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# FATF PLENARY UPDATE

OCTOBER 2021

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## INTRODUCTION

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The Financial Action Task Force (FATF) is a global watchdog that develops policies for curbing money laundering and financing of terrorism (ML/TF). It sets standards and guidelines for all countries to adopt, as well as monitors and evaluates countries on their performance. The aim is to promote countries to adopt FATF Recommendations and in doing so, preserve the integrity of the global financial system. In 2018, the FATF placed Pakistan on the ‘grey-list’ – citing ‘structural deficiencies’ that resulted in failure to effectively target TF/ML.<sup>1</sup> The Asia Pacific Group’s Mutual Evaluation Report (MER)<sup>2</sup> provided a detailed assessment of the nature of these deficiencies. These included a lack of necessary legal frameworks to target TF/ML; lack of coordination amongst governmental actors and law enforcement agencies; no coherent risk-based assessment tools; no laws/regulations for certain high-risk sectors such as Designated Non-Financial Businesses and Persons (DNFBPs); and lack of mechanisms to promote international cooperation.<sup>3</sup>

Consequently, a 27-Point Action Plan centered around most of these concerns was formulated. Pakistan was instructed to complete all points on the Action Plan, or risk being placed on the FATF’s list of Non-Cooperative Countries and Jurisdictions subject to Call to Action” (the ‘black-list’). By February 2021, Pakistan achieved comprehensive progress on its Action Plan to evade the FATF black-list, however, despite Pakistan’s achievements in improving its AML/CFT regimes, the FATF continues to place the country on the grey-list. This brief discusses the results of latest FATF Plenary held in October 2021, as well as the outstanding areas that are required for Pakistan to address during the FATF’s dual evaluation process to effectively exit the grey-list.

## OCTOBER 2021 PLENARY DECISION

On October 21<sup>st</sup>, 2021<sup>4</sup>, the FATF Plenary deliberated upon Pakistan’s progress in achieving deliverables under the 27-Point Action Plan (2018) and a consequent 7-Point Action Plan (2021). The Plenary found Pakistan compliant **with 26 out of the 27 Points on the 2018 Action Plan**, mainly targeting terrorism financing, while Pakistan had further achieved **4 out of 7 Points from the 2021 Action Plan**, handed to the government only

<sup>1</sup> Shahbaz Rana, “Pakistan Formally Placed on FATF Grey-list,” The Express Tribune, June 29, 2018, <https://tribune.com.pk/story/1746079/1-pakistan-formally-placed-fatf-grey-list>.

<sup>2</sup> The Asia/Pacific Group on Money Laundering, “Pakistan Mutual Evaluation Report October 2019” <https://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-Mutual-Evaluation-Report-Pakistan-October%202019.pdf> (hereafter cited as MER 2019)

<sup>3</sup> Ibid.

<sup>4</sup> October 2021 Plenary Outcome - Financial Action Task Force <https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-october-2021.html>

in the previous Plenary in June. This brings Pakistan’s compliance to **30 out of 34 Action Plan Points combined**.<sup>5</sup> **pg. 03**

The Government of Pakistan must fulfill all FATF Requirements and achieve all the points within the Action Plans. The FATF commended Pakistan in its monumental effort to enhance its compliance, particularly with regards to the 2021 Action Plan.<sup>6</sup> However, until all objectives are achieved, Pakistan continues to be retained under “Jurisdictions under Increased Monitoring” – or the FATF ‘grey-list.’

## FATF’S DUAL EVALUATION PROCESS AND ACTION PLANS

The FATF and its regional bodies regularly monitor countries’ AML/CFT frameworks. The FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation and provides analyses of each country’s system for preventing criminal abuse of the financial system. These evaluations, called Mutual Evaluation Reports (MERs), review how well a country’s AML/CFT frameworks fulfill the FATF requirements (Technical Compliance), and broadly, how well these frameworks are working to protect against ML/TF risks (Effective Compliance). The criteria that the FATF relies upon to conduct these evaluations comprise of 11 Immediate Outcomes to measure Effective Compliance, and 40 Technical Recommendations to measure Technical Compliance. Currently, the FATF is holding its Fourth Round of AML/CFT Mutual Evaluations.

Currently, Pakistan is subject to dual evaluation processes by the FATF, namely: the FATF Action Plans and the MER Process. The FATF Action Plans target key deficiencies in the country’s AML/CFT frameworks and are uniquely tailored to the country’s inherent ML/TF risks. Pakistan’s initial 27-Point Action Plan revolved primarily around terrorism financing (TF) concerns. Referred to as the most stringent and ambitious plan handed to any country, Pakistan has been steadily improving and enhancing its AML/CFT compliance in an exemplary manner.<sup>7</sup>

In June 2021, Pakistan was further instructed to abide by 7 additional points in addition to its current Plan. This new Action Plan broadly revolved around the area of money laundering and seeks to address Pakistan’s previously recognized deficiencies as per the MER 2019.<sup>8</sup> The dual MER evaluation and adherence to the FATF Action Plans have placed Pakistan under enhanced scrutiny – however, the comprehensive overhauling of

<sup>5</sup> Ibid.

<sup>6</sup> October 2021 Plenary Outcome - Financial Action Task Force

<https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-october-2021.html>

<sup>7</sup> “New Action Plan Items by FATF to Be Fulfilled in 12 Months: Hammad Azhar.” DAWN.COM. June 25, 2021. <https://www.dawn.com/news/1631416>

<sup>8</sup> June 2021 Plenary Outcome - Financial Action Task Force

<https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-june-2021.html>

legislative and administrative AML/CFT frameworks have significantly contributed to Pakistan's successes, which have been lauded by the FATF and the Asia Pacific Group. In the latest Follow-Up Report (FUR) to the MER, Pakistan's technical compliance improved significantly across all sectors of the evaluation – resulting in the country becoming largely or fully compliant with 35 out of 40 FATF Recommendations (as of Feb 2021).<sup>9</sup> This is a remarkable achievement from the findings of the MER 2019, where Pakistan was partially/non-compliant on 30 Recommendations, and largely/fully compliant on only 10 Recommendations.<sup>10</sup>

In this latest plenary, the FATF categorically noted that Pakistan had swiftly taken action to improve its AML/CFT regime by enacting legislative amendments to enhance its international cooperation framework. Pakistan also demonstrated monitoring of Designated Non-Financial Businesses and Professions (DNFBPs) for Proliferation Financing and Targeted Financial Sanctions (TFS) and supervision commensurate with sectoral risks. Regulators and supervisors of DNFBPs also demonstrated application of sanctions for non-compliance with beneficial ownership requirements.

## OUTSTANDING AREAS

Pakistan's progress thus far has been remarkable, as acknowledged by the APG and the FATF. Out of the initial 27-Point Plan, only one point remains outstanding on behalf of Pakistan: demonstrating that TF investigations and prosecutions target senior leaders and commanders of UN designated terrorist groups.<sup>11</sup>

From the consequent ML-based Action Plan, more than half the points (4 out of 7) were achieved within the span of one plenary session (4 months). Pakistan was further encouraged to work on the remaining AML/CFT deficiencies, which revolve around the following areas:

(1) Providing evidence that it actively seeks to enhance the impact of sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN; and

<sup>9</sup> The Asia/Pacific Group on Money Laundering, 3<sup>rd</sup> Follow-Up Report (FUR) July 2021  
<https://www.fatf-gafi.org/media/fatf/documents/reports/fur/APG-3rd-Follow-Up-Report-Pakistan-2021.pdf>

<sup>10</sup> The Asia/Pacific Group on Money Laundering, "Pakistan Mutual Evaluation Report October 2019"  
<https://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-Mutual-Evaluation-Report-Pakistan-October%202019.pdf>  
(hereafter cited as MER 2019)

<sup>11</sup> October 2021 Plenary Outcome - Financial Action Task Force  
<https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-october-2021.html>

(2) Demonstrating an increase in ML investigations and prosecutions and that proceeds of crime continue to be restrained and confiscated in line with Pakistan's risk profile, including working with foreign counterparts to trace, freeze, and confiscate assets.<sup>12</sup>

These outstanding areas highlighted by FATF in its latest statement focus on the element of demonstration. Pakistan is required to effectively illustrate those mechanisms for identifying TF/ML activity are bearing results, and targeted financial sanctions are quickly and directly applied to designated entities and individuals. There is also a need to ensure that the broader criminal justice system can enforce of these regimes, from investigation to prosecution. More specifically, adherence to 1267 and 1373 frameworks, while improving international cooperation will be essential in achieving the remaining points on both Action Plans.

The Government of Pakistan's high-level political commitment to achieving the Action Plans exhibits commitment to its international obligations. Despite apparent political considerations, with Indian authorities' claims of manipulating the FATF forum to achieve foreign policy objectives,<sup>13</sup> Pakistan continues to exhibit its resolve in improving its AML/CFT frameworks and is determined to achieve the remaining Points.<sup>14</sup>

RSIL will continue to provide impartial analysis and research on the progress of the remaining points on the FATF Action Plans, as well as Pakistan's Compliance with the FATF Recommendations.

<sup>12</sup> Ibid.

<sup>13</sup> Siddiqui, Naveed. "India's Admission on FATF Politicisation Vindicates Pakistan's Stance: FO." DAWN.COM. July 19, 2021. <https://www.dawn.com/news/1635854>.

<sup>14</sup> "New Action Plan Items by FATF to Be Fulfilled in 12 Months: Hammad Azhar." DAWN.COM. June 25, 2021. <https://www.dawn.com/news/1631416>.



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