to detect and reduce fraud. |

| Task | Recommended action | Outcome |
|---|---|---|
| **Coordinate sharing of fraud typologies and red flags between financial institutions** | Leverage senior, experienced professionals to deliver a guidelines paper to share red flags encountered across the various fraud examples. Ensure that the paper enables practical data points, behaviors or scenarios to take into consideration when detecting fraudulent activities. | Increase the likelihood of identifying fraudulent transactions through the sharing of knowledge across institutions. |

As the world transitions from paper-based, analogue activities, it becomes imperative that this innovation is built on a resilient foundation. Trade associations play a foundational part in sharing the knowledge required to lay such a foundation on an international level.

## 4.3 Recommendations for Governments

Ensuring we safeguard against the erosion of trust and continue to make movements in reducing both the trade finance and value-added tax gaps, the below recommendations have been mirrored based on what has been executed in modern economies like India and Singapore.

| Task | Recommended action | Outcome |
|---|---|---|
| **Signal minimum data requirements for VAT related documentation in trade processes** | Recommend businesses and financial institutions capture and store data based on the WTO-ICC Standards toolkit, specifically highlighting purchase orders, commercial invoices, bills of lading, warehouse receipts and packing lists. Foster nationwide implementation strategies for the LEI to maximize the cross-sectoral benefits of the LEI, increase knowledge on the LEI to raise awareness of potential benefits and increase the visibility of LEI through public outreach initiatives. Consider adding, where appropriate, the LEI as a requirement in newly created or amended regulations when entity identification is needed. | Release of a letter through central financial institutions or tax collection arms highlighting requirements. |
| **Adopt the WTO-ICC Standards toolkit in governmental digital solutions** | With many governments investing in modernizing border, tax collection and corporate services systems, use the WTO-ICC Standards toolkit to incorporate identity, messaging, data sharing and content standards. | Seeding the use of standards into the market engaging with government. For example, usage of LEI and UNCEFACT data standards on the invoice, bills of lading and warehouse receipts. |

| Task | Recommended action | Outcome |
|---|---|---|
| **Adopt the WTO-ICC Standards toolkit in cross border trade pilots** | In cross-border trade digitization pilots that are government-driven, vendors and business participants should ensure that data utilized aligns to international standards defined in the WTO-ICC Standards toolkit. | Reducing the data translation requirements between different countries involved in cross-border trade activities. Reduce the risk introduced by having translation requirements. |
| **Legal obligations on content producers** | Make it a legal obligation on the issuer of trade related documents to ensure accuracy, and for the relevant authorities to verify where possible. These include bills of lading, commercial invoices, warehouse receipts and packing lists. | Increased quality of reliable data presented to financial institutions for financing, placing accountability on the producers of information. |
| **Wolfsberg Trade Finance Principles** | Governments, FIs, Trade Bodies and international Trade Logistics providers should work together to counter the threat of financial crime within Trade Finance. This includes the ability of FIs to aggregate data freely across borders to identify, detect and prevent Financial Crime. All parties in the public and private sectors should ensure that there are clear data information exchange protocols. | Enhanced accessibility to data points across both financial institutions and jurisdictions to combat various fraud types. |
| **Legal obligations on data movements** | Governments should examining regulatory implications related to financial institutions ability to share information both within their own borders and internationally. Work with intergovernmental organizations, governments and trade associations to remove the regulatory barriers preventing financial institutions from sharing information in order to enhance their ability to detect and prevent fraud. | Improved ability to detect fraudulent actors in the trade finance ecosystem through greater sharing of specific data sets required for specific fraud typologies in the community. |

## 4.4 Recommendations for Regulators

The steps recommended below align to the core objectives of stabilizing the financial ecosystem and protecting the interests of financial institutions, companies and people. Our recommendations align to mechanisms used by regulators to signal to markets that new norms are required.

| Task | Recommended action | Outcome |
|---|---|---|
| **Ensure banking regulation includes explicit expectations related to trade finance fraud** | Enhanced regulation specific to trade finance fraud flowing from legislation like the Anti Money Laundering Act of 2020 in the US, resulting in examiner guidance in the FFIEC manual around extraction of data from trade documents, use of data sources, technology, etc. | Trade finance fraud is detected and prevented as a priority. |
| **Take note of the G20 roadmap to enhance cross-border payments and the development of common message formats, data exchange protocols, and standardize data** | Take steps to implement the recommendations regarding a global unique identifier for legal entities and consider issuing guidance and carrying out further outreach regarding sanctions, customer due diligence and wire transfers, and how the LEI may be used as a standardize identifier for sanctions lists or as the primary means of identification of legal entity customers or beneficiaries. | Strengthened data standardization as well as assisting and supporting STP, KYC processes and sanction screening. This ensures a global ecosystem where trade and the associated payment flows use the same standards. This would significantly improve the ability to identify fraudsters by ensuring maximum transparency, interoperability and clear communication with the involved parties. |
| **Include trade finance as an industry in new initiatives specific to technology and information sharing** | New initiatives flowing from regulation, such as ultimate beneficial ownership registries and cross-border sharing of SAR information, should be broadened to include trade finance information such as transaction-specific identifiers at the digital documentary level. | Build national and global critical identifier data for individuals, companies and documents to prevent fraud and money laundering. |

**About MonetaGo**

MonetaGo is a fintech solutions provider that empowers regulated industries to solve systemic risks through privacy-preserving data analytics at scale. The award-winning Secure Financing system, built to scale at the global level to support multiple use cases, positions MonetaGo as the world's foremost provider of fraud prevention technology.

**About the International Chamber of Commerce Germany**

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 170 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. ICC Germany is the representative voice for ICC in Germany and provides a mechanism for German business to engage effectively in shaping international policy, standards and rules.