ICC United Kingdom

Centre for Digital Trade and Innovation

MonetaGo
Global Fraud Prevention for Finance and Trade

Shutting fraudsters out of trade

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Foreword

I very much welcome this timely report. For too long, there hasn't been a broad enough discussion about what can be done to prevent fraud across finance and trade.

Digital systems and the smart use of technology solutions present an enormous opportunity to shut fraudsters out of trade and deliver billions of dollars of real-world economic benefit at a national level and trillions of dollars internationally if we collaborate and work together.

This isn't just a finance and banking issue. The foundational solutions are the same as in other parts of the digital trade ecosystem, such as the adoption and use of legal entity identifiers (LEIs). Tackling fraud is a governmental problem, too, not just industry. Government procurement and tax systems would also benefit from a unified approach across the public and private sectors. Standardisation and connectivity of systems is the solution to help us identify and prevent criminal activity.

Importantly, this is not about regulators heaping more requirements on banks. Tying banks up in knots with more bureaucracy and red tape is part of the problem and acts as a barrier to scaling solutions.

Constructive engagement by all parties is the answer. For example, regulators already enable banks to share data to prevent money laundering and terrorism. That same structure and approach could apply to tackling fraud too.

As is often the case with banking and trade, there is a cross-cutting coordination failure in the market. No single entity appears responsible for convening actors across the public and private sectors to solve the fraud challenge. I am delighted we are playing an active role in shining a light on an area of real economic opportunity. The first objective of this report is to socialise the topic more broadly and instigate more dialogue. The report presents a range of practical solutions for all parties. If these are implemented, we will have made a significant step forward.

Chris Southworth
Secretary General, ICC United Kingdom

Executive summary

The world's 333 million companies support a global community of almost 8 billion people, all of whom rely on them to earn a living and live in a prosperous and more peaceful world.

However, businesses worldwide are battling an uncertain economic outlook after more than two years of disruption brought about by the devastating Covid-19 pandemic and the global economic shockwaves triggered by the war in Ukraine. Amid high energy prices, inflation, and monetary tightening, it is paramount that the credit these businesses need to continue to trade globally remains available to them.

The World Trade Organization (WTO) estimates that 80–90% of world trade relies on working capital finance, which, according to ICC estimates, enables US$10tn of trade annually. The use in working capital finance of solutions that structure lending around commercial relationships and the documents which support them provides financial institutions with greater insight into potential risk.

There is a growing gap between the demand for and supply of credit: the Asian Development Bank's (ADB) most recent research puts the total value of unfinanced requests at US$1.7tn, up from US$1.5tn in 2018, with SMEs and women- and minority-owned businesses the most likely to have their applications rejected.

Reduced access to reliable, adequate, and cost-effective sources of financing significantly inhibits the potential for trade to act as a driver of inclusive economic growth and prosperity and seriously hinders the growth potential of smaller enterprises and developing economies.

One of the biggest drivers of the trade gap is the very safeguards that market participants and regulators have put in place to try and protect working capital finance from being used for illicit purposes. Banks generally require additional collateral to mitigate the risk of SME lending under the traditional banking system. At the same time, anti-money laundering (AML), due diligence, and Know Your Customer (KYC) requirements have increased costs and resource requirements for financiers seeking to serve this market.

The use in working capital finance of solutions that structure lending around commercial relationships and the documents which support them provides financial institutions with greater insight into potential risk. Overall, trade finance presents the financial sector with low levels of credit and fraud risk, as demonstrated by the ICC Trade Register, which has since 2011 collated data from the world's leading banks.

Because of trade's cross-border nature, fraud remains a problem, and one which has led to the retrenchment of financiers from the market, thereby contributing to the further widening of the trade gap. The perpetrators of trade finance fraud are not solely bad actors seeking to profit from criminal activity. Recent cases have involved businesses that have found themselves in difficult operating conditions, fraudulently presenting documents multiple times for financing, with the fraud only being uncovered when the company defaults.

If the banking community is to be enabled to support as many of the world's businesses as possible, fraudsters must be shut out of trade. However, trade financing occurs within siloes, with regulatory and data protection rules inhibiting financiers from sharing vital information that could stop fraud in its tracks. Detecting and preventing fraudulent activity is maximised when information relating to bank clients and non-client counterparties on commercial documents such as invoices and bills of lading are assessed by lenders across the value chain. Banks handling such documents have consistently demonstrated an ability to identify fraud and to use technology to assist in the fight. Multiple data sources are available; the increasing ability for banks to compare unusual and/or suspicious activity will only help move the industry forward.

Preventing fraudulent events requires businesses, banks, governments, regulators and trade associations to work together to ensure that the global trade system continues to be a multi-trillion-dollar engine moving humanity forward.

To address these issues, this paper makes recommendations specific to banks, trade associations, governments and regulators to leverage the power of technology and the current market infrastructure to further enhance investments into shutting fraudsters out of trade, including:

- Seeding the adoption of authenticated data sources such as the Legal Entity Identifier (LEI) from GLEIF throughout the business community. This will build on investments the banking community has made in making trade finance more secure.
- The development of best practices by trade associations to enable the business community to create digital trade documents such as commercial invoices, transport documents and warehouse receipts, leveraging the standards from the WTO–ICC Standards toolkit. Additional best practices for how banks can most efficiently leverage these across the banking ecosystem should also be released.
- Leveraging ecosystem-bridging platforms and services to detect fraudulent activities being perpetrated against multiple banks simultaneously. Across the first and second lines of defence, banks should adopt a global approach to the detection of trade fraud typologies.
- Governments and regulators assisting this adoption drive by establishing a legal obligation on the issuer of trade-related documents to ensure accuracy and for the relevant authorities to verify where this is possible.

This paper aims to serve as a guiding document for banks, governments, regulators and trade associations to collaborate to create a conducive and enabling environment for trade to flourish.

1 Financing a prosperous world

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

1.1 The basics of enabling trade

Aside from information on direct customers via customer due diligence (CDD) processes, there are two foundational categories of information used by the financial ecosystem when processing transactions to enable trade for businesses.

The first is Know Your Customer (KYC) data, which requires financial institutions to have a mechanism in place to validate legal entities and counterparty data effectively. The second category of information is the underlying documentation used to finance trade, which must be valid and accurate to properly assess risk. The documents that banks use in providing trade finance often represent goods and services in trade, adding additional importance to ensuring their validity and accuracy.

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

Legal entities and counterparty data

Trade is an activity that is conducted between legal entities. These can be large multinational companies with many subsidiaries trading across borders or smaller localised business enterprises buying goods or services from one another.

Understanding who you are trading with or providing financing to is critical to mitigating risk in trade and trade finance. Establishing ultimate beneficial ownership and identifying shell companies are two examples of critical risk management practices around counterparty evaluation.

In the wake of the global financial crisis and the realisation of the challenges inherent to tracking legal entities participating in global trade, the G20 established the global Legal Entity Identifier (LEI) System. In 2011, the G20 called on the Financial Stability Board (FSB) to take the lead in developing recommendations for a global LEI and a supporting governance structure. The related FSB recommendations endorsed by the G20 in 2012 led to the development of the global LEI System as a broad public good that provides unique identification of legal entities participating in financial transactions. The FSB established the Global Legal Entity Identifier Foundation (GLEIF) in 2014 to support the implementation and use of the LEI. GLEIF, a supra-national not-for-profit organisation, is overseen by more than 65 public authorities and 19 observers participating in the Regulatory Oversight Committee (ROC).

Additionally, the Bank of International Settlements (BIS) has also highlighted corporate digital identity as having the potential to simplify the identification and verification of companies dramatically and to reduce the risks and costs of doing business[1].

Commercial documents

To reduce the risk of non-payment from buyers, banks offer sellers letters of credit, an undertaking by the buyer's bank to pay once the seller ships the goods and presents the required documentation for payment. For more than 85 years, the Uniform Customs and Practice for Documentary Credits (UCP) — the ICC's rules on documentary credits — have governed letter of credit transactions worldwide, setting out the expectations for how these documents are presented throughout the trade process.

1 "Corporate Identity, no silver bullet but a silver lining: https://www.bis.org/publ/bppdf/bispap126.htm

Documents, including commercial invoices, bills of lading and warehouse receipts, are commonly leveraged to enable trade. Ensuring the validity and accuracy of these documents is a prerequisite to safe trading. While documents are required in letters of credit processes, it's important to recognise that the majority of trade is conducted on an open account basis. However, finance sought to support open account trade, such as invoice financing, also requires the presentation of certain documents to financiers.

1.2 The basics of fraud in trade

The security of a trade finance transaction relies on knowing who the parties to the trade and its financing are, what is being financed, who possesses the documents and goods, and the value of the goods being traded to ensure they are not unknowingly over-financed by either one bank, or many banks. The core vulnerability in the provision of bank-intermediated trade finance is its reliance on paper-based processes, which enables those who commit trade fraud to take advantage of lapses that exist within existing risk-mitigation processes. The following are some examples of trade-fraud typologies:

Multiple financing

The world's financial ecosystem is highly regulated, and data, especially any type of customer data, is often protected by stringent rules and regulations. These range from basic customer confidentiality agreements and anti-competition rules to other regulatory rules hindering information sharing. These rules are constructed to ensure a healthy trade finance ecosystem. Still, they come with the unintended consequence of enabling fraudsters to finance the same trade with multiple banks in multiple jurisdictions since banks cannot share information with one another that would alert them to a trade already financed. This typology is one of the most pernicious and one that contributed to some of the largest recent trade finance frauds, leading to substantial financial and reputational losses for the banks involved.

Fraudulent documents

Fraudsters rely on banks not having visibility on the authenticity of documents used in trade. Without proper systems put in place by financial institutions, fraudsters can readily manipulate invoices and other commercial documents so that they do not accurately represent the purported underlying trade transaction.

Fraudulent legal entities

The global banking community is legally obliged to ensure it does not finance terrorists or sanctioned organisations. Global registries that enable entities to be validated against blacklists have been established, which further enables trust and transparency in trade by providing confidence that a legal entity has been verified against available data sources. However, despite work in recent years to improve KYC validation, bad actors continue to misrepresent and leverage fake companies and addresses in trade applications.

Vendor impersonation

Importers and domestic buyers are at risk from fraudsters impersonating their suppliers. One example is where a buyer is tricked into thinking their supplier has changed bank accounts. This is often done without the knowledge of the bona fide supplier. It can also be perpetrated by breaching the suppliers' systems through a malware attack. In both typologies, the fraudsters usually generate invoices purporting to come from a legitimate supplier who usually has a longstanding relationship with the buyer. The unwitting buyer then remits funds to the fraudster's account, thinking a regular commercial purchase has been settled. FinCEN has repeatedly given notice of this practice occurring in the United States, including in a recent advisory[2] that put the cost of this fraud to US businesses alone at US$9bn during the 2016–2019 pre-pandemic period. It is rare for banks to compensate clients who have suffered losses from such schemes.

Fraudulent diversion of funds

Funds, for example, proceeds from receivables, are paid into a common cash collection account, and while the borrower undertakes to make payment of the received sales proceeds to the financing bank, these funds are ultimately diverted and utilised elsewhere.

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

2 https://www.fincen.gov/sites/default/files/advisory/2019-07-16/Updated BEC Advisory FINAL 508.pdf

2 The cost of fraud to the trade ecosystem

Because of its illicit nature and the fact that fraud often goes unnoticed unless a company defaults on its financial obligations, the exact scale and scope of global trade finance fraud are difficult to quantify.

To provide a theoretical view of the cost of fraud to the trade ecosystem, the authors of this paper have leveraged the experience and expertise of numerous trade finance experts. This theoretical synopsis should be considered a starting point for further measurements, and the collection of additional data and insight over the next few years to develop an accurate calculation of the extent of trade finance fraud should be pursued.

In a US$5tn global trade financing market, it is reasonable to estimate that 1% of the total transactions — or US$50bn — are susceptible to the types of fraud discussed in this paper. Since this US$50bn of exposure to fraudulent activity will not all be defaulted on concurrently and may not all be realised as losses since some fraudsters will pay off one fraudulent financing while moving to the next, it is reasonable to assume that only 10% of fraudulent financing will lead to losses as a result of disruption to the fraudsters' business, such as major commodity price shocks, geopolitical volatility, or other external events.

Under this assumption, the cost of realised fraud from business disruptions caused by external shocks amounts to US$5bn — a credible figure given the recently reported collective exposure of lenders to the Hin Leong, Agritrade and other trade finance fraud cases in Singapore, which amounted to US$6–7bn. Although the recurrence of such defaults is inconsistent, their impact can be devastating.

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

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

Focusing on Singapore, where several recent high-profile defaults have occurred, Bloomberg estimates that in the six years to 2020, the potential losses to banks from trade finance defaults linked to frauds totalled US$9.26bn[3]. According to sources, Hin Leong's defaulted debt sold for eight cents on the dollar. As a result of these losses, a number of global trade finance banks curtailed their trade finance activities: Société Générale closed its trade and commodity finance business in Singapore, and ABN AMRO exited trade finance completely. The exit of ABN AMRO alone from global trade finance left an estimated US$21bn financing gap[4].

Those lenders who can identify and cull fraudsters from their system will be left with a healthier and more valuable portfolio. Continuous vigilance is needed to ensure that customers and lenders are kept honest, and that new threats are mitigated.

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

3 https://www.bloomberg.com/news/articles/2020-07-08/after-9-billion-credit-hit-banks-seek-trade-finance-overhaul#xj4y7vzkg [Accessed 30 August 2022]

4 https://www.reuters.com/article/abn-amro-results-idINKCN2580R8 [Accessed 30 August 2022]

3 The continuum of investing in fraud prevention

Much has been documented of the value to be unlocked through trade digitisation. In a recent literature review, the ICC demonstrated that trade digitisation would enable the United Nations Sustainable Development Goals (SDGs) 1 (No poverty), 8 (Decent work and economic conditions), 12 (Responsible consumption and production) and 16 (Peace, justice and strong institutions).

The G7, too, has highlighted that paper-based transactions, which still dominate international trade, are a source of cost, delay, inefficiency, fraud, error and harm to the environment. Our shared view is that by enabling businesses to use electronic transferable records, efficiencies will be generated that result in both economic savings and a more resilient global economic system. The adoption of electronic transferable records will play a crucial role in trade recovery across the G7.

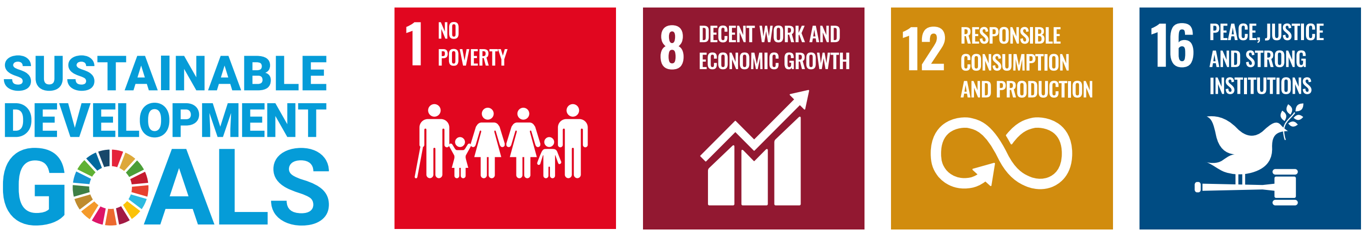
As we increase the efficiency and velocity of trade, we posit that the cornerstones of trade — identifiable and verifiable identity together with high-quality authentic data sources and documents — will generate great value. Still, parties issuing and creating content must ensure that quality is upheld, as technology is not a replacement for ethical or moral values.

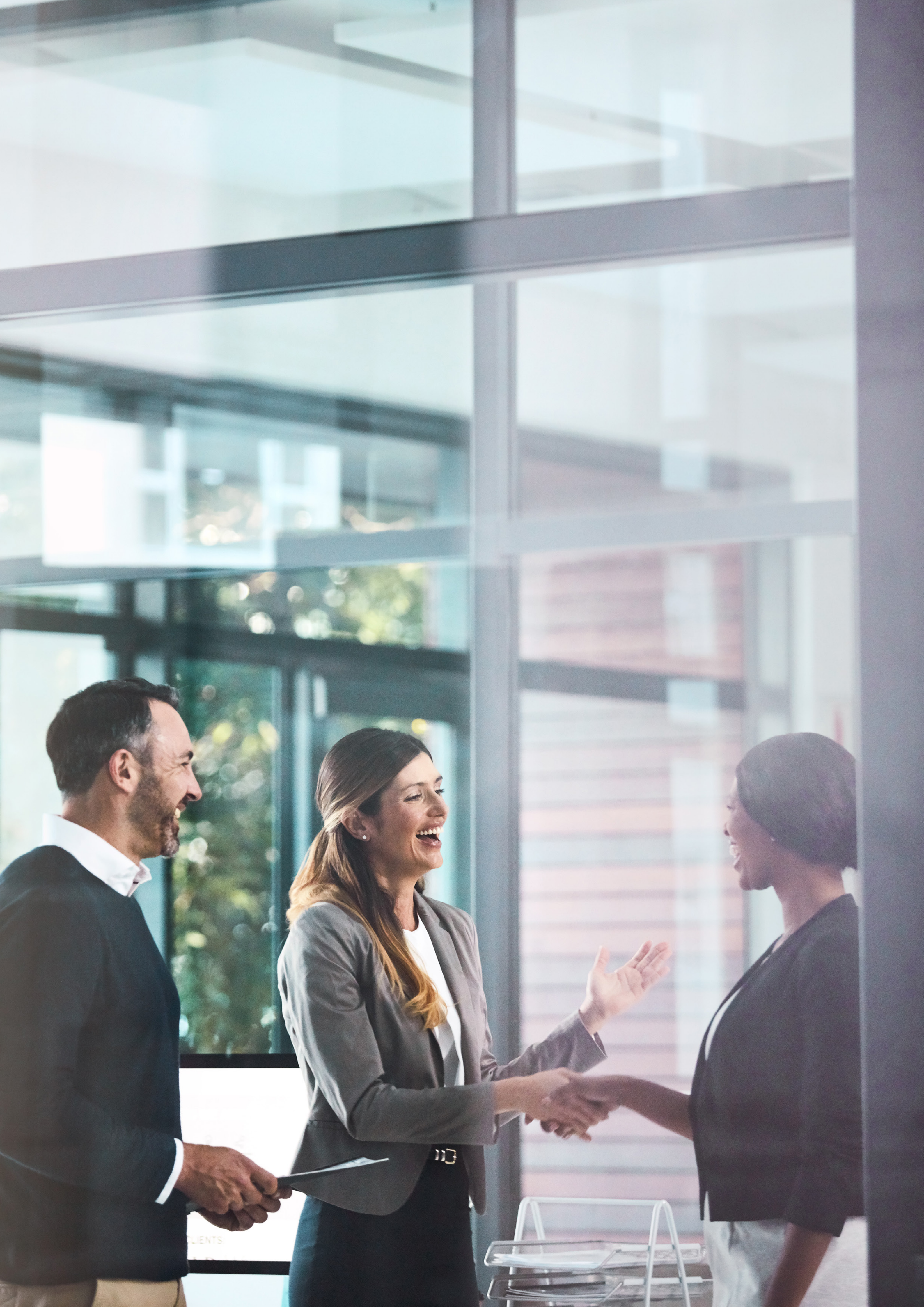
3.1 Value to banks

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

These investments in fraud-prevention digitisation promote a wide range of organisational objectives, such as shareholder value, sustainability goals, revenue optimisation, customer acquisition and wallet share growth. These investments are good for business: banks that do not lose money on fraud and avoid regulatory censure by maintaining functioning financial crime compliance programmes tend to prosper. Deeper insight into both the identity of parties involved in trade and the transaction itself provides new sources of value, enables both the definition and allocation of existing liquidity and promotes new growth opportunities and markets to banks.

The Basel IV banking reforms include new standards for credit and operational risks and a credit valuation adjustment. The Basel reforms limit the amount of money a bank can use to finance its customer base. As such, there is a limit to what each bank can allocate to create value for its shareholders and businesses in different regions and economic sectors. As a result, banks must be proactive and creative in implementing digital solutions that increase efficiency and productivity.





Accounting for fraud

In recent years, the trade finance industry has been hit by a significant number of high-profile fraud cases, which have impacted the appetite of banks to provide trade finance.

Losses from such fraud are felt in two ways:

- **As a balance sheet impact of the loss event itself**
- **As a reduction in the availability of trade finance post-event due to the 'brakes being applied'.**

While the high-profile, high-value international cases are well known and reported, there is an equally damaging impact on trade caused by high volumes of lower-value losses within both international and domestic trade. These can be found impacting a wide range of common products used in the market, such as receivables finance, invoice finance, and asset-based lending.

These losses are often (mis)-classified or (mis)-reported as general operational or credit losses but actually 'hide' common types of fraud-driven activities and losses.

Many banks have suffered stagnant growth over the last few years and have strategies in place to expand revenue share, wallet share or revenue optimisation through digital initiatives aimed at reducing risk:

- Operational efficiencies and productivity: Productivity initiatives are focused on removing manual, time-consuming tasks and automating these. In addition to the benefits of automation, this enables access to both improved data quality internally and lower operational risk associated with manual, paper-based tasks.
- Entering new markets: Adding certainty to identity, knowing more about transactions and ensuring that a trade hasn't been financed by others, especially in emerging markets, will be critical to ensuring not only a business expansion but also mitigation of reputational risks and license to operate.
- De-risking innovation: Innovation and improvement budgets are generally geared towards new ways of reducing process steps, removing human engagement with activities and finding more effective mechanisms for engaging stakeholders. Balancing these portfolios of investments with foundational de-risking activities will lead to sustainable growth, as changing the status quo in itself is a risk-creation event. Ensuring legal entities are legitimate, the collateral used is accurate, documents presented are validated, and that no other entities have financed the same transaction will be foundational to sustainable value creation.

3.2 Value to trade associations

Trade associations have played an instrumental role in helping the world's business community transition through periods of change, from responding to the pandemic to unlocking the value of digitisation. These efforts include:

- ICC's guidelines for businesses, banks and governments on key activities that can mitigate the impacts of Covid-19.
- BAFT's Distributed Ledger Payment Commitment (DLPC) and work with bankers to drive digitisation efforts in trade to remove barriers to handling documents during the pandemic.
- ITFA's Digital Negotiable Instruments (DNI) initiative and other efforts, which, through its active leadership, have pulled together the fintech industry.

These organisations are effective mechanisms for elevating awareness of these important challenges and issues, creating guidelines, rules, and frameworks for implementing change and advocating for the adoption of these principles to enable a more prosperous world.

Some of the key drivers to further enhance best practices associated with safeguarding against fraud include:

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

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

3.3 Value to governments

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

Doing so will require that the following issues be addressed:

- **Expand tax revenue base by reducing the value added tax (VAT) gap:** Effective revenue collection is critical to sustaining government operations. The value-added tax gap plays a large part in this. The VAT gap is the overall difference between the expected VAT revenue and the amount collected. According to the European Commission 2021 report, EU member states lost an estimated €134bn in VAT revenues in 2019. In the UK, the VAT gap is estimated at 6.9%. The reality is that access to quality, reliable, verifiable data on documents, such as invoices, will enable more efficient and effective VAT projection and collection processes between businesses and government. The same data that will help reduce fraud in trade finance will also enable governments to have greater insights into VAT owed and collected.
- **Expand corporate tax base:** A lower-risk environment increases economic activity and promotes inclusion, providing financial and social benefits. If more companies can do more business and lose less money by preventing fraud, a hypothetical 1% increase in corporate revenue would generate an additional £600mn in taxes. Recent examples in the press have shown that banks extract themselves from markets perceived to be higher risk, directly impacting the corporate tax collection potential in such markets.
- **Reduce trade finance gap:** The global trade finance gap has grown from US$1.4tn to US$1.7tn since its initial measurement in 2014, and the amount of the gap as a percentage of global trade has increased from 7.4% to 9.7%. Almost one-third of businesses surveyed by the ADB for its most recent trade finance gap report believed a lack of access to finance will be their firm's largest barrier to growth for the next five years. In response to the trade finance gap, trade associations, governments, intergovernmental agencies, and multilateral banks have started supporting the digitisation of trade efforts with the belief that technology can enable more efficient processes and higher forms of quality. These verifiable transactions can optimise the allocation of capital in trade.

3.4 Value to regulators and central banks

Reducing fraud aligns well with the core objectives of regulators, which focus on enabling a financial system that can allocate savings to productive users of funds at the lowest cost. An efficient financial system should offer a broad range of financial instruments and institutions to assist investors in balancing risk, liquidity and return. Fraud is a predicate crime to money laundering. In doing their jobs, regulators help to reduce fraud, leading to less illicit funds being laundered through the financial system. Digitising fraud solutions can help regulators in meeting the following objectives:

- **Market stability:** As highlighted by the ICC Trade Register, documented defaults can lead to a contraction in liquidity allocated to businesses. While many fraud-related defaults do not rise to the attention of the press, large-scale events do. Some examples of such events that have impacted market stability are:
  - *Arenda Television:* An ongoing criminal investigation is being conducted into the

business practices of individuals associated with Arena Television Limited, with 55 lenders owed £282mn between them. Of those, 46 creditors, owed a total of £182mn, “do not have recourse to any assets”, and there is “a shortfall of several thousand assets”.

- *DeZheng Resources/Qingdao:* defaults were documented in the press almost a decade ago and impacted the financial services market by over US$4bn. Fraudulent documents, duplicate financing and collateral fraud all played a part in this scheme.
- *Hon Top Energy:* This more recent scheme involved duplicate financing uncovered in July 2020, causing losses of US$633mn felt across markets.
- *Hin Leong:* This scheme, uncovered in March 2020, involved fraudulent documents and duplicate financing with an impact of over US$3.5bn.
- *Phoenix Commodities:* A court in Australia has heard claims that documents underpinning a financing arrangement for collapsed trader Phoenix Commodities may have been fabricated. Dubai-headquartered Phoenix collapsed in April 2020, reportedly owing US$1.2bn to creditors.

Regulators have an interest in preventing such events even when they occur outside of their jurisdiction, as banks’ response to these fraudulent events and related shocks usually entails reducing the flow of finance in that business area or product, which then has a direct impact within the regulators’ own borders on access to trade finance and liquidity. This reduction in access is generally not equally spread but is felt mainly by the middle and lower end of the market. Fraud events also occur at a national level.

- **Protect the interest of consumers and market participants:** Building out from the examples listed above, each of these events not only impacts the companies directly involved but also extends into the financial institutions that allocated financing to these users. This impact can be viewed through two lenses:
  - *Balance sheet and profit and loss impact of banks involved:* The actual defaults these organisations write off due to the fraudulent activity. The costs of litigation, recovery actions, process reviews and the implementation of new risk controls to mitigate risks.
  - *Missed opportunities:* With capital locked up in unproductive activities, it cannot be used by other customers to create value. This directly impacts the business community. These impacts are generally on SME/MSMEs, while multinational companies with longer-term relationships may be able to better weather the storm.

4 Working to reduce fraud

This paper has explored the critical role of trade in the financial, economic, and social prosperity of nations. It has also assessed the direct and indirect damage wrought by fraudulent activities in trade. While trade in itself is a safe asset class, with many stakeholders already investing heavily in fraud mitigation activities, we recommend some additional actions that will further safeguard trade, bringing it forward to the next generation.

These recommendations are made with the acknowledgement that changing practices for content production and capturing data and recommendations on advocating for best practices may be a long journey. Many of these recommendations align with existing investments that some in various communities are already making, and to that extent, we seek to promote such practices to the ecosystem level.

4.1 Recommendations for the banking community

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

Task	Recommended action	Outcome
Strengthen the ICC Trade Register	The ICC Trade register provides a rich source of valuable data on the health of the trade finance industry in relation to defaults across various regions and product lines. The recommended action is for more banks to participate in contributing to the rich data set used to compile this report. Additionally, the recommended action is to provide further insight into the reasons for default to ensure a rich data source highlighting the likelihood of the occurrence of fraudulent based activities across various markets. Incorporate additional data sources into the ICC Trade Register, such as regional and global fraud prevention registry data sources, FCI reporting and goAML public released reporting data.	Strengthening the position of the ICC Trade register as a tool used to assess the health of trade finance globally. Provide further insights into the drivers of defaults to enable the banking community to reduce the likelihood of occurrence further.

Task	Recommended action	Outcome
Incorporate data authentication sources within trade processes	Leverage source data from GLEIF to further strengthen the legal entity identifier data leveraged throughout transactions. Offer LEIs to customers as an optional service. Further, expand on the identity standards referenced in the WTO–ICC Standards toolkit under section 2 subsection 2.1. Provide corporates and SMEs tangible benefits for leveraging the LEI, including reducing onboarding times for members with LEIs. Leverage additional sources that provide insight into the validity and accuracy of transportation documents.	Grow the quantity of LEIs globally. Richer legal entity identifier data used within the trade ecosystem enables reliable, trusted, verifiable legal entity identifiers to be incorporated into trade processes.
Capture the minimum trade metadata from commercial invoices and title documents	Incorporate WTO–ICC Standards toolkit into operations. This specifically includes capturing data from PDFs that can be leveraged to detect fraud. Specifically highlighting the requirements set aside in section 3 under the standards for commercial transaction documents. This includes data on commercial invoices, bills of lading, warehouse receipts and packing lists in trade processes.	Accessible, searchable metadata on commercial invoices, bills of lading, warehouse receipts, and packing lists. Banks able to detect fraud internally across various branches and regions of the world by leveraging captured metadata on legal entities, commercial invoices, bills of lading, and warehouse receipts.
Ecosystem level verification	Leverage ecosystem bridging platforms and services to detect fraudulent activities being perpetrated against multiple banks simultaneously. Across the first and second lines of defence, banks should adopt a global approach to the detection of trade fraud typologies. This is particularly critical for investigations teams tasked with deciding whether unusual activity detected in trade should result in reporting to law enforcement via suspicious activity reports and escalation for client exit consideration.	Detection and prevention of trade finance fraud, such as duplicate financing, identification of fake documents and collateral fraud. One recently launched initiative is the Trade Financing Validation Service, accessible via SWIFT API that detects and prevents duplicate financing across banks globally.
Engage in the G20 roadmap to enhance cross-border payments	Become a validation agent in the Global LEI System and ensure clients who are active in cross-border payments have an LEI.	Help to prevent fraud with regard to financial transactions and misidentification.

4.2 Recommendations for trade associations

This paper recommends four activities trade associations can undertake to enable the de-funding of fraudsters within trade finance. These activities have been modelled to align with associations' core capabilities and with a longer time horizon which can be leveraged to achieve the desired results.

Task	Recommended action	Outcome
Create awareness of the impact of fraud	Establish workgroups to define industry objectives to prioritise fraud-risk prevention. Host webinars and panels to educate the global community on the impact of fraud and provide additional practical steps to be taken to minimise its impact on access to finance.	Generate the desire to further reduce global trade default rates by decreasing defaults linked to fraudulent activities. Enable banks to enhance their fraud detection capabilities further to mitigate liquidity being locked away in fraud-driven operations.
Create best practice guidelines for the business community	Advocate for businesses to adopt the WTO-ICC Standards toolkit standards in their core businesses. Specifically, the use of standards for purchase orders, invoices, warehouse receipts, bills of lading and packing lists should be adopted. By ensuring that those who create the information banks use leverage public standards, banks will be able to use this information more efficiently. Provide guidelines on when digital signatures can be leveraged to create more efficient and secure legal documentation within trade. Provide best practice guidelines for the producers of commercial invoices, bills of lading, and warehouse receipts, and explain how to create quality, reliable and verifiable documents that can be used in trade processes. Advocate for businesses to adopt the LEI. Raise awareness of the benefits of LEI (for example, quicker KYC at banks and KYS at corporates) and provide guidelines to the business community on how to procure an LEI. Additionally, set aside governance best practices for how this information is captured, maintained and shared within the ecosystem to ensure access to higher quality, reliable data.	Banks will have access to standardised, higher-quality data from the business community. This will directly impact how efficiently banks can leverage this information to detect and reduce fraud.

Task	Recommended action	Outcome
Create best practice guidelines for banks	Advocate for banks to adopt the WTO–ICC Standards toolkit in their core businesses and enable efficient paths of information submission from businesses that have leveraged these standards to create supporting content. Provide best practice guidelines for the verification of commercial invoices, bills of lading, warehouse receipts and packing lists. Advocate for banks to provide benefits to business community members who are providing this benefit to them by shortening either onboarding or financing timelines. Advocate for banks to leverage this higher form of data to both further enrich the ICC Trade Register and develop better internal checking for multiple financing. Provide best practices to help the banking community achieve the above recommendations.	Reduction in fake companies financed. Reduction in fraudulent documentary trade transactions financed. Removal of major risk-related events from media impacting reputational damage of individual banks and the financial industry as a whole.
Raise awareness of the G20 roadmap to enhance cross-border payments	Advocate for banks to engage in the G20 roadmap and facilitate the global unique identifier for legal entities involved in cross-border payments.	Support the global initiative to create a global payments ecosystem that facilitates faster, more transparent cross-border payments. This ecosystem is a fundamental tool for de-risking and allowing for easier identification of fraudsters.

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

4.3 Recommendations for governments

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

Task	Recommended action	Outcome
Signal minimum data requirements for VAT-related documentation in trade processes	Recommend businesses and banks capture and store data based on the WTO–ICC Standards toolkit, specifically highlighting purchase orders, commercial invoices, bills of lading and warehouse receipts. Foster nationwide implementation strategies for the LEI to maximise the cross-sectoral benefits of the LEI, increase knowledge on the LEI to raise awareness of potential benefits and increase the visibility of LEI through public outreach initiatives. Consider adding, where appropriate, the LEI as a requirement in newly created or amended regulations when entity identification is needed.	Release of a letter through central banks or tax collection arms highlighting requirements.
Adopt the WTO–ICC Standards toolkit in governmental digital solutions	With many governments investing in modernising border, tax collection and corporate services systems, we recommend using the WTO–ICC Standards toolkit to incorporate identity, messaging, data sharing and content standards.	Seeding the use of standards into the market engaging with government. For example, usage of LEI and UNCEFACT data standards on the invoice, bills of lading and warehouse receipts.
Adopt the WTO–ICC Standards toolkit in cross-border trade pilots	In government-driven cross-border trade digitisation pilots, vendors and business participants are encouraged to ensure that the data utilised aligns with international standards defined in the WTO–ICC Standards toolkit.	Reducing the data translation requirements between different countries involved in cross-border trade activities. Reduce the risk introduced by having translation requirements.
Legal obligations on content producers	Make it a legal obligation of the issuer of trade-related documents to ensure accuracy and for the relevant authorities to verify where it is possible. These include bills of lading, commercial invoices and warehouse receipts.	Increased quality of reliable data presented to banks for financing, placing accountability on information producers.
Enable goAML	Adopt UNODCS strategic responses to money laundering, terrorist financing and other financial crime areas, goAML to ensure a standardised approach to the reporting across financial intelligence units globally.	Enable standardised data collection, management, analysis and reporting across Financial intelligence units globally.
Egmont Group to widen areas of engagement	Engage the Egmont IEWG working group to incorporate trade finance-related tools and best practices into the objectives and deliverables of Stream 1 — leveraging emerging financial technologies FIU-Fintech working group to broaden the scope to include fintech's focusing on resolving fraud in trade finance.	Further sharing of information and best practices between public and private partnerships to further reduce trade finance fraud.

4.4 Recommendations for regulators

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

Task	Recommended action	Outcome
Take note of the G20 roadmap to enhance cross-border payments and the development of common message formats, data exchange protocols, and standardised data	Take steps to implement the recommendations regarding a global unique identifier for legal entities and consider issuing guidance and carrying out further outreach regarding sanctions, customer due diligence and wire transfers, and how the LEI may be used as a standardised identifier for sanctions lists or as the primary means of identification of legal entity customers or beneficiaries.	Strengthened data standardisation as well as assisting and supporting STP, KYC processes and sanction screening. This ensures a global ecosystem where trade and the associated payment flows use the same standards. This would significantly improve the ability to identify fraudsters by ensuring maximum transparency, interoperability and clear communication with the involved parties.
Include trade finance as an industry in new initiatives specific to technology and information sharing	New initiatives flowing from regulation, such as ultimate beneficial ownership registries and cross-border sharing of SAR information, should be broadened to include trade finance information, such as transaction-specific identifiers at the digital documentary level.	Build national and global critical identifier data for individuals, companies and documents to prevent fraud and money laundering.
Removal of restrictions, guidelines and requirements that hinder sharing of data	Work with the International Chamber of Commerce Banking Commission to determine the appropriate guidelines and requirements to enable banks to share data with the specific objective of countering fraudulent parties and transactions.	Banks are enabled to share data, particularly with systems built on privacy-preserving technologies such as secure encryption, cryptographic hashing and confidential computing.

ICC United Kingdom is the representative voice for ICC in the UK and provides a mechanism for UK industry to engage effectively in shaping international policy, standards and rules.

We are the leading voice on digital trade ecosystems, act as the ICC representative to the Commonwealth and Co-Chair the Legal Reform Advisory Board at the ICC Digital Standards Initiative.

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