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SBP makes Anti-Money Laundering and Combating the Financing of Terrorism Regulations more comprehensive

The State Bank of Pakistan (SBP) has made Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations more comprehensive by revising the existing regulations M-1 to M-5 of Prudential Regulations on Corporate/ Commercial Banking.

While most of the requirements of the new regulations are already in place, some of the requirements will be effective from October 31, 2012. These regulations have been issued today to all banks/ development finance institutions (DFIs) with a view to introducing a comprehensive regulatory framework in line with international standards to mitigate the various risks arising from money laundering and terrorist financing.

The AML/CFT Regulations provide a system of Risk Based Approach under which customers will be profiled as per risk involved. A framework of Scenario based ranking of customers has been developed, which will help in detecting abnormal behavior or transactions during the course of relationship. The revised system will ensure clean and transparent banking transactions on the one hand and will enable the country to meet international standards on the other.

The provisions of Regulations introduce a system of comprehensive list of 'Red Alerts' in the context of Pakistan, which will trigger scrutiny of accounts and transactions to ensure that proceeds of crime are not processed through the banking channels.

To address the issue of rigidity in obtaining documents for opening accounts, the list of identification and verification documents has been expanded and NADRA Receipt/ Token included as eligible document for opening of bank account. This will enable customers to open bank account by submitting any document issued by NADRA including CNIC, Passport, NARA, POC or even a NADRA Receipt/ Token. The new Regulations now require banks/DFIs to keep record for a minimum period of 10 years.

With the view to tracing back the illegal transactions, it is mandatory on banks/ DFIs to obtain a copy of CNIC from occasional customers/walk-in customers conducting cash transactions above Rs. 1 million and in case of online transfers without any limit. Banks/ DFIs now have to capture, retain and provide at the beneficiary end, all relevant details of customers while transferring funds between the cities.

In case of wire transfers, clear responsibilities of ordering, beneficiary and intermediary institution have been outlined for compliance of banks/ DFIs. Customers' profiles should be linked with automated transaction monitoring software for creation of alerts in case of suspicious transactions/activities.

Miscellaneous changes in the AML/CFT Regulations include removal of redundancies, removal of difficulties highlighted by banks/ DFIs during Compliance Forum, Risk assessment of new products and services, due diligence at the time of hiring employees, mandatory confirmation from customer when its profile will be revised, dormancy period has been prescribed as one year etc.

Under the Regulations, every customer shall be identified for establishing business relationship. The Bank/ DFI shall verify identity documents of the customers from relevant authorities/document issuing bodies and where necessary using other reliable, independent sources and retain on record copies of all reference documents used for identification and verification. The verification shall be the responsibility of concerned bank/DFI for which the customer should neither be obligated nor the cost of such verification be passed on to the customers.

Banks/DFIs shall not open or maintain anonymous accounts or accounts in the name of fictitious persons or numbered accounts. In the case of joint accounts, CDD measures on all of the joint account holders shall be performed as if each of them were individual customers of the bank/DFI.

Government accounts shall not be opened in the personal names of the government official(s). Government account which is to be operated by an officer of the Federal/Provincial/Local Government in his/her official capacity, shall be opened only on production of a special resolution/authority from the concerned administrative department duly endorsed by the Ministry of Finance or Finance Department of the concerned Government.

Banks/ DFIs shall not provide any banking services to proscribed entities and persons or to those who are associated with such entities and persons, whether under the proscribed name or with a different name. The banks/DFIs should monitor their relationships on a continuous basis and ensure that no such relationship exists. If any such relationship is found, the same should be immediately reported to Financial Monitoring Unit (FMU) and other actions shall be taken as per law.

With regard to NGOs/NPOs/ Charities' accounts, the revised Regulations said that Banks/DFIs should conduct enhanced due diligence (including obtaining senior management approval) while establishing relationship with Non-Governmental Organizations (NGOs)/Not-for-Profit Organizations (NPOs) and Charities to ensure that these accounts are used for legitimate purposes and the transactions are commensurate with the stated objectives and purposes.

The State Bank of Pakistan also issued AML/CFT Guidelines on Risk Based Approach to banks to improve their Risk Based Approach (RBA). These Guidelines urged that banks/DFIs may

conduct their internal money laundering and financing of terrorism risk assessments (for their customers, products & services, transactions channels and geographic areas) with the purpose to develop their own policies and procedures, in order to identify, assess, manage and mitigate related risks on on-going basis. It is always advisable that measures to prevent ML/FT risks are commensurate to the risks identified for effective mitigation.

The Guidelines recommended that a matrix which quantifies likelihood and impact/consequences on two dimensions may be developed thereby categorizing risk as low, medium, high or any appropriate scale. It is pertinent to mention here that without proper quantification of risks, it may be difficult to decide which customer qualifies for simplified due diligence (SDD) or enhanced due diligence (EDD).

It may be pointed out that these regulations are in addition to and not in derogation of requirements under AML Act 2010, Rules/Regulations issued there-under, or any other measures taken by banks/DFIs pursuant to their internal/group policies, Basel Core Principles, Recommendations of the Financial Action Task Force or any other AML/CFT standards prescribed by any global body, says BPRD Circular No. 2 issued to the presidents/chief executives of all Banks/DFIs today.

(The complete text of new AML/CFT Regulations and AML/CFT Guidelines on Risk Based Approach are available on SBP website: www.sbp.org.pk)
