Question 7—"Are there particular red flags that indicate to you that an LC is forged?"

- Respondent #1—"Yes - the amount, the beneficiary, the validity of the LC, the unusual structure."
- Respondent #2—"Yes most of these are already well know and documented in existing publications."
- Respondent #3—"YES, THE KIND OF WORDS USED INTO THE TEXT, THE FORMAT APPEARANCE AND THE REQUIREMENT CONTEXT TO DO AVAILABLE THE PAYMENT."
- Respondent #4—"Standby LC received via fax; Beneficiary is not your customer; Some strange wording appeared in the LC; LC issued in paper form and appeared to be signed by a very senior manager of the Bank; Most of the LC are issued by reputable banks."
- Respondent #5—No Answer Provided
- Respondent #6—" a) the standby or guarantee is transferable, assignable, divisible, immediate payment without a presentation; b) Usually the customer is not in the business line covered by the standby or guarantee; c) the amount is beyond the customer's dealing. they are usually large."
- Respondent #7—"Yes"
- Respondent #8—"We again see more attempts in the form of LCs issued on paper."
- Respondent #9—"Yes, there are some red flags, usually the instrument is huge in amount with exact round up to million, like USD200 millions, Eur400 millions and so on. Terms and conditions of instrument are different from what we see day to day, some appear to be technical and sophisticated terms and words are used to make reader feel that the instrument is issued by professional banker."
- Respondent #10—No Answer Given
- Respondent #11—"Our experience is only based on copies of LCs received by us, purportedly issued by reputed institutions. We observe inappropriate fields used in the swift format, use of characters that are not permitted in Swift, questionable goods vis a vis ports involved, etc."
- Respondent # 12—"Usually the LC or guarantee is of big value and the terms and conditions are ambiguous."
- Respondent #13—"Unauthenticated instrument and the wording and contents of LC appear not the same as normal LC issued by the bank."
- Respondent #14—"Yes- including Amount/LC text/LC purpose (e.g. proof of funds)/lack of authenticated SWIFT establishing LC/inappropriate SWIFT message type."
- Respondent #15—"B/L dated much earlier than LC issuance date; No transport documents or only copy transport documents are required by LC; Frequent LC transactions(esp. covering commodities) between beneficiary and applicant which are connected companies (i.e. parent company and subsidiary company) and either party use LC as a means of main financing method; LC stipulates that documents are acceptable regardless of any discrepancies and no transport documents are required; Merchandise called for by LC is not within the beneficiary's business scope; LC issued by non-bank issuers or by a bank located in an area or a country where the rate of fraudulent cases is high; Domestic transactions settled through LCs between the applicant and the beneficiary who are both located in the same country and sales contract appears to be fake."

- Respondent #16—No Answer Given
- Respondent #17—"No"
- Respondent #18—"The language of the L/C and collateral materials describing the underlying transaction. These days we see the terms "cash-backed letter of credit," "clean funds of non-criminal origin," "blocked funds" and "block funds," "divisible and assignable," discussion of "monetization" of the letter of credit, of holding the L/C in escrow, and of exchanges of MOUs and RWAs, expiration in "one year and one day," undue emphasis that the L/C is or will be issued by MT760 or simply as a SWIFT message and representations that an MT760 is always cash-collateralized, and discussion of wealthy investors in other countries who want to "lend" letters of credit. The most common scheme has involved foreign real estate development projects, though there are lots of different schemes."
- Respondent #19—"(1) Amount too big; (2) Redundant terminologies (e.g. payment to be made without set-off and free and clear of any deduction or charge, fee or withholding of any nature, new or hereinafter imposed, levied, collected, withheld or success by any government, political subdivision or authority thereof or therein); (3) Incorrect reference to ICC rules (e.g. UCP522)."
- Respondent #20—"We see the standard text – assignable, transferrable and etc. They have issued on bank letterhead we do not issue ours that way."

Question 11—"How have banks been able to shield themselves from forgeries?"

- Respondent #1—No Answer Given
- Respondent #2—"To my knowledge, other than sending broadcast messages to FI's warning of potential mi-use of instruments purportedly issued by the bank, the bank from which the purported instrument was issued cannot do much else. Banks who are approached to rely on these spurious instruments to advance loans or issue other instruments protect themselves by contacting the purported issuer to validate the instrument prior to taking any action."
- Respondent #3—"SERCHING INFORMATION FROM THE BANKS PURPORTEDLY INVOLVED IN ISSUANCE."
- Respondent #4—"Implement strict KYC and AML policies for their customers; Develop red flag list to assist the staff to identify forged LC and documents; Appoint Risk Manager to review suspected transactions; Provide regular training to the staff; Take caution before long holiday and last minute urgent transactions."
- Respondent #5—"With the advent of Swift, bank stopped issuing / advising credits received through mail, unless both applicant and beneficiary happened to be bank's customer."
- Respondent #6—"Bank are strict in applying compliance guidelines which includes but not limited to KYC. Banks provide training to their staff and refreshing courses on AML and local laws. Most of the trainings are in online form."
- Respondent #7—"KYC, KYCC, and KYCM (Know Your Customer Manager!)"
- Respondent #8—"Experienced staff. The "smell" immediately something is wrong. In most cases…"
- Respondent #9—"staff training, strong KYC and good escalation process."
- Respondent #10—"Staff and customer education."

- Respondent #11—“Adequate training to staff; Call back the issuer, when in doubt; Check the client’s background, relationship, business dealings, etc. (more on KYC).”
- Respondent #12—“regular refreshment training to staff members.”
- Respondent #13—“All LC will be reviewed by experienced staff to ensure the authenticity and the contents of the are normal before processing.”
- Respondent #14—“Greater awareness of staff through training and creation of escalation procedures on handling transactions that have flags. Customer Service teams in Trade are given guidelines when taking calls on possible spurious LC’s. Standbys has a dedicated person who reviews any potential forged LC. Procedures to remove RMA (process that allows banks to send and receive authenticated message with us) when fraud is spotted, coupled with overall tighter standards in allowing RMA to be established.”
- Respondent #15—“KYC, KYB, set up guidelines in LC and trade related finance, maritime information investigation, check with authorities, field investigation and etc.”
- Respondent #16—No Answer Given
- Respondent #17—“They have not.”
- Respondent #18—“There’s really not much risk to the banks since the frauds are not directed at us.”
- Respondent #19—“Exercise common sense and experience.”
- Respondent #20—“We work with our internal fraud investigation unit who utilize their expertise.”

Question 12—“Additional Comments” (Non-answers omitted)

- Respondent #6—“Usually there is tag of war between Trade Finance Operations and relationship manager (RMs). RMs are keen in soliciting business to meet their revenue target. A lot of time is being wasted convincing such RMs that the transaction is not worth looking at. Sometimes we have to threaten them that we will report to law enforcement so that they withdraw. These RMs are usually from private, high net worth customers and SME sectors.”
- Respondent #8—“Sometimes also beneficiaries are trying to commit fraud. We advised a bank guarantee to a beneficiary with a lot of warnings on our advising letter about the quality and trustworthiness of the issuer. Beneficiary tried to cash guarantee with another bank, copying the guarantee without our first page with the negative advise. Fortunately, the other bank “smelled” there was something wrong with the guarantee… “
- Respondent #9—“In last 2 years, more and more inquiries are related to discounting under standby LC, normally bank will refer suspicious case to compliance or anti-fraud department and for them to consider whether report to the authority.”
- Respondent #14—“We have seen an increase in transactions purportedly sent by SWIFT that include internal bank generated prints of SWIFT Acknowledgement protocols that are not included in any messages sent to beneficiaries or applicants, suggesting that some forgers may have worked for banks and are familiar with telecommunication area processing or are working in collaboration with Bank personnel, and aside from the occasional purported LC issued by a retail branch, no fraudulent LC’s have been otherwise been advised by us to my knowledge. Also we have seen increased use or mention of SWIFT message types not used in Bank to Bank Transactions but rather are

messages within SWIFT user groups as arranged by bank with customer- e.g. use of MT798 to establish a standby LC, suggesting lack of customer control on internal access to these message types. Mention of LC's being established using MT100 series messages also involving closed network message types is more prevalent than before."

- Respondent #15—"The costs for bank in forged LCs are not always borne by banks, usually by the beneficiary or applicant if the bank is not involved in trade finance on the side of the party being trapped. We are seeing an increase of forged LCs between developing countries, such as between India and China. We are also seeing an increase of forged LC transactions in China between two local customers just for the purpose of financing."
- Respondent #16—"You might want to google SWIFT 760 as I believe the scamsters are teaching others how to write them."
- Respondent #18—"As mentioned above, customers first receive descriptions of how the deals will work, sometimes with sample L/Cs. If there's an actual forged L/C or guarantee, it will be sent to the customer, not us. We did see one of these about 3 years ago, when a customer had already given a fraudster $1mm, waited 90 days for the funds to be returned, and then tried to "cash" the L/C (which had been held in escrow by a real estate agent for 90 days)."
- Respondent #19—"KYC is important. If something is too good to be true, then it is probably too good to be true."