Financial Monitoring Unit (FMU)
Government of Pakistan

QUARTERLY REPORT

Analysis Division

QUARTER 3, 2021

Contents

EXECUTIVE SUMMARY

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STRs

FMU has received 26,022 during the first three quarters of the year 2021. Out of which, 9,072 STRs have been received during the third quarter (Jul-Sep) of the year 2021.

MAJOR SECTORS

Major reporting Sectors include Banks and Exchange Companies.

CTRs

837,136 CTRs have been received during the third quarter (Jul-Sep) of the year 2021.

REPORTING DISTRICTS

Top three STR reporting districts (during the third quarter of 2021) are Karachi, Lahore and Islamabad.

OFFENCES

Top 3 Offences during third quarter (Jul-Sep) of the year 2021, in terms of number of disseminated Financial Intelligences, are Tax Crimes, Terrorism Financing and Fraud/Ponzy.

STRATEGIC ANALYSIS

During the third quarter of 2021, FMU also conducted and disseminated Strategic Analysis on Virtual Assets-The emerging risk of Money Laundering & Terrorism Financing (2020-21) to relevant Law Enforcement Agencies.

STR REPORTING

STRs Received by FMU since 2007

Period	STRs
2007-2016	12,454
2017	5,548
2018	8,708
2019	20,030
2020	28,731
2021 (till Sep 2021)	26,022

Financial Monitoring Unit known as FMU, is the financial intelligence unit of Pakistan. Its core functions are to receive STRs and CTRs, their analysis and dissemination.

The STRs and CTRs are filed by financial institutions and designated non-financial businesses and professions.

The reporting of STRs has drastically increased over the years.

For the first three quarters of 2021, FMU has received around 26,022 STRs.

CTR REPORTING

Year Wise CTRs Received

Period	CTRs
2011-2015	1,629,271
2016	706,822
2017	798,058
2018	1,055,936
2019	1,366,205
2020	1,931,298
2021 (till Sep 2021)	2,270,608

STRs REPORTING COMPARISON

- In 3rd quarter of 2021 STRs increased by 13% in comparison to 3rd quarter of 2020, whereas 3% increase has been observed as compare to 2nd quarter of 2021.

STRATEGIC ANALYSIS

- FMU conducted Strategic Analysis on Virtual Assets-The emerging risk of Money Laundering & Terrorism Financing (2020-21)

COMPLIANCE FORUMS

- During the third quarter of 2021, in order strengthen the reporting regime and to enhance the awareness, FMU organized two Compliance forums for banks and exchange companies.

STR REPORTING QUARTERLY COMPARISON 2021

Quarterly comparison of STRs received during 2021

TREND

Quarterly STR Reporting Trend - 2021
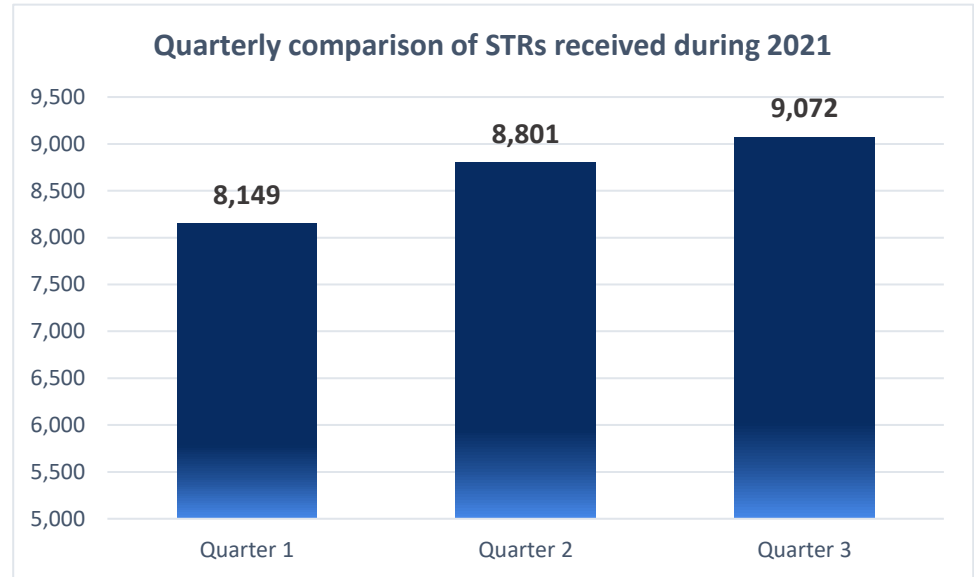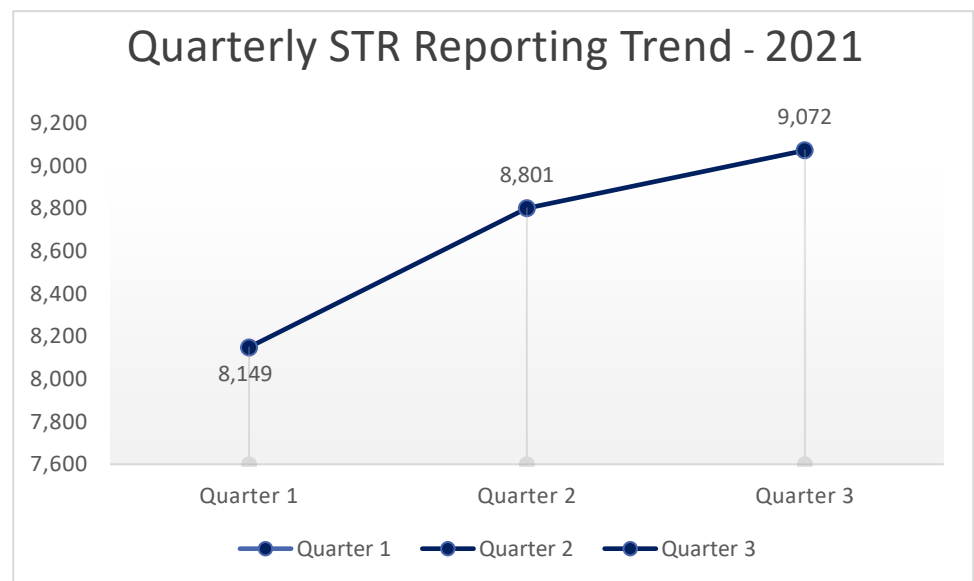
STR REPORTING-SECTOR WISE-2021

SUMMARY

	Q1	Q2	Q3	Total
Banking Sector	5593	6557	6854	19004
Exchange Companies	1768	1608	1703	5079
Non-Banking Sector	788	636	521	1939
Total	8149	8801	9072	26022

Banking Sector

73

Exchange Companies

20%

Non-Banking Sector

7%
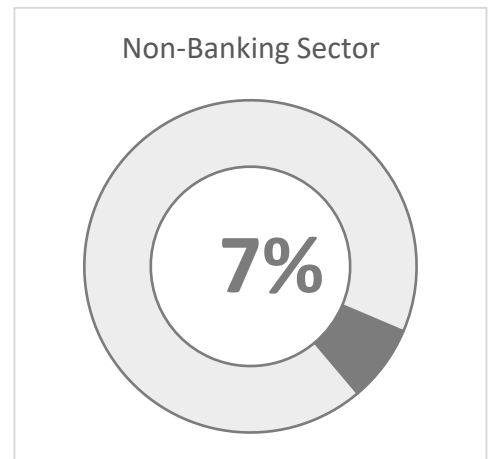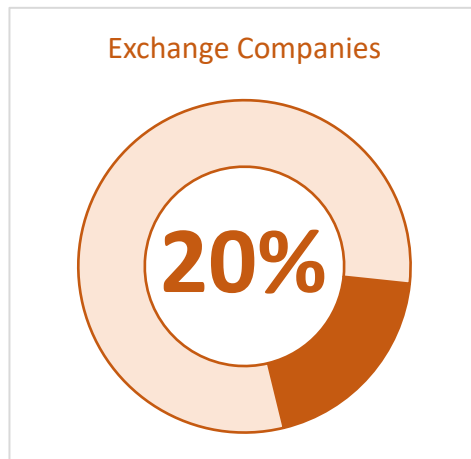
STR REPORTING SECTOR WISE-2021

Sr. No.	Reporting of STRs (Institutions Wise)	Q1	Q2	Q3
1	**Banking Sector**	**5593**	**6557**	**6848**
1	Private Commercial Banks	3385	3996	3990
2	Islamic Banks	389	469	535
3	Foreign Banks	3	2	2
4	Specialized Banks	31	25	18
5	Public Commercial Banks	326	528	487
6	Micro Finance Banks	1459	1537	1816
2	**Exchange Companies (A) & (B)**	**1768**	**1608**	**1703**
7	Exchange Companies (A)	1622	1482	1541
8	Exchange Companies (B)	146	126	162
3	**Non-Banking Sector / NBFIs**	**321**	**336**	**276**
9	DFI	8	0	1
10	Insurance	203	230	185
11	Brokerage Firm	27	41	23
12	Asset Management Company	30	29	37
13	Leasing	1	0	0
14	Micro Finance Institutions (MFIs)	52	36	28
15	Modarba Company	0	0	1
16	Investment Bank	0	0	1
4	**Supervisory Bodies (SBP, SECP, Directorate DNFBP)**	**8**	**20**	**1**
17	State Bank of Pakistan (SBP)	0	0	0
18	SECP	2	17	1
19	Directorate General of DNFBP, FBR (for reporting)	6	3	0
5	**SBP BSC, CDNS & PPO**	**458**	**262**	**238**
20	SBP, Banking Services Corporation (SBP-BSC)	425	239	223
21	Central Directorate of National Savings	24	19	12
22	Pakistan Post	9	4	3
6	**DNFBPs**	**0**	**12**	
23	Real Estate	0	12	0
7	**Electronic Money Institution (EMI)**	**1**	**6**	**6**
	Total	**8149**	**8801**	**9072**

TOP TEN STR REPORTING DISTRICTS
(3ʳᴰ QUARTER -2021)

District	No. of STRs	% of Total STRs
Karachi	2058	23%
Lahore	1206	13%
Islamabad	694	8%
Peshawar	463	5%
Faisalabad	312	3%
Quetta	298	3%
Sialkot	296	3%
Multan	289	3%
Rawalpindi	260	3%
Swabi	180	2%
Other Districts of Pakistan	3016	33%
Total STRs	**9,072**	**100%**

Top Ten STRs Reporting Districts (Jul-Sep) 2021
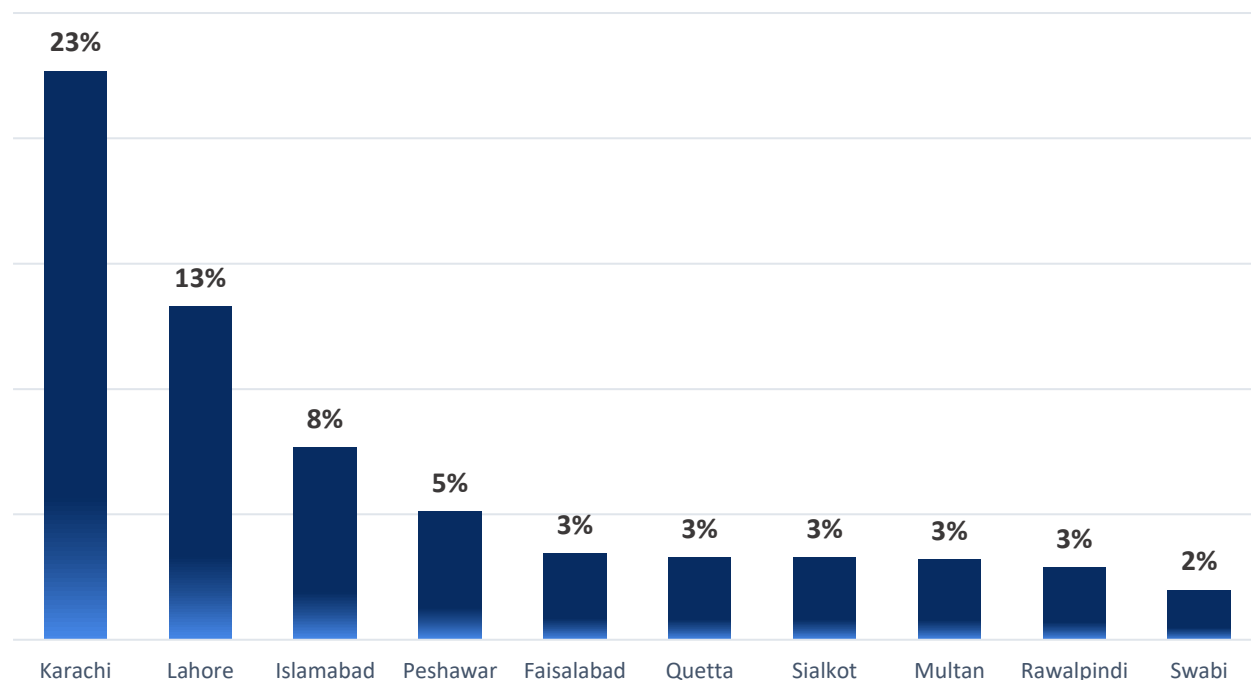
FINANCIAL INTELLIGENCE (DISCLOSURES) SENT TO LEAs

(Q3 - 2021)

Total Disclosures	Proactive Disclosures	Reactive Disclosures
459	342	117

Proactive Disclosures (Q3 2021)

Bar chart values:
- FBR-IR: 111
- FIA: 105
- Counter Terrorism Departments: 47
- SBP: 26
- SECP: 22
- FBR-Customs: 15
- NAB: 14
- ANF: 1
- Directorate General of DNFBP, FBR (for reporting): 1

- *Proactive Disclosures are the Financial Intelligences based on the STRs/CTRs received from REs and sent to LEAs after performing detailed analysis by FMU.*

Reactive Disclosures (Q3 2021)

Bar chart values:
- Counter Terrorism Departments: 43
- Federal Investigation Agency: 32
- Others: 29
- State Bank of Pakistan: 6
- FBR-Inland Revenue: 3
- FBR-Customs: 2
- Anti-Narcotics Force: 1
- National Accountability Bureau: 1

- *Reactive Disclosures are the Financial Intelligences based on requests received from LEAs*

FINANCIAL INTELLIGENCES DISSEMINATED TO LEAS PREDICATE OFFENCE WISE

TF & ML Related

	Designated categories of offences as per FATF	Q2	Q3
1	Terrorism Financing	36	59
2	Participation in an organized criminal group and racketeering;	0	4
3	Trafficking in human beings and migrant smuggling	2	0
4	Sexual exploitation, including sexual exploitation of children;	0	1
5	Illicit trafficking in narcotic drugs and psychotropic substances;	3	1
6	Corruption and bribery/Unexplained Assets as per NAO/Cheating Public at large/ unjustified High Turnover	9	15
7	Fraud; / Ponzy Schemes	4	42
8	Murder, grievous bodily injury	2	0
9	Smuggling / Offences under Customs Act	4	7
10	Currency Smuggling;	2	2
11	Extortion	1	0
12	Insider trading and market manipulation.	1	6
13	Tax Evasion / Tax Crime	79	107
	TOTAL	**143**	**244**

Other offences

|	Non-Designated categories of offences as per FATF	Q2	Q3
1	Regulatory Violation/ Regulatory Advice	1	11
2	Virtual Currency	0	5
3	Trade Based Money Laundering (TBML)	6	11
4	Hawala/Hundi	51	40
5	Illegal Trade in Financial Instruments /FCY	7	11
6	Ground Check	32	19
7	Cyber Crime	0	1
8	Misuse of Donations	0	2
	TOTAL	**97**	**100**

Note: Several STRs may be aggregated to constitute one disclosure/ financial intelligence and may involve multiple disseminations.

QUARTERLY CTRS REPORTING
(2021)

	Q1	Q2	Q3
Currency Transaction Reports (CTRs)	680,060	753,227	837,171

Quarterly CTRs trend - 2021
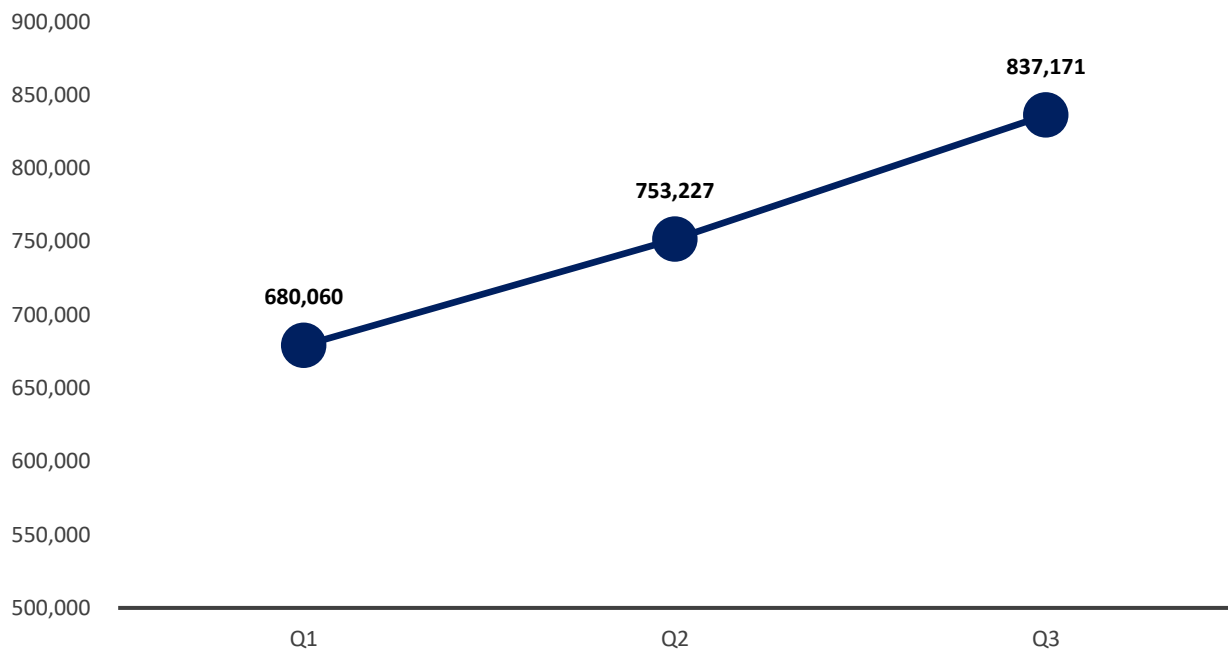
VIRTUAL ASSET-THE EMERGING RISK OF MONEY LAUNDERING & TERRORISM FINANCING (2020-21)

Virtual Asset refers to any digital representation of value that can be digitally traded, transferred, or used for payment. Virtual Assets are considered high risk in terms of money laundering and terrorism financing due to anonymous and decentralized peer-to-peer online transactions.

FMU has conducted the strategic analysis on Virtual Assets related transactions to identify and assess the risk/ vulnerabilities associated with them. The strategic analysis is based on different domestic and international reports on virtual assets and the suspicious transactions reports received to FMU during the period of January 2020 to June 2021. Below are the highlights of the strategic analysis:

- FMU received 447 Suspicious Transaction Reports related to Virtual Assets during the period of January 2020 to June 2021.

- Mostly individuals involved in such type of activities are students and young individuals belonging to IT profession or are salaried individuals.

- The individuals are using different channels for sale/purchase of virtual assets such as bank accounts, debit cards, credit cards, Western Union, etc.

- An overall suspicious activity of PKR 701.9 million was reported in attempted or conducted suspicious transactions which involved purchase of virtual assets, sale of virtual assets and P2P transactions related to virtual assets.

- The analysis also identifies the major Virtual Asset Services Providers (VASPs) and merchants facilitating the trade of Virtual assets.

- The strategic analysis also highlights the criminal offences such as Terrorism Financing, Hawala/ Hundi, Ponzi Schemes, Drug Trafficking, Sexual Exploitation, Fraud and Forgery, Smuggling and Illegal trade, Tax evasion suspected to be linked with virtual asset related transactions with help of case studies and media reports. It has been assessed through the analysis that the Virtual assets may fuel the criminal activities with free flow of funds and may attract the criminals and terrorists to evade concerned authorities.

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> The strategic analysis transpires that Virtual Assets pose significant money laundering and terrorism financing risk, which requires collaborative efforts among the stakeholders to develop a regulatory framework. The virtual assets are penetrating to the society at a rapid pace, despite of warnings to the general public and stance of declaring virtual assets "not a legal tender" by the State Bank of Pakistan.

# TYPOLOGY-1: USE OF LEGAL PERSONS FOR MONEY LAUNDERING

Background

The group of family members registered multiple companies with Securities & Exchange Commission of Pakistan (SECP) over a period of time which were carrying out different businesses. Moreover, multiple accounts comprising of both business and individual accounts were being maintained by the companies' directors at different banks.

Suspicious Transaction Reports (STRs) were received by Financial Monitoring Unit (FMU) on the basis of multiple red flags including adverse media reports, ongoing law enforcement agencies (LEAs) inquiries, court cases as well as unusual transactions.

Analysis of STRs/CTRs

FMU performed detailed analysis of the reported STRs/CTRs and during the analysis, 23 companies of diversified nature of businesses were found linked with those family members. The STRs, CTRs and other information from reporting entities reflected about 263 bank accounts involving activity of over PKR 135 billion in companies and personal accounts for during the last three years.

Exhibit of Case
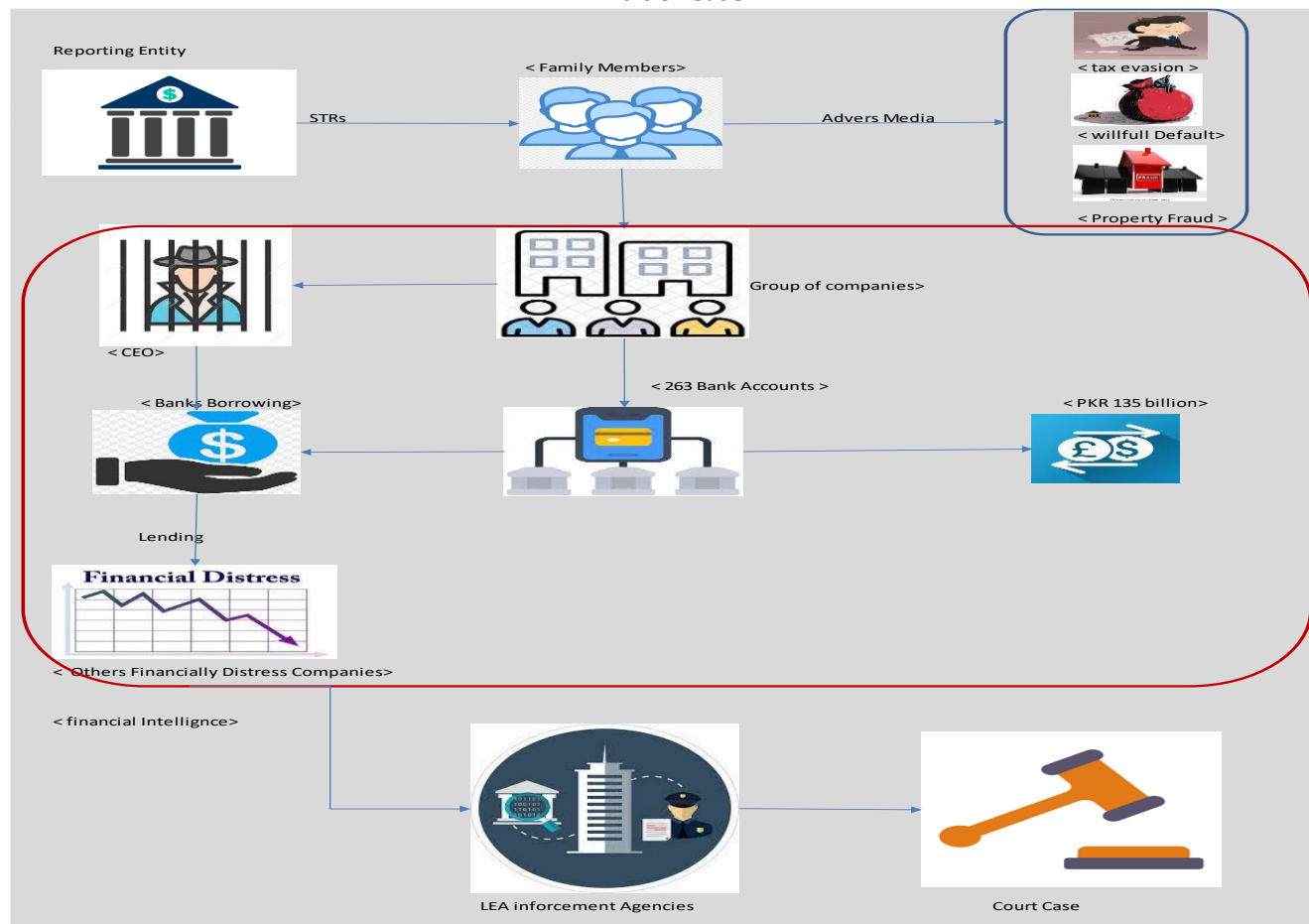
Moreover, during analysis it surfaced that some of the family members were also under the inquiry by the Law Enforcement Agencies (LEAs) for matters related to alleged corruption, property frauds, market manipulation, offshore assets and tax evasions etc. While one of the Director and Chief Executive Officer (CEO) of these group of companies was reportedly involved in arranging finances from banks and was further lending it to other financially distressed companies in the market at higher rates.

Accordingly, based on the detailed analysis, a financial intelligence was developed which was disseminated to the Law Enforcement Agencies as well as the Regulators. The financial intelligence was disseminated so that it would assist LEAs in furtherance of ongoing inquiries, investigation, and exchange of information for court cases and for taking regulatory action by the relevant Regulators.

Outcome

The feedback from the regulators revealed imposing of penalties on certain companies of this group for regulatory violations and non-compliance. While through the media reports it was highlighted that CEO/Director of these group of companies was arrested by the LEA for investigation of alleged willful defaults and market manipulation. Few other inquiries and investigations are still going on at the LEAs end.

TYPOLOGY-2: PONZI SCHEME

Background:

Multiple STRs were reported from bank and a regulator on the entity ABC Trading as it was involved in unlawful activities of soliciting unauthorized deposits from public through offering unrealistic hefty returns. Moreover, complaints were received through Prime Minister's Performance Delivery Units (PMDU) and SDMS (SECP complaint portal) as well.

Analysis of STRs/CTRs:

Multiple STRs were reported by different banks on Mr. SR and his family members based on involvement in Ponzi scheme and dealing in crypto currencies at larger scale. During analysis it was found that ABC Trading was a sole proprietorship of Mr. S.R and it was not registered with SECP, however, some of the complainants identified / alleged that the entity "ABC Trading" was working in Pakistan presumably through multiple different incorporated companies; and Mr. SR, his wife namely, Mrs. ZK and his son namely, Mr. AW are apparently the prime suspect and directly/indirectly operating and managing all affairs of this unincorporated entity. As per company website, ABC trading was dealing in Crypto Exchange and also offered wallet facilities and ATM for Crypto currency in different countries.

It is pertinent to mention here that dealing in crypto currencies is prohibited according to SBP circular on virtual currency trading (SBP circular No.03 of 2018).

Modus Operandi:
- Suspect had opened multiple bank accounts during the period of 2011 to 2020 and the overall aggregate credit and debit turnovers in all 70 bank accounts was approximately Rs. 22 billion.
- Reportedly, Mr. SR was the proprietor of AASW Traders and working under umbrella of ABC Group of Companies. Mr. SR owns multiple and diversified business as ABC Consultant, SR CC (Private) Limited, ABC Software, AASW Global, ABC Cabs, XYZ Mudharba, B Homes Etc. Further, multiple businesses were also identified against the CNICs of the suspects into the database of SECP.
- It was observed that same addresses were being used for multiple and diversified businesses.
- Majority of the businesses were registered with tax authority during the period of 2019-20, however the amount of taxes paid by these companies/individuals was negligible.
- Most of the funds were credited through online cash and debited through centralized inward clearing, pay orders and cash.

Based on the detailed analysis, the Financial Intelligence was developed and shared with Law Enforcement Agencies and Regulators.

Outcome:
- SECP imposed billion of rupees penalty.
- SBP has imposed monetary penalty on one of its regulated entities.
- The case is under inquiry with Law Enforcement Agency.
- LEAs have arrested the CEO of ABC trading, now he is on bail.

OTHER INITIATIVES FOR REPORTING ENTITIES
(Q3 - 2021)

AML/CFT COMPLIANCE FORUMS FOR BANKS AND EXCHANGE COMPANIES

To strengthen its reporting regime and to enhance the awareness of the Reporting Entities, during the third quarter of 2021, FMU organized two sector specific AML/CFT compliance forums for its largest reporting segments which consists of Banks/DFIs and Exchange Companies. Compliance forums were conducted through the online Zoom Interface.

Date	Participants	No of Participants	Duration
24-08-2021	Banks/DFIs	82	2.5 hours session
27-08-2021	Exchange Companies	89	2.5 hours session

- Both the compliance forums began with the opening remarks of Director General FMU, who welcomed the participants and appreciated the efforts of organizers and highlighted the importance of such compliance forums.
- Participants from both sectors included their Compliance Heads and AML unit heads of reporting entities, while representatives from the regulator i.e., State Bank of Pakistan (SBP) were also present in both the AML/CFT compliance forums.
- Detailed presentations were delivered by the FMU representatives on following topics:
  - o Recent developments in AML/CFT regime with regards to Reporting Entities.
  - o Presentation on guidelines issued by FMU on reporting of CTRs
  - o Feedback on STRs reporting
  - o Presentation on strategic analysis/case studies.

- At the end, a Q&A session was held through which the participants were encouraged to ask question which were responded by the Senior Officials of the Financial Monitoring Unit. Participants also highlighted different issues regarding reporting and regulatory aspects which were responded accordingly by representatives of FMU and SBP.

COMMITTEE FOR INTELLIGENCE SHARING AND COORDINATION ON ML/TF/PF

On November 26th, 2020, a Committee for Intelligence Sharing and Coordination on ML/TF/PF as a sub-committee to the General Committee (GC) was established. The objective of the co-ordination committee is to enhance effective coordination among LEAs and the FMU, for the utilization of Financial Intelligence relating to Money Laundering, Terrorist Financing, Proliferation Financing, and relevant predicate offences. The Director General (DG) of the FMU is the Chairperson of the committee whereas senior level officers from designated LEAs are members of the committee. Moreover, the National Counter Terrorism Authority (NACTA) and the National FATF Secretariat which act as the coordination authorities, are also members of the committee.

Areas of focus are as following:

- Enhancing Coordination between the LEAs and FMU
- Effective Utilization of Financial Intelligence disseminated by FMU to LEAs
- Enhance the Feedback Mechanisms on Financial Intelligence disseminated to LEAs
- Engagement with Private Sector in Coordination with LEAs

The 3rd meeting of Intelligence & Co-ordination Committee was held virtually on August 31, 2021, through zoom software application used for online video conferencing. The meeting was Chaired by the Director General, FMU and following agenda items were discussed.

1. Development of Joint Case Studies
2. Capacity building of LEA's
3. Feedback on Financial Intelligence
4. Confidentiality of Information