1st Follow-Up Report

Mutual Evaluation
of Pakistan

September 2020

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PAKISTAN: 1ST FOLLOW-UP REPORT

I.   INTRODUCTION

1.   The mutual evaluation report (MER) of Pakistan was published in October 2019. This FUR analyses the progress of Pakistan in addressing the technical compliance deficiencies identified in its MER. Technical compliance re-ratings are given where sufficient progress has been demonstrated. This report also analyses progress made in implementing new requirements relating to FATF Recommendations which have changed since the MER was adopted: 2 and 15.

2.   This report does not analyse any progress Pakistan has made to improve its effectiveness. Progress on improving effectiveness will be analysed as part of a later follow-up assessment and, if found to be sufficient, may result in re-ratings of Immediate Outcomes at that time.

3.   The assessment of Pakistan's request for technical compliance re-ratings and the preparation of this report was undertaken by the following experts:

- *Abdulla Ashraf, Maldives Monetary Authority*

- *Alexander Meyer, Australian Department of Home Affairs*

- *Nicola Critchley, Australian Department of Home Affairs*

4.   Section III of this report summarises the progress made to improve technical compliance. Section IV contains the conclusion and a table illustrating Pakistan's current technical compliance ratings.

II.   FINDINGS OF THE MUTUAL EVALUATION REPORT

5.   The MER rated[1] Pakistan as follows:

IO 1	IO 2	IO 3	IO 4	IO 5	IO 6	IO 7	IO 8	IO 9	IO 10	IO 11
Low	Mod	Low	Low	Low	Low	Low	Low	Low	Low	Low

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
PC	LC	LC	LC	LC	PC	PC	PC	C	PC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
LC	PC	LC	PC	PC	LC	PC	PC	PC	PC
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
PC	NC	PC	PC	NC	PC	PC	NC	PC	PC
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
PC	PC	PC	PC	PC	LC	PC	NC	LC	PC

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[1] There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

6.	Given these results, Pakistan was placed on enhanced (expedited) follow-up[2].

## III.	OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

7.	This section summarises Pakistan's progress to improve its technical compliance by:

a)	addressing the technical compliance deficiencies identified in the MER, and

b)	implementing new requirements where the FATF Recommendations have changed since the MER was adopted.

### 3.1.	Progress to address technical compliance deficiencies identified in the MER

8.	Pakistan requested re-ratings for Recommendations: 1, 6, and 29 (all rated PC in the MER).

9.	The APG welcomes the steps taken to improve technical compliance with Recommendations 1 and 29. As a result of this progress, Pakistan has been re-rated on Recommendation 29. However, insufficient progress has been made to justify a re-rating of Recommendations 1 at this time. Pakistan has raised a major disagreement with the process, analysis and rating for Recommendation 6. Consistent with the APG Mutual Evaluation procedures, consideration of Recommendation 6 is not included in this report as the related analysis and decision on the findings has been referred for in-session discussion at the next APG Plenary meeting.

Recommendation 1 [R.1] (Originally rated PC)

10.	Pakistan was rated PC in the MER for R.1. Whilst Pakistan published a National Risk Assessment on Money Laundering and Terrorism Financing in 2017 (2017 NRA), the MER identified gaps in the process of developing and identifying threats, vulnerabilities and risks. The assessment of TF risk was identified as 'perfunctory only'. The MER also found that the 2017 NRA had not yet been widely circulated to private sector stakeholders and that sectors assessed as higher risk or higher vulnerability in Pakistan were not yet subject to comprehensive AML/CFT measures.

11.	Since the 2019 MER, Pakistan has taken a number of steps to more comprehensively identify and assess the ML and, in particular, the TF risks for the country. This has included conducting a Terrorist Financing Risk Assessment (TFRA) and a sectoral risk assessment on cash smuggling, which have both been supplemented by addenda. In September 2019, Pakistan also issued a new National Risk Assessment on ML and TF (2019 NRA), which will be updated every two years. Finally, in November 2019, Pakistan issued a confidential paper on 'Transnational TF Threat Profiles of Key Terrorist Organisations', which supplements the TFRA and 2019 NRA.

12.	The 2019 NRA is a more comprehensive assessment of Pakistan's ML/TF risks, which is focused on inherent risk and addresses many of the deficiencies identified in the MER, including:

- clear articulation of sources of information relied upon;

- assessment of the ML threats associated with all FATF designated categories of offence and identification of a range of high threat predicates (drug trafficking, corruption and bribery, smuggling, tax crimes, illegal MVTS, and terrorism including TF);

- assessment of the inherent ML/TF vulnerabilities of all sectors and identification of a range of sectors as having high ML/TF vulnerability (banks, MFBs, exchange companies, real estate

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[2] There are three categories of follow-up based on mutual evaluation reports: regular, enhanced and enhanced (expedited). For further information see the APG Mutual Evaluation Procedures.

dealers, hawala/hundi, MVTS, Central Directorate of National Savings (CDNS) and Pakistan Post);

- assessment of the ML/TF risks associated with DNFBPs, legal persons, legal arrangements and NPOs.

13.   However, the assessments of risks associated with DNFBPs and legal persons and legal arrangements are very general in nature and appear to be based on limited data.

14.   With respect to TF, Pakistan's assessment and identification of risk has evolved significantly since the MER, reflecting Pakistan's FATF ICRG action plan, which required them to demonstrate a more comprehensive understanding of transnational TF risk. The TFRA analysed Pakistan's TF risks in more detail, examining the sources and sectoral channels of TF. The 2019 addendum to the TFRA provided additional analysis of the specific TF risks, including sources, channels and transnational movement of funds, associated with the eight Entities of Concern (EOCs) identified in Pakistan's 2018 FATF ICRG nomination paper. The 2019 NRA also includes a chapter on TF threats, which builds on the TFRA and considers additional data to reassess the TF threat of 41 terrorist organisations and expand the TFRA addendum assessment of the EOCs. The 2019 NRA includes a sectoral analysis of TF threats, however, the analysis of the DNFBP sectors is minimal and does not consider in any detail known instances of terrorist organisations acquiring real estate and using it to raise funds. Overall, based on these assessments, Pakistan's rating of the TF threat faced by the country has been revised to 'High' (previously 'Medium' in the 2017 NRA and 2018 TFRA, and then changed to 'medium-high' in the TFRA addendum).

15.   While the TFRA and 2019 NRA did consider transnational TF risk, these assessments were focused on inflows of funding to support terrorist activities in Pakistan. The separate assessment of 'Transnational TF Threat Profiles of Key Terrorist Organisations' examines the transnational TF threat profiles of 12 terrorist organisations (including the eight EOCs). This paper considers both inflows and outflows of funding to support terrorist activities.

16.   With respect to NPOs, Pakistan has assessed the TF risk associated with NPOs in both the TFRA and the 2019 NRA and has identified the subset of NPOs that fall within the FATF definition. The 2019 NRA confirmed that abuse of NPOs for TF purposes continues to pose a significant threat, both domestically and externally; that charities and fund raising is a source of funds for almost all EOCs; and that terrorist organisations are known to use frontal NPOs, including registered charities (e.g. FIF, which was a registered NPO established by associates of LeT).

17.   Since the MER, Pakistan has continuously conducted outreach and awareness raising for competent authorities, FIs, DNFBPs and NPOs on the results of all of its risk assessments. The TFRA and 2019 NRA have been disseminated to all competent authorities and FIs and the results have been shared with DNFBPs through outreach by supervisors and self-regulatory bodies.

18.   Pakistan has also made notable progress in applying a risk-based approach to allocating resources and implementing measures to combat key high-risk areas of TF and cash smuggling. However, the allocation of resources and implementation of measures in a risk-based manner to prevent or mitigate ML risks (other than cash smuggling) is less advanced.

19.   In 2019, Pakistan issued AML/CFT Regulations for DNFBPs and AML/CFT Rules for CDNS and Pakistan Post to impose AML/CFT obligations on these sectors, including the obligations for FIs and DNFBPs specified in R.1. However, as no penalties for non-compliance with these instruments have yet been specified, they cannot be considered 'enforceable means' within the FATF definition. As such, the deficiencies with respect to these sectors have not been addressed, which is significant given CDNS, Pakistan Post and real estate dealers were identified as highly vulnerable sectors to ML/TF in

the 2019 NRA. In addition, the application of simplified due diligence for branchless banking is not consistent with Pakistan's assessment of TF risk. However, this deficiency is considered minor due to the controls put in place by Pakistan, including electronic identity verification and transaction limits.

20.	Overall, while substantial progress has been made by Pakistan to identify, assess and promote an understanding of ML/TF risks and align resources and implementation accordingly, moderate deficiencies remain in relation to obligations for DNFBPs, Pakistan Post and CDNS and there are minor deficiencies in c.1.1, c.1.5, c.1.8, c.1.9 and c.1.12.

21.	**Pakistan remains partially compliant with R.1.**

Recommendation 29 [R.29] (Originally rated PC)

22.	Pakistan was rated PC in the MER for R.29. The 2019 MER found that Pakistan's FIU, the Financial Monitoring Unit (FMU), was not able to access detailed tax records. It also found that FMU could not spontaneously or upon request disseminate information and the results of its analysis to provincial police counter terrorism departments (CTDs), which are the designated TF investigation authorities. CTDs could access FMU information and financial intelligence during a TF investigation but only with permission of the court. Given the high risk of TF in Pakistan, significant weight was given to this deficiency.

23.	Since the 2019 MER, Pakistan has amended the Income Tax Ordinance, 2001[3], which now allows FMU to have access to tax records and information maintained by FBR. In addition, provincial CTDs have been designated as investigation and prosecution agencies under the Anti-Money Laundering Act, 2010, which means FMU can now disseminate information to them without a court order.

24.	**Pakistan is re-rated to compliant with R.29.**

**3.2.	Progress on Recommendations which have changed since adoption of the MER**

25.	Since the adoption of Pakistan's MER, Recommendations 2 and 15 have been amended. This section considers Pakistan's compliance with the new requirements.

Recommendation 2 [R.2] (Originally rated LC)

26.	In October 2018, Recommendation 2 was amended to require countries to have cooperation and coordination between relevant authorities to ensure the compatibility of AML/CFT requirements with Data Protection and Privacy rules and other similar provisions. There was also an amendment to criterion 2.3 to add the requirement to exchange information domestically.

27.	In its 2019 MER, Pakistan was rated LC with R.2. The MER found that Pakistan's 2018 AML/CFT National Strategy was not based on the risks identified in the 2017 NRA, was general in nature and lacked an operational risk-based focus. The MER noted that significantly TF was not separated from general AML/CFT plans as a separate category of risk requiring unique TF strategies.

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[3] The amendment to Section 216 of Income Tax Ordinance, 2001 was made through the *Tax Laws (Second Amendment) Ordinance, 2019,* which entered into force on 28 Dec 2019. The Ordinance was superseded by the *Tax Laws (Amendment) Act, 2020,* which entered into force on 30 March 2020 with continuing effect. The provisions of the 2019 Ordinance were mirrored in the 2020 Act. There was no gap in operation of the new provisions between the Ordinance and Act. The Act entered into force after the cut of date for this FUR.

There was also no commencement date, no indication that the strategy would be regularly reviewed and no mechanism or responsible agency to review actions taken to comply with the strategy.

28.	Since the MER, Pakistan updated its NRA in 2019 to address the deficiencies identified in the 2017 NRA. Pakistan has developed a multi-agency action plan (referred to as a 'roadmap') to address the deficiencies in the MER and issues included in its ICRG action plan. This roadmap took effect in November 2019 and sets out actions to be taken and responsible agencies. The roadmap includes some general references to the 2019 NRA. Because the roadmap responds to recommended actions contained in the MER and Pakistan's ICRG Action Plan (which are both risk-focused) some actions to be taken by competent authorities reflect country-level ML/TF risks. These include: developing an AML/CFT supervisory framework for Pakistan Post, CDNS and DNFBPs; improving the understanding of LEAs to investigate and prosecute high-risk predicate offences; and developing the AML/CFT infrastructure to address TF risk. However, the roadmap is not itself a comprehensive national AML/CFT policy that articulates an approach to address ML/TF risk based on the findings of the NRA. Further, Pakistan's 2018 AML/CFT National Strategy, which was found not to be risk-based in the MER, has not yet been updated based on the findings of the updated NRA in 2019.

29.	In relation to the new domestic information sharing requirements, since the MER, Pakistan has introduced new mechanisms to strengthen domestic AML/CFT coordination, including a National FATF Coordination Committee to guide the development of policy and Pakistan's response to its FATF action plan and MER. At the policy level, the National Task Force meets regularly to coordinate policy development and exchange information. To further bolster information sharing, a multi-agency MOU was signed by 14 key AML/CFT agencies on 9 April 2019.

30.	With respect to the new requirement under criterion 2.5, Pakistan has no standalone data protection or privacy legislation. Some laws have data protection provisions but there are specific exceptions where disclosure is required by law. In addition, the Anti-Money Laundering Act, 2010, being a special law, has the effect of overriding other laws. While there is no proactive cooperation between authorities to ensure compatibility of AML/CFT requirements and data protection provisions, there are no impediments to such cooperation and given there are no conflicts between the AML/CFT requirements and data protection provisions, this is considered a minor deficiency.

31.	**Pakistan remains largely compliant with R.2.**

Recommendation 15 [R.15] (Originally rated PC)

32.	In October 2018, Recommendation 15 was amended to include requirements relating to virtual asset service providers (VASPs). In its 2019 MER, Pakistan was rated PC with R.15. The MER found that Pakistan had not identified and assessed the ML/TF risks that may arise in relation to the development of new products and business practices. The MER also found that not all financial institutions were required to comply with the requirements to assess the ML/TF risks of new products, business practices and technologies prior to their launch or use or take appropriate measures to mitigate the risks.

33.	Since the 2019 MER, Pakistan has taken further steps to deepen its understanding and analysis of ML/TF risks posed by new products and business practices through the 2019 NRA and has also deepened the analysis of TF risks associated with new products, including crypto-currencies and branchless/mobile banks, through the 2018 TFRA. Pakistan has also revised its Exchange Companies Manual to require Exchange Companies to conduct ML/TF risk assessments of new products, business practices and technologies prior to their launch or use and take appropriate measure to manage and mitigate the risk. Similar obligations have been imposed on CDNS and Pakistan Post under the new AML/CFT Rules that apply to these sectors. However, these instruments are not considered 'enforceable means', as no penalties for non-compliance have yet been specified.

34.   With respect to virtual assets, Pakistan completed the 2019 NRA, which assessed cybercrimes, including the use 'virtual currencies', as a medium high ML threat. The NRA also notes that the nature of virtual currencies poses a significant risk of being misused for transnational TF. The 2018 TFRA also analyses the TF risks associated with 'crypto-currency', which is assessed as a high risk. The analysis in the NRA is very light on detail and general in nature. There is limited explanation of how Pakistan reached its conclusions on risk and limited analysis of the specific ML risks that may arise from virtual asset activities and the activities and operations of VASPs, as is required by the revised R.15. The 2018 TFRA provides a much more thorough analysis of the TF risks associated with crypto-currencies, highlighting key threats and vulnerabilities, the supervisory response and challenges for LEAs. However, it is not clear whether either of these assessments covered the full scope of 'virtual assets' as defined by the FATF.

35.   Based on its assessment of risk, Pakistan has decided to prohibit VASPs and certain virtual asset activities. This prohibition has been given effect through SBP Circulars that prohibit all banks, deposit taking financial institutions (DFIs), micro-finance institutions (MFBs), payment system operators/providers and exchange companies from processing, using, trading, holding, transferring value, promoting and investing in virtual currencies/coins/tokens. Further, these entities are not permitted to facilitate their customers/account holders to transact in virtual currencies/coins/tokens and any transaction must immediately be reported as an STR to the FMU. In addition, the Companies Act, 2017, prohibits companies from engaging in a business that is restricted by any law, rules or regulations. The interaction of this law and the SBP Circulars means SECP regulated entities and other companies are also prohibited from dealing in virtual assets.

36.   Further, section 4 of the Foreign Exchange Regulations Act, 1947 (FERA) prohibits any person, unless authorised, to deal with foreign exchange. While not explicit, the interaction of section 4 of the FERA with the definition of foreign exchange and foreign currency is sufficient to prohibit unauthorised dealing in virtual assets, and the FIA is taking action against illegal virtual asset activity pursuant to the FERA. Given Pakistan's risk and context, the prohibition on VASPs is considered an effective risk-based mitigation measure and Pakistan appears to have achieved this prohibition through the interaction of these legislative instruments.

37.   Pakistan is beginning to take action to identify legal and natural persons undertaking illegal VASP activity but at this early stage it is not clear that the results are commensurate with Pakistan's risk or context. Criminal sanctions are available under the FERA, Prevention of Electronic Crimes Act, 2016 and Penal Code but as no proceedings have been finalised, no sanctions have yet been applied. The FMU is authorised to provide a broad range of international cooperation in relation to ML, predicate offences and TF related to virtual assets. However, it is unclear whether other competent authorities have the same ability.

38.   **Pakistan remains partially compliant with R.15.**

3.3.   Brief overview of progress on other recommendations rated NC/PC

39.   *Recommendation 7* (rated PC) – The 2019 MER noted a lack of enforceable requirements to freeze for all natural and legal persons and shortcomings in the protection of *bona fide* third parties; measures for monitoring and ensuring compliance; clarifying false positives; and providing guidance. Freezing obligations contained in SROs now apply to 'any person' and the term 'person' is defined in the UNSC (Freezing and Seizure) Order, 2019 and includes natural and legal persons. Guidance for de-conflicting false positives has been made available on the Strategic Export Control Division (SECDIV) of the MoFA website. SROs are now being issued without delay, published on the MOFA website and disseminated immediately to entities that have registered for updates.

40.   ***Recommendation 8*** (rated PC) – The 2019 MER noted that Pakistan had not identified the subset of NPOs that fall within the FATF definition; had not reviewed the adequacy of measures that relate to the high-risk subset of NPOs; and had not adopted a risk-based approach or undertaken steps to promote effective supervision of NPOs. Since the MER, Pakistan issued the 2019 NRA, which contains an assessment of NPOs and identifies the subset of NPOs in Pakistan that fall within the FATF definition. Pakistan completed a detailed survey of all NPOs in August 2019 and updated their registration process. As a result of the survey 48,464 inactive NPOs have been deregistered and 1307 NPOs have been identified as high risk and will be subject to enhanced inspection. A TF audit of all vulnerable NPOs has been conducted. All provinces and the Federal Capital have promulgated a new Charity Law and new Charity Commissions are being established. A number of outreach events have been held to educate NPOs on AML/CFT requirements and TFS. New national and provincial NPO working groups have been established and new guidelines for the NPO sector have been issued. Pakistan has also developed a risk-based approach for ongoing monitoring of the NPO sector and is proposing to introduce a new central registry of NPOs.

41.   ***Recommendation 10*** (rated PC) – The 2019 MER found that CDNS and Pakistan Post were not subject to AML/CFT requirements. There was a lack of requirements for MFBs and exchange companies (ECs) to undertake CDD where there are suspicions of ML/TF or doubts about the veracity or adequacy of customer identification data. There were also shortcomings in CDD requirements for banks and DFIs and in EDD requirements for banks, DFIs and ECs. Finally, there was no requirements for banks, DFIs and MFBs to terminate the business relationship when unable to complete CDD. Since the MER, Pakistan has amended the CDD obligations contained in the AML/CFT Regulations for Banks/DFIs and for MFBs, as well as the EC Manual. Pakistan has also issued new AML/CFT Rules for CDNS and Pakistan Post to impose AML/CFT obligations on these sectors. These instruments both contain chapters on CDD. However, while the AML/CFT Rules for CDNS and Pakistan Post provide that non-compliance will be punished, no penalties have yet been specified for non-compliance with these instruments and, as such, they are not considered 'enforceable means'. The AML/CFT supervisory boards for CDNS and Pakistan Post are in the process of developing enforcement policies, which will specify penalties for non-compliance with the Rules.

42.   ***Recommendation 12*** (rated PC) – The 2019 MER found that measures relating to PEPs did not apply to ECs and there were no enforceable means for Pakistan Post and CDNS. Since the MER, Pakistan has revised the EC Manual and has introduced new AML/CFT Rules for Pakistan Post and CDNS, which include measures related to PEPs. However, the AML/CFT Rules do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

43.   ***Recommendation 14*** (rated PC) – The 2019 MER found that the sanctions for illegal MVTS were not proportionate and dissuasive; there was no requirement to be licensed and registered for Pakistan Post and payment booths; there was a lack of requirements to monitor agents for compliance; and Pakistan Post was not subject to AML/CFT supervision. Since the MER, illegal MVTS was identified as high risk in the 2019 NRA and amendments to the Foreign Exchange Regulation Act, 1947 to enhance the penalties are progressing through Parliament. Pakistan Post is in the process of registering the Pakistan Post Payment Services Company (PPPSC) as a subsidiary of Pakistan Post under the Payment System Company Act. This would bring PPPSC under the AML/CFT regulation and supervision of SBP. The revised EC Manual contains measures related to payment booths. Pakistan has established an AML/CFT supervisory board for Pakistan Post.

44.   ***Recommendation 17*** (rated PC) – The 2019 MER found that third party reliance is permitted but Pakistan has no regard to information available on the level of country risk. It also found that SBP FIs were not covered by strict third party reliance rules and CDNS and Pakistan Post were not covered by the requirements of the Recommendation. Since the MER, SBP has revised its AML/CFT Regulations for banks/DFIs and MFBs to prohibit reliance on third parties. Likewise, the EC Manual has been updated to prohibit reliance. Pakistan has issued AML/CFT Rules for CDNS and Pakistan

Post that include measures related to reliance on third parties. The Rules for Pakistan Post prohibit reliance. However, these instruments do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

45.   ***Recommendation 18*** (rated PC) – The 2019 MER found that there were no enforceable AML/CFT requirements to give effect to the requirements of this recommendation for CDNS and Pakistan Post. It also found that except for SECP regulated persons, there was no explicit requirement for all FIs to implement programmes against AML/CFT, having regard to the ML/TF risk and the size of the business; or for financial groups to implement group wide programs against ML/TF. Since the MER, Pakistan has introduced AML/CFT Rules for CDNS and Pakistan Post that include measures related to internal controls. However, these Rules do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified. Pakistan has revised the AML/CFT Regulations that apply to Banks/DFIs and MFBs and amended the EC Manual to require these FIs to implement ML/TF programmes considering ML/TF risks.

46.   ***Recommendation 19*** (rated PC) – The 2019 MER noted that there was a lack of requirements for MFBs, CDNS, Pakistan Post and ECs to apply EDD to business relationships and transactions from countries for which this is called for by the FATF. There was also a lack of requirements for Pakistan authorities except SECP to apply countermeasures proportionate to the risks. Since the MER, Pakistan has revised the AML/CFT Regulations for Banks/DFIs and MFBs to require the application of EDD in the required circumstances. Pakistan has revised the EC Manual to require the same of ECs. Pakistan has issued AML/CFT Rules for CDNS and Pakistan Post, which also require the application of EDD in the required circumstances. However, these Rules do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

47.   ***Recommendation 20*** (rated PC) – The 2019 MER noted that while all reporting entities were required to report STRs, they were not required to report promptly. At the time of this report, Pakistan was progressing an amendment to the AMLA to require prompt reporting of STRs.

48.   ***Recommendation 21*** (rated PC) – The 2019 MER noted that it was unclear whether the protections in the AMLA extended to directors, employees or agents of FIs. Pakistan is proposing to amend the AMLA to address this deficiency.

49.   ***Recommendation 22*** (rated NC) – The 2019 MER noted that while DNFBPs are reporting entities under the AMLA, the AMLA did not contain a definition of CDD or a timeframe for record keeping and there were no other enforceable requirements to give effect to this Recommendation. Since the MER, Pakistan has issued AML/CFT Regulations for DNFBPs, which include measures related to CDD, record-keeping, PEPs, new technologies and reliance. The AMLA provides that in case of contravention by a company of any regulation made under the AMLA, the person responsible shall be "punished accordingly". The Regulations specify that the designated AML/CFT Regulator/Supervisor shall ensure that sanctions are available to deal with DNFBP non-compliance. However, no such sanctions have yet been specified and therefore these Regulations do not constitute 'enforceable means'.

50.   ***Recommendation 23*** (rated PC) – The 2019 MER found that while DNFBPs are reporting entities under the AMLA, required to submit STRs and bound by tipping off provisions, there were deficiencies with regard to promptly reporting STRs (R.20) and tipping off (R.21). There were no other enforceable requirements to give effect to this Recommendation. As noted under R.20, at the time of this report Pakistan was progressing amendments to the AMLA to require prompt reporting of STRs, including by DNFBPs. Pakistan has also issued AML/CFT Regulations for DNFBPs, which include measures related to internal controls, higher-risk countries and tipping off. However, these do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

51. ***Recommendation 24*** (rated PC) – The 2019 MER found that there was a lack of ML and TF risk mitigation measures for bearer share and bearer warrant instruments and for nominee shareholders and directors. It also noted an absence of requirements for the Registrar and/or companies themselves to hold beneficial ownership information. Since the MER, Pakistan has assessed the ML/TF risks associated with legal persons as part of the 2019 NRA. Although, as noted in R.1, this analysis is general in nature and appears based on limited data. Pakistan is also drafting beneficial ownership regulations and considering amendments to the Companies Act, 2017. Home Departments were requested to issue instructions to all cooperatives to maintain certain information, including beneficial ownership information, and share this information with the provincial Home Department. Punjab Province has completed its information collection and other provinces are in the process of collecting this information, which will centrally maintained by the Ministry of Interior. Pakistan is progressing amendments to the Guidelines for Cooperation and Assistance to Foreign Regulatory Authorities to support international cooperation in relation to basic and beneficial ownership information.

52. ***Recommendation 25*** (rated NC) – The 2019 MER found that there were no measures in place to mitigate the risk of ML and TF associated with trust structures and other legal arrangements such as *waqfs*. The MER also noted that registration of immovable property trusts involves only the registration of the trust deed and not the collection of beneficial ownership information and trusts themselves are not required to collect beneficial ownership information. Since the MER, FMU has issued the necessary Guidelines to MOI to have instructions for trusts issued by the provincial Home Departments.

53. ***Recommendation 26*** (rated PC) – The 2019 MER noted a lack of risk-based supervision manuals or a framework to conduct risk-based supervision. The MER also found a lack of requirements for banks, DFIs, MFBs, EC and modarabas to include fit and proper tests relevant to beneficial owners. CDNS and Pakistan Post were not supervised for AML/CFT. Since the MER, SBP and SECP have amended their AML/CFT risk-based supervisory approaches based on the 2019 NRA. SECP has amended the Prudential Regulations for Modarabas to require fit and proper testing of beneficial owners. Pakistan has also issued AML/CFT Rules for CDNS and Pakistan Post to impose AML/CFT obligations on these sectors and has established AML/CFT supervisory boards to supervise the implementation of these Rules. However, these Rules do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

54. ***Recommendation 27*** (rated PC) – The 2019 MER found that SBP and SECP were authorised to impose sanctions but the range of sanctions was limited. The MER also found that CDNS and Pakistan Post were not subject to AML/CFT supervision. Since the MER, both SBP and SECP have revised their penalty policies to make them more risk-sensitive and have started disclosing penalties imposed on their websites. Pakistan has also issued AML/CFT Rules for CDNS and Pakistan Post to impose AML/CFT obligations on these sectors and has established AML/CFT supervisory boards to supervise the implementation of these Rules. However, these Rules do not constitute 'enforceable means', as no penalties for non-compliance have yet been specified.

55. ***Recommendation 28*** (rated NC) – The 2019 MER found that there was no designated AML/CFT supervisory authorities for DNFBPs. Since the MER, Pakistan has issued AML/CFT Regulations for DNFBPs and in accordance with the AMLA, has by way of SRO appointed the following AML/CFT supervisors for DNFBPs:

DNFBP Sector	Supervisor
Accountants	The Institute of Chartered Accountants (ICAP) and the Institute of Cost and Management Accountants (ICMAP) for their respective members. SECP will be the ultimate regulator and supervisor of ICAP and ICMAP until further orders. FBR will be the regulator and supervisor for remaining categories of accountants.

Dealers in precious metals / stones (DPMS)	FBR
Real estate agents	FBR
Lawyers	Pakistan Bar Council through Ministry of Law and Justice.

Each of the designated supervisors will be responsible for developing their own risk-based supervision mechanism for their sector/s.

56. ***Recommendation 30*** (rated PC) – The 2019 MER identified gaps in relation to parallel investigations and powers to take expeditious action in relation to property that is, or may be, subject to confiscation. Pakistan is progressing amendments to the AMLA to address these deficiencies.

57. ***Recommendation 31*** (rated PC) – The 2019 MER identified gaps in relation to limited investigation powers for most LEAs, including an inability to undertake undercover operations, access computers, controlled delivery. The MER also noted a lack of legal provisions for all competent authorities to request relevant information held by FMU. Since the MER, 14 Pakistan authorities, including FMU, FIA, FBR-Customs and CTDs have entered into a multi-party MOU to share intelligence and coordinate efforts in ML/TF cases. As noted under R.29, provincial CTDs have been designated as investigating and prosecuting agencies under AMLA, which means FMU is able to disseminate information to them without a court order.

58. ***Recommendation 32*** (rated PC) – The 2019 MER noted a number of shortcomings including limited cooperation between FMU and FBR-Customs and the absence of proportionate and dissuasive sanctions for false declarations. Since the MER, Pakistan has amended the Customs Act 1969 by way of Presidential Ordinance to introduce a graded penalty regime for false declarations and failure to declare, with penalties ranging from administrative fines to criminal penalties. The declaration information is captured by Customs through the Currency Declaration System (CDS), which is integrated with FIA's Immigration System (Integrated Border Management System (IBMS)).

59. As noted under R.31, above, Pakistan has entered in a 14-agency multi-party MOU to support information exchange. In addition, a specific bilateral MOU is now in place between FMU and FBR-Customs to share real-time data from CDS. FBR-IR have also been given access to CDS to analyse data for necessary action under tax law. Border task forces have been established along the borders to monitor the currency cases and share information. Interagency Currency Detection Units comprising officers from different agencies have been set up to interdict currency at entry/exit points. As Customs does not have a mandate to investigate TF, a platform has been developed through which Customs can refer TF cases to relevant LEAs.

60. ***Recommendation 33*** (rated PC) – The 2019 MER found that not all statistics provided during the ME were comprehensive and could not be broken down into meaningful and relevant information when requested. The MER also noted that inconsistent statistics on the same issue were provided throughout the assessment process. Since the MER, FMU has started sharing a statistics report with LEAs on a quarterly basis containing STRs received and disseminated, broken down by region, predicate offence and agency. NACTA has developed a database of TF investigations, prosecutions and convictions, in consultation with provincial CTDs. Pakistan is also preparing to introduce a central data management system.

61. ***Recommendation 34*** (rated PC) – The 2019 MER found that formal consultation mechanisms and feedback for DNFBPs was lacking and CDNS and Pakistan Post had not received AML/CFT guidance. Since the MER, Pakistan has conducted outreach workshops for DNFBPs, CDNS and Pakistan Post. Additional guidance has been issued and outreach conducted for FIs by SBP and SECP.

62.   ***Recommendation 35*** (rated PC) – The 2019 MER found that sanctions outside the banking sector relating to AML/CFT requirements were limited; TFS sanctions were not dissuasive; there were no AML/CFT-related sanction powers for NPOs or for DNFBPs in relation to preventive measures. Pakistan is currently progressing amendments to the UNSC Act and ATA to ensure sanctions for violations are proportionate and dissuasive. SECP and SBP have amended their penalty scales and increased penalties for TFS violations. The AML/CFT supervisory boards for CDNS and Pakistan Post are in the process of developing enforcement policies, which will specify penalties for non-compliance with the new AML/CFT Rules for these sectors. Amendments to the AMLA and AML/CFT Regulations for DNFBPs are also being pursued to introduce sanctions for DNFBPs that fail to comply with AML/CFT obligations.

63.   ***Recommendation 37*** (rated PC) – The 2019 MER found that Pakistan was unable to provide MLA to foreign countries in the absence of a treaty for ML offences; there was an lack of legal basis to provide MLA in terrorism, TF and most predicate offence cases; and LEAs lacked powers to execute MLA requests. At the time of this report, Pakistan was progressing a Mutual Legal Assistance (Criminal Matters) Bill through Parliament to address the deficiencies identified.

64.   ***Recommendation 38*** (rated NC) – The 2019 MER found that there was no legal basis to provide MLA in terrorism, TF and most predicate offence cases; there was a requirement for a bilateral treaty or other arrangement to meet foreign MLA requests concerning ML; and a general framework for assistance in relation to predicate offences with no link to ML was lacking. As noted under R.37, above, Pakistan is progressing a MLA Bill through Parliament to address the deficiencies identified.

65.   ***Recommendation 40*** (rated PC) – The 2019 MER noted that there was limited information on how requests are coordinated nationally by region or LEA and that different states appeared to operate in silos. Since the MER, FMU has signed seven new MOUs with China, Kazakhstan, Lebanon, Malawi, Qatar, Seychelles and the UK to improve its informal exchange of information.

IV.   CONCLUSION

66.   Overall, Pakistan has made some progress in addressing the technical compliance deficiencies identified in its MER and has been re-rated on one Recommendation.

67.   On the basis of progress made by Pakistan, Recommendation 29 has been re-rated to C. While progress has been made on Recommendation 1, it is not yet sufficient to justify a re-rating. The analysis and rating for Recommendation 6 are subject to a major disagreement and consistent with the APG Mutual Evaluation procedures, consideration of this Recommendation has been referred for in-session discussion at the next APG Plenary meeting and is not considered in this report.

68.   With respect to the other Recommendations which have been amended after the MER was adopted, Pakistan has retained its ratings for Recommendations 2 and 15.

69.   Overall, in light of the progress made since the MER was adopted, Pakistan's technical compliance with the FATF Recommendations as follows as of the reporting date (February 2020):

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
PC	LC	LC	LC	LC	PC	PC	PC	C	PC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
LC	PC	LC	PC	PC	LC	PC	PC	PC	PC
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
PC	NC	PC	PC	NC	PC	PC	NC	(PC) *C*	PC
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
PC	PC	PC	PC	PC	LC	PC	NC	LC	PC

70.   The Pakistan FUR was adopted out-of-session by the APG membership in August 2020. In keeping with APG third round procedures, Pakistan will remain in enhanced (expedited) follow-up, and will continue to report back to the APG on progress to strengthen its implementation of AML/CFT measures.