



2nd Follow-Up Report

# Mutual Evaluation of Pakistan

May 2021





**Asia/Pacific Group  
on Money Laundering**

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# PAKISTAN: 2ND ENHANCED EXPEDITED FOLLOW-UP REPORT OCTOBER 2020

*Adopted 7 May 2021*

## I. INTRODUCTION

1. Pakistan's second follow-up report (FUR) was prepared in accordance with the APG Third Round Mutual Evaluation Procedures 2021. The FUR was considered by the APG Mutual Evaluation Committee on 29 April, before being adopted by APG members without objection on 7 May 2021.

2. The mutual evaluation report (MER) of Pakistan was published in October 2019.

3. 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 does not analyse any progress Pakistan has made to improve its effectiveness.

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

- *Allan Prochazka and Gabriel Ngo, Canada*
- *Qipeng Xu, China*
- *Caroline Dussart and Franck Oehlert, France*
- *Abdulla Ashraf, Maldives*
- *Nick Kokay, New Zealand*
- *Oscar Rivera Rivera and Sergio Tresguerres Gonzalez, Spain*
- *Suzie White, David Shannon, David Becker, Mohammad Al-Rashdan and Gimo Laxamana, APG Secretariat*

5. 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

6. Pakistan's MER ratings<sup>1</sup> and updated ratings based on earlier FURs<sup>2</sup> are 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							

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

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

<sup>2</sup> Original MER ratings which have changed since the MER are in brackets on the left and current ratings are on the right of the cell.

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

7. Given these results, Pakistan was placed on enhanced (expedited) follow-up<sup>3</sup>.

### III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

8. In keeping with the APG Mutual Evaluation Procedures, this FUR considers progress made up until 1 October 2020. This section summarises the progress made by Pakistan to improve its technical compliance by addressing the technical compliance deficiencies identified in the MER.

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

9. Pakistan requested re-ratings of the following Recommendations: 22, 25, 28 and 38 (which were rated NC); 1, 6, 7, 8, 12, 14, 17, 19, 20, 21, 23, 24, 27, 30, 31, 32, 35, 37 and 40 (which were rated PC).

10. The APG welcomes the steps that Pakistan has taken to improve its technical compliance. Pakistan has been re-rated on Recommendations: 14, 19, 20, 21 and 27 (to C); 1, 6, 7, 8, 12, 17, 22, 23, 24, 25, 30, 31, 32, 35 and 40 (to LC); and 28 (to PC). However, insufficient progress has been made to justify a re-rating of R.38, and R.37 has been re-rated to NC following the implementation of a new law which imposes restrictive conditions on the provision of mutual legal assistance (MLA).

#### *Pakistan Post & the Central Directorate of National Savings (CDNS)*

11. A recurring deficiency across a number of recommendations in Pakistan’s 2019 MER was the lack of AML/CFT requirements for, and supervision of, Pakistan Post and the Central Directorate of National Savings (CDNS). Since the MER Pakistan has taken measures to rectify this deficiency.

12. In relation to CDNS, the following measures were taken in September 2020:

- Pakistan amended the AML Act (AMLA) 2010 to capture CDNS as a reporting entity and identify the National Savings (AML/CFT) Supervisory Board for National Saving Schedules as the AML/CFT Regulatory Authority.
- Pakistan issued the National Savings AML & CFT Supervisory Board (Powers and Functions) Rules, pursuant to section 43 of the AMLA.
- The Supervisory Board issued the National Savings (AML & CFT) Regulations 2020.
- Pakistan issued the AML/CFT Sanctions Rules 2020, under Section 6A(2)(h) and 6C(c) of the AMLA. These rules provide for sanctions and penalties in respect of violations of the AMLA and AML/CFT Regulations, including the National Savings (AML & CFT) Regulations.

13. In relation to Pakistan Post, the following steps have been taken:

- With respect to the insurance business Pakistan Post operated, a new entity “Postal Life Insurance Company Limited” has been established (incorporated in March 2020), and is licensed, registered, regulated and supervised by Securities and Exchange Commission of Pakistan (SECP).

<sup>3</sup> 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.

- With respect to the other financial services previously offered by Pakistan Post, Pakistan Post entered into an agreement with a commercial bank (Habib Bank Ltd (HBL)) in June 2020, for HBL to acquire and manage Pakistan Posts banking business. HBL is licensed, regulated and supervised by the State Bank of Pakistan (SBP). As a result, Pakistan Post is now a branchless banking super-agent for HBL, in accordance with SBP's Branchless Banking Regulations. Legacy accounts are being either transferred to HBL's platform, transferred to CDNS or paid out, depending on balances and other factors.

14. As part of this new framework, Pakistan Post established an AML/CFT Supervisory Board in October 2020, which issued AML/CFT Regulations for Pakistan Post in October 2020. The purpose of the Supervisory Board is to:

- Create an ongoing mechanism to sanction employees of Pakistan Post who breach relevant AML/CFT requirements with respect to the banking business. This was not previously possible as Pakistan Post employees are Government employees.
- Provide a temporary supervision mechanism for the remaining services provided by Pakistan Post during the transition period for the transfer of the insurance and banking businesses. SECP required the transfer of insurance business to occur by 31 March 2021. The transfer of the banking business banking business is expected to be completed by October 2021.

#### *Recommendation R.1 (Originally rated PC)*

15. Pakistan was rated PC in its 2019 MER for R.1. While Pakistan had conducted a National Risk Assessment (NRA) on ML and TF 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.

16. The February 2020 FUR found that Pakistan had made progress to identify, assess and promote an understanding of ML/TF risks and align resources and implementation accordingly, however moderate deficiencies remained in relation to obligations for DNFBPs, Pakistan Post and CDNS, and there were minor deficiencies remaining in c.1.1, 1.5, 1.8, 1.9 and 1.12.

17. Since the February 2020 FUR Pakistan has amended the AMLA to include general obligations for reporting entities (REs), including DNFBPs, to identify, assess, and understand their risks and implement a compliance programme to address those risks. In addition, Pakistan has issued a number of sector-specific regulations that provide more specific obligations on those sectors to assess and understand their risks and take enhanced measures where required. These sector-specific regulations are enforceable and cover all sectors except lawyers and notaries which are only subject to the general obligation in the amended AMLA.

18. Criterion 1.1 – Mostly met (as per February 2020 FUR). The February 2020 FUR reported positive developments in identifying and assessing TF risks, which were given more weight, noting Pakistan's risk and context. Some gaps remain in the assessment of risks related to DNFBPs and legal persons.

19. Criterion 1.2 – Met (as per MER). The MER noted the Director-General of the Financial Monitoring Unit (FMU) – Pakistan's FIU - was designated in 2015 as the national coordinator for the risk assessment exercise. Updated CFT risk assessments undertaken since the MER are being coordinated by the National Counter Terrorism Authority (NACTA). The February 2020 FUR found that the NACTA was the designated coordinate of Pakistan's TF Risk Assessment (TFRA), TFRA addendum and the Transnational Threat Profiles of Key Terrorist Organisations assessment. The 2019

NRA was developed by a working group that included representation of all stakeholders including IFA. Pakistan established an NRA Commission that is responsible for updating the NRA and monitoring emerging risks on an ongoing basis, and developing new trends and typologies papers on ML/TF.

20. Criterion 1.3 – Met (as per February 2020 FUR). The February 2020 FUR found that since late 2018 Pakistan had undertaken a number of threat-based assessments (cross-border, TF) and had updated its NRA. The 2019 NRA noted that the NRA Committee will update Pakistan’s NRA every two years and will monitor emerging threats and vulnerabilities and undertake typologies assessments to support Pakistan’s understanding of ML/TF methods.

21. Criterion 1.4 – Met (as per February 2020 FUR). Since the MER, Pakistan has widely circulated its updated risk assessments to public and private sector stakeholders and has continuously conducted outreach and awareness raising for competent authorities, FIs and DNFBPs on the results of all of its risk assessments.

22. Criterion 1.5 – Mostly met (as per February 2020 FUR). The MER found that resources were partly, but not entirely, aligned with Pakistan’s understanding of its ML/TF risks. Similarly, risk-based policy development and implementation was not consistent across all sectors and agencies. The February 2020 FUR confirmed that Pakistan had taken several steps to align the establishment and resources of new AML/CFT bodies and that competent authorities were beginning to allocate resources and implement measures on a risk-basis. Deficiencies remained with the allocation of resources and implementation of mitigating measures for DNFBPs, CDNS and Pakistan Post.

23. Since the February 2020 FUR, Pakistan has allocated further resources to mitigate sectoral risks relating to DNFBPs and CDNS, including the establishment of a dedicated supervisory board for CDNS, and a separate Federal Board of Revenue (FBR) directorate established to supervise dealers in precious metals and stones (DPMS), real estate agents, and accountants not supervised by other regulators. The Institute of Chartered Accountant of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) have also established supervisory boards. Dedication of resources to regulate and supervise lawyers, notaries for AML/CFT was not demonstrated.

24. Criterion 1.6 – Met (as per MER). There are no exemptions for financial institutions (FIs) or designated non-financial businesses and professions (DNFBPs) in the AMLA or regulations.

25. Criterion 1.7 – Mostly met. The MER found that FIs and DNFBPs were not required to take enhanced measures for sectors that were rated high risks (hawala/hundi) or medium high risks (real estate, precious metal and gems and lawyers), or require FIs and DNFBPs to ensure that higher risk sector information is incorporated in their own risk assessments. Banks were not required to consider the NRA when developing their own risks assessments and securities, insurance and asset management sectors did not meet the required standards.

26. The February 2020 FUR recognised progress, however gaps remained in the requirements for DNFBPs, CDNS and Pakistan Post, with sanctions unavailable where REs fail to mitigate identified risks or take enhanced measures. SECP Regulations requiring regulated persons to align their risk assessment with the latest NRA were not yet in force and effect.

27. Since the February 2020 FUR the amended AMLA (September 2020) introduced high level obligations for REs to broadly assess and understand their risks (s. 7F) and implement a compliance programme to address their risks (s.7G) and comply with the AMLA (s.7H). While these are positive developments, they do not meet the full requirements of c1.7. Instead, REs are obliged through the sector-specific regulations to take enhanced measures or incorporate findings of the NRA in their entity risk assessments. There is a remaining minor deficiency as lawyers and notaries do not have sector-specific regulations.

28. Criterion 1.8 – Mostly Met (as per February 2020 FUR). No change was reported since the previous FUR.

29. Criterion 1.9 – Mostly Met (as per February 2020 FUR). The 2020 February FUR found that SBP and SECP supervised their REs on a risk-sensitive basis, and that policies and procedures relevant to R.1 were reviewed during onsite inspections. Moreover, Pakistan had established the necessary legal framework for supervision of CDNS, Pakistan Post, and DNFBBs, but the framework had only recently come into force. The newly designated supervisors had not yet conducted any supervision to ensure CDNS, Pakistan Post, and DNFBBs were implementing their R.1 obligations.

30. The National Savings AML & CFT Supervisory Board has the necessary powers and framework to supervise CDNS on a risk sensitive basis. The CDNS Internal Risk Assessment was reviewed immediately after the completion of the 2019 NRA for adequacy, coverage, and quality of risk assessment, which is required by the *National Savings Regulations 2020* (see c1.10). However, the extent to which CDNS has been supervised for implementing the requirements of c1.7, 1.11, or 1.12 is unclear. It is also unclear the extent to which Pakistan Post is being supervised for its R.1 requirements while in the transition phase (see above).

31. Similarly, as outlined under c28.5, the relevant DNFBB supervisors are in the process of putting in place AML/CFT risk-based supervisory frameworks. ICAP and ICMAP (responsible for supervising ICAP and ICAMP accountants) have initiated offsite supervision using a monitoring questionnaire. FBR (responsible for supervising all other accountants, DPMS, and real estate agents) has conducted an initial risk assessment of its REs and will initiate an off-site questionnaire to inform onsite inspections. However, it does not appear that any of the supervisory efforts from ICAP, ICMAP, and FBR has been directed towards ensuring that their supervised DNFBBs are implementing their R.1 requirements. Furthermore, no information has been provided about the supervisory activity of the Pakistan Bar Council (responsible for supervising lawyers and notaries).

32. Criterion 1.10 – Mostly Met. The 2019 MER found that not all REs were required to identify, assess, understand, and document their ML/TF risks. The February 2020 FUR noted that while the AML/CFT Regulations, Pakistan Post Rules and CDNS Rules required identification, assessment, understanding and documentation of risks, these Rules and Regulations were not considered enforceable means, as no penalties had been specified.

33. Since the February 2020 FUR almost all sectors are obliged through enforceable means to undertake an assessment of their risks, document this assessment, consider all relevant factors, keep assessments up to date, and have appropriate mechanisms to provide the assessments to competent authorities and SRBs. There is a remaining minor deficiency with respect to lawyers and notaries.

34. Criterion 1.11 – Mostly Met. The 2019 MER found that no specific policy or legislation had been issued to underpin the requirements of this criterion. The 2020 February FUR noted progress with respect to SBP and SECP REs, which were required to have policies and procedures to manage and mitigate risks, monitor those controls, and enhance them if necessary. Obligations applied to DNFBBs, Pakistan Post, and CDNS, were not enforceable as penalties for non-compliance had yet been specified.

35. Since the February 2020 FUR FIs and all DNFBBs except lawyers and notaries are required to have policies, controls and procedures in place which are approved by senior management to manage and mitigate risks identified, monitor implementation of those controls and enhance them if necessary, and take enhanced measures to mitigate risks where higher risks are identified. There are remaining deficiencies with lawyers and notaries, who are generally required to have policies and compliance management arrangements, but are not required to have policies and controls approved by senior management, monitor the implementation of the controls, or take enhanced measures where higher risks are identified.

### *Weighting and Conclusion*

36. Since the 2020 February FUR, Pakistan has taken further steps in respect of the risk assessment and risk-based requirements by amending the AMLA and issuing new enforceable regulations which impose obligations required by R.1 on all FIs and most DNFbps. Several requirements on lawyers and notaries are not covered in the absence of regulations for those sectors. Pakistan has allocated further resources to mitigate sectoral risks related to CDNS, accountants, real estate agents, and DPMS, and begun supervising CDNS for its implementation of some R.1 requirements. Supervision of DNFbps for their R.1 requirements is at an early stage, and it is unclear the extent to which Pakistan has allocated resources to mitigate sectoral risks of lawyers and notaries. Taken together these remaining deficiencies are considered minor, given the risks identified in the NRA and the context of DNFbps in Pakistan. **Recommendation 1 is re-rated Largely Compliant.**

### *Recommendation R.6 (Originally rated PC)*

37. R.6 was rated PC in Pakistan's 2019 MER. The MER highlighted gaps including: delays in implementation, and lack of clarity of which entities are required to implement; no obligation for all natural and legal persons to freeze funds or assets without delay; unclear prohibition on making funds available to designees when they are jointly owned or controlled; no enforceable requirements for Pakistan Post, CDNS, cooperative societies or DNFbps to ensure resources are not made available to designees; deficiencies in communicating designations to REs; gaps with requirements to report freezing actions or prohibition of funds; no measures to protect rights of *bona fide* third parties; A lack of publicly-known procedures for the review of designations by relevant UNSC committees; and gaps with mechanisms to review of false positives and inadvertent freeze actions.

38. Criterion 6.1 – Met.

39. 6.1 (c): S.R.O 1014 (I)/2018 dated 24 August 2018 lays down the mechanism for proposing the designation of persons and entities to the 1267 Committee. The TORs of the Committee state at paragraph (c) that “while formulating these proposals, the evidentiary standard of proof of "reasonable grounds" or "reasonable basis" shall be applied. This is a lower standard of proof than the criminal standard, which is “beyond reasonable doubt”. Proposals for designation are therefore not conditional upon the existence of a criminal proceeding, as a non-criminal standard of proof is applied when formulating proposals.

40. 6.1 (a-b), (d-e): Since the MER, the National Committee for overseeing implementation of Sanctions against individuals and entities designated by the UNSC has issued guidelines on implementation of the UN Security Council Resolutions Concerning TFS, travel ban and arms embargo. These guidelines reinforce Pakistan's compliance with other sub-criteria of c.6.1 (which were all rated as Met), as they outline the composition and terms of reference of the Committee responsible for proposing designations to the 1267/1988 Committee.

41. Criterion 6.2 - Met. No change since the MER. The analysis in the MER and available material supports the criterion rating.

42. Criterion 6.3 – Met (as per MER). The analysis in the MER and available material supports the criterion rating.

43. Criterion 6.4 - Met.

44. For UNSCR 1267/1989 and 1988 designations, Pakistan gives domestic effect to UNSC designations by issuing SROs under the UN Act 1948. For UNSCR 1373 designations, the Ministry of Interior (MOI) designates organisations and persons by listing them on the 1<sup>st</sup> Schedule (organisations) and 4<sup>th</sup> Schedule (persons) of the *Anti-Terrorism Act 1997* (ATA). Proscription by MOI results in an automatic freeze obligation at the point of proscription (section 110 ATA). SROs are enforceable upon

issuance. Therefore, any ambiguity about the notification process in the revised SBP Guidelines is not considered a deficiency, as UNSCR 1267/1989 and 1988 designations are implemented as soon as an SRO is issued.

45. In relation to timeliness of SROs, since the MER, Pakistan has demonstrated that SROs are issued without delay, including through several online platforms. Typically, Pakistan issues the SRO, publishes the SRO in the Gazette, and circulates the SRO to stakeholders the day following the update to the UNSC list. This includes on weekends and public holidays. In some instances, Pakistan issued, published, and notified stakeholders about the SRO on the same day as the update to the UNSC list.

46. SBP Guidelines were revised in December 2019. They direct SBP REs to sign up for MOFA's email subscription service (discussed above) to ensure prompt receipt of SROs and updates to the UNSC lists. The revised Guidelines indicate that SBP also circulates SROs to SBP REs for taking immediate necessary action. The Guidelines clarify that SBP's circulation is an additional notification service to the notification service provided by MOFA.

47. Implementation of UNSCR 1373 designations is immediate upon listing on the 1<sup>st</sup> and 4<sup>th</sup> Schedules of the ATA. The NACTA published information about proscribed persons and entities on its website, which is an additional step which goes beyond the requirements of R.6, that Pakistan takes to ensure effective implementation of UNSCR 1373 designations. The publication does not delay the entry into force of the freezing obligation for UNSCR 1373 as the freezing obligations immediately apply as soon as an entity or person is listed on the 1<sup>st</sup> or 4<sup>th</sup> Schedule of the ATA. NACTA has continued to publish information about proscribed persons. While the list itself still lacks some identifying information (e.g. DOB, aliases, and does not always contain complete address information), it does include Computerised National Identification Card (CNIC) details, which include facial and fingerprint information. The National Database and Registration Authority (NADRA) maintains a database containing detailed personal information including aliases and address information. This information is accessible using the CNIC number, and access is available to competent authorities, FIs, DNFBPs and other private entities upon subscription with the concerned authority. Given this practice goes beyond the standard, the review team does not consider that the missing identification information is a technical compliance deficiency as TFS is implemented immediately upon proscription.

48. Criterion 6.5 - Mostly Met.

49. 6.5(a) - Met. The MER noted that the SROs issued required "all concerned" to take actions "as appropriate for the implementation of sanctions" pursuant to UNSCRs. However, "all concerned" was not defined. Freezing obligations have since been clarified to apply to all natural/legal persons. The UNSC (Freezing and Seizure) Order 2019 (SRO 261(I)/2019) was issued on 4 March 2019 (UNSC Order) and includes a general freezing obligation that applies to "any person". "Person" is defined as "any agency, association, authority, body, company, department, entity, firm, office or individual" (Article 2(h)). Additionally, terminology used in regular SROs issued to give effect to updates to the UNSC sanctions lists. As of 20 August 2019, SROs refer to "all persons" instead of "all concerned". "Person" is defined to have the same meaning as in Article 2(h) of the UNSC Order. Pakistan have additionally issued sector-specific regulations which complement and reinforce the obligations in SROs.

- Freezing without delay: There is now a clear legal obligation for all natural and legal persons to freeze without delay. SROs and the UNSC Order (Article 3) require any person in effective control of any property of a designated person or entity to freeze or seize such property *without delay*.
- Freezing without prior notice: Pakistan has further amended the standard text used in the SROs to require persons to freeze without delay and *without prior notice*. Pakistan issued two consolidated SROs covering the Taliban Sanctions and Al-Qaida and ISIL (Da'esh) Sanctions

lists to ensure that the obligation to freeze without prior notice applies to the full range of entities and persons designated by the UN.

50. 6.5(b) - Met. Since the MER the gap with coverage of funds has been addressed through the UNSC Order (art.4) and the relevant SROs. These have been updated to explicitly cover funds or other assets owned or controlled, wholly or partly, directly or indirectly, by a designated entity or individual.

51. 6.5(c) - Mostly Met. As outlined in 6.5(a-b), gaps with 'all concerned' and 'wholly or partly' have equally been resolved in relation to prohibition of providing funds, or other assets, economic resources, or financial or other related services, available, directly or indirectly, wholly or jointly.

52. Pakistan prohibits the making of funds etc. available to entities owned or controlled by the Al-Qaida, and ISIL (Da'esh) by reference to "such persons" in SRO 741. "Such persons" appears to be a reference to para 2 of the SRO, which states that the SRO "applies with respect to ISIL (also known as Da'esh), Al-Qaida, and associated individuals, groups, undertakings and entities". Therefore, the prohibition extends to providing funds etc. for the benefit of entities owned or controlled by Al-Qaida, and ISIL (Da'esh), as they would be associated entities. This prohibition also extends to persons acting on behalf of, or at the direction of Al-Qaida, and ISIL (Da'esh) as they would be associated individuals or groups. However, the language of SRO 742 (which implements UNSCR 1988) explicitly states that the SRO only applies to Taliban associated individuals, groups, undertakings and entities which are designated by the 1988 Committee and on the 1988 Sanction List. As such, unlike the Al-Qaida/ISIL list, it is not clear that the Taliban list can be read as also extending to providing funds to entities owned or controlled by the Taliban or persons acting on behalf of the Taliban who are not listed.

53. Both SRO 741 and 742 include a prohibition that "no person shall make any donations in the form of funds, economic resources, financial assets or other related services" to persons or entities designated by the 1267/1989 or 1988 Committee or those acting on behalf of designated persons or entities (para 2(a)(iv)). Pakistan has inserted a footnote in both SROs in relation to 'donations' to refer to a non-exhaustive list of funds, financial assets and other economic resources provided at paras 1.3.1.2 and 1.3.1.3 of the Pakistan's guidance for implementing UNSCRs. While the paras 1.3.1.2 and 1.3.1.3 make it clear that 'funds' and 'economic resources' should be interpreted expansively, the use of the word "donation" suggests that the prohibition would not extend to making funds etc. available where fees or some other form of consideration is payable.

54. As outlined above, SRO 741 includes associated persons and entities and entities and entities owned or controlled by Al-Qaida or ISIL (Da'esh) within the scope of "such persons". The prohibition in para (v) of the SRO prohibits funds, financial assets or economic resources or other related services from being made available for such persons' benefit. As such, the issue with respect to the use of the word "donations" being relied on to prohibit making funds etc. available to associated persons and entities only applies with respect to UNSCR 1988 designations.

55. With respect to UNSCR 1373 designations, the ATA prohibits making "money or other property or services available, directly or indirectly, wholly or jointly, for the benefit of a proscribed organisation or proscribed person" (s.11J(2) of the ATA). Amendments to the ATA in 2020 explicitly extend prohibitions to: organisations owned or controlled, directly or indirectly, by proscribed organisation or proscribed persons; and persons or organisations acting on behalf of, or at the direction of, proscribed organisations or proscribed persons. (s.11J(4) ATA 2020). 'Organisation' is defined to include legal persons.

56. 6.5(d) - Mostly Met. Since the MER detailed guidelines and a guidance note on the implementation of UNSCR 1267/1989 and 1988 have been issued by the MOFA and are available on the MOFA website. Detailed guidelines on actions to be taken by competent authorities for implementation of UNSCR 1373 has been made publicly available on the NACTA website. Pakistan

authorities have conducted significant outreach to FIs (including CDNS), DNFBPs and NPOs to ensure they understand and comply with their obligations under UNSCRs 1267/1989, 1988, and 1737. SBP and SECP have issued instructions and guidance to FIs on their TFS obligations and how to implement them. DNFBP supervisors have issued requirements for DNFBPs (except lawyers and notaries) to register with MOFA portals and NACTA for updated notifications.

57. 6.5(e) - Mostly Met. In relation to UNSCR 1267, since the MER, Pakistan has issued the UNSC Order 2019, which requires any person carrying out the freeze or seizure of property to report to the MOFA, but does not apply to the prohibition requirements. In relation to UNSCR 1373, Pakistan has amended the ATA to also require the person who is responsible for freezing or seizing to report the action. (s.11O(1)(d) of the ATA). Enforceable sector-specific regulations meet the requirements of C6.5(e) in that they oblige the relevant FIs and most DNFBPs to report assets frozen and actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transactions. These reporting obligations are all triggered when action is taken during the process of screening or monitoring of customers of potential customers. No regulations have been issued with respect to lawyers and notaries.

58. 6.5(f) - Met. Pakistan has amended the UNSC Act by inserting a new section which provides that no suit, prosecution, or legal proceeding will be taken against a person who act in good faith when complying with their responsibilities under the UNSC Act, including asset freezing SROs.

59. Criterion 6.6 - Mostly Met.

60. 6.6(a) - Since the MER, Pakistan has made the procedures for delisting under the UNSCR 1988 sanctions regime publicly available on the MOFA website.

61. 6.6(b-c) - No change since the MER. The analysis in the MER and available material supports the sub-criterion being met.

62. 6.6(d) - Since the MER, Pakistan has made the procedures for delisting under the UNSCR 1988 sanctions regime publicly available on the MOFA website, including those of the Focal Point mechanism.

63. 6.6(e) - Information regarding listing, delisting, and the UN Office of the Ombudsperson to the ISIL (Da'esh) and Al-Qaida Sanctions Committee has been made public available on the MOFA website. Information about delisting is also included in the SROs themselves (e.g. para 10 of SRO 79(I)/2020). The SRO is served on the designated person/entity by the relevant District Intelligence Coordination Committee.

64. 6.6(f) - procedures for unfreezing the funds or other assets of false positives are now publicly available.

65. 6.6(g) - As per c.6.5(d) above, the same mechanisms for communicating designations are used for communicating de-listings, and the same deficiencies identified in c.6.5(d) apply to this criterion. MOFA and NACTA have issued implementation guidelines that are publicly available online. Substantial outreach has been conducted by competent authorities to FIs, DNFBPs and NPOs on their TFS obligations.

66. Criterion 6.6 - Met. Since the MER Pakistan has issued the UNSC Order 2019. The Order sets out comprehensive procedures and processes for designated persons or entities for seeking access to funds for basic or extraordinary expenses and processes for government authorities to consider and grant requests in keeping with UNSCR 1452. This underpins the 2018 MOFA Guidelines on Implementation of the UN Security Council Resolutions concerning Targeted Financial Sanctions, travel Ban, and Arms Embargo (SRO No 1015 (I)/2018 dated 24 August 2018), which further elaborates processes and procedures. In relation to UNSCR 1373, since the MER, Pakistan has amended section

1100 of the ATA to explicitly provide a legal basis to cover the full range of basic expenses and certain extraordinary expenses as detailed by UNSCR 1452. NACTA has issued guidelines to support processes for persons or entities proscribed under 1373 to apply for basic or extraordinary expenses.

### *Weighting and Conclusion*

67. Pakistan has made substantial effort to address deficiencies identified in the MER regarding its UNSCR 1267/1989 and 1988 and UNSCR 1373 designations framework. TFS are now implemented without delay, and the scope of the freezing obligations and prohibitions are mostly in line with FATF requirements. Pakistan also has developed mechanisms to ensure prompt communication of designations and de-listing to all FIs and most DNFBPs. All FIs and most DNFBPs are required to promptly report any assets frozen or actions taken to comply with the prohibition requirements of the relevant UNSCRs, including attempted transactions. Minor gaps remain with respect to the communication and reporting mechanisms that lawyers and notaries are subject to, and there is a minor gap with respect to the prohibition contained in SRO 741. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 6 is re-rated Largely Compliant.**

### *Recommendation R.7 (Originally rated PC)*

68. R.7 was rated PC in Pakistan's 2019 MER. The MER identified major deficiencies with the TFS regime for combating proliferation of WMD. These included: issues with the coverage of freezing obligations including whether all natural and legal persons are required to implement freezing actions; shortcomings in the time required to effect a freeze; no requirements to report attempted transaction; no mechanisms for petitioning to de-list; no mechanisms to resolve false-positives and a lack of guidance on obligations related to de-listing.

69. Criterion 7.1 - Met. The MER noted that Statutory Notification Order (SRO) 1260(I)2018 issued on 10 October 2018 provided that "all concerned" were required to take measures for the implementation of UNSCR resolutions without delay. However, the term "all concerned" was not defined and it was not clear what entities were covered by the term. Pakistan has introduced several new SROs since the MER that address this deficiency. Pakistan issued SRO (261(I)/2019 – (the UNSC Order) under s.2 of the United Nations (Security Council) Act 1948 (the UNSC Act) to implement TFS and contains a general freezing obligation that applies to "any person". "Person" is defined in s.2(h) as "any agency, association, authority, body, company, department, entity, firm, office or individual". Pakistan has issued a series of SROs to give effect to UNSC sanctions lists for DPRK designated persons (SRO 1465(I)/2019 and SRO 805(I)/2020) and for Iran designated persons (SRO 1492(I)/2019 and SRO 898(I)/2020), referring to "all persons" with the same meaning as s.2(h) of the UNSC Order. These SROs ensure that the obligation to freeze applies to all natural and legal persons.

70. Criterion 7.2 - Mostly Met. In relation to each of the sub-criteria below, the relevant instruments setting out TFS are enforceable. The overall SROs are enforceable through both administrative penalties and through a criminal sanction. The UNSC (Enforcement) Order, 2012 (S.R.O. 381 (I)/2012, amended 11th January, 2013) by administrative fines of 10 Million PKR (approx. USD 65,000). Since the MER the amended AMLA provides administrative penalties for failures to implement TFS set out in regulations issued by AML/CFT regulators. The amended ATA (July 2020) includes criminal offence at 11000 whereby any person who in any way whatsoever, refuses or fails to comply with the orders issued under the UN Act (including those for TFS). Natural persons are liable for a term not exceeding 10 years or a fine up to 25 million PKR (approx. USD 150,000) or both. Legal persons are liable to a fine up to 50 million PKR (approx. USD 300,000) and every director, officer or employee of convicted legal persons shall be liable imprisonment for a term up to 10 years and/or a fine of 25 million PKR.

71. 7.2(a) - Met. As set out in c.7.1 above, the general freezing obligation contained in s.3(1) of the UNSC Order applies to all natural and legal persons. Any person in effective control of property of a designated entity or individual is required to freeze or seize such property *without delay* (s.3 of the UNSC Order) and the most recent SROs issued in respect of Iran and DPRK).

72. 7.2(b) - Met. The general freezing obligation set out in SRO 261(I)/2019 applies to any property of a designated entity or individual (s.4). The term 'property' is defined in accordance with the definition in the FATF Glossary and also explicitly includes cash and monetary instruments, wherever located. S.4(1)(a)-(c) of SRO(I)/2019 sets out the types of property that the freezing obligation extend to, which include all those required under c.7.2(b), including properties "owned or controlled, *wholly or partly*, directly or indirectly, by a designated entity or individual." Pakistan has also updated the standard text used in SROs issued to give domestic effect to updates made by the UNSC in relation to DPRK and Iran. SRO 805(I)/2020 and SRO 898(I)/2020 contain freezing obligations that apply to "those funds or other assets that are *wholly or jointly owned or controlled*, directly or indirectly, by designated individuals or entities."

73. 7.2(c) - Met. Obligations set out in SROs ensure that any funds or other assets are prevented from being made available by their nationals or by any persons or entities within their territories, to or for the benefit of designated persons or entities unless licensed, authorised or otherwise notified in accordance with the relevant UNSCRs. Iranian designated persons and entities are covered by SRO 898(I)/2020. DPRK designated persons and entities are covered by SRO 805(I)/2020.

74. 7.2(d) - Met. Since the MER, Pakistan has implemented new mechanisms for communicating designations to FIs and DNFBPs. SROs are now published on the dedicated e-Portal of MOFA where they are accessible to FIs and DNFBPs, who may register and receive immediate notification of changes to lists of designated individuals and entities included in the SROs. SECDiv (Strategic Export Control Division (Ministry of Foreign Affairs)), through the Inter-Agency Committee for Coordination, Review and Monitoring has now issued comprehensive guidance to assist REs (both FIs and DNFBPs) and all other persons who may be holding funds subject to a freezing obligation in implementing their TFS obligations in relation to PF.

75. 7.2(e) - Mostly Met. SRO 261(I)/2019 requires that a "seizing agency" carrying out the freeze of seizure of property must submit a report to the authorized agency (i.e., MOFA or other designated entity) within 48hrs of the freeze or seizure. "Seizing agency" is defined as "any person, whether governmental or non-governmental, public or private, to whom a request is made by the authorized agency to freeze or seize any property." As the SROs now apply to all persons, it appears that the reporting obligation extends to all persons, including FIs and DNFBPs. However, the obligation only extends to property frozen or seized and does not impose a requirement to submit a report on actions taken in compliance with the prohibition requirements contained in the UNSCRs (e.g., on the provision of funds) nor does it apply to attempted transactions. Aside from the UNSC Order, some supervisory authorities have established their own requirements concerning the reporting of freezing actions. SBP regulated persons are required under s.7(b) of Regulation 4 of the *SBP regulations* to report any assets or freezing actions taken to the FMU. Similar obligations exist for SECP regulated persons, CDNS and Pakistan Post. Further, some DNFBPs (real estate agents, jewellers, accountants) are required to report any freezing actions undertaken to the FMU and their respective supervisory authority. No equivalent requirements exist for lawyers and notaries. These requirements apply equally to attempted transactions.

76. 7.2(f) - Met. In July 30, 2020, Pakistan amended the UNSC Act 1948 to include a new indemnity clause (s.3) that protects any person in respect of anything "in good faith done or intended to be done under this Act", which would comply with obligations in respect of TFS related to PF under the SROs, which are issued under the powers conferred by s.2 of the Act.

77. Criterion 7.3 - Mostly Met. Since the MER the amended AMLA empowers all AML/CFT supervisory authorities for FIs and DNFBPs to supervise compliance with TFS obligations (s.6A of the AMLA). The regulatory authorities are further empowered to enforce compliance with TFS by imposing sanctions, including monetary and administrative penalties on any of their respective REs that fail to comply with the relevant TFS obligations. Sectoral AML/CFT regulations that include TFS obligations have now been issued by all relevant regulatory authorities except for the Pakistan Bar Council.

78. Criterion 7.4 - Mostly Met.

79. 7.4(a) – Since the MER the SECDiv Guidance (2020) comprehensively sets out procedures in keeping with the standards (Section IV).

80. 7.4(b) - Pakistan has published procedures on the SECDiv website for de-conflicting false positives in keeping with the standards.

81. 7.4(c) - Procedures authorising access to funds or other assets, which are in accordance with the procedures set out in UNSCRs 1718 and 2231, have now been published on the SECDiv's website.

82. 7.4(d) - While SECDiv has now published extensive guidelines on its website pertaining to the implementation of TFS for PF, the guidelines provided in respect of de-listings in Section IV(7) simply repeats the basic de-listing procedures provided on the website and do not offer any guidance to FIs or DNFBPs in terms of their obligations to respect a de-listing or unfreezing action.

83. Criterion 7.5 - Mostly Met. Since the MER, for Iranian designated persons, SRO 898(I)/2020 requires all persons to implement the measures set out in paragraph 6 of the Order. Paragraph 6 includes provisions concerning contracts, agreements and obligations arising prior to becoming subject to TFS that cover the requirements of c.7.5(a) and (b). Section 6.1 of the SECDiv guidance also clarifies that a designated person or entity may seek to make payments due under a contract entered into prior to the listing of that person or entity subject to the same requirements set out in c.7.5(b)(i)-(iii). For DPRK designated persons, neither SRO 1465(I)/2019 or SRO 805(I)/2020 establish requirements to permit the addition of interest or other earnings due on accounts frozen pursuant to UNSCR 1718 as required under c.7.5(a). While the MER noted that section 4 of SRO 1063(I)/2006 closely mirrored the text of OP9(c) of UNSCR 1718, the Order applies to 'all concerned' as discussed above.

#### *Weighting and Conclusion*

84. Pakistan has substantially revised its framework for TFS related to proliferation. The scope of the major shortcomings in terms of the lack of enforceable freezing requirements for all natural and legal persons has been addressed and there is now a clear legal obligation for all natural and legal persons to freeze without delay. Measures for monitoring and ensuring compliance have been strengthened. Only minor shortcomings identified in the MER remain, including the absence of reporting obligations regarding freezing actions taken by lawyers and notaries and the lack of guidance on obligations related to delisting. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 7 is re-rated to largely compliant.**

#### *Recommendation R.8 (Originally rated PC)*

85. R.8 was rated PC in Pakistan's MER. The report noted that Pakistan has identified some NPO risks and undertaken some steps on a targeted basis to higher risk licensed NPOs, but had taken very limited action in compliance with the requirement of R.8 with respect to registered and international NPOs.

86. Criterion 8.1 – Met. Since the MER the major deficiencies identified with taking a risk-based approach to mitigating TF risks in NPO sectors have been addressed.

87. 8.1(a) - Since the MER, Pakistan has undertaken a detailed assessment of the NPO sector to identify NPOs that fall within the FATF’s definition and identified a subset of registered and international organisations that fall within the FATF’s definition of NPO or those likely to be at risk of misuse for TF. Pakistan has also assessed the characteristics of NPOs which make them high risk, and undertaken further district-level analysis to identify districts that pose low, medium, or high risks for NPOs in terms of TF risks. As a result, 1,307 NPOs were identified as being high risk, with almost all in Punjab and Khyber Pakhtunkhwa regions.

88. 8.1(b) - As outlined in the 2020 FUR, Pakistan has taken several steps to identify and assess TF risk. Pakistan’s 2020 NRA identified specific ways in which terrorist financiers seek to misuse NPOs (e.g. through social media fundraising campaigns), and also identified specific events which pose a heightened risk of attempted TF abuse of NPOs. Pakistan has also identified unregistered or deregistered NPOs as posing a particular threat in the Pakistani context. The updated NRA also confirms 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 entities of concern and the fact that terrorist organisations are known to use NPOs as fronts.

89. 8.1(c) - Since the MER, Pakistan undertook a review over several years of the adequacy of measures, including laws and regulations that relate to the subset of NPOs that are at risk of TF abuse. The four key gaps found in the existing legal framework were (i) registration (ii) funding (iii) monitoring and (iv) regulation. NACTA developed a Model Charities Law in 2017 to address these four gaps. The Model Charities Law has been implemented through amended legislation in each Province in 2019 to address the shortcomings in the earlier provincial regulatory regime under the Societies Act, 1860 and Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961 and equivalent provincial laws (Punjab, Khyber Pakhtunkhwa (KPK), Sindh and Balochistan). Pakistan has also updated AML/CFT Guidelines for NPOs to address risks and threats identified in the 2019 NRA. These guidelines supplement the legal requirements by assisting NPOs to develop internal controls, taking a risk-based approach to mitigate misuse for TF, and creating awareness about best practices contained in the guidelines. These guidelines are publicly available and Pakistan is in the process of further promoting the guidelines to the entire NPO sector.

90. 8.1(d) - Pakistan has periodically reassessed the threats and vulnerabilities present in the NPO sector. Pakistan initially assessed the NPO sector in the 2018 Terrorism Financing Risk Assessment (TFRA), which concluded that there was a medium TF risk in the NPO sector. Subsequently, Pakistan undertook a comprehensive update to the NRA, in which closer attention was given to the analysis of the NPO sector’s vulnerability to TF. In 2019, Pakistan carried out a detailed survey of all NPOs, identified a sizeable number of inactive NPOs for deregistration, and used the findings of the survey to inform monitoring activity and identify high-risk NPOs for on-site inspections. Findings from on-site inspections also provide an input into Pakistan’s understanding of the risks in the NPO sector. The NRA will be updated every two years.

91. Criterion 8.2 – Mostly Met. The major deficiencies identified in the MER with taking a risk-based approach to mitigating TF risks in NPO sectors have been mostly addressed.

92. 8.2(a) - The MER found that there were some requirements to promote accountability, integrity and public confidence in the administration of federally regulated NPOs and International NPOs (INPOs), but it was unclear what actions were taken at the provincial level. Since the MER, Pakistan has passed four provincial charities Acts which provide for measures which include requirements that promote accountability, integrity, and public confidence on the administration of provincial NPOs. Further measures have been established to maintain public confidence in INPOs.

93. 8.2(b) - Since the MER, Pakistan has undertaken a substantial amount of outreach to all NPOs, particularly to provincial NPOs. Updated guidelines have been issued and are being disseminated across the NPO sector. Authorities have begun conducting outreach and training following the enactment of the provincial charity laws, however relevant guidance to NPOs has not been updated to reflect the new provincial regulatory frameworks, which may undermine the depth of outreach.

94. 8.2(c) - Pakistan has developed comprehensive best practices and good governance practices to address terrorist financing risks and vulnerabilities and protect NPOs from TF abuse. A number of these best practices are supplemented by legal obligations (see C8.2(a)), and they are included in the AML/CFT Guidelines for NPOs (see C8.2(b)). These principles are identified as Fundamental Principles of Good Practices. In addition to the Best Practices and Good Governance, this guideline also includes best practices to ensure NPOs know their beneficiaries and partners, know their donors, and know their employees.

95. 8.2(d) - The four provincial charities Acts (2019) include provisions that require NPOs to keep funds in bank accounts and provide details of the bank account to the provincial Commission/Authority. All NPOs (federally registered, provincially registered, and INPOs) are under a legal obligation to receive donations above specific threshold through banking channels.

96. Criterion 8.3 - Mostly Met. At the time of the MER Pakistan had not adopted a risk-based approach of undertaken steps to promote effective supervision or monitoring of provincially registered NPOs or INPOs. Pakistan had completed inspections of all high risk NPOs and developed a plan for inspecting medium and low risk NPOs.

97. Since the MER all federally and provincially regulated charities are now required to be registered with the relevant Commissions or Registration Authorities, and in all four provinces and the federal level and the register of NPOs is publicly accessible. Provincial charities are also required to provide information regarding the objectives of the charity, source of funds, and the nature of spending (section 15(1) for KPK, section 10(1) for Sindh, section 15(1) for Punjab). The NPOs in Balochistan are also required to maintain a website which provides the public with information about their constitution, executive members, and financial information. All provincial charities are required to prepare annual statements of accounts (section 8(1)(b) for Balochistan; section 25(4) for KPK; section 28(5) for Punjab; and s.20(5) for Sindh). The annual statement of accounts provided a detailed breakdown of income and expenditure which is used for auditing the accounts. All NPOs are required to be registered with the FBR and keep records for 10 years (s. 29 of the Income Tax Rules 2002). INPOs are required to sign an MOU with MOI at the time of registration. The MOU containing detailed obligations for INPOs along with timelines where they regularly have to provide certain documents of their operations.

98. Criterion 8.4 - Mostly Met.

99. 8.4(a) - all provincial charities are now required to be registered with the relevant provincial Commission or Registration Authority, and in all four provinces the register of NPOs is publicly accessible. Pakistan has developed an inspection plan of medium and low risk NPOs whereby 25% of these NPOs in KPK, Sindh and Balochistan will be inspected quarterly over the next year, while inspections of all low and medium risk NPOs registered in Punjab will be inspected over the next two years (due to the higher number of NPOs registered in Punjab). As at January 2021, Pakistan reported that they conducted inspections of 97.62% (1,280) of all NPOs categorised as high-risk in the entity risk assessment and developed a plan for inspecting medium and low-risk NPOs. For federally registered NPOs, section 221 of companies act 1997 Act empowers SECP to inspect the books of accounts and books and papers of federally registered section 42 NPOs. INPOs are required to sign an MOU with MOI at the time of registration containing the timelines where they regularly must provide

certain documents of their operations. Monitoring will be carried out based on the documents they have provided.

100. 8.4(b) - All the new provincial Charities laws contain sanctions for failure to comply with the requirements of the law that allow the provincial regulators to apply a range of sanctions for violations by NPOs or persons acting on behalf of these NPOs. While the available fines appear to be low, provincial regulators have a range of other dissuasive and proportionate sanctions. Federally registered NPOs are subject to range of effective, proportionate, and dissuasive sanctions (s.42 of the Companies Act 2017 and s.16 of the SECP regulations). INPOs are liable to have their registration cancelled for compliance breaches, but a wider range of sanctions is not available where INPOs violate their R8 requirements. However, this deficiency should be considered minor given the materiality of the INPO subsector (94 out 16,733 NPOs, or 0.6%).

101. Criterion 8.5 - Mostly Met. Since the MER Pakistan has addressed the major deficiencies identified.

102. 8.5(a) - Pakistan has established several bodies to support cooperation, coordination, and information sharing relating to NPOs. At the national level, Pakistan formed the National Working Group on NPOs which is made up of key government agencies and the Pakistan Center for Philanthropy (PCP). Each province has formed a provincial Working Group on NPO including provincial regulators, police counter terrorism departments, etc. The provincial NPO WGs are responsible for enhancing coordination and cooperation amongst provincial departments and between provincial departments, SECP, and NACTA.

103. Pakistan has formed dedicated teams in each district to map, monitor, and inspect NPOs. These teams are comprised of officials from the respective Home Departments, Police, Counter Terrorism Department (CTD), intelligence agencies, and provincial commissioners. They are responsible for ensuring financial integrity, good governance, and to monitor the sector for TF abuse. They also ensure that no un-registered NPO operates in the relevant area. All LEAs have signed an MOU allowing for information sharing that is relevant to detection, analysis, and investigation of ML, TF, and predicate offences. The FBR, which has established a central registry of all NPOs, is a party to the MOU therefore able to share information on the register with other LEAs. FBR, as tax authority, maintains all information related to the income and expenditure of NPOs and other financial information, and can share this information with LEAs, FMU, and other authorities as required.

104. 8.5(b) - District teams have been established dedicated to monitoring and inspecting NPOs. These teams are formed from relevant departments, including CTDs, intelligence agencies and local police responsible for investigating terrorism and TF. These teams have the necessary skill sets to carry out investigations of NPOs being suspected in terrorist activities and have full access to any information on NPOs.

105. 8.5(c) - Pakistan has established a central registry of NPOs (maintained by the FBR) which collects information on an annual basis from NPOs. All NPOs have been directed to register on the portal, but this is in progress with approximately 2,700 NPOs registered while an additional 2,200 NPOs were in the process of registration as of 1 October 2020. All LEAs can access information on the registry via the information sharing MOU (see sub-criterion (a)). The central registry contains all the information related to NPOs (name, size, sector, beneficial owner, address, source of funding, audit reports, financial statements, bank account details) and financial and programmatic information.

106. 8.5(d) - As noted above, police CTDs are members of provincial Working Groups on NPOs, which enables them receive information from other relevant provincial authorities when there is the suspicion of involvement in TF. Joint Investigative Teams are constituted in majority of the cases by the CTD. The JITs also have involved members from FMU, SBP and SECP to help the investigations with the respective expertise. The multilateral MOU signed between the 14 LEAs and intelligence

agencies (see sub-criterion (a)) supports sharing of information on suspicion with CTDs for subsequent preventative or investigative action.

107. Criterion 8.6 - Met (as per the MER). The MER noted LEA points of contact for TF investigations and intelligence exchanges. The relevant contact points for the international cooperation between NPO regulators and supervisors with the updated legal framework are: MOI for INPOS; SECP for federally licenced NPOs; and provincial Home Departments for provincially registered NPOs.

#### *Weighting and Conclusion*

108. Since the 2019 MER, Pakistan has clearly identified the subset of NPOs that fall within the FATF's definition of NPO which are at high risk of misuse for TF. This has been supported by a detailed risk assessment of the sector and a comprehensive review of the adequacy of measures that relate to the high-risk subset of the NPO sector. As a result of this review, Pakistan has passed a law in each of the four provinces to regulate and mitigate identified risks in the provincial NPO subsector. These four laws promote accountability, integrity, and public confidence in the management and administration of these NPOs and reflect identified best practices in Pakistan. They also enable regional authorities to effectively supervise and monitor the NPO sector, and contain effective, proportionate, and dissuasive sanctions for violations by NPOs or persons acting on their behalf. Pakistan has inspected almost all of the high-risk subset of NPOs and imposed sanctions. Deficiencies remain with respect to INPOs, in terms of monitoring and supervising INPOs and the ability for competent authorities to impose effective, proportionate, and dissuasive sanctions against INPOs for violations. However, as INPOs represent 0.6% of the Pakistan's NPO sector, these deficiencies should be considered minor. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 8 is re-rated to Largely Compliant.**

#### *Recommendation R.12 (Originally rated PC)*

109. R.12 was rated PC in Pakistan's 2019 MER, as the full range of PEP measures for politically exposed persons (PEPs) did not apply to exchange companies (ECs) and there were no enforceable means for Pakistan Post and CDNS.

110. Since the MER Pakistan has implemented SBP Regulations (which cover ECs), CDNS regulations and Pakistan Post regulations, all which include provisions for dealing with PEPs.

111. Criterion 12.1 – Met. Since the MER the amended SBP Regulations (Sept 2020) apply to, all SBP regulated persons (including ECs) and define PEPs as individuals who are entrusted with prominent public functions either domestically or by a foreign country, or in an international organisation. For foreign PEPs, this includes Heads of State or of government, senior politicians, senior government officials, judicial or military officials, senior executives of state-owned corporations and important political party officials (SBP Regulations – Part B(50)). In relation to foreign PEPs, all SBP regulated persons are required to (a) implement appropriate internal policies, procedures and controls to determine if a customer or beneficial owner is a PEP; (b) obtain approval from the senior management to establish or continue business relations or to execute a financial transaction where the customer or a beneficial owner is a PEP or subsequently becomes a PEP; (c) establish, by appropriate means, the sources of wealth and the source of funds of customers and beneficial owners identified as PEPs; (d) conduct enhanced ongoing monitoring of such business relations (SBP Regulation 5(1)).

112. Pakistan introduced PEP measures for CDNS through the National Savings Regulations, which define PEPs, family members and associates of PEPs in keeping with the standards (National Savings Regulation 2). CDNS are required to implement appropriate risk management systems to determine if a customer or beneficial owners is a PEP or a close associate or family member of a PEP (s4(18)(a) of Chapter III of the Regulations). CDNS are required to apply enhanced due diligence for

PEPs and their close associates and family members (National Savings Regulation 4(16)(e)). At a minimum, CDNS are required to impose EDD measures that mirror the requirements of c.12.1(b)-(d) (National Savings Regulation 4(18)(b)).

113. The Pakistan Post Regulations 2020 closely mirror the PEP obligations found in the National Savings Regulations, analysed above (Regulation 4(18)(a)).

114. As noted in the MER, requirements for SECP regulated persons are set out in the SECP AML/CFT Regulations 2018 and closely mirror the FATF standards.

115. Criterion 12.2 – Met. As noted in c.12.1, the definition of PEP in the SBP Regulations, the National Savings Regulations, the Pakistan Post Regulations and the SECP Regulations includes domestic PEPs and persons entrusted with a prominent function by an international organisation. The requirements stated in c.12.1 above apply to these persons.

116. Criterion 12.3 – Met. Since the MER the amended SBP Regulations require PEP measures to be applied to family members and close associates of PEPs (Definition 12 and 28, Regulation 5, para 1). The National Savings Regulations require CDNS to apply relevant requirements to family members and close associates of PEPs (Chapter III s4(18)(1) and (2)). Pakistan Post is required to apply relevant measures to family members and close associates of PEPs (Chapter I s16(c) and s18(a)). As per the MER, obligations for SECP regulated persons are set out in the SECP Regulations.

117. Criterion 12.4 – Mostly Met. As per the MER, PEP requirements for life insurance companies regulated by SECP set out in the SECP AML/CFT Regulations closely mirror the requirements of this criterion.

118. In relation to Pakistan Post’s insurance arm, the requirements set out in c.12.1-12.3 above apply to all clients and customers of Pakistan Post. The terms ‘clients’ and ‘customers’ are broadly defined under the Pakistan Post Regulations to include any person or legal arrangement “using any products or services or carrying out any transaction or business with Pakistan Post”, which appears broad enough to include beneficiaries of life insurance policies. However, where higher risks are identified, there are no obligations for Pakistan Post to inform senior management before the payout of the policy proceeds not to consider making a suspicious transaction report.

#### *Weighting and Conclusion*

119. Pakistan has addressed most deficiencies identified in the MER relating to PEP obligations for ECs, CDNS and Pakistan Post. There are minor shortcomings in relation to PEPs and Pakistan Post’s life insurance business, which is rated as medium risk by the authorities. Having considered the nature and scope of the remaining gaps, and Pakistan’s risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 12 is re-rated to Largely Compliant.**

#### *Recommendation R.14 (Originally rated PC)*

120. Pakistan was rated PC with R.14 in its MER, with deficiencies including a lack proportionate or dissuasive sanctions for unlicensed MVTS; a lack of requirement for Pakistan Post and payment booths to be licensed or registered; a lack of requirement to monitor agents for compliance with these programmes; and Pakistan Post was not supervised for AML/CFT purposes.

121. Since the MER Pakistan has pursued regulatory reforms to Pakistan Post and amended the sanctions available in the FERA for illegal MVTS operation.

122. Criterion 14.1 is met. As noted in the MER, under Foreign Exchange Regulation Act (FERA), SBP is authorised to issue licenses to legal persons that deal in foreign currency notes, coins postal

notes, money orders, bank drafts, travellers' cheques and transfers. ECs must obtain a license following an approval process by the SBP.

123. Since the MER Pakistan has reformed the MVTS services previously provided by Pakistan Post, with those serviced now contracted to a commercial bank. The contracted bank is licensed with SBP.

124. Criterion 14.2 is met. Since the MER Pakistan amended the FERA in 2020 to enhance sanctions against illegal MVTS, raising the maximum years of imprisonment to five years and made the offence cognizable and non-bailable. The amended FERA allows for the confiscation of any currency, security, gold or silver, or goods or other property in respect of the contravention. A monetary fine against illegal MVTS has not been defined by the amended FERA, but is up to the discretion of the court. Since the February 2020 amendments to the FERA, Pakistan reported 33 cases where courts imposed monetary fines in addition to sanctions of imprisonment and confiscation.

125. Pakistan has set a timeframe of six months for concluding trials for the purpose of ensuring prompt reaction against illegal MVTS operation. Pakistan reported a significant increase in the number of cases registered and convicted and property/value confiscated. Between October 2018 and the end of December 2020, Pakistan registered 504 cases against illegal MVTS operations, with 827 arrests and Rs 2,671 million (USD16.8 million) seized/case property. There have been 101 convictions as a result of these cases.

126. The amendments to the FERA and the enhanced law enforcement actions against illegal MVTS demonstrate that sanctions for illegal MVTS are now proportionate and dissuasive.

127. Criterion 14.3 is met. As noted in the MER, SBP monitors licenced ECs for AML/CFT compliance. Since the MER Pakistan has reformed the Pakistan Post remittance model, with the MVTS operations previously undertaken by Pakistan Post now contracted to a commercial bank. The bank is supervised for AML/CFT compliance by SBP. With respect to legacy accounts, the Pakistan Post AML/CFT Supervisory Board oversees compliance by the Pakistan Post during the transition period, which is expected to be completed within the next 12 months.

128. Criterion 14.4 is met. The MER noted that ECs conduct MVTS business through branches, franchises, payment booths, company owned currency exchange booths and temporary currency exchange booths and as agents. New branches, company owned payment booths and currency exchange booths were required to be approved by SBPs. Franchises operate with prior approval of SBP and their data is available to SBP and MVTS providers. The MER found that it was unclear whether payment booths were required to be licensed or registered or recorded by SBP.

129. Since the MER the Network Expansion Policy of Exchange Companies issued by SBP requires ECs wishing to open new branches, franchises, payment booths and currency exchange booths to obtain formal approval/licenses before the commencement of operations of each outlet. SBP requires REs to maintain a current list of their branches, franchises, payment booths, currency exchange booths and agents (Regulation 10 (05)). SBP maintains a list of networks, available on its website.

130. Criterion 14.5 is met. As noted in the MER, ECs are required to be responsible for implementing the AML/CFT guidelines through their networks, however they were not explicitly required to monitor their agents for compliance with these programs. Since the MER SBP's Regulations were amended (September 2020) to include a requirement for REs providing MVTS to implement, and monitor the implementation of, AML/CFT/CPF programs in their branches, franchisees, payment booths, agents etc. (SBP Regulation 10 (06)).

### *Weighting and Conclusion*

131. Pakistan has undertaken significant reforms to its MVTS framework, including reforming the operations of Pakistan Post and improving its illegal MVTS sanctions regime. Recommendation 14 is **re-rated to Compliant**.

### *Recommendation R.17 (Originally rated PC)*

132. Pakistan was rated PC with R.17 in its MER, with the report noting that Pakistan had no regard to information available on the level of country risks, SBP-regulated FIs were not covered by third party reliance rules, and CDNS and Pakistan Post were not covered by the requirements of R.17. Since the MER Pakistan has regulated to address the deficiencies.

133. Criterion 17.1 – Mostly met. The MER noted that SBP FIs had some obligations relating to requirements to undertake when relying on third parties, but not all elements of c.17.1 were met. The requirements for SECP regulated persons mirrored the requirements of c.17.1. There were no relevant requirements for CDNS, Pakistan Post and ECs.

134. Since the MER the amended SBP Regulation allows SBP REs (other than ECs) to rely on third party FIs for CDD measures (SBP Regulation 3, 2020). Section 5 sets out obligations in line with c.17.1(c). Section 4 refers to Annexure I and II, which set out the information (c.17.1(a)) and documentation (c.17.1(b)) required when relying on a third party. Annexure I and II set out the required CDD information and documentation for various customer types. While it lists beneficial ownership and purpose of accounts as information required, there is no explicit requirement to verify the customer's identity, or beneficial ownership using reliable, independent sourced documents. This is implied however by the list of documents required to be obtained for various customer types.

135. Chapter IV of the CDNS Regulations permit CDNS to rely on third parties. Regulation 4(9) is largely in line with the requirements of c.17.1, however there is no requirement to obtain information on the nature and purpose of the business relationship.

136. Pakistan Post issued Regulation in October 2020 to cover the transition period while it transfers its financial services to other entities. Chapter IV Section 5(1)(a-d) of the Regulations set out reliance obligations, which are largely in line with c.17.1, however there is no requirement to obtain information on the nature and purpose of the business relationship.

137. Criterion 17.2 – Met. The MER found that third party reliance was permitted but Pakistan had no regard to information available on the level of country risk.

138. Since the MER the SBP Regulation requires SBP REs to ensure compliance with Regulation 14 (counter measures for high-risk jurisdictions) when determining in which countries third party FIs can be based. SBP requires its REs to comply with the obligations imposed in the Counter Measures for High-Risk Jurisdiction Rules 2020, which require that Pakistan maintains and publishes a list of high-risk countries (SBP Regulation 3(6)).

139. SECP regulated persons must have regard to information on the level of country risk when determining in which country a third party may be based (SECP regulation s.24(3)).

140. The National Savings Regulations require CDNS to have regard to available information on the level of country risk when determining in which country a third party may be based (Chapter IV section 5(2)). The Pakistan Post Regulations contain the same obligation (PP Regulations, Chapter IV Regulation 5(2)).

141. Criterion 17.3 – Met. The MER found that while there were appropriate requirements for SECP regulated persons relating to the reliance on a third party within a financial group, SBP regulated entities did not have any requirements.

142. Since the MER SBP REs are subject to requirements in line with c.17.3 (SBP Regulation 3(7)).

143. C.17.3 is not applicable to CDNS or Pakistan Post as neither is in a financial group.

#### *Weighting and Conclusion*

144. Pakistan has improved compliance with R.17 through the amendment to, and creation of, relevant Regulations to establish rules for FIs who rely on third party institutions to conduct CDD measures, including the requirement to consider country risk. Minor deficiencies remain with respect to c.17.1 for SBP FIs, CDNS and Pakistan Post. Having considered the nature and scope of the remaining gaps, and Pakistan’s risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 17 is re-rated to Largely Compliant.**

#### *Recommendation R.19 (Originally rated PC)*

145. Pakistan was rated PC with R.19 in its MER, with the report noting that there was a lack of requirements for MFBs CDNS, Pakistan Post and ECs to apply enhanced due diligence to business relationships and transactions from countries for which this is called for by the FATF. The MER also noted a lack of requirements for Pakistan authorities, except SECP, to apply countermeasures proportionate to the risks.

146. Criterion 19.1 – Met. Since the MER Countermeasure Rules have been issued pursuant to the s.4 of the AMLA 2020. REs are required to apply enhanced due diligence proportionate to the risk, to business relationships and transactions with natural and legal persons (including FIs) from countries for which this is called for by the FATF (Countermeasures Rule 6). Regulations issued by each regulatory authority refer to the Countermeasure Rules or require the application of EDD.

147. Pakistan Post Regulations require Pakistan Post, during the transition period, to apply countermeasures (Regulation 4(15)) and perform EDD with respect to countries when called for by the FATF (Regulation 4(16)).

148. Criterion 19.2 – Met. The MER noted a lack of requirements except for SECP to apply countermeasures proportionate to the risks.

149. Since the MER one of the functions of the National Executive Committee (NEC) is to make recommendations to the Government on the application of countermeasures as called for by the FATF (s.5 (2)(c) of the AMLA). The Countermeasure Rules enables the Government, on recommendation by the NEC, to call for specific countermeasures to be applied by REs proportionate to the risks (Rule 7).

150. NEC will distribute a high-risk countries list, which includes countries subject to a call for countermeasures from the FATF, and countries identified by the NEC as having strategic deficiencies in their AML/CFT regimes and/or posing a risk to the AML/CFT regime of Pakistan. Regulations issued by the regulatory authorities refer to the Countermeasure Rules or contain a requirement to apply EDD proportionate to the risks in response to a call by the FATF or independently of any call by the FATF (Rule 3 of the Countermeasure Rules).

151. Criterion 19.3 – Met (as per MER). The FMU shared a guidance note on high risks jurisdictions on its website and publishes the FATF Public Statement and Compliance Document on its website. Since the MER, Pakistan has devised Countermeasure Rules, which require the NEC, through

the FMU and AML/CFT regulatory authorities, to advise REs of concerns about weaknesses in the AML/CFT systems of other countries. FMU has created a webpage to communicate this information.

#### *Weighting and Conclusion*

152. Pakistan has addressed the deficiencies identified in its MER through the implementation of the Countermeasure Rules and amendments/creation of Regulations. **Recommendation 19 is re-rated to Compliant.**

#### *Recommendation R.20 (Originally rated PC)*

153. Pakistan was rated PC in its MER, with a deficiency that STRs were not required to be reported promptly. Pakistan has since amended the AMLA on this point.

154. Criterion 20.1 – Met. The MER found that the AMLA required all REs to file STRs with the FMU if it knows, suspects or has reason to suspect that the transaction or pattern of transaction of which the transaction is involves funds derived from illegal activities or is conducted in order to hide or disguise proceeds of crime, evade requirements, or has no lawful purpose, or includes terrorist financing.

155. In February 2020 Pakistan amended the AMLA to include a requirement for STRs to be reported to the FMU promptly (section 7(1)).

156. Criterion 20.2 – Met (as per the 2019 MER). The AMLA requires the reporting of attempted transactions and all transactions regardless of the amounts involved (section 7(1)).

#### *Weighting and Conclusion*

157. Pakistan rectified the deficiency identified in its MER relating to the requirement to promptly report STRs. **Recommendation 20 is re-rated to Compliant.**

#### *Recommendation R.21 (Originally rated PC)*

158. Pakistan was rated PC with R.21 in its MER as while the AMLA provided protection for FIs and the reporting officers it was unclear whether the protection extended to directors, employees or agents of REs. Pakistan amended section 12 of the AMLA in September 2020.

159. Criterion 21.1 – Met. Since the MER the amended AMLA now provides protection from criminal and civil liabilities for REs and their directors, officers, employees and agents of the reporting entity, or other authorised officers of REs for good faith reporting of suspicion to the FMU under the Act (s.12 AMLA, 2020).

160. Criterion 21.2 – Met (as per MER). The AMLA provides that directors, officers, employees and agents of any reporting entity or intermediary who report suspicious transactions or CTRs pursuant to the Act are prohibited from disclosing any person directly or indirectly involved in the transaction that has been reported. A violation of the section is a criminal offence and is punishable by a maximum term of three years imprisonment or a fine which may extend to PKR 500,000 (approx. USD \$3,700,000) or both (s.34(1) AMLA 2020).

#### *Weighting and Conclusion*

161. Pakistan has addressed the deficiency identified in the MER relating to protections for directors, employees and agents. **Recommendation 21 is re-rated to Compliant.**

### *Recommendation R.22 (Originally rated NC)*

162. Pakistan was rated NC in the 2019 MER. Casinos are outlawed and DNFBPs are included in overarching requirements in the AMLA, however the detailed requirements for preventive measures applicable to DNFBP was yet to be set out in enforceable regulations. Since the MER Pakistan has amended the AMLA and issued several enforceable regulations to address the deficiencies.

163. Criterion 22.1 – Mostly met. Since the MER the definition of DNFBP in the AMLA has been brought in line with standard (AMLA s.2(xii)) and CDD obligations in the AMLA apply equally to FI and all DNFBPs. In addition to the CDD obligations on DNFBPs in the AMLA (S.7), further detailed CDD obligations have been issued in enforceable regulations for each DNFBP sector, with the exception of lawyers (FBR AML/CFT Regulations 2020 cover real estate agents and DPMS; ICAP AML/CFT Regulations 2020 covers chartered accountants; and ICMAP AML/CFT Regulations cover accountants).

164. Criterion 22.2 - Mostly met. Since the MER record keeping obligations in the AMLA apply equally to FI and DNFBPs (see R.11 analysis in MER). Record keeping obligations for all DNFBPs in the AMLA are largely in line with the standards (S.7C of the AMLA). Further detailed record keeping obligations for DNFBPs in line with the standards have been issued in enforceable regulations for all sectors, except for lawyers. The only gap relates to lawyers' obligations to maintain records sufficient to permit reconstruction of individual transactions and the requirement to ensure that all records are available swiftly.

165. Criterion 22.3 - Mostly met. Since the MER controls relating to PEPs are set out in DNFBP sectoral regulations. Regulations of the FBR, ICAP and ICMAP mirror c.12.1, c.12.2 and c.12.3. Regulations extending PEP obligations to lawyers have not yet been issued.

166. Criterion 22.4 - Mostly met. Since the MER obligations on DNFBPs to manage risks from new technologies are set out in the above-motivated sectoral regulations and are mostly in keeping with the standards. However, Regulation 5 of the FBR, 7 of ICAP and ICMAP do not mention that the use of new and pre-existent technology should apply to both new and pre-existing products as set out in c.15.1. Lawyers are not yet subject to the requirements of R.15.

167. Criterion 22.5 - Mostly met. Since the MER s.7B of the AMLA allows reliance on third parties by REs, including DNFBPs. Further obligations on DNFBPs covering reliance on third parties are in line with the standards and have been issued in enforceable regulations for all sectors, except for lawyers.

### *Weighting and Conclusion*

168. Basic CDD and record keeping obligations covering all DNFBPs have been set out in the AMLA 2020. Detailed obligations for CDD, PEPs, aspects of record keeping and reliance on third parties are covered in enforceable sectoral regulations, except for lawyers. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Pakistan is re-rated Largely Compliant for R.22.**

### *Recommendation R.23 (Originally rated PC)*

169. Pakistan was rated PC with R.23, with the MER identifying gaps with obligations on DNFBPs to promptly file STRs; gaps with tipping off and a lack of obligations on internal controls.

170. Criterion 23.1 - Met. The deficiencies identified in the MER are addressed. In February 2020 Pakistan amended the AMLA to include a requirement on all DNFBPs for STRs to be reported to the FMU promptly (section 7(1)).

171. Criterion 23.2 - Mostly Met. Since the MER the AMLA has been revised to include obligations on all DNFBPs to implement compliance management arrangements, including appointing a compliance officer and internal training (s.7G of the AMLA 2020). Further details of obligations are set out in the enforceable obligations issued for all DNFBP sectors, except for lawyers.

172. Criterion 23.3 - Mostly Met. Since the MER the Counter Measures for High-Risk Jurisdiction Rules, 2020 (SRO 951) were implemented which give effect to R.19 and apply to all DNFBPs. Further details of obligations are set out in the enforceable obligations issued for all DNFBP sectors, except for lawyers.

173. Criterion 23.4 - Met. Amendments to the AMLA 2020 address the deficiency for all DNFBPs and include tipping off obligations in keeping with the standards (s.12 AMLA). STR reporting and tipping off requirements on all DNFBPs are addressed in the amended AMLA. Obligations for internal controls and managing risks from high-risk jurisdictions are set out in the AMLA and Rules for all DNFBPs and in enforceable sectoral regulations for all DNFBPs except for lawyers.

#### *Weighting and Conclusion*

174. Minor gaps remain with detailed obligations on lawyers and other legal professionals. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 23 is re-rated Largely Compliant.**

#### *Recommendation R.24 (Originally rated PC)*

175. R.24 was rated PC in Pakistan's 2019 MER. The report found major shortcomings with the lack of ML/TF risk mitigating measures for bearer shares and bearer warrant instruments and for the nominee shareholders and directors, and an absence of requirements for the Registrar and companies that hold BO information.

176. Criterion 24.1 – Met (as per 2019 MER). The analysis in the MER and available material supports the criterion rating.

177. Criterion 24.2 – Mostly Met. Since the MER Pakistan has updated its assessment of the ML/TF risks associated with all types of legal person created in Pakistan. The 2019 NRA included a more comprehensive assessment of Pakistan's ML/TF risks, and focused on inherent risk and addresses many of the deficiencies identified in the MER, including the assessment of the ML/TF risks associated with DNFBPs, legal persons (companies, LLPs and cooperative societies), legal arrangements and NPOs. The assessment included, at a general level, some of the inherent vulnerabilities of certain types of legal persons, including complex structures, use of formal and informal nominee shareholders or directors, use of intermediaries in company formation and the use of shelf and shell companies. This appears to have considered some of the aspects of their transparency of ownership and control, albeit at a relatively general level. With respect to TF, Pakistan's assessment and identification of risk has evolved significantly since the MER, however further in depth analysis is needed with more comprehensive data, in particular with respect to the feature of legal persons that may make them vulnerable to misuse for TF purposes.

178. Criterion 24.3 – Met (as per 2019 MER). The analysis in the MER and available material supports the criterion rating.

179. Criterion 24.4 – Mostly Met. Since the MER the gaps with LLPs have been addressed. In 2018 the SECP issued an SRO (S.R.O. 1261 (I)/2018.) amending the Limited Liability Partnership Regulations, 2018 which requires that an LLP maintain a register of partners with a statement of their

ownership percentages and their associated voting rights at its registered office (Regulation 27). Amendments to the Companies Act have mostly clarified doubts about ‘members’ and subscribers, which brings further certainty to how companies are to ‘maintain’ information (s.118 Companies Act). A minor gap remains with the Balochistan Cooperative Societies Rules 2020 not requiring sufficient details of their basic regulating powers.

180. Criterion 24.5 – Mostly Met. Since the MER, the gaps with basic regulating powers for cooperative societies have been addressed by amendments to the four provincial cooperative societies Acts and related Rules (2020), as well as the cooperative societies act and rules for the Islamabad Capital Territory (ICT) to ensure the information maintained is accurate and updated on a timely basis. A minor gap remains that the amended Cooperatives Societies Acts 1925 did not set out the required timing of updates for cooperatives operating in the two autonomous territories (Azad Jammu and Kashmir, Gilgit-Balistan) at the cut-off time of this report.

181. Criterion 24.6 – Mostly Met.

182. 24.6 (a & b) - Since the MER Pakistan has taken a number of statutory and regulatory measures to ensure beneficial ownership information is available to competent authorities. Companies are now required to hold a register of their ultimate beneficial owners, to record and update any changes in the register in a timely way; and to provide such information to the registrar (s.123A (2) Company Act 2020). LLPs are required by the Limited Liability Partnership Act amendment 2020, to capture, maintain and update BO information accordingly. LLPs are required to obtain, maintain and timely update particulars of ultimate beneficial owner, including any change therein, of any person who is a partner in limited liability partnership in such form, manner and submit such declaration to the registrar. For cooperatives societies, amendments to provincial Cooperatives Societies Rules in 2020 require cooperative societies to obtain and provide BO information to the registrar in a timely way. The amended Cooperatives Societies Acts 1925 has requirements for BO information of cooperatives operating in to be updated within 3 months (s.21A).

183. 24.6 (c) - Pakistan has expanded the scope of CDD obligations applicable to FIs (s.7A(2)(b) of AMLA Amendments 2020) and extended those obligations to cover all DNFBPs. The gap identified in the MER with CDD applicable to CDNS is addressed by the regulations (Regulation 4 (4) and (6) of National Savings Regulations). While most detailed CDD are set out in the AMLA and the various sectors regulations for DNFBPs, there are some gaps with the detailed CDD obligations on lawyers and legal professionals. Regulations issued by FBR (FBR Regulations S.8) cover DPMS and real estate agents. Regulations issued by ICAP (s.11 & 13 of ICAP Regulations; and ICMAP regulations) cover accountants. These mechanisms outlined, combined with UBO information available with legal persons and various registries, help to enable competent authorities to determine beneficial ownership of a company in a timely manner. The gap with the availability of detailed CDD information from lawyers and who may be offering company services is a minor gap, taking into account the other mechanisms.

184. Criterion 24.7 – Mostly Met. Since the MER companies, LLPs and cooperatives are required to ensure that accurate and up-to-date beneficial ownership information is collected and updated. However the cut-off date for legal persons’ registers to be populated had not expired as the requirement came into force recently and still information are to be collected and should be under review. The Companies Amendment Act 2020, section 123 (A) requires the company to maintain a register of its ultimate beneficial owners and to timely record their accurate and updated particulars including any change therein. The foreign companies Regulation states that BO’s information shall be obtained, maintained and duly update by the foreign company. The Limited Partnership Regulations obliges partners in capacity of BO, within 14 days from date of change, to update the details of beneficial ownership. REs, including FIs and DNFBPs are required to periodically review the adequacy of customer information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date, particularly for higher risk categories of customers. The AMLA 2020

and sectoral regulations extended this requirement to DNFBPs, with the exception of lawyers and notaries.

185. Criterion 24.8 - Met. Since the MER, all legal persons (companies, LLPs, and cooperatives societies) are required to inform the competent authority of BO information. This is set out in Regulation 19(A)(6) of the Companies (General Provisions and Forms) Regulations 2018; Regulation 14A(6) of the LLP Regulations, 2018; and relevant provisions of provincial cooperative society acts (s. 20A(ii) of Baluchistan; s.26(2) of Sindh; s.20-C(2) of KPK; and s.20A(2) of Punjab and s.20-A(2) and s.20-B of ICT).

186. Criterion 24.9 - Met. Since the MER, the amended Companies Act (2020) extends the obligation under Section 413(3) of the Company Act, to keep records for at least for 5 years in case of winding up. Similar provisions are stated in the provincial Cooperative Societies Acts.

187. Criterion 24.10 – Met (as per the 2019 MER).

188. Criterion 24.11 – Mostly Met. Amendments to the Companies Act in 2020 prohibit the issuance of bearer shares or bearer shares warrants and requires that all existing bearer shares or bearer shares warrant should be cancelled or registered following the procedure set out in regulation 16 (A) of the 2020 amendments to the Companies (General Provisions & Forms) Regulations, 2018. At the time of this report the process to mitigate the risk of existing bearer shares had not been fully implemented. For cooperative societies, each of the cooperative societies acts for the provinces and Islamabad Capital Territory have included clauses that prohibit the issue of bearer shares and the management of existing bearer shares.

189. Criterion 24.12 – Met. Since the MER the amended Companies Act (2020) and regulations (2017 & 2018) require disclosure of nominee directors and shareholders to the company in a timely manner. The Foreign Companies Regulations, 2018 require the disclosure of nominee directors for foreign companies registered in Pakistan. Cooperative societies are required to obtain, keep and file with the registrar details of any nominee directors.

190. Criterion 24.13 – Mostly Met. Sanctions under the limited liability partnerships act are not wholly proportionate or dissuasive. Sanctions under the various cooperative societies acts are proportionate and dissuasive.

191. Criterion 24.14 – Mostly Met. The provisions in place to provide international cooperation on basic and beneficial ownership information have widened since the MER, in keeping with the updated analysis at R.40. Deficiencies identified under Rec. 37 and 40 which pertains to SECP have also been improved and re-rated to Mostly Met. E.g. 37.1, 40.1, 40.2(d-e), 40.4.

192. Criterion 24.15– Mostly Met. Mechanisms to monitor quality and consistency of assistant related to sharing information on basic and beneficial ownership information have been put in place since the MER. The findings of R.37 & R.40 are applicable to international cooperation in relation to transparency of legal persons.

### *Weighting and Conclusion*

193. Pakistan has taken a range of measures to assess risks of different types of legal persons, to amend legislation, issue regulations and rules and to improve regulatory processes to address many of the gaps identified in the MER. Notable amongst these reforms are actions to establish a range of enforceable obligations to obtain, maintain and to register ultimate beneficial ownership for the full range of legal persons and to require almost the full range of DNFBPs to collect BO information to be available to competent authorities in AML/CFT. In addition, Pakistan has taken a range of steps to ensure transparency, including managing risks from nominees, bearer shares and warrants and

improvements to international cooperation on information relating to the transparency of legal persons. Minor gaps remain including: full implementation of new obligations to register BO information; full CDD obligation on lawyers in their roles forming and managing legal persons; full implementation of controls on bearer shares; and some limits in relation to international cooperation. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 24 is re-rated to Largely Compliant.**

#### *Recommendation R.25 (Originally rated NC)*

194. Pakistan was rated NC with R.25 in its MER, with the report finding there were no measures in place to mitigate the risks or ML and TF associated with trust structures and other legal arrangements. Registration of immovable property trusts involved only the registration of the trust deed and not the collection of beneficial ownership information beyond what was in the trust deed. Trustees were not required to collect beneficial ownership information.

195. Since the MER, four Provinces and the Islamabad Capital Territory (ICT) have issued Trust Acts 2020 and amended acts and Rules related to waqfs. The provincial trust acts include provisions which repeal the Trust Act 1882. Implementing Rules have been issued by each of the relevant provincial governments to implement each respective Act. As a whole, separate statutes are in place for legal arrangements such as waqfs. The Trust Act 1882, which previously applied to the whole Pakistan, still applied to two autonomous territories (Azad Jammu and Kashmir, Gilgit-Balistan) at the cut-off time of this report<sup>4</sup>.

196. Criterion 25.1 – Mostly Met. Since the MER, the amended provincial and ICT trust acts and regulations and amended provincial and ICT waqf acts and rules set out obligations to obtain and register adequate, accurate, and current information on the identity of all the parties to the trust or waqf, as well as details of the trust property and details of the natural person exercising ultimate effective control over the trust or waqf. There was a minor gap with the scope of obligations in the two autonomous territories (Azad Jammu and Kashmir, Gilgit-Balistan) at the cut-off time of this report.

197. Criterion 25.2 – Mostly Met. Since the MER, each of the amended provincial and ICT trust acts places an obligation on trustees to update the information they hold in a timely manner on the settlor, beneficiaries, trustees and any other person exercising ultimate control over the trust, as well as trust assets and income (Section 32 of the Sindh Trust Act, etc.). All such information is to be filed with the registrar and subject to verification. The regulations require a trustee or each trustee to update information on any changes to members of the trust or trust assets within 5 days of any change (Regulation 7.c). For waqf, waqf managers are required to obtain and hold update in a timely manner waqf registration information. Comparable provisions are not included in the Trust Act 1882, which previously applied to the whole Pakistan, and which still continues to apply to Azad Jammu and Kashmir, Gilgit-Balistan.

198. Criterion 25.3 – Mostly Met. Since the MER, each of the amended provincial and ICT Trust Acts set out enforceable obligations on trustees to disclose their capacity as trustees when entering into business relationship or performing any occasional transaction with a reporting entity, which covers all FIs and DNFBPs. Comparable provisions are not included in the Trust Act 1882, which previously applied to the whole Pakistan, and which still continues to apply to Azad Jammu and Kashmir, Gilgit-

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<sup>4</sup> As of March 2021 the Pakistan Trust Act no longer applies to these territories as both have adopted other provincial trust acts and waqf properties acts to be in force subject to suitable modifications. The Gilgit Baltistan Assembly adopted the KPK Trust Act 2020 and amendments, the KPK Trust Rules 2020, and the KPK Waqf Properties Ordinance 2020 in keeping with Art 60 (3&5) of the Government of Gilgit Baltistan Order 2018. The Azad Jammu and Kashmir Trusts (Adaptation) Ordinance, 2021 was issued to apply the Punjab Trusts Act 2020, while the Azad Jammu and Kashmir Waqf Properties (Amendment) Ordinance 2021 was issued to apply the Punjab Trusts Act 2020 and the Punjab Waqf Properties Ordinance 2020 to be in force in Azad Jammu and Kashmir. This was done as per Article 41(1) of the Azad Jammu and Kashmir Interim Constitution, 1974.

Balistan. It is not clearly demonstrated that trustees of foreign trusts are required to disclose their status as trustees to FIs and DNFBPs when forming a business relationship or carrying out an occasional transaction above the threshold. Pakistan has indicated that the provincial acts require the disclosure of the 'trustee' and given the definition of trustees, the obligation extends to foreign trusts in the same manner as for domestic ones. In the absence of further elaboration or judicial interpretation, this was not firmly demonstrated.

199. Criterion 25.4 - Met. There are no inhibiting measures that impede access to information related to trusts and information on trusts is available in the trust registries and, for waqfs, with the Zonal Administrator Auqaf (through the Auqaf and Religious Affairs Dept). Access to information can be granted to authorities for information contain in the register and Trusts Act 2020 provide for fines and penalties for breach of duties. Regulations under each of the four provincial Trust Acts 2020 set out powers of the Director of the Registry to obtain any information for any purpose to be obtained from the trustees and such information should be provided within 5 days. The Registry is empowered to share with any competent authority or to require the trustees to share with competent authorities (Rule 12, Sindh Trust Rules 2020). Trustees of foreign trusts operating in Pakistan are not be prevented by law or enforceable means from providing competent authorities with any information relating to the trust. Waqf Properties Acts require the provincial government to maintain a register of waqf and provide for fines and penalties for breaches of obligations. Law enforcement authorities can also obtain information held by trustees and other FIs or DNFBPs, if available, as indicated under R.31.

200. Criterion 25.5 –Met. Since the MER Trustees governed by the provincial trust acts and the ICT act are bound to inform the registers about trusts. Law enforcement authorities can also obtain information held by trustees and other FIs or DNFBPs, if available, as indicated under R.31. An online registration portal for all provincial Waqf, Trust & Cooperatives (WTCs) has been developed which is currently operative in all provinces. FMU and all LEAs (federal and provincial), have access to the online registration portal to access complete basic info about any WTC, its beneficial owner, members, trustees, authors, etc. through name, identification number, type or location. Pakistan indicated that a more limited public database is available in which the general public can search waqf, trust & cooperatives through name, identification numbers, type or location.

201. Criterion 25.6 – Partly Met. Information available to domestic authorities on trusts (whether domestic trusts or foreign trusts operating in Pakistan) can be supported by international cooperation as set out in R.37- R.40). Notable progress has been made in relation to obligations for R.40. Section 4 and 7 of Mutual Legal Assistance Act 2020 empowers the central authority to seek any information from the foreign jurisdictions, as specified therein. Significant weaknesses are noted with the new MLA Act as outlined in R.37.

202. Criterion 25.7 – Mostly Met. Since the MER each of the provincial and ICT Trust Acts 2020 indicate that trustees of trusts formed under those statutes are liable for breaches of the rules applicable to trusts under the Acts. There are sanctions for specific obligations of a trustee under those provisions, for failing to provide information and for failing to disclose their status to a trustee as per c.25.3. here are equivalent measures for waqf with administrative fines up to 25 million rupees (per se Baluchistan Section 29) , and any person liable with providing false information or failing to register the waqfs would be punish with a fine calculated by waqfs authorities or an imprisonment up to 5 years, or both. comparable provisions are not included in the Trust Act 1882 for trusts formed under that act, which previously applied to the whole Pakistan, and which still continues to apply to Azad Jammu and Kashmir, Gilgit-Balistan.

203. Criterion 25.8 – Mostly Met. Most information outlined at 25.1 is available at the provincial and ICT registries and as such no sanction is required to enforce access by other competent authorities. Comparable provisions are not included in the Trust Act 1882, which previously applied to the whole Pakistan, and which still continues to apply to Azad Jammu and Kashmir, Gilgit-Balistan. AMLA

provides proportionate and dissuasive sanctions to ensure FIs and all DNFBPs grant to competent authorities timely access to information regarding the trust referred to in criterion 25.1.

#### *Weighting and Conclusion*

204. Since the MER Pakistan has taken a range of measures to amend legislation, issue regulations and implement registration processes to address many of the gaps identified in the MER. Notable amongst these reforms are actions to establish a range of enforceable obligations to register all details of trusts and waqf, including those who ultimately control a trust, as well as all details of trust property and beneficiaries (if known) and to require FI and the full range of DNFBPs to be informed if a customer is a trustee and for almost the full range of DNFBP to collect BO information to be available to competent authorities in AML/CFT. In addition, Pakistan has taken steps to ensure access to information on trusts and waqf, including an online database searchable by the FIU and all LEAs. There have been some improvements to international cooperation on information relating to the transparency of trusts. Minor gaps remain including: extension of obligations to trusts formed in Azad Jammu and Kashmir, Gilgit-Balistan; conclusive indications as to whether trustees of foreign trusts face obligations; and some limits in relation to international cooperation. Considering the nature and scope of the remaining gaps in relation to Pakistan's risk and context, these gaps are given minor weight in determining the final rating. **Recommendation 25 is re-rated Largely Compliant.**

#### *Recommendation R.27 (Originally rated PC)*

205. Pakistan was rated PC with R.27 in its MER. The report found that SBP and SECP were authorised to impose only a limited range of sanctions, and that CDNS and Pakistan Post were not subject to AML/CFT supervision.

206. Criterion 27.1 - Met. Since the MER the amended AMLA 2020 defines the National Savings (AML & CFT) Supervisory Board as the supervisory body for CDNS (s.6A(1)) with powers to monitor/supervise, including conducting on-site inspections for the purpose of ensuring compliance of requirements set out in the AMLA by CDNS and its regional offices (s.6A(2)(f) of AMLA). The National Savings AML and CFT Supervisory Board (Powers and Functions) Rules, 2020 clarified the constitution, powers and functions. The National Savings (AML & CFT) Regulations set out detailed AML/CFT requirements.

207. In 2019 AML/CFT controls over financial services previously conducted by Pakistan Post were reformed. The financial service businesses previously operated by the Pakistan Post have been taken over by a newly established FI (Postal Life Insurance Company Limited, PLICL) and a contracted commercial bank. Both the PLICL and the commercial bank are licensed and regulated FI, and are subject to a full range of AML/CFT obligations and supervision. Pakistan also established the Pakistan Post (AML/CFT) Supervisory Board to oversee compliance of AML/CFT requirements during a transition period until March 31 2021. Section 6A of the AMLA read with Schedule IV of that Act identifies the Pakistan Post (AML & CFT) Supervisory Board for Pakistan Post as an AML/CFT regulatory authority. The Pakistan Post AML/CFT Supervisory Board (Powers and Functions) Rules, 2020 and Pakistan Post (AML & CFT) Regulations, 2020 cover compliance of AML/CFT. Both instruments are enforceable.

208. Criterion 27.2 - Met. Since the MER the statutory instruments outlined above empower the relevant supervisors to conduct inspections of FIs.

209. Criterion 27.3 - Met. Since the MER the amended AMLA (2020) authorizes AML/CFT supervisory authorities, including SBP, CDNS and Pakistan Post with powers to compel production of information relevant to monitoring compliance with AML/CFT requirements by REs (S.6A(2)(g)).

210. Criterion 27.4 - Met. Since the MER the amended AMLA authorizes AML/CFT supervisors including the SBP and the SECP with powers to impose a wide range of monetary and administrative penalties to REs, including its directors, senior management and officers failing to comply with the act or those who fail to comply with TFS requirement (s.6A(1) & (2)(h)). The AML/CFT Sanction Rules 2020 further clarifies the power of AML/CFT regulators to impose sanctions, as well as the type and amount of sanctions.

#### *Weighting and Conclusion*

211. With the amended AMLA (2020) and AML/CFT Sanctions Rule, the SBP and the SECP and the CDNS Supervisory Board have the power and a wide range of sanctions in place against violations of AML/CFT regulations. The Pakistan Post no longer operates financial service businesses defined in FATF recommendation. **Recommendation 27 is re-rated to Compliant.**

#### *Recommendation R.28 (Originally rated NC)*

212. R.28 was rated NC in Pakistan's MER as Pakistan had no framework in place to regulate and supervise DNFBPs.

213. Criterion 28.1 - Not Applicable (as per MER).

214. Criterion 28.2 - Met. Since the MER the amended AMLA designates AML/CT supervisory authorities and Self-Regulatory Bodies (SRBs) for DNFBPs and empowers them with necessary powers and functions to monitor compliance (S. 6A together with Schedule IV of the AMLA). Pakistan also issued Notification of Competent authorities as Oversight Bodies for SRBs (SRO 952). PBC, ICAP, ICMAP, FBR, MLJ, SECP are the government authorities and SRBs designated to monitoring and ensuring compliance.

215. Criterion 28.3 - Mostly Met. Since the MER some authorities have initiated offsite supervision of DNFBPs. Each category of DNFBPs (except for lawyers), the designated AML / CFT Regulator / Supervisor has adopted detailed AML/CFT regulations and have developed and are in the process of implementing a risk matrix to support risk-based monitoring.

216. Criterion 28.4 - Partly Met.

217. 28.4(a) - Since the MER the amended AMLA gives adequate powers to supervisory bodies to perform their functions, including powers to monitor compliance (s.6A(2) and 7(a-h) of the AMLA 2020).

218. 28.4(b) - The amended AMLA gives empowers AML/CFT supervisory authorities with powers for licensing and registration of REs and imposing conditions to conduct any activities to prevent ML/TF and predicate offences.

219. The FBR has issued AML/CFT Regulations for real estate agenda, dealers in precious metals and stones and accountants which are not members of ICAP and ICMAP, with Regulation 3 setting out requirements to provide criminal record information on, or to update, registration. It is not clear however whether criminals and their associates would be refused from holding or being the beneficial owner of a significant or controlling interest, or being part of the senior management of the reporting entity.

220. Under the Chartered Accountants Ordinance and the Cost and Management Accountants Act, individuals cannot become a member of ICAP or ICMAP, respectively, if they have a criminal conviction. It is unclear whether this requirement extends to associates of criminals.

221. There are no relevant requirements for lawyers.

222. 28.4(c) - Since the MER the amended AMLA empowers AML/CFT Regulatory Authorities to impose sanctions, including monetary and administrative penalties, on REs as well as their directors, senior management and officers, who violate specified requirements under the Act, or associated Rules and Regulations. The AML/CFT Sanction Rules are also applicable to REs, their directors, senior management and officers.

223. Criterion 28.5 - Not Met. DNFBP supervisors are in the process of putting in place AML/CFT risk-based supervisory frameworks<sup>5</sup>. ICAP and ICMAP have commenced off-site supervision via a questionnaire, however no other DNFBP supervision is occurring.

#### *Weighting and Conclusion*

224. Pakistan has taken steps to address shortcomings in relation to DNFBP supervision, including the establishment of an AML/CFT supervisory framework. Deficiencies remain with fit and proper requirements and the implementation of risk-based AML/CFT supervision for DNFBPs. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 28 is re-rated to Partially Compliant.**

#### *Recommendation R.30 (Originally rated PC)*

225. Pakistan was rated PC with R.30 in its MER, as there were gaps in relation to parallel investigation and power to take expeditious actions subject to confiscation.

226. Criterion 30.1 - Met (as per the MER). The relevant legal and institutional framework is unchanged since the MER.

227. Criterion 30.2 - Met. Since the MER the amended AMLA 2020 clarifies that ML and TF offences are cognisable offences, in which a LEA has the authority to make an arrest without a warrant and to start an investigation with or without the permission of a court (s.21). This allows LEAs to conduct ML investigations in parallel with predicate investigation. Pakistan also issued a number of enforceable instruments to designate investigation agencies (NAB, ANF, FIA, FBR-Customs and FBR-IR (tax)) as ML investigation agencies. Enforceable instruments were issued to designate the FIA and provincial police counter-terrorism departments (CTDs) to investigate TF. These include NEC Instructions (September 2020), NACTA's Policy and Implementation Plan on Financial Investigations of Terrorism Cases for LEAs (2019); NACTA SOP for provincial police Investigation of TF Cases (2018); Multilateral MoU amongst 14 LEAs, intelligence agencies and the FIU (2019); FBR-Customs Office Order (10th April 2020); FIA SOP - Illegal MVTS cases; and ANF SOP on CFT Linked with Drug Trafficking (2018).

228. Criterion 30.3 - Mostly Met (as per the MER). The MER noted gaps in relation to powers to take expeditious actions subject to confiscation. NAB issued a directive in March 2020 to take expeditious measures on property that is suspected of being involved in the commission of corruption, corrupt practices and money laundering, and that undue delay in taking expeditious action will result in disciplinary actions. In September 2020 NEC instructed LEAs to add the words "Expediently/Promptly" in their respective SOPs for action take on freezing, seizing and confiscating movable and immovable assets related to ML/TF cases. In response, FIA HQ, FBR-Customs and FBR-IR (tax) issued SOPs or instructions to promptly or expeditiously freeze and confiscate assets/property.

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<sup>5</sup> Pakistan advised that since 1 October 2020, the supervisors of real estate agents, DPMS and accountants have become fully staffed and operationalise their supervisory regime. In addition, FBR, ICAP and ICMAP have developed risk-based supervision frameworks and inspection manuals. Implementation of these frameworks is ongoing.

ANF also issued instructions concerning tracing, identifying and freezing assets, however there was no reference to this needing to occur promptly and/or expeditiously.

229. Criterion 30.4 - Mostly Met. As noted in the MER, SECP is designated to investigate and prosecute insider trading in securities and other offences under the SECP Act. The SECP Chairman/Commission is empowered to disclose any information that is likely to assist LEAs in performance of their functions (Section 35(6)(b) of the SECP Act). Since the MER Pakistan has change its system such that all LEAs are designated to investigate ML cases, which means any LEA that receives a referral from SECP could conduct a parallel investigation. A lack of clarity as to which LEAs are designated to investigation ML offences associated with SECP predicates remains<sup>6</sup>. There is also no prescribed mechanism for SECP to refer cases to other agencies to conduct parallel investigations.

230. Criterion 30.5 - Met (as per the MER). The relevant legal and institutional framework is unchanged since the MER.

#### *Weighting and Conclusion*

231. Pakistan has rectified a number of the deficiencies, including the issuance of the NEC's general directive to all LEAs to conduct parallel financial investigations into ML and TF predicate offences, introduction of case referral mechanisms and the amendment of SOPs/instructions to ensure expeditious actions are taken on freezing, seizing and confiscating assets. Minor deficiencies remain, including that ANF does not require expeditious actions on freezing, seizing and confiscation of assets, that there is a lack of clarity as to which LEA is designated to investigate ML associated with SECP predicate offences and no mechanism for the SECP to refer cases to other agencies to conduct parallel investigations. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 30 is re-rated to Largely Compliant.**

#### *Recommendation R.31 (Originally rated PC)*

232. Pakistan was rated PC with R.31 in its MER, with the report noting there were gaps in relation to the limited investigative powers for most LEAs, including inability to undertake undercover operations, accessing computers, controlled delivery for purposes of timely investigations and the lack of legal provisions for all competent authorities to request relevant information held by the FMU.

233. Criterion 31.1 - Met. Since the MER the amended AMLA (s. 25) provides LEAs with the power to access information held by REs that is reasonably required by the investigating or prosecuting agency or FMU for the purposes of ML, predicate offences and TF investigations, prosecutions and related actions. Other legal and institutional framework relevant to c.31.1 is unchanged since the MER.

234. Criterion 31.2 - Met. Since the MER the amended ATA (s. 19(c)) allows any investigating officer, with the permission of the Court, to use techniques including undercover operation, intercepting communications, accessing computer systems and controlled delivery for investigation of TF. In addition, amendments to the AMLA (s.9A) allow LEAs, with the permission of the Court, to use undercover operations, intercepting communications, assessing computer systems and controlled delivery for investigations of offences of ML, associated predicate offences, and TF. This rectifies the deficiencies identified in the MER.

235. Criterion 31.3 - Mostly Met. Since the MER the amended AMLA (s. 21) defines ML and TF as cognisable offences. With the amendment to Section 25 of AMLA, FMU and LEAs are able to access

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<sup>6</sup> Following the progress report submission date, SECP has established an SOP on referring ML and TF cases. This SOP was not reviewed by the Review Team.

information collected by REs, and the Federal Government, Provincial Governments, local authorities and REs must provide assistance, including the production of records, documents and information reasonably required by the investigating or prosecuting agency or FMU. FMU and 13 other agencies have entered into an MoU to cooperate and coordinate in exchange of information relating to ML, TF and predicate offences, however SECP and the Registrars of Cooperative Societies are not signatories to this MoU and there are no other mechanisms to exchange relevant information in a timely manner.

236. Criterion 31.4 - Met. Since the MER the amended AMLA (s.25) requires officers of the Federal Government, Provincial Government, local authorities and REs to provide assistance, including the production of records, documents and information reasonably required by the investigating or prosecuting agency or FMU for the purposes of ML, predicate offences and TF proceedings and investigations. By the operation of this amendment all LEAs can request and seek information held by the FMU for the purposes of ML, predicate offences and TF proceedings and investigations. Additionally, the information exchange MOU entered by 14 agencies including the FMU and other LEAs now provide mechanisms to exchange information.

#### *Weighting and Conclusion*

237. Deficiencies remain with respect to the timeliness of identifying natural/legal persons that hold or control accounts. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 31 is re-rated to Largely Compliant.**

#### *Recommendation R.32 (Originally rated PC)*

238. Pakistan was rated PC with R.32 in its MER, with the report finding a number of shortcomings, including the extent of cooperation between FMU and FBR-customs to support implementation. The absence of dissuasive, proportionate sanctions/fines on making false declarations were given particular weight.

239. Criterion 32.1 - Mostly met. As noted in the MER Pakistan's cross border declaration system combines obligations under the Customs Act and Foreign Exchange Act. The Customs Act requires owners of baggage to make verbal or written declaration of its contents and prescribes false declaration as an offence, as is concealment or circumvention of custom controls. The amended Baggage Rules 2006 issued under the Customs Act require passengers to file a prescribed declaration form with respect to incoming unaccompanied baggage and incoming and outgoing accompanied baggage. The lack of requirement for outgoing unaccompanied baggage is negated by the prohibition on taking USD10,000 or more out of Pakistan without SBP approval (see below).

240. With respect to cargo, section 131 (1)(a) of the Customs Act states that no goods can be exported without a declaration being filed to Customs. As noted above, 'goods' is defined to include currency and negotiable instruments. Section 79(1)(a) requires declaration for incoming goods within 10 days of arrival.

241. Cross-border transportation of currency and BNI by post/mail is prohibited inbound and outbound under SBP's Foreign Exchange Manual (Chapter 18, s.4).

242. Notification No. F.E.1/2012-SB (Currency Declaration Form, prescribed under the Foreign Exchange Regulation Act) requires any person bringing into Pakistan currencies and/or bearer negotiable instruments exceeding aggregate value of USD 10,000 or equivalent to make a declaration. Notification No.F.E.2/98-SB sets out that for cross-border transportation of currency exceeding the equivalent of USD \$10,000, permission from SBP must be obtained.

243. There are restrictions in place for Exchange Companies (ECs), with the SBP Exchange Companies Manual requiring ECs to declare the import of cash in US Dollars and other foreign currency to the SBP at the airport through a form. ECs are prohibited from exporting US Dollars, and are required to report to SBP ahead of export of permissible foreign currencies. ECs are not authorised to import/export BNIs, as the SBP Exchange Companies Manual explicitly prohibits this

244. From September 2019 the Currency Declaration System has been operationalised at all official entry and exit points in Pakistan (SRO 689(I) 2019), however it is noted that Pakistan has some porous borders beyond those official crossing points which impacts comprehensive implementation.

245. Criterion 32.2 - Met. As noted in the MER, Pakistan requires all persons bringing currency valued at more than USD10,000 into Pakistan to make a written declaration. Persons carrying more than USD10,000 or equivalent out of Pakistan must seek permission from SBP to do so. Since the MER SRO 689(1)(2019) requires outbound passengers with accompanied baggage to file a declaration form. There is no similar requirement for passengers with unaccompanied baggage, but this is negated by the requirement to seek permission from SBP.

246. Criterion 32.3 – N/A (as per the MER). The relevant legal and institutional framework relevant legal and institutional framework is unchanged since the MER.

247. Criterion 32.4 - Partly met (as per the MER). The deficiency identified in the MER remains; that while SBP has officers at some border cross-points, it does not have clear authority to obtain further information from the carrier with regards to the origin of the currency or BNIs and their intended use. Pursuant to the Customs Act, FBR-customs officers may ask any concerned individual or institution to provide information when necessary, including further information from the carrier with regard to the original of the currency or BNIs and their intended use.

248. Criterion 32.5 - Mostly met. Since the MER Pakistan amended s.139 and s.156(1) of the Customs Act to include a penalty for false declarations, with s.156(1) setting out an escalating range of penalties which include confiscation of the falsely or undeclared cash, or fines which are multiples of the cash and in the most serious cases, possible prison terms of a minimum of five years and maximum of 14 years. Customs officers may levy administrative fines for failure to declare currency under the USD10,000 threshold and for figures between USD10,000 – 20,000. Failure or mis-declaration of currency above USD20,000 is subject to criminal adjudication and can include custodial sentencing.

249. Pakistan amended the Customs Act S. 139 and 156 (1)) in March 2020, to ensure the availability of a dissuasive, proportionate and graded penalty regime. Pakistan evidenced that it can sanction breaches below the USD10,000 threshold, however, it is unclear whether penalties could increase for repeat offenders or for more serious offences.

250. Criterion 32.6 - Met. Since the MER FBR-customs and FMU are signatories to the multilateral NACTA MOU that allows for exchange of information between authorities relating to ML, TF and predicate offences. In addition, FMU and FBR has signed an MoU to facilitate the specific sharing of Currency Declaration System data. FMU is a registered user of Customs' WeBOC online system which contains all declaration forms.

251. Criterion 32.7 - Met. Since the MER the NACTA MOU allows for the sharing of information relevant to ML, TF and predicate offences. Pakistan has established provincial, divisional and border task forces for the purpose of combatting smuggling, including cash smuggling, and joint investigations are occurring. In addition to operational collaboration at border check points, meetings of the Border Task Force are also held twice a month to discuss on-going issues. Joint Control Rooms have been established at all major airports in Pakistan and have officers from Customs, FIA, ANF and CAA to control and prohibit cash couriers.

252. Criterion 32.8 - Partly met (as per MER). No changes have been made to the timeframes for detaining, seizing and adjudicating on currency reasonably believed to be illegally imported or exported. Customs issued instructions via an office memorandum setting out that Customs can refer a case to relevant LEAs which have TF jurisdiction, however this does not satisfy the requirements of c.32.8 and is focused on TF.

253. Criterion 32.9 - Met. The Customs Act, 1969 (s.155G) requires Customs to keep a record of every transmission sent to or received from a registered user using the Customs Computerised System for a period of five years. All currency declarations, including false declarations and instances of suspicion of ML/TF, are captured in the WeBOC system.

254. Criterion 32.10 – Met (as per the MER). The relevant legal and institutional framework relevant legal and institutional framework is unchanged since the MER.

255. Criterion 32.11 – Mostly met. Since the MER Pakistan amended s.139 and 156(1) of the Customs Act, providing for dissuasive and proportionate penalties that apply where persons are carrying out a physical cross-border transportation of currency that is related to ML/TF or predicate offences. The analysis at R.4 confirms that measures are in place which would enable the confiscation of such currency or BNIs that represent instruments or proceeds of crime. The deficiency noted in c.32.5 applies.

#### *Weighting and Conclusion*

256. Pakistan has improved its legal and operational framework relating to its cross-border declaration regime since its MER. Minor deficiencies remain, a lack of clear authority for SBP to obtain further information from the carrier with regard to the origin of the currency or BNI and their intended use, limitations in the timeframes for detaining, seizing and adjudicating on currency reasonably believe dot be illegally imported or exported, and ML related investigation referral mechanisms. Pakistan has made progress towards amending the sanctioning system and improving local agencies' coordination mechanism, however, when sanctioning the offence of non/false declaration, it is not clear whether the penalties increase for repeat offenders or for more serious offences. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 32 is re-rated to Largely Compliant.**

#### *Recommendation R.35 (Originally rated PC)*

257. Pakistan was rated PC with R.35 in its MER, with the report noting that sanctions outside the banking sector relating to AML/CFT requirements were limited. Fines were the principal sanctions, and the only available sanction for SECP. TFS sanctions were not dissuasive and there were no AML/CFT related sanction powers for NPOs, or for DNFBPS in relation to preventative measures.

258. Criterion 35.1 – Mostly Met.

259. R.6 related sanctions: The deficiency with respect to insufficiently dissuasive pecuniary TFS sanctions has been addressed. In relation to UNSCR 1373, the ATA was amended in July 2020 to include imprisonment of up to ten years and/or a fine up to 25 million rupees (around USD 155,412) for natural persons (S. 11-O of the ATA)<sup>7</sup>, and fines of up to 50 million rupees (around USD 310,825). Liability extends to every director, officer, or employees found guilty who may be liable for imprisonment and/or fines as per natural persons. In relation to UNSCR 1267, the ATA makes it an offence to refuse or non-comply with orders issued under the UNSC Act 1948 (s. 11-000).

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<sup>7</sup> [http://na.gov.pk/uploads/documents/1596443399\\_725.pdf](http://na.gov.pk/uploads/documents/1596443399_725.pdf)

260. Additionally Pakistan enacted the AML/CFT Sanctions Rules in October 2020. These rules empower regulators to sanction their respective FIs and DNFBPs, and officers, for breaching TFS obligations (set out in Section 7H and any rules made thereunder). A range of administrative penalties can be applied, including warnings and reprimands, license revocation and RE de-registration, permanent or temporary prohibition of natural persons to act as officeholders, and pecuniary penalty of up to 100 million rupees.

261. R.8 related sanctions: The gap relating to c.8.4(b)<sup>8</sup> (a lack of any AML/CFT-related sanctioning powers for NPOs for non-compliance with preventative measures) has been largely addressed. Pakistan enacted charity laws for each of its four provinces. These laws uniformly establish requirements for NPOs including registration, maintaining account records, and producing annual reports. They also authorise provincial commissions to inspect charities and impose sanctions for non-compliance. These sanctions comprise both criminal and administrative sanctions. In the case of the latter, penalties uniformly include suspension or cancellation of a charity's registration, the suspension/removal of key officials, and administrative monetary penalties. The review team considers the administrative monetary penalties, ranging from a minimum of Rs 25,000 to a maximum of 2 million depending on the province (approximately USD 161 to 12,876), to be insufficiently proportionate or dissuasive. However, given the existence of other forms of sanctions (e.g. de-registration and imprisonment), this is a minor issue.

262. R.10 to 21 related sanctions: Pakistan has amended its sanctions framework, rectifying the MER deficiencies. AML/CFT regulators can impose a range of proportionate and dissuasive sanctions, both in terms of monetary and administrative penalties, for failing to comply with regulations (whether those set out in the AML/CFT Sanctions Rules or by regulators themselves).

263. Deficiencies with respect to limited sanctions in AMLA, Companies Act, and AML/CFT Regulations issued by SBP and SECP have been addressed. AML/CFT regulatory authorities are now authorised to impose sanctions against natural persons or REs (S.7(I) and S.6A(2)(h), AMLA). A graduated range of monetary and administrative sanctions are available to authorities (Rule 4, AML/CFT Sanctions Rules 2020). Wide-ranging administrative sanctions include statements of warning and reprimand, imposing conditions, limitations, or restrictions on business and product offerings, issuance of mandatory directions to undertake actions, temporary or permanent prohibition of officeholders in a reporting entity, and license revocation/de-registration. Monetary sanctions of up to Rs 100 million per violation can also apply (Rule 6, Sanctions Rules).

264. Requirements for R.9 to R.20 are in place in the updated AMLA 2010, SBP Regulation, SECP Regulation, CDNS Regulation. Breaches are subject to the abovementioned provisions in the amended AMLA and the Sanctions Rules, and in the case of R.14, in S. 23 of the Foreign Exchange Regulation Act. The amended FERA specifies sanctions for illegal MVTS operators of imprisonment for up to five years or a fine, or both, as well as confiscation of property.

265. R.22 related sanctions: The amended AMLA subjects each DNFBP sector to a regulatory authority for AML/CFT supervision and monitoring, addressing the MER deficiency. Sectoral AML/CFT regulations issued under AMLA provide enforceable obligations to implement preventative measures (FBR AML/CFT Regulations for DNFBPs which covers real estate agents, jewellers, and accountants; AML/CFT Regulations for Chartered Accountants Reporting Firms; AML/CFT Regulations for Cost and Management Accountants Reporting Firms). There are penalties in place (Rules 4 and 6 of the AML/CFT Sanctions Rules), ranging up to 100 million rupees (around USD 621,550) per violation.

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<sup>8</sup> The ability to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs; in response to risk-based measures that enable effective supervision/monitoring.

266. Criterion 35.2 – Met. AML/CFT regulators and authorities are authorised to impose sanctions on REs’ directors, senior management, and officers for violating any AML/CFT obligations set out in the Act, and any rules or regulations made thereunder or those who fail to comply with the TFS regulations (s. 7, 2020 AMLA). Pakistan has therefore addressed the shortcomings in this criterion.

#### *Weighting and Conclusion*

267. Pakistan has revised its sanctions framework since its MER. There is now a full range of criminal and administrative sanctions for non-compliance with relevant obligations set out in R.6, 9, 10-21 and 22-23, which are proportionate and dissuasive. Minor deficiencies remain with the lack of proportionate and dissuasive administrative monetary penalties in relation to NPOs. Sanctions are now applicable on all RE and their directors and senior management and officers. Having considered the nature and scope of the remaining gaps, and Pakistan’s risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 35 is re-rated to Largely Compliant.**

#### *Recommendation R.37 (Originally rated PC)*

268. Pakistan was rated PC with R.37 in its MER, with the report finding that Pakistan was unable to provide MLA to foreign countries in the absence of a treaty for ML offences. There was also a lack of a legal basis to provide MLA in terrorism, TF and in most predicate offence cases. LEAs lacked powers to execute MLA requests.

269. Criterion 37.1 – Mostly met. Since the MER Pakistan enacted a new Mutual Legal Assistance Act (MLAA) in August 2020. MLA can be provided on the principle of reciprocity or agreement (s.3(3) of MLAA 2020). Further, Pakistan can provide MLA without a reciprocal agreement or arrangement by notification in the Official Gazette, however this does not provide the widest possible range of MLA that can be rapidly achieved. The MLA Guidelines, issued in September 2020, provide a process for internal cooperation with timelines for domestic responses from relevant agencies, which supports the timeliness of responding to requests, however the Guidelines are not legally binding.

270. Pakistan has broadened the scope of its legal basis to provide MLA, with s. 4 of the MLA Act relating to a ‘criminal offence’, which is defined as ‘an offence punishable under the Pakistan Penal Code or relating to money laundering, terrorist financing and offences pertaining to arms, ammunition and narcotics under the Customs Act’.

271. Rectifying the deficiency identified in the MER, the MLAA (s.24(1)) provides NAB with a legal basis to provide MLA to foreign counterparts.

272. The minor deficiency relating to the coverage of predicate offences remains.

273. Criterion 37.2 – Partly met. Since the MER Pakistan has a new case management system to monitor MLA requests and improve maintenance of data. The system is accessible to all LEAs executing requests, the MOI and the MOFA. “International Cooperation Wings” have been established within each LEA and MLA Guidelines and a NACTA CFT Directive have been issued, setting out processes and required timeframes.

274. While the Central Authorities is defined in the MLA Act as the MOI, section 2 notes that in practice the Executive Committee (comprising representatives from the MOI; Law and Justice; MOFA and the Home Secretariats of all four provinces) essentially exercises the relevant powers. Pakistan advised that in practice it has been the Executive Committee acting as the Central Authority. This mechanism is unclear, noting decisions are by majority of members present and the difficulty in facilitating timely prioritisation and execution of requests if a committee needs to be convened to address requests.

275. Criterion 37.3 – Not met. No deficiency was identified in the MER, however there have been changes to the relevant legal and institutional framework since the MER. The MLAA 2020 includes clause (s.5) that requires that the subject of the request must be notified of the request. This condition is unreasonable or unduly restrictive, as it has the potential to impact domestic and foreign investigations and/or may result in requests not being made by, or to, foreign jurisdictions for fear of compromising the investigation.

276. Criterion 37.4 – Met. Since the MER the new MLAA confirms that MLA shall not be refused on the grounds of bank secrecy or on the sole ground that the offence is also considered to involve fiscal matters.

277. Criterion 37.5 – Not met. As noted in c.37.3, since the MER the new MLAA has created a new deficiency. Although s.18 of the MLAA requires confidentiality, this conflicts with the clause in s.5 which requires the subject of the request to be notified, which is contrary to protecting the integrity of the investigation or inquiry.

278. Criterion 37.6 – Met. The CNSA 1997 requires dual criminality, however the MLAA provides for cooperation on the basis of reciprocity and it applies to CNSA offences as ‘criminal offences’ and also references ‘narcotics’ which picks up those offences set out in the CNSA 1997. The MLAA (s.24) confirms that the provisions of the Act shall be in addition to and not in derogation of any of the provisions relating to MLA contained in any other acts, which would include the CNSA.

279. Criterion 37.7 – Met (as per the MER). The relevant legal and institutional framework is unchanged since the MER.

280. Criterion 37.8 – Met. Since the MER the MLAA expands the investigative powers which are provided to LEAs for timely execution of cases related to ML, TF and other predicate offences (s.7). The ATA enables the use of investigative powers, with the permission of the court. In MLA, there are not specific provisions with regard to this issue, however, the MLAA (s.7) enables the sharing of information obtained during an investigation that must be authorised by the court. Therefore, subject to court approvals, it is possible to use all types of investigation measures in the execution of a MLA request. The R.31 deficiencies regarding the LEA powers in the execution of MLA requests have been met as per 31.2 in the FUR.

### *Weighting and Conclusion*

281. While Pakistan has taken positive steps in enacting the new MLAA and establishing MLA processes and timeframes, the restrictive condition imposed on the provision of MLA through the new requirement to inform the subject of the request, is a significant deficiency noting the risk and context of Pakistan, including the risks of cross-border ML/TF and associated predicate offences. Having considered the nature and scope of the remaining gaps, and Pakistan’s risk and context, these gaps have been given major weight in determining the final rating. **Recommendation 37 is re-rated to Non-Compliant.**

### *Recommendation R.38 (Originally rated NC)*

282. Pakistan was rated NC with R.38 in its MER. There were no legal arrangements to provide MLA in terrorism related matters, TF and most predicate offences. A bilateral treaty or other arrangement was required to meet foreign MLA requests concerning ML, and there was a lack of a general legal framework for assistance in relation to predicate offences with no link to ML.

283. Criterion 38.1 – Not met. Since the MER Pakistan’s new MLAA allows for the rendering and soliciting of MLA in criminal matters by Pakistan. Criminal matters include a criminal offence, proceeds of ML and TF, confiscation orders and seizure of proceeds and instrumentalities of crime.

While the MLAA includes process details, further procedures to support expeditious processes have not been developed. Further, the deficiency noted in c.37.3, relating to the requirement to inform the subject of the MLA about the request, is applicable to this criterion. In addition, with respect to foreign requests to Pakistan, the MLAA 2020 (s.13 (2)) requires a court to issue a freezing of confiscation order only after notifying the subject of the matter. In relation to foreign confiscation orders, the MLAA (s. 14 (2)) requires the court to issue adequate notice to all persons appearing to have an interest in the property against which the confiscation order may be executed. These requirements render the framework unreasonable and unduly restrictive. The minor deficiency relating to the coverage of predicate offences remains.

284. Criterion 38.2 – Partly met (as per the MER). The MER noted that under S 63 of the CNSA, it is possible to enforce a foreign non-conviction based confiscation order, however there were no other clear provision in any other Acts in this regard. Since the MER the MLAA sets out the matters that may form the subject of a request by Pakistan to a foreign country, or received by Pakistan from a foreign country, respectively (s.7 and 8). While the MLAA enables Pakistan to share confiscated goods, it only applies to ‘confiscation of proceeds or instrumentalities of crime or terrorist property after criminal conviction’, so it does not include non-conviction based orders. Pakistan stated there is no mechanism for execution of non-conviction based confiscation orders as it is not possible to satisfy the court to issue a confiscation order without conviction. The requirement for confiscation to be linked to criminal conviction renders the provisions relating to cooperation in terms of sharing or freezing assets ineffective for non-conviction based orders.

285. Criterion 38.3 – Met. Since the MER the MLAA provides the legal basis for the central authority to enter into agreements (Sections 4, 15 and 14). The broad language provides a basis for these agreements and arrangements for coordinating seizure and confiscation actions with foreign counterparts party to agreements. The MLAA allows international cooperation as outlined above, and develops a process to request seizure or confiscation by order of a foreign court.

286. Criterion 38.4 – Met. Since the MER the MLAA applies to all criminal offences including ML/TF, narcotics, arms and offences under the Customs Act. Sharing of confiscated assets is allowed subject to court approval (MLAA s.13 and 14).

#### *Weighting and Conclusion*

287. Pakistan has made progress to address deficiencies highlighted in its MER by broadening the scope of offences to which it can provide MLA. Procedures have not been developed to support timely handling of requests. There are limitations with respect to non-conviction based orders. Pakistan’s compliance with R.38 is significantly compromised by the restrictive conditions introduced in the MLAA, including the requirement that the subject of any request to restrain or confiscate assets be notified of that request before the action can be taken, which prevents Pakistan from maintaining the confidentiality of requests and undermines its ability to act expeditiously. This deficiency is given significant weight, noting the risk and context of Pakistan, including the risks of cross border ML, TF and predicate offences. **Recommendation 38 remains Non-Compliant.**

#### *Recommendation R.40 (Originally rated PC)*

288. Pakistan was rated PC with R.40 in its MER, with the report noting there were mechanisms for incoming requests which provide different powers to different authorities who will provide support, however there was little information on how such matters were coordinated nationally by region or by law enforcement agencies. MOUs with different foreign counterparts provided information on the various arrangements with each counterpart.

289. Criterion 40.1 – Met. FMU, FIA, SBP, FBR, National Savings Supervisory Board and SECP have provisions for information sharing spontaneously or on request in either the amended AMLA or

their own procedures. ICAP, ICMAP, Pakistan Bar Council and any regulator or SRB nominated by the Pakistan Government can act as a regulatory body. The AMLA enables regulators to co-operate with their foreign counterparts and make reciprocal arrangements to share, request and receive information relating to the requirements of the Act and any regulations as expeditiously as possible (s.6B of the AMLA). The MLA Guidelines allow for the spontaneous sharing of information if the information is of a nature that can be disclosed and the disclosure is within the authority of the LEA. The NACTA Directive on International Cooperation on TF matters (2020) has provisions supporting both formal and informal exchanges of information. The Directive on International Cooperation on ML Offence (2020) ensures that administrative, regulatory, LEA and other authorities (including SBP, SECP, NAB, FBR, FMU, FIA and ANF) dedicated to combating ML have the ability to cooperate and exchange information at the national and international levels.

290. Criterion 40.2 – Mostly met. Since the MER the amended AMLA allows FMU to share, request and receive information relating to ML, TF, predicate offences, and any other information that may be necessary to accomplish the objectives of the AMLA (s.26). ATA offences are covered by the s.26 AMLA provisions relating to sharing of information and providing assistance to foreign jurisdictions.

291. The updated NACTA directive (March 2020) applies to NAB, FBR, FMU, FIA, ANF and the CTDs in three provinces, and encourages formal and informal exchange of TF information. Other agencies and supervisors have legislation and MOUs that allow FIA, SECP, ANF, SBP and FMU to share TF information.

292. The Directive on International Cooperation on ML Offence (2020), which applies to NAB, SBP, FMU, SEC, FIA, ANF and FBR allows for formal and informal cooperation with relevant foreign authorities, however does not set out clear cooperation procedures. The Directive establishes safeguards to be applied for protection of confidentiality of information received from the requested country.

293. Rectifying a deficiency in the MER, ANF now has 34 MOUs for cooperation with foreign counterparts.

294. FMU has implemented a SOP on prioritisation and timely execution of requests and safeguarding the information received.

295. Criterion 40.3 – Partly met. SECP has not signed any further MOUs since the MER, however it can exchange information through IOSCO protocols with over 100 jurisdictions. SBP has 23 MOUs/agreements and FIA has a SOP allowing exchange of information related to transnational crime. FMU now has bilateral MOUs with 20 jurisdictions. FBR has not signed any new MOUs since the MER. ANF has signed one new MOU and can now cooperate with 34 jurisdictions. The number of MOUs in place for key agencies remains limited.

296. Criterion 40.4 – Met. Since the MER the Directive on International Cooperation on ML Offences requires agencies (SBP, SEC, NAP, FBR, FIA and ANF) to give feedback on the usefulness of the information obtained, and for feedback to be sought from the requesting country on usefulness of information provided. FMU provides feedback in a timely manner as per its SOP, and the NACTA Directive (applying to NAB, FBR, FMY, FIA, ANF and the provinces) sets a wide range of obligations in terms of sharing and answering requests for information related to TF.

297. Criterion 40.5 – Met. Since the MER the SECP updated its guidelines for cooperation in 2020, elaborating on the scope of ‘public interest’ and the grounds on which provisions of exchange should not be refused. This rectifies the deficiency identified in the MER.

298. Criterion 40.6 – Met. No deficiency identified in the MER and no subsequent change to the relevant legal and institutional framework.

299. Criterion 40.7 – Met. No deficiency identified in the MER and no subsequent change to the relevant legal and institutional framework.

300. Criterion 40.8 – Partly met. Since the MER the amended AMLA has improved the information exchange powers of the FMU and regulators. FMU, FIA, ANF, Pakistan Post and SECP have appropriate powers to exchange information and conduct enquiries on behalf of foreign counterparts, however other competent authorities do not.

301. Criterion 40.9 – Met. Since the MER the amended AMLA enables FMU to cooperate with counterpart FIUs and make reciprocal arrangements to share, request and receive information relating to ML, TF and predicate offences.

302. Criterion 40.10 – Met. Since the MER the FMU has implemented a new SOP that requires it to provide feedback on quality and use of information when information is required by foreign FIUs. The NACTA Directive on International Cooperation, which applies to FMU, requires feedback to be provided to the requesting competent authority on the use and usefulness of the information obtained related to TF.

303. Criterion 40.11 – Met. Since the MER the amended AMLA enables the FMU to share all kinds of information related to ML, TF and predicate offences, as well as any linked to the objectives of the AMLA. The Act requires the exchange of information based on reciprocity. The AMLA (s.6(4)(c & e)) allows the FMU to enter into arrangements with domestic agencies, authorities or any reporting entity or any of its officers as may be necessary to implement the provisions of the Act and share reports, information and materials.

304. Criterion 40.12 – Met. No deficiency identified in the MER and no subsequent change to the relevant legal and institutional framework.

305. Criterion 40.13 – Met. Since the MER the amended AMLA rectifies the deficiency identified in the MER by enabling regulators (including SBP) to exchange all information domestically available, including through reciprocal arrangements.

306. Criterion 40.14 – Partly met. Since the MER the amended AMLA enables regulators (including SBP) to share information requested and receive information relating to the requirements of this Act and any related regulations. As per the MER, it remains unclear whether the BCO 1862 provision relating to SBP sharing prudential supervisory information relates to international exchanges. However, the information obtained under the AMLA and its regulations does not extend to fit and proper regulations, including beneficial ownership information of licenced FIs, or to wholly prudential information. Such information is obtained under the BCO (in the case of banks) and other sector-specific statutes and the concern raised in the MER remains unaddressed by the amended AMLA.

307. Criterion 40.15 – Met. Since the MER the amended AMLA addresses the deficiency identified in the MER by enabling SBP to nominate any person to investigate an offence and enter into a reciprocal arrangement with a foreign jurisdiction to investigation said offence.

308. Criterion 40.16 – Met. Since the MER the SBP and SECP have entered into MOUs with foreign counterparts to enhance supervisory cooperation. The MOUs require that prior authorisation is required for any dissemination of information exchanged or use of that information for supervisory and non-supervisory purposes, unless it is a legal obligation to do so.

309. The Directive on International Cooperation on ML Offences (which applies to SECP and SBP) requires that information is used for the purposes that are agreed to and will not be disclosed to a third party without consent.

310. Criterion 40.17 – Met. Since the MER the Directive on International Cooperation on ML Offences ensures relevant authorities dedicated to combating ML have the ability to cooperate and exchange information. The NACTA Directive on International Cooperation in TF (applying to NAB, FBR, FMU, FIA, ANF and the four states) includes requirements to share information for intelligence and investigative purposes related to TF.

311. Criterion 40.18 – Met. Since the MER the Directive on International Cooperation on ML Offences authorises LEAs to liaise directly with international organisations and LEAs inside and outside of Pakistan for real-time information exchange to tackle transnational organised crime. The NACTA Directive on International Cooperation in TF allows for both formal and informal international cooperation between LEAs to support the investigation of TF.

312. Pakistan cooperates with INTERPOL members under the constitution of ICPO INTERPOL, with NCB the designated liaison point.

313. Criterion 40.19 – Mostly met. As per the MER, authorities can form JITs with the permission of the Supreme Court, with the exception of JITFs for investigation of TF cases as this is captured by the NACTA SOP on joint investigation team (JIT) investigations for TF. Since the MER Pakistan has also issued a NACTA SOP on JIT, so Supreme Court authorisation is not a requisite now. However, it only enables the formation of JITs to investigate TF cases. ML or predicate offences are not included. Consequently, implementation of this criteria is limited.

314. Criterion 40.20 – Mostly met. Since the MER the Directive on International Cooperation on ML Offences and the NACTA Directive on International Cooperation in TF states authorities should adopt due procedures in accordance with the law and international standards. Pakistan states there are no restrictions on exchanging information with non-counterparts in other jurisdictions and that in practice this has occurred. It is not clear whether this information can be exchanged indirectly.

### *Weighting and Conclusion*

315. Pakistan has made a range of improvements to its international cooperation framework, including amendments to the AMLA and the issuance of Directives relating to ML and TF offences. Minor deficiencies remain relating to the limited number of MOUs signed by key agencies and some agencies have deficiencies remaining in their ability to cooperate with counterparts. Having considered the nature and scope of the remaining gaps, and Pakistan's risk and context, these gaps have been given minor weight in determining the final rating. **Recommendation 40 is re-rated to Largely Compliant.**

### **3.2. Brief overview of progress on other recommendations rated NC/PC**

316. Further to the recommendations considered in section 3.1 above, Pakistan was rated PC on R.10, 15, 18, 26, 33 and 34 in the MER. In February 2021 Pakistan submitted its third progress report, requesting re-ratings for R.10, 18, 26 and 34. A review team has been formed to assess compliance with these recommendations. Pakistan has not reported on its progress rectifying deficiencies identified in R.15 or 33.

317. As noted in section 3.1 above, Pakistan's compliance with R.37 has lowered from PC to NC due to the implementation of a new MLA law which imposes restrictive conditions on the provision of MLA through the requirement to inform the subject of the request. This is a significant deficiency noting the risk and context of Pakistan, including the risks of cross-border ML/TF and associated predicate

offences. Pakistan has advised it is currently drafting amendments to the MLA Act to rectify the identified deficiencies.

#### IV. CONCLUSION

318. Overall, Pakistan has made notable progress in addressing the technical compliance deficiencies identified in its MER and has been re-rated on 22 Recommendations.

319. Recommendations 14, 19, 20, 21 and 27 have been re-rated to compliant, and recommendations R.1, 6, 7, 8, 12, 17, 22, 23, 24, 25, 30, 31, 32, 35 and 40 to largely compliant. Recommendation 28 has been re-rated to partially compliant. Insufficient progress has been made to re-rate Recommendation 38. Compliance with Recommendation 37 has been downgraded to non-compliant.

320. In light of the progress made by Pakistan since its MER was adopted, its technical compliance with the FATF Recommendations is as follows as of the reporting date 1 October 2020:

R.	Rating	R.	Rating
1	PC (2019 MER) ↑ LC (FUR Oct 2020)	21	PC (2019 MER) ↑ C (2020 Oct FUR)
2	LC (2019 MER)	22	NC (2019 MER) ↑ LC (2020 Oct FUR)
3	LC (2019 MER)	23	PC (2019 MER) ↑ LC (2020 Oct FUR)
4	LC (2019 MER)	24	PC (2019 MER) ↑ LC (2020 Oct FUR)
5	LC (2019 MER)	25	NC (2019 MER) ↑ LC (2020 Oct FUR)
6	PC (2019 MER) ↑ LC (2020 Oct FUR)	26	PC (2019 MER)
7	PC (2019 MER) ↑ LC (2020 Oct FUR)	27	PC (2019 MER) ↑ C (2020 Oct FUR)
8	PC (2019 MER) ↑ LC (2020 Oct FUR)	28	NC (2019 MER) ↑ PC (2020 Oct FUR)
9	C (2019 MER)	29	PC (2019 MER) ↑ C (2020 Feb FUR)
10	PC (2019 MER)	30	PC (2019 MER) ↑ LC (2020 Oct FUR)
11	LC (2019 MER)	31	PC (2019 MER) ↑ LC (2020 Oct FUR)
12	PC (2019 MER) ↑ LC (2020 Oct FUR)	32	PC (2019 MER) ↑ LC (2020 Oct FUR)
13	LC (2019 MER)	33	PC (2019 MER)
14	PC (2019 MER) ↑ C (2020 Oct FUR)	34	PC (2019 MER)
15	PC (2019 MER)	35	PC (2019 MER) ↑ LC (2020 Oct FUR)
16	LC (2019 MER)	36	LC (2019 MER)
17	PC (2019 MER) ↑ LC (2020 Oct FUR)	37	PC (2019 MER) ↓ NC (2020 Oct FUR)
18	PC (2019 MER)	38	NC (2019 MER)
19	PC (2019 MER) ↑ C (2020 Oct FUR)	39	LC (2019 MER)
20	PC (2019 MER) ↑ C (2020 Oct FUR)	40	PC (2019 MER) ↑ LC (2020 Oct FUR)

321. Pakistan has 31 Recommendations rated C/LC. Pakistan will move from *enhanced (expedited)* to *enhanced* follow-up, and will continue to report back to the APG on progress to strengthen its implementation of AML/CFT measures. Pakistan submitted its third progress report in February 2021.

## Glossary of Terms Particular to Pakistan’s AML/CFT Framework

Abbreviation	Meaning
AMLA	Anti-Money Laundering Act 2010 (and amendments)
ANF	Anti-Narcotics Force
ATA	Anti-Terrorism Act 1997 (and amendments)
BCO	Banking Companies Ordinance 1962
CDNS	Central Directorate of National Savings
CNIC	Computerized National Identification Card
CTD	Counter-Terrorism Department (police)
EC	Exchange Companies
FBR	Federal Board of Revenue
FERA	Foreign Exchange Regulations Act
FIA	Federal Investigating Agency
FMU	Financial Monitoring Unit of Pakistan (Pakistan’s FIU)
HBL	Habib Bank Ltd
ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost and Management Accountants of Pakistan
ICT	Islamabad Capital Territory
INPO	International Not-for-Profit Organisation
KPK	Khyber Pakhtunkhwa
MLAA	Mutual Legal Assistance Act 2020
MOA	Memorandum of Agreement
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOI	Ministry of Interior
MVTS	Money Value Transfer Services
NACTA	National Counter Terrorism Authority
NAB	National Accountability Bureau
NEC	National Executive Committee
NRA	National Risk Assessment
RE	Reporting Entity
SBP	State Bank of Pakistan
SECDiv	Strategic Export Control Division (Ministry of Foreign Affairs)
SECP	Securities and Exchange Commission of Pakistan
SRO	Statutory Regulatory Order