Trade Fraud in TCI: Trends, Mitigation & Recovery

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Disclaimer: This presentation is for general information only and is not intended to constitute legal advice. Blackstone & Gold LLC has made all reasonable efforts to ensure the information provided is accurate at the time of publication.
Underwriting Considerations

- Insured’s trading patterns
- Physical vs Synthetic Trades
- Estimates of future turnover
- Credit Control
- Contractual terms of trade
- Previous history of debtors
- Other securities involved, assignment, ROT, guarantees etc
- Credit Limit
- Geographical Limitations
- Warranties – Debt can be pursued in jurisdiction
## Repo Financing

### Purchase Date (Day 1)
- **Seller (Borrower)**
- **Transfer of Purchased Securities (market value £100)**
- **Buyer (Lender)**
- **Purchase Price (£95)**

### Repurchase Date (Day 30)
- **Seller**
- **Repurchase Price (£97)**
- **Buyer**
- **Transfer of Equivalent Securities**
String Trades

Conduit Trades

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Circular Trades

A Seller

B Conduit Buyer

C End Buyer

D End Buyer

14 week voyage

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TRADE CREDIT INSURERS

Insurers
- No Fraud
- Physical Trade
- Purpose of Trade
- Disclosure

Banks
- No authentication
- Payment on documents
- To Order BLs
- Payment Injunction

Traders
- CIF Contract
- LC/DA
- High Sea Sales
- Switch BLs
- Cargo visibility
- Purpose of Trade

Carrier/Freight forwarder
- Branch offices
- Shipping Procedures
- Investigations

Bank A
Bank B
Bank C
Bank D

Exporter 1
Seller 2
Seller 3
Importer 4

Load Ports
Ship
Discharge Ports

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Risk Patterns

Trends

- Fake/False Bills leading to double/phantom trades
- High Sea Sales/Switch Bills with no visibility on Cargo – timing to double financing; length of Cargo voyages vs Goods in Warehouse
- Buyers and Sellers are large companies with small intermediaries
- Intermediaries making unusual gains/unaware of end parties
- Series of successful trades done followed by default
- History of trades is done to deflect double financing
- Fraudulence party breaks trade flows with “segments” which party unaware of final movement of goods
- Ports with poor shipping procedures involved
- Circular trades – purpose and whether covered by credit insurance?
Payment Default

Do you have security i.e., BLS, warehouse, receipts / warrants?
  Yes
  Have they been endorsed or attorned?
    Yes
    Is there on ROT?
      Yes
      Have the good been commingled / consumed or sold?
        Yes
        Would the courts where the Goods are situated enforce the ROT?
          Yes
          Is there a dispute on payment?
            Yes
            Does the contract provide for Court/ Arbitration?
              Yes
              Factors to consider:
                • Enforceability
                • Time/costs
                • 3rd Party Funding
                • String Contracts
                • Is the debt acknowledged
                • Will the defendant participate
                • Negotiable instrument
                • Solvency
              Do you need interim relief / injunction
              Enforcement of Judgment/ Award / Interim Award
            No
            Is the debtor able to pay?
              Yes
              Where is the Company incorporated / assets located / place of business
                Yes
                Consider commencing Insolvency Factors:
                  • Time/costs
                  • Public Listed?
                  • Size of Claim
                No
Thank You

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