TRADE FINANCE ASSOCIATION OF BANKERS

TRADE FINANCE
THE OFFICIAL NEWSLETTER OF THE TRADE FINANCE OF BANKERS

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"Empowering bankers through Trade Finance expertise, driving global economic growth and fostering strong partnerships"
-Expert

Important topics covered under the Newsletter

- Global Trade Compliance
- What is an advanced payment in international trade?
- The New Era of MX Messages
- Money Laundering – AML- Effects and Trends
- Trade Puzzle

TRADE FINANCE ASSOCIATION OF BANKERS
COUNCIL MEMBERS 2024 - 2025

Left to Right (Seated)
Shehani Peter - Standard Chartered Bank - (Assistant Treasurer),Dilan Wijegoonawardena - Seylan Bank PLC - (Assistant Secretary),
Indika Liyanage - Pan Asia Banking Corporation PLC - (Vice President) ,
Shyam De Silva - Hatton National Bank PLC - (President),K.R.Naguleswaran - DFCC Bank PLC - (Senior Vice President),
K.K.Susantha - Bank of Ceylon - (Secretary General),Kanchana De Silva - Union Bank of Colombo PLC - (Treasurer),Rochelle Fernando - Bank of Ceylon - (Immediate Past President)

Left to Right (Standing)
Sandamali Ranepura - People's Bank,Ruwini Sumanasinghe - Nations Trust Bank PLC,Melani Navaratne - National Development Bank PLC,
Sanjeewa Rajarathna - Sampath Bank PLC,Lakshana Fernando - Amana Bank PLC,Ramesh Amarasinghe - State Bank of India,
Shaariz Zabith - The Hongkong and Shanghai Banking Corporation Limited,
Harsha Silva - Citibank N.A.,Niranjan Dabare - Deutsche Bank AG,Shanaka Weimen - Cargills Bank PLC,
Samanthie Fernando - MCB Bank Limited,Kumari Bastiansz - Commercial Bank of Ceylon PLC,Mahesha Hassan - Public Bank

Trade Finance Association of Bankers holds its 27th AGM for year 2024/2025

The Trade Finance Association of Bankers (TFAB) convened its 27th Annual General Meeting on February 21, 2024, at Level 22, HNB Towers, Darley Road, Colombo 10.

Established on November 11, 1997, TFAB is the premier association representing Trade Finance professionals in Sri Lanka. Over the years, TFAB has been dedicated to enhancing knowledge in Trade Finance through seminars, lectures, educational programs, tours, discussions, newsletters, and the annual Interbank Trade Finance Quiz and Social—a key networking event for members, complemented by digital platforms like WhatsApp.

TFAB's membership includes licensed commercial banks and specialized banks operating in Sri Lanka, supported by an Advisory Committee comprising esteemed veterans in Trade Finance. The current Advisory Committee members are Mr. Michael Peiris (Former Head of Trade, Union Bank of Colombo PLC), Mr. Thushy David (Former Head of Trade Finance & Cash Management, Deutsche Bank AG Colombo), Mr. A S M W Kumarasiri (Former DGM – International Banking, People’s Bank), and Mr. Susantha Caldera (Former Head of Trade, Standard Chartered Bank, Regional Head of Trade Operations, HSBC Middle East, and AGM Trade Finance, Cargills Bank). This committee provides crucial guidance on strategic matters.

At the recent AGM, Mr. Shyam De Silva, Senior Manager Operations Centralized Trade Processing at Hatton National Bank, was elected President of TFAB for the term 2024/2025. With over 25 years of banking experience at Hatton National Bank, Mr. De Silva has expertise in system implementation, offshore banking, and both export and import segments of Trade Finance.

The following members were elected as office-bearers of the Trade Finance Association of Bankers for the year 2024/2025 during the Annual General Meeting.

President – Shyam De Silva – Senior Manager Operation Centralized Trade Processing , Hatton National Bank PLC

Senior Vice President – K.R. Naguleswaran – Assistant Vice President, Correspondent Banking and Remittances, DFCC Bank PLC

Vice President – Indika Prasad Liyanage – Senior Manager II, Trade Operations and FI, Pan Asia Banking Corporation PLC

Secretary General – K Kapila Susantha – AGM Trade Services , Bank of Ceylon

Assistant Secretary – Dilan Wijegoonawardena – AGM International, Seylan Bank PLC

Treasurer - Kanchana De Silva – Senior Manager Clearing Operation and Transaction Processing , Union Bank of Colombo PLC

Assistant Treasurer - Shehani Peter – Head Trade Operation, Standard Chartered Bank

Council Members:

Harsha Indika Silva - Citibank N.A, Mohammed Shaariz Zabith – The Hongkong and Shanghai Banking Corporation Limited, Niranjan Dabare - Deutsche Bank AG, Mahesha Kanchanie Hassan - Public Bank, Hariwansha Kumari Bastiansz – Commercial Bank of Ceylon PLC, Melani Navaratne – National Development Bank PLC, A A Ramesh Anuradha Amarasinghe – State Bank of India, T Lakshana Sumudu Dilruk Fernando – Amana Bank PLC, Shanaka Delano Weimenm – Cargills Bank Limited, R H Thilanka Sandamali Ranepura - People's Bank, Ruwini Sumanasighe – Nations Trust Bank, W G T Sanjeewa Rajarathna – Sampath Bank PLC, G A N Samanthie Fernando – MCB Bank Limited

Immediate Past President: Rochelle Fernando, DGM Recovery Province, Bank of Ceylon

The newly elected President thanked participants for their commitment and support, as well as the outgoing President and TFAB's council of management for building TFAB into a professional association. The President pledged to uphold the legacy of the past 26 years, foster collaboration, and share knowledge among members. He encouraged members to visit the association's website, www.tfab.lk. Emphasizing the need for agility, innovation, and collaboration amid evolving economic, technological, and geopolitical challenges, he highlighted that customer demands include just-in-time delivery, efficient transaction facilitation, low operating costs, quick solutions, and advanced trade finance systems.

Unveiling this year's plan, the president announced that the association will engage in continuous dialogues with regulators and stakeholders in international trade, promoting best practices, fostering knowledge sharing, and advocating for supportive policies. Emphasizing the importance of adaptability and innovation amid evolving regulations and technological advancements, the president expressed confidence that the collective expertise and passion of members will help overcome obstacles and seize future opportunities.

We successful completed the 1st TFAB's Seminar 2024/2025 on **Navigating Global Trade Finance: Insights from TFAB's Seminal Seminar**

Trade finance, a vital but often overlooked aspect of commercial banking, generates substantial profits despite its low credit risk and significant operational risks. To address the need for skilled personnel, the Trade Finance Association of Bankers (TFAB), celebrating its 26th anniversary, enhances the expertise of trade finance professionals through annual seminars, evening lectures, and interactive programs. These initiatives keep bankers, importers, exporters, lawyers, and business leaders informed on global practices and regulatory developments, promoting industry collaboration.

A key event, TFAB's annual trade seminar, gathers industry leaders to discuss current trends and challenges. This year's seminar, held on May 18, 2024, at Marino Beach Hotel in Colombo, focused on "Global Trade Finance Trends: Navigating Opportunities and Challenges in a Dynamic Market." The event began with a welcome address by TFAB President Mr. Shyam De Silva, setting the stage for a day of enriching discussions and insights.

In her keynote address titled "Digitalized Trade Solutions," Ms. Shashi Kandambi highlighted the significant contributions of Sri Lanka and Asia to international trade. She noted the region's crucial role and the incomplete adoption of digital technologies. Comparing Sri Lanka's trade performance with countries like Vietnam, Hong Kong, and China, she emphasized the urgent need for full digitalization to boost efficiency and competitiveness. Ms. Kandambi underscored the importance of integrating various industries to create a thriving trade environment, advocating for technological advancements as essential for the sector's future success.

Mr. Kumar Muthaih, Director of Strategy at George Stuart Insurance Brokers (Pvt) Ltd, provided an insightful overview of marine insurance, focusing on Marine Cargo Insurance. He explained the types of marine insurance, the risks covered, and the connection between insurance and Incoterms. Emphasizing the importance of insurance in mitigating risks, especially amid global political and war interests, Mr. Muthaih's session offered a comprehensive understanding of marine insurance's role in global trade.

Mr. Denzil Fernandes, Executive Director of Financial Institutions at Trade Working and Capital Payment, J.P. Morgan, led an engaging session featuring practical case studies based on UCP 600 and URC 522. Using real-world scenarios, he demonstrated the application of these regulations in trade finance. Interactive Q&A segments encouraged team discussions, enabling participants to gain deeper insights through shared experiences. Mr. Fernandes's approach clarified complex concepts and enhanced the practical knowledge of trade finance professionals, making the session highly beneficial for all attendees.

Mr. Kapila Weerakoon, Deputy Director of the Department of Foreign Exchange at the Central Bank of Sri Lanka, discussed FX regulations related to current and capital transactions. He explained the Foreign Exchange Act (FEA) and its provisions, providing insights into business foreign currency accounts and forex loans. Mr. Weerakoon highlighted common reporting and transaction handling mistakes observed by the Department of FX and shared the department's current initiatives and key priorities. His insights offered valuable guidance for financial institutions navigating FX regulations.

The final discussion, led by Ms. Anoma Ranasinghe, Consultant for Shipping and HR Services at McLaren Group Management Ltd, highlighted the critical role of shipping in international trade. She provided an overview of the maritime industry, discussing the challenges and opportunities of 2024. Ms. Ranasinghe shared practical cases of shipping disruptions, focusing on documentation issues and the complexities of different bills of lading. She emphasized the intricacies and problems involved, illustrating how technology has resolved many challenges. Her insights underscored the vital interplay between shipping and global trade, offering participants a deeper understanding of the industry's current landscape and future prospects.

The seminar concluded with a note of gratitude to the organizers for their dedication and hard work. Their efforts significantly enriched the knowledge and skills of all participants, paving the way for future advancements in trade finance and shipping. Attendees left well-equipped to navigate the evolving dynamics of global trade finance, underscoring the seminar's success in fostering professional growth and industry collaboration.

Global Trade Compliance

By Nisitha Malinda Karunathilaka (Nations Trust Bank)

Introduction

At its most fundamental, trade compliance is a component of corporate compliance that makes sure each of the import and export transactions are compliant with the rules and regulations of the countries of origin. It involves adhering to international trade and finance laws. A trade-compliant entity follows the norms and regulations for importing and exporting goods/services to and from a country. Compliance with international trade standards and optimal procedures remains challenging. Regulations also vary in accordance with the country and kind of products. Some countries set import controls, in terms of mitigating risks involved. Owing to the volatility of the international trade environment, trade agreements and international rules can change rapidly without a prior alert. For example, the rules for importing perishable items are different when compared to involving electronics.

Stake holders who needs to follow the Trade compliance

As per the definition given by the ICC academy, all business entities irrespective of the size of the business that are involved in exportations and importations, are required to be compliant towards the international trade processes and practices. Having a strong mechanism established to track trade compliance is critical, since violating regulations can have significant and expensive repercussions. (Moody,W. (2023). Keeping track of certificates, deadlines, customs regulations, required documentation, and payment conditions for various countries and regions would aid to streamline the trade compliance.

Importance of performing Trade Compliance within the Entity.

It's very much vital that the business has a strong internal Trade compliance team who is accountable for understanding and adhering to Trade Laws and regulations in the volatile market. Nevertheless, compliance would oversee the following tasks and should execute effectively.

01. Performing a proper documentation for a specific compliance policy.
02. Updating process manuals accordingly and conduct trainings of employees.
03. Keeping track records of regulatory changes.
04. Performing spot checks to ensure the compliance adherence.

Understanding the Consequences of Non-Compliance

Noncompliance with rules may result in a wide range of negative effects for businesses. Non-compliance creates serious risks to a company's reliability, performance, and overall growth.

As a result, businesses must prioritize compliance activities and remain updates on the rules and regulations governing their operations. Here are few key takeaways,

- Financial fines, legal repercussions, and a bad reputation might result from breaching regulations.
- Creating policies, educating staff, and keeping an eye on and auditing procedures are all necessary for effective compliance management.
- Prioritizing compliance initiatives is essential for organizations to prevent serious repercussions like penalties or a loss in public trust.
- In the age of digital technology, data privacy and security compliance are essential for businesses.

Challenges of Global Trade Compliance

1. Regulatory Compliance - Adhering to complex and evolving regulatory requirements across different jurisdictions can be challenging for trade finance participants. Compliance with anti-money laundering (AML) and know your customer (KYC) regulations adds layers of scrutiny to transactions.

2. Documentation and Paperwork - Extensive documentation, such as bills of lading, invoices, and certificates of origin, is frequently involved in trade transactions. It could require a lot of time and be subjected to errors when dealing with these records, which can cause delays and higher expenses.

3. Fraud and Cyber Security Risks - The global nature of trade finance transactions makes them vulnerable to various types of fraud, including invoice fraud, identity theft, and cyber-attacks. Ensuring the security of financial information and transactional data is paramount.

Trends of Global Trade Compliance

1. Digitization and Block chain - Trade finance procedures have been transformed by the development of digital technologies, such as distributed ledger technology (DLT) and block chain. By allowing for the digitalization of trade documentation and the real-time tracking of transactions, these technologies encourage security, efficiency, and transparency.

2. Supply Chain Finance - Supply chain financing and dynamic discounting are a couple examples of supply chain finance solutions that are becoming more and more popular as companies want to optimize working capital and improve their connections with suppliers and customers. Rather than depending on the creditworthiness of specific parties, these solutions offer access to financial resources based on the financial health of the supply chain.

3. Fintech Disruption - Fintech startups are disrupting traditional trade finance models by offering innovative solutions for trade finance, such as peer-to-peer lending platforms, digital trade finance marketplaces, and automated trade finance processes. These fintech solutions aim to streamline operations, reduce costs, and increase accessibility to trade finance for SMEs. It is prudent for the stakeholders to understand the above Challenges and innovations in the Global Trade Finance Eco system.

Trade based money laundering

Trade based Money Laundering (TBML) is the practice of disguising the source of illegal money and incorporating them into the international financial system by exploiting of the complexities of international trade. Criminals move money across borders under the cover of legitimate firms by using these transactions, which makes it challenging for law enforcement to track down the illegal funds.

In addition to over-invoicing and under-invoicing, criminals employ various other techniques in TBML. These include:

Phantom Shipments: Fake shipments are created by Criminals that do not involve the actual movement of goods. In order to provide the impression of a genuine business transaction, bills of lading, invoices, and other shipping papers are faked in this scheme.

Multiple Invoicing: Many invoices are prepared by Criminals for the same transaction, making it more difficult to follow the flow of funds. This strategy involves generating multiple invoices with different values for the same commodities.

Black Market Currency Exchange: Criminals exploit the differences in foreign exchange rates to launder money. They influence the exchange of currencies in unofficial or unregulated marketplaces, which allows them to convert illegal cash into lawful currencies.

Bulk Cash Smuggling: Criminals physically transport large sums of cash across borders, bypassing detection by authorities. This strategy is frequently used in conjunction with trade transactions to legalize illegal funds.

Conclusion

In conclusion, in the dynamic landscape of Global Trade, adherence to compliance regulations is not just a legal obligation but a strategic theory. By prioritizing compliance, business entities can mitigate the risks, ensure smooth operations and to maintain their competitive edge.

References - Moody, W. (2023). An Introductory Guide to Trade Compliance. [online] ICC Academy. Available at: https://icc.academy/trade-compliance-guide/.

What is an advanced payment in international trade?

By : Avishka Perera (MCB Bank Limited)

Introduction to Advanced Payments

An advanced payment, also known as a prepayment or upfront payment, is a payment made by a buyer to a seller before the goods or services are delivered. This method is often used in international trade and various industries. Here are key details about advanced payment:

Key Details about Advanced Payments

1. Early Payment: Advanced payment involves the buyer remitting funds to the seller before the agreed-upon delivery date.

2. Risk Mitigation: For sellers, receiving an advanced payment reduces the risk of non-payment or default. Buyers may effect advanced payments to secure their orders.

3. Terms and Conditions: The specific terms and conditions for advanced payments are usually outlined in the contract or agreement between the buyer and seller.

4. Use Cases: Advanced payments are common in industries where custom manufacturing, specialized services, or significant upfront costs are involved.

5. Security for Sellers: Sellers benefit from increased financial security as they have funds before investing in production, shipping, or other expenses.

6. Buyer's Perspective: Buyers may agree advanced payments to secure a favorable deal, gain priority in production queues, or ensure availability of goods or services.

7. Payment Instruments: The payment can be made through various instruments, including wire transfers, demand drafts, or electronic payment platforms.

8. Legal Considerations: It's crucial to have a clear and legally binding agreement outlining the terms, conditions, and any recourse in case of non-compliance.

Required Documents for Advanced Payments

1. Advanced Payment Application: This is a formal request submitted by the applicant to the bank, indicating the intention to make an advanced payment for goods or services. It typically includes details such as the amount of the advance, the purpose of the payment, and any relevant terms and conditions.

2. Proforma Invoice/Sales Contract: This document outlines the terms of the transaction between the buyer and seller. It includes information such as the description of the goods or services, quantities, prices, delivery terms, and payment terms. For advanced payments, a proforma invoice or sales contract serves as evidence of the agreement between the parties.

3. 180-Day Declaration: This declaration certifies that the import transaction will be completed within 180 days from the date of remittance of the advance payment. It is a commitment by the importer to fulfill their obligations within the specified timeframe and is often required by regulatory authorities to ensure compliance with import regulations.

4. Import Control License (if applicable): If the Harmonized System (HS) code of the imported goods requires a license for importation, the applicant must obtain the necessary import control license from the relevant authorities. This license authorizes the importation of specific goods and is required to clear customs.

5. Form 1 for Currency Conversion: Form 1 is a document used to declare the purpose of foreign currency conversion. When making an advanced payment in a foreign currency, the applicant must submit Form 1 to the bank, specifying the purpose of the currency conversion (e.g., payment for imports). This form helps ensure transparency and compliance with foreign exchange regulations.

Advantages of Advanced Payments

1. Financial Security for Sellers: Advanced payments provide sellers with immediate funds, reducing the risk of non-payment and improving financial stability.

2. Working Capital Improvement: For sellers, receiving funds upfront enhances working capital, enabling them to cover production, operational, and other costs.

3. Priority and Commitment: Buyers making advanced payments often receive priority treatment, ensuring their orders are given higher priority in production schedules.

4. Risk Mitigation: Advanced payments can protect buyers by ensuring they have some leverage if the seller fails to deliver or fulfill contractual obligations.

Challenges of Advanced Payments:

1. Cash Flow Impact on Buyers: Advanced payments may strain the cash flow of buyers, tying up capital that could be used for other operational needs.

2. Default Risk: Sellers might face challenges if they fail to deliver as per the agreed terms, potentially leading to disputes and complications.

3. Limited Flexibility: Advanced payments might reduce flexibility in adjusting orders or modifying terms once the payment has been made.

4. Trust Issues: Both parties need to establish trust, especially in cases where the buyer pays upfront without receiving the goods immediately.

Local Regulation for Advance Payments

1. Advance Payment from Sri Lanka Rupee Account:

(a) For amounts not exceeding USD 50,000 or its equivalent in any other convertible foreign currency: Allowed without additional requirements.

(b) For amounts exceeding USD 50,000: It requires the submission of a bank guarantee or standby Letter of credit, OR submission of VAT Registration number, a Identification number, and other documents for approval.

2. Advance Payment from a Foreign Currency Account:

Limits specified in (1) (a) and (b) do not apply.

3. Exemption for Gold and Platinum Imports:

No limits are specified in (1) (a) and (b) for Advance Payments made for the import of Gold (HS Code 71.08) and Platinum (HS Code 71.10) certified by the National Gem and Jewellery Authority.

Import Timeframe:

(1) General timeframe for all goods: Within 180 days from the date of remittance.

(2) Machinery and Heavy Equipment: Within 365 days from the date of remittance.

These regulations provide a framework for advanced payments in Sri Lanka, specifying limits, documentation requirements, and timeframes for different scenarios. It’s essential to review the complete text for comprehensive details and compliance considerations.

Refer to Extraordinary Gazette No. 300/12, dated October 5, 2022

Regulation No. 17 of 2022

The “Imports Control Regulations on Payment Terms №17 of 2022” amend the Special Import License and Payment Regulations №1 of 2011. Notably, Regulation №6 (1) is overridden, allowing Advance Payments (Cash-in-Advance) from a Sri Lanka Rupee account for specified agricultural products up to USD 250,000 or equivalent. Schedule IV outlines the relevant agricultural items incorporated into Regulation №8 of the Special Import License and Payment Regulations, №1 of 2011. These changes aim to facilitate smoother transactions for agricultural imports within defined financial limits.

Conclusion

Advanced payments are important in global trade, bringing advantages and challenges. Sellers benefit from financial security and better cash flow, while buyers gain priority and commitment. However, buyers may face cash flow issues and default risks.

Sri Lanka’s regulations provide a clear framework for advanced payments, specifying limits, documents needed, and timeframes. These rules help businesses navigate transactions. Recent changes, allowing higher advance payments for specific agricultural products, reflect the government’s efforts to adapt to trade needs.

It’s crucial for businesses to follow these rules, make clear agreements, and build trust. Staying informed about local rules and international practices is essential for smooth cross-border transactions in the ever-changing global market.

References - Extraordinary Gazette No. 300/12, dated October 5, 2022 Regulation No. 17 of 2022

Extraordinary Gazette No. 1739/3 dated January 2, 2012 Regulation No. 01 of 2011

The New Era of MX Messages

By : Pramod Lakshan (MCB Bank Limited)

Ensure a successful migration from the MT format

The world of payments is in permanent evolution, but some changes are bigger than others. In today's environment, commercial exchanges are globalized, and payment transactions are tremendously varied, numerous and complex. To address these challenges, the payment industry is preparing itself for the largest disruption so far in this century: the migration to ISO 20022.

Why is the MT standard being phased out?

Created in 1973, SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a private company that developed the SWIFT network, which enables all businesses and financial institutions to connect and exchange financial messages.

In 1977, the first electronic message using the MT standards was sent. Since then, SWIFT has introduced many changes and innovations to the MT messaging system. Although the new MX standard was introduced in the early 2000s, the old MT standard remains predominant.

The industry, however, has decided to replace the old MT standards entirely with MX messages because they are compliant with ISO 20022 standards.

When will the MT format no longer be available?

The adoption of the MX format will be progressive and depends on countries or regions. In the European Union, cross-border / high value payments across the regions going into the SWIFT Network, Target2 and a few others in scope will be transitioned first in November 2022. The U.S. Federal Reserve will transition in November 2023. Both formats will coexist until 2025 (the deadline set by SWIFT), and most of MT messages will then no longer be permitted. The following figure shows the timeline planned for the interbank space.

What is the main difference between MT and MX messages?

Message type (MT) messages are structured according to the specifications of the ISO 15022 standard, using the FIN protocol. MX messages are structured according to the ISO 20022 standard and use the XML protocol.

Message structures

MT messages are followed by a three-digit number:

- The first digit indicates the message category
- The second digit indicates the message group
- The third digit specifies the message type

The MX message is composed of four parts:

- 4 alpha characters indicate the message type
- 3 alphanumeric characters identify the message number
- 3 numeric characters highlight the message variant
- 2 numeric characters indicate the version number

For example, a single customer credit transfer *MT 103* will appear as *pacs.008.001.0x* in MX format. MX messages will be composed of 940 separate fields and will incorporate more structured, robust and comprehensive data.

The impact on banks

Some banks already support ISO 20022 for corporate payment and account statements services. However, if they do not, process changes are required to transform the internal processes to be interoperable with future market infrastructure ISO requirements.

Most banks have legacy messaging platforms that have been in operation for years. The new ISO 20022 migration, along with the overall shift in the payment industry to "instant," will place immense pressure on banks by making these platforms obsolete. Banks will have to choose between fully upgrading their platforms or building an external, integrable system. If they do not act, they risk making their existing products and services inoperable.

References - https://www.redbridgedta.com/us/market-intelligence/swift-mx-migration/

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Money Laundering – AML- Effects and Trends

By : Ramesh Amarasinghe (State bank of India)

What is AML?

Anti Money Laundering (AML) has become a key word in banking sector grabbing attention of all the parties conducting and monitoring banking transactions.

Money laundering is commonly known as processing of criminal proceeds to disguise their illegal origins and make them appear legitimate.

Anti Money Laundering can be described as various efforts made by different bodies in reduction and prevention of acts of money launderers by way of laws, regulations and procedures.

How money laundering takes place?

Money Laundering process in identified in three stages.

- Initial Placement – At this stage money launderers deposit their money sourced from illegal activities into the banking system. These sums may be deposited in the guise of proceeds of a legitimate business by overstating the business levels.
- Layering – Such money deposited in stage one being transferred in to different ventures as investments, multiple transactions, transfers to another illegitimate business in order to make it difficult to trace the origin of the same.
- Final Integration – where laundered money is freely being used by the launderers by way of investments in legitimate businesses, purchase of luxury goods, acquiring or starting new ventures etc.

Thus the illegal origin of money is concealed.

Major means of money laundering

Money generated through illegal means such as drug trafficking, human trafficking, corruption, illegal gambling, taking ransom, tax evasion, Mafia activities,

Why Money Laundering is harmful to nations?

Act of Money Laundering can be harmful to people, societies, economies and countries in many ways.

- People who get involved in the process of money laundering will be fined with large sums of money in order to discourage other people in the society get engaged in such acts. Convicts of money laundering offences may be punished with lengthy prison sentences. In some instances people who found guilty are kept under probation. All their activities are kept under strict supervision to ensure non recurrence of offence related to money laundering.
- Individuals or entities involved in money laundering may be subjected to global sanctions if their criminal act is related to cross border transactions. Various international agencies engaged in AML procedures may place international sanctions on such entities disrupting their future transactions. Further, in many countries law enforcements agencies have been empowered to seize assets of convicts created by means of money laundering.
- Country's economy may have larger adverse impacts due to money laundering activities as large amount of illicit money enters the economy through legitimate means by distorting the economic landscape. These funds may leave at unexpected moments creating massive fluctuations in the economy which may lead to collapse of the entire financial system.
- Thus money laundering creates economic instability and hamper the effectiveness of economic policies. Further, laundered illicit money infused to an economy will create economic disparity in people of a country, as such money often will be available to a small fraction of the society. Laundered money generally will be used by launderers for illegal activities such as supplying drugs, terrorist activities, human trafficking etc. which jeopardize the well-being of a society.
- Money laundering by the participants in the economy will reduce the tax base and make Governments to loose tax income and weakens the spending ability on public services and other essential infrastructure development hampering the economic growth in long term.
- Money Laundering activities will pose a reputational risk to countries which will bring adverse impact to it's economy. Such reputational damages in turn will reduce the investor confidence thereby reducing the investments in the economy which hampers economic development.
- Increased Compliance cost by institutions, lack of trust in rule of law by citizens, increased corruption in the society are among other adversaries caused by money laundering.

Thus Money laundering give rise to many unfavorable socio economic conditions. Therefore, world nations are taking maximum effort in preventing this hazard by implementing strong Anti Money Laundering mechanisms. Special professional bodies have been formulated for this purpose.

What are the agencies fighting Money Laundering?

- The Financial Action Task Force (FATF) – FATF is the main international body which acts against global money laundering and terrorist financing. It formulate strategies and promote global standards for this purpose and make assessment whether countries across the globe are effectively implementing them.
- Asia/ Pacific Group on Money Laundering (APG) – APG is a reginal body headquartered in Sydney, Australia consist of 42 countries as members, involved in implementation of FATF recommendations with regard to anti money laundering and ensure compliance in the Asia Pacific region. The body is effectively working on legislative framework and other procedures in combating money laundering crimes.
- International Monetary Fund (IMF) – IMF is highly concentrate on the macroeconomic impact of illicit financial flows and committed to uphold the anti money laundering procedures by it's member nations. In November 2023, latest review of AML/CFT strategy was approved by executive board of IMF which outlines the directions on AML for policymakers of 190 member countries.

There are many other organizations which are country specific, regional and international to curb money laundering offences. Few are listed below.

- International Finance Corporation (IFC)
- Office of Foreign Asset Control (OFAC)
- United Nations Security Council Resolutions (UNSCR)
- World Bank
- Organization for Economic Co – Operation and Development (OECD)
- Wolfsberg Group
- Egmont Group

What measures are being recommended for prevention?

- Formulating of AML policies, strict implementation of the same and coordination
- Criminalizing the act of money laundering and confiscation of assets related to such acts.
- Transaction monitoring and reporting of suspicious transactions
- Taking preventive measures as prescribed by international conventions. Implementation of Customer Due Diligence (CDD), Enhanced Due Diligence (EDD)
- Implementation of AML/ CFT regimes as per the recommendations of FATF
- Empower and allocate responsibilities to competent authorities and other relevant institutions to take measures to combat money laundering
- Uphold transparency by financial institutions and special attention on beneficial ownership of transactions.

- International Cooperation as money laundering is often intertwined with cross border transactions.

Size of the global effect?

Despite high level intervention in preventing money laundering by numerous bodies implementing various measures estimated amount of global money laundering still stands at as high as USD 800 billion to USD 2.00 Trillion which is 2% - 5% of global GDP.

Challenges in AML and way forward

With the advancement of technology money launderers seems to be getting smarter. This exert pressure on authorities and financial institutions to take more technologically innovative solutions in the battle of anti-money laundering.

Even at present many financial institutions depend upon manual data handling related to AML which is time consuming procedure and require high deployment of human resources. These methods are proved to be costly, associated with human errors and inefficient in meeting regulatory requirements.

Therefore, new AML compliance methodologies with higher deployment of latest technology seems to be getting popular among financial institutions. Accordingly, it is expected that Artificial Intelligence (AI), Open Source Intelligence (OSINT), Cloud Computing, Robotic Process Automation (RPA), Intelligent Automation (IA) would play a prominent role in AML processes. AI will be utilized to detect financial crimes by using advanced algorithms using available data.

AML is going to be an integrated process involving service channels, products and systems. Hence connected strategies need to be adopted in the future to overcome challenges from money launderers.

References: IMF Policy Paper – Review on Fund's AML and CFT strategy Dec 2023

Official Website of FATF

Official Website of Asia Pacific Group on Money Laundering

Trade Puzzle

Find the following words in the puzzle. They can be hidden horizontally, vertically, diagonally, and even backwards.

S	W	I	N	S	U	R	E	R	H	S	Q	B	X	Y	N	Y
U	K	D	H	I	F	V	B	Y	Q	Z	Q	W	N	I	B	T
L	E	R	E	T	R	A	H	C	B	K	U	E	Y	N	X	I
P	D	K	O	T	O	E	O	P	M	T	O	A	C	V	G	L
R	A	P	R	A	E	X	T	D	O	B	T	F	K	E	C	I
U	R	A	D	R	D	P	F	E	T	N	A	J	B	N	H	B
S	T	Y	E	I	O	O	M	L	S	S	L	C	U	T	Y	A
U	F	M	R	F	R	R	V	I	U	T	V	E	M	O	C	I
J	O	E	N	F	A	T	G	V	C	W	F	J	C	R	V	L
J	E	N	L	U	S	S	R	E	I	R	R	A	C	Y	J	U
B	C	T	H	N	K	W	A	R	R	A	N	T	W	I	S	T
N	N	B	B	R	R	L	K	Y	K	B	W	M	H	M	N	I
E	A	S	U	H	D	E	V	M	E	G	P	R	U	P	O	C
K	L	G	D	W	I	I	I	R	D	O	O	L	G	O	I	I
X	A	I	G	R	T	W	T	D	A	O	T	I	V	R	X	F
V	B	Y	E	P	I	G	G	W	R	D	A	U	F	T	T	E
Z	T	I	T	E	O	U	M	Z	T	S	C	R	B	S	B	D

GOODS	DEFICIT	BUDGET
CARRIER	LIABILITY	DELIVERY

PAYMENT	ORDER	WARRANT
IMPORTS	CHARTER	INSURER
TARIFF	BALANCE	EXPORTS
SURPLUS	QUOTA	CUSTOM
INVENTORY	TRADE	

Editorial

The Trade Finance Association of Bankers of Sri Lanka plays a crucial role in shaping industry procedures amidst trade finance activities, particularly in response to challenges like the Covid-19 pandemic and political instability. While the economy has shown some recovery, achieving long-term stability remains a distant goal. Despite efforts to eliminate unofficial practices, new challenges arise from global unrest.

Economists emphasize that stability is a hallmark of a healthy economy, resilient to shocks and responsive to technological advancements over time. To navigate modern economies effectively, selecting appropriate networks, settlement methods, exchange evaluations, and ensuring international and local compliance are essential.

Moving forward, our association remains vigilant about global and local economic trends, aiming to be a pivotal organization supporting industry, economy, and national interests. We are committed to providing valuable insights through upcoming articles focusing on key areas of interest.

Samanthie Fernando

The Editorial Committee extends its gratitude to President Mr. Shyam De Silva and the council members for their guidance and support, which enabled us to publish the first newsletter for the year 2024/2025. Also we extend our sincere appreciation to all the writers who contributed articles, demonstrating their commitment despite busy schedules. Your contributions enrich our publication, and we eagerly anticipate your continued support.

Stay tuned for upcoming issues where we will delve deeper into various aspects of trade compliance. We will explore regulatory developments, best practices in compliance management, strategies for navigating international trade regulations, and provide insightful case studies. Our aim is to provide comprehensive insights that will assist businesses and professionals in effectively managing trade compliance challenges in today's complex global environment.