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Enforcement Status of the Guidelines to Prevent Trade-Based Money Laundering

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Foreword

Trade-Based Money Laundering (TBML) remains one of the most sophisticated and least detected forms of financial crime, exploiting the complexity of international trade, the volume of transactions, and gaps across regulatory, supervisory, and enforcement frameworks. For a trade-dependent economy like Bangladesh, the risks associated with TBML extend far beyond compliance concerns, posing serious implications for financial stability, revenue mobilization, banking sector soundness, and the country's global reputation. This keynote paper, "Enforcement Status of the Guidelines to Prevent Trade-Based Money Laundering" was presented in a roundtable discussion held on 22 July, 2025, a timely and rigorous examination of the enforcement landscape of TBML standards in Bangladesh, while situating the country's experience within relevant global practices. The study goes beyond a rule-based assessment and appropriately focuses on enforcement effectiveness—an area that has gained increasing emphasis under international AML/CFT standards.

The paper highlights the uneven effectiveness of transaction-level controls, limitations in automation and data integration, challenges in enterprise-level risk assessment, and the critical role of legal enforceability, inter-agency coordination, and institutional capacity in shaping TBML outcomes.

One of the key contributions of this paper lies in its structured analytical framework, which emphasizes that effective TBML enforcement rests on three mutually reinforcing pillars: Process and Systems, People, and Incentives. This perspective is especially relevant for policymakers, regulators, and bank boards, as it underscores the need to treat TBML not merely as a compliance requirement but as a strategic risk management issue requiring sustained investment, accountability, and coordination.

We believe the findings and recommendations of this paper will be valuable to regulators, financial institutions, law-enforcement agencies, and other stakeholders engaged in combating financial crimes through the trade channel.

I hope this paper will stimulate informed discussion, guide practical reforms, and serve as a useful reference for future policy formulation and capacity-building initiatives aimed at strengthening the enforcement of TBML standards in Bangladesh.

Md. Ezazul Islam, Ph.D.
Director General, BIBM

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Executive Summary

Trade-Based Money Laundering (TBML) has emerged as one of the most complex and least detected channels of illicit financial flows globally, exploiting the scale, opacity, and documentation-driven nature of cross-border trade. For developing economies such as Bangladesh—where trade finance plays a pivotal role in growth, foreign-exchange earnings, and financial stability—weak enforcement of TBML standards poses significant risks to fiscal revenues, banking soundness, and international credibility.

This roundtable paper examines the enforcement status of TBML standards in Bangladesh, drawing on global experiences, regulatory frameworks, and empirical evidence from both primary and secondary sources. The study uses a mixed-method approach, including a questionnaire survey of 37 commercial banks, Focus Group Discussions (FGDs) with trade-finance and AML practitioners from 24 banks, and an extensive review of international standards, country case studies, and regulatory data.

Globally, TBML accounts for a substantial share of illicit financial flows, yet remains under-reported due to fragmented data, weak customs-bank coordination, and limitations of traditional AML monitoring systems. International best practices emphasize risk-based, data-driven supervision, integration of customs and banking data, and strong inter-agency cooperation. Country cases reviewed in the paper demonstrate that effective TBML enforcement depends not only on the existence of guidelines, but on the credibility of supervision, automation of controls, staff capability, and meaningful sanctions.

In the Bangladesh context, the TBML control architecture is anchored in the Money Laundering Prevention Act (MLPA) 2012, its Rules, and the Guidelines for Prevention of TBML (2019), with the Bangladesh Financial Intelligence Unit (BFIU) acting as the central supervisory authority. While all surveyed banks have adopted TBML guidelines and implemented a three-level transaction review system, the effectiveness of these mechanisms remains uneven. Gaps persist due to manual escalation processes, inadequate role clarity across review levels, limited use of automated trade-data analytics, and inconsistent compliance culture across banks.

Key findings of the paper reveal that although formal compliance with TBML guidelines is widespread, substantive enforcement effectiveness remains weak.

A significant proportion of banks rely on manual or partially automated systems for escalation and monitoring, resulting in delays, inconsistent decision-making, and limited enterprise-level learning. The absence of dedicated TBML review teams, fragmented dissemination of new typologies, insufficient integration of customs and trade data, and limited analytical capability constrain proactive detection. Furthermore, supervisory actions and penalties, while present, lack sufficient deterrent effect, and board-level oversight of TBML risks remains underdeveloped across many institutions.

At the enterprise level, although banks review TBML alerts and sanctions screening, many lack yearly review teams, structured dissemination of new TBML typologies, and dedicated research or analytics capacity. Automated escalation systems, vessel tracking, price-verification databases, and KYCC (Know Your Customer's Customer) analytics are either absent or partially implemented in a significant number of institutions.

The paper also highlights systemic challenges related to legal enforceability of trade contracts, weak dispute-resolution mechanisms, and the absence of harmonized international frameworks such as the CISG and UNIDROIT principles, which expose banks to heightened TBML and credit risks. Case studies illustrate vulnerabilities arising from beneficial ownership opacity, related-party transactions, phantom shipments, fake bills of entry, and non-repatriation of export proceeds.

Overall, the findings indicate that TBML enforcement in Bangladesh is constrained less by the absence of rules and more by gaps in enforcement capacity, particularly across three mutually reinforcing pillars- (i) Process and Systems, (ii) People, and (iii) Incentives.

The paper concludes that strengthening TBML enforcement requires treating TBML not merely as a compliance obligation but as a strategic business and systemic risk. Key priorities include deeper integration of customs and banking data, automation of escalation and monitoring systems, enhanced supervisory transparency, stronger accountability for boards and senior management, targeted capacity building for regulators and bankers, and incentive structures that reward effective risk management while penalizing willful non-compliance. Addressing these gaps is critical for safeguarding Bangladesh's financial system, preserving trade competitiveness, and ensuring alignment with evolving global AML/CFT expectations.

List of Abbreviations

AD	Authorized Dealer
ADB	Asian Development Bank
AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ASYCUDA	Automated System for Customs Data
BB	Bangladesh Bank
BCBS	Basel Committee on Banking Supervision
BFIU	Bangladesh Financial Intelligence Unit
BRPD	Banking Regulation and Policy Department
CAD	Cash Against Documents
CAMELCO	Chief Anti-Money Laundering Compliance Officer
CDD	Customer Due Diligence
CIID	Customs Intelligence and Investigation Department
CID	Criminal Investigation Department
CIB	Credit Information Bureau
CISG	United Nations Convention on Contracts for the International Sale of Goods
CFT	Counter Financing of Terrorism
DA	Documents Against Acceptance
DECAMECO	Deputy Chief Anti-Money Laundering Compliance Officer
DNFBPs	Designated Non-Financial Businesses and Professions
DP	Documents Against Payment
EDD	Enhanced Due Diligence
ESW	Egmont Secured Web
EU	European Union
FATF	Financial Action Task Force
FGD	Focus Group Discussion
FIU	Financial Intelligence Unit
GAO	Government Accountability Office (USA)

GFI	Global Financial Integrity
GFET	Guidelines for Foreign Exchange Transactions
HS Code	Harmonized System Code
IMF	International Monetary Fund
KYC	Know Your Customer
KYCC	Know Your Customer's Customer
LC	Letter of Credit
LEA	Law Enforcement Agency
MAS	Monetary Authority of Singapore
MLAR	Money Laundering Activity Report
MLPA	Money Laundering Prevention Act
NCC	National Coordination Committee
NBR	National Board of Revenue
NPL	Non-Performing Loan
ORM	Operational Risk Management
PAD	Payment Against Documents
PEP	Politically Exposed Person
RO	Reporting Organization
RJSC	Registrar of Joint Stock Companies
SAR	Suspicious Activity Report
SCF	Supply Chain Finance
SBLC	Standby Letter of Credit
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TF	Terrorist Financing
TTU	Trade Transparency Unit
UNCTAD	United Nations Conference on Trade and Development
UNIDROIT	International Institute for the Unification of Private Law
UNODC	United Nations Office on Drugs and Crime
WTO	World Trade Organization

Enforcement Status of the Standards to Prevent Trade-Based Money Laundering

Section 1: Introductory Note

With the expansion of international trade[1], the scale, trend, and cases of Trade-Based Money Laundering (TBML) expanded as one of the most complex forms of illicit financial flow in the globalized economy. In practice, TBML schemes exploit the complexities of global trade, misrepresenting the price, quantity, or quality of goods, falsifying documents, or even shipping phantom cargo – all to transfer criminal proceeds under the cover of legitimate commerce (FFIEC, 2021). Because international trade involves multiple parties, jurisdictions, and vast volumes of transactions, TBML is considered one of the most complex and least detected forms of money laundering (ZIGRAM, 2023). Financial Action Task Force (FATF, 2006) identifies TBML as one of the three main laundering typologies worldwide, alongside abuse of the formal financial sector and physical cross-border cash smuggling. Yet, historically, the global enforcement community devoted far less scrutiny and resourcing to the trade domain than to the banking sector, creating an 'enforcement gap' that has made TBML an increasingly attractive channel for criminals (FATF, 2006). Because trade-based schemes often escape conventional AML controls, regulators must treat significant, unexplained trade discrepancies as presumptive money-laundering offences to deter criminals; otherwise, TBML will continue to be, as one analyst warns, a 'huge hole in the enforcement net' where complex trade deals conceal illicit wealth with little fear (MoneyLaundering.com, 2023).

Each year an estimated 2-5 % of world GDP-roughly USD 800 billion to USD 2 trillion-is laundered through the financial system (UNODC, 2025). TBML is widely thought to underlie about 30% of all laundering schemes,

[1] World merchandise trade reached USD 24.01 trillion in 2023 despite a brief volume contraction, underscoring the sheer liquidity of cross-border commerce available to criminals for invoice manipulation and value transfer (WTO, 2024).

yet it is rarely flagged; in 2019, only 0.2 % of Suspicious Activity Reports (SARs) referenced TBML (World Economic Forum, 2021). Global Financial Integrity (GFI) mapping court cases in 77 countries found just USD60 billion in proven TBML between 2011 and 2021, underscoring the enormous detection gap (GFI, 2023). TBML hurts poorer nations disproportionately, where illicit trade mis-invoicing and associated tax evasion drained almost USD 9 trillion from developing economies between 2008 and 2017 (World Economic Forum, 2021). Earlier GFI research calculated that USD 6.6 trillion left these countries from 2003 to 2012, an average of 3.9% of their GDP and rising 9.4% a year; critically, trade mis-invoicing accounted for 77.8% of those outflows (GFI, 2014). These figures highlight how weak customs oversight and opaque supply chains enable large-scale capital flight from the developing world.

Bangladesh estimated that roughly 75% of domestic money-laundering cases involve trade channels (NBR, 2023). Since the 2015 amendment to Bangladesh's AML law, the Customs Intelligence and Investigation Directorate has opened 95 TBML cases involving BDT 3,201 crore (USD 320 million)[2]. Independent analysis suggests the drain is much larger. Trade mis-invoicing siphoned off an average USD 8.27 billion per year from 2009 to 2018, a sum equal to about 2% of current GDP and larger than annual public health spending (GFI data cited in The Business Standard, 2022). A 2024 white paper based on updated GFI (2024) data estimated USD 16 billion in annual trade-related outflows (3.4% of GDP) from Bangladesh over 2009-2023, concentrated in textiles, consumer goods, and petroleum imports[3]. These numbers confirm that TBML poses a systemic risk to Bangladesh's fiscal stability and underscore the need for stronger customs-BFIU analytics and regional information-sharing.

Why is stronger TBML enforcement non-negotiable for Bangladesh? A large volume of illicit outflows shrinks customs/VAT receipts, narrows the

[2] The Daily Star (2023): https://www.thedailystar.net/news/bangladesh/news/

[3] Financial Express, December 02, 2024: today.thefinancialexpress.com.bd.

budget for infrastructure and social programs, and distorts official trade data that guide industrial policy. FATF warns that jurisdictions unable to curb TBML face grey-listing, higher correspondent-banking charges, and withheld supplier credit, raising the cost of doing business for exporters (FATF, 2024). For an export-reliant economy that must preserve foreign-exchange buffers, closing the TBML 'revenue drain' is therefore a development and competitiveness imperative.

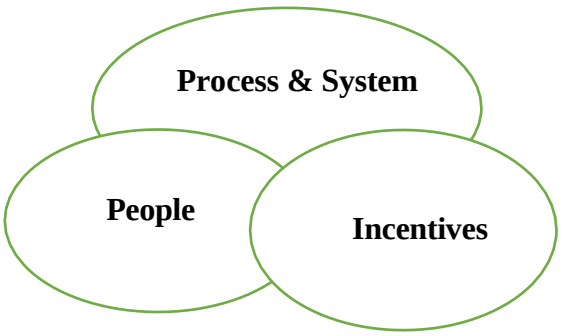
In the context of developing countries, enforcement of TBML standards still lags because price-benchmark data, beneficial-ownership records, and inter-agency connectivity remain fragmented. FATF & Egmont Group (2020) note that most customs services lack tools to compare invoice prices with live market feeds; trade, tax, and FIU databases sit on incompatible platforms; and free-trade zones or shell companies can hide the trail. Without real-time data fusion and ownership transparency, red flags surface too late for asset-tracing (World Economic Forum, 2021). Bangladesh seems not to be very different.

Despite notable improvement in terms of the formulation of TBML standards and relevant policies in Bangladesh, several apparent gaps remain on the ground in their enforcement. Policymakers and banks in the country still seem to struggle to keep pace with the risks associated with the enforcement of TBML standards, in a scenario of shifting to less transparent payment methods, swelling of multi-dimensional trade, banking-related crimes, and lack of adequate incentives.

On the above background, the round-table paper is about to examine of the enforcement status of TBML standards to identify gaps and to capture the way forward for an improved framework to handle the TBML challenges of the country. Specific objectives of the paper are: ***one,*** to discuss conceptual issues and global experiences associated with enforcement of TBML standards; ***two***, to examine enforcement status of TBML standards in the context of Bangladesh and the associated issues and conditionalities; and ***three,*** to put forward policy and operational initiatives to ensure improved environment for handling TBML in the country.

Both secondary and primary data were used to attain the objectives of the study. Published reports and articles in different journals formed the foundation of the conceptual review. Country experiences and cases are drawn from secondary sources of the international agencies and country-specific monetary authorities. Published sources by Bangladesh Bank and BFIU were important sources of information for the study. A questionnaire survey was conducted to identify the implementation status of TBML guidelines by the selected commercial banks, and to draw opinions on the relevant issues, and received responses from 37 banks. An FGD with the

Figure 1.1: Interrelated Mutually Reinforcing Pillars for Enforcement of TBML Standards



participation of trade service practitioners and CAMELCO/DECAMECO (from 24 banks) was an important source of opinions on selected critical factors and conditionalities for effective enforcement of TBML standards in the country. Enforcement of compliance requirements is a wider concept (commonly confused with implementation) that includes country-level system related to the end-to-end 'regulatory-supervisory-investigative-judicial' cycle. A holistic enforcement review therefore, goes well beyond checking whether banks have TBML manuals or not. Effective enforcement of TBML standards rests mainly on three mutually reinforcing pillars: Process & System, People, and Incentives (Figure-1.1). The term 'guidelines' and 'standards' are used synonymously in the study.

When these three elements advance together, detection improves, enforcement actions gain credibility, and criminal networks face higher costs of abuse; when any one pillar lags, TBML simply migrates to the weakest jurisdiction (FATF & Egmont Group, 2020; US-GAO, 2020).

Ideally, the study should engage the key stakeholders covering policy and regulatory authorities; financial sector; private and business entities; law enforcement and judicial bodies; trade and logistic supply-chain actors; professional associations; technology service providers; international development partners; and civil-society and academia. The study, however based on secondary information and draws data and opinions/consultations with regulators and the banking industry of the country.

This paper is organized into five sections. First, the Introduction outlines the background and importance of addressing TBML, especially for developing economies, including Bangladesh. The second section offers a conceptual and theoretical review of TBML, and the third section examines global experiences with TBML enforcement, highlighting case studies on a few countries. Section four deals with the Bangladesh case to identify the status and gaps associated with the enforcement of the TBML standard. Finally, section five provides policy and operational recommendations for strengthening TBML enforcement, in line with the enforcement gaps and tailored to the country's needs.

Section 2: Conceptual Review of the Issues and Concerns of TBML Enforcement

Unlike many financial crimes that pass through the banking system alone, TBML exploits the very architecture of cross-border trade. Criminals embed falsified or manipulated documentation inside standard trade-finance instruments and the flow of funds, which makes detection exceptionally difficult (Tookitaki, 2024).

2.1: Principles and Criteria for Effective TBML Enforcement based on Global Standards

To address TBML challenges, policymakers and banks must anchor their TBML frameworks in globally-recognized standards (Box-2.1). Aligning domestic rules with these benchmarks ensures common red-flag indicators, price-verification methodologies, and STR reporting formats, facilitating cross-border intelligence-sharing and mutual legal assistance. There is growing evidence that only by combining globally recognized best-practice frameworks with context-specific controls can authorities and banks protect the integrity of trade-finance portfolios and disrupt sophisticated money-laundering networks (BCBS & ICC, 2022). And, because TBML is so tightly interwoven with both trade-finance products and the enforceability of the underlying commercial contracts, an effective enforcement framework must go beyond conventional Anti-Money-Laundering controls.

Box -2.1: Key Global Guidelines and Standards

FATF 40 Recommendations: While no single Recommendation is TBML-specific, Recommendations oblige countries to assess and mitigate TBML risks, and Recommendations 10-20 extend Customer Due Diligence, monitoring, and STR filing to trade finance (FATF, 2013).

FATF Best-Practice Papers: The 2008 Best Practices on TBML and the joint FATF/Egmont 2020 report call for multi-agency coordination, customs, FIUs, law-enforcement, and data-sharing partnerships with banks, use of Trade Transparency Units to compare mirror-trade data (FATF & Egmont Group, 2020).

World Customs Organization Toolkits: WCO's Customs Enforcement Network guidelines (2021) integrate AML red flags into inspections and spotlight vulnerabilities in free-trade zones, pushing customs-FIU cooperation.

Banking Industry Guidance: The Wolfsberg Group, ICC, and BAFT urge banks to implement robust KYC/KYB, scrutinise shipping documents, and consult commodity-price and sanctions databases to detect anomalies (ICC, 2022). Basel Committee guidance on sound credit risk practices helps tailor implementation to local realities (e.g., dominant commodity flows, legal-enforcement constraints, data-quality issues).

In line with FATF methodology, five elements signal whether a jurisdiction is truly enforcing TBML standards or controlling TBML: *Statutory coverage* i.e. the criminal code must treat trade mis-invoicing and false customs declarations as 'predicate offences'[4] to money-laundering so that prosecutors can bring TBML charges (FATF, 2013); *Government Agency coordination* i.e. an inter-agency task force linking the Financial Intelligence Unit (FIU), customs, tax, and police should routinely pool intelligence on suspect shipments and payments (FATF, 2021); *Risk-responsive Reporting* i.e. banks and other 'obliged entities'[5] need to file Suspicious Transaction Reports (STR) that explicitly tag trade anomalies which is viewed as evidence of stronger vigilance (ADB, 2022); *Cross-border Assistance* i.e. investigators must use mutual-legal-assistance channels and customs data-sharing to follow the money and goods trail (FATF, 2013); and *Tangible Outcomes* i.e. evaluators look for completed investigations, prosecutions, asset seizures and convictions tied to trade schemes, Global Financial Integrity (2023) cites as the ultimate proof of effective enforcement.

2.2: Trade Finance Products and TBML Enforcement Challenges

Where bank oversight and third-party documentation are thin, laundering networks find it easier to manipulate invoices, recycle paperwork, and disguise value transfers. Conversely, heavily documented instruments narrow the attack surface but are still exploitable with forged or collusive paperwork. Below is an updated look at the main instruments (payments and financing) together with the principal TBML vulnerabilities observed in global investigations, and a comparative statement (Table-2.1).

Cash in Advance: When importers pre-pay for goods, banks see only a funds transfer—no shipment data or third-party documentation to validate the

[4] The original crime that makes the dirty money i.e. the 'first wrong act' (for example, drug dealing, fraud or tax evasion); Money-laundering happens after this crime to hide or move the illegal money.

[5] Businesses that must watch for money-laundering and report anything suspicious include banks, money-transfer services, insurance companies, lawyers, accountants, etc.

trade. That blind spot makes it easy to over-invoice or create phantom cargo, a vulnerability acknowledged by FATF, which flags cash-in-advance transfers as inherently suspicious because money moves before goods (FATF, 2020). Risk, therefore, rises sharply when counterparties are related or domiciled in secrecy jurisdictions.

Open-Account Terms and Embedded Supply-Chain Finance: Under open-account arrangements, the exporter ships first and is paid later. GAO calls open account the principal systemic TBML vulnerability in USA trade (GAO, 2020). The risk multiplies when supply-chain-finance (SCF) tools payables finance, factoring, or dynamic discounting, enter the picture. Financiers rely on digitized invoices supplied by buyers or sellers; launderers can inflate or duplicate those invoices across platforms before they are discounted (Aidoo, 2025). Minimal documentation, high volume and real-time processing combine to make open account/SCF channels very high risk for TBML.

Documentary Collections (DP, DA): Collections involve banks in the document flow, the exporter's bank forwards originals to the importer's bank against payment or acceptance. This provides a paper trail, yet FATF notes banks do not necessarily verify the authenticity or commercial logic of those documents (FATF, 2020). Forged bills of lading, recycled shipping papers, and mis-priced invoices therefore remain common, putting collections in the medium-to-high risk bracket.

Letters of Credit (LCs): LCs impose the most rigorous documentation. The issuing bank pays only on presentation of compliant papers. Still, organized TBML networks forge invoices, swap beneficiaries at the last minute, or layer collusive amendments. Comply an advantage (2025) cites cases of 300 percent over-pricing hidden behind authentic-looking LC packets. The strong audit trail keeps overall risk moderate, but quality forgeries and insider collusion can neutralize safeguards.

Digital Supply-Chain-Finance Platforms: SCF marketplaces and inventory-

finance tools discount or purchase invoices in real time. A 2025 policy study estimates that up to USD 1.6 trillion is laundered annually by altering invoice values or splitting shipments across multiple SCF deals (Aidoo, 2025). Duplicate financing, lag between rival platforms, and weak KYC on long-tail suppliers push SCF into the high-risk tier even higher than traditional open-accounts.

Bank Guarantees and Stand-by LCs (SBLCs): Guarantees trigger only if performance fails, long viewed as 'low risk.' Yet AML-CFT typologies show launderers pledging guarantees as collateral between unrelated parties or orchestrating artificial calls to shift funds (AML-CFT, 2021). Historic probes link SBLC chains to tax-evasion and large-scale loan fraud (MoneyLaundering.com, 2015). Because 9tilization is infrequent, suspicious draws can go unnoticed, placing guarantees/SBLCs in a medium-high risk category.

Table 2.1: Comparative TBML Risks

Instrument	Typical TBML abuse	Indicative risk
Cash-in-Advance	Phantom or over-invoiced cargo	High
Open Account / SCF	Over/under-invoicing, duplicate invoices	Very High
Documentary Collections	Forged/recycled papers; mispricing	Medium-High
Letters of Credit	Forged docs; beneficiary switching	Medium
Bank Guarantees / SBLCs	Artificial calls; third-party collateral	Medium-High

From the above discussion and secondary literature, several lessons may be drawn for the operational bankers and policy makers (Box-2.3).

Box 2.3: Lessons for Effective TBML Risk Enforcement

Depth of documentation matters but is not decisive. LCs add friction yet can still be gamed with high-quality forgeries; open-account and SCF require fresh data-sharing models to close visibility gaps.

Digital SCF platforms are the new frontier. Rapid invoice-discounting and marketplace financing multiply exposure controls must include duplicate-financing checks, supplier KYC, and price-benchmarking feeds.

Guarantees deserve a second look. Treating SBLCs and bank guarantees as intrinsically "low risk" ignores recent enforcement cases; periodic review of dormant guarantees and a typical collateral structure is essential.

Risk-based monitoring must integrate trade and payment data. ICE highlights that long supply chains and siloed data sets widen vulnerabilities; therefore, cross-referencing shipping, customs, and financing data is critical.

Global standards, local tailoring. Whether applying FATF red-flag indicators or Wolfsberg trade principles, controls must be customized to each corridor, commodity, and financing technique.

Note: Based on HSI/ICE, 2025; AML-CFT, 2021; Aidoo, 2025.

2.3: Legal Enforceability of Contract, Associated TBML Risk and Enforcement

Purchase-sale contracts are the cornerstone of international trade, whatever the methods of payment. The contract must be legally enforceable to draw optimum protection for the traders and have implications for TBML enforcement. TBML almost always involves multiple countries, which complicates legal enforcement of purchase-sale contracts in international trade transactions. TBML often thrives in environments where contract enforcement is weak and legal compliance is lax (Habib *et.al*, 2021). If an exporter can default on delivering goods or an importer can default on paying, with little fear of legal consequences, then laundering money under the guise of such defaults becomes feasible. Complex arbitration and sovereign issues are key elements of enforceability. When governments or large institutions are involved, disputes may go to international arbitration

rather than criminal courts (Sentry, 2021). While arbitration might help a bank recover some losses, it does not hold individuals criminally accountable for laundering or corruption.

The United Nations Convention on Contracts for the International Sale of Goods (CISG) and the International Institute for the Unification of Private Law or Principles of International Commercial Contracts (UNIDROIT Contract Principles or UPICC) are considered crucial to harmonize and modernize international contract law (Dennis, 2014). These sets of rules can automatically apply to the contracting parties if they are both from signatory countries (UNCITRAL Digest 2008). The CISG and domestic law can also be observed in a sound harmony[6] with each other, as CISG is not forcibly applied over the international contracts of sales of goods (Michael S. Anderson, 2015). While CISG is a binding instrument that applies to contracts of sale of goods between parties whose places of business are in different States, the UNIDROIT Principles are a soft-law instrument aimed at harmonizing the international commercial contract law by providing rules supplementing CISG and even domestic laws[7]. Taken together, these two instruments provide a comprehensive and modern framework for international sales and contract law (unidroit.org, 2020).

Empirical studies show a strong correlation between weak contract-enforcement scores and higher levels of trade misinvoicing and illicit capital flight (World Bank, 2022). Where court backlogs, corruption, or uncertain judgments make it unlikely that a defrauded buyer or bank will recover losses promptly, criminals face little downside in defaulting on sham purchases or over-valued exports. FATF notes that this 'enforcement gap' is a primary driver of TBML in parts of Sub-Saharan Africa, South Asia, and certain Latin-American corridors, because launderers can treat contractual defaults as a low-risk cost of doing business (FATF, 2020).

[6] Article 92 and Article 94 of the CISG provide the opportunity to the CISG and the domestic law to co-exist; neither CISG overcomes the domestic law forcibly, nor the domestic law overcomes the CISG forcibly and the co-existence and unification of the CISG and domestic remains intact (Coetzee, Gama 2006).

[7] https://www.unidroit.org/unidroit-covid-19/#1456405893720-a55ec26a-b30a

Therefore, adopting 12armonized frameworks such as the CISG, investing in a cross-border arbitration system, and streamlining cross-border judgment recognition are frontline AML tools that raise the costs and lower the appeal of TBML schemes. The legal enforceability of trade finance contracts and the resolution of disputes have a profound impact on TBML. However, it is to be remembered that when legal systems treat TBML as just another trade dispute, money launderers enjoy impunity.

2.4: Key Supportive Factors for Effective Enforcement of TBML Standards

Several factors and issues are crucial to creating a supportive environment for the efficient enforcement of the TBML standard and guidelines. Especially, the TBML framework ensures tangible outcomes if some supportive conditionalities prevail.

2.4.1: Internalizing TBML Risk within Operational Risk Management Framework in Banks

The Basel Committee on Banking Supervision defines operational risk as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or external events' (BCBS, 2021). TBML thus becomes an operational risk issue when trade-finance controls fail. Under Basel II/III, AML and compliance failures (including TBML) are treated as potential operational loss events. Global standards reinforce this integration for example, FATF's risk- based approach directs banks to analyze their ML/TF exposures (including TBML) in enterprise-wide risk assessments (FATF & Egmont Group, 2020). TBML concerns map directly onto standard ORM categories. Under People, banks need well-trained trade-finance and compliance staff who can recognize complex TBML schemes. Under Processes, strong customer due diligence, trade-document verification, and multi-step transaction reviews are critical; failures here (for example, weak KYC or invoice checks) can enable TBML techniques like over-/under-invoicing. Under Systems, Information and Monitoring Systems (such as AML transaction-monitoring and trade-data analytics)

must be configured to flag anomalous trade flows. Under External Events, changes in sanctions regimes, global trade volumes, or criminal networks can introduce new TBML risks. In short, breakdowns in any of these dimensions can turn TBML attempts into actual losses, a classic operational risk scenario under Basel's definition (BCBS, 2021).

2.4.2: Overall NPL Status and TBML Vulnerabilities

Empirical work over the past decade shows that fraudulent trade transactions fuel NPLs, while high NPL ratios signal control gaps that invite TBML. When criminals mis-invoice exports or present fake import LCs, banks extend credit on the strength of forged documents; once the scheme is complete, the loans collapse into default, inflating NPL levels (FATF, 2020). Conversely, banking systems already burdened by double-digit NPLs, often a symptom of weak credit governance and corruption, appear attractive to laundering networks that assume trade papers will not be scrutinized closely (World Economic Forum, 2021). Thus, in many developing countries, TBML and NPLs operate as a feedback loop of financial crime and balance-sheet fragility. Aggressive NPL resolution through tightened collateral rules, prompt write-offs, and anti-fraud litigation shrinks the space criminals exploit. The lesson is clear i.e., cleansing trade finance and cleansing loan portfolios are complementary goals; sustained reforms on both fronts can shield developing-country banking systems from the twin threats of bad debt and illicit trade flows (FATF, 2020).

2.4.3: Abuse of Correspondent Banking Relationship and Engaging Shell Companies

Global typology studies identify shell companies and correspondent-banking chains as the two most consistent facilitators of TBML (FATF & Egmont Group, 2020). Because 80 percent of world trade is settled on open-account terms, banks often process wire transfers with little or no trade documentation (WEF, 2021). Each correspondent link sees only a fragment of the deal-local respondent banks know their customers, but seldom the foreign counter-party, while the major hub bank sees only payment

messages. Nested correspondents, funnel accounts, and last- minute third-party payers widen the gap, allowing launderers to break the funds-for-the goods chain that auditors rely on (FATF & Egmont Group, 2020). 'De-risking' has compounded the problem. UNCTAD finds global banks have cut ties to perceived high-risk markets, forcing trade flows into smaller, less-supervised channels (UNCTAD, 2020). Shell entities give criminals an instant importer or exporter with concealed ownership, while correspondent banks provide the cross-border payment 'highways' that mask transactional links between collusive buyers and sellers (GAO, 2020). Together, they create a multi-layered veil that frustrates regulators, particularly in developing jurisdictions where corporate-registry transparency and inter-bank data sharing is weak.

2.4.4: Trade Digitization and Handling of TBML

Global best practice now centers on end-to-end digitization and data sharing. Financial intelligence units increasingly deploy big-data analytics, graph algorithms, and AI to map multi-jurisdictional trade networks and spot circular routes or repeated related-party trades that flag TBML risks (GAFILAT, 2022). Cross-border exchanges of suspicious-activity data through secure FIU channels and harmonized digital standards allow quicker joint responses to complex schemes (GFI, 2023). Banks and regulators, therefore, adopt a layered technology stack. E-invoicing and digital trade portals enable real-time price and quantity cross-checks (APPG, 2021). Machine learning models trace global shipping, pricing, and payment data to highlight outliers, while graph analytics link shell companies hidden in opaque trades (FATF, 2021). Vessel tracking feeds paired with automated sanctions screening reveal phantom voyages or ship-to-ship transfers tied to embargoed entities (NICE Actimize, 2023). Pilot blockchain ledgers such as those built on R3 Corda create immutable shared records of bills of lading and financing, preventing duplicate presentations and easing provenance checks while permissioned access preserves confidentiality (A-Team Insight, 2021).

2.4.5: Compliance Culture and TBML Enforcement

A resilient AML posture begins with a *'tone at the top'* where boards and senior managers must treat TBML as a strategic risk and embed clear policies (HK Lawyer, 2016). When boards and senior managers set a clear tone backed by compliance units, and personal accountability, front line trade finance teams are far more likely to flag price mismatches, escalate suspicious trans-shipment routes, and refuse deals that breach sanctions or vessel-tracking controls. FATF stresses that effective TBML enforcement depends on a risk-based approach supported by continual staff awareness and data-driven decision-making (FATF, 2024), while the Basel Committee identifies 'risk culture' as a board-level responsibility that must permeate all three lines of defense (Basel Committee, 2015). Development partners echo this message; IFC notes that banks with robust compliance cultures preserve correspondent relationships and reduce TBML exposure and offers e-learning modules to embed that mindset (IFC, 2025). An independent compliance function is at the heart of compliance culture. For example, front-line trade-finance teams originate and process transactions, but they must hand off any red flags. Compliance culture turns rules into results, and without it, any due-diligence guidelines and checklists may fail to protect banks from regulatory penalties, de-risking, and reputational loss (Sanction Scanner, 2024).

2.4.6: Capacity Building and Stakeholder Awareness

Effective TBML enforcement hinges on trained personnel and coordinated action across the public and private sectors. Global guidance stresses structured training and awareness programs for bankers, customs officials, and regulators on TBML typologies, documentary manipulation, and "red flag" indicators (FATF & Egmont Group, 2020). GAO's multi- stakeholder reviews similarly identify five critical practices covering public–private partnerships, recurring training, robust domestic information-sharing, international cooperation, and analytic research to refine risk targeting (GAO, 2022). ADB's regional TBML Masterclasses operationalize these lessons by convening FIUs, banks, customs, and law enforcement for hands

on detection exercises tied to enriched STR data fields (ADB Knowledge Events, 2023). Sustained, integrated capacity building paired with data sharing and supervisory follow through is, therefore, as crucial as technology investment for any developing economy aiming to curb TBML (FATF & Egmont Group, 2020).

2.5: Regulatory Oversight and Internal Monitoring by Banks

Modern AML/CFT standards require countries to assess TBML exposure and direct resources at the highest-risk trade corridors (FATF, 2020). National Risk Assessments translate that mandate into sector-specific priorities, prompting supervisors to impose extra scrutiny on banks with large trade-finance portfolios (FATF, 2012). In practice, effective enforcement depends on two complementary pillars: *monitoring systems* that 16illful16iz trade and payment data for red flags, and *supervisory frameworks* that obligate banks, customs, and FIUs to share those insights and act on them. Where either pillar is weak, sophisticated misinvoicing and phantom shipment schemes slip through the cracks (APG, 2022).

Leading jurisdictions now couple suspicious-transaction reports with large-scale analytics on shipping, foreign-exchange, and customs filings. South Korea's automated FX-monitoring platform, for example, crossmatches trade documents with currency flows to flag anomalous exporters in real time (FATF, 2020). *Singapore* pairs proactive MAS guidance with bank-driven AI monitoring, yielding early detection of complex TBML rings. Singaporean banks are piloting machine learning engines that score trade-finance clients on invoice outliers and related-party loops, cutting manual reviews (MAS, 2023). Where resources permit, specialized Trade Transparency Units (TTUs) fuse customs and banking data; USA-Latin American TTUs have uncovered multi-million-dollar mis-pricing rings by comparing mirror-trade statistics (GAO, 2020). These initiatives show that risk-based monitoring hinges on (1) robust data feeds, (2) red-flag algorithms, and (3) analysts trained to investigate anomalies. Several countries' actions (Honk Kong and some Asian countries) underscore the

supervisory role setting tailored rules, audit compliance, and imposing meaningful sanctions when trade-finance risks are mishandled (APA, 2022; HKMA, 2016). Despite differing contexts, all four combine data analytics, risk-based rules, and credible enforcement- an approach the FATF and APG highlight as best practice. Replicable lessons may be drawn from the global standard and practices (Box 2.4 and Box 2.5).

Box 2.4: Key Lessons for Regulators / Financial Intelligence Units (FIUs)

Risk-based and data-driven supervision: Prioritize resources using clear, quantitative risk scores that merge trade-volume data, STR/SAR quality, alert-handling ratios, audit findings, and intelligence from customs or tax agencies. Automating this scorecard and updating it at least quarterly lets FIUs detect emerging TBML hotspots and decide on on-site inspections where they matter most.

Effectiveness of evaluation not box-ticking: Tracking STR-to-case conversion rates, remediation turnaround times, and repeat findings gives a truer picture of a bank's TBML posture and aligns with FATF Immediate Outcomes.

Penalty is important, but it is about a collective approach to handle risk: For some cases, penalties (fines, licence conditions) remain essential, but transparent criteria prevent speculation and turn monitoring into a constructive partnership rather than an adversarial exercise.

Investing in inter-agency and cross-border connectivity: Seamless technology-driven data pipes between FIU case-management systems, customs trade databases, and central bank payment rails let supervisors identify anomalies in near real-time. Joint typology workshops with tax, port, and law enforcement units build the shared vocabulary needed to act quickly.

Continuously building supervisory capacity: Regulators need staff fluent in trade finance products, SWIFT message formats, and data analytics tools. Annual upskilling programmes, secondments to customs or commercial-bank trade desks, and participation in Egmont/FATF working groups keep examiners ahead of criminals' learning curve.

Note: Based on FinCEN, 2010; Orozco and Rubio, 2024; GAO, 2020; Mas, 2023; FATF, 2021.

Box 2.5: Key Lessons for Bank Boards and Senior Management

Treating TBML as a strategic business risk, not a compliance cost: Board-approved risk appetite statements should explicitly cover trade-finance exposure, and senior executives must receive dashboard-level TBML red-flag trends, STR pipeline health, and examination outcomes. Visible 'tone from the top' unlocks budget for systems and specialist staff.

Trade-specific analytics: Generic AML engines miss TBML fine details. Integrate customs- price databases, vessel-tracking feeds, and HS-code libraries into the monitoring platform; set rules for common TBML typologies (phantom shipments, multiple invoicing, third-party payments).

Focus on data quality and staff expertise: Poorly captured invoice data cripple analytics. Strengthen front-office validation checkpoints and mandate dual controls for data entry. Parallel to that, make TBML typologies a standing module in trade operations and relationship manager training; refresh content at least annually to reflect new schemes.

Setting cross-functional working group: Establish a cross-functional TBML working group (trade, compliance, IT, audit) that meets monthly to review KPIs on STR rejection rates, false- positive ratios, audit issue ageing, and approve remediation plans with clear owners and deadlines.

Create competitive advantage through clean trade: Banks recognized publicly for exemplary TBML controls gain correspondent banking confidence and client trust. Use that reputational lift to position oneself as a 'clean trade' partner.

Job segregation: Compliance, sitting outside the profit chain and reporting to the CRO or board, sets TBML policy, runs sanctions and price-verification engines, and wields veto power to block or freeze deals, ensuring commercial incentives never override regulatory obligations.

Note: Based on FinCEN, 2010; Orozco and Rubio, 2024; GAO, 2020; Mas, 2023; FATF, 2021.

Section 3: Global Experiences with TBML Enforcement with Selected Country Cases

Drawing on a wide spectrum of country and global experiences is essential for effective enforcement of TBML standards because it (i) uncovers typology patterns that transcend borders and (ii) highlights the institutional innovations that have worked in practice. Cross- jurisdictional learning also exposes enforcement blind spots.

3.1: Differential TBML Challenges and Approaches in Developed and Developing Countries

The nature of TBML challenges is different in developed and developing countries. Overall, the key contrast is that developed countries tend to attract and process foreign illicit money (experiencing inflows), whereas developing economies commonly lose domestic wealth through capital flight and TBML (experiencing outflows). This pattern reflects global financial imbalances: poorer nations are vulnerable to revenue leakage via fraud and mis invoicing, while rich financial centers unwittingly host and recycle those illicit funds (International Monetary Fund, 2022).

In developed countries like the USA and the UK, money laundering challenges often manifest as large inflows of illicit funds from abroad. These countries are global financial hubs, and overseas criminals exploit their sophisticated banking systems. For example, an IMF assessment notes that the UK faces significant money laundering threats from foreign criminal proceeds and estimates "hundreds of billions of pounds" of illicit funds may be laundered in its jurisdiction (International Monetary Fund, 2022). Likewise, research by Heathershaw *et al*. (2021) describes London as a prime destination for several developing countries. Observers also point out that major cities in rich countries (e.g., London, New York) have become safe havens for laundered money, enriching developed economies even as they deplete poorer nations (Islam, 2024). In short, developed economies tend to experience net inflows of illicit capital (including through complex

TBML schemes), since criminals from around the world use their markets and services to disguise foreign crime proceeds.

In several developing countries, domestic corruption, tax evasion, and commercial fraud often generate dirty money that is smuggled out abroad. TBML is a key channel: mis-invoicing of imports/exports effectively drains revenue. For instance, Nigeria's trade data show that 15% of trade transactions may be misreported, corresponding to about USD 2.2 billion in lost government revenue in 2014 (Global Financial Integrity, 2018). Thus, regulators in the developed countries focus on screening incoming foreign funds and enforcing transparency, whereas authorities in developing countries emphasize curbing trade mispricing and tracking outbound wealth (including through cooperation with foreign jurisdictions) (Global Financial Integrity, 2018).

Effective enforcement of TBML standards demands a dual strategy-harmonized baseline rules drawn from FATF guidance plus country-specific tailoring that reflects each jurisdiction's trade profile, supervisory maturity, and corruption risk. Common elements such as red-flag indicators for mis-pricing and the need for real-time customs-FIU data sharing apply in both New York and Lagos, yet case studies show that how those elements are operationalized must differ (FinCEN, 2025; ADB & UNODC, 2024). These examples illustrate that studying diverse country cases is essential. They offer adaptable lessons on governance structures, technology investments, and public-private intelligence sharing that can be replicated or modified elsewhere, thereby strengthening the global TBML safety net without ignoring local realities.

3.2: Country Experiences with TBML Enforcements: Country Cases

The discussions (subsection 2.1) indicate that assessing national TBML enforcement requires more than checking laws or standards on paper; regulators must track key performance indicators such as red-flag hits in banks' trade-finance systems, the quality of TBML-linked STRs, joint-

agency audit findings, and case statistics etc. Comparative reviews of higher- ranking jurisdictions, both advanced economies and developing peers, offer practical benchmarks on how clear guidance, inter-agency protocols, and data analytics translate into measurable enforcement results. Certain country cases (high-ranked countries[8] and developing countries ranked better than Bangladesh) may offer valuable lessons in this connection.

3.2.1: Finland's AML Excellence: Top Ranking in the Basel AML Index

Finland's framework explicitly treats TBML as a national threat. Customs, the Financial Intelligence Unit, law-enforcement, and major banks share trade and payment data, run joint investigations, and use periodic national risk assessments to refine red-flag indicators (FATF, 2019). Such coordination underpins Finland's consistently high ranking in the Basel AML Index (Basel Institute on Governance, 2024).

Several structural strengths sustain that performance. One, *Robust legal alignment:* Finland shows strong technical compliance with the full set of FATF 40 Recommendations, 21riminalizing ML/TF and regulating virtual-asset providers early (FATF, 2020). Two, *Clean governance:* Finland places second on Transparency International's 2023 Corruption Perceptions Index, and an independent judiciary limits opportunity to exploit weak controls (Transparency International, 2023). Three, *Institutional coordination and cross-border cooperation*: seamless information-sharing

[8] The Basel AML Index is an independent yearly ranking that rates countries' money-laundering and terrorist-financing (ML/TF) risk on a 0–10 scale. Scores combine five weighted domains: AML/CFT framework quality (50 %, driven by FATF reviews); corruption and fraud exposure (17.5 %, e.g., Transparency International's CPI); financial transparency and standards (17.5 %); public transparency and accountability (5 %); and political–legal integrity, including judicial independence (10 %). Seventeen indicators from sources such as FATF, Transparency International and the World Bank are aggregated to give a rounded ML/TF risk profile for every jurisdiction (index.baselgovernance.org).

among police, FIU, supervisors, and customs is reinforced by active participation in international task forces targeting TBML and cyber-fraud (FATF, 2023). Four, *Compliance culture*: major Finnish banks invest heavily in monitoring systems and staff training, while the Moneylaundering.fi portal and sector-specific advisories raise awareness among non-financial professions (FATF & Egmont Group, 2020). Five, *Dynamic risk-based supervision*: The Ministry of Finance updates its National Risk Assessment every three years; the 2024 review sharpened focus on virtual-asset risks and sanctions-evasion typologies (Ministry of Finance, 2024a). Six, *Political transparency*: regulators publish AML action-plan progress, enabling public scrutiny and continuous improvement (Finnish Financial Supervisory Authority, 2019). Collectively, these elements create an agile, high-integrity AML/CFT system that is well placed to counter evolving illicit-finance threats, including TBML.

3.2.2: Enforcement of TBML Guidelines and Standards: Singapore Case

Singapore's leading banks now anchor their TBML frameworks to the re-issued MAS Notice 626 and the TBML paper issued by the Anti-Money Laundering/Countering the Financing of Terrorism Industry Partnership (ACIP). Board-level dashboards track red-flag statistics, STRs, and regulatory findings, while dedicated trade-finance compliance committees' vet significant incidents or policy changes. Risk assessments classify products (e.g., LC, open-account deals, trade loans) and customer segments (commodity traders, re-export hubs) by TBML exposure, then scale due diligence depth and real-time sanctions/document checks accordingly. Mirroring ACIP guidance, controls span four 'gates': pre-deal onboarding and screening, in-process document review, payment-stage fund-flow monitoring, and post-trade analytics that detect invoice manipulation and circular shipments (MAS, 2024; ACIP, 2018).

Operationally, banks follow the three-lines model: trade services execute first-line checks; second-line financial-crime teams staffed with trade AML specialists both advise and perform independent sample testing; internal

audit provides third-line assurance. Recent enforcement, including USD 27 million in AML penalties on nine institutions and a license revocation in July 2025, underscores MAS's 'zero-repeat-findings' stance, keeping boards laser-focused on remediation timelines (Bird & Bird, 2025). Policies make the MLRO accountable for TBML escalations and STR filings, and quarterly reports to board risk committees detail trend analytics and emerging typologies, reinforcing a culture where proactive TBML management is viewed as a strategic imperative (PwC, 2024).

3.2.3: Enforcement of TBML Guidelines and Standards: Sri Lanka Case

Sri Lanka's legal architecture for countering TBML is anchored in the Financial Transactions Reporting Act No. 6 of 2006 and the Prevention of Money Laundering Act No. 5 of 2006, both updated in 2023 to reinforce the Financial Intelligence Unit's (FIU-SL) supervisory powers (Parliament of Sri Lanka, 2023). Acting under this mandate, FIU-SL issued Circular 02/2024 directing all licensed banks to adopt an official red-flag catalogue for trade transactions and to file 'Suspect TBML' STRs through the upgraded goAML platform (FIU-SL, 2024a). A knowledge-sharing workshop on 20 February 2024 trained compliance teams from 12 major banks on how to operationalize those indicators and leverage ASYCUDA customs data for price-band checks (FIU-SL, 2024b). These measures are intended to demonstrate 'effective implementation' ahead of Sri Lanka's fourth-round APG/FATF mutual evaluation slated to start in March 2025, with the Mutual Evaluation Report due in July 2026 following the country's successful removal from the FATF grey list in 2020 (APG, 2023; FATF, 2020).

Implementation has shifted decisively toward data-driven controls. Tier-1 banks feed Customs' ASYCUDA 'mirror file' into their AML engines to flag invoice unit-prices that fall outside FIU-SL price bands, while the 2024 goAML upgrade introduced a dedicated TBML STR taxonomy to support granular analytics (UNCTAD, 2024). A joint Customs-FIU desk launched in 2024 enables banks to obtain shipment-confirmation responses within 72

hours, and embedded compliance officers can halt document release when goods-description mismatches trigger automated alerts (FIU-SL, 2023). Capacity-building remains a priority; more than 900 frontline trade-finance officers have completed blended TBML, and dual-use-goods risk workshops delivered by FIU-SL to the Sri Lankan banks.

3.2.4: Enforcement of TBML Guidelines and Standards: Chile Case

Chile's TBML framework designates banks, foreign-exchange dealers, and customs brokers as obliged entities and empowers the Financial Analysis Unit (UAF) to issue binding norms (Law 19 913, 2003). The rules require all sectors to embed proliferation-financing and trade-risk factors, re-validate AML manuals biennially, and escalate any 'unusual foreign-trade payment' within 24 hours (UAF, 2025). The National AML/CFT Strategy 2024-27 mandates annual TBML training, joint UAF-Customs exercises, and an online red-flag portal (Government of Chile, 2023). Cooperation has expanded, and in December 2024, the National Customs Service signed a trade-transparency agreement with Global Financial Integrity to build a Chilean Trade Transparency Unit (GFI, 2024). FATF's 2024 follow-up report praises progress but warns that mis invoicing in copper, salmon, and wine exports (FATF, 2024).

Banks apply layered controls: onboarding requires past shipping documents and HS-code breakdowns for clients whose export revenues exceed 25%; staff must run SICEX price checks before releasing letters-of-credit documents, with alerts routed to AML case managers (CMF, 2025). An FIU-Customs secure mailbox (2024) lets banks submit anonymized trade-risk extracts; a cross-agency task force (UAF, Customs, CMF, tax authority) reviews typologies quarterly to recalibrate SICEX risk scores. Capacity building is robust—over 600 compliance officers completed the UAF–Customs TBML course in 2024–25, while CMF urges connectivity to the blockchain-anchored FinData e-bill-of-lading utility to detect duplicate documents (CMF, 2025). Chile's experience underscores that rigorous internal analytics, inter-agency data-sharing, and international partnerships

are all essential to narrow the TBML enforcement gap. Several specific lessons may be 25illful25iz from the country cases (Box-3.1).

Box 3.1: Lessons from the Country-Cases [Finland, Singapore, Chile, and Sri Lanka]

Beneficial-Ownership Transparency: All four jurisdictions have made it easy for banks and investigators to identify who really controls trading companies. Finland with a fully public register, Chile through strengthened filing rules, Sri Lanka by tightened disclosure duties, and Singapore with strict onboarding KYC. Publishing or making easily accessible a reliable, beneficial-ownership database removes the anonymity that TBML networks depend on.

Product-Specific, Risk-based Controls: Each country complements generic AML laws with rule-sets tailored to trade instruments. All trade customers, commodities, and trade-finance products (LCs, open-account, supply-chain finance) by TBML exposure. A 'one-size-fits-all' approach is replaced by controls calibrated to real risk.

Integrated Trade-and-Payment Data: Finland aggregates customs, SWIFT, and FIU data; Sri Lanka pipes ASYCUDA price bands into bank AML engines; Chile is building a Trade Transparency Unit; Singapore's banks link shipment data to post-trade analytics. The lesson is, join customs, banking, and corporate registers into a single analytical view so mis-priced or phantom shipments surface quickly.

Structured Public-Private Cooperation: Whether through Finland's multi-agency risk-assessment forums, Singapore's ACIP working groups, Sri Lanka's joint Customs-FIU desk, or Chile's cross-agency task force, all four models anchor detection in ongoing dialogue and typology sharing. Regular workshops, advisory portals, and feedback loops ensure red flags stay current and front-line staff know how to apply them.

Visible, Proportionate Enforcement: High-profile penalties, license actions, and publicly reported action-plan progress (Finland, Chile) keep banks and parties alert and signal that TBML lapses carry real cost. Transparent, proportionate enforcement combined with deadlines for remediation creates the incentive structure that turns policies into daily practice. Note: Based on Country-Cases.

4. Enforcement Status of Guidelines on TBML and Gaps: Bangladesh Context

Based on the theoretical review, key elements of the three mutually reinforcing pillars (Process and System, People, and Incentives) may be mapped in the following form (Box-4.1) to assess the enforcement status and gaps of TBML standards in the context of Bangladesh.

Box 4.1: Three Mutually Reinforcing Pillars for Enforcement of TBML Standards	
Process and System	**Dynamic Risk-Based Framework:** i) Installing dynamic process and systems aligned with international standards; ii) Risk-based assessment that maps sectoral, product, and corridor vulnerabilities to the bank's trade portfolio by internalizing TBML risks in the operational risks in banks; and iii) Regular refreshment of standards, process, systems based on global development and risk-based mapping.
	Data and Analytics Layer: i) End-to-end data integration that fuses customs, shipping, and payment records; and ii) automated price verification and anomaly detection engines that declared prices and freight terms against trade datasets.
	Targeted Assessment: ii) Enhanced customer due diligence and beneficial ownership screening for high-risk traders, including real-time sanctions, vessel and dual-use goods checks; ii) Scenario-based red flag rules and machine learning models tuned to TBML typologies to trigger targeted reviews rather than blunt volume thresholds.
	Oversight and Collaboration: i) Cross-agency and cross-border information sharing protocols, so BFIU, customs, and banks can jointly follow the proceeds and goods; ii) A governance, testing, and audit that measures detection quality, assess models, and reports findings to senior management/board and regulators.

	Supportive Framework: i) Installed arrangement of legal enforceability of contract with legal framework like CIGS and allied domestic regulation; ii) Compliance culture is one in which senior leadership visibly prioritizes TBML commitments, cross-functional teams share trade-finance intelligence, and every employee is incentivized to flag anomalies.
People	**Trained Policymakers and Regulators** with latest FATF/Egmont TBML standards; risk-based laws, data-sharing models.
	BFIU and Customs/Port Officials trained with deep dive courses in risk-based supervision, trade data analytics, price verification tools and joint agency case simulations.
	Bankers (Trade-Finance and Compliance) quailed with certification-style modules on TBML typologies, sanctions/vessel screening, automated red-flag systems, SAR narrative writing and post-alert investigation skills.
	Businesses (Exporters, Importers, Freight Forwarders) with awareness on documentation integrity, goods red flags, self-assessment check-lists and supplier KYC obligations.
	Auditors, Fintech/Data Providers, Professionals with specialist knowledge on integrating sup-tech, independent model testing, and assurance reviews of TBML control frameworks.
Incentive Mix	**Liability of Board and Senior Management:** i) Personal liability clauses (disqualification, criminal prosecution); ii) Escalating administrative fines tied to severity; iii) License suspension or business-line bans.
	Performance-linked Fine/Reward: i) Monetary fine or 'No- No-Performance Bonus' for trade-finance and risk team/staff for ignoring red flags or compliance violation; ii) Positive KPI weightings or better performers/fast-track promotion for high-performing control staff
	Market, Regulatory and Reputational Incentives: i) Public 'Naming and Shaming' to pull funding costs/benefits; ii) Discounts to refinance funds for strong TBML controls; iii) Lower frequency of on-site exams for banks rated 'low TBML risk and better compliance'.

4.1: Bangladesh's Approach, Key TBML Standards, and Broad Application Status

Although TBML is not directly mentioned predicate offence within 28 predicate offences described in MLPA, 2012 but articles 2(a), 2(v)(ii), and 2(cc) (14) of MLPA, 2012 support TBM L as a Money laundering offence. Money laundering means smuggling money or property earned through legal or illegal means to a foreign country, as Article 2(V)(ii) of Money Laundering defines. Another article defines in 2(cc) (14) of MLPA, 2012, that smuggling of domestic or foreign currency is a money laundering predicate offence.

According to article no. 14 of Money Laundering Prevention Act, 2012, the honorable court can pass an order for freeze or attachment of money laundering-related assets or income from predicate offence (inside or outside of the country) of the suspect against the written prayer of law enforcement agencies to the court. According to Article no. 17 of the MLPA, 2012, if the suspect is convicted guilty of a money laundering offence, the honorable court may pass an order to confiscate the direct or directed asset in favor of the state. However, low reported conviction rate in the country from the trade-fraud schemes reflects procedural bottlenecks and enforcement gap rather than lower risk exposure[9].

Bangladesh's TBML standard, guidelines and control architecture starts with the Money Laundering Prevention Act 2012 (MLPA) and its 2019 Rules, which criminalize trade-related laundering and empower BFIU. Building on that foundation, BFIU Guidelines for Prevention of TBML (2019) prescribe risk scoring, price-verification and sanctions/vessel screening workflows for every import or export. On the foreign-exchange

[9] In FY 2023-24, the country has yet to yield a single reported conviction, by contrast, Singapore has already jailed three defendants and seized S$2.8 billion in its 2023-24 S$3 billion trade-laundering case while fining nine banks S$27.5 million (Reuters, 2025).

side, the *Guidelines for Foreign Exchange Transactions (GFET)* and FE Circular 29/2022 oblige authorized-dealer banks to lodge contracts, invoices and freight terms in the Online Import Monitoring System (OIMS) before opening an LC, while the new *Customs Risk Management Rules 2025* feed high-risk shipment data back to banks creating a fully digital audit trail from payment initiation to cargo clearance. Under this framework, banks must apply tiered due-diligence to every trade-finance request. The TBML Guidelines require a trade transaction profile, real-time sanctions and vessel checks, and benchmarking of declared prices against authoritative commodity data; higher-risk corridors trigger enhanced due diligence and senior-management sign-off. Complementary obligations in the *Money-Laundering & Terrorist-Financing Risk-Management Guidelines (2023)* and the *e-KYC Circular 2020* compel institutions to refresh KYC files, verify beneficial ownership, and monitor transactions continuously.

Since 2019, BFIU has steadily tightened its *Guidelines for Prevention of Trade-Based Money Laundering*. The regulator refreshed the guidance in late 2020 (Circular Letter 01/2021), formally extended the implementation window so banks could build the necessary risk-based controls, and mandated two new technologies automated sanctions screening and a vessel- tracking interface within their trade systems. BFIU's 2023-24 Annual Report added 'Suspected TBML' as a distinct suspicious-activity category inside the national goAML platform, giving banks a clearer compliance target and supervisory feedback loop. Bangladesh Bank's Core Banking Solution (CBS) Features & Controls v 2.0 now requires all scheduled banks to integrate real-time trade-data feeds, sanctions filters, and third-party pricing APIs by 30 June 2025, locking TBML detection into day-to-day operations.

In several instances, policy has translated into action. Bangladesh Bank's 2022 directive forced trade-finance lenders to subscribe to commercial vessel-tracking services; by mid-2025, most large banks had embedded Automatic Identification System (AIS) data in their documentary- credit workflows, closing a major sanctions-evasion gap (Regulation Asia, 2025).

An ADB pilot with ten Bangladeshi banks demonstrates the payoff: TBML-related STRs jumped between January 2022 and June 2023 after analytics and data-sharing tools were rolled out. In short, the regulatory architecture for TBML has shifted from largely paper-based guidance to an integrated, data-driven regime, an important leap toward closing Bangladesh's long-criticized TBML 'enforcement gap.' (ADB, 2024). Based on ADB (2024) pilots, it is suggested that building on the existing blueprint Bangladesh could (i) establish a Trade Transparency Unit that fuses customs-BFIU data and runs mirror-statistics analytics; (ii) publish a public beneficial-ownership register to pierce shell structures; (iii) deploy dynamic price-benchmarking tools for high-risk goods and automate customs alerts; (iv) extend KYC/AML duties to freight forwarders and warehouse operators in free-trade zones; and (v) formalize regional intelligence pacts with key trading partners to speed evidence sharing. These steps would align Bangladesh with FATF expectations, protect fiscal revenue, and restore confidence among international banks and buyers (ADB, 2024)

4.2: Implementation Status of BFIU Guideline for Prevention of TBML

As Bangladesh's primary TBML standard-setting document, Guidelines for the Prevention of Trade-Based Money Laundering provides regulators, bankers, and customs officials with a common benchmark for supervisory roles, STR filings, and enforcement actions. The four essential pillars of the document came up with four levels of assessment and mitigation mechanism of TBML risks: i) Infrastructure Level; ii) Customer Level; iii) Transaction Level; and iv) Enterprise Level. To evaluate the effectiveness of the enforcement status of the guidelines, we must examine the status of each pillar at the operational level (i.e., at the level of individual banks) and then assess the overall implementation status of the Guidelines.

4.2.1: Implementation Status of Infrastructure Level Assessment Mechanism

The BFIU Guidelines instruct each bank to size its trade-finance compliance toolkit, mixing automated, semi-automated, and manual elements rather

than adopt a one-size-fits-all setup. Keeping this in mind, the guidelines suggest several infrastructure components that can be utilized as tools to support the compliance program, i.e., *standard sanction screening process; standard for manual screening; own database based on transactions; subscribe to a publicly available online commodity pricing website; and vessel tracking system*. However, sanction screening and vessel tracking are not practically possible without a solution. Therefore, there must be a system in place to ensure compliance with the 'applicable sanction program' and 'vessel tracking'. To tighten price-manipulation controls, a follow-up circular requires all banks to use a uniform price template that benchmarks current deals against customers' historical trade patterns.

During the survey (Table-4.1), all banks (100%) claimed to have a sanction screening mechanism to identify individuals and entities in sanction programs and their own database on transactions to detect over- and under-invoicing in international trade.

Table 4.1: Infrastructure Status of Banks in TBML Risk Mitigation and Mechanism

Infrastructures	Yes (%)	No (%)
Standard sanction screening process	100	0
Standard for manual screening	95	5
Own database based on transactions	100	0
Banks' subscription for price verification	50	50
Vessel/container tracking system	90	10

Source: Survey Data, 2025

However, fifty percent of banks (50%) have subscribed for price verification tools, Global Trade Tracker (GTT), Bloomberg, etc., and a large population has not yet. Lower percentage can be explained due to the higher yearly subscription cost, from USD 8000 to USD 12000 for price verification. Moreover, banks have responded that 90% banks have a vessel or container tracking system, however, a significant portion of banks do not subscribe International Maritime Bureau (IMB), Lloyds, etc., due to the subscription cost, as opined by the bank officials.

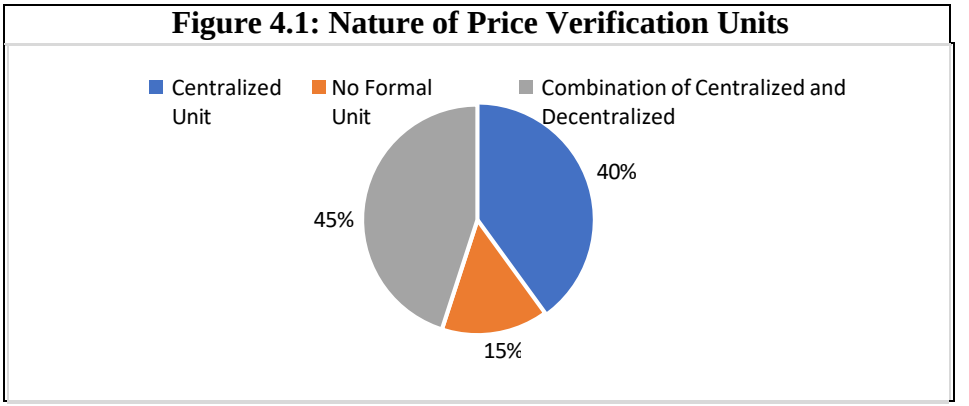
Table 4.2: Effectiveness Status of Infrastructure Level TBML

Infrastructures	Fully Compliant (%)	Moderately Compliant (%)	Partially Compliant (%)
Standard Sanction screening process	85	10	5
Manual sanction screening	70	20	10
Own database on transactions	65	30	10
Banks' subscription for price verification	45	30	25
Vessel/Container tracking system	70	15	15

Source: Survey Data, 2025

Table-4.2 provides the effectiveness of the infrastructure in place to prevent TBML of banks. The survey reveals that standard sanction screening fulfils the objectives of the sanction programs. However, existing sanction screening cannot give full coverage of all sanction programs, for example, existing sanction screening solutions cannot give coverage of 50% of OFAC sanction programs and transactions credited by walk-in customers. Survey data indicate that a larger portion of banks do not have a centralized price verification unit; consequently, banks' officials apply their own judgment and experience in price verification (Figure 4.1)

Figure 4.1: Nature of Price Verification Units



Source: Habib *et al.*, 2024

A survey by BIBM (2024) identified (Figure 4.1) infrastructure relating to price verification units of banks. 40% banks have a centralized price verification unit- a central unit or a group of officials who clear the trade

transactions only after the fair price of goods or services. In different bank groups, almost all FCBs follow this form of unit. Very few banks of PCBs have this mechanism. Moreover, 15% banks have no formal price verification unit. In this category, SOCBs hold the major share due to the decentralization of trade transactions. Banks do price verification while at the time of issuance of LC, facilitating trade transactions and taking lien on export contracts or LC.

Figure 4.2: Status of Sanction Screening Solution (Paid Version)

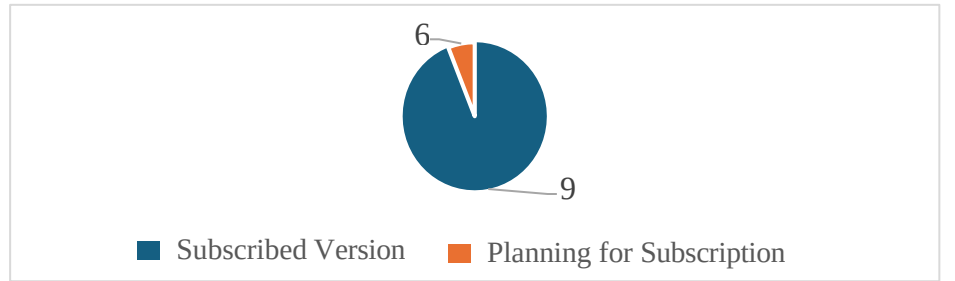
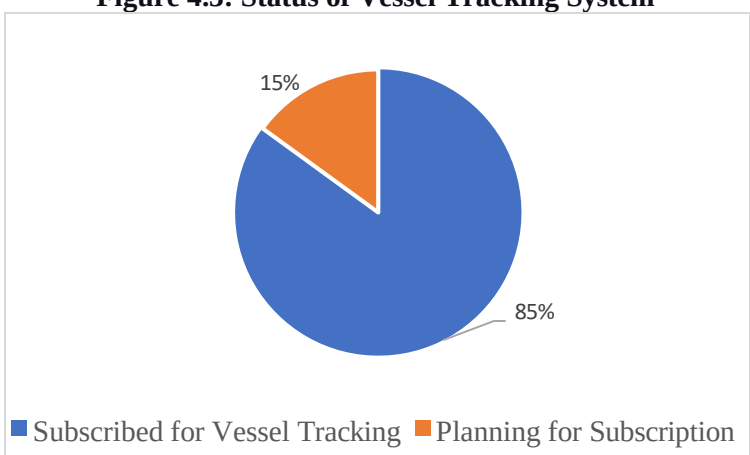


Figure 4.2 reflects the status of sanction screening solutions (paid version) of banks to develop infrastructure in sanction screening. The data clearly indicate that banks have the utmost priority and have implemented this infrastructure to comply with regulatory requirements in preventing TBML**.** Different banks are using different solutions based on the needs of the banks in international trade.

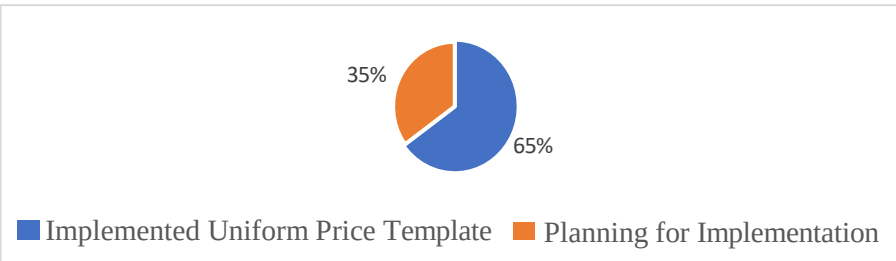
Figure 4.3: Status of Vessel Tracking System



Survey data (Figure 4.3) reveal that banks (in percentage) are adopting vessel tracking systems to prevent trade-based money laundering arising from vessels.

Most of the banks (85%) have a vessel tracking system in place with yearly subscriptions to the solution providers, mainly the International Maritime Bureau and Lloyds. Some banks (15%) are planning to go with the subscribed versions.

Figure 4.4: Implementation Status of Uniform Price Template



Banks are instructed by BFIU to develop a Uniform Price Template in international trade to detect over- and under-invoicing. Sixty-five percent (65%) of banks have implemented the template, and 35 percent of banks are in the process of developing the template (Figure 4.4).

Figure 4.5: Status of Subscribed Price Verification Solutions

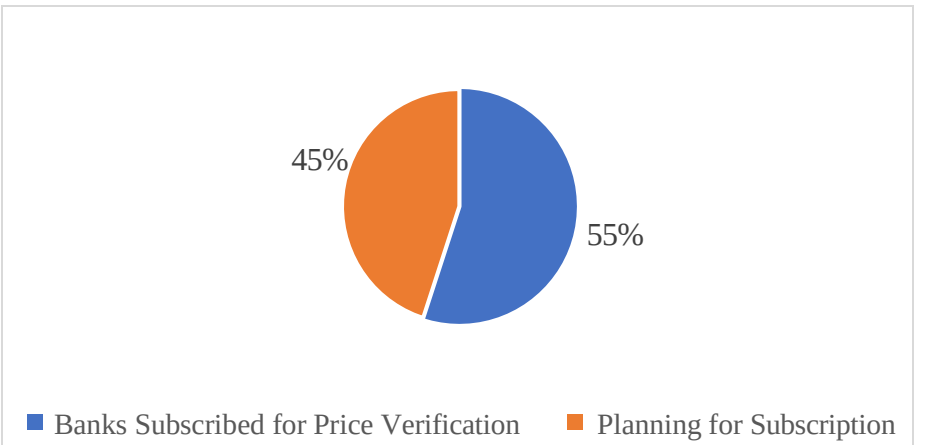


Figure-4.5 shows the number of banks (%) that have subscribed to price verification solutions in determining over and under-invoicing. Almost all the banks are using Global Trade Tracker (GTT) with yearly subscriptions and a few banks use Bloomberg for commodity pricing. Lower percentage of subscriptions can be explained by the data quality of paid version solution providers. For price verification, banks are allowed to use Export and Import monitoring system of Bangladesh Bank (FGD Outcome).

4.2.2: Implementation Status of Customer Level Assessment Mechanism

The guidelines instructed banks to evaluate the risk factors associated with their trade customers using a scoring model. Some participants in a Focus Group Discussion (FGD) expressed concerns about the necessity of this additional assessment, given that a similar risk evaluation was already performed during the account opening process. Additionally, some members of the FGD suggested that the risk grading should be aligned with the grading established at the account opening. It is important to recognize that the purpose of risk grading differs between account opening and conducting trade business. Account opening primarily pertains to domestic business activities, while trade customers typically engage with foreign counterparts. By implementing risk grading at the customer level, banks can evaluate the number of customers in each risk category and gain insights into the inherent risks associated with them. To assess the current implementation status of banks at this stage, certain questions were placed before the bank's concerned department.

Survey outcome (Table 4.3) indicates all banks' presence in risk-based trade compliance and risk scoring for all exporters and importers (as claimed). The banks follow the risk scoring template provided by BFIU in its guidelines in categorizing trade clients into three risk categories- high risk, medium risk, and low risk. However, the majority of the banks do not have separate Enhanced Due Diligence (EDD) policies based on customers, geography, etc.

Table 4.3: Status of Banks in Customer Level TBML Risk Mitigation and Mechanism

Customer-level TBML risk assessment and mitigation mechanism	Yes (%)	No (%)
Does your bank conduct risk-based trade compliance in trade transactions?	100	0
Does your bank maintain risk scoring for all export trade customers?	100	0
Does your bank maintain risk scoring for all import trade customers?	100	0
Does your bank conduct EDD for high-risk customers?	100	0
Does your bank have separate EDD policy for trade customers?	45	55

Source: Survey Data, 2025

Survey outcome (Table 4.4) identified the status of effectiveness of customer-level TBML risk management in banks. The survey reveals customer-level TBML risk management has scope of improving in rating customers in trade transactions. Bankers opine that risk scoring of a customer varies due to the risk appetite of banks (the same customer with different risk scoring in different banks), which affects the business of banks due to high-risk scoring. Moreover, survey data reveal that banks rarely review medium and low-risk customers as prescribed by the guidelines. Absence of separate EDD guidelines for trade customers is another concern for the low level of effectiveness in customer-level Trade Bases Financial Crime (TBFC) risk management. Banks generally do not have EDD policies due to the differential nature of transactions and no special requirement of BFIU (FGD Outcome).

Table 4.4: Effectiveness Status of Customer-Level TBFC Risk Mitigation and Mechanism

Customer-level TBML risk assessment	Fully Compliant (%)	Moderately Compliant (%)	Partially Compliant (%)
Risk-based trade compliance approach	70	15	15
Risk scoring for all export trade customers	75	20	10
Risk scoring for all import trade customers	75	20	10
EDD policy for trade customers	60	35	5

Source: Survey Data, 2025

4.2.3: Implementation Status of Transaction Level Assessment Mechanism

This is the stage where the implementation of the guidelines is ongoing. Every transaction process must comply with the guidelines. At this point, all data elements appearing on documents are crucial to examine to ensure compliance. The guidelines outline several indicators that must be assessed before processing any transactions.

Price Verifications: A key element in the process is price verification. Bangladesh Bank (BB) has provided numerous unwritten guidelines for commercial banks to perform price verifications for imports. Additionally, BB has organized a series of workshops and taken commendable initiatives to raise market awareness. However, there are still no comparable guidelines or initiatives for export transactions. Some banks have subscribed to a price verification solution as part of their ongoing efforts to upgrade their compliance status. In this context, the compliance status of these banks can be categorized as follows: i) banks (out of the total population) has implemented complete process guideline for price verification; ii) banks in the total population is still in the transition phase of setting up processes for price verification; and iii) banks has not yet been determined.

Processing indicators manually: Besides, there are also indicators that require manual process to be compliant with the guideline. One of the weakest links in the effective implementation of TBFC compliance is the Level 1 designated officer. These officers are primarily involved in the process but tend to have the least experience within the system. Without a clear understanding of the indicators that need to be manually compiled, it becomes very challenging to ensure compliance. Inadequate guidance at Level 1 can result in undetected indicators slipping through the cracks. Therefore, the following categories may be useful in assessing a bank's compliance status: i) banks have translated the indicators effectively to ensure compliance by level one; ii) banks are still in the transition phase of translating the manual indicators; and iii) banks within the population have not yet been determined

Escalation matrix: The guidelines require banks to adhere to an escalation matrix consisting of three levels. Level 1 must escalate any triggers that arise from the transaction to Level 2. Level 2 will evaluate the trigger and either confirm it with the necessary rationale, allowing Level 1 to proceed with the transaction, or escalate the trigger to Level 3 along with the rationale. Level 3 will then decide whether to approve the transaction with justification or to reject it, which may or may not involve submitting a SAR.

Many banks do not strictly follow the escalation matrix. In most cases, transaction processing decisions are made by trade services operations based on verbal instructions. While this traditional method can speed up the transaction process, this traditional action is at the cost of no or weak compliance action. It often leads to key indicators being overlooked or processed without proper documentation.

Survey data (tables 4.5 and 4.6) show the implementation and effectiveness status of the 3- level review system in banks. Data indicates that all banks execute trade transactions through TBML alert mechanisms, and all banks have designated level 1, level 2, and level 3 officials.

Table 4.5: Status of Transaction Level TBML Risk Assessment and Mitigation Mechanism

Transaction-level TBML risk assessment and mitigation mechanism	Yes (%)
Does every transaction of trade undergo TBML alerts and sanction screening?	100
Does your bank have designated trade officials to scrutinize TBML alerts and sanctions screening, level 1 officials?	100
Does your bank have designated trade officials to examine and review TBML alerts and sanctions screening, level 2 officials?	100
Does your bank have designated trade officials to further examine and review TBML alerts and sanctions screening, level 3 officials?	100

Source: Survey Data, 2025

Though all the banks have a designated trade official at the 3-level review system, effectiveness of such mechanism is not uniformed across banks due to technological and compliance culture of banks. As discussed with trade compliance senior executives, effectiveness is not the same across banks due to a lack of automated escalation processes, for example, in some cases, level 1 official directly communicates with a level 3 official by passing level 2 official. Moreover, many banks have designated business officials at level 2 officials, particularly in decentralized banking systems. Not well-defined

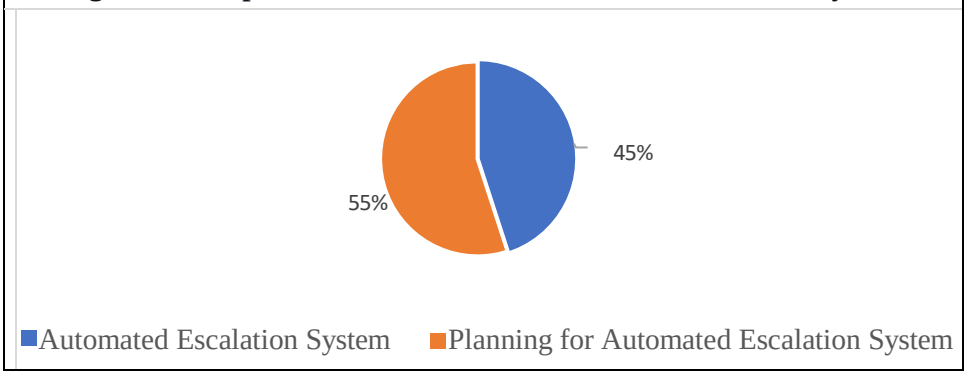
roles and responsibilities at level 1 and level 2, as well as inadequate monitoring of AML supervisory authorities, are also critical issues for the overall effectiveness of transaction-level TBML risk management.

Table 4.6: Effectiveness Status of Transaction Level TBML Risk Assessment and Mitigation

Transaction-level TBML risk assessment	Fully Compliant (%)	Moderately Compliant (%)
TBML alerts and sanction screening mechanism in your bank	73	27
Role of designated trade officials to scrutinize TBML alerts and sanctions screening level 1 officials	82	18
Role of designated trade officials to examine and review TBML alerts and sanctions screening level 2 officials	77	23
Role of designated trade officials to further examine and review TBML alerts and sanctions screening level 3 officials	73	27

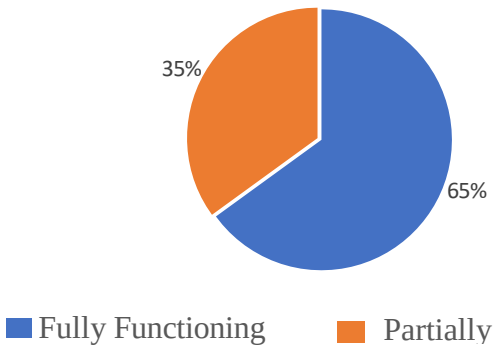
Source: Survey Data, 2025

Figure 4.6: Implementation Status of Automated Escalation System



Banks are to implement 3-level review system in trade transactions (Level 1, Level 2, and Level 3). However, the data (Figure 4.6) clearly indicates that banks are lagging automated escalation system, which delays transactions delay in making decisions. Figure 4.7 shows that the existing escalation matrix is partially functioning, due to the manual escalation system.

Figure 4.7: Effectiveness of Escalation Matrix



4.2.4: Implementation Status of Enterprise-Level Assessment Mechanism

Bad actors often find an innovative way to utilize legitimate banks' channels for their illicit objectives. Over time, it has been a fact that good actors identified bad actors' activities after many successful transactions by the bad actors. It is challenging to identify the new techniques that bad actors may have used without maintaining proper centralized records at the enterprise level in the system. This is why the guidelines instruct banks to keep accurate records of any escalations during this time. Doing so will ensure that the existing guidelines can be reviewed, updated, and revised periodically, as needed. It has been observed that many banks lack an effective record-keeping system. Available record data is often combined with transaction files, undermining the enterprise-level purpose of the guidelines.

The tables below (4.7 and 4.8) describe the implementation status and effectiveness of the enterprise-level TBML risk assessment and mitigation mechanism. The data describes the full existence of reviewing existing TBML alerts and sanction screening. However, many banks do not form a yearly review team and do not have the mechanism to disseminate TBML alerts and new strategies to fight against TBML.

Table 4.7: Status of Enterprise-Level TBML Risk Assessment and Mitigation Mechanism

Enterprise-level TBML risk assessment and mitigation mechanism	Yes (%)	No (%)
Does your bank review existing TBML alerts and sanction screening?	100	0
Does your bank have a yearly review team to formulate new strategies in preventing TBML?	80	20
Does your bank have the mechanism to disseminate TBML alerts and new strategies among all relevant employees?	90	10

Source: Survey Data, 2025

The absence of a review team can be explained due to the non-availability of transaction monitoring software in banks. Moreover, transaction monitoring software also does not have such solutions to provide new TBML alerts. Data also reveal that most of the banks do not have a Research and Development Department to work on such development in preventing TBML. For more enforcement in preventing TBML, banks' internal compliance department should have some kind of penalty (financial or non-financial) authority to non-compliant individuals or branches. Moreover, some platforms should be in place for interbank information sharing related to real-time new TBML alerts (FGD Outcome).

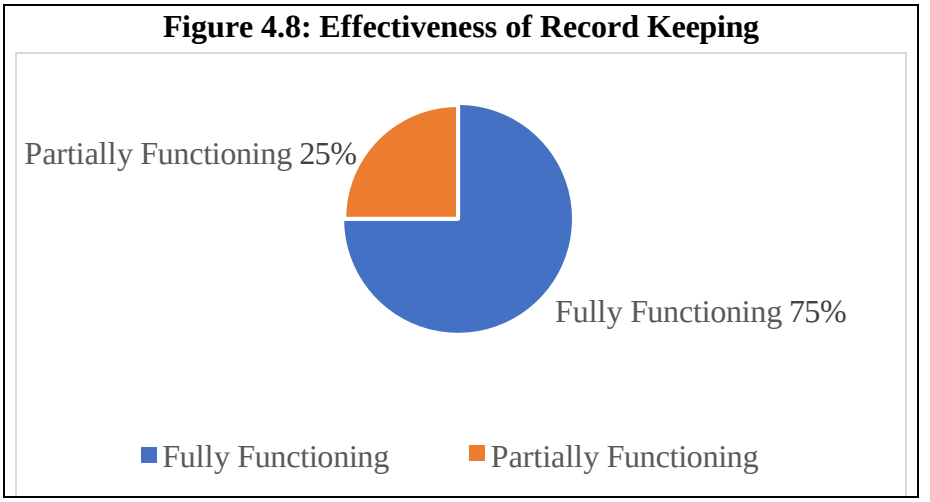
Table 4.8: Status of Enterprise-Level TBML Risk Assessment and Mitigation Mechanism

Enterprise-level risk mechanism	Fully Compliant (%)	Moderately Compliant (%)	Partially Compliant (%)
Existing TBML alerts and the sanction screening mechanism	80	15	5
Role of the yearly review team to formulate new strategies in preventing TBML	40	45	15
Mechanism to disseminate TBML alerts and new strategies among all relevant employees	50	40	10
STR/SAR Reporting Mechanism	90	10	0

Source: Survey Data, 2025

Figure 4.8 shows the effectiveness of record keeping by banks in TBML alerts, STR/SAR etc. The survey analysis shows that banks usually disseminate new TBML alerts in their regular awareness program. However, many banks keep their analysis of TBML alerts only to AMLD and respective departments.

Figure 4.8: Effectiveness of Record Keeping



4.2.5: Centralized Trade Processing and Better Enforcement of TBML Guideline

Centralized trade processing offers much better environment to implement TBML guidelines, as opined in the FGD. Centralizing trade-finance processing concentrates specialist skills, data, and technology in one hub, making it far easier to apply uniform TBML controls across every transaction. A single center can deploy enterprise-grade screening engines, price-verification tools, sanctions, vessel trackers, graph-analytics for related-party links, and ensure they are always fed by complete, cleaned data. Centralization delivers stronger control, better analytics, and clearer accountability, making it the superior model for enforcing TBML rules and safeguarding the integrity of trade transactions.

Roughly a third of Bangladeshi banks still route documentary credits, collections, and guarantees through branch-level or product-silo systems. This breaks the audit trail, forces manual reconciliations across trade, core-

banking, and SWIFT data, and leaves 'blind spots' where TBML red flags are missing (BIBM, 2021). Global case studies indicate that decentralized processing raises false-negative detection rates by about 25-30% (McKinsey and Company, 2019). Banks that have migrated to a single trade-services hub or shared utility report i.e., 40–60 % faster sanctions / vessel screening; and there was 20% drop in false positives after advanced analytics are layered on consolidated data (Source, 2025).

By contrast, decentralized processing scatters responsibility across branches or business units, leading to inconsistent application of policy, duplicated systems, and gaps in oversight, particularly unsafe for TBML, where a single mis-invoiced shipment can obscure millions in illicit value. Several banks in Bangladesh are engaged in transforming from 'decentralized processing' to 'centralized processing'. In the context of Bangladesh, about 35% banks adopt centralized (paper-based or paperless) banking operations, where the majority comes from FCBs.

4.3: Inter-Agency Coordination and Cross-Country Cooperation

BFIU prepares an intelligence report and disseminates it to Law enforcement agencies (LEA). As per Schedule 01 of Money Laundering Prevention Rules, 2019, Criminal Investigation Department (CID), Bangladesh Police and Customs Intelligence and Investigation Department (CIID) are entitled to investigate TBML cases. Firstly, CID or CIID enquire into the cases and then files suit in a special court for a money laundering offence. A joint investigation team can be formed among the law enforcement agencies consulting with the Government, i.e. financial institution division, the Ministry of Finance. After investigation and due procedures of the special court of Bangladesh honorable Judge pass the order and convict the launderer. National Coordination Committee (NCC), which consists of 15 members, is the highest body to prevent money laundering and financing for terrorism, which is headed by the finance minister. BFIU works as the secretariat of NCC.

BFIU has a mechanism for sharing information through the Egmont Secured web (ESW). BFIU collects information at the request of Law Enforcement agencies for enquiry/analysis purposes. If law enforcement agencies need to present the information to the honorable court, then they send Money Laundering Activity Report (MLAR) to the respected country. In Bangladesh, the law enforcement agencies prepare the MLAR draft and send it to the Ministry of Home Affairs. The Ministry of Home Affairs has the responsibility to do MLAR with the respective country.

4.4: Due Diligence in Trade Finance and Beneficial Ownership Screening

Bangladeshi banks begin every import LC or export financing request with risk-based KYC and credit checks mandated by the Guidelines for Prevention of Trade-Based Money Laundering (BFIU, 2019). Relationship managers must verify the customer's legal existence, ownership, tax status, and business purpose, then pull a real-time Credit Information Bureau (CIB) report to gauge group-wide indebtedness and repayment behavior before approving limits. Red flags such as overdue facilities or 'Special Mention Account' loans surfaced by the CIB trigger enhanced due diligence that now includes invoice-value benchmarking, HS- code validation, and sanctions screening embedded in trade-processing platforms. Related- party exposures are governed by Bangladesh Bank's BRPD Circular 03/2025, which obliges boards to pre-approve and publicly disclose any financing that benefits sponsors or connected entities. Implementation is still patchy paper documents; opaque conglomerate structures, and limited cross-border data sharing make it difficult to spot disguised affiliates. Several instances reveal vulnerabilities (Box 4.1).

Box 4.2: Cases on Related Party Transactions, Fake Bill of Entry, Beneficial Owners, Weak KYCC and Credit Report

- Bank issued a letter of credit to import huge amounts of sugar. Upon complying with the presentation, bank made payment of the import bill, and the bank also matched IMP with Bill of entry. However, later it was revealed that it was a phantom shipment, though the customs issued bill of entry was genuine.
- Bank issued letter of credit to import commercial items for client. Banks made payments upon complying with the presentation of documents. The importer released the goods but did not reimburse the issuing bank. Later it was revealed that importer sold imported goods in the local market and purchased assets abroad via hundi, whereas banks' liability remains unadjusted.
- Credit Report is a requirement before opening LC or facilitating imports when import amount exceeds a particular threshold. However, in many cases, it is found that banks obtain credit reports after issuance of LC, leaving banks in compliance risk. Many banks use credit reports as a requirement of the regulator, not as trade risk management purposes.

Source: Based on the discussion with bank officials

Banks determine Ultimate Beneficial Owners (UBOs) in line with BFIU's *Guideline on Beneficial Ownership*-any natural person holding ≥ 20 % equity or exercising effective control must be identified and verified through Registrar of Joint Stock Companies and Firms (RJSC) filings, board resolutions, and national IDs. BRPD Circular 16/2024 deepens the obligation, according to which, scheduled banks must map every customer's BO information, keep it current in a central database maintained by Bangladesh Bank, and use independent data sources (e.g., World-Check, Dun & Bradstreet) to corroborate offshore shareholdings and politically exposed persons before disbursing trade lines.

However, practical hurdles remain. Bangladesh still lacks a public, up-to-date BO registry; RJSC filings are mostly paper-based and updated slowly, while nominee shareholders in offshore jurisdictions obscure real

ownership. Transparency International Bangladesh's 2023- 24 review notes that compliance teams routinely wait weeks for 46illful46I documents and must rely on self-declarations, raising the risk of false negatives in high-value trade deals. Challenges associated with identifying BO are apparent in several instances (Mini Cases 01 and 02).

Box 4.3: Mini Case Study 01: Challenges of Beneficial Ownership- Loan Classified

A company "FBL" got registration from the RJSC on 02 June 2022, in the name of "Mrs. SU" (director) and "Mr. SB" (Managing director) as trader, importer and distributor. "Mrs SU" was a student at a renowned private university, and "Mr. SB" was an employee of the "Mr. SA" group of companies. "FBL" opened a bank account with Bank "F" on 9 June 2022, where Mr. SA was the Chairman of the Board of Directors. The branch promptly forwarded a loan proposal to the Head Office, and the Board of Directors approved a loan of BDT 95 crore for this newly established company on 21 June 2022.The next board meeting enhanced the loan limit to BDT 585.00 crore. Loan amounts were withdrawn in cash from the branch and deposited into different fictitious accounts of "Mr. SA". Then, the loan amounts were found to be invested in capital market and manipulated the share price through buying and selling shares of "Mr. SA" listed company. BFIU conducted an enquiry but found no company at the registered address. BFIU also got the information that "Mrs. SU" was the daughter of "Mr. SA's friend. Thus, "Mr SA", chairman of "Bank F" made a fictitious company and arranged loans of BDT 585.00 crore.

Box 4.4: Mini Case Study 02: Challenge of Beneficial Ownership-Export Proceeds Not Repatriated

"Mr. PR" is the Vice-Chairman of a group of 25 companies. The companies shipped total of USD 80.00 million valued goods to a company in the UAE but the export value was not repatriated. BFIU found that "Mr. PR" is the beneficial owner of both companies in Bangladesh and UAE. He created the UAE Company in the name of his two former employees (CFO). CFO "Mr. X" is a citizen of Pakistan and CFO "Mr. Y" is a citizen of India. Both worked in the Bangladeshi companies of "Mr PR" as CFO, while the UAE company was formed in their names. Shipments were made against the fake contracts and PAD loans from back-to-back LC were also found to be created in Bangladesh local banks, which are now in classified status.

4.5: Product Specific Vulnerabilities-Bangladesh Context

Historically, importers and exporters of the country have continued to rely mainly on documentary credits, that is considered safe from the perspective of TBML control. And of the different types of LC, Bangladesh has been heavily relying on back-to-back LC. LC, as a highly regulated method, offers greater control on the part of banks (authorized dealers) and thus regulators may have better grip to identify suspicious transactions (BIBM Trade Reviews, various years).

Cost pressures and client demand, however, have pushed banks to expand lower document linked and cheaper product options over time. Documentary collections are already the most widely used method in export trade and now sit behind LCs as the second largest settlement method, and in Export Processing Zones 'Open Account' terms, already outstrip collections. A circular also allowed conditional open account transactions since December 2020. The changing trend may be offering comforts to the traders in terms of cost, and bankers in terms of TBML risk shouldering, the country-level TBML risks in increasing.

These changes widen the attack surface and probability of TBML. Back-to-back LCs drawn against loosely worded contracts let criminals layer value through phantom intermediate sales, while open-account and collection deals give banks little visibility into cargo, voyage or ultimate beneficial ownership. To keep pace, regulators and banks must capture granular data at the transaction level, embed real-time anomaly analytics, and upgrade rules. Strengthening TBML controls around 'riskier' products is crucial to safeguard trade-finance channels with the changing product composition towards open account terms.

4.6: Legal Enforceability of Contract: Bangladesh Context[10]

GFET and the national trade policies both insist that LCs be issued only against a *firm* or
confirmed contract. While the regulations do not spell out the legal tests for firmness, their intent is clear i.e., the sales-purchase agreement should be irrevocable and mutually binding before banks extend trade finance. GFET instructs authorized dealer (AD) banks to obtain documentary proof of a bonafide order and to exercise 'greater care' when financing shipments made on contract terms alone or CAD/DA basis. Likewise, the 2019 *Guideline on Prevention of TBML* flags ambiguous contracts, royalty agreements, and guarantee/standby LCs that fail to reference an underlying project as red-flag scenarios. Yet none of these instruments prescribes specific clauses or due-diligence steps to render a contract legally enforceable.

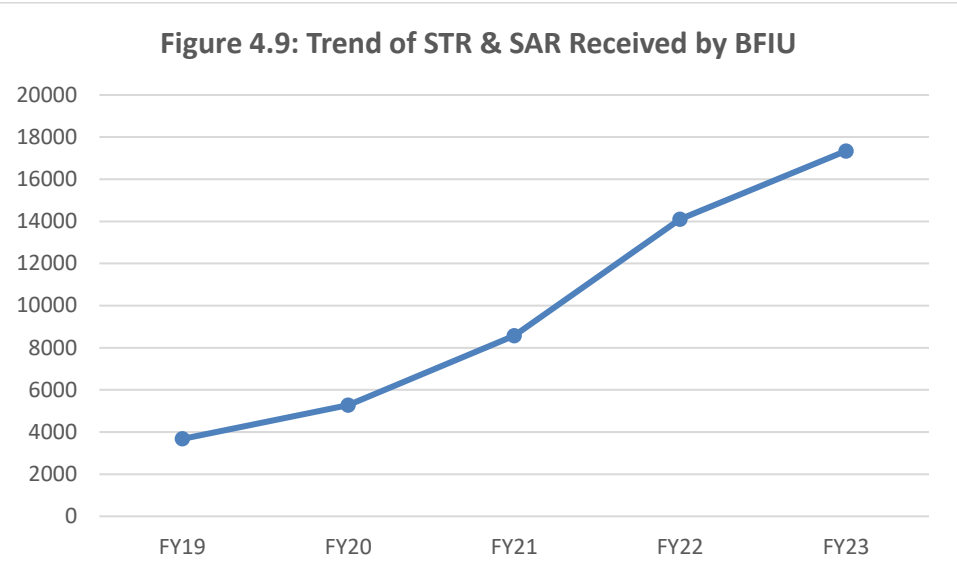
Bangladesh has not ratified the UN Convention on Contracts for the International Sale of Goods (CISG) or the International Institute for the

[10] The sub-section heavily draws on Habib, Shah Md Ahsan, Zareen, A., Ahmed, T., Rahman, M. A., Hossain, K., Rahman, M. M., & Hoque, A. T. M. N. (2021). Applicability and legal enforceability of sales-purchase contract in international trade operations in banks [Review workshop paper]. Bangladesh Institute of Bank Management.

Unification of Private Law (UNIDROIT) *Principles*. Major trading partners, including the USA, EU members and China, apply these instruments, creating a mismatch that leaves Bangladeshi exporters reliant on the 19th-century Contract Act 1872. The absence of uniform cross-border contract rules complicates dispute resolution and weakens Bangladeshi firms' negotiating position. Sales-purchase contracts rarely contain arbitration, mediation, or compensation provisions. Back-to-back LCs are routinely issued against non-binding contracts, and parties sometimes switch from DP to DA terms without consulting the exporter, exposing banks to performance and TBML risk. Low awareness among traders and relationship managers perpetuates information asymmetry about contractual obligations, dispute-settlement venues, and governing law.

4.7: STRs and the Associated Challenges

For FY 2023-24, BFIU received a total of 17,345 suspicious reports comprising 11,736 STRs and 5,609 SARs. The data indicates a consistent upward trajectory in the receipt of STR and SAR, with a noteworthy spike of 22.96 percent in 2023-24 compared to the previous year. This substantial increase can be attributed to several key factors, including BFIU's stringent measures against non-compliance, increased awareness and capacity development of the Ros, the government's stance on zero tolerance policy against corruption, etc. The significant upward trend was also triggered due to gambling/betting, FX/crypto trading, digital hundi, etc. However, banks submit a smaller number of STR/SAR related to TBML as banks are concerned about the business of the entities (FDG outcome). BFIU started to segregate STR/SAR associated with trade only in the year 2024, and till now, it is not more than 1%.



Source: BFIU Annual Report, 2023-24

4.8: Status of Trade Related Crime/NPL and Wilful Default

Bangladesh Bank's figures show that defaulted loans rocketed to about Tk 4.20 lakh crore by March 2025, fully 24 percent of all outstanding credit, almost double the Tk 1.82 lakh crore reported a year earlier. Investigations indicate that much of this spike stems from willful defaulters' borrowers who are able but unwilling to repay-prompting the regulator to issue BRPD Circular No. 6 (12 March 2024) under the amended Bank Companies Act. TBML pressures are rising in parallel. Global Financial Integrity estimates that Bangladesh already forfeits about USD 8.27 billion a year through trade mis-invoicing and warns the leakage could top USD14 billion by 2030. Currently, data on NPL in trade financing is not available. However, there are indications that a significant portion of these originates from trade financing.

Banking analysts repeatedly link a sizeable share of these bad assets to TBML in the context of Bangladesh. As evidenced, export or import credits are obtained on forged shipping documents, the funds are siphoned offshore, and the loans then default, flying out of the country' rather than reflecting normal business losses. The Hallmark scandal used back-to-back LC for non-existent exports, leaving hundreds of millions of BDT unrepaid

(Financial Express, 2019). In another case an importer opened 20 LCs with five banks worth more than USD 5 million, yet no shipments ever arrived; every dollar became an NPL spread across those banks (Financial Express, 2021). Transparency International Bangladesh estimates TBML via mis-invoicing now drains about USD 3.1 billion a year roughly 1 percent of GDP while also 51illful the domestic bad-loan pile (TIB, 2022). Bangladesh's NPL is now among the highest in Asia due to fraudulent trade deals routed through shell firms and back-to-back LCs (Iqbal, 2023).

Bangladesh's experience shows TBML and NPLs form a self-reinforcing loop: fraudulent trade inflates bad loans, and a high-NPL banking system invites further abuse. Breaking the cycle means tackling both problems together, tightening KYC and trade-document scrutiny to block laundering while enforcing credit discipline and rapid NPL resolution to deter future fraud. Early reforms signal progress, but sustained inter-agency cooperation and international support are needed to protect the financial system from "the twin threats of bad loans and dirty money" (Business Standard, 2023).

Most banks in Bangladesh lack proper systems for the collection, centralization, and utilization of internal loss data, and are not part of external loss data consortia. It is essential to develop a centralized national loss data portal due to trade and related operations, maintained by the Central Bank or banking associations. Banks should be mandated to maintain internal loss event logs in standardized formats and encouraged to participate in external data-sharing platforms to support scenario analysis and stress testing on trade-related financial crime, including TBML (Habib *et.al*, 2025).

4.9: Internalization of TBML Risk in Banks' Operational Risk Framework[11]

Operational risk management (ORM) issues are currently covered under general risk management guidelines. However, the absence of explicit and

[11] The sub-section heavily draws on Habib, Shah Md Ahsan Habib, Nehal Ahmed, Mohbbat Hossain, Rexona Yasmin, and Emon Arefin (2025) Governance and Practices of Operational Risk Management in Banks, Research Workshop Paper, May, BIBM,

enforceable regulatory mandates is likely contributing to inconsistent ORM practices across banks. Presently, banks have limited incentives from the market or the regulator to invest in robust ORM frameworks. There is a need for alignment with Basel standards at the enforcement level. TBML related compliance risk should very much be internalized within the broad framework of operational risk management of banks. This is not the case with the banking industry of Bangladesh in general.

According to a recent BIBM Study (2025), only a limited number of banks in the country claimed to have Enterprise Risk Management (ERM) policies and strategies, and separate ORM units to handle operational risks. Risk management in most banks in Bangladesh is fragmented, with operational risk not integrated into the ERM framework. A clearly defined risk appetite statement-including operational risk thresholds must be developed and approved by the Board. Current ORM risk appetite statements are vague and lack strategic alignment. Most banks lack proper systems for the collection, centralization, and utilization of internal loss data, and are not part of external loss data consortia (Habib *et.al*., 2025).

TBML poses a critical operational risk in Bangladesh's banking sector. Many banks lack adequate screening tools, segregation of duties, and compliance mechanisms in trade finance. Banks must enforce AML screening, vessel tracking, and price verification tools within ORM processes. Clear segregation of duties between origination, processing, and verification must be implemented. Staff should receive specialized training on TBML and trade compliance as part of the Operational Risk Management framework.

4.10: Abuse of Correspondent Banking Relationship and TBML Vulnerabilities

This inherent risk is in the system in two ways: (i) where banks do not have a sound RMA (Relationship Management Application) policy to accept or reject the correspondent relationships, and (ii) where the banks facilitate transactions of potential shell banks without RMA relationships.

Without a proper RMA (Relationship Manager Agreement) policy, potential shell banks can easily join the correspondent banking network by simply submitting an RMA request. If the banks do not have clear guidelines on how to accept or reject these requests, the trade services divisions may approve them based solely on requests from customers or business units. This situation can facilitate transactions for shell banks, which poses a risk to the integrity of the banking system.

A complicated method for conducting transactions with shell banks involves accepting transactions through MT 710 or MT 720. In this case, the sender, who is not the issuing bank, has RMA (Relationship Management Application), but the issuing bank is either a shell bank or not deemed acceptable by the bank. Involvement of shell banks could also occur under documentary collections.

The globe operates within a constantly evolving sanctions regime. Banks must stay informed about the dynamics of these sanction programs, especially those imposed by the USA and EU, to ensure strict compliance. Many import transactions involving beneficiaries in regions adjacent to sanctioned countries carry significant risks and may result in potential violations of these sanctions. During the Russia-Ukraine war, Russian entities, including banks, are significantly targeted under the sanctions program of the USA and E.U. We observed that banks involved in alternative payment solutions in China that bypass SWIFT pose significant risks for those banks.

4.11: Compliance Culture and Segregation of Duties between Business and Compliance

Many Bangladeshi banks still approach compliance as a narrow, checklist exercise. Head-office teams complete template reports, but the work is rarely framed as an ethical obligation to safeguard depositors or the wider economy. Aside from a handful of multinationals, banks hardly have adequate and 53illful53I internal setup for regulatory reporting and compliance', with senior posts in this field often unfilled and the function considered 'less important'. A BIBM study echoes the finding, noting that

board and C-suite discussions seldom connect AML/TBML controls to corporate values or Bangladesh's development objectives; instead, compliance is delegated to middle-office technicians, leaving strategic blind spots around trade-based money-laundering exposures and reputational risk (Habib *et al*., 2025).

Weak deterrents reinforce complacency. Section 25 of the Money Laundering Prevention Act fines for failing to file a Suspicious Transaction Report at just BDT 2.5 million, trivial for institutions handling billions in assets, and enforcement actions frequently fall far below that ceiling. Absence of meaningful financial or managerial penalties, directors have little incentive to embed robust ethics-driven risk culture, invest in trade document analytics, or treat compliance as integral to enterprise-risk management; the result is a banking system still vulnerable to TBML, fraud, and the erosion of public trust.

Embedding a culture of compliance into our operational system is essential; otherwise, the effectiveness of trade-based financial crime compliance will remain in question. Compliance should be viewed as everyone's responsibility every day, for each transaction. It has been observed from the FGD that in many cases, TBML compliance programs of most banks are primarily confined to the compliance and trade operations teams. The compliance team is responsible for establishing the program and its procedures, while the trade team serves as the implementing agency, following those procedures. The business team, being at the forefront of the organization, must undergo proper training to ensure that a culture of compliance becomes a fundamental priority alongside profitability.

Additionally, the Level-1 officers of the BFIU's TBML guidelines escalation matrix are the least experienced employees in the trade services division. If any indicators of potential issues go unnoticed at this stage, they will not be escalated to the next level. Therefore, the proper training of Level-1 officers is critical to ensure the effective implementation of compliance measures against trade-based financial crimes.

4.12: Status of Training and Capacity Development Efforts on TBML

Tables 4.9 and 4.10 present the implementation and effectiveness status of capacity development of bank officials to prevent TBML. Though banks conduct regular training programmes in different aspects of banking, extensive training for the 3-level review system is not organized by banks.

Table 4.9: Implementation Status of Capacity Development to Prevent TBML

Training Level Risk Assessment	Yes (%)	No (%)
Has your bank developed and implemented a comprehensive annual training plan on TBML?	80	20
Does your bank ensure regular training for all officials on TBML?	100	0
Does your bank conduct separate training programs on TBML for Level 1, Level 2 and Level 3 officials?	50	50
Are refreshers' training courses on TBML conducted periodically to update employees on the latest regulations and risk factors?	80	20
Are the effectiveness and quality of the training programs on TBML regularly reviewed and evaluated?	80	20

Source: Survey Data, 2025

Table 4.10: Effectiveness of Training Programs to Prevent TBML

Training Level Risk Assessment	Fully Compliant (%)	Moderately Compliant (%)	Partially Compliant (%)
Annual training plan on TBML	60	20	20
Regular training for all officials on TBML	60	30	10
Training programs on TBML for Level 1, Level 2, and Level 3 officials	30	50	20
Refresher training courses on TBML are conducted periodically to update employees on the latest regulations and risk factors	70	20	10

Source: Survey Data, 2025

4.13: Oversight, Monitoring and Reporting Framework by Regulators/ BFIU and Banks

Assessment of the Oversight, Monitoring and Supervisory system reveals a visible gap and scope of improvement for ensuring effective enforcement of TBML standards in the country (Boxes 4.3 and 4.4).

Box 4.3: Assessment of Oversight and Supervisory Framework of BFIU

(5) Risk-based and data-driven supervision: BFIU prioritizes TBML cases depending on Risk risk-based approach. TBML guidelines have been issued in 2019 and have been in effects since 2021. BFIU suggested 04 pillars for risk-based approach of TBML risk assessment and mitigation as i) Infrastructure level, ii) Customer Level, iii) Transaction Monitoring Level and iv) Enterprise Level. BFIU has issued different circulars and circular letters to ensure the implementation of TBML guidelines. To review the implementation stages of TBML guidelines instructions, BFIU follows generally two major ways- i) Offsite supervision: collects information regarding above mentioned four risk assessments and mitigation conditions in scheduled banks (such as vessel/container tracking, sanction screening, self- price verification database etc., updated information) and provides guidance to banks. BFIU also regularly analyses TBML related STR/SAR in a prioritized manner. Ii) On-site Inspection: during the system check inspection, BFIU inspection team sees the implementation stages of TBML guidelines' instructions (Trade customers risk grading, implementation stages, and submission of STR/SAR numbers from three level transaction monitoring systems, etc.). On- site supervision has an important effect on the overall AML/CFT rating of the Banks, considering subjective judgement. Special inspections are conducted on banks regarding TBML based on intelligence information or complaints.

(II) Effectiveness of evaluation not box-ticking: The core function of BFIU is to receive and analyze STR)/ SAR, prepare intelligence report

and then disseminate to Law Enforcement Authorities (LEA). BFIU receives STR/SAR/Suspected TBML report through goAML from reporting entities like- banks, financial institutions, securities, and others. BFIU disseminated about 62 intelligence reports to LEA in 2023-24 FY from STR and SAR analysis. TBML related different predicate offences were identified and addressed in those intelligence reports.

(III) Penalty and collective approach to handle risk: BFIU may impose a fine on Banks and case-related responsible employees under the power of article no-23(5), 23(8) and 25(2) of Money Laundering Prevention Act, 2012. BFIU imposes fines as follows-

-Highest BDT 5.00 lac to banks as per 23(5) for every non-compliance of ensuring Customer due diligence (CDD) and Enhanced Due diligence (EDD). Especially Trade customers. – Highest BDT 5.00 lac to the responsible employee as per 23(8) -Highest BDT 25.00 lac to Banks for non-submission of STR/SAR/suspected TBML

BFIU imposes a fine on banks on a regular basis for non-compliance and violations of AML/CFT instructions of BFIU and related rules-regulations.

(IV) Investing in inter-agency and cross-border connectivity: BFIU and LEAs are connected through sharing trade-related information, Intelligence reports, mutual capacity-building programs, providing access to each other's database for intelligence outcome. BFIU has access ID to the Online Export and Import Monitoring system database of Bangladesh Bank and ASYCUDA software of NBR, which accelerates TBML case analysis. Bangladesh Financial Intelligence Unit (BFIU) and other Law enforcement agencies like Customs Intelligence and Investigation Department, NBR, CID share trade and customers' information

BFIU's supervisory regime has progressed from rules-listing to risk-focused oversight- it grades trade-finance exposure across four pillars and blends off-site data requests with on-site system inspections that feed into

banks' overall AML/CFT ratings. Deterrence hinges on dual fines-up to BDT 25 lakh for institutions and BDT 5 lakh for culpable staff-but ceilings remain low for large banks and enforcement bulletins are seldom public, blunting reputational impact. Data reach has widened through direct access to Bangladesh Bank's Export/Import Monitoring System and NBR's ASYCUDA, yet the flow is mostly one-way, and roughly a third of banks still lack the price-verification and vessel-tracking feeds that approach truly data-driven. In short, BFIU has the right framework with risk taxonomy, mixed-mode supervision, inter-agency links; however, needs deeper, 58illful58ized data pulls, faster feedback loops with law enforcement, and stiffer, more transparent sanctions to shift banks from checkbox compliance to proactive TBML risk management (Box 4.3).

Box 4.4: Assessment of Internal Monitoring Framework of Banks

i) Treating TBML as a strategic business risk, not a compliance cost: Board-approved risk appetite statements should explicitly cover trade-finance exposure, and senior executives must receive dashboard-level TBML red-flag trends, STR pipeline health, and examination outcomes. Currently, at banks boards and senior management level, banks do not have such dashboards, and banks' transaction monitoring software does not generate TBML.

ii) Trade-specific analytics: Generic AML engines miss TBML fine details. Integrate customs- price databases, vessel-tracking feeds, and HS-code libraries into the monitoring platform; set rules for common TBML typologies (phantom shipments, multiple invoicing, third-party payments). Currently, banks do not have such infrastructure in place to determine multiple invoicing, phantom shipment, etc.

iii) Focus on data quality and staff expertise: Currently, banks do not have a detailed database of KYCC and analytical tools to identify data on KYCC. For example, the existing data support system does not provide a historical database, fraud case, or identification of material discrepancies for customers. Moreover, manual or decentralized

banking systems also face data quality and staff experience that vary from branch to branch and unit to unit within the banks.

iv) Setting cross-functional working group: Currently, banks do not have a cross-functional TBML working group (trade, compliance, IT, audit) to review KPIs and STR rejection rates, false-positive ratios, audit issue ageing, and approve remediation plans with clear owners and deadlines, mainly due to the nature of banking services within a bank. Decentralized units are another obstacle.

v) Create competitive advantage through clean trade: Currently, non-compliance of banks is affecting counterparties (other banks) in international trade.

Most Bangladeshi banks still view TBML controls as a box-ticking cost, leaving boards without risk-appetite limits or dashboard views of red-flag trends, STR backlogs and exam findings. Data quality is shallow, so analysts in different branches see inconsistent pictures. Without a cross-functional TBML task-force uniting trade, compliance, IT, and audit, key metrics such as false-positive rates or overdue remediation actions go unchallenged, while decentralized operations make ownership murky. The situation is hampering the reputation of the banking industry in several instances (Box 4.4).

Section 5: Policy and Operational Recommendations

5.1: Enforcement Gap and Implementation Status of TBML Guidelines

Survey data and FGD outcomes reveal visible gaps in the implementation of BFIU's TBML guidelines. Opinions on comprehensive implementation does not match with the outcome, and in several instances contradict. To close the enforcement gap, regulators may instruct banks to complete the installation of all the processes and systems within a given period of time. It may come up with an 'innovation fund' (in line with Singapore, Hong Kong, etc.) that reimburses up to a certain percent of the cost for timely adopters while imposing a higher reserve-requirement fee on

defaulters. Progress may be measured each quarter through a publicly posted TBML scorecard that includes system uptime, true-positive alert rates, staff training hours, and the share of trade defaults tied to fraud, with external auditors certifying the figures and BFIU using the results in its annual 'TBML Compliance Review'. Banks that land in the top tier would earn lighter on-site exam cycles, faster product approvals, and access to low-cost refinance lines, whereas those that fall behind would face escalating penalties, creating a clear loop of investment, transparent evaluation, and tiered incentives.

5.2: Shifting to Less Transparent Tarde-Finance Products & Legal Enforceability of Contract

There is an increasing trend of shifting from documentary trade to open-account-based trade financing in several developing countries. Alternatives to LCs are also gaining popularity in Bangladesh, the trend should accompany relatively stringent TBML provisions. The current contract environment in Bangladesh's trade-finance market is fragmented: regulations demand a 'firm' contract, but neither statutory law nor supervisory guidance defines what makes a contract binding and enforceable across borders. Combined with the country's non-adherence to CISG/UNIDROIT, this gap leaves banks and traders vulnerable to commercial disputes, uncollectible receivables, and TBML schemes. The routine omission of arbitration and ADR clauses further magnify settlement risk and delays recovery. Bangladesh should (i) ratify CISG and adopt the UNIDROIT Principles, or at minimum incorporate their core provisions into an updated Contract Act 1872; (ii) have Bangladesh Bank issue a *Model Sales-Purchase Contract Guideline* that prescribes essential clauses—governing law, arbitration/ADR, force majeure, compensation and links LC issuance to compliance with those clauses; and (iii) launch coordinated training for bankers and traders to build awareness of binding-contract requirements and dispute-resolution options. These measures would align Bangladesh with global best practice, reduce TBML exposure, and strengthen confidence in the nation's trade-finance system.

5.3: Internalizing TBML Risk into the Risk Management Framework of Banks

It is evident that generally banks in Bangladesh treat operational-risk management as a loose collection of procedures rather than a Basel-style, data-driven discipline: only a handful report board-approved ERM policies, dedicated ORM units, or systematic loss-data archives. Risk management in many banks is fragmented, with operational risk not integrated into the Enterprise Risk Management (ERM) framework. A dedicated ORM unit within the RMD should be established, with clearly defined responsibilities and measurable Key Risk Indicators (KRIs). Bangladesh Bank should (i) classify TBML as a material operational/compliance risk under its ORM rules, linking breaches to capital charges; (ii) mandate board-approved risk-appetite statements with explicit TBML thresholds; (iii) require banks to embed automated price-verification, sanctions-plus-vessel screening and red-flag analytics within their ORM frameworks and to segregate trade origination, compliance and verification duties; (iv) enforce participation in an industry-wide loss-event database and incorporate TBML shocks into supervisory stress tests; and (v) oblige annual, specialized staff training that marries trade-finance processes with operational-risk controls. Such Basel-aligned, data-driven mandates would transform TBML prevention from a compliance checklist into a core pillar of banks' enterprise-risk architecture, closing today's fragmentation between business lines, compliance teams and operational-risk functions.

5.4: Developing Compliance Culture in Banks and Job Segregation

Field evidence shows that most Bangladeshi banks still treat AML/TBML compliance as a back-office checklist rather than a core strand of enterprise-wide operational-risk management. Boards of banks hardly take up TBML compliance issues; instead, compliance tasks are delegated to middle-office staff with limited authority. Business teams of banks should get due endorsement from compliance teams to move forward with forming correspondent banking relationships with foreign entities. For improving seriousness on compliance issues, amending MLPA 2012 to raise fines to a

percentage of the transaction value and empowering the regulator to impose high penalties and publish breach notices might be helpful. There should be clear segregation between trade finance business and compliance functions, and compliance chiefs should report to the board risk committee, not the COO. Front-line staff require a minimum an hour of training to realize the requirements and importance of compliance, and the severity of compromising with compliance.

5.5: Avoiding Over-Compliance in the Enforcement Process

'Sound Compliance Framework' in banks is a good governance element, and sanction compliance issues should get a nod from the board for having the right kind of operational arrangement, structure, and human resources that need huge investments. Senior management should be adequately convinced and empowered both from the board and regulator to delegate sufficient authority and autonomy to deploy sanction-related policies and procedures in a manner that effectively controls the organizations' sanction risks by employing core elements of compliance management program covering risk assessment, know your customer, sanction screening, enhanced due diligence, training and awareness, and monitoring. 'Over compliance' or excessive avoidance of risk is damaging to businesses and human rights to be considered by the regulator and the banks. Thus, the regulator and banks should carefully review the actual compliance requirements to adjust their compliance to exclude, to the extent possible, any over- compliance. To ensure checks and balances, trade compliance should be independent of trade operations. Overcompliance might particularly affect SMEs. Considering the impact and the associated extent of TBML risks, not all stringent compliance criteria should be treated equally. Proportional application is crucial for effectiveness.

5.6: Collecting and Disclosing NPL Data on Trade Finance and Loss Data

Bangladesh's bad-loan surge is driven by forged LCs, phantom shipments, and other TBML schemes. Bundling export-import exposures into the general NPL column hides the real pressure points. Supervisors and markets

cannot see where credit or financial-crime risks are concentrated. The central bank should act. Banks are expected to come up with data on (i) outstanding trade-finance exposure, (ii) past-due and defaulted amounts, and (iii) losses tied to confirmed TBML or fraudulent documents. These data should feed into a national Trade-Risk Data Hub run jointly by Bangladesh Bank and BFIU. The hub would integrate vessel-tracking hits, price-verification anomalies, and customs red flags. It would publish dashboards showing trade-related NPL ratios and TBML losses by sector and bank tier. The same platform would power risk-based supervision and early-warning stress tests. Banks would also disclose their own trade defaults and TBML losses in annual reports. This transparent system would align credit discipline with AML controls, deter willful defaulters, and give policymakers clear evidence to tighten standards wherever trade products are being misused.

5.7: Centralization for Better TBML Standard Enforcement

Roughly a third of Bangladeshi banks still route documentary credits, collections, and guarantees through branch-level or product-silo systems. This breaks the audit trail, forces manual reconciliations across trade, core-banking, and SWIFT data, and leaves 'blind spots' where TBML red-flags are missing. Centralized trade offers better outcomes, and banks need to invest more in the area with adequate policy support. In the area of capacity development, traders (exporters and importers) are particularly vulnerable. Banks should be incentivized to invest in centralization for better enforcement of standards on TBML in the country.

5.8: Leveraging Technology and Data Analytics

Banks in Bangladesh should install data-analytics dashboards that read trade and payment files in real time. Big data price engines must compare each import price to global benchmarks and flag gaps. Local machine-learning models can mark risky mixes of products, shell buyer, and odd payment timing. AI readers is expected to scan LCs and ship papers and spot forged pages in seconds in near future. Bangladesh Bank and BFIU need a

blockchain pilot to hold an unalterable ledger of each trade deal. Customs can plug automated risk engines into ASYCUDA to push TBML red flags to frontline officers. The regulator should set minimum tech rules and collect the alerts through go AML. Banks must link their new tools to internal case-management and send high-grade cases to supervisors fast. The goal is to install sharper data for management, quicker warnings for regulators, and fewer risky deals in the system.

5.9: Ensuring Beneficial Ownership Transparency in Trade

Bangladesh's fight against TBML is undermined by opaque ownership structures: most companies file only minimal shareholder data with the RJSC, foreign counterparties often hide behind offshore shells, and banks rarely see reliable information on who ultimately owns either side of an import-export deal. Therefore, the authorities should create a digital, verified 'Beneficial-ownership (BO) Registry' that covers every resident company and any foreign supplier or buyer exceeding a set trade threshold, mandate that importers declare the BO of their overseas partners on customs forms, and oblige banks to capture and cross-check BO data for both parties during KYC.

5.10: Inter-agency Coordination and Public-Private Partnerships

For ensuring effective coordination at the regulatory level, relevant agencies/departments of BB and BFIU should work on a common platform with the arrangement of regular interaction and data sharing, targeting specifically TBML issues and concerns. There is scope for further coordination and integration among the Bangladesh Bank, BFIU, Customs, and NBR. Creating a tight data loop among these agencies would close information gaps and sharply strengthen TBML enforcement. Banks, freight forwarders, shipping agents, money services businesses, and trade bodies should each be brought under a coordination platform with the regulators and policymakers.

5.11: Capacity Development of the Key Stakeholders

Capacity development must involve every actor in the trade ecosystem-regulators, BFIUs, customs, shipping agencies, bank boards, compliance teams, trade-finance officers, IT architects, and even large importers and exporters. A tiered training plan makes the task manageable. Infrastructure-level courses teach IT and operations staff how to integrate customs, core-banking, and SWIFT feeds and how to run automated screening, vessel tracking, and price-verification tools. Customer-level modules focus on relationship managers and onboarding teams, showing them how to drill into beneficial ownership, sanction status, and trading patterns before a deal is booked. Transaction-level drills walk frontline trade desks through real bill-of-lading, HS-code, and invoice examples so they can spot price manipulation, routing tricks, and phantom cargo. Finally, enterprise-level workshops guide senior management and auditors on building a risk-based TBML framework, setting clear escalation paths, and linking performance scores to incentives. Short e-learning units, relevant exercises, and joint regulator-bank simulations should run in parallel so that skills transfer sticks across institutions and the alert feedback loop tightens.

5.12: Strengthening Oversight and Monitoring Frameworks-Regulators and Banks

BFIU can lift its TBML oversight by weaving the four risk pillars into one live dashboard that scores every bank, corridor, and customer in real time and channels both off-site analytics and on-site visits to the highest-risk trades. Supervisors should judge outcomes, not paperwork, by tracking how many red-flagged deals mature into solid STRs, how fast alerts reach law-enforcement, and how many cases end in forfeiture or prosecution. Penalties must bite harder and sooner, escalating automatic fines on both the institution and its accountable officers for repeat breaches, while high performers win inspection holidays or fee rebates. As the future course of action, BFIU should hard-wire secure sharing with customs, port, SWIFT, ASYCUDA, and foreign FIU systems, and run joint drills.

Banks should lift TBML oversight from a box-ticking exercise into true strategic control by first embedding trade-finance exposure in the board-approved risk-appetite statement and feeding directors a concise dashboard that shows red-flag trends, STR conversion rates, and examine findings at a glance. From there, install a centrally managed monitoring engine so rule sets can flag multiple invoicing, phantom shipments, and third-party payments in near-real time. Upgrade data quality by building a single warehouse-historical dealing, fraud alerts, and mismatch logs while training frontline trade staff, compliance analysts, and branch teams to capture clean data at source. Create a cross-functional TBML task force spanning trade desks, compliance, IT, and audit; require it to meet monthly, review key performance indicators such as false-positive ratios and STR rejection causes, and own remediation deadlines.

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