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Editorial

Clear warning: FATF statement

Pakistan has been accorded a final four-month extension during the plenary session of the Financial Action Task Force (FATF) held in Paris from 16 to 18 October to comply with the 40-odd agreed recommendations. The deadline is based on the evaluation analyses on Pakistan's level of compliance and the level of effectiveness of Anti-Money Laundering/Combating the Funding of Terrorism (AML/CFT) 229-page report prepared by Asia-Pacific Group (APG).

The 22nd APG meeting was held in Canberra from 18 to 23 August and the Pakistani delegation was led by the Governor State Bank of Pakistan. The review period (February to October 2018) did not cover the areas in which the Government of Pakistan made substantial progress since October 2018, or so claimed a statement issued by the Ministry of Finance at the time. This claim is clearly at odds with the statement dated June 2019 uploaded on the FATF website in which it noted that "not only did Pakistan fail to complete its action plan items by January deadline, it also failed to complete its action plan items due May, 2019". In addition, the FATF website noted that it has given Pakistan four months (till October 2019) to improve its "counter-terrorist financing" operations in accordance with the agreed plan "when the last set of action plan items are set to expire… otherwise, the FATF will decide the next step at that time for insufficient progress."

The Pakistan team managed to convince the AGP that there has been some "improvement in AML/CFT compliance as a result of SBP's supervision" but the report adds that "the value of monetary sanctions imposed is low. The SECP has a limited understanding of ML/TF risks and had not implemented a risk-based supervisory approach… Pakistan Post, CDNS and DNFBPs are not supervised for AML/CFT compliance."

The APG report significantly notes that "Pakistan LEAs have undertaken 2420 ML investigations, resulting in 354 prosecutions (primarily self-laundering cases) and the conviction of one natural person for self-laundering relating to corruption." It is unclear whether this one individual is a former prime minister claiming that he was convicted for "iqama" rather than for money laundering. The report further notes that, "Pakistan seeks and provides informal international cooperation on some occasions; however LEAs are not using FMU to seek financial intelligence from foreign FIUs effectively. Pakistan's ability to share beneficial ownership information is severely limited" – words frequently used by the special assistant to the prime minister on accountability Shehzad Akbar claiming progress on getting information on corrupt Pakistanis from foreign countries.

The APG report also notes that "Pakistan faces a significant TF threat, TF cases are identified by a number of mechanisms but not via financial intelligence. Pakistan has registered 228 TF cases and convicted 58 individuals (Pakistan has not undertaken any TF investigation of legal persons) which is not consistent with Pakistan's overall TF risk. The vast majority of investigations and all of convictions were obtained at the provincial level including 49 convictions in Punjab. A total of 9 TF convictions for all other provinces in Pakistan is not consistent with province specific TFD risks."

The ministers, however, are putting a favourable spin post-FATF October plenary session by publicly stating that Pakistan won a diplomatic victory in spite of India's lobbying to place us on the black list; while privately lamenting the language used by the FATF President, Xiangmin Liu of China, stating that in Pakistan the "intense monitoring process since June 2018 has not made sufficient progress… in spite of high level commitment to fix these deficiencies… the majority of the issues of the action plan still remain outstanding…Pakistan needs to do more and it needs to do faster." However, he added, that the purpose of the warning is "not to punish but to incentivize."

Pakistan thus remains on the list of countries with 'strategic AML/CFT deficiencies'. The FATF notes that all deadlines in the action plan have now expired. While noting recent improvements, the FATF expresses "serious concerns with the overall lack of progress by Pakistan to address its TF risks, including remaining deficiencies in demonstrating a sufficient understanding of Pakistan's transnational TF risks, and more broadly, Pakistan's failure to complete its action plan in line with the agreed timelines and in light of the TF risks emanating from the jurisdiction".

A sustained effort on the part of the government's team to understate the extent of its non-compliance with FATF conditions and focus attention on India's attempt to place Pakistan on the black list is, one would hope, limited to domestic consumption. It appears that the FATF concern remains unaddressed and it wants Pakistan to not only make progress on its earlier commitments but also identify and demonstrate actions taken under the FATF conditions on AML and CFT. Let us make no mistake that the FATF statement is a warning that is assuming increasing urgency and needs to be addressed with actions that can be clearly displayed.