

Khaleeq Kiani

Informal economy to be regulated for meeting FATF concern

ISLAMABAD: The government has decided to bring all unregulated sectors of the national economy under an interim regulatory framework to address at the earliest outstanding reservations on money laundering and terror financing (ML and TF) of the international financial watchdog — Financial Action Task Force (FATF).

The decision was taken by the National FATF Coordination Committee (NFCC) at its recent meeting. Prime Minister Imran Khan had set up the high-powered 12-member NFCC in the first week of October to ensure execution of all FATF-related tasks till Dec 1.

A senior government official told Dawn that the NFCC has decided to appoint the Federal Board of Revenue (FBR) as an interim regulator for the real estate sector in view of disagreement among key stakeholders over creation of proposed Real Estate Regulatory Authority. The FBR will also act as a regulator for jewellers, jewels, diamonds and precious stones because there was no regulator at present for the sector.

Likewise, the NFCC has recommended the role of regulator for lawyers, legal advisers and law firms to the Ministry of Law and Justice. It authorised the Audit Oversight Board to act as a regulator for chartered accountants, accountants, financial consultants and all those relating to accounts groups.

Financial Action Task Force's reservations on money laundering and terror financing discussed

The Financial Monitoring Unit (FMU) has been assigned the job of regulating financial transactions through Pakistan Post and National Savings for the time being.

Officials said that the decision to have above interim regulatory arrangements had been taken on the basis of feedback and advice received from a recent plenary of the FATF in Paris that decided to keep Pakistan in the grey list until February next year. The participants of the Paris Plenary had expressed concerns that the above-mentioned unregulated sectors involved great risk potential to be used as sources of ML and TF.

FATF members are reported to have expressed displeasure that so critical areas in Pakistan were operating without regulators and demanded to have proper regulatory framework for these sectors for national risk mitigation.

Led by Minister for Economic Affairs Division Hammad Azhar, the NFCC comprises federal secretaries of finance, foreign affairs and interior besides heads of all the institutions and regulators concerned with money laundering and terror financing.

They include the State Bank of Pakistan's (SBP) governor, Securities and Exchange Commission of Pakistan's (SECP) chairman, FIA's director general, member (Customs) of the FBR and the FMU's director general. The committee also has three senior officials from the military's General Headquarters.

The NFCC meeting held about a week ago noted that the country's real estate sector had seen concentration of undocumented flow of money. There had been a lot of discussions among the federal and provincial authorities over creation and coordination of real estate regulators but the process was found time consuming given overlapping and yet independent powers of various stakeholders in the constitution and relevant laws.

It was, therefore, found feasible until the resolution of legal challenges to empower the FBR to act as a regulator for the real estate sector. The FBR was considered well placed to act as a regulator given its engagements with key real estate players in the past as part of documentation and taxation purposes in the first phase. Documented and undocumented annual business in the real estate sector is estimated to be around Rs500 billion. The decision would also help the FBR to better achieve its tax related objectives, sources said.

They said senior officials of Pakistan Post, courier companies and national saving schemes would coordinate with the FMU during the interim period to address emergent FATF targets. The work has also been started to put in place proper regulatory framework under the Ministry of Postal Services, finance ministry, the SBP and SECP for which Dec 31, 2019 has been set as deadline.

This framework after completion would be shared with the International Country Risk Guide for review in January 2020.

The official said Pakistan would also submit an updated progress report along with its strategy and measures against anti-money laundering and counter financing terror (AML/CFT) to the FATF and Asia Pacific Joint Working Group by Dec 7. By Dec 17, the joint working group would seek further clarifications (if any) and Pakistan would be required to file a conclusive report, based on joint working group questions, by Jan 7.

Pakistani authorities expect the 39-member joint working group to review the country's case by the third week of January. They hope to be able to remove reservations of 8-9 key countries and report significant progress on its target action plans to the FATF that would finally decide in its next plenary due in second half of February about the future course of action — removal, extension or graduation from the grey list.

The Officials believe that Pakistan had completed action plan on about 22 items to a large extent and lagged behind on 4-5 targets. They advocate that if reviewed under normal circumstances, Pakistan could be given some more time to overcome remaining shortcomings. Some quarters in Islamabad suggest that Pakistan was unfortunately also being viewed from a political angle, otherwise, even Afghanistan was not in the FATF's grey or blacklist.

"Pakistan faces greater challenges than many other countries because of its risk profile," Mr Azhar had recently told a parliamentary panel. Some countries had been removed from the grey list after just 80 per cent compliance while Pakistan may be required to do more, he had said.