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Framework for managing risks of trade-based money laundering and  
terror financing issued October 16, 2019,

**SBP takes major step in the midst of FATF parley**

KARACHI: In a major move to curb trade related Money Laundering (ML)/ Terrorist Financing (TF), the State Bank of Pakistan (SBP) on Tuesday issued “Framework for Managing Risks of Trade Based Money Laundering and Terrorist Financing”.

Under the framework, SBP has advised banks for strict monitoring and enhanced due diligence of all trade related transactions.

According to SBP, transferring value through legitimate trade transactions has become increasingly attractive avenue for money launderers and terrorist financiers, as they are able to easily obscure their transactions in significant volumes of international trade and escape detection.

The main methods by which such people transfer value through legitimate trade transactions are under-invoicing, over-invoicing, short/over-shipment, obfuscation of type of goods/services. While, the international trade is becoming highly vulnerable to ML/TF, therefore, an effective regulatory framework is required to mitigate the misuse of trade transactions.

In this regard, SBP has developed a comprehensive framework in order to strengthen trade-related Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) regime and restrict possible misuse of banking channel.

Authorised Dealers (ADs) are advised to upgrade their systems and controls and bring policies and procedures in line with the requirements of the framework to ensure meticulous compliance with the provisions thereof with immediate effect except as otherwise provided in the framework

AS per Framework, ADs will incorporate a comprehensive set of trade-related ML/TF risks scenarios/red flags, on the pattern of non-exhaustive list, in their transaction monitoring system and will ensure that any alerts generated are analyzed by the AML analysts for their logical conclusion.

It will be mandatory for the ADs to report the suspicion customer or a transaction to the Suspicious Transaction Report (STRs) to Financial Monitoring Unit (FMU) within seven working days after forming suspicion.

ADs are also advised to educate their clients about their obligation of ensuring correct declaration of particulars on the prescribed forms, utilization of foreign exchange for the exact purpose for which it is acquired by them and repatriation of foreign exchange that represents the full export value of goods.

According to SBP, in the event it is found that material information required to be submitted on the prescribed forms has been omitted or suppressed, foreign exchange is misutilized by a client of an AD or export proceeds repatriated by a client does not represent the full export value of goods, SBP will initiate a penal action against such delinquent parties under relevant provisions of the Foreign Exchange Regulation Act, 1947 (FERA).

Further, the matter will also be reported to relevant stakeholders for necessary action under the laws being administered by them.

SBP has asked ADs to undertake assessment of their existing customers on the Framework parameters and develop their distinct trade-related risk profile by April 30, 2020. Moreover, periodic review of the trade portfolios will be done by ADs to keep the risk profile of their customers updated.

ADs will also be required to define clear policies and procedures for price verification, including defining the level of acceptable price variance, escalation procedures and suspicious transaction reporting mechanism when significant differences in prices are identified.

ADs have been asked to formulate procedures whereby each of their client, based on the risk assessment conducted at the time of on boarding with respect to trade related activities, performance history and historic reporting of STRs to FMU (if any), is assigned a risk rating/category in addition to the general risk profile of the customer being maintained by the ADs.

ADs will also institute a mechanism, supported by technology-based solutions, to carry out assessment of prices of underlying contracts on post transaction basis that is after the approval of Electronic Import Form (EIF)/ Manual Import Form (MIF), Electronic Form “E” (EFE)/ Manual Form “E” (MFE) or disbursing the amount to the exporter, where price checks are not performed at pre-transaction stage, and shall satisfy themselves that the prices declared by their client represent the fair market value of goods.

The significant variance between the prices of goods declared on EIF/MIF, EFE/MFE, Advance Payment Voucher and their fair market value will serve as one of the prime red flag indicators and all such transactions will be escalated to the higher management, which will review the same and consider the option of filing STR with FMU, etc. This procedure will be documented by ADs for later review/audit/inspection

SBP has asked ADs to ensure that high risk transactions in the area of trade business are subject to more extensive due diligence and are escalated, where required, to the higher management

As per framework, the following transactions may have higher ML/TF risks and may be considered for Enhanced Due Diligence:

- a) Open Account
- b) Advance Payments (Import & Export of Goods);
- c) Import/Export of Services;
- d) Import/Export of Free of Cost Goods;
- e) Trade transactions with related party;
- f) Import of goods that are exempt from import related duties;
- g) Import of goods that are subject to over 25% import duties;
- h) Export of goods on which export-related rebates are allowed by the Government of Pakistan;
- i) Where an exporter allows trade discounts to the same importer consistently by the way of deduction of amount of discount from the proceeds of export bills;
- j) Trade transaction of sole proprietorship or partnership concern received by centralized trade processing unit from a different branch of an AD with whom their relationship is not generally associated or frequent switching of branch for trade transactions by such concerns;
- k) Trade transactions with high-risk jurisdictions or jurisdictions with lax AML/CFT regulations and implementations;
- l) Outward remittance from personal FCY account of the importer; and
- m) Unusually relaxed terms for settlement of counter value both for exports as well as imports e.g. no specific timeline for shipment of goods against exports advance payment, extended credit period for payment against import of goods especially between unrelated parties.