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## ***Fraud Prevention In International Trade Finance Operations*** *...key features... identification techniques and avoidance of loss*

**Yerevan: Thursday 4 February and Friday 5 February 2010**

**Hosted by Armeconombank**



### **Introduction**

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Trade Finance is generally considered to involve less risk for banks than other mainstream forms of bank financing. Traditionally banks have had very low loss provisions when providing finance that is underpinned by genuine trade related shipments of goods.

However, trade finance is based on a system of procedures and international banking rules which establish the obligations of banks in international trade finance trade deals.

All systems are open to attack by unscrupulous entities and trade finance is no exception.

This workshop will focus on fraud identification and prevention in international trade finance operations.

- The obligations of banks under trade finance instruments and international rules will be examined in detail.
- Typical scenarios used by trade finance fraudsters will be explained and analysed in detail.
- Landmark court judgements will be presented and explained.
- Techniques for identification of fraud in documents and transactions.

Processes and procedures which assist in the identification of potentially fraudulent cases and which set out steps to be taken when fraud is suspected will be explored. The workshop will be interspersed with real life scenarios with specific reference to a number of landmark legal cases involving trade finance fraud. Application of international trade banking rules will be explained.

This workshop will be of benefit to participating bank staff working in documentary operations, trade finance or structured finance and risk management departments. The workshop will also be of value to staff working in credit departments or involved in trade related business development or assessment.

**Venue: Armeconombank Head Office Training Room  
4th floor. 23/1 Amiryan Str. 0002 Yerevan, Armenia**

**Duration: Two day workshop from 09.00 until 17.00 each day**

#### **Certification:**

**All successful participants will be awarded certificates by the EBRD at the workshop evening dinner reception.**



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## Workshop Contents

This **'Fraud Prevention'** workshop will be case driven to gain maximum benefit for participants.

### Section 1 – Key aspects of the international sales contract.

- (i) The international sales contract.
- (ii) Summary of Incoterms 2000:
  - Common errors in application of Incoterms 2000;
  - Risks and Responsibilities of Sellers and Buyers.
  - Difference between contractual performance dispute and fraud related dispute
- (iii) Summary of Payment Structure and flow of money and goods in International Trade Finance:
  - Open Account;
  - Collections and URC 522
  - Documentary Credits and UCP 600
  - Bank Guarantees and URDG 458
  - Standby Documentary Credits and UCP 600 or ISP 98.
  - Payment in Advance.

**Case 1 – Participants to identify where the above trade related products provide opportunity for fraudulent schemes or intervention.**

### Section 2 – The bank and customer relationship

- (i) Customer profiles that provide fraud warning signals.
- (ii) 'Know your customer' (KYC) and the occasional need to 'Know your Customers Customer' (KYCC)
- (iii) Customer manipulation of bank staff creating opportunities for:
  - Internal bank fraud;
  - Beneficiary fraud;
  - Beneficiary and applicant collusion fraud;
  - Discounting letters of credit and post financing notification of fraud.
  - The art of deception.

**Case 2 – Analysis of key ingredients in famous fraud case – Solo Industries.**

**Section 3 – The Documentary Credit as a secure payment instrument but also as a system exposed to risk of loss from fraud.**

- (i) Introduction;
- (ii) The Technical Role of Parties to Documentary Credit
- (iii) Documentary Credit Cycle and Tenor V Asset Conversion Cycle
- (iv) Impact of Fraudulent Transport Documents;
- (v) Conflict between geography of voyage and documents requested for presentation;
- (vi) Insurance related fraud in context of documentary credit operations
- (vii) Fake or falsification of third party documents such as pre- shipment inspection certificates.

**Case 3 – Exposure of timing opportunities for fraud during documentary credit cycle.**



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#### **Section 4 – International Trade Banking Rules and Fraud**

- (i) Protection of Nominated Bank – Article 12 UCP 600
- (ii) Exposure of Conforming Bank – Article 8 of UCP 600
  - Reimbursement obligation of issuing bank to confirming bank in event of discounting;
  - Notice of potential fraud and actions of Nominated or Confirming Bank;;
  - Comparison of treatment of legal systems in various jurisdictions;
- (iii) Disclaimer on effectiveness (falsification) of documents – UCP 600 Article 34;

The use of guarantees or standby letters of credit to engineer a fraud;

- (v) Guarantee/Standby LC as payment instrument
- (vi) Guarantee/Standby LC as instrument to engineer fraud.

#### ***Case 4 – The impact of the Banco Santander V Bankque Paribas case.***

#### **Section 5 – Trade Finance Fraud Identification and Prevention**

- (i) Parties using local trusted parties to create confidence;
- (ii) Highly complex transactions geared to confuse the unsuspecting bank victim;
- (iii) The terminology of the international trade finance fraudster;
- (iv) Verification of the counterparties;
- (v) Verification of the underlying transaction;
- (vi) Verification of transport documents when deemed necessary;
- (vii) Triggers and related actions to be taken on suspicion of fraud in underlying transaction or in documents presented;
- (viii) Modification of trade fiancé fraud schemes to undertake money laundering activities;
- (ix) The use of technology to avoid fraud and to monitor and identify potentially fraudulent profiles:
  - Customer profiles;
  - Transaction profiles;
  - Repeating transactions but with dramatic increases in values leading to trade fiancé pyramid schemes;



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## The Facilitator:



**Mr. Vincent O'Brien** is a highly experienced practitioner of International Trade Finance being a long-standing member of the **ICC Banking Commission**. He has more than 20 years international trade banking experience and has delivered trade finance technical assistance and training in more than 50 countries worldwide.

**Mr. O'Brien** is a member of the **ICC's Forfeiting Task Force** (Discounting of Bank Deferred Payment Obligations) as well as a member of the **ICC's Task Force on Guarantees**.

**Mr. O'Brien** is a regular and respected contributor to international trade finance publications such as **Documentary Credits Insight, Global Trade Review, LC Monitor and Documentary Credit World** and he has successfully acted as expert witness for banks in cases involving fraud and the application of ICC rules.

He has participated in workshops on trade finance fraud with senior representatives from the **ICC Commercial Crime Bureau**.

He was recently appointed as the **ICC Banking Commission Representative to the WTO Expert Group on the Financial Crisis**.

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