

## Box 4: FATF and AML/CFT Regime in Pakistan

### Background

The Financial Action Task Force (FATF) is an inter-governmental policy-making body that was established in 1989 to help protect the integrity of the international financial system against misuses for money laundering and terrorist financing. The FATF has developed key recommendations to guide the countries on the development and implementation of effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regimes in their jurisdictions. It also assesses the compliance of different jurisdictions with these recommendations and assesses the effectiveness of AML/CFT frameworks to identify any weaknesses. If a jurisdiction is identified as having strategic deficiencies in its AML/CFT regime, other jurisdictions and entities (which recognize the FATF's Recommendations as the international standards) may enhance scrutiny and restrict trade and financial transactions with such identified jurisdiction. This move encourages the identified jurisdiction to plug the gaps and enhance compliance with the AML/CFT standards. Furthermore, FATF calls on its members to apply counter-measures against natural and legal persons from jurisdictions identified on FATF's public statement as posing substantial ML/TF Risks to the global financial system.

The FATF is supported by a network of FATF-Style Regional Bodies (FSRBs) in implementing and enforcing its Recommendations. The Asia/Pacific Group on Money Laundering (APG) is one such FSRB, which is an autonomous inter-governmental organization, consisting of 41 member jurisdictions,

which ensures the effective implementation of these international standards. While Pakistan as such is not a member of the FATF, the country is associated with it through membership of the APG, since 2000.<sup>136, 137</sup>

### Placement on Grey-List

In June 2018, Pakistan was identified as a jurisdiction with strategic AML/ CFT deficiencies.<sup>138</sup> Pakistan has made a high-level political commitment to work with FATF and APG to implement an action plan to strengthen its AML/ CFT regime and address the strategic counter-terrorist financing-related deficiencies by demonstrating that:<sup>139</sup>

- terrorism financing (TF) risks are properly identified and assessed, coordination on TF risks is improving, and law enforcement agencies (LEAs) are investigating the widest range of TF activity
- TF prosecutions result in effective, proportionate and dissuasive sanctions, and that the capacity and support for prosecutors and the judiciary has been enhanced;
- remedial actions and sanctions are applied in cases of AML/ CFT violations;
- enforcement action is being taken against illegal money or value transfer services (MVTs);
- authorities are identifying cash couriers and enforcing controls on illicit movement of currency;
- targeted financial sanctions are being effectively implemented (including enforcement actions against violations); and

<sup>136</sup> <http://www.apgml.org/about-us/page.aspx?p=91ce25ec-db8a-424c-9018-8bd1f6869162>

<sup>137</sup> <http://www.fatf-gafi.org/pages/asiapacificgrouponmoneylaunderingapg.html>

<sup>138</sup> <http://www.fatf-gafi.org/countries/d-i/iraq/documents/fatf-compliance-june-2018.html>

<sup>139</sup> <https://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-june-2018.html>

- facilities and services owned or controlled by designated persons are deprived of their resources and the usage of the resources.

Pakistan is working to implement the action plan by September 2019 to negotiate an exit from the “grey-list”. In the interim, the FATF’s International Cooperation Review Group (ICRG) and APG have been holding a series of meetings with Pakistani representatives to monitor Pakistan’s progress vis-à-vis the action plan.

### Pakistan’s AML/CFT Regime

Pakistani authorities give high importance to the effectiveness of AML/CFT regime. In this regard, SBP is taking initiatives, on regular basis, for strengthening the overall AML/CFT regime. SBP introduced AML/ CFT Policy Framework for its regulated institutions in 1990s and over the years, it has been strengthened in the light of emerging best practices.

The AML law in the country was promulgated in 2007, which defines the legal obligations in respect of money laundering and terrorist financing, and enjoins the roles and powers of different stakeholders and law enforcement agencies. To facilitate implementation of the law, a full-fledged Financial Monitoring Unit (a financial intelligence unit) receives suspicious transactions reports (STRs) and currency transactions reports (CTR) from different reporting entities and (after due analysis) refers the potential cases of money laundering and terrorist financing to the respective investigation agencies in the form financial intelligence for further examination/ investigation and prosecution.

While Pakistan’s legal and regulatory framework is quite comprehensive, the country is currently working on further enhancing the effectiveness of the AML/ CFT regime. The country has recently taken a

number of significant measures and initiatives to further strengthen the AML/ CFT framework. In this regard, SBP has issued or strengthened the following set of guidelines and instructions to its regulatees:

- To align AML/CFT Regulations with the Financial Action Task Force (FATF) Recommendations, various provisions of the regulations have been amended to provide further clarity on requirements relating to customer due diligence (CDD), correspondent banking, wire transfers/ funds transfers and minimum documents required for opening accounts by customers.<sup>140</sup>
- For strict compliance of Statutory Regulatory Orders (SROs) and Notifications issued by the Government of Pakistan under the United Nations (Security Council) Act, 1948 and Anti-Terrorism Act (ATA), 1997, detailed guidelines for ECs have been issued on Targeted Financial Sanctions (TFS) for prevention of Terrorism Financing and Proliferation Financing under UNSC Act, 1948 and ATA, 1997.<sup>141</sup>
- Banks have been advised that sponsor shareholders/beneficial owners, directors, Presidents and key executives (persons subject to FPT) will become disqualified if they are designated/proscribed or associated directly or indirectly with designated/proscribed entities/persons under United Nations Security Council Resolution or Anti-Terrorism Act 1997.<sup>142</sup>
- Enhanced the scope of Know Your Customer (KYC) standards and documentation requirements for ECs.<sup>143</sup>

SECP and other bodies have issued the following set of instructions and guidelines for strengthening

<sup>140</sup> BPRD Circular Letter No. 16 of 2018

<sup>141</sup> FE Circular No. 09 of 2018

<sup>142</sup> BPRD Circular No. 09 of 2018

<sup>143</sup> EPD Circular Letter No. 08 of 2018

AML/CFT for entities in the non-bank financial sector and other corporate entities:

- Associations with Charitable and Not for Profit Objects Regulations, 2018 have been issued to specify procedures to grant licenses to associations with charitable and not for profit objectives, incorporation of association as a public limited company, fit and proper criteria, provision for revocation of license and winding up, and monthly reporting requirements.
- AML/CFT Regulations, 2018 have been issued to provide a consolidated set of regulations for financial institutions under the ambit of the SECP including Modarabas, Insurers, Non-Bank Financial Companies (NBFCs), etc. to harmonize the AML/ CFT regime. The Regulations have adopted a risk-based approach towards combating ML/TF, and are focused on high risk areas including politically exposed persons, legal persons, legal arrangements with complex ownership structures, etc. –
- Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 have been amended to bring further clarity on various aspects including beneficial ownership, legal persons, Counter-measures against high risk countries, etc.
- AML & CFT Guidelines for Real Estate Agents 2018 have issued to bring the real estate agent into the regulatory ambit of AML/ CFT regime. The guidelines recommend complying with AML laws/ regulations while reporting Suspicious Transactions and Cash Transactions, implementing CDD measures, keeping proper records, etc.

Pakistan Post, being a saving bank and money transfer services provider to the general public, has

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<sup>144</sup> <https://fbr.gov.pk/pr/effective-steps-taken-by-fbr-customs-operatio/132037>

issued AML/CFT Regulations in October 2018 to deter the risks of money laundering and financing of terrorism. Similarly, the designated non-financial business and professions (DNFBPs) such as real estate agents, charities, jewelers, etc. have been brought under the ambit of AML/CFT regime.

From the implementation perspective, regulatory bodies and other government entities are taking measures for effective enforcement of the AML/CFT related regulation. SBP is strictly enforcing its regulations and instructions and is taking penal actions against such regulated institutions, which have been found delinquent during the supervisory process. These institutions have also taken disciplinary actions against concerned employees including issuing reprimands, incremental stoppage, etc.

Similarly, the Federal Board of Revenue (FBR) has taken extensive measures to counter illicit movement of currency<sup>144</sup>. These measures include launch of an extensive risk mitigation strategy to curb cash smuggling, increased currency seizures, implementation of Currency Declaration Systems (CDS) at international entry/ exit points, etc.

Overall, Pakistan's AML/ CFT regime has further improved during the period under review. Presently, adequate legal and technical infrastructure is in place and the government is highly committed to address any remaining deficiencies in the AML/CFT regime. It is hoped that these enabling factors coupled with ongoing efforts to enhance the capacities of relevant agencies as well as strengthen inter-agency cooperation will help to deliver on the action plan and address those strategic deficiencies.