

Box 3.1.3: FATF and AML/CFT Regime in Pakistan

Background

Integrity of a financial system against the misuse for money laundering and terrorist financing has emerged as a key policy concern, and international agencies and policy makers all over the world are making serious efforts to cope with these anti-social activities. In this regard, Financial Action Task Force (FATF), an inter-governmental body established in 1989, has emerged as a pivotal policy making body. It sets the standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to integrity of the international financial system. The FATF has developed a series of Recommendations that are recognized as the standard for combating money laundering and the financing of terrorism and proliferation of weapons of mass destruction. These recommendations form the basis for a coordinated response to different threats to the integrity of financial system and help ensure a level playing field for different stakeholders in the economies. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, 2003, and then most recently in 2012 to ensure that they remain relevant to the dynamic environment and feasible for universal application.¹⁴⁵

Pakistan's AML/CFT Regime and FATF

Policy makers in Pakistan have always appreciated the importance of financial system's integrity against misuse for money laundering and terrorist financing. The SBP introduced the policy framework on AML/ CFT in early 1990s, and since then it has evolved to address both international standards and dynamics of the local financial markets. The AML law, defining the legal obligations in respect of money laundering and terrorist financing and enjoining the roles and powers of different stakeholders and law enforcement agencies, was

promulgated in 2007. To facilitate implementation of the law a full-fledged and independent Financial Monitoring Unit (a financial intelligence unit) has been established which, monitors suspicious transactions reports (STRs) from different economic agents, call reporting entities and, after carrying out due assessment, refers the potential cases of money laundering and terrorist financing to the respective investigation agency for further examination and prosecution. Besides, FMU shares financial intelligence with financial sector regulators when regulatory breaches are noted during analysis of STRs.

Pakistan is not a member of the FATF; the country is associated with the FATF through FATF-Style Regional Body (FSRB) i.e. Asia-Pacific Group on Money Laundering (APG), which assessed the country in 2005 and 2009 and followed up in the following years to address the identified observations. In Jul 2009, the last mutual evaluation report (MER) of Pakistan against the FATF's recommendations was published¹⁴⁶. The report identified some deficiencies in the AML/CFT regime and suggested measures to overcome the underlying risks. In line with the assessment, Pakistani authorities has made strenuous efforts and introduced a number of reforms and improvements in legal, regulatory and operational frameworks to address the concerns with regard to compliance with international standards, and has been reporting progress to APG. Pursuant to third round of mutual evaluations under the FATF's revised standards and methodology, Pakistan's third assessment has also been initiated.

In recent years, the country has taken further measures to strengthen the AML/CFT regime, which include:

- Amendments in AML Act, 2010 (Dec 2015) to streamline it with international standards described by FATF.
- Addition of Fiscal offences under Sales Tax (Feb 2016).

¹⁴⁵ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

¹⁴⁶ <http://www.apgml.org/documents/default.aspx?s=date&c=7&pc=Page=6>

- Addition of Directorate General (I&I Inland Revenue) of FBR as investigating and prosecuting agency under the AML law (Jun 2016).
- Addition of 'Insider Trading and Market Manipulation' as predicate offence in the schedule of AML Act, 2010 (Dec 2015).

Over the last year, SBP has taken additional measures to strengthen **Anti-Money Laundering**

(AML)/Combating Financing of Terrorism (CFT)

Regulations to align them with the international best practices. Some of the initiatives taken over the year include:

- SBP has issued revised Guidelines in Jun 2017 advising banks that the obligations/ prohibitions regarding proscribed entities and persons are applicable, on an ongoing basis, to proscribed/ designated entities and persons or to those who are known for their association with such entities and persons, whether under the proscribed/ designated name or with a different name.
- SBP has advised banks and Microfinance Banks to install biometric machines at all branches for instant customers' verification at the time of account opening.
- SBP has advised all financial institutions falling under its purview to refrain from dealing in or facilitate their customers to transact in Virtual Currencies / Initial Coin Offerings (ICOs) and to immediately report any such transaction to FMU as a suspicious transaction.
- SBP has revised AML/CFT regulations based on the findings of Pakistan's National Risk Assessment (NRA). The revisions require assessment of AML/CFT controls for asset side customers and products, placing adequate number of analysts to monitor and report suspicious transactions, assignment of AML/CFT compliance monitoring to Management Level Committee of bank responsible for risk and control; and putting in place procedures for maintaining data of account opening cases rejected, revision in customer risk ratings and accounts closed based on ML/TF risks.

Pakistan has a proactive, dynamic and robust AML/CFT regime, which comprises legal, regulatory, institutional and operational frameworks in line with international standards. The authorities have the required technical capacities to address challenges posed by the dynamic environment and adequately fulfill any international requirements.

