



Financial Action Task Force

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International Co-operation Review Group

REPORT BY THE ASIA/PACIFIC JOINT GROUP CO-CHAIRS

15 June 2021, Virtual Meeting

Issue: Updated progress reports for Cambodia, Myanmar and Pakistan and post-observation period reports of the Philippines and Pakistan.

Action: For decision

FATF-XXXII

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1. Introduction

1. In February 2021, the FATF agreed to proceed on a prioritised basis to review listed countries that are already in the ICRG process and to continue with the current schedule of Post-Observation Period Reports. The FATF directed each jurisdiction for which an action plan deadline expired without completion prior to February 2021, or is expiring prior to June 2021, to undergo a review using the normal written process within the Joint Group and a discussion with Joint Group members during a virtual face-to-face meeting.
2. Pursuant to ICRG procedures and the decisions above, the Asia/Pacific Joint Group met on 10-12 and 14-19 May 2021, in a virtual setting, to discuss the progress of four countries. The Joint Group updated the progress reports for Cambodia, Mongolia and Pakistan. The Joint Group also drafted post-observation period reports for Pakistan and the Philippines which includes draft action plans annexed to the respective reports.

2. Progress Reports

2.1. CAMBODIA

FATF/FSRB Membership: APG																				
Date of Mutual Evaluation On-Site Visit: 4- 16 December2016																				
Date of Adoption of Most Recent Mutual Evaluation Report:September2017																				
Observation Period Ended:October2018																				
Post-Observation Period Findings Due to ICRG:February2019																				
Date of ICRG Endorsement of Action Plan: February 2019																				
ICRG Referral Criteria																				
“Big 6” Recommendations																				
“Big 6” Recommendations									3		5		6		10		11		20	
MER Ratings									LC		LC		LC		LC		LC		LC	
Post-Observation Period Ratings									-		-		-		-		-		-	
Immediate Outcomes Rated Moderate or Low																				
Immediate Outcomes									1	2	3	4	5	6	7	8	9	10	11	
MER Rating									Mod	Mod	Low	Low	Low	Low	Low	Low	Low	Sub	Mod	Low
Progress towards increasing effectiveness in accordance with procedures ¹									N	N	N	N	N	N	N	N	N	-	N	N
Other Recommendations Rated PC or NC (Total of 20 Recommendations Rated PC or NC; re-ratings in parentheses)																				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
PC	PC (LC)	LC	LC	LC	LC	NC	PC	C	LC	LC	PC	PC	LC	C	PC	LC	PC	PC (LC)	LC	
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
LC	PC	LC	PC	PC	PC	LC	PC	LC	LC	LC	LC	PC	PC (LC)	PC	LC	PC	PC	LC	PC	

¹ Y = Yes, N = No, * = For ICRG Discussion

Action Plan Items	Timetable	Cambodia Progress	Remaining Actions to be Taken
Immediate Outcome 2			
The draft MLA law should enter into force in order to provide a broad legal basis for MLA.	September 2020	<u>Cambodia's Update: December 2020 – March 2021</u>	This item is largely addressed.
Conduct training to all LEAs including prosecutors and judges on MLA to increase Cambodia's use of MLA requests.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u> - After conducting the workshop in some regions in the country in the last report, Cambodia plans to hold an onsite Workshop on Dissemination of The Law on Mutual Legal Assistance In Criminal Matters on 24 February 2021 to judges and prosecutors from supreme court, appeal court and municipal and provincial courts in the country as in Attachment IO2-1 Workshop on Dissemination of The Law on Mutual Legal Assistance In Criminal Matters on 24 February 2021. The workshop had been postponed until the Covid-19 pandemic is under control. - Cambodia plans to send 6 MLA requests to the U.S, Nigeria and Australia in the coming date as in Attachment IO2-2 MLA Request of Cambodia to Foreign State (2019-2021) updated from January-March 2021.	This item is largely addressed.

Joint Group's (JG's) Comments:

The Joint Group assessed this item as largely addressed in recognition of the progress made by Cambodia to conduct training to all LEAs including prosecutors and judges on MLA to increase Cambodia's use of MLA requests. Cambodia has continued to seek and conduct training to increase the use of MLA requests. Training has been conducted throughout the country to ensure that all regions are informed about the availability and process of MLA requests. From July to November 2020, Cambodia conducted 9 trainings/workshops, which is notable considering these were delivered during COVID-19 restrictions. Participants include officials from the Central Authority, officials from Competent Authorities, judges, prosecutors, and LEAs. Cambodia has made 6 MLA requests during this reporting cycle, which suggests increased awareness of, and capability of seeking, mutual legal assistance. Participants in training and workshops have disseminated the Law on Mutual Legal Assistance in Criminal Matters to all LEAs including judges and prosecutors. Although not in scope of this action item, Cambodia has demonstrated an increased use of informal cooperation as well as formal MLA requests.

During this reporting cycle, Cambodia made six further MLA requests to Australia (1), Japan (1), South Korea (1), United States (2), and Vietnam (1), and a total of 8 requests over 2020. Cambodia also provided statistics showing that MLA is being considered in every case involving transnational offending, but MLA was not always requested (either because there was sufficient evidence to prosecute a case without MLA or informal cooperation was sufficient). Of the 43 transnational investigations conducted in 2020, Cambodia had sufficient evidence to prosecute a case without MLA in 15 cases and informal cooperation was sufficient in a further 20 cases. MLA was or is being sought in the remaining 8 cases. Cambodia provided a breakdown of predicates involved in the cases which showed a number of offences in areas of 'fraud and money laundering' and 'unlawful keeping, transporting or trafficking of narcotic substances' where MLA was sought. The breakdown of predicates provided is in line with Cambodia's broader risk and context.

Cambodia has also introduced new additional policies and procedures which further demonstrates progress. In order to ensure that MLA is considered as a matter of course, LEAs have included MLA guidelines in their standard operating procedures. These SOPs are currently in force and apply to all LEAs. This means that all related offices must take into consideration whether an MLA request is needed in transnational crimes or cases related to a foreign state or a foreigner. Cambodia has also developed a system of prioritising incoming MLA requests, where officers in charge must consider 4 main criteria to decide on case priority. These guidelines help the Central Authority to improve effectiveness of executing MLA requests. These policies and procedures are a core part of an effective system and demonstrate the progress that Cambodia

has made since the MER and observation period. The Central Authority is developing the case management system and other tools after receiving assistance from the Attorney General of Australia following the MLA training.

Immediate Outcome 3

Complete the offsite monitoring tools for real estate and casinos, and utilise these tools to implement risk-based supervision to these sectors, including through prompt, proportionate and dissuasive enforcement actions, as appropriate.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u>	This item is largely addressed.
Implement the June 2018 CAFIU offsite tool to guide risk-based supervision to banks, including through prompt, proportionate and dissuasive enforcement actions, as appropriate.	Jan 2020	<u>Cambodia's Update: December 2020 – March 2021</u> Despite Covid-19, after the law on AML/CFT promulgated in June 2020 and subsequent regulations, CAFIU has been conducting awareness raising and enhancing the implementation of AML/CFT law and regulations. One of CAFIU's supervisory focus is stringent evaluation and approval of qualification and experiences of Compliance Officers from reporting entities. Compliance officers were assessed based on the documentation, skill, knowledge and work experience related to AML/CFT through the interview as well. Moreover, sufficient knowledge of compliance officers on STR reporting mechanism and processes is one of crucial criteria of the evaluation. Likewise, CAFIU step up efforts in strengthening the detection and timely reporting of suspicious transactions. In the first quarter of 2021, there were 57 requests for the nomination of Compliance Officers. After carefully assessing the requests and interviews, CAFIU approved 33 requests and rejected 24 requests. As a result, CAFIU issued 24 warning letters to encourage reporting entities to recruit suitably qualified compliance officers as soon as possible (cf. Attachment IO3-1 Sample of Warning Letter to B40). Any violation of those warning letters will lead to disciplinary sanctions stipulated in Art. 36 of the Law on AML/CFT (2020). CAFIU issued warning letters to reporting entities due to following issues: - Incorrect implementation of STR reporting process, - Lack of information for STRs, - Unqualified Compliance Officer, - AML/CFT policies and procedures not in line with legal and regulatory requirements, and - Lack of independence of Compliance Officers.	This item is partially addressed. Cambodia should; - Continue to update the JG with cases that evidence routine imposition of prompt, proportionate and dissuasive penalties across the spectrum of available enforcement actions, with an emphasis on cases awaiting decision by the NBC.

Table IO3.1: The numbers of warning letters by CAFIU

No	Type of Institutions	January	February	March
1	Commercial Bank	3	0	1
2	Specialized Bank	1	1	1
3	Microfinance Institution (MFI)	2	1	4
4	Payment Service Provider (PSI)	1	2	2
5	Leasing Company	0	1	1
6	Securities Company	1	2	0
Total: 24 REs		8	7	9

During this first quarter of 2021, CAFIU also made a request to GDBS on 15th March 2021 for disciplinary sanctions after the finding that one Commercial Bank did not report some CTRs to CAFIU as the result the onsite examination.

Based on the request from CAFIU to impose sanction on two banks due to non-compliant with Law and regulation on Anti-Money Laundering and Combating the Financing of Terrorism which related to AML's policy and the appointment of compliance officer, the National Bank of Cambodia (NBC) had taken the following action:

- On 8 January 2021, Directorate General of Banking Supervision of the NBC issued a warning letter to the bank stated that due to non-compliant with Law on Anti-Money Laundering and Combating the Financing of Terrorism, article 16 and Prakas on Anti-Money Laundering and Combating the Financing of Terrorism, article 34 the bank has to fully comply with all requirements related to AML/CFT obligations. If the bank does not comply within one month, the NBC will impose financial sanction according to law and regulations. Responding to the NBC's letter, the bank issued a letter dated 15 January 2021 to CAFIU explain about the progress (cf. Attachment IO3-2 Warning letter A).
- On 5 January 2021, Directorate General of Banking Supervision of the NBC issued a letter to CAFIU explaining about the bank's situation including the nature of the bank which only provide lending service and not taking public deposit, money transfer, trade finance or issue any means of payment. The bank has temporarily closed its operation since June 2020 and face very high NPL ratio and also cannot afford to pay staff's salary and office rental which lead the staff to resign subsequently and now there is insufficient staff. Therefore, issuing warning or penalty letter might not be suitable for this situation (cf. Attachment IO3-3 Warning letter B).

Joint Group's (JG's) Comments:

Regarding the risk-based supervision to banks, NBC demonstrated imposing penalties for non-compliance with AML/CFT obligations for the first time in 2020. In the F2F meeting in Jan 2021, CAFIU advised the JG that under the AML/CFT Law and workflow arrangement between CAFIU and NBC signed in October 2020, in order to impose penalties for AML/CFT non-compliance, they need to submit a request to NBC and NBC decides, in consultation with CAFIU, what penalties to impose. The JG heard that CAFIU has submitted its request to NBC to impose sanctions on three banks for failure to file CTR, to appoint a compliance officer or to adopt appropriate AML/CFT policy and procedure. While these banks have not taken remedial actions to address the identified failure, the NBC has not made final decisions to impose sanctions on them. Cambodia explained that the strict lockdown measures, which have been in place in this reporting period in the capital due to COVID-19, have negatively impacted the work of the NBC. This has meant that the NBC is not able to hold management meetings in person. No virtual meetings have been held or considered. As such, NBC has not been able to make decisions in relation to CAFIU's requests that sanctions be imposed. NBC expects a swift decision to be made on the three pending cases once the lockdown is lifted and the NBC meetings can be held. The JG is interested to hear from Cambodia about its plans/models to ensure NBC's ability to take timely enforcement action under the potentially prolonged COVID-19 situation. Cambodia should continue to update the JG with cases that evidence routine imposition of prompt, proportionate and dissuasive penalties across the spectrum of available enforcement actions, particularly updates on the three cases that the CAFIU has already brought to the NBC for decision.

Immediate Outcome 4

Pass the AML/CFT Law amendments or Prakas to address the technical compliance deficiencies outlined in Recommended Action 1 of Immediate Outcome 4 of the 2017 MER.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u>	This item is largely addressed.
Authorities should conduct sector-specific AML/CFT outreach to casinos, real-estate and MVTs providers.	Jan 2020	<u>Cambodia's Update: December 2020 – March 2021</u>	This item is largely addressed.

Joint Group's (JG's) Comments:

The Law on Anti-Money Laundering and Combating the Financing of Terrorism was promulgated on June 27, 2020 and entered into force one day after promulgation. This law addresses the majority of the technical compliance deficiencies covered by this action item. Cambodia confirmed that the new definition of domestic PEPs includes all senior politicians and government officials. On 10 November 2020 Cambodia issued the Directive on the Designated Threshold for Customer Due Diligence for Casinos and other Gambling Institutions which sets the CDD threshold for casinos in line with FATF standards.

Immediate Outcome 6

CAFIU should:

- continue increasing its human resources;
- enhance its analysis of STRs;
- increase disseminations to LEAs (either spontaneously or upon request).

Sept 2020

Cambodia's Update: November 2020 – March 2021

Cambodia had not experienced community infection of Covid-19 until November 2020. Since then subsequent incidents of community infection of Covid-19 have occurred and the last incident began in 20 February 2021 has turned out to be serious that the government taking drastic measures in both public and private sectors to cope with this deadly contagious virus infection by reducing the activities of the public sector to only ten percent (10%) and mandatory rotation of staff. Those measures include travel restriction in and out of some city and provinces, limiting the number of staff working in the office, close/lock down of areas, businesses, and buildings, etc. Although these measures have adversely affected our progress during this cycle in terms of statistics and implementation of action plan, we remain committed to making effective and tangible progress for this action item and hope that this action item is to be ticked off.

Demonstration that LEAs other than the GCNP, particularly the ACU, request financial intelligence from CAFIU when investigating predicate offences, even in the absence of a suspicion of ML.

During this period, LEAs made 41 requests to CAFIU, of which 36 number of requests from Cambodian National Police (GCNP) (28 no ML suspicion), followed by 1 request from Judiciary regarding fraud, 1 request from the ACU regarding corruption, 1 request from GDT regarding tax evasion (no ML suspicion), and 2 requests from GDCE regarding cash smuggling (no ML suspicion). GCNP requests are related to the Cambodia's two (2) main threats which are fraud and Illicit trafficking in narcotic drugs and psychotropic substances. During the same period, there were three (3) requests from foreign FIUs, as demonstration in the table below.

Table IO6.1a: Number of requests to CAFIU by type of agencies

No.	Relevant Agencies	2020		2021			Total
		Nov	Dec	Jan	Feb	Mar	
Total Number of Requests to CAFIU		8	11	8	12	5	44
I- Domestic Agencies		8	11	7	11	4	41
1	Cambodian National Police	7	10	7	10	2	36
2	Judiciary	-	1	-	-	-	1
3	Anti-Corruption Unit	1	-	-	-	-	1
4	General Directorate of Taxation	-	-	-	1	-	1
5	General Department of Customs and Excise	-	-	-	-	2	2
II- Foreign FIUs		-	-	1	1	1	3
1	Bangladesh FIU	-	-	-	1	-	1
2	Korean FIU	-	-	1	-	1	2

This item is partially addressed.

Cambodia should:

- Continue to demonstrate through data and case studies that LEAs other than the GCNP, particularly the ACU, request financial intelligence from CAFIU when investigating predicate offences, even in the absence of a suspicion of ML;
- Continue to provide updated statistics on disseminations to LEAs, with detail on the agency receiving the dissemination and whether the dissemination was upon request or spontaneous; and
- Provide additional new cases studies on spontaneous disseminations by CAFIU to a range of LEAs, and demonstrate the quality

Table IO6.1b: Number of requests by domestic LEAs to CAFIU by type of offenses

No.	Type of Offenses	2020		2021			Total	ML suspicion	No ML suspicion
		Nov	Dec	Jan	Feb	Mar			
1	Fraud	1	8	3	4	1	17	2	15
2	Illicit trafficking in narcotic drugs and psychotropic substances	3	1	1	5	-	10	3	7
3	Money Laundering (Standalone)	1	1	1	-	1	4	4	0
4	Tax evasion	-	-	-	1	-	1	0	1
5	Robbery or theft	1	-	-	-	-	1	0	1
6	Corruption and Bribery	1	-	-	-	-	1	1	0
7	Cash Smuggling	-	-	-	-	2	2	0	2
8	Other	1	1	2	1	-	5	0	5
Total		8	11	7	11	4	41	10	31

Provide updated statistics on disseminations to LEAs, with detail on the agency receiving the dissemination and whether the dissemination was upon request or spontaneous

For updated statistics of dissemination to domestic LEAs. In term of spontaneous dissemination, CAFIU made 12 spontaneous disseminations, of which 9 frauds, 2 illicit drug trafficking, and 1 trafficking in human being to Cambodia National Police (GCNP). Regarding Upon request dissemination, CAFIU responded to 42 requests, of which 39 to GCNP, 1 to ACU and 2 to Judiciary, as demonstrated in table below.

Table IO6.2a: Number of Spontaneous and upon request dissemination by CAFIU

No.	Relevant Agencies	2020		2021			Total
		Nov	Dec	Jan	Feb	Mar	
Total Spontaneous Dissemination		3	1	3	3	2	12
1	Cambodian National Police	3	1	3	3	2	12
Total Upon Request Dissemination		4	8	12	10	8	42
1	Cambodian National Police	3	8	10	10	8	39
2	Anti Corruption Unit	-	-	1	-	-	1
3	Judiciary	1	-	1	-	-	2

Table IO6.2b: Number of Spontaneous disseminations by type of predicate offenses

No.	Type of Offenses	2020		2021			Total
		Nov	Dec	Jan	Feb	Mar	
1	Fraud	3	-	3	2	1	9
2	Illicit trafficking in narcotic drugs and psychotropic substances	-	1	-	1	-	2
3	(Human) Trafficking in human beings and migrant smuggling	-	-	-	-	1	1
Total		3	1	3	3	2	12

Provide additional new cases studies on spontaneous disseminations by CAFIU to LEAs, and demonstrate the quality and

and use of these disseminations, including in the high risk areas noted in the MER (particularly on human trafficking, smuggling, and environmental crimes including illegal logging and wildlife crimes)

use of these disseminations.

To continue with our progress and to further strengthen awareness and capacity of related stakeholders to prevent, supervise and suppress high risk predicate offences noted in the 2017 MER, particularly on human trafficking, smuggling, and wildlife crimes, CAFIU has taken some steps including:

1/- More focus of its daily internal trainings for all CAFIU's analysts on those high risk areas particularly on human trafficking, smuggling, and wildlife crimes.

2/- In November 2020 CAFIU reminded all Reporting Entities to make further efforts of being vigilant against high risk threats including human trafficking, smuggling and wildlife crimes.

3/- On 26 February 2021 CAFIU delivered virtually an awareness session on high risk predicate offences mentioned in 2017 MER focusing particularly on Case studies and indicators of financial flows from human trafficking, cash smuggling and illegal wildlife trade to reporting entities under National Bank of Cambodia's supervisory authority including banks, money deposit institutions, payment service providers. Please refer to Attachment IO6-1 for the workshop agenda and attendance list, and Attachment IO6-2 for the presentation materials.

4/- Set priority and focus for CAFIU's analysis on high-risk areas particularly on human trafficking, smuggling, and wildlife crimes: during this period CAFIU reviewed its STRs focusing on these areas. Moreover, CAFIU has reviewed news for information related previous crack down on these crime types for search in CAFIU's database. We found the news related to two human trafficking cases and one wildlife case. For the first case of human trafficking, it hit information in our database. However, after conducting deeper analysis on the accounts and other relevant information collected from REs it did not prompt us to disseminate financial intelligence to LEAs for further investigation because that targets' accounts had no any identified suspicious activities or any large amount transactions and an insurance policy that the mother (whose name and ID has no hit in CAFIU's database) of the main target had surrendered after her son was arrested was worth a few thousand dollars only. This meant no hint of ML or assets that are worth pursuing. For the second case of human trafficking, it had no hit in CAFIU's database. For the third case of illegal wildlife trade, the police arrested two suspects (both are foreigners) for attempting to smuggle 282.66 kg of endangered animal bone. At first, we checked the database and found a hit with CTR on the name of one of the suspects. We reached out to the reporting entity to confirm their identity and it turned out to be a false positive. As a result, the 3 cases were not disseminated.

In addition, despite the government measures to curb the spread of the virus, CAFIU continues to disseminate financial intelligence to LEAs upon requests, even in the absence of a suspicion of ML, and disseminate financial intelligence spontaneously covering high risk areas such as fraud, drug trafficking and human trafficking consistent with Cambodia's risk profile. CAFIU also keep enhancing the quality of our financial intelligence dissemination to LEAs (either spontaneously or upon request) in line with the risks identified in our NRA and MER.

After strengthening capacity of detecting, collecting and analyzing information of reporting entities and CAFIU's analysts, CAFIU is yet to see suspicious reports from reporting entities, in particular, on smuggling and wildlife crimes. Having said that, CAFIU is committed to further strengthening the quality of its analysis and dissemination to relevant LEAs. Therefore, CAFIU prepared three case studies on human trafficking, drug trafficking and fraud for consideration (cf. Attachment IO6-3 Case studies) as following:

1. Case No. 1- KSW, Human Trafficking and Money Laundering (Intelligence Report 15 March 2021).

2. Case No. 2- CMD, Drug Trafficking and Money Laundering (Intelligence Report 26 February 2021).
3. Case No. 3- SSD, Fraud and Money Laundering (Intelligence Report 15 March 2021).

Demonstrate the quality and use of these disseminations

Based on the 32 feedback from November 2020 to March 2021 by domestic LEAs regarding the quality and usefulness of CAFIU intelligence, 44% of the 32 feedback of LEAs' view indicate that the dissemination provide new information regarding person or business/entities of interest, 44% provide very limited or no value, 31% provide a minor contribution to their analysis / investigation, 28% confirm information already known to them, 25% provide them with names of, or leads on, previously unknown persons or business / entities, and 22% provide a major contribution to their analysis / investigation. The top three reasons of the 44% out of the 32 feedback that CAFIU dissemination provide very limited or no value are the predicate offence was unknown (31%), contained no new intelligence (19%), and person or businesses / entities unknown (6%). For the timeliness of CAFIU's intelligence report, 66% of the 32 feedback illustrate the appropriate timely of the dissemination, 16% good timely dissemination and 3% poor timely dissemination. Additionally, the most useful component for the intelligence report is transaction table(s), which is 56%. After reviewing the feedback in this round CAFIU will keep up with all the good points and improve on not so good points of the dissemination to fulfill the needs of LEAs.

ACU has received spontaneous dissemination of financial intellegences from CAFIU. A part from this, ACU has also requested financial intellegences of suspects in its investigations, of which some are not related to ML.

Table IO6.2c: Number of Requests from ACU to CAFIU (From 2019 to 2020)

Nº	Date of request	Type of offence	Case	Date of receiving response
1	04/07/2019	Corruption and ML	KR case	24/07/2019
2	16/12/2019	Corruption and ML	KR case	06/02/2020
3	31/03/2020	Corruption	NP case	10/09/2020
4	17/06/2020	Corruption	CSMT case	10/08/2020 02/10/2020
5	23/11/2020	Corruption and ML	KLH case	11/01/2021

Table IO6.2d: Number of Spontaneous Dissemination from CAFIU to ACU (From 2019 to 2020)

Nº	Date of receiving	Type of offence	Person/Entities/Case
1	05/08/2019	Corruption and ML	LBR case
2	20/04/2020	Corruption	CSM case
3	05/08/2020	Corruption	SSK case

Joint Group's (JG's) Comments:

In July 2020, CAFIU reported that it increased its human resources by one additional analyst since its last update in December 2019, resulting in a total of twelve permanent staff (10 analysts and 2 IT staff) at the FIU. According to Cambodia's National Strategy, CAFIU intends to increase its permanent human resources to 30 staff by December 2023. The JG noted that this sub-action was assessed as largely addressed in February 2020.

In July 2020, CAFIU reported further action taken to enhance its analysis of STRs, including various trainings, e-learning sessions and webinars for CAFIU analysts.

During this reporting cycle, Cambodia reported that CAFIU operations had been impacted by COVID-19-related control measures which restricted the number of staff that could be allowed onsite to access FIU data and conduct analysis work. It was also noted that progress on other measures like recruitment of staff may also be delayed because of these measures. In the next update, the JG would be interested in hearing about how Cambodia is taking steps to overcome these challenges to continue CAFIU functions.

In April 2021, Cambodia provided three case studies on spontaneous dissemination to LEAs to demonstrate the analysis of STRs and the quality and use of the disseminations. These cases relate to fraud, drug trafficking, and human trafficking. Two of these cases demonstrate that CAFIU has provided intelligence that initiated new investigations by the GCNP. The third case is in relation to an ongoing human trafficking investigation for which CAFIU received new information and developed further intelligence that was disseminated to GCNP. All these cases are still under investigation and it is not clear how these disseminations will be used. It should be noted that no cases were reported on the high risk areas of smuggling and wildlife crimes. However, Cambodia reported having provided internal training for all CAFIU's analysts on these high risk threats and also having delivered an awareness session for all reporting entities on high risk predicate offences. To further demonstrate progress on this item, the JG requests Cambodia to provide updates and new case studies on spontaneous disseminations to LEAs, and demonstrate the quality and use of these disseminations, particularly on human trafficking, smuggling, and environmental crimes including illegal logging (which was also identified as a high-risk predicate) and wildlife crimes which were identified as high risk areas in the MER.

Cambodia also provided detailed statistics on CAFIU disseminations since November 2020. The average monthly disseminations remains relatively stable (10.8 disseminations per month this cycle vs 12.8 in the previous one - this includes both disseminations to domestic LEAs and foreign FIUs, and both upon request and spontaneous disseminations). Spontaneous disseminations were exclusively sent to GCNP and related to fraud (9), drug trafficking (2) and human trafficking (1). One dissemination was sent to the General Department of Taxation, one to the ACU and one to Customs.

CAFIU received 41 requests for information from domestic LEAs and 3 international requests since November 2020. The number of requests by domestic LEAs has almost doubled since the last reporting period. In majority, the domestic requests relate to fraud (15), and drug trafficking (7), with one request relating to tax evasion and two to cash smuggling. In January 2021, Cambodia explained that GCNP was the LEA making the largest number of requests to CAFIU because the high risks crimes identified in Cambodia's NRA fall under GCNP's investigative authority, and because in some instances of joint investigations conducted by GCNP and other LEAs, GCNP was in charge of making the request. Of the 41 domestic requests, the majority still come from the GCNP, with one request by the ACU, one by the judiciary, one by the General Directorate of Taxation and two by the General Department of Customs and Excise. The notable overall increase of requests suggests that all LEAs, including the ACU, request financial intelligence when investigating predicate offences, including in the absence of ML suspicion. However, the overall rate of requests and disseminations is still low considering the size of the country and the risks faced.

CAFIU continues to seek feedback from LEAs regarding the use and usefulness of the financial intelligence dissemination to them. For this cycle, the feedback indicates that in approx. 44% of cases, CAFIU intelligence provided new information regarding persons or entities of interest, in 25% of the cases the intelligence provided names of, or leads on, previously unknown persons or entities and confirmed information already known in 28 % of the cases. However, the feedback also indicates the intelligence provided very limited or no value in 44% of the cases.

To further demonstrate progress on this item, the JG requests that Cambodia continue to provide updates on the number of disseminations made and also on the quality and usefulness of those disseminations. Further information on how the FIU and LEAs are working together to increase disseminations in line with Cambodia's risk profile would also assist.

Immediate Outcome 6/7			
Increase its domestic coordination and cooperation at the operational level to enhance ML investigations.	Sept 2020	<u>Cambodia's Update: December 2020 – March 2021</u> Since the Inter-Ministerial Working Group for the Facilitation of Law Enforcement for the Investigation of Money Laundering Offence (WGML) was established, it has played very important roles in facilitating cooperation for ML investigations and the confiscation of the proceeds of crime, exchanging best practices, and conducting/organizing trainings for LEAs. Between December 2020 to March 2021, WGML conducted four meetings to discuss about ML investigations, facilitating cooperation for ML investigations and related capacity building trainings. Due to the current situation of the COVID-19 pandemic, the meetings were conducted in the form of face-to-face smaller groups and virtual meetings. One face-to-face meeting was commenced on 11/02/2021 discussing about financial investigation and ML related issues. In March 2021, three online meetings (12/03/2021, 19/03/2021 and 23/03/2021) were commenced to discussing on ML investigation, sharing information on AML, training and preparing progress report.	This item is largely addressed. The JG requests Cambodia to continue reporting on the meetings of the WGML through its updates on IO6 and IO7.

Joint Group's (JG's) Comments:

Cambodia has demonstrated that it has enhanced domestic cooperation and coordination related to ML investigations. For context, the MER notes that other than the RPG with GCNP, CAFIU did not use mechanisms to share intelligence/information with competent and supervisory authorities.

Notably, on 4 June 2019, the ACU established an Inter-Ministerial Working Group for the Facilitation of Law Enforcement for the Investigation of Money Laundering Offence (WGML). The WGML, led by the ACU, consists of 34 senior officials from 15 different institutions, including the judiciary. This Group meets to discuss active ML cases (including the ACU Case referenced under above under action item IO6, as well as other case studies submitted to the JG) and facilitates cooperation on the confiscation of the proceeds of crime, exchanges best practices, and training for LEAs. From December 2020 to March 2021, four meetings were held to discuss ongoing ML investigations, facilitating cooperation for ML investigations and related capacity building training. Given Cambodia noted progress on this action item, the JG noted this action item as largely addressed in February 2020. However, the JG requests Cambodia to continue reporting on the meetings of the WGML through its updates on IO6 and on IO7.

Immediate Outcome 7			
Demonstrate an increase in financial intelligence investigative skills of key LEAs tasked with ML investigations including the judiciary.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u> - 9/03/2021: In order to increase in financial intelligence investigative skills, ACU officials attended a webinar on Open Source Intelligence, Innovative Investigative Techniques and New Payment Methods to Investigative Corruption In Southeast Asia which was organized by UNODC. The webinar discussed about (1) The role of Open Source Intelligence as Innovative tools in Anti-Corruption Investigation, (2) Use of technology and data analytics in Financial crime investigation, (3) What are cryptocurrencies and how to trace them? (4) Open Source Intelligence (OSINT) and Anti-Corruption: Emerging best practices, (5) Using OSINT to identify proceeds of corruption in Foreign Real Estate: A case study. In this webinar, Money Laundering investigation was also discussed. (Please find the relevant document in Attachment IO7-1 UNODC-Webinar on Open Source Intelligence). - 02-11/03/2021: 2 tax investigators attended the training on Anti-Money Laundering: Current Trends, Prosecutions, and the	This item is largely addressed. The JG requests Cambodia to continue to report how the increase in its LEA's financial investigation capacity is resulting in an increased number of investigations.

		Challenges around Crypto Assets (Specialty) Virtual Programme organized by OECD Academy in Japan. The main purposes of the training are to improve the ability of tax crime investigators to detect and combat tax offences and other financial crimes including money laundering and corruption. And it also focuses on the confiscation, recovery and MLA as well. The training covered; (1) How to detect, prosecute and deter Tax Crimes and Money Laundering, (2) How to conduct Tax Crimes and ML investigation, (3) Asset Recovery, (4) Exchange of Information including MLA (cf. Attachment IO7-2 – Agenda of training A). - 09-18/02/2021: 1 tax investigator attended the training on Conducting Financial Investigations (Foundation) Virtual Programme organized by OECD Academy in Italy. The main purposes of the training are to improve the ability of tax crime investigators to detect and combat tax offences and other financial crimes including money laundering and corruption. And it also focuses on the confiscation, recovery and MLA as well. The training covered; (1) The importance of financial investigation, (2) Use of Intelligence, (3) Money Laundering, (4) Investigative Techniques, (5) Large Case Managements and (6) Asset forfeiture and Recovering the Proceeds (cf. Attachment IO7-3 – Agenda of training B).																																			
Demonstrate an increase in ML investigations and prosecutions in accordance with Cambodia's risk profile.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u> ACU has conducted parallel investigation between corruption and ML. There are some ML cases have been sent to the courts for prosecution and conviction and some other investigations in progress. Also, the proceed of crime as well as criminal instrumentalities have been identified, seized and frozen for the final confiscation. <table><tr><th>ACU</th><th colspan="3">Predicate Preliminary Investigation</th><th rowspan="2">Prosecuted</th><th rowspan="2">Conviction</th></tr><tr><th>Year</th><th>Total Investigation</th><th>Total Parallel ML investigation considered</th><th>Total ML Investigation pursued</th></tr><tr><td>2019</td><td>5</td><td>6</td><td></td><td>1</td><td>1</td></tr><tr><td>2020</td><td>7</td><td>4</td><td></td><td>1</td><td>1</td></tr><tr><td>Jan-Mar 2021</td><td>2</td><td></td><td></td><td></td><td></td></tr><tr><td>Total</td><td>14</td><td>10</td><td></td><td>2</td><td>2</td></tr></table> During this cycle, GCNP have 17 cases ongoing investigation. From 17 cases, 9 cases are considered ML parallel investigation, 2 permission from prosecutor to investigation, and 6 cases were sent to the court. The following are categories by predicate offense and reason some cases are not reached to court (cf. Attachment IO7-4 statistic table). - Drug Trafficking 6 Cases: Due to Covid-19 pandemic, there were only few cases sent to the court. Some cases are only charged with the predicate offense (Not ML). Some cases requested to financial investigation but there is no information or financial record in the FIU database. This cycle, there are 6 cases which means 5 cases Parallel ML investigation, 1 case has approved prosecution permission, and 1 case sent to court. From these 6 cases, 12 people were arrested (Cambodian 4, Chinese 8).	ACU	Predicate Preliminary Investigation			Prosecuted	Conviction	Year	Total Investigation	Total Parallel ML investigation considered	Total ML Investigation pursued	2019	5	6		1	1	2020	7	4		1	1	Jan-Mar 2021	2					Total	14	10		2	2	This item is partially addressed. Cambodia should: - Provide information (case studies and statistics) about ML investigations and prosecutions, including where ML investigation was considered but not pursued through the prosecution. This information should focus on preliminary investigations, judicial investigations, and prosecutions for ML relating to human trafficking, illegal logging and cash/good smuggling. Statistics should also be broken down by agency; and - In order to understand the consistency of ML investigations and
ACU	Predicate Preliminary Investigation			Prosecuted	Conviction																																
Year	Total Investigation	Total Parallel ML investigation considered	Total ML Investigation pursued																																		
2019	5	6		1	1																																
2020	7	4		1	1																																
Jan-Mar 2021	2																																				
Total	14	10		2	2																																

	- Fraud 11 cases: There are 11 cases investigating in this cycle. Due to covid-19 community outbreak, the on-site investigation operations on those cases are postponed since it is difficult to obtain enough information such as of suspect's location. The cases reach court are: In 2019, there were 2 fraud cases received permission to investigate ML and finally were convicted In 2020, there were 6 fraud cases received permission to investigate ML and finally 1 case was convicted. 3 total convictions of fraud cases in 2019 and 2020. In 2021, there were 5 cases as follow: ▪ 1 case requested for court order to freeze suspect's bank account (2,000\$). ▪ 1 case requested for court order to freeze suspect's bank account (30,540.40\$). Court issued a freeze order on suspect's bank account and arrested 2 suspects (1 Nigerian and 1 Cambodian). ▪ 1 case based on the petition from the victims and it has been sent to court. 3 foreigners were arrested and sent to court. ▪ 1 case sent to court and arrested 01 Cambodian and 01 Nigerian. ▪ 1 case requested to be sent to court and located for the mastermind's base. - Human Trafficking: • 15/03/2021: GCNP have received additional financial information related to human trafficking from FIU. This case was sent to court since 2018 which arrested 4 people, seized 2 cars, 8 phones and \$9,500. Currently, the case has just obtained a freeze court order for 2 bank account, 2 cars and a real estate property. This case will be illustrated in the case study (cf. Attachment IO7-5 case study and flow chart on human trafficking). • The court also prepared a case study of human trafficking-related to the Attachment IO7-6 (cf. Attachment IO7-6 human trafficking case study). Please refer to statistics of high-risk predicate offense and investigation, prosecution and conviction broken-down by year and by different agencies as follow: • Attachment IO7-7 national statistic breakdown by year-GCNP • Attachment IO7-8 national statistic breakdown by year-ACU • Attachment IO7-9 national statistic breakdown by year-GDCE - From January to March 2021, the GDCE has suppressed two passengers attempting to carry a bulk cash exceeding the allowable amount under Cambodia laws. After imposing the penalty on the passengers, the GDCE has put up request for financial intelligence from CAFIU for further investigation, if the two cases were linked to any criminal activities or predicate offences. During this reporting cycle, especially starting from 21 February, 2021, Cambodia has been seriously affected by the covid-19 community outbreak. Even the Prime Minister has said: "This community incident this time is worse than the previous two and in just three days, has become a more difficult situation than the previous two occasions to contain. I also appeal to all people in the country to avoid Phnom Penh as the city is in a health crisis and as such it is advisable not to come to the city for any purpose other than emergency needs." The incident has hit harder to a Capital city of Phnom Penh and a few other provinces across the country which	prosecutions with Cambodia's risk profile, Cambodia should also continue to provide statistics about preliminary investigations, judicial investigations, and prosecutions for predicate offences during the same reporting period.

	resulted in many temporary closures or changes to prevent spreading the coronavirus. GCNP office is in Mol campus which is located in the Capital and many of the police forces have been affected by the incident which led to some delay in the investigation. Even though physical site visit is not at ease during this incident but other means of investigation and cooperation among agencies still actively continue to support the investigation and prosecution.	

Joint Group's (JG's) Comments:

It is worth noting that during this reporting cycle, Cambodia has been substantially affected by their Covid-19 outbreak. The incident has hit Phnom Penh where the GCNP office is located, and many of the Police forces have been affected which has led to some delay in investigations.

From December 2020 to March 2021, the GCNP has initiated a further 18 ML 'preliminary investigations', considered parallel prosecutions in 14 of these cases, and 4 carried on to prosecutions. The ACU has carried out 2 preliminary investigations in this cycle.

A number of preliminary investigations are being conducted by Cambodian LEAs, and it appears that there is an increase in the ratio of case files officially being registered. For the GCNP, there also appears to be an increase in the number of prosecutions relative to total investigations. The trend for 2021 is largely consistent with the trend for 2020 (18 preliminary ML investigations and 7 casefiles registered, however none have proceeded to trial). While this is an increase compared to Cambodia's MER (where only three investigations and no prosecutions had occurred), the Joint Group does not consider that the volume of investigations (particularly judicial investigations) or prosecutions reflects Cambodia's risk profile. There has not been significant progress reported following the previous Joint Group report, and this item is expired.

Cambodia's ML preliminary investigations are mostly, but not entirely, in line with Cambodia's risk profile: some gaps remain, particularly in respect of human trafficking, environmental crimes (illegal logging and wildlife crimes), and goods and cash smuggling. These predicate offences were all identified as high risk for Cambodia in the MER, and there have been significant volumes of offences reported in these categories in 2020 (5,100 cross-border goods smuggling offences; 860 illegal logging offences; 141 human trafficking offences; and 13 cross-border cash smuggling offences). Overall, Cambodia has not increased ML investigative efforts across all high-risk predicates, particularly given the large number of predicate offence investigations reported during the cycle. While not all predicate investigations would necessarily result in ML investigations, the JG considers there is likely to be opportunities for ML investigations that Cambodian LEAs are not taking. To demonstrate progress against this item, Cambodia is encouraged to consider opening parallel financial investigations in a greater number of predicate investigations, particularly as this would enable Cambodia to identify the broader criminal network and any money laundering activity.

Despite a small number of judicial investigations and judicial prosecutions, Cambodia has provided case studies which demonstrate a coordinated approach to investigating sophisticated ML and which also demonstrate the value that financial intelligence disseminations provide for investigations. For example, the TSM case was triggered from a spontaneous dissemination from CAFIU, and the investigation revealed an organised network of foreign nationals committing fraud and using Cambodian legal persons to launder the proceeds. This demonstrates that Cambodian LEAs possess the necessary investigative expertise to undertake complex ML and financial investigations. This case was recently registered at the prosecution office and a seizure order was requested by the GCNP to temporarily seize suspected property.

Cambodia should continue to provide the Joint Group with statistics and case studies evidencing a substantial increase in ML investigations and prosecutions and demonstrate that these efforts are consistent with Cambodia's risk profile. These statistics should focus on preliminary investigations, judicial investigations, and prosecutions for ML relating to human trafficking, illegal logging and cash/good smuggling. Case studies should focus on areas such as environmental crimes, human trafficking, and smuggling. In order to analyse the consistency of ML investigations and prosecutions with the threat profile, Cambodia should also continue to provide statistics about preliminary investigations, judicial investigations, and prosecutions for predicate offences during the same reporting period. Cambodia should also provide a narrative on the number of predicate investigations being conducted in light of the total number of predicate offences.

Immediate Outcome 8

Provide targeted proceeds of crime confiscation training to all	Sept 2020	<u>Cambodia's Update: December 2020 – March 2021</u> - 02-11/03/2021: 2 tax investigators attended the training on Anti-Money Laundering: Current Trends, Prosecutions, and the	This item is largely addressed.

LEAs with judicial police powers, prosecutors, and judiciary.		Challenges around Crypto Assets (Specialty) Virtual Programme organized by OECD Academy in Japan. The main purposes of the training are to improve the ability of tax crime investigators to detect and combat tax offences and other financial crimes including money laundering and corruption. And it also focuses on the confiscation, recovery and MLA as well. (Please refer to Attachment IO8-1 for agenda of the training A). - 09-18/02/2021, 1 tax investigator attended the training on Conducting Financial Investigations (Foundation) Virtual Programme organized by OECD Academy in Italy. The main purposes of the training are to improve the ability of tax crime investigators to detect and combat tax offences and other financial crimes including money laundering and corruption. And it also focuses on the confiscation, recovery and MLA as well. (Please refer to attachment IO8-2 for agenda of the training B).	

Joint Group's (JG's) Comments:

This item was largely addressed in January 2020. Since September 2019, Cambodia has reported that it has conducted a number of training sessions to build expertise in proceeds of crime confiscation. Of most relevance to this action item, the ACU and UNODC co-organised a workshop on Asset Recovery Basics attended by 120 participants across 17 agencies. Two officials from the ACU attended a UNODC Regional Workshop on International Cooperation in complex, cross-border corruptions cases, which also covered aspects of asset recovery. The MoI also delivered training to officials from the Anti-Human Trafficking and Protection of Juveniles Department in relation to search, seizure and confiscations. A number of the other training sessions touched on elements of the seizure, freezing and confiscation of instrumentalities and proceeds of crime. The training sessions involved LEAs, judges and prosecutors, as well as a variety of participants across agencies. The Joint Group is satisfied that targeted POC confiscation training has been provided to LEAs, prosecutors and the judiciary and considers that this item is now largely addressed but would like Cambodia to continue to report on the practical application of skills gained through training under the second action item relating to increased freezing and confiscation.

Demonstrate an increase in the freezing and confiscation of criminal proceeds, instrumentalities, and property of equivalent value.	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u> Table of statistics of ML cases from all courts on numbers of freezing and confiscation action and types of crime they are related to as well as the outcome of these actions taken by each agency is attached as National Statistics of Freezing and Confiscation actions and outcomes (Attachment IO8-3 National Statistics of Freezing and Confiscation actions and outcomes). During the reporting cycle, Cambodia has received 6 new ML cases (so the total: 33 ML cases since 2017), 7 new freezing actions with a total amount equivalent to 93,353.72 USD, and 5 new confiscation actions with a total amount equivalent to 948,695.57 USD. (Noted: new cases with new freezing, new confiscation actions, and outcomes are noted in red text in National Statistics of Freezing and Confiscation actions and outcomes) (Please also refer to Attachment IO8-3 National Statistics of Freezing and Confiscation actions and outcomes). Two proceeds of crime case studies are provided to illustrate how assets are identified, frozen, and confiscated from the early stage of the investigation by competent agencies to the courts (please refer to the Attachment IO8-4 SL the drug trafficker, Attachment IO8-5 Case Study OS). The Management and Maintaining of the seized and frozen assets - After finishing with the investigation, the judicial police sends all the seized items along with the case file to the prosecution office attached to the court of first instance. Those seized items are received by the Secretariat for Administration. According	This item is partially addressed. - Demonstrate that authorities are effectively targeting major proceeds-generating crimes (in particular trafficking and corruption) across all provinces, in line with Cambodia's risk profile. - Demonstrate that confiscation of criminal proceeds, not just instrumentalities, is being pursued as a priority policy objective. - Demonstrate that asset tracing investigations are being considered at an

		to the sub-decree of the organization and functioning of the Secretariat for Administration of the court of first instance dated 04 February 2016, the Secretariat for Administration of the Court of first instance is the department under MoJ, which responsible for all the administrative work of the prosecutor and the court. - According to the sub-decree, the management and maintenance of the seized items for both confiscated and pending confiscation is the responsibility of the Secretariat for Administration. To perform the task, the Secretariat for Administration has prepared a safety room and warehouse to properly store the seized items and take appropriate maintenance. In case when considered necessary or appropriate, the seized items can be kept at the agencies/authorities per their request. - Once freezing order has been issued, the court will send the freezing order to the competent authority to execute and maintain to make sure the assets are safe and secured. A more detailed case study to illustrate the assets are managed during the whole proceeding is provided for this progress report (Attachment IO8-6 Case Study BS). During the investigation, ACU identify the proceed of crimes and build up the case to submit to the court, including the properties related to the said offences. The court decides on management and maintenance of assets related to offences Immediately and temporary before the final confiscation. Some assets are managed and maintained at the court or given to ACU or other authorities to manage and maintain. In case the court gives assets related to offence to ACU for management and maintenance (movable objects, especially cars), the president of ACU decides to manage and maintain the assets. Based on the sub-decree on the organization and functioning of Anti-Corruption Unit, dated 10 January 2011 (Attachment IO8-7 Sub-decree on the organization and function of ACU), article 11 mentioned clearly about the duties of the Department of Administration and Finance (DAF). DAF is responsible for the management the budget and finance for the operations of Anti-Corruption Institution, the management and making inventories on the assets of Anti-Corruption Unit, and fulfilling other duties assigned by President of Anti-Corruption Unit. In this regard, DAF is responsible for management and maintenance the assets. In order to well keep and maintain the properties, the officials of the DAF are assigned to maintain the assets. ACU pays tax yearly instead of the assets' owner, cars for example, and take good care of the assets. The assets are kept in the warehouse of ACU. (Please refer to Attachment IO8-8 the diagram of the management of the criminal proceeds at ACU). To compensate to the payment that ACU spent for the maintenance of the proceeds of crimes, ACU is allowed to use those proceeds of crimes to facilitate its investigation as well as in other works of fighting corruption such as in anti-corruption education and prevention. For example, when ACU conducts investigation, we can use cars which are the proceeds of crimes that ACU has been allowed by the court to keep and maintain, for transportation.	early stage of every investigation into ML or predicate offence.

Joint Group's (JG's) Comments:

During this reporting cycle Cambodia commenced six new cases and obtained 5 new freezing orders (totalling USD 38,351) and 4 confiscation orders (totalling USD 948,695.57), noting none of the judgments are yet final. Cambodia also provided updates on a number of freezing and confiscation actions that occurred during previous earlier cycles, but that had not been previously disclosed. This included 27 bank accounts valued at USD 561,582, 1 car valued at USD 7,000 and jewellery valued at USD 1,000. However, Cambodia also reported that two existing freezing orders totalling USD 373,788 had been rescinded during this

period for lack of evidence and infringement on the rights of third parties.

While the initiation of new cases and imposition of additional freezing and confiscation actions during this period is a positive development, the JG continues to be concerned that these actions do not demonstrate a significant increase in the freezing and confiscation of criminal proceeds, instrumentalities or property of equivalent value. The JG also notes that the recent cases reported by Cambodia are focused entirely on fraud and are disproportionately located in Phnom Penh, which is not consistent with Cambodia's risk profile. The value of confiscated assets remains generally very low outside of isolated cases, and the quantum frozen in the fraud cases reported during this cycle are not in line with what would be expected from one of the main asset-generating activities identified by Cambodia in its NRA. The JG remains concerned that authorities' efforts to identify and trace proceeds of crime at a sufficiently early stage of investigations to prevent asset dissipation or flight is inadequate.

The JG noted that Cambodia had demonstrated that there are measures in place to prevent dealing with restrained property after the commencement of proceedings.

However, overall, the JG remains unsatisfied that sufficient progress has been made to assess this action item as largely addressed.

Immediate Outcome 11

Establish the legal framework to implement UN sanctions related to PF TFS	Sept 2020	<u>Cambodia's Update: December 2020 – March 2021</u> On 21 January 2021, National Coordinating Committee of Anti-Money Laundering and Terrorism Financing and Proliferation Financing (NCC) hosted the first meeting to announcement new establish members from responsible ministries and agencies. This establishment of NCC member is the requirement of sub-decree 160 of the Proliferation Financing Law. Cambodia Financial Intelligence Unit is the secretariat for this NCC.	This item is largely addressed.
Demonstrate that implementation of TFS relating to PF is occurring including by: - conducting awareness raising campaigns to the private sector to inform them of their obligations related to PF TFS - providing training to strengthen the	Jan 2021	<u>Cambodia's Update: December 2020 – March 2021</u> - GCNP have requested to the Supervisory Authority National Bank of Cambodia for a meeting with the compliance officers, supervisors of Banks, microfinance, leasing companies and payment service companies from all private sectors across Cambodia to discuss on cooperation and sharing information to combating financial frauds through Cambodia's banking system. The agenda of this meeting will discuss on cooperation and sharing information which private bank could provide to LEAs. Privacy Law, AML/CFT Law, and PF Law will also discuss during this meeting. Due to covid-19, this meeting was supposed to host on the 11/03/2021 but has to be postponed because MoI/GNCP have an out-break and lock-down. This meeting will organised again through Zoom. - MoI is still having Technical Assistant (TA) from AMLAT (Australia) and RUSI (England). • TA of AMLAT: - 31/01/2021 AMLAT have sent an email contained the outline step for Cambodia to demonstrate on implementation of the PF Law in relation to the PF system. There are four main components to implement. 1) Having the public known procedures for reporting de-listing and seeking authorisation 2) Communicating designations and de-listing 3) Having public known procedure on resolving false positive matches 4) Supervisory authorities.	This item is partially addressed. Cambodia should: - Continue efforts to raise awareness amongst the private sector of PF TFS obligations contained in court order(s) issued and update the JG on these activities; - Continue efforts to train competent authorities in their role in monitoring the implementation of PF TFS and on sanctions evasion and update the JG on training and capacity

skills of competent authorities to implement PF TFS, and enhance the understanding of sanctions evasion.	After review and analysis, these four components are mainly the responsibility of Supervisory Authorities and MoJ to consider and implement. • TA of RUSI: - 08/03/2021 RUSI has sent an email attach with the propose of assisting Mol on Risk Assessment of PF. • For the past several months (since November 2020), Mol has struggled with the out-break of Covid-19. On 20 February 2021, Mol and GCNP have serverly out-break of the Covid-19. The number of infection is increasing daily and most of police officers have to be quarantined. Due to the police officers are the second front line and also have the duty to prevent and stop the out-break, most of the daily duty have to be postponed. - The Mol facilitated organizing meetings with all members of the Royal Government Working Group for facilitating the challenges and requests of civil society organizations which representing the relevant ministries and institutions to continue to discuss the reasons and content of the 14 articles proposed to amendments to the Law on Associations and Non-Governmental Organizations by civil society organizations, focusing on the content of the proposed amendments, based on national law, international legislative instruments, and experiences from other countries, as well as past practices in order to ensure consistency in implement this law in line with the evolution of Cambodian society, especially in order to protect the interests of the people and the public interest, as well as to promote cooperation in partnership between associations and non-governmental organizations with public authorities. - The Mol has collaborated with UNDP to implement a project entitled "Building Capacities fir Civic Engagement, Peacebuilding and Inclusive Dialogue: Towards Inclusive and Participatory Governance" for 3 years (2020-2023). This project will help to develop additional capacity for public servants in national, sub-national level and civil society organizations to enhance the partnership between civil servants and civil society organizations. At the same time, the project also supports and strengthens the quality of organizing the forum on partnership between the Royal Government and civil society organizations and the consultation forum between administration of capital and provinces level and civil society organizations. For this forum, the Mol will also organize the dissemination and raising awareness of the law on combating the financing of the proliferation to weapons of mass destruction to national administrative officials and sub-national administrative authorities, as well as civil society organizations. - 24/03/2021: MoC uploaded the court order number 11 dated 02 November 2020 and the court order number 12 dated 2 November 2020 onto MoC website (www.moc.gov.kh) and Notified to Garment Manufacturers Association in Cambodia (GMAC), Cambodia Chamber of Commerce (CCC), EUROCHAM, and the Legal Representative in Business Registration to inform their members about the existing of both of the court orders (cf. Attachment IO11-1 Notification of Court order). - Due to the increase cases of Covid19 and social distancing, the onsite-workshop is interrupted and restricted. Therefore, in order to raise an awareness to the stakeholders (GMAC, CCC, EUROCHAM,...), MoC plans to conduct Online Workshop in April 2021 to inform them about the existing of the court order number 11 and the court order number 12 dated 2 November 2020 and the targeted Financial Sanctions relating to Proliferation Financing. On 24 March 2021, MoC has requested the cooperation from Mol and MoJ for the representative to do the presentation on the above topic (cf. Attachment IO11-2 Invitation to online workshop).	building activities; - Update the JG on any activities conducted under technical assistance programs aimed to assist with implementation of PF TFS and on the understanding of sanctions evasion

		- 26/02/2021: CAFIU conducted a workshop on the awareness raising on the new Standing Court Orders (Ruling on Asset Freezing) to implement the new PF Law for reporting entities including banks and Financial Institutions (cf. Attachment IO11-3 Workshop on the awareness raising on the new Standing Court Orders). - 28/01/2021: MEF collaborated with CAFIU conducting the awareness raising to Real Estate companies on AML/CFT obligations and Target Financial Sanction of Proliferation Financing. Due to Covid-19 situation, 78 participants from 50 Companies were invited to attend the awarness raising program (cf. Attachment IO11-4 for the agenda, attendance list and material of the program). The awareness raising program focused mainly on AML/CFT obligations as below: • AML/CFT internal policies and procedures • Risk Assessment Process • Risk Management • Compliance Officer • Customer Acceptant Policy/ Customer Due Diligence • On-going Customer Due Diligence and Transaction Monitoring • Enhance Customer Due Diligence • Cash Transaction Reporting • Supicious Transaction Report • Tipping off The awarness raising program focused maily on TFS on PF as below: • Definition of Weapon of Mass Destruction • UN Security Council Sanction • Recommendations by FATF • Cambodia's UN sanciton obligations • Listing by UNSCR • Listing by Court • Freezing Assets • Reporting Obligations of Reporting Entity • Offenses of violating the frozen decision • Offenses of transfer of assets • Offenses of Reporting Violations Besides these, other aspects of Law on PF has also been progressing well.	

Joint Group's (JG's) Comments:

Legal Framework

Sub-item 1 was deemed largely addressed in February 2021. The Law on Combating the Financing of Proliferation of Weapons of Mass Destruction ("PF law"), came into effect at the end of June 2020 which was a significant development in establishing the PF TFS legal system in Cambodia. To be able to implement its PF TFS obligations Cambodia issued three related sub-decrees (per Articles 9, 15 and 18 of the PF Law)

on September 30, 2020., Cambodia issued three sub-decrees: on 'Use of Frozen Assets,' 'establishment of the National Coordination Committee' and 'Formalities and Procedures'.

Furthermore, Article 4 of the PF law sets out the requirement that the "resolutions on the designation of individuals or entities by the UNSC and its Committees" be submitted by the MoJ for freezing orders. On October 2 MoJ submitted the requests for freeze orders for the PF-related UNSCRs. The Phnom Penh Municipal Court of First Instance issued two separate rulings for the asset freezing, No.12 for the UNSCR related to Iran and No.11 on DPRK on November 2. Cambodia further explained that the freeze orders are standing orders that do not require a fresh court order each time there is an update to the PF UNSCR sanctions designation. This is the same process and mechanism that Cambodia implements with respect to its UN terrorism TFS obligation. The freeze order unless revoked (via delisting by the UN Committee) applies to assets of the designated individual or entity as well as assets that are wholly or partially, directly or indirectly owned or controlled; assets of individuals acting on behalf of or at the direction of. Cambodia confirmed that the court order was posted on the MoJ website.

Sub-item 2: Implementation

This action item is partly addressed. Cambodia continues to take steps to engage with TA provider on training, working with AMLAT and RUSI but implementation of program is slowed due to COVID and the country under lockdown. Cambodia is working with Australia's AMLAT on implementation of the PF system, through assistance to supervisory authorities. Cambodia continues to engage with RUSI on the PF risk assessment, but the start of project has been postponed. Cambodia will need to provide further insights on what has occurred to train competent authorities to monitor for PF TFS implementation and sanctions evasion. Cambodia has noted that competent authorities have disseminated the November 2020 court orders to their reporting entities. A number of internal workshops, awareness raising and engagements by authorities are in the works. The NBC, MoC, MEF plan to reschedule these events for early June. MEF acknowledge the need to work on the next phase of the implementation process which is having a monitoring mechanism and plan in place. The JG requests Cambodia to continue reporting on efforts to train staff from all competent authorities involved in the implementation of the PF TFS legal framework. For the next update, to demonstrate that implementation for PF TFS is occurring, Cambodia should update the JG on continued efforts to raise awareness to the private sector on the PF TFS obligation as well as training to competent authorities for their role in monitoring for PF TFS implementation and sanctions evasion.

Summary of Joint Group's Comments:

This is Cambodia's sixth report on progress in relation to its action plan, which was approved in February 2019. Overall, while Cambodia is continuing its efforts to address all remaining action plan items, Cambodia demonstrated only limited progress during this reporting period in part due to strict lockdown measures amid COVID-19 pandemic. As the deadlines for all remaining action items expired in January 2021, Cambodia should make further efforts to address remaining issues.

In relation to IO.2, Cambodia passed its MLA law on 15 May 2020, with the law coming into force on 28 June 2020. Cambodia now has a broad legal basis for providing MLA to other countries. Cambodia has continued to deliver training on MLA to agencies, judges and prosecutors including further training on the finalised law. Cambodia has demonstrated that the training has resulted in an increased use of formal cooperation. As a result, the Joint Group assessed both items under IO.2 as largely addressed as at January 2021.

In regard to IO.3, Cambodia made progress on the the risk-based supervision for high and medium risk banks including follow-up of identified deficiencies. Cambodia conducted onsite supervision for all high-risk banks, and follow-up and enforcement action is resulting in improvements in AML/CFT compliance. While NBC demonstrates a record of imposing penalties for non-compliance with AML/CFT obligations, the JG has not yet seen the application of proportionate and dissuasive enforcement action to banks by CAFIU and NBC for non-compliance with AML/CFT obligations. The JG requests Cambodia to update the JG with cases that evidence routine imposition of prompt, proportionate and dissuasive penalties across the spectrum of available enforcement actions with an emphasis on cases awaiting decision by the NBC.

With respect to IO.4, on 10 November 2020 Cambodia issued the Directive on the Designated Threshold for Customer Due Diligence for Casinos and other Gambling Institutions to set the threshold for CDD for casinos in line with the FATF standards. As at January 2021 the Joint Group assessed the remaining action item under IO.4 as largely addressed.

Regarding IO.6, Cambodia reported efforts to increase the human resources of the FIU, which now totals twelve permanent staff (including 10 analysts) and ten secondees (in comparison to four staff in total at the time of the MER onsite). Training to FIU analysts and LEAs has continued, with the aim to enhance the quality of STRs. Notably, in mid-2019, Cambodia addressed its existing backlog of STRs, resulting in over 40 express disseminations (i.e. no in-depth analysis) to LEAs. CAFIU is now conducting in-depth analysis of all incoming STRs/CTRs. Since July 2020, CAFIU has disseminated 25 reports to LEAs (including 11 disseminations to foreign FIUs). Regarding domestic cooperation and coordination, Cambodia continues to utilise the WGML, led by the ACU, to coordinate ML cases,

training, and exchange lessons learned. In December 2020, Cambodia provided case studies and statistics to demonstrate that LEAs (including the ACU) are requesting and using CAFIU disseminations in their investigations and that various authorities cooperate during the course of an ML investigation. In May 2021, Cambodia reported that their progress had been impeded by COVID-19 restrictions that prevented staff from accessing FIU data and conducting analysis. As noted in the analysis above, the JG requests new cases studies to demonstrate that CAFIU continues to enhance the quality and quantity of its spontaneous disseminations to LEAs in line with its high-risk crimes.

In relation to IO.7, Cambodia has provided information about current ML investigations and prosecutions. Cambodia has demonstrated an increase in preliminary ML investigations since the MER but the numbers provided in this cycle do not demonstrate a notable increase since 2020. Cambodia has demonstrated a good ratio of parallel investigations and prosecutions in comparison to ML investigations, however the Joint Group does not consider that the volume of investigations and prosecutions reflects Cambodia's risk profile. Furthermore, Cambodia has not increased preliminary ML investigative efforts across all high-risk predicates, specifically not in relation to of human trafficking, environmental crimes (illegal logging and wildlife crimes), and goods and cash smuggling. Cambodia should continue to provide information demonstrating an increase in efforts across all stages of investigations and prosecutions in line with its risk profile.

Regarding IO.8, Cambodia reported on additional 5 freezing actions and 4 confiscation actions. While the initiation of new cases and imposition of additional freezing and confiscation actions during this period is a positive development, the JG continues to be concerned that these actions do not demonstrate a significant increase in the freezing and confiscation of criminal proceeds, instrumentalities or property of equivalent value. The JG also notes that the recent cases reported by Cambodia are focused entirely on fraud and are disproportionately located in Phnom Penh, which is not consistent with Cambodia's risk profile. The value of confiscated assets remains generally very low outside of isolated cases, and the quantum frozen in the fraud cases reported during this cycle are not in line with what would be expected from one of the main asset-generating activities identified by Cambodia in its NRA. The JG remains concerned that authorities' efforts to identify and trace proceeds of crime at a sufficiently early stage of investigations to prevent asset dissipation or flight is inadequate. Cambodia is encouraged to continue to provide information to demonstrate that: authorities are effectively targeting major proceeds-generating crimes across all provinces, in line with Cambodia's risk profile; confiscation of criminal proceeds, not just instrumentalities, is being pursued as a priority policy objective; and that asset tracing investigations are being considered at an early stage of every investigation into ML or predicate offence.

With respect to IO.11, Cambodia has noted that competent authorities have disseminated the November 2020 court orders to their reporting entities. A number of internal workshops, awareness raising and engagements by authorities are in the works. The NBC, MoC, MEF plan to reschedule these events for early June. MEF acknowledge the need to work on the next phase of the implementation process which is having a monitoring mechanism and plan in place. The JG requests Cambodia to continue reporting on efforts to train staff from all competent authorities involved in the implementation of the PF TFS legal framework. For the next update, to demonstrate that implementation for PF TFS is occurring, Cambodia should update the JG on continued efforts to raise awareness to the private sector on the PF TFS obligation as well as training to competent authorities for their role in monitoring for PF TFS implementation and sanctions evasion.

2.2. MYANMAR

FATF/FSRB Membership: APG

Date of Mutual Evaluation On-Site Visit: 20 November - 1 December 2017

Date of Adoption of Most Recent Mutual Evaluation Report: September 2018

Observation Period Ended: October 2019

Post-Observation Period Findings Due to ICRG: February 2020

Date of ICRG Endorsement of Action Plan: February 2020

ICRG Referral Criteria																				
“Big 6” Recommendations									3		5		6		10		11		20	
MER Ratings									C		LC		LC		PC		C		C	
Post-Observation Period Ratings															See POPR ²					
Immediate Outcomes									1	2	3	4	5	6	7	8	9	10	11	
MER Rating									Low	Low	Low	Low	Low	Mod	Low	Low	Low	Low	Low	Low
Progress towards increasing effectiveness in accordance with procedures ³									N	N	N	N	N	N	N	N	N	N	N	N
Other Recommendations Rated PC or NC (Total of X Recommendations Rated PC or NC; re-ratings in parentheses)																				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
PC (LC)	LC	C	LC	LC	LC	NC	PC	C	PC	C	PC	PC	NC	LC	LC	C	C (LC)	PC	C	
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
LC	PC	PC	NC	NC	PC	C	NC	PC	LC	LC	PC	PC	PC	PC	PC	PC	PC	PC	LC	

² The JG reviewed R.10 and its conclusions are contained in Annex B of [FATF/ICRG\(2020\)3](#).

³ Y = Yes, N = No, * = For ICRG Discussion

Action Plan Items	Timetable	Update on Progress from Myanmar	Remaining Actions to be Taken
Immediate Outcome 1			
1. Demonstrate an improved understanding of ML risks, based on evidence, related to: • Drug trafficking • Corruption (including PEPs) • Cross-border smuggling and the vulnerability of the porous border regions • Legal persons	January 2021	1.1. Consultation meetings 1. MFIU and Customs Department held a consultation meeting on Cross-border smuggling and the vulnerability of the porous border regions and discussed key findings of NRA, implementation measures of National Strategy on AML/CFT, Recommended Actions of JG report, action taken by Customs and Myanmar's risk situation on Money Laundering. The meeting was held on 4th March 2021 and 29 participants were attended. 2. MFIU and Drug Enforcement Division held a consultation meeting on drug trafficking and discussed key findings of NRA, implementation measures of National Strategy on AML/CFT, Recommended Actions of JG report, Drug Elimination efforts in Myanmar, Myanmar's risk situation on Money Laundering and drug related ML. The meeting was held on 9th March 2021 and 20 participants were attended. 3. MFIU and Directorate of Investment and Company Administration held a consultation meeting on Legal persons and discussed key findings of NRA, implementation measures of National Strategy on AML/CFT, Recommended Actions of JG report, action taken on legal person and Myanmar's risk situation on Money Laundering. The consultation meeting was held on 10th March 2021 and 15 participants were attended. 4. MFIU and Myanmar Anti-Corruption Commission held a consultation meeting on Corruption (including PEPs) and discussed key findings of NRA, implementation measures of National Strategy on AML/CFT, Recommended Actions of JG, Anti-Corruption Efforts in Myanmar and Myanmar's risk situation on Money Laundering. The meeting was held on 11th March 2021 and 18 participants were attended. 5. MFIU and Internal Revenue Department-IRD held a consultation meeting on tax evasion and discussed key findings of NRA, implementation measures of National Strategy on AML/CFT, Recommended Actions of JG report, action taken by IRD and Myanmar's risk situation on Money Laundering. The consultation meeting was held on 12th March 2021 and 15 participants were attended. 6. The Consolidated Consultation meeting between MFIU, Anti-Corruption Commission, Drug Enforcement Division, DICA, Customs Department, Internal Revenue Department, was held on 17th March 2021 regarding to enhance the understanding of risk matters and finalized the Myanmar's risk situation on Money Laundering and 32 participants were attended. 1.2. Comprehensive report 7. MFIU produced a comprehensive report including Myanmar's risk situation on Money Laundering based on key findings of the several consultation meetings. (Annex 7). 8. MFIU distributed the comprehensive report to all domestic law Enforcement Agencies and Competent Authorities. 9. MFIU is now preparing to distribute the comprehensive report including Myanmar's risk situation on Money Laundering to all MoU Countries . 1.3 Risk Assessment 10. The AMLCB issued Guidance on ML/TF Risk Assessment for DNFBPs on 27th November 2020.	Myanmar should: 1. Continue to demonstrate its efforts in deepening understanding of ML risks across competent authorities and the private sector, related to drug trafficking, corruption(PEPs), cross-border smuggling, legal persons using sources such as case studies, typological and statistical information, intelligence and reports by credible organizations. 2. Update the JG on progress in conducting the ML risk assessment on legal persons as planned.

11. Corruption Risk Assessment workshop organized by the Anti-Corruption Commission of Myanmar from 9 to 12 June 2020. The Anti-Corruption Commission held an online workshop with the participants from the Corruption Prevention Units of the Union-level organizations and ministries.
12. United Nations Office on Drugs and Crime published Myanmar Opium Survey 2019 that was developed with the cooperation of CCDAC.
13. United Nations Office on Drugs and Crime published Myanmar Opium Survey 2020 that was developed with the cooperation of CCDAC.

1.4 National Strategy

14. Myanmar adopted its National Strategic Plan on Drug Control in Myanmar (2020–2024) which was approved by the Cabinet on 5th February 2020.
15. The President Office formed the Steering Committee on drafting the National Strategy on Anti-Corruption on 9th October 2020 led by Chairman of Anti-Corruption Commission.
16. The National-Level Anti-Corruption Strategy Drafting Committee held its first online meeting on formulation of National-Level Anti-Corruption Strategy on 20th October 2020. (<https://www.gnlm.com.mm/national-level-anti-corruption-strategy-drafting-committee-holds-its-1st-online-meeting/>)
17. The National Strategy on AML/CFT which has (5) areas has been implementing since 2019, May. The progress of the implementation is as follows,

Strategy Area	2019	2020	Sept to Dec of 2020	Jan to Apr of 2021
Area I	59.09%	65.73%	4.51%	
Area II	64.28%	80.27%	9.44%	
Area III	27.77%	35.66%	2.33%	
Area IV	32.14%	56.60%	13.57%	
Area V	13.63%	60.83%	14.79%	

1.5 Legal Person

18. Ministry of Planning, Finance and Industry formed the Beneficial Ownership Task Force for Extractive Industries on 30th June 2018 for the implementation of disclosure on BO in compliance with 2016 EITI standards and to promote the transparency of legal persons.
19. The President Office issued a notification no.104/2019 on 2nd October 2019 to the relevant departments/organisations, and companies and economic organizations registered under Myanmar Companies Law to cooperate with the Directorate of Investment and Company Administration (DICA) for timely implementation of the beneficial ownership (BO) disclosure process.
20. The Union Government issued a notification no. 76/2018 dated 29th June 2018 by which Union Ministries, Union Level organizations and Governments of States and Regions were instructed to cooperate continuously on Myanmar EITI process.
21. DICA issued a Directive on Disclosure of Beneficial Ownership Information on 15th November 2019 in order to enhance the transparency

	and accountability of BO of legal person or arrangement and to deter tax evasion, money laundering and terrorist financing. 22. DICA also establish a web portal namely Myanmar Beneficial Ownership Disclosure, it is designed to allow the public to access BO and BOD information of extractive industries and to allow those industries to contribute BO and BOD information voluntarily. (https://bo.dica.gov.mm) 23. DICA is actively participated in the Beneficial Ownership Initiatives. 1.6 Public awareness 24. The AMLCB published 2019 annual report on AML/CFT activities in Myanmar and distributed to all relevant agencies including the international counterparts. 25. The AMLCB published 2020 annual report on AML/CFT activities in Myanmar and distributed to all relevant agencies including the international counterparts. 26. MFIU held a meeting with DNFBPs and discussed matters relating to the Guidance on ML/TF Risk Assessment from 21st to 23rd December 2020 at which (50) participants for each sector attended. 27. MFIU, Bureau of Special Investigation (BSI) and Myanmar Institute of Certified Public Account held a Compliance Officer Training on AML/CFT on 23-24 January 2021 at which AML/CFT legal obligations, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction were discussed and a total number of (171) participants were attended. 28. The Central Bank of Myanmar (CBM) and Myanmar Bank Association (MBA) with the cooperation of BSI and MFIU held a training for senior management level officials from (18) private banks from 18th to 22nd January 2021 and (36) participants were attended at which AML/CFT legal obligations, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction were discussed. 29. CBM held a MVTs providers training from 25th January to 5th February 2021 with the cooperation of BSI and MFIU at which (29) compliance officers from MVTs providers were attended. AML/CFT legal obligations for MVTs providers, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction were discussed in this training. 30. The Anti-Corruption Commission distributed the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Pyidaungsu Hluttaw on 25th May 2020. (https://www.Globalnewlightofmyanmar.com/anti-corruption-commission-gives-reference-books-to-hluttaw/) 31. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Kachin State, Speaker of Kachin State Hluttaw and Chief Justice of the High Court of the Kachin State on 22nd June 2020. Secretary of anti-corruption commission attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=619) 32. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Chin State, Speaker of Chin State Hluttaw, Chief Justice of the High Court of the Chin	

	State on 23rd June 2020. Members of Anti-Corruption Commission were attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=620) 33. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Mon State, Mon State Hluttaw Speaker and representatives, Chief Justice of the High Court of the Mon State and Judges on 29th June 2020. Members of Anti-Corruption Commission were attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=622) 34. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Kayin State, Chief Justice of the High Court of the Kayin State, Kayin State Hluttaw Speaker and representatives, on 30th June 2020. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=625) 35. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Shan State, Hluttaw Speaker of the Shan State, Chief Justice of the High Court of the Shan State and responsible persons on 13th July 2020. Members of Anti-Corruption Commission were attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=629) 36. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to the Chief Minister of Kayah State, Hluttaw Speaker of Kayah State and representatives, Chief Justice of the High Court of the Kayah State, Judges, Ministers, responsible persons on 15th July 2020. The Chairman of Anti-Corruption Commission attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=629) 37. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to Myanmar News Media Council, Chairman and Co-Chair of News Media Council, responsible persons on 18th June 2020. Members of Anti-Corruption Commission were attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=614) 38. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to office of the Region/State/ District/Township Legal Aid Board, secretaries from Union Legal Aid Board on 9th June 2020. Member of anti-corruption commission attended the ceremony. (https://www.accm.gov.mm/acc/index.php?route=cms/article&path=27&article_id=604) 39. The Anti-Corruption Commission presented the reference books on anti-corruption, integrity and codes of conduct (basic education high school and university levels) to Mandalay-Region Government, Mandalay Hluttaw representatives, Judges from Mandalay Regional Court on 12th June 2020. Members of anti-corruption commission were attended. (https://www.accm.gov.mm/acc/index.php?Route=cms/article&path=27&article_id=601) 40. NRA findings, AML/CFT Strategy and parallel financial investigation were discussed at the Investigation Training Institute of BSI on 10th March 2021 at which (30) Assistant Investigators were attended. 41. NRA findings, AML/CFT Strategy and parallel financial investigation were discussed at the Police Officer Training Institute on 11th and 15th of March 2021 at which (300) cadets were attended.	

Joint Group's (JG's) Comments:**This item is partially addressed.**

Given the negative impact of the COVID-19 pandemic, Myanmar has made some progress on improving understanding of ML risks in drug trafficking, corruption, cross-border smuggling, legal person and tax invasion. But there are no new progress made on the risk assessment of legal persons during this reporting cycle.

On improving understanding of ML risks, major actions taken by Myanmar were Consultation Meetings. Since the last F2F meeting in Jan 2021, Myanmar has continued its Consultation Meeting exercise held jointly by MFIU, LEAs and competent authorities. During these consultation meetings, NRA findings, the national strategy and recommended action of the JG report were shared among participants from public sectors. Based on the discussion of the Consultation Meetings, Myanmar compiled a comprehensive report which consists of major findings of the Consultation Meetings and few case studies and shared it with all domestic law Enforcement Agencies and Competent Authorities as well as all MOU countries. Myanmar also conducted 2 trainings for police officer on in Mar 2021 to discuss NRA findings, AML/CFT Strategy and parallel financial investigation.

However, these Consultation Meetings and trainings presented only repeated information and understanding from the 2018 MER and national strategy. Myanmar did not provide information on the use of various sources such as case studies, typological and statistical information, intelligence and reports by credible organizations to further support their understanding of ML risks.

On the involvement of private sector, Myanmar reported that no private sectors attended Consultation Meetings during this reporting cycle. Besides, Myanmar held series of trainings for banking sectors, accountants and MVTs sectors. AML/CFT legal obligations, international standards, the implementation of the CFT and CPF were discussed in these trainings. But no ML risk-related materials and findings were touched upon in these trainings.

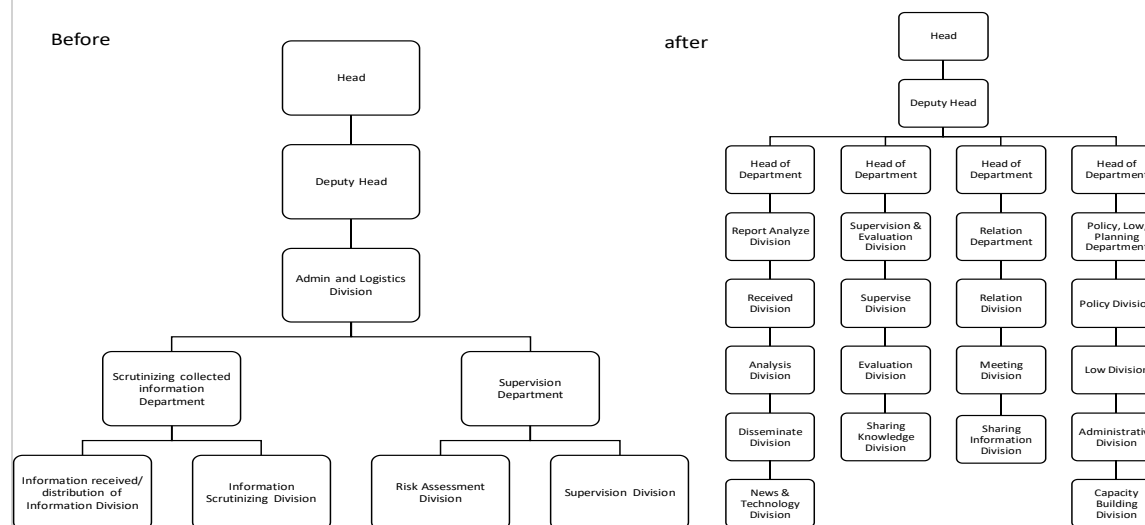
On the risk assessment of legal persons, impacted by the COVID-19 pandemic, Myanmar reported that the risk assessment of legal persons has been delayed indefinitely.

On other actions taken, Myanmar established a web portal to allow extractive industries to contribute BO and BOD information voluntarily. Myanmar also briefed JG on some positive progress of the implementation of its National Strategy.

To further demonstrate improved understanding of ML risks, the JG would encourage Myanmar to further demonstrate its efforts in deepening understanding of ML risks across competent authorities and the private sector, related to drug trafficking, corruption(PEPs), cross-border smuggling, and legal persons, using sources such as case studies, typological and statistical information, intelligence and reports by credible organizations. The JG also requests that Myanmar update the JG on progress in conducting the ML risk assessment on legal persons as planned.

Immediate Outcome 3			
3.1. Ensure the supervisory body for DNFBPs is sufficiently resourced.	January 2021	The plan to ensure the supervisory body for DNFBPs is sufficiently resourced includes three main programs as follows: 3.1.1. Strengthening the competent authority of DNFBPs, that is the MFIU, and the Consolidated Inter-Agency Supervision Committee to be sufficiently resourced In order to have the MFIU, which is the competent body of DNFBPs, sufficiently resourced, 2-phased program has been developed according to which, in the phase 1 (short-term action plan) total 22 MOPFI staff and MPF staff are permanently attached to the MFIU introducing the new structure. Also The Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs (CIASC) was established to strengthen supervision activities, particularly for DNFBPs.	This item is largely addressed

	(1) New structure and new staff “Supervision Department” is upgraded to “Supervision and Evaluation Department” with three division, “Supervision Division”, “Evaluation Division” and “Sharing the Knowledge Division” in order to focus on supervision activity. “Supervision Division” will deliver on-site inspection while “Evaluation Division” is responsible not only for off-site monitoring but also for risk assessment which was previously conducted by “Risk Assessment Division” in order to reflect risk found in risk assessment to off-site monitoring. “Sharing Knowledge Division” is a new function to share the identified risk to all staff of the FIU. At the same time, the new FIU expands their function as new divisions such as “Report Analyse Department” and “Communication Department” are newly introduced. “Report Analyse Department” is to analysis STR reports. Policy Legal and Admin Department. “Communication Department” will focus on exchanging information with DNFBPs and Myanmar Authorities (LEAs) and international communication. These Departments are led by the Director level officer who are supposed to exchange information from each department by a regular internal meeting held at least once a week. To function the new structure above, out of 22 new staff, ten staff from MOPFI and six staff from Myanmar Police Force are allocated to “Supervision and Evaluation Department” with intention to strengthen supervision activities on DNFBP. Particularly, “Supervision Division” and “Evaluation Division” have five MOPFI staff respectively to support on-site inspection and off-site monitoring by leveraging MOPFI staff’s knowledge in finance area to initiated supervision on DNFBPs. The main task of new assigned staff is to expedite the supervision cycle on DNFBPs in the FIU, which has been a heavy workload compared to previous human resource in the FIU. Indeed, These new staff already cooperated the existing FIU members in, for example, delivering and collecting compliance questionnaire in off-site monitoring. Other six staff from Myanmar Police will work for “Analyse Report Department” to complement capacity to analyse increased STR reports. In addition, the FIU Head assigned a chief officer for each DNFBP sector in order to conduct risk-based approach on different risk of DNFBPs. Chief Officers are; Real Estate: Inspector Bo Ye Gold: Inspector Shwe Htan Gem: Inspector Nway Aung Accountant: Inspector Zar Ni Legal: Inspector Kyaw Htin Comparison of structure:	



(2) The Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs (CIASC)

The Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs (CIASC) is also resourced with 20 new supervisors. These supervisors are from Ministry of Planning, Finance and Industry (MOPFI), Central Bank of Myanmar (CBM), Customs Department, Financial Regulatory Department (FRD), Internal Revenue Department (IRD), Bureau of Special Investigation (BSI), Myanmar Financial Intelligence Unit (MFIU), Directorate of Investment and Companies Administration (DICA), Ministry of Natural Resources and Environmental Conservation (MONREC), Office of Auditor General (OAG), Union Supreme Court (USC), and Union Attorney General Office (UAGO).

The CIASC has the main role of overseeing the AML/CFT supervision activity of CAs as well as sharing information among CAs to develop supervision skill in each CAs. In addition, since the FIU's development is still at the new stage, the individual member of the CIASC is engaged into supervision of DNFBPs as well with coordination with the FIU. As stated in 3.2.2, some member of CIASC already joined on-site inspection on DNFBPs supporting practically the FIU with sharing their specialised knowledge. With this practical coordination by other experienced CAs members through the CIASC, the FIU will be solely CAs for DNFBPs in mid-and long-term,

In addition, supporting supervision committees are set up with a Directive issued by the AML/CFT Steering Committee and are led by industry experts to support the Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs. These working committee members are working (a) to facilitate the connection between the steering committee and working committee for Anti-Money Laundering and Combating the Financing of Terrorism, Consolidated Inter-Agency Supervision Committee-CIASC and the associations, (b) to bridge in order for the effective

implementation of the development of the association, strengthening of organization structure and anti-money laundering and combating financing of terrorism activities (and not involved in actual supervision activity).

Action plans that have been accomplished so far for the first phase are as follows;

- (a) 10 MOPFI staff have been attached permanently to the MFIU and are currently under an intensive training provided jointly by the MFIU, BSI and CBM. Their duty and new allocation for them are stated above.

These staff permanently attached to the MFIU are as follows;

1	Daw Thin Thin Aye	2	Daw Yu Yu Maw	3	Daw Aye Thiri Aung
4	Daw Si Si Win	5	Daw Swe Swe Lin	6	Daw Yin Moe Tin
7	Daw Ei Ei Myint	8	Daw Yi Yi Pike	9	Daw Win Mya2 Moe
10	Daw Khine Zar Nwe				

These newly attached staff have gone through an intensive training as per action plan 3.1.3(a).

Out of these 10 newly attached staff, 5 staff have been assigned specially for strategic and operational analysis as per an assignment letter issued by the MFIU on (1-7-2020).

- (b) 12 new staff of the Myanmar Police Force (MPF) have been attached permanently to the MFIU and are currently under an intensive training. Their duty and new allocation for them are stated above.

These staff permanently attached to the MFIU are as follows;

1	Pol. 2 nd Lieutenant Phoo Keindray Kyaw	2	Pol. 2 nd Lieutenant Yan Naing Tun	1	Pol. 2 nd Lieutenant Chit Su Wai Myint Mg
4	Pol. 2 nd Lieutenant Su Mon Cho	5	Pol. 2 nd Lieutenant Khin Lay Nwe	6	Pol. 2 nd Lieutenant Hnin Hlwar Oo
7	Pol. 2 nd Lieutenant Thida Htwe	8	Pol. 2 nd Lieutenant Htet Htet Lwin	9	Pol. 2 nd Lieutenant Thingyan Mg
10	Pol. 2 nd Lieutenant Amy Win Hlaing	11	Pol. 2 nd Lieutenant Eindiar Theint	12	Pol. 2 nd Lieutenant Wint War Htwe

These newly attached staff have gone through an intensive training as per action plan 3.1.3(a).

- (c) 20 supervisors (from MOPFI, CBM, Customs, FRD, IRD, BSI, FIU, DICA, MONREC, OAG, USC, UAGO) have been assigned to the Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs with the Directive issued by the AML/CFT Steering Committee chaired by a Vice President of Myanmar. The AML/CFT Steering Committee Order was issued on (17-6-2020). Again, an individual member of CIASC has a role not only of overseeing the supervision activity of CAs but also of coordinating with the FIU through practical support for supervision of DNFBPs.

These 20 supervisors are as follows;

1	Daw Kyi Kyi Win Director, Financial Regulatory Dept	2	U Zaw Moe Dy Director, Central Bank of Myanmar	3	Daw Mya Theingi Dy Director, Office of the Auditor General
4	U Aung Moe Kyaw Dy Director, Customs	5	U Zaw Moe Dy Director, Internal Revenue Dept	6	U Aung Swe Oo Dy Director, DICA

7	Daw Khin Lay Oo Asst GM, Myanmar Gem Enterprise	8	Police Lt. Colonel Ye Htut Hlaing Dy Director, MFIU	9	U Thurain Aung Dy Director, Bureau of Special Investigation
10	Daw Khin Mya Thet Dy Director, Immigration Dept	11	Daw Dima Win Myint Asst Director, Financial Regulatory Dept	12	Daw Aye Kyu Myint Asst Director, Central Bank of Myanmar
13	Daw Khine Zin Win Asst Director, Office of the Auditor General	14	U Myo Min Latt Asst Director, Customs	15	U Htin Aung Lin Asst Director, Internal Revenue Dept
16	Daw Aye Su Lwin Asst Director, Financial Regulatory Dept	17	U Moe Htwe Asst Director, Bureau of Special Investigation	18	Daw Thida Aung Asst Director, Immigration Dept
19	Daw Mya Mya Maw Asst Director, DICA	20	Daw Nyein Nyein Thin Myanmar Gem Enterprise		

The President Office's Order establishing the Consolidated Inter-Agency Supervisory Committee for DNFBPs with 20 supervisors can be seen at the following address:-

(In Myanmar) https://www.dropbox.com/s/d3edndcag6i5lvx/Order_Consolidated%20Committee.pdf?dl=0

(In English)

https://www.dropbox.com/s/hhyns4teyov7oco/%2813%29%203.1.1%20Order_Consolidated%20Committee%20%28Annex%20XII%29.pdf?dl=0

- (d) The AML/CFT Steering Committee also issued an Order on (17-6-2020) by which supporting supervision committees for lawyer, accountant, real-estate, gem, and gold that are headed by industry experts who are Chairman of the Real-estate Association, Chairman of the Gem Association, Chairman of the Gold Association, Chairman of the Myanmar Lawyers Association and Chairman of Myanmar Certified Public Accountants Association were established.

Members of supporting supervision committee-1 include-

1	U Sein Win Chairman, Myanmar Lawyers Association	2	U Mg Mg Tar Director, Union Attorney General Office	3	U Kyaw Zeya Vice Chairman, Myanmar Lawyers Association
4	U Bo Bo Financial Controller, Myanmar Lawyers Association	5	U Alexbut Zaw Min General Secretary, Myanmar Lawyers Association		

Members of supporting supervision committee-2 include-

1	U Wan Tin Chairman, Myanmar Certified Public Accountants Association	2	Daw Mi Mi Thet Director, Office of the Auditor General	3	Dr. Tin Latt Vice Chairman, Myanmar Certified Public Accountants Association
4	U Myat Noe Aung Joint Secretary, Myanmar Certified	5	U Aung Naing Mg Mg Secretary, Myanmar Certified Public		

	Public Accountants Association		Accountants Association		

Members of supporting supervision committee-3 include-

1	U La Hpine Kunsar Chairman, Myanmar Gem Entrepreneurs Association	2	U Naing Zaw Oo Dy GM, Myanmar Gem Enterprise, Ministry of Natural Resources and Environmental Conservation	3	U Zaw Bo Khant Vice Chairman(5), Myanmar Gem Entrepreneurs Association
4	U Thet Mg Myint Secretary(3), Myanmar Gem Entrepreneurs Association	5	U Thauung Tun Secretary(1), Myanmar Gem Entrepreneurs Association		

Members of supporting supervision committee-4 include-

1	U Kyaw Win Chairman, Myanmar Gold Entrepreneurs Association	2	Daw Than Than Htay Dy GM, No. 2 Mining Enterprise, Ministry of Natural Resources and Environmental Conservation	3	U Ba Than Vice Chairman, Myanmar Gold Entrepreneurs Association
4	Daw Kalyar Pyae Wai Shan Vice Chairman, Myanmar Gold Entrepreneurs Association	5	U Kyi Sein Joint Secretary (Admin), Myanmar Gold Entrepreneurs Association	6	U Ohn Myaing General Secretary, Myanmar Gold Entrepreneurs Association

Members of supporting supervision committee-5 include-

1	U Khin Mg Than Chairman, Myanmar Real-Estate Entrepreneurs Association	2	Police Colonel Myo Thu Soe Dy Head, MFIU	3	U Than Oo Member, Myanmar Real-Estate Entrepreneurs Association
4	Daw Moe Moe Aung Member, Myanmar Real-Estate Entrepreneurs Association	5	U Myint Sein Secretary, Myanmar Real-Estate Entrepreneurs Association		

These supervisors are attached to the Consolidated Inter-Agency Supervisory Committee on DNFBPs and FIs and those attached to the supporting supervisory committees have gone through an intensive training as per action plan 3.1.3(b).

The President Office's Order establishing Supporting Supervisory Committees chaired by industry experts can be seen at the following address:-

(In Myanmar) https://www.dropbox.com/s/2e7i4l63o5omyoi/Order_Supporting%20Committees.pdf?dl=0

(In English) <https://www.dropbox.com/scl/fi/304wa3epi7cldwkoy3gqf/Supporting-Supervision-Committee-Provisional-Translation.docx?dl=0&rlkey=h8eb4r76g4wvmwjzfvkpt3d>

3.1.2. Plan to make MFIU more independent administratively and operationally in a long run

In the phase 2 (medium-term action plan), it is intended that the MFIU is transferred from the MOHA to the MOPFI to be more independent under the guidance of the AML/CFT Steering Committee, chaired by the Vice President of Myanmar. As per the phase 2 (medium-term action plan) mentioned in 3.1.1, we plan to transfer MFIU from the MOHA to the MOPFI in order to ensure that the MFIU is administratively and

operationally more independent so that its administrative and operational tasks including but not limited to recruitment, traveling, training and operation could be conducted more independently. Note that the request was already issued to the President Office as below but COVID19 pandemic has delayed the progress. MFIU is and will still be under the direct supervision of the AML/CFT Steering Committee chaired by the Vice President of Myanmar and also under the supervision of the AMLCB chaired by the Minister of Home Affairs. However, it will be linked in terms of budget to the MOPFI and as a result, it will be more independent operationally. In addition, the MFIU staff shall be entirely dedicated to the MFIU without needing to share their works with other departments. With this transferring, the FIU establishes "Supervision Division" which is engaged and specialised into supervision of DNFBPs. The new staff stated in 3.1.1 will join this department to strengthen the supervision of DNFBPs.

Actions we have so far done are as follows;

- (a) The new MFIU structure has been developed and submitted to the AML/CFT Steering Committee on (20-2-2020) and it has been approved by the Vice President of Myanmar to proceed.
The proposed new structure includes 200 staff (i.e. 77 gazetted officers and 123 non-gazetted officers which are just a type of general requirement by the Myanmar Government and no difference in practical manner)

The proposed organization structure can be seen at the following link:-

(In Myanmar) https://www.dropbox.com/s/xrjejj4rhh4ndkv/FIU_Org%20structure.pdf?dl=0

(In English) https://www.dropbox.com/s/4y7zcfzfzlvrbvba/%2814%293.1.2FIU_Orgstructure%28AnnexXIII%29.pdf?dl=0

- (b) MOPFI has submitted an official letter to the President Office on (8-7-2020) to enable its organization structure to allow the re-allocation of MFIU

The letter to the President Office (in Myanmar) could be seen at the following link:-

(In Myanmar) https://www.dropbox.com/s/gqv5uv9jpoejn7y/FIU_restructure-letter%20to%20president.pdf?dl=0

(In English) https://www.dropbox.com/s/cl/fi/g5n4y35ir90stbvoxwnrk/15-3.1.2-b-FIU_restructure-letter-to-president-Annex-IVX.docx?dl=0&rlkey=5rsmju6o8gg7dxwl21160un1g

- (c) MOPFI has allocated the budget for the new MFIU

3.1.3. Training for DNFBPs supervision

In order to ensure the supervisory body for DNFBPs is sufficiently resourced, capacity building is important to strengthen the MFIU's capacity and human resources development to become the effective competent authority of the DNFBPs and also to strengthen the capacity of supervisors of the Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs.

Action plans we have so far implemented are as follows;

- (a) We have given intensive trainings to 22 new staff, 10 of whom were attached permanently by the MOPFI and 12 of whom were attached by the MPF to the MFIU
(After the training period, we conducted closing session to discuss participants' findings related to current/new risk areas)

Training title	AML/CFT Supervision Training

Organizer	Myanmar Financial Intelligence Unit, Financial Investigation Department of the Myanmar Police Force
Date and Place	15-26 June 2020
Instructors	Pol. Brig. General Tin Aung Win, Pol Colonel Myo Thu Soe, Pol. Lt. Colonel Win Nilar, Pol. Lt. Colonel Myint Soe, Pol. Lt. Colonel Ye Htut Hlaing, Pol Major Aung Kyaw Soe, Pol.Captain Shwe Moe, Pol.Captain Kyu Kyu Sein, Pol. Captain San San Myint, Pol. Captain Mi Mi Par, Pol. Captain Thein Zaw, Pol.Lt. Nway Aung, Pol.2nd Lt. Nyo Nyo Htwe
Subjects	- NRA - FATF TC Recommendation - Offsite/Onsite Supervision - Producing strategic and operational analysis - Financial intelligence reports
Participants	- 10 new MOPFI staff permanently attached to the MFIU - 1 Pol Officer and 17 Dy Pol Inspectors of Myanmar Police Force in which 12 new Dy Pol Inspectors permanently attached to the MFIU are included

(b) We have also conducted capacity building program especially for supervisors attached to the Consolidated Inter-Agency Supervisory Committee for DNFBPs and FIs

Training title	Training on AML/CFT Offsite/Onsite Supervision on DNFBPs and Financial Institutions
Organizer	Financial Regulatory Department and Myanmar Financial Intelligence Unit
Date and Place	7-10 July 2020
Instructors	- Dr. Tin Latt, Vice Chairman, Myanmar Certified Public Account Association - Daw Kyi Kyi Win, Director, Financial Regulatory Department - Pol.Lt Colonel Myint Soe, MFIU - Pol.Lt Colonel Ye Htut Hlaing, MFIU - U Aung Kyaw Than, Dy Director, Central Bank of Myanmar - U Zaw Moe, Dy Director - U Thurain Aung, Dy Director, Bureau of Special Investigation
Subjects	- Mutual Evaluation and National Risk Assessment - National Strategy on ML/TF - Basic accounting and auditing

	- Offsite/onsite risk-based supervision - Supervisory risk management and risk indicators - CDD - Risk assessment guideline manual, questionnaire, checklist
Participants	- 36 trainees in total that include- - 20 supervisors from the Consolidated Inter-Agency Supervisory Committee for DNFBPs and FIs - Members of Supporting Supervisory Committees

(c) There will be various planned training in 2021 for new employees.

No	Period	Title	Expected Number of participants	Participant
1	First quarter (Jan to April)	Basic course on AML/ CFT	16	New employees
2	Second quarter (May to August)	Training on Myanmar AML/ CFT regime and Standard Operation Procedure of MFIU (Refresher course)	16	New employees
3	Second quarter (May to August)	Financial Intelligence training on Money Laundering and Terrorist Financing	26	All (including new employee and 10 new MOPFI staffs who permanently attached to MFIU)
4	Third quarter (Sep to Dec)	Awareness training on ML/ TF Risk Assessment Guidelines	30	All (including new employee and 10 new MOPFI staffs who permanently attached to MFIU)
5	Third quarter (Sep to Dec)	Awareness training on Supervision manual on AML/ CFT	30	All (including new employee and 10 new MOPFI staffs who permanently attached to MFIU)

(d) We have also conducted capacity building program especially for supervisors attached to the Consolidated Inter-Agency Supervisory Committee for DNFBPs (and FIs).

Training title	Awareness Raising Session for CIASC Members on the Risk Management Manual (RMM)
Organizer	CIASC
Date and Place	8 Oct 2020
Instructors	Financial Sector & Intellectual Property Programme (UK)
Subjects	Developing a comprehensive Risk Management Manual. The RMM is a crucial tool for CIASC and FIU to use for the implementation of a risk-based approach to AML/CFT supervision for DNFBPs as well as FIs. The purpose of the manual

		is to provide relevant supervisors with a toolkit for implementing a risk-based supervision system; including a comprehensive list of steps to take, relevant technical details (e.g. on risk indicators), relevant templates, as well as procedures and tools to conduct onsite inspections and offsite risk analysis. The material is here; https://www.dropbox.com/s/4v4dmskeoqu7n7/PresentationtoCIASCMembers_08_10_2020-1-Copy.pdf?dl=0 Participants - 56 trainees in total that include- - CIASC members - Financial Regulation Departments (MOPFI) and state and regions staff	
		(e) In order to continue our capacity program, we have requested TA from the APG on 8 June 2020 related to supervision on DNFBPs. However, under the Covid19 situation as stated above with Myanmar government, it has been difficult to continue seeking TA opportunity for now. (f) We also requested TA from AMRO on 18 December 2019 for training to supervisors of Consolidated Inter-Agency Supervision Committee for DNFBPs & FIs. However, under the Covid19 situation, it has been difficult to continue seeking TA opportunity for now.	
3.2. Prioritise onsite and offsite inspections to gem, gold dealers and real estate sectors on a risk basis.	May 2021	3.2.1 Use of available information and prioritising 1. MFIU conducted off-site supervision by sending off-site questionnaires to all DNFBPs through the respective professional associations. The sample assessment forms for gems and gold dealers and real-estate sector are attached. (Annex 21) 2. After receiving the completed Questionnaires from respective firms, the MFIU assesses the responses by using the ML/TF Risk Assessment Tool (RAT). These risk scores are then stored as a risk database to determine the on-site examination priorities. (Annex 22) 3. Responses are rated in the tool as low (1), medium (2) or high risk (3). Risk scores are subsequently calculated for both ML/FT risk as well as the adequacy of mitigation measures. The scoring of mitigation measures is good (3), moderate (2), weak (1). 4. MFIU considers the following factors identified during the off-site supervision to prioritize entities for onsite inspection: (a) nature, size, complexity of the business; (b) types of clients the business deals with; (c) products or services that the business provides; (d) the methods used to deliver the products or services; (e) geographies dealt with; (f) types of relationships that exist with other businesses. 5. To understand the ML risks level and to develop supervisory profile of DNFBPs, MFIU also considers the following information: (a) DNFBP risk assessment; (b) Internal audit reports;	This item is partially addressed Myanmar should demonstrate how supervisors adequately collect and use available information, including risk scoring, to prioritise the onsite inspection of gem, gold dealers and real estate sector.

		(c) Previous onsite inspection reports; (d) Press reports and market intelligence; (e) Relevant industries' publications; (f) National Risk Assessment Reports. 6. While developing the onsite inspection plan, MFIU utilizes the DNFBPs risk assessment such as internal audit report, previous onsite inspection reports, press reports and market intelligence, relevant industry publications, the National Risk Assessment. 7. MFIU updated Supervision Manual on Anti-Money Laundering and Countering the Financing of Terrorism amendment the Compliance Questionnaires, ML/TF Risk Assessment Tool (RAT), Format of the Initial Examination Plan, Examination Check Points, Onsite Examination Report, Examination Check Points and Targeted Financial Sanction on proliferation of weapons of mass destruction. (Annex 23) 3.2.3 Supervision activities 8. MFIU conducted offsite supervision on (50) members from Real Estate Service Association and onsite supervision on (2) real-estate agencies on 6th January 2021. 9. MFIU also conducted offsite supervision on (50) members from Myanmar Gems and Jewellery Entrepreneurs Association (MGJEA) and conducted onsite supervision on (2) gem dealers on 20th January 2021. 10. MFIU also conducted onsite and offsite supervision on (2) gold dealers on 27th January 2021. 11. (40)% of each sector has received onsite and offsite supervision comparison to the last reporting period. 3.2.4 Update information on registration project 12. After MFIU asked for the DNFBPs to conduct preliminary registration in July, 2020, the following DNFBPs registered; <table><tr><th>Sector</th><th>2020</th><th>2021</th></tr><tr><td>Gems Dealers</td><td>27</td><td>253</td></tr><tr><td>Gold Dealers</td><td>33</td><td>815</td></tr><tr><td>Real Estate</td><td>32</td><td>762</td></tr></table>	Sector	2020	2021	Gems Dealers	27	253	Gold Dealers	33	815	Real Estate	32	762	
Sector	2020	2021													
Gems Dealers	27	253													
Gold Dealers	33	815													
Real Estate	32	762													
3.3. Ensure that CBM supervision includes high-risk thematic areas (including CDD, PEPs, high-risk geographic areas, STRs, etc.), particularly for medium-sized	January 2021	3.3.1. Identification of high-risk factors for supervision The CBM's risk-based AML/CFT supervisory approach involves both off-site analysis and on-site examinations. Offsite and onsite supervisory process are interrelated and are to make assessment whether the bank is in compliance with Myanmar's AML/CFT requirements including thematic areas. CBM uses the linkages from offsite surveillance into onsite examinations framework including the media information and prudential risk-based supervision findings assessments. Off-site supervision Methodology: Off-site supervision primarily is collection and analysis of the data. This item is largely addressed													

banks.	Data Collection template is used to understand risks faced by banks through their products, services, customers (including PEPs), delivery channels and geographic regions to which they are exposed. Questionnaire (attached with a link below) includes several questions in assessing the area of AML/CFT. In off-site supervision, the CBM examines thematic areas in this questionnaire assessing governance policy especially BOD's role, risk-management related to geographic risk, KYC/CDD procedures (PEPs), monitoring and suspicious activity reporting (STR), recordkeeping, internal control and internal and external audit, bank's compliance function, training and human resources etc; - The Questionnaire (in English) could be seen at the following link:- https://www.dropbox.com/s/w77xn394xeixld/AMLCFT%20Questionnaire.pdf?dl=0 Risk Matrix Analytical Tools:- To strengthen risk-based supervision, Risk Matrix Analytical Tools are used. Risk score ranges from 1 (very low) to 5 (very high risk). "Trend" can be "Increasing" "Stable" and "Decreasing". Scores for Risk Mitigants ranges from 1 (very good) to 5 (very deficient). The following is an example (in English) of a FI with a medium risk. https://www.dropbox.com/s/8eyhb8xi23gd51z/Risk_example.pdf?dl=0 Groupings by Size:- In assessing the risks the FI faces, the CBM uses the following bank size classification to categorize a bank into Large, Medium or Small Bank; • Large : market share of total assets of 5% or more • Medium: market share of total assets between 5% and 1% • Small: market share of total assets less than 1% Frequency:- CBM distributed data collection template and AML/CFT questionnaires to FIs once a year from end of 2016 to 2019. Starting from 2019, CBM initiated off-site supervision on bi-annual basis. Process:- Based on the feedback from banks, CBM may ask additional questions to them for clarifications. Then, the CBM conducts risk assessment using the Risk Matrix Analytical Tools and provides the risk level of the banks for onsite supervision. <u>Onsite Supervision</u> Methodology: Criteria:- CBM conducts onsite examination at least once a year for medium banks. The frequency of onsite supervision is decided based on the following. It means, in addition to the off-site information, the CBM takes into account thematic areas of AML for on-site inspection with referring the NRA and other trends shared in Consolidated Inter-Agency Supervision Committee etc.: • PEPs: Number of PEPs holding accounts with bank or frequency of PEP-involved transactions conducted through bank's network. PEP has been increasingly higher risk due to the COVID19 and around election in terms of corruption. Under such trend, bank account of PEP could be cautioned.	

- **New Products:** The bank launched New Products since the last onsite examination.
- **Cross border Transactions:** If the bank is more involved in cross border Inflow/outflow transactions than its peers as the NRA points out POC outflow is larger in the border area with China and Thai. In addition, the drug trafficking trend around Golden triangle is a part of consideration as a geographic risk in Myanmar.
- **Offsite risk-based supervision information:** As above, the questionnaire comprises not only prudential risk but also AML/CFT risk including CDD/KYC (including specific procedures for PEPs), reporting STR, risk management including reviewing geographic regions. If there are more instances of share transfer, customers from high risk regions and PEPs, lack of risk management taking into account geographic location, lack of specialized internal procedure for PEPs , new BOD appointment, capital increase, or if the CBM receives information from relevant agencies.
- **Media information:** from Local media and social media outlets (e.g. PEP activities and their relation to the conglomerate holding a bank).
- **Sanction list:** Number and incidence of bank's clients in OECD and UN Sanction lists as the NRA pointed out the banking sector is assessed as presenting the highest level of FT risk.
- **Conglomeration:** Layered and interconnected Institutional network and holding company involvement are considered. PEP is likely to have formal or informal relationship with conglomeration.

During Onsite visits, the CBM teams examine:

- if KYC is conducted before establishing banking relationships
- performance of Customer Due Diligence on an ongoing basis
- procedures for account monitoring, Transaction, Wire Transfers, STR, CTR reporting, Record keeping
- Risk assessment systems
- products and services offered by the bank
- Governance, Internal Control policies and procedures (compliance team and internal audit),
- PEPs
- Correspondent Banking, staff training

Onsite examiners conduct interview with banks' management and BOD level to see if they pay attention to AML/CFT impact on their business level.

CBM examiners also review a sample of accounts and transactions to determine whether the bank has developed, administered and maintained and effective program for compliance with the AML Law, rules and regulations.

3.3.2. Risk-based Onsite supervision

Based on the off-site risk-based analysis, on-site examinations are conducted on large-sized and medium-sized banks as follows;

No	Supervision Date	Name of Organization Supervised
	Large Banks	
1	10-12-2019 to 13-12-2019	Cooperative Bank
2	10-12-2019 to 13-12-2019	Myanma Apex Bank
3	10-12-2019 to 13-12-2019	Kanbawza Bank

4	10-12-2019 to 13-12-2019	Ayanwaddy Bank
5	10-12-2019 to 13-12-2019	Yoma Bank
Medium Banks		
1	10-2-2020 to 11-2-2020	Myawaddy Bank
2	10-2-2020 to 17-2-2020	Asia Green Development Bank
3	10-2-2020 to 20-2-2020	Global Treasure Bank
4	10-2-2020 to 21-2-2020	uab Bank
5	10-2-2020 to 19-2-2020	Myanmar Oriental Bank
6	10-2-2020 to 21-2-2020	Innwa Bank
7	1-4-2020 to 3-4-2020	Rural Development Bank

As per the CBM's internal procedures (issued on January 13th, 2020, attached with a link below), the CBM team responsible for AML/CFT conducted exit interviews with banks in January and March 2020 after the completion of onsite examinations. The attendance of the banks' management and BOD members were required in the exit interviews. The CBM team explained the reason if any adjustment were made to their risk level scores assigned to them by offsite analytical team based on their response to the questionnaire.

(Case example) According to off-site ML/TF risk scores resulted from risk matrix analytical tools, CBM team selected UAB as priority to be conducted on-site examination. Bank has a large exposure to decide thematic high risk, most thematic areas are remittance services, PEPs and their transaction with large amount. Largest Remittance among Yangon, Mandalay and Shan state compare to other medium banks show that onsite examination must be conducted. As per off-site questionnaire, bank failed to conduct risk assessment on geographical risk and on-going monitoring such as wire transfers, cash transactions (TTR, STR), over 300 numbers of PEPs hold around 942 accounts in the bank and involved transactions through bank's network. Moreover, we are seeking its overall performance on 78 branches, 100 correspondent banks, and large number of customers (449,754) who have deposits, loans, domestic transfers, a large number of fraud cases, as well. All these thematic high risks areas make CBM team to decide on-site examination to UAB.

After onsite inspection, the following areas are identified as high risk among medium-sized banks;

Theme/ Area of Inspection (in Action Plan)	Key Observations
CDD	-Most of banks did weak assessment on Account Opening such as lack of all required document to record and enquiries. - Some banks failed to terminate the customer account even though difficult to monitor her/his transaction under suspicious transaction. - Some banks have weak assessment on account opening and CDD such as: - lack of evaluating on documents - recording the purpose of an account opening or relationship - identifying the customer's business relationship with the bank

		- identifying the source of funds and source of wealth of the customer - identifying and verifying customers, beneficial owners and key controllers - obtaining additional information on the customer, beneficiary transaction and information - enhancing customer due diligence to high risk customers - updating regularly the information on all customers - monitoring the amount, type and frequency of customer transactions. Some banks failed to use customer risk rating methodology (high risk or low risk customer)	
	PEPs	-Some banks have not yet complied with the special procedure for PEP stipulated in internal regulation. - Most of banks have no Special Procedure for PEP to monitor transaction. (Weakness in PEP's transaction monitoring) -Weakness in establishing appropriate risk management systems to determine whether a customer or beneficial owner is a politically exposed person. -Weakness in PEP's transaction monitoring -Weakness in complying with the additional customer due diligence measures set out in the law and CDD Measure directive (18/2019).	
	high-risk geographic areas	- A few banks did not consider sufficiently its geographic risk into its risk assessment though the accounts and branches are comparably larger in border area. - Most banks did not update geographic risk for long time by following trend of recent AML crime- -Although some banks are doing banking business in the high risk regions especially in Yangon, Mandalay, Rakhine, Kachin and Shan state at the cross border area with China, Thailand and Laos (Golden Triangle), they did not consider geographic risk into risk assessment. In that regions banks' cash transactions, wire transfers and the drug trafficking are larger than other regions. -A bank recently was impacted of AML criminal case, transferring huge amount of money by using cross border wire transfers from China to Myanmar	
	STRs	- Some banks have no sufficient internal procedure to monitor suspicious transaction, need more awareness of staff and management trainings. - Although banks reported huge amount of TTR transactions to FIU, need more coordination with CBM. -Regarding the internal producer for STR, most banks need to instruct their branches to improve the checking and monitoring STR.	
	After on-site inspection, the CBM instructed most of the banks to develop- - an effective corporate governance framework (BOD, Senior Management) - an effective risk management function (identify, measure, monitor, control and mitigate) - policies and producers to effectively manage the ML/TF risks (including PEP, CDD, EDD)		

- internal control system
- an effective compliance function
- risk monitoring and reporting system (robust MIS systems)
- training arrangements
- updating geographical region into its risk assessment
- on-going monitoring wire transfers and cash transactions (TTR, STR)

The CBM's internal procedures (in Myanmar) could be seen at the following link:
<https://www.dropbox.com/s/y96bjfu45uvmcp/CBM%20Internal%20Instruction.pdf?dl=0>

Recent development of supervision on mid-size banks can be observed in the below matrix (The number of private Myanmar banks are 27 as for 2020). As stated above, on-site supervisions on mid-sized banks have found some deficiencies in thematic areas. Based on these findings, the CBM consequently updated rating of banks from offsite assessment prior 2019, resulting in higher overall rating for some of mid-sized banks.

No	Bank's Name	Onsite Inspection Date	Offsite Assessment Rating For the fiscal year (2018-2019)	Onsite Assessment Overall Rating
Large Banks				
1	Cooperative Bank	10.12.2019 to 13.12.2019	High	High
2	Myanma Apex Bank	10.12.2019 to 13.12.2019	Very High	Very High
3	Kanbawza Bank	10.12.2019 to 13.12.2019	Very High	Very High
4	Ayarwaddy Bank	10.12.2019 to 13.12.2019	High	High
5	Yoma Bank	10.12.2019 to 13.12.2019	High	High
Medium Banks				
1	Myawaddy Bank	10.2.2020 to 11.2.2020	High	High
2	Asia Green Development Bank	10.2.2020 to 17.2.2020	High	Very High
3	Global Treasure Bank	17.2.2020 to 20.2.2020	High	Very High
4	uab Bank	17.2.2020 to 21.2.2020	High	High
5	Myanmar Oriental Bank	17.2.2020 to 19.2.2020	High	High
6	Innwa Bank	18.2.2020 to 21.2.2020	High	High
7	Rural Development Bank	1.4.2020 to 3.4.2020	High	High
8	Myanmar Citizens Bank	11.8.2020 to 13.8.2020	High	High
9	SME-Development Bank	19.8.2020 to 21.8.2020	High	Very High
Small Banks				
1	First Private Bank	11.8.2020 to 12.8.2020	High	High
2	Mineral Development Bank	19.8.2020 to 24.8.2020	Medium	High
3	Ayeyarwaddy Farmer Development	19.8.2020 to 21.8.2020	High	High

	Bank			
4	Myanmar Tourism Bank	20.8.2020 to 21.8.2020	High	High
	Total- 18 Bank			

While prioritizing on-site inspection along with the risk of AML/CFT, the onset of Coronavirus infections in the country in March, 2020, prevents us from finalizing remedial procedures and setting deadlines of implementation for these institutions. In addition, second wave of Covid-19 makes it difficult for the CBM to restart on-site inspection originally planned in September 2020. The CBM has a plan to resume the process once the situation permits and to examine another medium and small banks but still could not predict when it is.

3.3.3. Consultations with other relevant agencies and training

Before the onset of Coronavirus in the country, the CBM has held two consultation meetings with relevant agencies that mainly include MFIU, Financial Regulatory Department (FRD) and Banks and Non-Banks, Mobile Financial Services Providers.

Date of Meetings	Participants	Discussion Points
6.12.2019	CBM, FRD, FIU, Banks, Finance Companies, Mobile Financial Services Providers, Microfinance Institutions, Securities Co.,	- CBM's Risk-Based Supervision Approach on AML/CFT - Linkage between Offsite surveillance, Onsite inspection and on-going risk assessment of the banks - Examination Areas - Weakness of bank compliance on AML/CFT based on supervisory findings - CBM's enforcement to banks to improve AML/CFT compliance - Process of NRA - Sector level and Firm level ML findings - Factors driving the level of risks - Overall long-term ML consequences - Main findings and suggestions from APG Mutual Evaluation Report - National Strategy to effectively implement on AML/CFT from Banks & FIs and DNFBPs
23.1.2020	CBM, Chief Compliance Officers of banks	- the result of APG Mutual Evaluation - set up and explained the action plan - training project and timeline - situation of Banks AML/CFT compliance in line with CBM's instructions and reporting to FIU - challenges facing from the banks to implement AML/CFT - banks training on their staff for ML/ TF risks - cooperation and coordination between the stakeholder

The CBM has plans to meet with relevant agencies to discuss information sharing and classification of high-risk areas in order to update existing risk assessment framework.

		Training and Awareness:- The CBM's supervision department adopted the master plan for the AML/CFT training for local FIs in March, 2020, covering different levels of banking staff. The implementation of the master plan is delayed due to ongoing coronavirus event and will go into full gear once the conditions are favorable. During 2019-2020, workshops on AML/CFT was held in jointly with Myanmar Bankers' Association. Three regular training sessions were provided to banks' staff, compliance officers and BOD members in the industry. Each session lasted two weeks and a total of 133 persons completed these training sessions. Moreover, CBM held AML/CFT Awareness Training via video conferencing, jointly organized with Myanmar Institute of Banking on September 7-11, 2020. The purpose of this training was to further explain existing AML/CFT Laws, Regulations, related orders, rules and directives, international standards and procedures, United Nations Security Council Resolutions (UNSCR), Financial Action Task Force (FATF) Recommendations and Methodology to the banks and financial institutions' officers and relevant staff so that they might become effective in the implementation of AML/ CFT framework. The AML/ CFT topics the resource speakers from CBM and Myanmar Bank Association (MBA) discussed included: AML Law (2014), AML/CFT Risk Based Management Guidance Note (CBM), FATF's 40 Recommendations, APG and Glossary of AML/CFT. The twenty eight participants from Banks, Finance Companies, Microfinance Institutions attended this training. Four observers from CBM's Financial Institutions Regulatory Department and two from Myanmar Insurance (a state-owned business entity) also participated. CBM has a plan to carry out the AML/ CFT Certificate Course (Local Certificate) consecutively, cooperation with relevant supervisory agencies such as FIU.	
3.4. Demonstrate the implementation of the regulations related to hundi/hawala providers, including outreach, registration and supervision.	May 2021	3.4.1 AML/CFT Training and Awareness to MVTS providers 1. The Central Bank of Myanmar held the MVTS providers training from 25th January to 5th February 2021 and 29 participants attended. 3.4.2 Licensing of MVTS providers 2. The CBM granted first batch of MVTS license to (5) companies on 18th November 2020 and (2) companies on 5th January 2021. 3.4.3 Adoption of Supervisory Manual for MVTS providers 3. The CBM requested IMF to provide technical assistance on draft supervisory manual for MVTS providers in July 2020. While waiting from IMF, the CBM circulated draft manual internally for consultation and suggestions. 3.4.4 Unauthorized MVTS providers 4. BSI investigated (19) cases relating to illegal remittance business during 2016-2019. Among them, (6) cases had been prosecuted, (8) cases had been ceased and (8) cases had been transferred to the Internal Revenue Department to levy tax. In those cases, (18) offenders had been convicted, 764.29 million kyats had been confiscated and 29037.352 million kyats and 75909.30 USD had been levied tax by Internal Revenue Department. One of investigated cases in 2018 had also been prosecuted by Money Laundering Offence in 2019.	This item is incomplete Myanmar should: 1. Adopt supervisory manual for MVTS and start supervision of the sector based on this manual. 2. Continue to update the JG on the registration of MVTS and demonstrate that outreach and sanctions for non-registration are applied where appropriate.

Joint Group's (JG's) Comments:

Action plan item 3.1 is largely addressed (Feb 2021):

New staff has been allocated to the MFIU and the Consolidated Inter-Agency Committee (Committee), which are now responsible for supervising DNFBPs. Myanmar has provided AML/CFT capacity building programmes to the new staff members, which includes training on risk assessment and supervision, and it plans to hold further training for all staff utilising the risk based (RB) supervision manual. Close cooperation between the Committee and the MFIU is beneficial to Myanmar's DNFBP supervision particularly at this early stage of the MFIU's new responsibility. The progress was further ensured by the committed financial resource allocation to the FIU.

Action plan item 3.2 is partially addressed:

MFIU has developed a RB supervision manual (June 2020), with detailed steps to be taken from the risk scoring process and on-site inspections. While MFIU, with a support by the Committee, has commenced its onsite inspections to each DNFBP sector. Myanmar has provided a list of entities in each DNFBP sector, with these entities' risk scoring, which demonstrate that MFIU seems to have so far conducted its onsite inspection to entities in a risk based manner to some extent. However, the country also reported that MFIU received responses to the questionnaire, i.e. a foundation of entity's risk scoring, only from 20 % of the entities. In addition, MFIU found the quality of these responses are generally poor. Since MFIU has not taken any adequate follow-up actions to those non-responding entities, it is not clear whether MFIU adequately collect necessary information to understand the entities' risks in each sector, and supervises them in a risk based manner. JG would like to see Myanmar demonstrate the manner in which supervisors collect necessary information on DNFBPs and use it for supervision, including risk scoring, to prioritise the onsite inspection of gem, gold dealers and real estate sector. JG expects Myanmar to provide information on any follow-up actions to be taken to encourage the non-responding entities to submit their response or improve their quality, and results of onsite inspections planned to be conducted in June 2021.

Action plan item 3.3 is largely addressed (Feb 2021):

CBM conducted its RB supervision, including to medium-sized banks with higher risks, which included the higher-risk thematic AML/CFT areas. After the inspections, CBM wrote reports on the findings, including the compliance with the specific AML/CFT measures, during the inspections, and provided feedback to the inspected entities, with instructions for improvements in AML/CFT compliance. To ensure the FIs take actions in accordance with the CBM's instruction, CBM held meetings regularly with them and followed up their remedial actions.

Action plan item 3.4 is incomplete:

CBM has amended its regulation to oblige MVTS providers to be registered. CBM provided training sessions to those who are willing to be registered, and also has started to examine applications. The number of entities which passed CBM's obligatory training courses for MVTS providers and indeed applied to the registration is still very small. The supervision of registered MVTS has not yet occurred with its supervisory manual. JG expects Myanmar to adopt supervisory manual for MVTS and start supervision of the sector based on this manual. Also JG expects Myanmar to continue to update the JG on the registration of MVTS and demonstrate that outreach and sanctions for non-registration are applied where appropriate.

		Immediate Outcome 6	
6.1. Demonstrate improved international cooperation and information sharing with international counterparts by MFIU, in line with the high-risk	May 2021	6.1.1 Enhance Internal and International Cooperation 1. MFIU issued a letter to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission to enhance internal and international information exchange related to financial intelligence especially for high risk crimes, on 28th January 2021. (Annex 24) 2. MFIU issued standard operating procedures on internal and international information exchange to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission on 4th February 2021. (Annex 25) 3. MFIU issued a guideline on internal and international information exchange to all relevant law enforcement agencies on 4th February 2021.	This action plan item is partially addressed. Continue to demonstrate the improvement in the international co-operation and information sharing with international counterparts by MFIU (in line with high risk crimes) and to provide updated statistics and case

crimes.⁴**(Annex 26)**

studies

4. MFIU shared above mentioned standard operating procedures and guideline on internal and international information exchange to MoJ Countries in order to strengthen international cooperation on 3rd March 2021. **(Annex 27)**

6.1.2 International Cooperation (Both formal and informal channels)

5. Myanmar has made following outgoing and incoming requests through the MLA channel as follow:

Year	Outgoing	Incoming	Crime Type
2019	-	4 (Thailand-2, India-1, Vietnam-1)	Environmental, Fraud, smuggling
2020	2 (Singapore, Canada)	6 (Singapore-1, Thailand-2, Pakistan - 1, Britain-1, Japan-1)	Drug, TIP, TF, Fraud
2021	1(Thailand)		Corruption

Outgoing and incoming requests of Myanmar had been increased in 2020 compared with 2019.

6. Myanmar has made following outgoing and incoming request through the Interpol channel as follow:

Year	Outgoing	Incoming
2019	57	83
2020	47	81

7. Myanmar has made following outgoing and incoming request through the Drugs Enforcement Agencies channel (Drugs Enforcement Agencies to Drugs Enforcement Agencies cooperation) as follow:

Year	Outgoing	Incoming
2019	28	38
2020	58	44
3/2021	20	5

Outgoing and incoming requests of Myanmar had been increased in 2020 compared with 2019.

8. Myanmar has made following outgoing and incoming request through the Financial Intelligence Unit channel as follow:

Year	Outgoing	Incoming	Crime Type
2019	2	1	Drug, TF, Gambling, Fraud
2020	6	1	Corruption, drug, cross border smuggling
2021	-	1	Fraud

⁴ At the time of drafting, the JG identified the areas posing a high risk for ML to include: drug trafficking, corruption, environmental crimes and tax evasion

		Outgoing and incoming requests of Myanmar had been increased in 2020 compared with 2019. 6.1.3 Spontaneously Exchange of Information 9. MFIU exchanged, spontaneously, information to China Anti-Money Laundering Monitoring and Analysis Centre on 10th February 2021. (Annex 28) Although Myanmar has not experience on Spontaneously Exchange of Information to foreign FIU, during the report period, Myanmar has made Spontaneously Exchange of Information.																																																																											
6.2. Demonstrate enhanced integration of financial intelligence into the investigations conducted by LEAs.	September 2021	6.2.1 Operational Analysis Report 1. MFIU has produced 14 Operational Analysis Reports and disseminated the financial intelligence on drugs related crime, corruption and online fraud to Law Enforcement Agencies. (12) times of feedback reports from the respective LEA had been received. (Annex 29) <table><tr><th rowspan="2">Month</th><th colspan="2">2020</th><th colspan="2">2021</th></tr><tr><th>Receiving</th><th>Dissemination</th><th>Receiving</th><th>Dissemination</th></tr><tr><td>January</td><td>109</td><td>1</td><td>82</td><td>15</td></tr><tr><td>February</td><td>98</td><td>1</td><td>11</td><td>7</td></tr><tr><td>March</td><td>89</td><td>4</td><td>3</td><td>2</td></tr><tr><td>April</td><td>55</td><td>1</td><td></td><td></td></tr><tr><td>May</td><td>77</td><td>1</td><td></td><td></td></tr><tr><td>June</td><td>74</td><td>3</td><td></td><td></td></tr><tr><td>July</td><td>53</td><td>2</td><td></td><td></td></tr><tr><td>August</td><td>58</td><td>4</td><td></td><td></td></tr><tr><td>September</td><td>29</td><td>1</td><td></td><td></td></tr><tr><td>October</td><td>66</td><td>1</td><td></td><td></td></tr><tr><td>November</td><td>57</td><td>1</td><td></td><td></td></tr><tr><td>December</td><td>40</td><td>1</td><td></td><td></td></tr><tr><td>Total</td><td>805</td><td>21</td><td>96</td><td>24</td></tr></table> 6.2.2 Strategic Analysis Report 2. MFIU has produced a Strategic Analysis Report and disseminated to the Competent Authorities, Regulatory Body and Law Enforcement	Month	2020		2021		Receiving	Dissemination	Receiving	Dissemination	January	109	1	82	15	February	98	1	11	7	March	89	4	3	2	April	55	1			May	77	1			June	74	3			July	53	2			August	58	4			September	29	1			October	66	1			November	57	1			December	40	1			Total	805	21	96	24	This action item is partially addressed. Continue demonstrating the enhanced integration of financial intelligence (including STRs, information from Reporting Entities, Regulators etc)into the investigations by way of updated case studies and updated statistics of the Intelligence Reports (GIR as well as SIR).
Month	2020			2021																																																																									
	Receiving	Dissemination	Receiving	Dissemination																																																																									
January	109	1	82	15																																																																									
February	98	1	11	7																																																																									
March	89	4	3	2																																																																									
April	55	1																																																																											
May	77	1																																																																											
June	74	3																																																																											
July	53	2																																																																											
August	58	4																																																																											
September	29	1																																																																											
October	66	1																																																																											
November	57	1																																																																											
December	40	1																																																																											
Total	805	21	96	24																																																																									

		Agencies. (Annex 30) 6.2.3 Enhance Use of Intelligence 3. MFIU issued a letter to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission to enhance use of financial intelligence from MFIU in their investigations on 22nd March 2021. (Annex 31) 4. Law Enforcement Agencies requested financial intelligence from MFIU for (8) times within 1st January and 15th March 2021. 5. The Law Enforcement Agencies requested financial information from Banks and FIs for (135) times within 2020.																					
6.3. Demonstrate increased operational analysis and proactive disseminations by the MFIU, in line with risks.	September 2021	6.3.1 Proactive dissemination 1. MFIU produced 14 Operational Analysis Reports and one Strategic Analysis Report disseminated the all relevant agencies. The number of receiving and disseminations of STRs are as follow; <table border="1"> <thead> <tr> <th>Month</th><th>Receiving</th><th>Dissemination</th><th>Crime Type</th></tr> </thead> <tbody> <tr> <td>January</td><td>82</td><td>15</td><td>Fraud,</td></tr> <tr> <td>February</td><td>11</td><td>7</td><td>Drug, Corruption</td></tr> <tr> <td>March</td><td>3</td><td>2</td><td>Corruption</td></tr> <tr> <td>Total</td><td>96</td><td>24</td><td></td></tr> </tbody> </table> 6.3.2 Use of Financial Intelligence to Investigation 2. MFIU circulated Three Operational Analysis Reports to Myanmar Police Force from 3-12-2019 to 8-6-2020. Those Reports were produced by analyzing the Suspicious Transaction Report-STRs sent by Bank A. MFIU analyzed those STRs and identified suspicious activities relating to online fraud. MFIU circulated its finding to Myanmar Police Force. Myanmar Police Force scrutinized the case and MFIU regularly monitored the process. During the process, MFIU received more STRs from Bank B, Bank A and Bank C. MFIU found out that the STRs were linked with previous STRs from Bank A. Based on those links, MFIU circulated Operational Analysis Report again to Myanmar Police Force on 15-7-2020. Myanmar Police Force identified that Operational Analysis Report and gave feedback. Based on the financial intelligence report of MFIU, company D and related 49 persons committed an organized online fraud and laundered proceeds of the crime. So a scrutiny body was formed on 24-8-2020 headed by a Director from Bureau of Special Investigation. The scrutiny body identified company registration certificates, counterfeit US dollars, saving passbooks, cheques, MPU cards and transaction records of MMK 9 billion within 2 years. The case was filed with relevant laws on 31-12-2020. Nigerian citizens also involved in that case. 11 cases linked to the fraud case were investigated in respective States and Regions. 30 criminals (Myanmar 19, Nigerian 10, and Chinese 1) in 9 criminal cases were charged with Section 66(c) of the Telecommunication Law and Section 489(b) (c)/144 of the Penal Code. The ML investigation is under proceeding with the cooperation of Myanmar Police Force, Bureau of Special Investigation and MFIU. Currently, an apartment and MMK 33,748,897 has been seized.	Month	Receiving	Dissemination	Crime Type	January	82	15	Fraud,	February	11	7	Drug, Corruption	March	3	2	Corruption	Total	96	24		This action item is partially addressed. Myanmar should: 1. improve the quality and number of proactive disseminations by MFIU; and 2. demonstrate MFIU conducts operational analysis in line with the high risks crimes .
Month	Receiving	Dissemination	Crime Type																				
January	82	15	Fraud,																				
February	11	7	Drug, Corruption																				
March	3	2	Corruption																				
Total	96	24																					

Joint Group's (JG's) Comments:

Action plan item 6.1 is partially addressed:

Myanmar has continued to make progress in the form of developing a record for international cooperation and information sharing. This includes MFIU coordinating with CAs and LEAs, and issuing an official letter to all CAs and LEAs to provide relevant information related to their counterpart organizations. A web-based central database system has been established by MFIU which is accessible to all CAs and LEAs. To expedite

official information requests being made to international counterparts and responses to incoming requests through official MLA, a Detailed Guidance Procedure for MLA has been developed by Myanmar. Consultation meetings on high-risk areas have been conducted by MFIU and the comprehensive report of these results has been shared with key international counterparts. Myanmar has needs to further demonstrate improvements in international co-operation and information sharing with international counterparts. The Joint Group would like to see further evidence of engagement by MFIU with international counterparts, particularly in relation to high risk crimes.

Action plan item 6.2 is partially addressed:

Myanmar has continued to make progress on this action item in the form of developing a secured web-based central database and financial intelligence reports made by the MFIU have been uploaded to the database for 24/7 access by all CAs and LEAs. Myanmar also has formulated teams to handle financial intelligence in each LEA whose role is to enhance cooperation during the intelligence and investigation process and to exchange information among each other. MFIU had produced the financial intelligence reports (general as well as specific) that were produced and disseminated to LEAs communicating financial intelligence on drugs related crimes, corruption and bank frauds. There have been periodic meetings among the LEAs to strengthen their knowledge of information exchange. To further demonstrate that Myanmar has addressed this action item, the JG would like to see demonstration of enhanced integration of financial intelligence (not only those in the form of STRs but also those obtained from FIs, DNFBPS, Regulators, etc. by the LEAs) into the investigations. This can be provided in the form of updated case-studies and updated statistics of the Intelligence Reports (General Intelligence Reports as well as Specific Intelligence Reports).

Action plan item 6.3 is partially addressed:

Myanmar has continued to make progress on this action item in the form of improving the human resources of MFIU. There has been training on strategic and operational analysis conducted by MFIU to train its resources for DNFBP supervision. MFIU has conducted strategic and operational analyses based on high-risk areas utilizing resources and materials learnt in the above training sessions. In 2020, the FIU created total 21 operational analyses reports and one strategic analyses report, which covered different high-risk crimes (corruption, online fraud, hawala, etc.). Myanmar has initiated dissemination of financial intelligence by MFIU to competent authorities but still further needs to enhance the level of proactive dissemination by MFIU, as well as continue conducting the operational analysis by MFIU in line with the risks identified in NRA.

Immediate Outcome 7																				
7.1. Ensure that ML is being investigated and prosecuted in parallel with predicate offences, and in line with risk.	September 2021	7.1.1 Enhance Financial Parallel Investigation			This action item is incomplete Myanmar should: Provide detailed cases studies and statistics to demonstrate that ML is being investigated and prosecuted in parallel with predicate offences, and in line with risk (in particular environmental crimes, cross-border smuggling and offending involving organised criminal groups).															
		1. MFIU issued a letter to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission to enhance Parallel Financial Investigation when conducting the predicate offence investigation on 22 nd March 2021. (Annex 32)																		
		2. MFIU issued a letter on 22 nd March 2021to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission to inform the MFIU, if they found suspicious ML activities while predicate offence is investigating, to conduct ML investigation. (Annex 33)																		
		3. Myanmar Police Force issued a cooperation and coordination guideline on investigation and prosecution of ML cases between MFIU, BSI and UAGO on 11 th January 2021. (Annex 34)																		
		7.1.2 Money Laundering Investigation																		
		4. Scrutiny Body formed by MFIU has investigated total number of (16) cases that were transferred from LEAs. Annex (35)																		
		<table><tr><th rowspan="2">Month</th><th colspan="2">Case</th><th colspan="2">Crime type</th></tr><tr><th>2020</th><th>2021</th><th>2020</th><th>2021</th></tr><tr><td></td><td></td><td></td><td></td><td></td></tr></table>				Month	Case		Crime type		2020	2021	2020	2021						
Month	Case		Crime type																	
	2020	2021	2020	2021																

January	1	5	Corruption	Drug/Tax
February	3	7	Drug	Drug/ Fraud
March	3	4	Drug/STR	Drug
April	3		Drug/STR	
May	1		Drug	
June	-			
July	2		Drug	
August	5		Drug/STR	
September	2		Drug	
October	2		Drug	
November	4		Drug	
December	2		Drug	
Total	28	16		

5. Predicate Offence Cases during 2021 until March

Predicate investigations	Number of cases
1. Illicit trafficking in narcotic drugs	1678
2. Trafficking in humans/ migrant smuggling	27
3. Corruption and bribery	43
4. Terrorism, including terrorist financing	17
5. Sexual exploitation, including sexual exploitation of children	196
6. Illicit arms trafficking	2
7. Illicit trafficking - stolen /other goods	33
8. Fraud	620
9. Counterfeiting currency	3
10. Counterfeiting and piracy of product	-
11. Environmental Crime (e.g. illegal logging, jade smuggling, wildlife smuggling)	101
12. Murder, grievous bodily injury	1309
13. Kidnapping, illegal restraint, and hostage taking	14
14. Robbery or theft	612

		<table><tr><td>15. Smuggling (Customs & excise duties)</td><td>790</td></tr><tr><td>16. Extortion</td><td>24</td></tr><tr><td>17. Forgery</td><td>15</td></tr><tr><td>18. Piracy (e.g., maritime)</td><td>-</td></tr><tr><td>19. Insider trading / market manipulation</td><td>-</td></tr><tr><td>20. Tax crime</td><td>12</td></tr></table>	15. Smuggling (Customs & excise duties)	790	16. Extortion	24	17. Forgery	15	18. Piracy (e.g., maritime)	-	19. Insider trading / market manipulation	-	20. Tax crime	12	
15. Smuggling (Customs & excise duties)	790														
16. Extortion	24														
17. Forgery	15														
18. Piracy (e.g., maritime)	-														
19. Insider trading / market manipulation	-														
20. Tax crime	12														
		5. During 2020, MFIU has scrutinized total number of (28) cases and during 2021, MFIU has scrutinized total number of (14) cases until 15 th March.													
7.2. Support investigation of transnational ML cases with both formal and informal international cooperation.	September 2021	7.2.1 Enhance Formal and Informal International Cooperation 1. MFIU issued a letter to Myanmar Police Force, BSI, Customs Department, Internal Revenue Department, Forest Department and Anti-Corruption Commission to enhance Formal and Informal International Cooperation when conducting the predicate offence investigation on 4th March 2021. (Annex 36) 7.2.2 Case Studies 2. According to the media information, MPF, BSI and MFIU started an enquiry about a chairperson (suspected person) of a political party with the cooperation of MOPFI, CBM and private banks. The information of the suspected person also had been searched in DICA's database. And then the list of legal persons at which the suspected person took director position, members of BOD and staffs of the identified legal persons are distributed to banks and financial institutions in order to search financial information. Based on the information obtained from CBM, DICA and MOPFI, MFIU requested all banks and financial institutions urgently to freeze the accounts of the legal persons and natural persons relating to the suspected person including himself. The Banks and financial institutions fully cooperated, in timely manners, with MFIU and LEA, even in the holidays. According to the information exchange with CBM and MOPFI, it was identified that one of the companies owned by the suspected person is operating financial services without the permission of MOPFI and CBM. So, BSI is spontaneously conducting an investigation in order to take action in line with the Financial Institutions Law. At the same time, MFIU form a scrutiny body, on 2nd October, 2020, headed by a director of BSI, comprising officials from BSI, MFIU, CBM, Internal Revenue Department and Myanmar Police Force to conduct parallel Money Laundering Investigation. The scrutiny body investigated and seized the total number of (795) moveable and immovable properties, total worth about (40) billion kyats. In respect of the case, Myanmar conducted informal request to Canada on 8th October 2020 and the formal request on 23rd October 2020. (Annex 37) 3. The MFIU along with the Myanmar Anti-Corruption Commission are conducting an investigation on corruption and money laundering against Mr. Soe Paing (Myanmar National, Date of Birth: 14 December 1965) who is suspected to be involved in corruption syndicate. According to the investigation report, the suspect person opened a bank account in Bank of Ayudhya Public Company limited, Lumpini Branch, 1222 Rama III Road, Khweng, Bangpongpan, Khet Yannawa, Bangkok, Thailand. In respect of the case, Myanmar conducted informal request to Thailand on 16th November 2020 and the formal request has been sent on 15th March 2021. (Annex 38)	This action item is incomplete. Myanmar should: Provide statistics and case studies demonstrating that Myanmar is actively considering whether to seek formal and informal international cooperation to support investigation of all ML cases with transnational elements, and the nature of the cooperation sought.												

	4. MFIU circulated Three Operational Analysis Reports to Myanmar Police Force from 3-12-2019 to 8-6-2020. Those Reports were produced by analyzing the Suspicious Transaction Report-STRs sent by Bank A. MFIU analyzed those STRs and identified suspicious activities relating to online fraud. MFIU circulated its finding to Myanmar Police Force. Myanmar Police Force scrutinized the case and MFIU regularly monitored the process. During the process, MFIU received more STRs from Bank B, Bank A and Bank C. MFIU found out that the STRs were linked with previous STRs from Bank A. Based on those links, MFIU circulated Operational Analysis Report again to Myanmar Police Force on 15-7-2020. Myanmar Police Force identified that Operational Analysis Report and gave feedback. Based on the financial intelligence report of MFIU, company D and related 49 persons committed an organized online fraud and laundered proceeds of the crime. So a scrutiny body was formed on 24-8-2020 headed by a Director from Bureau of Special Investigation. The scrutiny body identified company registration certificates, counterfeit US dollars, saving passbooks, cheques, MPU cards and transaction records of MMK 9 billion within 2 years. The case was filed with relevant laws on 31-12-2020. Nigerian citizens also involved in that case. 11 cases linked to the fraud case were investigated in respective States and Regions. 30 criminals (Myanmar 19, Nigerian 10, and Chinese 1) in 9 criminal cases were charged with Section 66(c) of the Telecommunication Law and Section 489(b) (c)/144 of the Penal Code. The ML investigation is under proceeding with the cooperation of Myanmar Police Force, Bureau of Special Investigation and MFIU. Currently, an apartment and MMK 33,748,897 has been seized. MFIU exchanged, spontaneously, information to China Anti-Money Laundering Monitoring and Analysis Centre on 10th February 2021.	

Joint Group's (JG's) Comments:

Action plan item 7.1 is incomplete

Myanmar has begun to make progress with this action item, which requires Myanmar to ensure that ML is being investigated and prosecuted in parallel with predicate offences, and in line with risk. Myanmar authorities have issued a further instruction to LEAs requiring them to conduct parallel financial investigations and report any suspected ML to MFIU.

Despite the instructions, the number of ML investigations opened during this reporting period remains low, with only 16 investigations opened by Myanmar. All of these cases are under investigation and the majority of the cases relate to drug trafficking. As drug trafficking is a major source of predicate threat in Myanmar, this is consistent with Myanmar's risk and context. Myanmar additionally reported five ML prosecutions during this cycle which resulted from drug offending.

Myanmar has not demonstrated that it is ensuring that ML is investigated or prosecuted in line with all ML risks, such as where the proceeds were generated from arms or human trafficking, environmental crimes, and corruption, or where the offending involves ceasefire groups or Myanmar's porous border regions. The volume of ML investigations is also low compared with the number of predicate investigations that have been reported. While not all predicate investigations would necessarily result in ML investigations, the JG considers there is likely to be opportunities for ML investigations that Myanmar LEAs are not taking. To demonstrate progress against this item, Myanmar is encouraged to consider opening parallel financial investigations in a greater number of predicate investigations, particularly as this would enable Myanmar to identify the broader criminal network and any money laundering activity.

Myanmar should provide detailed cases studies and statistics to demonstrate that ML is being investigated and prosecuted in parallel with predicate offences, and in line with risk (in particular environmental crimes, cross-border smuggling and offending involving organised criminal groups).

Action plan Item 7.2 is incomplete

Myanmar has made limited use of international cooperation (see Action Item 6.1) during this reporting cycle with only one formal MLA request being made to Thailand with respect to a corruption case. It is unclear whether all LEAs are making use of formal or informal cooperation to support investigations, or whether Myanmar is considering international cooperation in every transnational ML case that is being investigated. The JG does not consider that Myanmar LEAs are actively considering whether to use international cooperation to support transnational offending. This may be because the actual ML investigations themselves are comparatively simple and do not have transnational elements, but this is also not in line with Myanmar's risk and context given its porous border regions and location in the Golden Triangle. As Myanmar increases its

ML investigation efforts to tackle more complex ML cases, the JG encourages Myanmar to consider formal and informal cooperation whenever there are transnational elements.

Myanmar should provide statistics and case studies demonstrating that Myanmar seeks formal and informal international cooperation in investigation of transnational ML cases.

Immediate Outcome 8			
8.1. In line with risks, demonstrate an increase in the freezing/seizing and confiscation of criminal proceeds, instrumentalities, and/or property of equivalent value, as appropriate.	September 2021	8.1 ML investigation and confiscation - During 2019, MFIU has investigated total 27 numbers of cases transferred from LEAs, 2368.4 million kyats were confiscated. - During 2020, MFIU has investigated total 28 numbers of cases transferred from LEAs, 714.55 million kyats were confiscated. - During 2019, Drug Enforcement Division has investigated total numbers of 13000 cases 1931 million kyats were confiscated. - During 2020, Drug Enforcement Division has investigated total numbers of 13960 cases and 2782 million kyats were confiscated. - During 2021 until 15th March, Drug Enforcement Division has investigated total 1448 numbers of cases and 84million kyats from 247 cases were confiscated. - During 2019, Myanmar Anti-Corruption Commission has investigated total 84 numbers of cases and 1.1 million kyats were confiscated.	This action item is incomplete. Myanmar should provide statistics and information on actions taken by all competent authorities to freeze, seize, and confiscate assets, instrumentalities, and property of equivalent value. This information should include the estimated value of the property and, where possible, the relevant predicate offence.
8.2. Develop a comprehensive mechanism and dedicate resources to manage seized assets to preserve the value of seized goods until confiscation.	May 2021	8.2 Management of seized assets - BSI investigated an embezzlement case relating to an owner of a private bank based on the request of CBM. According to findings, it has a suspicion that the offender has committed ML; MFIU formed a scrutiny body (28/2020) on 21st April 2020. It was also identified that the offender tried to place POC as an injection of paid up capital to a bank which is chaired by him. Therefore, CBM appointed an official from CBM as an administrator to operate the bank continuously within investigation period. - MFIU requested APG to provide technical assistance on assets management system and APG seeking to provide TA. APG, Anti-Money Laundering Assistance Team (AMLAT), Department of Home Affairs of Australia and MFIU discussed to develop technical assistance. AMLAT will review Myanmar's assets management system and consider whether AMLAT will be in a position to provide technical assistance as MFIU requested.	This action item is partially addressed. Myanmar should provide cases where assets have been frozen, seized and confiscated to demonstrate that their value has been preserved overtime. Myanmar should swiftly recruit the necessary human resources to ensure its centralised asset management framework can operate.

Joint Group's (JG's) Comments:

Action plan item 8.1 is incomplete.

Myanmar has reported limited progress to demonstrate an increase in freezing/seizing and confiscation of criminal proceeds, instrumentalities, and/or property of equivalent value, as appropriate. Myanmar reports 47 million kyat (USD 33 500) confiscated in 2021 for drug related offending. Myanmar has not reported any other confiscation activity, or any freezing and seizing activity, including instruments of crime. Both the amount

confiscated during this cycle, and the nature of confiscation activity, is not in line with Myanmar's risk profile.

To demonstrate progress against this item, Myanmar should provide information and statistics on the cases where the assets, instrumentalities and property of equivalent value have been frozen, seized and/or confiscated, and on their estimated value. Where possible, this information should include the relevant predicate offence and the timeframe when the freezing /seizing/confiscation took place.

Action plan item 8.2 is partially addressed.

Myanmar had previously reported that they had established a Central Committee chaired by the Union Minister of Planning Finance and Industry, 15 Regional Committees, and 75 District Committees. Myanmar has also committed sufficient resources to each Committee and issued a Presidential Notification to clarify standard procedures for managing seized assets. While the asset management framework still exists, Myanmar indicates that it is going through a process of recruiting the necessary human resources for the framework to operate and manage assets seized to ensure the value is preserved over time.

In the interim, Myanmar indicates that it is relying on the existing framework for asset management that was assessed during its MER. However, this framework was identified in the MER as posing a deficiency to the overall confiscation regime (para 268). Myanmar has reported one case study of CBM appointing an administrator to manage a private bank which used proceeds as capital, but no other case studies have been provided demonstrated that the value of fixed or moveable assets have been preserved over time.

Myanmar should provide cases where assets have been frozen, seized and confiscated to demonstrate that their value has been preserved over time. Myanmar should also swiftly recruit the necessary human resources required for successful operation of the centralized asset management framework.

		Immediate Outcome 10/11	
10.1. Demonstrate that implementation of TFS is occurring [in line with Myanmar's risk profile] including by: Ensuring that reporting entities are notified of updates to TF/PF sanctions lists	January 2021	10.1 Notifications of updates to TF/PF sanctions - The Countering the Financing of Terrorism Working Committee issued Order No 2/2020, the Guidance on implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction on 11th November 2020. (Annex 39) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 14th October 2020 to all Competent Authorities to undertake supervision and financial sanctions the financing of terrorist and terrorist organizations including ISIL, Taliban and Al Qaeda terrorist group and the groups associated with those terrorist groups. (Annex 40) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 31st December 2020 to all Competent Authorities to undertake supervision and financial sanctions the financing of terrorist and terrorist organizations including ISIL, Taliban and Al Qaeda terrorist group and the groups associated with those terrorist groups. (Annex 41) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 20th January 2021 to all Competent Authorities to remove 1518 sanctions list. (Annex 42) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 22nd February 2021 to all Competent Authorities to remove from the Security Council ISIL (Da'esh) and Al-Qaida Sanction Committee Sanctions List. (Annex 43) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 25th February 2021 to all Competent Authorities to amendments the sanctions list. (Annex 44) - The Countering the Financing of Terrorism Working Committee issued a notification letter on 25th February 2021 to all Competent Authorities to amendments the sanctions list. (Annex 45) - MFIU created an email chain with DNFBPs sector on 9th March 2021.	This item is partially addressed. Myanmar should provide additional information to demonstrate that notifications of updates to TF/PF sanctions lists are provided in a timely manner to reporting entities, in particular to the DNFBP sector.
Providing training to competent	May 2021	10.2 Training and awareness	This item is partially addressed

authorities on implementing PF TFS and sanctions evasion		1. Four Officials from MFIU and two officials from secretariat of CCCT attended online workshop on Countering the Financing of Proliferation of WMD organized by UNODC on 17-18 September 2020. (Annex 46) 2. MFIU requested APG to obtain technical assistance training on PF/TF and TFS sanctions evasion and APG seeking to provide TA. Currently, domestic experts are sharing knowledge to ROs based on the knowledge gained from FATF best practise paper and the UNODC Workshop. 3. The Countering the Financing of Terrorism Working Committee issued a Guidance on implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction on 4th March 2021. (Annex 47) 4. MFIU, BSI and Myanmar Institute of Certified Public Account held the Compliance Officer Training on AML CFT on 23-24 January 2021 at which AML/CFT legal obligations, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction including sanction evasion were discussed and a total number of (171) participants attended. (See Annex 48) (See Annex 19) 5. The Central Bank of Myanmar and Myanmar Bank Association with the cooperation of BSI and MFIU held a training for senior management level officials from (18) private banks from 18th to 22nd January 2021 and (36) participants were attended at which AML/CFT legal obligations, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction were discussed. (See Annex 49) (See Annex 20) 6. CBM held a MVTs providers training from 25th January to 5th February 2021 with the cooperation of BSI and MFIU at which (29) compliance officers from MVTs providers were attended. AML/CFT legal obligations for MVTs providers, international standards, the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction were discussed in this training.	Myanmar should ensure CAs have received training on implementing PF TFS and sanctions evasion, including by seeking technical assistance on PF TFS and sanctions evasion in the Myanmar context.
Conducting awareness raising campaigns to inform reporting entities of their obligations related to PF TFS, and supervising them for compliance with PF TFS obligations.	May 2021	10.3.1 Training Plan 1. MFIU has planned to hold AML CFT trainings for ROs quarterly and intended to discuss the implementation of the countering the financing of terrorism and the proliferation of weapons of mass destruction including AML CFT matters on regular training (i.e Bank Diploma Course, General Banking Course, Real Estate Agent Course.) 10.3.2 Supervision Manual 2. MFIU updated Supervision Manual on Anti-Money Laundering and Countering the Financing of Terrorism amendment the Targeted Financial Sanction on proliferation of weapons of mass destruction. (See Annex 50) (See Annex 23) 10.3.3 CDD Directive 3. MFIU issued AML/CFT Directive No. (1/2021) for the CDD Measures on 14th January 2021 in which PF TFS obligations are included. (Annex 51) (Annex 48)	This item is partially addressed Myanmar should: 1. Continue conducting training for DNFBPs and other reporting entities on their PF TFS obligation; 2. Demonstrate that supervision of FIs and DNFBPs is occurring to ensure the reporting entities are implementing their PF TFS obligation.

Joint Group's (JG's) Comments:

Myanmar is making progress on this action item related to the implementing of targeted financial sanctions (TFS).

Sub-action plan item IO.10/11.1 is partially addressed

Myanmar has provided additional examples of alert letters of 1267 updates issued by the CFT Working Committee to competent authorities for a removal and amendments to existing entries in February, March and April 2021 (new additions have not occurred since October 8 2020). These alert letters were issued within 2-3 days. Myanmar under this sub-item, also provided alert letters that are not related to UNSCR 1267 but

are other UNSCR sanctions programs (Iraq, Central African Republic) as examples that the mechanism is in place and UN listing notifications are sent to reporting entities are sent out. However, it is not clear that Myanmar has the legal framework to implement other UNSCR sanctions program outside of terrorism and PF. For the next JG meeting, Myanmar should provide information on how TF/PF sanctions updates are provided to DNFBPs and the main mechanism that authorities rely on to get the notice out to the widest number of reporting entities.

Sub-action plan item IO.10/11.2 is partially addressed (Providing training to competent authorities on implementing PF TFS and sanctions evasion):

Myanmar is taking steps but due to the current circumstances of the global pandemic, it has impeded the ability for Myanmar to obtain technical assistance from donors. In the meantime, authorities have conducted local training organized by the MFIU. Myanmar acknowledges the need for TA in this area includes training on sanctions evasion. JG seeks more information on awareness being created amongst supervisors on monitoring and enforcing the PF TFS framework.

Sub-action plan item IO.10/11.3 is partially addressed (Conducting awareness raising campaigns to inform reporting entities of their obligations related to PF TFS and supervising them for compliance with PF TFS): Myanmar continues to take some steps but will need to provide details on its efforts to supervise reporting entities for compliance of PF TFS obligations. Myanmar's CFT Working Committee issued guidance on Implementation of CFT and WMD PF on March 4 2021 and the MFIU updated the Supervision Manual on AML/CFT that reflects the informational international best practices (i.e., FATF guidance on PF). With respect to awareness raising, Myanmar reported that a number of awareness raising has occurred for accountant, senior management of private banks and MVTs. Myanmar expects to start supervision (virtually) of DNFBPs next month and FIs within this year. For the next update, Myanmar should provide more details on its ongoing efforts to supervise reporting entities for compliance of PF TFS obligations.

Summary JG Comments:

This is Myanmar second progress report. Myanmar has progressed on a number of action items since the adoption of its action plan. This was acknowledged in February 2021 through 11 upgrades, 9 upgrades from "incomplete" to "partially addressed" (IO.1, IO.3.2, IO.6.1-3, IO.8.2 and IO.10/11.1-3) and 2 upgrades from "incomplete" to largely addressed (IO.3.1 and 3). No action plan items have been assessed as warranting changes in rating this reporting cycle. Four action plan items were expiring last reporting cycle, out of which two are now being assessed as "largely addressed". A further six action plan items were expiring this reporting period, out of which five remain assessed as "partially addressed" and one as "incomplete".

On the understanding of risks (IO.1), Myanmar is making progress on improving its understanding of ML risks, in particular high risk areas identified in the action plan, as well as tax evasion. A series of consultation meetings have been held and a report on the findings of these meetings has been shared among competent authorities and MOU countries. Myanmar also arranged trainings on international AML/CFT standards and national AML/CFT strategy to both LEAs and private sectors. The JG encourages Myanmar to further demonstrate its efforts in deepening understanding of ML, cross competent authorities and the private sector, related to drug trafficking, corruption (PEPs), cross-border smuggling, and legal persons, using sources such as case studies, typological and statistical information, intelligence and reports by credible organizations.. Myanmar should also update the JG on progress in conducting the ML risk assessment on legal persons.

On supervision (IO.3), in February 2021, the JG determined that Myanmar has made significant progress on the resourcing of the supervisory body for DNFBPs and on the CBM supervision of high-risk thematic areas. New staff has been allocated to the MFIU and the Consolidated Inter-Agency Supervision Committee, responsible for supervising DNFBPs. Myanmar reported AML/CFT capacity building programs, including training, for those new staff members and other staff. Regarding the CBM supervision, Myanmar demonstrated that it includes higher-risk thematic AML/CFT areas, particularly on medium-sized banks with higher risks.

Some progress has been reported on the on-site and off-site inspections of gem, gold dealers and real estate sectors. MFIU has developed a RB supervision manual, and with the support of the Committee, commenced the onsite inspections of these sectors. However, Myanmar still need to demonstrate the manner in which supervisors collect and use available information, particularly each entity's risk scoring, to prioritise the onsite inspections. JG expects Myanmar to conduct onsite inspections in the next reporting cycle as planned, and to share the results/findings with JG.

Regarding hundi/hawala providers, CBM has amended its regulation to oblige MVTs providers to register and provided training sessions to those to be registered. However, the number of entities that applied for registration is small and the supervision of registered MVTs has not yet occurred. Myanmar should adopt the supervisory manual for MVTs and start supervision accordingly. Myanmar should also update the JG on the registration process and demonstrate that outreach and sanctions for non-registration are applied where appropriate.

On action items relating to the use of financial intelligence (IO.6), Myanmar has continued to make some progress on improving the international cooperation and information sharing by MFIU. A Detailed

Guidance Procedure for MLA has been developed by Myanmar to expedite official information requests being made to international counterparts and responses to incoming requests through official MLA. However, the Joint Group would like to see further enhanced evidence of engagement by MFIU with international counterparts, particularly in relation to high risk crimes.

Regarding the integration of financial intelligence into the investigations conducted by LEAs, Myanmar has developed a secured web-based central database where MFIU financial intelligence reports are made accessible 24/7 to all CAs and LEAs. Myanmar has also formed teams to handle financial intelligence in each LEA whose role is to enhance cooperation during the intelligence and investigation process and to exchange information among each other. To further demonstrate progress in this sub item, the JG would like to see demonstration of enhanced integration of financial intelligence (which can be in the form of LEAs using STRs sent by MFIU, obtaining financial intelligence from Reporting Entities, Regulators, etc.) into the investigations through updated case-studies and updated statistics of the Intelligence Reports.

Regarding operational analysis and proactive disseminations by the MFIU has continued with training on strategic and operational analysis conducted by MFIU has been held. This has resulted in MFIU conducting strategic and operational analyses on high-risk areas. In 2020, the FIU produced 21 operational analyses reports covering different high-risk crimes (corruption, online fraud, hawala, etc.). MFIU has initiated dissemination of financial intelligence to competent authorities but needs to further enhance its level of proactive dissemination, and to continue conducting operational analysis in line with the risks identified in NRA.

On investigation and prosecution of ML (IO.7), MFIU has issued further instructions to LEAs requiring them to conduct parallel financial investigations and requiring them to report any suspected ML to MFIU. However, despite these instructions, the number of ML investigations and prosecutions remains low and not in line with Myanmar's risk and context. Myanmar has also not demonstrated that it is making use of formal and informal cooperation to assist with ML investigations that have transnational elements, likely due to the fact that Myanmar does not appear to be investigating ML in line with its risks, including its transnational risks. The JG encourages Myanmar to consider formal and informal cooperation, particularly as it takes on more complex ML cases.

On the freezing/seizing and confiscation of criminal proceeds (IO.8), Myanmar has indicated that it is facing challenges with ensuring sufficient resources for the asset management framework it has established. As such, Myanmar is relying on the existing framework, which was assessed in its MER as posing a significant deficiency which undermines the operation of the overall confiscation regime. Myanmar should swiftly recruit the necessary human resources to ensure that the management framework is operational and can maintain the value of assets between the initial seizure/forfeiture and ultimate confiscation. Myanmar's overall asset confiscation efforts remains very low and not in line with its risk profile, with only USD 50 000 (approx.) confiscated in the reporting period from 247 cases.

On targeted financial sanctions for TF and PF (IO.10/11), Myanmar is making some progress. Competent authorities continues to provided notification updates on the PF/TF sanctions list but further evidences that the mechanism for providing these notifications to DNFBPs are needed. Authorities have conducted local training organized by the MFIU and are seeking technical assistance, including on sanctions evasion. However, the global pandemic has impeded the ability for Myanmar to obtain TA from donors. Myanmar has also taken steps on conducting awareness raising campaigns to inform reporting entities of their obligations related to PF TFS. However, the JG seeks more information on awareness being created amongst supervisors on monitoring and enforcing the PF TFS framework and on its ongoing efforts to supervise reporting entities for compliance with PF TFS.

2.3. PAKISTAN

FATF/FSRB Membership: APG

Date of Adoption of Most Recent Mutual Evaluation Report: June 2009

Previous ICRG monitoring: June 2010 – February 2015

APG monitoring of issues referred by ICRG: June 2015 – October 2017

Referral to the ICRG: February 2018 (Nomination)

Post-Referral Report Due to the ICRG: June 2018

Date of ICRG Endorsement of Action Plan: June 2018

Basis for Referral (Immediate Outcomes and/or Recommendations of Concern)

Immediate Outcomes	1	2	3	4	5	6	7	8	9	10	11
Relevant Issues Raised in Nomination Paper?	-	-	Y	-	-	-	-	Y	Y	Y	-
Joint Group Recommends Including in Action Plan	N	N	Y	N	N	N	N	Y	Y	Y	N

Action Plan items	Timetable		Remaining Actions to be taken
IMMEDIATE OUTCOME 3			
a. Demonstrate that TF risks (e.g. sectors, geographic locations, products, channels) are properly identified, assessed and understood by supervisors and this includes supervisors obtaining up to date and region-specific risk information from LEAs and the FMU to guide their evolving risk-based approach.	January 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:**This action item has been largely addressed.**

Since the beginning of the action plan, Pakistan has developed a 2018 TF risk assessment (2018), the Addendum to the TF Risk Assessment (2019) and the Updated National Risk Assessment (2019). In September, the JG believed the 2019 NRA has provided a solid basis for Pakistani authorities to understand the TF risk relating to various sectors, products and channels, as well as high risk regions. However, concerns were also raised in relation to their understanding of transnational TF risk flows.

In November 2019, Pakistan further developed a standalone transnational TF risk profile which analysed in details various characteristics including leadership, organization and affiliates, estimated strength, operation bases, funding sources and patterns, magnitude of funds generated, channels of moving funds, etc. of concerned entities including Daesh/ISIS-K/LEJ, AQIS, TTA, HQN, , JuD/FiF, LeT, JeM and its affiliates. During the face to face meeting in Beijing, Pakistan further demonstrated an increased understanding of TF risk, including transnational TF risk flows, has been established.

In relation to supervisors, both the SBP and SECP have developed their risk based supervisory policies which provided a useful tool for both supervisors to assess risk of each financial institution and to identify institutions with higher risk. In November 2019, both the SBP and the SECP revised their risk based frameworks in line with the outcome of the transnational TF risk profile, and further identified 6 banks, 11 brokers, 13 insurance companies and 1 NBFC into the list of inspected institutions.

Moreover, Pakistan also reported the SBP and SECP continuously carried out 30 capacity building sessions (18 by SBP and 12 by SECP) for their employees for the purpose of improving supervisors' understanding of TF risks.

b.	Conduct ongoing outreach to financial institutions to promote a clear understanding of their AML/CFT obligations and TF risks (e.g. customers, channels, products, geography).	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:**This item has been largely addressed.**

Pakistan has continuously carried out outreach and awareness raising sessions since the adoption of the action plan. Last September, the JG was satisfied with the efforts made by Pakistan on holding outreach and awareness raising sessions but had concerns over the quality of outreach and awareness raising sessions as only a short time had passed since the adoption of the 2019 ML/TF NRA.

In January, Pakistan further reported on outreach and awareness programs over the course of the reporting period, which included outreach on the outcomes of the Transnational TF Threat Profiles assessment. The 2019 NRA was shared by supervisors with various reporting entities. Both the SBP and the SECP have conducted 130 outreach sessions for 7,427 participants since June 2018, including 46 sessions for 2221 participants since the last report. The FMU also arranged 59 awareness raising sessions for 1945 participants from all reporting entities from February to November 2019. Whilst the Transnational TF Threat Profiles assessment was not circulated to reporting entities due to its sensitive nature, authorities confirmed at the f-2-f that the results of the assessment were shared via presentations.

In addition, reporting entities also undertook training/outreach sessions for their employees with the aim of promoting a clearer understanding of ML/TF risk and AML/CFT obligations. Since August 2019, a total of 656 training sessions covering the outcome of the 2019 NRA, etc. were organized by reporting entities. Both the SBP and the SECP obtained feedback in the form of pre and post questionnaires to assess

awareness of ML/TF risk of participants and both reported that understanding of FIs had increased significantly.

c.	Demonstrate that supervisory activities (including on-sites and off-site examinations) are applied on a risk-sensitive basis to financial institutions (banks, exchange companies ⁵ , etc.).	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:

This item has been largely addressed.

Since September of 2019, both the SBP and SECP have updated their risk based supervisory frameworks in light of the outcome of 2019 NRA. In November 2019 the SBP and SECP further reflected the outcome of the transnational TF risk profile into their risk based frameworks, including high risk countries, regions, products, channels, type of high customers, etc., Both the SBP and SECP carried out institutional risk assessments for regulated institutions on the basis of these revised risk assessment models. As a result, the SBP identified 6 more high risk institutions (5 banks and 1 MFB) for full scope inspection, 24 institutions (14 banks and 10 exchange companies) for thematic inspection. The SECP added 25 more high risk institutions into their inspection list. Case studies with explanations have been provided to evidence that the abovementioned additional institutions selected for inspection are of higher TF risks. During the face to face meeting, both supervisors confirmed that immediate supervisory actions would be taken in responding to institutions identified with deficiencies on TF risk management by LEAs. Relevant cases have been provided. The JG was satisfied with efforts made by Pakistan and believe this item is now largely addressed.

d.	Demonstrate that remedial actions and effective, proportionate and dissuasive sanctions are being applied in cases of violations of AML/CFT requirements and failings in TF risk management.	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

⁵Exchange companies in Pakistan conduct licensed forex exchange and remittance services.

As reported previously, both supervisors in Pakistan (SBP and SECP) have revised their penalty regimes to increase the volume of monetary sanctions against violations of TFS/TFRM regulations, to make sanctions more TF risk-sensitive, proportionate and dissuasive. The SBP and SECP have taken a wide range of enforcement action against violation of TFS/TFRM by FIs, including imposing monetary penalties, requesting disciplinary sanctions against responsible employees, restriction of business activities, and making sanctions public, etc.

During this reporting period, Pakistan has continuously carried out risk-based supervision of financial institutions, and imposed sanctions against violations of AML/CFT regulations in line with revised penalty regimes.

Monetary sanctions against AML/CFT violations have increased significantly. During this reporting period, sanctions were imposed on 119 financial institutions for AML/CFT violations. This included 20 banks that were fined 1460 million Rs for violations of AML/CFT regulations, while the average value of monetary sanctions reached 73 million per institution, compared with 38.4 million in the last period.

Monetary sanctions against TFS/TFRM violations have also been significantly enhanced. Within this reporting period, 11 banks were fined 358.54 million Rs for TFS violations and 309.115 million Rs for TFRM violations, which exceeds the total volume of monetary sanctions in the year of 2018 (460 million). The average value of monetary sanctions for each bank reached 32.6 million, which is also much higher than 7.9 million in the last reporting period. Pakistan also provided case studies to show how new sanctions regimes were applied against TFS violations of financial institutions on a risk-sensitive basis.

There are also a wide range of other administrative sanctions imposed. Pakistan reported various cases about other types of remedial action against TFS/TFRM violations, including warning letters, disciplinary sanctions against employees of financial institutions including key executives, restrictions on establishment of new branches, restrictions on on-boarding new customers, and publishing sanctions online, etc.

Pakistan also reported a clear trend of improvement among financial institutions being observed through follow-up activities, and provided statistics to evidence that Name Screening Systems (NSS) and Transaction Monitoring Systems (TMS) are now widely adopted by financial institutions as a result of previous remedial actions.

The JG agreed that Pakistan has largely addressed this action item and encourage Pakistan to keep working in this regard.

e. Demonstrate that supervisors' actions have an effect on compliance by financial institutions with their AML/CFT obligations (e.g. improved compliance programs, TFS implementation, STR filing).	September 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

The SBP monitors improvement of compliance of financial institutions by seeking information quarterly for assessment and following up with on-site inspections.

In December 2019, Pakistan reported that almost all banks (31 out of 32), all 11 MFBs, over half of security brokers, NBFCs and insurance companies have improved compliance on AML/CFT and provided relevant information and cases. This is evidenced by newly established or updated transaction monitoring system (TMS), name screening solutions, policies and manuals, strengthened human resources and increased capacity building programs, as well as the number of accounts closed due to failure to complete CDD, and the number of customers rejected.

Pakistan also provided the number of STRs reported by various financial sectors since July 2019: a clear upward trend could be observed, confirming that all financial sectors have begun to submit STRs. Pakistan

also reported that the quality of filed STRs has increased.

It's reported that financial institutions in Pakistan responded actively and effectively to targeted outreach or supervisory actions. Pakistan provided examples and data about how exchange companies responded to SBP directives dated March 14 and May 10 of 2019, and how financial institutions updated their internal risk assessment responding to the 2019 ML/TF NRA. Given the information and cases provided by Pakistan, as well as explanations during face to face meeting, the JG believe that this item has been largely addressed.

f.	Demonstrate that competent authorities are cooperating and taking action to identify and sanction illegal MVTS to mitigate the risk of misuse by designated persons and entities (e.g. closing down illegal MVTS and prosecuting the operators).	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

Pakistan reported that systematic and ongoing efforts have been taken in the country to identify and sanction illegal MVTS. On September 3, 2018, the Prime Minister of Pakistan directed relevant authorities to strengthen efforts on the fight against illegal MVTS. Measures have been taken in the following aspects:

Legal Basis: Following the Prime Minister's direction, Pakistan has amended the *Foreign Exchange Regulations Act, 1947 (FERA)* on February 21st, 2020. The amended Act enhanced punishment for illegal MVTS operators by increasing maximum imprisonment from 2 years to 5 years, and significantly strengthened legal actions by the FIA against illegal MVTS. The offence has been made cognizable, meaning a police officer can investigate without the order of a judge and the requirement for a written complaint from SBP has been abolished. These amendments have enabled FIA to expedite registration of illegal MVTS cases and the process of conducting raids. A 6-month time limit has also been placed on trials.

Inter-agency Cooperation: Cooperation between relevant authorities has been improved. The FIA and the SBP revised the bilateral MOU on July 2020 to enhance cooperation on illegal MVTS identification, registration and investigation. The inter-agency information cooperation framework which consists of 14 authorities has been strengthened to ensure more robust information sharing. Focal persons have been designated by the FMU (FIU) to coordinate follow up action with the FIA after sharing intelligence, and to share results of strategic analysis on illegal MVTS. The FIA also coordinated with provincial Counter Terrorism Departments for TF investigations on illegal MVTS and registered 5 TF cases during this reporting period.

International cooperation: The FIA, as the focal point of the Interpol, proactively seeks international assistance from foreign counterparts, including Saudi Arabia, UAE, the UK, Afghanistan, Japan, China, USA, Thailand, Turkey, Sri Lanka, and Qatar.

Internal Governance: The governance structure on combating illegal MVTS has also been improved. Within the FIA, the competent authority in charge of cracking down on illegal MVTS, a new directorate in economic crime wing has been established. Since its establishment, the new wing has taken various measures, including developing a database, case management system, and standard for evaluating performance

of field units against the illegal MVTS, and improving SOPs (Standard Operation Procedures) to guide, monitor and regulate the investigation and prosecution of crimes including illegal MVTS and ML.

Awareness Raising: The SBP and Pakistan Remittance Initiative (PRI) have taken efforts to facilitate remittances/payments through formal channels. Pakistan reported that remittances registered through formal channels witnessed 7.8% increase during the peak of lockdown (March-June 2020).

Capacity Building: FIA and SBP have conducted various capacity building programs for investigators and prosecutors for the purpose of improving skills and techniques on AML/CFT. During the reporting period, 183 FIA officers received training in this regard.

As a result of above-mentioned efforts, Pakistan reported that comprehensive progress has been made and updated the JG with new operational data during the reporting period. From January 1st to August 31st, 104 new cases have been registered based on information provided by the SBP, other departments, FIA's own sources, and FMU. The highest number (36) is in KPK province, which is in line with Pakistan's geographic risk profile. As a result of these cases being registered, 155 people have been arrested and 286.73 million Rs has been seized. Of the 104 cases registered this reporting period, 73 have so far been prosecuted. Two cases (involving four persons) have resulted in convictions, while the other cases are ongoing. In addition, 43 convictions (involving 57 persons) were secured in cases registered during the last reporting period but prosecuted and convicted during this reporting period. These cases have resulted in fines, confiscation and imprisonment penalties being imposed. The number of cases registered since the start of the action plan (July 1, 2018) reached 475, while the number of the accused (arrested) reached 732, and the seized value reached 2476.27 million Rs.. Moreover, 5 new TF investigations have been registered by CTDs along with the FIA within this reporting period, including one related to HQN.

The JG agreed that this item has been largely addressed and encourages Pakistan to keep up their efforts in this regard.

IMMEDIATE OUTCOME 8

a. Demonstrate how authorities properly identify and understand the nature of risks of cash couriers being used for TF (e.g. risks with various ports of entry, the porous border, high-risk transit routes and travel patterns and risks from involvement of trans-national terrorist networks) to better target detections and confiscation of smuggled currency and BNI.	January 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

Overall, Pakistan has demonstrated that it is largely identifying and understanding the nature of risks of cash couriers being used for TF and is using that understanding to better target detections and confiscations of smuggled currency and BNIs. The JG considered this action item was largely addressed as of September 2019.

b. Demonstrate implementation of cross-border currency and BNI controls at all ports of entry, including applying effective, proportionate and dissuasive sanctions when there are instances of false declaration or failure to declare.	September 2019	(see previous versions of the progress report for more information)	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

Ahead of the September 2020 JG meeting, Pakistan reported that on 9 March 2020 they had promulgated the legislation to establish the new penalty regime for undeclared/falsely declared currencies, converting it from an Ordinance to an Act of Parliament. Pakistan reported to the Joint Group on the new regime, including outlining the 2 administrative slab provisions, as well as the 4 criminal slabs for more serious offences.

Pakistan provided the JG with a number of case studies to demonstrate effective currency controls, as well as the application of proportionate and dissuasive criminal and administrative penalties for a range of offences. At the face-to-face meeting, Pakistan reported 110 new cash seizures (compared to 31 cases reported during the last reporting period), breaking down as 76 administrative cases for cash, 12 administrative cases for gold smuggling, 10 cases referred for further investigation in relation to TF links and 12 criminal proceedings for false declaration or failure to declare. Pakistan reported seizures of 407 million PKR in cash, and 819 million PKR in gold. As a comparison, from Jan-June 2019, Pakistan had secured 3 seizures and seized 19 million PKR. From July-December 2019, Pakistan secured 53 seizures and 355 million PKR. From this reporting period compared to July-December 2019, there was roughly a 100% increase for currency seizures and approximately 350% in the value of seizures. These results must be considered in the context of COVID-19, where cross-border movements have drastically decreased globally. For Pakistan, borders were closed for 97 days and air traffic stopped for 107 days. Land borders have seen a dramatic drop as well, with daily passengers dropping from 12,000 a day to 1,500 a day.

Pakistan has reported on 30 arrests in 22 criminal cases related to cross-border currency and BNIs controls, including 10 cases with links to TF. Consequently, Pakistan was able to secure 5 convictions in the reporting period. 12 criminal cases are ongoing, with FIRs lodged. Pakistan has also reported on final adjudication in 69 out of the 76 administrative cases, with final confiscations of 56 million PKR and additional fines amounting to 29 million PKR. Each time Pakistan imposes a fine, it is at least half the amount of the seized currency on top of the seizure, with some fines equivalent to or more than the smuggled currency, depending on the seriousness of the offence. While not required as part of this action item, Pakistan also reported on 4 ML cases finalized under the AMLA as a result of the cash smuggling investigations, with 24 other cases remaining before the court.

Pakistan reported 119,091 declarations made under CDS from January-July 2020, as well as provided an update on the recruitment of 648 Customs officers (1/3 of the planned total new recruitment) and the establishment of the Directorate General of Law and Prosecution within Customs to pursue currency smuggling cases.

In light of this progress, the JG assessed this item should be upgraded to largely addressed.

c. Demonstrate implementation of the	September	(see previous versions of the progress report for more information)	Action item largely

integrated database for monitoring and enforcing SBP's currency regulation regime at all ports of entry.	2019		addressed

Joint Group's (JG's) Comments:

This item has been largely addressed.

Pakistan has previously reported that the CDS, with real time access, is operational at all entry and exit points across Pakistan and is linked with the IBMS. Pakistan has reported that the FMU, FIA, SBP and IRS have real time access to the CDS, which is providing greater leverage for Customs to better target cash couriers. Building on previous case studies, in December 2019, Pakistan provided 2 case studies to demonstrate the use of the database in successful operational outcomes. In the period 1 July 2019 – January 2020, Pakistan indicated that 30 of 31 new currency-related cases have been identified with the assistance of the CDS.

Using real-time online access to the CDS, FMU has recently conducted a strategic analysis on the data of currency declaration records of individuals travelling frequently outside of Pakistan and matched this with STR and CTR data. Pakistan has also reported that it will evolve the CDS/IBMS integration mechanism into a Customs National Targeting Centre as a long term strategy to integrate further modules into the CDS (including Global Travelers Assessment System as acquired from the World Customs Organisation).

d. Demonstrate that authorities are pursuing domestic and international cooperation to identify cash couriers and enforce controls on illicit movement of currency (e.g. requesting and providing information to relevant counterparts for intelligence, investigations and/or prosecutions).	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

Pakistan has demonstrated progress in relation to both international and domestic cooperation and the JG now assesses this action is largely addressed.

Pakistan has provided updates on domestic cooperation, including 2 sample case studies on currency seizures as a result of the operation of controls such as Dedicated Joint Currency teams, Border Task Forces and Joint Control Rooms. These case studies demonstrate domestic cooperation taskforces and mechanisms are assisting to identify and enforce controls on the illicit movement of currency at high-risk borders. Pakistan has also reported on a multilateral MoU between 14 agencies, as well as a specific Customs and FMU MoU under negotiation to strengthen information sharing for currency declarations. During the

reporting period, Pakistan has reported 30 cases that relied on domestic cooperation. Pakistan has also reported on informal cooperation between the Frontier Corps, Airport Security Force, the Anti-Narcotics Force, Rangers, Policy, CTDs and the FMU.

During the reporting period, Pakistan has reported on 24 new MLA requests to three jurisdictions and updated on 60 requests to nine jurisdictions. At the face to face meeting, Pakistan reported that Pakistan had recently received a response to 22 requests from the UAE. This is significant progress, as prior to the face-to-face, all 34 requests to the UAE were outstanding. Responses were largely facilitated by Pakistan sending an officer to the UAE to follow-up.

Pakistan is in the final stages of signing an Agreement of Mutual Assistance between Pakistan and Afghan Customs (it is currently pending from the Afghanistan side). Pakistan is following up on this matter and is sending an official to Afghanistan to expedite the matter. Pakistan has not received any MLA requests in relation to currency smuggling in the reporting period, however overall the JG assessed that Pakistan has demonstrated that the authorities are pursuing domestic and international cooperation to identify cash couriers and enforce controls on illicit movement of currency.

IMMEDIATE OUTCOME 9

a. Demonstrate how authorities properly identify, assess and understand both domestic and transnational TF risks to guide TF investigations.	January 2019	<u>Pakistan's Progress update December 2020</u> This action item has been largely addressed by the JG in its February 2020 Plenary report. Pakistan's continued understanding of TF risk is demonstrated in the remaining action items, particularly in action item IO-9d.	Action item largely addressed. Pakistan should continue to report on its evolving understanding of transnational TF risks (in particular, fundraising inside Pakistan used for terrorism outside Pakistan).

Joint Group's (JG's) Comments:

This item has been largely addressed.

Pakistan should continue to report on its evolving understanding of transnational TF risks (in particular, fundraising inside Pakistan used for terrorism outside Pakistan).

On November 8, Pakistan issued a confidential paper on 'Transnational TF Threat Profiles of Key Terrorist Organizations' which was shared with the JG. The paper is a follow-on to the 2018 TF Risk Assessment, 2019 Addendum to the TF Risk Assessment and the September 2019 Updated National Risk Assessment that provides two sets of tables profiling foreign based terrorist organizations (ISIS, AQIS, Afghan Taliban and HQN) in table 1 and domestic terrorist organizations in table 2 (TTP, JuD/FiF, LeT, JeM and Balochistan Liberation Army). The profiles in the two tables includes the eight entities of concern and aims to provide information on the characteristics such as leadership, operational bases, and financing activities of the terrorist organizations.

During the January 2020 JG meeting, Pakistan provided additional information setting forth Pakistan's understanding of the transnational nature of the terrorist organizations (foreign and domestic based). For foreign terrorist entities, particularly TTA and HQN, Pakistan attributes the raising of funds being connected to the presence of Afghan refugees, links to funding from the Middle East and businesses in Pakistan. For JuD/FiF (domestic based terrorist organizations), it includes as their funding source charitable activities, as well as their involvement in legal businesses. Illegal MVTS, cash couriers, even formal banking channels were methods of channeling funds outside of Pakistan. Pakistan also notes the transport sector operating across borders and social media and crowd funding as other channels to move funds outside of Pakistan. It notes that "...the TF threat in Pakistan is both domestic and external, as funds are generated both at home and in foreign jurisdictions for funding or other support TOs and terrorist operations

within the country and abroad.” Pakistan noted that its own intelligence agencies provided intelligence related to the terrorist organizations leadership, affiliates, operational basis. Pakistan explained that the references to open source information and international reports (UN reports, US government reports, think tank pieces) was included to reflect the external view of the terrorist organizations.

The paper that has been shared with all law enforcement agencies as a supplement to the NRA and Pakistan reports that information on the terrorist organizations' characteristics, patterns of financing activities, sources of funding, including legitimate businesses as well as illicit activities are being used by authorities in mitigation measures. These mitigation measures include policies, procedures, resource allocation and improved understanding allowing better risk mitigation - focus on policies, procedures, resource allocation and training/outreach.

While Pakistan demonstrated through its presentation an increased understanding of its transnational TF threat supplementing its November 2019 written document on Transnational TF Threat Profiles of Key Terrorist Organizations. Pakistan should continue to report on its evolving understanding of transnational TF risks.

Previous Joint Group comment on the 2019 NRA, TF Risk Assessment and TFRA Addendum:

On September 3, Pakistan issued the National Risk Assessment on Money Laundering and Terrorism Financing which is an update of its 2017 version. The updated NRA assesses the inherent ML/TF risk is high, which is greater than previously identified in the other two assessments (the TF risk assessment from January 2019 noted medium impact on TF while the May 2019 TFRA Addendum TF impact was elevated to medium-high). This NRA concludes that Pakistan faces significant risk for ML and TF due to the porous border, hostile neighborhood, high number of Afghan migrants, the long coastal line and level of poverty, etc.

The updated NRA is more expansive and assesses the financial and non-financial sectors for ML/TF vulnerabilities as well as the level of ML threat by type of illicit activities. For examples it has assessed that narco trafficking, corruption, smuggling, tax crimes, illegal MVTS, cash smuggling pose high ML threats. It has assessed that 8 sectors are highly vulnerable (banks, microfinance banks, exchange companies (including category B), real estate dealers, hawala/hundi, CDNS, Pakistan Post).

As requested by the JG at the last meeting, Pakistan has now consolidated the TFRA and its addendum into one document which has been disseminated to all relevant authorities including supervisors of FIs. In turn they have disseminated the document to the entities which they supervise.

Further as recommended by the AP JG, Pakistan has conducted an analysis of transnational risks arising from the entities of concern and other relevant terrorist organisations. The analysis was intended to build upon the transnational aspects covered in the TFRA to give competent authorities a better understanding of transnational TF risks. This analysis paper resulted in a Directive being issued to all competent authorities to adopt an effective risk-based approach for all UN listed, or domestically proscribed entities and their affiliates in accordance with the findings of the various assessments of risk that have been undertaken by authorities.

b. Demonstrate improving inter-agency coordination, including between provincial and federal authorities on combating TF risks, including pursuing TF investigations and prosecutions.	January 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:**This action item has been largely addressed.**

Pakistan had demonstrated progress between the federal and provincial LEAs cooperating on TF. The cooperation is occurring on cases and investigations with early intervention from prosecutors, which are present in CTDs. Pakistan attributes the increase in convictions to a closer cooperation between LEAs and prosecutors.

Pakistan's National Task Force on CFT has met once since August 2019 and is the policy forum and the TF Sub-Committee met twice since the last progress report where LEAs report on TF case studies involving of entities of concern, high profile UN designated individuals' cases and TF cases related to hawala, cash smuggling and narcotics. Ministry of Interior has met seven times since August 2019 with the Provincial Departments, Provincial CTDs and representatives of MoFA, NACTA, FIA, FMU, SPB, intelligence agencies and ANF to discuss provincial TF investigations, NPO mapping exercise and long-term plans and budget for management of terrorist properties. Pakistan also reported the Provincial Coordination Committee meeting of the four provinces and its respective home department, CTD, intelligence agencies, FIA, Customs and ANF to discuss TF cases, exemption issues related to UNSRs. These efforts have led to the following efforts and statistics provided by Pakistan:

- Since the last reporting, there were an additional 116 Joint Investigations Teams formed (in 2019, total of 432). The 116 JIT investigated cases that have concluded (since 2019) are in the trial phase. This figure includes 25 cases under trial during the reporting period of Aug-Dec 2019. Since the last reporting, an additional 43 persons have been convicted bringing that total to 82 persons since the start of the JITs. Pakistan notes that so far 55 persons convicted are tied to the entities of concern (9 since the last reporting in August 2019).
- In November 2019, Pakistan issued a SOP to standardize the investigator-prosecutor cooperation on TF cases. Pakistan notes that it is to ensure consistency of practice among the provinces and requires the early involvement of prosecutorial support for investigations, including reviewing of evidence, production of witnesses before trial. Pakistan has increased the resources of the prosecutors to work with CTDs as evidence that this is policy is being mandated. Pakistan stated that they now have 108 dedicated prosecutors for TF offences.
- Pakistan reports that there are 186 new TF cases/investigations since August 2019 (since March 2018, there are 919 TF cases). There are 59 new convictions since August 2019 to January 2020.
- Under the multilateral MOU, Pakistan has noted that the FMU responded to 297 requests of CTD which sought financial information on TF cases. There are also examples of Customs to FIA/CTDs; intelligence agency to CTDs, FIA; FIA to CTDs and ANF to CTDs. SBP has also shared information on illegal MVTS with FIA. 10 cases are under investigation and there have been 17 persons convicted (this is not related to TF).
- Out of the 919 TF cases as of November 2019, there are 320 cases related to Daesh, JeM, JuD/FiF, LeT, AQ, and HQN of which 90 are under investigation. Since the last progress report, Pakistan now has 2 HQN cases under investigation.
- Regarding complex TF cases, Pakistan noted that a number of cases involving hawala, narco-trafficking, NPO, cash couriers which are on-going.

The JG considers that this action item is largely addressed, as it is focused on cooperation between federal and provincial authorities to combat TF, which Pakistan has demonstrated. Pakistan should continue to reflect interagency coordination efforts in its reporting under other remaining IO 9 action items.

c. Establish and implement a policy for all responsible LEAs to: i. Proactively initiate financial inquiries and/or investigations of terrorist groups and their members; and	May 2019	<u>Pakistan's Progress update August 2020:</u> This action item has been largely addressed.	Action item largely addressed. Pakistan should provide information on parallel TF cases for the hundreds of JuD and FiF property

ii. make reactive parallel financial inquiries and/or possible investigations a part of every terrorism investigation.			that the government of Pakistan has taken over. This should continue to be reported as part of actions under IO.10.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

With the policy now in place longer since the last time the JG discussed this action item, Pakistan has shown that the established policy since January 2019 which directs all provincial CTDs to make parallel financial inquiries and/or investigations with every terrorism investigation is being more widely implemented. The policy instructs LEAs to conduct financial investigations, proactively initiate financial investigations of terrorist organisations and their members, make reactive parallel financial inquiries as part of every terrorism investigation, and consider the risk, sources of funding and channels of transfer during such investigations. It further instructs LEAs to cooperate with each other in such investigations and apply the relevant ATA TF provisions in law. Since the January 2019 policy, Pakistan reports that a total of 627 TF cases have been initiated. Regarding parallel financial investigations, there have been 111 since the last reporting of April 2019. Pakistan notes that the parallel financial investigations include the offences of TF from the ATA.

- There are 24 TF cases registered by the KP, Punjab and Sindh provinces based on information shared by the FIA.
- Eleven (11) were registered by the CTD Balochistan based on information shared by intelligence agencies.
- Nine (9) cases registered by the FIA based on its investigations of hawala/hundi.
- 102 registered TF cases based on the 11 affiliated trusts of JuD, FiF and JeM proscribed in May 2019.

Pakistan has provided four case examples of proactive financial investigations involving members of LeT, an associate of a proscribed domestic terrorist group, and a UNSCR 1267 individual. The update provided is that three of the cases were registered by CTD Punjab and one by CTD Sindh and one by the FIA with TF provisions (11F, 11H and 11N) of the ATA.

- Eleven (11) cases initiated against UN designated persons including recent charges against Hafiz Saeed (designated at the UN in 2008). More information such as dates and status of the investigation should be provided including potential for the prosecution stage.

With this action item largely addressed, the JG will look for continued update from Pakistan on parallel TF cases for the hundreds of JuD and FiF property that the government of Pakistan has taken under IO.9(f) and IO.10.

d. Demonstrate that LEAs are identifying and investigating the widest range of TF activity (e.g. domestic or trans-national provision, collection,	September 2019	<u>Pakistan's Progress update December 2020</u>	Action item largely addressed

movement or use of funds). Particular focus should be on key aspects of the TF risk profile including cash smuggling, illegal MVTs, narcotics trafficking, misuse of NPOs, proceeds of smuggling including natural resources, as well as funding the terrorist groups including Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and persons affiliated with the Taliban.		

Joint Group's (JG's) Comments:

This action item is largely addressed.

Pakistan continues its efforts to investigate terrorist financing cases in the key risk areas highlighted in its 2019 NRA and previous versions of the TF risk assessments (cash smuggling, illegal MVTs, narco trafficking and proceeds of smuggling (including natural resources) and misuse of NPOs. The JG had sought new information on TF investigations related to narco trafficking and proceeds of smuggling as evidence in previous updates were lacking. Pakistan has demonstrated increased efforts on these types of TF cases related to narcotics trafficking and proceeds of smuggling. Pakistan has noted that ANF and Custom authorities refer cases to CTD officials if there is evidence of TF nexus when evaluating illicit activities. In the case of ANF, there is an SOP issued in 2018 instructing LEAs to determine if narco seizures had any links to TF. Other updates during this reporting period includes:

- NACTA issued a Directive on 'Investigating Wide Range of TF Activities' in November 2020 that requires investigations by ANF (narcotics) and Customs (natural resources) to refer cases to CTD if there are suspicions of TF. The Directive also requires Customs to coordinate with provincial authorities on mines, minerals, forest and excise departments for leads. This represents Pakistan's written policy priority and its efforts to continue generating information that can lead to additional cases.
- In the recent reporting period from September to December 2020, Pakistan reported that there are 15 new cases registered related to narco trafficking and 11 new cases related to smuggling of natural resources. In total for 2020, there are now 33 cases related to narco-trafficking and 15 related to smuggling of natural resources.
- One case study related to a major seizure of iodine shipment transiting Pakistan to Afghanistan. The case was a joint law enforcement intercept and seizure involving Pakistan Customs, US authorities and UNODC. The material was destined for Taliban controlled territory of Afghanistan for the manufacture of illicit drugs.
- There were other five other case examples that Pakistan provided: two related to natural resources involving TTP, HQN, one on narco-trafficking, cash smuggling and illegal MVTs. All these recent case examples are currently under investigations.

- Pakistan Customs has shared information with Afghanistan authorities on cases involving transshipping of illicit goods.
- In relation to the other TF risk areas, Pakistan is pursuing cases related to cash smuggling (5), illegal MVTS (8) and misuse of NPOs (220).

For context, Pakistan had not registered any TF cases related to cash smuggling, illegal MVTS, misuse of NPOs, narco-trafficking and proceeds of smuggling before the FATF action plan date (pre- June 2018). Pakistan's recent efforts since 2019 are showing investigation of cases that reflect TF fundraising methods identified in the NRA. Pakistan reported that TF investigations by geographic region reflect the TF risk profile of the specific provinces. In KP, due to the border proximity to Afghanistan, the cases relate to extortion, cash smuggling, narcotics, KFR, and donations, while out of Punjab, there are cases pertaining to donations and misuse of NPOs.

e. Proactively request and provide international cooperation in cases of targeting, investigating and prosecuting TF cases. i. Demonstrate that this has included police to police, customs to customs, FIU to FIU and formal cooperation (MLA). ii. Demonstrate that the timeliness of such cooperation has improved and is pursued in line with the TF risk profile.	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

In August 2020, Pakistan reported an additional 49 outgoing MLA requests related to TF. In total, since the commencement of the action plan, Pakistan has 127 formal outgoing MLA requests seeking assistance on TF cases. Most of the additional MLA requests (31) were to Afghanistan, with 8 to the US. The requests have been sent out to 15 different countries with the majority (90 out of 127) of the total requests going to Afghanistan. More than half of the 49 outgoing requests relate to fundraising or funding of terrorist groups or activities. The next largest number (11) deal with extortion and the others cover the activities on narcotics, cash smuggling, illegal MVTs, smuggling of goods, funding to NPOs and kidnapping for ransom.

Pakistan reports that it has only received partial responses to 9 of these outgoing MLA requests, and has sent 68 reminders to the requested countries. In its August 2020 submission of case studies, which had 12 cases, 6 had some element of international cooperation.

The MLA bill was passed by Parliament on Aug 6 and came into force on Aug 12, 2020. Pakistan has made policy updates through guidelines issued by the Ministry of Interior to LEAs that prioritize international cooperation requests related to TF and ML and procedures for formal and informal cooperation. NACTA also issued SOP for LEAs (JITs) to emphasize that authorities should consider the international angle involving the offence, individuals or entities abroad. A MoU with the FIU of UAE was scheduled to be signed in September 2020, and a MoU with Afghan authorities is also being progressed. During this reporting period, Pakistan has made 47 requests to international FIUs where the majority related to terrorism groups. Regarding customs to customs cooperation, there were 58 new outgoing informal requests since the last reporting period where Customs has sent 62 requests to nine different foreign jurisdictions. FIA has initiated 13 outgoing informal requests mostly on cyber terrorism requests to US companies.

Pakistan was also asked to report on outstanding and new incoming international requests in relation to TF. With 9 MLA requests received during this reporting period, 4 were completed between 1-4 months but these requests did not relate to TF. There were informal incoming requests to the FIA that related to terrorism or TF, which Pakistan reported has been addressed. Response times have decreased from 1-17 months in 2019 to 1-2 months in 2020 for the 10 terrorism and TF requests. Pakistan has responded to incoming requests received so far in 2020 and Pakistan reports that there are no more outstanding MLA requests related to TF.

In light of Pakistan's efforts to improve the international cooperation legal and policy framework, increasingly seek formal and informal international cooperation in TF matters, follow up requested countries and respond to incoming requests, the JG now considers this item largely addressed.

f. Demonstrate that TF investigations and prosecutions target designated persons and entities, and persons and entities acting on behalf of or at the direction of the designated	September 2019	<u>Pakistan Progress update April 2021</u> Pakistan has been demonstrating action against designated persons or entities and sufficiently targeting investigative and prosecutorial efforts in line with the action item, as reflected by the number of investigations and prosecutions. During the last reporting period, Pakistan also reported its progress on TF cases in relation to Associates of UNDPs (persons acting on behalf of or at direction of UNDPs). While JG took note of the progress, it mentioned that there was a total of 17 investigations of associates of UNDPs. Therefore, JG sought further evidence that Pakistan is focused on identifying associates of UNDPs "that in many instances have been UN listed for over a decade and located in Pakistan". <u>Remaining Issue:</u> <i>Pakistan should provide specifics that it is investigating and prosecuting those persons and entities acting on behalf of or at the direction of UNDPs that were (are) financing the activities of the designated persons for the purposes of terrorism.</i> <u>Pakistan's Response:</u> Identification of associates through amplification of institutional mechanism and operational tools (and processes) and consequent TFS implementation has been discussed in IO-10. Nevertheless, since JG's comments on this action item also emphasized on identifying associates of	Action item partially addressed Pakistan should demonstrate that it is taking all reasonable efforts to investigate and prosecute Masood Azhar, Sajid

persons or entities (in particular Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and persons affiliated with the Taliban).

UNDPs, therefore, the report will elaborate on that aspect as well, however, to avoid duplication the discussions within this action item will remain limited to where associates can be traced and identified through the process of TF investigations. Focused efforts were made to trace and identify associates through TF investigations and this report will elaborate how TF investigations have been used as vehicles to reach and identify the associates and exemplifies the specifics as required.

This remaining issue has been addressed in the following sequence:

- Role of TF investigations in the identification of associates
- Initiatives undertaken during this reporting period
- Results
- Dynamics of the associates-supported networks of UNDPs

1. Role of TF Investigations in the Identification of Associates

a) Institutional Framework

Pakistan has a comprehensive framework of investigation and prosecution which also helps in identification of associates of UNDPs. All relevant agencies at federal and provincial levels closely coordinate, through a top-down approach, to identify associates through the investigation process:

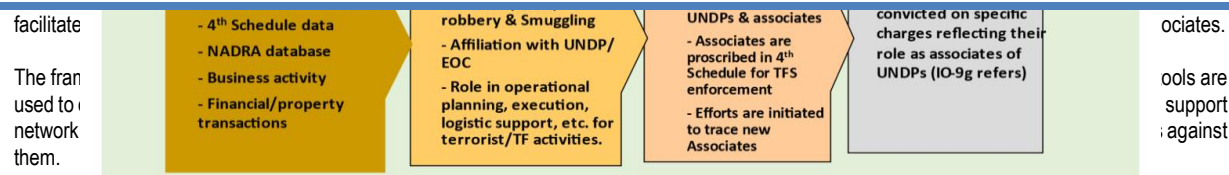
Table-IO-9f(1) – Institutional Framework on Associates Identification

Authority	Role in identifying and investigating associates
NACTA	• NACTA acts as focal authority to coordinate actions on CFT including TF investigations and prosecutions of associates. • It also issues guidelines and SOPs to stakeholders on identification, investigation and prosecutions of associates of designated/ proscribed persons. • It also facilitates in sharing of best practices and case studies during TF investigations.
Federal Agencies	• FIA plays a key role in TF investigations & prosecutions, particularly in cases of UNDPs or their associates, and use immigration and Interpol databases, cybercrime database, social media and internet profiling while investigating TF cases and tracing associates. • SBP, SECP, FMU, FBR and NADRA also provide information in their domain requested by the CTDs during investigations. • FIA, ANF and Customs also assist in conducting initial TF checks in line with their established mechanisms.
CTDs	• CTDs in the provinces serve as lead agencies for TF investigations and prosecutions of associates. • During TF investigations, CTDs trace linkages of associates based on interrogation of accused, interview of witnesses, documentary evidence, 4th schedule linkages, business activities, background checks & intelligence information, CRDs analysis, relationship, tracing of financial linkages, etc.
Provincial agencies	• Land revenue, excise departments, forensic laboratories also help to trace assets and other linkages of individuals with designated persons during TF investigations.
JIT	• During the TF investigations, the agencies involved in JIT thoroughly investigate and carry out background checks of the accused to trace the links with UNDPs. • The federal agencies including FIA, ANF, Customs, FMU, SBP and Intelligence Agencies also support CTDs in their TF investigations as member of JITs.

b) How investigation process helps to identify the associates

The authorities continue to target investigations and prosecutions of associates with UNDPs in line with NACTA's Guidelines issued in 2020 to

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Azhar.



2. Initiatives Undertaken during this Reporting Period for Identification and Investigation of Associates of UNDPs:

During the current reporting period, the authorities have continued and enhanced their efforts to identify and trace associates of UNDPs that were financing the activities of the designated persons for the purposes of terrorism, a summary of which is provided below:

Table-IO-9f(2) –Additional Measures During Current Reporting Period

Agency	What was done before	Additional Measures during the current reporting period	Reference
NACTA	NACTA has been guiding LEAs in identifying and investigating associates. NACTA issued Guidelines on identification, investigation and prosecution of associates in June 2020.	- NACTA on 4th March 2021 has re-emphasized strict implementation of earlier Guidelines on Associates issued in June 2020. 02 special meetings of TF sub-committee were held to discuss framework for identifying associates by LEAs including scrutiny of available leads in line with NACTA guidelines/checklist. 2 meetings with CTDs were held in NACTA to analyse TF database for developing possible linkages. - NACTA led team of federal agencies including MOFA and MOI visited CTDs in provincial headquarters on 1-2 March, 12 March, 15-16 March to have detailed discussions on developing linkages of associates with UNDPs during TF investigations.	NACTA's Guidelines.
CTDs	The investigators take into account during all the TF investigations whether any individual is directly connected to, or associated with UNDPs. CTDs also disseminated guidelines on identification of associates down the line to their field formations.	- Provincial CTDs have directed all the investigators to explore the associated individuals while conducting TF investigations of the UNDPs. Instructions issued by Punjab are enclosed. - Provincial CTDs scanned national TF database, UNSC lists and domestic proscription lists from March 7 to March 19, 2021 to trace associations and available information on locations and criminal records was also examined.	Punjab CTD Instructions.
FIA	Maintained close liaison with CTDs to assist them through JITS and exchange of information helpful for investigating association linkages	- A meeting of FIA with CTDs was held on 10th March 2021 in which information shared by CTDs was analysed to develop association with UNDPs. TF cases being handled by FIA were also sifted for possible association linkages. - On 1st March 2021 FIA shared with CTDs a confidential report of surveillance and tracing of any activities of UNDPs and their associates through monitoring of social media, and internet and cyber patrolling, etc.	FIA meeting notice.

NADR A	Assists CTDs in identifying family members of UNDPs in TF cases through family trees.	From 5 March to 12 March 2021, National Database & Registration Authority (NADRA) scanned its database against the lists of UNDPs provided by CTDs and examined residential address by UNDPs in database for developing linkages with accused in TF cases by CTDs. Select findings were discussed with LEAs and intelligence agencies on 16 March 2021.	-
FBR	To examine FBR database for identification of associates designated/ proscribed persons and entities.	FBR scanned UNDPs profiles in their database related to tax and customs to find out any matches.	-

In addition to the above, with a view to facilitate better exchange of information, additional agencies including SECP and provincial home departments were made part of the already in place multilateral MoU of April 2019, through an addendum signed on 10th March 2021.

3. Results:

The availability of the framework to identify and investigate associates and the focused efforts of Pakistan authorities have resulted in further progress in tracing associates of UNDPs located in Pakistan as reflected in the following sub-sections:

a) Investigations and Prosecutions against Associates of UNDPs:

Besides targeting investigations and prosecution against UNDPs, Pakistan has investigated and prosecuted associates/persons acting on behalf of UNDPs and entities. While all those individuals were engaged in TF activities on behalf of EoCs, a number of the individuals were also associated with, or acting on behalf of, the DPs. Pakistan has continued with the efforts to identify such individuals as the associates/ acting on behalf of the UNDPs. The number of investigations undertaken in respect of associates of UNDPs are reflected in the following table:

Table-IO-9f(3) –Associates of UNDPs

Entity	UNDPs	As of Last Reporting Period	During Current Reporting Period	Total
JuD/FiF*	6	9*	37	42 16
LeT	1	1	0 2	1 3
JeM**	1	1	5 7	6 8
TTA	1	2	0	2
TTP	1	4	5	9
Total*	10	17	43 21	30 38

Pakistan has demonstrated substantial progress in respect of identifying and prosecuting associates of each UNDP known to be located in Pakistan. For the convenience of JG, the following table has been expanded with reference to identification and investigation of associates of each UNDP as under:

Table-IO-9f(4) – Updated Progress on UNDPs and Associates

Serial No.	Entity	Name of UNDP & Affiliated Entity	Total Number of TF Investigations (Cases)	Total Number of TF Cases Prosecuted and Convictions Attained	Status of On-going TF Investigations and Prosecutions	Investigations & Prosecutions of Associates in Current Reporting Period

			Registered)			
1.	JuD/FiF	Hafiz Muhammad Saeed	7	4-5	3 2 ongoing cases which are at the stage of prosecution (trial stage).	TF cases against 4 associates of Hafiz Muhammad Saeed were registered and they have been convicted.
2.		Haji Muhammad Ashraf Mansha	4	3	1 ongoing case which is at the stage of prosecution (trial stage).	
3.		Hafiz Abdul Salam	6	6	-	
4.		Muhammad Yahya Aziz	19	15	4 ongoing cases of which 1 is at the stage of prosecution (trial stage) and 3 cases are at investigation stage.	TF cases against 2 associates of the UNDP were registered which have been convicted.
5.		Malik Zafar Iqbal Shahbaz	26	24	2 ongoing cases of which 1 is at the stage of prosecution (trial stage) and 1 case at the investigation stage.	TF case against 1 associate of the UNDP was registered which has been convicted.
6.	LeT	Zaki-ur-Rehman Lakhvi	1	1	-	TF cases against 2 associates were registered and they have been convicted.
7.	JeM	Maulana Masood Azhar	2 (1 new)	-	2 ongoing cases of which 1 is in prosecution and other is under investigation.	TF investigations against 7 associates of the UNDP are underway and 5 investigations have resulted in convictions.
8.	TTP	Noor Wali Mehsud	5(4 new)	-	All 5 TF cases are in investigation.	TF investigations against 5 associates of the UNDP are underway.
		Total	70	54	Total ongoing cases 16	

Please find below a table providing further details on the activities on the associates:

Table-IO-9f(5) – More Information on Role of Associates

UNDP	Identified Associates	Type of Activities as Associate of UNDPs
Jud/FIF		
MZI	1	• Provided financial assistance to UNDP • Used to hand over his own personal money and funds collected in the name of Al Anfaal trust to UNDP for various purposes • They used various means such as soliciting donations, skin hides collection etc. to raise funds for UNDP and the trust
MYA	2	• Provided money to UNDP for personal sustenance • All payments were made to UNDP through them • They used to disburse cash from UNDP to other people as directed by UNDP • Funding for purchasing assets for trust including ambulances
HMS	4	• Collected funds and handed over to UNDP or his locally designated associates • They used to be in contact with UNDP for organizational matters • UNDP directed them to collect funds for construction of a madrassa • Frequently visited the place of construction of Madrassa
LeT		
ZAR	2	• Frequently in contact with leadership of LeT • Fund raising • Assisted entity in procurement and maintenance of assets
JeM		
MMA	7	• Met UNDP in Afghanistan • Were present at the time of establishment of JeM • Involved in fund raising and supervision of madrassa construction • Involved in planning and construction of madrassa for JeM • Operated in KP and worked for JeM and UNDP • One of the associates acted as Ameer of others
TTP		
NWM	5	• Frequently met NWM in connection with organizational matters and terrorist planning • Receiving finances and directions from NWM to carry out their activities in Pakistan • Involved in kidnapping, extortion, smuggling and other activities • Financial assistance to the families of their injured and deceased colleagues • Planning, organizing and arranging logistics support for carrying out terrorist activities. • Acted as local leaders of TTP

b) Investigations and prosecutions against entities acting on behalf or at the direction of UNDPs

The proactive investigations undertaken by Pakistan have led to identification of 11 legal persons/entities (front NPOs) acting on behalf of the UN designated persons and entities. These entities were proscribed by the government under ATA, 1997 on 10 May, 2019. Consequently, the registration of these entities with the relevant authorities were cancelled and parallel investigations into their properties undertaken. In total, 75 TF investigations have been launched involving legal entities. As of the last reporting period, 51 had reached the prosecution stage. A further 19 investigations

progressed to the prosecution stage during this reporting period, bringing total to 70. From these prosecutions, there are 26 convictions involving legal entities (details in IO-9g).

4. Dynamics of Associates-supported networks of UNDPs

- In sub section 1 above, the enforcement framework for identification and investigation of associates has been explained in detail. Our TF related identification and investigation efforts have allowed us to understand how UNDP were linked to associates.
- Within the context of Pakistan, the UNDPs and their associated networks followed **2 distinct patterns**, corresponding to the operating models of their EoC.
- **For UNDPs associated with welfare based EoC**, the UNDPs relied heavily on a more documented set of association wherein, office bearers of the organizations and individuals associated with a front end NPO led the support network. TF investigations have also identified an additional set of association related to funding, movement of funds and sustenance as well
- **For UNDPs associated with EoC relying on coercive set of activities**, the UNDPs relied heavily on closer group of operational associates. Additionally, associates related to planning, funding and operationalized of a Terrorist Activity has also been identified. Within the dynamics of the EoC, new associations based upon mergers of various groups were also identified and investigated.
- These UNDPs leveraged their positions and relationships with in the hierarchy of EoC to build a network of associates which supported the UNDPs, either operationally or through availability of funds. As discussed earlier, LEAs applied various investigation techniques to identify these associates, in most of these cases such investigations led to registration of a formal TF case as well for which investigation continue.

The following paragraphs will elaborate how UNDPs had managed to build TF networks of associates and entities to support their activities. Both of these models are explained below:

a) Welfare model- JuD/FiF:

The welfare model of JuD/FiF consisted of 11 front NPOs which were registered as charitable organizations with the purported objective of rendering humanitarian services but in addition to humanitarian work they were also used as front entities acting on behalf of or at the direction of UNDPs to raise, store, conceal and use the finances for terrorist activities. There were total of 6 UNDPs who were beneficial owners, acting as their trustees, office bearers, donors, fund raisers, owners, managers and controllers of their activities and were using these properties for financing of terrorism and personal sustenance.

Associate's linkages with UNDPs was revealed from the statements of the UNDPs, findings of JITs and intelligence reports, it was discovered that the associates had been involved in frequent cash payments to UNDPs, giving gifts to UNDPs in cash or kind, taking money from UNDPs and disbursing to others, providing voluntary help for properties (cleaning, maintenance, etc.), taking money from other people and depositing in the property and managing/storing money of the UNDPs. They had been also involved in arranging sustenance for the UNDP. These associates were generally found working as office bearers of NPOs or rendering voluntary services for the cause of organisation.

Similarly, associate's link with NPOs was established through documentary evidence, from properties record, membership of entities, the role played by them during bargaining of the properties, cash payments they made for the properties, supervising construction of facilities and the statements of the witnesses.

On discovery, formal investigations were launched against the UNDPs and front NPOs under various TF provisions of ATA. In all 63 investigations have been launched against 06 UNDPs and so far, 54 convictions have been attained. UNDPs have been awarded punishments from 5 to 10 years along with fine and forfeiture of personal and trust properties. These properties were taken over by the government and all front NPOs were proscribed.

Along with the investigations against the UNDPs, 16 associates (including 6 UNDPs as associates of each other) have been identified. All of these associates have been investigated, prosecuted and convicted with imprisonment for 5 to 9 years including 3 new associates convicted in this reporting period.

Case Study

During the TF investigation into the property of Al-Anfal Trust (a front NPO of JuD/FiF), it was revealed that two UNDPs namely MZI and MYA were linked to that front NPO as they were found managing and controlling the affairs of the entity and its properties. Besides, the two UNDPs, three individuals namely N, UB and SU were also found associated with the front NPO. In the investigative process it surfaced that these individuals were directly involved with the UNDPs through a series of transactions involving gifts and payments which they used for various TF activities including personal sustenance. These associates were also involved in disbursement of cash from UNDPs to other people as directed by them. As a specific example, MYA and MZI had tasked the associates namely N, UB and SU to arrange funds to purchase ambulances and provide sustenance for the UNDPs. The associates also facilitated terrorism financing activities on behalf of UNDPs by raising of funds through various means such as soliciting donations, skin hides collection etc.

The above mentioned linkage of UNDPs with associates was established through CDRs, financial, land and other records which was further corroborated during investigation by statements of UNDPs, independent witnesses and 03 accused associates.

After successful prosecution, the two UNDPs (MYA and MZI) were awarded imprisonment for 9 years with fine of Rs.50000 each in one TF offence and further imprisonment for 1-year with fine RS. 20,000 each in another TF offence (which shall run consecutively after the expiration of 9-year sentences). The 3 associates were also awarded punishment of imprisonment for 9 years with fine of Rs. 50,000 each.

b) Crime based/Coercive model-TTP:

In contrast to the welfare model, the terrorist organizations like TTP have built their TF network based on coercion and crime. For instance, the closer group of operational associates of Noor Wali Mehsud (the UNDP) involved itself in criminal activities to raise funds which are used for financing terrorist activities. The main crimes resorted to are KFR, extortion, dacoity, smuggling of natural resources and drug trafficking.

NWM as head of TTP was involved in planning, directing, implementing and executing terrorist attacks in Pakistan. He was also funding for terrorist activities by the organization and provided material support to other TTP terrorists. In all such activities he was supported by a network of close associates who acted as the informers, facilitators in procurement of weapons, fund raisers and recruiters along with committing crimes, participation in planning, funding and operationalising the terroristic activities.

These associates were identified on the basis of intelligence operation and crime scene evidence including identification of those arrested and through linkages of terrorists killed in operations. Their linkages with the UNDP were established through findings of JITs and intelligence reports and it was discovered that the associates had been involved in frequent cash payments to UNDPs, managing/storing money of the UNDPs, giving gifts to UNDPs in cash or kind, taking money from UNDPs and disbursing to others. In addition to raising funds for terrorist activities they used to arrange funds for personal sustenance of the UNDP. They also attacked the law enforcement convoys after getting direct instructions from UNDP.

5 TF cases have been registered against the UNDP which are under investigation. Total 9 non-UNDP associates of the UNDP (including 5 identified in this reporting period) have been identified against which 5 TF cases are under investigation.

Case Study

A suicide attack in Mardan resulted in registration of a TF case/ constitution of a JIT. Two accused S and A were arrested and thoroughly investigated. Upon interrogation, S and A revealed names of some other terrorists involved in the incident including a TTP terrorist named HR. It was further revealed that a network of terrorists belonging to TTP was operating in the area. This network was involved in fund raising through coercive activities like kidnapping for ransom, extortion, dacoity, smuggling that provided them sufficient money to support activities of TTP. It was also revealed that HR was in close contact with senior TTP leadership in Afghanistan and Pakistan including Noor Wali Mehsud (NWM) who is a UNDP and was acting as his associate.

That the UNDP and his associate (HR) were linked as a part of network came up from the intelligence reports, statements of the accused and through tracking of IP details of HR including WhatsApp and Telegram messages. In addition, during the search of the house of one arrested accused (S), a letter written by NWM was recovered which was addressed to the local TTP network in which the UNDP has nominated HR as his representative/associate in the area and directed all others to follow his instructions.

On the basis of this available evidence, NWM was also charged in the case and declared as proclaimed offender (PO). Investigations against the UNDP, his close associate and other non-arrested accused in the case are underway.

5. Conclusion:

Pakistan has demonstrated actions against designated persons or entities and sufficiently targeting investigations and prosecutions of their associates in line with the action item through a comprehensive framework to identify and investigate such individuals. The current reporting cycle has witnessed further investigations and prosecutions of the UNDPs associates. The framework and progress reported by Pakistan demonstrates the actions required to address the remaining issue in this action item.

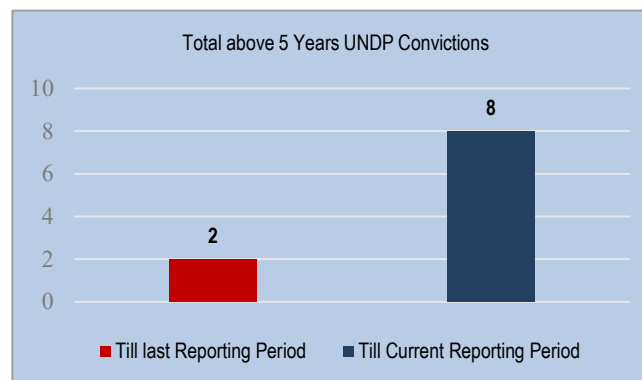
Joint Group's (JG's) Comments:

Pakistan's reporting focused on the remaining item under this IO from the last reporting cycle which required further evidence of action against broader support network of associates linked to UNDPs. To this end, Pakistan also provided information on the multiagency coordination and investigative framework in place to detect UNDP associates. Pakistan explains that connections of UNDPs and their associates are sought from investigating not only of financial records but land records of all immoveable property transactions of UNDPs and connections obtained through law enforcement techniques among others.

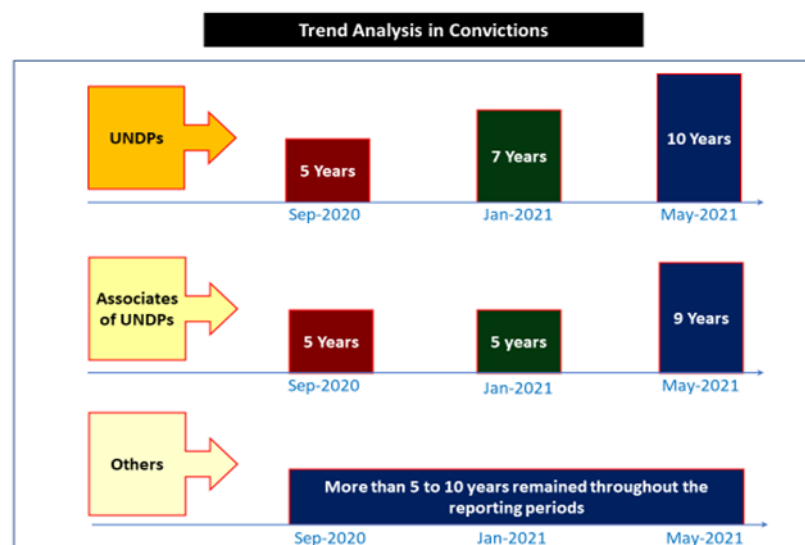
Since the last update, Pakistan noted its efforts to identify and trace associates of UNDPs. In March, additional NACTA meetings were held and strategies discussed, resulting in the CTD, FIA, NADRA, FBR upping their efforts on detecting UNDP associates. Example includes the CTD reviewing TF database, UN and domestic lists and reminding investigators to look into individuals that may be associated when conducting TF investigations. NADRA also scanned its database and address connections as well as scrubbing of tax and customs databases.

Pakistan reports that as a result of those efforts, Pakistan has 16 additional investigations of associates that are tied to JuD/FiF (7), LET (2) and JeM (7). An additional 5 are related to TTP. In total, the numbers combined with figures from the previous reporting period is 38 (9 are related to TTP). There is notable increase, although none that relate to TTA (Taliban) during this period. The charts IO-9f(3) and IO-9f(4) include figures and general information that UNDP associates are being investigated for TF. Pakistan does provide information that the activities of associates largely falls into two types of categories: "welfare based entities of concern" or "relying on coercive set of activities". Pakistan has provided an additional chart that provide some additional details on the activities of associates of UNDPs and their role attributed to TF which includes soliciting donations, providing funding for purchase of assets, ambulances, and collecting funds for building of a madrassa, among others.. Notably, there is one addition new TF case against Masood Azhar (two total – 1 investigation and one prosecution) and there were TF investigations against 7 associates with 5 convicted in 2021. Pakistan also reported on TF cases against 4 associates of Hafiz Saeed and convictions were obtained during the recent reporting period. While there is progress in the number of investigations associated with UNDPs, Pakistan should take further action against UNDPs that are known senior leaders and associates UNDPs. In particular, Pakistan should demonstrate that it is taking all reasonable efforts to investigate and prosecute Masood Azhar, Sajid Miir, and Abdul Rauf Azhar.

g. Demonstrate that TF prosecutions successfully result in effective, proportionate and dissuasive sanctions against natural and legal persons convicted of TF offences.	September 2019	<u>Pakistan Progress Update April 2021</u> Pakistan has previously reported data and case studies on convictions against UNDPs, entities of concern and entities. While the JG took note of overall progress in this action item, it expressed concern that most UNDPs will serve 5 years concurrent sentence and JG was not clear regarding sentencing beyond minimum threshold. Therefore, the JG sought further demonstration from Pakistan that the sentencing for the UNDPs is proportionate and dissuasive. Pakistan has further consolidated the positive progress in respect of UNDPs in this reporting period. The dissuasive and proportionate TF convictions attained during the action plan including the current reporting period are in line with the remaining issue in this action item. The Joint Group identified 02 remaining issues under this action item. The first remaining issue relates to actions against UNDPs, entities and their associates, which is discussed hereunder; while the second remaining issue is related to updated data table of TF convictions. <u>Remaining Issue # 1:</u> <i>Pakistan should provide details of TF prosecutions and convictions obtained (case studies and sample judgments, including sentencing rationale) of designated persons and entities, and persons and entities acting on behalf of or at the direction of the designated persons or entities (in particular Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and persons affiliated with the Taliban) demonstrating the proportionality of the sentences imposed.</i> The remaining issue is discussed in the following sequence: • Convictions of UNDPs • Convictions of <u>associates</u> of UNDPs • Convictions of <u>persons</u> acting on behalf of entities • Convictions of <u>entities</u> acting on behalf or at direction of designated persons and entities • Analyzing dissuasiveness of sanctions against UNDPs • Case studies and sample judgements 1. Convictions of UNDPs: Pakistan has undertaken substantial number of prosecutions against the designated persons which have successfully resulted in attaining dissuasive sanctions against a number of Pakistani national UNDPs. As of now, a total number of 56 convictions have been attained against 8 UNDPs. In this reporting period, 2 UNDPs have been convicted for 10 years sentence. In a recent conviction of 2 UNDPs, both were awarded sentence of 9 year for one TF offence, while 1 year for another TF offence which shall run consecutively (after the expiration of sentences awarded to them already). Thus, total punishment awarded to these 2 UNDPs amounts to 10 years. Moreover, after Pakistan's submission on 6th April 2021, another UNDP has been convicted for 9 years sentence in one TF offence. The following graph depicts improvement in total number of above 5 years convictions of UNDPs in comparison to last reporting period.	Action item largely addressed



Moreover, a graphical representation of improvement in trend of higher sentences to UNDPs and their associates in comparison to other convictions is provided below:



2. Convictions of Associates of UNDPs:

Pakistan has not only made progress in attaining convictions against UNDPs but also against their associates in terms of advancement in prosecutions and convictions. Pakistan continued with focused efforts, however clarity on the remaining issue was gained only in start of March after meeting with FATF Secretariat and lead reviewer leaving limited time for Pakistan. During this reporting period 14 associates of 5 UNDPs have been convicted for 8 to 9 years imprisonment sentence.

3. Convictions of persons acting on behalf of entities:

A total of 242 convictions have been secured against persons associated with EOCs. The number of convictions against the associates or persons acting on behalf or at the direction of designated persons and entities during the current and preceding reporting periods is tabulated as under;

Table-IO-9g(1) – Convictions of Associates of EoCs			
Category	No. of TF Convictions as of Last Reporting Period	Current Reporting Period	Total TF Convictions (as of Apr-2021)
Other Associates/ Persons Acting on Behalf, or at Direction, of DPs and EoCs	220	22	242

* From this, there are 12 convictions of 9 years and 3 convictions for 8 years.

4. Convictions of entities acting on behalf or at direction of designated persons and entities:

During the course of the action plan, Pakistan has identified and domestically proscribed a number of front NPOs which were acting on behalf or at the direction of designated persons and entities. A number of investigations were accordingly undertaken which have now resulted into successful prosecutions with tangible outcomes vis-à-vis convictions. These front NPOs/legal persons had been registered under the Societies Registration Act but were subsequently de-registered. The following table reflects the updated position in this regard including 08 convictions attained in the current reporting period:

Table-IO-9g(2) - Number of Prosecutions & Convictions				
	Last Reporting Period	Current Reporting Period	Total	Types of Sanctions
Number of Legal Persons/ Entities Acting on Behalf of DPs/EoCs Convicted	8	-	8	- Administrative sanctions of de-registration of the entity under Societies Registration Act - Forfeiture of legal personality - Forfeiture of property (all properties) - Heavy fines - Imprisonment and fines of office bearers
Number of Convicted Cases	18	8	26	

5. Analysing Dissuasiveness of Sanctions against UNDPs:**a) Dissuasiveness:**

The understanding of **Dissuasiveness** has been part of Pakistan's interaction with JG over the last few reports. The issue was further isolated at post-plenary discussions where lead reviewer clarified that the JG is mainly concerned with the sentences of UNDPs. The tangible progress on the issue has already been reflected under sub-section 1 above. T

Pakistan's understanding of Dissuasiveness in the light of above-mentioned parameters is discussed below:

In the context of Criminal justice, dissuasiveness refers to how effective legal sanctions imposed are in deterring a person or a group of persons from taking a similar course of action in future. It needs to be noted that, imposition of legal sanctions includes but is not limited to imprisonment sentences; its scope encompasses other form of sanctions like financial penalties, proscription, social exclusion, forfeiture of personal & entity property and restriction of movement etc. For instance, the UNDPs, entities and their associates identified so far have been proscribed internationally or domestically. The passports of UNDPs and their associates have been impounded and their movement has been restricted, they have been put under surveillance by putting their names in the 4th Schedule of ATA 1997, their history sheets have been opened and their properties have been confiscated or taken over by the state. It is this collective affects that establishes the deterrence. Besides, in the recent judgments the courts have awarded sentences longer than before and imposed fines of much higher amounts than before. For example, in the recent conviction of 2 UNDPs, both were awarded sentences of 9 years for one TF offence, and 1 year for another TF offence to be served consecutively (non-concurrent). Thus, total punishment awarded to these 2 UNDPs amounts to 10 years. Moreover, after Pakistan's submission on 6th April 2021, another UNDP has been convicted for 9 years sentence in one TF offence.

During the last 18 months, focused efforts to investigate and prosecute the UNDPs have resulted in the registration of 73 TF cases against 8 UNDPs. Up till now, 56 TF convictions against these UNDPs have been attained. Pakistan believes that these sanctions have proved dissuasive as UNDPs networks of entities and associates have been significantly disrupted, their operations have been considerably disturbed, the welfare façade of their organizations has been exposed and their acceptability among the public has reduced to a great extent. The cumulative effect of these court sentences and other sanctions is positive and enabling in dissuading not only the UNDPs and their associates but also for the new aspirants.

b) Sentencing Rationale:

As reflected in the summary comments of the last report, the JG seems to infer that judges are following a specific rationale to keep the punishments of UNDPs at lower threshold. Such an impression is not correct. The JG may like to note that there is no fixed criterion on which courts award sentences. Like in any independent criminal justice system, it is the discretion of the court to award punishment within the minimum and maximum range as provided in the law. This discretion is exercised by the courts based on the facts of the cases at hand, available evidence and other related circumstances. The courts also take into account the role of accused in similar cases and the nature of offences, the combined effects and consequences of the offence and the scale of punishments awarded by other courts in similar cases.

For instance, in a number of TF cases registered against UNDPs regarding the properties of front NPOs, similar disposal in judgments might have been warranted by the fact that multiple cases were registered on closely similar circumstances for example close proximity/location of taken over properties and similar role of UNDPs and associates in front NPOs. In these cases, the judges may also have taken into consideration that most of these properties were acquired before the amended provisions of s.11N of the ATA 1997, and that at the time of acquisition, the entities were not domestically proscribed.

c) Continued Engagement with Judiciary:

The JG may like to note the progressive trends in the effectiveness of the investigations & prosecutions which are resulting in longer sentences & heavier fines over the course of last 18 months. Pakistan continues with its efforts to address the situation more effectively. Some of recent efforts are noted here:

- During the last reporting period, Ministry of Law & Justice/ Judicial Academy, organized a series of discussion with a panel of experts (retired judges, prosecutors and legal experts) to analyse the issue of the dissuasive of TF convictions within Pakistan's jurisprudence/common law framework. Salient features of these discussions were shared with Joint Group during January 2021 face-to-face meeting.
- In the same vein, during the current reporting cycle, Ministry of Law and Justice spearheaded a committee involving all the stakeholders to analyse the sentencing parameters/criteria and give its recommendation on sentencing guidelines.

- The Sentencing Guidelines Committee of MOLJ has formulated Sentencing Rules under section 35 of ATA which have been approved by the Federal Cabinet. The rules will help the courts to consider the aggregate effect of culpability and harm of the offences along with aggravating and mitigating circumstances to award effective, proportionate and dissuasive punishments in TF cases. These rules will also facilitate the courts in deciding whether to award concurrent or consecutive sentences. Besides, courts will have to give reasons in writing where the quantum of sentence is on the lower side.
- In addition, Pakistan continued with efforts to sensitize the judiciary on TF related issues, following sessions were held:
- Date, sessions, participants, at, by
 - On 10-11 February 2021 and 8-9 March 2021² two sessions with collaboration of NACTA and Sindh Judicial Academy were held in Islamabad from whereby 30 participants including judges from the anti-terrorism courts, prosecutors and investigators participated.
 - On 27th March 2021 and 31st March 2021² two sessions with collaboration of National FATF Secretariat and Federal Judicial Academy were held via Zoom attended by approximately 200 judges from the anti-terrorism and other courts.

6. Case Studies and Sample Judgements

Case study on conviction of UNDPs along with their associates' network and sample judgements of TF convictions are provided at and respectively.

Remaining Issue # 2:

Pakistan should provide an updated table of TF convictions, including details of the specific ATA provision under which the person is convicted.

As required by JG, an updated table of TF convictions, including details of the specific ATA provision under which the person is convicted is provided. This table further adds on the list of convictions from 355 convictions shared with JG during last update in face-to-face meeting. Of the 44 new added convictions, 21 relate to UNDPs and 22 relate to individuals associated with UNDPs and EoCs.

1. Conclusion:

Pakistan has significantly progressed in securing TF convictions during this reporting period. The progress demonstrates that successful TF prosecutions have led to effective, proportionate and dissuasive punishments against UNDPs. Several of UNDPs related convictions secured during this reporting period are of 7 years and above sentences. The number and specifics of TF convictions secured during the action plan along with the range of sentences awarded reflects the progress meeting the requirements of this action item.

Total Convictions	5 Years	6 years	7-8 years	9-10 years
UNDPs (21)	14*	-	4	3
Associates (15)	1	-	7	7
Others (8)	4	1	2	1
Total (44)	19	1	13	11

Joint Group's (JG's) Comments:

This action item is largely addressed.

Pakistan continues the positive trend in obtaining TF convictions.

Pakistan provided updates for the current reporting period of 44 new TF convictions, although some are convictions from December 2020. Of that number, 21 relate to UNDPs and 22 relate to individuals

associate with UNDPs and entities of concern. Eight UNDPs: Hafiz Saeed, Haji Muhammad Ashraf Mansha, M. Yahya Aziz, Malik Zafar Iqbal Shehbaz, Hafiz Abdul Salam, Muhammad Arif Qasmani, are affiliated with JuD/FiF; LeT leader, Zaki Rehman Lakhvi, and JeM leader Abdu-ur Rehman Sindhi. The conviction of Muhammad Arif Qasmani (JuD/FiF) is new since the last reporting cycle. The other 20 are additional convictions against UNDPs which had been reported by Pakistan in the last year with TF charges stemming from 2019 with the result of prosecutions taking place during 2020. In total, Pakistan has 399 TF convictions to date (note: 60 of the convictions which had less than one year sentences were for ancillary TF offenses (i.e., membership in a proscribed organization) and not for TF). For context, prior to the action plan, Pakistan only reported 44 TF convictions.

Pakistan reports that two of the UNDPs, Muhammad Yahya Aziz and Malik Zafar Iqbal now have 15 TF convictions and 24 TF convictions, respectively. Their most recent convictions on TF convictions had a punishment sentence of 9 years for one TF offense and another sentence of one year for a different TF offense, which will be served consecutively. The 10 year conviction sentences is an increase from the 7 years sentence for TF from the prior update for Azia and Iqbal. Pakistan also reported the most recent conviction of Hafiz Saeed (previously convicted in four other separate TF charges and convicted only for 5 years total in those cases) in May 2021, resulted in a sentence of 9 years on an additional TF offence. Of note is 15 out of 21 convictions issued since March 2021, had conviction sentences of 9-10 years. These recent developments show an improvement in the courts issuing sentencing beyond the minimum of 5 years which in previous reports were issued for most TF convictions. In addition, Pakistan issued a sentencing guideline issued by the Mol that provides framework on consideration for aggravating and mitigating circumstance and if lower threshold sentences are issued, the court will have to provide justification. While new, Pakistan has said the guidelines have been approved by Cabinet and will provide a sustainable framework for judicial precedents. With the recent demonstration that most of the TF convictions during the reporting period resulted in sentences greater than 5 years, specifically, 7-10 years, this adds to the evidence of consistent trend that TF sentences are more proportionate and dissuasive.

h. Demonstrate activities to enhance capacity and support for prosecutors and the judiciary involved in TF cases.	May 2019	<u>Pakistan Progress Update December 2020</u> This action item has been assessed largely addressed. Pakistan has continued to build the capacity of its investigators, prosecutors and judiciary as under; a. NACTA in collaboration with UNODC organized a 2-days CFT workshop held on 12-13 October, 2020, in Karachi, which was attended by 30 participants including judges, prosecutors and provincial CTDs. b. NACTA in collaboration with UNODC organized a 2-days CFT workshop held on 15-16 October, 2020, in Hyderabad, which was attended by 18 participants including judges, prosecutors and provincial CTDs. c. NACTA in collaboration with UNODC organized a 2-days CFT workshop held on 19-20 October, 2020, in Sukkur, which was attended by 18 participants including judges, prosecutors and provincial CTDs. d. NACTA in collaboration with Research Society of International Law (RSIL) organized a 2-day workshop held on 28-29 October, 2020 in Islamabad, which was attended by 23 participants from FIA, ANF, Customs, ICT Police, NAB and Ministry of Interior.	Action item largely addressed. Pakistan should continue updating the JG on any future trainings to prosecutors and judiciary.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

The JG assesses this action is largely complete given the amount of trainings to prosecutors and the judiciary in the year-long time frame provided in Pakistan's ICRG action plan. Nevertheless, Pakistan should continue updating the JG on any future trainings to prosecutors and judiciary.

In September 2018, Pakistan provided the JG with a Work Plan for capacity building for prosecutors and judiciary for TF cases. This work plan was developed with assistance from the UNODC and completed in December 2018. In total, 127 prosecutors, judges, and LEAs received trainings (including in Punjab, Sindh, and Balochistan). In January 2019, Pakistan reported on two new UNODC work plans that concluded in May 2019. In the second work plan, a total of 8 workshops were organized between December 2018 and March 2019 and 210 LEAs, 30 Prosecutors and 10 Judges were trained on CFT.

In August 2019, Pakistan reported that it held five new training sessions with assistance from the UNODC and the Australian Department of Home Affairs. Moreover, Pakistan provided a new UNODC work plan for training events from August 2019 to March 2020.

In December 2019, Pakistan reported additional training activities that took place in collaboration with the UNODC. In November 2019, Pakistan held four training sessions for TF prosecutors and judges in various provinces (nearly 100 participants attended these sessions). In January 2020, Pakistan will hold additional training with the UNODC as part of the PACT project.

IMMEDIATE OUTCOME 10			
a.	Technical Compliance:	May 2019	(see previous versions of the progress report for more information)
	Demonstrate a comprehensive legal obligation to implement Recommendation 6 targeted financial sanctions without delay (both asset freezing and ongoing prohibitions to provide funds and financial services). This must include powers to take control of the funds or other assets and prevent the raising and moving of funds by UN-designated persons. Ensure that parallel legal schemes (e.g. UNSC (Pakistan) Act and ATA Ordinance) do not conflict when implementing the TFS.		
i.	If the ATA Ordinance is no longer in effect, demonstrate that UN-designated persons and entities are subject to TFS (both asset freezing and ongoing prohibition of funds and financial services) as well as adequate penalties for non-compliance		

Action item largely addressed.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

In previous meetings, the JG acknowledged that Pakistan has strengthened its legal framework to implement TFS related to terrorism, concerns however remained over compliance with specific elements of R.6 (which links to R.35) in terms of the proportionate and dissuasive nature of sanctions for TFS violations.

Pakistan implements TFS pursuant to the UN Sanctions Regimes under the United Nations (Security Council) Act 1948 (UN Act) and associated Statutory Notifications (SROs). Pakistan implements TFS pursuant to UNSCR 1373 through the Anti-Terrorism Act, 1997 (ATA). For UNSC designations, TFS violations (of both the freezing obligation and prohibitions) of the UN Act SROs were punishable by an administrative penalty of up to 10 million Rupees (applicable to natural or legal persons) (approx. €57 000). For domestic designations, TFS violations of the prohibitions contained in the ATA were punishable by a criminal penalty of 5-10 years imprisonment (s11J and s11N). Violations of the freezing obligation were punishable by an administrative penalty of up to 10 million Rupees (applicable to natural or legal persons). There are also administrative penalties that can be imposed by SBP and SECP on reporting entities for TFS violations under their respective legal and penalty frameworks. Further, Pakistan argued that the criminal penalties available under the ATA for TF offences (Sections 11H, 11I, 11J, 11K and 11N) could be applied to natural persons who breach TFS obligations,

whether under the UN Act and associated SROs or under the ATA. However, this would require the mental element for the TF offence to be established and while this may be possible in some circumstances, it is too narrow to apply in all relevant circumstances.

Given Pakistan's risk and context, the JG had previously expressed concerns that the administrative penalty options available for breaches of UN Act SROs were not dissuasive or proportionate and had concerns regarding the lack of criminal penalties for violations of the freezing obligation under the ATA, in particular given the criminal penalties available for other comparable offences, including for violations of the TFS prohibitions contained in the ATA. The JG was also concerned that although the fine was significantly increased, administrative penalties may not be dissuasive on natural persons, for example, if they do not have the means to pay the fine. While Pakistan clarified that civil measures could be taken under the Code of Civil Procedure against a natural person who does not pay a fine, including imprisonment for up to one year, this was not considered an adequate substitute for criminal penalties. Further, Pakistan did not have any TFS case examples where these measures have been applied in practice.

Pakistan has now addressed these issues via amendments to the ATA (under sections 110 and new section 11000). These sections create criminal offences for breaches of all TFS obligations under UN Act SROs and the ATA and increase the associated financial penalties. These amendments have enhanced the fine for natural persons to PKR 25 million, and for legal persons to PKR 50 million, and introduced a criminal penalty for breaches of UN TFS obligations of up to 10 years imprisonment for natural persons and directors/officers/employees of legal persons, in line with the penalties for the domestic TF offence and for breaching the TFS prohibitions under the ATA. The amendments have also introduced a criminal penalty for violating the freezing obligation under the ATA, and administrative penalties for public servants that are negligent in their TFS-related duties. As this action item relates to technical compliance (rather than effectiveness), the JG is now content that this action item is now largely addressed.

b. Demonstrate further risk-based outreach to FIs/DNFBPs/NPOs to ensure they understand and comply with their obligations under 1267 and 1373. This includes issuing comprehensive and/or case specific guidance material on TFS that is sector-specific and takes into account the TF risks.	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

This action item was upgraded to largely addressed previously noting how Pakistan had shown considerable progress on this action item with SBP, SECP, MoFA and NACTA (and other bodies) outlining the continued outreach and guidance to date to their regulated sectors to ensure they understand and comply with their TFS obligations under 1267 and 1373. Pakistan is proceeding with its 2020 program of outreach (CPO), and are evidencing continued outreach in various provinces and cities across the country.

Pakistan continued to evidence that the relevant authorities are (and will continue to be) tailoring their engagement to specific sectors, based on an accurate understanding of Pakistan's inherent risks and should continue to do so as per the action item under IO9(a).

c. Ensure that the updated lists of persons and entities proscribed	Januar	<u>(see previous versions of the progress report for more information)</u>	Action item largely

under the ATA and UN-designated entities are publicly available.	y 2019		addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

The UNSC website is directly accessible from the MOFA website as well as the more recent SROs from December 2015 and the list of entities proscribed under ATA is available on the NACTA website.

Ahead of the September 2019 f-2-f meeting, Pakistan provided information on how quickly designations have been disseminated and enacted since April 2019. Pakistan provided the speed of dissemination of updates to 9 changes to the UN sanctions list, demonstrating that they take action without delay following the list being updated by the UNSC, to the date of issuance of the SRO by MOFA, the date of the publication in the Gazette and date of circulation to stakeholders. In most cases, date of issuance of the SRO and the date of publication in the Gazette is the day after the listing is updated on the UN list. Pakistan also reported to the JG on the establishment of a new platform on the MOFA website where people can subscribe to directly receive updates to the SROs. So far over 1000 registrations to the platform have been received, including from government authorities, FIs, DNFBPs and NPOs.

The government continued to work closely with the SBP, SECP and Provincial Home Departments to ensure that updates to the lists are made and disseminated in a timely manner and the information is being picked up by regulated entities throughout the country. Implementation of TFS by FIs against the listed entities/individuals domestically and by the UN are covered below in action item d. Ahead of the January meeting, Pakistan provided evidence to the JG on how quickly a designation is posted on their website.

d. Demonstrate that FIs take immediate action to implement TFS against designated persons and entities or persons and entities acting on behalf of or at the direction of designated persons or entities. This includes systematic screening against their customer base and ongoing transaction monitoring.	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

Joint Group's (JG's) Comments:

This action item has been largely addressed.

Pakistan has **previously** provided extensive evidence and case studies that show banks acting on information provided to screen and identify proscribed/designated persons, and then subsequently freezing their accounts and reporting back to regulators. The examples showed that this had happened within one day of bank's implementing their screening procedures and becoming aware of proscribed/designated persons. Other examples demonstrated that banks had prevented designated persons from opening accounts with them (254 applications rejected from August to December 2019) following screening processes and reported this to the regulators. Other evidence previously provided included case studies to demonstrate that banks had referred potential matches with designated

persons in the past, which had subsequently been proved not to be the person in question.

Pakistan also stated that since August 2019, SECP regulated entities had provided 98% responses against SROs issued (up until November), where no matches were found, which was something the JG previously asked them to report back on. Pakistan also provided evidence to show that they have used the NRA to attempt to direct FIs with the aim of allocating appropriate resources in terms of systems and skilled trained resource to try to improve effectiveness on TFS obligations. Compliance with this had then been confirmed with follow-up inspections.

At the JG meeting in January 2020 it was noted that the list of proscribed persons in Pakistan is fluid and changes regularly, raising concerns as to how financial institutions keep pace with these changes and ensure that their systems and controls reflect the correct information. Pakistan were asked to provide evidence as to how quickly their financial institutions are taking action in response to receiving a notification of such changes to the list, including the addition of new listings and others being de-listed. In this update, Pakistan has noted that electronic systems allow for immediate dissemination of updates to the UN list of designated persons and to the list of those domestically proscribed. Case studies have been provided which show a new UN listing being disseminated to FIs within 24 hours, and demonstrate how in June 2020, 34 additions to the Fourth Schedule were made, with this information being disseminated to FIs on the day of their being proscribed, and the corresponding accounts being frozen without delay. An increased number of relevant institutions now have automated name screening solutions (including 97% of banks and 100% of exchange companies), with all others using semi-automated Excel-based applications to conduct name screening. Pakistan confirmed at the face-to-face that there have been no delays on reporting matches in this period, or reporting nil matches, as all FIs are required to do.

Pakistan has also provided evidence of prompt action taken by FIs to unfreeze the accounts of de-proscribed individuals. In June 2020, eight banks unfroze 46 accounts related to 44 de-proscribed persons. FIs typically unfreeze accounts within 3-4 days of notification of delisting, after conducting due diligence and ensuring there are no other restrictions placed on the accounts (e.g. court orders).

The JG was previously concerned about a lack of evidence to show action being taken against persons acting on behalf of, or at the direction of, designated persons and entities. Pakistan have now provided evidence and case studies of the variety of ways in which information on potential persons acting on behalf of designated persons or entities is obtained. Pakistan have issued a document of 'red flags' for FIs to consider, drawn from global practices. This led to one FI reviewing their customer database and identifying an associate of a designated entity, and subsequently freezing their account. The JG was pleased to hear that FIs will be required to use these indicators, which will be monitored by supervisors as part of the supervision process moving forward.

Case studies have also been provided to show that information received from LEAs has been used by FIs to identify those acting on behalf of designated persons and entities. The FMU has also shared details of family members of proscribed persons with FIs, which has resulted in the freezing of 16 accounts, and 2 further proscriptions. FIs have also been provided with information on persons associated with property which has been seized due to links with terrorism, and this has led to the freezing of a further 15 accounts. Pakistan assured the JG that this kind of work would continue moving forward, particularly in relation to newly designated or proscribed persons.

Overall, the JG are now content that Pakistan has evidenced that FIs systematically take action in response to frequent and multiple changes in the lists of designated and proscribed persons and entities, and that action has been taken to implement TFS against persons acting on behalf or at the direction of these persons and entities, as evidenced in the statistics and case studies provided. For this reason, this action item is now largely addressed.

e. Demonstrate that supervisory activities are applied on a risk-sensitive basis to financial institutions (banks, exchange companies, etc.) to ensure effective implementation of TFS obligations. This should include a demonstration that remedial actions and/or effective, proportionate and dissuasive	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed.

sanctions are being applied in cases of violations of TFS requirements.

Joint Group's (JG's) Comments:

This action item has been largely addressed. For information related to TFS remedial actions and the application of sanctions, see item IO 3 (d).

At the January 2020 JG meeting, the JG assessed this action item as largely addressed, recognizing the progress made in the supervision of regulated entities and their implementation of TFS obligations.

In January 2020, Authorities set out how they risk rate FIs and provided evidence of planned supervisory activity in line with risk, including the formulation of new red flag indicators following their new TF risk assessment. Pakistan was also proceeding with risk based thematic inspections. At the time of the January meeting, and since August, 14 banks had had enforcement action taken against them. Pakistan provided evidence of supervision conducted on FIs' screening procedures, freezing actions, transaction monitoring, and actions where FIs were found to have failed to freeze the funds of proscribed or designated entities or persons, or had inadequate systems and controls in place. At the January f-2-f, Pakistan confirmed that 97% of banks had automated TMS systems, and 94% operated name screening solutions. 91% of microfinance banks (MFBs) had both automated TMS and name screening processes. The rate was lower for NFBs (46%) though as these entities are relatively smaller in size, SECP had engaged with software vendors to provide low cost name screening and transaction monitoring systems for these entities. Ultimately, Pakistan planned for all FIs to be using an automated system.

In September 2019, the JG suggested that Pakistan take action at the highest levels of an organisation, rather than at staff level, where a violation is sufficiently serious to warrant it. Pakistan provided the JG with the example of one bank where the head of AML/CFT was demoted for negligence in relation to CFT, and a Head of Compliance and Head of AML/CFT were removed for misreporting/tampering with a bank's AML/CTF reporting. Examples were provided of how banks had improved their AML/CTF systems between one inspection and another, evidencing impact of supervisory actions in these instances. Two case studies were provided evidencing the imposition of monetary penalties for breaches of TFS. In the February 2020 report, the JG encouraged Pakistan to continue evidencing the use of a wide spectrum of supervisory activity and penalties, explaining how they are proportionate and dissuasive in relation to the failings they had found since the beginning of the action plan. It was concluded that this reporting would be conducted under action item IO3(d). Overall, JG called for Pakistan to further strengthen its supervisory regime by ensuring that appropriate enforcement action is taken to address the deficiencies identified.

f. Demonstrate effective implementation of TFS against the assets of 1267 and 1373 designated persons and entities and their affiliates including Da'esh, AQ, FiF, JuD, LeT, JeM, HQN and persons affiliated with the Taliban. This includes authorities: i. identifying persons and entities acting on behalf of or at the direction of designated persons or entities	May 2019	<u>Pakistan's Progress update April 2021</u> <u>Remaining Action</u> The JG in its February 2021 assessment has highlighted one remaining area for this action item to be largely addressed and it pertains to TFS implementation against UNDPs located outside Pakistan (i.e. Category-II and -III), their associates and assets. During the last FATF Plenary, it was decided that the JG would provide clarity to Pakistan with respect to the remaining issue. An online meeting of Pakistan delegation with the JG, APG, FATF Secretariat and the lead reviewer was held on 5th March 2021. The lead reviewer highlighted that the JG focused on TFS actions against Cat-II UNDPs, (though actions against UNDPs in Cat-III may also be reported). The lead reviewer suggested to demonstrate TFS implementation similar to the case study on the UNDP (namely NWM) submitted by Pakistan in the last progress report. The JG has assessed the following <u>one remaining area</u>, which requires that "Pakistan should provide evidence that TFS implementation efforts are targeted at <u>UNDPs who are reported to be located outside of Pakistan</u> including <u>evidence of actions taken</u> with respect to <u>assets</u> and	Action item largely addressed.

ii. tracing and freezing their assets (moveable and immoveable) iii. prevent the raising and moving of funds as well as any activities designed to evade effective implementation	<u>associates</u> including where assets (moveable and immoveable) are held by a person acting on behalf or at the direction of designated persons or entities". The JG has also suggested in its report comments that "if no assets are identified, Pakistan should provide evidence of the steps they have taken to confirm that no assets linked to these UNDPs are present in Pakistan". <u>Pakistan's Response</u> This remaining issue is addressed in the following sequence in the current update: • TFS actions taken and efforts made during the current reporting period; and • Results/outcome of efforts made by Pakistan. As discussed in several previous progress updates and face-to-face meetings, Pakistan has a comprehensive and multi-tiered TFS implementation framework in place. This framework is also used for identifying and tracing associates of UNDPs and their assets. All relevant agencies at federal, provincial and district levels closely coordinate for TFS implementation under this framework. <u>Section I: Recent TFS Actions Taken and Efforts Made in the Remaining Area (UNDPs outside Pakistan)</u> During the current reporting period, Pakistan has continued to take actions for TFS implementation under both UNSCRs 1267 and 1373 regimes. However, in the current update, only actions taken under the remaining area have been reported. As discussed in the last progress update, UNDPs located outside of Pakistan fall in the following two categories: <u>Category-II:</u> Pakistani UNDPs located outside Pakistan. <u>Category-III:</u> Non-Pakistani UNDPs located outside Pakistan. 1) <u>Processes for Identification of Associates and their assets</u> As part of the TFS Implementation framework, the authorities systematically employ a number of wide-ranging processes to identify and trace associates of the designated persons and their assets. The identification processes are applicable on all categories of UNDPs, particularly in Pakistan's context. A summary of the numerous processes used is given in Table IO-10f(1) as these form a key basis of the actions taken in the remaining area during the current reporting period.

Table IO-10f(1)
Processes used for the identification and tracing of associates of UNDPs and their assets

Sr. No.	Focus area	Application
1	Economic/financial/business linkages	The economic/financial/business linkages and activities of UNDPs lead to identification and tracing of associates and assets.
2	Sustenance of UNDPs	The authorities look into the sustenance aspect of the UNDPs to investigate whether any individuals are financially or otherwise supporting the DPs. This has led of successful prosecutions and TFS implementation.
3	Office-bearers/members of entities	The office-bearers and members of the entities owned or controlled by UNDPs are investigated with the perspective of association.
4	Terrorist activity	The individuals involved in terrorist acts, plots or related events are investigated in relation to any linkages with or taking direct orders from UNDPs.
5	Relationship	The relationships of UNDPs are taken into account to ascertain whether there are any TF linkages with UNDPs.
6	Fourth Schedulers	The information available with LEAs on domestically proscribed persons is analyzed to trace and identify associates and assets of UNDPs.
7	TF investigations	The TF investigations and prosecutions in relation to EoCs are focused from the associates' perspective. Details are provided in IO-9f.
8	UNDP associates of UNDPs	In many instances, UNDPs have been found inter-connected and functioning as mutually associated network e.g. in Trusts.
9	International Cooperation	Pakistan pursues international cooperation in respect of UNDPs who are located outside Pakistan with a view to tracing any possible associates and assets in Pakistan.
10	Taken-over assets by Government	Identification of associates having linkages with the taken-over assets and facilities has been an effective means for LEAs. The office-bearers of front NPOs of UNDEs/EoCs were identified through this process and placed on the Fourth Schedule followed by TFS actions taken against them.

2) Activities at the Federal level during the Current Reporting Period

A summary of comprehensive and multi-tiered TFS implementation efforts made at federal level through a top-down approach during the current reporting period is summarized in **Table IO-10f(2)**.

Table IO-10f(2)
Multi-tiered TFS efforts made at federal level during the current reporting period (January-March 2021)

Federal Forum	Efforts
National FATF Coordination Committee (NFCC)	- NFCC decided in a meeting held on 30 January 2021 to commit focused efforts to step up the search for associates and assets of UNDPs in Category-II and Category-III. - Reiterated the commitment to take necessary actions as indicated by the Joint Group. - The NFCC authorized mobilization of all resources for addressing the remaining issue.
National Executive Committee (NEC)	- A meeting of NEC was held on 1 March, 2021. NEC endorsing the decision of NFCC directed all relevant departments to intensify their efforts for TFS implementation against Category-II and -III UNDPs. - NEC asked the NCOIS to coordinate an inter-agency process and report back on the outcome of the national efforts.
National Committee for Overseeing Implementation of Sanctions (NCOIS)	- A special meeting of the NCOIS was convened on 8Feb 2021. The strategic forum reviewed the information on the UNDPs located outside Pakistan, their associates and assets in Pakistan. - Decided to launch a three-pronged endeavour to further deepen the search for any associates of UNDPs (located outside Pakistan) and their assets. - NCOIS charged three focal agencies to spearhead this effort by leveraging the institutional and legal frameworks in the following manner: A. Identification and tracing of associates and <u>non-financial</u> (moveable and immoveable) assets at the federal level, to be led by FIA; B. Identification and tracing into <u>non-financial</u> (moveable and immoveable) assets at the provincial level, to be led by provincial Home Departments; and C. Identification of associates and <u>financial</u> assets, to be led by SBP. - NCOIS directed all relevant agencies to extend their fullest support and cooperation to the lead agencies to carry out the requisite task, in addition to the ongoing TFS implementation efforts. - Ministries of Foreign Affairs and Interior also coordinated with relevant federal and provincial authorities to accomplish the special task assigned to the focal agencies.
Ministerial Review of the work of Focal Agencies	- NFCC steered the Ministerial Review of the progress of the three focal agencies under the aegis of the NCOIS on biweekly basis. The Ministerial review was conducted by an inter-agency process during period Feb-Mar 2021. 6 review meetings were held during this period. - The review provided strategic guidance to and maintained regular oversight on the three focal agencies (FIA, Home Departments and SBP).

The focal agencies were directed to undertake their assigned tasks by optimally utilizing the existing legal and institutional framework and report back to the *National Committee for Implementation of Sanctions (NCOIS)* by 1 April, 2021.

3) **Activities of the Focal Agencies during the Current Reporting Period**

All focal agencies undertook tasks assigned by the NCOIS in a well-coordinated manner. The activities of all departments and agencies responsible for TFS implementation were supported, monitored and overseen by the focal agencies. The coordination mechanism included special meetings, visits to different places, scanning of records and databases and exercising due diligence at each step. The range of activities undertaken at different levels is summarized below:

a. **Investigation of Non-Financial Sector at the Federal Level -Led by FIA**

During the reporting period, the efforts made by authorities at the federal level for TFS actions against UNDPs located outside Pakistan in the non-financial sector are summarized in **Table IO-10 f(3)**.

Table IO-10f(3)

TFS actions taken by federal agencies against Cat-II and Cat-III UNDPs during the current reporting period(January-March 2021)

Sr. No.	Agency	Ongoing TFS efforts	Specific measures taken during the current reporting period and evidence of efforts
1	Federal Investigation Agency (FIA)	(Immigration Wing) - To enforce travel ban on all designated persons. - Integrated Border Management System (IBMS) maintaining travel records at all entry/exit border points across the country. Terrorism Financing Investigative Unit(TFIU) - Coordination and liaison with national and international partners for TF investigations. - Maintains Most Wanted Terrorist (MWT) database. (Cyber Crime Wing) - Combat cyber crimes. - Monitor social media and internet. - Cyber patrolling and surveillance. - Blocking online content in coordination with PTA.	- Held 4 meetings with MOFA, MOI and LEAs during Feb-Mar 2021 to focus efforts in the remaining area. - Held 11 coordination and follow-up sessions with field formations during Feb-Mar 2021 to search for UNDPs in IBMS. - During 7 Feb-21 March 2021 scrutinized immigration record of all border entry/exit points of the country from IBMS of last 18 months. - Searched for associates of UNDPs during Jan-Mar 2021. - Held 6 coordination meetings with LEAs including CTDs, SBP and FMU during 10 Feb-25 March 2021. - Rescanned TF cases for associates and assets. - Closely coordinated with Pakistan Telecommunication Authority (PTA) and held 4 meetings during 4 Feb-17 Mar 2021. - Sent 28 requests to Face book, Twitter, YouTube during Feb-Mar 2021 for seeking information. In 4 cases no replies received, so far. 3 police-to-police requests sent to different countries. - A number of web links propagating ideologies of designated entities and persons blocked.

		2	Directorate General of Immigration and Passports- travel documents database	• Placement of UNDPs on Passport Control List (PCL) / Foreign Control List (FCL)/ IBMS / Blacklist. • Denial/refusal of visas to designated persons.	• Issued directives to over 200 regional passport offices. Closely coordinated and followed up actions through weekly updates. • 3 coordination meetings held with MOI, and officers in charge of regional passport offices during 10 Feb-26 Mar 2021. • Checked travel document and visa records for any unauthorized movements during Feb-Mar 2021 for last two years. • Checked records of Black List and the 1267 sanctions list. •
		3	National Database Registration Authority (NADRA)	• Maintains database of Pakistani citizens and issues identity documents (CNICs/NICOPs). • Blocks identity cards of designated persons. • Helps LEAs in identifying family members of UNDPs through family trees. • Issues Proof of Registration Documents to Afghan Refugees.	• Scanned NADRA database during Jan-Mar 2021 against the lists of 1267 UNDPs located outside Pakistan. • Searched family trees of in NADRA databases during Feb-Mar 2021. • Held 5 coordination meetings with NADRA regional heads, MOI, FIA and MOFA during 10 Feb-25 Mar 2021. •
		4	Ministry of SAFRON (States and Frontier Regions)	• To manage Afghan refugees and support the provision of basic facilities for the welfare of Afghan refugees. • Issue Proof of Registration (PoR) Cards for Afghan Refugees.	• Issued instructions to Regional Commissioners for Afghan Refugees on 10 Feb 2021 to check their records. • Regional commissioners compared UNSCR 1267 sanctions lists against database of Afghan refugees living in Pakistan during the period (11 Feb-26 March 2021). • Held 4 coordination meetings with MOI, MOFA, LEAs and intelligence agencies during 9 Feb-25 Mar 2021.
		5	Federal Board of Revenue (FBR)	• To examine inland revenue and international trade data for identification and prohibition of designated persons and entities. • Financial Investigation, where ever required in respect of taxpayers.	• Issued directions to all field formations on 3 Feb 2021 for identifying any UNDP in the FBR records. • Held 6 coordination meetings and sought reports from the field formations during Jan-Mar 2021. • Sifted data of international trade, especially with regional countries of last one year.
		6	Intelligence Agencies (multiple)	• Collection, collation, examination, analysis, verification, and dissemination of intelligence in focused areas to support TFS implementation. • To support MOFA, MOI, LEAs, Home Departments and DICs with	• A robust inter-agency coordination mechanism remained in effect. • Held 14 coordination meetings during Jan-March 2021 with all relevant departments and shared information. <i>(A briefing to UNMT of 1988 Sanctions Committee planned during April 2021 to share sanctions implementation efforts of Pakistan).</i>

		information on UNDPs, their associates and their assets.	
7	NACTA-TF Database	- To receive, collate and disseminate data, information and intelligence; - Coordinate with all relevant stakeholders to formulate threat assessments with periodical reviews of counter terrorism measures. - To effectively utilize TF database for identification of any associates of DPs. - Close liaison with CTDs/FIA and other LEAs.	10 coordination meetings with all relevant ministries and agencies held during 1 Feb-25 March 2021. - Issued directives to LEAs for guidance on identification and investigation of associates of DPs through TF linkages. 1200 TF cases scanned from TF database during 1 Feb-26 Mar 2021.

To summarize the TFS efforts undertaken by the federal agencies in the remaining area, during the current reporting period, over **7 federal agencies** and their field/sub-offices (spread all over the country) worked in close coordination involving **70 plus meetings**. These efforts focused on identification of associates and assets, whose results are given in the last section of the progress update. The evidence of inquiries undertaken into associates of UNDPs and efforts to identify and freeze assets (moveable and immovable) held by associates on behalf or at the direction of these UNDPs has been contained in **3 reports** from the relevant federal agencies are referred to in **Table IO-10f(3)** as annexes. These feedback reports from different agencies also include evidence of the steps they have taken during the reporting period.

b. Investigation of Non-Financial Sector at the Provincial Level -Led by Home Departments

The efforts made by authorities for TFS actions against UNDPs located outside Pakistan, at the provincial level in the non-financial sector are given in **Table IO-10 f(4)**.

Table IO-10f(4)

TFS Actions Taken at provincial level against Category-II & III UNDPs during the current reporting period (Jan-Mar 2021)

Sr. No.	Agency	Ongoing TFS efforts	Specific measures taken during the current reporting period and evidence of efforts
1	Provincial Chief Secretaries (Chief administrative heads in provinces)	- Responsible for implementing federal and provincial laws, policies, directives across the provincial governments. - To lead TFS implementation efforts and maintain coordination with the federal government.	- Issued directive to all provincial departments to redouble TFS implementation efforts. - Held 3 oversight and review meetings during Feb-Mar 2021. - High-level coordination with MOI, MOFA and other agencies at strategic level. - Regularly monitored and evaluated progress and of all agencies and departments.
	Provincial Intelligence	Liaison with all DICs in a province.	Provinces held 6 PICC meetings during Jan-Mar 2021.

		2	Coordination Committee (PICCs)	- Intelligence coordination mechanism at provincial level. - To shares intelligence assessments with DICs for coordinated actions.	- Increased interaction between provincial and district level authorities. - Received briefings on the TFS implementation efforts against UNDPs their associates and assets during 15 Feb-25 Mar 2021.
		3	Home Departments	- Designated by Chief Secretaries to act as focal Department for all CT/CFT-related matters including TFS implementation. - To act as focal point at provincial level for all UNSCR 1267/1373 implementation obligations.	- Conducted 8 special sessions with all departments/ stakeholders for the assigned task during 2 Feb-26 Mar 2021. - Undertook thorough scrutiny of the whole record of last 18 months during Feb-Mar 2021 for identification of associates and assets. - Organized 11 special meeting of Provincial Working Groups during Feb-Mar 2021 to implement SROs issued by MOFA during Jan-Mar 2021. - Held 11 field visits by designated officers in coordination with MOFA, MOI and other federal agencies for focused efforts.
		4	Board of Revenue(BoR) Revenue Department/	- BoR- controlling authority in all matters connected with the administration of land, land taxation, land revenue, preparation, updating and maintenance of records - BoR-Highest Revenue Court and custodian of the rights in land of all the right-holders. - Revenue Authorities checked against provincial tax records	9 special meetings of all sub-departments and district revenue officers were held during Feb-Mar 2021 to scan the revenue records of last 1 year. - Supervised work of all sub-divisions and checked their revenue records against lists of UNDPs/UNDEs. - Received 10 weekly updates through physical and online meetings.
		5	Provincial Revenue Authority (PRA)	Undertakes collection and enforcement of sales tax on different services in provinces.	- PRA searched against provincial tax database on services. 4 meeting of all sub-units conducted. - Information from all revenue collection agencies analyzed and reported to Home Department in Mar 2021.
		6	Local Government(and Community Development) Department	- Provide, manage, operate, maintain and improve the municipal infrastructure and services. - Manage properties and assets vested in local governments. - Levy local taxes/fees to generate income	- Issued directives on 11 Feb 2021 to all Development Authorities. - Searched records of Development Authorities of last one year in different cities during Feb-Mar 2021. - Special instructions issued by Local Government to field formations for continuation of efforts with focus on the remaining issue.
		7	Excise and Taxation(E&T) Department	To search in the databases of motor vehicle registration records in provinces	- Held 11 online coordination meetings to all district level offices. - Re-scanned the official records of motor vehicle registration, property taxes, and professional taxes of last 18 months during Feb-Mar 2021.

			To search and analyze information in the property tax records	
8	Waqf, Trust and Cooperatives Department	- Cooperative Department regulates formation of cooperative societies. - Auqaf Department regulates mosques, shrines, religious Trusts and other religious institutions	- Waqf Department used online web portal for tracing of any assets of UNDPs during Feb-Mar 2021. 4 coordination meetings held with district and sub-district offices during first quarter of 2021.	
9	CTD, Police Departments, Special Branch, CIA	- CTD coordinates with all LEAs/Intelligence agencies. - Provide input/feedback on UNDPs to DICs, PICs, MOI, MOFA, NACTA and other federal LEAs including Fls. - Monitoring and law enforcement against UNDPs and their associates. - Investigation of TF/TFS cases.	- CTD's provincial headquarters issued directions to all regional CTD heads on 5 Feb 2021 to again search for any associates of UNDPs and their assets and compare official records with on-ground checks. 14 special coordination and follow up meetings with all LEAs conducted during 3 Feb-26 Mar 2021. - Re-scanned CTDs databases and official records during Feb-Mar 2021. - Searched in criminal databases of LEAs and cross-referenced it with ground intelligence and public information.	
10	DICs	- Regular meetings held at district level. - Collects, examines, analyzes and reports presence, activities, association on designated persons, their associates and assets. - Recommends to Home Departments cases for listing, delisting and review of DPs. - Deputy Commissioners being heads of DICs freeze assets of designated persons.	- All DICs held regular and special meetings during Jan-Mar 2021. - Held weekly coordination meetings with provincial Home Departments during 15 Feb- 30 March 2021. - Identified and froze assets of designated persons and their associates.	
11	PITB	- Digitizes and hosts data of all departments in Punjab Government. - Maintains the foundational IT infrastructure and system of Punjab Government	- A special exercise was conducted by PITB for rechecking of databases during March 2021. - Digitized departmental records of assets were searched in Punjab. - Bi-weekly coordination meetings held with departments in Punjab during Feb-Mar 2021.	
12	Charity Commission and NPOs	Survey of 30,000 NPOs across province conducted, out of	Fresh exercise was conducted for identification of any new linkage of any NPO with UNDPs located outside Pakistan.	

		which only 8000 were identified as functional NPOs. • These functional NPOs are being online registered with Punjab Charity Commission's web portal after security clearance from intelligence agencies/ concerned departments.	
13	Health Department- (for taken over assets)	• Taken-over assets of EOCs by Government during 2019-20 being managed by management structures put in place. • Regular and ongoing vigilance and monitoring of taken-over health and education facilities.	• Issued directives to Health Board on 10 Feb 2021 to undertake a fresh exercise of scrutiny of taken over assets. • 6 special meeting of the Health Management Board were held during 7 Feb-26 Mar 2021. • Provincial Health Department carried out performance surveys of the Management Board. No involvement, interference or association of any UNDPs was reported.
14	Education Department (for taken over assets)	• Taken-over assets of EOCs by Government during 2019-20 being managed by management structures put in place, under law. • Regular and ongoing vigilance and monitoring to ensure that no previously identified or new person is linked with these assets and facilities.	• A special meeting of the School Management Board were held on 5 Feb 2021 and issued directives to all administrators of taken over facilities. • LEAs and intelligence agencies conducted regular and random checks during Jan-Feb 2021 to ensure that the already-cleared personnel have not associations with UNDPs. • Special focus was laid during the exercise that no irregularity, violation of laws or abnormal activity is taking place in all the government-managed taken-over institutions.
15	Private Schools Regulatory Authority	• Registers, regulate and govern private schools in KP province.	• Issued instructions on 10 Feb 2021 to all field officers to visit private schools and checked records of last two years. • Coordinated with LEAs. Held 4 coordination meetings during Feb-Mar 2021.

To summarize the TFS efforts undertaken by the provincial agencies in the remaining area, during the current reporting period, over **15 provincial departments** and their field/sub-offices (spread all over the country) worked in close coordination involving **over 100 meetings (both physical and virtual)**. These efforts focused on identification of associates and assets, whose results are given in the last section of the progress update. The evidence of inquiries undertaken into associates of UNDPs and efforts to identify and freeze assets (moveable and immovable) held by associates on behalf or at the direction of these UNDPs has been provided in the form of **8 reports** from the relevant federal agencies as detailed in **Table IO-10f(4)**. These feedback reports from different agencies also include evidence of the steps they have taken during the reporting period.

c. Investigation into Financial Sector -Led by SBP

The efforts made by authorities in the financial sector for TFS actions against UNDPs located outside of Pakistan and their associates are summarized in **Table IO-10 f(5)**.

Table IO-10f(5)
TFS Actions Taken in Financial Sector against Category-II and Category-III UNDPs during the current reporting period(Jan-Mar 2021)

Sr. No.	Agency	Ongoing TFS efforts	Specific measures taken during the current reporting period and evidence of efforts
1	SBP/ SECP/ CDNS - All regulated entities to re-scan their databases for search of UNDPs	- Financial institutions (FIs) screen their databases each time any change is made to the UNSC consolidated list. - FIs screen all new customers from the consolidated list before on-boarding. - FIs screen their databases, identify and freeze accounts/ funds, and report to supervisors and FMU. Banks/ MFBs have frozen accounts pertaining to UNDPs.	- SBP issued instructions to all Regulated Entities in Feb 2021. - SBP called a meeting of CFT Heads of its regulated FIs during this reporting period. FIs were directed to conduct fresh screening of their databases to identify any assets of UNDPs and their associates. - All FIs again conducted a comprehensive screening exercise during Feb-Mar 2021, searching their databases to identify any assets of UNDPs. 6 coordination meetings held with federal agencies during Feb-March 2021.
2	SBP/ SECP/ CDNS- Linkages of frozen accounts for search of associates	- FIs freeze financial assets of UNDPs and their associates. - SBP & SECP issued red flags/ indicators to FIs to help identify potential associates. - Banks/ MFBs have frozen accounts associated with UNDPs.	- SECP conducted several meetings with its regulated FIs during March, 2021, to undertake the search and identification of associates and assets of UNDPs located outside Pakistan. - SECP regulated FIs undertook the fresh exercise to identify any customers/ relationships during Feb-Mar 2021. - CDNS also undertook an exercise during March 2021 to identify any customer who may be potential associates of UNDPs.

To summarize the TFS efforts undertaken by the Financial Sector in the remaining area, during the current reporting period, **3** departments (supervisors/regulators) and thousands of their Regulated Entities (REs) in the financial sector (spread all over the country) worked in close coordination. These efforts focused on identification of associates and assets, whose results are given in the last section of the progress update. The evidence of inquiries undertaken into associates of UNDPs and efforts to identify and freeze assets (moveable and immovable) held by associates on behalf or at the direction of these UNDPs has been provided in the form of **2 reports** from the relevant federal agencies as detailed in **Table IO-10f(5)**. These feedback reports from different agencies also include evidence of the steps they have taken during the reporting period.

Section II: Outcome of TFS Actions against UNDPs outside Pakistan (Category-II and Category-III) during current reporting period

In the last progress update, Pakistan had reported TFS actions against UNDPs located outside Pakistan and their associates and assets identified

by authorities. During the current reporting period, Pakistan continued its TFS implementation efforts against all designated persons and entities and persons acting on their behalf or at their direction, with greater focus on Cat-II and Cat-III UNDPs. The outcome of the aforementioned efforts is as follows:

i) **Linkages of identified associates with UNDPs**

The UNDPs and their associated networks followed different patterns in Pakistan, corresponding to the operating models of their EOCs. These UNDPs leveraged their positions and relationships within the hierarchy of EOCs to build networks of associates, which supported the UNDPs, either operationally or through provision of funds.

a) **The Case of UNDP (MMA)**

- The UNDP is leader of JEM (UNDE/EOC). Probes for search of his associates and their assets have revealed **two** distinct patterns of their mutual association:
 - **Firstly**, TF investigation into a property (a Madrassah) of JEM led to identification of 7 associates of the EOC who were found to be involved in construction and management of the property for raising funds for terrorism financing. These **five** have been found to be closely associated with the UNDP since they were found to be working at the direction of the UNDP. These five associates used the subject property for raising funds to support the EOC as well as for personal sustenance. During the reporting period, authorities have initiated TFS actions (in addition to TF actions) against these associates of the UNDP.
 - **Secondly**, the UNDP generated funds through selling of books. A case study detailing TF and TFS actions taken by authorities in one such case were shared with the JG in the last progress update.
- TFS actions against the UNDP and his associates have prevented them from generating, storing and moving funds through both modes. The TFS implementation efforts made in this regard are detailed in preceding paragraphs and the outcome of the efforts during the current reporting period is given in **Table IO-10f(6)**.
- So far, total **8** associates of the UNDP (1 in last reporting period and 5 during the current reporting period) have been identified through above processes, followed by TFS actions taken against them.

b) **The Case of UNDP (NWM)**

- The UNDP is leader of TTP (UNDE/EOC). Probes for search of his associates and their assets have revealed three distinct patterns of their associations:
 - **Firstly**, TTP, headed by NWM, relied heavily on coercive activities for generating funds for terrorism purposes. NWM, being leader of TTP mostly depended upon individuals who were closely associated with him in terrorist activities. These

funds were also used for their personal sustenance. The authorities identified UNDP's associates who were involved in planning, funding and operational aspects of actual terrorist incidents. CT/CFT investigations have led authorities to trace the associates of the UNDP. Identification of the associates was followed by TFS actions against them. **Three** associates of UNDP have been identified under this pattern, during the current reporting period.

- **Secondly**, associates have been identified within the hierarchy of TTP from the perspective of operational planning. Four close associates of the UNDP were identified on account of having close relationship with the UNDP and were reported to the JG during the last progress update. **One** associates of the UNDP has been identified under this pattern during the current reporting period; and
- **Thirdly**, new associations based upon mergers of various terrorist groups were also identified and investigated (for example JuA (another UNDE) has re-joined TTP in August 2020 (in Afghanistan) and is now acting on behalf of NWM and at his direction). During the current reporting period, **two** members of JuA have been identified under this pattern during the current reporting period and TFS actions have been initiated against them.

- So far, a total of **12** associates of the UNDP (6 in last reporting period and 6 during current reporting period) have been identified through above three processes followed by TFS actions taken against them. Details are given in **Table IO-10f(6)**.

IN TOTAL, 20 associates of 2 UNDPs in Cat-II (namely MMA and NWM) have been identified so far. Cumulatively, **9 assets** (of the UNDPs and their associates combined) have been frozen by authorities, so far. A summary of the outcome of TFS efforts reported in the last update and the progress made during the current reporting period is given in **Table IO-10f(6)**.

Table IO-10f(6)
Outcome of TFS actions taken by Pakistan against UNDPs in Cat-II (located outside Pakistan) and their associates during last and current reporting periods

Sr. No.	Name	Actions Reported in the last progress update	Outcome of TFS actions during current reporting period (Jan-Mar 2021)
1	Maulana Masood Azhar (MMA) (QDi 422)	• No asset of UNDP found in Pakistan. • 1 associate of the UNDP identified and placed on the Fourth Schedule. • No asset identified.	• No personal assets of UNDP identified. • 7 new associates identified through TF investigations • TFS actions initiated against these associates. • Inter-provincial coordination continuing for search of any assets.
2	Noor Wali Mehsud (NWM) (QDi 427)	• No assets of the UNDP identified. • 6 associates and 5 assets were identified. TFS actions taken.	• The unoccupied land of the demolished family house of the UNDP frozen by DIC South Waziristan Tribal District, KP Government on 8 Feb 2021. • 6 new associates of UNDP (NWM) identified with following details: • <u>3 associates</u> of UNDP identified in South Waziristan District, KP Province and placed on the Fourth Schedule. <u>3</u> moveable assets of these associates identified and frozen.

			• 1 <u>associate</u> of UNDP (namely MSU), identified in North Waziristan District, KP Province and placed on the Fourth Schedule. No asset identified so far. • 2 <u>member of JuA(UNDE)</u> working as associates of NWM identified in Lakki Marwat District and placed on the Fourth Schedule by KP Government. No asset identified so far.
3	Abdul Hakeem Murad (HM) (QDi 120)	• No asset or associates identified.	• A police-to-police request from FIA to U.S. authorities (FBI) was sent on 16 March 2021 to seek information on the UNDP.
Total for last and current reporting periods		7 associates 5 assets of associates frozen.	13 associates 1 asset of one UNDP and 3 assets of associates frozen.

Conclusion

Pakistan has continued to take TFS actions against all UNDPs under a well-established mechanism. During the current reporting period, despite continuing COVID-19 related challenges, a concerted effort was made to identify and target associates and assets of UNDPs, who are located outside Pakistan. The associates of UNDPs have been identified, during the current reporting period, through an all-encompassing TFS implementation framework, as explained in the current progress update as well as in earlier reports.

During the last two years through sustained CT/CFT efforts, the organized support networks of EOCs have been dismantled and, therefore, the risk has significantly diminished. The linkages of the UNDPs (who are located out of Pakistan) identified with a few associates in Pakistan indicate their mutual collaboration in the past. It is reemphasized that no organized support structures of UNDPs/EoCs appear to exist in the country anymore.

As a result of Pakistan's continued and sustained efforts to implement TFS under both UNSCR 1267 and 1373 throughout the Action Plan period, **there remains no pending issue** under this Action Item, though efforts remain ongoing and unabated.

Joint Group's (JG's) Comments:

This action item is largely addressed.

The JG requested evidence that Pakistan's TFS implementation efforts are targeted at UNDPs who are reported to be located outside of Pakistan including evidence of actions taken with respect to assets and associates including where assets (moveable and immoveable) are held by a person acting on behalf or at the direction of designated persons or entities.

Pakistan has provided a comprehensive outline of the ongoing TFS efforts undertaken by federal and provincial authorities and specific efforts undertaken by these authorities in response to the JG request. These efforts were initiated by the National Committee for Overseeing Implementation of Sanctions (NCOIS) and led by the FIA (for identification and tracing of associates and non-financial assets at the federal level), provincial Home Departments (for identification and tracing into non-financial assets at the provincial level), and SBP (for the identification of associates and financial assets). Pakistan has provided reports from these authorities detailing the inquiries undertaken.

These efforts have resulted in the identification of 13 new associates of category II UNDPs. Action has been taken to freeze 3 assets belonging to associates, along with formal action to freeze unoccupied land at the location of a UNDP's former home.

g. Demonstrate enforcement against violations with TFS obligations under 1267 and 1373, including both asset freezing actions and prohibitions on providing funds or financial services or other related services and provide case examples to support the cooperation. This includes demonstrating the implementation of: i. administrative penalties under the UN Act SROs, criminal penalties under the ATA and other available enforcement actions. ii. provincial and federal authorities identifying and cooperating on enforcement cases.	May 2019		Action item largely addressed

Joint Group's (JG's) Comments:

This Action item is largely addressed

The JG previously expressed concerns around the dissuasiveness of enforcement actions against violations of TFS obligations under 1267 and 1373 by natural and legal persons. In particular, under this action item the JG is primarily concerned with enforcement action taken for breaches of freezing obligations or the prohibitions on providing funds, assets, services or resources by natural and legal persons (other than financial institutions, which have been assessed under separate action items).

At the September 2020 f-2-f meeting Pakistan were asked to provide evidence of a spectrum of proportionate and dissuasive penalties and enforcement actions against natural/legal persons that are not financial institutions. As outlined in IO10a, there are now criminal penalties and enhanced fines for UNSCR TFS breaches or for failing to freeze under ATA, and an administrative penalty for negligent civil servants. Pakistan have now provided evidence of enforcement actions against TFS violations, which demonstrate investigations and charges under the ATA S.11-000 (the new standalone provision for TFS offenses). Pakistan have provided a case study indicating that this provision has to date resulted in 1 conviction, which carried a sentence of 10 years and a fine of Rs 10 million. Pakistan have indicated that there are 2 additional cases under trial and 1 under investigation.

Pakistan have also provided information on 10 cases of violations of TFS under ATA S.11J(2) (the provision under ATA which prohibits willfully making money or property available to proscribed persons or organisations). Pakistan have indicated that these cases pre-date the introduction of S.11-000, which is the provision that will be used in future. To date 8 of these 10 cases have resulted in convictions (against 13 natural and 8 legal persons). In those cases, the suspects were convicted via 11N (the provision which provides the penalties for 11J) and received sentences of 5 years and fines of Rs. 50,000.

Case studies were also provided highlighting administrative action taken against government officials for negligence in promptly updating the domestic proscription list.

Overall, the JG recognises the progress made by Pakistan under this action item. The case studies provided indicate that there is an increase of enforcement actions being taken under sections 11J(2)/11N, 11-O-2, 11-O-3 and 11-000 against violations of TFS obligations, by natural and legal persons.

h. Demonstrate that facilities and services owned or controlled, directly or indirectly, by designated persons and entities (and those acting on their behalf or at their direction) are deprived of their resources and the usage thereof (i.e. shut down or effectively taken over by the government or by reputable civil society organisation). This should include: i. ensuring that individuals affiliated with designated persons and entities are no longer in control, directly or indirectly, of the facilities and services or their activities; ii. continuing public awareness campaigns of freezing actions taken for facilities and services owned or controlled by designated persons and entities (and those acting on their behalf).	May 2019	<u>(see previous versions of the progress report for more information)</u>	Action item largely addressed

Joint Group's (JG's) Comments:

This action item has been largely addressed.

In January 2020, the JG continued to assess this item as partially addressed, recognising the steps that Pakistan had taken to address a strategic TF risk in the form of facilities and services owned/controlled by DPs, whilst noting that significant progress was still required before this action item could be largely addressed.

This update, Pakistan has demonstrated that it has continued to comprehensively search for moveable/immoveable assets that are owned/controlled directly or indirectly by designated persons and EoCs, and reports that it has seized a further 6 assets of EoCs (three ambulances and three plots of land) this reporting period, taking the total of such assets seized to 964 since the start of the Action Plan. Pakistan has explained that the number of properties seized this reporting period is not as high as in previous reporting periods, due to the initial seizures earlier in the Action Plan period being so great, which the JG has noted. Following a review of over 620 individuals placed on its negative list as a result of seizures, Pakistan confirms that 81 individuals have been domestically proscribed under ATA's

Fourth Schedule, including a further 9 persons this reporting period, 2 of which were in relation to the new properties seized. The remaining individuals were not found to be associated with designated/proscribed entities. As a result, the negative list reported on at the last update has now been closed but Pakistan continues to actively search for assets belonging to EoCs or those acting on behalf of/at the direction of designated entities and persons. Pakistan further confirmed at the f-2-f that those individuals on the negative list not domestically proscribed are prohibited from associating with the taken over properties as a preventive measure to mitigate the risk of TF. Pakistan has shown that it continues to undertake parallel TF investigations, in particular for properties seized associated with the EoCs JuD, FiF, and JeM, noting a further 21 TF cases in respect of 159 properties taken over have been registered since January 2020 (1 against JeM; 2 against LeT; 18 against JuD/FiF), taking the total number of TF cases registered since the start of the Action Plan to 123 (in respect of 516 properties taken over).

Previously, Pakistan advised that all provincial governments (through health and education departments) had taken over a number of facilities, assumed responsibility for the provision of relevant services and appointed public officials to take over their day-to-day management. Pakistan has now evidenced that budget allocations have been set for the financial year 2020-21 (with Finance Bills passed), to enable all provinces to manage the seized facilities effectively. Further information provided by Pakistan this update outlines continued action to ensure robust management structures and monitoring systems, including LEA surveillance and guidance issued by Home Departments to DICs in January 2020 in respect of their ongoing responsibility to monitor taken over facilities. Pakistan previously provided long-term management plans to the JG and reports further measures taken this reporting period, including efforts to ensure continuous supervision of facilities by an Administrator and strengthen personnel-related policies of educational institutions seized. The JG acknowledges the confirmation of funding and additional measures taken to manage the facilities and encourages Pakistan to establish longer-term funding plans to ensure that the effective management and continued monitoring of these properties - and those properties taken over in future as a result of continued action by the Pakistani authorities in this area - is maintained.

Overall, the JG welcomes Pakistan's sustained efforts to seize properties and ensure that associates/affiliates of designated entities are not involved in the management of properties taken over, including the completed review of the negative list and continued action to domestically proscribe individuals, and considers this action item to be largely addressed.

i. Demonstrate that authorities are applying focused and proportionate measures to such NPOs which Pakistan has identified as being vulnerable to terrorist financing abuse, in line with the risk-based approach.	May 2019	<u>Joint Group's (JG's) Comments (October 2020 Plenary):</u>	Action item largely addressed.

Joint Group's (JG's) Comments:

This Action item is largely addressed.

Pakistan has largely addressed this action item. Pakistan previously undertook a large scale "mapping exercise" to map more than 64,000 NPOs that were registered under various provincial and federal bodies. As part of a longer-term strategy, Pakistan asked NPOs to re-register under a stricter regime which has resulted in de-registration of over 24,000 NPOs. A central registry of all NPOs was created and is being maintained by FBR, to collect information on an annual basis and ensure those not filing annual returns are deregistered. It also allows for both screening and monitoring processes. The JG has previously acknowledged this extensive and positive step taken towards Pakistan's approach to address strategic deficiencies regarding NPOs given their TF risk.

At the September 2020 f-2-f meeting Pakistan was asked to provide evidence to demonstrate efforts to identify and take action against unregistered NPOs (and efforts to monitor deregistered NPOs). Pakistan have provided case studies detailing actions taken in the latest reporting period resulting in the identification of 7 unregistered NPOs and 10 deregistered NPOs found to be operating. FIRs have been registered, offices sealed, and investigations are under way. This brings the total number of actions taken against unregistered and deregistered NPOs to 32 over the past 2 reporting periods.

Pakistan was also requested to continue to report on progress related to the implementation of the Model law including by providing updates on the on-going risk-based supervision of NPOs and follow-up. A geographical risk assessment was completed to aid with creating a risk profile, and a program was adopted for thematic inspection of all High Risk NPOs. Pakistan has now inspected all high-risk

NPOs, which has resulted in 374 enforcement actions being taken: including deregistration, suspensions, warnings, and serving show cause notices (the first step in taking enforcement action where deficiencies are noted). Pakistan continues to follow up on the actions initiated from this review to ensure that issues identified are fully rectified. Pakistan has provided statistics on inspections of 2745 medium and low risk NPOs to date and outlined plans for future inspections.

The model charities law developed by NACTA to standardize the regulatory approach to NPOs across Pakistan has now been enacted in all provinces. This requires charities to register with the portal, the development of standardized screening processes, and the development of a sanctions regime for non-compliance. Commissioners and CEOs have been appointed, budgets have been allocated, and training has taken place (with 746 officers and staff trained). The Charity Commissions have also begun work to monitor and regulate the activities of NPOs in the provinces and have had regular meetings.

Summary of Joint Group's (JG's) Comments:

As noted in the previous report, the deadlines on this action plan expired in September 2019. Pakistan has continued to make progress on a number of action items since the last JG meeting. This is acknowledged through two upgrades from “partially addressed” to “largely addressed” (one for IO.9 and one for IO.10). Out of the 27 action items contained in the action plan, 26 are now largely addressed with one remaining item under IO.9 partially addressed.

In terms of Pakistan's Supervisory Activity (IO.3), all action items have now been assessed as “largely addressed” reflecting that supervisors are now applying sanctions that are proportionate and dissuasive to the violations, particularly relating to TF risk management and TFS obligations. Pakistan has also demonstrated continued, systematic efforts to identify and sanction illegal MVTS, with 469 cases registered since the beginning of the action plan (including 98 cases this reporting period) and a range of criminal and administrative sanctions imposed. Amendments have also been made to the FERA to increase the sanctions available for illegal MVTS cases.

In the action items relating to confiscations (IO.8), all are now “largely addressed”. Pakistan has demonstrated progress on the effective implementation of cross-border currency and BNI controls at all ports of entry and on the application of effective, proportionate and dissuasive sanctions as per the new regime, where there are instances of false declaration or failure to declare. Pakistan also promulgated legislation to make permanent the new tiered penalty regime for false declarations or failures to declare.

In the area of TF investigations and prosecutions (IO.9), the JG notes further positive progress since February 2021. In relation to TF prosecutions resulting in effective, proportionate and dissuasive sanctions against natural and legal persons, Pakistan has continued the positive trend in obtaining TF convictions, with 39 new TF convictions in this reporting cycle. Of that number, 21 relate to UNDPs and 17 relate to individuals associated with UNDPs and entities of concern. Pakistan has issued a sentencing guideline that provides a framework for considering aggravating and mitigating circumstances during sentencing. Pakistan demonstrated that most TF convictions in this report period resulted in sentences greater than 5 years (most fall within the range of 7-10 years) which is demonstrative that TF sentences are proportionate and dissuasive. Pakistan has also reported on efforts to identify and trace associates of UNDPs and as a result of these initiatives, Pakistan has initiated an additional 8 investigations of associates tied to JuD/FiF (3) and JeM (5). An additional five are related to TTP. However, the JG notes that none of the new cases in the reporting period related to the LET or TTA (Taliban). While there is progress in the number of investigations, the JG requests Pakistan provide further information on the activities of the associates that is being targeted to further demonstrate the effectiveness of these efforts. Pakistan should take further action against known senior leaders and associates of UNDPs. In particular, Pakistan should demonstrate that it is taking all reasonable efforts to investigate and prosecute Masood Azhar, Saiid Miir, and Abdul Rauf Azhar.

On actions relating to targeted financial sanctions (IO.10), Pakistan has enacted the legislative changes which ensure that criminal sanctions are available for all breaches of TFS obligations and are proportionate to the sanctions available for comparable offences in Pakistan and dissuasive. Pakistan have also demonstrated that FIs take action quickly in response to changes in the list of designated or proscribed persons, and that FIs are acting to implement TFS against persons acting on behalf of, or at the direction of, designated or proscribed persons. Pakistan has also demonstrated evidence of implementing TFS related to UNDPs reported to be located outside of Pakistan but where assets are located in Pakistan and held by a person acting on behalf of or at the direction of designated persons or entities.

Pakistan provided a number of examples of enforcement action taken against violations with TFS obligations by non-financial institutions, and evidence and case studies demonstrating the use of new TFS provisions in the ATA. In the course of the reporting period, Pakistan has demonstrated continued action to seize properties owned and controlled by designated persons/entities. The takeover of previously seized facilities and services including via the establishment of management structures and the appointment of civil servants as administrators has been formalised and budgets approved for the 2020/21 financial year to ensure the running of seized facilities. Pakistan has confirmed that the review of the negative list in relation to taken over properties has been completed, resulting in the domestic proscription of a number of individuals, and continued monitoring is undertaken to ensure that associates/affiliates of designated entities are not involved in their management. Finally, Pakistan has taken further steps towards applying focused and proportionate measures in relation to NPOs, such as inspecting 98% of all high risk NPOs, and taking 369 enforcement actions in relation to the violations identified. The model charity law is now enacted in all provinces, with Commissioners appointed, budgets allocated, and extensive training completed.

3. POST-OBSERVATION PERIOD REPORTS

3.1. PAKISTAN

FATF/FSRB Membership: APG																				
Date of Mutual Evaluation On-Site Visit: 8-19 October 2018																				
Date of Adoption of Most Recent Mutual Evaluation Report: October 2019																				
Reason for ICRG Referral: Effectiveness criteria (low or moderate on 9 or more of the 11 IOs, with a minimum of two low ratings) and TC criteria (20 or more NC/PC ratings for technical compliance)																				
Observation Period Ended: February 2021																				
Post-Observation Period Findings Due to ICRG: June 2021																				
Date of ICRG Endorsement of Action Plan: TBD																				
ICRG Referral Criteria (re-ratings in parentheses)																				
“Big 6” Recommendations									3		5		6		10		11		20	
MER Ratings									LC		LC		PC		PC		LC		PC	
Post-Observation Period Ratings													LC		See POPR Annex A				C	
Immediate Outcomes Rated Moderate or Low																				
Immediate Outcomes									1	2	3	4	5	6	7	8	9	10	11	
MER Rating									LE	ME	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE
Progress towards increasing effectiveness in accordance with procedures ⁶									Y	N	N	Y	N	Y	N	N	Y	N	N	
Other Recommendations Rated PC or NC (re-ratings in parentheses)																				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
PC	LC	LC	LC	LC	PC	PC	PC	C	PC	LC	PC	LC	PC	PC	LC	PC	PC	PC	PC	
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
PC	NC	PC	PC	NC	PC	PC	NC	PC (C)	PC	PC	PC	PC	PC	PC	LC	PC	NC	LC	PC	

⁶ Y = Yes, N = No, * = For ICRG Discussion.

For Pakistan's Post-Observation Period Report, there was agreement by the FATF Plenary in February 2021 to exclude items (recommended actions and parts of recommended actions) that were already covered in Pakistan's existing action plan. See: FATF/PLEN(2021)13.

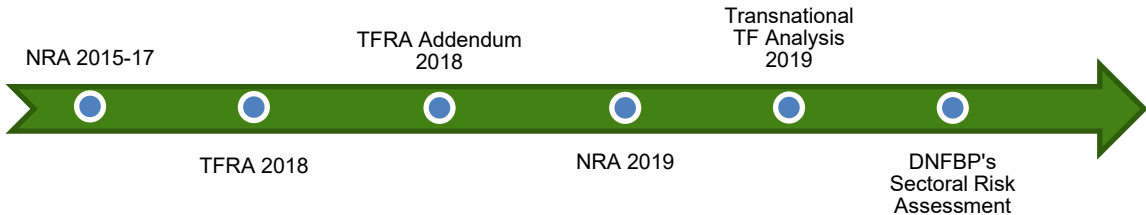
IO Rated Low or Moderate	Comments for ICRG Consideration	Remaining Actions to Be Taken
Immediate Outcome 1	Recommended Actions from MER:	
Low	1. Pakistan should adequately identify, assess and fully understand its ML risk, including through sector risk assessments, outlining specific consequences and vulnerabilities for the various financial, non-financial and DNFBP sectors (in consultation with those sectors). Pakistan has taken significant measures to improve its overall understanding of risk across many levels, from a national holistic level down to sectoral and operational levels. The significant work undertaken on a national level since the MER has driven and fed into the sectoral level assessment and understanding of risk at supervisor level leading to improved understanding of risk by the regulated entities. At the sectoral level, both FI and DNFBP supervisors have continuously worked to understand and assess the ML (and TF) risks in their respective sectors, using an entity risk matrix (refer to IO.3 for further details on this), further details of which are found below. 1.1.1 Identification, Assessment and Understanding of ML Risk including Sectoral Risk: Since Oct. 2018 Pakistan has taken various formal steps to improve its understanding of ML (and TF) Risk, including the risk associated with different sectors with a focus on the vulnerabilities for the financial as well as non-financial sectors, the chronological representation of the same is provided below:  • Consultation with Relevant Stakeholders including Sectors The most comprehensive risk assessment since the MER was the exercise of NRA-2019, which was led by FMU. As mentioned in para 20 page 12 of the NRA Report, an NRA working group consisted of all the relevant stakeholders including ministries, FMU, Supervisors (at that time i.e. SBP, SECP), LEAs (FIA, provincial CTDs, NAB, ANF, FBR-Customs, FBR-IR) along with the representation from private sectors of FIs (Pakistan Post, CDNS, Banks, Exchange Companies, Micro Finance Banks, Developmental Financial Institutions, Modaraba's, Asset Management Cos., Insurance, Securities, NBFIs etc.) and DNFBPs (Real Estate Agents, Jewelers, Lawyers, Accountants). Focused group meetings of the working group of NRA evaluated the available data and utilized their broad expertise to reach considered conclusions. To obtain the view of stakeholders on the incidence of the commission on ML predicate offences a questionnaire was used whereas for obtaining their views on ML threats and vulnerabilities, a Risk Assessment workshop for more than 200 participants (including representative from all the FIs i.e. Banks, Exchange Companies, Micro Finance Banks, Securities, Asset Management Companies, Insurance and DNFBPs i.e. Real Estate Agents, Jeweler, Accountants, Lawyers) was organized. The NRA 2019 focused on the assessment and understanding of inherent ML (and TF) threats and vulnerabilities of different sectors including financial and non-financial sectors. The ML/TF threat assessment leveraged ML/TF typologies, updated data on crimes, including suspicious transaction reports (STRs), FMU disclosures by possible crimes, regions and sectors investigations and confiscations by LEAs, representative case studies, open sources, and expert opinions of both the public and private sectors (further detailed below), including research papers by academics and other experts. Chapter 02 (Page 11-13) of the attached NRA talks about the methodology adopted by Pakistan to identify and assess the inherent ML risk of Pakistan whereas chapter 04 (Page 19-30), chapter 06 and 07 (Page 65-88) talks about the ML threats and vulnerabilities. A summary of the ML Threat is provided in table 1.1.1:	This recommended action is largely addressed.

Table 1.1.1: Summary of 2019 NRA - ML Threat Ratings

Type of Crime in Pakistan	Threat Rating	Domestic or Foreign ML
Smuggling; (Including in Relation to Customs and Excise Duties and Taxes);	H	Both
Tax Crimes (Related to Direct Taxes and Indirect Taxes);	H	Both
Illegal MVTs/Hawala/Hundi	H	Both
Cash Smuggling	H	Both
Terrorism, Including Terrorist Financing;	H	Both
Illicit Trafficking in Narcotic Drugs and Psychotropic Substances;	H	Foreign
Corruption and Bribery;	H	Foreign
Participation in an Organized Criminal Group and Racketeering	MH	Both
Trafficking in Human Beings and Migrant Smuggling;	MH	Both
Illicit Arms Trafficking;	MH	Domestic
Fraud and forgery;	MH	Domestic
Kidnapping, Illegal Restraint and Hostage-Taking;	MH	Foreign
Robbery or Theft;	MH	Domestic
Extortion;	MH	Domestic
Insider Trading and Market Manipulation	MH	Both
Cyber Crime	MH	Both
Sexual Exploitation, Including Sexual Exploitation of Children;	M	Both
Illicit Trafficking in Stolen and Other Goods	M	Both
Counterfeiting Currency;	M	Domestic
Counterfeiting and Piracy of Products;	M	Both
Murder, Grievous Bodily Injury;	M	Domestic
Environmental Crime;	ML	Both
Piracy;	ML	Both

The assessment of ML threats included a review of all crimes based on the seriousness and magnitude of the crimes both domestically and internationally, the amount of potential proceeds generated, and the capacity of the criminal actors to launder proceeds (including third party launderers) and the sectors used to launder proceeds, according to information and data including intelligence. The threats and sectoral inherent vulnerabilities were identified, analyzed and categorized into a 4-level rating scale of High, Medium High, Medium, and Low. A threat analysis concerning all crimes was conducted, including the 21 designated predicate offences under the FATF Standards, which was complemented by a threat analysis of illegal MVTs/ Hawala/Hundi, cybercrime and cash smuggling. In addition to this, the NRA-2019 also included the risk assessment of Legal Persons / Legal Arrangements and NPOs. In total 23 ML/TF threats were rated of which

7 were rated high -Illicit Trafficking in Narcotic Drugs, Corruption and Bribery, Smuggling, Cash Smuggling, Tax Crimes, Illegal MVTs, Terrorism/TF.

1.1.2 Sectoral Vulnerabilities Assessment

The authorities of Pakistan continued to update its understanding of ML (and TF) risks by way of conducting sectoral risk assessments and the strategic analysis being undertaken by FMU that included typologies on high-risk ML (and TF) Threats i.e. Drug Trafficking, smuggling, cash couriers, misuse of NPOs and others (for details refer to RA.11 of IO.6).

The assessment of inherent vulnerability in the NRA 2019 included the identification of vulnerabilities of both Pakistan as a whole (e.g., economy, geography, demographics, social and religious) and its key economic sectors and financial and non-financial products. The porous border, hostile neighborhood, high number of afghan migrants, the long coastal line, the level of poverty etc. has exposed the country to the significant risk of money laundering and terrorist financing. The inherent ML/TF vulnerabilities were identified for 17 economic and financial sectors taking into consideration their customers, products, channels and geographical locations. The assessment identified 8 sectors as highly vulnerable i.e., Banking, MFBs, Exchange Companies (EC), EC B category, Real Estate Dealers, Hawala/Hundi, CDNS and Pakistan Post.

Table 1.1.2: Summary of Sectoral Vulnerabilities as per NRA 2019

Sector Breakdown	Inherent ML/TF Vulnerability of Sector
Banking	High
MFBs	High
Exchange Companies	High
Exchange Companies-B	High
Real Estate Dealers	High
Hawala/Hundi/Other Illegal MVTs	High
CDNS	High
Pakistan Post	High
Lawyers and Notaries	Medium High
Securities	Medium High
Asset Management Companies & Collective Investment Schemes	Medium High
Dealers in precious metals and stones	Medium High
Non-Banking Financial Companies & Modarbas	Medium High
Auditors and accountants	Medium
Life Insurance	Medium
Non-Life Insurance	Low
Developmental Financial Institutions	Low

Whilst the NRA-2019 included the identification and assessment of vulnerabilities associated with the previously unregulated sectors like Real Estate, Jewelers, Lawyers, Accountants, CDNS, and Pakistan Post, incomplete data and inadequate information was identified as a limitation. Hence, later with the amendments in AMLA and establishment of AML / CFT Regulatory Authorities the need was felt to update the risk assessment in the light of additional information and data. Accordingly, the sectoral risk assessments for CDNS, Pakistan Post, Real Estate Agents, DPMS, Lawyers, and Accountants were re-assessed in 2020/21 in light of updated information.

These Sectoral Risk Assessments were conducted with more active and increased participation from the respective sectors, for example while conducting the sectoral risk assessment of CDNS,

the AML / CFT Supervisory Board of National Savings and the representative of CDNS were made part of the sectoral risk assessment committee. There was also representation from National FATF Secretariat, FMU, SBP, LEAs, NACTA and others. Another example is the engagement with the Bar Council, wherein representation of bar council, attorney general's officer and Ministry of Law and Justice was ensured.

In the sectoral risk assessments, inherent vulnerabilities were assessed using sector profiles developed by competent authorities which also included quantitative and qualitative data as well as an assessment of the confidence level in the quality of information used. All these sectoral risk assessments assessed the inherent sectoral vulnerabilities on the following factors:

- Sector's inherent characteristics;
- Nature of products and services provided by the sector;
- Nature of the clientele;
- Geographic reach of sector's activities; and
- Nature of Delivery Channels

Table 1.1.3: Summary of Sectoral Vulnerabilities as per Sectoral Risk Assessment 2020/21

Sector Breakdown	Inherent ML/TF Vulnerability of Sector	General Observations
Pakistan Post • Life Insurance • Savings	Medium High	Life Insurance: • PLI's share of the insurance market in Pakistan accounts for only 4%. • The portfolio of PLI is being shifted to PLICL a licensed and a registered entity under SECP. Savings: • Products includes Saving Accounts, Saving certificates and remittance services • Manual Record with digitization in process
CDNS	High	• Offers Govt. Debt instruments to general public • 17% of the products offered by CDNS are bearer in nature • Clientele of 2 million, majority of which is natural person
Real Estate Agents	High	• Mutation and exchange of money takes place at the level of builders/developers hence their risk was considered high • The number and frequency of transactions is very large
Jewelers	High	• It has a complex structure of multiple players from miner, gemstone dealers gold refiners etc. • Mostly cash based transactions with high degree of anonymity and complexity
Accountants	Medium	• Small Sector with low turnover • The sector offers both covered accounting services as well as covered TCSP services
Lawyers	Medium	• The sector is likely to offer only the TCSP type of regulated services • Numbers of entities possibly offering the regulated service is expected to be much smaller • Presence is mostly in urban areas

Branchless Banking ○ Pakistan Post Risk Assessment With improved data set and additional information the risk assessment of the financial functions performed by Pakistan Post was reassessed and this time the same was segregated in two portions based on the nature of its product. The Life Insurance business of PP was identified to be of Medium Risk in comparison to its savings function which was considered to be of High Risk due to the high inherent risk, nature of the products and services, delivery channel and the varied nature of clientele. ○ CDNS – Sectoral Risk Assessment The inherent risk of CDNS remained high mainly because of the nature of the products it offers as 17% of the product offered by CDNS are bearer in nature and thus are exposed to major ML Risk. ○ Accountants – Sectoral Risk Assessment The inherent risk of Accountants remained unchanged to Medium as only a small number of firms (approx. 350) are covered under the activity-based definition of FATF, moreover the turnover is also low. ○ Real Estate Sector and Dealers in Precious Metals and Stones Risk Assessment Despite the updated data and additional information on these sectors, the inherent risk and vulnerabilities of these sectors remained High, due to its nature of product, clientele and the geographic reach which is spread far and wide. ○ Lawyers Sectoral Risk Assessment There are more than 200,000 registered lawyers, with an unknown yet much smaller population of entities offering the covered/regulated services for AML/CFT i.e. the TCSP services. Most lawyers maintain an ongoing business relationship with their clients, rather than one-offs with varied clientele overall thus making the overall vulnerability of sector as medium. ○ Branchless Banking Risk Assessment: In NRA 2019, the risk for ML/TF in branchless banking was considered inherently high. Branchless banking allows person-to-person payments usually known as over the counter (OTC) transactions through a large number of agents working in urban, rural and remote geographic locations providing ease, mobility for cash deposits, withdrawals and fund transfers. As these retail agents are mainly grocery shops, general stores and mobile top-up outlets, they are not as qualified as bank staff to ensure stringent regulatory compliance. Although, ML risk in branchless banking was considered low due to small size of transactions, however, these transactions are prone to TF risk as they are usually conducted by occasional customers using the branchless banking agents to send and receive money. There had been few instances in the past where branchless banking was exploited for movement of funds by sanctioned persons. In NRA 2019, the inherent ML/TF vulnerabilities for branchless banking providers was considered inherently high. Now, Pakistan has undertaken a sectoral risk assessment of branchless banking to evaluate any change in risks. It was assessed that the inherent risks remain high. To mitigate the risks, SBP has introduced corresponding controls, i.e. capping the transaction limits of BB level “0” and “1” account to Rs. 50,000/- and Rs. 200,000/- per month respectively and requiring FIs to prescreen their customers. However, as branchless banking transactions have considerable volume there may be breaches due to glitches in the system. To further strengthen the controls and encourage wallet transactions, SBP advised FIs to gradually phase out person-to-person transfers by June 30, 2021. Meanwhile, SBP also introduced a cap of Rs. 25,000/- per month per customer (occasional) on these transactions. In addition, in light of legislative amendments made by Pakistan, the risk assessment of legal persons and legal arrangements (LPLA) was updated. The Risk Assessment of LPLA covers their relevant legal framework, size and structure, geographical spread, sectoral classification and risk characteristics for different types of legal persons and legal arrangements. The Risk assessment document addresses the ML/TF and transnational aspect of the LPLAs. A sector review of the NPO sector was also conducted in 2019.	High	• It is an important tool for Financial Inclusion • Transaction limits/ thresholds have been prescribed to limit exposure of risks • Use of biometric technology has further strengthened control

Both the NRA-2019 and the Sectoral Risk Assessments were shared with all the supervisors, Law enforcement agencies and other relevant agencies to help them develop and implement risk-based policies (as detailed below in RA.2).

1.1.3 Consequences and Vulnerabilities of Sectors

Under both the NRA 2019 and the SRA 2020/2021, the inherent vulnerabilities of the financial and DNFBP sectors were assessed by considering the sector's economic significance, the products and services offered, the customers, the geographic reach, and delivery channels available. Brief review of the high-risk sectors is:

Table 1.1.4: Sector Specific Vulnerabilities of Higher-Risk Sectors from the NRA or SRA*

Sectors	Vulnerabilities			
	Products	Customers	Geography	Delivery Channels
Banks	Current Accounts, Credit Cards, Trade Finance and FCY Accounts were considered more vulnerable	PEPs, General traders, DNFBPs (REs and Jewellers) Accounts, ECs and their employees, unlisted legal entities	Customers, overseas branches / correspondent banks and import / exports from high-risk jurisdictions and bordering areas with Afghanistan	Wire transfers, person to person transactions in branchless banking
Microfinance Banks	Asset Accounts	PEPs, General traders, DNFBPs (REs and Jewellers) Accounts, ECs and their employees, unlisted legal entities	High risk jurisdictions especially bordering areas with Afghanistan	Face to face transactions
Exchange Companies**	Cash and foreign currencies	Walk-in Customers especially PEPs and their associates	Overseas transactions	Face-to-face / overseas transactions
Exchange Cos.-B***	Cash and foreign currencies	Walk-in Customers especially PEPs and their associates	High risk jurisdictions especially bordering areas with Afghanistan	Face-to-face transactions
Real Estate Agents*	Builders and Developers	Foreign and domestic PEPs or close associates of PEPs	South Punjab, border areas of KP and Baluchistan	Intermediaries and non-face-to-face transactions
Hawala / Hundi	Hawala	Walk-in Customers especially PEPs and their associates, general traders	High risk jurisdictions especially bordering areas with Afghanistan and foreign jurisdictions	cash
CDNS*	Bahbood Saving Certificates, Saving accounts, Special Saving Accounts and Bearer Bonds	Holders of bearer bonds and pensioners	High risk jurisdictions	Face-to-face transactions
Pakistan Post*	Ordinary Saving accounts	--	FATA, GBT, Southern	Large numbers of post

and Remittances

Punjab and Baluchistan's
(Quetta) post offices

* As per Sectoral Risk Assessment

**Exchange Companies Category 'A' are allowed to undertake sale/purchase of foreign currency, inward / outward remittances.

***Exchange Companies Category 'B' are only allowed to undertake sale/purchase of foreign currency.

In addition to implicitly considering an element of consequence through the risk factor 'economic significance' under the vulnerability assessment of the sector as described above, the consequences of the ML/TF Risk were discussed in detail at Chapter 10 Page 98 of the NRA Report, which acknowledges that the high ML/TF risk in Pakistan can adversely affect the financial and non-financial sectors and society as a whole. At the high level it has undermined the effective and transparent governance and development in Pakistan. Further, at the sectoral level it can affect the integrity of the financial system of Pakistan thus exposing the financial sector to the risk of de-risking, reputational damage, increased economic power with criminals and the risk increased administrative cost due to enhanced due diligence.

In addition to above, it can also have detrimental effects on the NPO Sector of Pakistan that can cause reputational damage and loss of public trust thus affecting the donations / charities and ultimately it could lead to diminished tax revenues.

Continued understanding of Risk.

With the establishment of National FATF Secretariat in 2020 and in order to ensure that the identified risk is kept updated and in the light of Recommended Action ('RA'), NRA Committee was established by the National FATF Coordination Committee in March 2020 which was later notified as a sub-committee by the General Committee (refer to Section 5(8) of AMLA) in its meeting held 01-Feb-2021. As per the TORs, the NRA Committee is responsible for identifying, assessing and understanding the risk of ML/TF/PF including developing assessment of the risks and contribute to strategies and activities to mitigate those risks, and facilitating cross-government coordination and resource allocation.

The NRA Committee is led by National FATF Secretariat with support from the FMU and has a Core Committee which includes representation from the Supervisors, LEAs, Ministry of Foreign Affairs, Ministry of Interior, NACTA, Intelligence Bureau and Inter-Services Intelligence.

Depending upon the scope of work / assessment being undertaken it can include representation from government authorities, financial sector, designated non-financial sector, provincial authorities, intelligence agencies and any other organizations / associations as deemed necessary.

Since its formation, the NRA committee has held meetings wherein the findings of Sectoral Risk Assessment for Lawyers, Branchless Banking and Legal Persons and Legal Arrangements were discussed in detail and approved. These meetings were attended by Supervisors, FMU, Law Enforcement Authorities (including FIA, NAB, ANF, FBR and provincial CTDs) and other members of core committees.

Prior to the formation of NRA Review Committee, a small committee under the lead of National FATF Secretariat was formed to conduct the sectoral risk assessments which also included representation of relevant stakeholders including the LEAs, supervisors and representatives of respective sectors. Approximately 12 focused meetings of these small committees were held to develop and finalize these sectoral risk assessments. The NRA Committee has now taken over the work of this committee.

Publicization of Risk Assessments:

The updated NRA-2019 is not a public document, however, was shared widely amongst Pakistan authorities and reporting entities via email dated 5 September 2019, the Financial Monitoring Unit (FMU) circulated the NRA to all the relevant authorities with an instruction to share the same with all reporting entities and amongst relevant staff and departments in their own organizations. In due course, all regulatory authorities shared the NRA with their reporting entities and circulated it amongst their departments.

The FMU similarly disseminated the NRA to other federal and provincial agencies such as Ministry of Foreign Affairs, Ministry of Interior, Ministry of Law, FATF Secretariat, Law Enforcement Authorities who then shared it within their relevant department.

The Sectoral Risk Assessments were also disseminated by the National FATF Sec. to all regulatory authorities with instructions to disseminate to their reporting entities.

2. Pakistan should improve its Action Plan and develop sector-specific policies including for DNFBPs (based on identified risks), to assist relevant agencies to respond with targeted strategies.

This recommended action is largely addressed.

1.2.1 Improvement of Action Plan

Based on the results of NRA-2017, Pakistan had developed an action plan which included the actions to be undertaken by the authorities under five broad categories viz legal; sectoral / institutional, regional and international cooperation and coordination, technological and general. However, the MER of Pakistan noted that the Action Plan did not include timelines or identify responsible stakeholders.

Even before the adoption of Pakistan's MER in APG's Annual Meeting of August 2019, the results and deficiencies identified in the draft MER were discussed in the NEC meeting, wherein all the members were briefed about the likely results. The NEC gave the principal approval to strategize efforts with a view to ensure the maximum numbers of deficiencies were addressed before the completion of the observation period. The decision was manifested in the form of a national roadmap.

○ **Roadmap**

In 2019, considering the gaps identified by the ICRG (FATF Action Plan) and the MER, Pakistan developed a "Roadmap" to guide the authorities with actions that needed to be undertaken in order to address the concerns of ICRG and the deficiencies identified in MER. This was due to the high priority afforded by the Government to the Action Plan and addressing deficiencies in the MER. The first workshop in this regard was held on 15-16 July, 2019 in Islamabad and the first draft of the roadmap was developed by mid-August, 2019. The roadmap was reviewed and approved by NEC with instructions to ensure compliance and to regularly update / review the same in the light of emerging risk and context. In accordance with the instructions of NEC and to ensure a coherent progress on all the action items, 11 working groups were formed and tasked with ensuring progress on the activities identified in the roadmap and with regularly reviewing and updating the same.

The roadmap is organized by IOs, lists each specific MER recommended action ('RA') and Action Plan ('AP') items in addition to other areas of improvements self-identified by Pakistan and contains very detailed activities with timelines and lead and supporting agencies. The roadmap became the key tool to guide and support each competent authority to respond to risks with detailed and targeted strategies. Each agency also considered its resources and training needs (as per item 2 of APG-5, IO.1 in the roadmap) (See RA 03 below).

Under each of the other IOs, there are multiple examples of risk-based policies and activities developed and implemented by relevant agencies. Some examples focusing on supervision are summarized below in this RA.

1.2.2 Pakistan's National AML / CFT / CPF Strategy:

In order to achieve the government's overall strategic objective (as discussed above) and in the light of the results of risk assessments, NEC approved and adopted a National AML / CFT Strategy ('National Strategy') in late 2020 with a vision:

"To have a world-standard system operating in Pakistan protecting the financial system and the broader economy from the threats of money laundering, terrorist financing and the financing of weapons of mass destruction, thereby strengthening financial sector integrity, the economy, safety as well as security in Pakistan and globally."

- **Key Components and Focus Areas**

To achieve this vision, Pakistan developed its risk-based strategy using a comprehensive analytical framework aligned with its understanding of risk, to ensure the implementation of the FATF Standards. The risk-based framework for an effective AML/CFT/CPF system in Pakistan was categorized under four main themes and supported by three main types of efforts under each of these four themes.

Framework for an effective risk-based AML/CFT/CPF system



In order to work on these themes, the National Strategy also identifies strategic goals with sector specific priority actions that is aligned with the risks identified in NRA and any updates thereafter.

1.2.3 Examples of Development of Sector Specific Policies and Deliverables:

To address the high-risk areas identified in the NRA and Sectoral Risk Assessments the roadmap was reviewed and expanded in order to integrate the results of the risk assessments. The results of risk assessments were also used to develop sector specific actions and to prioritize reforms in the sectors that were identified as more vulnerable, details of which are as follows:

- **Banks / Micro Finance Banks / Exchange Companies**

Sector Specific Policies	Key Outcomes
Legislative / Regulatory: It was decided to review the regulatory framework already in place to consider amendments that would address the risks identified in these sectors. Supervision / Prevention:	Legislative / Regulatory: SBP thoroughly reviewed its pre-existing regulatory framework for all its REs including Banks / ECs / Microfinance Banks and in the light of legislative amendment introduced in AMLA. Based on which, SBP issued new regulatory framework in September 2020 which was further updated in February 2021. Supervision / Prevention:

- To review the supervisory framework for the sectors identified as high risk and prioritize the monitoring and supervision of these sectors in order to mitigate the risk of ML / TF. Capacity Building / Outreach: - Focus on the capacity building and outreach to the sectors that have been identified as high risk	- SBP reviewed and updated its Risk Based Supervisory framework in 2019 (refer to RA.2 of IO.3 for further details) - The results of NRA and its factors were considered to readjust the risk assessment matrix of SBP which helped SBP in identifying 06 additional banks for full scope inspection in addition to the already selected 20 institutions for inspection during the inspection cycle July 2019-2020. Capacity Building and Outreach: - During the year 2018 – 2020, 118 outreach sessions were organized by SBP that had a participation of approx. 7,246 participants, the majority of which were Banks, MFBs and ECs.

- Hawala / Hundi**

Sector Specific Policies	Key Outcomes
Legislative / Regulatory: - Process the necessary legislative amendments in FERA to introduce proportionate and dissuasive sanctions. Supervision / Prevention: - Prioritize identification, investigation and prosecution of Hawala / Hundi cases Capacity Building / Outreach: - Increase the capacity and conduct outreach sessions of LEAs to help them prioritize the identification, investigation and prosecution of Hawala / hundi cases	Legislative / Regulatory: - Section 23 of the FERA was amended in February 2020 to make the sanctions more proportionate and dissuasive. Supervision / Prevention: - An MoU was signed between FIA and SBP to further enhance the on-going cooperation between both the agencies for the identification, registration and investigation of cases against illegal MVTS including Hawala / Hundi - Strategic analysis was undertaken by FMU on Hawala / Hundi the results of which were shared with FIA and SBP and other relevant stakeholders. - Regular follow-up meetings were held by DG-FIA to monitor the progress on the cases of illegal MVTS, Central and Zonal databases were developed to improve accuracy, consistency and efficiency of intelligence/information flow, Case management systems for tracking of on-going investigations Capacity Building / Outreach: - Public Awareness Campaign was launched to discourage the public from using illegal mediums of MVTS including Hawala / Hundi - Capacity of FIA was increased by introducing new SOPs to help the inspectors do targeted investigations combined with comprehensive trainings.

- CDNS

Sector Specific Policies	Key Outcomes
Legislative / Regulatory: - Develop a regulatory framework to bring the CDNS under AML / CFT Regime of Pakistan. Supervision / Prevention: - Develop AML/CFT Risk Based Supervisory framework for monitoring / supervision of CDNS. Capacity Building / Outreach: - Conduct Outreach sessions to improve their understanding.	Legislative / Regulatory: - Necessary amendments were introduced in the AML Act to bring the CDNS under the AML / CFT regime of Pakistan. - AML/CFT Supervisory Board for CDNS was established which included representation from Ministry of Finance, SBP, FMU, SECP, National FATF Secretariat. - AML / CFT Regulations were issued by the Supervisory Board. Supervision / Prevention: - Risk Based Supervisory framework was established for monitoring / supervision of CDNS which includes Risk Identification and assessment (includes the Risk Matrix); Outreach, guidance and capacity building (includes the Outreach Plan); Supervisory engagement (includes the Inspection Manual, Offsite Questionnaire, and Supervisory Plan); Enforcement (includes the Enforcement Policy); Coordination and cooperation (includes the Supervisors Cooperation Committee Terms of Reference); Data and statistics (including the Key Performance Indicators). For further details refer to RA.1 of IO.3. Capacity Building / Outreach: 208 training / capacity building sessions were organized by CDNS which included participation of approx. 2,286 participants from CDNS. - FMU also undertook technical outreach to facilitate reporting of Suspicious Transactions through online system of GoAML software and registration of Senior Officers for reporting STRs. CDNS has conducted over 81 outreach session /workshops for 771 officials.

- Pakistan Post

Sector Specific Policies	Key Outcomes
Risk: - Review the existing portfolio and the associated risks of Pakistan Post. Legislative / Regulatory: - Develop a regulatory framework to bring Pakistan Post under AML / CFT Regime of Pakistan. Supervision / Prevention:	In view of the National Risk Assessments (NRA) 2017 and 2019 (which rated PP as high risk), and to address the deficiencies pertaining to PP identified in the APG's Mutual Evaluation Report 2019, the authorities initially put in place an AML/CFT framework for PP that mirrors that for other FIs (see description in IO3). However, authorities considered the updated findings of risk and the results of onsite inspections evidencing very low levels of controls in AML/CFT compliance and decided to stop PP from providing any financial services, and to prioritize the transfer of existing business to other regulated service providers. Accordingly the following policy has been adopted:

- Develop AML/CFT Risk Based Supervisory framework for monitoring / supervision of Pakistan Post Capacity Building / Outreach: - Conduct Outreach sessions to improve their understanding	- The savings portfolio is being transferred to CDNS which is regulated and supervised by the National Savings (AML & CFT) Supervisory Board. This transition will be completed by January 2022. - PP is barred from opening new savings accounts, but it will service low value accounts under a "branchless banking" agency agreement with a commercial bank (supervised by SBP). - The insurance business of PP comprising of approximately 500 thousand policies has been shifted, with effect from 31 March 2021, to PLICL - an insurance company supervised by SECP. - Inward remittances will continue to be processed through the AML/CFT compliant digital platform of a commercial bank, which is regulated and supervised by SBP (PP does not provide outward remittances).

- DNFBPs

Sector Specific Policies	Key Outcomes
Legislative / Regulatory: - Develop a regulatory framework to bring the DNFBPs (particularly high risk DNFBPs) under AML / CFT Regime of Pakistan. Supervision / Prevention: - Develop AML/CFT Risk Based Supervisory framework for monitoring / supervision of DNFBPs Capacity Building / Outreach: - Conduct Outreach sessions to improve their understanding	Legislative / Regulatory: Absence of a regulatory and supervisory structure for DNFBPs was identified as major (residual) risk following the NRA-2019, particularly in Real Estate which was identified as High Risk considering its varied clientele with large number and frequency of transactions. To mitigate these risks, several measures were developed and implemented. First, with the amendments in AML Act, the comprehensive preventive measures were enacted and the AML / CFT Regulatory Authorities were identified for all the DNFBPs as follows: ○ Federal Board of Revenue for Real Estate and Dealers in Precious Metal / Stones ○ The Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP) were notified as Self-Regulatory Bodies for their respective members / accountants under the oversight of SECP. ○ The Federal Board of Revenue (FBR) for remaining categories of Accountants. ○ Pakistan and Provincial Bar Council were notified as Self-Regulatory Bodies for Lawyers under the oversight of Ministry of Law and Justice. In line with the risk identified, the AML / CFT governing Rules / Regulations for Real Estate, DPMS and Accountants were issued in late September 2020.

		Whereas for lawyers the work was initiated in 2021 and the regulations were recently issued. Supervision / Prevention: The development and implementation of the entire DNFBP supervision approach was identified and managed as a separate project coordinated by senior officials of key relevant agencies and was subject to a detailed strategy and workplan, with timelines and roles and responsibilities. In order to ensure an effective risk based supervisory regime FBR, ICAP and ICMAP have developed and are implementing comprehensive Risk-Based Supervisory Frameworks. For further details on the supervisory frameworks of DNFBPs, kindly refer to RA.2 of IO.3. Capacity Building / Outreach: An exercise was undertaken by FBR, ICAP and ICMAP to determine the size and characteristics of the DNFBP's population (for further details refer to RA.1 of IO.3). This also supported the identification of resources and training to effectively implement the DNFBP supervisory frameworks. See RA 3 below for details of the sector specific policies that have been implemented to address the increased need for resourcing of supervision of DNFBPs.		
	3. Pakistan should implement a comprehensive RBA to prioritise capacity-building and training, and allocate resources, in order to develop and implement measures to prevent and mitigate ML/TF. Since the MER, Pakistan has implemented risk-based capacity building and the allocation of resources across all agencies involved in implementation of AML/CFT measures. With the results of NRA, National Strategy and an internal roadmap in hand Pakistan clearly identified its focus areas that primarily included the previously un-regulated / unsupervised sectors i.e. CDNS, Pakistan Post, DNFBPs, and addressing transparency issues with LPLAs. Moreover, the investigative and the prosecution agencies for ML and high-risk predicate offences were prioritized for capacity building. Resource allocation for TF matters were highly prioritized in line with findings of risk, details of which were provided in the FATF Action Plan. As outlined above, Pakistan has now instituted a comprehensive supervisory regime for DNFBPs and increased the risk-based supervision undertaken by the SBP and the SECP encompassing all FIs. It also developed a new and comprehensive approach to ensure transparency of LPLAs. In terms of LEAs, agencies have focused on the identified risks in the NRA and other assessments as outlined above, with a particular focus on ML and TF and taken measures commensurate with the risk. The overall result of this is that LEAs and supervisors are now more focused on the risk-based approach and the results of the increased focus on risk has led to significant outcomes, particularly in relation to ML and TF. Under each of the other IOs, given the breadth and depth of the reform agenda undertaken by Pakistan, touching on each and every aspect of the national AML/CFT system, there are multiple examples of risk-based capacity-building and training developed and implemented by relevant agencies. Some examples are summarized below.			This recommended action is largely addressed.

1.3.1 Capacity Building and Trainings:

- **At National Level**

In order to ensure synergy and consistency with the National Strategy, General Committee in its 24th Meeting held on 26-Nov-2020 approved an outreach plan that outlined the number of training sessions each authority was required to undertake in order to create awareness. These training sessions not only focused on the reporting entities but also on improving the understanding and capacity of the supervisors, law enforcement and other authorities. Trainings for the 1st Quarter (Oct-Dec. 2020) were focused on reporting entities whereas the 2nd Quarter (Jan-Mar. 2021) emphasized on the capacity building of authorities. The General Committee will review the progress made in this regard. Most of the targets set for the 1st quarter of 2021 have been achieved including for the DNFBPs, due to collaboration between UNODC and the supervisors.

Technical assistance at the national and operational level – in pursuing Pakistan's significant reforms since the MER, Pakistan has willingly and openly worked with technical assistance providers in order to ensure that our efforts are aligned with the international standards and practice and ensuring that all authorities closely work with experts in AML/CFT to best direct our resources and efforts. Since 2018, Pakistan has closely been working with a team of global AML/CFT experts who have provided advice on all aspects of the legislative and institutional reforms along with coaching on operationalizing the reforms in relation to the 11 Immediate Outcomes. Furthermore, Pakistan has been working closely with the agencies like UNODC and ADB who have extended their support in building the capacities of our authorities for example UNODC has supported and sponsored various outreach sessions for DNFBPs and NPOs whereas the ADB provided technical support to develop a guidance document for the newly regulated DNFBP sector.

- **At Operational Level**

All relevant authorities were consulted and actively participated in conducting the assessment of risks, and in line with the National Strategy, institutional capacity building and outreach sessions were organized under all four themes: (i) Risk, Policy and Coordination; (ii) Preventive; (iii) International Cooperation; and (iv) Criminal Justice. The data maintained for the training sessions is mostly agency wise and each training session included training on multiple topics for example NRA, emerging trends, UNSC obligations, International Cooperation, ML / TF trends etc. Hence, topic wise segregation may have an overlap, nevertheless, details of the training sessions is given below:

Themes	
Risk, Policy and Coordination	• In addition to the capacity building and focused discussion held to update the risk understanding of authorities, various training / workshops were organized by authorities. AML/CFT Regulatory Authorities • To continue to improve AML / CFT Regulatory Authorities understanding of the threats and vulnerabilities identified in the NRA 2019 and to improve the understanding of the vast legislative amendments, various inhouse sessions were organized by the AML / CFT Regulatory authorities either on their own or in collaboration with other stakeholders, details of which is provided in the preventive section, given below. Law Enforcement Authorities • The relevant officers of LEAs have been imparted with the necessary skills and understanding to help them identify and prioritize the investigation of high-risk ML/TF this was done by not only their active participation in all the risk assessments exercises but also by making them a member of the core team. For agency wise breakup of the training sessions refer to RA.4 of IO.7, table 7.4.1. • Apart from disseminating the results of all the risk assessments, down the line to all the operation staff, since January 2019 the LEAs also conducted 49 sessions on focused trainings on TF risk assessments to approx. 700 of its officers. • Dedicated units for asset management / recovery in ML / TF cases has been established by all LEAs (for further detailed refer to RA.4

of IO.8).

- For further details on the capacity building and trainings undertaken by LEAs refer to the details provided in RA.4 and 5 of IO.7.

FMU

- 22 sessions have been organized by FMU for the LEAs (FIA, NAB, ANF, FBR, CTDs) and AML / CFT Regulatory Authorities since 2018 which were attended by more than 700 participants. The topics covered in these sessions included updating their understanding of Risk (further details are provided at RA.1 of IO.6)
- The representatives of the AML / CFT Regulatory Authorities were a mandatory part of all the outreach sessions / compliance forums meetings organized by FMU to update their respective REs on the emerging risks/typologies, vulnerabilities and the results of risk assessments. Details of these trainings are provided in RA.4 of IO.3.
- A dedicated ML and TF Task force has been established within FMU to prioritize the analysis of STRs pertaining to TF and high risk predicate offences / ML.

Preventive

AML/CFT Regulatory Authorities

- To update the understanding of the amendments made to the legislative and the regulatory infrastructure in the light of the risk assessments, multiple capacity building sessions were organized by the authorities, details of which are as follows:
 - **SBP**: SBP organized 22 sessions for its 498 officers
 - **SECP**: SECP conducted 12 sessions that were attended by 313 officials of SECP
 - **Pakistan Post**: Various training sessions were organized by FMU and SBP for Pakistan Post details of which are provided under RA.4 of IO.3. In all 43 sessions have been organized for various officers of Pakistan Post.
 - **CDNS**: Various measures were adopted by CDNS to improve the understanding of its officers. A dedicated 3-day workshop "Directors Conference – 2020 on AML/CFT" for all 50 members of the Executive Management which included Senior Management of CDNS and the Chairman of the Supervisory Board. (refer to RA.4 of IO.3 for further details). Moreover the supervisory board also participated in the 04 training sessions organized by international consultant and FINTRAC (detailed below).
 - **FBR, ICAP and ICMAP**: For the newly established DNFBPs sector 04 training sessions in collaboration with an international consultant (03 trainings) and FINTRAC (01 training) was organized for their officers to help them better understand the risk and the recently developed supervisory framework for their respective reporting entities.
 - In December 2020 and January 2021 the staff of FBR participated in three separate courses on AML/CFT supervision
- In addition to the details provided above, Pakistan's DNFBP Regulatory Authorities have undertaken and continue to undertake extensive outreach by various mediums to sensitize the newly covered sectors to their AML/CFT obligations and improve their understanding of risk. Please refer to RA.4 of IO.3.

NPOs

- Media campaign was launched to increase the general awareness among public.
- NACTA in collaboration with SECP, Pakistan Centre for Philanthropy (PCP) and Pakistan Peace Collective (PPC) undertook a series of sessions across the country. The outreach included elements and findings of NRA & guidance on TF Risks for details refer to RA.4 of IO.10.
- 05 dedicated training sessions for NPOs were jointly hosted by SECP, FMU, MOFA and NACTA in collaboration with UNODC that included the participation of 275 participants from the NPOs sectors.

Legal Persons and Legal Arrangements

- In order to update its own officers with the updated risk of LPLA, SECP conducted 04 sessions for its 80 officials associated with Company Registration Offices (CROs).

	• The provincial cooperative departments conducted 26 sessions for its 1,125 field staff on NRA 2019, whereas 16 awareness sessions were organized for 1,301 participants on sectoral risk assessment of LPLA by provincial cooperative departments. • The Provincial Waqfs and Trust Departments conducted 27 sessions to update 613 participants with the results of NRA 2019, whereas 10 sessions were conducted for 535 officers regarding LPLA risk assessments and to update them with the new legislative framework and its requirements. • For further details on this refer to RA.1 of IO.5. NACTA • In order to build capacity of LEAs, since January 2019, 17 interactive outreach sessions were conducted by NACTA in all the four provinces and Islamabad with members of federal/provincial LEAs and intelligence agencies, in which all dimensions of TF risk including the transnational aspect was thoroughly discussed. Further details can be found on RA.2 of IO.9. • A National TF database in collaboration with PITB, NACTA and all the relevant LEAs have been developed to help the authorities to analyze the TF trends and to prioritize TF investigations / prosecutions.	
International Cooperation	• Legislative amendments (enactment of MLA), multiple guidelines (by MOI, NACTA, FMU, FIA) and SOPs were introduced. • Operation framework i.e. executive committee formed under MLA and establishment of International Cooperation Cells at the federal and provincial levels was strengthened. • A 'Case Management System' was developed to monitor and track MLA requests. • Since the enactment of MLA Act, 06 training sessions were organized by Mol that included participation from MoFA, Home Departments, LEAs (FIA, NAB, ANF, FBR CTDs), NACTA, FMU, SBP and SECP whereas 06 training sessions were organized for capacity building of the authorities on the use of Case Management Portal, these trainings were attended by officials of Mol, MoFA, Home Departments and LEAs. • In addition, FMU also held 06 awareness sessions for LEAs (FIA, NAB, ANF, FBR CTDs) to improve the use of informal international cooperation for matters pertaining to ML/TF/related offences. • For further details refer to RA.1 of IO.2.	
Criminal Justice	• Various steps have been undertaken by Pakistan to bring its legislative and regulatory framework in line with the international best practices. • Dedicated investigators/prosecutors have been appointed for ML investigations/prosecutions by all LEAs. • Provincial CTDs have established dedicated counter-terrorism financing units (CTFUs) in, addition 106 specialized prosecutors for TF investigations and prosecutions have been attached with all the provincial CTDs. • The Anti-Terrorism courts have dedicated prosecutors for the prosecution and trial of TF cases. • See IO7 RA 2, 4 & 5 for further details on capacity building and training for LEAs. • Pakistan in collaboration with the UNODC implemented a three-year Project "Support to Pakistan's Action to Counter Terrorism (PACT)", this project imparted training to the investigators, prosecutors and judiciary through a series of training workshops. Starting from September 2018, completed capacity building work plans for LEAs, prosecutors and judiciary for TF cases were completed till 2019. In total, 16 workshops were organized in which around 400 investigators, prosecutors, judges received training. These programs remained continued in 2020/21 and another 16 workshops were held till March 2021 in which 400 investigators, prosecutors and judges participated. ○ • The National FATF Secretariat hosted a webinar for 300+ judges from all over Pakistan. The webinar was divided in two sessions which included detailed discussion on the risk assessments, recent amendments in the AML / CFT related laws and practical case examples. • Moreover, Judicial Academies are now conducting ongoing trainings of the prosecutors and new incumbents on the AML / CFT related laws. So far approx. 11 training sessions for more than 200 judges, magistrates and prosecutors have been undertaken during the year 2019-2020.	

- The increased capacity building for LEAs has resulted in significant operational outcomes (see IOs 6, 7 & 8). For example in IO8 the total number of ML cases where property of concern was seized / restrained increased from 59 in 2018 to 257 in 2020-21 whereas the value of properties forfeited/confiscated increased by 368% in the year 2020 (Rs. 34,315m) as compared to 2018 wherein the value of assets confiscated was Rs. 7,321m.

1.3.2 Risk Based Resource Allocation:

In the light of the risks identified in the NRA and subsequent sectoral risk assessments, a lot of attention was placed on the need to ensure that the necessary resources were allocated to the areas identified as highest risk for Pakistan. Complete details of the same can be found in the attached Resource Allocation Paper. Every component of the national AML/CFT system was also considered from a resource point of view in order to ensure Pakistan could effectively mitigate the identified risks.

As an example, one of the major consumers of the resources were the areas that were not only identified as high risk but also lacked the supervisory mechanism i.e. CDNS and DNFBPs Sector (since Pakistan Post is now in the transition phase hence the same is not being discussed in detail here). When considering how to implement AML/CFT measures for the DNFBP sector, consultation was made with the World Bank. A team consisting of Lead Financial Sector Specialists visited Islamabad from November 12 to 15, 2019 and again on February 23 to 27, 2020. The team discussed with officials the shortcomings on the AML/CFT framework governing DNFBPs identified in the APG report, whether of a legal or factual nature, and possible ways to resolve them. The team noted the high importance that the Pakistan authorities accord to the AML/CFT agenda. In the words of WB Aide Memoire- ***'It was evident from every meeting that this topic is a top priority for all parts of government – the urgency was keenly felt'***. Based on the recommendations of World Bank and after various internal deliberations legislative amendments were enacted in the AML Act identifying the AML / CFT Regulatory Authorities for the DNFBPs Sector and institutional frameworks were established to support the legislative amendments. The snapshot of the resources allocated by the AML / CFT Regulatory authorities, as detailed in the Resource Allocation Paper, is provided below:

• Resource Allocation for AML / CFT Regulatory Authorities:

AML / CFT Regulatory Authority	Highlights of Initiatives
SBP	• Seven (07) dedicated divisions for AML / CFT regulation and supervision are operative under different departments. • 38 officers are dedicated for AML / CFT supervision related matters. • 21 officers are dedicated for AML/ CFT related policy and regulation in different departments
SECP	• 68 dedicated staff have been allocated for AML / CFT. • Since 2018, the budget allocated to AML / CFT related task has increased by 27%. • Technological upgrades including eService AML Portal, online filing of compliance reports and feedback mechanism has been developed.
Pakistan Post	• An AML / CFT Supervisory Board has been established that includes representatives from the Ministry of Communication, SBP, SECP, FMU and National FATF Secretariat. • A Board Secretariat has also been established in the Communications Division with 05 support staff posted at the Secretariat to assist the Supervisory Board.
CDNS	• An AML / CFT Supervisory Board with 06 members has been established that has representatives of the Ministry of Finance, SBP, SECP, FMU and National FATF Secretariat. • A secretariat of the AML / CFT Supervisory Board with a budget of Rs. 2m and 04 dedicated officers has been established in the Finance Division.
FBR	• Being the regulator for one of the high-risk sectors (Real Estate) a lot of resources have been allocated to regulate this sector, this includes: ○ A separate Directorate General for DNFBP has been established in FBR ○ 107 dedicated professional staff has been assigned to this directorate. ○ The staff is distributed across 5 different regional Directorates: Islamabad, Lahore, Karachi, Quetta and Gilgit-Baltistan. ○ IT infrastructure (bespoke supervision technology) was developed

	For Further details refer to RA.1 of IO.3.
ICAP & ICMAP	- ICAP and ICMAP have also put in place dedicated AML/CFT supervisory resources: - Both have established an AML Supervisory Board and an AML Supervision Department. - Both have dedicated 03 staff to work on the matters pertaining to AML/CFT
Bar Councils & MoLJ	Small groups have been formed at the provincial bar councils with dedicated staff to deal with the matters of AML / CFT

• **Resource Allocation by Law Enforcement Authorities:**

Pakistan has deployed a lot of resources and efforts to improve the capacity of LEAs to conduct targeted and focused investigations of ML / TF and high-risk predicate offences. In this regard, the National Strategy requires the authorities to prioritize investigation, prosecution and subsequent confiscation in all money laundering, terrorism financing and high-risk predicate crimes, to support this, the Federal Government has allotted 358 dedicated personnel and separately issued a dedicated budget of Rs. 536 million to FIA alone to specifically deal with the cases of ML/TF and Hawala/Hundi. Brief details of the other resources allocated by the respective LEAs as detailed in the Resource Allocation Paper is provided below:

LEAs	Highlights of Initiatives
FIA	- Establishment of AML/CFT Directorate (Along with 358 Personnel) with 8 circles in 7 Zones. - Establishment of Data Access Center (DAC) to provide investigation officers with an easy access to the requisite data from other agencies. - Strengthening of Cybercrime Wing and Anti Human Smuggling Wing to support ML investigations. - Implementation of Case Management System for automated record keeping and analysis of financial crimes including ML. - Establishment of International Co-operation Unit to process requests for international cooperation - Establishment of Financial Intelligence Cell to receive, disseminate and follow-up actions on financial intelligence reports from FMU.
NAB	- Establishment of AML/CFT Units at NAB HQ as well as 7 regional offices. - Monitoring Evaluation System (MES) was upgraded in terms of data and reporting requirements (predicate and ML), e.g. enhancement in accused reporting system, Case Monitoring Module, Customize data reports, Monthly Performance Reports etc. - Restructuring of Prosecution Division for efficient performance of legal cases. - Establishment of Legal Library for use of Prosecutors to help prosecutors in case preparation. - Access to NADRA Verisys to all the regional bureaus for immediate retrieval / verification of accused profile.
FBR Customs	- Establishment of an AML Cell in each of the 8 Regional Directorates, with dedicated investigators and prosecutors. - Establishment of Directorate of Cross Border Currency Movement (CBCM) which is focal authority for receiving and disseminating STRs and other FIs from the FMU. - Updation of WeBOC (Web-based One Customs) to automate processes. - Updating the internally developed Anti-Smuggling Module to help in investigations and data collection - Establishment of National Targeting Centre (NTC) and its three components i.e, Currency Declaration System (CDS), Advance Passenger Information System (APIS) and National Customs Enforcement System (nCEN).
FBR IR	- Establishment of an AML Cell in each of the 7 Regional Directorates, with dedicated investigators established. - Number of dedicated investigating officers has increased from 22 in 2018 to 41 in 2020 for ML cases - In 2020, FBR executed a bilateral MOU with FIA on data sharing. - FBR is sharing Tax information with other LEAs through AML Desk.
ANF	- Updation of software named ANF Management Information System (AMIS) for maintenance of data/statistics. - Strengthening of Assets and Financial Investigation Directorate.
CTDs	- Mechanism for forming JTs to conduct financial investigations was developed and as a result 520 JTs have been established to conduct TF investigations. - Dedicated Counter terrorism financing units have been established in all provincial CTDs.

- **Other Initiatives:**
- National FATF Secretariat has been established on the instructions of the Prime Minister of Pakistan in October 2019 tasked with ensuring compliance with the requirements of FATF.
- New international cooperation cells have been established in each law enforcement agency and other relevant authority (MOI, FIA, NAB, ANF, FBR, SECP, SBP and all provincial Home departments) this has dedicated staff of 63 at federal level and 25 dedicated resources at home departments (refer to RA.1 of IO.2 for further details).
- National Anti-Money Laundering Desk was established at the Federal Investigation Agency ('FIA') headquarters, Islamabad in October 2020 to synergize and harmonize inter-agency efforts and provision of timely and effective information mechanism regarding money laundering investigations.
- Centralized Adjudication Division of SECP in December 2019 has been established with an increased workforce of 30%. The Division is responsible for the entire adjudication work pertaining to all FIs, Companies and LLPs regulated by SECP (refer to RA.4 of IO.5).
- SECP has established a centralized Supervision Division in 2021 comprising of 60 officers. This division is responsible for the entire supervision work pertaining to all FIs, Companies and LLPs regulated by SECP.
- The Cooperative Department being the regulator of the Cooperative Societies has its established offices in each and every district of provinces with staff of 1,721, 160, 358, 122 and 15 in Punjab, KPK, Sindh, Baluchistan and ICT respectively (refer to RA.4 of IO.5).
- The Provincial regulators administer the registration and regulation of trust activities under the Trust Act, 2020, 505, 234, 87, 58 and 8 staff has been allocated in Punjab, Sindh, KPK, Baluchistan and ICT respectively (refer to RA.4 of IO.5).

Regulators administer the registration and regulation of Waqf under the Waqf, 2020 through field formations, it has 61, 166, 109, 48 and 5 staff in Punjab, Sindh, KPK, Baluchistan and ICT respectively (refer to RA.4 of IO.5).

4. Pakistan should continue to engage with reporting entities, to share detailed findings of risk assessments and up-to-date information on ML with FIs and ML/TF with DNFBPs to improve their understanding of existing and emerging risks within their institutions.

This recommended action is largely addressed.

The requirement to engage with reporting entities and share information on risk (and AML/CFT obligations) is duplicated in many RAs across the MER. In particular, RA 4 of IO3 and RA2 of IO4 mirror this requirement. Hence a consolidated response is provided at RA.4 of IO.3 outlining all of the work of authorities to conduct outreach on risk to reporting entities.

Extensive work was undertaken by the authorities to improve the understanding of reporting entities (including FIs and DNFBPs) of existing and emerging risk. This included not only the outreach / capacity building sessions but various other measures for example with the technical support from the Asian Development Bank ('ADB'), Pakistan developed sector specific guidelines for the DNFBP Sectors whereas FMU developed and shared various strategic analysis which were shared with the supervisors and REs.

Summary of the work undertaken by Pakistan to improve the understanding of risk among its reporting entities is as follows:

At the national level, the GC in its 24th meeting approved an outreach plan for authorities (including AML/CFT regulatory authorities) and reporting entities to improve the understanding of and provide up-to-date information on the risk. As a result, a variety of programs and a range of measures were taken including:

All stakeholders (supervisors, LEAs, FMU and private sector/ REs) participated in the NRA on Terrorism Financing in 2018 and on ML/TF in 2019 under the lead role of the NACTA and FMU respectively.

- To further enhance their understanding of each risk and associated vulnerabilities, several outreach/awareness sessions were held to discuss the contents of the NRA with relevant officers, including heads of the compliance departments of REs. These sessions also offered the REs an opportunity to seek further guidance on updating their internal ML/TF risk assessments in the light of the updated NRA 2019. Statistics for these sessions are summarized below, noting that often the outreach covered many topics which included sharing the results of NRA/TFRA and subsequent risk assessments, AML/CFT Obligations, TFS obligations for TF and PF etc.

SBP

- SBP, being the AML/CFT supervisory authority for the major part of the financial sector of Pakistan, undertook several capacity building sessions via different forums and sessions, which included the Compliance Forum, CFT Desks and general outreach sessions for the operational staff of its REs:

- Since 2018 until March 2021, 13 compliance forum meetings, 10 CFT Desk sessions and 95 outreach sessions were conducted by SBP for its REs. All these were attended by a total of 7,246 participants from SBP's REs.

SECP

- Similarly, SECP also adopted a number of measures to update their reporting entities with the risks of ML. SECP organized 11 compliance forum sessions and 101 risk based outreach sessions for staff of REs since 2018 until Mar. 2021. These meetings and sessions were attended by 7,048 participants from SECP's REs.
- In addition to above, SBP and SECP engage on a regular basis with relevant professional associations, such as Pakistan Banks' Association (PBA), Exchange Companies Association of Pakistan (ECAP), Mutual Fund Association of Pakistan (MUFAP), Insurance Association of Pakistan, Pakistan Stockbrokers Association, Non-banking Financial Institutions and Modarabas Association to discuss AML/CFT implementation issues, solicit feedback and strategize the way forward.

CDNS

- Being comparatively new to the AML/CFT regime, special attention was paid to the understanding of risk for CDNS, in this regard multiple programs were organized and conducted:
 - 46 outreach programs were organized by the Training Institute of National Savings (TINS) with trainers/ facilitators from FMU, SBP and LEAs covering both risk and AML/CFT obligations.
 - CDNS organized 35 training sessions in collaboration with FMU. These sessions were largely conducted either through Zoom or at the Regional Offices or Head Office of CDNS.
 - The Supervisory Board provides continuous guidance and feedback to the CDNS, as well as specific capacity building training and assistance. So far, it has organized 7 sessions.
 - CDNS has also conducted 120 outreach session /workshops for its 1,444 officials during the period Jan-2019 to Mar-2021 which included discussions on multiple topics including the risk assessment.

Pakistan Post

- Pakistan Post is no longer a financial institution as discussed in RA.1 of IO.3

DNFBPs

- In order to guide the newly established AML/CFT Regulatory Authorities of DNFBPs, the AML/CFT Supervisory Frameworks of the FBR, ICAP and ICMAP included dedicated outreach plans. (See Annex 12 of the FBR RBS Framework and Annex 11 of the ICAP/ICMAP RBS Framework attached as Annex-IO.3-1-9, Annex-IO.3-1-10 and Annex-IO.3-1-11, respectively). These outreach plans included training their respective REs on the identified ML/TF risks and AML/CFT obligations.
- Due to COVID, most of the outreach has been undertaken in a virtual setting. Additionally, in recognition of the fact that a large portion of the DNFBP population in Pakistan is low capacity, including in relation to literacy, the DNFBP authorities focused on providing outreach and guidance materials through audio and visual media that can easily be accessed via mobile device. The first e-outreach product was the series of introductory videos, published in November 2020. The second e-outreach product was the series of more in-depth topical webinar-style videos, published in March 2021. These provide the DNFBPs with more detailed information on key topics including risk assessments
- In addition to the aforementioned e-outreach products, DNFBP AML/CFT regulatory authorities (FBR, ICAP and ICMAP) organized outreach sessions in multiple cities through a multi-agency partnership which included discussion on NRA and sectoral risk assessments. So far 51 sessions have been organized in different cities of Pakistan which have been attended by more than 3,000 participants.
- Additional measures / guidance were also provided via various documents / guidelines which are detailed in RA.4 of IO.3

For complete details of the outreach sessions please refer to our detailed response provided in RA.4 of IO.3.

5. Develop a PF coordination and cooperation strategy through the CRM Committee.

Pakistan has introduced a National Roadmap which identified expansion of the role of the CRMC as a key implementation priority to ensure a robust CPF framework (see activity 2 of the roadmap under IO.11). In order to achieve this outcome, the CRMC was strengthened which later formulated and implemented its own strategy to improve the coordination / cooperation among its stakeholders.

As mentioned in MER, in order to effectively implement, supervise and monitor the enforcement of UNSC resolutions and further strengthen the system of preventing proliferation financing, the Federal Government constituted an Inter-Ministerial Committee for Coordination, Review and Monitoring (CRMC) vide SRO 1067(I)/2018 dated 28 August 2018 (<http://secdiv.gov.pk/uploads/SRO-3efd.pdf>). CRMC replaced the Inspection and Enforcement Team (IET), which had been setup in August 2016 for enforcement of UNSC sanction resolutions.

CRMC is chaired by Director General Strategic Export Control Division (SECDIV) and consists of twenty other members representing various Ministries/Departments including the financial and trade regulatory authorities, Supervisors, Chambers of Commerce and Industries, law enforcement and intelligence agencies etc. The chair has the power to draw members from any other agency or department as and when required. The key role of the CRMC is to coordinate a wide range of agencies to take action on all range of matters pertaining to PF, to raise awareness and build inter-agency coordination and cooperation through regular meetings and joint tasks.

The strength of the CRMC is that it is focused on counter PF only and brings together all the stakeholders who are unique to proliferation financing, including those stakeholders who traditionally sit outside the AML/CFT framework. In bringing these partners together, those agencies more experienced in implementing TFS for terrorism and PF can share their knowledge and experience with those less versed in these areas who nevertheless are exposed to sanctions evasion. More importantly the platform of the CRMC ensures a coordinated approach nationally. Members share information on risks and sanctions evasion, including important publications and new information emanating from the UNSC.

From the outset, the CRMC adopted a strategy that prioritized coordination and cooperation, this was originally enshrined in the SRO that established its existence and set out its main functions (see IO 11). One of the main roles of the CRMC as set out in the SRO is to coordinate measures between its members, exchange information on a regular basis, bring in other members in order to coordinate with other agencies or persons to perform its functions and conduct outreach. The SRO as the founding document set the initial strategy and the CRMC further developed this once its meetings became established.

In undertaking its key coordination role, meetings of CRMC have focused on:

- Adopting a coordinated approach to conducting outreach and awareness raising. For example, SECDIV and Customs agreed to (and have since) jointly undertaken capacity building of frontline Customs officials and special training modules have been introduced in Customs Training Academy. The CRMC has maintained that focus on coordinated outreach at every meeting that has been held.
- The coordination, review and monitoring of the implementation and enforcement of the UNSC resolutions on countering proliferation financing;
- Implementing guidelines to assist officials in various Ministries, departments, agencies, institutions and entities to better understand and effectively implement TFS against individuals/entities designated in the UNSC resolutions relating to proliferation financing i.e. Lists maintained under UNSC Resolutions 1718 (2006) and 2231 (2015).
- Discussing the findings of the APG Mutual Evaluation Report (MER) and how the findings of the MER would influence its priorities and its strategic direction. Noting the recommended actions contained within the MER, the CRMC agreed to act to fulfil those as a matter of priority. This reflected the agility of the CRMC to adapt to changing national priorities and to implement measures swiftly. A checklist was subsequently developed to ensure that all agencies were implementing the actions of strategic priority.
- Developing comprehensive outreach and awareness raising plans and sharing broad contours of these plans with SECDIV. It also decided that all regulatory bodies/agencies will regularly submit compliance reports to SECDIV, on the status of execution of outreach and awareness raising programs. A coordinated outreach plan was developed for 2020 and 2021. In this context, the regulatory bodies have chalked out their respective outreach plans, which are being implemented. Consistency is ensured through regular coordination meeting, for the meetings details and context- piece / case studies pertaining to the PF, kindly refer to IO-11.

This recommended action is largely addressed.

	<u>The CRMC cooperation and coordination strategy</u> The Committee has now formalized their strategy on Cooperation and Coordination, enshrining the core work that had already been undertaken by the Committee and the work to be undertaken looking ahead. The strategy is available on the SECDIV website at : http://www.secdiv.gov.pk/uploads/CRMC-Strategy-Coord-& Coop-2462.pdf The strategy sets the vision for the CRMC which is: <i>“To provide a platform for coordination, review and monitoring at the national level with a view to elicit effective inter-agency and intra-agency cooperation for enhancing understanding on TFS for PF, promote information/experience sharing and optimal utilization of resources and efforts for implementing best international practices.”</i> For more in-depth information on the workings of the CRMC, please see Recommended Action 2 in IO11.	
JG Comments & Analysis	There was consensus in the JG that Pakistan has made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 1. The JG considered that Recommended Actions 1, 2, 3 and 4 for IO.1 are key Recommended Actions, since they correspond to priority actions from the MER and cover steps that are necessary to ensure Pakistan has adequate risk understanding, policies and capacity for effectiveness in multiple areas of the AML/CFT system. Recommended action 1 is key and is largely addressed. Pakistan’s MER identified several gaps in the 2017 National Risk Assessment. Pakistan has sought to address these deficiencies in its 2019 NRA, which is more comprehensive than the 2017 NRA and covers the 21 designated predicate offences under the FATF Standards, in addition to illegal MVTs/ Hawala/Hundi, cybercrime and cash smuggling. The 2019 NRA also includes risk assessment of NPOs and Legal Persons and Legal Arrangements. After the 2019 NRA Pakistan conducted sectoral risk assessments covering Pakistan Post, CDNS, REAs, DPMSs, Accountants, Lawyers and Branchless Banking. The 2019 NRA and the sectoral risk assessments benefitted from more active engagement with the private sector. The improvements to the risk assessment process have been recognized by the APG in previous Follow-Up Reports on R1. As identified in IO.5.1, the risk assessment for Legal Persons and Legal Arrangements would benefit from more detailed analysis of the extent to which legal persons and arrangements can be misused for ML/TF purposes. Pakistan will conduct a follow-up National Risk Assessment in 2022 and should seek to build on the current risk understanding by incorporating the information on inherent vulnerabilities from the more recent sectoral assessments. Recommended action 2 is key and is largely addressed. Following the 2019 MER, Pakistan developed a high-level National Strategy for countering ML/TF/PF which is organized around 4 key themes: Risk, Policy and Coordination, Prevention, Criminal justice and International cooperation. This strategy sits alongside an AML/CFT Roadmap that sets out the policy goals in more detail and assigns lead agencies and provides timelines (gaps that were highlighted in the MER’s assessment of the previous strategy). The Roadmap was a direct response to the findings of the MER, but it was later expanded to reflect the findings of the NRA and sectoral risk assessments and is periodically reviewed to ensure it responds to emerging risks. Sector specific policies have been developed in response to the strategy documents, including legislative changes, supervisory guidelines and capacity building efforts. Recommended action 3 is key and is largely addressed. Pakistan has provided an overview of capacity building, training and outreach sessions that have been organised according to the themes identified in the national strategy. Substantial resources have been allocated towards AML/CFT efforts and Pakistan have provided details on structural changes that have resulted (e.g. the establishment of new directorates and units and the allocation of staff). As noted in the APG FUR of R.1, the resource allocation for the supervision of the legal sector is not yet clear as policy decisions are being considered in this area. However, the general allocation of resources appears to be risk based and driven by the National Strategy. More detail on resource allocation and capacity building is provided in the other IOs that deal more directly with the work of the relevant agencies. Recommended action 4 is key and is largely addressed. Although Pakistan’s National Risk Assessment was not a public document, it has been shared with reporting entities via their respective supervisors. Pakistan has provided evidence of engagement with reporting entities to help improve their understanding of risks. Pakistan should continue to engage with the private sector to ensure that reporting entities’ risk understanding continues to improve. There is significant overlap between this action and RA.4 in IO.3 and the evidence provided in that IO has been considered here.	

Recommended action 5 is largely addressed. Pakistan has shared a strategy document setting out the CRMC Strategy on Coordination and Cooperation. This includes mechanisms for coordinating between relevant authorities and outlines ambitions to hold regular capacity building and awareness raising with the private sector. There is significant overlap between this action and IO.11 and the evidence provided in that IO has been considered here.

Immediate Outcome 2 Moderate	Recommended Actions from MER: 1. The potential international aspects of ML investigations should be considered in all domestic proceedings; and international cooperation, whether formal or informal, should be resorted to by responsible agencies in line with Pakistan's ML and TF risk profile. Pakistan should ensure that the relevant agencies are adequately resourced, trained and appropriately mandated to enable them to also prioritise ML and associated predicate offences. 2.1.1 Overview Pakistan has introduced new legislative and policy frameworks to effectively handle both formal and informal international cooperation with respect to investigations of ML/TF and associated offences. These frameworks have been supplemented by strengthened operational structures and increased resourcing. This response covers the following items: how agencies are mandated to prioritize cross-border ML/TF investigations, including the relevant legal, policy and operational frameworks for international cooperation; resourcing of relevant agencies; and training of relevant agencies. Specific and detailed data demonstrating the prioritization of international cooperation through incoming and outgoing requests, both formal and informal is set out in the response to Recommended Action 2.5. 2.1.1 Legislative and Policy Framework (a) Formal International Cooperation Prior to August 2020, each department and agency was responsible for managing its own MLA requests through a series of disparate legislative provisions and multilateral and bilateral treaties. In August 2020 the new Mutual Legal Assistance (MLA) Act 2020 was enacted. The MLA Act is the main pillar of formal international cooperation and information sharing (also known as MLA) and provides that all incoming and outgoing MLA requests are routed through a Central Authority within the Ministry of the Interior. The legislation empowers Pakistan to undertake a variety of actions, including: • seek and render mutual legal assistance with both treaty and non-treaty countries • obtain a search warrant or evidence-gathering order on behalf of a foreign country • ensure the transfer of detainees to a foreign country for the purposes of giving evidence or assisting with an investigation; and • take steps to freeze, seize and confiscate properties. Section 24(2) of the MLA Act provides that incoming and outgoing requests pertaining to the offence of corruption and other matters addressed under the National Accountability Ordinance are handled directly by the National Accountability Bureau (NAB). Further information pertaining to NAB's legislative authority in this respect is set out in RA-2. Further information with respect to the legal and operational framework for MLA created under the MLA Act and the National Accountability Ordinance is set out under section 2.1.2. (b) Informal International Cooperation Domestic LEAs and other relevant agencies generally rely upon MOUs to cooperate with foreign counterparts informally. Table 2.1.1. provides a summary of the MOUs and other enabling documents that these agencies use to engage in such cooperation.	This recommended action is largely addressed.

Table 2.1.1

FIA	FIA is cooperating with different member states of INTERPOL under the constitution of ICPO INTERPOL (https://www.interpol.int/en/content/download/590/file/Constitution%20of%20the%20ICPO-INTERPOL-EN.pdf) According to the Constituent of ICPO INTERPOL, Pakistan has appointed a body, the National Central Bureau, which ensures liaison with: (a) The various departments in the country; (b) Those bodies in other countries serving as National Central Bureaus; and (c) The Organization's General Secretariat. NCB-INTERPOL Islamabad is established under INTERPOL Constitution's Article 32 to serve as the focal point to liaise with various departments in the country, National Central Bureaus of the other member countries and the organization's General Secretariat. FIA has Standard Operating Procedure (SOP) No. 06/2018 issued by Director General, FIA/Head of NCB in which NCB-INTEPROL is authorized to liaise directly with International Organizations and Law Enforcement Agencies both inside and outside Pakistan for real-time information exchange and knowledge sharing to tackle organized transnational crime.
FMU	Section 6(4)(e) AMLA allows FMU to cooperate with FIUs of other countries and to make reciprocal arrangements to share information relating to ML predicate offences and TF and any other information that may be necessary to accomplish the objectives of the AMLA. FMU has also signed MoUs with other countries for the sharing of information. Further detail about such MOUs is set out under RA-4.
SECP	The SECP is empowered to establish international cooperation protocols under section 42D of SECP Act 1997. SECP is a signatory to the MMOUs established by IOSCO and signed by more than 120 IOSCO member jurisdictions. In practice, SECP utilizes the IOSCO MMOU to spontaneously exchange information with foreign counterparts.
ANF	ANF has 34 MOUs for cooperation with sister agencies in other countries. Recently an MOU was signed with Afghanistan.
FBR	Income tax and customs authorities within FBR have 73 MOUs to cooperate with relevant agencies.
SBP	SBP engages with foreign counterparts by entering into MOUs with foreign regulatory authorities on a bilateral basis. Under this mechanism, SBP has so far signed twenty (23) MOUs/Agreements with the regulatory authorities of Sri Lanka, Vietnam, Bahrain, Indonesia, Mauritius, Bangladesh, Azerbaijan, Turkey, Syria, Oman, Kyrgyzstan, Hong Kong, Qatar, Kazakhstan, China, Jordan, Belarus, Nepal, Philippines, Russia, Tunisia, Belgium and Poland. SBP is able to exchange spontaneous information including with countries with whom there is no MOU. SBP may share information with the Governor's approval under s46A of the Banking Companies Ordinance 1962, enabling cooperation with any country.

(c) Policy Framework

To support both formal and informal cooperation, a variety of guidelines and directives have been issued which mandate law enforcement agencies and other relevant authorities to prioritize the investigation of cross-border ML/TF and associated predicate offences as part of their work.

A brief summary of the relevant documents is set out in Table 2.1.2, all of which can be found at the following link: <https://www.interior.gov.pk/index.php/international-cooperation>

Table 2.1.2

Policy/ Procedure	Key Focus Areas
MOI Guidelines on International Cooperation (MLA Guidelines)	- The Ministry of Interior (MOI) in April 2020 issued detailed guidelines on Mutual Legal Assistance (MLA). An updated version of these guidelines was issued in August 2020 in the wake of the enactment of the MLA Act. - The MLA Guidelines apply to all LEAs and relevant federal authorities and stipulate that the potential international aspects of TF and ML proceedings should be considered in all domestic proceedings and in formal and informal cooperation. - Prioritization of international cooperation efforts is set out in accordance with the risk level associated with various offences as assessed in the National Risk Assessment 2019, with terrorism/TF, ML, illegal MVTs and cash couriers being given highest prioritization. - The Guidelines also require authorities to provide timely responses, as a maximum of 30 days limit has been set for execution of incoming requests.
NACTA Directive on International Cooperation	- The National Counter Terrorism Authority (NACTA) in April 2020 issued a Directive on international Cooperation in Terrorist Financing Matters - The Directive applies to LEAs and other relevant federal agencies and requires these agencies to take steps to prioritize formal and informal cooperation with respect to TF activities, including but not limited to: - Prioritizing investigation of cross border TF, ML and predicate offences. - Considering the potential international aspects of ML and TF investigations in all domestic proceedings and engaging in cooperation in line with Pakistan's risk profile; and - Focus work on tracing cross-border TF links on high-risk offences such as kidnapping and extortion, narcotics, illegal MVTs and cash couriers. - Further details are set out in section 6 of the Directive
MOI Directive on International Cooperation in Money Laundering Offences	- MOI in April 2020 issued a Directive on international Cooperation in Money Laundering Offences - The Directive applies to LEAs and other relevant federal agencies and requires these agencies to take steps to prioritize formal and informal cooperation with respect to ML activities, including but not limited to: - Examining the linkages of offences committed with a foreign country, individual or entity and prioritizing the investigation of cross-border ML and predicate offences. - Considering the potential international aspects of ML investigations in all domestic proceedings and engaging in cooperation in line with Pakistan's risk profile; and - Focus work on tracing cross-border ML links on high-risk offences such as illegal MVTs and cash couriers. - Further details are set out in section 5 of the Directive
NACTA SOP on JITs including International Cooperation (NACTA SOP on JIT)	- In continuation of NACTA's earlier SOPs for JITs, a revised SOP for investigators was issued in March 2020 to reinforce international cooperation. - The revised and improved version of SOPs requires LEAs to analyze and examine the linkages of offences committed with foreign entities or individuals and initiate international cooperation. (please see section on International cooperation at page – 6 of NACTA's SOPs.)

2.1.2 Operational Framework

Role of the Minister of the Interior

The MOI is the agency with primary responsibility with respect to the coordination of Pakistan's formal international cooperation efforts.

The MLA Act 2020 creates a central authority which is responsible to fulfil the basic functions of MLA, including:

- Sending and receiving MLA requests with treaty and non-treaty countries
- Taking practical measures to facilitate the orderly and rapid disposition of requests for assistance; and
- Dealing with requests from any appropriate authority of a foreign country for MLA.

An Executive Committee housed within MOI serves as the Central Authority pursuant to the MLA Act. The committee is made up of representatives of the Ministry of Interior, Ministry of Foreign affairs, Ministry of Law and Justice, Secretaries of the Provincial Home Departments. The Executive Committee replaces a pre-existing International Cooperation Coordination Committee, which was in place prior to the introduction of the MLA Act, and which played a role similar to the Executive Committee.

New International Cooperation Cells (also known as International Cooperation Wings) have been established in each law enforcement agency and other relevant authorities (namely, all provincial Home departments, FIA, NAB, ANF, FBR and SECP). These IC Cells act as a central hub within each authority to manage incoming and outgoing international requests, including both formal MLA requests and informal cooperation requests, in a timely and effective manner.

There is also a dedicated IC Cell within MOI which effectively acts as a Secretariat for the Executive Committee and whose role is to assist the Central Authority's work. The MOI IC Cell scrutinizes incoming and outgoing MLA requests, convenes meetings of the Executive Committee, records decisions and process summaries for the approval of the Federal Cabinet, and takes subsequent actions for execution of MLA requests. The MOI IC Cell also carries out liaison and coordination activities with the other federal and provincial IC cells to ensure timely and thorough responses. Further information with respect to the MOI IC Cell is set out on the MOI website at <https://www.interior.gov.pk/index.php/international-cooperation>.

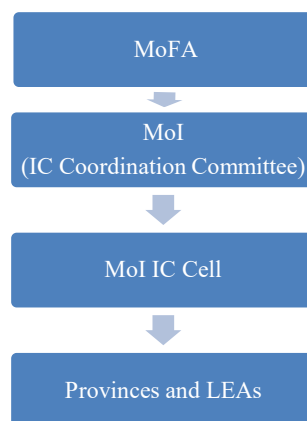
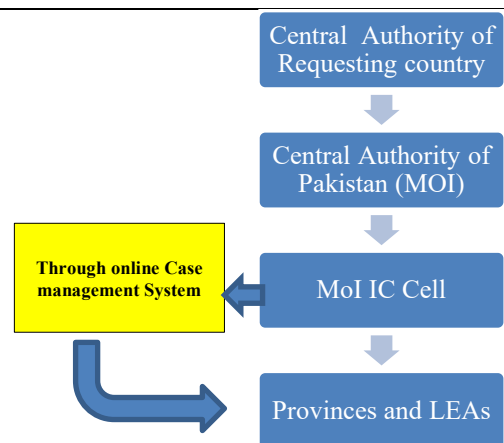
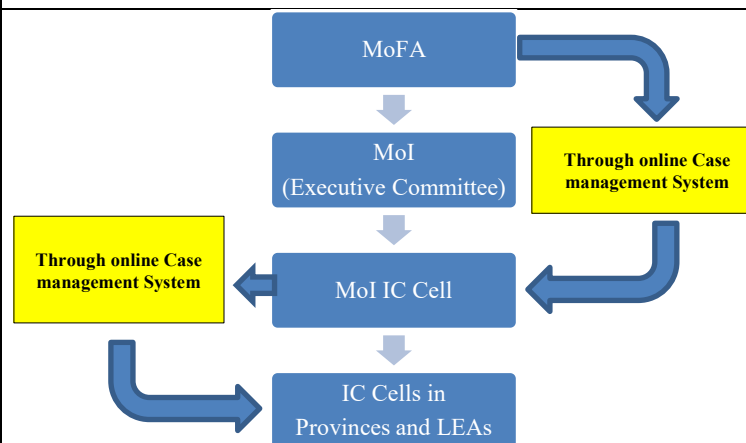
MOI Process for MLA Requests

Where an incoming formal request is received from a country with which Pakistan already has an agreement in writing, the request is conveyed from the requesting country's central authority directly to Pakistan's Central Authority. The Central Authority then refers the request to IC cell of MOI which scrutinizes the incoming request to ascertain the completeness of the document. In case the documents are incomplete, the request in reference is sent to the requesting country for provision of further information/documents. If the request includes the necessary and complete information, the request is sent to the relevant departments (Home departments, FIA, ANF, SECP, FBR etc) through the online case management system which has been developed to track and expedite incoming MLA requests. Further details with respect to the case management system are set out under section 2.1.3(a) of this RA. The reverse process takes place in cases of outgoing formal requests by Pakistan.

When requests for mutual legal assistance are received from or made to countries with which Pakistan does not already have an agreement in writing, these requests are routed through the Ministry of Foreign Affairs (MOFA) as the lead agency for diplomatic correspondence. All MLA requests from non-treaty countries are received by MOFA and then referred to IC cell of MOI for necessary approvals of the Central Authority and the Federal Cabinet. If approved, the IC Cell issues necessary notification to refer the request to executing agencies. In the case of outgoing MLA requests with non-treaty countries, requests generated by LEAs and other relevant authorities are sent to the MOI IC Cell, which, after following the process as explained above, will obtain relevant approvals and then refer the request to MOFA for onward transmission to foreign jurisdiction.

Further details as to how requests are processed within Pakistan by MOI and relevant authorities are set out in section 1.4 of the MLA Guidelines.

A schematic depiction of the process for MOI's routing of incoming MLA requests both prior to and following the enactment of the MLA Act in August 2020 is set out at Table 2.1.3. below.

Table 2.1.3**Before enactment of MLA Act in August 2020****After enactment of MLA Act (post-August 2020)****Treaty countries****Non-treaty countries****NAB Process for MLA Requests**

NAB's SOPs set out in detail how international cooperation and information exchange should take place, including incoming and outgoing requests, both formal and informal. In all cases, the requests are routed through NAB headquarters, being central authority for UNCAC, for further processing.

It may be noted that since the enactment of MLA Act 2020, NAB has sent 13 MLA to different foreign jurisdiction and has received only 1 MLA request which has been response completely.

2.1.3 Resource Development

(a) Ministry of Interior

MOI is undertaking wide ranging actions relating to MLA requests, including transfer of offenders and repatriation of illegal immigrants. Specific statistics with respect to these activities are set out in RA-5.

A team of more than 22 people within MOI has been assigned to deal with international cooperation issues, as follows: 8 full time staff are employed to deal with MLA requests (posted in IC Cell), 5 full-time staff to deal with transfer of offenders and 9 full-time staff to deal with EURA repatriation matters.

As part of its work to manage the incoming MLA requests in a timely and efficient manner, MOI has developed a case management system to monitor timelines in rendering MLA requests and improve its data records. Besides MOI and MOFA, this case management system is now accessible to all provincial Home Departments and as such can be accessed by all LEAs. All the data of MLAs received since 2013 has now been uploaded on the portal. The dashboard of case management software contains region-wise information of MLA requests received, as well as offense-wise information and the current status of the request received and replied.

The case management system is accessed regularly by the MOI and LEAs as part of their ordinary activities. The introduction of the system has improved the amount of information at the disposal of the relevant authorities as well as the speed at which it can be accessed, thereby strengthening Pakistan's ability to respond to MLA requests and improving the effectiveness of the system.

(b) Resource Development in other Departments/Organizations

As indicated earlier, following MER 2018, IC Cells with dedicated human resources were established in all LEAs and other relevant authorities as central points of contact on all formal and informal cooperation and MLA requests. As such, current employee resources have been based on initial work estimates, but the relevant authorities have been mandated to continue strengthening the IC cells' resource levels in accordance with the quantum of work generated.

Pursuant to the Rules of Business 1973 and the Secretariat instructions (via SOPs for disposal of official work), the Heads of the Ministries and Departments are mandated to monitor and periodically review the strength of their respective departments and to make resource changes as necessary to appropriately reflect the workload level.

The IC cells are the key points of contact for international cooperation in each relevant federal and provincial authority. They are resourced as follows:

Table 2.1.4

Organization	Staffing Level as of October 2018	Staffing Level as of March 2021
Federal Agencies (FIA, ANF, NAB, SECP, FMU, FBR)	Prior to October 2018, there was meager resource allocation of around 11 individuals across all federal agencies. Furthermore, these individuals were not dedicated only for handling International cooperation related issues but having multiple tasks.	As of March 2021, there are 41 dedicated full-time resources federal agencies' IC Cells, broken down as follows: 07(ANF)+7(FIA)+6(NAB)+4(SECP) +4(FMU)+7(FBR)+6 (customs)

Provincial Home Departments	Prior to October 2018, there was no specific resource allocation available in the provinces for handling International cooperation request.	As of March 2021, there are a total of 25 dedicated full-time resources available in provincial and ICT agencies' IC Cells, broken down as follows: Sindh (6) KPK (6) Punjab (6) Balochistan (4) ICT Administration (3)

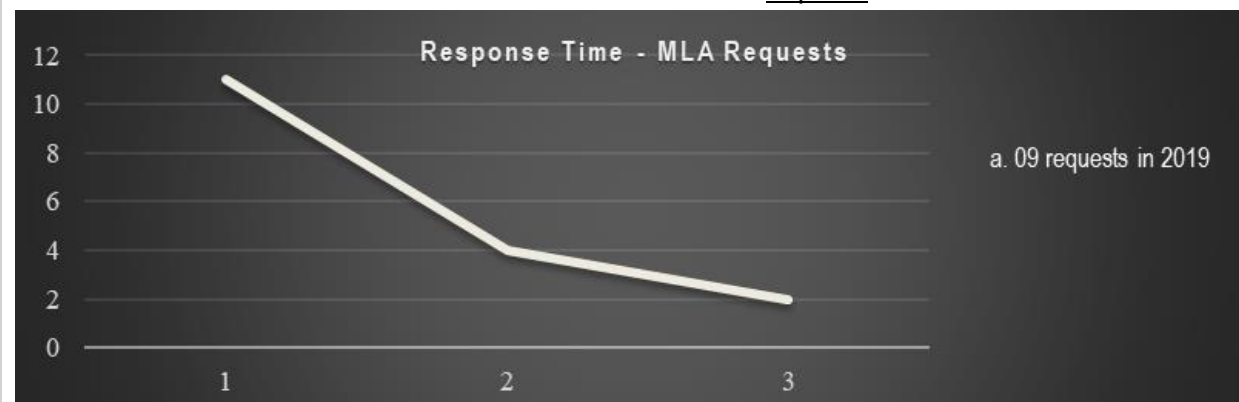
FMU has established a separate Coordination Department to deal with information exchange with both domestic authorities and with its international counterparts. As indicated in Table 2.1.4, the Department is staffed by 4 full-time employees. Further information about FMU's information exchange with foreign FIUs is set out in more detail under RA-3.

Emphasis Point- Response to MLA Requests

As set out above, Pakistan has ensured that laws, policies, directives and SOPs are in place for effective and timely handling of international requests, requiring LEAs to carry out investigations to detect international linkages and proactively seeking international cooperation, both formally and informally, in line with TF / ML risk profile.

Between October 2018 – March 2021, Pakistan's average response time to incoming MLA requests has witnessed a sharp decrease from 11 months to less than a month, as shown in Graph 2.1.1. This decrease is attributable both to an improved understanding and increased emphasis on ML/TF MLA matters on the part of executing agencies, as well as improved resources available to authorities.

Graph 2.1.1



It may be noted that with the above broad-based interventions, the quality of responses provided by Pakistan has significantly improved. As an example, Belarus in September 2019 has appreciated and formally requested to enter into bi-lateral MLA agreement. Furthermore, UK embassy officials in Pakistan indicated in 2020 their appreciation for Pakistan's response in response to a request

in operation Miropia which helped UK authorities to finalize the criminal case in time. It may further be noted that both the recipient countries have no formal bi-lateral agreement with Pakistan which demonstrates Pakistan's ability to provide timely assistance to non-treaty countries.

2.1.4 Training

Following the introduction of the new legal and operational structure for international cooperation as detailed above, MOI has undertaken steps to improve the understanding and knowledge of relevant stakeholders.

As a first step, information was disseminated to all provincial Home Departments, CTDs, FIA, FBR, SBP, SECP, ANF and the Ministry of Finance through a series of directives, as referred to under section 2.1.1(a) of this response, emphasizing the importance of international cooperation and instructing authorities to use a wide range of cooperation methods to exchange information, where relevant, with other jurisdictions.

MOI has also undertaken training of officials assigned to IC cells by various Federal and Provincial Departments. Prior to the enactment of MLA Act 2020, training focused on basic exposure of the relevant officials in MOI, provincial Home Departments and LEAs including:

- Creating awareness about the importance of timely handling of formal MLA and informal cooperation requests;
- informing officials about the necessary process and format to prepare International Cooperation requests under various instruments like UNSCR 1373 and the United Nations Convention against Transnational Organized Crime; and
- the importance of development of linkages.

9 sessions were held between October 2018 to March 2020, with a further 9 sessions taking place between April 2020 to August 2020. These sessions were attended by a total of 74 employees from the provincial Home Departments, CTDs, ANF, NAB, FMU, NACTA, MOFA, FBR etc.

Following the enactment of MLA Act 2020, Pakistan adopted a more focused approach to trainings. In this regard, MOI played a pivotal role in arranging training sessions not only at its own but also in partnership with UNODC which is playing an important role in collaborating with Ministries and Departments for arranging training sessions, developing course contents and post training assessments.

Since August 2020, MOI has conducted 12 training sessions on MLA related issues and case management system, several of which were in partnership with the UNODC while FMU arranged 6 session on use of goAML application for informal MLAs.

FMU has issued a Directive for informal cooperation and also engaged in awareness and capacity building of LEAs on the use of goAML application to be used for international cooperation and domestic coordination.

With respect to training on informal cooperation methods, all officers in the relevant agencies receive training on informal cooperation as part of their general staff training, and such resources are updated whenever changes are made to the agency's internal procedures.

Emphasis Point- Training

As noted above, following the enactment of the MLA Act, 18 outreach sessions were held to increase the capacity of the staff of the IC Cells. At the start of every session, the participants were asked questions to measure their knowledge about the subject. A review of the aggregate results of the pre-training questions indicates that on average, the participants demonstrated 42% knowledge of the relevant issues. A post-training assessment was also carried out after every training and a review of the aggregate results shows a considerable increase in participants' understanding and knowledge, with an average of 63% of the questions correctly answered.

2. Pakistan should address the legal gaps under the ATA and NAO, along with removing restrictive legal provisions in the AMLA. Pakistan should consider enacting a standalone MLA law (or other measures) to achieve these aims, and to remove reliance on bi-/multi-lateral treaties for foreign ML-related MLA requests.

2.2.1 Legislative Amendments

A brief description of the legislative amendments taken following the MER is set out below:

(a) MLA Act 2020

As discussed in more detail under RA 2.1, Pakistan enacted a standalone MLA Act in August 2020.

Section 3(2) of the MLA Act 2020 provides that Pakistan may provide mutual legal assistance to a country under the Act on the principle of reciprocity reduced in writing. Section 3(3) further expands this by providing that, where a country has not entered into a reciprocal agreement with Pakistan, Pakistan may nonetheless provide mutual legal assistance to such country through a notification in the Official Gazette directing that the provisions of the Act have effect to that country.

Since the enactment of the MLA Act in August 2020, Pakistan has extended MLA to and requested assistance from the countries set out in Table 2.2.1, none of which have a bi-lateral agreement with Pakistan, in accordance with section 3(3) MLA Act. Further details about these requests are included in RA-5.

Table 2.2.1

S.No	Incoming request	Outgoing request
1	UK	Afghanistan
2	France	UAE
3	Cyprus	Canada
4		Netherlands
5		Serbia
6		Cayman Islands
7		Iran

(b) NAO 1999

MER 2018 pointed out that the National Accountability Bureau (NAB) does not have an explicit legal basis under the National Accountability Ordinance to provide MLA. It uses the Merida Convention (UNCAC) and bilateral MoUs effectively while seeking and providing international assistance.

Pursuant to new subsection 24 (2) of the MLA Act 2020, NAB has been clarified as the sole agency to deal with international co-operation requests for mutual legal assistance in relation to the matters falling under the National Accountability Ordinance, 1999 (XVIII of 1999) and the United Nations Convention Against Corruption (UNCAC). Furthermore, subsection 24(2) specifically provides that NAB has the authority to act as a central authority for corruption-related offences, both as a recipient and as a requesting agency. Section 24(1) MLA Act further specifies that the provisions of the MLA Act are in addition to the provisions of any other existing legislation. Consequently, as a result of the introduction of new section 24 MLA Act, any gap in the NAO with respect to NAB's ability to provide MLA has been addressed.

This recommended action is partially addressed.

Authorities should:

- Amend the MLA Act to remove the requirement to notify individuals subject to an MLA request of the existence of the request.

(c) ATA 1997

MER pointed out that there is no provision in ATA for extending International cooperation. To address this deficiency, the criminal offence of terrorist financing has been added to section 2(l), MLA Act 2020, which defines the criminal offences in respect of which MLA may be provided or sought under the terms of the MLA Act. As such, there is now a clear authority for MLA to be both received and provided with respect to terrorist financing by the MOI pursuant to the MLA Act.

3. LEAs should routinely use FMU to exchange financial intelligence from foreign FIUs in their ML and TF investigations.

2.3.1 Directives

FMU issued a directive for LEAs dated June 09, 2019 with respect to international cooperation with foreign FIUs. As part of this Directive, FMU emphasized the importance of international cooperation and advised LEAs and other relevant agencies to seek and exchange financial intelligence from foreign FIUs through FMU. The directive further explained procedures for seeking international cooperation through FMU.

In addition, MOI and NACTA have also issued directives in April 2020 to all the designated law enforcement authorities to directing them to routinely utilize FMU to seek information from foreign FIUs in their ML / TF investigations.

FMU has detailed SOPs that govern its procedures when seeking information from or receiving information requests from foreign FIUs, whether independently or on behalf of other LEAs. In particular, section 2 of the SOPs provide that FMU analysts should seek information from foreign FIUs where there is a strong suspicion of ML/TF, including:

- receiving or remitting funds or donations without any apparent economic purpose;
- receiving or remitting high value transactions where there is a suspicion of ML;
- high risk customers receiving high value remittances from different individuals;
- suspicious remittances received or sent to high risk jurisdictions, terrorism-affected countries or tax havens;
- PEPs or associates receiving or remitting high value transactions frequently to foreign jurisdictions without any apparent economic purpose.

2.3.2. Information Sharing and Requests through goAML Application

To further systematically enhance cooperation among LEAs and other relevant authorities, FMU has registered all stakeholders to the go AML application. This has allowed for the automation of information sharing and as a result has increased inter-agency coordination as all the designated LEAs and regulators including NACTA are connected through this platform.

When FMU shares its financial intelligence proactively with LEAs and regulators, it does so electronically via goAML. Similarly, LEAs and regulators, when seeking international or domestic cooperation via FMU use this software. This has ultimately enhanced the flow of information, reduced the time for information sharing and enabled tracking of information. This further allows information to be integrated into FMU's database to be cross-referenced in future in respect of STRs or other incoming intelligence, which allows FMU to make new links and to push further information to LEAs proactively.

FMU has issued detailed guidelines (<http://www.fmu.gov.pk/docs/goAML-Userguide-for-Stakeholders-LEAs-Updated-Version.pdf>) to the LEAs on use of goAML for domestic and international information sharing.

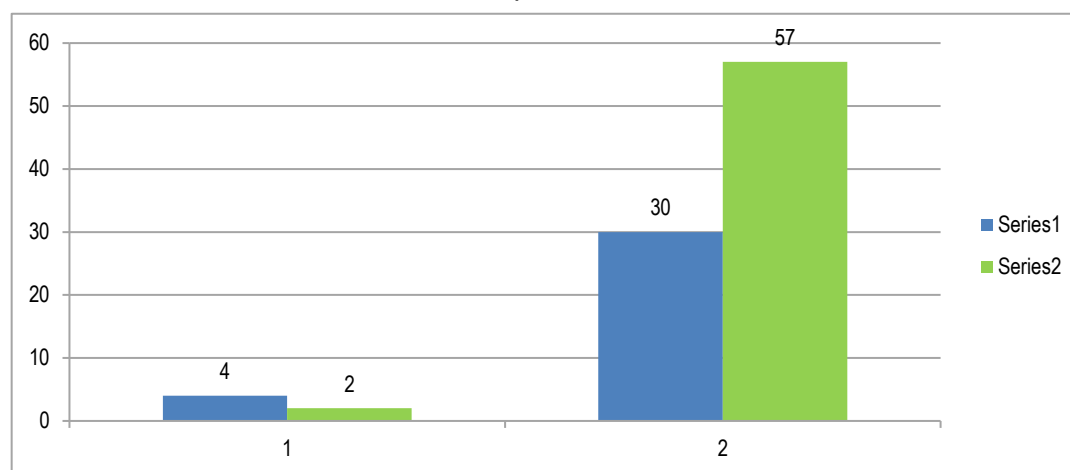
2.3.3 Statistics

Between October 2018 – March 2021, FMU has sent 34 international requests for information at the request of LEAs, out of which 30 requests were sent following the issuance of the MOI and NACTA Directives. In addition, during that same period FMU has also independently made 59 international cooperation requests to foreign FIUs based on its analysis of STRs/ CTRs, of which 57 have been issued after April 2020.

Graph 2.3.1 below demonstrates an increase in requests made by FMU to foreign FIUs, both on behalf of LEAs and independently following the issuance of the Directives.

This recommended action is largely addressed.

Graph 2.3.1



2.3.4 Incoming requests

FMU has received 23 incoming requests for information since MER-2018, which were duly responded.

FMU shares the contents of incoming requests for international cooperation with relevant LEAs wherever required, for further investigation purposes. Two type of incoming request are shared with LEAs after permission from counterparty FIU. i.e.

- a. International cooperation requests which require LEAs to undertake investigations or to obtain copies of criminal records, in order to respond to the request.
- b. International cooperation requests that pertain to high-risk offences and which FMU assesses as they requiring further investigation domestically.

Since MER-2018, FMU has forwarded information requests to LEAs for further investigations pertaining to potential domestic offences. Investigations with respect to each of these incoming requests are still underway.

4. Pursue Egmont Group membership actively but, in the meantime, increase the number of bilateral MoUs with foreign jurisdictions to enhance financial intelligence sharing based on Pakistan's risk profile; pursue illegal proceeds transferred abroad; and take timely action accordingly.

2.4.1 Pakistan's Efforts for Egmont Membership

FMU is actively pursuing Egmont Group membership. Details with respect to recent developments in this effort are set out below:

The Egmont team visited Pakistan in February 2018. During their visit they identified a deficiency in section 6(4)(e) of AML Act, 2010, wherein FMU may co-operate with other FIUs and make reciprocal arrangement after due administrative process. Section 6(4)(e) of AML Act, 2010 was amended in February 2020 to allow FMU to co-operate with other FIUs and make reciprocal arrangements to share, request and receive relevant information without any administrative barriers. As a result, all the technical hurdles in obtaining Egmont Group membership have been

This recommended action is largely addressed.

addressed through amendments in the AML Act 2010.

Pakistan again pursued its co-sponsors FinCEN (FIU of USA) and JAFIC (Japan's FIU) for Pakistan's Egmont Group membership in April 2020. A detailed questionnaire was received from Co-sponsors, which was responded on 04-Aug-2020 and required documents were submitted for Egmont Membership. As per discussion with co-sponsors, the Covid pandemic has affected the processing of Pakistan's request for Egmont membership as the annual meetings of Egmont have been postponed due to COVID-19. The next meeting of Egmont Group is scheduled in July 2021.

2.4.2 Bilateral MoUs with foreign jurisdictions on financial intelligence sharing

Since Oct. 2018, FMU has signed nine (09) new MoUs with UAE, Kazakhstan, China, UK, Qatar, Malawi, Lebanon, Seychelles and Australia for cooperation in the exchange of financial intelligence related to money laundering, its predicate offences and terrorism financing. The MOUs outline the procedure of making requests, use and release of information, maintain confidentiality of information, use of communication channels and other ways of cooperation to combat money laundering and terrorism financing.

FMU continues to reach out to countries for signing Bilateral MoUs to expand the scope of international cooperation. Currently, negotiation is underway for six (06) further MoUs, with Malaysia, Saudi Arabia, Tajikistan, Indonesia, Bahrain and Afghanistan.

Pakistan understands that transnational money laundering and terrorism financing threats are high due to its geographic location, porous borders and domestic conditions. The NRA-2019 explains the high-risk cross-border crimes and channels for movement of their proceeds to mitigate transnational ML/TF threads. Further, it identified several countries like Afghanistan, UAE, UK, China and USA potentially vulnerable for remitting proceeds of crimes. These countries were identified on the basis of border controls, trade volume, level of home remittances and pattern of transactions found in past cases. Out of these countries FMU has signed MOUs with UK on May 29, 2019, China on August 18, 2019 and UAE on September 09, 2020, while a request for an MOU has been sent to Afghanistan and is currently being pursued at operational and diplomatic levels.

2.4.3 Pursuance of illegal proceeds transferred abroad

In accordance with its SOPs for international cooperation, FMU generally makes international cooperation requests from other FIUs where funds have been received from or transferred to other jurisdictions where there is a strong suspicion of ML/TF. Requests for asset tracing, identification of beneficial ownership and utilization of funds are basic components of an international cooperation request. Further, most international cooperation requests sent by FMU pertain to TF and high-risk predicate offences, which were made for tracing of assets upon suspicion that funds were obtained illegally and transferred to other jurisdictions.

FMU has made multiple international cooperation requests to pursue illegal proceeds transferred abroad upon request from different LEAs. These requests were sent to the foreign FIUs even in absence of formal MOUs.

Since October 2018, 23 such requests were made by FMU on behalf of LEAs. The details are given in table 2.4.1:

Table 2.4.1

Requesting Agency	No of requests	Involve proceeds of	Countries
NAB	5	Corruption	Switzerland, Hong Kong, UK, Australia, Lebanon
FIA	8	Corruption	UAE, UK, USA, Canada, Switzerland, France, Seychelles
FIA	1	Fraud	Malaysia
FIA	1	Gambling	UAE
FIA	1	Smuggling	UAE
FIA	1	TBML	China
FIA	6	Use of Hawala	Japan, UK, UAE, Hong Kong
Total	23		

5. Maintain comprehensive and detailed statistics on international cooperation in order to identify where more steps could be taken and enhance international cooperation in line with

This recommended action is largely addressed.

the risks country face.

2.5.1 Overview

As part of the new legislative and operational frameworks enacted to strengthen Pakistan's international cooperation with respect to ML/TF, Pakistan has instituted specific procedures to record and maintain comprehensive and detailed statistics. This information is used in turn to identify where Pakistan's resources and focus with respect to MLA could be improved and to enhance international cooperation in line with the risks it faces.

2.5.2 Initiatives Undertaken to Maintain Comprehensive Statistics.

(a) International Cooperation Cells

As highlighted in RA1, MOI and other relevant agencies have all established International Cooperation Cells as a central point of contact for incoming and outgoing data requests. As part of this role, these cells are responsible to record and maintain accurate statistics of all incoming and outgoing requests within their respective departments, and to share that data with MOI where relevant. Further, MOI IC Cell, on behalf of the Executive Committee, is responsible to maintain statistics of all incoming and outgoing MLA requests across the regime.

Initially all incoming and outgoing data was being handled manually or in digital format using Excel sheets. With the launch of the MLA Case management system in August 2020, data pertaining to all incoming requests is now maintained through the new online case management system. Outgoing requests are still maintained manually as well as in the Excel sheets pending the ongoing development of a similar application for outgoing requests.

(b) MLA Case Management System

As referred to under RA-1, MOI has developed an online MLA case management system which is accessible by all LEAs. The system allows for authorities effectively monitor any procedural delays with automated pop-ups. As part of the launch of the digital case management system, a comprehensive data bank containing all the information relating to incoming MLA requests is now also available online (<https://mla.pitb.gov.pk/>), including, as set out in RA-1, region wise and offense wise information of MLA requests received, as well as the current status of the request and the date and content of any replies. A similar application for outgoing MLA requests is under development.

MOI has undertaken extensive software training of the officials assigned to work on the online case management system. Since its launch in August 2020 data of all MLA requests received since 2013 to date have been uploaded on the system and the database is now being used regularly by officials in the ordinary course of their duties.

(c) Informal Cooperation

FMU's goAML system retains an electronic record of all incoming and outgoing requests and the status and results of such requests.

As noted above, IC Cells in each LEA and relevant authority are responsible for maintaining records of all incoming and outgoing requests within their departments, whether formal or informal.

2.5.3 Formal Outgoing International Cooperation Requests:

As set out in RA-1, MOI's MLA Guidelines specify in section 1.6 that the international elements of ML/TF should be considered in all domestic proceedings and international cooperation and require LEAs and other relevant agencies to prioritize ML/TF with respect to international cooperation. The majority of outgoing MLA requests, as described below, are based on targeting cross border ML/TF investigations in domestic proceedings, specifically with respect to fundraising/funding for terrorist activities and funding for NPOs and Madrassas. This aligns with the findings in the National Risk Assessment 2019 which found that the overall TF risk level for Pakistan is very significant, and that a large segment of the NPO sector in Pakistan is seen as having a very significant inherent

vulnerability for TF.

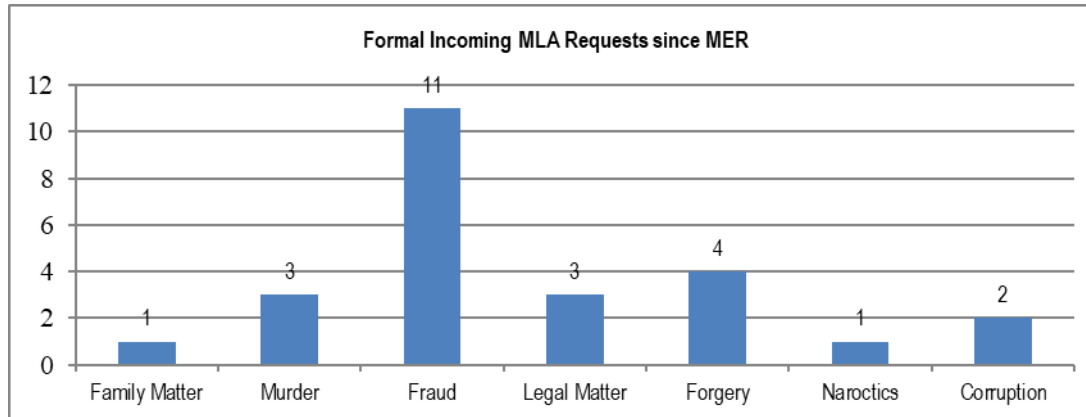
All relevant agencies (FIA, ANF, FBR, SECP and Home Departments) with formal international cooperation responsibilities regularly send MLA requests to various jurisdictions in accordance with their mandates. Between October 2018 – March 2021, the Ministry of Interior has sent 148 requests on ML/TF and other predicate offenses on behalf of FIA and provincial Home Departments and 2 MLA requests for provision of Beneficial Owner information on behalf of SECP. Similarly, NAB has sent 72 requests between October 2018 – March 2021 with respect to corruption offences, and ANF sent 10 requests between October 2018 – August 2020 with respect to narcotics offences. Following the coming into force of the MLA Act and the creation of an explicit Central Authority, the ANF no longer sends its MLA requests independently and instead routes them through the MOI in the ordinary fashion as set out under RA-1.

2.5.4 Informal outgoing International Cooperation Requests:

Between October 2018 – March 2021, various agencies have sent 2550 informal cooperation requests to various jurisdictions.

2.5.5 Formal Incoming International Cooperation Requests:

Between October 2018 – March 2021, Pakistan has received 25 formal MLA requests for information. In addition, under agreements related to transfer of offenders and return of illegal immigrants Pakistan received 72 requests for transfer of offenders and 10222 requests for deportation of Pakistanis Nationals from various countries.



2.5.6 Informal Incoming International Cooperation Requests:

Between October 2018 – March 2021, Pakistan has received 91 informal cooperation requests.

6. Address the technical deficiencies in the TC Annex relating to collection of beneficial ownership information for legal arrangements and for legal persons to be able to exchange such information internationally where needed.

This recommended action is largely addressed.

To address this recommended action, amendments have been made to the Companies Act, 2017 and the LLP Act 2017 section 123A of the Companies Act, 2017 (**in terms of Companies Amendment Act 2020**) and to section 8 of the LLP Act, 2017 (**in terms of LLP Amendment Act 2020**) which apply to all companies and LLPs, respectively.

Similarly, the requirements related to BO information with respect to Cooperatives, Trusts and Waqfs have been covered under the amendments introduced in respective Cooperative, Trust and Waqf Laws in all the four provinces and ICT.

The amendments to the relevant federal and provincial legislation also provide that legal persons and arrangements must register with the relevant federal or provincial authorities, including beneficial ownership information, and allow for beneficial information to be obtained by federal and provincial authorities upon request.

The provisions of the MLA Act apply to the formal exchange of beneficial ownership information.

A case study on request for collection of BO information is attached.

Country X submitted a request via email to SECP dated June 30, 2020, seeking clearance of Mr. ABC for appointment on board of its licensed entity. The request was submitted under the IOSCO-MMOU. The steps involved are as follows:

1. SECP acknowledged the receipt of request for information via email dated July 2, 2020
2. SECP considered the request and observed that the subject request by Country X was not in accordance with IOSCO-MMOU, therefore Country X was advised to send the request in accordance with the requirement of IOSCO-MMOU.
3. Country X fulfilled the requirement of IOSCO-MMOU and resent request for information in accordance with IOSCO-MMOU via email dated July 31, 2020.
4. Information requested by the Country X was retrieved and details pertaining to Basic and Beneficial Ownership Information with respect to Mr. ABC was confirmed after thorough scrutiny of information and the desired information was provided to Country X on August 27, 2020.
5. Country X acknowledged the receipt of the requisite information via email dated August 28, 2020.

**JG
Comments
& Analysis**

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 2.

The JG considers that Recommended Actions 1, 2, 3 and 4 for IO.2 are key Recommended Actions, since they address the fundamental expectations embodied within IO2 that Pakistan should provide constructive and timely information or assistance when requested by other countries and also seek international co-operation to pursue criminals and their assets.

Recommended action 1 is key and is largely addressed. Pakistan has set up legislative, policy and operational framework to effectively handle both formal and informal international cooperation. In August 2020, Pakistan enacted the new Mutual Legal Assistance (MLA) Act 2020. To support both formal and informal cooperation, a variety of guidelines and directives have been issued which mandate LEAs and other relevant authorities to prioritize the investigation of cross-border ML/TF and associated predicate offences as part of their work. Pakistan also has various MOUs and other enabling documents in place to facilitate the engagement of competent authorities and LEAs in prioritizing the investigation of cross-border TF, ML and associated predicate offences.

Regarding operational aspects, the new MLA Act designated an Executive Committee housed within MOI as the Central Authority to coordinate all international cooperation. New International Cooperation Cells have been established in each law enforcement agency and other relevant authorities. Besides, all IC cells are adequately resourced in accordance with the quantum of work generated. Pakistan also held more than 30 trainings on MLA related issues and case management system from Oct 2018 till now to improve the understanding and knowledge of relevant stakeholders. Pakistan also introduced an online case management system to speed up processing

time of the MLA requests.

Potential international aspects of ML and TF investigations are now considered in domestic proceedings and agencies resort to formal and informal international cooperation more proactively in line with Pakistan's ML and TF risk profile.

Recommended action 2 is key and is partially addressed. Pakistan enacted a standalone MLA Act in August 2020 which removes reliance on bi-/multi-lateral treaties for foreign ML-related MLA requests. Pakistan now can extend MLA requests to and request assistance from countries which does not have bi-lateral agreement with it. The MLA Act also provides legal basis for NAB to handle MLA requests. The MLA Act also clarifies NAB's legal basis to handle MLA requests", since, as per Pakistan's our submission, the MLA Act clarifies NAB as the sole authority to deal with MLA issues pertaining to the National Accountability Ordinance and other corruption-related issues. Besides, pursuant to the new MLA Act, MOI can handle TF-related MLA request, which address the gaps under ATA and NAO. The MLA Act includes a mandatory requirement that the subject of any MLA request is required by law to be notified of that request which creates a barrier to effective MLA when the existence and content of an MLA request should be kept covert. The JG agreed that this legislative deficiency was a significant gap that required an action item to address.

Recommended action 3 is key and is largely addressed. On June 9th 2019, FMU issued a directive for LEAs with respect to international cooperation with foreign FIUs. In April 2020, MOI and NACTA have also issued directives to all the designated LEAs to directing them to routinely utilize FMU to seek information from foreign FIUs in their ML / TF investigations. FMU also developed detailed SOPs that govern its procedures when seeking information from or receiving information requests from foreign FIUs, whether independently or on behalf of other LEAs. FMU also introduced a goAML Application for LEAs to share information and requests. Facilitated by directives and SOPs of FMU, from April 2020, LEA routinely used FMU to send 30 international requests to foreign FIUs, which is 7.5 times that of pre-MOI directive time. In addition, case studies show that FMU now seeks information from foreign FIU to assist LEA's investigation and forward foreign information request to LEAs to initiate domestic investigation.

Recommended action 4 is key and is largely addressed. FMU has addressed its technical hurdles in pursuing Egmont Group membership by amending AML Act in February 2020. After that, with the help of FINCEN and JAFIC, Pakistan submitted required documents for Egmont Membership. Due to the delay caused by the COVID-19 pandemic, Pakistan's membership request is more likely to be discussed in the next meeting of Egmont Group in July 2021. Since Oct. 2018, FMU has signed 9 new MOUs, some of which were signed with neighboring countries and is negotiating MOUs with 6 jurisdictions on the basis of Pakistan's risk profile. Since October 2018, FMU has made 23 international cooperation requests in total to actively pursue illegal proceeds transferred abroad.

Recommended action 5 is largely addressed. IC cells within all relevant agencies are responsible for recording and maintaining the detailed statistics of international cooperation. Pakistan launched an MLA case management system for processing and recording incoming MLA requests. While the system for recording outgoing MLA requests is under development, Pakistan uses Excel sheets to manually record outgoing MLA requests. FMU also developed a goAML application to record statistics of informal cooperation. Pakistan now has a comprehensive mechanism for maintaining international cooperation statistics and to identify more steps to enhance international cooperation.

Recommended action 6 is largely addressed. In 2020, Pakistan amended the Companies Act 2017, the LLP Act 2017 and Cooperative, Trust and Waqf Laws in each province to provide that all legal persons and legal arrangements must register with relevant federal or provincial authorities including BO information. Information available to domestic authorities on trusts (whether domestic trusts or foreign trusts operating in Pakistan) can be supported by international cooperation. In addition, Sections 7 and 8 of the new MLA Act provided the legal basis for international exchange of BO information as part of a formal mutual legal assistance process. There is still minor deficiency that the MLA Act includes a mandatory requirement that the subject of any MLA request is required by law to be notified of that request.

Immediate
Outcome
3

Low

Recommended Actions from MER:

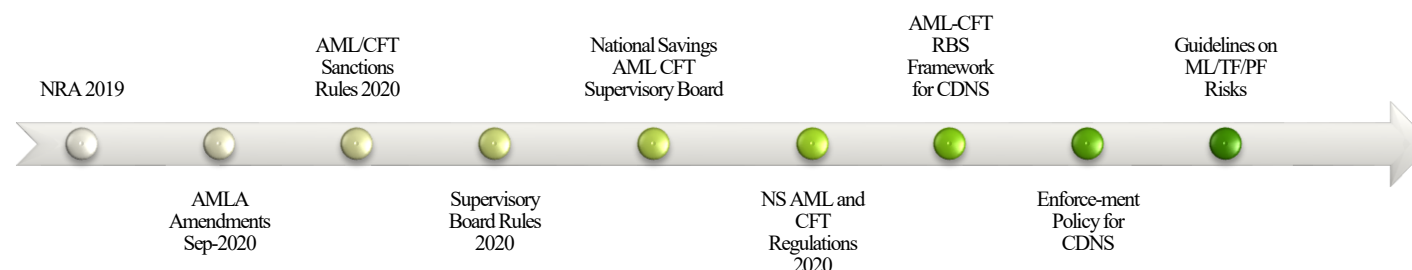
1. Develop, implement and effectively enforce an AML/CFT regulatory and supervisory framework for Pakistan Post CDNS, and all DNFBPs, and establish supervisory controls with regard to ML/TF risks with high priority supervision on real estate dealers and precious metal and gems dealers.

This recommended action is largely addressed.

Central Directorate of National Savings (CDNS)

3.1.1.1 - Development of AML/CFT Regulatory and Supervisory Regime

The following chart and subsequent description illustrate the development of the regulatory regime for CDNS.



3.1.1.1(a) - National Risk Assessment 2019 and its follow-up Actions

Pakistan completed an NRA in 2019 (see IO.1). The credibility of CDNS as a government entity makes the avenue of the National Savings Schemes more attractive for the general public. As one of the high-risk ML predicate crimes is corruption and since CDNS products could potentially be exploited, the overall inherent ML/TF vulnerability of this sector was assessed as very high, as there was no AML/CFT supervisor of this sector.

3.1.1.1(b) - Sep-2020 Amendments in AMLA-2010

Based on findings of NRA 2019 and its resulting action plan, a broad set of legal amendments were approved by the Pakistan Legislature in 2020, including the establishment of the National Savings AML-CFT Supervisory Board (hereinafter referred to as "*Supervisory Board*"). In addition, a number of AML/CFT regulations and guidelines were issued with respect to the CDNS, in order to bring its obligations in line with those of other financial institutions.

3.1.1.1(c) - National Savings AML/CFT Regulations 2020

The Supervisory Board has issued enforceable Regulations that extend AML/CFT/CPF obligations included in AMLA to CDNS.

http://www.finance.gov.pk/budget/NS_AML_CFT_Regulations_2020.pdf

3.1.1.1(d) - AML/CFT Sanctions Rules 2020

Sanctions rules have been introduced that apply the same principles with respect to enforcement actions taken by the new CDNS regulatory body as apply to the other AML/CFT supervisors.

<http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-9501-2020.pdf>

3.1.1.1(e) - National Savings AML/CFT Guidelines

The Supervisory Board has since issued numerous instruments and guidelines to assist CDNS through the implementation of AML/CFT/CPF measures. The guidelines (<http://savings.gov.pk/guidelines/>) include:

- Implementation of TFS under UNSC Resolutions
- Internal Risk Assessment on ML/TF/PF
- Red Flags on ML/TF Risks and PF Risks
- Customer Risk Assessment, Rating and EDD
- Politically Exposed Persons (PEPs)

3.1.1.1(f) - Sectoral Risk Assessment update December 2020

In December 2020, the regulatory authorities jointly undertook an update of the sectoral risk assessments of CDNS. The overall risk rating of CDNS was brought down from **Very High** to **High** taking into account the size of the business of CDNS and the nature of products offered, as well as low-income client base, the limited geographical (national) reach of CDNS and the absence of sophisticated or high-risk delivery channels (except the possible use of cash). CDNS accounts represent only 10% of the financial system in Pakistan, and the funds in the accounts constitute a direct obligation of the Government of Pakistan and can only be redeemed by the account-holders themselves. The summary findings were as follows:

Table 3.1.1 – Summary of Inherent Risk Profile Rating Results						
Overall Rating	Sector's inherent characteristics	Nature of products and services provided	Nature of the clientele	Geographic reach of sector's activities	Nature of Delivery Channels	Level of Confidence in Information
High	(H)	(VH)	(M)	(M)	(M)	(H)

3.1.1.1(g) - National Savings AML-CFT Risk Based Supervisory Framework

To provide independent oversight of implementation of the National Savings AML/CFT Regulations and to take necessary enforcement actions against violations thereof, the Supervisory Board was established in October 2020. The Supervisory Board is headed by the Additional Finance Secretary (Budget) and has five members from SBP, SECP, FMU, National FATF Secretariat and Ministry of Finance. It is supported by a secretariat that has an allotted Budget of Rs 2 Million and four supervisory staff members.

The powers and structure of the Supervisory Board were constituted under a legal instrument drawing power from the amended AMLA through the Ministry of Finance's SRO No. 954 and SRO No. 955.

http://www.finance.gov.pk/budget/SRO_AML_CFT_Powers_Fuctions_Rules_2020.pdf

http://www.finance.gov.pk/budget/Supervisory_Board_Notification.pdf

The Supervisory Board has implemented a comprehensive Risk-Based Supervisory Framework. This Framework outlines the supervisory policies and procedures relating to:

- The Supervisory Board's risk-based approach to AML/CFT supervision
- Risk Identification and assessment (including the Risk Matrix)
- Outreach, guidance and capacity building (including the Outreach Plan)
- Supervisory engagement (including the Inspection Manual, Offsite Questionnaire, and Supervisory Plan)
- Enforcement (including the Enforcement Policy)
- Coordination and cooperation (including the Supervisors Cooperation Committee Terms of Reference)
- Data and statistics (including the Key Performance Indicators)

To ensure effectiveness of the AML/CFT/TFS controls, the Supervisory Board undertakes offsite monitoring through progress reported by CDNS's compliance department (Vigilance and Monitoring

Wing), analysis of half-yearly AML/CFT Compliance Reporting MIS and Internal Audit Reports. To independently verify the progress reported by CDNS, the supervisory staff of the Supervisory Board conducts risk-based onsite inspections.

3.1.1.2 - Implementation of AML-CFT Regulatory Framework

To commence risk-based supervision, the Supervisory Board implemented the yearly Offsite Risk Monitoring Questionnaire. The data gathered from the Risk Questionnaire is fed into a Risk Matrix. This matrix is a mix of objective data as well as subjective judgment of the Supervisory Board to finalize the Risk Assessment of CDNS, which then ultimately forms the basis of risk-based supervision. The Risk Matrix also allows for the assessment of specific controls at the micro-level to assist the Supervisory Board in better targeting their supervisory efforts, including an Outreach Plan.

Since the CDNS is a single legal entity, the Risk Assessment was undertaken with respect to products offered and geographical locations in which it operates. In light of the inputs from the latest NRA sectoral update, data received from CDNS in the yearly Offsite Risk Monitoring Questionnaire, CDNS Internal Risk Assessment, half-yearly AML/CFT Compliance Reporting, MIS, and Internal Audit Reports, certain products of CDNS were rated as high or medium-high for inherent risk. Furthermore, data available to the Supervisory Board on CDNS products indicated that the AML/CFT controls framework was moderate or weak in certain products. The following table shows the results of the assessment of the various products:

Table 3.1.2 – Product wise Risk Ratings			
CDNS Business Activities	Inherent Vulnerability Rating	Controls Rating	Final Risk Rating
Pensioner Benefit Account (PBA)	Medium	Medium High	Medium
Bahbood Savings Certificate (BSC)	Medium High	Medium High	Medium High
Shuhada Family Welfare Account (FWA)	Low	Medium High	Low
Defence Savings Certificate (DSC)	Medium High	Medium	Medium High
Regular Income Certificate (RIC)	Medium High	Medium	Medium High
Special Savings Certificate (SSC)	Medium High	Medium	Medium High
Short Term Savings Certificate (STSC)	Low	Medium	Medium
Registered Premium Prize Bonds (PPB)	Low	High	Low
National Prize Bonds (NPB)	High	Low	High
Savings Account (SA)	Low	Medium High	Low
Special Savings Account (SSA)	Medium High	Medium High	Medium High
Total (Residual) Risk Rating			High

As a result of the risk assessment by the Supervisory Board, it was decided that greatest supervisory resource and efforts will be dedicated to implementing an effective AML/CFT/TFS controls framework (SOPs) and enabling strong IT support. The resulting directives of the Supervisory Board to the CDNS are as follows:

1. Enhancing of AML/CFT controls for high-risk products.
2. Strengthen compliance function, risk-based internal audit and AML/CFT/TFS policies and procedure.
3. Ensure automation of all branches, internal controls and reporting framework.
4. Automate name screening of pre-existing and new customers.
5. Enhance understanding of risk-based customer-on-boarding through introduction of KYC/CDD/EDD forms.
6. Strengthen STR and CTR reporting frameworks through the introduction of red flags.
7. Enhance verification through the introduction of bio-metric verification of pre-existing and new customers.

To assess the risk posed by various geographical locations where CDNS is operating, several factors of risk identification were used. These factors included the information provided by SBP of higher risk geographies, information provided by LEAs on the residential locations of proscribed persons and entities, the number of reported terrorism incidents, locations of UN designated persons

as per available UN sanctions listings, locations most highlighted adversely by media in the context of ML/TF, and the locations from where large numbers of STRs were reported to FMU by the financial sector. Further, as per the latest NRA, cities located in Pakistan's bordering areas with Afghanistan and Iran and the cities with frequently hit sectarian violence were also given consideration. Based on the above-mentioned factors, the geographic risk profile of the CDNS branches is shown in the table below:

Table 3.1.3 – Geographic Risk Rating by CDNS	
Name of City / Town	Risk Rating
Quetta	High Risk
Sargodha	
Bahawalpur	
Peshawar	Medium High Risk
Attock	
Jhang	
Lahore	
Islamabad	Medium Risk
Karachi	
Dera Ismail Khan	
Bannu	
Mansehra	
Hangu	
Kohat	
Bhakkar	
Turbat	

As per the risk-based approach, 24 branches with High, Medium-High and Medium Risk ratings were selected for inspection during the first quarter of 2021. Inspection of all these branches was completed by March 2021 and a final report was submitted to the Supervisory Board.

Following the inspection of these 24 branches, all remaining high-risk branches will be completed in the second quarter of 2021, together with at least 50% of medium-high and 25% of medium risk branches. The following table displays the list of branches selected for inspection before end-March 2021:

Table 3.1.4 – Branches selected for inspection					
Code	Branch Name	City / Town	Code	Branch Name	City / Town
2203	Jinnah Road	Quetta	1516	D.H.A	Lahore
2213	Alamdard Road	Quetta	1506	Fortress Stadium	Lahore
2210	Quetta Cantt	Quetta	1518	Model Town	Lahore
1631	Sargodha Two	Sargodha	2129	Saving House	Karachi
1633	Sargodha IV	Sargodha	1305	Civic Centre	Islamabad
1803	Bahawalpur-1	Bahawalpur	2104	Block 46A	Karachi
1804	Bahawalpur-2	Bahawalpur	2111	Defence V	Karachi
1130	U/Town	Peshawar	1327	R. Block	Islamabad
1131	Hayatabad	Peshawar	1302	F10 Markaz	Islamabad
1117	Cantt-I	Peshawar	2108	Clifton	Karachi
1507	Gulberg	Lahore	1308	F-8	Islamabad
1539	Johar Town	Lahore	2116	Habib Square	Karachi

In the inspections conducted so far, some instances were noted in High-Risk and Medium-High Risk branches wherein details of source of income were not filled, while a few of instances were observed in Medium Risk branches where certain elements of KYC were not adequately performed. CDNS was immediately instructed to take corrective action within specified time and to arrange training for employees of the branches where compliance and controls appeared to be weak. Further, the Supervisory Board initiated punitive action against the delinquent employees, which included issuance of letters of reprimand and the transfers of those in charge of the relevant branch.

Based on the findings from the inspections, the risk rankings of the inspected branches were revised which will be reflected in the next inspection plan. For example, if an already Medium Risk classified branch is found weaker in compliance and control environment, its risk classification was increased to Medium-High, and that of Medium-High was increased to High Risk. The re-rating of such branches is shown in the following table:

Code	Branch Name	City	Risk Classification Before Inspection	Risk Classification After Inspection
1507	Gulberg	Lahore	Medium-High	High
1539	Johar Town	Lahore	Medium-High	High
1516	D.H.A	Lahore	Medium-High	High
1506	Fortress Stadium	Lahore	Medium-High	High
1518	Model Town	Lahore	Medium-High	High
1130	U/Town	Peshawar	Medium-High	High
1131	Hayatabad	Peshawar	Medium-High	High
1302	F-10 Markaz	Islamabad	Medium	Medium-High
1308	F-8	Islamabad	Medium	Medium-High
1305	Civic Centre	Islamabad	Medium	Medium-High

Enforcement of AML/CFT Regulatory Framework

3.1.1.2(a) - AML/CFT Sanctions Rules 2020

The Ministry of Finance, by means of SRO NO 950(I)/20g20, issued AML/CFT Sanctions Rules, 2020 which are applicable to AML/CFT Regulatory Authorities and Oversight Bodies for SRBs, as defined in the Anti-Money Laundering Act 2010. The AML/CFT Sanctions Rules 2020 have been issued pursuant to section 43 and 6(h) of the AMLA (as amended).

The AML/CFT Sanctions Rules 2020 set out parameters for the Supervisory Board as to the type of sanctions that may be imposed for a violation of the AML/CFT provisions, the factors that can be taken into account when considering the type and magnitude of sanction to be imposed, and the process by which sanctions can be issued and appealed.

<https://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-950I-2020.pdf>

3.1.1.2(b) - Supervisory Board's AML/CFT Enforcement Policy for CDNS

In addition to the aforementioned Rules, Regulations, and Guidelines, the Supervisory Board has also developed and issued to CDNS an Enforcement Policy for CDNS in line with AMLA and AML/CFT Sanctions Rules, 2020.

The Supervisory Board has the power to impose administrative and monetary sanctions on CDNS, and its directors, senior management officers and officers in similar positions, in respect of contraventions of the relevant AML/CFT provisions. Available sanctions under Section 4 of the Sanction Rules 2020 include: (i) statement of censure, warning or reprimand, (ii) monetary penalties up to a maximum of 100 million rupees, (iii) imposition of condition, limitation or restriction, (iv) issuing a direction, (v) imposition of a prohibition on any person holding a position of responsibility in

CDNS.

When determining whether to impose a sanction, the Supervisory Board considers the extent to which the contravention negatively affects the CDNS' ability to achieve required outcomes. In other words, contraventions that demonstrate an inability or unwillingness by the CDNS to implement an effective AML/CFT program will be given higher priority in terms of enforcement activity by the Supervisory Board. In addition to these outcomes, the circumstances of any non-compliance are considered when determining the appropriate sanction to be applied. These circumstances include the gravity of the contravention, history of compliance, financial strength of CDNS, the profits gained, or losses avoided, as the result of the contravention, any remedial actions already taken, the extent to which the contravention was negligent or willful, and any other factor deemed appropriate. The following table and case study illustrate the action taken following the inspection of the 24 branches mentioned above:

Table 3.1.6 – Enforcement Actions by Supervisory Board		
Inspection Plan	Enforcement Action	Remedial Actions
Inspection of 24 branches completed	Enforcement action on 14 branches completed Transfer Out: 3 Warnings: 11	Compliance in 24 branches has been completed after remedial actions

Case Studies/ Examples

Effectiveness

- Compliance of observations in all the branches has been completed
- Enforcement actions as proposed by the Inspection Team to the Supervisory Board were directed to CDNS

Dissuasiveness

- A branch in Islamabad was found to be non-compliant to a number of instructions. It was noted that KYC and Risk Rating was not implemented properly. Further, in some cases CTR was not filed. It was also noted that the branch was weak in record maintenance. As a result, the person in-charge of the branch were removed from the position.
- Similar action was taken against 2 other persons in-charge of other branches.

Proportionality

- As it was observed that some branches were not properly adhering to the AML/KYC guidelines issues from time to time, it was proposed that those in charge be issued with a statement of warning/ reprimand.

3.1.2 - Pakistan Post (PP)

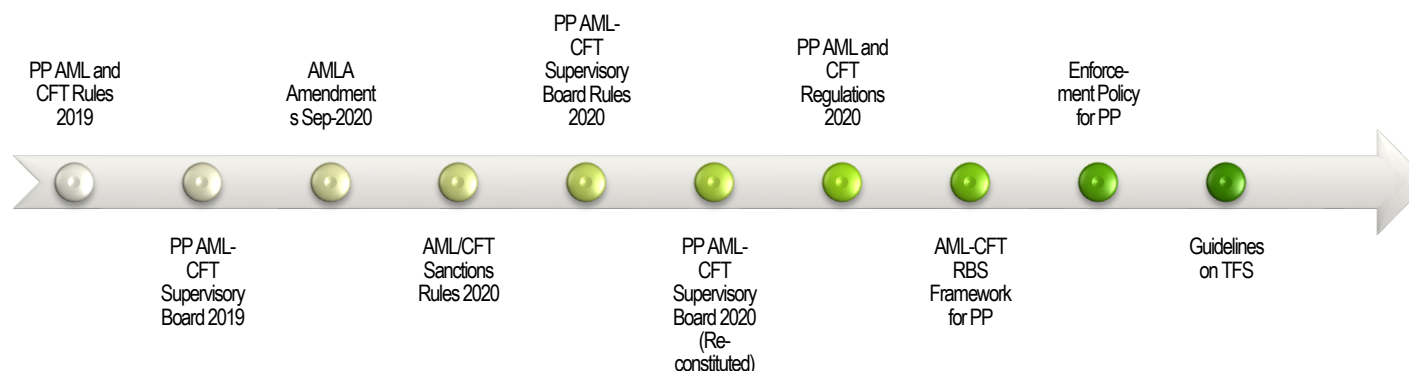
The financial services component of PP's business currently represents less than 1% of the country's financial system. As indicated below, this will decline further over the coming months, as the services are wound down.

In light of the National Risk Assessments (NRA) 2017 and 2019 (which rated PP as high risk), and to address the deficiencies pertaining to PP identified in the APG's Mutual Evaluation Report 2019, the authorities initially put in place an AML/CFT framework for PP that mirrors that for the FIs (see description below). However, inspections in September 2020 by the new supervisory authority (see description below), found limited capacity in PP for AML/CFT compliance. As a result, it was decided to stop PP from providing any financial services in its own right, and to transfer the existing business to other regulated service providers, as follows:

- The savings portfolio is being transferred to CDNS which is regulated and supervised by the National Savings (AML & CFT) Supervisory Board. This transition will be completed by January 2022.
- PP is barred from opening new savings accounts, but it will service low value accounts under a "branchless banking" agency agreement with a commercial bank (supervised by SBP).
- The insurance business of PP comprising of approximately 500 thousand policies has been shifted to PLICL - an insurance company supervised by SECP.
- Inward remittances will continue to be processed through the AML/CFT compliant digital platform of a commercial bank, which is regulated and supervised by SBP (PP does not provide outward remittances).

Further details on these arrangements are provided below. During the transition period for the savings accounts, the new supervisory authority will ensure that PP complies with the AML/CFT regime while transferring the legacy portfolios.

3.1.2.1 - The development of the AML/CFT regulatory framework for PP



3.1.2.1(a) - AML/CFT Regime in Pakistan Post before Sep-2020 amendments in AMLA

Consequent upon Pakistan's Mutual Evaluation, the following steps were taken to address the deficiencies pertaining to PP:

- Pakistan Post (AML & CFT) Rules, 2019 were notified through a Statutory Regulatory Order (SRO) in January 2020.
- The interim Pakistan Post (AML and CFT) Supervisory Board ("Supervisory Board") was constituted under Rule-9 of the Rules, with representatives of SBP, SECP, FMU, and Ministry of Communications, being members chaired under AFS, Ministry of Communications.

3.1.2.1(b) - AML/CFT Regime in Pakistan Post after Sep-2020 amendments in AMLA

Since September 2020, Pakistan has taken the following additional steps to cover PP under an AML/CFT supervisory and regulatory regime.

- AML/CFT obligations imposed on PP in line with those of other financial institutions, pursuant to amendments to AMLA made in September 2020;
- Designation of the substantive Supervisory Board (with the same composition as the interim Board) as the Regulatory Authority of PP under the AMLA;
- Introduction in October 2020 of:
 - Pakistan Post (AML & CFT) Supervisory Board (Powers and Functions) Rules, 2020 ([https://communication.gov.pk/userfiles1/file/Notification%20\(PPOD\)%20Gazette.pdf](https://communication.gov.pk/userfiles1/file/Notification%20(PPOD)%20Gazette.pdf)).
 - Pakistan Post (AML & CFT) Regulations, 2020 (<https://communication.gov.pk/userfiles1/file/board123.pdf>);
 - AML/CFT Sanction Rules, 2020 (<http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-950I-2020.pdf>);
- Development of a risk-based supervision framework by the Supervisory Board, which outlines the policies and procedures relating to:
 - Risk-Based Supervision
 - Risk Identification and assessment (including the Risk Matrix)
 - Outreach, guidance and capacity building
 - Supervisory engagement (including the Inspection Manual, Offsite Questionnaire, and Supervisory Plan)
 - Enforcement (including the Enforcement Policy)
 - Coordination and cooperation (including the Supervisors Cooperation Committee Terms of Reference)
 - Data and statistics (including the Key Performance Indicators)

3.1.2.2 - Pakistan Post AML/CFT Supervisory Board's Risk Assessment and Risk Model

In 2020, a risk assessment of PP was undertaken with respect to the products offered and geographical locations in which PP operates on the basis of inputs from the latest NRA-Sectoral update and the Risk Matrix derived from the data received from PP in the Offsite Risk Monitoring Questionnaire. The assessment indicated that the AML/CFT controls framework was moderate or weak in PP. As a result, the Supervisory Board rated the risks of PP to be high.

Table 3.1.7 – Risk Rating of PP			
PP Business Activities	Inherent Vulnerability Rating	Controls Rating	Final Risk Rating
Savings Accounts	Medium	Low	High
Foreign Remittance	Medium	Low	High
Life insurance	Medium	Low	Medium
Total (Residual) Risk Rating			High

As a result of the risk assessment, various steps, described above, have been taken to stop PP offering financial services directly.

3.1.2.2(a) - Role of Supervisory Board during transitionary period

The transfer of the legacy portfolio involves a transitionary period due to some legal as well as procedural formalities. Therefore, Pakistan has taken various steps to ensure that PP complies with the AML/CFT obligations during the transfer of the legacy savings accounts and life insurance portfolios. The transfers have been mandated and do not require the approval of the customers, but many customers will only be aware of this when they try to conduct a new transaction at a PP office. The Supervisory Board is actively monitoring and coordinating with the relevant stakeholders (i.e. PP management, Ministries of Communications and Finance and CDNS) for the efficient transfer of the savings accounts in line with the following procedure:

- Pakistan Post used to raise debt on behalf of Ministry of Finance by selling saving instruments as an agent of CDNS.
- Funds raised by both PP and CDNS reside with the Ministry of Finance.
- To transfer the account from PP to CDNS, the requisite documents/information are collected by PP from the customers when they visit a post office for a transaction.
- The passbook and other relevant documents are collected from the customer by PP and the financial details (principal and profit) are tabulated and verified.
- The data compiled on the prescribed format is forwarded to CDNS by PP for transfer of the account.
- The CDNS completes all the requirements of account opening including KYC, CDD, EDD, and necessary screening of UNSCR lists. Thereafter, the customer is allowed to operate the account.
- If a customer is identified by CDNS to be on UNSCR 1267 or 1373 lists, his/her account is frozen and an STR is filed.
- If the customer does not want to maintain an account with CDNS, his/her account is closed by CDNS by paying the balance amount after observing all formalities.
- For transferred accounts, PP is not authorized to make any cash or cheque payments, as the account holder is no longer its customer under the mandatory transfer arrangements.
- This transition is likely to be completed by January 2022.

During the transitionary period, the Supervisory Board continues with offsite monitoring and analysis of the legacy portfolio transfer process. To independently verify the progress, subsequent risk-based onsite verification is conducted by the Supervisory Board.

3.1.2.3 - Onsite inspections and Enforcement actions

As indicated above, various laws and regulations have been introduced to permit the Supervisory Board to take effective, proportionate and dissuasive enforcement action with respect to PP. To supplement this framework, the Supervisory Board has put in place a comprehensive Enforcement Policy as per Chapter-8 of the PP RBS Framework. This policy outlines the powers of the Supervisory Board to enforce legal instruments as well as sanction PP; the types of sanctions and penalties; notice in writing; penalty amounts; and appeals process.

The supervisory tools being used by the Supervisory Board have been provided in the RBS Framework (Chapter-7) that include offsite monitoring, onsite inspections, and follow-up. Following is the detail of the onsite inspections and enforcement actions by the Supervisory Board:

- Savings accounts

As per risk-based approach, an onsite inspection of the saving accounts business of PP was carried out during September 2020. Nine General Post Offices (GPOs) located in the high-risk areas identified in the NRA were inspected. The report, showing very low levels of compliance with AML/CFT obligations, was shared by the Supervisory Board with the management of PP so that it may provide a response. Considering the results of the inspection report, the transition of the saving accounts has been prioritized with active participation of the relevant stakeholders (i.e. Ministries of Finance and Communication, PP and CDNS).

- Life Insurance

During the transition of legacy business from PLI to PLICL, SECP carried out its first inspection of PLI in September 2020. Officials of SECP visited the head office, regional office and field offices situated in Islamabad and Lahore. The inspection report showed very low levels of AML/CFT compliance and it was shared by SECP with the Supervisory Board for appropriate enforcement action. The report was initially shared with the management of PP and, consequent upon receipt of an unsatisfactory response, a warning letter was issued to the management of PP (and shared with PLICL) with a recommended action plan and timelines. The management of PLICL, which now holds the portfolio, is taking appropriate actions as per recommendations of SECP and the Supervisory Board.

The above action plan comprehensively covered the AML/CFT requirements applicable to PLICL regarding appointment of key officers including a compliance officer, development of a compliance function as well as AML/CFT policies, risk based CDD, EDD, ongoing monitoring, screening of customers, STRs reporting, record keeping and training of officials of PLICL. The action plan required PLICL to adopt remedial measures by February 2021. The management of PLICL has taken various steps showing good progress in implementing the recommended actions.

3.1.2.4 - Role of Supervisory Board after transfer of legacy savings accounts to CDNS:

3.1.2.4(a) - Legacy Savings Accounts

Following the end of the transition period, the Supervisory Board will have a very limited function, as responsibility for oversight of the financial services previously offered by PP will fall to others. The National Savings (AML & CFT) Supervisory Board (as the supervisor for CDNS) will regulate and supervise the legacy portfolio transferred from PP to CDNS, while the SECP now supervises the insurance business already transferred to PLICL.

3.1.2.4(b) - New Savings Accounts (under SBP's Branchless Banking Regulations)

For financial inclusion of persons residing especially in the far-flung rural areas of Pakistan where PP has a strong historical presence and other financial sector entities have very minimal presence, PP has become an agent of a commercial bank. Under this arrangement, it will open and operate new savings accounts on the AML/CFT compliant digital platform of the bank under the terms of an agency partnership agreement with the commercial bank, in line with the SBP's Branchless Banking (BB) Regulations (<https://www.sbp.org.pk/bprd/2019/C10-Branchless-Banking-Regulations.pdf>), as well as SBP's framework for BB Agent Acquisition and Management (<https://www.sbp.org.pk/bprd/2016/C6-Annex-A.pdf>), which empowers SBP to carry out inspections of the agent.

The Supervisory Board will have no role in the ongoing supervision of branchless banking activity. However, in case of any violation/breach of SBP's AML/CFT/CPF Regulations by the commercial bank directly or due to its agent (e.g. PP), the bank will be ultimately held responsible and enforcement action would be initiated by SBP against the bank. If the bank determines that the violation/breach is caused due to negligence of some employee of PP, the bank may refer the matter to the Supervisory Board for taking necessary action against the employee. Moreover, the Supervisory Board will also ensure that the employees posted by PP to handle branchless banking functions are properly trained and equipped by the commercial bank and are performing their functions effectively.

3.1.2.4(c) - Inward remittances

Similarly, inward remittances will continue to be processed through the AML/CFT compliant digital platform of a commercial bank, which is regulated and supervised by SBP (PP does not provide outward remittances).

3.1.3 - DNFBPs

3.1.3.1 - Progress Since the MER

At the time of the MER, Pakistan did not have AML/CFT supervisory oversight of the DNFBP sectors. Since the MER, Pakistan has put in place a comprehensive legal and supervisory AML/CFT regime for the DNFBP sectors, which has been implemented and is now operational.

This includes drafting, passing and promulgating a legal framework that allocates DNFBP supervision responsibilities and puts in place enforceable preventive measures and internal controls obligations on the DNFBP sectors. The legislation defines the DNFBP sectors and designates supervisory bodies. Pakistan's legal framework for DNFBPs is fully explained in the 2021 APG FUR, which includes a provisional rating of LC for Recommendations 22 and 23. Recommendation 28 recognized the powers and functions of the supervisory bodies and was provisionally rated PC because at the time of FUR submission supervision was not yet operational (C28.5).

Since the submission of the FUR, the DNFBP supervisors of the real estate agent, DPMS, and accounting sectors have become fully staffed and operational and the DNFBP supervision regime is now active for those sectors. Market entry controls, risk assessment, offsite and onsite supervision, enforcement sanctions and outreach/guidance have been and continue to be undertaken.

The development of the supervisory capacity of the designated legal sector supervisors is well underway. Like the accounting sector, lawyers and law firms will be supervised by an SRB with formal oversight by a competent authority, the Ministry of Law and Justice. The Oversight Body Regulations for Self-Regulatory Body (SRB) of Lawyers (DNFBPs), 2021 were promulgated and in force as of April 2, 2021. Sectoral regulations including preventive measures obligations are being drafted, and will be complemented by a Risk Based Supervision Framework.

3.1.3.2 - DNFBP Regulatory and Supervisory Regime

3.1.3.2(a) - Legal Framework Summary

The new legal framework is fully described in Pakistan's 2021 APG FUR.

Pakistan's September 2020 amendments to the AMLA 2010 brought the full suite of DNFBPs under the national Pakistani AML/CFT supervisory regime. Those DNFBPs are defined in section 2(xii) AMLA. The definition includes real estate agents (a broad definition that includes real estate broker/dealers as well as builders/developers – housing authorities are a subset of builders/developers), dealers in precious metals and stones including jewelers and gem dealers, accountants, trust and company service providers, and lawyers, notaries and other legal professionals.

<http://www.fmu.gov.pk/docs/Anti-Money-Laundering-Act-2010-amended-upto-Sep.%202020.pdf>

The AMLA further designates regulatory authorities responsible for the supervision of these sectors under section 6(A) and Schedule IV and allocates the necessary supervisory powers to these regulatory authorities. These DNFBP regulatory authorities are:

- The Federal Board of Revenue (FBR) for real estate agents, DPMS, and accountants that are not a member of ICAP or ICMAP;
- The Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) for their respective members; and
- The Pakistan Bar Council for lawyers and other independent legal professionals that are enrolled under the Pakistan Bar Council or Provincial Bar Councils.

Section 6A(2)(C) of the AMLA gives powers to these regulatory authorities to issue regulations, guidelines and directions with respect to sections 7A to 7H of the AMLA. The FBR, ICAP and ICMAP have issued enforceable Regulations that expand upon the obligations included in the AMLA for each of the respective sectors (see below for more information on the Regulations issued by the regulatory authorities). As noted above, R22 and R23 were provisionally rated LC by the APG in the 2021 FUR.

Further, under s.43 of the AMLA, Pakistan has issued a Statutory Regulatory Order (SRO) relating to enforcement sanctions that applies to DNFBP (and FI) supervisory bodies. The sanction rules issued under the SRO outline the powers to apply sanctions, the available sanctions, the maximum penalty amounts, and an appeal process. These rules are supplemented by the Enforcement Policies of the individual DNFBP supervisors (see RA.5 of IO.4 for additional information on the DNFBP supervisors' Enforcement Policies).

<http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-9501-2020.pdf>

3.1.3.2(b) - Trust and Company Service Provider (TCSPs)

TCSP activity in Pakistan is carried out predominantly by accountants and lawyers and, as such, their activities fall under the remit of one of the existing supervisors, namely ICAP, ICMAP, the Pakistan Bar Council and the FBR. Pakistan's competent authorities have coordinated effectively to ensure all relevant business entities are under effective supervision. The SECP registers Company Service Providers (CSPs) as "Intermediaries of Companies" under the Intermediaries Registration Regulations (<https://www.secp.gov.pk/document/sro-705-i2017-intermediaries-registration-regulations-2017/?wpdmdl=28926>); this registration process includes market entry controls for criminality (s.3(viii and ix) of the Regulations) and all entities are subject to the provisions of the AMLA. There are 232 of these CSPs registered which are under the supervision mandate of the FBR, ICAP/ICMAP or the Bar Councils. The AML/CFT Supervisory Cooperation Committee is the forum through which the SECP and DNFBP supervisors coordinate their work, including ensuring comprehensive supervision of all DNFBP entities.

Case Study

In the course of Pakistan's comprehensive market entry work, it was identified that a very small number of CSPs (23) were outside the mandate of the DNFBP supervisors as they were not registered with the FBR, Bar Council or ICAP/ICMAP. To address this gap, the SECP coordinated with the FBR to issue a direction on March 15, 2021 to these individual intermediaries to register with the FBR if they were providing accounting services. Of the 23 CSPs, the 7 CSP registrations stood revoked as of March 31, 2021. SECP is following up with the remainder. An update can be provided at the face-to-face.

3.1.3.2(c) - DNFBP Risk-Based Supervision Frameworks

Pakistan completed an NRA in 2019 (see IO.1). The ML/TF vulnerability ratings were as follows: Real Estate Dealers – High, DPMS – Medium High, Lawyers – Medium High, Accountants – Medium.

In 2020, the regulatory authorities jointly undertook sectoral risk assessments (SRAs) of the real estate, DPMS, accounting and legal sectors informed by the knowledge gained during the development of the DNFBP supervisory framework. This was undertaken using a different methodology. The findings of the SRAs were as follows: Real Estate – High, DPMS – High, Accountants – Medium (see RA.2 below for additional information on the risk-assessment and RA.3 for DNFBP risk-based supervision). Accordingly, the highest priority is placed on the Real Estate and DPMS sectors under Pakistan's risk-based supervision regime.

The FBR, ICAP and ICMAP have developed comprehensive Risk-Based Supervision Frameworks. These Frameworks outline the supervisory policies and procedures relating to:

- The regulatory authorities' risk-based approach to AML/CFT supervision
- Organizational structure and resources
- Risk assessment (including the Risk Matrix)
- Market entry controls (including the Market Entry Policy)
- Outreach, guidance and capacity building (including the Outreach Plan)
- Supervisory engagement (including the Inspection Manual, Offsite Questionnaire, and Supervisory Plan)
- Enforcement (including the Enforcement Policy)
- Domestic and international cooperation (including the Supervisors Cooperation Committee Terms of Reference)
- Data and statistics (including the Key Performance Indicators)

Effective implementation of these Risk-Based Supervisory Frameworks has begun and is ongoing. See below for additional details on the regulatory framework, organizational structure and resources, market entry controls, and data/statistics for each supervisor. For additional information on risk assessment and supervisory coordination, see RA.2 below. For additional information on risk-based supervisory engagement, see RA.3 below. For additional information on outreach and guidance, see RA.4 below. For additional information on enforcement see RA.5 of IO.4.

3.1.3.3 - FBR

The FBR is the AML/CFT supervisor of the real estate, DPMS and non-ICAP/ICMAP accounting sectors. Previous to the 2020 AMLA amendments, these sectors were not subject to any AML/CFT preventive measures obligations or supervision.

The FBR issued comprehensive Regulations applicable to its supervised sectors as SRO 924(1)/2020 ("the FBR Regulations"). As referenced above, these have provisionally been found to be LC on R22/23 by APG. The FBR Regulations are available at: <https://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>

3.1.3.3(a) - Determination of Size and Characteristics of the DNFBP Population

The FBR undertook an exercise to determine the size and characteristics of its supervised population by reviewing information available in its tax database. The FBR is undertaking an initiative to ensure that all taxpayers are registered, in order to reduce the grey economy – as such, the tax database is the most comprehensive list of relevant businesses. Using the declared business area and other possible indicators such as business name, a total of 56,737 potential DNFBPs were identified. This number was reduced to 56,689 after data cleaning to remove duplicates (this data cleaning process is ongoing). An initial review of this population indicated that 37% of the potential DNFBP population did not file income tax returns, and 26% filed but reported 0 PKR in income. 88% of these entities are sole proprietors. From this data alone, it was not possible to determine which of these entities provided the services included under the definition of each DNFBP sector under the AMLA or FBR Regulations, which is why these are referred to as "potential DNFBPs".

In order to determine the accountants that provide DNFBP services as per the definition under the AMLA, the FBR circulated the Accountant Population Determination Survey form on 30 December 2020 (see Annex 3 of the FBR RBS Framework for the Accountant Population Determination Survey). Out of the 2,609 accountants that received the survey, 628 responses have so far been analysed which reveals that 98 conduct DNFBP services. Of these 98 DNFBPs, 34 provide only accountant services, 28 provide only TCSP services, and 36 provide or both accounting and TCSP services.

The other DNFBP sectors were subject to population determination questions as part of the Offsite Monitoring questionnaire, which was targeted towards the Very High risk and to a lesser extent High risk DNFBPs as per the Initial Indicator risk rating (see RA.2 below for more information on the initial risk ratings and RA.3 below for more information on the risk-based distribution of the offsite monitoring questionnaire). 21,605 DPMS and Real Estate Agents received the Offsite Monitoring Questionnaire on February 23, 2021.

The sectoral breakdown of those for which business activities are known as of March 29, 2021 is as follows:

Table 3.1.8 – Sectoral Breakdown of Responding DNFBPs			
Sector	Potential DNFBPs that received activity questions (1)	Confirmation obtained from potential DNFBP as of May 06, 2021 (2)	Confirmed DNFBPs As per FATF Definition as of May 06, 2021 (3)
Real Estate Agents	12,596	7,596 (60% of Column 1)	2,053 † (27% of Column 2)
Accountants (non-ICAP/ ICMAP)	2,609	636 (24% of Column 1)	190 (30% of Column 2)
DPMS	13,550	1,175 (9% of Column 1)	55†† (5% of Column 2)
Total	28,755	9,407*	2,298
* Responses obtained both manual and Online. Also includes 3,731 REA and 925 DPMS of, Non-Filers category, verified on ground by FBR field formations as not carrying out any business at all.			

† This number include the manually received Questionnaire (2850) received and analyzed so far. Out of 2,850 manually received questionnaires 1850 confirmed the status of DNFBP, remaining 203 confirmed through online system.

†† This number include the manually received Questionnaires (26) received and analyzed so far. Out of 26 manually received questionnaires 06 confirmed the status of DNFBP, remaining 49 confirmed through online system.

The data indicates that a substantial portion of the potential DNFBPs identified using the wide net of the tax database do not report conducting DNFBP activities. Indeed, during the FBR's face-to-face guidance and coaching with DNFBPs to complete their Offsite Monitoring Questionnaire (see RA.3), some of the DNFBPs of low category were explained and denied registration because his activities were not covered under DNFBPs definition. It is likely that a reduction of the total number of DNFBPs will result from completion of this exercise.

The portion of the FBR accountant population that provides DNFBP services is slightly higher than the ratio of practicing firms to reporting firms supervised by the SRBs (see below), but is broadly similar. With regards to the DPMS sector, a much higher percentage reported that they do not accept cash transactions over Rs 2 million, but that they did not have a documented policy that is actively enforced to that effect and as such they were considered DNFBPs by the FBR. As DNFBPs become familiar with the regime, this number may fall as more DPMS codify this practice. Only 22.7% of the DPMS population reported a total annual income of Rs 2 million or more, so it is reasonable to expect that a large majority of the businesses identified as potential DNFBPs in this sector will be confirmed to not conduct cash transactions over that value. Responses to the DPMS questionnaire included businesses that had activities across the precious metals and stones supply chain including manufacturing, refining, wholesale buyers/brokers, retail, resale buyers/sellers and scrap buyers/sellers. Similarly, the Real Estate Agent questionnaire was sent to a very large number of businesses and entities, including property management firms and housing authorities, and the responses received thus far indicate that a large portion of that population do not conduct the designated DNFBP activities.

3.1.3.3(b) - Establishment of the Supervisory Body

In order to operationalize its AML/CFT supervision mandate, the FBR has put in place a well-resourced Directorate General DNFBPs with a total of 107 professional staff working on AML/CFT supervision. This includes 38 middle and senior managers and 69 inspection officers. The staff is distributed across 5 different regional Directorates: Islamabad, Lahore, Karachi, Quetta and Gilgit-Baltistan. Lahore, Islamabad and Karachi are the largest Directorates by staff number and DNFBP population size.

The staff of the Directorate General DNFBPs was allocated from pre-existing FBR tax staff, and as such are experienced and knowledgeable in the areas of financial compliance and audit work. In December 2020 and January 2021, the staff participated in three separate courses on AML/CFT supervision: Introduction to AML/CFT, Introduction to Risk-Based AML/CFT Supervision, and AML/CFT Inspection Training. In the succeeding months, the Directorates have also conducted 9 training sessions for DNFBPs supervisory staff, including targeted trainings on conducting onsite and offsite inspections. The Directorate General of Training and Research (Inland Revenue) has also conducted 8 special sessions for 426 participants on FATF/ML/TF, including in relation to DNFBPs for the supervisors. Training and staff development will continue under the support of the FBR's specialized Directorate of Training.

In order to support the staff of the Directorate General DNFBPs, Pakistan undertook the development of a bespoke supervision technology (SupTech) solution to facilitate communication with and analysis of its DNFBP population. This system's DNFBP user interface is the platform on which the DNFBP interactively registers with the FBR, submits offsite monitoring questionnaires and information, is alerted to upcoming inspections and provides pre-inspection documents and information, receives their inspection report, receives notification of enforcement sanctions, and reports back on follow-up Action Plan items. There are also processes for the DNFBP to do these actions via hard copy submission if necessary. The supervisors' system interface compiles the risk matrix and entity risk ratings, manages the offsite monitoring questionnaire cycle and inspection scheduling and case management, and maintains comprehensive audit logs of offsite, onsite and follow-up supervisory activity that can be compiled and compared for different analyses. The SupTech system is not a substitute for qualified AML/CFT supervisory staff, but provides a platform for effective and efficient communication and record-keeping. This system is currently in its beta-launch phase, where the DNFBP interface is operational and the back-end analytical capabilities continue to be built out and tested.

The SupTech system will also facilitate the ongoing maintenance of statistics and data, and the compiling of key performance indicators. The data and indicators will allow for the work of the Directorate General DNFBPs to be monitored on a "dashboard" and ensure that targets such as offsite/onsite work targets are being met. The system's key performance indicator (KPI) dashboard is part of the Phase II development of the SupTech system.

FBR has also developed a customized Mobile app for the DNFBPs, which became operational on March 31, 2021. It allows DNFBPs to:

- register themselves with FBR DNFBP-portal through user-friendly interface.
- search facility to DNFBPs for searching of Proscribed persons in NACTA and UNSC list.
- upload STR / CTR directly to FMU

3.1.3.3(c) - Market Entry Controls

Through this SupTech system, the FBR has put in place a DNFBP registration system that operationalizes its market entry controls. Entities identified by the FBR as operating in DNFBP sectors must register with the FBR on this platform, and provide a declaration of its “associated persons” (senior managers, directors, and beneficial owners) – as 88% of DNFBPs are sole proprietors, in most cases this is simply one individual.

As of March 29, 2021, 109 DNFBPs had submitted their associated persons information which will be approved or rejected by the field directorates after analysis.

The DNFBPs and associated persons have also been screened against the lists of designated or proscribed persons on MoFA and NACTA websites respectively. Six (06) DNFBPs were identified as proscribed persons and their registration process was terminated (see the case study below).

Case Study

During the registration process and TFS screening of DNFBP associated persons, six (06) positive matches against proscribed persons list were identified. The process of provisional registration of these DNFBPs was immediately terminated and were also debarred from future registration as DNFBPs. The record available with FBR was examined to identify any moveable/immoveable assets of these individuals for TFS measures. FMU was approached for the banking information in respect of these individuals. It was intimated that all the accounts of the proscribed persons were already frozen by the banks at the time of proscription. Banks also reported suspicious transactions to FMU. FBR has also intimated complete particulars of these proscribed persons to the provincial CTDs, MOI and Home Departments for necessary action under ATA, 1997.

The entity then has two months to provide criminal record certificates to confirm that no associated person has a criminal record – these are reviewed and approved by the FBR before the DNFBP is fully registered. See Annex 10 of the FBR RBS Framework for the Market Entry Policy. Notwithstanding, the basic identifying information of the DNFBPs is also shared with NACTA for verification of any TF or criminal activity, respectively. NACTA has cross-matched the entire population of the provisionally registered DNFBPs with its TF database which maintains the record of all individuals and legal persons against whom terrorist financing investigations have been undertaken. The TF database has identified three (3) positive matches – two (2) were identified as Real Estate Agents and one (1) as a DPMS. These individuals have been debarred to be registered as DNFBPs in FBR. The information has also been passed on to the relevant LEAs for further action.

3.1.3.4 - ICAP & ICMAP Pakistan

ICAP and ICMAP have also put in place new AML/CFT Regulations and Risk-Based Supervision Frameworks, broadly consistent with that of the FBR. The circulation of the offsite questionnaire by ICAP and ICMAP began on June 29 and July 19, 2020, respectively.

The ICAP and ICMAP are Self-Regulatory Body (SRB) AML/CFT supervisors of their members, which are accountants. Previous to the 2020 AMLA amendments, ICAP and ICMAP had issued preliminary regulatory and supervisory frameworks that included preventive measures obligations under their own authority. These previous frameworks have been abrogated by the new AMLA and enforceable ICAP and ICMAP Regulations, provisionally found by APG to be rated LC for R22 and R23. They are available at:

<https://www.icap.org.pk/files/per/aml/ICAPAMLCFTRegulations.pdf>

https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf

In addition to the AMLA and ICAP and ICMAP Regulations, the new regulatory framework includes the SECP as the oversight body of the accounting SRBs. These rules are issued under S.R.O. 919 (I)/2020 or “the Oversight Regulations for Self-Regulatory Bodies of Accountants.”

<https://www.secp.gov.pk/document/oversight-regulations-for-self-regulatory-bodies-of-accountants-2020/?wpdmdl=40343&refresh=60221f16ce1aa1612848918>

The SECP has oversight over the functioning of the SRBs, including approval of the Regulations issued by the SRBs and the effective execution of their supervisory functions. The SRBs may be subject to enforcement sanctions should they not supervise their members for AML/CFT effectively. The SECP has developed an Oversight Framework to operationalize its role, which is consistent with the data and statistics and enforcement policies included in the ICAP/ICMAP Risk-Based Supervision Framework (see more information below). This Oversight Framework goes beyond the FATF Standards, which only require that regulations issued by an SRB be approved by a competent authority, and aligns with global best practice for AML/CFT SRB supervisors.

3.1.3.4(a) - Determination of Size and Characteristics of the DNFBP Population

ICAP and ICMAP have 623 and 135 practicing firms, respectively. ICAP and ICMAP undertook an exercise to determine which of its practicing firms are providing services included under the AMLA definitions of DNFBP. The Accountant Population Determination Survey, called "Form A" by the ICAP/ICMAP, was circulated on June 29, 2020 by ICAP and July 19, 2020 by ICMAP. Form A will make up part of all practicing firms' annual returns going forward.

Out of the 623 ICAP firms, 70 provide services included in the AMLA definition of DNFBP. 14 firms provide designated accounting services, 39 firms provide CSP services, and 17 firms provide both types of services. Out of the 135 ICMAP firms, 16 provide services included in the AMLA definition of DNFBP. 03 provide accounting services, 06 provide CSP services, and 07 provide both types of services. As such, there are 86 accounting firms supervised by ICAP or ICMAP subject to AML/CFT obligations. These are referred to as "reporting firms."

Table 3.1.9 – ICAP/ ICMAP reporting firms		
Particulars	# of ICAP Reporting Firms	# of ICMAP Reporting Firms
CSP Services	39	06
Accounting Services	14	03
Both Services	17	07
TOTAL	70	16

3.1.3.4(b) - Establishment of the Supervisory Body

- ICAP and ICMAP have also put in place dedicated AML/CFT supervisory resources with appropriate AML/CFT experience. ICAP has 03 staff in its AML Supervision Department, headed by a chartered accountant (CA) with AML/CFT experience, and ICMAP has a staff of 03. These supervisory staff support the ICAP and ICMAP AML Supervisory Boards within each of the SRBs (see Chapter 3 of the ICAP/ICMAP RBS Framework for a description of the organizational structure).
- The ICAP/ICMAP AML/CFT staff participated in the same 3 training courses on AML/CFT supervision as the FBR inspection officers during December 2020 and January 2021 (Introduction to AML/CFT, Introduction to Risk-Based AML/CFT Supervision, and AML/CFT Inspection Training). They also participated in DNFBP supervision training held on October 21, 2020. Training and staff development will be ongoing for the SRB AML/CFT staff.
- ICAP and ICMAP have put in place a new DNFBP online web portal to communicate with their firms, but unlike the FBR, the small number of supervised entities allows for the SRBs to manage their risk-based supervisory engagement manually, through Microsoft Excel and via the pre-existing annual returns process.
- ICAP and ICMAP will also maintain data and statistics manually, in order to monitor for KPIs of their supervisory effectiveness and the effectiveness of their reporting firms in complying with their AML/CFT obligations. These KPIs feed into the SECP Oversight Body monitoring framework. See Annex 6 of the ICAP/ICMAP RBS Framework for more information on the KPIs.

3.1.3.4(c) - Market Entry Controls

ICAP and ICMAP have now put in place a criminal record declaration obligation as part of the SRB membership annual return, and licensed accountants are now subject to TFS screening. See Annex 9 of the ICAP/ICMAP RBS Framework for the Market Entry Policy.

ICAP and ICMAP circulated criminal record declarations to practicing members on January 6, 2021 and January 8, 2021, respectively. 571 practicing members of ICAP and ICMAP returned the declaration, no criminal record was indicated. No accountants from either SRB are subject to TFS.

2. Continue to develop and enhance the risk-based assessment supervision across different regulated entities and between different regulators.

This recommended action is largely addressed.

Financial Institutions

The following table illustrates the scope of the responsibilities of the relevant supervisory authorities for AML/CFT purposes.

Table 3.2.1 – Financial Sector AML/CFT Supervisors and Regulated Entities	
AML/CFT Supervisor	Regulated Entities
State Bank of Pakistan (SBP)	• Banks (including public banks, specialized banks, private commercial banks, Islamic banks and foreign banks) • Microfinance banks • Development Finance Institutions • Exchange Companies
Securities & Exchange Commission of Pakistan (SECP)	• Securities brokers • Non-bank financial institutions • Modarabas • Insurance companies
National Savings (AML & CFT) Supervisory Board	• Central Directorate of National Savings
Pakistan Post (AML & CFT) Supervisory Board	• Pakistan Post

SBP and SECP-supervised institutions

The risk-based supervision strategy of the primary financial sector supervisors, which have introduced similar procedures, is based on:

- Risk-based Supervision Model
- Themes to cover emerging risks
- Coordination among the financial supervisors

Development

SBP and SECP developed new AML/CFT Risk Based Supervisory Frameworks in early 2019. Except for exchange companies, the basic methodologies are the same for all institutions but slightly altered to suit different sectors of reporting entities. While the model provides individual risk ratings of regulated entities (REs), it also highlights the specific risk areas (ML/TF/PF) with comparative impact across REs. The model has been kept dynamic to capture any emerging/ new risk factors. The comprehensive risk assessment methodologies were introduced to assess the level of inherent risk emanating from different activities. The inherent risk is assessed against the controls instituted by the REs to arrive at net risk, and subsequently to determine the supervisory stance required towards them. In line with international best practices, the risk assessment methodology initially required assessing the risks stemming from the following four broad categories:

- i.) Products & Services offered
- ii.) Customers
- iii.) Delivery Channels
- iv.) Geographies

The four sources of ML/TF/PF risk are evaluated using the likelihood and impact model. The likelihood of risk indicates the degree of vulnerability to ML/TF/PF risks. The level of likelihood for risk in any specific activity is determined based on the results of the National Risk Assessment (NRA), data available from other sources, and supervisory judgment. The impact is determined based upon the RE's share in the industry for that particular category of business activity. Composite scores in the above four areas are used to determine the inherent ML/TF/PF business risk.

Assessment of the effectiveness of relevant governance and controls to mitigate inherent risk is an integral part of the risk assessment methodology. To assess the effectiveness of the overall controls applied on ML/TF/PF risk, six broader functional areas are evaluated. These are the Board of Directors, Senior Management, Compliance, Internal Audit, Risk Management, and Operational Management. After evaluating each area, an overall indicative assessment is made using a weighted total score based upon prescribed weights and benchmarks.

Finally, a Supervisory Attention Matrix (SAM) has been developed to determine "Net Risk", divided into four categories – High, Above Average, Medium and Low. Each Net Risk category has been assigned a supervisory stance to determine the frequency and intensity of supervisory activities. An "Extreme" supervisory stance is taken for any RE assessed as carrying a 'High' net risk. This warrants a full-scope onsite engagement with the RE generally once in a year. A "Focused" supervisory stance is taken on REs carrying an 'Above Average' risk, which means they will be examined on-site once in 2 years through focused, thematic, or full-scope inspections. Likewise, in the case of 'Medium' risk institutions, supervisors shall take a "Focused Stance" and conduct focused/thematic on-site inspections towards a particular area or theme generally once in 3 years, if deemed necessary. Where the risks are perceived as 'Low', the supervisor will take a "Limited" stance and conduct on-site inspections generally once in 5 years. This framework will be effective in the timely identification of major weaknesses, will enhance efficiency of resource allocation, and improve general oversight on AML/CFT/CPF supervision. The SAM are now a part of the AML/CFT RBS Frameworks of respective supervisors.

Update/ enhancement of methodology

To better align the model with FATF Recommendations regarding supervision of financial groups, an additional category, "Business and Control Structure", was added to the model during the last update in 2020. This considers ML/ TF/ PF risk arising from an RE's structural factors (i.e. Operations in Years, Overseas Presence like foreign branches and subsidiaries, Corporate Structure, and Ownership Structure). To arrive at a consolidated Inherent Risk Score, 90% weight has been assigned to a RE's business risk and 10% to its structural risk. For SECP REs, ML/ TF/ PF risk emanating from the RE's structural factors is also considered in terms of size, corporate and ownership structure, non-compliance history, etc.

Update in light of NRA and other information

Pakistan updated its NRA in September 2019 and complemented that with a study of key risk profiles related to transnational TF risk in December 2019. SBP and SECP reviewed and updated their risk assessment matrix in light of that study. The update included new customer risk factors such as Afghan nationals, arms and ammunition dealers, government contractors, clearing and forwarding agents, and walk-in customers. To properly assess the transnational TF risk, in light of the 2019 NRA, transactions involving some high-risk international jurisdictions were added to the supervision framework while, to assess the risks arising from domestic geographies, a criterion was developed to identify high-risk cities and towns of Pakistan. Similarly, under products, the likelihood and impact of credit cards and outward remittances were also enhanced.

Based on the upgrades, the inherent risks of REs were re-assessed while the quality of institutions' applied controls was assessed through the aforementioned offsite supervision tool. Based on the re-assessed net risks, SBP selected 6 more banks for full scope AML/CFT inspections in addition to the 20 institutions already selected for inspection during the inspection cycle July 2019-2020. Similarly, based on the updated NRA 2019, other information, and a reassessment of the quality of mitigation controls applied by SECP REs using its offsite supervisory tool, SECP selected 25 more institutions (Brokerage House: 11; Insurance Cos: 13 and NBFC: 1) in addition to earlier planned inspections of 100 institutions (Brokerage House: 84; Insurance Cos: 3 and NBFC: 13).

For Exchange Companies (ECs), as they only deal in foreign remittances and currency exchange and have a different nature of business compared with other SBP REs (i.e. Banks, MFBs, DFIs), SBP has developed and updated a separate risk-based supervision framework (i.e. Risk Assessment and Control Evaluation Regime - RACER). Inspections of the ECs are being carried out in line with RACER (as amended from time to time) since FY 2017-18. In the current methodology, key risks (including splitting of transactions, PEP transactions, large cash transactions, transactions in high-risk geographies and unusual or out-of-pattern transactions etc.) are assessed based on prescribed risk factors. The assessment of controls is carried out at two levels under the methodology. These include assessment of controls to mitigate those risks at the operational (customer-interface) level, and the assessment of entity-level control/oversight functions such as management, monitoring (compliance, internal audit and external audit), MIS, and record-keeping. The results of the overall assessments of risks and controls are mapped on a Risk Matrix to arrive at the Net Risk Rating. These ratings are then utilized for the determination of the frequency and intensity of inspection of the exchange companies.

A summary of all onsite inspections conducted by supervisors from July 2018 till June 2021 are tabulated below.

Table 3.2.2 – Consolidated Statistics of Inspections* by SBP - July 2018 to June 2021

Financial Year	Banks				DFIs				MFBs				ECs				Total
	H**	AA	M	L	H	AA	M	L	H	AA	M	L	H	AA	M	L	
2018-19	34				4				7				10				55
2019-20	31	8	1	-	-	-	-	1	1	1	1	-	3	16	3	1	67
2020-21***	10	5	5	-	-	-	-	3	1	2	-	-	4	4	2	1	37

* The numbers provided above are of inspections. FIs may be inspected multiple times during 1 inspection cycle.
 ** H, AA, M & L indicates High Risk, Above Average Risk, Moderate Risk and Low Risk respectively
 *** Statistics pertaining to 2020-21 are of planned inspections till June 2021. All of these have been completed, except 2 (1 bank and 1 MFB) which are planned between April to June 2021.

Table 3.2.3 – Consolidated Statistics of Inspections by SECP - June 2018 to June 2021

Financial Year	Securities Brokers				NBFC				Insurance								Total
									Life				Non-Life				
	H	AA	M	L	H	AA	M	L	H	AA	M	L	H	AA	M	L	
2018-19	18	10	10	-	-	-	14	-	-	-	6	2	-	-	-	-	60
2019-20	27	27	35	6	-	3	8	3	-	2	7	-	-	-	7	-	125
2020-21*	20	5	31	4	-	3	4	3	-	2	2	-	-	-	-	5	79

* Statistics pertaining to 2020-21 are of planned inspections till June 2021. All of these have been completed, except 15 (9 brokers, 3 NBFCs and 3 insurance companies) which are planned between April to June 2021.

Theme-Based Supervision

Thematic inspections are part of the supervisors' strategy to capture emerging risk. Sources for identification of emerging risks have been elaborated in the supervisory manuals. Emerging risk, once identified, is deliberated, a comprehensive questionnaire for seeking information from REs is prepared and shared with REs, information received is assessed and institutions are selected based on intensity of identified emerging risk in each RE. For SECP-supervised entities, thematic inspections help in mitigating emerging risks, while enabling SECP to effectively guide the RE in improving compliance with the regulatory requirements. For SBP, where thematic inspections highlight new or more significant risks, these are incorporated into the risk assessment framework. Further, such risks are also communicated to national authorities during the NRA. For instance, one thematic inspection highlighted that general traders pose a higher ML/TF risk to the REs as they deal with large numbers of different items and maintain a diverse set of counter-parties/suppliers that makes transaction monitoring difficult. Further, AML/CFT delinquencies observed during such thematic assessments are subjected to enforcement actions. Details of thematic inspections conducted under various themes during the reporting period are as follows:

Table 3.2.4 – SBP Thematic Inspections - July 2018 to June 2021

Theme	No. of FIs	Banks				DFIs				MFBs				ECs			
		H	AA	M	L	H	AA	M	L	H	AA	M	L	H	AA	M	L
Review of High Turnover Accounts (HTA) in Banks (2018-19)	13	13				-				-				-			
Focused Inspection on Implementation of UNSC's Sanctions Regime in FIs (2018-2019)	12	7				2				3				-			
Review of Accounts of NGOs/ NPOs/ INGOs (2019-20)	12	8	3	1	-	-	-	-	-	-	-	-	-	-	-	-	-
Assessment of Threats Identified in National Risk Assessment (TF) in High-Risk Geographies (2019-20)	8	7	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transaction Monitoring and Sanctions Screening Systems in ECs (2019-20)	6	-	-	-	-	-	-	-	-	-	-	-	-	5	1	-	-
ECs Outlets in High-Risk Jurisdictions (2019-20)	5	-	-	-	-	-	-	-	-	-	-	-	-	3	1	1	-

Review of Proscribed Entities and their Associated Accounts (Schedule 1) (2020-21)	6	4	2	-	-	-	-	-	-	-	-	-	-	-	-	-
Thematic Inspection on AML/CFT including Proliferation Financing (2020-21)	7	4	3	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 3.2.5 – SECP Thematic Inspections - July 2018 to June 2021													
Theme	No. of FIs	NBFCs & Modaraba				Brokers				Insurance			
		H	AA	M	L	H	AA	M	L	H	AA	M	L
Focused Inspection on Implementation of UNSC's Sanctions Regime in FIs (2018-2019)	304	-	5	11	75	20	44	110	24	-	7	8	-
Transaction Monitoring and Sanctions Screening Systems in FIs (2019-20)	34					2	7	9	0	-	2	14	-
Compliance Function as mitigating factor (2019-20) & (2020-21)	109	-	5	11	75	1	4	4	9	-	-	-	-
Review of Accounts of NGOs/ NPOs/ INGOs (2019-20) & (2020-21)	29		3	10	-	-	-	-	-	-	2	14	-
Thematic Inspection on AML/CFT including Proliferation Financing (2020-21)	7	-	-	-	-	-	-	-	-	-	2	2	3

Coordination Between Supervisors

Where ML/TF risks emanating from a sector supervised by one supervisor intersects with a sector supervised by the other, relevant forums for information sharing and close coordination exist for a better understanding of such risks and taking timely remedial measures. The details of these forums are here as under:

AML/CFT Supervisory Cooperation Committee

This is the prime working level committee for exchange of information and coordination over ML/TF risks between supervisors. On the policy development side, the committee is majorly mandated to identify emerging trends and international developments in ML/TF risks, including risks emanating from financial groups operating domestically or internationally, sharing best practices and enhancing capacity development both for supervisors and the private sector. On the coordination side, the committee is mandated to contribute to the NRA, facilitate coordination between the member supervisors and with the international bodies/foreign supervisors on reporting/sharing information. Further, the committee is to facilitate coordinated efforts for implementing targeted financial sanctions in the country.

SBP-SECP Joint Task Force (JTF) on Financial Conglomerates

This SBP-SECP JTF is another working level group established on March 20, 2009. Since inception, around 17 meetings of the JTF have been held discussing key issues including different supervision matters/concerns arising from routine supervision of regulated financial institutions of conglomerates, including policy issues and suggestions. The joint task force also seeks periodical information through regulatory returns from financial institutions. These returns generally include information on ownership structures of the financial groups. ML/TF related issues highlighted from the routine supervisory activities of both the supervisors may be discussed during the JTF meetings.

SBP-SECP Coordination Committee

This is a head level forum for coordination between SBP and SECP, specifically, and is chaired by the Governor SBP and the Chairman SECP, while the relevant senior management also participates in the meetings. The meetings are held quarterly and discusses various broader supervisory issues such as group supervision, assistance on enhancement of supervisory oversight and exchange of human resources with each other to develop expertise in various areas.

As regards AML/CFT supervision of financial groups, while SBP and SECP follow a decentralized model where they both supervise their respective REs independently, they have implemented measures to ensure appropriate coordination and cooperation (see section 4.4.1.3 in IO.4 below).

CDNS

See section 3.1 for a description of the new supervisory regime for CDNS, including the implementation of a risk-based approach.

Supervisory cooperation

Representatives of the FMU, SBP, SECP are part of the Supervisory Board, which ensures support, feedback, interaction, and cooperation with these supervisors. Customer accounts of Pakistan Post were shifted to CDNS in January 2021 with liaison and understanding of the respective CDNS/PP supervisors to ensure that the appropriate due diligence measures are undertaken by CDNS at the time of the transfer.

CDNS' AML/CFT Regulations, AML/CFT/TFS Policy & Manual, Risk Based Supervisory Framework, and its inspection and enforcement regime were developed after input from a working group comprising the other supervisors. Furthermore, CDNS' procedures for ML/TF/PF Risk Assessment, guidelines for implementation of UNSC Resolutions, red flag indicators, and the updating of Account Opening form were also completed under mutual consultation and input from these supervisors.

These supervisors were also involved in the development of documents for the Supervisory Board which included CDD/ EDD/ PEP procedures, Risk Based Approach, Internal Customer Risk Rating for ML/TF Risk Assessment, implementation of screening and Targeted Financial Sanctions, and other matters in line with FATF Recommendations.

AML/CFT awareness programs were conducted for CDNS officers with support from experts from SBP, FMU, FBR and other LEAs. These sessions also covered the NRA and its subsequent update.

Additionally, an AML/CFT Supervisory Cooperation Committee was constituted to strengthen domestic cooperation among the AML/CFT regulatory Authorities. This included exchange of operational and policy information, effectiveness of supervision, reporting and capacity building.

Pakistan Post

See section 3.1 for a description of the supervisory regime for PP (including the adoption of a risk-based approach) and for information on the cooperation arrangements with other supervisors during and after the transition period.

DNFBPs

DNFBP Risk Assessment and Risk Model

Sectoral Risk Assessment and Supervisory Coordination

The RBA is applied at a national level across sectors and supervisors and requires that resources and attention be focused on those sectors that present the greatest risk at the national level as a whole rather than individual supervisors or jurisdictions within the country. Supervisory attention is allocated on the basis of risk across supervisors, across sectors, and across DNFBP entities.

The DNFBP and FI supervisors have also set up a Supervisory Cooperation Committee to facilitate coordination, cooperation and information sharing amongst the different AML/CFT supervisors in Pakistan and to further the risk-based approach across and between supervisory bodies. See Annex 5 of the FBR and ICAP/ICMAP RBS Frameworks for the Terms of Reference of the Committee.

As outlined under IO.1, Pakistan completed and further updated its National Risk Assessment (NRA) in 2019, which assessed the comparative AML/CFT risk exposure of the country's FI and DNFBP sectors. The threats and sectoral inherent vulnerabilities were first identified, analyzed, and categorized as High, Medium High, Medium, Medium-Low and Low. The ratings of the real estate and DPMS sectors considered their undocumented nature and cash-based transactions.

Table 3.2.6 – DNFBP Sectoral Risk Ratings 2019 NRA

Sector	Risk Rating
Real Estate Dealers	High Vulnerability
Dealers in Precious Metals and Stones	Medium High
Lawyers and Notaries	Medium High
Accountants, Auditors and Tax Advisors	Medium

In 2020, these risk ratings were revisited to take into account the significant legal, regulatory and administrative efforts made by Pakistan to strengthen its AML/CFT regime on a risk basis, as well as newly available data on the DNFBP sectors. Inherent vulnerabilities were assessed using sector profiles developed by competent authorities, considering the country's specific context and available information. This included quantitative and qualitative data as well as an assessment of the confidence level in the quality of information used. The risk ratings for the vulnerabilities are based on pre-defined rating factors (sector's inherent characteristics, nature of products and services provided by the sector, nature of the clientele, geographic reach of sector's activities, and nature of delivery channels) and scores presented in a definitions table to ensure consistency of the assessment and improve objectivity in the ratings. Each of these factors was assigned a rating of Low, Medium, High or Very High, and the final rating of each sector is the average of those factor scores.

Table 3.2.7 - DNFBP Sectoral Risk Ratings 2020

Sector	Risk Rating
Real Estate Agents	High Vulnerability
Brokers/Dealers	Medium Vulnerability
Builders/Developers	High Vulnerability
Dealers in Precious Metals and Stones	High Vulnerability
Lawyers and Notaries	High Vulnerability
Accountants	Medium Vulnerability

The only sector with a change in overall rating was Real Estate Agents, which decreased from the highest risk category in 2019 to the second highest-risk category in 2020. This was due to the availability of additional information, more accurate data and a more refined and more consistent assessment of the five risk factors that influence sectoral inherent vulnerabilities. Authorities were also able to identify and assign risk ratings to sub-sectors of the Real Estate Agent sector. Risk understanding and risk ratings will continue to be refined as supervisors continue to gather additional information about the DNFBP sectors.

Entity-Level DNFBP Risk Rating Model

To risk rate individual DNFBP entities, FBR, ICAP and ICMAP use a risk matrix based on a four-tiered risk rating. For a full breakdown of the calculations underpinning the risk matrix (see Annex 1 of the FBR and ICAP/ICMAP Risk-Based Supervision Frameworks). Like the 2020 sectoral risk ratings, the DNFBP entity-level risk model uses five inherent vulnerability factors (i.e., entity characteristics, products and services, clientele, geographic reach, and delivery channels) to arrive at a vulnerability score. It also uses seven strength of control factors, which broadly align with the FATF's IO.4 methodology (i.e., risk assessment, policies and procedures, CDD, enhanced measures and TFS, suspicious transaction reporting, and internal controls). The overall level of vulnerability is compared against the overall strength of controls on a heat map to determine the total residual risk rating of the particular DNFBP entity.

The risk model's data inputs include the Offsite Monitoring Questionnaire (or "Form B" for the accounting SRBs), Inspections and Inspection Follow-Up. The Offsite Monitoring Questionnaire is available under Annex 3 of the FBR and ICAP/ICMAP Risk-Based Supervision Framework, and the FBR, ICAP and ICMAP Inspection Manuals outlines the inspection methodology.

Annex 1 of the RBS Frameworks outlines how the data inputs feed into the actual risk ratings of the DNFBP entities. The questionnaire has questions under each vulnerability and compliance factor that are scored to come up with a factor rating. Following inspections, supervisors provide a factor rating based on the effectiveness of the DNFBP in that area, considering risk and context of that particular entity and the inspection methodology. This updates the risk rating for the DNFBP entity. The same process is used for risk matrix updates following the completion of a follow-up Action Plan after an inspection.

FBR

The FBR conducted an exercise to risk rate its DNFBP population in advance of the circulation of the offsite monitoring questionnaire, in order to prioritize that questionnaire and the initial inspection program on a risk basis.

Using information contained in its tax database, all 56,737 potential DNFBPs⁷ were assigned a risk rating on the basis of the three data indicators: whether the entity filed a tax return, if a tax return was filed the annual turnover/income, and the location of the entity in an area high-risk for tax (primarily large urban centers). Collectively, these data points are called the “initial indicators.” Entities that filed a tax return reporting 0 PKR in turnover were assigned a rating of Low, between 0 and 3 million PKR a rating of Medium, and above 3 million PKR a rating of High. If the entity was located in a high-tax-risk area the entity is moved up one risk rating, to a maximum rating of Very High. Entities that did not file a tax return were rated as High risk and upgraded to Very High if they were located in a high-risk area.

The result of this initial risk exercise was:

Table 3.2.8 - DNFBPs with Income Data									
Risk Rating	Property Dealers/ Brokers		Builders/ Developers		DPMS		Accountants*		Total
Very High	541	5%	1,207	10%	2,951	27%	151	6%	4,850
High	4,649	42%	3,404	29%	4,019	37%	917	39%	12,989
Medium	4,294	39%	5,970	51%	2,933	27%	1,079	46%	14,276
Low	1,491	14%	1,055	9%	985	9%	200	9%	3,731
Total	10,975	100%	11,636	100%	10,888	100%	2,347	100%	35,846

* This represents the total number of accountants, before the confirmation of that the accountants met the definition of DNFBP in the AMLA.

There were an additional 20,891 DNFBPs without income data, 25% rated High because there were not in a high-risk area and 75% rated Very High.

These initial risk ratings were used to prioritize supervisory engagement until the DNFBP has completed the offsite monitoring questionnaire (Annex 2 in the FBR RBS Framework) or an inspection and an AML/CFT-specific risk rating is calculated for the DNFBP using the risk model outlined above (Annex 1 in the FBR RBS Framework). See RA3 below for additional information on the risk-based distribution of the Questionnaire and inspection program. If an entity does not complete the Offsite Monitoring Questionnaire it has been sent, then that DNFBP will be rated Very High risk as default and necessary enforcement actions will be started as per the law.

Data entry and analysis of the Offsite Monitoring Questionnaire is ongoing, and the resulting entity risk ratings as per the Risk Matrix will be determined when the data is available. Preliminary findings include that there is still a lack of understanding of risks and vulnerabilities, and a large demand for further face-to-face outreach sessions. These are planned to take place in Q2 2021 and beyond across the whole country, see RA4 for more details on outreach.

ICAP & ICMAP Pakistan

ICAP and ICMAP have both already completed their first cycle of the annual offsite supervision of all reporting firms using the AML/CFT Off-site Monitoring Questionnaire (“Form B”, Annex 2 of the ICAP/ICMA RBS Framework). ICAP distributed the questionnaire on June 29, 2020 and ICMAP on July 19, 2020. 100% of reporting firms responded to the questionnaire. The results were entered into the Risk Matrix, resulting in the following risk ratings:

⁷ “Potential” because it was before confirmation of which of those entities met the definition of DNFBP in the AMLA and FBR Regulations. The total number of entities was later refined to 56,689.

Table 3.2.9 - ICAP/ICMAP Reporting Firms - AML/CFT Risk Ratings				
Risk Rating	ICAP Reporting Firms		ICMAP Reporting Firms	
Very High	1	1%	-	0%
High	5	7%	-	0%
Medium	31	44%	10	63%
Low	33	47%	6	27%
Total	70	100%	16	100%

The Offsite Monitoring Questionnaires indicated that the primary risk drivers are: (i) Offering more CSP services than accounting services, (ii) accepting cash as payment from clients, and (iii) lack of effectiveness in suspicious transaction reporting and independent audit, and in ICMAP risk assessment and training as well. The results of the risk assessments were pre-AMLA amendments when no enforceable AML / CFT Regulations were issued by the Accounting SRBs.

These AML/CFT risk ratings are used to prioritize supervisory engagement. See RA.3 below for additional information on the risk-based distribution of the inspection program.

These AML/CFT risk ratings will be updated following inspections and follow-up work, in line with the inspection methodology and risk matrix.

3. Ensuring supervisors are undertaking a full range of supervisory practices for both on-sites and off-site supervision that are complementary and commensurate with risks of DNFBPs.

DNFBP Risk-Based Supervision Engagement Plan

The FBR, ICAP and ICMAP have put in place wholly risk-based strategies/plans to prioritize both offsite and onsite supervisory work for their DNFBP populations.

Offsite supervision is primarily accomplished via the Offsite Monitoring Questionnaire. Additional offsite work may be undertaken on an ad hoc basis in the future, for instance, as part of thematic supervision work.

Onsite supervision is accomplished via inspections (though in some instances, inspections may also be conducted on a remote or desk-basis, for instance, as social-distancing health protocols require or in the case of a geographically remote DNFBP).

Inspections may be performed as part of the routine supervisory cycle, or triggered by supervisory concerns identified through offsite monitoring or other information (e.g. information from other supervisors, law enforcement, media reports etc.).

In addition to the supervisory plan being risk-based by prioritizing the higher-risk DNFBPs for more frequent supervision, the breadth and depth of those inspections are also determined on the basis of risk. Targeted inspections look at selected aspects of a reporting entity's AML/CFT program that the supervisor has identified as risky or worthy of more supervisory attention. This could be, for instance, a particular product or line of business, country or geographic area of operation or client-base, or mitigating control. They may be used as part of thematic inspection programs (see FBR section below). Full scope inspections consider the entirety of an AML/CFT program within a particular entity. Supervisors focus their attention and supervisory resources on the identified areas of risk for that specific entity.

The key areas of focus in an inspection align with the Risk Matrix compliance factors. See the Inspection Manuals of the FBR and ICAP/ICMAP for more information, as to how they are assessed.

This recommended action is partially addressed.

- Supervisors should continue to conduct both on-site and off-site supervision that are complementary and commensurate with risks of DNFBPs

Inspection tools include interviews of the compliance officer and other key individuals as applicable (the vast majority of DNFBPs in Pakistan are sole proprietors), the review and assessment of relevant documentation (e.g. policies and procedures, risk assessment, audit report, internal performance metrics, training materials), conducting testing of files (customer files, unusual or suspicious transaction alerts or report files, PEP and TFS files, audit testing files) and reviewing processes/systems used by the DNFBP.

The results of compliance inspections are entered into the Risk Matrix as per Annex 1 of the FBR and ICAP/ICMAP Risk Based Supervision Frameworks. Where the supervisors identify deficiencies in the DNFBP's AML/CFT programs, an Action Plan will be agreed upon to remediate these deficiencies. That Action Plan is monitored by the supervisor – the Risk Matrix may be updated further upon its completion, or enforcement sanctions levied if sufficient progress is not demonstrated.

Pakistani authorities have developed introductory videos and longer-form webinars as a form of e-outreach to help DNFBPs understand the offsite and onsite supervisory processes. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites.

FBR

Offsite Supervision

On January 23, 2021 the FBR circulated its first Offsite Monitoring Questionnaire to the DNFBP population on a risk-basis as per the Initial Indicators risk ratings (see RA.2 for more information), in advance of the thematic onsite inspection program. The FBR circulated an interpretive “definitions” FAQ along with the Questionnaire, to assist DNFBPs in understanding the questions therein.

Table 3.3.1 - FBR Offsite Monitoring Questionnaires by Entity Risk Rating

Entity Risk Rating (All Sectors)	Total # of Entities*	2021 Year 1	2022 Year 2** Target	2023 Year 3** Target	2024 Year 4** Target	2025 Year 5** Target
VH	20,400	20,268	10,210	10,210	10,210	10,210
H	18,302	5,821	5,153	5,153	5,153	5,153
M	14,260	566	2,583	2,583	2,583	2,583
L	3,727	82	290	290	290	290
Total	56,689	26,737	18,236	18,236	18,236	18,236

* Numbers reflect the total number of accountants, before the confirmation by the Accounting Population Survey that the accountants meet the DNFBP definition.

** These numbers will change to some extent based on the results of the previous years' risk rating updates following questionnaires, inspections and follow-up activity as well as revised population figures and any further consequent data cleaning.

During the first year (2021) of offsite monitoring for AML/CFT, the focus is on the Very High rated entities and High rated entities to a somewhat lesser extent. This allowed for the highest risk entities to be captured by the offsite exercise, and to refine the risk ratings of those entities using AML/CFT-specific factors covering both inherent vulnerabilities and the strength of controls. It was targeted that 70% of all VH-risk DNFBPs in each sector would receive a questionnaire, 20% of H-risk, and a small sample of M- and L-risk DNFBPs. In practice, slightly more DNFBPs received a questionnaire than was targeted, in part in preparation for the thematic inspection program (see below).

During the second year (2022) and onwards of AML/CFT offsite monitoring, 50% of the Very High-risk entities in High-Risk sectors (Builders/Developer and DPMS) will receive a questionnaire, a two-year coverage cycle. 33% of the High-risk entities will receive a questionnaire, meaning that going forward, these High-risk entities will be on a three-year coverage cycle. Medium risk entities will move up to 25% coverage in Year 2, resulting in a four-year coverage cycle and Low risk entities be sampled at 10% coverage. These low-risk entities all reported 0 PKR of annual income and are not in a high-risk tax jurisdiction (see RA2 for an explanation of the initial indicators risk ratings).

Reflecting the lower sectoral risk of the Broker/Dealer and Accounting sectors, the frequency of offsite monitoring is decreased. Starting in 2022, 50% of Very High-risk entities will be required to complete a questionnaire each year, 20% of High-risk entities, 10% of Medium risk entities, and 5% of Low-risk entities.

The total number of questionnaires circulated from Year 2 onwards will vary depending on the updated AML/CFT residual risk ratings from offsite monitoring, inspections and follow-up in the previous year, as well as confirming the supervised population through responses to questions on the entity's business activities.

As of 29 March, 2021, 912 Offsite Monitoring Questionnaires have been responded by the DNFBPs through the online DNFBP Portal, and an additional 4,292 have been completed manually by DNFBPs with the support of AML/CFT supervisors in the Regional Directorates, for a total of 5,204 completed Questionnaires. In addition to using the DNFBP Portal to distribute the Questionnaire, the FBR also undertook an extensive face-to-face guidance and coaching strategy to help the large number of low-capacity DNFBPs complete their questionnaire accurately, and to understand the obligations outlined therein. This is necessary in particular in cases where there is limited literacy by the DNFBP operators.

A large number of Offsite Monitoring Questionnaires have been received and are being processed and perused for the risk analysis. The results will define the future contours of supervision and enforcement actions. The FBR is following up with the entities that have not yet returned their questionnaire.

Onsite Supervision

At the end of Q1 2021 the FBR began a 4-week thematic inspection program, which focused on confirming the FBR's understanding of the business models of individual entities, the entities' inherent vulnerabilities and the appropriateness of their risk categorization. This initial approach is to help educate the DNFBP entities as to their AML/CFT obligations and to encourage constructive engagement with the FBR. The findings of the thematic review will inform the FBR's guidance and outreach work for the remainder of 2021 and onwards.

Inspections are scheduled and organized by each regional Directorate. Each inspection involves a one day onsite at the business premises of the DNFBP under review.

A total of 412 inspections are planned under this thematic program, and notices to all the DNFBPs included in the thematic program were sent March 24, 2021. As of April 2, 2021, 40 inspection had been completed, which is in line with the thematic program weekly targets.

The allocation of inspections across sectors and entity risk ratings is done on the basis of risk and the number of entities, overweighting higher risk sectors and entities. For instance, very High-Risk Non-Filers represent 27% of the total DNFBP population and made up 35% of the thematic onsite inspection population. DNFBPs that were rating High or Very High because they did not file income tax returns so therefore there was no income data were separated out from those DNFBPs that were rating High or Very High on the basis of higher income reported. This facilitates risk assessment and cross-tab comparison between the two populations. The breakdown of inspections within each Directorate is available under Addendum 2 of the FBR's Supervision Plan.

Table 3.3.2 - FBR Thematic Onsites Completed						
Entity Risk Rating	Real Estate Agents	DPMS	Accountants	Total	% of Inspections	Risk Category % of Total DNFBP Population
VH – Non-Filers	80	61	4	145	35%	27%
VH – Filers	35	33	4	72	17%	9%
H – Non-Filers	20	22	0	42	10%	9%
H – Filers	60	33	5	98	24%	23%
M	35	9	1	45	11%	25%
L	6	4	0	10	2%	7%
Total	236	162	14	412	100%	100%

Based on the results of the Thematic Inspection Program and the 2021 Offsite Monitoring Questionnaire, the FBR is undertaking its initial full-scope inspections starting in Q2/3 2021, with the target of 75 inspections per month.

Following the completion of Phase II and the 2022 Offsite Monitoring Questionnaire, the FBR will implement a steady state risk-based inspection program informed by the Thematic and Initial Inspections as well as the updated offsite risk ratings.

Offsite Supervision

ICAP and ICMAP have both implemented offsite supervision of their DNFBP populations. The small population size of reporting firms captured by the definition of accounting or TCSP DNFBP in the AMLA (70 reporting firms supervised by ICAP, 16 by ICMAP) allows ICAP and ICMAP to achieve 100% coverage of their populations with their offsite questionnaire.

The first cycle of the Questionnaire (Annex 2 of the ICAP/ICMAP RBS Framework) was circulated by ICAP on June 29, 2020 and ICMAP on July 19, 2020. All reporting firms have responded, see RA.2 for details on the risk ratings arising from these questionnaires. The results of these questionnaires also fed into the 2020 Sectoral Risk Ratings described in RA.2.

The second cycle of the Questionnaire will be circulated by ICAP and ICMAP before commencement of Inspection cycle for the year 2021-22.

Onsite Supervision

ICAP and ICMAP have developed a risk-based supervisory plan to guide its onsite inspections outlined in Annex 4 of the ICAP/ICMAP RBS Framework. Very High-risk reporting firms are subject to an onsite inspection ever year, High risk every two years, Medium risk every four years and Low risk every six years. See RA.2 for a description of the AML/CFT reporting firm risk ratings underpinning this plan.

Table 3.3.3 - ICAP and ICMAP Inspection Cycles

Reporting Firm Risk Rating	Inspection Cycle	Number of ICAP Reporting Firms	Number of ICAP Inspections/Year	Number of ICMAP Reporting Firms	Number of ICMAP Inspections/Year
VH	1 year	1	1	-	-
H	2 years	5	3	-	-
M	4 years	31	8	10	3
L	6 Years	33	6	6	1
Total		70	18	16	4

ICAP began its inspection program on February 18, 2021. These inspections are full-scope inspections. As of March 31, 2021, ICAP has completed 01 inspection and a further 02 are in process, which is in line with its annual targets. In line with the Risk Based Approach, the inspection was of the firm rated Very High risk. The main findings of these initial inspections are deficiencies in risk assessment and categorization, discrepancies in documented AML / CFT Policy which includes EDD measures, SDD measures and the CTR reporting threshold requirements. However, the results of the onsite did indicate an increase in the strength of controls since the Questionnaire was completed in July 2020; the results of the completed inspection were incorporated into the risk matrix and the resultant risk categorization of the reporting firm was reduced to the High-risk category.

ICMAP began its inspection program on February 24, 2021. These inspections are full-scope inspections. As of March 31, 2021, ICMAP has completed 01 inspection and a further 02 are in process, which is in line with the annual targets. In line with the Risk Based Approach, a firm rated as "Medium" was selected for the first inspection. The main findings of these initial inspections are deficiencies in documenting AML/CFT policies with regard to CDD measures and risk categorization, and lack of internal controls. Moreover, the results of the completed inspection were incorporated into the Risk Matrix and the result was that the reporting firm was maintained in the "Medium" risk category.

4. Enhance sector outreach to all reporting entities and develop a variety of programmes to assist in improving reporting entities' understanding of risks.

Across various IOs, the Pakistan MER included a number of recommended actions related to the proper understanding of AML/CFT risk and obligations by the reporting entities. This RA seeks to cover all of those RAs in one consolidated response, for ease of reference by the assessment team. Those RAs include IO.1 (RA. 4), IO.3 (RA.4), IO.4 (RA.2), IO.4 (RA.3(i)) & IO.11 (RA.2).

Since the MER, Pakistan has prioritized increasing understanding of ML/ TF risks for all its regulated entities (FIs and DNFBPs) and their supervisors. Authorities recognize that to take a holistic approach to sharing an understanding of risk requires inter-agency efforts and broad information sharing. The broad outreach strategy focused on the significant work undertaken by authorities to

This recommended action is largely addressed.

assess and understand Pakistan's risks and vulnerabilities since the MER, all the while ensuring that new and up-to-date information is incorporated as it becomes available. The combined effort of authorities was conveyed through a tiered approach of information dissemination from high-level national committees to institutional level reporting entities.

At the national level, the GC in its 24th meeting approved an outreach plan for authorities (including AML/CFT regulatory authorities) and reporting entities to improve the understanding of and provide up-to-date information on the risk as well as building capacity in implementing compliance with the AML/CFT/CPF obligations.

To arrive at a common understanding of risks in the specific context of Pakistan, a variety of programs and a range of measures were taken including:

National Risk Assessments (TFRA 2018 and NRA 2019)

- All stakeholders (supervisors, LEAs, FMU and private sector/ REs) participated in the NRA on Terrorism Financing in 2018 and on ML/TF in 2019 under the lead role of the NACTA and FMU respectively. Each predicate offence was discussed, its impact considered, and risk ratings finalized on the basis of various parameters. The involvement of REs in the NRA process provided a perfect opportunity for representatives of FIs and the DNFBP sectors to liaise with other authorities and have open and frank discussions on risk. It is noted for the DNFBP sector the representation consisted mostly of members of associations of DNFBPs as the DNFBP framework was still being built and was in early stages of implementation.
- As regards the TF threat, LEAs developed a comprehensive document focusing on profiles mainly of key entities of concern, especially terrorist organizations. The document forms part of the updated NRA which covers geographical presence and area of influence of these organizations, mechanisms of fund raising and fund movement, transnational operations and their interlinkages and associations.
- Although REs were involved in updating the NRA, to further enhance their understanding of each risk and associated vulnerabilities, several outreach/awareness sessions were held to discuss the contents of the NRA with relevant officers, including heads of the compliance departments. These sessions also offered the REs an opportunity to seek further guidance on updating their internal ML/TF risk assessments in the light of the updated NRA 2019. Statistics for these sessions are included below, as often the outreach covered many topics which included sharing the results of NRA/TFRA and subsequent risk assessments, AML/CFT Obligations, TFS obligations for TF and PF etc.
- The results of NRA were shared with all REs by their respective AML/CFT Regulatory Authority and REs were instructed to align their internal risk assessment documents accordingly.

Outreach, Awareness and Capacity Building Sessions for Reporting Entities Conducted by their Respective AML/CFT Supervisory Authorities

SBP

SBP has adopted a tiered approach, involving a variety of programmes for outreach with respect to the REs, including targeted sessions for different levels of officials.

SBP, being the AML/CFT supervisory authority for the major part of the financial sector of Pakistan, undertook several capacity building sessions via different forums and sessions, which included the Compliance Forum, CFT Desks and general outreach sessions for the operational staff of its REs.

- a) Compliance forum for Senior Executives: The compliance forum serves as a consultative forum for smooth implementation of legal and regulatory requirements. The meetings are attended by senior management of REs, e.g. head of compliance or operations. REs share their experiences and/or difficulties with peers and regulators in order to alert the others to key issues and to obtain guidance. The main issues discussed are the major risks and vulnerabilities faced by Pakistan, emerging trends and typologies, vulnerabilities of different sectors and updated information about the risk assessments. The objective is to improve AML/CFT/CPF compliance by REs and proactively identify bottlenecks/ hindrances and address them. However, the outcome is also greater relationship building between the SBP and its REs. Please see RA.5 of IO.3 for further information on the compliance forum.
- b) CFT Desk: In March 2019 SBP instructed banks/DFIs and MFBs to establish dedicated CFT Desks to ensure assessment of the TF risk faced by the institutions and to have effective controls put in place. Focused meetings with heads of CFT Desks are convened by SBP from time to time, wherein specific guidance is provided to assist REs in updating their internal risk assessments and policies in light of the updated NRA and emerging TF risks, as well to ensure compliance with TFS obligations, including for CPF, and provide guidance to detect sanctions evasion activities.

- c) General outreach sessions for operational staff: These were convened to raise overall awareness of operational staff other than senior management, and field staff of the REs in the areas of ML/TF risks and vulnerabilities and the AML/CFT/CPF obligations, particularly CDD, STR detection and reporting, screening requirements for TFS and asset/fund identification and freezing. These sessions are ongoing and continue across the year.

Statistics for all the above-mentioned capacity building sessions and compliance forum meetings undertaken by SBP are provided in table 3.4.1 below:

Table 3.4.1 - Outreach Sessions Conducted By SBP								
Year	Compliance Forum Meetings		Focused Sessions with CFT Desks*		Risk Based Outreach for Operational Staff		Grand Total	
	Sessions	Participants	Sessions	Participants	Sessions	Participants	Sessions	Participants
2018	4	600	3	183	16	819	23	1,602
2019	5	920	3	156	47	2,932	55	4,008
2020	4	325	3	152	28	1,040	35	1,517
2021	-	-	1	52	4	67	5	103
Total	13	1,845	10	543	95	4,858	118	7,246
Note: * SBP introduced CFT Desks in 2019. The sessions listed for 2018 are of REs' compliance heads on the topics that are now covered by CFT Desks.								

SECP

Like SBP, SECP also adopted a number of measures to update their reporting entities with the risks of ML. These basically covered the same ground as the programme described above for SBP, except that SECP REs are not required to have a dedicated CFT Desk. In this regard the SECP held various compliance forum meetings and outreach sessions for their reporting entities (including brokers, NBFCs and insurance companies), details of which are provided below:

Table 3.4.2 - Outreach Sessions Conducted By SECP						
Year	Compliance Forum Meetings		Risk Based Outreach for Staff of REs		Grand Total	
	Sessions	Participants	Sessions	Participants	Sessions	Participants
2018	1	17	23	1,429	24	1,446
2019	2	65	33	1,864	35	1,929
2020	4	216	31	2,240	35	2,456
2021	4	188	14	1,029	18	1,217
Total	11	486	101	6,562	112	7,048

Engagement with REs' Associations

In addition to above, SBP and SECP engage on a regular basis with relevant professional associations, such as Pakistan Banks' Association (PBA), Exchange Companies Association of Pakistan (ECAP), Mutual Fund Association of Pakistan (MUFAP), Insurance Association of Pakistan, Pakistan Stockbrokers Association, Non-banking Financial Institutions and Modarabas Association to discuss AML/CFT implementation issues, solicit feedback and strategize the way forward.

CDNS

Being comparatively new to the AML/CFT regime, special attention was paid to improving the understanding of overall AML/CFT obligations and risk for CDNS. Considering this, the Supervisory Board developed and implemented an Outreach Strategy. CDNS under the directives of its Supervisory Board conducted a 3-day workshop "Directors Conference - 2020 on AML-CFT" for all 50 members of the Executive Management, which included Senior Management of CDNS and the Chairman of the Supervisory Board. In addition, multiple programmes were organized and conducted to not only improve the understanding of ML/TF risk but also AML/CFT/CPF obligations. Details of these programs are provided below:

- a. Outreach by TINS in collaboration with FMU, SBP and LEAs: To improve the understanding of the risks and AML/CFT/CPF obligations, various outreach programs were organized by the Training Institute of National Savings (TINS) along with FMU, State Bank of Pakistan (SBP) and Law Enforcement Agencies. Experts from the FMU, AML/CFT supervisors, LEAs

and Senior Management of CDNS were invited as resource persons. By the end of March 2021 CDNS had conducted 46 outreach sessions/workshops for 460 officials. These sessions were largely conducted at the TINS, Islamabad and Karachi and in other Regional Offices of CDNS.

- **Outreach by CDNS:** In order to improve the understanding of its officers the head office of CDNS organized various training sessions in collaboration with FMU. These sessions were largely conducted either through Zoom or at the Regional Offices or Head Office of CDNS. These sessions included detailed discussion of risks, AML/CFT/CPF obligations and STR reporting obligations.
- **Supervisory Board Awareness Campaign:** The Supervisory Board provides continuous guidance and feedback to the CDNS, as well as specific capacity building training and assistance. The Supervisory Board provides clear, relevant, and up-to-date information that adds value to help CDNS understand their obligations and risks in order to better apply the risk-based approach internally.
- **CDNS Awareness Campaign:** Under the Instructions of AML/CFT Supervisory Board, CDNS has also conducted 120 outreach session /workshops for 1,444 officials during the period Jan-2019 to Mar-2021 on topics related to: AML/ CFT/ CPF Regime in CDNS, TFS Obligations, and adopting Risk Based Approach.

Table 3.4.1 - Outreach Sessions Conducted By CDNS

Year	Outreach by TINS		Outreach by CDNS for STR/CTR reporting		Supervisory Board Awareness Campaign		CDNS Awareness Campaign		Grand Total	
	Sessions	Participants	Sessions	Participants	Sessions	Participants	Sessions	Participants	Sessions	Participants
2019	14	173	9	94	-	-	42	689	65	956
2020	20	191	23	195	3	30	72	718	118	1,134
2021	12	96	3	22	4	41	6	37	25	196
Total	46	460	35	311	7	71	120	1,444	208	2,286

3.1.3.5 - Pakistan Post

- To provide AML/CFT awareness including ML/TF risk and AML/CFT/CPF obligations to the employees of PP, a five-day certificate course in collaboration with NIBAF was formulated, in consultation with FMU and SBP, in March 2020. These courses were arranged in different part of Pakistan notably in Islamabad, Rawalpindi, Lahore, Multan, Hyderabad, Karachi, Peshawar and Quetta and were attended by **5,172** junior to middle management officials of PP.
- In addition to the above-mentioned certificate courses, the employees of PLICL were also provided with training for awareness on the AML/CFT/CPF obligations. Various training, outreach and awareness sessions were arranged by UNODC in collaboration with FMU, SECP, NACTA, and MOFA and other agencies in August-December, 2020 and February, 2021 which were held at the provincial capitals and Islamabad. A total of **144** officials of PLICL attended these sessions.
- In order to guide the officers of PP regarding their obligations for AML/CFT/CPF matters while working as a branchless banking agent of a commercial bank, specific train-the-trainers sessions were organized by that bank in August-September 2020 for the employees of PP. These sessions produced 619 master trainers who then trained **5,685** other officers of PP.
- In addition to the above-mentioned training, an outreach plan in the name of **“Train-the-Trainer Refresher Course”**, spreading over 5 phases, was developed in collaboration with FMU and SBP. These training sessions included the results of the risk assessments, emerging ML/TF trends, and updates on the new AML/CFT obligations. Out of these 5 phases so far 3 phases, for **3,849** officials of Pakistan Post, have been completed as per following detail.
- Summary of all the above-mentioned trainings is provided in the table 3.4.4 below:

Table 3.4.4 – Outreach Sessions Conducted By Pakistan Post

Year	Certificate Course by NIBAF		Training Sessions for PLICL		Training by Commercial Bank		Train-the Trainer Refresher Course		Grand Total	
	Sessions	Participants	Sessions	Participants	Sessions	Participants	Sessions	Participants	Sessions	Participants
2020	8	5,172	4	134	8	6,304*	22**	3,849	42	15,459
2021	-	-	1	10	-	-	-	-	1	10
Total	8	5,172	5	144	8	6,304	22	3,849	43	15,469

Notes:

**This includes 619 master trainers and 5,685 Trainees.*

****Phase-1:** 08 Sessions and 1,299 Participants; **Phase-2:** 07 Sessions and 1,271 Participants; **Phase-3:** 07 Sessions and 1,279 Participants.

Additional measures and programmes employed by Financial Sector Supervisors to share information on risk and AML/CFT obligations to reporting entities

SBP

- SBP issued Guidelines on Compliance of Government of Pakistan's Notifications issued under United Nations Security Council (UNSC) Resolutions on December 30, 2019 <https://www.sbp.org.pk/bprd/2019/C9.htm>
- SBP issued on Guidelines on Targeted Financial Sanctions (TFS) under UNSC Resolutions on September 30, 2020 <https://www.sbp.org.pk/bprd/2020/CL44.htm>.
- In addition, SBP has also issued tailor-made Red Flags/ indicators for identification of persons suspected to be acting on behalf of or at the direction of designated/ proscribed individuals or entities. These were initially issued in May 2020 as a standalone document, but were subsequently annexed to SBP's Guidelines on Targeted Financial Sanctions (TFS) under UNSC Resolutions referred above.
- SBP issued Guidance for Updating Internal Risk Assessments for its REs in July 2019
- SBP issued Guidance on Risk Based Approach to AML/CFT during COVID-19 pandemic in May 2020
- SBP has dedicated officials (separate for TFS obligations and SBP's regulatory framework) who are available to the REs through email and/ or telephone to respond to RE's queries and issue clarifications.

SECP

- Published FAQs on NRA 2019 and TFS compliance requirements pursuant to UNSCR 1267 and 1373 available on SECP website at www.secp.gov.pk/aml-cft-2/aml-cft-faqs/;
- Presentations on TFRA (Terrorist Financing Risk Assessment) and TFS regime implementation have been placed on SECP website;
- SECP Red Flags on Associates of Proscribed Individuals or Entities <https://www.secp.gov.pk/aml-cft-2/aml-cft-laws/aml-cft-guidelines/>;
- Guidelines on reporting compliance report in relation to TFS screening obligations;
- Guidance on Risk Based Approach to AML/CFT during COVID-19 pandemic <https://www.secp.gov.pk/aml-cft-2/aml-cft-laws/aml-cft-guidelines/>;
- Guidance letters to FIs regarding general feedback on STRs in light of FMU guidance;
- To facilitate greater cooperation from REs, dedicated email addresses of designated officials are available to enable REs to reach out to their respective supervisors. Further, helpdesks and service desk management system are also available to answer their queries.

CDNS

- Guidelines on TFS under UNSC Resolutions
- Red Flags for STR Reporting by CDNS on ML/ TF/ PF
- Guidelines and Template for CDNS on ML / TF / PF Risk Assessment
- Guidelines for CDNS on Politically Exposed Persons (PEPs)
- Guidelines and Template for CDNS on Customer Risk Assessment and Rating

The above-mentioned guidelines are available on the CDNS official website at <http://savings.gov.pk/guidelines/>

Pakistan Post

- The Pakistan Post (AML & CFT) Supervisory Board issued TFS guidelines for Pakistan Post [https://www.communication.gov.pk/Sitelmage/Misc/files/Notification%20\(PPOD\)%20Gazettee%202\(1\).pdf](https://www.communication.gov.pk/Sitelmage/Misc/files/Notification%20(PPOD)%20Gazettee%202(1).pdf)
- The Supervisory Board also provided guidance and feedback to Pakistan Post during the Internal Risk Assessment of Pakistan Post.

Outreach/ Awareness & Capacity Building Sessions for DNFBPs conducted by respective AML/CFT Regulatory Authorities

As a result of the work undertaken to update Pakistan's NRA, the vulnerability of the DNFBP sector was raised as a priority issue. In order to guide the newly established AML/CFT Regulatory Authorities of DNFBPs, a dedicated section of Outreach Plan was incorporated in the AML/CFT Supervisory Frameworks of the FBR, ICAP and ICMAP. (See Annex 12 of the FBR RBS Framework and Annex 11 of the ICAP/ICMAP RBS Framework attached as Annex-IO.3-1-9, Annex-IO.3-1-10 and Annex-IO.3-1-11, respectively). These outreach plans included training their respective REs on the identified ML/TF risks and AML/CFT obligations. Pakistan's DNFBP supervisors have undertaken and continue to undertake extensive outreach to sensitize the newly covered sectors to improve their understanding of risk and their AML/CFT/CPF obligations and are collaborating to ensure that consistent messaging and accessible guidance is provided to all DNFBPs across the three different DNFBP AML/CFT regulatory authorities.

DNFBPs are thoroughly briefed about the risks identified in NRA 2019. They were also briefed about matters related to identification of TF risk, TF risk assessment and screening, freezing and reporting. In addition, extensive AML/CFT awareness and outreach sessions for DNFBP sector were held in 2019 and 2020 before the AMLA amendments – this work is outlined in the Outreach History section of the RBS Frameworks (Annex 13 of the FBR RBS Framework and Annex 12 of the ICAP/ICMAP RBS Frameworks).

a) e-Outreach for DNFBPs:

Due to COVID, most of the outreach has been undertaken in a virtual setting. Additionally, in recognition of the fact that a large portion of the DNFBP population in Pakistan is low capacity, including in relation to literacy, the DNFBP authorities focused on providing outreach and guidance materials through audio and visual media that can easily be accessed via mobile device. These materials were published to YouTube and embedded on the websites of the FBR, ICAP and ICMAP and include audio in Urdu and English text. The scripts in English of the videos are attached at Annex-IO.3-3-1.

The first e-outreach product was the series of introductory videos, published in November 2020. These provide short overviews of key AML/CFT concepts for newly-covered DNFBPs with no background knowledge. As of 3rd April, 2021, the videos have a total of 8,540 YouTube views. The topics are:

- Anti-Money Laundering (AML) – Why Does It Matter? (<https://youtu.be/MQt3Z21VgtA>)
- Counter Terrorist Financing (CFT) – Why Does It Matter? (https://youtu.be/teWAhyw_is8)
- Pakistan's Designated Non-Financial Businesses and Professions (DNFBPs) (<https://youtu.be/m3YEKud-w4>)
- **Understanding Money Laundering and Terrorist Financing Risk in DNFBPs** (https://youtu.be/LXa_4CbAGao)
- DNFBP Obligations: Preventive Measures and Internal Controls (<https://youtu.be/mFzbbM5jX3o>)
- What to Expect Under Pakistan's New AML/CFT Supervisory Regime (<https://youtu.be/SFq5jaHIVBg>)

The second e-outreach product was the series of more in-depth topical webinar-style videos, published in March 2021. These and provide the DNFBPs with more detailed information on key topics, including:

- The Global Response to ML/TF/PF (https://youtu.be/MOdyw_2GLbl)
- **Risk Assessment by DNFBPs** (https://youtu.be/Eu_RN8KnUqA)
- Internal Controls (<https://youtu.be/H5SQInYSTZw>)
- Customer Due Diligence and Enhanced Due Diligence (<https://youtu.be/JdDtMhJ0AZI>)
- Suspicious Transaction Reports and Cash Transaction Reports
- Targeted Financial Sanctions (<https://youtu.be/RyWOMJBDemg>)
 - Offsite Supervision (<https://youtu.be/FCqF4JZY2Y>)
 - Onsite Inspections (<https://youtu.be/3Unl2zGeme8>)

b) Awareness sessions for DNFBPs:

In addition to the aforementioned e-outreach products, DNFBP AML/CFT regulatory authorities (FBR, ICAP and ICMAP) organized outreach sessions in multiple cities through a multi-agency partnership. The topics covered during these sessions were NRA 2019 risks, ML/TF risks and obligations, TFS obligations, etc. These sessions were participated by members of ICAP, ICMAP, Pakistan Bar Council (PBC), Karachi Tax Bar Associations, FPCCI, KCCI, Defence Housing Authority (DHA), Pakistan Gems Jewelry Traders & Exporters Association (PGJTEA), Dealers of Precious Stones and Metals, Association of Builders & Developers (ABAD), Real Estate Agents & their Association, Tax Bar Associations, KP Bar Council, KPRA, KP Dept of Industries, Accountancy Firms, TDAP, PFVA, PRDS, Punjab Bar Council, Lahore Tax Bar, Punjab Tax Bar, Sheikhpura Tax Bar, LCCI, Real Estate agents and Realtors Associations of Karachi and Islamabad, All Pakistan Real Estate Associations of Four provinces, Representatives of major Builders, developers and housing societies and authorities and other stakeholders. A city wise summary of the outreach sessions

undertaken until February 2021 is shown in table 3.4.5

Table 3.4.2 – DNFBP Outreach Sessions 2019-2021		
Cities	Number of sessions	No. of Participants
Islamabad	14	548
Karachi	18	835
Lahore	7	260
Peshawar	2	121
Quetta	4	144
Live Zoom and Facebook Sessions broadcasted across Pakistan	6	1,094 live participants 10,644 Recorded Views
Grand Total	51	3,002

UNODC sponsored awareness trainings/ sessions:

The above table also includes UNODC sponsored 05 awareness trainings/ sessions conducted in different cities and attended by appx. 500 participants from DNFBP sectors. Again, all three DNFBP AML/CFT regulatory authorities participated in these events.

c) FBR Face to Face Support with DNFBPs completing the Offsite Monitoring Questionnaire

In addition to the scheduled sessions outlined above, the FBR conducted an extensive exercise in one-to-one coaching with DNFBPs using AML/CFT supervision staff stationed in the regional directorate field offices. This level of guidance and support was provided by the FBR to support its DNFBP population in understanding the Questionnaire, as well as the new AML/CFT obligations under the AMLA and FBR Regulations and AML/CFT risks. As noted above, the FBR recognizes that a portion of its DNFBP population is very low capacity, including in relation to literacy, and is providing outreach and support tailored to the needs of this population. The FBR also developed a “cheat sheet” of terminology definitions to support DNFBPs in understanding the Questionnaire.

d) Hotlines and one-to-one queries

All three DNFBP supervisors also run dedicated email and phone query lines for the DNFBPs under their mandate. As of March 23, 2021 the FBR had also responded to more than 250 queries from DNFBPs, including queries on DNFBP registration, the Offsite Monitoring Questionnaire, Inspections, Enforcement and policy interpretations since January 1, 2021. ICAP also responded to roughly 55 queries from reporting firms by email and various queries were addressed through phone calls and during awareness sessions. ICMAP responded to various queries through telephone calls and awareness sessions in the same time period.

e) Written Interpretive Guidance employed by Supervisors of FIs to share information on risk and AML / CFT obligations to reporting entities:

With technical assistance provided by the ADB, Pakistan developed Sector-Specific Compliance Program Manuals as interpretive guidance to support DNFBPs with understanding their AML/CFT obligations and effectively implementing an AML/CFT compliance program, including in relation to risk assessment. These guidance documents were published in January 2021 and are available on the FBR, ICAP and ICMA websites:

<https://www.fbr.gov.pk/aml-cft-legislation-regulations/152366/152370>

<https://www.icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf>

<https://www.icmap.com.pk/downloads/AML/AMLCFTGuidelinesforAccountants2020.pdf>

The FBR, ICAP and ICMA also issued Guidelines on TFS at:

<https://www.fbr.gov.pk/Targeted-financial-sanctions-regulations/152366/152886>

<https://www.icap.org.pk/files/per/aml/FAQs-on-TFS-Obligations.pdf>

<https://www.icap.org.pk/files/per/aml/Guidelines-TargetedFinancialSanctions.pdf>

https://www.icmap.com.pk/downloads/FAQs_on_TFS_Obligations_ICMAPakistan.pdf

https://www.icmap.com.pk/News_Pdf/GuidelinesTargetedFinancialSanctions_TFS.pdf

The DNFBP supervisors also posted the FMU's red flag indicators for their sectors (see below) on their websites.

f) Next Steps on DNFBP Outreach

Plans for further outreach can be found in the Outreach Plan annex in the FBR and ICAP/ICMAP Risk Based Supervision Frameworks.

The ADB has extended its technical assistance in 2021 and will continue to support outreach of the Compliance Program Manuals in April to June 2021 as well. Depending on COVID situation, these sessions will be held virtually.

The DNFBP supervisors are also planning to undertake additional face-to-face outreach sessions with the private sector following the completion of the FBR's thematic inspection program (Q2/3 2021), Covid-19 restrictions permitting. The outreach materials will incorporate the findings from the first inspections. Topics to include:

- General overview of requirements in Pakistan and more detailed overview of sector-specific requirements (including sector-specific risks);
- Risk assessment at reporting entity level (linked to the NRA findings);
- Specific requirements – CDD/STRs/TFS/Internal controls; and
- Being supervised – what it means (annual returns/off-site supervision/on-site supervision).

Outreach/Awareness & Capacity Building Sessions conducted by FMU:

FMU plays a vital role in improving the coordination and cooperation among the AML/CFT regulatory authorities and LEAs as well as with the REs. Being one of the central agencies, FMU prioritizes outreach/trainings and provides up-to-date information regarding the risks of ML/TF to all its stakeholders. In this regard, FMU employs various measures which are discussed below:

a. Outreach Programs for FIs and DNFBPs

In order to interact and share general risk and AML/CFT information with the diversified reporting sector, FMU uses the following channels:

i. AML/CFT Awareness Sessions

FMU has conducted a number of training and awareness sessions for the reporting entities. Some of these sessions were conducted in coordination with UNODC, NIBAF and the Regulators (SBP & SECP). Since October 2018, FMU resource personnel, in coordination with regulators and international organizations, have organized numerous capacity building sessions summary of which is provided in table 3.4.6.

Table 3.4.3 – Training Sessions Conducted for REs by FMU 2018-2021		
Banking Sector	21	650
CDNS	18	312
DNFBPs/NPOs	15	950
Non-Banking Sector	41	2,150
PPO	2	65
Total	97	4,127

ii. Compliance Forums

Moreover, in addition to the above-mentioned outreach sessions, FMU also organized compliance forum meetings with different reporting entities which also included the participation of their respective AML/ CFT Regulatory Authorities. These sessions included discussions on the AML/CFT & CPF obligations especially with respect to updates on risk assessments and its consequences on the respective sectors and STR obligation, discussions on the sector specific red flags. These sessions are separate from the compliance forum meetings conducted by SBP and SECP, and

their details are provided in table 3.4.7:

Table 3.4.4 – Compliance Forum Meetings held by FMU					
1	2019	AML/CFT Compliance Forum for Exchange Companies	FMU	2-Sep-19	90
2	2020	AML/CFT Compliance Forum for Insurance Sector	FMU	11-Feb-20	70
3	2020	AML/CFT Compliance Forum for Banks and DFIs via Zoom	FMU	7-Jul-20	85
4	2020	AML/CFT Compliance Forum for Exchange Companies via Zoom	FMU	20-Aug-20	74
5	2020	AML/CFT Compliance Forum for CDNS and PPO via Zoom	FMU	3-Sep-20	50
6	2020	AML/CFT Compliance Forum for CDNS and PPO via Zoom	FMU	3-Sep-20	50
7	2020	AML/CFT compliance forum for Asset Management Companies (22) * Modaraba Companies (28) * REIT/Funds Management Companies (5)	FMU	6-Oct-20	60
8	2020	AML/CFT compliance forum for *Investment Banks (7) *Investment Financial Services (6) *Leasing Companies (8) * Micro Finance Institutions (25)	FMU	13-Oct-20	46
9	2020	AML/CFT Training Session for * banking sector (23 banks)	FMU/ UNODC	14-Dec-20	40
10	2020	AML/CFT Training Session for * banking sector (other banks)	FMU/ UNODC	14-Dec-20	42
11	2021	AML/CFT Compliance Forum for * Exchange Companies (Karachi)	FMU/ UNODC	09-Feb-21	40
12	2021	AML/CFT Compliance Forum for * Exchange Companies (Karachi)	FMU/ UNODC	23-Feb-21	42
		TOTAL			689

In addition, Senior Officers from FMU regularly attend sessions held by the Regulators. In these sessions, the FMU shared case studies to help inform the participants on how their STRs are used to develop quality financial intelligence.

b. FMU Strategic Analysis

In addition, FMU developed strategic analysis papers on various issues of concern in the context of the ML/TF profile of the country. These included papers on associates/fund providers of terrorist organizations, cash couriers, CTRs, Hundi/Hawala, drug trafficking, human trafficking etc. These papers were shared with the supervisors, LEAs, REs and other stakeholders to provide guidance and increase their understanding. In turn, all AML/CFT Regulatory Authorities shared the strategic analysis prepared by the FMU with their REs. For further details on this refer to our submission in RA.11 of IO.6.

c. FMU Guidelines

In an effort to improve the quality of the reports and to keep them aligned with the identified risks, FMU issues guidance in the form of red flags, circulars and FAQs. The details of the guidance issued by FMU are provided in <https://www.fmu.gov.pk/regulations-guidelines/>.

d. Development of Typologies by FMU

FMU develops typologies based on tactical and strategic analysis of the STRs/CTRs. AML/CFT regulatory authorities and REs utilize these typologies for identifying emerging ML/TF risks and to enhance their understanding. FMU's typologies are available at <http://www.fmu.gov.pk/category/typologies/>.

e. Issuance of Newsletter/Statistical Reports

FMU also develops quarterly newsletters covering the work of the FMU, major aspects and developments in the AML/CFT regime of Pakistan and in global environment. FMU's news letters are available at <http://www.fmu.gov.pk/newsletterfmu/>

LEAs

As stated above, the involvement of LEAs is integral to a holistic national approach around the understanding of risk. LEAs in Pakistan work in close consultation with national authorities when assessing and considering updates to the understanding of risk. For example:

1. LEAs are included in the NRA Core Committee along with the supervisors on ML / TF.
2. Both SBP and SECP have identified officials across all their regional offices to cater to correspondence from LEAs and ensure prompt response to all the queries and information requests. This builds relationships with LEAs and ensures seamless exchanges of information.
3. LEAs and supervisor have regular meetings to discuss the emerging trends
4. LEAs in Pakistan tend to work closely with the FMU, given the work of the FMU on strategic analysis, and other operational work. The FMU therefore tends to act as the medium between LEAs and supervisors/the reporting entities, passing on risk information in compliance forums / focused meetings and producing strategic analysis on new and emerging risks (based on information from LEAs).

In addition to the above mentioned efforts, NACTA had also issued directive/ guidance to all the AML/CFT regulatory authorities regarding the emerging risk of ML/TF in COVID-19 Scenario. The directive was also shared with the reporting entities. [<https://www.fmu.gov.pk/wp-content/uploads/2020/05/Annexure-II-Directive-Guidance-on-Money-Laundering-in-COVID-19-Scenario.pdf>]

5. SBP and SECP should continue enhancing the coordination [compliance]⁸ forum and guidance feedback sessions with all stakeholders across regulated FIs and LEAs.

Sessions for REs

SBP and SECP have adopted a tiered approach for outreach to REs, conducting targeted sessions for different level of officials. For the senior level officials, SBP and SECP have created compliance forums respectively, which serve as a consultative forum for smooth implementation of legal and regulatory requirements. The meetings are attended by senior management of REs (e.g. head of compliance or operations). REs share their experiences and/or difficulties with peers and regulators in order to obtain guidance. The main issues discussed are the major risks and vulnerabilities faced by Pakistan, emerging trends and typologies, vulnerabilities of different sectors and updated information about the risk assessments. The objective is to improve AML/CFT/CPF compliance by REs and proactively identify and address bottlenecks/hindrances.

Table 3.5.1 – SBP/SECP Compliance Forum Meetings				
Year	SBP	Participants	SECP	Participants
2018	4	600	1	17
2019	5	920	2	65
2020	4	325	4	216
2021	-	-	4	188

In addition to the compliance forum, SBP and SECP have held focused meetings with CFT Desks/ Compliance Heads of REs and conducted risk-based outreach/ awareness sessions for operations staff of REs in different cities across Pakistan. Details are provided under the general discussion of outreach in RA.4 above.

Guidance/ feedback sessions for LEAs

Both SBP and SECP have identified officials across all their regional offices to cater to correspondence from LEAs and ensure prompt response to all the queries and information requests. During the reporting period, SBP and SECP have conducted over 28 outreach/capacity-building sessions for different LEAs across the country including the ANF, FIA, FBR-Customs, NAB, Pakistan

This recommended action is largely addressed.

⁸ The APG Secretariat has clarified that the term “coordination forum” was used in the MER to refer to the existing “compliance forum”. The text of the RA has been updated accordingly.

Rangers and provincial CTDs. The topics covered included the respective AML/CFT regulatory regimes of SBP and SECP, foreign exchange regulations, and new technologies (e.g. cryptocurrencies). Summary statistics of the sessions are as follows:

Table 3.5.2 – Guidance/Feedback Sessions for LEAs				
Year	SBP		SECP	
	Sessions	Participants	Sessions	Participants
2018	3	117	-	-
2019	12	556	1	29
2020	3	101	4	104
2021	3	278	2	53

JG Comments & Analysis

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 3.

The JG considers that Recommended Action 1, 2 and 3 are key Recommended Actions, since they address the fundamental expectations embodied within IO3 that in Pakistan supervision and monitoring should address and mitigate the ML/TF risks in financial and other relevant sectors, and supervisors should provide financial institutions and DNFBPs with adequate feedback and guidance on compliance with AML/CFT requirements.

Recommended action 1 is key and is largely addressed.

- CDNS

Pakistan updated its NRA in September 2019, in which the overall inherent ML/TF vulnerability of CDNS was assessed to be very high. On the basis of this finding in the 2019 NRA, Pakistan made a series of legal amendments to its AMLA and other laws in 2020, including the establishment of the National Savings AML/CFT Supervisory Board, to set up AML/CFT obligations for the CDNS in line with other financial institutions. The Supervisory Board also issued a number of instruments and guidelines on risk assessment, CDD, PEPs etc. to clarify the AML/CFT obligations for the CDNS. In addition, the Supervisory Board has started to implement AML/CFT regulatory framework on CDNS by conducting Risk Assessment of CDNS and allocating its supervisory resources in accordance with risks identified. The Supervisory Board also has developed an Enforcement Policy for the CDNS and has the power to impose administrative and monetary sanctions on CDNS. Inspections by the CDNS on its branches on the basis of risks are still ongoing (and the risk-based supervision on CDNS by the Supervisory Board is at an early stage).

- Pakistan Post

Initial efforts were made to put in place an AML/CFT framework for Pakistan Post however the supervisory authorities for Pakistan Post in its inspections in September 2020 found limited capacity in Pakistan Post for AML/CFT compliance. As a result, Pakistan started to stop PP from providing financial services in its own right and transfer the existing business to other regulated service providers, including transferring savings portfolio to CDNS, shifting insurance business to PLICL and stopping opening new savings account but only servicing low value account under an agreement with commercial bank. After September 2020, Pakistan brought in AML/CFT obligations on PP pursuant to amendments to AMLA, designated a Supervisory Board for PP and also implemented AML/CFT supervisory rules and regulations for the PP in 2020. The Supervisory Board, as the AML/CFT supervisor for the PP, developed a risk-based supervision framework, conducted risk assessment for the PP and also started to conduct offsite monitoring, onsite inspections on PP. The transition of PP's financial services has not yet been completed, although the financial services component of PP's business currently represents less than 1% of the country's financial system.

- DNFBPs

Pakistan brought in AML/CFT obligations for DNFBPs in its September 2020 amendments to the AMLA and designated supervisors for these sectors in the amended AMLA. The FBR, ICAP and ICMAP, as designated AML/CFT supervisors for DNFBPs, have issued enforceable regulations to clarify AML/CFT obligations for DNFBPs. In addition, Pakistan further issued a Statutory Regulatory Order on enforcement sanctions applicable to DNFBP supervisors. The DNFBP supervisors issued new AML/CFT Regulations for supervised sectors, started to determine the size and characteristics of and put in place market entry controls for the DNFBPs under their supervision.

Recommended action 2 is key and is largely addressed.

i. SBP and SECP

The SBP and SECP, as major AML/CFT supervisors for financial sector, developed new AML/CFT Risk Based Supervisory Frameworks in 2019 (after the onsite visit to Pakistan). They introduced models for individual risk ratings for regulated entities and also comprehensive risk assessment methodologies for broad categories of risks and assess the effectiveness of controls for risks. The risk assessment was updated in light of the September 2019 NRA and theme-based supervisions have also been conducted to capture emerging risk. The SBP and SECP share supervisory information and coordinate for a better understanding of risks through a series of supervisory forums.

ii. CDNS

As analysed above in RA 1, a new supervisory regime has been developed for CDNS, including the implementation of risk-based approach. In addition, through the supervisory cooperation with other supervisors (representatives of which are part of the Supervisory Board), the Supervisory Board developed CDNS's procedures for ML/TF/PF Risk Assessment and its AML/CFT inspection and enforcement regime. (It is not clear if CDNS enhanced the risk-based supervision after the MER was adopted)

iii. Pakistan Post

See the analysis above in RA 1.

iv. DNFBPs

Pakistan completed and further updated its NRA in 2019, which assessed the ML/TF risks for DNFBPs. In 2020, the risk ratings for DNFBPs were updated and sectoral risk assessment were conducted to take into account the legal, regulatory and administrative changes on AML/CTF regime. In addition, the DNFBP supervisors developed a risk matrix to risk rate individual DNFBP entities. As analysed in RA 1, the DNFBP supervisors developed the Risk-Based Supervision Framework and also developed Inspection Manuals which included risk factors. The DNFBP supervisors also started to determine the size and characteristics of and put in place market entry controls for the DNFBPs under their supervision.

Recommended action 3 is key and is partially addressed. The DNFBP supervisors have set up risk-based Supervisory Plans, which includes both offsite and onsite supervision for DNFBPs. The DNFBP supervisors conduct offsite supervision via the Offsite Monitoring Questionnaire and onsite supervision via onsite inspection.

The ICAP and ICMAP have both conducted offsite supervision of DNFBPs under their supervision by two cycles of Questionnaires. The first annual cycle of the Questionnaire has been completed with all reporting entities responded. The ICAP and ICMAP both started on-site inspection programs in February 2021, but not all inspections planned have been completed.

The JG agreed that this is a strategically important issue for Pakistan and an action item has been developed.

Recommended action 4 has been largely addressed. Pakistan developed an outreach plan for AML/CFT supervisors and reporting entities to improve the understanding of risks and the plan was completed by March 2021. In addition, by developing and updating its NRA in 2019, all REs were involved and enhanced their understanding of risks and associated vulnerabilities. The result of 2019 NRA were shared with all REs.

1) SBP

The SBP, as supervisor for the major part of financial sector in Pakistan, conducted outreach and capacity building session for REs via the Compliance Forum, CFT Desks and also general outreach sessions for operational staff. The SBP also issued several guidelines and guidance for REs to share information on risk to reporting entities.

2) SECP

The SECP takes similar measures with SBP to update REs under its supervision with ML/TF risks, except that REs under SECP are not required to have a dedicated CFT desk. The SECP held various compliance forum meetings and outreach sessions for their reporting entities. The SECP also issued several guidelines and guidance for REs to share information on risk to reporting entities.

3) CDNS

The Supervisory Board developed and implemented an Outreach Strategy in its Supervisory Framework. The CDNS conducted workshops and multiple programmes to improve the understanding of risks. The Supervisory Board for CDNS also issued several guidelines and guidance for REs to share information on risk to reporting entities.

In addition, Pakistan authorities conducted e-Outreach for DNFBPs, and organized outreach sessions with REs in multiple cities through a multi-agency partnership. Also, activities have been undertaken to enhance understanding of REs with regard to ML/TF risks including an outreach program undertaken with the UNODC, creation of hotlines/ dedicated email addresses for REs to obtain guidance, and entity-specific outreach visits conducted by the FBR's field offices.

Recommended action 5 has been largely addressed.

SBP and SECP have created compliance forums as a consultative forum for senior level officials for interpretation of legal and regulatory requirements. In addition, SBP and SECP have held targeted meetings with CFT Desks/Compliance Heads of REs and conducted outreach/awareness sessions for operations of REs. Moreover, both SBP and SECP have identified officials to respond to correspondence from LEAs and promote prompt response to queries and information requests. They conducted over 28 outreach/capacity-building sessions for different LEAs across the country.

**Immediate
Outcome 4**

Low

Recommended Actions from MER:

1. Based on a comprehensive understanding of the ML/TF risk associated with CDNS, Pakistan Post, and DNFBPs, specific AML/CFT obligations should be extended to these entities.

CDNS

See section 3.1.1 for details of the risk assessments undertaken and the obligations now imposed on CDNS.

Pakistan Post

See section 3.1.2 for details of the risk assessments undertaken and the obligations now imposed on PP during and after the transition period.

DNFBPs

Background

Pakistan completed an NRA in 2019 (see IO.1) based on the information available to competent authorities at the time. The findings, in terms of the vulnerabilities of the DNFBP sectors, were as follows:

- Real Estate Dealers – High;
- Dealers in Precious Metals and Stones (DPMS) – Medium High;
- Lawyers – Medium High; and
- Accountants, Auditors and Tax Advisors – Medium.

In line with FATF Criterion 1.6 and in recognition of the risks, Pakistan accordingly extended the national AML/CFT Regime, including preventive measures and internal control obligations, to all DNFBP sectors except casinos. In line with Criterion 1.6(a), casinos are excluded from the national AML/CFT regime on the basis that they are prohibited from operating in Pakistan.

Legal Framework

Pakistan's legal framework extending AML/CFT obligations to DNFBP entities was provisionally re-rated as LC on Recommendation 22 and Recommendation 23 by the APG in Pakistan's 2021 FUR. The 2019 MER rated these Recommendations NC and PC, respectively. Please refer to the FUR for a detailed discussion on the technical compliance of Pakistan's new AML/ CFT obligations on DNFBPs.

Scope

Pakistan's September 2020 amendments to the AMLA 2010 brought the full suite of DNFBPs under the national Pakistani AML / CFT regime. Those DNFBPs are defined in section 2(xii) AMLA. The definition includes real estate agents (a broad definition that includes real estate broker / dealers as well as builders / developers – housing authorities are a subset of builders / developers. As real estate is deemed to be a high risk category in Pakistan, and monetary transactions are carried out by developers, the authorities decided to extend coverage beyond the traditional FATF definition to better encompass the inherent risk of developers), dealers in precious metals and stones including jewelers and gem dealers (the retail jewelry sector was included as this is deemed to be a high volume, cash intensive sector), accountants, trust and company service providers, and lawyers, notaries and other legal professionals.

<http://www.fmu.gov.pk/docs/Anti-Money-Laundering-Act-2010-amended-upto-Sep.%202020.pdf>

The scope of the DPMS and real estate agent sectors is further refined in the FBR Regulations under sections 2(k) and 2(n), respectively <https://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>

This recommended action is largely addressed.

Supervisory bodies have been designated under section 6(A) and Schedule IV of the AMLA as follows:

- The Federal Board of Revenue (FBR) for real estate agents, DPMS, and accountants that are not members of ICAP or ICMAP;
- The Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) for their respective members; and
- The Pakistan Bar Council for lawyers and other independent legal professionals that are enrolled under the Pakistan Bar Council or Provincial Bar Councils.

See IO.3 for further information on the effective implementation of supervision in the DNFBP sectors.

AML/CFT Obligations

In the light of the findings of the NRA, Pakistan has applied all of the required AML/CFT obligations to the DNFBP sectors outlined above. The main provisions are set out in AMLA (<http://www.fmu.gov.pk/docs/Anti-Money-Laundering-Act-2010-amended-up-to-Sep.%202020.pdf>) and these provisions are given greater detail in the AML Regulations issued by each supervisor.

Section 6A(2)(C) of the AMLA gives powers to these regulatory authorities to issue regulations, guidelines and directions with respect to sections 7A to 7H of the AMLA. The FBR, ICAP and ICMAP have issued consistent enforceable Regulations that expand upon the obligations included in the AMLA for each of the respective sectors.

- FBR Regulations: <https://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>
- ICAP Regulations: <https://www.icap.org.pk/files/per/aml/ICAPAMLCFTRegulations.pdf>
- ICMAP Regulations: https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf

Together, the AMLA and supervisory Regulations meet the requirements under Recommendation 22 and 23. See the 2021 FUR for a full analysis and mapping back to each individual section of the AMLA or Regulations. Obligations include:

- Record keeping
- Customer due diligence, including beneficial ownership
- PEPs
- New technologies
- Reliance on third parties
- Internal controls, including the compliance officer, training and independent audit
- Higher risk countries
- Suspicious transaction reporting
- Tipping off and confidentiality

Updated Sector Risk Assessments (SRAs)

In 2020, the regulatory authorities jointly undertook SRAs of the real estate, DPMS and accounting sectors informed by the information and knowledge gained during the development of the DNFBP supervisory framework and to take into account the significant legal, regulatory and administrative efforts made by Pakistan to strengthen its AML/CFT regime on a risk basis, as well as newly available data on the DNFBP sectors. The revised findings in relation to the vulnerabilities were as follow:

- Real Estate Agents – High (broken down into Builders/Developers – High and Brokers/Dealers – Medium);
- DPMS – High;
- Lawyer and Law Firms – High; and
- Accountants – Medium.

The findings of the SRAs informed the prioritization of Pakistan's risk-based supervision, and accordingly, the highest priority is placed on the Real Estate and DPMS sectors under Pakistan's risk-based supervision regime.

2. Regulators, supervisors, the FMU and LEAs should adopt a range of measures, to immediately increase REs understanding of their ML risks in the specific context of Pakistan. Please see RA.4 of IO.3 for response.	This recommended action is largely addressed.
3. Regulators, supervisors, the FMU and LEAs should adopt a range of measures, to immediately increase DNFBPs understanding of AML/CFT obligations and provide additional guidance on implementation of risk mitigation measures in the following priority areas: (i) enhancing the outreach and information sharing on ML/TF risks; (ii) issuing more detailed sector-specific guidance on risk and the RBA including the expectation of REs in relation to NRA findings; (iii) risk-based implementation of beneficial ownership obligations (iv) PEP obligations, (v) STR obligations, and (vi) identification and mitigation of TF risk. DNFBPs The competent authorities in Pakistan have taken a range of measures to immediately increase REs' understanding of AML/CFT obligations and to provide guidance. These are summarized as follows: • (i) enhancing the outreach and information sharing on ML/TF risks; As set out in section 3.4 above, the FMU and the DNFBP supervisors have engaged in a variety of outreach activities aimed at increasing understanding and sharing information on ML/TF risks. This includes physical and virtual outreach and publication of Guidelines. • (ii) issuing more detailed sector-specific guidance on risk and the RBA including the expectation of REs in relation to NRA findings; Section 3.4 above also sets out the steps taken by the FMU and DNFBP supervisors to increase guidance on risk, the RBA and the NRA. This includes issuing sector specific guidance and red flag indicators, as well as introductory videos and webinar material focused on risk. • (iii) risk-based implementation of beneficial ownership obligations FBR: In order to clarify the obligations in AMLA and the FBR Regulations, the FBR AML Guidelines for Real Estate Agents, Dealers in Precious metals and Stones and Accountants contains guidance on how to identify the beneficial owner (Section 7.8 in the REA Guidelines, Section 7.7 in the DPMS and Accountants Guidelines) • https://download1.fbr.gov.pk/Docs/2020122215124210546AML-CFTRealEstateAgents.pdf • https://download1.fbr.gov.pk/Docs/20211271413917848AMLCFTProgramComplianceGuidelines_DPMS.pdf • https://download1.fbr.gov.pk/Docs/202116111219989AMLCFTComplianceProgramGuidelines_Accountants(Final).pdf ICAP/ICMAP: In order to clarify the obligations in AMLA and the ICAP/ICMAP Regulations, the ICAP/ICMAP AML Guidelines for Accountants: contains guidance on how to identify the beneficial owner (Section 7.7 in both Guidelines) • https://www.icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf • https://www.icmap.com.pk/downloads/AML/AMLCFTGuidelinesforAccountants2020.pdf All DNFBPs: At a national level, the FMU and DNFBP supervisors also developed introductory videos and longer-form webinars as a form of e-outreach. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites. • Introductory Video: Preventive Measures and Internal Controls https://www.youtube.com/watch?v=mFzbbM5jX3o&t=64s • Webinar-Style Video: CDD and EDD https://www.youtube.com/watch?v=JdDtMhJ0AZI The FMU, FBR and ICAP/ICMAP outreach sessions referred to in RA.2 above, also included sessions on understanding the requirements for identifying a beneficial owner. • (iv) PEP obligations FBR: In order to clarify the obligations in AMLA and the FBR Regulations, the FBR AML Guidelines for Real Estate Agents, Dealers in Precious metals and Stones and Accountants contains	This recommended action is largely addressed.

guidance on the provisions relating to PEPs (Section 7.9 in the REA Guidelines, Section 7.8 in the DPMS and Accountants Guidelines)

ICAP/ICMAP: In order to clarify the obligations in AMLA and the ICAP/ICMAP Regulations, the ICAP/ICMAP AML Guidelines for Accountants contains guidance on the provisions relating to PEPs (Section 7.8 in both Guidelines)

All DNFBPs: At a national level, the FMU and DNFBP supervisors also developed introductory videos and longer-form webinars as a form of e-outreach. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites. Two contained specific information on PEP obligations:

- Introductory Video: [Preventive Measures and Internal Controls](https://www.youtube.com/watch?v=mFzbbM5jX3o&t=64s) <https://www.youtube.com/watch?v=mFzbbM5jX3o&t=64s>
- Webinar-Style Video: [CDD and EDD](https://www.youtube.com/watch?v=JdDtMhJ0AZI) <https://www.youtube.com/watch?v=JdDtMhJ0AZI>

- **(v) STR obligations**

FBR: In order to clarify the obligations in AMLA and the FBR Regulations, the FBR AML Guidelines for Real Estate Agents, Dealers in Precious metals and Stones and Accountants contains guidance on the provisions relating to STRs (Section 9 in each set of Guidelines)

ICAP/ICMAP: In order to clarify the obligations in AMLA and the ICAP/ICMAP Regulations, the ICAP/ICMAP AML Guidelines for Accountants contains guidance on the provisions relating to STRs (Section 9 in both Guidelines)

All DNFBPs: At a national level, the FMU and DNFBP supervisors also developed introductory videos and longer-form webinars as a form of e-outreach. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites. Two contained specific information on STR requirements:

- Introductory Video: [Preventive Measures and Internal Controls](https://www.youtube.com/watch?v=mFzbbM5jX3o&t=64s) <https://www.youtube.com/watch?v=mFzbbM5jX3o&t=64s>
- Webinar-Style Video: STR Reporting <https://youtu.be/bQB-gZud0Nc>

The FMU also developed red flag indicators for the different DNFBP sectors, which are posted on the FBR, ICAP and ICMAP websites in January 2021 (see RA.2 for more information on the red flag indicators).

- FBR: <https://www.fbr.gov.pk/red-flag-indicators-dnfbps/152366/152797>
- ICAP: <https://www.icap.org.pk/files/per/aml/Red-Flag-Indicators-for-Accountants.pdf>
- ICMAP: <https://www.icmap.com.pk/downloads/AML/Red-Flag-Indicators-for-Accountants.pdf>

The FMU, FBR and ICAP/ICMAP outreach sessions referred to in RA 2, above, also included sessions on understanding the requirements for filing STRs.

- **(vi) identification and mitigation of TF risk**

FBR: In order to clarify the obligations in AMLA and the FBR Regulations, the FBR AML Guidelines for Real Estate Agents, Dealers in Precious metals and Precious Stones and Accountants contains guidance on assessing and mitigating TF (and ML) risk (Section 5 in each manual)

ICAP/ICMAP: In order to clarify the obligations in AMLA and the ICAP/ICMAP Regulations, the ICAP/ICMAP AML Guidelines for Accountants contains guidance on assessing and mitigation TF (and ML) risk (Section 5 in both Guidelines)

All DNFBPs: At a national level, the FMU and DNFBP supervisors also developed introductory videos and longer-form webinars as a form of e-outreach. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites. Three contained specific information on TF risk:

- Introductory Video: [Counter Terrorist Financing: Why does it matter?](https://www.youtube.com/watch?v=teWAhyw_is8) https://www.youtube.com/watch?v=teWAhyw_is8
- Introductory Video: [Understanding Money Laundering and Terrorist Financing Risk in DNFBPs](https://www.youtube.com/watch?v=LXa_4CbAGao) https://www.youtube.com/watch?v=LXa_4CbAGao
- Webinar-Style Video: [Risk Assessment by DNFBPs](https://www.youtube.com/watch?v=Eu_RN8KnUqA) https://www.youtube.com/watch?v=Eu_RN8KnUqA

The FMU, FBR and ICAP/ICMAP outreach sessions referred to in RA.2, above, also included sessions on understanding TF risk.

NACTA, SBP, SECP and other authorities conducted a large number of outreach sessions for FIs/DNFBPs/NPOs on their TFS and other FATF obligations, as was reported to the AP-JG in the FATF action plan. The sessions also focused on the findings of TF Risk Assessment. These action items were deemed to be largely addressed by the JG. In addition to the above measures, the FBR and ICAP/ICMAP have been actively involved with their DNFBPs through face-to-face interaction, dedicated hotlines and some through emails. During those interactions, many questions were addressed relating to the definition of DNFBP activities, DNFBPs registration requirements, the AML/CFT regime and its background, threats they are facing and filing of questionnaires. During these sessions with the FBR in particular, the illiteracy of the population and the need of a user-friendly interface led to the development of DNFBP Mobile Application through which DNFBPs can easily get registered, screen the clients against proscribed persons/entities.	
4. Authorities should focus on: (i) the robustness of FIs' risk assessments to ensure that these reflect actual threats and corresponding vulnerabilities exposing these institutions to risk; (ii) the effectiveness of FI's ongoing due diligence to ensure a continuous detection of risks; (iii) the consolidated supervision of financial groups, to ensure a robust management of ML/TF risks by these groups; and (iv) the implementation of AML/CFT compliance programs to mitigate ML/TF on the basis of ML/TF risk confronted by FIs. <u>Financial Institutions</u> SBP and SECP- supervised institutions Robustness of Risk Assessments Regulatory instructions are in place wherein REs are instructed to carry out their internal ML/TF risk assessments, periodically review their risk assessments and update those in light of new developments like the NRA or other documents containing emerging risks. REs were involved in the 2019 NRA update. During sectoral analysis, the REs helped in identifying the vulnerabilities of their products and customers vis-à-vis the identified predicate offences. Supervisors, with the help of REs, assessed the intensity of the vulnerabilities in light of available mitigants/controls. Subsequently, the NRA was discussed in compliance forum meetings and feedback from REs obtained periodically. On 21-Oct-19, the REs were advised to update their internal risk assessment document in light of NRA 2019. In response, all the REs conducted self-assessments of their products, customers, channels and geographies of operation to assess the vulnerabilities of their control systems to threats identified in the NRA documents. Each individual institution shared its internal risk assessment document with the supervisors for broad policy feedback. In order to assess the robustness, these reports are reviewed during on-site examination of the regulated entities vis-à-vis examination findings and effectiveness of controls, and recommendations are made for any improvements needed. This is an ongoing process that helps strengthen the REs internal risk assessments. Supervisors have generally observed significant improvements in the risk assessments undertaken by REs over the last couple of years. The initial risk assessments were quite rudimentary and mostly lacked depth. However, after the many iterations/updates since then, a majority of the risk assessments are now quite robust, reflecting actual threats posed to the RE itself and identifying the corresponding vulnerabilities. REs are using these risk assessments to inform the development and implementation of new controls to mitigate identified risks. Moreover, the risk assessments also inform REs' decisions on new products and technologies. Effectiveness of Ongoing Due Diligence Both supervisors have issued instructions to ensure ongoing due diligence of the customers and transactions instead of it being a one-time exercise. All the REs have introduced risk matrices for customer risk profiling using various underlying parameters, including profession, area or industry of operation, products used by customers, geography that they or their counter-parties belong to, and dealing with, and channels utilized by customers for carrying out transactions. REs set the frequency for review of the customers' comprehensive risk profile (i.e. CDD or EDD) on the basis of Risk Category of the customers. Almost all the REs have acquired internationally well-known name-screening solutions and transaction monitoring systems (TMS). The alerts generated through TMS on a daily basis are assessed by well qualified ML/TF analysts on an ongoing basis, and in case of any suspicion, an STR is filed with the FMU. Both supervisors have instructed their REs to hire sufficient number of analysts	This recommended action is largely addressed.

for proper and timely analysis of alerts generated through TMS. Since 2018, the number of STRs filed by these institutions has increased substantially (see table 4.2.2 below). Likewise, the institutions have broadened the utility of name screening solutions to monitor over-the-counter occasional transactions, resulting in an enhanced number of rejected transactions. The table under item 4.4(iv) provides details of REs' implementation of key systems and controls that include some relating to ongoing due diligence.

Numerous inspections have been conducted by supervisors with a focus on the REs' CDD processes and transactions monitoring. All inspections planned and conducted pertaining to ML/TF primarily focus on the CDD/EDD tools employed by the REs, which generally involve the customers risk assessment matrices, name screening solutions and transaction monitoring systems.

Any flaws and regulatory violations observed in the CDD/EDD processes mentioned above are dealt with seriously by making them subject to enforcement actions.

Consolidated Supervision of Financial Groups

Pakistan's Mutual Evaluation Report acknowledged that some financial groups in Pakistan have developed and implemented AML/CFT policies at the group level to the extent possible under Pakistan's legal framework. However, the report highlighted that the group-wide AML/CFT programs implemented by financial groups were generally not effective.

After the MER was adopted, Pakistan has moved on to define the term "Corporate Group" under the AMLA as "a group that consists of a parent entity exercising control or management on branch or subsidiary that are subject to AML/CFT policies and procedures at the group level". Now, SBP and SECP AML/CFT/CPF Regulations include the requirements of FATF Recommendation 18.

The Banking Companies Ordinance, 1962 includes 'foreign branches and subsidiaries' in the definition of banking company, and empowers SBP with the basis to exercise its legal powers over the overseas branches and subsidiaries. In 2018, SBP developed a 'Governance Framework' for banks' overseas operations, aimed at strengthening banks' capacity to understand, identify and manage various risks posed by its foreign operations, including foreign branches, subsidiaries and sub-subsidiary joint ventures. (<https://www.sbp.org.pk/bprd/2018/C6-Annex.pdf>). Key points of this Framework are:

- The bank shall invariably have at its Head Office in Pakistan, a dedicated office to monitor overseas operations.
- The bank shall develop a comprehensive risk governance framework for its overseas operations which shall include maintaining a separate system-based log of observations related to its overseas operations (jurisdiction-wise and at entity level), recording the risks and control deficiencies/gaps identified in the overseas branches/subsidiaries by any stakeholders (i.e. supervisors, auditors, compliance department). Any identified deficiencies/gaps must be rectified in a timely fashion.
- The bank shall have in place related policy and procedural manuals to keep updating the log of observation/concerns for its overseas operations on at least a monthly basis, and a senior level management committee shall monitor the implementation of the resolution plan of critical/high-risk observations with definitive timelines and keep the board updated.
- The bank shall assess home and host supervisors' AML/CFT policies/regulations and implement stricter of the two in each respective jurisdiction.
- The bank's chief compliance officer shall immediately report to SBP any material information/supervisory actions taken by the host country regulators.

Currently, 9 Pakistani banks are operating overseas with more than 100 branches and subsidiaries in over 30 jurisdictions. For their supervision, SBP has in place an Overseas Inspection Policy (Annex-IO.4-4-1). For the jurisdictions in which SBP has an MOU/agreement with the host supervisor, the onsite inspections are conducted subject to the MOU/agreement. If the MOU is in place, then the process highlighted for inspection planning of branch-based operations shall be followed for inspection planning of overseas subsidiary operations of Pakistani banks. Where an MOU is not in place and supervisory assessment/inspection of the entity is imperative, SBP may consider hiring an outsourced firm/consultant, whose mandate/scope would be assigned by SBP.

The table below shows the number of banks and their branches inspected in each jurisdiction from 2017 and onwards:

Table 4.4.1 – SBP Overseas Inspections			
Sr. No	Host Jurisdiction	No. of Bank's Inspected	No. of Branches Inspected
1	UAE	2	4
2	USA	2	3
3	Sri Lanka	2	2
4	Qatar	1	1
5	Oman	1	1

6	Japan	1	1
7	Hong Kong	1	2
8	Singapore	1	1
9	South Korea	1	1
10	Turkey	1	1
11	Malaysia	1	1

SBP had approved the foreign branch inspection plan of 9 Pakistani banks in 5 foreign jurisdictions for the year 2019-20. However, due to COVID-19, the plan has been deferred.

Further, SBP contacts the host/ home regulators of the foreign branch/ subsidiary of its REs when any issue of concern comes to knowledge of SBP either through onsite inspection, information submitted by the parent company (RE in Pakistan) to SBP as required under Governance Framework for Overseas Operations or through adverse media news.

For domestic subsidiaries of REs, the assessment of compliance of the financial group to the AML/CFT obligations under recommendation 18.2 is conducted by the respective supervisor of the parent company of the financial group. There is a close coordination mechanism in place between SBP and SECP as provided in RA.2 of IO.3 above. Moreover, SBP and SECP also have an MOU in place, which provides for joint inspections, information sharing and coordination. Separately, with regard to financial groups/conglomerates, the MOU requires each supervisor to assist the other to the maximum extent possible.

Both supervisors also conducted a supervisory assessment to determine the effectiveness of the group wide implementation of the AML/CFT compliance programs by those REs which were part of corporate groups (see also the description of the coordination arrangements between SBP and SECP in relation to consolidated supervision for AML/CFT purposes under RA.3 of IO.3). The assessment showed that generally:

- REs had policies, procedures and practices in place for sharing information to and from their foreign branches and majority owned subsidiaries for AML/CFT functions, compliance and audit, whenever necessary.
- Adequate controls were in place on the confidentiality and use of information exchanged between the SBP REs and its foreign branches and majority owned subsidiaries, including to prevent tipping-off.
- REs ensured that their compliance programs extended to their foreign branches and that they developed and implemented internal policies, procedures and controls to counter and mitigate their ML/TF risks.
- When hiring employees, REs deployed adequate screening procedures to ensure high standards and arranged training programs to enhance their understanding of ML/TF risks. Both supervisors have also instructed their REs, when hiring employees, to verify credentials from all previous employers, and to report all frauds/ attempted frauds to SBP.
- REs ensured that its foreign branches and majority owned subsidiaries have an independent audit function in place that is capable of testing the internal controls and procedures adopted to counter and mitigate their ML/TF risks.

The assessment highlighted that although information required for the purposes of CDD/EDD was exchanged in general, 3 out of 16 banks (which are part of corporate groups) found it challenging to obtain sensitive information related to STRs from foreign subsidiaries, due to legal stipulations in host jurisdictions. Further, it was noticed that generally, apart from foreign branches, information exchange mechanisms between the bank and its subsidiaries (both local and foreign) required strengthening as these entities were operating independently with respect to implementing AML/CFT measures including compliance and audit. The amendments to the regulations now make group-wide compliance programs mandatory.

Moreover, to ensure consolidated risk-based supervision of financial groups regulated solely by SECP, an interdepartmental AML/CFT Coordination Committee has been set up. The committee meets regularly on AML/CFT and comprises representatives from the operating departments, namely Insurance, Securities Market and Specialized companies (AMC and NBFC) for discussion and evaluation of the ML/ TF risk ratings of entities within a group. This informs the ML/TF group-wide risk analysis, and helps the SECP strategize its supervisory plans.

Implementation of AML/CFT Compliance Programs

In 2004, SBP had advised its regulated entities to devise a comprehensive program to ensure compliance with all relevant laws. SBP re-emphasized the need to develop a compliance program in June 2015 through its AML/CFT regulations. SBP further issued comprehensive guidelines on Compliance Risk Management in August 2017. The Guidelines covered in detail the governance

structure, and the structure and components of the compliance program for effective implementation within set timelines. Similarly, following issuance of the SECP regulations in June 2018, SECP issued guidelines to assist its regulated entities to devise a comprehensive compliance program to ensure compliance with the regulations.

All the regulated entities have dedicated compliance departments, headed by a senior executive who reports directly to the CEO. Well defined organograms for compliance functions are in place with AML head and CFT desk head, supported by a sufficient number of analysts and state-of-the-art transaction monitoring systems, name screening solutions etc. All the REs have established a compliance committee and chief compliance officers who report to the Board of Directors on significant issues through a well-defined MIS.

SECP reviews the effectiveness of SECP REs' compliance programs, by obtaining a compliance self-declaration from their REs annually. This helps in assessing and identifying emerging risks that may require supervisory action depending on the risk posed.

REs have developed their training centers and are required to arrange sufficient staff trainings on ML/TF.

Table 4.4.2 – REs' Capacity Building Sessions for Employees				
	SBP REs		SECP REs	
Year	Sessions	Participants	Sessions	Participants
2018	4,579	100,642	109	3,301
2019	5,804	130,184	678	14,238
2020	4,106	115,202	605	13,836
2021	605	20,498	344	7,991
Total	15,094	366,526	1,736	39,366

Implementation of effective compliance programs in REs is evident from a multifold increase in the reporting of suspicious transactions received by the Financial Monitoring Unit (FMU). Statistics of STRs filed by different types of REs during the last couple of years are presented in the table below. The increase in number of STRs is not only evidence of the improvement in ongoing due diligence due to better NSS, TMS and increase in HR, but is also a direct result of the outreach/awareness sessions conducted by supervisors and the internal capacity-building programs undertaken by the REs.

Table 4.4.3 – STRs reported by REs (2018-2021)					
Regulator	Type of RE	2018	2019	2020	2021 (Q1)
SBP	Banks	5,467	10,965	20,012	3,517
	MFBs	744	2,470	1,867	1,303
	DFIs	-	2	-	8
	ECs	2,329	5,813	5,826	1,502
	SBP REs Total	8,540	19,250	27,705	6,330
SECP	Securities Brokers	3	34	34	25
	Insurance	28	548	686	167
	NBFCs	1	46	53	46
	Asset Management Company	12	85	81	1
	Modaraba	-	-	2	-
	SECP REs Total	44	713	856	239
NSSB	CDNS	-	5	51	24
PPSB	Pakistan Post	-	37	36	8

With respect to the SECP REs' data, it may be noted that for SECP REs all transactions involving movement of funds are routed through banks. Accordingly, STRs filed by SECP REs are fewer in comparison to SBP REs. Moreover, improvement in the compliance programs has also resulted in suspicious transactions being detected and rejected on the basis of CDD or sanctions screening. REs have increased their capacities to screen and monitor the transactions by deploying more screening as well as transaction monitoring analysts. REs have also improved on the number of activated TMS scenarios so that more meaningful alerts are generated while no high-risk transaction passes unnoticed.

Table 4.4.4 – No. of Transactions Rejected by REs		
	SBP REs	SECP REs
2018	678	17
2019	1,042	439
2020	4871	521

Supervisors obtain offsite data on quarterly basis from their respective REs covering multiple parameters to ensure monitoring. The actions reported by the REs in the offsite questionnaire are then reviewed/ assessed by the supervisors during subsequent onsite inspections. The table below demonstrates the improvements in REs in areas related to AML/CFT since the MER:

Table 4.4.5 – Improvements by REs since the MER		
	SBP REs	SECP REs
Subject Area	Progress from October 2018 to December 2020	Overall progress (June 2018 - Feb 2021)
Transaction Monitoring System (TMS)	31 out of 32 banks, 10 out of 11 MFBs and all 51 ECs have TMS - Only 1 small bank and 1 small MFB are in process of implementing the system. The bank has been subject to restrictions regarding on-boarding of new customers and opening of new branches and has committed to implement the system by 3rd Quarter of 2021, while the MFB is not mobilizing any deposits and has committed to implement TMS before starting mobilization of deposits. 5 REs replaced their existing TMS while 44 REs implemented new TMS 23 REs upgraded their TMS	- Cumulatively, 282 FIs are now using TMS for monitoring transactions - These include: 188 Brokers, 84 NBFCs and 10 insurance Companies.
Name Screening Solution (NSS)	31 out of 32 banks, all 11 MFBs and all 51 ECs have NSS systems. - Only 01 small bank is in process of implementing the system. The bank has been subject to restrictions regarding on boarding of new customers and opening of new branches and has committed to implement the system by 3rd Quarter of 2021. 9 REs replaced their existing NSS while 42 REs implemented new NSS 33 REs upgraded their NSS systems	- Total 268 entities have name screening solutions (NSS) now. These include, 174 Brokers, 89 NBFCs and 35 insurance Companies. - It is pertinent to mention that All Life insurance companies have automated NSS, while the remaining FIs are screening through excel based solutions.
Human Resource	- All REs have increased their staff strength for AML/CFT/CPF functions - Total compliance staff increased over time: - Dec 2018 – 898 - Dec 2019 – 1,261 - Dec 2020 – 1,381 - Similarly, total analysts have increased over time: - Dec 2018 – 543 - Dec 2019 – 774 - Dec 2020 – 898	- Increase in staff strength for AML/ CFT/ CPF over time: - Dec 2018 – 91 - Dec 2019 – 291 - Dec 2020 – 385

CFT Monitoring	- All regulated entities have introduced a CFT Desk concept headed by qualified competent individuals for ongoing monitoring and assessment of TF risk. FI's have developed red flags and aligned with regulators' guidance for proper assessment and identification of associates. - FIs are raising STRs where they suspect any connivance or link of the customers with any proscribed or designated individuals/ entities. Since the MER, FIs raised around 163 STRs on the basis of suspicion of association with proscribed/ designated individuals.	For SECP REs, because of their smaller size and less scope of activities, the compliance function, staffed by qualified competent individuals, performs the entire role, including the activities pertaining to CFT and TFS obligations.

CDNS

Robustness of Risk Assessments

Regulatory instructions are in place wherein CDNS has been instructed to carry out internal ML/TF risk assessments, and periodically review and update them in light of new developments like NRA or other documents containing emerging risks.

CDNS was involved in the 2019 NRA Update. During sectoral analysis, the CDNS helped in identifying the vulnerabilities of their products and customers vis-à-vis the identified predicate offences. The Supervisory Board, with the help of CDNS, assessed the intensity of the vulnerabilities in light of available mitigants/controls. Subsequently, the NRA was discussed in meetings and feedback from CDNS obtained periodically.

CDNS was advised to update its internal risk assessment document in light of NRA 2019. In response, CDNS conducted a self-assessment of its products, customers, channels and geographies of operation to assess the vulnerabilities of its control systems' exposure to threats identified in the NRA documents. The assessment was conducted in coordination with FMU, SBP, SECP and Finance Division, Ministry of Finance. In light of the NRA 2019, where corruption was a high-risk predicate offence, the CDNS assessed its inherent vulnerability as **high**; based on weaknesses in control functions such as diversified nature of operational streams, lack of verification of customers, and lack of centralized controls over its scattered operations. This Internal Risk Assessment was reviewed by the NRA Coordinator and FMU.

CDNS shared its internal risk assessment document with the Supervisory Board for policy feedback. In order to assess the robustness, these reports are reviewed during on-site inspections of CDNS vis-à-vis inspection findings and effectiveness of controls. The Supervisory Board provided its feedback to CDNS, which lead to improvement in the document. Now, CDNS's internal risk assessment is quite robust, and addresses the actual threats posed to the business, considering its limited scope of activities.

As a result of the adoption of the Risk Based Approach, CDNS now understands its clients, their activities, and their risk level for ML/TF, as well as its own ML/TF risk level, and has taken appropriate steps to mitigate those risks. Accordingly, CDNS has developed a comprehensive Customer Risk Profiling mechanism, wherein customers are assigned risk categories based on the inherent risk of multiple underlying determinants e.g. high net-worth individuals, PEPs, products availed, etc. (<http://savings.gov.pk/compliance-regime/kyc-form-templates/>)

- KYC/CDD Form
- Customer Risk Assessment Form
- Enhanced Due Diligence Form
- Template for Declaration and Endorsement for Small Savers

The weightings assigned to the underlying determinants are set in line with the intensity of vulnerabilities determined in the NRA. Review frequency for CDD and EDD is set on the basis of the risk category of customers. This area remains a focus of the Supervisory Board during on-site and off-site inspections.

The adoption of the RBA has led to prioritization of human, technical, and financial resources towards compliance and implementation of AML/CFT/CPF regime, which includes:

- Establishment (in August 2019) of a Vigilance & Monitoring Wing in CDNS with two dedicated Sections (AML-CFT Policy and AML-CFT Enforcement) and the establishment of an AML-CFT Cell at 12 Regional Directorates, with a total workforce of more than 25 officers/officials (see organogram below);
- Formation of a Senior Management Committee (see: <http://savings.gov.pk/cdns-senior-management-committee-aml-cft/>); and
- Integration of Name Screening System, PEP Database, and KYC/CDD/EDD of Customers in the CDNS System (Core Business Application).

Effectiveness of Ongoing Due Diligence

In compliance with the directives of the Supervisory Board and the NS Regulations 2020, CDNS has circulated a KYC/CDD Form approved by the Senior Management Committee, along with a "Customer Risk Assessment Form" and "EDD Form" to all its field offices/National Savings Centers. Data received from these forms provide the basis for a risk-categorization of the customers. The risk-categorization based on the data compiled for all 12 Regions for the period Jan-2021 to March-2021 is given below:

Table 4.4.6 - Customer Risk Profiling Data					
High Risk	Medium Risk	Low Risk	PEPs/Close associates of PEPs/ Family Members of PEPs	Denial of Services based on CDD/ EDD	Denial of Services based on mismatched Biometric Verification
2	298	67,939	2	24	2

This data helps CDNS to better understand its inherent risks, and contributes towards the continuous Internal Risk Assessment process of CDNS, which in turn enables the Supervisory Board in assessing the risks of CDNS.

CDNS performed the following tasks under the compliance program in line with the AML/CFT obligations extended to CDNS by the Supervisory Board and AMLA:

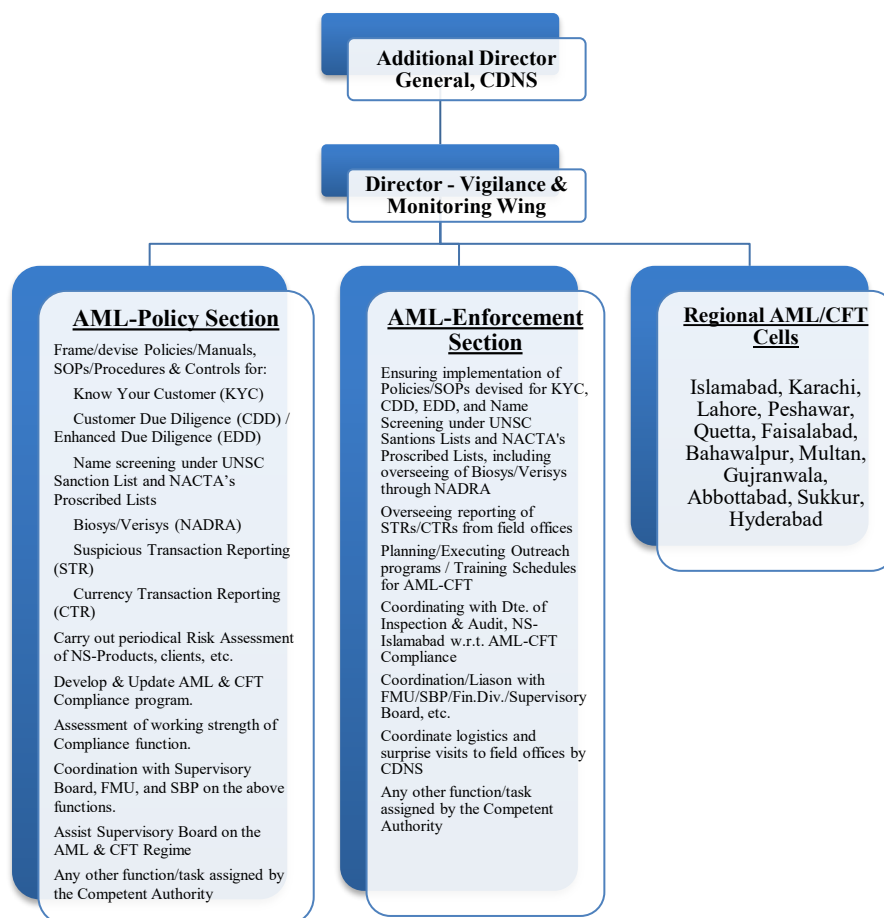
- Trainings imparted to over 2200 participants through over 200 sessions, including material specific to CDD and EDD (see Trainings Data provided in RA.4 of IO.3 for topics related to AML-CFT-CPF Regime in CDNS).
- PEP Database has been integrated in CDNS System (Core Business Application) for PEPs Screening.
- Reporting of over 8000 CTRs and over 80 STRs by NSCs
- Screening of existing and new customers is being done
- Verification of the Identification is being done for all customers.

3.5.4.1 - Implementation of AML/CFT Compliance Programs

3.5.4.1(a) - Establishment of AML/CFT Compliance Cells

As indicated above, CDNS has established a Vigilance & Monitoring Wing, with an AML Cell, to oversee compliance with its AML/CFT regime.

Organogram of AML-CFT-CPF Compliance Resources in CDNS



The Vigilance & Monitoring Wing has been taking various key initiatives for implementing the AML/CFT regime, creating awareness regarding ML/TF/PF risks through training and workshops, and formulating policies and procedures for effective implementation of the NS AML/CFT Regulations 2020. The progress on these key Initiatives is regularly submitted to the Supervisory Board in an MIS Template. The Supervisory Board, during its meetings, has recognized CDNS' efforts and initiatives, and has required CDNS to amplify these efforts to achieve maximum compliance of AML/CFT/CPF targets.

TFS Obligations

CDNS has ensured that necessary measures and mechanisms are in place to prevent providing services to proscribed/designated entities and individuals or their associates in compliance with UNSC Resolutions. When any matches are found CDNS takes prompt actions as required in pursuance of Regulations, 2020. Accordingly, all CDNS branches and regional offices are currently registered with the MoFA portal and receive updated SRO instantly by email. In addition, the Compliance Department at Head Office circulates the SRO by email. An Automated Name Screening Solution for screening UNSC/NACTA lists of Proscribed Persons (1267/1373) is also in place in the CDNS System (Core Business Application). STRs and CTRs are now being generated on a more proactive basis as a result of the AML/CFT awareness campaign and training sessions conducted. Following is the summary of the results of the Name Screening conducted on all existing customers of CDNS.

Date of Name Screening	True Matches Found	Total Amount Frozen	Date of Reporting STR (FMU)	Date of Reporting to Mol
13-Nov-20	12	PKR 103,000/-	13-Nov-20	13-Nov-20

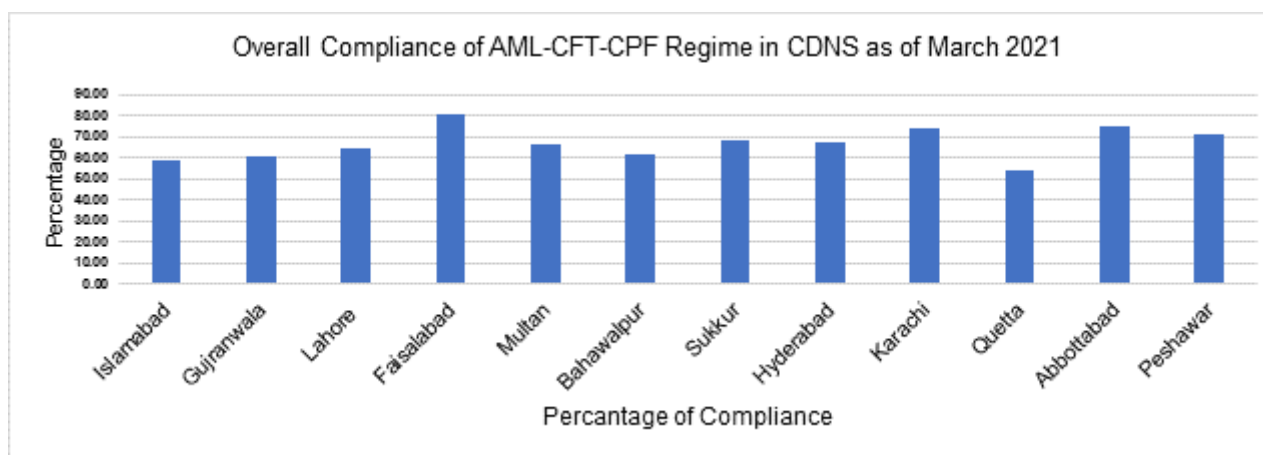
Reporting of Suspicious Transactions

Certain obvious ML/TF/PF red flags that need to be investigated by Branch Managers and subject to EDD have been shared by FMU as guidance. Details of ongoing due diligence requirements are available in detail under the Regulations, 2020. Further, CDNS has been guided to promptly report all suspicious accounts, transactions and customers to the FMU as required under the AML/CFT Regulations, 2020. Accordingly, reporting of over 7500 CTRs and over 77 STRs by the CDNS branches was observed during the period Jan-2020 to Feb-2021.

Area	Outcome	Impact
Reporting of STRs/ CTRs	Increase in numbers of STRs reported	80 STRs reported between Jan-2020 to Mar-2021 as a result of comprehensive outreach and training efforts.

Compliance Monitoring

In line with the RBA, CDNS management has instructed the Directorate of Inspection and Audit, National Savings, Islamabad (DIA) – which conducts surprise and detailed inspections and audits of National Savings Centers (NSCs) across Pakistan – to conduct AML/CFT Compliance Audits as well and submit reports of compliance to the Vigilance & Monitoring Wing. As of March 2021, over 550 inspections have been made at all branches (many of which are follow-up inspections). Based on the findings of the DIA's reports, CDNS has evaluated its compliance regime across all its branches falling under the 12 Regional Directorates. Over time, the compliance levels are expected to reach over 95% for all regions.



CDNS takes necessary actions on an ongoing basis against lack of compliance with its AML/CFT/CPF regime. CDNS has imposed penalties and taken internal disciplinary actions against staff in respect of violations observed in field offices. These penalties/disciplinary actions are based on the compliance reports received from DIA, the inspection reports of the Supervisory Board, and surprise inspections made by the Vigilance & Monitoring Wing. CDNS follows up the disciplinary actions by conducting verification visits to ensure any gaps in compliance are immediately covered on an ongoing basis.

Table 4.4.7 – Internal Disciplinary Actions taken by CDNS				
Type of Disciplinary Actions	2019	2020	2021	Totals
Warnings	1	31	23	55
Advisory Notes	-	2	28	30
Explanations called	1	18	17	36
Penalty of Censure ordered upon initiation of Inquiry proceedings	-	-	1	1
Charge Sheet under process	-	1	-	1
Totals	2	52	69	123

Pakistan Post

Robustness of Risk Assessments

PP conducted its own Internal Risk Assessments (IRA) in 2019 (in response to NRA-2017) and 2020 (in response to NRA-2019). The following five factors were taken into account while carrying out PP's risk assessment: -

- a) Risk pertaining to the products and services offered by PP: Product features and overall volume of each product were the main criteria. Moreover, the following aspects were also taken into account:
 - Do the products and services allow anonymity?
 - Is there a possibility to disguise or conceal the beneficial owner?
 - Is there a possibility to conceal source of wealth?
- b) Risk pertaining to the customers: The assessors analyzed the customer data and found that almost 98% were individuals having small amounts of money in their accounts.
- c) Risk pertaining to the delivery channel: The assessors analyzed the mechanism of payments, and found that all the payments are made to the customers when they visit post offices and no wire transmission of money was involved. There is a provision available for payment to an agent who is duly authorized by the account holder.
- d) Risk pertaining to geographical locations: This was done on the basis of the risk-matrix provided in NRA 2019. If a location of PP falls in high-risk area, it was categorized as high risk.
- e) Rules and procedures: This considered the strength of the rules and procedure to stop ML/FT e.g., account opening forms, verification system, screening and KYC etc.

In IRA-2019 the AML/CFT Risk for financial services provided by PP was assessed to be "medium", while in IRA-2020 it was assessed to be "high". The main reason of this shift in rating was the fact that, until October 2019, all 85 GPOs had been digitized and the data for financial services was available in a central repository. Therefore, PP management could easily obtain data on financial transactions and screen it for designated persons and entities. Due to certain factors, the agreement with the digital service vendor had to be terminated which resulted in discontinuation of the Central Server System (CSS) and restoration of manual systems in all the GPOs. There was no immediate mechanism available to screen the financial transactions digitally therefore the risk was assessed to be "high".

The Supervisory Board concurs with the findings of PP's internal risk assessment, as the assessment carried out by the Supervisory Board in 2020, using its own risk matrix, also showed PP's risk to be high (see 3.1.2 above) at that time. However, this will have been materially changed by the wind-down of PP's financial services business, and the introduction of proper AML/CFT systems and controls, including extensive training for staff.

Effectiveness of Ongoing Due Diligence	It has been decided that PP will no longer offer new financial services (Savings and Insurance) on its counters. It is solely fulfilling the responsibility of ensuring the smooth transition of Savings Accounts to CDNS by adopting measures to authenticate the correctness of data and information about the depositor as per the format agreed with all the stakeholders. PP has the responsibility to inform its legacy account holders that it can no longer accept deposits and to transfer all the deposits to CDNS through a mutually agreed mechanism (see details at 3.1.2.1(c)).	
Implementation of AML/CFT Compliance Programs	As described in 3.1.2 above, the initial inspections of PP identified material weaknesses in its AML/CFT controls. As a result, the decision was taken to require PP to stop providing financial services on its own account, and to transfer its legacy business to other regulated entities. This process is now well under way. During the transition period, PP management and the Supervisory Board will monitor the process through inspections, surprise visits and reconciliation of transferred data.	
5. Supervisors should apply proportionate and dissuasive sanctions in relation to breaches of the requirements to enhance DNFBPs compliance of their AML/CFT obligations, (see IO.3).	DNFBP Enforcement Legal Framework and Policy	This recommended action is partially addressed.
<u>Enforcement Legal Framework</u>	Pakistan has put in place an effective, proportionate and dissuasive enforcement regime for its DNFBP population. As outlined under RA.1 of IO.3, above, the AML/CFT Sanctions Rules 2020 was passed pursuant to powers conferred by section 6A(2)(h) of AMLA by Federal Government of Pakistan (S.R.O. 950 (I)/2020) on October 01,2020. This enforceable regulation is applicable to all DNFBP and FI sectors and supervisors.	- It was not clear that DNFBP supervisors in practice apply proportionate and dissuasive sanctions to DNFBPs.
http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-950I-2020.pdf	DNFBP supervisors have the power to impose sanctions proportionate to the deficiencies observed. Available sanctions under section 4 of the Sanction Rules 2020 include:	
(i) statement of censure, warning or reprimand; (ii) monetary penalties up to a maximum of 100 million rupees; (iii) imposition of condition, limitation or restriction; (iv) issuing a direction; (v) imposition of a prohibition on any natural person holding a position of responsibility in the DNFBP; (vi) de-registration or de-licensing of the DNFBP.	The suite of sanctions available allows for sanctions that are also dissuasive (e.g. monetary penalties up to 100 million rupees, or roughly 535,000 EUR, as per s.5(ii) and s.6 of the Sanction Rules).	
<u>Enforcement Policies</u>	To operationalize the SRO, the FBR, ICAP and ICMAP have put in place broadly consistent Enforcement Policies. The main bodies of these policies can be found under Annex 11 of the FBR RBS Framework and Annex 10 of the ICAP/ICMAP RBS Framework. The goal of the enforcement regime is to: (i) address the specific deficiencies that have been identified, (ii) ensure future compliance by the sanctioned DNFBP, (iii) serve as a warning to other DNFBPs, and dissuade them from similar behavior, and (iv) lead to positive changes in the behavior of DNFBPs over time.	
The Enforcement Policy is intended to facilitate outcomes-based enforcement. The three outcomes considered are:	• The DNFBP understands its clients, their activities, and their risk level for ML/TF, as well as its own ML/TF risk level, and takes appropriate steps to mitigate those risks; • The DNFBP identifies transactions or activities that are at higher risk for ML/TF; and	

- The DNFBP shares relevant information with competent authorities in a timely manner.

When determining whether to impose a sanction, the DNFBP supervisors will consider the extent to which the contravention negatively affects the DNFBP's ability to achieve those outcomes. In other words, contraventions that demonstrate an inability or unwillingness by the DNFBP to implement an effective AML/CFT program will be given higher priority in terms of enforcement activity by the FBR (proportionality).

In addition to these outcomes, the circumstances of any non-compliance are considered when determining the appropriate sanction to be applied. These circumstances include the gravity of the contravention, history of compliance, financial strength of the DNFBP, the profits gained or losses avoided as the result of the contravention, any remedial actions already taken, the extent to which the contravention was negligent or willful and any other factor deemed appropriate.

Supervisors consider the severity of the contravention to ensure proportionality of monetary penalties – please see the Enforcement Policies for more information on minor, medium and major contraventions. A violation of any obligation relating to TFS prohibition or freezing requirements will always be considered as a major contravention and will be subject to sanctions accordingly. Using a percentage of the DNFBP's annual income ensures that the value applied is dissuasive, as it is aligned with that particular DNFBP's capacity to pay. The penalty value for aggravating or mitigating factors and profits gained/losses voided is added onto the total.

Table 4.4.8 - Proportionate and Dissuasive Penalty Sanction	
Nature of Contravention	Correspondent Penalty
Minor	The penalty may be up to 5% of the DNFBP's annual income to a maximum of 100 million rupees
Medium	The penalty may be up to 10% of the DNFBP's annual income to a maximum of 100 million rupees
Major	The penalty may be up to 15% of the DNFBP's annual income to a maximum of 100 million rupees

When a sanction is issued by a DNFBP supervisor, the DNFBP is informed of the sanction as well as the appeal process. In the case of a monetary penalty being imposed, the DNFBP has 30 days to pay, unless the sanction is appealed within 30 days. This is an efficient and timely process designed to fast-track improved compliance.

Significant sanctions will be published on the supervisors' website (FBR) or in monthly newsletters (SRBs) when final. "Significant sanctions" include all sanctions other than issuing a warning, notice or censure, or issuing a minor monetary penalty.

FBR

The FBR has issued enforcement sanctions for deficiencies related to registration with the FBR for DNFBP supervision. On March 22, 2021, the FBR issued 20,748 warnings for non-registration, and 5 Rs. 50,000 penalties and 25 Rs. 5,000 penalties were issued.

ICAP & ICMAP Pakistan

As ICAP and ICMAP finalize their first inspections, enforcement sanctions may be applied depending on the findings. Because ICMAP and ICAP had their members already registered, it is unlikely that there will be any sanctions for registration issues (unlike FBR).

6. REs should take a more pro-active and diligent role in increasing their understanding of ML/TF risk and AML/CFT obligations by ensuring appropriate and adequate training programmes are designed or identified for their front-line staff, compliance officers and directors.

Financial Institutions

SBP and SECP-supervised Institutions

This recommended action is partially addressed.

- It was not clear that DNFBPs also implemented appropriate and adequate training programs.

FIs have undertaken their own employee training/capacity building to promote a clear understanding of the ML/TF risks and their AML/CFT obligations (see following table). This program is ongoing.

Table 4.6.1 – REs' Capacity-Building Sessions for Employees				
	SBP REs		SECP REs	
Year	Sessions	Participants	Sessions	Participants
2018	4,579	100,642	109	3,301
2019	5,804	130,184	678	14,238
2020	4,106	115,202	605	13,836
2021	605	20,498	344	7,991
Total	15,094	366,526	1,736	39,366

Key areas covered in these training sessions were:

- AML/ CFT Regulations 2018
- Money Laundering and its stages
- Trade Based Money Laundering (TBML)
- TFS obligations, including sanction screening and its systems
- Updated NRA 2019
- Risk profiling of customers
- Risk Assessment in terms of geography, products, services and delivery channels
- Beneficial ownership and its structure
- Reporting of CTR/ STR, Red Flag Indicators and GoAML

In addition to employees' training, the banks also conducted 145 outreach/awareness sessions for their customers (primarily DNFBPs) attended by 3,208 participants, as instructed by SBP (vide its file letter dated July 09, 2019 of 3rd compliance forum held on 05th July 2019).

CDNS

Training Institute of National Savings (TINS) AML CFT Trainings

The FMU along with Training Institute of National Savings (TINS) jointly designed a pioneering awareness and outreach program for the officers of the CDNS on the basics of ML/TF and various related topics listed in the Supervisory Framework Document. The courses offered include topics on FATF Recommendations, Pakistan's AML/CFT Framework, AML Act 2010, and UNSC Act 1948, Obligations related to Targeted Financial Sanctions and reporting of Suspicious Transactions to FMU.

Pakistan Post

Training imparted in Pakistan Post

PP has trained all officials performing financial services at post office counters including supervisors and managers. These training courses comprised two components (i.e. filing of CTRs/STRs on GoAML and a Certificate course on AML/CFT standards). Training on filing of CTRs/STRs was developed and conducted by FMU. Two postal officers were trained as master trainers who in turn imparted training to 878 postal officials/officers in 24 sessions from February 2020 to February 2021.

The certificate course on AML&CFT standards was developed by PP with assistance from NIBAF. This training was devised as cascading model. 16 postal officials/officers were trained as master trainers in the first phase, who trained 252 postal supervisors as master trainers in postal divisions in the second phase. Finally, 4,904 postal officials who were working on postal counters performing financial transactions were trained in the third phase.

	DNFBPs Section 7G of AMLA requires all REs to have in place compliance management arrangements, including training programmes. These requirements are complemented by Regulatory requirements and Guidelines issued by the relevant supervisors: FBR Section 7 of the FBR Regulations require that all REs subject to FBR supervision have in place a compliance programme, which includes an ongoing employee training programme (section 7(e)). In order to encourage REs to take an active approach in training staff, section 6.8 of the three sector specific manuals (Real Estate Agents, DPMS and Accountants) contain details of the requirements for REs in conducting staff training. Supervisory activity by the FBR considers the adequacy of internal controls in their offsite and onsite work. The tabulation of the Offsite Monitoring Questionnaire and the Thematic Inspection Program are underway, and an update can be provided to the JG during the Face to Face on the outcomes vis a vis internal controls including training. • https://download1.fbr.gov.pk/Docs/2020122215124210546AML-CFTRealEstateAgents.pdf • https://download1.fbr.gov.pk/Docs/20211271413917848AMLCFTProgramComplianceGuidelines_DPMS.pdf • https://download1.fbr.gov.pk/Docs/202116111219989AMLCFTComplianceProgramGuidelines_Accountants(Final).pdf ICAP & ICMAP Pakistan ICAP and ICMA Pakistan AML / CFT Regulations puts obligations on Reporting Firms to provide ongoing training to their employees, especially those who are dealing with the clients for the provision of AML specified services. Section # 27 of the ICAP / ICMA Pakistan Regulations clearly mentions the aforesaid requirement of Internal Trainings to employees. The training requirement is also covered under section 6.8 of AML / CFT – Guidelines for Accountants , emphasizing that Staff training is an important element of an effective system to prevent and detect ML / TF activities. The effective implementation of even a well – designed internal control system can be compromised if staff members using the system are not adequately trained. • https://www.icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf • https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf ICAP: The Awareness sessions carried out by ICAP (details mentioned in IO.3) have assisted the firms in enhancing their ML/TF risks and AML/CFT obligations. In addition to the awareness sessions conducted by ICAP, a total number of 46 training sessions were conducted by the reporting firms for their staff. All DNFBP Sectors At a national level, the FMU and DNFBP supervisors also developed introductory videos and longer-form webinars as a form of e-outreach. Both video series included videos dedicated to risk within the Pakistani context, and are posted on the FBR, ICAP and ICMAP websites. Two contained specific information on internal controls and training: • Introductory Video: Preventive Measures and Internal Controls - https://www.youtube.com/watch?v=mFzbbM5jX3o • Webinar-Style Video: Internal Controls - https://www.youtube.com/watch?v=H5SQInYSTZw	
JG Comments & Analysis	There was consensus in the JG that Pakistan has made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 4. The JG considers that Recommended Action 1 and 3 are key Recommended Actions, since they address the fundamental expectations embodied within IO4 that financial institutions and DNFBPs understand the nature and level of their ML/TF risks; develop and apply AML/CFT policies and conduct ongoing monitoring; adequately detect and report suspicious transactions and comply with other AML/CFT requirements. Recommended action 1 is key and is largely addressed. For CDNS and Pakistan Post, see analysis in RA 1 in IO.3. For DNFBPs, Pakistan completed an NRA in 2019 and ML/TF risks associated with DNFBP sectors have been assessed and rated in the NRA. Based on the risk understanding with DNFBPs, Pakistan extended national AML/CFT regime and bring in AML/CFT obligations to all DNFBP sectors except casinos which are illegal in Pakistan. See analysis in RA a) in IO.3 for details of AML/CFT obligations extended to DNFBPs.	

Recommended action 2 is largely addressed. For supervisors, see analysis in RA 4 in IO.3. For FMU and LEAs, adequate measures have been undertaken to increase REs understanding of their ML risks in the specific context of Pakistan.

Recommended action 3 is key and is largely addressed As analysed in RA 4 in IO.3, the DNFBP supervisors, FMU and LEAs have undertaken a variety of outreach activities to increase understanding and sharing information on ML/TF risks.

- i) As analysed in RA 4 in IO.3, the DNFBP supervisors, FMU and LEAs have taken steps to issue guidance on risk, the RBA and the NRA.
- ii) AML/CFT obligations, including BO obligations, for DNFBPs have been set out in AMLA and FBR/ICAP/ICMAP Regulations. In addition, guidance on how to identify the BO is also specified in the FBR's REA Guidelines, DPMS Guidelines, Accountants Guidelines and ICAP/ICMAP's AML Guidelines for accountants respectively.
- iii) AML/CFT obligations, including PEP obligations, for DNFBPs have been set out in AMLA and FBR/ICAP/ICMAP Regulations. In addition, guidance relating to PEPs is also specified in the FBR's REA Guidelines, DPMS Guidelines, Accountants Guidelines and ICAP/ICMAP's AML Guidelines for accountants respectively.
- iv) AML/CFT obligations, including STR obligations, for DNFBPs have been set out in AMLA and FBR/ICAP/ICMAP Regulations. In addition, guidance relating to STRs is also specified in the FBR's REA Guidelines, DPMS Guidelines, Accountants Guidelines and ICAP/ICMAP's AML Guidelines for accountants respectively. The FMU also developed red flag indicators for different DNFBP sectors in January 2021.
- v) AML/CFT obligations, including obligations on assessing and mitigating TF risks, for DNFBPs have been set out in AMLA and FBR/ICAP/ICMAP Regulations. In addition, guidance on assessing TF and mitigating TF risks is also specified in the FBR's REA Guidelines, DPMS Guidelines, Accountants Guidelines and ICAP/ICMAP's AML Guidelines for accountants respectively. NACTA, SBP, SECP and other authorities conducted various outreach sessions for DNFBPs on their TFS obligations, as was reported in the FATF action plan.

Recommended action 4 is largely addressed.

- i) Robustness of risk assessments. FIs in Pakistan were instructed by supervisors to carry out their risk assessment, periodically review and update their risk assessments. They were all involved in the 2019 NRA update and were advised to conduct self-assessment of their products, customers, channels and geographies of operations to assess the vulnerabilities. In addition, FIs are now using these risk assessments to inform the development and implementation of new controls to mitigate identified risks.
- ii) Effectiveness of ongoing due diligence. SBP and SECP have issued instructions to set out ongoing due diligence of customers and transactions. FIs under their supervision have introduced risk matrices for customer risk profiling and set frequency for review of customer's comprehensive risk profile on the basis of risk category of customers. FIs under their supervision also introduced transaction monitoring systems and have been inspected by supervisors with focus on CDD processes and transaction monitoring.
- iii) Consolidated supervision of financial groups. After the MER was adopted, Pakistan revised the definition of financial groups in the AMLA. The SBP and SECP AML/CFT/CPF Regulations now include the requirements of FATF Recommendation 18. In 2018, SBP developed a "Governance Framework" for banks' overseas operations and has in place an Overseas Inspection Policy. Although SBP had approved the foreign inspection plan for 9 Pakistan banks abroad for the year 2019-2020, the plan has been deferred due to COVID-19. Moreover, an interdepartmental AML/CFT Coordination Committee has been set up to ensure consolidated supervision for financial groups regulated solely by SECP.
- iv) Implementation of AML/CFT compliance programmes. The SECP issued guidelines to assist its regulated entities to devise a comprehensive compliance program to ensure compliance with the regulations. SECP reviews the effectiveness of FIs' compliance programs by obtaining a compliance self-declaration from FIs annually. CDNS has established a Vigilance and Monitoring Wing with an AML Cell to oversee compliance with its AML/CFT regime. Pakistan Post stopped providing financial services on its own account and is transferring its business to other regulated entities.

Recommended action 5 is partially addressed. As analysed above, the AML/CFT Sanctions Rules 2020 was passed pursuant to amendments to AMLA in 2020 and DNFBP supervisors are now empowered to impose a wide range of sanctions on obliged entities including statement of warning, monetary penalties imposition of prohibition on natural person holding a position in DNFBP and de-registration or de-licensing of a DNFBP. The amount of monetary penalties applicable for DNFBP supervisors is also dissuasive. In addition, the FBR, ICAP and ICMAP have put in place Enforcement Policies. However, information is not provided if DNFBP supervisors in practice apply proportionate and dissuasive sanctions to DNFBPs.

Recommended action 6 is partially addressed. FIs continues to undertake appropriate and adequate training programmes for staff, compliance officers and directors. It is not clear if DNFBPs undertake the same level of adequate training programmes.

**Immediate
Outcome 5**

Low

Recommended Actions from MER:
1. Formally assess ML and TF risks for all types of legal persons and legal arrangements (including waqfs) and conduct outreach to the public and private sectors on ML/TF risks.

Pakistan's response on this Recommended Action (RA) is provided in ensuing paragraphs on following lines:

- **Overview of Pakistan's Risk Assessment on Legal Person and Legal Arrangement (LPLA)**
- Application of the framework on Legal Persons and Legal Arrangements
- Outreach to the public and private sectors on ML/TF risks.

5.1.1. Update on Risk Assessment of LPLA:

Since 2015, Pakistan has reviewed and updated its understanding of risk at regular intervals. These includes extensive assessments of ML / TF at national levels and focused studies of the sectoral risks details of which are provided under RA#1 of IO-1.

An initial assessment of risks relating to LPLA was undertaken in the chapter 07 of the National Risk Assessment (NRA) 2019. The results of NRA 2019 supported a comprehensive self-assessment of Pakistan's compliance with the FATF standards, including in relation to Recommendations 24 and 25 and Immediate Outcomes 2 and 5. As a result of this self-assessment, Pakistan identified gaps in its framework and identified measures to mitigate these risks, including through legislative and regulatory changes and new administrative measures.

An updated sectoral risk assessment on LPLA was completed in February 2021. The purpose of the latest LPLA risk assessment is to update Pakistan's assessment of the inherent risks associated with legal persons and legal arrangements in light of these new mitigations and will guide the implementation of the framework at the entity level.

The Risk Assessment of LPLA covers the relevant legal framework, size and structure, geographical spread, sectoral classification and risk characteristics for different types of legal persons and legal arrangements. It also identifies the information gaps against each category and presents an overall assessment of the sector. The Risk Assessment document also addresses the TF and transnational aspect of LPLAs.

The updated risk assessment will assist the competent authorities in applying a risk-based approach for the supervision of LPs and LAs in a more effective manner. It will also support the implementation of effective preventive measures by FIs and DNFBPs when they deal with LP/LAs as their clients. Based on this updated RA information, in conjunction with the new mitigations introduced in 2020, all stakeholders can better focus their AML/CFT efforts and resources towards higher risk areas.

An update to the overall National Risk Assessment is planned for 2022, which will be informed in part by the findings of the LPLA risk assessment.

Furthermore, detailed typologies have also been developed by the authorities as to how legal persons and legal arrangements can be abused for ML/TF purposes in order to improve the understanding of supervisors, registries and LEAs.

5.1.2. Outreach to the public and private sectors on ML/TF Risks

The following steps have been undertaken to create awareness about the ML/TF risks associated with legal persons and legal arrangements:

- Dissemination of Risk Assessments
- Outreach sessions to public and private sector stakeholders for improved understanding of the LPLA Risk Assessment
- Additional outreach tools.

5.1.2.1. Dissemination of Risk Assessments:

This recommended action is partially addressed.

Authorities should:

- Develop a more detailed understanding on the extent to which legal persons and arrangements can be misused for ML/TF purposes, in particular considering the level of TF risks to which the country is exposed and continue the outreach to public and private stakeholders.

The NRA 2019 was circulated to all concerned authorities including private sector as informed in IO-1. As of February 2021, the sectoral Risk Assessment of LPLA has been disseminated to provincial Registrars, Managers and Administrators of Cooperatives Societies, Waqfs and Trusts respectively. Further, it was also disseminated to all competent authorities, including AML/CFT Regulators, Supervisors, Law Enforcement and Intelligence Agencies for their use and further dissemination to private sector stakeholders.

5.1.2.2. Outreach sessions to public and private sector for improved understanding of Risk Assessment

Pakistan has developed an outreach plan for both public and private sector stakeholders with respect to ML/TF risks associated with LPLA entities, details. Core topics covered related to these outreach sessions were as follows:

- Risk characteristics of legal persons and legal arrangements;
- Factors to consider regarding high-vulnerable LP/LA;
- Information gaps; and
- Overall assessment

Legal Persons:

5.1.2.2.1. Companies and LLPs:

Based on the results of all risk assessments, SECP continued to conduct awareness raising sessions for its officers as well as private sector stakeholders.

- Outreach to public and private sector (including Regulated Entities and DNFBPs) with respect to chapter 07 of NRA 2019 (i.e. LPLA) is provided in RA#4 of IO-1. It was ensured that outreach and awareness sessions encompassed assessment of ML/TF in risk in respect of LPLA to enhance the understanding of all concerned authorities including Supervisor/Regulators, LEAs and private sector.
- With respect to the recently concluded LPLA Risk Assessment, the SECP has conducted internal outreach to its supervisory officers (Registrars, Additional Registrars, Deputy Registrars, Assistant Registrars) of Company Registration Offices (CROs) and LEAs.
- SECP has further conducted outreach for private sector stakeholders (including Regulated Entities and DNFBPs) comprising of Directors, CFOs, Company secretaries, and senior officials on recently concluded LPLA Risk Assessment
- Details of both public and private sector outreach is set out in Table 5.1.1

Table 5.1.1

Sr #	Location	Public Sector Outreach		Private Sector Outreach	
		Dates of Session	Online Participation	Date	Online Participation
1	Karachi	16-02-2021	25	25-02-2021	575
2	Lahore	17-02-2021	20	05-03-2021	351
3	Islamabad	18-02-2021	25	05-03-2021	215
4	Other: Quetta, Faisalabad, Peshawar, Multan	19-02-2021	10	05-03-2021	150
Total Participants			80		1291

SECP obtained feedback from participants on the recently concluded sessions on LPLA risk assessment through pre and post questionnaire forms using the UNODC methodology. SECP assessed that the participants' awareness of ML/TF risk has improved based on the responses received. At the outset of the private sector sessions, an average of 45% of the 1,291 participants were able to provide correct answers for pre-evaluation survey. However, there was a significant improvement shown post awareness sessions, as there was an increase of 25% in understanding of the participants, showing an average of 70% correct answers in the post evaluation survey results.

5.1.2.2.2. Provincial Cooperative Departments:

Provincial cooperative departments conducted 26 awareness sessions on NRA 2019, participated by 1,125 individuals from Private and public sector.

Provincial authorities have further conducted awareness-raising sessions based on the results of recently concluded LPLA Risk Assessment for officers of cooperative departments as well as for private sector stakeholders; namely:

- Internal outreach to the supervisory officers (Registrars, managers, deputy directors and others) of all provincial and ICT Cooperative Departments; and
- Provincial Authorities conducted outreach for private sector comprising of members of Management Committee of cooperative societies.

The main focus of the outreach sessions was to enhance understanding regarding threats and vulnerabilities pertaining to Legal Person and Legal Arrangements.

The provincial authorities have obtained feedback from participants of their sessions through pre and post feedback forms. In the above mentioned 22 sessions, feedback received from participants indicates that they perceived their knowledge and understanding to have increased as a result of the training. The feedback obtained from participants shows that on average, the participants' level of understanding before the sessions were recorded between satisfactory to good and has increased to very good and excellent after the outreach sessions. An example of such session is given below:

5.1.2.2.3. Legal Arrangements – Trust and Waqf:

Provincial trust and waqf departments conducted 27 awareness sessions on NRA 2019, participated by 613 individuals from Private and public sector.

Provincial authorities have further conducted awareness-raising sessions based on the results of recently concluded LPLA Risk Assessment for officers of trust and waqf departments as well as for private sector stakeholders; namely:

- Internal outreach to its supervisory officers (Administrators, managers, Assistant directors and others) of all relevant departments including Waqf/Auqaf, Home and Industry
- Authorities conducted outreach sessions for private sector comprising of Trustees and Waqf managers.

The main focus of the outreach sessions was to enhance understanding regarding threat and vulnerabilities pertaining to Legal Person and Legal Arrangements. A summary of these awareness sessions focused on LPLA outreach is provided at Table 5.1.3 below:

Table 5.1.3		
Focused Participants	Outreach/ awareness sessions	No. of Participants
Public Sector		
Trust	5	384
Waqf	5	151
Private sector		
Trust	8	670
Waqf	7	490
	25	1,695

The provincial authorities have obtained feedback from participants of its sessions through pre and post feedback forms. In the above mentioned 25 sessions pertaining to private sector feedback received from participants indicates that they perceive their knowledge and understanding to have increased as a result of the training..._An example of one such session is set out below:

5.1.2.3. Additional tools for outreach:

The above-mentioned outreach sessions were further strengthened through additional outreach tools used by authorities to enhance the understanding of MLTF risk associated with LPLA, including:

SECP

- Detailed guidelines on ultimate beneficial ownership have been issued by SECP providing insight on ML/TF risk associated with LPs [Link: <https://www.secp.gov.pk/laws/guidelines/>];
- SECP Published Frequently Asked Questions (FAQs) specifically targeting conclusion of NRA 2019 which are available on <https://www.secp.gov.pk/document/secps-frequently-asked-questions-fags-on-aml-cft-4th-version/?wpdmdl=37019&refresh=60659664f3db81617270372>
- SECP Disseminated ML/TF FAQs on LPLA through targeted emails to all companies and LLPs which are available at: <https://www.secp.gov.pk/document/fags-on-sectoral-risk-assessment-of-legal-person-legal-arrangements-lpla/?wpdmdl=42008&refresh=606596650944a1617270373> ;
- Awareness messages about threats and vulnerabilities relating to LPLA have been circulated through SECP social media pages including twitter, Facebook, besides ticker on website etc.

Provincial Authorities

- All provincial governments and Islamabad Capital Territory (ICT) have issued identical Public Notices in the leading provincial newspapers, targeted towards cooperative societies, trusts and waqfs, informing them relating to awareness and understanding of ML/TF risks.
- All provincial governments and ICT have issued brochures containing information on promoting greater understanding of ML/TF risks regarding legal persons and arrangements, domestic frameworks, risks and controls against money laundering and terrorism financing, and dissemination of understanding on TF risks. The brochures were distributed among the Cooperatives Societies, Trusts and Waqfs.

FMU

- FMU has issued Red Flag Indicators for Misuse of Legal Persons: https://www.fmu.gov.pk/docs/Red_Flag_Indicators_for_Misuse_of_Legal_Persons.pdf
- FMU has also issued Red Flag Indicators for Misuse of Legal Persons: https://www.fmu.gov.pk/docs/Red_Flag_Indicators_for_Misuse_of_Legal_Arrangements_and_NPOs.pdf

Effectiveness of Additional tools:

As a case example, SECP has noted higher number of hits by 55% during the month of March 2021 on their websites after uploading of relevant BO Framework, guidelines and FAQs.

Based on the information set out above, Pakistan has formally assessed ML/TF risks with respect to all legal persons and legal arrangements, and has effectively conducted outreach to all relevant public and private sector stakeholders with respect to such risks.

Based on the information set out above, Pakistan has formally assessed ML/TF risks with respect to all legal persons and legal arrangements, and has effectively conducted outreach to all relevant public and private sector stakeholders with respect to such risks.

2. Introduce legislation and regulations (as necessary) to require legal persons and legal arrangements to obtain adequate, accurate and timely beneficial ownership information of those natural persons who ultimately own or control those structures.

This recommended action is largely addressed.

5.2.1. Legal Persons:

In October 2018, the SECP issued Circular no. 16 (<https://www.secp.gov.pk/document/circular-no-16-of-2018-register-of-ultimate-beneficial-ownership/?wpdmdl=32228&refresh=60505808e61511615878152>) and Circular no. 20 of 2018 (<https://www.secp.gov.pk/document/circular-20/?wpdmdl=32668&refresh=605058091018a1615878153>), which set out a requirement for all companies to obtain adequate, accurate and timely beneficial ownership information of those natural persons who ultimately own or control those structures. These Circulars were repealed after the coming into force of legislative amendments to the Companies Act and LLP Act as set out below.

On 27 August 2020, **Companies Amendment Act 2020** and **Limited Liability Partnership Amendment Act, 2020** were enacted to introduce requirements for all companies and LLPs to

obtain and maintain ultimate beneficial ownership information.

Table 5.2.1 covers the technical deficiencies as highlighted in the MER, the relevant sections of the Acts and subsidiary regulations:

Table 5.2.1			
S. No	Description	Relevant Sections	Relevant subsidiary regulations
1	Requires information to be provided to authorities regarding the beneficial ownership (BO) of Companies	• Section 123A(1) of Companies Act 2017	○ Regulation 9 of the Companies (Incorporation) Regulations, 2017, (Link: https://www.secp.gov.pk/document/sro-927-i-2020-amendments-to-the-companies-incorporation-regulations-2017/?wpdmdl=40348&refresh=5f7555cb1c84b1601525195)
2	Requires to update information in case any change in the particulars of a BO	• Section 123A(2) of Companies Act 2017*	○ Regulation 19A of the Companies (General Provisions & Forms) Regulations, 2018, (Link: https://www.secp.gov.pk/document/sro-928-i-2020-amendments-to-the-companies-general-provisions-and-forms-regulations-2018/?wpdmdl=40346&refresh=5f7555cb1eb551601525195) ○ Regulation 6A of the Foreign Companies Regulations, 2018 (Link: https://www.secp.gov.pk/document/sro-926-i-2020-amendments-to-the-foreign-companies-regulations-2018/?wpdmdl=40354&refresh=5f7555cb25cdc1601525195)
3	Requires information to be provided to authorities regarding the beneficial ownership of LLPs	• Section 8 of LLP Act, 2017**	○ Regulation 14A of the Limited Liability Partnership Regulations, 2018. (Link: https://www.secp.gov.pk/document/sro-925-i-2020-amendments-to-the-limited-liability-partnership-regulations-2018/?wpdmdl=40349&refresh=5f7555cb1a8321601525195)

*Link for Companies Act, 2017 (Link: <https://www.secp.gov.pk/document/companies-amendment-act-2020-gazette-copy/?wpdmdl=40368&refresh=601f969dc36411612682909>)

**Link for LLP Act, 2017 (Link: <https://www.secp.gov.pk/document/limited-liability-amendments-act-2020-gazette-copy/?wpdmdl=40369&refresh=601f969dc5ee11612682909>).

Cooperative Societies

Subsequent to the promulgation of legislative amendments in each province, a beneficial owner has been defined as a natural person who ultimately owns or controls a society, whether directly or indirectly or voting rights or by exercising effective control in that society through such other means as may be prescribed. Table 5.2.2 covers the relevant legislative amendments and subsidiary regulations:

Table 5.2.2			
S. No	Description	Relevant Sections	Relevant subsidiary regulations
1	Requires information to be provided to authorities regarding the beneficial ownership. Requires information to be provided to authorities regarding the beneficial ownership. The Secretary of the Society shall provide the information to a competent authority.	• Section 20A(ii) of Baluchistan Cooperatives Societies Act, 2020 • Section 26(2) of Sindh Cooperatives Societies Act, 2020, • 20-C (2) of KPK Cooperatives Societies Act, 2020, • 20A(2) of Punjab Cooperatives Societies Act, 2020 • 20A(2) of ICT Cooperatives Societies Act, 2020	• Rule 14 of KPK Cooperative Rules 2020. • Rule 14 of Punjab Cooperative Rules 2020 • Rule 18 of Sindh Cooperative Rules 2020 • Rule 14 of Baluchistan Cooperative Rules 2020
2	Every Society shall provide the information about its beneficial owners within three months to the Registrar	• Section 21-A(2) of Baluchistan, Cooperatives Societies Act, 2020 • Section 29(2) of Sindh Cooperatives Societies Act, 2020, • Section 21-A(2)) of KPK Cooperatives Societies Act, 2020, • Section 21-A(2) of Punjab Cooperatives Societies Act, 2020. • Section 21-A(2) of ICT Cooperatives Societies Act, 2020.	• Rule 52(9) of KPK cooperative societies rules • Rule 52(9) of Baluchistan cooperative societies rules, • Rule 56(6) of Sindh cooperative societies rules • Rule 14(aa) of Punjab cooperative societies rules

5.2.1.1. Legal Arrangements:

In 2020, legal amendments were made in the laws of each province and ICT to ensure that trusts and waqfs obtain and maintain relevant BO information. Tables 5.2.3 and 5.2.4 cover the relevant legislative amendments and subsidiary regulations:

Trusts

Table 5.2.3			
S.no	Description	Acts	Relevant subsidiary regulations
1	The trustee is required to provide detailed information regarding ultimate effective control including Author of the trust, purpose, details of trustee and beneficiaries etc at the time of registration. The registration is carried out after verification of provided information.	• Section 16 of Punjab Trust Act 2020. • Section 13 of KPK, Sindh and Baluchistan and ICT Trust Act 2020.	Section 7 Punjab Trusts Rules Section 7 Sindh Trusts Rules Section 7 KPK Trusts Rules Section 7 Baluchistan Trusts Rules
2	Requires trustees to collect and hold basic information about the author, trustees, beneficiaries and any other natural persons exercising ultimate effective control over the trust.	• Section 24(1) of Punjab, Sindh and Baluchistan Trust Act 2020. • Section 26(1) of KPK trusts Act 2020. • Section 23(1) of ICT Trust Act 2020.	

4	Required to maintain the information referred to in this criterion (as above) for at least five years after their involvement with the trust ceases.	- Section 32(f) of Punjab Trust Act 2020. - Section 32(f) of Baluchistan Trust Act 2020 - Section 32(f) of Sindh Trust Acts - Section 34 (f) of KPK Trust Act 2020 - section 31(f) of ICT Trust Act 2020	

Waqfs

Table 5.2.4			
S. No	Description	Acts	Relevant subsidiary regulations
1	require a manager of a waqf to obtain and hold prescribed information that is required to be provided as part of a registration of a waqf (prescribed information is set out in rules and includes information about beneficial ownership)	- Section 6(4) of Punjab Waqf Act 2020. - Section 6(A) of KPK, Waqf Act 2020. - Section 7 of Sindh, Waqf Act 2020. - Section 8 of Baluchistan, Waqf Act 2020. - Section 7 of ICT Waqf Act 2020	- Section 3 Punjab Waqf Rules 2020. - Section 5 Baluchistan Waqf Rules 2020. - Section 4 Sindh Waqf Rules 2020. - Section 5 Baluchistan Waqf Rules 2020.

Pakistan has made similar legal amendments in two territories i.e. Gilgit Baltistan (GB) and Azad Jammu Kashmir (AJK) who have adopted provincial and federal legislative frameworks. As per the section 60(3) and (5) of the Government of Gilgit Baltistan ("GB") Order 2018 and the sub-Article (1) of Article 41 of the Azad Jammu and Kashmir ("AJK") Interim Constitution, 1974, the authorities of GB and AJK territories have the power to adopt legal frameworks issued by the Federal and Provincial Governments of Pakistan.

In this regard, GB has adopted KPK provincial frameworks on Cooperatives, Trust and Waqf. SECP has jurisdiction over GB through Companies Registration Office (CRO) Gilgit so federal laws already apply there. Similarly, AJK has formally adopted the federal Companies and LLP Acts, as well as the Punjab provincial frameworks on Cooperatives, Trust and Waqf.

As a result, the minor gaps in scope identified in the draft October 2020 FUR with respect to Recommendations 24 and 25 have now been addressed.

3. Introduce legislation or other measures to mitigate the risk associated with bearer instruments and nominee arrangements for companies including, for instance, disclosure requirements for ultimate beneficial owners/controls of those instruments

5.3.1. Legal Persons

Table 5.3.1 covers the relevant legislative amendments and subsidiary regulations with respect to companies and LLPs. Note that bearer shares and nominee directors or shareholders are not possible for LLPs.

Table 5.3.1			
S. No	Description	Relevant Sections	Relevant subsidiary regulations
1	Requirement to explicitly prohibit issuance of bearer shares and bearer share warrants	section 60A (1) to the Companies Act, 2017 (Link: https://www.secp.gov.pk/document/companies-amendment-act-2020-gazette-copy/?wpdmdl=40368&refresh=601f969dc36411612682909)	Regulation 16A of the Companies (General Provisions & Forms) Regulations, 2018 provides the procedure for registration or cancellation of securities of bearer nature: (Link: https://www.secp.gov.pk/document/sro-928-i-2020-amendments-to-the-companies-general-provisions-and-forms-regulations-

This recommended action is largely addressed.

			2018/?wpdmdl=40346&refresh=5f7555cb1eb551601525195)
2	Mechanism to either be registered or cancel the existing bearer shares	section 60A (2) to the Companies Act, 2017	Regulation 16(A)(1-4) of the Companies (General Provisions & Forms) Regulations, 2018 sets out a process to be followed for the surrender and cancellation of Bearer shares and warrants.
3	Additional disclosures requirement in respect of nominee directors.	Details provided in the subsidiary regulations	- Form-II of the Companies Incorporation Regulations 2017 (Link: https://www.secp.gov.pk/document/sro-927-i-2020-amendments-to-the-companies-incorporation-regulations-2017/?wpdmdl=40348&refresh=5f7555cb1c84b1601525195) - clause 7.2, Part VII of Form-II of the Foreign Companies Regulations, 2018 (Link: https://www.secp.gov.pk/document/sro-926-i-2020-amendments-to-the-foreign-companies-regulations-2018/?wpdmdl=40354&refresh=5f7555cb25cdc1601525195)

Cooperative Societies:

Table 5.3.2 covers the relevant legislative and regulatory amendments with respect to cooperatives. It is worth noting that prior to the introduction of the amendments, no bearer shares were identified as operating within the context of cooperatives.

Table 5.3.2			
S.no	Description	Acts	Relevant subsidiary regulations
1	prohibit the issuance, allotment, share, transfer or assignation of bearer shares, warrants or any other equity or debt security of a bearer nature	- Section 34-A of Punjab, KPK, Baluchistan and ICT, Cooperatives Societies Act, 2020 - Section 46 of Sindh Cooperatives Societies Act, 2020	Explicitly prohibited under the Act.
2	Require societies to obtain prescribed information about nominee director, to keep updated information about nominee directors, and to provide that information annually to the Registrar.	- Section 17-A of Baluchistan, Cooperatives Societies Act, 2020 - Section 26(2) of Sindh Cooperatives Societies Act, 2020, - Section 20-A of KPK Cooperatives Societies Act, 2020, - Section 5 of Punjab and ICT Cooperatives Societies Act, 2020	- Section 47 of KPK Cooperative society Rules 2020. - Section 47 of Punjab Cooperative society Rules 2020 - Section 52 of Sindh Cooperative society Rules 2020 - Section 52(10) of Baluchistan Cooperative society Rules 2020

Pakistan has made similar legal amendments in two territories i.e. Gilgit Baltistan (GB) and Azad Jammu Kashmir (AJK) who have adopted provincial and federal legislative frameworks. As per the section 60(3) and (5) of the Government of Gilgit Baltistan ("GB") Order 2018 and the sub-Article (1) of Article 41 of the Azad Jammu and Kashmir ("AJK") Interim Constitution, 1974, the authorities of GB and AJK territories have the power to adopt Legal Framework issued by the Federal and Provincial Governments of Pakistan.

In this regard, GB has adopted KPK provincial frameworks on Cooperatives, Trust and Waqf. SECP has jurisdiction over GB through Companies Registration Office (CRO) Gilgit so federal laws already apply there. Similarly, AJK has formally adopted the federal Companies and LLP Acts, as well as the Punjab provincial frameworks on Cooperatives, Trust and Waqf.

As a result, the minor gaps in scope identified in the draft October 2020 FUR with respect to Recommendations 24 and 25 have now been addressed.

4. Increase the capacity and enforcement powers of the SECP and other competent authorities to monitor and sanction legal persons and arrangements which do not adhere to legal requirements.

This recommended action is largely addressed.

Pakistan's response is based on following lines for both legal person and legal arrangement separately:

- Legal measures to enhance Enforcement Powers on BO framework
- Powers and tools to conduct enforcement activities
- Measures to enhance capacity
- Capacity building sessions

Legal Persons: Companies & LLPs

5.4.1. Legal measures to enhance Enforcement Powers on BO framework:

- The enforcement and sanctions provisions of the Companies Act 2017 and the Limited Liability Partnership Act 2017, together with the enabling regulations, are provided under serial number 04 and 05 of Table 5.4.1.
- The aforesaid Acts have further been strengthened in 2020 to ensure effective enforcement of UBO framework by introducing penalties for non-compliance with the new legislative amendments for both entities and for individual directors. The regulations specify the mechanism whereby non-filing of declaration of compliance by the companies or LLPs would lead to initiation of penal action by concerned officials

The enforcement powers for violation of the relevant sections of laws and regulations regarding BO related information filing are provided as follows:

Table 5.4.1			
S. No	Description	Newly Issued Relevant Sections	Relevant subsidiary regulations
1	Requires to penalize in case of any violation or default in complying with the requirements of bearer share warrants	• section 60A(3) to the Companies Act, 2017 through amendment in 2020 contains penal provision: (i) in case of a director, officer or any other person, a penalty of upto Rs. 1 million (ii) in case of company, a penalty of upto Rs. 10 million.	• Regulation 44 of the Companies (General Provisions and Forms) Regulations, 2018 read with section 512(2) of the Companies Act, 2017 • Regulation 16 of the Foreign Companies Regulations, 2018 read with section 512(2) of the Companies Act, 2017
2	Requires to penalize in case of any contravention or default in complying with the requirements of UBO	• section 123A(3) to the Companies Act, 2017 (i) in case of a director, officer or any other person, a penalty of upto Rs. 1 million (ii) in case of company, a penalty of upto Rs. 10 million.	• Regulation 34 of the Limited Liability Partnership Regulations, 2018 read with section 53(3) of the Limited Liability Partnership Act, 2017.

3	Requires to penalize in case of any contravention or default in complying with the requirements of UBO (LLPs)	Section 8 (3) of LLPs Act, 2017 in case of contravention or default in complying with the requirements to obtain, maintain and update information about the ultimate beneficial owners of LLP as follows: (i) in case of a partner, designated partner or officer, a fine of upto Rs. 1 million (ii) in case of an LLP, a fine of upto Rs. 10 million.	
4	Power to remove director	Section 172 Removal of director	
5	Power to wind up the company	Section 301 Winding-up	

5.4.2. Power and tools to conduct enforcement activities:

The structure of the SECP's enforcement activities is as follows. There are nine Companies Registration Offices (CROs) located throughout the country, which are collectively responsible for overseeing and ensuring compliance with all companies and LLPs' filing requirements. Each CRO is headed by a "Registrar Concerned", who supervises other CRO officers, known as Registrars, who are responsible for ensuring that the legal persons under their purview appropriately comply with their obligations to provide information upon registration and to update that information in accordance with the legislative requirements.

Each Registrar has the authority to conduct desk-based supervision activities, including seeking information. Where onsite inspections are required, the registrar will turn the matter over to the SECP's centrally located Supervision Division, which is responsible for all supervision work pertaining to all companies and LLPs across the SECP's remit. When non-compliance with a legislative or regulatory requirement is identified, both the registrar and the Supervision Division will turn the matter over to the SECP's centrally located Adjudication Division for assessment of penalties. Further description of the Supervision and Adjudication Divisions is found below in section 5.4.3.

The SECP's enforcement powers and tools are enumerated below:

- Upon registration, registrars are required to identify whether companies and legal persons have correctly included the relevant information, including BO information, within the specified timeline as per section 123A of the Companies Act 2017, read with Regulation 19A of Companies (General Provisions and Forms) Regulations, 2018 and section 12 of the LLP Act read with Regulation 14A of LLP Regulations 2018. If a legal person fails to provide the relevant information, the Registrar may either conduct further offsite investigations or may refer the matter to the Supervision Division for further investigation in accordance with internal procedures.
- Regulation 12 of the Companies Registration Offices (CRO) Regulations, 2018 requires that the CRO office examine the documents received within specified timelines as per the Annexure D of the CRO Regulations;
- Section 254 of the Companies Act 2017 and section 43 of LLP Act 2017 empowers the concerned registrar to call for an information or explanation after scrutiny of any documentary submissions made by the Company and LLP respectively;
- Section 221 of the Companies Act 2017 and section 44 of LLP Act 2017 empowers SECP to go for an onsite inspection
- SECP also has the power to investigate into the affairs of the company and LLP under section 256, 257 of the Companies Act 2017 and section 46 of LLP Act 2017 respectively. An investigation is a more significant intervention than an onsite inspection on the grounds that, as part of an investigation, the SECP has the authority to make inquiries into the affairs of third parties as necessary in order to support its work. Furthermore, wider access to documents can be ensured in this regard.

Based on the findings of the concerned registrar or supervision officer of SECP, the matter is referred to the Adjudication Department for implementation of sanctions.

5.4.3. Measures to Enhance Capacity:

Before the MER, SECP conducted decentralized supervision and adjudication activities concurrently through the nine regional CROs. After the MER, the following measures have been taken to create effective supervision and adjudication activities on centralized basis:

- **SECP has established a centralized Supervision Division in 2021:** The Division has primary responsibility for supervision work pertaining to companies and LLPs, which can be supplemented by desk audits conducted by Registrars, as discussed above. The centralization of supervision is aimed to enhance the supervision effectiveness of SECP, ensure fair and consistent decisions, and minimize any risk of arbitrariness in the discharge of its supervision function. 20 additional resources have been added in the supervision function for effective implementation of BO framework making a total of 31 officers in the overall Division.
- **Centralized Adjudication Division in December 2019 has been established** with an increased workforce of 30%.. In order to streamline the enforcement process, all adjudication powers with respect to non-compliance of legislative requirements have been delegated to the SECP's Adjudication Division. When potential non-compliance is identified by the CRO or Supervision Division, the Adjudication Division is responsible to assess whether such non-compliance has occurred and to issue sanctions or penalties as appropriate. The delegation of powers allows any authorized officer to take cognizance of default undertaken by any Company or LLP. The links of Gazette notification issued are given below:
<https://www.secp.gov.pk/document/s-r-o-1355i-2020-delegation-of-powers-adjudication-i/?wpdmdl=41000&refresh=6011120466f291611731460>
<https://www.secp.gov.pk/document/s-r-o-1355-i-2020-delegation-of-powers-adj-i/?wpdmdl=41003&refresh=6011120468f421611731460>

The centralization of adjudication is aimed to enhance the effectiveness of SECP, ensure fair and consistent decisions, and minimize any risk of arbitrariness in the discharge of its judicial function (Link: <https://www.secp.gov.pk/wp-content/uploads/2019/10/Press-Release-Sep-28-Securities-and-Exchange-Policy-Board-approves-creation-of-Adjudication-Division.pdf>).

5.4.4. Capacity Building Sessions

The centralization of supervision and adjudication activities has enhanced the capacity of SECP for supervision and adjudication by specializing skills and streamlining activities in both spheres. As a result, the workforce in these two areas has increased by more than 30% post MER. This has resulted in a significant increase in enforcement action, the detail of which is provided under RA5.

- For the capacity building of SECP's operational teams, five **in-house awareness sessions** on recently introduced BO-related legislative amendments in Companies Act, 2017 and Limited Liability Partnership Act, 2017 were held for 80 officers from CRO Karachi, Lahore, Islamabad (including Head office), Peshawar, Quetta, Multan, Faisalabad, Sukkur and Gilgit during February, 2021, as set out in Table 5.4.2.

Session #	Location	Online Participation
1	CRO Karachi	25
2	CRO Lahore	20
3	CRO Islamabad and Head office Officers	25
4	Other: Quetta, Fsb, Pswr, Multan	10
Total Participants		80

Case study on enhancement of Capacity Building:

SECP conducted a training session in CRO Lahore attended by 20 CRO and Supervision officers on February 17, 2021, regarding recent amendments in BO regime. There was an extensive question answer session which, based on the SECP's assessment of the quality of the discussion, resulted in an enhanced understanding by participants of the new amendments. A tangible impact of this increased understanding is evident from significant increase in enforcement action mentioned in RA#5. Further, 05 officers out of the 20 officers of CRO Lahore later attended as panelists in an awareness session for private sector held on March 5, 2021, and, as a result of the training, were able to provide more detailed guidance to the private sector during the question answer session.

Implementation of Enforcement actions:

Based on the graduated sanction approach adopted by Pakistan, SECP has imposed phase wise enforcement actions. The detailed contours of which can be found at 5.5.1.4 under the heading of Graduated Sanctioning approach. A brief of summary of enforcement actions undertaken on non-compliance Companies and LLPs are provided in table **Table 5.5.1**:

Frequency of Enforcement actions:

As a future strategy, it may further be noted that in addition to the above high-risk companies, the SECP has begun to roll out examinations in respect to a further 103,300 entities based on different risk characteristics as per given criteria in different phases over the coming year. SECP intends to complete the majority of inspections for each tranche of entities within the specified time frame. This will be followed by sanctions if non-compliance is found. An overview of future strategy envisaged in this regard is set out in Table 5.5.2:

Table 5.5.2				
Phases	Risk Rating	Criteria	No. of Companies (estimated)	Target Deadline
1	High Risk	Actions already taken	2,825	March 2021
2	Above Average	- Having foreign directors or shareholders - Operating or registered in areas witnessing terrorist activities - Large sized Private limited Companies having higher paid up capital (> Rs. 10M)	25,475	June 2021
3	Medium	Remaining set of Companies having paid-up capital less than Rs. 10m to Rs. 1m	25,000	Sep 2021
4	Low	Remaining set of Low Risk Companies having paid-up capital less than or equal to Rs. 1m to Rs. 0.1 m	25,000	Dec 2021
5		Remaining set of Low risk Companies having paid-up capital below Rs. 0.1 m	25,000	Mar 2021

The new legislative measures, coupled with the restructuring of the inhouse supervision and adjudication teams, have increased the capacity and enforcement powers of the SECP to monitor and sanction legal persons that do not adhere to legal requirements.

Legal Persons—Cooperatives:

Prior to the MER 2018, the provincial Cooperatives Acts included a number of enforcement and sanctions provisions. The relevant provincial Acts have further been strengthened in 2020 to ensure effective enforcement of UBO framework by introducing a new penal regime for non-compliance with the new legislative amendments, both in respect of the cooperative society and in respect of its members, employees, directors, officers or secretaries. The regulations under the aforesaid Acts provide a mechanism whereby non-filing of declaration of compliance by the societies would lead to initiation of penal action by the registrars under whose jurisdiction the said legal persons have been registered.

5.4.5. Legal Measures to enhance Enforcement Powers**Table 5.4.3**

S. No	Description	Acts	Relevant subsidiary regulations
1	Requires information to be provided to authorities regarding the beneficial ownership. The Secretary of the Society shall provide the information to a competent authority.	- Section 20-A(ii) of Baluchistan, Cooperatives Societies Act, 2020 - Section 26(2) of Sindh Cooperatives Societies Act, 2020, - Section 20-C(2) of KPK Cooperatives Societies Act, 2020, - Section 20 A(2) of Punjab and ICT Cooperatives Societies Act, 2020	- Rule 52(9) of KPK cooperative societies rules - Rule 52(9) of Baluchistan cooperative societies rules, - Rule 56(6) of Sindh cooperative societies rules

2	If a Society fails to provide the information within the time, the Registrar shall cancel the registration of such Society	• Section 21-A(3) of Baluchistan, Cooperatives Societies Act, 2020 • Section 29(2) of Sindh Cooperatives Societies Act, 2020, • Section 21-A(3)) of KPK Cooperatives Societies Act, 2020, • Section 21-A(3) of Punjab and ICT Cooperatives Societies Act, 2020	• Rule 14(aa) of Punjab cooperative societies rules
3	Penal provision for member, employee, director, officer or secretary of the society or the society itself	• Section 61-A of Baluchistan, Cooperatives Societies Act, 2020 • Section 106 of Sindh Cooperatives Societies Act, 2020, • Section 61-A of KPK Cooperatives Societies Act, 2020, • Section 61-A of Punjab and ICT Cooperatives Societies Act, 2020.	

5.4.6. Powers and tools to conduct enforcement activities

The legal enforcement powers and tools relating to cooperatives are enumerated below specifically with respect to the province of Punjab. It is pertinent to mention that other provinces have similar provisions throughout the regime although the section numbers may differ somewhat due to slight variations in the structures of the various provincial legislations:

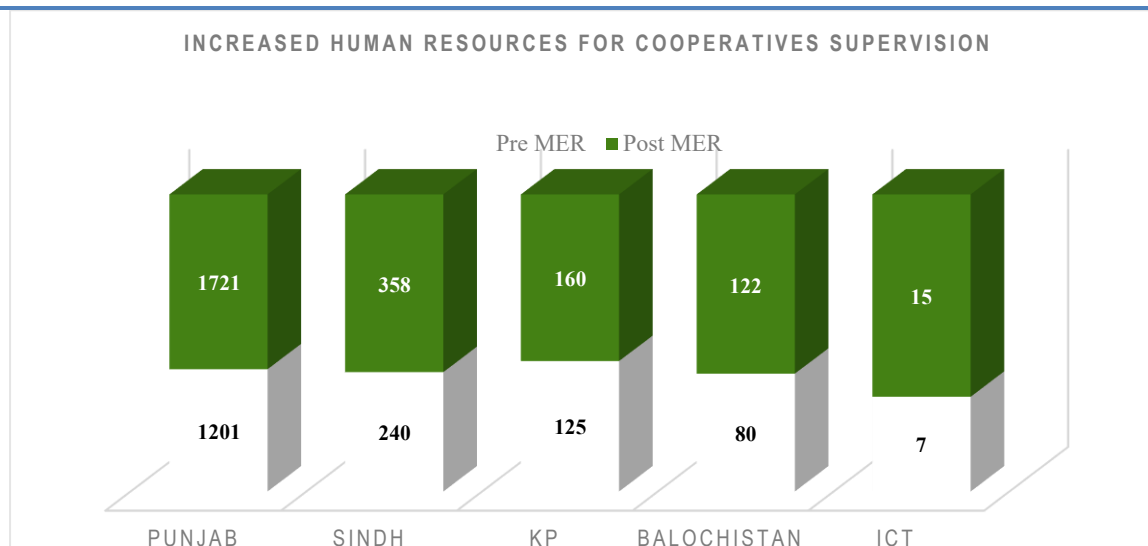
- The matters pertaining to non-filing of information shall be identified by the office of registrar as per section 20A read with section 20B of the Punjab Cooperative Society Act 1925.
- The Registrar office will examine the documents received and if not satisfied, can conduct an inquiry into the Society's affairs under section 43 of the Punjab Cooperative Society Act 1925
- Section 44 of the Punjab Cooperative Society Act 1925 empowers Registrar to go for an inspection
- Similar to the powers that the SECP has available, an inquiry allows for more thorough and wide-ranging powers than an inspection. In an inspection, the Registrar is limited to examining a cooperative society's books and records, whereas in an inquiry no subjects are off limits.
- Registrar also has the power to take special measures into the affairs of the Society under section 44-E of the Punjab Cooperative Society Act 1925. Special Measures are more significant intervention than an inspection on ground that wider access to the documents can be ensured.

Supervision and Enforcement Teams:

In each provincial registrar office, there is a team allocated to identify non-compliance through inquiry / inspections / special measures as mentioned above. The information filed by each cooperative society is examined by the inspectors in accordance with legislative requirements. When non-compliance with the relevant provisions is identified (through the supervisory tools mention above), it is submitted to the Registrar with a recommendation to take enforcement action. The registrar will then determine whether enforcement action is needed and, if so, impose sanctions as per the powers entrusted to him under Amended Cooperative Societies Act 1925.

5.4.7. Measures to enhance Capacity:

Post MER, the work force of provincial cooperative departments has been increased by 40% on average. Each provincial Cooperative Department, being the regulator of Cooperative Societies, has its established offices in each and every district of provinces. Currently, departments have dedicated registrars assisted by Joint and Deputy registrars. In the field offices, Circle (regional) and Assistant Registrars are working, supported by inspectors and sub-Inspectors. The field staff uses different supervisory tools available under the Cooperative Societies Amendment Act, 2020 and the Cooperative Societies Rules, 2020 (amended) including annual filing requirements, inspection of affairs etc. to ascertain the non-compliance against filing requirements by the concerned Legal Persons. At present all the districts are equipped with all necessary staff for all the actions. The table below sets out the number of staff pre-MER and the total number of staff post-MER following increase in resources. The relevant authorities have been mandated to keep strengthening their staffing levels in accordance with the quantum of work generated. Pursuant to the Rules of Business 1973, the Cabinet and Civil Secretariats, being the federal and provincial entities with ultimate oversight of government departments and agencies, are mandated to monitor and periodically review the strength of their respective departments and to make resource changes as necessary to appropriately reflect the workload level.



5.4.8. Capacity building sessions conducted by provincial cooperative departments:

The provincial departments have conducted outreach session for their field staff. The main focus of the outreach was:-

- New registration mechanism.
- Collection of BO Information.
- Maintenance and updation of registers.
- Supervision mechanism and available supervisory tools.
- Online record maintenance process

Implementation of Enforcement actions:

Based on the graduated sanction approach adopted by Pakistan, Departments overseeing Cooperatives Societies have imposed phase wise enforcement actions. The detailed contours of which can be found at section 5.5.2.3 of this report. A brief of summary of actions undertaken on non-compliant cooperatives are provided in table **Table 5.5.7**:

Frequency of Enforcement actions:

Out of total number of 21,819 operational cooperative societies, Pakistan has already inspected 4,961 cooperative societies. Inspection plan for the remaining entities is as Table 5.5.8. Provincial authorities intend to complete the majority of inspections for each tranche of entities within the specified time frame. This will be followed by sanctions if non-compliance is found.

Table 5.5.8					
Phases	Risk Rating	Criteria	No. of Cooperatives – Active only	Target Deadline	Percentage Coverage (approx.)
1	High Risk	Actions already taken	4,961	March 2021	23%

2	Above Average	high number of memberships,	4,367	June 2021	20%
3	Medium	The volume of their working Capital; Type of business of the society;	4,335	September 21	19%
4	Low	Remaining set of Low risk entities	4,078	December 21	19%
5			4,078	March 21	19%

Legal Arrangements - Trust:

Prior to the MER 2018, the provincial Trust Acts included a number of enforcement and sanctions provisions. Post MER, the said Act have further been strengthened through amendments in 2020 to ensure effective supervisory and enforcement of BO framework by introducing penal regime for entity in addition to the penal provisions for trustee, employee, officer or secretary of the society or the trust itself. The subordinate regulations under the aforesaid Acts provide a mechanism whereby non-filing of declaration of compliance by the trusts would lead to initiation of penal action by the registrars under whose jurisdiction the said legal arrangements have been registered. Details on the mechanism for filing information with Trust administrator is provided in RA#7.

5.4.9. Legal measures to enhance Enforcement Powers:

Prior to the legislative amendments in 2020, there was no BO related legal framework for supervision of trusts. The provincial regulators administer the registration and regulation of trust activities under the Trust Act, 2020 through field formations of the Directorate. The Department is assisted by Assistant commissioners, Directors, Deputy Director, Assistant Director and auxiliary staff at provincial level and field formations at district level. Different supervisory tools including examination of document and onsite inspections are carried out for ensuring compliance with legislative framework as available under the Trust Act, 2020 and Rules, 2020 (amended).

S. No.	Description	Acts
1	The trustee is required to provide detailed information regarding ultimate effective control including Author of the trust, purpose, details of trustee and beneficiaries etc at the time of registration. The registration is carried out after verification of provided information.	- Section 16 of Punjab Trust Act 2020. - Section 13 of KPK, Sindh and Baluchistan and ICT Trust Act 2020.
2	Information about the trust to be summoned, and shared with competent authorities and reporting entities upon request.	- Section 17 and 20 of Sindh and Baluchistan, Trust Act, 2020 - Section 18 and 21 of KPK trust Act, 2020, - Section 18 and 24 of Punjab trust Act, 2020, - Section 17 and 23 of ICT trust Act, 2020,
3	Fines and penalties for breach of duties.	- Section 17 of Balochistan and ICT Trust Act 2020. - Section 18 of KPK and Punjab Trust Act 2020. - Section 11 of Sindh Trust Act 2020.

5.4.10. Power and tools to conduct enforcement activities

The legal enforcement powers and tools relating to Trusts are enumerated below specifically with respect to the province of Punjab. It is pertinent to mention that other provinces have similar provisions throughout the regime although the section numbers may differ somewhat due to slight variations in the structures of the various provincial legislation::

- The matters pertaining to non-filing of information shall be identified by the provincial department regulating trust as per section 18 of the amended Punjab Trust Act 2020;

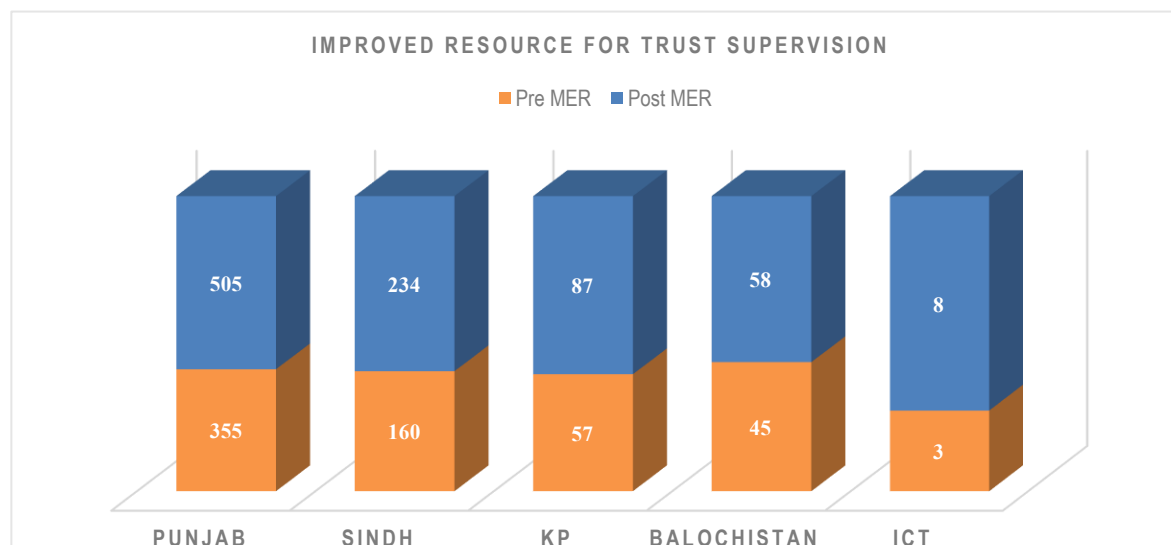
- The Director office of the provincial department regulating trust will examine the documents received and if not satisfied, can conduct an inspection of records into the Trust's affairs under section 18(1), (2) and (3) of the amended Punjab Trust Act 2020;
- Section 18(1) of the amended Punjab Trust Act 2020 empowers Assistant Director to go for an inspection;
- The Director office also has the power to take over the properties of a trust or freeze its assets or remove a trustee or a beneficiary from the trust and assign new trustees or beneficiaries under section 18(7) of the amended Punjab Trust Act 2020.

Supervision and Enforcement Teams:

In each provincial department, a team has been allocated to identify non-compliance through examination / inspections in accordance with an internal oversight framework. The information filed by each Trust upon registration is examined by the Assistant Director (AD) in accordance with the legislative requirements. Each AD is responsible for a number of Trusts that has been specifically allocated to him/her. Where non-compliances with the relevant provisions is identified (through the supervisory tools mention above) are submitted to the Director for recommended enforcement action. The Director imposes sanctions based on the non-compliances identified under supervision process as per the powers entrusted to him under section 18 of the amended Trust Act 2020.

5.4.11. Measures to Enhance Capacity

Post MER, the work force of provincial departments supervising trusts has been increased by 35% on average. At present all the districts are equipped with all the necessary staff for all the actions. The table below sets out the number of staff pre-MER and the total number of staff post-MER following increase in resources. The relevant authorities have been mandated to keep strengthening their staffing levels in accordance with the quantum of work generated. Pursuant to the Rules of Business 1973, the Cabinet and Civil Secretariats, being the federal and provincial entities with ultimate oversight of government departments and agencies, are mandated to monitor and periodically review the strength of their respective departments and to make resource changes as necessary to appropriately reflect the workload level.



5.4.12. Capacity Building sessions conducted by provincial trust departments:

The provincial Trust departments conducted 12 capacity building sessions for 389 field staff. The main focus of the outreach was:

- New registration mechanism.
- Collection of BO Information.
- Maintenance and updation of registers.
- Supervision mechanism and available supervisory tools.
- Online record maintenance process

Implementation of Enforcement actions:

Based on the graduated sanction approach adopted by Pakistan, Departments overseeing Cooperatives Societies have imposed phase wise enforcement actions. The detailed contours of which can be found at section 5.5.2.3 of this report. A brief of summary of actions undertaken on non-compliant cooperatives are provided in table **Table 5.5.7**:

Frequency of Enforcement actions:

Out of total number of 21,819 operational cooperative societies, Pakistan has already inspected 4,961 cooperative societies. Inspection plan for the remaining entities is as Table 5.5.8. Provincial authorities intend to complete the majority of inspections for each tranche of entities within the specified time frame. This will be followed by sanctions if non-compliance is found.

Phases	Risk Rating	Criteria	No. of Cooperatives – Active only	Target Deadline	Percentage Coverage (approx.)
1	High Risk	Actions already taken	4,961	March 2021	23%
2	Above Average	high number of memberships,	4,367	June 2021	20%
3	Medium	The volume of their working Capital; Type of business of the society;	4,335	September 21	19%
4	Low	Remaining set of Low risk entities	4,078	December 21	19%
5			4,078	March 21	19%

Legal Arrangements: Waqfs

5.4.13. Legal Measures to enhance Enforcement Powers

Prior to the introduction of recent legal amendments there was no BO related legal framework for supervision of Waqfs. Enforcement and Sanctions provisions have previously been included in the Waqf Ordinance 1979. The said ordinance has further been strengthened through amendments in 2020 to ensure effective supervisory and enforcement of BO framework by introducing penal regime for entity in addition to the penal provisions for manager, employee, officer or secretary of the entity or the entity itself. The subordinate regulations under the aforesaid statutory document provide a mechanism whereby non-filing of declaration of compliance by the waqf would lead to initiation of penal action by the concerned official under whose jurisdiction the said legal arrangements have been registered.

S. No.	Description	Acts
1	Requires that a manager of a waqf keep information to be updated in a timely manner as prescribed.	• Section 6A of Punjab and KPK Waqf Act, 2020. • Section 7 of Sindh and ICT Waqf Act 2020 • Section 8 of Baluchistan Waqf Act, 2020,
2	requires the waqf manager to report any change in information to the Chief Administrator immediately as prescribed	• Section 6(4) of Punjab and KPK Waqf Act, 2020. • Section 6(5) of Sindh and ICT Waqf Act 2020 • Section 7(5) of Baluchistan Waqf Act, 2020,
3	Fines and penalties for breach of obligations, including failure to obtain or provide any information as required	• Section 24(2)(3) of Punjab and KPK Waqf Act, 2020. • Section 28 and 29 of Sindh Waqf Act 2020 • Section 29(b) of Baluchistan Waqf Act, 2020, • Section 26 and 227 of ICT Waqf Act 2020

5.4.14. Power and tools to conduct enforcement activities

In each province and ICT, Chief Administrator Auqaf in Waqfs have autonomous status and are empowered to take over and assume administration, control, management and maintenance of Waqf properties. The Chief Administrator administers the registration and regulation of Waqfs under the Waqf Act, 2020 through field formations. The Department is assisted by various officers at provincial level and field formations at district level. Different supervisory tools including examination of document and onsite inspections are carried out for ensuring compliance with legislative framework as available under the Waqf Act, 2020 and Rules, 2020(amended).At present all the districts are equipped with all the necessary staff for all the actions. The table below sets out the number of staff pre-MER and the total number of staff post-MER following increase in resources.

The legal enforcement powers and tools relating to waqfs are enumerated below specifically with respect to the province of Punjab. It is pertinent to mention that other provinces have similar provisions throughout the regime although the section numbers may differ somewhat due to slight variations in the structures of the various provincial legislation:

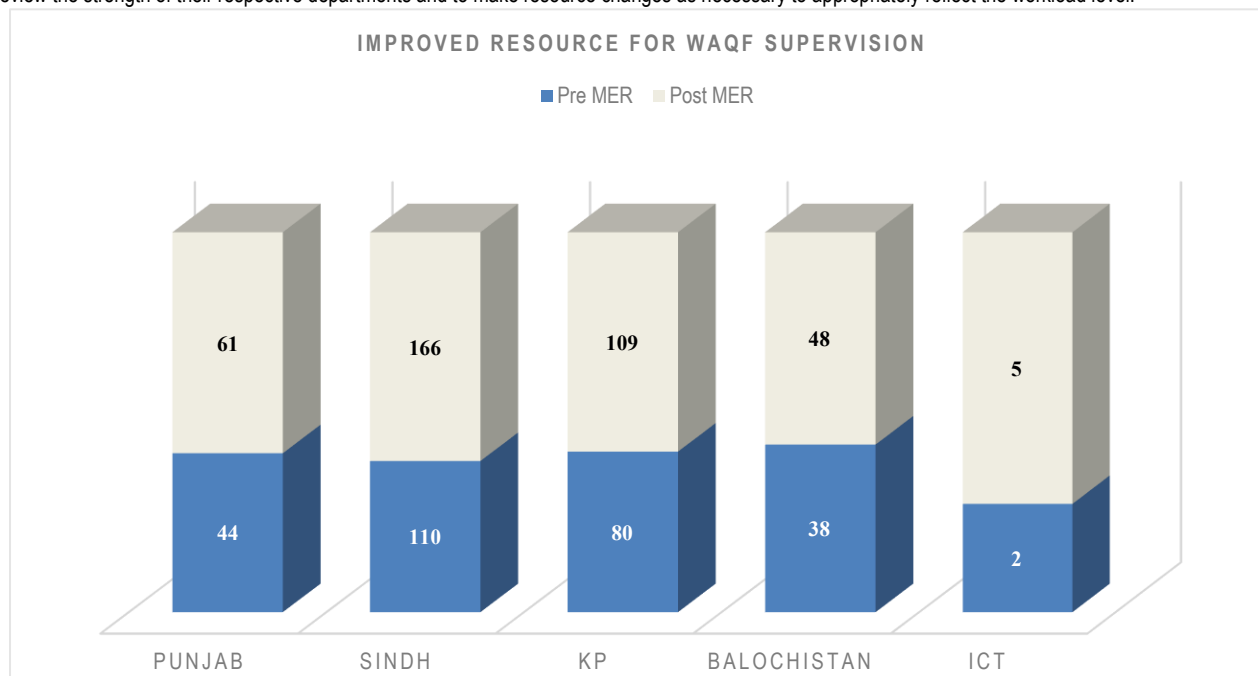
- The matters pertaining to non-filing of information shall be identified by the Office of the Chief Administrator as per section 18 read with section 20 of the amended Waqf Act 2020.
- The Chief Administrator office will examine the documents received and if not satisfied, can call for returns in respect of waqf property under section 20(1) of the amended Waqf Act 2020.
- The Chief Administrator also has the power to issue instructions and directions in respect of waqf property under section 20(2) of the amended Waqf Act 2020. These measures are more significant intervention than an examination on ground that wider access and control to the documents or properties can be ensured.
- The Chief Administrator can impose sanctions under section 24 based on the non-compliance identified.

Supervision and Enforcement Teams:

In each provincial Auqaf office, there is a team allocated to identify non-compliance through examination of returns as mentioned above. The information filed by each waqf is examined by the managers as per the legislative requirements. Each manager is responsible for a number of Waqfs that has been specifically allocated to him/her. The non-compliance with the relevant provisions identified (through the supervisory tools mention above) are submitted to the Administrator for recommended enforcement action. The Administrator assesses whether sanctions are warranted and if so, imposes sanctions as per the powers entrusted to him under Amended Cooperative Societies Act 1925.

5.4.15. Measures to Enhance Capacity

Post MER, and in light of the new legislative and regulatory amendments, the work force of provincial departments supervising Waqfs has been enhanced by 38% on average to accommodate these changes. At present all the districts are equipped with all the necessary staff for all the actions. The table below sets out the number of staff pre-MER and the total number of staff post-MER following increase in resources. The relevant authorities have been mandated to keep strengthening their staffing levels in accordance with the quantum of work generated. Pursuant to the Rules of Business 1973, the Cabinet and Civil Secretariats, being the federal and provincial entities with ultimate oversight of government departments and agencies, are mandated to monitor and periodically review the strength of their respective departments and to make resource changes as necessary to appropriately reflect the workload level.



5.4.16. Capacity Building sessions conducted by Provincial Auqaf departments:

The provincial Auqaf departments conducted 15 capacity building sessions for 210 members of their field staff. The main focus of the outreach was:-

- New registration mechanism.
- Collection of BO Information.
- Maintenance and updation of registers.
- Supervision mechanism and available supervisory tools.
- Online record maintenance process

The new legislative measures, together with the increase in skilled resources, has increased the capacity and enforcement powers of the provincial waqf departments to monitor and sanction

legal arrangements that do not adhere to legal requirements.

5. Ensure that persons who breach the required measures are subject to effective, proportionate and dissuasive sanctions.

Pakistan's response on this Recommended Action (RA) is provided in ensuing paragraphs on following lines:

- Enforcement framework
- Strategy for implementation
 - Risk Based approach adopted
 - Graduated Sanctioning approach
- Summary of Supervisory activities & remedial measures for LPLA
- Future Strategy
- Assessment of Enforcement actions with regard to Dissuasiveness, Proportionality and Effectiveness

5.5.1. Companies and LLPs:

5.5.1.1. Enforcement framework:

Pakistan has introduced amendments, including penalty provisions, in the relevant legislation of Legal Person and Legal Arrangement as mentioned in the RA 2, 3, & 4.

5.5.1.2. Strategy for the implementation of Enforcement measures:

- Since the implementation of amendments to the legislative framework, the authorities have undertaken the following steps:
 - create awareness by conducting extensive outreach sessions to both public and private sector stakeholders, which are described in above RAs.
 - Conduct oversight to ensure effective filing made by all legal persons and legal arrangements in a timely manner

5.5.1.3. Adoption of Risk Based approach:

There are total 126,755 Companies and 1,097 LLPs registered with SECP. However, Pakistan has adopted a risk-based approach to its supervision and enforcement activities under this RA to implement targeted actions. Pakistan has implemented Risk Based supervision whereby high-risk entities are subject to more frequent oversight inspections by the authorities. Table 5.1 in the LPLA Risk Assessment 2021 indicated the entities with high-risk factors that will be subject to more frequent/enhanced oversight.

5.5.1.4. Graduated Sanctioning approach:

Pakistan has implemented its enforcement regime in graduated phases:

Companies:

- 2,825 companies were examined for compliance with Circulars no 16 and 20 of 2018 in September 2020. Of those companies, 1,791 were issued warning letters with respect to non-compliance with the requirements for provision of information about ultimate beneficial owners under those Circulars. While the remaining 1,034 were found compliant with Circulars no 16 and 20 of 2018.
- After the promulgation of the new legislative provisions on BO under the Companies Act 2017, monetary penalties have been initiated on a risk sensitive basis starting in December 2020 as provided in Table 5.5.1 set out below.

This recommended action is partially addressed.

Authorities should:

- Ensure that proportionate and dissuasive sanctions are implemented for all legal persons and arrangements in all the provinces of the country.

- Demonstrate with concrete and detailed cases that proportionate and dissuasive sanctions are taken for the non-compliance with the registration of legal persons and arrangements.

- With respect to those 1,791 entities that were warned for non-compliance with the Circulars, SECP conducted follow-up inspections in respect of 1278 entities (71%) which are of higher risk on the grounds of having multi-layered ownership. Of those 1278 entities, 414 (32%) were found to be compliant, and Show Cause Notices (SCNs) were issued to the remaining 864 entities. A SCN is issued by the Adjudication Department to a non-compliant entity. It is a legally binding order which specifies that the entity is non-compliant with a particular legislative or regulatory obligation, and stipulates that, if the entity cannot demonstrate any legitimate reason for the non-compliance, sanctions will be issued. Following the issuance of the SCN, a further 641 (50%) companies became compliant with the legislative requirements and were subject only to a warning. However, non-compliance subsisted in respect of the remaining 223 companies (18%), and the SECP moved to issue sanctions in respect of such entities. In addition to monetary penalties, more significant non-monetary sanctions have been issued where the circumstances dictated, depending on the severity of the violation and the characteristics of the entity in question.

LLPs:

- Keeping in view of the aforementioned graduated strategy adopted, enforcement actions against LLPs to date have focused on issuing initial warnings since they are subject to BO requirements for the first time. When penalties will be issued in the next phase of enforcement action, they will be determined based on the specific circumstances of the violation and the characteristics of the entity, similar to that of companies.

Between October 2020 - March 2021, following actions have been taken with respect to Companies and LLPs. See Table 5.5.1 given below:

Table 5.5.1

Type of Legal Person	Entities examined between Sep 2020 and March 31, 2021	Compliance after initial examination	Enforcement action in Phase-I			Non-compliance warranting Phase-II	Enforcement action in Phase-IIs		
			Show Cause Notice (SCN) issued	Warning	Compliance made after SCN & Warning		Winding up/ Director disqualified	No. of Monetary Penalties imposed	Total Amount of Penalty (Rs.)
High Risk Companies	1,278	414	864	641	641	223	04 Winding-up /	223	9,620,000
		(32%)			(50%)	(18%)	05 Directors disqualified		
LLP	1,097	590	507	507	507			-	

A brief case study regarding the graduated approach adopted by in enforcement action taken is given Table 5.5.1(a) as under:

Table 5.5.1(a)

End to end Case study:

As a case example of graduated approach, in 2019 a **Warning letter** was issued to Company-A for non-compliance with circular 16 and 20 of 2018. The assistant registrar inspected the record of the Company-A in November 2020 and observed that compliance was made with respect to section 123A of Companies Act read with Regulation 19A of Companies (general forms and provision) Regulations, 2018. The action of the company reflects effectiveness of the graduated enforcement action taken by SECP.

5.5.1.5. Future Strategy

As a future strategy, it may further be noted that in addition to the above high-risk companies, the SECP has begun to roll out examinations in respect to a further 103,300 entities based on different risk characteristics as per given criteria in different phases over the coming year. SECP intends to complete the majority of inspections for each tranche of entities within the specified

time frame. This will be followed by sanctions if non-compliance is found. An overview of future strategy envisaged in this regard is set out in Table 5.5.2:

Table 5.5.2				
Phases	Risk Rating	Criteria	No. of Companies (estimated)	Target Deadline
1	High Risk	Actions already taken	2,825	March 2021
2	Above Average	- Having foreign directors or shareholders - Operating or registered in areas witnessing terrorist activities - Large sized Private limited Companies having higher paid up capital (> Rs. 10M)	25,475	June 2021
3	Medium	Remaining set of Companies having paid-up capital less than Rs. 10m to Rs.1m	25,000	Sep 2021
4	Low	Remaining set of Low Risk Companies having paid-up capital less than or equal to Rs.1m to Rs.0.1 m	25,000	Dec 2021
5		Remaining set of Low risk Companies having paid-up capital below Rs. 0.1 m	25,000	Mar 2021

5.5.1.6. Assessment of Enforcement actions with regard to Dissuasiveness, Proportionality and Effectiveness

SECP has undertaken following available enforcement actions:

- Warnings and monetary penalties
- Administrative measures including removal of directors and winding-up of company
- Combination of both

The below-mentioned measures have been undertaken to ensure dissuasiveness, proportionality and effectiveness.

5.5.1.7. Proportionality:

SECP has imposed sanctions proportionate to the characteristics of both the entities and the violation. The **proportionality** of sanctions has been assessed on the basis of riskiness, size, geography and nature of operations of the entity.

Paid up capital has been selected as a key factor for determining proportionality in terms of size for taking action against 203 entities falling enforcement action under Phase-II. An overall depiction of proportionality based on an aggregated basis of all sanctions imposed to date is provided below. Table 5.5.3 depicts the range of penalty amounts with respect to the size of the entity being sanctioned, as an illustration of how the penalties are proportional.

Table 5.5.3			
#	Paid-up Capital of the Company	No: of Companies	Range of Penalty per violation in case non-compliant companies
1	Rs 1 billion and above	19	Upto Rs 700,000/-
2	Rs 500 million to Rs 1 billion	7	Upto Rs 600,000/-
3	Rs 100 million to Rs 500 million	25	Upto Rs 500,000/-
4	Rs 50 million to Rs 100 million	12	Upto Rs 400,000/-
5	Rs 10 million to Rs 50 million	33	Upto Rs 200,000/-
6	Rs 1 million to Rs 10 million	44	Upto Rs 100,000/-
7	Rs 100,000/- to Rs 1 million	40	Upto Rs 50,000/-
8	Up to Rs 100,000	20	Upto Rs20,000/-

The case examples below provide examples of proportional sanctions assessed on the basis of size and of risk level based on geography.

Case examples on Proportionality:

Paid up capital has been selected as a key factor for determining proportionality in terms of size for taking action against such entities. As an instance, please refer to table below, wherein, Company B has failed to file its BO declaration for equivalent number of days as compared to Company A. However, risk-based penalty regime has been implemented and a penalty five times higher has been imposed on Company-A as compared to Company-B for similar violation.

Table 5.5.4 – Case Example 01 – Failure to Obtain and Retain BO Information

Entity	Criteria: Size of Entity	Penalty assessed and imposed in March 2021 (Rs)	Impact
Company-A	company having Paid up capital of 100 million	500,000	5 times
Company-B	Paid up capital of 10 million	100,000	

Another aspect of proportionality relates to the area of operation for SECP regulated Companies, based on the high-risk domestic geographies highlighted in NRA 2019. In such instances, SECP has imposed sanctions while considering the size and area of operation. As an example, the following table depicts that Company-X is operating in high risk area of operation with a similar paid-up capital of Rs. 1 million as compared to Company-Y. However, risk-based penalty regime has been implemented and two times higher penalty is imposed on Company-X considering its other factor i.e. Size as compared to Company-Y for similar violation and size, thereby depicting proportionality.

Table 5.5.5 – Case Example 02 -Failure to Obtain and Retain BO Information by Companies operating in High risk geography vs Low Risk

Entity	Criteria: Area of Operation	Penalty assessed and imposed in March 2021 (Rs)	Impact
Company-X	Operating in high risk geography	100,000	2 times
Company-Y	Operating in non-high-risk geography (ICT)	50,000	

5.5.1.8. Dissuasiveness:

Dissuasiveness has been enhanced by imposing severe penalties through other available measures such as administrative measures including disqualification of directors and winding-up etc. in addition to monetary penalties. Moreover, orders are immediately placed on regulator's website for publicizing the penalty through naming & shaming which also increases the dissuasiveness. [Link: <https://www.secp.gov.pk/enforcement/orders/orders-issued-under-companies-act-2017/>].

Case study is shown as under:

Case study:

Company-A was incorporated in 2018 and selected for on-site inspection due to involvement in suspicious activities and non-filing of form-45 pertaining to BO requirements. The company also did not respond to the pre-inspection questionnaire. The company registry was searched, which indicated the company was active. The supervision unit conducted inspection 17-Dec-2020 to ascertain compliance status and probe into the matters relating to suspicious activities. The supervision unit noted several instances of non-compliance, e.g. non-filing of statutory annual returns, dealing in unlicensed activities and unauthorized use of company assets etc. and accordingly, the matter was referred to adjudication. The adjudication department issued a Show cause notice (SCN) to the company and after providing hearing opportunity to the Company, following actions were taken:

- **Directors of the company were disqualified** for the period of 5 years from the date of order
- **Winding-up petition** was filed before the court.

5.5.1.9. Effectiveness:

In terms of Effectiveness, the compliance ratio has been improved post imposition of sanctions. When the SECP issues a compliance order there is a requirement included for the Company/LLP to comply with its legislative obligations going forward. The registrar will follow-up and where non-compliance continues, further action will be taken. Data indicates that to date, upon follow-up

by registrar, the rate of compliance has improved. See Table 5.5.1 representing 84% of the high-risk companies who are compliant after the show cause notice and warning have been issued. Case study is shown as under:

Case study:

Company-D was incorporated in 2016 and selected for off-site inspection in February 2021 due to non-filing of form-45 pertaining to BO requirements. The company registry was searched and the company was active. The supervision unit conducted offsite review to ascertain compliance status and probe into the matters. The supervision unit noted the filing non-compliance was referred to adjudication. The adjudication department issued a Show Cause Notice (SCN) to the company. Subsequently, the **company immediately filed** its form-45 regarding the same. After providing hearing opportunity to the Company, following actions were taken:

- **Warning was issued** to the company to ensure future compliance.

As identified in NRA 2019, Pakistan has a relatively large number of unincorporated companies, with the informal economy estimated as comprising 38.4% of Pakistan's overall GDP. Pakistan is taking measures to encourage these companies to register and become part of the formal economy, in order to ensure greater transparency into the corporate sector across the country. The following measures are highlighted here to provide a glimpse in this regard:

- Significant legislative amendments have been laid out in the Companies Act and LLP Act in 2017 targeting easy and swift incorporation.
- Multiple information filing requirements have been done away through a single form for incorporation of Company and LLP.
- Facilitation centres have been introduced in Company Registration Offices (CROs) in order to provide smooth filing experience;
- Simplified process for name reservation and incorporation, reduction of fees, online payments, issuance of digital registration certificates;
- Launch of one-window operation for incorporation by issuance of National Tax Number and Employee Old Age Benefit Institute (EOBI) number.
- Automatic online preparation of memorandum and articles of association
- Access to online company information to all registered bank through a dedicated portal

Due to the aforesaid measures, the rate of company's incorporation has increased significantly by 25% YoY since 2017 which has led to a conversion of informal economy into a documented one.

5.5.2. Cooperatives:

5.5.2.1. Supervision and enforcement actions:

Since the promulgation of new BO regime for Cooperative Societies vide amendments in Societies Act 1925 dated September 2020, there has been a sharp focus on enforcement measures. In the current reporting period, a total of more than 54 enforcement actions including one de-registration has been undertaken in the span of 06 months.

5.5.2.2. Oct 2018 - Sep 2020 (Before the introduction of BO regime)

It may be noted that till the enactment of new laws in September 2020, provincial authorities undertook enforcement actions on the basis of non-compliance of violations mentioned in the table 5.5.6.

Table 5.5.6

Jurisdiction	Nature of Violation	Show cause notice (on an entity basis)	Member Suspended	Mgt committee suspended	Liquidated
Punjab	- Non-filing of basic information	11	3	3	
Sindh	- Willful furnishing of false information	128		15	634
KP	- Involvement in fraudulent activities	-	7	3	
Balochistan	- Violation of master plan of housing societies	131		2	
ICT	- Non-approval of operational activities	40	-	-	-

Total	- Willful default by a member and/or society	270	10	23	634

5.5.2.3. October 2020 to March 2021

Pakistan has a total of 21,819 operational cooperative societies with the provincial geographic spread as given in the below table. Keeping in view the risk factors like high number of memberships, large working capital and location, a data set of 4961 societies (23%) was selected for 1st inspection cycle and 66 % entities of the inspected entities were found compliant. For the remaining non-compliant entities, enforcement actions were initiated in a graduated manner and the results are tabulated in Table 5.5.7:-

Table 5.5.7									
Province	Overall Total Population – Active only	Entities examined between Sep 2020 and March 31, 2021	Entities found Compliant after examination of filing	Enforcement action in Phase-I		Non-compliance warranting Phase-II	Enforcement action in Phase-II		
				Show Cause Notice (SCN) issued	Total Compliance made after SCN		Warning	Suspension	De-registration
Punjab	20,391	4,078 (20 %)	2,651 (65 %)	1,427	1,213	214 (15 %)	162	10	42
Sindh	868	521 (60 %)	375 (72 %)	146	130	16 (11 %)	10	2	4
KPK	272	218 (80 %)	165 (76 %)	52	42	10 (20 %)	6	2	2
Balochistan	244	122 (50 %)	72 (59 %)	50	33	18 (35 %)	5	13	0
ICT	44	22 (100 %)	18 (81 %)	4	3	1 (25 %)	1	0	0

5.5.2.4. Future Strategy

Out of total number of 21,819 operational cooperative societies, Pakistan has already inspected 4,961 cooperative societies. Inspection plan for the remaining entities is as Table 5.5.8. Provincial authorities intend to complete the majority of inspections for each tranche of entities within the specified time frame. This will be followed by sanctions if non-compliance is found.

Table 5.5.8					
Phases	Risk Rating	Criteria	No. of Cooperatives – Active only	Target Deadline	Percentage Coverage (approx.)
1	High Risk	Actions already taken	4,961	March 2021	23%
2	Above Average	high number of memberships,	4,367	June 2021	20%
3	Medium	The volume of their working Capital; Type of business of the society;	4,335	September 21	19%

4	Low	Remaining set of Low risk entities	4,078	December 21	19%
5			4,078	March 21	19%

Legal Arrangements:

5.5.1. Trusts

5.5.1.1. Oct 2018- Sep 2020 (Before the introduction of BO regime)

It may be noted that till the enactment of new laws in September 2020, provincial authorities used to undertake enforcement actions on the basis of non-compliance of violations mentioned in Table 5.5.9.

Table 5.5.9		
Type of LA	Nature of violations	Action taken - Deregistered
Trust	- Non-filing of basic information - Willful furnishing of false information - Involvement in fraudulent activities - Non-approval of operational activities	23

5.5.1.2. October 2020 to March 2021

Pakistan has total number of 6,759 operational trusts with the provincial geographic spread as given in the below table. Keeping in view the risk factors like trusts having multiple bank accounts/ layers of ownerships, non-maintenance of BO record and location/area of operation, a data set of 2,043 trusts (30%) was selected for 1st inspection cycle and 54% of entities were found compliant. For the remaining non-compliant entities, enforcement actions were initiated in a graduated manner and the results are tabulated in Table 5.5.10:-

Table 5.5.10									
Province	Overall Total Population – Active Only	Entities examined between Sep 2020 and March 31, 2021	Entities found Compliant after examination of filing	Enforcement action in Phase-I		Non-compliance warranting Phase-II	Enforcement action in Phase-II		
				Show Cause Notice (SCN) issued	Total Compliance made after SCN		Warning	Suspension	De-registration
Punjab	795	398 (50 %)	266 (67 %)	131	101	30 (23 %)	27	2	1
Sindh	5218	1305 (25 %)	652 (50 %)	652	404	248 (38 %)	242	2	4
KPK	42	42 (100 %)	8 (20 %)	34	4	30 (88 %)	4	3	23
Balochistan	4	4 (100 %)	4 (100 %)	0	0	0 (0 %)	0	0	0
ICT	700	294 (42 %)	176 (60 %)	118	93	25 (21 %)	25	0	0

5.5.1.3. Future Strategy

Out of total number of 6,759 operational trusts, Pakistan has already inspected 2,043 trusts. Inspection plan for the remaining entities is at table 5.5.11. Provincial authorities intend to complete the majority of inspections for each tranche of entities within the specified time frame. This will be followed by sanctions if non-compliance is found.

Table 5.5.11					
Phases	Risk Rating	Criteria	No. of Trust-Active Only	Target Deadline	Percentage Coverage (approx.)
1	High Risk	Actions already taken	2,043	March 2021	30%
2	Above Average	The Trust not functioning as per their mandate or found violate of their purpose.	1,690	June 2021	25%
3	Medium	Trust reports not timely submitted	1,690	September 21	25%
4	Low	Remaining set of Low risk entities	1336	December 21	20%

5.5.2. Waqf

5.5.2.1. Enforcement Actions - Oct 2018- Sep 2020 (Before the introduction of BO regime)

Table 5.5.12 provides the details of enforcement actions taken prior to the enactment of new laws:

Table 5.5.12					
Province	Nature of Violation	Taken over property			
		Properties in (Sq Ft)		Lease agreement cancelled	Recovery Notices issued
		Shop/Houses	Land		
Punjab	- Non-filing of basic information - Willful furnishing of false information - Involvement in fraudulent activities - Non-approval of operational activities	7,605	74,594	9	9
Sindh		07	3,901		3
KP		33	5,287	13	53
Balochistan		63	27,920		20
ICT		-	-	-	03
Total		7,708	111,702	13	88

5.5.2.2. October 2020 to March 2021

Pakistan has total number of 1937 operational waqfs with the provincial geographic spread as given in the below table. Keeping in view the fact that majority of the waqf properties are government controlled/regulated, as well as the risk factors associated with waqfs such as geographical locations, Waqf shrines/ mosques having high number of visitors/zaireen and cash boxes installed with possibility of large cash collection, 100 % waqfs were inspected and 66 % waqfs were found compliant. For the remaining non-compliant waqfs, enforcement actions were initiated following

a graduated enforcement actions regime and the results are tabulated in Table 5.5.13:

Table 5.5.13									
Province	Overall Total Population	Entities examined between Sep 2020 and March 31, 2021	Entities found Compliant after examination of filing	Enforcement action in Phase-I		Non-compliance warranting Phase-II	Enforcement action in Phase-II		
				Show Cause Notice (SCN) issued	Total Compliance made after SCN		Warning	Suspension	De-registration
Punjab	1470	1470 (100 %)	985 (67 %)	485	388	97 (20 %)	94	3	0
Sindh	177	177 (100 %)	90 (51 %)	87	61	26 (30 %)	25	1	0
KPK	286	286 (100 %)	203 (71 %)	83	59	24 (29 %)	22	2	0
Balochistan	1	1 (100 %)	1 (100 %)	0	0	0	0	0	0
ICT	3	3 (100 %)	2 (80 %)	1	0	1 (100 %)	1	0	0

Pakistan has total number of 1,937 operational waqfs which have been fully inspected.

5.5.3. Assessment of Enforcement actions on Waqf, Trust and Cooperatives (WTCs) with regard to Dissuasiveness, Proportionality and Effectiveness

Provincial Authorities has following available spread for enforcement actions:

- Warning to maximum monetary penalty of 10 million
- Administrative measures including seizures of properties or de-registration of LAs
- Combination of both

5.5.1.1. Proportionality:

Authorities have imposed sanctions proportionate to the size of entities. The **proportionality** has been ensured on the basis of riskiness, size, geography and nature operations of the entity. As a reference, riskiness of violation or operation in high-risk geography has been selected as a key factor for determining proportionality in terms of size.

Case examples on Proportionality:

Penalties have been imposed on Trusts for not filing BO related information with provincial authorities. As a reference, severity of violations has been selected as a key factor for determining proportionality in terms of action against such entities. As an instance, please refer to table below, wherein Trust-A initially failed to file its BO declaration, and when the declaration was filed, it was found to contain misreported information.. While in case of Trust-B, a delay in filing was observed by 15 number of days as compared to Trust-A. Therefore, risk-based penalty regime has been implemented and a higher sanction including De-registration is imposed on Trust-A as compared to Trust-B for severe violations, thereby depicting proportionality:

Table 5.5.15 – Case Example for Trust – Failure and misreporting in provision of BO Information

Entity	Criteria	Action taken in March 2021
Trust-A	Major non-compliance: Failure to provide and Misreporting of BO information	De-registration
Trust-B	Minor violation: Delay in filing	Warning Issued

Penalties have been imposed on Waqfs for not filing BO related information with provincial authorities. As a reference, severity of violations has been selected as a key factor for determining proportionality in terms of action against such entities. As an instance, please refer to table below, wherein, Waqf-X has failed to file its BO declaration as pointed out by the Assistant Director. While in case of Waqf-Y, a delay in filing was observed by 20 number of days, but following such delay the relevant information was appropriately provided. Therefore, risk-based penalty regime has been implemented and a higher sanction including property taken-over is imposed on Waqf-X as compared to Waqf-Y due to severity of violation, thereby depicting proportionality:

Table 5.5.16 – Case Example for Waqf- Failure and delay in provision of BO Information

Entity	Criteria: Area of Operation	Action taken in March 2021
Waqf-X	Major non-compliance: Failure to provide BO information	Property taken over
Waqf-Y	Minor violation: Delay in filing of basic information	Warning

5.5.3.1. Dissuasiveness:

Dissuasiveness has been depicted by imposing harsher penalties through other available measures including seizure, forfeiture and de-registration etc.

Case study is shown as under:

Case study:

Trust - ABC was registered for welfare activities. It was transpired that a number of properties were held by entity ABC which were not reported to the authorities (violation of non-filing of property (shops) information as required by Trust Act 1882). Investigations were undertaken into the properties owned or controlled by ABC. The property details were obtained from the relevant Trust. It was further transpired that the properties remained in the control and possession of the entity ABC. Consequent to successful adjudication process, following sanctions were imposed against entity ABC:

- **De-registration of entity**
- **The properties were forfeited.**

5.5.3.2. Effectiveness

In terms of Effectiveness, the compliance ratio has been improved post sanction imposition. The order inculcates such directions toward the entity and the respective department to ensure the adequacy of compliance. See the above tables relating to each Cooperatives, Trust, and Waqfs where almost 98% of all high-risk Cooperatives, Trust and Waqfs are compliant after the show cause notice and warning have been issued.

Case study is shown as under:

Case study:

After the promulgation of amendments to the Punjab Waqf Ordinance in September 2020, an executive order was issued, wherein it was directed to provide BO related information to concerned authorities within 30 days. To date, **80% of all waqfs** registered in Auqaf Dept. of Punjab province have provided their relevant information and the records have been updated accordingly. The remainder have been targeted for enforcement action.

The above measures have been taken to ensure the dissuasiveness, proportionality and effectiveness.

6. Require trustees to disclose their status to DNFBPs when forming business relationships

In addition to legislative amendments pertaining to legal arrangements, Pakistan also requires DNFBPs under their relevant regulations to ensure that they understand the beneficial ownership and structure of their customers, including legal arrangements. For details, see RA#1 & 2 of IO3 and IO4. The following legislative and regulatory amendments have been made to address this item:

This recommended action is largely addressed.

5.6.1.Trusts

Table 5.6.1			
S. No.	Description	Acts	Relevant Subsidiary Regulations
1	require a trustee to disclose his status as such prior to entering into a business relationship or conducting an occasional transaction with a reporting entity	- Section 23 of Punjab, Sindh, Balochistan Trust Act, 2020. - Section 22 of ICt Trust Act 2020 - Section 25 of KPK Trust Act, 2020,	- Section 9 of KPK Trust Rules, - Section 9 of Sindh Trust Rules, - Section 9 of Baluchistan Trust Rules
2	provide information about the trust to be summoned, and shared with competent authorities and reporting entities upon request.	- Section 17 and 20 of Sindh and Baluchistan, Trust Act, 2020 - Section 18 and 21 of KPK Trust Act, 2020, - Section 18 and 24 of Punjab trust Act, 2020, - Section 17 and 23 of ICT Trust Act, 2020,	Section 3 Punjab Trust Rules

5.6.2.Waqfs

Table 5.6.2			
S.no	Description	Acts	Relevant Subsidiary Regulations
1	provide information about the waqf and its BO to be shared with competent authorities and reporting entities upon request.	- Section 7A of Punjab and KPK Waqf Act, 2020. - Section 9 of Sindh and ICT Waqf Act 2020 - Section 10 of Balochsitan Waqf Act, 2020,	- Section 6 of Punjab Waqf Rules, - Sections 10 and 12 of KPK Waqf Rules, - Section 10 and 12 of Baluchistan Waqf Rules - Section 11 of Sindh Waqf Rules 2020

5.6.3.Regulatory Framework for holding information on Beneficial Ownership information by DNFBPs

Section 7A(2)(b) of AML Act Amendments 2020 requires every reporting entity (which includes DNFBPs) to undertake CDD measures, including the identification of beneficial as follows: “(b) identify the beneficial owner and take reasonable measures to verify the beneficial owner’s identity on the basis of documents, data or information obtained from reliable sources and be satisfied that it knows who the beneficial owner is;”

Beneficial ownership is defined in section 2(iv) of AMLA (Revised link is provided here: <https://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>) is provided below:

- (i) natural person who ultimately owns or controls a customer and / or the natural person on whose behalf a transaction is being conducted; or
- (ii) natural person who exercise ultimate effective control over a legal person or legal arrangement.

The new Regulations issued by all the AML/CFT Regulatory Authorities specify the details of how such information is to be obtained. References to relevant provisions pertaining to DNFBPs are provided below:

FBR Regulations, section 8 contains the requirement for entities to identify and take reasonable measures to verify the identity of beneficial ownership of clients, including those who are legal arrangements (link: <http://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>)

ICAP Regulations, sections 11 and 14 require the reporting firm to identify and take reasonable measures to verify the identity of beneficial ownership of clients, including those who are legal arrangements. Section 12 requires the reporting firm (link: <https://www.icap.org.pk/files/per/aml/ICAPAMLCFTRegulations.pdf>)

ICMAP Regulations, section 11 and 14 require the reporting firm to identify and take reasonable measure to verify the identity of beneficial ownership of clients, including those who are legal arrangements. (link: https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf)

7. Centralize the current system of trust deed registration for immoveable property trusts to facilitate easy access to such information by competent authorities.

5.7.1.Registration Process:

The recent amendments to the provincial Trust and Waqf Acts specify the procedure through which all trusts and waqfs are required to be registered. The Acts envisage the creation of an online registration mechanism, but pending the development of such a mechanism, require that registration must be conducted manually. Regardless of the mechanism used to register, the following steps must be followed. The trustee(s) or waqf manager provide the information to the relevant provincial authorities at the time of registration, including identification information pertaining to the members of the trust or waqf. The relevant provincial authorities verify the contents of the documents through investigating/prosecuting agencies. The authorities, following verification of the documents, either register the trust or waqf, or may refuse registration.

The trustee(s) or waqf manager shall submit designated documents to the relevant authority for annual renewal of the registration, thirty days prior to the expiry of the existing registration, including details, which shall be verified in accordance with the rules.

5.7.2.New Centralised Mechanism:

An online registration portal for Waqf, Trust & Cooperatives (WTCs) has been developed which has been operational in all provinces as of December 2020. FMU and all LEAs, whether federal or provincial, have been given access to the portal which gives includes complete information about the entity, its beneficial owners, members, trustees, authors, etc through name, identification number, type of entity or location wise search. It is centralized in that all the data is held in one mutually searchable database across all provinces and ICT and across the three different types of provincially regulated entities.

A more limited data base is also available publicly in which general public can search waqf, trust & cooperatives through name, type or location wise search, dashboard.

Website: <https://wtc.punjab.gov.pk>

5.7.3. Legal framework:

Amendments have been made to each provincial cooperative, trust and waqf act to clearly set out the requirement to maintain a register of relevant information ..See table 5.7.1:

Table 5.7.1		
S. No	Description	Reference of relevant provisions
1	Requirement to keep a register of Cooperative Societies containing all basic and beneficial information	- Section 21-A (2) of KPK, Balochistan, Punjab - section 29(2) of Sindh Cooperatives Societies Act, 2020

This recommended action is largely addressed.

2	Requirement of the Provincial government to keep a register of trusts containing all information	• Section 20 of Punjab Trust Act 2020. • Section 20 of KPK Trust Act 2020. • Section 19 of Sindh Trust Act 2020. • Section 19 of Trust Act 2020 • Section 19 ICT Trust Act 2020.
3	Requirement for the provincial government to maintain a centralized register of all registered waqfs.	• Section 7-(3) of Punjab Waqf Act 2020. • Section 7-(3) of KPK Waqf Act 2020. • Section 8(3) of Sindh Waqf Act 2020. • Section 7(4) of Baluchistan Waqf Act 2020. • Section 8(3) of ICT Waqf Act 2020

Based on the above measures, Pakistan has centralized the current system of trust deed registration for immovable property trusts to facilitate easy access to such information by competent authorities.

8. Improve information sharing between SECP, FBR - Revenue, FMU, LEAs and sub-registries.

All the federal and provincial laws dealing with legal persons and legal arrangements contain provisions that enable timely provision of BO information to competent authorities;

5.8.1. Legal Persons- Companies & LLPs

5.8.1.1. Legislative Provisions

- Section 35(6)(b) of the SECP Act, 1997 provides a power to the SECP to disclose any information that is likely to assist LEAs in performance of their functions including information regarding predicate offences and/or related to ML and BO;
- Section 42D of the SECP Act, 1997 provides a framework for international cooperation and to stipulate mechanisms for sharing information and assistance under the SECP Act, 1997 or any administered legislation,
- Amendments have also been made to the "Guidelines for Cooperation and Assistance to Foreign Regulatory Authorities to provide international cooperation" in relation to basic and beneficial ownership information.

(Link: <https://www.secp.gov.pk/document/secp-guidelines-for-cooperation-and-assistance-to-foreign-regulatory-authorities/?wpdmdl=39167&refresh=601f97a94c3ac1612683177>)

5.8.1.1. MOUs

SECP is now a signatory to the Multilateral Memorandum of Understanding (MMOU) for information exchange relating to ML/TF and other predicate offences between 12 different LEAs and other authorities. The scope of information covered include transactions and activities relating to money laundering and terrorism Financing.

MOUs have been signed for exchange of information with different authorities including FBR, NACTA, Employees' Old-Age Benefit Institution, Intellectual Property Organization, Provincial Governments, etc.

Another important initiative is the **establishment of a National AML Desk under the FATF Secretariat in November 2020** to synergize and harmonize inter-agency efforts and provision of timely and effective information sharing & coordination mechanism regarding ML investigations. The National ML Desk has representation from SECP, FBR, FMU, SBP and FIA, and will work under the supervision of DG FATF who also tracks the overall efforts. Since the formation of AML Desk on November 9, 2020, SECP has provided basic and BO related responses to **234** such requests from AML Desk regarding **813** suspected individuals. Further detail with respect to the AML Desk is set out under section 6.1.6 of IO6.

This recommended action is largely addressed.

5.8.1.2. Other Information Sharing Portals/Mechanisms

- SECP is also part of a newly established AML/CFT Supervisory Cooperation Committee as explained in IO1 in the area of AML/CFT and BO where FBR and other financial regulators and Supervisors are also part of. This is beside the SECP's engagement with LEAs through AML desk wherein representation have been made from SBP, FMU, FBR and other LEAs.
- Pakistan MER 2019 recommended that FMU should have access to key databases of other agencies. In December 2019, SECP provided access to its Company Registry Database to FMU. Whereby, FMU can access basic ownership information related to Companies and LLPs held by SECP's database. The LEAs can also access this information on an immediate basis by requesting information from FMU through goAML portal. This arrangement helps to identify the associated legal persons with the person(s) concerned or to track the natural person(s) associated with any concerned legal person(s). The analysts are effectively using it during the analysis of STRs and the development of FIs as and when needed. In this way, the LEAs are also reaping benefit of this database integration through a better analysis in the form of financial intelligence received from FMU. Further details with respect to the use of this database are set out under section 6.4.2.iv of IO6. A brief glimpse in this regard is provided at Table 5.8.1.

Table 5.8.1						
Statistics on FMU and SECP database integration						
Year	2019		2020		2021 (to March 2021)	
Details	Person Search	Company Search	Person Search	Company Search	Person Search	Company Search
Number	13	35	257	193	120	152

- **Information is exchanged through online portals and Application Programming Interface (API) established with different authorities** including FBR, Board of Investment, Employees' Old-Age Benefit Institution, etc. Integration of basic ownership data of foreign companies with BOI has been completed to expedite the process of registration or renewal of branch/liaison office by foreign companies.
- SECP has signed an **MOU with FBR** for sharing of data, that will lead to issuance of National Tax Number (NTN) to foreign companies & LLPs immediately after their registration with the SECP through SECP-FBR integrated online system. Similarly, NTN to directors appointed subsequent to incorporation will be issued immediately after recording of their appointment with the Registrar. This measure ensures data-push arrangement for both authorities to gather information relating to legal person and their associates simultaneously.
- **Directorate Computerization of Land Titles and Record of Cooperative Housing Societies** is a flagship project with a total budget of 100 Million rupees, aiming at computerization of land titles and record of all the functional cooperative housing societies across Punjab. Under this initiative, record keeping of Cooperative Housing Societies will be standardized by maintaining a central depository at Head Office of the Department. (<https://cooperatives.punjab.gov.pk/CLTR>)
- In January 2020, the SECP agreed with the **Government of Baluchistan** that the information sharing mechanism already in place with Punjab and Sindh would be extended to the Provinces of Baluchistan and KPK (<https://www.secp.gov.pk/wp-content/uploads/2020/01/Press-Release-Jan-10-SECP-to-extend-scope-of-its-One-Stop-Shop-to-Balochistan.pdf>)
- **Domestic Information Sharing:** Table 5.8.2 depicts the basic and BO related Information Exchange between SECP and LEAs/Other authorities. Further, SECP is also actively involved in providing Basic ownership information about the Companies and LLPs to LEAs upon requests. As a case example, more than **159** such information requests have been furnished within a day during the month February 2021.

Table 5.8.2			
Name of LEA/ Agency	2018-19	2019-20	2020-21
Federal Bureau of Revenue (FBR)	965	89	7,169
Federal Investigating Authority (FIA)	87	133	185
National Accountability Bureau (NAB)	540	662	480
Anti-Narcotics Force (ANF)	52	60	25
Counter Terrorism Departments (CTD)	-	21	29
Other	294	324	183
Total	1,938	1,289	8,071

5.8.2. Legal arrangements:

Table 5.8.3 depicts the mechanism taken for ensuring information sharing measures:

Table 5.8.3		
S. No	Description	Work Done
Legislative framework: Comparison of past vs present		
1	Cooperative society	Section 21-A (2) of KPK Balochistan, Punjab, and section 29(2) of Sindh Cooperatives Societies Act, 2020 deals with collection of beneficial information. Section 20A(ii) of Baluchistan, 26(2) of Sindh, 20-C(2) of KPK, 20A(2) of Punjab Cooperatives Societies Act, 2020 requires information to be provided to authorities regarding the beneficial ownership. The Secretary of the Society shall provide the information to a competent authority. Section 20-(B) of Punjab and Balochsitan, cooperative societies Act 2020, deals with exchange of beneficial information of International cooperation purpose.
2	Trusts	Section 13 of Sindh and Balochsitan, Section 15 of Punjab and section 16 of Punjab Trust Act 2020, deals with collection of beneficial information Section 9 KPK Trust Rules, Sindh Trust Rules, Baluchistan Trust Rules and section 3 Punjab Trust Rules specifies the information that must be included in the register, including the information that will be made publicly available, and also provides that competent authorities and reporting entities may request access to the information held within the register. Section 21(2) of KPK and Punjab Trust Act 2020 deals with exchange of beneficial information of International cooperation purpose.
3	Waqfs	As per Section 6, KPK and Punjab, Section 7 of Balochistan and Sindh Waqf Act 2020, deals with collection of beneficial information Sections 23 and 24 Sindh Waqf Properties Act, sections 24 and 25 Baluchistan Waqf Properties Act, sections 20-A and 20-B Punjab Waqf Ordinance and sections 10 and 12 KPK Waqf Rules require provincial authorities and waqf managers to provide information to competent authorities and reporting entities upon request, as prescribed. For instance, Section 20-(B) of Punjab and 24(2) Balochistan, deals with exchange of beneficial information of International

		cooperation purpose.
Additional Measures		
4	MOU on inter-agencies Cooperation and Coordination	All provincial home departments which administer Waqf, Trust and Cooperatives (WTC) are now a signatory to the MMOU for information exchange relating to ML/TF and other predicate offences between LEAs and other authorities. The scope of information covered include transactions and activities relating to money laundering and terrorism Financing. This allows LEAs to timely obtain and use the information regarding Ultimate BO of Cooperative Societies, Trusts and Waqfs.
5	Guidelines on International cooperation	(i) Ministry of Interior (MOI) in April 2020 issued detailed Guidelines for all stakeholders on MLA procedures for both formal and informal cooperation as provided in RA-1 to IO-2. (ii) Offense-wise prioritization was provided; with TF, terrorism and ML being top priorities. (iii) Timelines for execution of incoming requests prioritized and set at a maximum of 30 days. In case of delay, explanation to be given to the requesting jurisdiction.
6	Designated Login for LEAs and FMU	FMU has been provided the access through a designated login in the Waqf, Trust and Cooperatives (WTC) portal. Further, LEAs can also access the portal for obtaining any information that is likely to assist FMU and LEAs in performance of their functions including information regarding predicate offences and/or related to ML.
7	AML Desk Coordination	Since the formation of AML Desk on November 9, 2020, Provincial Registries have provided basic and BO related responses to 202 such requests from AML Desk regarding 619 suspected individuals. Further detail with respect to the AML Desk is set out under section 6.1.6 of IO6.
8	Data sharing with relevant authorities	Following table depicts the basic and BO related Information Exchange between SECP and LEAs/Other authorities;

Table 5.8.4 sets out a summary incoming requests by LEAs to provincial and ICT authorities with respect to basic and beneficial ownership information during the years 2018-2019 to 2020-2021.

Table 5.8.4									
Name of LEA	Cooperatives			Trust			Waqf		
	2018	2019	2020/21	2018	2019	2020/21	2018	2019	2020/21
NAB	88	96	41	0	1	0	2	3	0
FIA	40	48	19	6	1	1	4	4	0
ANF	0	25	10	0	28	10	0	25	10
FBR	9	13	0	18	10	2	5	4	1
CTDs	0	26	17	0	0	0	0	0	0
Total	137	208	87	24	40	13	11	36	11

The Mutual Legal Assistance Act 2020 was enacted by Pakistan in August 2020. Sections 7 and 8 set out the information that Pakistan can either share or request as part of a formal mutual legal assistance process. This information includes providing original or certified copies of relevant documents and records, including government, bank, financial, corporate or business records (s.7(k)). More details relating to International cooperation is provided in IO2.

5.8.3. Operationalization of Online portal:

FMU and all LEAs have been provided the access through a designated login in the Waqf, Trust and Cooperatives (WTC) portal. LEAs can access the portal on immediate basis for obtaining any information including **basic and beneficial** that is likely to assist FMU and LEAs in performance of their functions. FMU/LEAs can conduct country wide search of all WTCs through identification number (in case of individual) or organizational name (in case of any WTC). Further statistics with respect to the use of this database are set out below in Table 5.8.5:

Table 5.8.5			
Name of LEA	No. of cases/ inquiries on Trusts / Waqfs/ Cooperatives	No. of Searches on Legal Person / Arrangement	No. of Searches on Individual Natural Persons
National Accountability Bureau (NAB)	720	84	636
Federal Investigating Authority (FIA)	1280	196	1084
Anti-Narcotics Force (ANF)	212	4	208
Federal Bureau of Revenue (FBR)	588	47	541
Counter Terrorism Departments (CTDs)	377	18	359
Total	3177	349	2828

Based on the above actions, Pakistan has made significant improvement in information sharing between SECP, FBR - Revenue, FMU, LEAs and sub-registries.

JG Comments & Analysis

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 5.

The JG considered that Recommended Actions 1, 2, 4, 5, for IO.5 are key Recommended Actions, since they address the key expectations on the necessary measures to prevent the misuse of legal persons and legal arrangements, and to provide authorities with a timely access to accurate and up-to-date Beneficial Ownership information.

Recommended action 1 is key and is partially addressed. Pakistan updated its national risk assessment of the ML/TF after the 2019 MER and drafted a specific risk assessment for legal arrangements and legal entities. This sectorial risk assessment provides information about the overall risks that can affect each type of legal entities, however it remains general and it is not clear on the extent to which these entities can be used for TF / ML purposes in the particular context of the country. Pakistan updated the risk level for several type of entities including trusts, waqfs and LLPs. Pakistan justified the change in vulnerability levels with a better understanding of the risk associated with each type of entities as well as the newly implemented BO legal framework. However, Pakistan did not provide any example of how these type of entities could be abused to facilitate ML/TF so it remains unclear if the risk is correctly identified.

SECP disseminated the sectoral Risk Assessment of LPLA to relevant public authorities and private stakeholders. In addition, SECP conducted several outreach sessions which gathered 1291 participants from the private sector including from obliged entities and DNFBPS. For cooperatives, provincial cooperative government realized 26 sessions on LPLA risk assessment which gathered 1,553 participants mainly from the provincial cooperative departments.

For trusts and waqfs, the provincial authorities organised 25 awareness session gathering 1695 participants for public supervisor officers and trusts and waqfs managers.

Authorities should develop a more detailed understanding on the extent to which legal persons and arrangements can be misused for ML/TF purposes, in particular considering the level of TF risks to which the country is exposed and continue the outreach to public and private stakeholders.

The JG agreed that this is a key recommended action and an important issue for Pakistan. However, the deficiency in this case was not deemed to be materially important enough to be addressed specifically in the action plan.

Recommended action 2 is key and is largely addressed. On 27 August 2020, Companies Amendment Act 2020 and Limited Liability Partnership Amendment Act, 2020 were enacted to introduce requirements for all companies and LLPs to obtain and maintain ultimate beneficial ownership information. Additional legislative amendments were adopted in 2020 in Baluchistan, Sindh, KPK, Punjab and ICT to collect the BO information for cooperative societies, trusts and waqfs. In March 2021, GB has adopted KPK provincial frameworks on Cooperatives Trust and Waqf while AJK adopted the Punjab provincial frameworks on Cooperatives, Trust and Waqf. The legal framework is in place for the whole territory and implementation will be essential to ensure coherence and consistency in the access to BO information across the country.

Recommended action 3 is largely addressed. Pakistan introduced the relevant legislation to mitigate the risk associated with bearer instruments and nominee arrangements for companies including, for instance, disclosure requirements for ultimate beneficial owners/controls of those instruments. Pakistan provided for a period of three months so that bearer shares could be converted adequately (from September to December 2020). Following this period, Pakistan's SECP has not identified any outstanding bearer shares and concluded that every share is in the name of natural and/or legal persons. Pakistan reported that within SECP's digital registry, every share has now been accounted for and is in the name of a natural and/or legal person.

Recommended action 4 is key and is largely addressed. For Companies & LLPs, SECP has established a centralized Supervision Division in 2021 which includes a total of 31 resources. For cooperatives, trusts and waqfs, the workforce at provincial level has increased on average by 35/40% on average post MER. Staff dedicated to the supervision can vary from less than 10 to around 400 according to the province (i.e. ICT or Sindh). Pakistan provided data on the staff dedicated to the supervision for all the provinces. For cooperative, trusts and waqfs, the efficiency in the implementation of the procedures still needs to be demonstrated in practice (including sanctioning) but this remaining action is addressed further in RA5.

Recommended action 5 is key and is partially addressed. Pakistan has provided figures, strategy and case studies of enforcement actions including sanctions for all types of legal persons and arrangements. Regarding LLPs, Pakistan reported that all the 507 entities complied after receiving the Show Cause of Notice (SCN) and the first warning. Pakistan did not report any cases of fines or penalties for several types of legal persons or legal arrangements supervised at national or provincial level even if administrative actions including suspension or deregistration were reported for trusts, waqfs and cooperatives. No penalty or administrative action was reported concerning LLPs.

Authorities should:

- Ensure that proportionate and dissuasive sanctions are implemented for all legal persons and arrangements in all the provinces of the country.
- Demonstrate with concrete and detailed cases that proportionate and dissuasive sanctions are taken for the non-compliance with the registration of legal persons and arrangements.

The JG agreed that this is a strategically important issue for Pakistan and an action item has been developed.

Recommended action 6 is largely addressed. Pakistan requires DNFBPs under their relevant regulations to ensure that they understand the beneficial ownership and structure of their customers, including legal arrangements. The amended AMLA of 2020 requires every reporting entity (which includes DNFBPs) to undertake CDD measures, including the identification of beneficial owners. According to Pakistan's 2nd FUR October 2020 i it is not clearly demonstrated that trustees of foreign trusts are required to disclose their status as trustees to financial institutions and DNFBPs when forming a business relationship or carrying out an occasional transaction above the threshold. Pakistan clarified that the Trust Act does not distinguish between "domestic" and "foreign" trusts. The obligations on all trusts and trustees are identical regardless of where the trust originates or where the trustees are located (the relevant subsidiary regulations of FI/DNFBPs are required to obtain ID information from trustees for KYC/CDD purposes).

Recommended action 7 is largely addressed. Pakistan has set up an online registration portal for Waqf, Trust & Cooperatives (WTCs) which has been operational in all provinces as of December 2020. The information includes the beneficial owners of immoveable property trusts, members, trustees, authors, etc through name, identification number, type of entity or location. Pakistan reported to have verified 89% of the information registered on the WTC portal through specific examinations and inspections.

Recommended action 8 is largely addressed. Pakistan reported the signature of a MoU between various central and provincial authorities. This framework allows sharing of BO information between competent authorities in a timely manner as domestic information sharing reported in table 5.8.2 has increased significantly, even if the accuracy and the usefulness of the data was not sufficiently demonstrated through specific cases.

Immediate Outcome 6 Low	Recommended Actions from MER: 1. LEAs (provincial police, FIA, NAB, and ANF) need to significantly improve their integration of financial intelligence into financial investigations. This should include enhancing LEAs' capability to develop and make use of financial intelligence to commence and pursue the investigation of ML and predicate offences. Pakistan has taken multiple measures following its Mutual Evaluation to improve the integration of financial intelligence into financial investigations by the Law Enforcement Agencies (LEAs). These measures have also led to enhancing the capability of the LEAs to develop and make use of financial intelligence to commence and pursue the investigation of TF, ML and predicate offences. The LEAs have access to different types of financial intelligence such as: • Financial Intelligence developed the LEAs during the course of their investigation • Proactive disclosures by FMU (Financial Intelligence developed by FMU) • Reactive disclosures by FMU (LEAs' request for information from FMU) 6.1.2 National Level Measures: In this regard, a number of national level measures have been adopted to enhance the capacity of LEAs for utilization of the financial intelligence which strengthens their investigation of TF, ML and predicate offences. Some of the national level measures taken are as following: a) Anti Money Laundering Act 2010 The Anti Money Laundering Act was amended in 2020 to address technical compliance gaps. The AML Act provides all the required statutes/provisions which enable LEAs to effectively utilize financial intelligence and facilitates them in ML /TF Investigations. LEAs can seek information under section 25 of AMLA during the course of financial investigations. b) Other Relevant Laws There are provisions in LEAs respective laws which empower them to call for financial and other relevant information during the course of financial investigations. For example, under the NAB Ordinance, NAB has the power to seek financial records from banking and non-banking institutions. Similarly, there are powers in other LEAs' respective laws as well. c) National Guidelines for ML Investigations and Prosecution The "Guidelines on Financial Investigations of Money Laundering for LEAs" were issued on 20th October 2020 after approval of the National Executive Committee under Section 5 of Anti-Money Laundering Act-2010 (Act of VII of 2010) These guidelines were developed in coordination with all the stakeholders and the same have been adopted by all the Law Enforcement Agencies. These guidelines provide a mechanism of cooperation with other LEAs and also highlight the utilization and prioritization of the Financial Intelligence. d) Committee for Intelligence Sharing and Coordination on ML/TF/PF On November 26th, 2020, Pakistan established the Committee for Intelligence Sharing and Coordination on ML/TF/PF as a sub-committee to the General Committee (GC). The objective of the co-ordination committee is to enhance effective coordination among LEAs and the FMU, for the utilization of Financial Intelligence relating to Money Laundering, Terrorist Financing, Proliferation Financing and relevant predicate offences. The Director General (DG) of the FMU is the chairperson of the committee whereas senior level officers from designated LEAs are members of the committee. Moreover, the National Counter Terrorism Authority (NACTA) and the National FATF Secretariat which act as the coordination authorities, are also members of the committee. Areas of focus are as following: • Enhancing Coordination between the LEAs and FMU • Effective Utilization of Financial Intelligence disseminated by FMU to LEAs • Enhance the Feedback Mechanisms on Financial Intelligence disseminated to LEAs • Engagement with Private Sector in Coordination with LEAs As per the TORs, the Committee for Intelligence Sharing and Coordination on ML/TF/PF, is required to hold meetings on a quarterly basis. So far, since its inception, the committee has held two meetings. The TORs of the committee were explained to the members in the first meeting whereas the members showed their commitment thereof. In the 2nd meeting, members were requested	This recommended action is largely addressed.

to develop and share case studies to FMU and also identify capacity building training needs with FMU.

e) Guidelines for utilization of Financial Intelligence by LEAs

FMU has developed comprehensive guidelines for the utilization of Financial Intelligence. These guidelines cover the different aspects of the use of financial intelligence and for prioritizing its use. These guidelines were circulated to all the regional offices of the LEAs for proper implementation.

f) SOPs for Processing of Financial Intelligence:

Two standard SOPs were developed and shared by the FMU with LEAs and CTDs with respect to the use of financial Intelligence. In turn, each LEAs has developed their own internal SOPs for the effective use of financial Intelligence. These SOPs cover different aspect of processing Financial Intelligence and assist LEAs in understanding and taking necessary action based on the Financial Intelligence shared by the FMU. They also cover the feedback mechanism against the Financial Intelligence being disseminated.

g) MOUs of FIA with Police

Under the directions of NEC, in Nov 2020, FIA authorities held number of meetings with the concerned police authorities which resulted in the execution of the following MOUs:

- MOU between FIA and Punjab Police
- MOU between FIA and Sindh Police
- MOU between FIA and Baluchistan Police
- MOU between FIA and KP Police
- MOU between FIA and Islamabad Police

These MOUs have helped the Provincial Police to have better mechanism of cooperation between the LEAs and the police, and facilitate the sharing of financial intelligence.

6.1.3 LEAs Measures to Develop Financial Intelligence:

LEAs during their investigations develop financial intelligence which is based on number of sources of information that may include information retrieved from different open and closed sources of information and databases. The financial intelligence developed by the LEAs provide a financial perspective to the LEAs which strengthens the investigation of the LEAs. These measures are in addition to the Financial Intelligence disseminated by FMU to the LEAs.

a) Sources from which LEAs develop Financial Intelligence:

LEAs have different types of tools or sources available to them from which they develop financial intelligence. It is to be noted that LEAs have direct/online access for the asterisk marked sources of financial intelligence. Some of the tools used by the LEAs have been mentioned below:

Table No. 6.1.1								
Development and Use of Financial Intelligence by the LEAs								
	Sources of Financial Intelligence	FIA	NAB	FBR-IR	FBR-C	ANF	Provincial LEAs	Remarks
1	Search Warrants and Seizure	Y*	Y	Y*	Y*	Y*	Y*	LEAs have powers under their own laws and under AMLA to conduct Search and Seizures
2	Arrests /summon of suspects to gather financial intelligence or to probe financial leads.	Y*	Y	Y*	Y*	Y*	Y*	LEAs have powers under their own laws and under AMLA to arrest/summon suspects

3	Powers to seek records from the banks /NBFIs/ECs(ML LEAs)	Y	Y	Y	Y	Y	Y	LEAs have powers under their own laws and under AMLA to seek information from Banks, NBFIs, etc.
4	Tax records	Y	Y	Y**	Y*	Y	Y*	LEAs can seek/access information of tax records maintained by FBR-IR
5	Business Profile	Y	Y	Y*	Y*	Y	Y	LEAs based on the information collected from Tax authorities develop business profiles of the suspect
6	Revenue/ Land Records	Y	Y	Y	Y	Y	Y*	These records are collected from the Provincial authorities by the LEAs.
7	Immigration Records	Y**	Y	Y	Y**	Y*	Y	Integrated Border Management System (IBMS) Database records the incoming and outgoing travel record from all ports of Pakistan
8	Cyber Records	Y**	Y	Y	Y	Y	Y	National Response Centre for Cyber Crime has been developed under the mandate of the FIA which primarily deals with technology-based crimes in Pakistan. It is the only unit of its kind in the country and in addition to the directly received complaints, also assists other law enforcement agencies in their own cases.
9	Inquiries data from LEAs	Y	Y	Y	Y	Y	Y	The LEAs can seek details of the suspect from other LEAs where already inquiries/investigations against the suspect has taken place
10	NADRA Database	Y*	Y*	Y*	Y*	Y*	Y*	This database has all the details of the computerized national identity cards issued to the citizens of Pakistan
11	Excise Records with regards to Moveable property (Vehicles Registration)	Y	Y	Y	Y	Y	Y*	This database provides the details of immovable property registered against an individual which is also useful for the LEAs when they are gathering intelligence on the suspect
12	Informal international cooperation requests	Y*(Interpol)	Y*	Y	Y*	Y	Y	These are generated by the LEAs. It includes information sought from Interpol.
13	Formal International Cooperation	Y	Y* (UNCAC/MLA ACT/MOU)	Y*(Double taxation treaty)	Y	Y	Y	These are done under their respective formal procedures which include seeking information through MLAs
14	Company Registration Data	Y	Y	Y	Y	Y	Y	This information is sought from SECP about the legal persons/or companies being held in the name of the suspect

15	Central Depository Company	Y	Y	Y	Y	Y	Y	Central Depository Company is the sole securities depository in the country.
16	Electronic Credit Information Bureau (eCIB)	Y	Y	Y	Y	Y	Y	The Electronic Credit Information Bureau (eCIB) is established by State Bank of Pakistan (SBP). It is the Credit Information Bureau (CIB) which collects and collates credit data on borrowers from its member financial institutions. This information is also useful for LEAs
17	Forensic	Y*	Y*	Y	Y	Y	Y	LEAs can conduct forensic analysis of financial data using their own facilities or the facilities of other LEAs
18	WEOC	Y	Y	Y	Y*	Y*	Y	WeBOC is a web-based computerized database, providing end to end automated customs clearance of import and export goods.

*Direct online access to database

**Host Agency of the Database

i) Forensic Laboratories:

Computer Forensics is the Branch of Forensics Science pertaining to legal evidence found in computer systems and digital storage medium. It is to perform forensic investigation on digital evidence while maintaining the documents chain of custody so that it can be presented as evidence in the court of law. LEAs during the course of their investigation have access to these forensic laboratories. This includes the following:

- Scientific examination and analysis of digital storage media for example hard drives, flash memories, floppy disks, CD/DVD etc.
- Forensic Analysis of Mobile phones and Personal Digital Assistant (PDA)
- Forensic Examination of standalone/networked computers after a break-in, for example, to determine how the attacker gained access and what the attacker did.
- Retrieve/acquire evidence from digital media.
- Recovery of digital data in case of damaged hardware that may have evidentiary value.
- Forensic analysis of retrieved and/or submitted media
- To provide expert testimony on resultant analysis on agency cases in the court.

Much of this evidence is financial in nature.

ii) Experts from other Fields:

Wherever necessary, LEAs form Joint Teams to investigate the cases of Parallel ML cases, judiciously and transparently. Typically, the Joint teams comprise of a Case officer supervising a team of at least two Investigation officers and a Legal consultant. The team is further reinforced by experts of various fields, depending upon the nature of the case, such as financial / Banking Expert, Engineering Expert, and Revenue Expert etc. Experts provide prompt and specialized opinions to the Investigators at all stages of an investigation, whether it is at the complaint, inquiry or investigation stage.

iii) Process Flow:

Section 25 of AMLA 2010 empowers LEAs to seek financial intelligence or any other relevant information / document for expeditious proceedings of their Parallel ML investigations. Moreover, the LEAs under their respective laws are also empowered to get the information for development of financial intelligence.

- Source report/Complaint received
- Designation of Investigating Officer
- Preliminary scrutiny(contents)/verification process
- Internal database matching
- Based on the contents of the source report, the relevant options are selected to do searching
- Development of Financial intelligence by LEA
- Initiation of formal inquiry

LEAs have the capability to collect and utilize the Financial intelligence. Collection of information (Most Common Sources), in most cases (LEAs) is provided below:

- Banks
- Revenue
- Tax Record
- FMU
- NADRA
- NACTA
- Previous Criminal Record
- Travelling Record

6.1.4 Statistics indicating for development of Financial Intelligence by LEAs

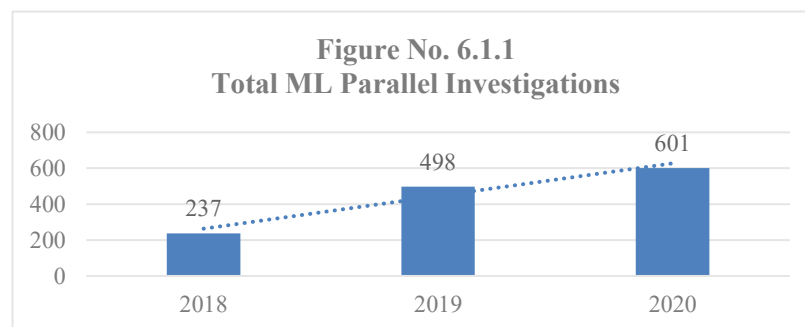
- Accessing information from banking and non-banking sector during investigations by LEAs

Table No. 6.1.2					
Information seeking from Banking and Non-Banking Sector by LEAs					
S. No.	Agency Type	2019	2020	2021	Grand Total
1	ANF	90	164	82	336
2	CTDs	104	681	113	898
3	FBR Customs	11	43	10	64
4	FBR IR	35	205	30	270
5	FIA	551	1288	423	2262
6	NAB	323	561	136	1020
	Grand Total	1114	2942	794	4850

- The above statistics were developed based on such STRs which were reported following an inquiry by an LEA. An increasing trend in the inquiries made by every agency to the reporting entities has been observed which indicate that the increasing tendency of law enforcement agencies related to seeking financial information and conducting its analysis in their investigations.

b) Statistics of LEAs (IO-7):

All these steps have led to an increase in the Parallel ML investigations for high-risk predicate offence cases. See Figure No. 6.1.1 below.



Moreover, during the first quarter of 2021, a total number of 348 ML Investigations were initiated.

6.1.5 National AML Desk

a) Overview

In Pakistan, the investigative and preventive measures for the crime of money laundering are responsibility of different regulatory bodies and law enforcement agencies. These agencies and regulators, however, coordinate and cooperate with each other in ML related cases and investigations under various formal and informal mechanisms. The National AML Desk was setup in November 2020, to synergize and harmonize inter-agency coordination through timely data sharing in order to ensure effective implementation of the AML Regime. This desk facilitates LEAs to jump start ML Investigations and streamline the flow of information among all the relevant agencies.

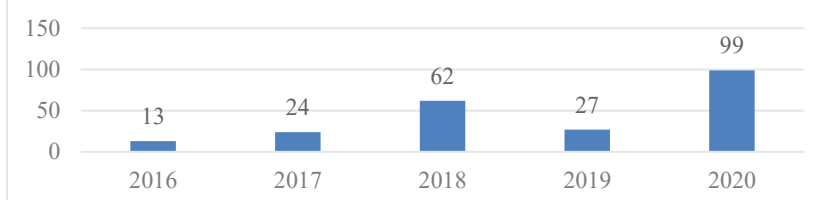
b) Composition

The National AML Desk is comprised of all the relevant stakeholders including but not limited to the National FATF Secretariat, the Federal Investigation Agency, Federal Board of Revenue (IR), Federal Board of Revenue (Customs), State Bank of Pakistan, Financial Monitoring Unit, Securities and Exchange Commission of Pakistan, National Accountability Bureau and the Anti-Narcotics Force. One resource person from each of the above agencies having relevant ML investigative experience and ability to analyse information and handle the task at National level has been assigned to work in the National AML Desk. The National AML Desk is housed at Federal Investigation Agency (FIA) Headquarters Islamabad and is functioning under the direct supervision of the Director General of the National FATF Secretariat. Most of the members of National AML Desk sit at FIA Headquarters Islamabad, however, a few members are working dedicatedly from their own offices.

c) Performance of National AML Desk

- Each LEA shortlists its potentially important ML cases and requests National AML Desk for provision of information against the suspects in these cases.
- Each member of National AML Desk seeks information from their respective departments/agency and shares it with the requesting LEA. The smooth and timely flow of information is strictly ensured.

Figure No. 6.1.2
Reactive Disclosures



- In case of any delay in provision of information beyond the agreed timelines or 10 days, whichever is earlier, the National FATF Secretariat immediately gets in touch with senior management of relevant department/agency to expedite the flow of information.
- Since its formation in November 2020, the AML Desk has successfully coordinated and ensured the timely provision of data.
- As per feedback from participating LEAs, banking information which took several months to obtain previously is now being received within 15 days through the AML Desk.
- In addition to providing formal assistance in expediting the flow of information among various agencies, the National AML Desk is also assisting the relevant agencies informally. For example, certain data requests of ANF were pending with various banks, the National AML Desk approached those banks through SBP and advised them to provide the pending information to ANF immediately. As a result, the flow of information from banks to ANF considerably improved as reported by the ANF member of the AML Desk.
- Different LEAs made a total number of 562 requests of information via National AML Desk to SECP, FBR, FMU and SBP in 234 cases with 912 number of suspects. All these requests were responded by relevant agencies in a timely manner and there are currently no outstanding information requests.

6.1.6 Development and Integration of FMU financial intelligence into financial investigations

The FMU shares two types of disclosures with the LEAs:

- a) Reactive Disclosures (financial intelligence shared by the FMU based on an LEA request)
- b) Proactive Disclosures (financial intelligence shared by the FMU spontaneously)

a) Reactive Disclosures (financial intelligence shared by the FMU based on an LEA request):

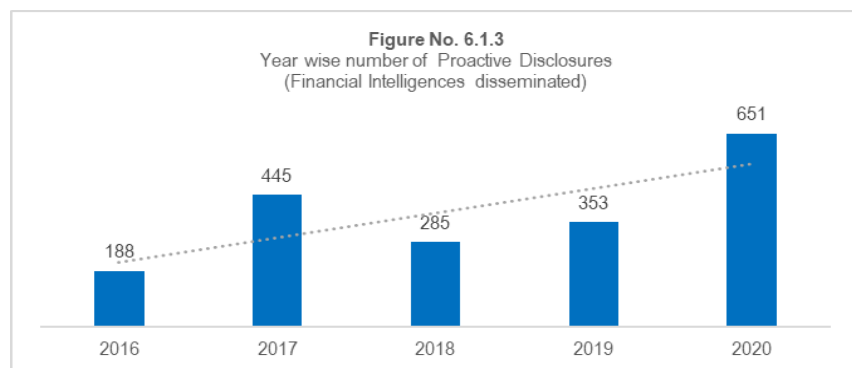
LEAs during the course of their investigations seek information from FMU and the same is provided in the form of Reactive Disclosures which contains the financial intelligence for utilization by the LEAs. Reactive disclosures are provided in a timely manner (usually within 5 working days) and covers the analysis of STRs and CTRs reported by reporting entities and other relevant information available to the FMU. These disclosures usually cover the details of the conductor of the transaction along with details of transaction i.e. persons role in the transactions, source and destination parties including person, account and entity and nature of transaction was explained in one line. This also includes the National Tax Number (NTN) of a person/entity, if the person/entity holds NTN and the same is provided by the reporting entity.

Moreover, in cases where FMU needs to conduct a more detailed analysis, then an initial response is sent to the LEA and subsequently a detailed analytical report was shared. The number of the disclosures relating to ML and predicate offences is provided below:

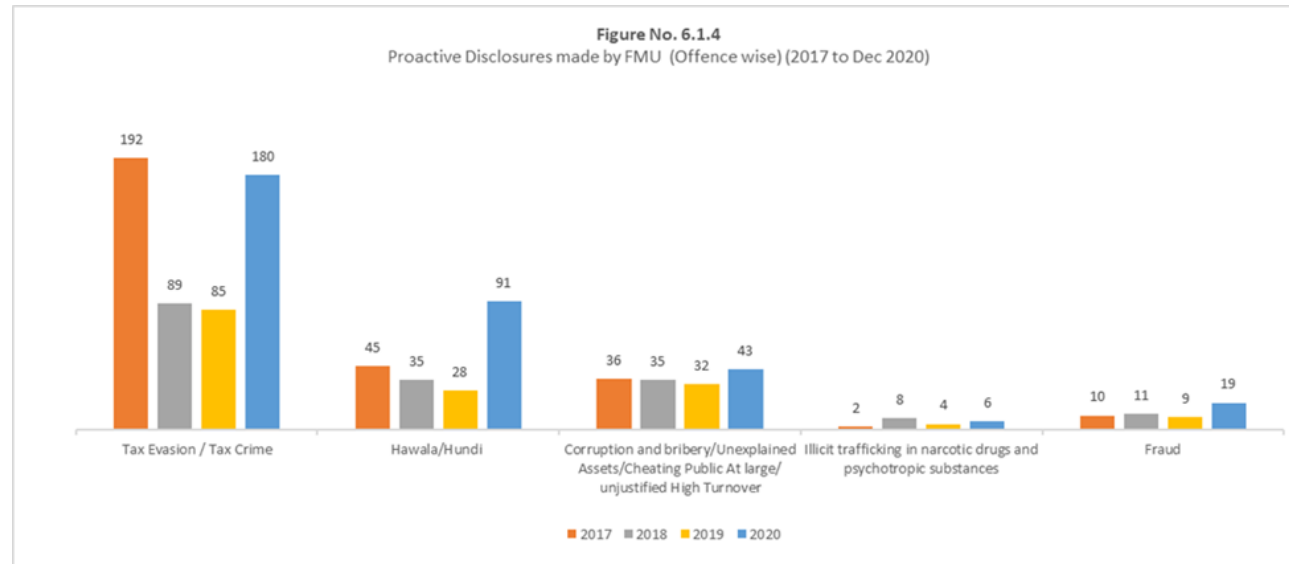
In the above table, it is apparent that the reactive disclosures to LEAs have significantly increased over the years. Moreover, in the year 2021 a total number 111, reactive disclosures have been made till 31st March 2021.

b) Proactive Disclosures (financial intelligence shared by the FMU spontaneously)

The table below shows the statistics on the total number of Proactive Disclosures disseminated by FMU relating to Predicate, ML and TF.

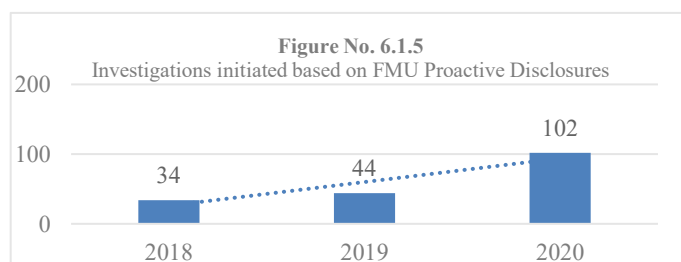


In the above table, it is apparent that the proactive disclosures to LEAs have significantly increased over the years. Moreover, in the year 2021 a total number 286, proactive disclosures have been made till 31st March 2021. Moreover, the following table highlights Proactive Disclosures based on some of the high-risk predicate crimes.



- As evident from the above graph there has been a significant increase in the number of proactive disclosures on high-risk predicate offences to the Law Enforcement Agencies as compared to years prior to Mutual evaluation.
- FIs disseminations related to high-risk predicate offences as identified in NRA 2019, e.g. corruption, tax crimes, etc. have increased since the MER.
- A threefold increase in the number of disclosures linked to the High-Risk offences is evident from the graph above which shows FMU is prioritizing the High and Medium -High risk offences while making disclosures.
- Moreover, it is pertinent to mention that dissemination linked to drugs trafficking is low as proceeds of drugs trafficking usually is not routed through formal channels.

d) Investigations initiated based on FMU Proactive Disclosures



It is evident from the above graph that over the years investigations have increased which were initiated based on FMU Proactive disclosures. Moreover, in the first quarter of 2021, so far 30 investigations have been initiated based on FMU Proactive disclosures.

d) Utilization and Integration of Financial Intelligence by LEAs:

- During the Post MER period 453 Inquiries /investigations have been initiated by the LEAs based on the Proactive financial Intelligence shared by FMU. These Investigations are linked to different high risk predicate crimes such as corruption, tax evasion, fraud, etc.
- A total number of 439 Assets have been Seized/attached/frozen.
- The assets frozen include bank accounts, immovable properties, etc.
- The total value of assets seized is Rs. 6,111.5 million,
- The total value of assets confiscated is Rs. 8.9 million.

6.1.7 - Capacity building of LEAs:

The LEAs and FMU have conducted several training sessions for the officials of the LEAs to enhance their capacity of development and utilization of financial intelligence more effectively. These training sessions also focus to enhance the knowledge and understanding of the LEAs in light of the findings of the NRA.

a) UNODC and FMU Coordinated Trainings Sessions:

The UNODC in conjunction with the City of London Police and Financial Monitoring Unit (FMU), supported by the British High Commission/UK Aid developed a training module to compliment the trainings being delivered by *Sustainable Criminal Justice Solutions* (SCJS) under the National Curriculum initiative. These trainings were attended by different LEAs including, FIA, NAB, FBR-IR, FBR-Customs, ANF, etc.

The outcome of these trainings is provided as following:

- A clear and concise understanding of the role of FMU and its engagement with all stakeholders in the STR/CTR Regime, was developed.
- A greater awareness of STR/CTR intelligence and its potential relevance for LEAs was done.
- Improved knowledge of LEAs on AMLA legislation and disclosure requirements when conducting financial intelligence gathering and investigations.
- The officials of the LEAs were briefed on how to task financial intelligence received from FMU and the benefits in maintaining continual engagement with FMU throughout an investigation through feedback mechanisms.
- The value of feedback from Law enforcement to improve the effectiveness of the AML/CFT regime was conveyed.
- One on one feedback from the Law Enforcement Agencies on the financial intelligence was sought through these sessions

Moreover, UNODC Consultants have also been engaged with FMU who have been tasked to develop the capacity of the LEAs One of the responsibilities of these consultants is to hold capacity building programs for the LEAs with a focus on development and utilization of the financial Intelligence, briefings on the NRA, etc.

b) Capacity building Sessions by FMU for LEAs

FMU has taken multiple initiatives for arranging the capacity building programs for the LEAs and the FMU analysts. The main focus of these sessions was to improve the understanding of the LEAs with regards to the Utilization of Financial Intelligence. Further through these interactive sessions FMU also sought the feedback and suggestions on the financial intelligence which enabled the FMU to improve the quality of the intelligence. The details are provided below:

Table No. 6.1.4			
Capacity building Sessions by FMU for LEAs			
S. No	Year	Number of Sessions	Number of Participants
1	2018	02	60
2	2019	12	361
3	2020	06	275
4	2021	02	60
Total		22	756

c) Various initiatives have been taken by the LEAs for conducting trainings of the investigators to enhance their understanding of the ML offences and how to conduct effective ML investigations. Please refer to IO-7 RA-7.4.5 for additional information.

6.1.8- Case Studies

a) A case study is provided which shows utilization of reactive disclosures:

Case Details:
<u>NAB's Case Study on Development of Financial Intelligence and Seeking Information from FMU</u>
Case Brief NAB received a complaint by one of the affectees of the case. Upon codal formalities, Chairman, NAB authorized an inquiry into the matter. The complainant alleged that he had invested Rs. 400,000/- with the main accused of scam on 07.06.2012, but the accused paid profit on the invested amount for only 02 months and subsequently refused to pay back the agreed profit and the principal amount. During the course of inquiry, other complainants filed similar complaints against the accused. However, the inquiry was closed due to non fulfilment of certain parameters for proceedings under NAO, 1999. Subsequently, the number of complaints rose up to 130 complainants and liability of the accused increased from 0.04 million to Rs. 43.09 million. Thereafter, NAB decided to develop and collect more financial intelligence and information to determine the financial impact involved. Therefore, NAB approached FMU through its letter dated 16.10.2019 to provide details of financial transactions. FMU promptly responded to NAB's request and submitted the requisite information available with FMU's internal data bank. The intelligence / information shared by FMU provided the platform for NAB to further inquire into the matter. Hence, NAB decided to collect field information from other stakeholder e.g. SECP, the regulator of Modaraba in the country and concerned financial institutions / banks directly and through SBP. As a consequence, of collected financial intelligence evidences / information by these stakeholders, NAB decided to reopen the inquiry for lodging criminal prosecution under NAO, 1999 and AMLA, 2010 against the alleged accused persons. The proceedings of the same is under way. This fraudulent activity will result in filing of criminal suit under the provisions of NAO 1999 and AMLA 2010 so that amount involved by the investors could be recovered and returned to them and punishment according to law may be awarded to accused persons. A closed inquiry was reopened due the prompt and effective exchange of information coordination / response by FMU and other stakeholders.

b) A case study is provided which shows utilization of proactive disclosures:

Case Details:
<u>Case Study on Proactive Disclosures</u>
Case Brief FMU has disseminated financial Intelligence on the suspect Mr. XX and his associated entity M/s. BB Logistics Pvt Ltd through its letter reference number FMU/A&D/420/2017 and 30-Nov-2017 to FBR-IR for having very high turnovers in the accounts and despite very high turnovers the suspect Mr. XX and his associated entity M/s. BB Logistics Pvt Ltd had paid NIL TAX for three preceding tax years 2013-2014, 2014-2015 and 2015-2016. Upon receiving the financial intelligence the FBR-IR initiated the investigation against the suspected natural person and their associated legal persons. During course of investigation, it was found that suspect Mr. XX and his associated entities M/s. BB Logistics Pvt Ltd and M/s. SS Logistics Services Pvt Ltd did not file Income Tax Returns & Wealth Statements for Tax Year-2013 and Tax Year-2015 and suspect filed returns with nominal incomes/receipts during the Tax Year-2014, Tax Year-2016, Tax Year-2017 Tax Year-2018 and Tax Year-2019. The declared nominal income/receipts was below taxable limit and hence no tax has been paid during said Tax Years, whereas, third party information obtained from financial institutions/banks revealed heavy transactions/credit entries in the accounts maintained by suspect in different bank accounts, which do not commensurate with the declared nominal income/receipts. Additionally, it is unearthed that accused is maintaining twenty (20) bank accounts. Neither these twenty (20) bank accounts are declared nor the banking transaction of these undeclared accounts are reflected in his wealth statements in the Tax Year-2013, Tax Year-2014, Tax Year-2015, Tax Year-2016, Tax Year-2017, Tax Year-2018 & Tax Year-2019, which are heavy banking credit transactions aggregating amount of Rs.3,096,102,614/- found in the accounts for aforesaid tax years. From the above facts and legal position, it is evident that the accused has evaded huge amount of income tax of Rs.1,070,593,310/-. Since this amount exceeds Rs.10 Million, hence the accused has committed predicate offence of concealment of income, tax evasion, suppression of income/amount chargeable to tax, making false statement under sections 192 and 192A of the Income Tax Ordinance, 2001 read with section 2(q), 2(s), 3 and XI(A) to the schedule of the Anti-Money Laundering Act, 2010 and these proceeds of crime in the form of tax evaded money have

been utilized to acquire the properties:

I. Residential Property No. XY, City KK.

II. Residential Property House No. YZ, City KK.

Toyota Corolla Car, 2011 under registration No. ABC & Chassis No.0000

Hence, the complaint has been filed in Special Court Customs, Taxation and Anti-Smuggling under Anti-Money Laundering Act,2010 and all bank accounts and properties (Movable & Immovable) are attached so far.

2. Implement policies and agency-level plans which prioritise LEAs and NBR using financial intelligence for investigations of predicates and ML in keeping with the risk profile

6.2.1 National level plans

Pakistan has taken various measures to implement policies and agency-level plans which prioritize LEAs using financial intelligence for investigations of TF, predicates and ML in keeping with Pakistan's risk profile. In this regard, the National Level Measures outlined in APG -1, 6.1.2 are also relevant to this Recommended Action. In addition:

- Pakistan's National Risk Assessment on Money Laundering and Terrorists Financing was updated in 2019 to identify the inherent ML/TF risks in Pakistan while also rating the ML threats into four (4) risks categories i.e., High, Medium High, Medium, Low. The NRA also suggested measures that included a range of legal, regulatory, supervisory, operational and enforcement measures to combat ML/TF activities in Pakistan. The details of the progress of these measures is provided at Para 1.2.3 of Immediate Outcome 1.
- On September 24, 2020, the National Executive Committee (NEC), constituted under Section 5(1) and Schedule –II of AMLA 2010, issued instructions, re-emphasizing the LEAs to prioritize Parallel ML / TF investigations along-with Predicate Offences. NEC is the apex body to make strategic/policy level recommendations to Federal Govt and oversee/monitor effectiveness of measures in connection with AML/CFT regime.
- Pakistan developed "Pakistan's Strategy for Countering Money Laundering, Financing of Terrorism and Proliferation Financing 2020-2022" which was approved by General Committee on 26th Nov 2020. This strategy was developed to effectively engage the domestic stakeholders to pursue *recovery in ML higher-risk predicate offences and TF*. The strategy requires LEAs to "Effectively implement the safeguards of international standards to combat ML/TF/PF with all relevant domestic and international stakeholders."
- Based on the National AML / CFT and CPF strategy ('Strategy') 2020-2022 and a comprehensive implementation roadmap, a Risk-Based Resource Allocation paper was developed by Pakistan to Counter ML / TF / PF.
- Committee for Intelligence Sharing and Coordination on ML/TF/PF has been established on 26th November 2020 with the approval of the National Executive Committee (NEC). The Purpose of the Committee is to form an effective partnership and enhance coordination among Law Enforcement Agencies and Financial Monitoring Unit for utilization of Financial Intelligence relating to Money Laundering, Terrorist Financing, Proliferation Financing and other predicate offences. More details of the committee have been provided at 6.1.2 d.

6.2.2 LEA Level Plans

The "Guidelines on Financial Investigations of Money Laundering for LEAs" were issued on 20th October 2020 after approval if the National Executive Committee under Section 5 of Anti-Money Laundering Act-2010 (Act of VII of 2010 (pg. 30). These guidelines were developed in coordination with all the stakeholders and the same have been adopted by all the Law Enforcement Agencies. These guidelines provide mechanism of cooperation with other LEAs and also highlight the utilization and prioritization of the Financial Intelligence.

- FMU developed comprehensive guidelines for the utilization of Financial Intelligence. These guidelines cover the different aspects of using financial intelligence and prioritizing the same in keeping with the findings of the NRA. (Para no. 3.1 of these guidelines focuses on prioritization) These guidelines cover various aspects of utilization of the financial intelligence and were adopted by al the LEAs. The LEAs further circulated these guidelines to their regional offices. Under these guidelines and during the course of selection of high-risk ML cases, priority is given to Financial Intelligence (FIs) received from FMU in addition to the parameters mentioned in the various LEA's RBP.
- On the basis of NRA 2019, all LEAs have devised their internal RBA guidelines. RBA frameworks broadly identify risk areas of high-risk predicate crimes. The RBA guidelines help the LEAs in prioritization of the inquiries/investigations which leads to a more focused approach from the very start of investigation and to scrutinize the case on the given yard sticks /check list of grey areas at the very initial stage. These guidelines have been circulated in the Regional offices.

This recommended action is largely addressed.

- AML/CFT Directorates were established in all the LEAs (NAB, FIA FBR-IR FBR-Customs and ANF) with dedicated resources as outlined in the “Risk based Resource Allocation to counter ML/TF/PF”, to focus specifically on high-risk predicate crimes and ML investigations and prosecutions.
- Since January 1, 2020, all LEAs have been exchanging financial intelligence products using the digital platform (goAML). The functionality and storage capabilities of goAML assists in prioritizing financial intelligence products within parallel ML/TF investigations.

6.2.3 Capacity Building at LEAs level:

LEAs are conducting training sessions for their officials using financial intelligence which assist them in prioritizing the predicate offences as identified in NRA 2019. These targeted ML trainings help the investigators and prosecutors to enhance their understanding of ML offences. The details of measures taken by each agency for capacity building of their officials is provided under the IO-7 para 7.4.5.

6.2.4 Joint Investigation Teams (JIT)

Joint Investigation Teams (JITs) are formed when the concerned crime involves multiple agencies. These JITs are established to make a positive and in-depth probe into the matter assigned to them by maintaining the highest standard of professionalism and best practices in the field of predicate/ML/TF investigations.

Since the MER, more than 600 JITs have been established throughout the country. Based on the success of TF related JITs which had a very positive impact on TF investigations, the same approach is being extensively applied for ML /predicate cases and different JITs were established to investigate complex ML/predicate Cases. The main objectives of these JITs are as following:

- To conduct in depth joint investigations and also conduct parallel financial investigations.
- To investigate proceeds of crime and unearth the sources of funding relating to predicate offences/ ML/TF & terrorism
- To access the widest possible range of financial, administrative and law enforcement information, including open or public sources and information collected and/or maintained by other departments and organizations.
- To seek assistance from financial experts and where necessary make use of available mechanisms (bilateral and multilateral) for exchange of information in case where the accused has been found to have made use of front businesses for layering, multiple bank accounts, structuring techniques, dubious charity organizations, shell companies, offshore business structure such as Trusts, etc.
- The investigative progress, decisions and reasons for the decisions are recorded in the case file.

FMU's Support to JITs

- FMU received requests for information from LEAs and CTDs for several JITs formed in different cases. The information was shared on the very same day or next day, depending upon the number of persons/entities to be searched.
- In few instances FMU has taken additional measures to address specific inquiries of the LEAs. For example, in a specific scenario based on the request of the LEA, a custom based query, in which the details of the conductor of the transaction was also mentioned and the whole transaction i.e. person role in the transactions, source and destination parties including person, account and entity and nature of transaction was explained in one line. This detail also included the National Tax Number (NTN) of a person/entity, if the person/entity involved is NTN holder and the same was also provided by the reporting entity.

Case Study:

Predicate & ML Offences:	
i)	Corruption & Corrupt practices under National Accountability Ordinance (NAO), 1999
ii)	Money Laundering under Anti Money Laundering Act (AMLA) 2010
Section of Relevant Laws/Statutes	
i)	Corruption & Corrupt practices U/s 9(a) (iv), (vi) and (xii), 10 and offence at entry No. 5 of the schedule of NAO, 1999.

ii) Section 3 & 4 of AMLA 2010.

Case Brief

A Joint Investigation Team (JIT) constituted by the Honorable Supreme Court (SC) of Pakistan vide its Order dated 05-09-2018. The JIT was comprising of Law Enforcement Agencies (LEAs) & Regulators, namely NAB, FIA, SECP, SBP, FBR and other intelligence agencies. JIT conducted investigation into the matter of Fake Bank Accounts. During the course of investigation by JIT, it was transpired that a group of Companies obtained fraudulent financing facilities of Rs. 24.93 billion in the names of more than 33 benami companies from a Pakistani Scheduled Bank in violation of State Bank of Pakistan (SBP) banking rules and regulations including Prudential Regulations. JIT by reviewing and analyzing the different information /documents / witnesses / evidence obtained from regulators and other stakeholders involved and submitted its report before the SC. The SC referred the matter to NAB vide its order dated 07-01-2019 for further probing the criminal side of the matter.

In this regard, NAB asked different intelligence, documents from FMU and other stakeholders. FMU and other relevant agencies promptly submitted various intelligence information / documents to NAB. As a result of collection of various evidence / documents / intelligence shared by above said agencies, NAB's inquiry team CIT (Combined Investigation Team) was able to investigate the allegations leveled i.e. misuse of authority by accused management of the involved bank in connivance and collaboration with co-accused in extending fraudulent financing facilities of Rs. 1.840 billion to benami companies of accused Group Companies. These financing facilities were used in meeting Capital Adequacy Requirements set out by the SBP for the Bank involved. Many violations of SBP Banking Regulations as well as bank's own credit policy was established including extending of above said finance facilities against overvalued collateral and securities. The loan amount to the tune of Rs. 996.29 million against these of financing facilities is still outstanding from the borrowers.

The whole case was possible to reach the logical conclusion due to the exchange of information and coordination among various Inter Agencies including FMU, LEAs and Regulators'. This fraudulent activity caused loss to the deposit holders' money and ultimately to the Government exchequer in respect of banking tax and to the bank. Upon final investigation report, NAB filed reference 02 of 2020 in the Accountability Court (AC) under the provisions of NAO 1999 and AMLA 2010. Currently, the subject case is under trial in AC.

6.2.5 National AML Desk:

For details on the National AML Desk, please refer to IO.6 RA-6.1.5 above.

3. Prioritise operational analysis relating to TF and to high-risk predicate crimes including drug trafficking, corruption, smuggling (all types)

6.3.1 Overview:

The Financial Monitoring Unit (FMU) has taken a number of initiatives to enhance its operational analysis mechanism and procedures and to bring them in line with the findings of the NRA. These initiatives focus on prioritization of operational analysis relating to TF and high-risk predicate crimes for ML, including drug trafficking, corruption, and smuggling. Some of the steps taken are as following:

6.3.2 SOP for Receipt, Analysis and Dissemination of the STRs in the form of Financial Intelligence:

In order to effectively prioritize the STRs in alignment with the findings of the National Risk Assessment which was undertaken in 2019 and for the optimal allocation of resources, the FMU revised their internal SOPs for analysis. Some of the important features of the SOPs are as following:

- Prioritization of STRs based on the TF and high-risk predicate crimes for ML such as corruption, drug trafficking, etc as identified in the NRA.
- Risk Based allocation of Resources for processing of the STRs
- Categorizing of the STRs based on the different risk indicators e.g., nature of offence, suspected activity etc

Keeping in view the SOPs, FMU has also updated the workflows in for processing of STRs. Previous SOP did not adequately align with risks identified in the NRA. In the revised SOP, these, the screening of STRs was defined broadly in the SOP in accordance with the NRA findings and access to certain additional databases were also made part of the SOP to ensure effective use of

This recommended action is largely addressed.

the new databases. Further, a separate SOP for access of all the external databases has also been developed and the elements of usage, secrecy and monitoring have also been addressed. At initial screening stage STRs are categorized into ML and TF related offences and prioritization of the same is done as per the details provided below:

- **Priority STRs:** High Risk cases (Usually TF or on some high-risk predicate crimes) which are to be handled on top priority basis, dissemination to be done on the same day or within 1-2 days.
- **High Risk STRs:** STRs pertaining to high-risk predicate offences i.e., drug trafficking, corruption, smuggling as identified in NRA-2019.
- **Medium Risk STRs:** STRs pertain to medium risk predicate offences
- **Low Risk:** STRs which do not require where not ML/TF aspect identified.

6.3.3 Strengthening of Analysis Division at FMU:

Due to the increase in the reporting of STRs by reporting entities, a requirement of additional resources was identified for FMU's Analysis Division. Therefore, in order to strengthen the receipt, analysis and dissemination functions of the Analysis Division, additional human resources were hired.

a) Resource allocation at Analysis Division:

Following table exhibits the workforce of the analysis division of FMU:

Table No. 6.3.1				
Analysis Division				
	2018(Pre MER)	2019	2020	2021
Additional Directors (Divisional Head)	1	2	2	2
Deputy Directors (Team Lead)	3	3	3	4
Assistant Directors (Analyst)	3	3	8	9
Junior Officers (Analyst)	4	4	4	4
Total	11	12	17	19

Prior to ME, FMU had an in-built Electronic Data Capturing System (EDCS), however, later on FMU transited completely to goAML. With the transition, dedicated resources from IT Division were also assigned to facilitate the working of the Analysis Division. At present, seven officers from IT division are providing technical support to Analysis Division with respect to designing queries for the purposes of tactical/Strategic Analysis, goAML/system related support and development of any other technical utility as to support analysis function.

b) Analysis Division Structure (post MER):

Pre MER the Analysis Division had 11 Analysts working in Analysis Division, which has been increased to 19 Analysts. Further, an overall restructuring of the Analysis Division took place in order to enhance the level of analysis by the analysts. Accordingly, in order to enhance the prioritization and analysis of STRs in accordance with high-risk predicate offences, ML and TF Offences, the Analysis Division was divided into three separate Units: the TF Task Force, the ML Task Force and the goAML/Compliance Task Force.

6.3.4 Establishment of Task Forces

i Countering Money Laundering Task Force:

In order to address the threats identified in the updated NRA and for the purpose of processing Money Laundering and its related Predicate Crimes, a Countering Money Laundering Task Force was formed within FMU. This task force ensures that the financial intelligence being disseminated to the Law Enforcement Agencies relating to Money Laundering and its predicate offences is wholesome and actionable.

The ML Task Force is successfully prioritizing and processing the STRs based on the findings of NRA 2019. STRs related to high-risk predicate offences for money laundering, as identified in NRA 2019, are processed on priority basis and are disseminated to relevant LEAs without delay, thus timely processing of STRs has improved. Further, the Task Force is also responsible for responding to the queries/information requests received from the LEAs with regards to ML/Predicate Crimes on a priority basis.

This dedicated task force has also disseminated multiple strategic analysis products relating to high-risk predicate crimes and ML. Some of these products are placed on FMU's website and may be accessed using this web link: <http://www.fmu.gov.pk/strategic-analysis/>

ii Countering Terrorism Financing Task Force

The rating given to the threat of terrorism financing in the updated National Risk Assessment was HIGH. Therefore, in order to address the threats identified in the updated National Risk Assessment and for the purposes of processing Terrorism and Terrorism financing related STRs on a priority basis, a dedicated Task Force was setup at the Financial Monitoring Unit. This task force is responsible for processing of STRs relating to Terrorism and Terrorism financing on a priority basis and ensures that no delay takes place in processing of these STRs. Further, the Task Force is also responsible for responding to the queries/information requests received from the LEAs with regards to Terrorism / Terrorism Financing on a priority basis. This task force also undertakes measures to develop an effective coordination mechanism with other stakeholders for countering terrorism and terrorism financing.

The task force has also developed Strategic Analysis on STRs reported on Proscribed Individuals/ Entities and Associates. A Strategic Analysis product on Hawala/Hundi Operators was also developed by the FMU relating to the use of Hawala Channels for TF and or by Proscribed Individuals, the detailed findings of which were shared with LEAs.

iii) goAML/Compliance Task Force

The goAML Task Force is structured as a mix of analysts and officers from the IT department. Regular meetings are held by this task force to discuss the development of appropriate systematic solutions against certain problems.

There are two primary responsibilities of the taskforce, one of which is the development of system settings/policies and ensuring the application of such policies as to facilitate various functions like reporting, analysis, dissemination, domestic/international cooperation, statistics development, and others. Another major function of this taskforce is to ensure quality reports from the reporting entities and apply systematic/business checks for identification and rectification of quality issues. For this purpose, checks are applied at two levels i.e. at schema level and through business rules. The task force also takes measures for resolution and improvement in quality of reports by development of compliance cases against reporting entities, convening one-to-one meetings, agreeing to an action plan with timelines, etc.

Further, goAML Task Force is also responsible to resolve the problems faced by the reporting entities in reporting of STRs/CTRs and continuous assistance is provisioned to the reporting entities through goAML Helpdesk, goAML Message Board and also via calls. The taskforce also arranges training sessions for capacity building of reporting entities of different sectors to enhance their understanding related to reporting of STRs/CTRs on goAML. During such sessions, the quality issues are also highlighted to those sectors. In addition to the above, the goAML taskforce also assists analysts in understanding various functionalities of goAML which also includes designing of a query/script for extraction of certain data, more specifically for the purposes of strategic analysis.

6.3.5 SOPs for Utilization of the Databases:

FMU has access of various private databases maintained by the relevant government agencies which are being used by the analysts for the purpose of conducting analysis of STRs/CTRs. By using these databases, FMU has enhanced the quality of analysis being carried out. Information retrieved from these databases helps the analysts in prioritizing the processing of STRs. Sometimes, during the process of Analysis, the information provided by the Reporting Entity might not be enough. However, the database search normally provides information based on which we can prioritize the STRs in a better way.

6.3.6 Capacity Building of FMU Analysts:

FMU has taken a number of steps for Capacity Building of FMU Analysts. These trainings were focused on different AML/CFT Areas. Moreover, in light of the NRA update which was conducted in the year 2019 additional sessions were held for the analysts. The NRA report was also shared with all the analysts. The capacity building sessions conducted for the analysts enabled them to prioritize their operational work in line with the findings of the NRA.

Table No. 6.3.2		
Capacity Building of FMU Analysts		
S. No.	Year	Number of Trainings
1	2018	11
2	2019	15
3	2020	12
4	2021	4

These trainings include the following:

- Trainings arranged by International bodies such as World Bank, APG, FATF, etc.
- Training arranged in coordination with foreign counterparts such as Netherlands, UK, Canada etc.
- Trainings arranged by UNODC by engaging dedicated consultants for the capacity building other Analysts
- Trainings arranged by the LEAs,
- Other trainings arranged by different Institutions

The outcomes of these trainings are as follows:

- FMU Analysts are better equipped with the understanding of AML/CFT Regulations and Policies.
- FMU and LEAs interface helped FMU's capacity to adopt new tools & techniques (AML/CFT) in developing financial intelligence.
- FMU Analysts comprehend the general principles governing the strategic analysis and report writing.
- Trainings helps FMU Staff in describing how Money Laundering law impacts on law enforcement operations.
- Understand the legal concepts and terminology in substantive area of AML Act 2010
- The training arranged by the LEAs gave the opportunity to the analysts to build their understanding about the LEAs Law, financial investigations, etc.

6.3.7 Statistics pertaining to dissemination of financial Intelligence:

The statistics reflected in the Para 6.1.6 of action item show the increase in the disseminations of the financial intelligence which include intelligences disseminated on High-Risk Offences. In addition to the statistics mentioned in 6.1.7, it is pertinent to mention that the dissemination of financial intelligence under the offence of Terrorism financing have also significantly increase over the years. Disseminations on TF made over the years were 2017 (18), 2018 (32), 2019 (127) and in the year 2020 (166) financial intelligences.

4. Further extend the FMU's access to key databases including tax (in addition to the publicly available information), passport and immigration data

6.4.1. Overview:

During the Mutual Evaluation of Pakistan held in October 2018, one of the gaps identified under Recommendation 29 was the non-availability of certain databases to FMU. In order to address this gap, access to certain key private databases maintained by other government agencies have been obtained thus improving the depth of the analysis conducted by FMU analysts. Accordingly, access to various identified databases have been achieved post MER including tax, passport and immigration data.

6.4.2 Accessibility of Various Databases to Financial Monitoring Unit (FMU)

To extend FMU's access to relevant key databases to improve and enhance the analysis of the STRs/CTRs, FMU made an assessment to identify databases which may add value to the analysis of STRs and the databases which may alter the course of decision making related to the dissemination of the financial intelligence. In order to sensitize the LEAs and expedite the process of accessing the databases a workshop '**National Consensus Building Workshop for Data Connectivity**' was arranged on 31st October 2019 in Islamabad in which senior level representatives of various government departments i.e. FIA, SECP, NADRA, ANF, FBR-Customs, FBR-Inland Revenue, NAB and other departments were present. This workshop assisted in building a consensus for provision of access of their respective databases to FMU. As a result of the said workshop and subsequent efforts, FMU has been able to have access to the following key databases. FMU has direct access to all the databases except to the eCIB database due to technical limitations.

Further, internal SOPs have been updated to ensure the effective use of these databases and the confidentiality/secretcy of the available information. A list of the new databases available with FMU is as follows:

Table No. 6.4.1			
List of new databases available with FMU			
Sr. No.	Database Name	Nature of Database	Nature of Access
i	Federal Board of Revenue (FBR) Taxpayer Database	Tax Profiles &/or Tax Returns Database	Direct Access
ii	Integrated Border Management System (IBMS) Database	Immigration & Passport information	Direct Access
iii	National Database & Registration Authority (NADRA) Database	National Citizens Database (including Family Tree)	Direct Access
1v	Securities & Exchange Commission of Pakistan (SECP) Company Registry Database	Database of Registered Companies with information of their Directors	Direct Access
v	National Counter Terrorism Authority (NACTA) Database	Database of Proscribed Persons/Entities	Direct Access
vi	State Bank of Pakistan (SBP) eCIB Database	Information of Loans/Advances availed by Persons/Entities from the FIs	Indirect Access
vii	Anti-Narcotics Force (ANF) Database	Database of Inquiries / Investigations / Convictions related to Drug Crime	Direct Access
viii	Waqf, Trust & Cooperatives (WTCs) Portal	Database of details of Waqf, Trust & Cooperatives	Direct Access

This recommended action is largely addressed.

(WTCs)

6.4.2.i Federal Board of Revenue (FBR) Taxpayer Database

FBR's mandate in Pakistan is to develop policies or strategies related to levy of taxes and duties which also includes the collection of the taxes and duties. FBR's Inland Revenue is authorized in relation to the collection of taxes including income and sales tax while FBR's Customs is authorized in relation to the collection of duties which are mainly related to import and export of goods. In the mutual evaluation report of Pakistan, the assessment team pointed out this as deficiency and hindrance in the analysis of STRs/CTRs being done by FMU seemingly in relation to the dissemination of financial intelligences under the suspected offence of tax evasion.

For the provision of detailed and recent tax records, federal government promulgated an ordinance on 27th December 2019 for amendments in the Income Tax Ordinance, 2001. A provision was also incorporated in the said ordinance through which FMU was given an exception to the confidentiality privilege as per section 216 of Income Tax Ordinance, 2001 by inclusion of FMU's name in the section 216(3) of Income Tax Ordinance, 2001.

With respect to the abovementioned amendment, FMU is now able to access the recent and updated tax information which is not available publicly and the access to this private database was made available to FMU in the year 2020. FMU is invariably using this database while conducting analysis of tax related cases and till now the said database has been accessed 634 times. The direct access to this information is one of the factors which resulted in increase of proactive disclosures to FBR Inland Revenue for tax related investigations which is evident from 183 proactive disclosures made in 2020 as against 86 in 2019. Further, the access to this information has also made a significant impact on the effective analysis of suspicious activities/transactions and the subsequent decision making for proactive disclosures.

6.4.2.ii Integrated Border Management System (IBMS) Database (Immigration/Passport Database)

IBMS is an integral department of Federal Investigation Agency (FIA) which holds information of immigration details (incoming & outgoing) of persons entering/exiting Pakistan from the authorized air, land & seaports. IBMS holds information of both locals and foreigners crossing Pakistan borders. The nature of information available with IBMS is port of entry/exit, date of travel, source/destination country, passport/CNIC number of the traveler, etc. IBMS holds information of immigration and passports of travelers which is also linked with the national citizen registration numbers issued by NADRA.

FMU got the access of IBMS database through API (Application Programming Interface) and it is effectively using the information during analysis of reported STRs and development of FIs as and when needed. Access to this database was granted in December 2019. This database is accessed on regular basis during analysis on case-to-case basis and this database has been accessed 670 times till now as per the system logs.

As the access to the immigration data is available, the analysts at FMU are able to analyze the travel history of the suspects and the access to this database is aiding FMU to drive more accurate inferences and link the travel history with the overall financial activity of the suspects as well as any travel made by the suspect to high-risk jurisdictions can also be known. Further, the access to this database has been very useful in international cooperation as inward international requests related to locals usually contain the passport numbers which are then used to fetch data of travel history and passport information on this database.

6.4.2.iii National Database & Registration Authority (NADRA) Database

NADRA is a citizens registration authority in Pakistan which holds the database of all the Pakistani citizens. Every Pakistani citizen needs to have registered with NADRA as proof of his/her citizenship and NADRA issues CNIC (Computerized National Identity Card) to each of Pakistani citizen. The CNIC is the main document in Pakistan for conducting any activity or transaction like real estate transaction, opening of bank account, issuance of passport or driving license, etc.

In November 2019, FMU approached NADRA with the request to provide access of the family tree available in their database and the access of the same was provisioned to FMU in December 2019. This is a very significant development and now FMU can get details of all the family members of the person(s) of concern using the NADRA's database.

Since the access was made available to FMU it has been accessed more than 1,000 times. By using NADRA's family tree FMU is now able to develop linkages in its STRs / CTRs database with family members of person(s) of concern. The direct access to this database has made FMU capable of identifying and analyzing the information of accounts and transactions conducted by or with the family members of the main suspect and it has also enhanced scope of overall analysis and ultimately has improved quality of the financial intelligence.

6.4.2.iv **Securities and Exchange Commission of Pakistan (SECP) Company Registry Database**

SECP is a regulator of Non-Banking Financial Institutions (NBFIs) in the country and has the authority to license and regulate NBFIs in Pakistan. SECP also maintains the company registry of Pakistan. Every company and Limited Liability Partnership (LLP) in Pakistan is required to register with SECP and is subject to some regulatory or periodic reporting. In this regard, SECP holds a database of all the companies, Limited Liability Partnership (LLP) including the credentials of its director and partners.

FMU has a direct access to the company registry database of SECP since December 2019 and that through an API (Application Programming Interface). The access to this database is being widely used and wherever required this database is searched for both persons and companies. As per the system logs, Person Search has been conducted 390 times while the Company Search has been conducted 380 times. The access to this database has helped FMU to identify the associated legal persons (entities) of the person(s) concerned as well as the natural person(s) associated with any concerned legal person(s). This particular access has also helped to enhance the domain and scope of analysis to further linked natural persons and legal persons specific to a particular case. The analysts are effectively using it during the analysis of STRs and the development of FIs as and when needed.

6.4.2.v **National Counter Terrorism Authority (NACTA) Database**

NACTA is an autonomous body at the federal level which is responsible to formulate policies/strategies at the country level to counter terrorism financing in Pakistan and in this regard NACTA also provides a platform for coordination between different stakeholders including intelligence gathering and conducting research related work in relation to terrorism and its financing. NACTA holds the data of locally proscribed persons/entities under UNSCR 1373 and publishes such data on its website. In addition to publicly available information of domestically recognized terrorists or terrorist organizations, NACTA also holds a private database which provides further details as to why a person/entity has been proscribed and its suspected or established links with any terrorist organization(s). FMU has a direct access to the NACTA's private database and uses that database to link the persons listed under UNSCR 1373 with his/her linked proscribed entities and other available information is also accessed which includes but not limited to tracking the dates of proscriptions /de-listings in NACTA's database during analysis of STRs reported against individuals/entities proscribed under UNSCR 1373.

This access has brought significant improvement in handling or analyzing STRs, and other related information associated with proscriptions under UNSCR 1373.

6.4.2.vi **State Bank of Pakistan (SBP) eCIB Database**

SBP is the regulator of banking companies, exchange companies and development finance institutions in Pakistan. SBP maintains a Credit Information Bureau (CIB) database which contains information of all the borrowers including persons and entities at a single platform. The database not only includes the details of current borrowers along with the amounts which they may have borrowed from the financial institutions but also the details of defaulters of loans and advances.

FMU coordinated with SBP in 2019 as to develop a smooth mechanism for sharing of CIB reports with FMU. As a consequence of that coordination, focal persons for seeking/sharing of the CIB reports were nominated by both SBP and FMU for smooth and timely coordination in this regard. The usual turnaround time for such requests is twenty-four hours. The eCIB information is made available to FMU through emails and the data available in the reports supplied is analyzed and the necessary information is also incorporated in the proactive disclosure made by FMU.

6.4.2.vii Anti-Narcotics Force (ANF) Database Access:

ANF is a law enforcement agency in Pakistan which is mandated to conduct investigations related to psychotropic drugs and other similar substances. ANF maintains a database of cases finalized as well as under inquiry related to drug crime. To effectively analyze the reported STRs for any possible linkages with drug trafficking, the process to grant access of ANF database was completed in August 2020.

Now, FMU has a direct access to ANF's database through API (Application Programming Interface) and it is effectively using the information accessed during its analysis of reported STRs and the development of FIs, as and when needed. As per system logs, this database has been accessed 328 times. Through the use of access to this database, FMU is also able to get a firsthand information whether the suspects whose details are being analyzed were investigated by ANF in the past or are being investigated by ANF and subsequent information like information of the associates and any other related information is also available in the database. This information assists FMU to further expand the scope of its analyses and improve the quality of analysis of STRs/CTRs.

6.4.2.viii Waqf, Trust & Cooperatives (WTCs) Portal

An online registration portal for Waqf, Trust & Cooperatives (WTCs) has been developed which has been operational in all provinces as of December 2020. FMU has been given access to the portal which includes complete information about the entity, its beneficial owners, members, trustees, authors, etc through name, identification number, type of entity or location wise search. It is centralized in that all the data is held in one mutually searchable database across all provinces and ICT and across the three different types of provincially regulated entities.

Case Study-1

The transactional activity in the accounts was suspicious as the individuals were listed on Schedule-IV of Anti-Terrorism Act, 1997 since January 30, 2017 under Category B (Sectarianism) due to their affiliation with alleged militant organization. FMU's internal database and other databases i.e. NATCA's List of proscribed persons, NADRA's Family tree, FIA's immigration data and FBR's tax declaration were utilized to develop Financial Intelligence. Accounts of family members were identified through NADRA's family tree; an account was identified which was declared in the Asset declaration of the proscribed person and other assets were also found. Their travel history before proscription was also noticed. The intelligence was shared with CTD-Punjab & SBP in January 2021. which is currently under inquiry.

5. Prioritise development of financial intelligence relating to cross-border offences.

6.5.1 Overview

FBR Customs maintains the data of currency declarations made by incoming/outgoing passengers and the data of such declarations is available on their portal. The data of currency declarations was made available to FMU after the ME via direct access using the customs portal. Internal SOPs were developed on the utilization of this Currency Declaration database for the FMU analysts. The data of currency declarations is effectively used by the analysts at FMU as a regular feature while conducting tactical analysis of STRs/CTRs on a case-by-case basis. FMU has also conducted a strategic analysis of STRs/CTRs using the currency declarations data in 2019 which was shared with the relevant law enforcement agencies.

6.5.2 SOP of Analysis

The FMU has developed a detailed SOP of analysis based on which the analysts are required to prioritize the STRs which have linkages to cross border offences. These cases are treated as high priority. During the analysis of the STRs related to high risk predicated offences as identified in NRA and transnational crimes such as TF, Hawala Hundi, Drugs Trafficking, etc. FMU's analysts are required to conduct searches in the WeBOC Currency Declaration Record and immigration database and the information found is compiled which adds value to the financial Intelligence disseminated to the LEAs. As a matter of practice and in compliance with the SOPs analysts are required to perform searches in Weboc for all the financial Intelligences disseminated to LEAs.

This recommended action is largely addressed.

6.5.3 Strategic Analysis (Foreign Remittances-Risk of Money Laundering and Terrorism Financing)

In order to address and prioritize the highlighted cross border offenses in NRA-2019, FMU conducted Strategic Analysis/along with tactical analysis to analyse the flow of funds between Pakistan and rest of the world in shape of foreign remittances captured in STRs/CTRs (2019-2020) and inherent risks of money laundering and terrorism financing. The analysis covered the below aspects.

- Trend of inward/outward remittances in terms of frequency and volumes,
- Geographies and countries,
- Form and manners of foreign remittances i.e., cash vs banking instruments
- Demography/ geographical location and profession of the individuals,
- Analysis of transactions with FATF Increased Monitored Jurisdiction, remittances from hostile countries etc.
- Use of foreign remittances for virtual assets, tax evasion/capital flight, hawala/hundi, human traffickers, proscribed individuals, collection of donations through remittances for COVID-19 relief related activities, wire transfers and frauds, wire transfers for sexual abuses and other predicate offences.
- Moreover, the analysis was also extended to analyse the trend of remittances in real estate and related businesses, remittances through Roshan Digital Account (RDA) and related products and use of Pakistan Post for remittances.

Based on the analysis and findings of the strategic analysis report, the strategic analysis and the linked financial intelligences were shared with Federal Investigation Agency (FIA), FBR-IR, State Bank of Pakistan (SBP).

- a) **Table-6.5.1** contains the details of transactions reported in STRs and CTRs involving element of foreign remittances.

Table-6.5.1	
No of Transactions reported in STRs	No of Transactions reported in CTRs
9,767	5,511

- b) **Table-6.5.2** contains information of predicate offences identified on the basis of analysis of STRs reported on cross border transactions.

Table-6.5.2	
Offence	No of STRs
Hawala/Hundi	102
Virtual Assets	30
Terrorist Financing	24
Fraudulent Activities	22
Human Trafficking	16
New Products	7
Sexual Exploitation	3
Total	204

6.5.5 Strategic Analysis on Currency Smuggling and Cash Couriers

FMU has direct access to WeBOC Currency Declaration Record and a strategic analysis product on the data of currency declaration records of individuals travelling outside of Pakistan was developed and disseminated. During this analysis, total 18,086 Currency Declaration records for the period between 01-Jan-19 to 30-Sep-19 with approx. declared amount of PKR 6,674,106,891/- were analysed.

Recommendations /Suggestions were also provided through the strategic analysis and the findings of the Strategic Analysis were shared with Federal Board of Revenue for tax evasion, Federal Investigation Agency for Hawala / Hundi and State Bank of Pakistan for regulatory violation under the AML Act, 2010 for any action deemed appropriate. This FMU report was acknowledged with positive feedback by FBR Customs and other stakeholders.

6.5.6 2nd update on the Strategic Analysis:

In 2nd strategic analysis, currency declaration records of individuals travelling outside of Pakistan for the period 01-Oct-19 till 30-Jun-20 were considered. During the analysis, a total of 204,221 currency declaration records with approx. equivalent amount of PKR 32,506,946,704/- were analysed.

Recommendations /Suggestions were also provided through the strategic analysis and the findings of the 2nd Strategic Analysis were also shared with Federal Board of Revenue, Federal Investigation Agency and State Bank of Pakistan under the AML Act, 2010 for any action deemed appropriate.

FMU received positive feedback from LEAs stating that our strategic analysis on cash courier was very useful specifically for Pakistan Customs and it will help them for policy making and implementation of additional measures.

Case study-III Coordination between Currency Declaration System (Customs)– goAML Application (FMU)

Reference/ FIR No: FIA/CTW/K/ENQ-XX/2019, dated 22-Jun-2019
Prosecution Agency: Federal Investigation Agency, Islamabad
Accused Names: ABC s/o XYZ
Passport Numbers: 11111111

Short Summary:

For better inter agency coordination and effective use of currency declaration records in ML / TF related financial Intelligences. FMU is screening the currency declaration records through its goAML application database. During analysis and review of screening results, it was revealed that an STR has been reported by the bank on the suspect ABC s/o XYZ due to FIA Counter Terrorism Wing's inquiry vide its letter number "FIA/CTW/K/ENQ-XX/2019" dated: 21-Jun-2019. As per Currency Declaration Records, it was found that the suspect has travelled four times during the analysis period (01-Jan-19 till 30-Sep-19) and declared total sum equivalent to PKR 3,724,120/- which is very high. The currency declaration records further revealed that the suspect has travel twice to USA, another two visits are of UAE and Malaysia respectively. All the details of travel history, currency declaration records along with FMU Database information was shared with FIA for any further action at their end.

Outcome/Results:

As per feedback received from FIA, the case is under investigation with FIA Counter Terrorism Wing for possible offence of Terrorism and Terrorism Financing.

6. Further enhance FMU analysis techniques. Demonstrate that beyond sharing of STR or database-type information, the FMU analysis or analytical product was used by LEAs for TF cases as well as ML.

This recommended action is largely addressed.

6.6.1 Overview

Financial Monitoring Unit in coordination with the LEAs have taken numerous steps to enhance the coordination between the stakeholders. The coordination focused not only to enhance LEA's knowledge about AML/CFT regime but to get their feedback on FMU's disseminated financial intelligences so that the FMU's analytical techniques and future financial intelligence may be tailored according to LEAs' needs for acquiring better results in terms of prosecution, confiscation of assets and convictions in high-risk predicate offences, ML and TF related cases.

6.6.2 Establishment of Working Group:

In order to address the gaps identified in the MER, a working group was established for addressing the gaps identified in the Immediate Outcome 6. This working group comprised of representatives from all the LEAs and multiple meetings have been held of this working group. One of the purposes of this Working Group is also to seek feedback from the Law Enforcement Agencies and these meetings proved to be extremely useful as through these meetings provided very constructive feedback was provided to FMU. From the period 2018 to 2020, around 35 meetings took place with the LEAs for awareness of all the stakeholders.

6.6.3 Feedback Mechanisms:

FMU on quarterly basis shares the statistics and details of disseminations made to each LEA and accordingly seeks the update on the status of these disseminations. These updates include the number of cases generated from the FIs disseminated by FMU, convictions made, administrative / civil and criminal penalties and the details of assets frozen / confiscated / seized etc. Based on these feedback typologies/case studies are also developed and placed on the website.

6.6.4 Committee for Intelligence Sharing and Coordination on ML/TF/PF

The Committee for Intelligence Sharing and Coordination on ML/TF/PF was established on the 26th of November 2020 under Section 5 of AML Act. The Purpose of the Committee is to form an effective partnership and enhance coordination among Law Enforcement Agencies and the Financial Monitoring Unit for the use of Financial Intelligence relating to Money Laundering, Terrorist Financing, Proliferation Financing and other predicate offences. More details of the committee have been provided at 6.1.2 d.

Areas of focus are as following:

- Enhancing Coordination between the LEAs and FMU
- Effective Utilization of Financial Intelligence disseminated by FMU to LEAs
- Enhance the Feedback Mechanisms on the Financial Intelligence disseminated to LEAs
- Engagement with Private Sector in Coordination with LEAs

6.6.5 Capacity building and Interactive Session with the LEAs

FMU and LEAs have conducted several interactive workshops/ training sessions for the LEAs to enhance the level of coordination among FMU and the LEAs. The details off these sessions can be accessed from the para 6.1.7 of the Recommended Action-1.

6.6.6 Suspicious Transaction Reports (STR) Working Group

Within the framework of the United Kingdom funded project entitled '**Illicit Financial Flow Project (IFF) - Institutional strengthening & improved coordination between Law Enforcement Agencies with Financial Crime & Money Laundering remit in Pakistan**' a number of sub-groups were established to enhance and inform project delivery and management. One such multi-agency sub-group was established to address procedures and management of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs). The sub-group chaired by SCJS holds meetings on a regular basis in Islamabad. All the LEAs and FMU focal officials are part of this working group. SOPs were developed by all LEAs under the working of this group.

6.6.7. Improvement in FMU analytical process after implementation of goAML

During the onsite visit of Pakistan's ME process, the FMU was in the process of transforming from its in-house legacy system Electronic Data Capturing System (EDCS) to goAML specifically designed for the core operations of a FIU by the UNODC which is deployed in many FIUs. At that time, the reporting entities in Pakistan were required to report CTRs on both the systems while STRs via hardcopy as well as through goAML. This practice was adopted to ensure that the reporting on the new system goAML from all the reporting entities (REs) and the quality of reporting of STRs/CTRs. On 01-Jan-2019, FMU discontinued its operations on the legacy system EDCS and shifted its operations on the new system goAML. As to completely discontinue the use of the legacy system and to have benefits from the various functionalities and analysis techniques of goAML, FMU also migrated its whole database onto goAML.

EDCS was an application having very basic features of receipt and analysis which included reporting and analysis only while the other necessary functions like case management, statistical reports development, diagramming & charting, etc was done outside the goAML using excel and other tools. Further, EDCS also had very basic functionalities of analysis like sorting/filtering of data and to see aggregates. However, in comparison to EDCS, goAML is a very high-end and advanced suite bundled with many features to aid the analysis of STRs in an effective manner. In addition to advanced analysis tools, there are many other features also available in goAML.

Interaction with LEAs through goAML:

FMU has also registered LEAs and stakeholders on goAML application for dissemination of Financial Intelligences and processing of domestic / International coordination requests. The goAML application provides systematic platform to our LEAs/ Stakeholders to interact and exchange information and provide feedback in real time basis. By using goAML application LEAs can now preform following functions:

- FMU disseminates Financial Intelligence through secure goAML Message Board which can only be accessible by the authorized users of relevant LEAs / Stakeholders. They are also required to send acknowledgement of financial intelligence to FMU.
- FMU receives feedback against its disseminated Financial Intelligence in timely manner by using Feedback Message Type on goAML Message Board.
- LEAs can seek additional Information on FMU's disseminated Financial Intelligence.

6.6.8 FMU Tactical Analysis:

Since the MER, the whole process of tactical analysis has significantly improved. This process has improved significantly because of a number of factors which include access to multiple databases which enhances the quality of financial intelligence being disseminated, allocation of additional resources to Analysis Division, etc. The whole cycle of processing STRs and converting them to actionable financial intelligence has been shortened and the financial intelligence being shared with LEAs is now wholesome covering multiple aspect of a case.

The FMU Tactical Analysis product contains the following:

Preliminary Details of Suspect: The preliminary details of suspects include the following, Name, Father's Name, Date of Birth, CNIC, NO., Contact Nos, Business /Occupation details, NTN number, Email address, etc.

Background of Case: Brief details about the case, reason for suspicion, Adverse Media Report (if any), etc.

Analysis Portion:

- Searches are conducted on the on goAML database to find linked STR/CTRs on the suspect. These searches are conducted on different parameters such as CNIC, contact numbers, addresses etc.
- Search is also conducted in public, commercial and private databases based on different parameters linked to the suspects.

- During analysis, one or more STRs along with linked CTRs are clubbed together to develop financial intelligence on suspect individual(s), entity(ies) and /or their associates as per information available with FMU.
- On case-to-case basis databases whose access is available with FMU is used which include, FBR Tax Database, NADRA database, SECP Database, etc. The findings of the database are made part of the financial intelligence.
- Screening of individuals/entities against the UNSCRs 1267/1373 and other lists
- During this stage additional information (if required) is also called from the Reporting Entities which may include, counterparty details, details of linked accounts, details about the conductor of transactions etc.
- Also, if required further information can be called from other stakeholders such as Regulators and Law Enforcement Agencies.
- Analysis of the statement of Accounts and other documents is carried out.
- Link charts are developed through goAML on a case-to-case basis.
- The analyst based on the above analysis, draws conclusion and frames recommendation to disseminate the financial intelligence to LEAs and/or Regulatory Authorities.
- FMU shares investigation-worthy financial intelligence with relevant LEAs for their consideration.
- The disclosure shared with these LEAs may include financial information on one or more individuals and/or entities developed based on one or multiple STRs / CTRs and additional information available with FMU using goAML.
- Moreover, a financial intelligence can simultaneously be shared with more than one LEA depending on the possible suspected predicate offences.

Attachments: All the documents provided by any Reporting Entity and also those which are available with FMU are provided along with the Financial Intelligence.

7. Establish formal mechanisms to share FMU information with NACTA

NACTA was created, in 2009, as an Administrative Wing within the Ministry of Interior, under a National Coordinator, controlled administratively by the Secretary Interior Division, Ministry of Interior. In 2013, the Authority was granted administrative and financial autonomy and was created legally as a body corporate, answerable to a Board of Governors (BOG) headed by the Prime Minister of Pakistan with the National Coordinator (NACTA) as Secretary to the BOG. The BOG was to provide strategic vision and policy oversight to NACTA. NACTA is a policy body and doesn't have the mandate to receive financial intelligence. Therefore, FMU does not share tactical financial intelligence products with NACTA. However, Strategic Analysis, Typologies, case studies, etc are shared with NACTA.

NACTA and FMU have over the period of time developed a very close coordination, especially in the matters with regards to Terrorism Financing.

6.7.2 Measures taken to build coordination mechanism between FMU and NACTA

- NACTA is a policy body at the federal level which is responsible to formulate policies/strategies at the country level to counter terrorism and terrorism financing in Pakistan. Thus, NACTA is not mandated to receive financial intelligence in whatsoever form as it has no operational role with such intelligence. NACTA provides a platform for coordination between different stakeholders including FMU, intelligence gathering and conducting research related work in relation to terrorism and its financing.
- NACTA's National Task Force on CFT which comprises of members from 28 federal/provincial agencies including FMU is an effective forum where both the institutions share information, expertise for betterment of AML/CFT frameworks, controls.
- A Multilateral Memorandum of Understanding (MoU) has been signed among FMU, NACTA and other federal/provincial agencies to ensure effective coordination and information sharing with LEAs, Intelligence agencies and Provincial CTDs in investigations on ML, TF and Predicate offences.
- FMU regularly shares information regarding strategic analysis on various topics concerning ML/TF which feeds the knowledge and expertise of NACTA while issuing various policies, directives, guidelines and SOPs. For this purpose, NACTA has also been given login ID to FMU's go-AML system to access strategic analysis information and automate the process of exchange of information. During the period multiple times information has been shared with NACTA.

This recommended action is largely addressed.

- FMU-NACTA along with other authorities share information and expertise through the national risk committees as in case of TFRA-2018, Addendum to TFRA-2019, NRA-2019 and subsequent transnational threat analysis.
- NACTA holds the data of locally proscribed persons/entities under UNSCR 1373 and publishes such data on its website which is regularly accessed by FMU for its analysis. FMU has also been given access to password protected login area of this proscription database which contains more information and details as to why a person has been proscribed and its suspected or established links with any terrorist organization(s), etc. This information has proved helpful for FMU during analysis of STRs specifically related to UNSCR 1373.
- NACTA is also part of Committee for Intelligence Sharing and Coordination on ML/TF/PF as a *policy/coordination institution* with the objective to support Pakistan's AML/CFT coordination, analyse the ML/TF Risks as identified in the NRA and share updates on the same, identifying the new trends and typologies, identifying areas for conducting Strategic Analysis and for conducting joint Strategic Analysis, etc.
- To automate the process of exchange of information, NACTA has also been registered on the goAML portal.

6.7.3 Outcomes

The improved coordination between FMU and NACTA has resulted into the following:

- NACTA holds regular meetings of TF Task Force and its subcommittee. These meetings are attended by all stakeholders including FMU. These forums provided FMU an opportunity to exchange feedback with NACTA and CTDs for betterment of CFT framework and controls. Moreover, through the discussions held in these meetings FMU was able to focus on the high-risk TF elements and accordingly prioritize its analysis of STRs/CTRs.
- While preparing TF related guidelines, FMU and NACTA discussed and sought input /feedback of each other on these guidelines which results in improving the guidelines being issued.
- NACTA has given access to FMU on detailed proscription database of high-risk individuals. This database has proved helpful for FMU during analysis of STRs specifically related to UNSCR 1373.
- Improved coordination between FMU and NACTA has helped FMU to understand the needs of CTDs and tailor & deliver the training sessions for CTDs accordingly.
- FMU has developed case studies on TF in coordination with CTDs and NACTA for the guidance of stakeholders.
- FMU regularly shares information with NACTA regarding strategic analysis on various topics concerning ML/TF which feeds the knowledge and expertise of NACTA and helps NACTA while issuing various TF related policies, directives, guidelines and SOPs.
- FMU also from time to time provides NACTA suggestions on the improvement of the database of proscribed individuals. These suggestions are accepted and have led to improvement in the NACTA database.
- The coordination between FMU and NACTA has also resulted in timely sharing of financial intelligence/information between CTDs and FMU electronically through goAML. NACTA is part of digital platform (goAML) for information exchange and played its role in capacity building of CTDs' official on use of this software.

8. Increase the resources allocated for LEAs financial investigations and prosecutions of TF, ML and proceeds of crime (also see IO.7)

6.8.1 Overview

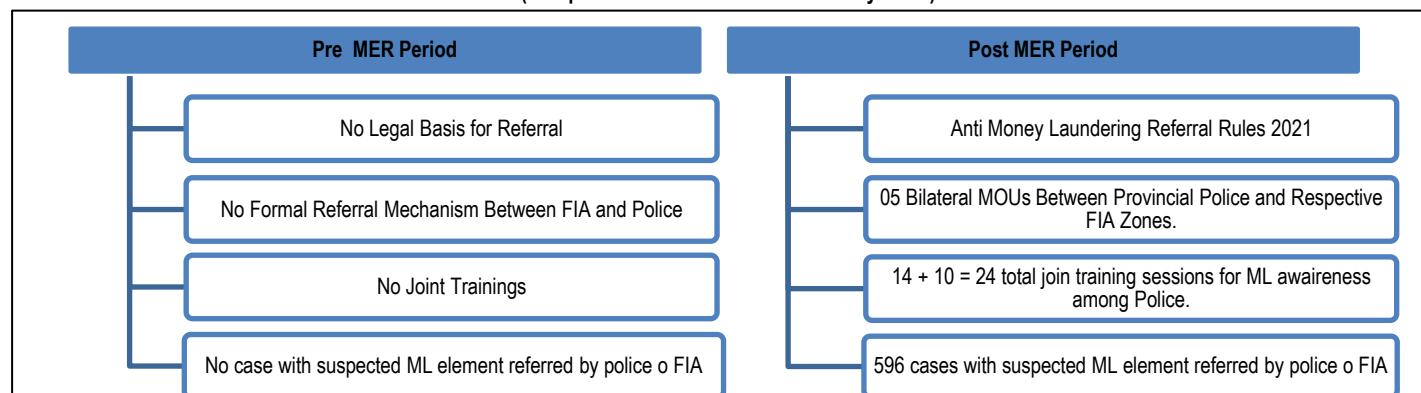
A number of important initiatives have been undertaken by Pakistan in order to ensure continuous and sustained progress in the areas of AML / CFT and CPF since its ME onsite in 2018. To achieve this, Pakistan has developed a National AML / CFT and CPF strategy ('Strategy') 2020-2022 and a comprehensive implementation roadmap. Based on the strategy, roadmap and the results of risk assessments, authorities are implementing risk-based resource allocation, details of which are provided in the comprehensive document pertaining to the Resource Allocation which is attached. A summary of the allocation of resources by the LEAs is provided below:

This recommended action is largely addressed.

Table 6.8.1
(Highlights of Agency Level Measures)

LEA	Highlights of Initiatives
FIA	• Revamping of Economic Crime Wing – FIA, dealing with ML matters. • Establishment of AML/CFT Directorate (Along with 358 Personnel) with 8 circles across Pakistan. • Establishment of Data Access Center DAC) to provide investigation officers with an easy access to the requisite data from other agencies. • Strengthening of Cybercrime Wing and Anti Human Smuggling Wing to support ML investigations. • Implementation of Case Management System for automated record keeping and analysis of financial crimes including ML. • Establishment of International Co-operation Unit to process requests for international cooperation • Establishment of Financial Intelligence Cell to receive, disseminate and follow-up actions on financial intelligence reports from FMU.
NAB	• Establishment of AML/CFT Units at NAB HQ as well as 7 regional offices. • Monitoring Evaluation System (MES) was upgraded in terms of data and reporting requirements (predicate and ML), e.g. enhancement in accused reporting system, Case Monitoring Module, Customize data reports, Monthly Performance Reports etc. • Restructuring of Prosecution Division for efficient performance of legal cases. • Establishment of Legal Library for use of Prosecutors to help prosecutors in case preparation. • Access to NADRA Verisys to all the regional bureaus for immediate retrieval / verification of accused's profile.
FBR-IR	• Establishment of AML Cell in each of the 7 Regional Directorates, with dedicated investigators established. • Number of dedicated investigating officers has increased from 22 in 2018 to 41 in 2020 for ML cases • In the Year 2020, FBR has executed a bilateral MOU with FIA on data sharing. • FBR is sharing Tax information with other LEAs through AML Desk.
FBR-Customs	• Establishment of AML Cell in each of the 8 Regional Directorates, with dedicated investigators and prosecutors. • Establishment of Directorate of Cross Border Currency Movement (CBCM) which is focal authority for receiving and disseminating STRs and other FIs from the FMU. • Updating the WeBOC (Web-based One Customs) to automate processes. Updating the internally developed Anti-Smuggling Module (http://antismuggling.weboc.gov.pk) that captures stores and provides Information Technology platform, for further analysis and helps store data accessible at single click cross-border currency smuggling and TBML investigations and the collection of statistics for setting priorities for the RBA, and ML restraint activities. • Establishment of National Targeting Centre (NTC) and its three components i.e, Currency Declaration System (CDS), Advance Passenger Information System (APIS) and National Customs Enforcement System (nCEN).
ANF	• Updation of software named ANF Management Information System (AMIS) for maintenance of data/statistics. • Strengthening of Assets and Financial Investigation Directorate.

Figure 6.8.2
(Comparison of Pre/Post MER Efforts by LEAs)



For further information please refer to the Recommended Action 2 of IO-7 which provides details of measures taken by LEAs to strengthen institutional frameworks (such as adequate internal policies and procedures) and increasing LEAs capabilities and capacity to investigate ML.

6.8.2 National AML Desk:

In order to expedite ML Investigations and streamline the flow of information among all the relevant agencies, a national level AML Desk was established under the National FATF Secretariat in November 2020. More details of the National AML Desk are provided at Para No.6.1.5.

9. Strengthen mechanisms for cooperation in financial crime cases involving numerous LEAs, and further improve engagement between FBR-IR and FBR- FBR--customs (on tax and customs) and other LEAs on priority risk areas noted in the MER such as corruption, drug trafficking, fraud, tax evasion, smuggling, human trafficking and organised crime are major predicate offences to ML.

This recommended action is largely addressed.

6.9.1 Overview

In addition to the actions taken as documented in both RA-1 and RA-2, various mechanisms have been put in place for cooperation in financial cases involving numerous LEAs, and to further improve engagement between FBR-IR and FBR- FBR--customs (on tax and customs) and other LEAs on priority risk areas.

6.9.2 Multilateral Memorandum of Understanding (MoU)

A Multilateral Memorandum of Understanding (MoU) has been signed among FMU, NACTA and other federal/provincial agencies to ensure effective coordination and information sharing with LEAs, Intelligence agencies and Provincial CTDs in investigations on ML, TF and Predicate offences.

6.9.3 Multi Agency ML Investigation and Confiscation Committee

Multi Agency ML Investigation and Confiscation Committee is constituted as a sub-committee of the General Committee (GC) under the provisions of AML Act 2010 has been formulated to increase LEAs' capacity to investigate ML. All the representatives of notified LEAs, FMU, FATF Secretariate, provincial CTDs and intelligences agencies are the members of the said committee.

6.9.4 Access to FBR Database:

For the provision of detailed and recent tax records, federal government promulgated an ordinance on 27th December 2019 for amendments in the Income Tax Ordinance, 2001. A provision was also incorporated in the said ordinance through which FMU was given an exception to the confidentiality privilege as per section 216 of Income Tax Ordinance, 2001 by inclusion of FMU's name in the section 216(3) of Income Tax Ordinance, 2001. With respect to the abovementioned amendment, FMU is now able to access the recent and updated tax information which is not available publicly and the access to this private database was made available to FMU in the year 2020. FMU is invariably using this database while conducting analysis of tax related cases and till now the said database has been accessed 634 times. The direct access to this information is one of the factors which resulted in increase of proactive disclosures to FBR Inland Revenue for tax related investigations which is evident from 183 proactive disclosures made in 2020 as against 86 in 2019. Further, the access to this information has also made a significant impact on the effective analysis of suspicious activities/transactions and the subsequent decision making for proactive disclosures.

6.9.5 Committee for Intelligence Sharing and Coordination on ML/TF/PF

The Committee has been setup to form an effective partnership and enhance coordination among Law Enforcement Agencies and Financial Monitoring Unit for utilization of Financial Intelligence relating to Money Laundering, Terrorist Financing, Proliferation Financing and other predicate offences. Details of the same are provided at 6.1.2 d.

6.9.6 Joint Investigation Team (JIT)

- The details of JITs are available at para 6.2.4 in RA-2.

6.9.7 Referral Mechanism:

As per the instructions of National Executive Committee, all LEAs have developed a referral mechanism to refer ML/TF cases to other LEAs as per their respective mandate and at the same time receive cases in the same manner. SOPs of all LEAs have incorporated this referral mechanism.

6.9.8 National AML Desk:

In order to expedite ML Investigations and streamline the flow of information among all the relevant agencies, a national level AML Desk was established under the National FATF Secretariat in November 2020. More details of the Task Force are provided at Para No.6.1.5.

10. Enhance information exchange between foreign FIUs and FMU in cases concerning proceeds of crime hidden offshore.

6.10.1 Overview:

FMU has been actively pursuing international cooperation for cases concerning TF as well as proceeds of crime hidden offshore. FMU issued a directive for LEAs dated June 09, 2019 with respect to international cooperation with foreign FIUs. As part of this Directive, FMU emphasized the importance of international cooperation and advised LEAs and other relevant agencies to seek and exchange financial intelligence from foreign FIUs through FMU.

This recommended action is largely addressed.

During the month of June 2020, FMU revised internal SOPs for international cooperation that govern its procedures when seeking information from or receiving information requests from foreign FIUs, whether independently or on behalf of other LEAs.

The section 2 of FMU's SOPs for international cooperation sets out the parameters for requesting international cooperation. Some of scenarios are following:

- The suspect person or entity is receiving or remitting funds or donations from/to any suspected person/entity without any apparent economic purpose.
- The suspect is receiving or remitting frequent high value remittances where there is a suspicion of money laundering.
- High risk customer such as housewife, student, PEP, Social worker etc. are receiving / remitting high value remittances from different individuals.
- The suspicious remittances are received or sent to high-risk jurisdictions, terrorism effected countries or tax heavens.
- Trade related funds received or sent in personal accounts with suspicion of tax evasion or trade-based money laundering.
- Any PEP or associate is receiving or remitting high value funds frequently to foreign jurisdiction without any economic purpose.
- The suspicious transaction is related to individuals or entities involved in money laundering or terrorism financing having presence in other countries.
- Suspected proceeds of crimes remitted/received from any other jurisdiction.
- Any assets of suspect person/entity identified in other countries during analysis or investigation or through media reports.

These SOPs also set out the type of information FMU seeks from other FIUs under section 2.2, however it may vary from case-to-case basis. But generally, FMU seeks following type of information in relation to proceeds of crimes hidden offshore and asset tracing:

- Details of wire transfer transactions such as remitter detail, sender detail, beneficial owner's detail, detail of accounts involved, amounts and date of transactions etc. sent or received from country.
- Details of persons/ accounts or entities identified as linked parties during analysis or investigation process.
- Details of accounts maintained by the entity and associated persons in that country.
- Details of the UBO of the involved entity or account.
- Details of any property or asset held by the entity and associated persons in that country.
- Details of any ongoing Investigation/criminal case on the subject entity.
- Veracity of the funds originated from the foreign jurisdiction and sent to Pakistan.

In addition, NACTA has also issued directive vide letter # 02(4)/DD/CFT/NACTA/2018 ([International Cooperation \(interior.gov.pk\)](#)) to all the designation law enforcement authorities to routinely utilize FMU to seek information from foreign FIUs in their ML / TF investigations.

Since MER, the international cooperation has significantly increased. These international cooperation requests are based on the analysis of STRs / CTRs and upon request of Law enforcement agencies (LEAs).

6.10.2 MOUs:

Prior to October 2018, FMU had in place only 4 MOUs. Now, however, the FMU has 13 signed MOUs: Turkey, Sri Lanka, Iran, Turkmenistan, Kazakhstan, United Kingdom, Qatar, Malawi, China, Lebanon, Seychelles UAE and Australia concerning cooperation in the exchange of financial intelligence related to money laundering, associated predicate offences and terrorism financing. Moreover, MOUs with other countries e.g. Tajikistan, Japan, Indonesia, Nepal etc. are under negotiation.

6.10.3 Egmont Membership:

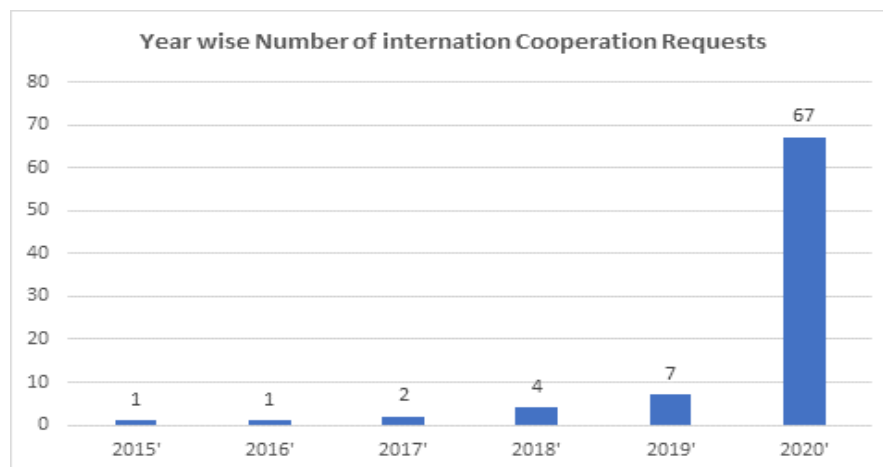
FMU is actively pursuing Egmont Group membership in order to increase international cooperation with member countries. The co-sponsors are FinCEN (USA FIU) and JAFIC (Japan's FIU) for sponsoring Pakistan's membership. Previously, the Egmont team visited Pakistan in February 2018, during their visit they identify a deficiency in section 6(4)(e) of AML Act, 2010, wherein FMU may co-operate with other FIUs and make reciprocal arrangement after due administrative process. Keeping in view, the section 6(4)(e) of AML Act, 2010 was amended in February 2020, which allows FMU to co-operate with other FIUs and make reciprocal arrangement without requirement of due administrative process. The amendment was made in order to acquire Egmont Group membership and to remove the barriers in obtaining Egmont Group membership.

Pursuant to above, Pakistan again pursued its co-sponsors FinCEN (FIU of USA) and JAFIC (Japan's FIU) for Pakistan's Egmont Group membership in April 2020. A detailed questionnaire was received from Co-sponsors, which was responded on 04-Aug-2020 and required documents were submitted for Egmont Membership. As per discussion with co-sponsors, Covid pandemic has affected the processing of our request for Egmont membership as the annual meetings of Egmont has been delayed / cancelled due to COVID-19. The next meeting of Egmont Group is scheduled in July 2021.

6.10.4 Statistics

Since the MER, the FMU has sent 93 requests for information to the foreign FIUs, which includes 59 requests generated internally by FMU, while 34 requests were sent on behalf of LEAs. Most of these requests related to wire transfers involving suspected proceeds of crime or identification of assets and accounts during analysis by FMU or during investigation by LEAs. These requests pertain to ML, TF and high-risk predicate offences. The breakdown is as follows:

Figure No. 6.10.1
Year wise number of international cooperation requests



As shown in the graphs above that the international cooperation/ exchange of information has increased significantly, especially in the year 2020. In addition, FMU has also sent 16 international cooperation requests during the first quarter of the year 2021. Country wise international cooperation requests are provided below:

Table No. 6.10.1.			
Country wise International Cooperation Requests sent by FMU Since MER-2018 to 31-Mar-2021			
Country Name	Initiated by FMU	Initiated by LEAs	Total
UAE	7	13	20
Afghanistan	6	3	9
UK	8	3	11
Bahrain	5	0	5
Qatar	5	0	5
Oman	4	0	4
Kuwait	3	0	3
Saudi Arabia	5	0	5
Bangladesh	2	0	2
Switzerland	1	2	3
USA	3	1	4
Malaysia	0	2	2
Mayanmar	1	0	1
Iraq	1	0	1
Netherlands	1	0	1
Syria	1	0	1
Turkey	1	0	1
Mauritius	1	0	1
Lebanon	0	1	1
Canada	1	1	2
France	0	1	1

Seychelles	0	1	1
China	0	1	1
Japan	0	1	1
Hong Kong	0	2	2
Poland	0	1	1
Australia	0	1	1
Belgium	1	0	1
Sweden	1	0	1
Colombia	1	0	1
Total	59	34	93

Moreover, as evident from the table above, majority of these requests were sent to different jurisdictions some of which were identified as high risk in NRA. Moreover, in line with Pakistan's risk profile, the majority of the outgoing requests pertained to TF followed by Corruption, Hawala, TBML etc. Predicate Offence wise breakdown of the 93 requests is as follows:

Table No. 6.10.2.					
Offence wise International Cooperation Requests sent by FMU Since MER-2018 to 31-Mar-2021					
Offence	2018 (Since MER)	2019	2020	2021 (31-Mar-21)	Total
Terrorism Financing	0	4	40	3	47
Corruption	3	2	8	1	14
Hawala/ Hundi	0	0	9	1	10
Virtual Assets	0	0	2	0	2
TBML	0	0	2	0	2
Drug Trafficking	0	1	0	0	1
Human Trafficking	0	0	1	0	1
Tax Evasion	0	0	1	0	1
Smuggling	0	0	1	0	1
Gambling	0	0	1	0	1
Fraud	0	0	1	0	1

Sexual Exploitation	0	0	0	7	7
Others	0	0	1	4	5
Total	3	7	67	16	93

In accordance with its SOPs for international cooperation, the FMU generally makes international cooperation requests from other FIUs where funds have been received from or transferred to other jurisdictions where there is a strong suspicion of ML/TF. Requests for asset tracing, identification of beneficial ownership and utilization of funds are basic components of an international cooperation request. Further, most international cooperation requests sent by FMU pertain to TF and high-risk predicate offences, which were made for tracing of assets upon suspicion that funds were obtained illegally and transferred to other jurisdictions.

Moreover, the FMU has made multiple international cooperation requests to pursue illegal proceeds transferred abroad upon request from different LEAs. These requests were sent to the foreign FIUs even in absence of formal MOUs.

Since October 2018, 23 such requests were made by FMU on behalf of LEAs. The details are given in table 6.10.3:

Table 6.10.3			
International Cooperation Requests on behalf of LEAs to pursue illegal proceeds			
Requesting Agency	No of requests	Involve proceeds of	Countries
NAB	5	Corruption	Switzerland, Hong Kong, UK, Australia, Lebanon
FIA	8	Corruption	UAE, UK, USA, Canada, Switzerland, France, Seychelles
FIA	1	Fraud	Malaysia
FIA	1	Gambling	UAE
FIA	1	Smuggling	UAE
FIA	1	TBML	China
FIA	6	Use of Hawala	Japan, UK, UAE, Hong Kong
Total	23		

In addition, FMU has also made seven (07) voluntary disclosures during the year 2020 and 2021, details are tabulated below:

Table No. 6.10.4			
Voluntary disclosures made by FMU			
Sr.	Name of Country	Year	Offence
1	Turkey	2020	Drug trafficking
2	USA	2020	Terrorism Financing
3	Saudi Arabia	2020	Terrorism Financing
4	UK	2021	Fraud

5	China	2021	Fraud
6	Malaysia	2021	Fraud
7	Norway	2021	Sexual Exploitation

Since MER-18, FMU has received 23 incoming requests for information which were all duly responded. Majority of these request were pertaining to proceeds of crimes generated from corruption (3 requests), drug trafficking (2 requests), fraud (3 requests), TBML & Tax evasion (2 requests) etc. A breakdown by country is as follows:

Table No. 6.10.5					
Incoming Request for information Since MER-2018 to 31-March-2021					
Country Name	2018 (Since-MER)	2019	2020	2021 (31-Mar-2021)	Total
Qatar	0	2	3	0	5
UK	0	0	3	0	3
Italy	0	1	0	0	1
Sri Lanka	0	1	0	0	1
Uzbekistan	0	1	0	0	1
Azerbaijan	0	1	0	0	1
Kazakhstan	1	0	0	0	1
Norway	0	1	0	0	1
Saudi Arabia	0	0	1	0	1
Nepal	0	0	1	0	1
France	0	0	0	1	1
UAE	0	0	0	3	3
Turkey	0	0	0	1	1
Indonesia	1	0	0	0	1
Oman	0	0	0	1	1
Total	2	7	8	6	23

It is pertinent to mention here that the average response time has reduced from 45 days in 2019, 25 days in 2020 to 20 days in 2021.

Further, the amendment in section 6(4)(e) of AML Act, 2010 made in February 2020 allows FMU to co-operate with other countries and to make reciprocal arrangements in order to share, request

and receive information relating to money laundering, predicate offences and financing of terrorism without any administrative process. FMU to in order to facilitate international exchange FMU has created a dedicated email address, details of which are provided on FMU's website (<https://www.fmu.gov.pk/international/>). Further, FMU offers to facilitate requests of information, while sending cooperation requests to foreign FIUs with whom no formal mechanism /MOU is in place.

6.10.5 Case Studies:

Outgoing Request for Information Tax Evasion/Illegal Money Value Transfers

Case Details: The group of four Pakistani individuals, residents of Dubai, United Arab Emirates (UAE) remitted huge funds equal to more than Rs. 2 billion with sole purpose of "Home Remittances" to almost 500 individuals in Pakistan.

Summary: A huge number of remittances sent with the sole purpose of home remittances **were sent which created** suspicion. Upon detailed analysis it was found that 28 beneficiaries were common and receiving funds from more than one remitter. And one of these beneficiary's, a sole proprietor, was already under inquiry of LEA (FIA) for ML charges of Illegal Money Value transfers.

Channel Used: Illegal Money Value Transfers/Home Remittances

Outcome: Under LEAs inquiry

International cooperation request:

International cooperation request pertaining to all four remitters was sent to FIU-UAE, which provided following important details of businesses, their major transactions, and counterparties.

Remitter	Business	Key Economic Activity
A	PL Trading	Deals in trading of Electronics and Textile Products.
B	MP Trading	Deals in trading of readymade garments and personal care products.
C	KC Investment	Deals in enterprise investments
D	R.H Solutions	Deals in business of computer equipment and software.

- Credit turnover in these business accounts mostly comprise of cash transactions worth more than AED 100.00 million in a period of less than 6 months.
- All these individuals were conducting huge number of transactions in different countries mainly declaring two purpose either investment in property or loan payment.
- Despite of having separate nature of business, counter parties of different remitters were same and mostly belong to India, KSA, UAE and Pakistan.
- One remitter apparently seems had conducted transactions with PEP residing in Pakistan.

Further, the Information received through FIU-UAE was also shared with LEAs.

11 .Prioritise FMU feedback on STRs and risk issues to AML/CFT supervisors (see IO.3) and outreach to FIs/DNFBPs (see IO.4).

6.11.1 Overview

This recommended action is largely addressed.

FMU prioritizes its feedback to the supervisors by using certain mechanisms as to achieve better compliance and quality reporting of STRs/CTRs. Financial Monitoring Unit has adopted following mechanisms and practices for active engagement with the supervisors of the reporting entities under Anti Money Laundering Act, 2010;

6.11.2 Framework for Supervisors Feedback

6.11.2.i Compliance Case

The compliance case is developed on the basis of continual deficiencies/ violations made by a reporting entity (RE), while filing of STRs/CTRs. FMU identifies, analyse and collates such gaps/ recurring violations in the reporting of a specific RE and shares the case with the respective supervisors for regulatory action or guidance as deemed appropriate. Since, October 2018 to date, FMU disseminated 14 Compliance Cases to supervisors.

6.11.2.ii Sectoral Analysis

FMU periodically conducts sectoral analysis on STRs/CTRs received for identifying, analysing, highlighting the strengths (best practices), weaknesses (gaps) in the reporting of different sectors. The sector specific analysis & findings are shared with the supervisors for achieving better compliance, quality reporting and exchange of best practices.

Following are the details of the Sectoral Analysis conducted by FMU since October 2018:

Table No. 6.11.1.	
Sectoral Analysis conducted by FMU since October 2018	
Sr. No.	Description
1	Sectoral Assessment Report on STRs reported by SECP Regulated Entities in 2019
2	Sectoral Assessment Report on STRs reported by SBP Regulated Entities in 2019
3	Sectoral Assessment Report on STRs reported by CDNS and PPO (till Oct 2020)
4	Sectoral Assessment Report on STRs reported by SECP Regulated Entities in 2020
5	Sectoral Assessment Report on STRs reported by SBP Regulated Entities in 2020
6	Sectoral Assessment Report on STRs reported by SBP BSC in 2020

6.11.2.iii Strategic Analysis for identifying Risk Issues

FMU conducts different strategic analysis by identifying different risk issues, on STRs/CTRs received and shares the findings, recommendations on emerging risks, threats related to products, channels, customers and exposures of REs. FMU has developed a strategy along with the SOP to conduct strategic analysis and the areas of strategic analysis are prioritized based upon findings of NRA, feedback from stakeholders, reporting trends and other factors.

The list of Strategic Analysis conducted since October 2018 till March 2021 are given as under:

Table No. 6.11.2.		
Strategic Analysis conducted since October 2018 till March 2021		
Sr. No.	Title	Year of Completion
1	Strategic Analysis Virtual Currencies	2018
2	Strategic Analysis on Misuse of Branchless Banking	2018
3	Strategic Analysis on Misuse of remittance channels for collecting donations	2018
4	Strategic Analysis Misuse of Accounts by Travel Agents	2018
5	Strategic Analysis on Misuse of Banking Channel by Illegal Arms and Ammunition Businesses	2019
6	Strategic Analysis on STRs related to failed Biometric Verification	2019
7	Strategic Analysis on Currency Smuggling and Cash Couriers	2019
8	Strategic Analysis on Currency Transaction Reports	2019
9	Strategic Analysis on High-Risk Professions	2019
10	Strategic Analysis on Currency Hoarding	2020
11	Strategic Analysis on Human Trafficking	2020
12	Strategic Analysis on Misuse of Financial Channels by Drug Traffickers	2020
13	Strategic Analysis on Affiliates / Associates of Proscribed Organizations listed on 1 st Schedule of ATA 1997	2020
14	Analysis on Proscribed Individuals / Entities and their Associates	2020
15	Strategic Analysis on Currency Transaction Reports	2020
16	Strategic Analysis on Currency Smuggling and Cash Couriers	2020
17	Strategic Analysis on misuse of NPOs	2020
18	Strategic Analysis on use of Prize Bonds	2020
19	Strategic Analysis on Hawala / Hundi	2020
20	Strategic Analysis on Virtual Assets – Emerging risk of Money laundering and Terrorism financing	2020
21	Strategic Analysis on Comingling of Funds through Cash Intensive Business – Petroleum Business	2021
22	Strategic Analysis on Foreign Remittances – Inherent Risk of Money Laundering and Terrorist Financing	2021

The Supervisors feedback on the same was also received which indicated that the Supervisors have issued directions/guidelines based on some of these Strategic Analysis.

6.11.2.iv AML/CFT Compliance Forums

FMU also conducts AML/CFT Compliance forums for its Reporting Entities. The main focus of these AML/CFT Compliance forums is to provide feedback to the REs and enhance their capacity in the area of AML/CFT. FMU also engages supervisors of the reporting entities on AML/CFT compliance forums and joint sessions for providing feedback on reporting of STRs/CTRs and developments in the AML/CFT regime of Pakistan and global environment.

Table No. 6.11.3

AML/CFT Compliance Forums for Reporting Entities

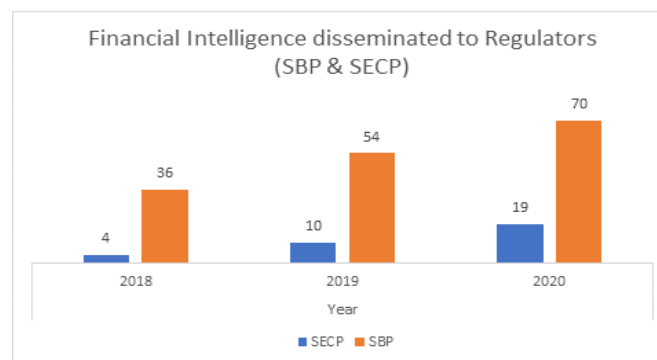
Banking Sector	3	167
CDNS	1	50
Non-Banking Sector	7	422
PPO	1	50
Total	12	689

- In addition to above sessions, Senior Officers from FMU regularly attend different forums and sessions arranged by the Supervisors and they share their views and comments on the Reporting of STRs, etc. In these sessions analysts from FMU shared case studies with the participants the objective of which was to inform the participants from the banking sector on how their STRs are used for developing quality financial intelligence.
- FMU also engages supervisors of the reporting entities on AML/CFT compliance forums and joint sessions for providing feedback on reporting of STRs/CTRs and developments in the AML/CFT regime of Pakistan and global environment.
- In addition to the above, FMU actively engages supervisors through face-to-face meetings, exchange programs and disseminations in the form of tactical analysis as to highlight the regulatory violations to the supervisors.

6.11.2 v Dissemination of the financial intelligence with the Supervisors

Moreover, FMU on case-to-case basis also shares financial intelligence with the Supervisors through which issues are identified in the STRs being reported or regulatory violations identified. The details of financial intelligence shared with the Supervisors is provided below:

Figure No. 6.11.1
Financial Intelligence disseminated to Regulators



Moreover, in the first quarter of 2021, financial intelligences disseminated to SBP and SECP were 25 and 7, respectively.

6.11.3 Outreach Programs for FIs and DNFBPs

In order to interact with the diversified reporting sector, FMU uses following channels and mediums for outreach & awareness on AML/CFT regime of Pakistan:

6.11.3.i Awareness Sessions

FMU has conducted number of training and awareness sessions for the reporting entities. Some of these sessions were conducted in coordination with United Nations Office on Drug and Crime, National Institute of Banking & Finance and the Supervisors (SBP & SECP). Since October 2018 to March 2021, FMU resource personnel in coordination with different stakeholders has organized 97 capacity building sessions, participated by almost 4127 participants from reporting entities of all financial and non-financial sectors of Pakistan. Following figures depicts breakdown:

Capacity Building sessions for Reporting Entities:

Table No. 6.11.3		
Training Sessions Conducted for Reporting Entities		
Banking Sector	21	650
CDNS	18	312
DNFBPs/NPOs	15	950
Non-Banking Sector	41	2150
PPO	2	65
Total	97	4127

AML/CFT Compliance Forums:

FMU also conducts AML/CFT Compliance forums for its Reporting Entities. The main focus of these AML/CFT Compliance forums is to provide feedback to the REs and enhance their capacity in the area of AML/CFT.

Table No. 6.11.4		
AML/CFT Compliance Forums for Reporting Entities		
Banking Sector	3	167
CDNS	1	50

Non-Banking Sector	7	422
PPO	1	50
Total	12	689

In addition to above sessions, Senior Officers from FMU regularly attend different forums and sessions arranged by the Supervisors and they share their views and comments on the Reporting of STRs, etc. In these sessions analysts from FMU shared case studies with the participants the objective of which was to inform the participants from the banking sector on how their STRS are used for developing quality financial intelligence.

6.11.3.ii Meetings with Reporting Entities

FMU has conducted several AML/CFT compliance meetings with reporting entities from different sectors along with their supervisors. During the period of 2019 & 2020, 16 meetings were convened with compliance departments of REs for one-to-one feedback on the STRs being reported by them, to discuss the deficiencies and gaps identified by FMU and suggestions to address those gaps.

In addition to the meetings FMU also writes letters to top management of the reporting entities for communication of deficiencies in the reporting of STRs/CTRs under AML Act, 2010.

6.11.3.iii Guidelines

To enhance the quality of reporting by the different sectors, FMU has issued guidelines, red flags, circulars and FAQs. The overview of the same is provided below:

- FMU issued different types of Red Flag Indicators for all reporting entities which covered indicators related to Proliferation financing, Misuse of legal arrangements, legal persons, NPOs sector, Human Trafficking, Terror Financing.
- For guidance of Real Estate Sector, Lawyers and Notaries, Jewellers and Accountants FMU issued four different set of Red flag Indicators.
- In addition to above, separate Red flag indicators were also issued for Banks, CDNS and Securities.
- FMU issued guidelines which cover "Money Laundering and Terrorism Financing Risks in Covid-19 Predicament"
- "Guidelines for Financial Institutions on Tax Amnesty Scheme for Construction Sector" were also issued for all reporting entities.
- For ease of goAML reporting, FMU shared different guidelines for reporting entities which covered "goAML Registration, goAML Web User's Guide for Stakeholders updated 2020.
- FAQs related to STR were also issued.
- "Guidelines on Reporting of Suspicious Transaction Reports (STRs) on Designated /Proscribed Individuals / Entities and their Associates" and "Guidelines on Compliance of UNSC Resolutions for Banks, DFIs and ECs" were also issued by FMU to all reporting entities for better understanding of risks associated with Proscribed individuals and Entities and implementation of UNSC Resolutions at Res end.

<https://www.fmu.gov.pk/circulars-notifications/fmu-circulars/>

6.11.3.iv Typologies

FMU develops typologies based on tactical and strategic analysis of the STRs/CTRs. These typologies are shared with the reporting entities for feedback and guidance on emerging ML/TF risks. FMU's typologies are available at <http://www.fmu.gov.pk/category/typologies/>

6.11.3.v Newsletter

FMU also develops quarterly newsletter for covering working of FMU, major aspects and developments in the AML/CFT regime of Pakistan and in global environment. FMU's newsletters are available at <http://www.fmu.gov.pk/newsletterfmu/>

12. FMU and regulatory authorities should monitor the effect of regulatory response following STRs filed for regulatory violations, including whether the sector of reporting entities have taken adequate measures to address the issues specified in the respective regulatory responses (e.g. implementing the guidelines issued or change of business models and addressing ML/TF risks).

This recommended action is largely addressed.

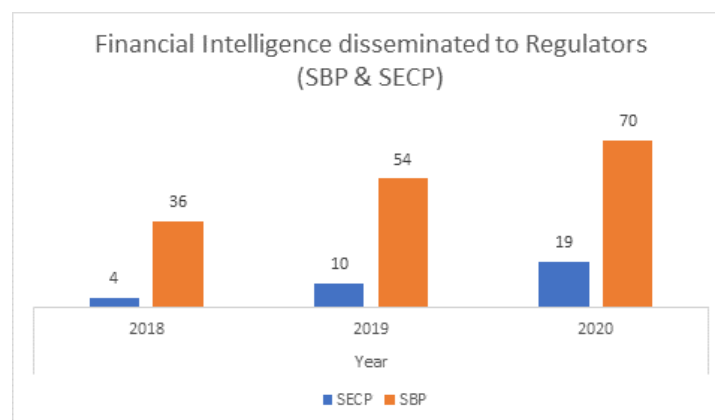
6.12.1 Overview

FMU has shared multiple financial Intelligences and strategic analysis (based on the analysis of STRs) with the supervisors i.e. SBP and SECP where the regulatory violations were observed at REs' end and/or the absence of proper regulatory measures in different areas were identified. Major examples include the dissemination of FIs based on STRs related to branchless banking, virtual currency, FIA's Red Book of Most Wanted Human Traffickers 2019. Based on FMU's FIs, the supervisors took immediate actions and issued regulatory measures/ instructions to their regulated sectors in these specific areas.

6.12.2 Dissemination of the financial intelligence with the Supervisors

FMU on case-to-case basis shares financial intelligence with the Supervisors through which issues are identified in the STRs being reported or regulatory violations identified. The details of financial intelligence shared with the Supervisors is provided below:

Figure No. 6.11.1
Financial Intelligence disseminated to Regulators



Moreover, in the first quarter of 2021, financial intelligences disseminated to SBP and SECP were 25 and 7, respectively.

6.12.3 Measures by SBP:

Based on the feedback shared by FMU, the supervisors have taken various measures which are provided below:

- The outreach sessions arranged by the SBP have contributed to better understanding of the regulated entities on assessment of transactions and filing of STRs. Some of the improvements observed are mentioned below:
 - The number and quality of STRs of SBP REs has improved due to better understanding.
 - FIs' analysis of suspicious transactions and alerts has improved as proper linkages of suspected individuals/entities are being established by the FIs.
 - The quality of information being provided through goAML has improved, leading to reduction in the number of STRs rejected by FMU.
- Additionally, establishment of dedicated CFT Desks at SBP REs since March 2019, the number of STRs with link to proscribed/ designated individuals/entities has increased.
- After the issuance of instructions by SBP, on February 24, 2020, to consider individuals listed in Red / Black books of FIA and CTDs for screening, alert generation, and increased scrutiny for AML/CFT purposes, there is a significant increase in the number of STRs.
- SBP on May 15, 2020 has also issued red flags to be used for identification of persons suspected to be acting on behalf of or at the direction of designated / proscribed individuals or entities and subsequently the red flags were made part of SBP Guidelines on Targeted Financial Sanctions under UNSC Resolution.
- SBP has also provided Red Flags on Situations Indicating Possible Proliferation Financing Activities in SBP Guidelines on Targeted Financial Sanctions under UNSC Resolutions.

6.12.4 Feedback Received from SBP based on the Financial Intelligence:

Details of administrative / supervisory actions taken by SBP based on the Financial Intelligence from 2018 to 2021 are given as under:

Table No. 6.12.1		
Details of enforcement actions taken by SBP based on Financial Intelligence shared by FMU		
Year	Enforcement Actions	Total amount of Penalties Imposed based on FMU's FIs
2018	Monetary Penalty	PKR 270,000
2019	Monetary Penalty	PKR 47,494,000
2020	Monetary Penalty	PKR 8,908,000
2021	Monetary Penalty	PKR 7,902,000
	Total	PKR 64,574,000

6.12.5 SECP:

The outreach sessions arranged by the SECP have contributed to better understanding of the regulated entities on assessment of transactions and filing of STRs. This better understanding has not only increased the number of STRs but quality of STRs has also improved. Some of the improvements observed are mentioned below:

- STRs are being reported from different SECP Regulated sectors including Non-Banking Financial Companies (NBFCs), Insurance Divisions and Securities Brokers sectors.

- Further, due to continuous in-house awareness among own supervision teams of SECP, different departments have also raised many Suspicious Transaction Reports (STRs) against their regulated sectors involving in other predicate offenses even those which do not fall under the domain of SECP.
- Analysis of STRs has improved as proper linkages of suspected individuals/entities are being established by the FIs
- Due to the establishment of dedicated compliance department at NBFCs, Insurance Companies and Brokerage entities since 2019, the number of STRs with link to any proscribed/designated individuals/entities has increased.
- The quality of information being provided through goAML has improved as lesser instances of rejection of STRs have been observed.
- After the issuance of instructions by SECP, in September 2020, to consider the individuals listed in Red / Black books of FIA and CTDs for screening, alert generation and increased scrutiny for AML/CFT purposes, there is a significant increase in the number of STRs.
- The SECP in the month of May 2020 has also issued red flags to be used for identification of persons suspected to be acting on behalf of or at the direction of designated / proscribed individuals or entities.

With improvements in quality of STRs, the quality of analysis carried out by FMU has also improved which has led to the development of comprehensive Financial Intelligence products for dissemination to LEAs and supervisors.

6.12.6.i Feedback Received from SECP:

Details of administrative / regulatory actions taken by SECP based on the Financial Intelligence from 2018 to 2021 are given as under:

Table No. 6.12.2 - Details of administrative / regulatory actions taken by SECP					
Sr. No.	Regulator (SECP)	Actions Taken based on FMU's FIs (administrative/remedial action, policy action, etc.)	Referred to LEAs	No of Warnings Issued/Show cause etc (if any)	Total amount of Penalties Imposed based on FMU's FIs
2018	04		01 (Referred to NAB)	-	01 (Penalty imposed of Rs. 12500 under the Companies Act)
2019	12	03- Total 01 (Winding up action) 02 (adjudication proceedings)		01 (issued SCN under 301(g)(i), read with section 304(b) of the Companies Act 2017) 01 (winding up petition initiated in Lahore High Court)	01 (Penalty imposed of Rs. 1,000,000 on the entity under the AML/CFT Regulations) 01 (Penalty imposed of Rs. 4,500,000 on the BoD under the AML/CFT Regulations)
2020	23	01 (In terms of Section 234 of the Companies Act, 2017, necessary action has already been initiated) 01 (Compliance checks and undisclosed visits)	01 (Referred to NAB)	01 (investigation proceedings was initiated by SECP against UFL through SCN u/s 257 of Companies Act, 2017)	-
2021	06	03 (Examination proceedings)	01 (Referred to NAB)	01 (SCN and winding up approval)	
Total	45	08 (Regulatory Actions)	03	04	03 (Rs. 5,512,500)

6.12.5 Outcomes:

Following that, given trends were observed by FMU:

- The number of STRs has increased significantly, during the first quarter of the 2021, a total number of 8,149 STRs were reported.

Improvement in STR Reporting as a result of the above-mentioned measures:

- The number of STRs reported based on high-risk offences has increased significantly.
- The REs have adopted better Transaction Monitoring Systems and improved their screening mechanism which has lead to improvement in the quality of STR being reported, e.g., the reason for suspicious provides better analysis
- REs have adopted effective screening solutions to identify high risk individuals/entities
- Reporting of STRs has become more prompt subsequent to the amendment in the AML Act.
- Reporting entities annexed the details of different open databases to support their suspicion like Tax paid by suspects in previous years and registration with FBR etc.
- Reporting entities have improvised their selection of indicators by choosing more than one relevant indicator.
- The reason for suspicion provided by the REs has become more meaningful and detailed.
- Reporting entities now are more focused on provision of precise and comprehensive reason of suspicion covering the aspects of structuring, counter parties, adverse media news, turnover of major accounts and link to proscribe person etc.
- Reporting Entities have increased the use of Risk Screening Databases

Example of Action taken by the Supervisor and its outcome:

FMU conducted a strategic analysis on STRs received against individuals listed on FIA's Red Book of Most Wanted Human Traffickers 2019 and shared the findings with all the relevant stakeholders including SBP in February 2020. FMU highlighted the fact that REs are not screening these individuals and financial services are being provided to them due to the absence of any guidelines issued by the supervisor. SBP immediately took action and issued instructions. After the issuance of instructions by SBP, on February 24, 2020, to consider the individuals listed in Red / Black books of FIA and CTDs for screening, alert generation and increased scrutiny for AML/CFT purposes, a significant increase in the number of STRs on the listed Human Traffickers has been observed as REs have started screening the names/ Ids of these individuals in their systems. Since the directions passed by the SBP, around 270 STRs have been reported by the Reporting entities linked to the offence of Human Trafficking.

**JG
Comments
& Analysis**

There was consensus in the JG that Pakistan has made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 6.

The JG identified recommended actions 1, 2, 3 and 6 as key Recommended Actions considering their relative strategic importance and fundamental importance to increasing effectiveness.

Recommended action 1 is key and is largely addressed. Pakistan has taken a number of steps to implement institutional and administrative changes that have resulted in significant improvements to the integration of financial intelligence into LEA investigations, including:

- establishing a senior-level Committee for Intelligence Sharing and Coordination on ML/TF/PF as a sub-committee to the General Committee, with a specific focus on more effective utilisation of financial intelligence by LEAs, and a National AML Desk to enhance inter-agency coordination and ensure timely sharing of financial intelligence and other relevant information among all the relevant agencies;
- developing 'Guidelines on Financial Investigations of Money Laundering for LEAs' by the National FATF Secretariat, which highlight the utilisation and prioritisation of financial intelligence, and 'Guidelines for LEAs for Utilization of Financial Intelligence' by the FMU, which focuses on the use of financial intelligence and prioritising its use;
- providing LEAs and CTDs with revised Standard Operating Procedures for receiving, processing and providing feedback on financial intelligence disseminated by FMU; and
- undertaking multiple capacity-building sessions for LEAs run by UNODC and the FMU

At a practical level, improvements in the development and integration of financial intelligence into investigations by LEAs are evident through the increase in reactive disclosures by the FMU in the post-MER period, and the increase in investigations initiated based on proactive disclosures. In particular:

- reactive disclosures (i.e. where an LEA has sought information from the FMU as part of an investigation) relating to ML and predicate offences have increased from 62 in 2018 to 99 in 2020 (representing 20% year-on-year growth); and

- proactive disclosures (i.e. those shared by the FMU spontaneously) relating to ML and predicate offences have increased from 285 in 2018 to 651 in 2020 (43% year-on-year growth), while investigations based on proactive disclosures have increased from 34 in 2018 to 102 in 2020 (67% year-on-year growth).
- overall, since January 2020 till end of March 2021, total number of 1,364 inward / outward messages were exchanged between FMU and LEAs, of which 839 messages were exchanged in the year 2020 and 525 messages in the first quarter of 2021. The messages included, dissemination of financial intelligence, feedback on the financial intelligence, inward requests for seeking information and international cooperation requests through FMU, etc.

Pakistan has also provided statistics to illustrate the extent to which LEAs are generating their own financial intelligence through direct outreach to the banking and non-banking sectors, with the number of STRs being reported following an enquiry by an LEA increasing from 1,114 in 2019 to 2,942 in 2020 (a 164% increase in 12 months). LEAs also have access to a broad range of government databases (e.g. tax records, revenue, immigration, identity, etc.). It is unclear to what extent these sources are being used by LEAs to inform their investigations given the lack of available statistics, though Pakistan has provided case studies illustrating the effective use of these intelligence sources to develop evidence in investigations.

Recommended action 2 is key and is largely addressed. As outlined at RA1, Pakistan has put in place a number of policies at a national level that require LEAs to prioritise the use of financial intelligence in investigating ML and predicate offences. At an agency level, the FMU has developed comprehensive guidelines for the utilisation and prioritisation of financial intelligence, which have been adopted by all LEAs and circulated to all the regional offices for implementation. FBR-IR has issued a formal directive requiring all Directorates of Intelligence and Investigation to accord top priority to financial intelligence received from FMU. Pakistan has advised that similar directives have been issued to LEAs' regional offices.

Recommended action 3 is key and is largely addressed. Pakistan has implemented a range of policy and administrative reforms to ensure that operational financial intelligence is consistent with the risks identified in the NRA, and that analysis relating to high-risk predicate crimes is prioritised. Since the MER, Pakistan has also strengthened the FMU resourcing for its Analysis Division. While disseminations in relation to certain high-risk predicate offences (in particular corruption and drug trafficking) remain low, the JG is satisfied that this is a minor deficiency in the overall context of the significant improvements made in other high-risk areas.

Recommended action 4 is largely addressed. Since the MER, Pakistan has extended the FMU's access to private government-held databases to include tax, passport and immigration data. FMU now has direct access to all relevant databases (with the exception of the SBP's eCIB database, which requires indirect access as a result of technical limitations – indirect access remains available).

Recommended action 5 is largely addressed. Since the MER, Pakistan has taken a number of steps to ensure that the development of financial intelligence relating to cross-border offences is being prioritised, including the development of a detailed SOP by the FMU that requires its analysts to prioritise STRs with linkages to cross-border offences. The FMU has also undertaken six strategic analyses focusing on cross-border related offences, and significantly increased its dissemination of financial intelligence to FBR-Customs.

Recommended action 6 is key and is largely addressed. Pakistan has established an ongoing regular Working Group comprising representatives from all the LEAs for the purpose of seeking feedback on FMU analysis, and has established a Committee for Intelligence Sharing and Coordination on ML/TF/PF to enhance coordination among LEAs and the FMU. The FMU also shares statistics and details of disseminations made to each LEA on a quarterly basis, and seeks an update on the status of any resulting investigations, convictions made, penalties imposed and the details of assets frozen/seized/confiscated. The implementation of the goAML system has also assisted the FMU interact with LEAs and exchange information and receive feedback on a real-time basis.

Recommended action 7 is largely addressed. While NACTA, as a policy body, does not receive tactical financial intelligence from the FMU, it is able to share and receive strategic analysis, typologies and case studies directly through the FMU's goAML portal. Pakistan has established a Multilateral MoU among FMU, NACTA and other federal/provincial agencies to ensure effective coordination and information sharing. NACTA is also part of the Committee for Intelligence Sharing and Coordination on ML/TF/PF. FMU makes effective use of its access to NACTA's database of proscribed individuals for the purpose of developing financial intelligence, and NACTA similarly has demonstrated effective use of the FMU's strategic analysis to inform its coordination and policy efforts (particularly with respect to hawala, cash smuggling, and identification of UNDP associates).

Recommended action 8 is largely addressed. Pakistan has implemented a risk-based resource allocation strategy based on its National AML/CFT and CPF Strategy 2020-2022, which has resulted in significant increases in personnel across LEAs, the establishment of numerous specialised directorates, units and cells focusing specifically on ML, TF, and international cooperation, and significant IT uplift across various case management systems and intelligence databases.

Recommended action 9 is largely addressed. Pakistan has implemented a number of mechanisms that have strengthened cooperation in financial crime cases involving numerous LEAs, FBR-IR and FBR-Customs, including the development of a Multilateral MOU between relevant federal and provincial agencies, the establishment of the National AML Desk and a multi-agency ML Investigation and Confiscation Committee, as well as the establishment of more than 600 Joint Intelligence Teams throughout the country.

Recommended action 10 is largely addressed. Since the MER, Pakistan has issued a number of Directives and developed revised SOPs to encourage more effective international cooperation, and has entered into an additional nine MOUs with foreign FIUs with a number still under negotiation. These reforms have resulted in significant improvements in the number of outgoing requests, and although the JG remains concerned by the extremely low number of requests made to foreign FIUs relating to tax evasion or drug trafficking, is satisfied that the number of outgoing requests made directly by the NAB and FBR-IR mitigate this risk and should not be considered a strategic deficiency.

Recommended action 11 is largely addressed. The FMU periodically conducts sectoral analysis on STRs/CTR and provides reports on strengths (best practices), weaknesses (gaps) in the reporting of different sectors. This analysis is shared with relevant supervisors. The FMU also provides feedback on risk issues through periodic strategic analysis (based upon findings of NRA, feedback from stakeholders, reporting trends and other factors), and then shares these findings and recommendations on emerging risks, threats related to products, channels, customers with supervisors. The FMU also conducts regular direct outreach to FIs/DNFBPs through AML/CFT Compliance Forums, and has also conducted a significant number of training and awareness sessions.

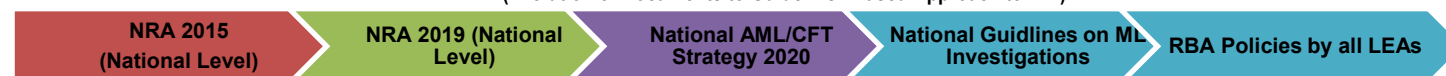
Recommended action 12 is largely addressed. . These actions are largely covered under IO.3 (specifically core issue 3.5), nevertheless the JG notes that Pakistan has demonstrated progress towards these actions.

Immediate Outcome 7	Recommended Actions from MER: 1. Prioritise ML investigations and prosecutions in line with Pakistan's ML risks including Hawala/hundi operators. Since the MER, Pakistan has taken various measures to combat money laundering along with its predicate offences. These efforts have resulted in a considerable increase in some key benchmarks across all LEAs. Salient include the following: • Registration of 1684 Parallel ML investigations during Post MER period. • 324% increase in monthly average of ML investigations opened. • 131% increase in registration of FMU based (Financial Intelligence) ML cases. • 650% increase in the monthly average of prosecutions. • 111% increase in the monthly average of ML investigations opened in High-Risk category of predicate offences. • 218% increase in the number of opening of stand-alone ML investigations. 1. Prioritize ML investigations and prosecutions in line with Pakistan's ML risks including Hawala/hundi operators. Pakistan has taken the following measures to prioritise ML investigations and prosecutions in line with Pakistan's ML risks including Hawala/hundi: 7.1.1 High Level Directives - In September 2018, the Prime Minister of Pakistan directed LEAs to take stringent actions against illegal MVTS and smuggling which had been rated as high-risk for ML/TF as per the NRA 2019. - On October 03, 2019, the Prime Minister of Pakistan gave further direction to prioritize actions against ML and Hawala/Hundi operations. - On September 24, 2020, the National Executive Committee (NEC), constituted under Section 5(1) and Schedule –II of AMLA 2010, issued instructions, re-emphasizing the LEAs to prioritize parallel ML / TF investigations along-with predicate offences. The NEC is the body which makes strategic and policy level recommendations to the Federal Government and oversees the effectiveness of AML/CFT measures in Pakistan. 7.1.2 Strategic/Policy Documents - On March 01, 2021, the National Strategy on AML/CFT was approved by NEC.	This recommended action is partially addressed. Authorities should: - Demonstrate that they are investigating, prosecuting and sanctioning money laundering with respect to the different predicate offences in line with Pakistan's risk profile (particularly tax crimes, smuggling, narcotic drugs & psychotropic substances, human trafficking & smuggling, cybercrime, kidnapping / restraint & hostage, organized crime and robbery).

b. In 2019, the National Risk Assessment (NRA) 2015 was updated. The NRA 2019 highlighted the inherent ML threats and vulnerabilities, prior to considering mitigation measures and provided the basis for strengthening the legal, regulatory, supervisory and enforcement frameworks to combat ML/TF activities in Pakistan.

c. In order to prioritize ML investigations and prosecutions in line with the risks, as per the NRA 2019, all LEAs designated for ML investigations/prosecutions, updated/developed their risk-based policies. Thus, at present, 5 documents, in addition to revised NRA 2019, are in place to guide Pakistan's risk-based approach to ML/predicate investigations.

Figure 7.1.1
(Evolution of Documents to Guide Risk Based Approach to ML.)



d. All LEAs have adopted national guidelines on conducting ML Investigations and have updated their internal SOPs on ML investigations (Refer Recommended Action – 2 for further details)

7.1.3 Allocation of Special Resources

Pakistan's commitment to prioritize ML investigations/prosecutions is also reflected by the fact that the Government of Pakistan has allocated the considerable amount of PKR 536 Million along with the approval of human resources comprising of 358 personnel (including ML investigators/ financial experts) specifically for ML investigations/prosecutions. (Refer Para 7.2.1 (q) of Recommended Action –2)

7.1.4 Actions Against Hawala/Hundi

Enforcement action against Hawala/Hundi operators is carried out by FIA under the Foreign Exchange Regulations Act (FERA), which was amended in February 2020 to make the offence of Hawala/Hundi a cognizable offence. Moreover, through this amendment, the punishment of the offence has been enhanced to up to 5 years while the time for trial has been fixed to a maximum of 6 months. Ongoing and systematic actions against illegal MVTS are being ensured, a report about which was already submitted to FATF and JG of FATF has already upgraded the remaining action item (IO-3) after F2F evaluation in September, 2020. A synopsis of relevant measures is as under:

- Procedural improvements through improvements of Databases and well as revision of relevant SOPs.
- Enhanced inter-agency coordination and cooperation under formal MOUs
- Capacity building of the investigators and prosecutors through ongoing trainings
- Joint awareness campaigns with the State Bank of Pakistan (SBP) to avoid, identify and report illegal MVTS
- Strict on-ground enforcement action against illegal MVTS operators and their business. Since the MER, 547 cases against Hawala/Hundi operators have been registered involving 869 accused. In excess of PKR 2,715.3 Million has been seized in relation to these cases.

7.1.5 Prosecution of ML

- a. Each designated LEA has a number of prosecutors to prosecute the ML cases once the investigation is complete. The prosecutors also remain in close coordination with the investigators for matters pertaining to court during the enquiry and investigation stage e.g. attachment, seizure/freezing, and acquisition of warrants etc. Moreover, the prosecutors assist the investigation officers in compilation of the final report/challan to be submitted to court for initiation of the trial of the case.
- b. Special focus on ML prosecution has been ensured by the designated LEAs to improve the efficiency and effectiveness of ML prosecutions by:
 - Assigning dedicated prosecutors to prosecute the ML cases
 - Capacity building of the over 180 prosecutors through ongoing training sessions (Refer Recommended Action – 5)

- Arrangement of 06 interactive sessions between the prosecutors, investigators and around 589 members of judiciary to discuss the issues and challenge in ML investigations, prosecutions and convictions.

7.1.6 Strengthening of Judiciary

The strengthening of the judiciary, through the following measures, has also directly or indirectly supported effective ML prosecutions:

- 437 Model Criminal Trial Courts (MCTCs) were established till December 2020, for quick disposal of narcotics cases (predicate offence of ML).
- Establishment of District Assessment Committees at every district level to analyze flaws in investigation, prosecution and procedure through analysis of acquittals and bail orders.
- Collaboration with UNDP for:
 - Standardization and capacity building of justice sector actors, i.e. lawyers, prosecutors, judges, court staff etc to enhance their skill and capacities according to the changing needs.
 - Creation of linkages with international judicial academies.
 - Establishment of Judicial and Legal Reforms Unit at Law & Justice Commission of Pakistan.
- Process has been initiated for automation of case records of judiciary, provision of video conferencing facility and establishment of Forensics Science Laboratories on the recommendation of National Judicial Automation Committee (NJAC).

2. Strengthen institutional frameworks (such as adequate internal policies and procedures) and increasing LEAs capabilities and capacity to investigate ML.

7.2.1 National Level Measures

A joint Working Group (WG) comprising of representatives from all LEAs designated for ML was established in February 2020. The WG has held a number of meetings and interactive sessions to develop national and institutional frameworks. The WG also shares best practices and measures to enhance the capabilities and capacity of their field officers for investigating ML. Following is the synopsis of such measures:

- In 2020, Pakistan made amendments to AMLA 2010 to strengthen the national legal framework to investigate and prosecute ML. Through this amendment, the offence of ML has been made cognizable, thereby empowering the investigations officers to register the case without court permission. Moreover, stringent dissuasive sanctioning has been introduced by enhancing the punishment for ML offences. (Refer Recommended Action – 6)
- The Mutual Legal Assistance (Criminal Matters) Act 2020 was enacted to improve international cooperation in connection with ML investigations. (Refer IO-2 POPR)
- On October 20, 2020, the “National Guidelines for ML Investigations and Prosecution” was issued to all relevant agencies by National FATF Secretariat of Pakistan.
- On September 30, 2020, the “Guidelines for Law Enforcement Agencies for Utilization of Financial Intelligence” was issued by FMU to enhance the use of financial intelligence (FIs) for ML investigations.
- On April 9, 2019, a Multilateral MOU between 21 law enforcement and intelligence agencies entitled “Cooperation and Exchange of Information” was signed. The purpose of the MOU is to facilitate and prioritize the exchange of information in connection with ML investigations and prosecutions.
- Post MER, FMU has executed bi-lateral MOUs with 9 countries including Kazakhstan, United Kingdom, Qatar, Malawi, China, Lebanon, Seychelles, UAE and Australia concerning cooperation in the exchange of financial intelligence related to money laundering, associated predicate offences and terrorism financing.
- On April 01, 2021, under the direction of the NEC, a Multiagency MOU on the Referral of ML/TF Cases between the LEAs and other relevant departments was executed to provide basis for referral of cases, with ML link, to the relevant agency with the relevant mandate.
- On November 26, 2020, the General Committee established the ML Investigation and Confiscation Committee (MAMLICC). The purpose of the MAMLICC is to discuss, review and recommend to the GC, staff training opportunities, resource allocations requirements and other technical requirements to enhance LEAs' capacity to investigate ML. All the representatives of LEAs designated to investigate ML, the FMU, the FATF Secretariat, all provincial CTDs and the intelligences agencies are members of MAMLICC.

This recommended action is largely addressed.

- i. On November 26, 2020, the FMU established the Financial Intelligence Sharing and Coordination Committee on ML/TF/PF. This committee was established to facilitate and expedite information and intelligence sharing on ML between relevant agencies and ensure follow-up of same.
- j. On December 30, 2019, the Ministry of Economic Affairs established Pakistan's National FATF Secretariat to monitor and coordinate the actions against ML/TF including, though not limited to, ML investigations and prosecutions.
- k. On October 21, 2020, the National AML Desk was established to enhance inter-agency cooperation against ML and to monitor and expedite information sharing for money laundering investigations and prosecutions.
- l. All LEAs have devised/revised their internal SOPs on ML investigations.
- m. All LEAs designated to conduct ML investigations and prosecutions have established AML/CFT Directorates/Units/cells with dedicated resources to focus specifically on ML investigations and prosecutions.
- n. By the end of 2019, a digital platform (namely, goAML) was introduced for the sharing of financial intelligence between FMU and the designated LEAs. goAML has enhanced the efficiency and efficacy of financial intelligence sharing and follow-up of actions taken on the basis of FIs by the designated LEAs.
- o. All LEAs have identified their training needs and developed training plans and programs to enhance the capacity and capability of their investigators and prosecutors to carry out ML & TF investigations and prosecutions in a more effective manner. (Refer Recommended Action – 4).
- p. In October 2019, a specialized AML/CFT Directorate was established in FIA to specifically deal with the cases of ML/TF and Hawala/Hundi. This Directorate comprises of 08 filed units/circles in 7 Zones of FIA across Pakistan. The Federal Government has allocated PKR 536 Million along with the approval of 358 human resource for the said Directorate.

Figure 7.2.1

(Summary of Pakistan's Initiatives in the key Domains of Policy & Procedures and Capacity & Capability since MER.)

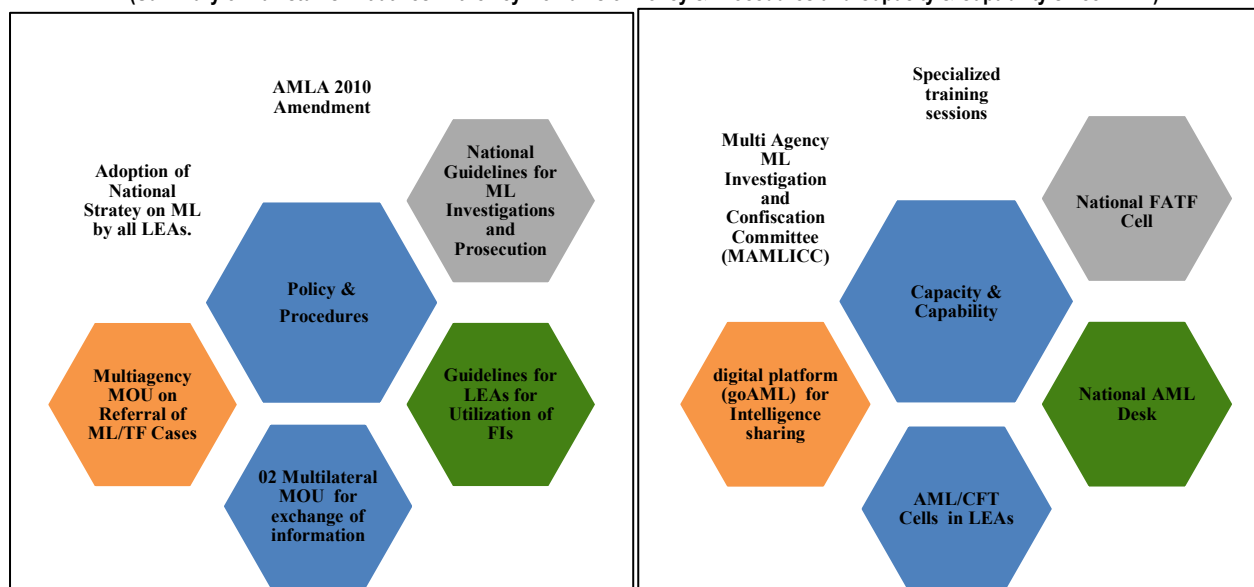
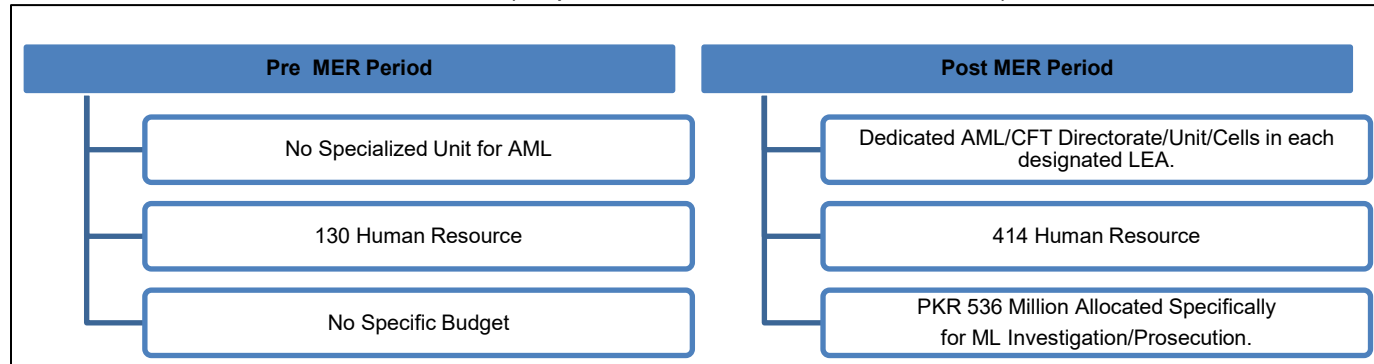
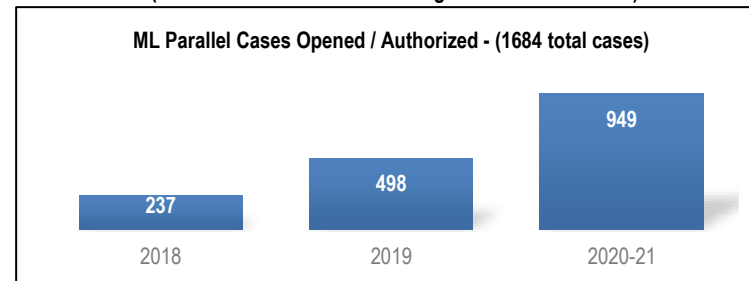


Figure 7.2.2
(Comparison of Allocated Resources Pre and Post MER)



- q. All the above-mentioned measures to strengthen the institutional framework, as well as to enhance the capacity and capability of the investigators and prosecutors of ML cases, have resulted in effective enforcement action against ML as reflected in the following Figure.

Figure 7.2.3
(Reflection of Increase in the Registration of ML Cases)



7.2.2 Agency Level Measures

Agency level measures to strengthen institutional frameworks and increase LEAs capabilities and capacity to investigate ML, are reflected in the following figure.

Table 7.2.1
(Highlights of Agency Level Measures)

LEA	Highlights of Initiatives

FIA	• Revamping of Economic Crime Wing – FIA, dealing with ML matters. • Establishment of AML/CFT Directorate (Along with 358 Personnel) with 8 circles across Pakistan. • Establishment of Data Access Center DAC) to provide investigation officers with an easy access to the requisite data from other agencies. • Strengthening of Cybercrime Wing and Anti Human Smuggling Wing to support ML investigations. • Implementation of Case Management System for automated record keeping and analysis of financial crimes including ML. • Establishment of International Co-operation Unit to process requests for international cooperation • Establishment of Financial Intelligence Cell to receive, disseminate and follow-up actions on financial intelligence reports from FMU.
NAB	• Establishment of AML/CFT Units at NAB HQ as well as 7 regional offices. • Monitoring Evaluation System (MES) was upgraded in terms of data and reporting requirements (predicate and ML), e.g. enhancement in accused reporting system, Case Monitoring Module, Customize data reports, Monthly Performance Reports etc. • Restructuring of Prosecution Division for efficient performance of legal cases. • Establishment of Legal Library for use of Prosecutors to help prosecutors in case preparation. • Access to NADRA Verisys to all the regional bureaus for immediate retrieval / verification of accused's profile.
FBR-IR	• Establishment of an AML Cell in each of the 7 Regional Directorates, with dedicated investigators established. • Number of dedicated investigating officers has increased from 22 in 2018 to 41 in 2020 for ML cases • In 2020, FBR executed a bilateral MOU with FIA on data sharing. • FBR is sharing Tax information with other LEAs through AML Desk.
FBR-Customs	• Establishment of an AML Cell in each of the 8 Regional Directorates, with dedicated investigators and prosecutors. • In order to improve customs enforcement in the border areas and mitigate the risks of smuggling of contrabands, including currency, three separate Collectorates have been established for improved focus on Customs enforcement activities, including curbing of cash smuggling within its area of jurisdiction. All the three Collectoartes are functional w.e.f. Jan 2019. • Establishment of Directorate of Cross Border Currency Movement (CBCM) (with dedicated budget of Rs. 40m for the year 2019-2020) • Updating the WeBOC (Web-based One Customs) to automate processes. • Updating the internally developed Anti-Smuggling Module (http://antismuggling.weboc.gov.pk) that captures stores and provides Information Technology platform, for further analysis and helps store data accessible at single click cross-border currency smuggling and TBML investigations and the collection of statistics for setting priorities for the RBA, and ML restraint activities. • Establishment of National Targeting Centre (NTC) and its three components i.e. Currency Declaration System (CDS), Advance Passenger Information System (APIS) and National Customs Enforcement System (nCEN) for sharing information/intelligence, strategy development and detections and confiscations
ANF	• Updation of software named ANF Management Information System (AMIS) for maintenance of data/statistics. • Strengthening of Assets and Financial Investigation Directorate.

3. Raise ML awareness among provincial police and set out clear legal basis on how provincial police refer ML cases to FIA.

7.3.1 Legal Framework For Referral of Cases From Provincial Police

- a. 103 sections of PPC are listed in the Schedule-I of AMLA 2010 as predicate offences of ML. (Refer Schedule-I of AMLA 2010). Investigation of Pakistan Penal Code (PPC) offences is the mandate of local police. However, the listing of PPC offences on the schedule of AMLA 2010 provides a legal basis for referral of PPC cases (with ML element) from police to LEAs designated for ML investigations/prosecutions.

This recommended action is largely addressed.

- b. To provide a clear legal basis for referral of cases with ML element from police to relevant LEAs, the Anti Money Laundering Referral Rules 2021 have been recommended by NEC on March 01, 2021. NEC is empowered to recommend rules under Section 43 of AMLA 2010. The Anti-Money Laundering Referral Rules 2021 have directed police, anti-corruption authorities or govt organizations to refer the cases with potential ML element to LEAs having jurisdiction in the matter.
- c. As per section 25(1) of AMLA 2010, the officers of the Federal Government, Provincial Government, local authorities and reporting entities are bound to provide assistance including but not limited to production of records, documents and information reasonably required by the investigating or prosecuting agency or FMU for the purposes of money laundering, predicate offences and financing of terrorism proceedings and investigations in accordance with the provisions this Act.
- d. On September 24, 2020, NEC issued instructions to execute a multilateral MOU for referral to cases with ML element from police to relevant LEAs.

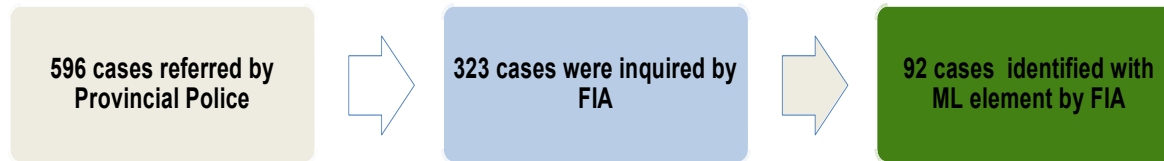
7.3.2 Steps Taken on the Basis of Legal Framework for Referral of Cases from Provincial Police

- a. Duly enabled by the legal framework and the directions of NEC, in November 2020, FIA authorities held 05 meetings with the concerned police authorities which resulted in the execution of the following MOUs:
 - a. MOU between FIA and Punjab Police
 - b. MOU between FIA and Sindh Police
 - c. MOU between FIA and Baluchistan Police
 - d. MOU between FIA and KP Police
 - e. MOU between FIA and Islamabad Police
- b. The above-mentioned MOU delineates a comprehensive referral mechanism for referral of cases from police to FIA. Consequent upon the execution of MOUs, FIA, in November 2020, has held a number of meetings with the Provincial police to raise ML awareness as well as to guide/enable police as to how police can identify the ML element during its investigations of offences under PPC.
- c. A total of 14 sessions including 2 special interactive sessions between the Zonal Directors of FIA and Police Representatives on ML were held on December 30, 2020 and February 2, 2021 at FIA HQ. 5 Focal persons from police and 7 zonal directors of FIA along with 5 senior officers of FIA HQ participated in these sessions.
- d. So far, 10 training sessions have been held with police in connection with identifying ML element in police investigations under PPC and referring the same to FIA for parallel investigations on ML element in predicate offence.
- e. Referral mechanism for ML cases has been further strengthened with the execution of a multi-agency MOU between all relevant agencies on 1st April, 2020 in compliance of the directions of NEC, in November 2020 (Refer Para 7.2.1 (g))

7.3.3 Actions on the Basis of Legal Framework for Referral of Cases from Provincial Police

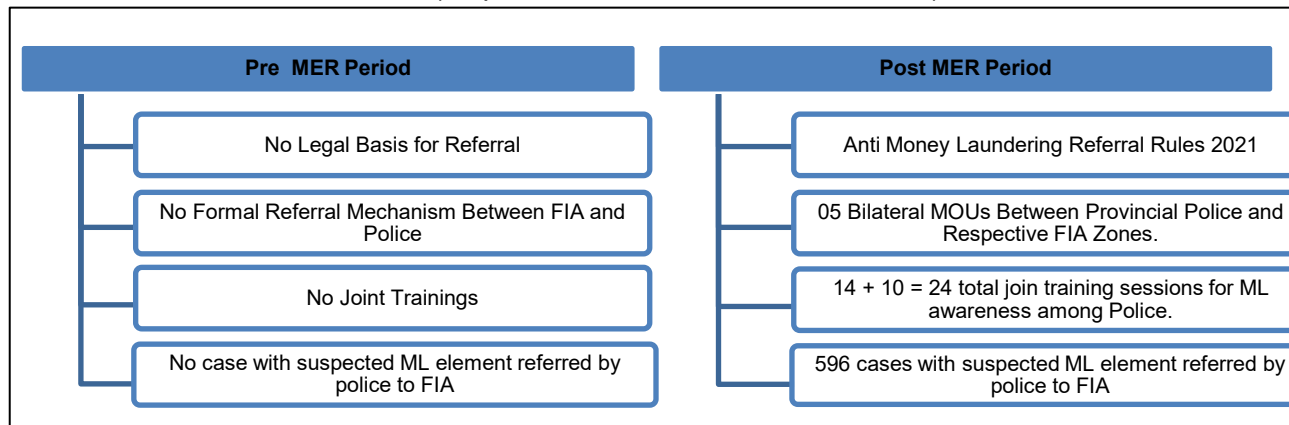
- a. FIA has a designated focal person in each zone to liaison with police for referral of cases with an ML element. Similarly, Provincial police in each province has nominated a senior level officer as focal person to liaison with FIA for referral of cases with an ML element. The focal person of police in each province is assisted by a team designated to coordinate with the respective regions/districts to collect, analyze and identify cases of predicate offences with potential ML element. The cases identified by police are referred to the respective focal person(s) of FIA by the police focal person.
- b. Once received in FIA, the referred cases are scanned/shortlisted by FIA teams for their suitability or otherwise for registering a formal case under AMLA 2010. FIA registers enquiries on cases with potential ML element and converts them into formal case/FIR after collecting sufficient evidence.
- c. Following is the reflection of cases (with ML element) referred to FIA by provincial police and FIA's action on the same since November 2020:

Figure 7.3.1
(Action on Cases Referred By Provincial Police up to 1st March 2021)



- A comparison of efforts (Pre and Post MER) in connection with coordination between FIA and provincial police for ML investigations is given below.

Figure 7.3.2
(Comparison of Pre/Post MER Efforts to Address the RA)



- The following case study reflects how provincial police identify potential ML cases and refer these cases to FIA, how FIA decides to proceed with those cases and what support provincial police extends in those investigations:

Figure 7.3.3
(Case Study: Police Referral)

Predicate Crime: Provincial police Sindh busted a gang of kidnappers and arrested 04 out of total 05 accused persons while one absconded. This gang kidnapped Ms. A on May 12, 2019 and released her after receiving ransom amount of PKR. 17.5 Million from the family of the victim. Case FIR # AAA was registered in Karachi, Sindh Province in this regard.

The same gang kidnapped another girl Ms. B on November 30, 2019 and released her after receiving ransom amount of PKR 2.5 Million from the family members of the victim. Case FIR # BBB was registered in Karachi, Sindh in this regard.
The police recovered an amount worth PKR 4.16 Million from the arrested persons.

Suspected ML Element and referral to FIA: The focal person of Sindh Police referred the case to the relevant focal person of FIA (as per MOU between FIA and Police) for investigation of ML element which the “special police team on ML” suspected on the following grounds:

- Huge amount was recovered from the possession of the accused persons which was proceeds of crime and for which they could not provide any plausible justification.
- The accused had many properties despite the fact that they had no source of income i.e. any legitimate business or job
- Kidnapping for Ransom is the predicate offence of ML and is Medium- high risk for ML as per NRA,2019

Action by FIA: Upon the above-mentioned police referral, FIA conducted an enquiry during which 02 accounts of the 02 accused persons were identified in ABC Bank in which PKR 8.5 Million was found available. Both the accounts were seized under section 5(5) of FIA Act, 1974.

On the basis of enquiry, FIA has registered 04 cases of ML under the provisions of AMLA, 2010 against each accused. The four cases are currently under investigation by the investigators in FIA who are skilled in financial/ML investigations.

Conclusion: The predicate offence (kidnapping) was investigated by the Special Investigation Unit (SIU) of Provincial Police which is a dedicated unit to conduct investigation of high-profile cases such as kidnapping for ransom, bank robberies etc.

On suspecting the ML element in the said case, the police referred the case to FIA (the designated LEA for ML).
While the investigation/prosecution of the predicate offence is being done by police, the ML part is being investigated by FIA. However, under the formal MOU, both police and FIA are coordinating and cooperating with each other for ML investigation as well as asset recovery/restraint efforts relevant to the above-mentioned cases.

4. Provide targeted ML training to LEAs, prosecutors and the judiciary to enhance their understanding of ML offences including comprehending barriers ahead of successful investigations and prosecutions.

7.4.1 All LEAs designated for ML investigations/prosecutions, have, since the MER, been conducting targeted ML trainings for their investigators and prosecutors to enhance their understanding of ML offences, as well as to enable them to comprehend barriers ahead of successful investigations and prosecutions. Moreover, interaction between ML investigators, prosecutors, and concerned judiciary is also being ensured in connection with ML prosecutions/convictions/confiscations.

- a.** As a first step, dedicated investigators/prosecutors have been appointed for ML investigations/prosecutions by all LEAs.

This recommended action is largely addressed.

- b. Secondly, these dedicated officers have been given specialized trainings, among other ML aspects, in the use of financial intelligence, use of modern tools/techniques/technology, use of MLA arrangements for seeking international cooperation and the use of mechanisms/arrangement available for inter-agency cooperation in connection with ML/TF.
- c. Thirdly, special interactive sessions between the concerned judiciary and ML investigators/prosecutors have been held nationwide to comprehend and address the issues, challenges, barriers in the investigation, prosecution and conviction of ML offences. (Refer Para 7.4.5)

7.4.2 In order to design/plan the ML specific trainings for their field officers, all LEAs keep in view the following steps:

Figure 7.4.1
(General Steps Followed to Plan ML Specific Trainings)



7.4.3 Keeping in view the above-mentioned steps, all the designated LEAs have devised their annual trainings programs / outlines.

7.4.4 To elaborate upon the type of courses/modules covered in the Training Plans, the following outline of FIA's training plan for the current year is presented below. This ML-specific training plan is for the current year 2021, as per which around 48 courses will be conducted throughout the year. The participants for these courses include ML investigators, recovery officers, prosecutors and in some sessions relevant police officers and judicial officers. Major highlights of the said courses is as under:

- FATF Standards/ Methodology
- Instruments (NRA, National Guidelines, Policies and SOPs etc) to guide enforcement actions in connection with ML
- Overview of Legal Framework Relevant to ML and Predicate Offences
- Anti-Money Laundering: Introduction, types, steps tools and techniques, methodology
- Investigation /Prosecution of ML/TF and Predicate Offences
- Analysis of relevant Record and Techniques used for ML Investigations
- Use of Financial Intelligence Reports (FIRs) for ML investigations
- Recoveries/Seizures/Freezing/Attachment of Assets Involved in Money Laundering

- Confiscation/Forfeiture of assets involved in money laundering
- Mechanism for inter-agency and International Cooperation
- Maintenance of statistics of ML/TF and Predicate Offences Including Hawala/Hundi
- Joint Sessions with Police for ML awareness and Referral of Cases with ML Element
- Interactive sessions between ML Investigators/Prosecutors and Judiciary to discuss the Issues and Challenges in ML Investigation, Prosecution and Convictions, Evidence and Asset Recovery/Restraint

7.4.5 The following table reflects the summary of the trainings conducted for investigators/prosecutors to enhance their understanding of ML offences ahead of successful investigations and prosecutions:

Table 7.4.1 (Summary of Targeted Trainings For ML Offences Conducted by the Designated LEAs)										
LEA	Year	Internal Trainings			National Level Trainings			International Trainings (Training Abroad & In Collaboration with Foreign agencies)		
		Sessions	Participants		Sessions	Participants		Sessions	Participants	
			Inv	Pros		Inv	Pros		Inv	Pros
FIA	2018	3	41	12	2	06	2	2	4	-
	2019	5	97	19	3	15	2	4	6	-
	2020	13	197	27	6	25	4	5	6	-
	2021	15	150	70	3	10	2	3	3	-
Sub Total		36	485	128	14	56	10	14	19	-
NAB	2018	6	22	2	-	-	-	5	28	6
	2019	8	160	8	10	49	9	18	64	4
	2020	1	17	2	2	22	-	11	70	2
	2021	12	83	28	2	10	-	12	73	-
Sub Total		27	282	40	14	81	9	46	235	12
FBR-IR	2018	-	-	-	-	-	-	1	1	-
	2019	9	124	5	8	20	-	-	-	-
	2020	7	71	7	-	-	-	-	-	-
	2021	1	11	22	4	25	-	5	43	-
Sub Total		17	206	34	12	45	-	6	44	-
FBR-	2018	-	0	0	2	46	4	-	-	-

Customs	2019	14	266	10	7	81	5	-	-	-
	2020	17	293	15	4	58	4	1	4	-
	2021	2	17	10	1	5	0	1	14	-
Sub Total		33	576	35	14	190	13	2	18	0
ANF	2018	1	22	-	-	-	-	-	-	-
	2019	3	63	-	-	-	-	1	10	-
	2020	7	133	2	17	146	9	1	14	3
	2021	2	62	0	-	-	-	-	-	-
Sub Total		13	280	2	17	146	9	2	24	3
Grand Total		126	1829	239	71	518	41	70	340	15

7.4.6 Interactive Sessions with Judiciary

- a. Post MER, a total of 06 interactive sessions have been held in which the leading investigators and prosecutors (dealing with ML cases) from all the designated LEAs interacted with around 600 representatives of the judiciary. These sessions were held to discuss not only the latest amendments in AMLA 2010 but also the issues and challenges faced during ML investigations, prosecutions/trial and convictions. Guidelines for effective investigation and prosecution were also discussed.
- b. In addition to the above, post MER, 5420 judicial officers have been given trainings in 71 training sessions on topics/issues related to the predicate offences in general.

5. Improve LEAs capacity and capability to target and investigate complex ML cases in line with Pakistan's risk profile including foreign proceeds, stand-alone ML cases and cases involving legal persons.

As reflected in Recommended Action – 1 to Recommended Action – 4, Pakistan has taken various measures to improve LEAs' capacity and capability to target and investigate complex ML cases in line with Pakistan's risk profile including foreign proceeds, stand-alone ML cases and cases involving legal persons. Synopsis of such measures is as under:

7.5.1 Investigation of Complex ML Cases of all Types in line with Risk Profile

- a. National Risk Assessment (NRA) 2017 has been revised in 2019 which clearly delineates the risk profile of various predicate offences of ML. (Refer 7.1.2 (b))
- b. On the basis of NRA, all LEAs have devised their internal Risk Based Approach (RBA) guidelines for ML investigations in addition to revising their internal SOPs on ML. (Refer 7.1.2 (c))
- c. Improved mechanisms for information/data sharing as well as enhanced Inter-Agency cooperation, through execution of various multi agency/ bilateral MOUs, have also aided the investigations of complex ML cases.
- d. Dedicated investigators/prosecutors have been appointed by all LEAs, for ML investigations/prosecutions.
- e. As reflected in Recommended Action-4, ongoing trainings of the dedicated ML investigators/prosecutors are ensured on a regular basis to improve their capacity to investigate/prosecute complex ML cases. In this connection, a joint training session, led by FIA, was also held in February 2021 with the participation of the lead investigators/prosecutors from all designated LEAs.
- f. LEAs have directed their field offices to ensure investigation of all types of ML including self-laundering, third-party laundering, standalone, as well as cases involving foreign proceeds and legal persons.

This recommended action is partially addressed.

- Pakistan has improved LEAs capacity and capability to target and investigate complex ML cases. However, there were no convictions regarding legal persons or stand-alone ML or cases involving foreign proceeds.

7.5.2 Investigation of ML Cases Involving Foreign Proceeds

In order to enhance the capacity and capability of the ML investigators to investigate foreign proceeds, the following measures have been taken:

- a. Provision of clear legal basis through enactment of Mutual Legal Assistance (Criminal Matters) Act 2020
- b. Improved mechanisms for international cooperation (Refer IO-2 POPR)
- c. Specialized units in all LEAs to deal with formal/informal requests for international cooperation. (Refer Table 8.2.1 of IO-8 POPR)
- d. Facility of digital platform i.e. goAML for LEAs to process international cooperation requests through FMU.
- e. While investigating the cases of ML involving foreign proceeds, ML investigators usually request information from foreign jurisdictions related to one or more of the following matters:
 - To inquire about location and identification of witnesses, suspects, perpetrators and offenders.
 - Taking evidence or documents or other articles produced including witnesses' statements or statement of persons in custody.
 - Obtain search warrants or other lawful instruments authorizing a search for evidence relevant to investigations or proceedings in Pakistan, located or believed to be located in that country, and if found, to seize them as permissible under the domestic law of that country.
 - Freeze or seize properties that may be the subject of investigations or proceedings, believed to be located in that country, through relevant legal process in that country.
 - Confiscate properties, subject to the confiscation order, to the extent to which the properties are believed to be located in that country.
 - Transmit to Pakistan any evidence, documents, articles, properties or proceeds realized from the disposal of properties.
 - Transfer in custody to Pakistan a person in foreign country who consented to assist Pakistan in the relevant investigations or proceedings.
 - Effect service of judicial documents.
 - Identify or trace proceeds or instrumentalities of crime or properties for evidentiary purpose.
 - Facilitate the voluntary appearance of persons required in relation to any existing or intended investigations or proceedings in Pakistan
 - Provide original or certified copies and accompanying affidavits with certified copies when necessary, of relevant documents and records, including government, banks, and financial corporations or business records.
 - Provide any other type of assistance that is not contrary to the domestic law of that country.

7.5.3 Case Studies

Case studies are attached to demonstrate LEAs' capacity and capability to target and investigate complex ML cases in line with Pakistan's risk profile, including foreign proceeds, stand-alone ML cases and cases involving legal persons:

Case Study No.	LEA	Main Elements Highlighted
Case Study No. 1	FIA	Complex Fraud and ML investigation of an international airline (legal person) resulting searches of multiple locations for financial evidence, examination of thousands of banking transactions seeking evidence from foreign jurisdictions and the eventual seizure of movable and immovable assets including 26 aircrafts and multiple properties, vehicles, bank accounts and company assets estimated to be valued at over 23.9 Million USD. Foreign assets worth USD 500,000/- seized with the help of foreign jurisdiction. This case demonstrates international cooperation as it involved foreign proceeds and multiple request/exchanges with foreign jurisdictions counterparts during the ML investigation
Case Study No. 2	FIA	Complex ML investigation involving multiple targets (29), third-party laundering, foreign proceeds , over 220 bank accounts seized/analysed, nominees, companies, international linkages and eventual freezing, seizing and tracing of POC and tracing of foreign assets.

Case Study No. 3	NAB	Complex ML Investigation involving legal persons , joint investigations, Inter-agency cooperation, international cooperation resulting in the seizure/restraining of property of estimated to be worth over \$26.32 Million USD and the seizure of assets of corresponding value of \$1 Million USD of POC which had been transferred to foreign jurisdiction.
Case Study No. 4	NAB	The ill-gotten amount of Rs. 31.794 million (USD\$ 0.21 Million), gained illegally through the said joint account by Accused No. 2 was recovered through Plea Bargain under section 25(b) of NAO, 1999. The accused was convicted by the Court vide order dated 24.08.2020.
Case Study No. 5	FBR Customs	ML investigation of currency seizure at the airport demonstrating inter agency and international cooperation under formal MOUs.

NOTE: These five case studies have also been reflected in IO-8 independently after updating the same from the perspective of seizures / confiscations. In total 7 case studies have been reflected in IO-7(05 attached and 02 part of the main report body) while IO-8 has been supported by total 11 case studies.

6. In accordance with Pakistan's 2015 NRA, amend the ML offence to a cognizable offence.

7.6.1 In accordance with Pakistan's NRA, ML offences have been made cognizable by amendments in AMLA 2010. Salient features of the latest amendments in AMLA 2010 are as under:

- a. ML offence has been made cognizable as per Section 21(1) (a) of AMLA 2010.
- b. ML offence has been made non-bailable as per Section 21(1) (a) of AMLA 2010.
- c. Punishment for ML has been enhanced as under:
 - Rigorous imprisonment for minimum 1 year and maximum 10 years (Section 4(1))
 - Maximum fine PKR 25 Million for natural persons and maximum fine PKR 100 Million for legal persons, along with forfeiture of property involved in ML or property of corresponding value (Section 4(1))
- d. It has been made obligatory for all relevant authorities to provide assistance including but not limited to production of records, documents, and information required by the investigating/prosecuting agency or FMU for ML/predicate offences. (Section 25). Contravention of this Section may result in one of the following or both:
 - Imprisonment of up to 5 years
 - Fine of up to PKR 1 Million for natural persons and PKR 10 Million for legal persons

7.6.2 After the above said amendment, LEAs no longer need to receive any court approval to continue with ML investigations in cases where evidence is already collected. As per section 156 of Criminal Procedure Code (Cr.PC), an investigating officer can investigate any cognizable case, without the order of the court.

7.6.3 Case Study: A case study is given below to reflect the impact of making ML offence cognizable through AMLA Amendment:

This recommended action is addressed.

Figure 7.6.1
(Case Study-Post Cognizable)

In March, 2021, FBR-Customs was able to register an ML case against generation and utilization of proceeds of crime by the accused through smuggling of foreign origin cloths & Zinc Alloy Slabs from Quetta to Lahore without any legal import documents. During investigation, when ML element surfaced, the case was promptly registered, without needing to get court permission as per AMLA Amendment making ML a cognizable offence, under AMLA, 2010. The Directorate of Intelligence & Investigation-Customs Lahore started investigation as per relevant AML SOPs. The accused persons are known smugglers who allegedly operate in smuggling and generate POC. The goods of total worth Rs. 134 Million have been seized while the case is under investigation.

a. Pre-amendment Situation

Before the AMLA amendment, the registration of a case against ML was a time-consuming multi-step process. An application was required to be filed in court to get permission for legal action. A raid could not be promptly conducted to seize the relevant evidence because of the requirement for taking court orders. The time lag due to this lengthy procedure often resulted in accidental leakage of information, compromising the secrecy of operations and failure to secure vital evidence, and thus posing a serious challenge to prompt action against ML.

b. Post-amendment Situation

After the AMLA amendment, there has been a great deal of convenience in taking action against ML. Now it is possible to conduct raids, seize relevant evidences and arrest an accused within **ONE DAY**. Upon receipt of credible information or identification of ML element during investigation of the predicate offence, an ML case is now promptly registered without needing to get court permission, taking quick cognizance of the matter, promptly seizing all the relevant evidence and arresting the accused. Moreover, arrested suspects are not easily granted bail by the courts, as the offence of ML is non- bailable. With no need to obtain court permissions, the risk of leakage of sensitive information, compromise of secrecy or insecurity of vital evidence has now been minimized.

7. Collect and maintain more comprehensive data/statistics on both predicate offences and ML.

7.7.1 Since the MER, Pakistan has taken various measures to improve the collection and analysis of statistics relevant to ML investigations/prosecutions/convictions. A synopsis of such measures is reflected below:

- a. Uniform data collection format/templates have been designed and ML statistics are being collected by all the designated LEAs as per this uniform format with a view to have uniformed and standardized collection and maintenance of data.
- b. Since FIA has largest number of predicate offences at its mandate, an internal digital database has been created by FIA at its HQ to collect and maintain data of ML and its predicate offences at central level. FIA has also established Data Access Centre (DAC) to assist the investigating officers for expediting the access to requisite records/data from the concerned agencies including banks, NADRA, FBR, Home departments, and other revenue authorities.
- c. A digital platform i.e. goAML has been implemented for digital data maintenance and dissemination of financial intelligence by FMU to all relevant LEAs.
- d. All the LEAs designated for ML investigations have their IT systems in-place to collect and maintain the data/record of ML/predicate cases. These include, Case Management System (CMS) by FIA, Monitoring Evaluation System (MES) by NAB, Web-based One Customs (WeBOC) by FBR-Customs, and ANF Information Management System. (AMIS) by ANF.

7.7.2 As reflected below, enhanced ML enforcement against ML has been observed in Pakistan since MER:

- Registration of 1684 Parallel ML investigations during Post MER period.
- Increase in monthly average for opening of ML investigation from average 41 cases per month in 2019 to average 174 cases per month in 2021. (An increase of 324%)

This recommended action is largely addressed.

- Enhanced action on Financial Intelligence Reports of FMU for ML. (Opening of 102 ML Cases on the basis of FMU's intelligence in 2020 as compared to 44 cases in 2019.) (An increase of 131%)
- Increase in the monthly average of prosecutions from average 4 cases per month in 2018 to average 30 cases per month in 2021. (An increase of 650%)
- Increase in the monthly average of ML investigations opened in High-Risk category of predicate offences from average 70 cases per month in 2018 to average 148 cases per month in 2021. (An increase of 111%)
- Increase in the number of opening of stand-alone ML investigations from 17 in 2018 to 54 in 2021. (An increase of 218%)

7.7.3 The following set of data tables reflect Pakistan's ability to collect and maintain more comprehensive data/statistics on both predicate offences and ML.

e. Statistics of Parallel ML Cases Opened/Authorized

The table 7.7.1 reflects the basis/sources on which Parallel ML cases have been opened. These sources include intelligence reports from FMU, International requests and LEAs' own predicate offences/source report.

Table 7.7.1 (Triggers for Parallel ML Investigation)				
Year	FMU Disclosures	International Requests	Predicate Offence	Total ML Parallel Investigations
2018	34	16	187	237
2019	44	44	410	498
2020	102	64	435	601
2021	30	24	294	348
Total	210	148	1,326	1,684

f. Statistics of Parallel ML Cases Prosecuted and Convicted

The table 7.7.2 reflects the year-wise number of parallel ML cases sent to court for trial, as well as the number of natural / legal persons prosecuted. It also reflects the number of parallel ML cases and accused convicted.

Table 7.7.2 (Year Wise Statistics of Parallel ML Cases Sent for Trial and Cases Convicted)					
Year	Case Sent for Trial	No. of Persons charged / Prosecuted		Total No. Cases where Convictions were made	Total Number of Accused Convicted
		Natural	Legal		
2018	12	26	-	-	-
2019	95	331	4	10	29

2020	88	259	9	19	33
2021	59	130	2	3	3
Total	254	746	15	32	65

g. **Statistics of Parallel ML Cases as Per Risk Categories**

The table 7.7.3 reflects Pakistan's focus on Parallel ML Investigations & Prosecutions of High Risk ML Offences as per NRA 2019

Table 7.7.3 (Risk Wise Yearly Data of Parallel ML Investigation and Prosecutions).												
Risk Category	LEA	Predicate Offence	2018		2019		2020		2021		TOTAL	
			Inv	Pros	Inv	Pro	Inv	Pros	Inv	Pros	Inv	Pros
High Risk	FIA	Corruption and Bribery	-	-	9	7	26	-	8	4	43	11
		Illegal MVTs/Hawala/Hundi/	64	10	77	63	43	43	36	10	220	126
	NAB	Corruption and Bribery	139	1	331	10	292	10	194	1	956	22
	FBR-IR	Tax Crimes	1	-	23	4	96	14	16	9	136	27
	FBR-C	Smuggling	3	-	5	-	14	-	10	9	32	9
		Tax Crimes (Customs Act)	1	-	1		54	4	-		56	4
	ANF	Narcotic Drugs & Psychotropic Substances	1	1	8	8	17	7	33	25	59	41
	Sub Total		209	12	454	92	542	78	297	58	1,502	240
Medium High Risk	FIA	Human Trafficking & Smuggling	1	-	13	1	31	3	2	1	47	5
		Fraud and forgery	1	-	3	2	10	5	23	-	37	7
		Cyber Crime	-	-	1	-	4	-	-	-	5	-
		Kidnapping / Restraint & Hostage	-	-	-	-	-	-	4	-	4	-
		Organized Crime	-	-	-	-	1	-	3	-	4	-
		Robbery	-	-	-	-	-	-	3	-	3	-
	NAB	Fraud and Forgery	23	-	21	-	23	2	14	-	81	2
	Sub Total		25	-	38	3	69	10	49	1	181	14
Medium Risk	FIA	Counterfeiting & Piracy of Products	-	-	-	-	-	-	1	-	1	-
	Sub Total		-	-	-	-	-	-	1	-	1	-
Grand Total			234	12	492	95	611	88	347	59	1,684	254

h. **Statistics of Type-Wise Prosecutions/Convictions of Parallel ML Cases**

The table 7.7.4 reflects LEAs' capacity to investigate & prosecute the complex ML cases based on types of ML offences i.e. Standalone ML Cases, Third-Party Laundering, and Self-Laundering.

Table 7.7.4 (Type Wise Statistics of Parallel ML Cases)												
Year	Standalone ML Cases			Third-Party Laundering			Self-Laundering			Total ML Cases		
	Investigation	Prosecutions	Convictions	Investigation	Prosecutions	Convictions	Investigation	Prosecutions	Convictions	Investigation	Prosecutions	Convictions
2018	17	-	-	51	1	-	166	11	-	233	12	-
2019	36	1	-	107	9	4	357	85	6	500	95	10
2020	39	8	-	106	9	9	460	71	10	604	88	19
2021	54	2	-	68	6	1	225	51	2	347	59	3
Total	145	11	-	331	25	14	1,208	218	18	1,684	254	32

Conclusion:

As reflected in updates above, high level policy interventions, issuance of national level guidelines/directives, establishment of centralized units for ML investigations/prosecutions in all LEAs, allocation of dedicated resource and ongoing measures for capacity building and training of ML investigators/prosecutors and judiciary have resulted in an enhanced and effective enforcement action against ML on the ground as reflected in Recommended Action -7.

**JG
Comments
& Analysis**

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 7.

The JG considered that Recommended Actions 1, 2, 6 and 7 are key Recommended Actions, taking into account the priority actions in the MER. RA 1 addresses the fundamental expectations embodied within IO7 that ML offences are investigated, prosecuted and sanctioned taking into account the risk-based approach. RA 2 and 6 are essential to make sure that investigations and prosecutions work properly. RA 7 is key because of the importance of statistics to properly assess Pakistan's progress. The remaining RAs, whilst important are not considered strategically key for Pakistan.

Recommended action 1 is key and is partially addressed. Pakistan outlines different measures to prioritize ML investigations in line with Pakistan's ML risks, e.g. different policy documents, strengthening the judiciary and prosecution. Although there has been a visible rise in the number of ML parallel investigations and prosecutions with some (medium) high risk predicate offences, for others this increase cannot be observed. The overall conviction rate has improved, but remains low. Convictions are limited to some but not all (medium) high risk predicate offences. Authorities should demonstrate that they are investigating, prosecuting and sanctioning money laundering with respect to the different predicate offences in line with Pakistan's risk profile. Pakistan has not yet shown that it addresses ML connected to the following predicate offences sufficiently: tax crimes, smuggling, narcotic drugs & psychotropic substances, human trafficking & smuggling, cybercrime, kidnapping / restraint & hostage, organized crime and robbery. Furthermore, some actions, such as some updated/developed risk-based policies of LEAs and

the establishment of Model Criminal Trial Courts, have been conducted recently and therefore it is not possible to already value their effectiveness.

The JG agreed that this is a strategically important issue for Pakistan and an action item has been developed.

Recommended action 2 is key and largely addressed. Pakistan has strengthened its institutional framework and internal policies since the MER by various measures. It has strengthened LEAs collaboration by MoUs and established/increased number of offices and personnel. The process of hiring new HR for FIA has begun. In April 2021 an official referral mechanism between the LEAs and other relevant departments has been introduced. Pakistan has to show that these rather new measures in fact increased the capacity and effectiveness of LEAs to investigate ML cases.

Recommended action 3 is largely addressed. Pakistan has introduced an official referral mechanism between police and LEAs. The number of referred cases has risen from zero to 596, in 92 cases ML elements have been identified. Pakistan should do more training (in addition to the 24 sessions thus far) to raise awareness among police officers and to further encourage the referral of cases, including cases underneath 10 million PKR.

Recommended action 4 is largely addressed. Pakistan has conducted trainings for different LEAs and the judiciary, despite of the difficult circumstances due to Covid-19. It needs to provide more data on the general concept of training all personnel involved in ML investigation and prosecution.

Recommended action 5 is partially addressed. Pakistan has improved LEAs capacity and capability to target and investigate complex ML cases. However, there were no convictions regarding legal persons or stand-alone ML or cases involving foreign proceeds. Pakistan has not yet shown sufficient progress of this recommended action.

Recommended action 6 is key and is addressed. The MER noted that ML was a non-cognizable offence with the consequence that court approval was needed to start an investigation by the police. The assessment team concluded that this was a serious source of confusion among all Pakistani competent authorities. By amending Section 21(1) (a) of AMLA 2010 the ML offence has been made cognizable as of 22nd September 2020.

Recommended action 7 is key and is largely addressed. The MER outlines, that the data provided to the assessment team had not been sufficient enough to fully assess whether or not the predicate crimes were matching Pakistan's risk profile. Pakistan provided more detailed statistics about parallel ML investigation and predicate offences. Pakistan outlined that it has implemented several systems and measures to enhance data collection. It has not provided details on how effective these measures are and if/to what extent they are used by respective authorities.

Immediate Outcome 8 Low	1. Develop a national policy to pursue asset recovery in ML higher-risk predicate offences and TF, in line with Pakistan's risk and context. Overview This update on IO-8 demonstrates various measures taken by Pakistan at National and Institutional level to strengthen its AML/CFT regime while addressing the Recommended Actions by APG in its MER 2018. In Pakistan, Anti-money laundering Act, 2010 deals with Money laundering, financing of terrorism and forfeiture of property derived from, or involved in, money laundering or financing of terrorism. All the predicate offences as prescribed by Financial Action Task Force (FATF) Standards, are the part of Schedule-I of Anti Money Laundering Act (AMLA) 2010. 103 offences of the Pakistan Penal Code (PPC) and many other offences of 20 local and special laws, bringing the total to approximately 200 Predicate Offences, are listed on Schedule –I to AMLA 2010. Money Laundering (ML) as a cognizable offence has been mandated to five designated Law Enforcement Agencies (LEAs) for seizures/freezing and attachment of assets in connection with investigation and prosecution of ML and its predicate offences. These designated LEAs are the Federal Investigation Agency (FIA), the National Accountability Bureau (NAB), the Federal Board of Revenue-Inland Revenue (FBR-IR), the Federal Board of Revenue-Customs (FBR-Customs) and the Anti-Narcotics Force (ANF). The provincial police forces in Pakistan have the power to investigate PPC offences, however, if during the course of an investigation of a PPC offence, any ML link is found, then the provincial police refers the case to the designated LEAs with the relevant mandate. FIA has the mandate to conduct parallel ML investigations for the majority of the offences listed on Schedule – I to AMLA 2010. NAB is Pakistan's anti-corruption body and has the mandate to investigate the offences of corruption & corrupt practices along with associated parallel ML offences. FBR-IR investigates tax evasion and associated ML while FBR-Customs investigates smuggling along with administration of the currency and Bearer Negotiable Instruments (BN) declaration system and associated ML stemming from their area of responsibility. ANF has the mandate of investigating narcotics associated ML offences. Section 25(1) of AMLA 2010, requires all relevant federal, provincial and local authorities, along with reporting entities, to provide assistance including but not limited to the production of records, documents and information required by designated LEAs or the Financial Monitoring Unit (FMU) for the purposes of investigating and prosecuting ML/TF and predicate offences as well as the seizures/ attachment/ freezing in connection with such offences. A multilateral MOU, for exchange of information, between the relevant agencies has been implemented in support of this legal obligation. In addition, Multi-Agency MOU for referral of ML cases, as well as bi-lateral MOUs between FIA and provincial police also exist to guide the referral process for parallel ML investigations and prosecutions and seizures/attachment. (Refer Recommended Action-3 of IO-7 POPR). Since MER, all LEA's have worked pro-actively to address the recommended actions. Highlights of special measures taken in this regard include: • Updating of NRA of Pakistan in 2019 and introduction of National strategy on ML/TF • Promulgation of rules relevant to seizures/attachments and confiscation/forfeiture • Introduction of a national level policy for seizures and forfeiture and devising of SOPs by all LEAs relevant to expeditious seizures/attachments and confiscation/forfeiture. • Establishment of dedicated units in all LEAs to deal with asset management and recovery in ML/TF cases. • Execution of MOUs for enhanced inter agency cooperation • Ensuring ongoing training and capacity building programs for investigators, prosecutors, recovery officers and data operators • Availability of dedicated prosecutors with all the designated LEAs to prosecute the cases of ML in the court who remain in close coordination with the investigators in preparing the challan/reports and assist in obtaining court orders for restraint, attachment and freezing in connection with the ML cases. • Allocation of increased resources for implementing confiscation/forfeiture measures including investigations and asset management All the above-mentioned legal, administrative, procedural and operational efforts have resulted in an effective overall enforcement action (in connection with asset recovery/restraint and forfeiture) on ground. For instance: • Rise in value of seizures/freezing in connection with POC that has increased from PKR. 8,842 Million in the year 2018 to PKR. 49,351 Million in the year 2019 to PKR 54,555 Million in the year 2020 and PKR 35,035 Million in the first 2 months of the year 2020-21. 494% average monthly increase (from PKR 2,947 Million in the year 2018 to PKR 17,517 Million in the year 2021). • Rise in value of forfeitures in connection with POC that has increased from PKR. 13,730 Million in the year 2018 to PKR. 40,596 Million in the year 2019 to PKR 32,505 Million in the year 2020 and PKR 14,641 Million in the first 2 months of the year 2020-21. 60% average monthly increase (from PKR 4,576 Million in the year 2018 to PKR 7320 Million in the year 2021).	This recommended action is largely addressed.

- **Increase in number of seizures/freezing/ restraints in ML/predicate cases**, which increased from 1973 in the year 2018 to 8,339 in the year 2019 to 8,770 in year 2020, and 2,898 in the first 2-months of the year 2021. 120% average monthly increase (from 658 in the year 2018 to 1449 in the year 2021).
- **Increase in the number of ML cases where POC were seized/frozen/restrained**, as the number increased from 38 in 2018 to 175 in the year 2019 to 110 in the year 2020 (despite Covid) 52 in the first 2 month of the year 2021. 114% average monthly increase (from 12 in the year 2018 to 27 in the year 2021).

8.1.1 National Confiscation Policy (NCP)

- a. In November 2020, Pakistan has introduced a national policy to pursue asset recovery in ML high-risk predicate offences and TF, in line with Pakistan's risk and context as reflected in National Risk Assessment (NRA), 2019. Pakistan's National Confiscation Policy (NCP) is titled as "Money Laundering and Proceeds of Crime Comprehensive Framework and Guidelines for Confiscation Measures".

Figure 8.1.1
(National Policy Statement on Confiscation)
Ref: National Confiscation Policy, 2020-22

The Government of Pakistan recognizes that confiscation of criminal assets is an effective means to disrupt and deter criminal and terrorist activity and is essential in depriving criminals of the proceeds of their crimes. The Government is committed to implementing a transparent, robust and efficient approach to the seizure confiscation and management of such assets by empowering and equipping relevant agencies to do so. NCP also stipulates effective use of assets confiscation tools by conforming to Pakistan's ML/TF risks by prioritizing confiscation in all ML/ TF and higher-risk predicate offences cases including cross-border currency.

- b. LEAs have formally adopted the NCP and disseminated directives to their regional field offices for implementation. LEA's have been implementing the NCP by devising/revising their internal SOPs in-line with the NCP and also by conducting a series of country wide awareness training events for investigators/recovery officers relating to ML investigations and forfeiture/ confiscation measures. (Refer: 8.2.1 (b) of Recommended Action-2 and 8.3.1 (f) of Recommended Action-3).

8.1.2 Other National Level Measures to Pursue Asset Recovery in-line with Risk Profile

NCP has provided guidelines/directions to the designated LEAs to pursue asset recovery in predicate offence of ML/TF in line with risk profile. Issuance and implementation of NCP has resulted in many other special measures by the designated LEAs to improve frameworks and mechanisms to pursue asset recovery and forfeiture of POC in ML higher-risk predicate offences and TF, in line with Pakistan's risk and context. Synopsis of such measures is reflected below:

- a. Pakistan has updated its NRA in 2019 which provides guidelines to LEAs to prioritize ML investigation and asset recovery in predicate offences of ML/TF as per their risk.
- b. Based on NRA 2019, all LEAs have ensured issuance and implementation of their internal Risk Based Approach (RBA) policies to prioritize investigations as well as asset recovery in ML/TF high-risk predicate offences. (Refer: Recommended Action-1 of IO-7 POPR).
- c. On March 01, 2021, the National Strategy on AML/CFT was approved by NEC with focus on expeditious asset recovery and forfeiture measures as well as international cooperation in pursuit of POC and instrumentalities of crime. (Refer: Para 7.1.2 (a) of IO-7 POPR)
- d. In November 2020, National Executive Committee (NEC), constituted under Section 5(1) and Schedule –II of AMLA 2010, further to the above, directed all LEAs to ensure prioritization and the expeditious seizure/freezing/restraint and forfeiture of assets/properties in connection with ML offences.

- e. At national level, Legal framework to pursue asset recovery has been strengthened through amendment in Anti-Money Laundering Act 2010. (Refer: Recommended Action-2)
- f. In March 2021, the “Anti-Money Laundering Seized and Forfeited Properties Management Rules 2021” were approved to update and replace the 2008 AMLA Rules relating to asset recovery and management.
- g. On November 26th, 2020, the General Committee constituted under Section 5(1) and Schedule-II to AMLA 2010, established the ML Investigation and Confiscation Committee (MAMLICC). The purpose of the MAMLICC is to discuss, review and recommend to the GC, staff training opportunities, resource allocations requirements and other technical requirements to enhance LEAs’ capacity to investigate ML/TF as well as asset recovery/forfeiture.
- h. Pakistan has strengthened its institutional framework (Policy & Procedures) and has also ensured strengthening of measures to enhance the capacity and capabilities of LEAs to investigate/prosecute ML and its predicate offences (Ref Recommended Action-2 of IO-7 POPR) which include focus on asset recovery/seizure/attachment/freezing.

2. Ensure all LEAs give the highest priority to tracing, freezing/seizing and confiscating proceeds of crime, including in cooperation with foreign counterparts.

This recommended action is largely addressed.

8.2.1 LEAs’ Efforts to Prioritize Asset Recovery/Restraint and Forfeiture

Pursuant to NCP as well as other national level policies/directives (as mentioned in Recommended Action-1), the designated LEAs in Pakistan have taken various measures to ensure highest priority to tracing, freezing/seizing and confiscating proceeds of crime, including cooperation with foreign counterparts.

- a. In September 2020, The Anti-Money Laundering Act 2010 amendments were passed which provided additional legal authorities for all designated LEAs relating to freezing/seizing and confiscating proceeds of crime. Below are details of relevant AMLA amendments which enhanced LEA’s powers to trace, freezing/seizing/restraining of POC including recovery of assets internationally:
 - (Section 8 has been amended to enhance the period of freezing/seizure / restraint of the POC of ML from 90 to 180 days.
 - Section 21 of AMLA 2010, has been amended to make the offence of ML cognizable and non-bailable, allowing LEAs to act expeditiously with regards to seizure and forfeiture of the proceeds and instrumentalities of ML/TF crime including the property of corresponding value.
- b. All the designated LEAs have devised/revised their internal SOPs on asset recovery and forfeiture in the light of NCP as well as the Rules as mentioned in 8.1.2 (f) of Recommended Action-1. (Refer Recommended Action-5)
- c. In compliance with the directions from NEC (Refer para: 8.1.2 (d)), all the designated LEAs have issued directives to their field offices to prioritize tracing, freezing/seizing and forfeiture of proceeds of crime in connection with ML/TF.
- d. A Multi Agency MOU among all relevant agencies LEAs has been signed for information sharing/cooperation regarding ML/predicate offenses.
- e. Multi Agency MOU between the relevant agencies as well as bilateral MOUs between FIA and Provincial Police have been executed for referral of cases (with ML element) and subsequent co-operation in prioritizing investigation of ML/predicate offence as well asset recovery and forfeiture. (Refer para 7.3.2 of Recommended Action-3 in IO-7 POPR)
- f. All the LEAs have established Central Asset Management and Recovery Units with dedicated human/logistics resources to deal with asset recovery and forfeiture.
- g. Customs has updated and internally developed Anti-Smuggling Module (<http://antismuggling.weboc.gov.pk>) that captures stores and provides Information Technology platform, for further analysis and helps store data accessible at single click cross-border currency smuggling and TBML investigations and the collection of statistics for setting priorities for the RBA, and ML restraint activities.

- h. Improvements to FBR internal software namely Pakistan Revenue Automation Pvt. Limited (PRAL), that maintains, analyses, and warehouses data. The data bank serves both Customs & IR.

8.2.2 Co-operation with Foreign Counterparts

- a. In August 2020, Mutual Legal Assistance (Criminal Matters) Act (MLAT) 2020 was promulgated to enhance cooperation with foreign counterparts in connection with ML/TF investigations as well as asset recovery/ seizures and forfeitures. (Refer IO-2 POPR)
- b. All the designated LEAs (FIA, NAB, FBR, and ANF) have specialized units/wings to deal with international cooperation requests. This includes formal international cooperation requests such as MLAT Requests, "Government to Government Official Requests" and any other interaction with foreign jurisdictions that occurs under official agreements or obligations that Pakistan has committed to (i.e. requests under UN member state obligations – United Nations Conventions Against Corruption-UNCAC). International requests are conducted between designated competent authorities. MOI is the designated competent authority for MLAT requests, supported by the Minister of Foreign Affairs, while other requests outside the MLAT ("government to government") involve MOFA or other designated agencies by Pakistan under other international agreements i.e. NAB to handle all UNCAC requests, FMU for cooperation with Foreign FIUs, FBR-IR for taxation requests. More detailed information about formal and informal international cooperation is set out under Immediate Outcome 2.
- c. In the year 2019 Assets worth PKR 146.768 Million (\$965,579 USD) and PKR 30.40 Million (\$200,000 USD) were repatriated to a foreign jurisdiction (UK), and Uzbekistan Central Authority respectively after due process.

Table 8.2.1 (Specialized Offices in LEAs For Cooperation with Foreign Counterparts)		
S. No	LEA	Name of Relevant Unit/Wing
1	FIA	International Cooperation Unit (ICU)
2	NAB	International Cooperation Wing (ICW)
3	FBR-IR	International Taxes Wing (ITW)
4	FBR Customs	International Customs Wing (ICW)
5	ANF	International Cooperation Directorate (ICD)

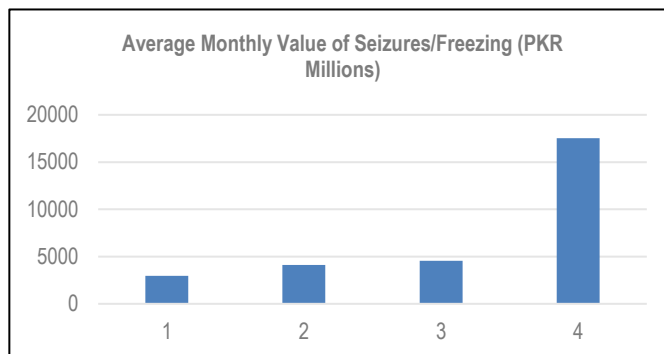
- d. LEAs in Pakistan have been coordinating with their foreign counterparts to pursue asset recovery and forfeiture in ML/TF and Predicate cases. The table below reflects the international cooperation requests in relations to pursuit of assets only, however detail of the international cooperation requests is discussed in IO-2:

Table 8.2.2 (Post MER Number of LEA Wise International Cooperation Requests)		
S. No	LEA	No. of International Cooperation Requests
1	FIA	55
2	NAB	89
3	FBR- Customs	160
4	FBR-IR	432
5	ANF	10
Total		745

8.2.3 Impact of Prioritizing Asset Recovery/Restraint Efforts by LEAs:

- a. All the above-mentioned measures to prioritize and pursue asset recovery by all LEAs have resulted in a considerable increase in the value of seizures/freezing/restraint as well as forfeitures. The following figure demonstrates the said increase:

Figure 8.2.1
(Post MER Value of Seizure & Forfeiture for ML/Predicate Offences)



- b. Following is the reflection of LEA Wise statistics related to seizures/freezing and forfeiture (Post MER).

Table 8.2.3 (LEA Wise Statistics of Seizures/Freezing and Forfeiture)			
S. No	LEA	Total Estimated Value of Seizures/Freezing	Total Estimated Value of Forfeiture
1	FIA	• Assets worth 5,023.44 Million PKR (33.05 Million USD)	• Assets worth 177.34 Million PKR (1.14 Million USD)
2	NAB	• Assets worth 63,186.98 Million PKR (415.70 Million USD)	• Assets worth 62,551.41 Million PKR (411.52 Million USD)
3	FBR	• Assets worth 73,950.31 Million PKR (486.5 Million USD)	• Assets worth 38,734.21 Million PKR (282.01 Million USD)
4	ANF	• Assets worth 5622.22 Million PKR (36.27 Million USD)	• Assets worth 9.50 Million PKR (61,290 USD)

8.2.4 Case Studies

Following case studies demonstrate LEAs' capacity and priority to tracing, freezing/seizing and confiscating proceeds of crime, including cooperation with foreign counterparts:

Case Study No.	LEA	Main Elements Highlighted
Case Study No. 1	FIA	FIA- ABC Air Transportation and Complex ML Investigation (2020) – International Fraud and ML investigation resulting in seizure of movable and immovable assets including 220 bank accounts, 26 aircrafts and multiple properties, vehicles, bank accounts and company assets estimated to be valued at over \$23.68 USD which included 3*foreign assets seized by Canada at the request of Pakistan. This case demonstrates international cooperation as it involved multiple request/exchanges with foreign jurisdictions counterparts during the ML investigation.
Case Study No. 2	FIA	Complex International ML Case involving freezing, seizing and tracing of POC and tracing of foreign assets resulting in international requests.
Case Study No. 3	NAB	Restrained property of estimated value of Rs.4.00 billion (against liability of Rs. 3.78 Billion), One luxury vehicle worth two million and one residential property valuing estimated at Rs 152 million (USD \$ 1 Million) as a property of corresponding value restrained in terms of section 23 of NAO, 1999 by ensuring that such properties are not dissipated before prosecution.
Case Study No. 4	NAB	Corruption and Complex ML Investigation High Risk Predicate Crime resulting in the seizure/restraining of \$1.30 Million USD of properties, cash, valuables and other assets and Asset Management of these assets seized including valuables (properties, jewellery, cash,) by NAB in accordance with the provisions of SOPs and RDM Cell is managing the properties pending finalization of court proceedings.
Case Study No. 5	NAB	High Risk ML Offence resulting in seizing, freezing of the immovable property measuring 1800 square yard along-with all the related bank accounts of Accused No. 3 under the provisions of NAO 1999. All other bank accounts and properties held in the name of accused were also restrained. The ill-gotten amount of Rs. 31.79 million (USD\$ 0.21 Million), gained illegally through the joint account by Accused No. 2 was recovered through Plea Bargain under section 25(b) of NAO, 1999, accused was convicted by the Court.
Case Study No. 6	NAB	International Cooperation under UNCAC regime to demonstrate effective and expeditious provisional restraint measures to freeze bank accounts of the suspects. Restraint and recovery of USD \$200,000 presents in the bank of Mr. X at Pakistan. The recovered amount was returned to Republic of Uzbekistan.
Case Study No. 7	FBR Customs	Currency seizure at the airport which resulted in a MLAT Request and cooperation between LEA's (including FMU) during the investigation led by Customs.
Case Study No. 8	ANF	Narcotic and Complex ML Investigation resulting in the seizure/restraining of over \$ 8.2 Million USD of properties, vehicles and bank accounts of targets.
Case Study No. 9	ANF	Narcotic Investigation and Proceed of Crime Investigation involving asset management disposal after forfeiture of businesses, properties and other assets (POC)
Case Study No. 10	ANF	Narcotic and ML Investigation involving the asset management to preserve the value of a luxury apartment worth US\$102,137

3. Improve institutional capacity to collect and maintain more comprehensive data and statistics so as to organize and enhance the restraint activities against, ML, TF and high-risk predicate offences.

Since the MER, Pakistan has taken various measures to improve institutional capacity to collect and maintain more comprehensive data and statistics to organize and enhance the restraint activities against, ML, TF and high-risk predicate offences.

8.3.1 Measures to Improve Institutional Capacity

- a. All LEAs have established Asset Management and Recovery Units to collect, organize and maintain more comprehensive data and statistics related to ML, TF and high-risk predicate

This recommended action is largely addressed.

offences

- b. A uniform and standardized format has been adopted by LEAs and disseminated to their field offices for collection and maintenance of data on asset recovery/seizures/attachments/freezing as well as confiscation/forfeiture in connection ML/TF and high-risk predicate offences.
- c. LEA's have updated their IT systems, through significant investment of budget and resources, to collect and maintain data of restraint activities against ML, TF and high-risk predicate offences. These IT systems include the following:
 - FIA - Case Management System (CMS)
 - NAB - Monitoring & Evaluation System (MES)
 - FBR - Pakistan Automation Pvt. Limited
 - FBR-Customs -Web-based One Customs (WeBOC) and Anti-Smuggling Module (<http://antismuggling.weboc.gov.pk>)
 - ANF Information Management System. (AMIS)
- d. A digital platform i.e. goAML has been implemented for digital data maintenance and dissemination of financial intelligence (relevant to ML/TF investigations and assets) by FMU to all relevant LEAs.
- e. FIA has largest number of predicate offences at its mandate, a digital database has been created by FIA at its HQ to collect and maintain data on asset recovery/seizures/attachments/freezing as well as confiscation/forfeiture in connection ML/TF and high-risk predicate offences at central level. FIA has also established data access centre (DAC) to assist the investigating/recovery officers for expediting the access to requisite records/data including details of assets from the concerned agencies
- f. All LEAs have added specific modules in their training programs covering asset recovery/management including seizures/freezing and confiscation/forfeiture in ML, TF and high-risk predicate offences. **(Refer Table 7.4.5 in Recommended Action -4 of IO-7 POPR)**

8.3.2 In order to demonstrate enhancement of the restraint activities against ML, TF and high-risk predicate offences, detailed statistics are reflected in Recommended Action 8.7 which includes comprehensive data for the post MER period on the following:

- Year wise value and number of seizure and forfeitures for ML and predicate offenses (Table 8.7.1)
- High risk (HR) ML predicate crimes and seizures relating to these HR crimes (Table 8.7.2)
- Number of seizures of both movable and immovable POC for both predicate and ML offenses (Table 8.7.3)
- Value of both movable and immovable POC for both predicate and ML offenses (Table 8.7.3)
- Wide range of movable and immovable POC (property, bank accounts, vehicles etc.) for both predicate and ML offenses seized, freezed restrained and forfeited (Table 8.7.3)

4. Establish a centralised asset recovery office for a more coordinated approach to asset recovery and consequently more effective use of recovery tools.

8.4.1 To address this Recommended Action, Pakistan has adopted a coordinated national approach with decentralized execution mechanism; whereby each LEA has established its central asset recovery office / unit given that this is felt to be the most effective approach for Pakistan.

8.4.2 In order to ensure a more coordinated approach, all the LEAs have devised/revised their internal SOPs (Refer Para 8.2.1(b) of Recommended Action-2) in line with the National Confiscation Policy (NCP), NRA 2019 and National AML/CFT Strategy 2020-22. Moreover, the recently introduced Seized and Forfeited Properties Management Rules 2021 also provide guidelines for a uniform and coordinated approach to asset recovery and consequently more effective use of recovery tools.

This recommended action is largely addressed.

8.4.3 All the LEAs have established their centralized asset management/recovery units for a more coordinated approach to asset recovery and consequently more effective use of recovery tools. These units have been assigned dedicated resource.

Table 8.4.1 (Central Asset Management/Recovery Units of LEAs Along with Human Resource for Asset Recovery/Management)			
LEAs	Location of Central Asset Management/Recovery Unit	Description of Central Asset Management/Recovery Unit and its Offices	Specialized Human Resource for Asset Management/Recovery Units/Offices
FIA	FIA HQ Islamabad	Asset Management and Recovery Unit with its central office at FIA HQ Islamabad, under a Director with 07 field offices each supervised by a Deputy Director.	24
NAB	NAB HQ, Islamabad	Recovery and Disbursement Management Cell (RDMC)" exists in 7 x regional offices of NAB. The activities of these Cells are monitored through Deputy Director (Data) and Desk Officer VR/PB Cell at NAB HQ Islamabad.	23
FBR-IR	FBR HQ Islamabad	Central Asset Recovery Office at FBR HQ under Deputy Director with 07 Asset Recovery Units 7 regional offices.	24
FBR Customs	FBR HQ Islamabad	Customs Recovery Unit with its central offices at FBR HQ Islamabad under a Chief at FBR HQ with its sub-offices in 35 Customs Collectorates.	37
ANF	ANF HQ Rawalpindi	Assets and Financial Investigations (AFI) Directorate at ANF HQ Rawalpindi and 5 AFI Branches in 5 Regional Directorates.	17
Total Number of Specialized Asset Recovery / Management Resource			125

5. Establish standard operating procedures and act expeditiously to freeze assets at the enquiry stage to ensure that property which may become subject to confiscation is not dissipated before prosecution. This will require specialist teams and appropriate training and capacity building.

This recommended action is largely addressed.

8.5.1 Context

- LEAs have powers under their respective Acts as well as under AMLA 2010, to freeze/seize/attach property at enquiry/investigation stage. Recent AMLA amendments have expanded these powers further.
- In conjunction with AMLA 2010, clauses *b*, *c*, *d* and *e* of objectives of NCP provide policy guidelines for expeditious and prompt freezing of assets at the enquiry stage to ensure that property which may become subject to confiscation/for feature is not dissipated before prosecution.
- On September 24, 2020, National Executive Committee (NEC) issued instructions regarding expeditious and prompt freezing of assets.
- All LEAs have issued policy directives for investigators/recovery officers to act expeditiously during ML/TF or predicate crime investigations to freeze assets at the earliest to ensure that property, which may become subject to confiscation/ forfeiture is not dissipated before prosecution.

8.5.2 Standard Operating Procedures

In the light of NCP as well as the directions issued by NEC in November 2020, all LEAs have devised/revised their internal SOPs on asset recovery/management as reflected below:

Table 8.5.1
(SOPs By LEAs For Expeditious Freezing of Assets)

LEAs	Standard Operating Procedure for Asset Recovery/Management	Devise/Revise Date
FIA	SOP on Management of assets subject to confiscation in AML/CFT inquiries & investigation	January, 2021
NAB	SOPs Operational Methodology (Volume-I) Confiscation of Assets	March, 2020
FBR-IR	SOPs for investigation/prosecution/seizure & confiscation of Assets in money laundering under AMLA 2010	March, 2021
FBR-Customs	Amendment in Forfeiture of property rules vide SRO. 05(I)/2021 dated January 04, 2021	January, 2021
ANF	SOPs on Initiation of money laundering Investigations under AMLA SOPs for asset & financial investigation under CNSA, 1997	SOP on Assets & Financial Investigation updated on 12-10-2020 SOP on Confiscation and Management issued on 28-12-2020

8.5.3 Total Human Resource for Asset Recovery/Restraint and their Trainings

All the LEAs have a number of recovery officers available to deal with asset recovery and expeditious seizure/ freezing during enquiry and investigation stage as well as confiscation/forfeitures. Moreover, specialized teams(as reflected in Table 8.4.1) are also available with each LEA to supervise, monitor and guide assets recovery/restraint measures.

Column#1 in the table below reflects the specialized human resource, working as specialist teams, to supervise, monitor and guide assets recovery/restraint measures while column#2 reflects the number of investigators/recovery officers that are available to support/be directed/engage with specialized units for conducting ML investigations including asset recovery/seizures and confiscation/forfeitures. The total number of investigators and other authorities available to respond to investigate ML cases and apply seizure and forfeiture measures (including management of assets) is over 1000 officials country wide. More than 90 percent of the total said resource is trained for asset recovery/seizures and forfeitures and asset management in ML and predicate cases. The summary is reflected below:

Table 8.5.2
Total Human resource dedicated for Asset recovery and management

LEAs	Asset Recovery		Asset Management	
	Specialized Teams	Recovery Officers	Administrators	Asset Management Officers
FIA	24	321	07	08
NAB	23	427	07	08
FBR-IR	24	41	07	08

FBR Customs	37	74	35	36
ANF	17	80	05	06
Total	125	943	61	66*
Grand Total	125+943+61 = 1129			

* These 66 officers are included in 125 (Specialized Teams)

8.5.4 Assistance by Prosecutors to Specialized Units

Specialist teams and recovery officers are supported, during parallel ML investigations and relating restraint/confiscation/forfeiture efforts by the prosecutors who are dedicated not only to support the investigating/prosecuting officers in the prosecution of the ML offences but also assisting with securing court orders for seizing, freezing and attachments. In total there are over 220 prosecutors assigned country wide to support the Specialized ML units.

6. Amend legislation, other than AMLA and NAO, to cover property of corresponding value and ensure that prosecutors and the courts are aware of the availability of such remedies.

This recommended action is largely addressed.

8.6.1 Legislation to cover the property of corresponding value

- a. In August 2020, amendments in the ATA to address property of corresponding value were enacted under Section 11Q (6A) which states: **“Where the court is satisfied that property subject to forfeiture under this section cannot be forfeited, it may order the forfeiture of any other property of the accused of an equivalent value to the property subject to forfeiture which stands identified or located in another jurisdiction”.**
- b. The investigators/recovery officers from all the designated LEA are empowered under their respective Acts or under the provisions of AMLA, 2010, to seize/freeze or restrain assets in connection with ML/TF at enquiry/investigation stage.

8.6.2 Trainings Specific to the Recommended Action

- a. Training/ interactive sessions have been arranged between the investigators/recovery officers, prosecutors and the judicial authorities to ensure that prosecutors and the courts are aware of the remedies available to cover property of corresponding value:

Table 8.6.1 (Trainings of Prosecutors and Judiciary to Cover the Property of Corresponding Value)		
LEAs	Training Sessions	
	Number of Sessions	Number of Participants
FIA	2	21
NAB	3	28

FBR IR	4	22
FBR Customs	6	65
ANF	2	72
Judiciary	6	589**
Total	23	797

** In year 2021 two special sessions focused on ML including the aspect of corresponding value, held with the assistance of Ministry of Law and Justice for training of Session and Additional-Session Judges

7. LEAs should focus efforts on restraint and confiscation for high risk crime and seizing and freezing the widest range of property and instruments, including through international cooperation requests for foreign jurisdictions to freeze assets.

This recommended action is partially addressed.

8.7.1 Overview of Efforts to Address the Recommended Action

Introduction of national level policies, improvement of legislative framework, dissemination of standardized rules and procedures for the strengthening of institutional frameworks, efficient administrative and operational measures and ongoing capacity building and training programs – all these measures as illustrated in Recommended Action-1 to Recommended Action-6 reflect LEAs' focus in Pakistan on efforts for restraint and forfeiture for high- risk crime and seizing and freezing the widest range of property and instruments, including through international cooperation requests for foreign jurisdictions to freeze assets.

- Pakistan should continue to focus efforts on restraint and confiscation for high-risk crime and freezing and seizing the widest range of property and instruments of crime, including through international cooperation requests for foreign jurisdictions to freeze assets. Further statistics and case studies will be helpful to demonstrate progress on this recommended action.

8.7.2 Statistics to Demonstrate Restraints and Forfeitures (Year Wise, Risk Wise and Category Wise)

The following statistics demonstrate that the increased focus of LEAs' in Pakistan, on asset recovery/restraint activities in connection with ML/TF have resulted in an effective enforcement action on ground since MER:

- a. The following table reflect year wise number and value of seizures/forfeitures of both predicate and ML offenses in the post MER period

Table 8.7.1 (Year Wise Statistics of Seized/Freezed Properties for ML and Predicate Offences (October 2018-February 2021) (Values in Million PKR)				
	Seizure/ Freezing		Confiscation/Forfeiture	
Year	No. of Assets	Value of Assets	No. of Assets	Value of Assets
2018	1,973	8,841.96	748	13,729.82
2019	8,339	49,351.32	5,608	40,596.29
2020	8,770	54,554.84	3,750	32,505.09
2021	2,898	35,034.83	1,754	14,641.25
Total	21,980	147,782.95	11,860	101,472.46
		972.25 USD (Million)		667.58 USD (Million)

- b. The following table reflects Pakistan's focus on freezing/seizing/restraining the POC and instrumentalities for High-Risk offences of ML as per NRA 2019.

Table 8.7.2 Risk Wise Statistics of Seized/Frozen Properties for ML and Predicate Offences (October 2018-February 2021) (Values in Million PKR)	
Risk	Value in Million PKR
High Risk Offences	145,991
Medium Risk Offences	1,775.35
Low Risk Offences	16.77
Total	147,783.12 \$972.25 USD (Million)

- c. The following table reflects, value and number (category wise) of widest range of properties/ and instruments seized and forfeited for both ML offence and predicate offences,

Table 8.7.3 (Category Wise Statistics of Seized/Frozen Properties for ML and Predicate Offences) (October 2018-February 2021)				
Types / Categories	Seizures/Freezing/Attachment		Confiscation/Forfeitures	
	No. of Assets	Value of Assets	No. of Assets	Value of Assets
Immovable				
Land	954	53,683	595	26,702
Buildings	254	10,304	29	1,747
Plants & Machinery	6	159	3	435
Other-Type of Immovable Assets not covered above	1	3	27	841
Total Immovable	1,215	64,148	654	29,725
Moveable				

Cash	759	4,822	97	513
Bank Accounts/ Deposits/ Financial Instruments	913	1,009	362	25,542
Investment Accounts/ Shares etc.	205	4,448	-	-
Vehicles	304	2,792	111	768
Jewelry/ Ornaments etc.	38	427	23	100
Other-Type of Moveable Assets not covered above	18,546	70,137	10,613	44,824
Total Movable	20,765	83,634	11,206	71,748
Total	21,980	147,783	11,860	101,472
Total in Million USD	-	\$972.25	-	\$667.58

8.7.3 Case Studies: The following case studies demonstrate seizing and freezing the widest range of property and instruments, including through international cooperation requests for foreign jurisdictions to freeze assets.

Figure 8.7.1
(Relevant Case Studies)

Case Study No. 3: NAB –Restrained property of estimated value of Rs.4.00 billion (against liability of Rs. 3.78 Billion),One luxury vehicle worth two million and one residential property valuing estimated at Rs 152 million (USD \$ 1.00 million) as a property of corresponding value restrained in terms of section 23 of NAO, 1999 by ensuring that such properties are not dissipated before prosecution.

Case Study No. 4: NAB – Corruption and Complex ML Investigation High Risk Predicate Crime resulting in the seizure/restraining of \$1.20 Million USD of properties, cash, valuables and other assets and Asset Management of these assets seized including valuables (properties, jewelry, cash,) by NAB in accordance with the provisions of SOPs and RDM Cell is managing the properties pending finalization of court proceedings.

Case Study No. 8: ANF – Narcotic and Complex ML Investigation resulting in the seizure/restraining of over \$ 8.2 Million USD of properties, vehicles and bank accounts of targets.

Case Study No.1 : FIA- ABC Air Transportation and Complex ML Investigation (2020) – International Fraud and ML investigation resulting in seizure of movable and immovable assets including 26 aircrafts and multiple properties, vehicles, bank accounts and company assets estimated to be valued at over \$23.68 USD which included 3*foreign assets seized by Canada at the request of Pakistan. This case demonstrates international cooperation

8. LEAs should develop comprehensive asset management protocols to ensure the value of confiscated goods is preserved and maintained. In doing so, rather than scattered provisions within various Acts, a uniform domestic legal regulation would serve the purpose.

This recommended action is largely addressed.

8.8.1 AMLA 2010 amended in 2020 provides a uniform domestic legal basis for management of forfeited properties vide Section 11 of AMLA 2010.

8.8.2 In order to have a uniform domestic legal regulation and comprehensive asset management protocols, The Anti-Money Laundering (Seized and Forfeited Properties Management) Rules, 2021, have been approved by the National Executive Committee in March 2021 to ensure that the value of confiscated goods is preserved and maintained. This statute includes the following:

- Appointment and responsibilities of Administrators, for the management of forfeited properties
- A comprehensive mechanism for management, storage and disposal of perishable, prohibited, moveable and immovable properties
- A detailed mechanism for proper accounting and safe custody of forfeited properties
- The procedure for disposal of forfeited properties.
- The provision for hiring of experts by the LEAs
- The obligation of each investigating agency to establish a centralized recovery office and its functions.
- The provision of periodical audit and inspection of the forfeited properties.

8.8.3 These rules entail detailing of the Administrator by Federal Government to receive and manage the forfeited properties and LEAs have been mandated to prioritize identification, search, freezing and restraint of all properties liable to be forfeited.

8.8.4 Case Studies: The following case studies demonstrate LEAs' capacity for asset management to ensure the value of confiscated goods is preserved and maintained.

Figure 8.8.1
(Relevant Case Studies)

Case Study No. 9: ANF – Narcotic Investigation and Proceed of Crime Investigation involving asset management disposal after forfeiture of businesses, properties and other assets (POC)

Case Study No. 10: ANF – Narcotic and ML Investigation involving the asset management to preserve the value of a luxury apartment worth US\$102,137.

Case Study No. 3: NAB –Restrained property of estimated value of Rs.4.00 billion (against liability of Rs. 3.778 Billion), One luxury vehicle worth two million and one residential property valuing estimated at Rs 152 million (USD \$1.0 million) as a property of corresponding value restrained in terms of section 23 of NAO, 1999 by ensuring that such properties are not dissipated before prosecution.

Case Study No. 4: NAB – Corruption and Complex ML Investigation High Risk Predicate Crime resulting in the seizure/restraining of \$1.2 Million USD of properties, cash, valuables and other assets and Asset Management of these assets seized including valuables (properties, jewelry, cash,) by NAB in accordance with the provisions of SOPs and RDM Cell is managing the properties pending finalization of court proceedings.

Case Study No. 1: FIA- ABC Air Transportation and Complex ML Investigation (2020) – International Fraud and ML investigation resulting in

**JG
Comments
& Analysis**

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 8.

The Joint Group considers recommended actions 1, 2 and 7 as key, consistent with the priority actions for IO.8, which is set out in Pakistan's 2019 Mutual Evaluation Report (MER). These three recommended actions are strategically important and are fundamental to Pakistan achieving further progress towards effectiveness.

Recommended action 1 is key and is largely addressed. Pakistan has established frameworks to pursue asset recovery in ML, higher-risk predicate offences and TF consistent with its risk and context. In November 2020, Pakistan introduced the Money Laundering and Proceeds of Crime Comprehensive Framework and Guidelines for Confiscation Measures (National Confiscation Policy), which sets out guidelines for Law Enforcement Agencies (LEAs), prosecutors and judges for pursuing asset recovery in line with Pakistan's risk and context, consistent with Pakistan's National Risk Assessment (NRA) 2019. The National Confiscation Policy underpins the new or updated standard operating procedures of LEAs (discussed in more detail under recommended action 5). In November 2020, Pakistan established the Multi Agency ML Investigation and Confiscation Committee (MAMLICC), which considers training and resource allocations to enhance the capacity of LEAs to investigate ML, TF and asset recovery / forfeiture. The MAMLICC is comprised of representatives from the five designated LEAs (National Accountability Bureau (NIA), Federal Investigation Agency (FIA), Anti-Narcotics Force (ANF), Federal Board of Revenue (FBR-IR) and Federal Board of Revenue – Customs (FBR-Customs)), the Financial Monitoring Unit, Pakistan's FATF Secretariat and representatives from provincial Crime Investigation Departments (CTDs) and intelligence agencies.

Recommended action 2 is key and is largely addressed. Pakistan has demonstrated that it has made positive and tangible progress in putting in place systems to ensure LEAs give the highest priority to tracing, freezing / seizing and confiscating proceeds of crime. This includes LEAs: (i) developing or updating their standard operating procedures to align with Pakistan's National Confiscation Policy; (ii) issuing directives to their field offices to prioritise asset recovery, restraint and forfeiture in relation to ML; (iii) establishing memoranda of understanding to facilitate the sharing of information and to refer cases with ML elements to the relevant agencies; (iv) setting up dedicated Asset Recovery and Management Units at both LEA headquarters and select regional offices; and (v) having dedicated international cooperation units within each of the LEAs. Investigation officers within LEAs are also working with recovery officers to guide investigations and to assist with the identification of assets connected with the predicate offence. Pakistan reported that due to these new policies and processes, it has seized USD972 million compared to USD540 million during the period prior to its mutual evaluation report (i.e. when these policies and processes were not in place). In terms of international cooperation, Pakistan reported that it had made over 700 requests (formal and informal) to foreign counterparts to pursue asset recovery and forfeiture in ML/TF and predicate cases. While Pakistan has only received responses to 325 of the 702 requests made, Pakistan informed the Joint Group that it has mechanisms in place to follow up with foreign counterparts on its requests.

Recommended action 3 is largely addressed. Pakistan has introduced a standardised data format to promote consistency in the collection of data across LEAs. All LEAs are now collecting information including the number and value of assets seized/confiscated, the total value broken down based on years, the category of assets seized/confiscated (movable and immovable) and the risk profile of offences where assets have been seized/confiscated. The standardised format supports Pakistan to develop and maintain a national level database on seizure and forfeitures, which also allows for better analysis of data to identify trends.

In addition to the standardised data format, Pakistan has allocated budget and resources to support LEAs to update their IT systems to collect and maintain data on restraint activities against ML, TF and predicate offences. LEAs have also established dedicated teams within their Asset Recovery and Management units (discussed more in recommended action 4) to collect and maintain the data and statistics of assets in ML and predicate cases and training has been provided to these teams, which includes a module on statistics and data collection.

Recommended action 4 is largely addressed. Pakistan maintains that having a dedicated Asset Recovery and Management Unit within each of the five designated LEAs is the most effective approach to asset recovery, as each designated LEA has a mandate to investigate and prosecute different predicate offences. The Asset Recovery and Management Unit within each LEA is divided into two sections, an asset recovery section, which comprises of specialized teams and recovery officers and an asset management section, which comprises of administrators and asset management officers. Within each LEA, the Asset Recovery and Management Unit has an office at headquarters with an office at selected regional offices. The officers at headquarters monitors and supervises asset recovery and restraint activities and provides guidance to officers in the regional offices, including on process and procedure to ensure appropriate asset recovery tools are being used. Prosecutors from the specialized teams are also attached to the investigators/recovery offices at the start of a case to assist with any court proceedings. Coordination in asset recovery and management is further enhanced with the dedicated Asset Recovery and Management Units pursuing asset recovery consistent with the National Confiscation Policy and managing assets in line with the Anti-Money laundering (Seized and Forfeited Properties Management) Rules 2021.

Recommended action 5 is largely addressed. To enhance the freezing powers of LEAs, Pakistan amended section 21 of the AMLA to make ML a cognizable offence, which allows the police to act expeditiously to freeze and seize assets at the investigation stage. Pakistan also amended section 8 of its Anti-Money Laundering Act 2010 (AMLA), which extends the period an asset can be restrained from 90 days to 180 days.

As outlined in RA 4, each of the five designated LEAs have established a dedicated Asset Management and Recovery Unit, which comprises of specialist recovery teams (125 officers), asset recovery teams (943 officers) and administrators

(61 officers). Ninety percent of these officers have been trained with the remaining 10 percent of officers to be trained by October 2021. Training modules are focused on building the skills of officers to identify and locate assets liable to forfeiture, understanding the legal basis to seize property of corresponding value, the importance of seizing instrumentalities of crime, as well as understanding and identifying linkages between assets and the predicate and ML offences. LEAs have also developed or updated their standard operating procedures to align with Pakistan's new National Confiscation Policy and issued directives to their respective investigators/recovery officers to freeze assets at the investigation stage.

Recommended action 6 is largely addressed. Pakistan has amended its Anti-Terrorism Act 1997 to permit the court to order the confiscation of property of corresponding value, which was not previously permitted for terrorism and TF offences. Pakistan has rolled out 23 training sessions, which trained 797 participants, including investigators/recovery officers, prosecutors and judicial authorities to raise their awareness of the remedies available to confiscate property of corresponding value.

Recommended action 7 is key and is partially addressed. Pakistan has demonstrated that it has made considerable efforts to seize and confiscate assets associated with high, medium and low risk crimes, having seized USD972.25 million and confiscated USD667.58 million of assets between 2018 and 2021. While these figures demonstrate an increasing trend, the value and number of confiscated assets remain relatively low compared to the value and number of assets seized. For example, between 2018 and 2021, 254 buildings were seized but only 29 were confiscated. Similarly, during the same period, there were 759 instances of cash being seized with only 97 instances of cash being confiscated and 205 instances of investment / share accounts frozen with no instances of confiscation. Pakistan has reported that the difference in the number of assets seized compared to the number of assets being confiscated reflects the time required to have a case brought before the courts and a final confiscation order being issued. While acknowledging the progress made, there was not sufficient evidence to demonstrate significant confiscation outcomes in line with Pakistan's risk profile. In relation to international cooperation, Pakistan demonstrated a good understanding and use of international cooperation, both formal and informal. However, there was not sufficient evidence to demonstrate that Pakistan had made significant progress with respect to making outgoing requests for assistance that were actioned by foreign counterparts and that Pakistan was making appropriate efforts to follow-up on outstanding requests.

Recommended action 8 is largely addressed. Pakistan introduced the Anti-Money Laundering (Seized and Forfeited Properties Management) Rules 2021 (AML Seized and Forfeited Properties Management Rules), which provides LEAs with a consolidated approach to managing confiscated assets to ensure their value is preserved and maintained. The AML Seized and Forfeited Properties Management Rules outline the roles and responsibilities of administrators and the mechanisms for managing, storing and disposing of forfeited properties, including the requirements to undertake periodic audits and inspections. LEAs have also developed or revised their existing standard operating procedures to ensure that their Asset Recovery and Management Units are managing assets consistent with the AML Seized and Forfeited Properties Management Rules.

Immediate
Outcome 9

Low

Recommended Actions from MER:

1. **Implement mechanisms to allow FMU to spontaneously disseminate financial intelligence directly to all CTDs, and demonstrate their effectiveness. This will need to consider and address the provincial and federal variants applicable to the various law enforcements agencies across the four provinces. Legislative change will provide continuity compared to MOUs or SROs scope and timescale limitations.**

This recommended action is largely addressed.

Pakistan has taken steps to make effective use of financial intelligence by FMU through legal, regulatory and institutional measures. This RA entails that Pakistan will need to consider and address the provincial and federal variants applicable to the various law enforcement agencies across four provinces while including CTDs for FMU disseminations. Pakistan has considered these aspects as all provincial CTDs in four provinces are specialized force of police dealing with terrorism and terrorism financing. The AMLA being a specialized law have been leveraged and provincial CTDs have been designated as investigating and prosecuting agencies under its section 2(j). Any varying practices in CTDs in the provinces have been eliminated by issuing standard guidelines on utilization of financial intelligence by FMU disseminated under AMLA. Moreover, CTDs in all four provinces have established CFT Units (CFTUs) to guide investigators in conducting financial investigations in terrorism related cases. NACTA has also conducted awareness sessions for CTFUs to better understand financial investigation methods/techniques and provided guidance that how to enhance prosecutions in TF cases.

9.1.1 Legal Framework of Disseminating Financial intelligence to CTDs

Significant actions have been taken by Pakistan to implement effective mechanisms to allow FMU to spontaneously disseminate financial intelligence directly to all CTDs. On May 10, 2019 Pakistan through a Notification under AMLA designated provincial CTDs as an investigating and prosecuting agency as defined by Section 2(j) of AMLA, 2010. By virtue of this designation, FMU can spontaneously disseminate financial intelligence directly to all CTDs. With this development, this technical issue has been resolved.

Notwithstanding the technical upgrade in to criterion 29.5 of Recommendation 29, additional measures following the designation of provincial CTDs as an investigating and prosecuting agency under AMLA, 2010 have been implemented. A summary of efforts is provided below:

a) Guidance documents for CTDs:

FMU has issued two separate documents for the guidance of CTDs in terms of utilization and processing of financial intelligence. These are as follows:

1) Guidelines for Utilization of Financial intelligence by CTDs:

FMU has issued comprehensive Guidelines in 2020 for CTDs for Utilization of Financial Intelligence disseminated under AMLA. These guidelines cover different aspect of utilizing the Financial intelligence and assist CTDs in understanding and taking necessary action based on the Financial intelligence shared by the FMU. The important aspects of the guidance include classification and scope of Financial intelligence, dissemination of Financial intelligence through goAML, National Risk Assessment, receipt and Prioritization of the Financial intelligence by the CTDs and its utilization, feedback by CTDs on the financial intelligence and FMU's Assistance to LEAs with regards to International Exchange of information.

2) Standard SOP for Processing of Financial Intelligence for CTD

FMU in collaboration with the provincial CTDs developed standard SOPs in 2020 for CTDs for the processing of Financial intelligence disseminated to CTDs by the FMU. All the aspects covered in the 'Guidelines for Utilization of Financial Intelligence by CTDs' were covered in this document. However, the scope of these SOPs was wider as these also covered the aspects of ground surveillance through field offices and technical data collection, check list to ensure necessary action by CTDs, establishing TF link, Inter-agency coordination for collection of information and data confidentiality protocols. These SOPs have been circulated to all CTDs and the FMU arranged awareness raising sessions for their implementation.

b) Use of goAML for spontaneous dissemination of financial intelligence and increased coordination with CTDs:

Timely dissemination of Financial intelligence to stakeholders is essential for making its effective use. In order to spontaneously disseminate the financial intelligence to CTDs for its quick processing, the dissemination of intelligence has been automated by FMU since Jan, 2020 through goAML software. FMU has registered all the CTDs on goAML application and now the dissemination of Financial intelligence and the coordination with CTDs is taking place on real time basis. The goAML application provides the systematic platform to CTDs to interact and exchange information with FMU and provide feedback on real time basis.

Some of the functions performed using goAML application are:

- Dissemination of Financial intelligence: FMU disseminates Financial intelligence through secure goAML Message Board which can only be accessible by the authorized users within the CTDs. They are also required to send acknowledgement of receipt of financial intelligence to FMU.
- Additional information against FMU's disseminated Financial Intelligence: CTDs, using goAML, can seek additional Information on FMU's disseminated Financial intelligence.
- Request for assistance in CTDs' internal cases: CTDs can request FMU through goAML regarding financial information in their own TF inquiries/investigations.
- Feedback: The FMU seeks feedback on its Financial Intelligence products on each disclosure made to CTDs. Further, the FMU shares statistics and details of disclosures made to CTDs and accordingly seeks to update the status of these disclosures on quarterly basis. These updates include the number of cases generated from the Financial Intelligence disseminated by the FMU, convictions made, administrative / civil and criminal penalties and the details of assets frozen / confiscated / seized etc. In short, a constructive feedback mechanism and working relationship of FMU with CTDs has been established and it is working well. All the CTDs are providing feedback on the financial intelligence on quarterly as well as on cases to case basis as and when required. FMU has received feedback from CTDs on around 200 financial intelligence disseminated to CTDs since May 2019.

Impact of Switching to goAML: On January 01, 2020, the dissemination of Financial Intelligence was initiated by FMU through goAML System, whereas since January 01, 2021, LEAs had started sending their requests for information as well as sharing feedback on Financial Intelligence through goAML Message Board. Since January 2020 till end of March 2021, total number of 1,364 inward / outward messages were exchanged between FMU and LEAs, of which 839 messages were exchanged in the year 2020 and 525 messages in the first quarter of 2021. The messages included, dissemination of financial intelligence, feedback on the financial intelligence, inward requests for seeking information and international cooperation requests through FMU, etc.

9.1.2 Effective Use of Financial intelligence:

a) Classification of Financial intelligence shared by FMU with CTDs:

Financial intelligence reports including financial transactions and other relevant information is being generated and shared by FMU with CTDs to ascertain the link of terrorism financing. Detailed inquiry/investigation is conducted by CTDs to investigate the involvement of individuals /entities in terrorism financing or otherwise detect any link of terrorism financing. Multiple STRs are clubbed into a single financial intelligence in many cases. FMU also provides financial intelligence to CTDs on their request and strategic analysis is shared with CTDs for necessary action and guidance to keep them updated on key risks. In a nutshell, FMU develops and shares three types of intelligence with the CTDs:

- Spontaneous dissemination of the Financial intelligence (operational/tactical analysis)
- Dissemination of Financial intelligence based upon requests received from the CTDs
- Dissemination of the Financial intelligence based on Strategic Analysis

b) Data related to spontaneous dissemination of the Financial intelligence (operational/tactical analysis):

Since the designation of provincial CTDs under AMLA in May 2019 until the end of March 2021, the FMU disseminated a total of 229 tactical intelligence products (containing 8456 STRs) to CTDs. The following table represents the actions taken by the CTDs in respect of the intelligence received by them from the FMU:

Table-9.1.1 - Yearly Financial intelligence by FMU to CTDs & Results		
Year	Total	FMU Intelligence Resulting in TF inquiries
2019*	62	40
2020	124	101
2021**	43	6
Total	229	147

* For partial year, since May 10, 2019.

** First Quarter of 2021.

The financial intelligence disseminated by FMU to CTDs during first quarter of 2021 are at initial inquiry stage.

c) Data related to dissemination of Financial intelligence based upon request received from the CTDs:

CTDs also seek assistance from FMU while carrying out TF inquiries or investigations. In response, FMU shares financial intelligence with CTDs in case any financial linkages are traced. From May 2019 to the end of March 2021, CTDs sent a total of 493 requests to FMU. The FMU has responded to all of those requests.

d) Dissemination of the Financial intelligence based on Strategic Analysis:

FMU conducts strategic analysis keeping in view the threats and vulnerabilities identified in NRA 2019 and shares all analyses having an element of TF with the CTDs. The FMU has shared multiple strategic analyses with CTDs where the element of terrorism or terrorism financing was surfaced. Please refer to IO.9 RA-2 (9.1.2.3) in next part for the details of TF related strategic analysis conducted by FMU.

e) International requests:

While conducting investigations, if a transnational element surfaces, the investigator may employ channels (formal and informal) to seek assistance from other countries as per its primary laws. Thus, CTDs can approach FMU to seek financial intelligence from international FIUs with whom FMU has secured MOUs for the sharing of financial intelligence. FMU is actively seeking intelligence from its international counterparts in cases with the element of TF. A total of 93 international cooperation requests have been sent to foreign FIUs by the FMU since October, 2018, which includes 47 international requests involving element of TF.

f) Other measures taken by FMU to improve Effective Use of Financial intelligence by CTDs:

1) Trainings/ Workshops

To raise the awareness of CTDs officials regarding AML/CFT and to assist them to understand how they can effectively use the financial intelligence products shared by FMU with them, FMU has conducted formal sessions for the officials of CTDs, the details of which is provided below:

- FMU has conducted 02 training sessions/workshops for the officials of CTDs during the year 2018 and 2019 which were attended by approx. 55 officials from different CTDs.
- 01 capacity building session was conducted for the officials of CTD in 2020 via Zoom which was attended by more than 50 officials of CTD involved in TF investigations.

2) Face to face meetings:

In addition to the formal sessions, FMU also conducts face to face meetings at least on monthly basis or more frequently when required with the senior officials and the focal persons of the CTD to assist them in the effective utilization of FMU's financial intelligence. During last six months, given Pakistan has been preparing its POPR and AP progress report, FMU held 50 meetings with CTDs.

2. Continue and increase prioritisation and adequate resourcing activities to enhance capacity and support for FMU, LEAs involved in TF cases.

Pakistan's has been consistently taking actions to increase prioritization and adequate resourcing to enhance capacity building of FMU and LEAs involved in TF cases as countering terrorist financing is the top priority of country. Efforts have been made to ensure that the authorities of Pakistan are equipped with the required resources to cope with the challenge of terrorist financing. This includes improvements in institutional mechanism, better use of technological tools, increasing the resources base, issuing of guidelines/SOPs, capacity building of relevant staff, etc. Please also refer to the IO.6 submission RA-1 for additional details regarding the use of financial intelligence.

This recommended action is largely addressed.

9.2.1 Prioritization, Resourcing and Capacity Building for FMU:

a) Prioritization:

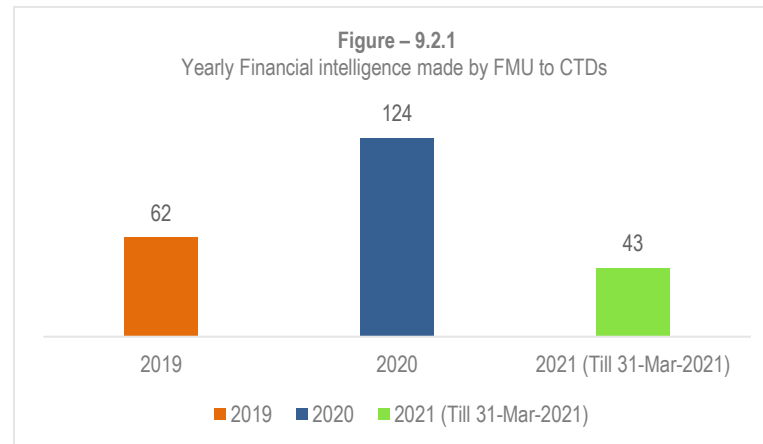
The rating given to the threat of terrorism financing in the updated National Risk Assessment 2019 was high. Accordingly, multiple steps were taken at FMU to prioritize TF related STRs and to enhance FMU's capacity to deal with TF related STRs and cases. Some of these are as follows:

1) Establishing TF Task Force:

Considering that TF was identified as a major risk in the NRA, a TF Task Force was established within FMU in November 2019 to prioritize the processing of STRs and CTRs pertaining to TF. The task force has 05 dedicated analysts who are trained specialist for developing TF cases under the lead of Additional Director - Analysis Division.

This task force is responsible for processing of STRs relating to terrorism and terrorism financing on a priority basis and ensures that no delays take place in processing of TF related STRs. Further, the Task Force is responsible for responding to the queries/information requests received from the CTDs with regards to terrorism / terrorism financing on a priority basis. (Please refer to IO.6 RA-3 for further details on the TF Task Force in the FMU).

Since the designation of provincial CTDs under AMLA in May 2019 until the end of 2020, the TF Task Force and other analysts at FMU have collectively shared a total of 229 tactical intelligence products (containing 8456 STRs) with CTDs. The breakdown of financial intelligence to CTDs by years is provided below:



2) Use of goAML for Prioritization of TF related STRs:

Reporting entities (REs) are required to select indicator(s) at the time of reporting of STRs. Resultantly, all the STRs with TF related indicators are flagged in goAML system and are processed by the TF Task force on a priority basis.

3) Conducting Focused Strategic Analysis:

Considering the high-risk rating assigned to terrorism and terrorism financing in NRA 2019, FMU has conducted Strategic analysis on terrorism and terrorism related STRs. The list is as follows:

- Strategic Analysis on Misuse of Banking Channels by Illegal Arms and Ammunition Businesses
- Strategic Analysis on 1373 Proscribed Individuals/ Entities and their Associates
- Strategic Analysis on Affiliates/ Associates of Proscribed Organizations listed on 1st Schedule of ATA 1997 Role of Hawala/Hundi/Illegal Money Value Transfer Services (IMVTS) in ML & TF
- Virtual Currency - Emerging risk of Money laundering and Terrorism financing

b) Resourcing:

1) Hiring of Additional Analysts at FMU:

Since October, 2018, with the increased number of STRs / CTRs, FMU increased its strength of analysis team by hiring 06 officers, which increased the overall strength of Analysis Division to 15 officers. Out of these 15 officers, 05 officers having diversified experience and knowledge have been made part of FMU's TF Task Force led by Additional Director- Analysis.

2) Access of different databases by FMU for enhancing the quality of analysis and financial intelligence:

FMU has taken access of multiple key databases to enhance the quality of the analysis of TF related STRs / CTRs. For example, during the analysis of STRs / CTRs on the individuals proscribed / designated under 1373 or 1267, the access of NADRA database has helped FMU to make better linkages and to identify their associates. (Please refer to IO.6 RA-4 for further details on the database accessed by FMU).

Following case study depicts how effectively different databases are being used during the analysis of TF related STRs / CTRs and for developing the financial intelligence.

Case Study:

The transactional activity in the accounts of Mr. MHR was reportedly suspicious as the individual had been listed on Schedule-IV of Anti-Terrorism Act, 1997 since January 20, 2021 under Category A (Terrorism) due to his affiliation with Daish/ISIL/IS/ISIS. FMU received multiple STRs on the individual from different banks between January 21, 2021 and January 27, 2021. FMU analyzed all the STRs and identified his various personal and branchless banking accounts, which had been frozen by the banks under applicable TFS requirements. In addition to FMU's internal database, other databases i.e., NATCA's List of proscribed persons, NADRA's Family tree, FIA's immigration data and FBR's tax declaration were utilized to develop Financial Intelligence. During the analysis, a counterparty was identified using goAML with whom frequent transactions were made by the suspect before the freezing of his accounts. It was found from NACTA's database of proscribed persons, that Mr. MHR is allegedly affiliated with Daesh/ISIS. The detail of family members was obtained from NADRA's family tree and accounts of family members were traced, Assets were traced from FBR's database of assets declaration and his foreign travelling was checked from FIA's Immigration database, but no records were found. The intelligence was shared with CTD-Punjab on February 04, 2021.

c) Capacity Building

1) Capacity Building of FMU Analysts:

The following capacity building initiatives have been taken by FMU:

- NRA 2019 report was shared with all the analysts. Briefing sessions on the NRA were also organized for the analysts enabling them to prioritize their operational analysis on TF keeping in view the high-risk rating assigned to terrorism and terrorism financing in NRA 2019.
- The 05 senior analysts of FMU's TF Task Force having expertise in their field took part in 06 domestic and 02 international trainings related to TF during 2019.

2) Capacity Building of CTD Officials:

To raise the awareness of CTDs officials regarding AML/CFT and to assist them to understand how they can effectively use the financial intelligence products shared by the FMU with them, the FMU has taken multiple steps:

- FMU has conducted 02 training sessions/workshops for the officials of CTDs during the year 2018 and 2019 which were attended by approx. 55 officials from different CTDs.
- 01 capacity building session was conducted for the officials of CTD in 2020 via Zoom which was attended by more than 50 officials involved in TF investigation. FMU also conducts face to face meetings on monthly basis with the senior officials and focal persons of CTDs involved in TF Investigations to assist them in effective utilization of FMU's financial intelligence.

9.2.2 Prioritization, Resourcing and Capacity Building for LEAs:

a) Prioritization:

The following prioritization efforts have been undertaken with respect to LEAs:

- 1) LEAs are implementing a risk-based prioritization approach, targeting entities and channels that have been identified as high-risk for TF. A wide range of TF activity has been targeted by Pakistan in line with identified risks including cash smuggling, narcotics, illegal MVTS, misuse of NPOs, kidnapping for ransom, extortion, donations, etc., as reflected in the following table:

Table – 9.2.1 - Total TF Investigation Pre-MER and Post MER		
TF Risk Area	Pre-MER (end 2018)	Post-MER (end 2020)
Cash smuggling	0	35
Narcotics	0	33
Smuggling of natural resources	0	15
Illegal MVTS	0	26
Misuse of NPOs	0	145
Extortion	84	138
Donation	161	499
Kidnapping for ransom	6	14
Skin/hides collection	0	6
Total	245	911

- 2) Pakistan has established the mechanism of Joint Investigation Teams (JITs) under section 19 of ATA, 1997. NACTA has rolled out **SOP on JITs** and a standalone Prime Minister's approved **Policy on Financial Investigations in Terrorism Cases by LEAs**. These JITs are assisted by FIA, SBP, SECP and the FMU beside the provincial CTDs and intelligence agencies. These JITs are conducting financial investigations, including parallel financial investigations in terrorism cases. A total number of 520 JITs have been established throughout the country relating to TF. The breakdown of JITs constituted by years is provided as under:

Table – 9.2.2 - Progress on TF Investigations through JITs	
JITs Constituted (Pre-MER)	JITs Constituted (Post-MER)
0	520

- 3) **SOP on Parallel Financial Investigations** requiring LEAs to undertake parallel investigations in all terrorism cases was issued by NACTA on 05-11-2018. The SOPs clearly provide, inter alia, that financial investigations should be carried out against terrorist organizations/ members and for all terrorism cases.

- 4) **SOP on the Investigator-Prosecutor Cooperation in TF Cases** was developed and issued on 11th November 2019 to standardize the investigator-prosecutor cooperation in all provinces. NACTA has developed and disseminated this SOP on 11th November 2019 to ensure the full engagement of prosecutors with TF investigations from the inquiry and investigation stage and well before the scrutiny of evidence at the time of submission of challan (indictment) to the court. The LEAs and prosecutors were sensitized on implementation of the SOP during all subsequent capacity building sessions in 2020.
- 5) In order to reinforce the focus of investigating narco-trafficking and proceeds of smuggling, NACTA issued the **Directive on Investigating Wide Range of TF Activities** in November, 2020. The Directive, inter alia, requires carrying out investigations by ANF and Customs in all narcotics-trafficking and natural resources related seizures and referring the cases to CTDs in case of any TF suspicion or linkages. The Directive further requires Customs to evaluate seizures related to narcotics and natural resources on the similar pattern and also requires CTDs to coordinate with provincial mines, minerals, forest and excise departments for information on the seizures of narcotics and smuggling of natural resources. The authorities have further been advised to continue seeking international cooperation from respective jurisdictions in these risk areas wherever needed.
- 6) **NACTA's Directive on International Cooperation in TF Matters** was issued on 20th April 2020 which will continue to support authorities in pursuing MLA and informal international cooperation in line with the risk profile for targeting, investigating and prosecuting terrorist financing activities. The Directive lists down detailed procedures that should be followed by LEAs in accordance with law and international standards to pursue international cooperation in TF matters.
- 7) Instructions to Amend SOPs/JIT Procedures were issued by NACTA in November 2019 to include transnational TF threats findings of Profiles of Terrorist Organizations to LEAs and Prosecutors. The instructions were noted and incorporated in investigation procedures by CTDs.
- 8) NACTA in collaboration with Punjab Information Technology Board (PITB) and in consultation with provincial CTDs and other stakeholders has developed a comprehensive TF database, which is available via secure web portal. This comprehensive database has all the features, which are required for the TF analysis according to standard norms and practices. In TF database, the statistics of TF investigations and prosecutions are being maintained by the respective agencies with real time access to NACTA for analyzing TF activities in line with the risks. The LEAs dealing with TF cases can also utilize the newly developed database for making their internal analysis on the efforts towards TF investigations & prosecutions for achieving effectiveness. NACTA's database on TF investigations and prosecutions is proving helpful in analyzing trends in targeting the key sources, channels and entities mentioned in the NRA and the TF profiles of terrorist organizations.

b) Resourcing:

LEAs have taken a number of relevant steps in terms of resource allocation and enhancing TF investigations in line with the TF risks identified:

- 1) Provincial CTDs have established counter terrorist financing units (CTFUs). These CTFUs help in guiding investigators in conducting financial investigations in terrorism related cases. NACTA has also conducted awareness sessions for CTFUs to better understand financial investigation methods/techniques and provided guidance that how to enhance prosecutions in TF cases
- 2) An additional 106 trained/specialist prosecutors dedicated to TF investigations and prosecutions have been attached to CTDs in all provinces.
- 3) To address the high-risks identified in relation to cash couriers, law enforcement efforts focused on installation of scanners at land borders, deployment of joint dedicated teams with multiple LEAs at all operational border stations, establishment and functioning of Border Task Forces, establishment of a dedicated Cross Border Currency Movement Directorate to coordinate with other LEAs on ML/CFT matters, deployment of additional Customs Officers/Officials along the identified risk prone areas identified in the NRA, establishment of Directorate General of Law & Prosecution to effectively pursue goods and cash smuggling cases, development and deployment of Currency Declaration System at all entry/exit point in Pakistan to regulate currency movement, deployment of the Advance Passenger Information System at 7 major Airports in Pakistan. Moreover, Pakistan Customs has established a TF mechanism in cash smuggling whereby all cash smuggling related seizures are investigated from a TF perspective and in cases of suspected linkages with TF, the matter is referred to CTDs. As a result of these efforts, 35 TF cases related to cash smuggling have been investigated by LEAs.
- 4) ANF has adopted a TF mechanism in narco-offences whereby all narcotics related seizures are investigated from a TF perspective. There is now enhanced on-ground collaboration of ANF and provincial CTDs. As a result of these efforts, Provincial CTDs have registered 33 TF cases related to narcotics.
- 5) The authorities including FIA are taking risk-based measures to mitigate the TF risk associated with Illegal MVTS. The SOPs for illegal MVTS investigations include steps to be taken to identify any linkages to TF. As a result of these efforts, 26 TF cases related to illegal MVTS have been registered by LEAs.
- 6) **Inter-agency coordination** has been enhanced by putting in place institutional and operational mechanisms to combat terrorism financing and bring improvements in TF investigations and prosecutions as detailed below:
 - **National Task Force on CFT** established as a Policy forum at the national level for developing and implementing national CFT strategies and policies. This has 28 members including federal/ provincial LEAs, Intelligence agencies, Ministries of Finance, Interior, Foreign Affairs, NACTA, SBP, SECP, FMU and Provincial Home Departments. A total of 20 meetings of the Task Force have been held so far including 09 meetings since October 2018.

	• TF Sub-Committee of National Task Force was formed as a strategic forum at the national level providing guidance to all Federal and Provincial LEAs on operational matters in TF Investigations & prosecutions. This has 14 members including Provincial CTDs, Federal LEAs, NACTA, Mol, Intelligence Agencies, etc. Total 14 meetings of the TF Sub-committee were held so far including 11 post-MER meetings since October 2018. • Multilateral MoU: CTDs and the FMU are co-signatories to a multilateral MOU, coordinated by NACTA, with respect to information sharing and this arrangement is resulting in exchange of information and mutual assistance for TF investigations. • JITs: A mechanism of financial investigations through JITs has been established and implemented successful as elaborated above. 7) The LEAs, in line with risk identified in the NRA including transnational TF risks, have adopted risk-based approach with regards to misuse of NPOs for TF. The front illegal NPOs affiliated with international terrorist organizations/UN listed entities were identified and subsequently proscribed under ATA, 1997. Through a process of scrutiny and investigations against properties taken over of these front NPOs, a total of 145 TF cases involving over 600 properties of these front NPOs have been registered which resulted in large number of convictions and practical closure of these front NPOs. c) Capacity building: 1) UNODC Office Pakistan in collaboration with NACTA implemented a three-year project entitled "Support to Pakistan's Action to Counter Terrorism (PACT)" for improving the skills and knowledge of LEAs and Prosecution Department. The components of CFT have been included in the PACT Project which was prioritized and executed with the assistance of European Union. This project imparted training to the investigators, prosecutors and judiciary through a series of training workshops. Starting from September 2018, completed capacity building work plans for LEAs, prosecutors and judiciary for TF cases were completed till 2019. In total, 16 workshops were organized in which around 400 investigators, prosecutors, judges received trainings of which around 250 participants were from LEAs. These programs remained continued in 2020/21 and another 16 workshops were held till March 2021 in which 400 investigators, prosecutors and judges participated including 270 from LEAs. 2) In order to build capacity of LEAs interactive outreach sessions were planned and conducted by NACTA in all the four provinces and Islamabad with members of federal/provincial LEAs and intelligence agencies, in which all dimensions of TF risk were thoroughly discussed and participants' queries answered. These outreach sessions were focused on the threats of transnational TF covering inbound & outbound movement of funds. A total 17 such sessions were held by NACTA involving federal and provincial agencies since January 2019. 3) Federal and provincial LEAs also conducted further outreach sessions within their departments disseminating the TF risk understanding down the line, especially those involved in TF investigations. A total 49 such sessions were held by LEAs internally since January 2019 in which more than 700 investigators participated. 4) In order create awareness and build capacity of LEAs, NACTA on 12 May 2020 issued Directive/Guidance covering possible areas on ML/TF risks in Covid-19 situation and circulated to all LEAs, relevant federal and provincial authorities and financial regulators to take steps for effective mitigation. The authorities have disseminated the Directive down the line to their relevant staff and conducted outreach for risk mitigation. As an example, the guidelines issued by Punjab province on prevention of funding for terrorists and terrorist organizations in COVID-19 environment are attached. 5) With a bid to support LEAs and create awareness on evolving risks, NACTA developed and circulated a 'Brochure on ML/TF Risks in COVID-19 Scenario'. Pakistan has streamlined the hides collection on religious festival through administrative measures and awareness campaigns in all the provinces. As a consequence of increased awareness and enforcement actions, the instances of collecting donations through skin/ hides at religious festivals have drastically decreased.
JG Comments & Analysis	There was consensus in the JG that Pakistan has made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 9. The Joint Group considers recommended actions 1 and 2 to be key as they are strategically important and fundamental to Pakistan achieving further progress towards effectiveness. Recommended action 1 is key and is largely addressed. Pakistan has made the legal changes to its AMLA in 2019 that allows for FMU to spontaneously disseminate financial intelligence directly to all CTDs. The provincial CTDs are now one of the appointed law enforcement agencies responsible for investigating and prosecuting terrorism and TF. Pakistan has also set up CFT units within the CTDs to work with investigators on conducting financial investigation in terrorism cases. FMU has issued several guidance to CTDs in 2020 that related to the role of the FIU, and how the information is to be disseminated and the guidelines for handling the information as well as SOP for processing financial intelligence (includes checklist). Pakistan instituted the use of the goAML system for sharing of information between the CTDs and FMU. Pakistan reports that from Jan 2020 to March 2021, there were over 1300 messages exchanged between FMU and LEAs. FMU has disseminated 229 tactical intelligence products to CTD since March 2019 to March 2021 and out of that number, 147 led to TF inquiries. FMU has responded to 493 requests by CTDs during their course of TF investigations. Recommended action 2 is key and is largely addressed. FMU set up a TF task force in Nov 2019 to prioritize the STRs related to TF, which are specifically flagged at the outset by the reporting entities. The task force has 5

analysts under the Analysis Division that specialize in developing TF cases. The FMU has increased the overall number of analysts in the Analysis Division to 19 (11 at the time of MER). From May 2019 to Mar 2021, FMU has share 229 financial intelligence related to terrorism or TF. Pakistan continues to make use of the JIAs as interagency collaboration on specific terrorism cases including parallel financial investigations. There are other agencies that are have been given guidelines from NACTA to investigate their respective crime from a TF angle (ANF, FIA, Customs). Pakistan provided figures showing a greater increase in the number of TF investigations related to identified risks such as cash smuggling, narcotic trafficking, smuggling of natural resources, illegal MVTs, misuse of NPOs, kidnapping, etc. At the time of the MER, there were zero or very limited number of TF cases related to those predicates. There is a significant increase in the number after the MER shows greater focus and attention to these TF risk areas.

Immediate Outcome 10**1. Support DNFBPs to extend their TFS implementation against designated persons and entities or persons and entities acting on behalf of or at the direction of designated persons or entities.**

This recommended action is largely addressed.

10.1.1 Enforceable TFS Regulations and Reporting Mechanism for DNFBPs

Section 7H of the AMLA (as amended) requires all the reporting entities to implement policies and procedures to ensure their compliance with the provisions of this Act and orders, rules or regulations made thereunder that impose TFS obligations upon reporting entities. Moreover, the Section 6A(2)(f), (g) and (h) requires the AML/CFT regulatory authorities to monitor, supervise, conduct inspections, compel production of information and impose sanctions in case of non-compliance with the TFS Obligation.

http://www.fmu.gov.pk/docs/Gazetted_Copy_AMLA_passed_Majlis-e-Shoora_24_09_2020.pdf

Each AML/CFT regulatory authority has also issued regulations that covers TFS requirements: i) For **real estate, DPMS and non-ICAP/ICMAP accounting sectors**: FBR AML/CFT Regulations for DNFBPs, 2020, section 13 and ii) for **Accountants**: AML/CFT Regulations for Chartered Accountants Reporting Firms and of AML/CFT Regulations for Cost and Management Accountants Reporting Firms, section 25.

<http://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>

<https://www.icap.org.pk/files/per/aml/ICAPAMLCFTRegulations.pdf>

https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf

10.1.2 TFS Communication and Reporting Mechanism for DNFBPs

Pakistan has developed mechanisms to ensure prompt communication of designations and de-listing to DNFBPs. The concerned AML/CFT Regulatory Authorities: FBR, ICAP, ICMAP, Min of Law and Attorney General's office are included in the list of authorities to whom the SROs issued by MOFA are immediately disseminated. In addition, the said SROs, are also disseminated by FBR, ICAP and ICMAP to their respective RE.

As additional measure, FBR, ICAP and ICMAP are registered with the MOFA portal. Further, all RE under FBR, ICAP and ICMAP supervision are also registered on the MoFA portal. All SROs issued by MoFA are immediately disseminated to the Regulators, SRBs and the Reporting Entities under ICAP and ICMAP supervision.

10.1.3 Market Entry - Screening Mechanisms of DNFBPs

FBR, ICAP, ICMAP and PBC screen all their DNFBPs and associated persons against UNSCR 1267/1989 and 1988 and UNSCR 1373 list at registration / licensing and on an ongoing basis. (see additional details of *Market Entry Requirements and Outcomes in IO-3 RA-1*).

ICAP and ICMAP have in place a criminal record declaration obligation as part of the process for issuance / renewal of Certificate of Practice to the members. Further, the practicing members are now subject to TFS screening. (See Annex 9 of the ICAP/ICMAP RBS Framework for the Market Entry Policy).

FBR has in place a DNFBP registration system that operationalizes its market entry controls. Entities identified by the FBR as operating in DNFBP sectors must register with the FBR on this platform and provide a declaration of its "associated persons" (senior managers, directors, and beneficial owners) – as 88% of DNFBPs are sole proprietors, in most cases this is simply one individual.

TFS effectiveness Case Study

During the registration for DNFBPs, FBR has put in place a TFS screening for designated persons and entities, including possible associated persons. During March 2021, 06 positive matches against the domestic proscribed persons list were identified during the registration of DPMS and Real Estate Agents. The process of provisional registration of these DNFBPs was immediately terminated and were also debarred from future registration as DNFBPs. The record available with FBR was examined to identify any moveable/immoveable assets of these individuals for TFS measures. FMU was approached for the banking information in respect of these individuals. It was indicated that all the accounts of the proscribed persons were

already frozen by the banks at the time of proscription and banks had reported STRs at that time.

With the new information FMU has generated a fresh financial intelligence with regards to these individuals and shared with the relevant LEA's. FBR has also provided complete particulars of these proscribed persons to the provincial CTD's, MOI and Home Departments for necessary action under ATA, 1997.

TFS Guidelines

The FBR, ICAP, ICMAP and FMU have issued guidance on TFS obligations to their reporting entities through detailed guidance and FAQs. In addition, the FMU developed red flags for the DNFBPs, including TF & TFS indicators (See additional details of Guidelines and Outcomes in IO-3 RA-7).

The TFS Guidance and FAQs are available at the following link:

FBR: <https://www.fbr.gov.pk/Targeted-financial-sanctions-regulations/152366/152886>

ICAP: <https://www.icap.org.pk/files/per/aml/FAQs-on-TFS-Obligations.pdf>

<https://www.icap.org.pk/files/per/aml/Guidelines-TargetedFinancialSanctions.pdf>

ICMAP: https://www.icmap.com.pk/downloads/FAQs_on_TFS_Obligations_ICMAPakistan.pdf

https://www.icmap.com.pk/News_Pdf/GuidelinesTargetedFinancialSanctions_TFS.pdf

With technical assistance provided by the ADB, Pakistan developed Sector-Specific Compliance Program Manuals as interpretive guidance to support DNFBPs on the understanding and implementation of the AML/CFT obligations, including a TFS compliance program. These guidance documents were published in December 2020 and January 2021 and are available on the FBR, ICAP and ICMAP websites:

<https://www.fbr.gov.pk/aml-cft-legislation-regulations/152366/152370>

<https://www.icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf>

<https://www.icmap.com.pk/downloads/AML/AMLCFTGuidelinesforAccountants2020.pdf>

10.1.4 Capacity Building and Trainings of DNFBPs

DNFBPs are thoroughly briefed particularly about the TF risks, its assessment, and TFS obligations. Due to COVID, e-learning platforms were extensively used in 2020. A total of 06 such outreach sessions dedicated to TFS and TF risks were organized, and 1,094 live participants benefited from these sessions across Pakistan. Subsequently recorded views of the session's runs into 10,644 and is still growing. In addition, a CFT introductory video is available on YouTube as well as the FBR, ICAP and ICMAP website.

<https://www.fbr.gov.pk/introduction-aml-cft/152366/152367>

<https://www.icap.org.pk/aml-supervision/awareness-sessions/>

https://www.icmap.com.pk/aml_events_videos.aspx

Initial AML/CFT awareness and outreach sessions, which included TFS obligations, were held in 2019 and 2020. In addition to these e-outreach products, the UNODC sponsored sensitization and awareness trainings in all provincial capitals in 2019 and again in 2020. During these session more than 3 hours were utilised to explain and answer questions on TF Risks and TFS obligations, details of matching, freezing actions and reporting requirements. Further, the UNODC and ADB have extended their technical assistance in 2021 and will continue to support outreach of the Compliance Program Manuals in March to June 2021 as well. Depending on COVID situation, these sessions may be held virtually.

The focus of the outreach and awareness session has been on: i) Critical information relating to recent ATA amendments and their sectoral relevance, TF risk analysis and sectoral channels under Pakistan's NRA –covered by the National Counter Terrorism Authority (NACTA), ii) Sector-specific supervisory structure, compliance mechanism, sanctions regime and recent updates related to AML/CFT reporting and mandatory compliance – by designated AML/CFT regulatory authority and iii) application of TFS on TF, including demonstration of registration on MoFA's website and introduction to new sanctions regime for application of TFS and PF for private sectors –covered by MoFA and CTD. **(see additional details in RA4 of IO3).**

10.1.5 Supervisory activities

The FBR, ICAP and ICMAP have put in place wholly risk-based strategies/plans to prioritize both offsite and onsite supervisory work for their DNFBPs. One of the key areas of focus includes TFS. Inspection tool for TFS obligations include conducting testing of files and reviewing processes/systems used by the DNFBPs. As current inspection cycle is first for DNFBPs, major part of the supervision is spent increasing understanding of the reporting entities and their senior management of the importance of understanding TF risk, implementing TFS and its allied dissuasive sanctions (please see additional details in IO-3 RA-3). Also, details of enforcement actions are detailed in IO-3 RA-5.

2. Improve the collection and understanding of BO information to improve the implementation of TFS for facilities and services owned or controlled, directly or indirectly, by designated persons and entities (and those acting on their behalf of, or at their direction)

This recommended action is largely addressed.

10.2.1 Improvement of the regime for the Collection of BO information for Legal Person and Legal arrangements:

As provided in IO 5, the legal persons and arrangements (LPLA) legislation was updated. Amendments were made to the Limited Liability Partnership Act, Companies Act and the Cooperative Acts of all four provinces and the Islamabad Capital Territory (ICT) as well as to the Trust and Waqf Acts and supporting rules for the four provinces and ICT. The amended legislation imposes new requirements, including requirements to obtain, register and maintain up to date information on beneficial ownership of legal persons, trusts or waqfs. In addition, the information shall be made available to competent authorities and to reporting entities upon request (see additional details under RA# 2, 3, 4 and 6 of IO-5).

Since the promulgation of the newly amended BO related framework, all LPLA are now required to have obtained up to date BO information and to have provided such information to the relevant authority. Authorities in Pakistan are undertaking risk-based oversight to ensure compliance with this requirement, and where non-compliance is found, sanctions have been imposed. Efforts are being made to collect BO information of high risk LPLA (Features of high risk LPLAs have been provided in detail under IO-5).

Moreover, under the AML/CFT relevant regulations, the various AML/CFT regulatory authorities have required FIs and DNFBPs to ensure that they identify and understand the beneficial ownership and structure of their customers, including for legal person and legal arrangements. (For details, see RA#1 & 2 of IO3 and IO4).

10.2.2 Improvement in Understanding of BO Information for Legal Person and Legal arrangements:

Based on the amendments made in the Legal framework of Pakistan, all provincial authorities and SECP continued to conduct awareness raising sessions for its public sector as well as private sector as provided below. After each session, there was an extensive Q&A session which promoted the enhancement of the understanding by the participants. **(see additional details under RA# 1 and 4 of IO-5).**

10.2.3 TFS Screening mechanism and actions taken against facilities and services owned or controlled, directly or indirectly, by designated persons and entities (and those acting on their behalf of, or at their direction)

Pakistan has taken action to strengthen the implementation of its TFS regime in the registries of legal person and legal arrangement. This includes, introducing legal measures to:

- prohibits every partner or designated partner or officer of a Limited Liability Partnership from providing any assistance and funding including charity/ donation to the entities and individuals listed under the consolidated list (as mentioned above) with the advice to freeze without delay and without prior notice their funds or other assets and ensure compliance of the requirements as per SRO 49(I)/2020 dated January 27, 2020.
- Prohibit every officer of a Company from providing any assistance and funding including charity/ donation to the entities and individuals (and their associates) listed under the consolidated list (as mentioned above) and are advised to ensure compliance of the requirements (as per S.R.O. 31(I)/2018 dated January 12, 2018).
- Prohibits registration of a trust if any member of the trust if any of the member is a proscribed under the 1373 regime or listed under 1267 regime (Provincial Trust Acts, KPK s.16(2)(b), Punjab s.17(b), Sindh, s. 16(2)(ii) & Balochistan s. 16(2)(b).)

Moreover, authorities have implemented strict screening mechanism for every new incorporation/registration against UNSC Sanctions list as well as 1373 list. Further, each addition in the list is also being screened for immediate TFS implementation without delay.

SECP and all provincial home departments which administer Waqf, Trust and Cooperatives (WTC) are now a signatory to the MMOU for information exchange between LEAs and other authorities. The scope of information covered include transactions and activities relating to ML/TF. This allows LEAs to timely obtain and use the information regarding Ultimate BO of Companies, LLPs, Cooperative Societies, Trusts and Waqfs.

FMU and all LEAs have been provided the access through a designated login in the WTC portal. LEAs can access the portal on immediate basis for obtaining any information including basic and beneficial that is likely to assist FMU and LEAs in performance of their functions. FMU/LEAs can conduct country wide search of all WTCs through searches by identification number (in case of individual) or entity's name (in case of any WTC). (See additional details under RA#08 of IO-5).

The various actions taken have led to identification of 11 legal entities (front NPOs) acting on behalf of the UN designated persons and entities, which were domestically proscribed. The registration of these legal persons with the relevant authorities were cancelled and parallel investigations into their properties undertaken which have resulted in convictions involving legal persons.

Case study on action taken against Legal Person

UNSCR 1373 – Anti Terrorism Act, 1997 (4th Schedule) –

4 Individuals identified upon their designation in 2019 and 2020 under the 4th Schedule. Identification of 4 companies with linkage with those 4 individuals. The authorities have taken the respective actions with regard to the legal persons, including: Share frozen, Directorship Disqualified, Companies winding-up processed

Case study on action taken against Legal Person

Entity ABC (a legal entity) was registered for establishment for welfare activities as a front NPO of a designated entity. It transpired that a number of properties were held by entity ABC. Accordingly, entity ABC was proscribed under ATA, 1997 on 10 March, 2019 and the registration of ABC was cancelled/revoked on its proscription. Investigations were undertaken into the properties owned or controlled by ABC. The property details were obtained from concerned authorities. It further transpired that the properties remained in the control and possession of the office bearer (Mr. X) of entity ABC. The entity ABC along with its office bearer were charged for the offences under the TF provisions of ATA, 1997. Consequent to successful prosecution, following sanctions were imposed against entity ABC:

- Mr. x (the office bearer) of entity ABC, was convicted for imprisonment for 5 years & also fined.
- The properties in the name of the legal entity were forfeited in favour of the state.
- Entity ABC was also fined.

In addition, in order to identify persons acting on behalf of or at the direction of designated/proscribed persons or organizations, FIs also take action on the information received from competent authorities (LEAs, intelligence agencies, AML/CFT regulatory authorities and the FMU) for identification of the ultimate beneficial owner in a transaction. This is complemented by Red Flags/ indicators for identification of persons suspected to be acting on behalf of or at the direction of designated/ proscribed individuals or entities for appropriate implementation of TFS and the FI's own analysis on the basis of integrated TMS embedded with different scenarios. FIs use the following tools/ sources of information to identify beneficial owners: i) publicly available information, ii, risk screening database and iii) media reports.

- FMU's assessment of family members of designated/proscribed persons. Based on its assessments on ongoing basis, FMU shared details of family members of shortlisted designated/proscribed persons with FIs through their respective AML/CFT Regulatory Authority to identify the financial footprint of these family members. FIs identified

accounts/relationships of said family members and conducted their analysis. FIs have identified suspicious activity in some of these accounts indicating that the account may have been used on behalf of or at the direction of the proscribed/designated person and based on that 16 accounts were frozen by banks (2020). Moreover, banks also filed STRs with the FMU in relation to such accounts. Using the financial information received from the FMU in conjunction with the findings of field intelligence, 2 persons have been proscribed (2020) by the respective Home Departments for acting on behalf of a proscribed person

- LEAs' assessment of persons involved in property cases. LEAs had identified, and seized properties being used by designated entities and registered cases in relation to properties managed and administered by designated persons or associates. Details of such persons were also shared with FIs through their AML/CFT Regulatory Authorities to search for relationships/accounts as this be used to trace further assets/ potential associates through financial linkages. Accordingly, FIs screened portfolios against the information and froze 15 accounts, since MER, pertaining to the identified individuals for acting on behalf of or on direction of designated entities. Subsequently, the accounts were also reported to FMU as STRs.
- Screening against relatives of Proscribed Persons identified in SECP Regulated Sectors: In the first quarter of 2020, SECP introduced an additional approach to identify persons that might act on behalf of or at the direction of proscribed persons, i.e. collecting details of family members of proscribed persons whose assets had been identified and frozen by SECP regulated FIs. SECP shared this information with all FIs to conduct a search of their customer databases and their guardians, beneficiaries and nominees to establish any forward and backward linkages. Moreover, the exercise was conducted to assess whether the identified family members had any assets in the financial sector that they may be holding. Accordingly, all FIs have performed their screening and reported back that no match had been found.

Within the discussions of IO-10(h) with the JG, Pakistan has already reported taking over of more than 900 assets of EOCs. Within these assets a total of 99 properties were found to be linked with Legal Arrangements. During the Investigations, availability of BO information proved very helpful to identify the UNDPs/Associates related to the front-end organizations of these EOCs. These investigations and the identification of UNDPs/Associates through Pakistan's BO regime is reflective of the efficiency of the framework. The details are as under:

Table 10.2.1
Actions taken on the beneficial ownership aspect of designated persons/entities

Properties taken over the administrative ownership aspect of designated persons/entities			
Sr. No.	Name of Parent Organization	Name of Affiliated Organization	Total Properties seized/taken over
1.	Jammat-ul-Da'awa (JUD) & e-Insaniat Foundation (FIF) Falah-	Al-Anfal Trust, Lahore	78
		Al-Dawa-tul-Irshad, Pakistan, Lahore	11
		Al-Madina Foundation, Lahore	2
		Maaz Bin Jabal Educational Trust, Lahore	1
		Mosques & Welfare Trust, Lahore	3
		Al-Hamd Trust, Lahore	1
		Idara Khidmat-e-Khalaq, Lahore	1
2.	Jaish-e-Muhammad (JeM)	Al-Rehmat Trust, Bahawalpur	1
		Al-Furqan Trust, Karachi	1
Total			99

3. Demonstrate that monitoring of NPOs vulnerable to terrorist financing abuse is conducted without disrupting or discouraging legitimate NPO activities

10.3.1 Pakistan has taken a number of steps to demonstrate that it is applying focused and proportionate measures to NPOs which have been identified as being vulnerable to terrorist financing abuse since the MER. Many of these measures were documented in the various Progress Reports associated to Pakistan's Nomination Paper Action Plan. Such steps are as follows:

- Completing an NPO Sector Review in 2019.
- Completing an NPO Risk Assessment 2019.
- Promulgation of Charity Commissions to supervise legitimate NPOs in 2020.
- Completion of audits pertaining to 100 % of NPOs identified as being at a high-risk.

This recommended action is largely addressed.

- Continuation of audits pertaining to NPOs of medium & low risk (Completion by September 2022).
- Implementation of online registration for NPOs.
- Continuous outreach to at-risk NPOs.
- Continuous monitoring of at-risk NPOs.
- Public Awareness Campaigns.

10.3.1(a)

Pakistan's response to this recommended action will focus on the monitoring of legitimate NPOs registered with the various Charity Commissions, the federal NPOs registered with SECP and the INGOs registered with MOI. Pakistan has also taken measures to address illegal NPOs and front NPOs operating in the country. The efforts with respect to illegal NPOs were the subject of Pakistan's Nomination Paper Action Plan and those action plan items have been assessed to be largely addressed by the JG. Continued reporting on efforts relating to illegal NPOs has been made in Pakistan's Post Observation Period Report under IO.9 as that work stream is primarily the responsibility of the DICs and the CTDs.

It should be noted that Pakistan is aware that NPOs which operate with a high level of transparency, with good governance and with financial integrity are most likely to be resilient to the risk of terrorist financing abuse. Our oversight strategy therefore is to focus on administrative compliance with transparency, governance and financial integrity requirements as a preventative measure strategy against the risk of terrorist financing abuse. If, however, indicators of terrorist financing are discovered during the course of audit visits, CTDs will be notified to initiate a TF investigation should one be warranted. Pakistan uses the audit visits to check compliance with the regulations that govern NPOs while at the same time using these visits to share information on the risk of terrorist financing abuse, explain the new rules governing NPOs and offering the assistance of the Charity Commissions to NPOs as a source of information. As such Pakistan has developed a risk-based approach to monitoring NPOs that prioritizes those organizations considered to be most at risk based on certain risk indicators such as the activities of the organization, its economic strength, its funding sources, its geographical location and proximity to a terrorist threat.

10.3.2 Audit / Visit Plan of at Risk NPOs

As indicated, Pakistan is planning to visit every at-risk NPO over a three-year period to ensure that they are provided with information regarding the risk of terrorist financing abuse, introduce them to the new benefits and responsibilities of being registered organizations under the various Charity Commissions, along with conducting audits of their operations to ensure compliance with the new regulations. Visits pertaining to organizations identified as most at risk were completed in 2020 but follow up is ongoing to ensure that any NPO identified with shortcomings have rectified any issues. The following table outlines the audit/visit plan for NPOs identified to be at risk of terrorist financing abuse.

Table - IO-10.3.1														
Audit / Visit Plan for NPOs														
Ser	Province	Total NPOs	High Risk	Med / Low Risk	Inspection Model	%age	1 st Qtr (Dec 20)	2 nd Qtr (Mar 21)	3 rd Qtr (Jun 21)	4 th Qtr (Sep 21)	5 th Qtr (Dec 21)	6 th Qtr (Mar 22)	7 th Qtr (Jun 22)	8 th Qtr (Sep 22)
1	Punjab	7986	1307 (already audited)	7458	Two Years	12.5%	933	933	932	932	932	932	932	932
2	Sindh	5148		4471	One Year	25%	1118	1118	1118	1117	-			
3	KPK	1073		1047	One Year	25%	261	262	262	262				
4	Balochistan	1549		1534	One Year	25%	383	383	384	384				

5	ICT	202		197	One year	25%	50	50	50	47				
	Total	15958	1307	14707	-	-	2745	2746	2746	2742	932	932	932	932

By March 31, 2021, Pakistan had completed audits/visits of 5491 medium risk NPOs with corresponding enforcement actions against violators including warnings, show cause notices and in some cases de-registrations. Regular follow ups of these enforcement actions show increased compliance. For further details regarding the compliance actions and follow up on those organizations already audited, please refer to Action Item IO.10(i) of Pakistan's AP Progress Report from the February 2021 Plenary which was assessed by the JG as being Largely Addressed.

10.3.2 (a) The following table outlines the results of the follow up monitoring visits risk NPOs that were conducted from 1 January to 31 March 2021:-

Table - IO-10.3.2 Monitoring of at Risk NPOs					
Ser	Province	Monitoring Conducted (Jan – Mar 2021)	Violations Observed	Nature of Violations	Enforcement Actions
1	Punjab	79	3	- Members book not updated - Improper Record keeping - Slow Progress on Instructions	Warnings Issued
2	Sindh	102	5		
3	KPK	4	2		
4	Baluchistan	2	1		
5	ICT	5	–		
Total		192	11		

10.3.2 (b) INGOs

INPOs are required to sign an MOU with MOI at the time of their registration containing detailed obligations for the INPOs along with timelines, information about operations, frame of operation, area of operations, verification of projects, annual plans of action, annual reports and audited accounts (<https://ingo.interior.gov.pk/>). Monitoring is done on the basis of deficient information/ documents required to be provided by INPO. Pakistan has established an INGO committee constituted for registration and monitoring of INPOs consisting of members of law enforcement agencies and regulators.

Moreover, additional measures are also taken with respect to the accountability of INGOs, including:

- Online portal as a register of INPOs.
- INPOs are required to submit details about their objectives, their activities, information pertaining to the source or sources of income and details with respect to their expenditures.
- Requiring entities to keep accurate accounting records of all transactions and daily income and expenditure and requiring that annual statements of account are maintained and annual audited accounts.
- INGOs are liable to audits and inspections of their accounts and operations at any time upon notice by authorities.
- Moreover, INGOs are liable to have their registration cancelled if they breach security, or if they are found to be involved in any activity inconsistent with Pakistan's national interest or found to be non-compliant with provision of the MOU and INGO policy 2015.

10.3.3 Awareness Campaigns

As noted above, Pakistan is ensuring closer coordination with legitimate NPOs to disseminate information about the obligations under newly enacted charity laws. In this regard, authorities

continue to approach NPOs on risks related to TF abuse. NACTA in collaboration with SECP, the Pakistan Centre for Philanthropy (PCP) and the Pakistan Peace Collective (PPC) has undertaken a series of activities / sessions across the country on safer charitable giving. The Charity commissions are involved in a continuous process of outreach to at-risk NPOs and public at large for not engaging in unlawful charitable activities. During the awareness, NPOs understanding on the TF risk is assessed; information on compliance requirements and guidance is also shared with office bearers. The commissioners also carryout outreach to NPOs in order to raise awareness of the risk of TF abuse. The outreach by the respective commissioners includes the following areas:

- Knowledge of NPOs about NPO regulation frameworks.
- Good Governance by the NPOs.
- Adoption of Best Practices.
- Know your Employees.
- Know Your Donors.
- Know Your Beneficiaries and Partners.
- Use of banking channels for financial activities.

10.3.3 (a) In order to interact with NPOs and to ascertain any hurdles being faced and to develop best practices by consulting the NPOs regarding getting their input on proposed new policy initiatives, a high-level committee consisting of relevant stakeholders and representatives of NPOs under MoI has also been formulated.

4. Ensure up-to-date TF risk information is proactively shared with NPOs (both those operating within and outside Pakistan) on an ongoing basis and the NPOs are supported in their TF risk mitigation actions.

This recommended action is largely addressed.

10.4.1 The response to this recommended action will be given in following sequence: -

- Proactively sharing of up-to-date TF risk information with NPOs.
- Support NPOs in TF risk mitigation.

It should be noted that Pakistan is aware that NPOs which operate with a high level of transparency, with good governance and with financial integrity are most likely to be resilient to the risk of terrorist financing abuse. Our oversight strategy therefore is to focus on administrative compliance with transparency, governance and financial integrity requirements as a preventative measure strategy against the risk of terrorist financing abuse. Pakistan uses the audit visits to check compliance with the regulations that govern NPOs while at the same time using these visits to share information on the risk of terrorist financing abuse, explain the new rules governing NPOs and offering the assistance of the Charity Commissions to NPOs as a source of information. Audits of all NPOs that are considered most at risk of terrorist financing have already been completed and Pakistan has an audit plan that covers all remaining NPOs at risk of terrorist financing abuse which is on track to be completed by the end of 2022.

10.4.2 Proactively sharing of up-to-date TF risk information with NPOs

- **TFRA 2018 & NRA 2019.** Pakistan conducted its TFRA in 2018 which covered the NPO sector and determined the terrorist financing risks faced by NPOs. Pakistan's NRA was updated in mid-2019 as part of Pakistan's ongoing national effort to keep the national risk assessment updated. The NRA contains an assessment of inherent TF threats & vulnerabilities as they relate to the NPO sector in Pakistan. In developing the updated NRA, Pakistan leveraged various reports, typologies, and assessments conducted in the previous 2 years, combined with relevant updated information from LEAs and supervisors. Pakistan has shared the NRA with competent authorities, including Social Welfare & Industries departments for dissemination of relevant contents with NPOs during outreach, training & awareness sessions. The Social Welfare and Industry Departments have ensured that relevant extracts are shared with NPOs during audit and outreach visits either by charity commissions or during their independent visits. For details of NPOs so far visited refer to Table -IO-10.3.1.

- **NPO Sector Review** After conducting the NRA, Pakistan carried out an NPO Sector Review in October 2019. As part of the Sector Review, district wise vulnerabilities were assessed on the basis of key statistical parameters including population, rural-urban divide, literacy rate, growth rate, incidence of calamities and natural disasters, law and order situation, multi-poverty index, human development index, etc. All districts of Pakistan on the basis of available data were awarded risk ratings of low, medium or high. This risk classification was correlated with the NPO data obtained through NPO mapping exercise to award risk ratings to NPOs at the entity level. The Sector Review also analyzed weaknesses and inconsistencies in regulatory and governing mechanism of the broader NPO Sector. An entity level risk assessment helped authorities with a risk-based supervisory approach that focuses on those NPOs which were most at risk of TF abuse and formed the basis for prioritizing onsite inspections.
- **Outreach Sessions**
 - To train and share the TF risks, Pakistan continues its outreach and media campaign to the NPO sector as well as the public at large in order to raise awareness of the risk of TF abuse facing the NPO sector and to educate them on AML/CFT requirements and compliance with international standards.
 - The enactment of Charity laws has further strengthened the system by providing direct oversight of NPOs. Respective Charity Commissions are also in continuous process of outreaching NPOs. For the purpose of outreach, a comprehensive plan was prepared at provincial level which is being followed by authorities as shown in Table-IO-10.4.1. For far flung NPOs, facilitation centers have also been established to create awareness and educate NPOs about TF risks.
 - As part of outreach to NPOs, NACTA in collaboration with SECP, the Pakistan Centre for Philanthropy (PCP) and the Pakistan Peace Collective (PPC) also undertook a series of activities/ sessions across the country. The outreach included elements and findings of NRA & guidance on TF Risks. The NPOs were selected for the sessions keeping in view their risk and were invited. Details are given in table below:

Table IO - 10.4.1 <u>Outreach Sessions</u>			
Awareness Session	Date	Location	Participants from NPOs
First	4-5 November 2019	Quetta	40
Second	21-22 November 2019	Karachi	36
Third	5-6 December 2019	Islamabad	26
Fourth	19-20 December 2019	Peshawar	49
Fifth	Last week of December	Lahore	124

- During the outreach sessions, the participants are apprised as to how the NPOs can be abuse for TF and what necessary measures are required to be taken to prevent misuse of NPOs.
 - Outreach sessions are held across the countries which are attended by participants from NPOs. The participants are given a copy of the CFT guidelines in the sessions and are also informed that same is available on the SECP's and NACTA's websites.
- **SECP Guidelines to reflect understanding of TF risk:** SECP has also issued very detailed guidelines to assist the NPOs in better understanding of TF risks. Salient are given below: -

- Assist NPOs by serving as a tool for prevention from TF abuse by raising awareness of NPOs on issues related to due diligence related to donors, investors, their operations and their beneficiaries. In additional stressing the importance of using legitimate financial channels to conduct their transactions.
- Assist NPOs to comply with the CFT framework.
- Guide NPOs in developing a risk-based approach and to re-evaluate or strengthen their internal controls to guard against misuse of charitable funds into terrorist activity or their support networks.
- Facilitate NPOs in creating awareness amongst their employees, and amongst other stakeholders, regarding the best practices contained in these guidelines.
- **Onsite visits by Charity Commissions**
 - Planned monthly onsite visits are being conducted to educate the NPOs about TF risks. Safer charities practices are highlighted, and evolving trends are also shared with NPOs by the charity commissions.
 - Teams from each charity commission carry out at least one visit per month to a selected district and conducts a risk-based review of NPOs.
- **Central Registry – FBR.** Central registry of all NPOs has been created in the country and is being maintained by FBR, to collect information on an annual basis and ensure those not filing annual returns are deregistered. It also allows for both screening and monitoring processes. For this purpose, FBR is having provincial, regional and divisional offices all over the country equipped with professional staff. The online portal is functional, and all the charities are required to register themselves on the portal. To ensure an appropriate level of transparency to the general public, certain non-confidential information regarding registered NPOs can be found on the internet at the following website: www.mis.charitycommission.punjab.gov.pk/public_search_charity.aspx

10.4.3 **Support NPOs in TF Risk Mitigation**

- **Audit of NPOs**
 - In order to efficiently mitigate the risk of TF abuse, Pakistan chalked out a comprehensive plan for 100 % audit of NPOs in Pakistan, starting with the 1307 NPOs identified as most at risk. As stated, these audits are also opportunities to meet with NPOs face to face and share risk information with them in addition to introducing them to the new requirements as registered NPOs.
 - Adopting RBA, Pakistan commenced with inspections of high risk NPOs from January 2020 onwards, where 25% of High Risk NPOs were to be inspected every quarter to ensure that all high risk NPOs were inspected at least once in a year. So far, 100 % high risk NPOs have been audited, however, by September 2022 all medium and low risk NPOs would also be visited.
 - As a result of these audits, a number of enforcement actions including deregistration, warnings and show cause notices were taken which sufficiently helped in mitigating the TF risks.
 - During the course of these visits, it is ensured that up to date TF information is shared with NPOs. Red flag indicators were developed for NPOs to guide the compliance side of these visits. Such indicators include links, sources of income, use of multiple accounts, donors, cross border linkages.
- **Capacity building training workshops**
 - NACTA carried out the Training of Trainers belonging to provincial departments to carry out sustainable outreach for NPOs. This enabled provincial departments dealing with NPOs sector to have their own human resource for raising understanding of TF risks, trends, threats, and emerging patterns of TF link with NPO sector as per national risk assessment. The trainers subsequently are now training the CEOs & office bearers of NPOs to understand and mitigate the risk of TF abuse through the outreach activities planned by all provinces.
 - In addition, training of charity commissions is also a continuous process. Officers / staff of charity commissions are being trained through virtual programs owing to Covid-19. So far, 800 officers and staff of charity commission have been trained to meet the emerging requirements of managing the NPOs all across Pakistan. Moreover, 700 representatives of different NPOs have also been trained on online registration methodology in last 6 months (September 2020 to February 2021).
- **Collaboration of Mol & NACTA on NPOs.** NACTA developed a detailed outreach presentation which was shared by Mol with provincial departments dealing with NPOs and further dissemination for awareness to NPOs in all provinces. Those materials were disseminated to provincial departments to be shared with officers dealing with registration and monitoring of NPOs.

10.4.4 Media Campaigns

- **Sacrificial Eid.** For Sacrificial Eid, the Government launches a media campaign so that skin hides are not collected by people not legally authorized. NACTA in collaboration with UNODC under the Japan Funded Project “Strengthening the Response of Pakistan to CFT” launched a 10-day (July 31st to August 9th, 2020) media campaign on the occasion of Sacrificial Eid regarding raising awareness among the public to sensitize them about donations and the disposal of the skin/hides of the sacrificial animals in a sagacious way so that it will not be misused.
- **Safe Charities Practices by NACTA.** Safe charity practice campaigns are launched by NACTA in order to promote awareness among masses in general and NPOs in particular. The campaigns have been ongoing since 2019 on following important events: -
 - Holy Month of Ramzan
 - Eid-ul-Fitr
 - Sacrificial Eid

The practices are considered very helpful in mitigating the risk of TF abuse by NPOs.
- **Pakistan Peace Collective (PPC) Initiative.** The PPC, an NPO itself, in collaboration with authorities, also launched an advocacy campaign to create public awareness on safer charity practices through national and regional newspapers, TV and radio channels, social media, mobile messages and mobile wrapping. Major activities included public service messages on safer charity through electronic media, mobile vans painted with messages promoting safer charity practices, whiteboard animations & videos for safe charity campaigns etc. These may be accessed at <https://haqdaar.gov.pk/about/>. Further, a nationwide mobile campaign was initiated through all cellular mobile to promote safe charity practices.
- **Press Advertisements.** The provinces also periodically issue public advertisements, focusing on safe charities practices. Press advertisements were published in following months: -
 - August 2020
 - January 2020
 - March 2021
- NACTA has also developed a **helpline 1717** and a mobile app ‘**Chaukas**’ to report any suspicious activity with regard to TF. The initiative is considered to be an important tool in mitigating the TF risk abuse by NPOs.

5. **Given Pakistan’s extensive use of its domestic proscription authority, Pakistan should nominate additional individuals and entities for designation at the UN, and should extend requests to other countries for UNSCR 1373 consideration in an effort to enhance the impact of sanctions beyond Pakistan’s jurisdiction.**

This recommended action is partially addressed.

10.5.1 Nominations under the UN-Sanctions Regime

Pakistan has an institutional framework in place to consider listing proposals to the 1267 UNSC Sanctions Committee. Pakistan constituted a *Committee on Listings and De-listings* vide S.R.O No. 1014(I)/2018 dated 24 August 2018 (Pakistan Listing Committee). The mandate of the Committee is to propose names of individuals and entities for listing by the UN Security Council 1267 & 1989/2253/2368 (Al-Qaida/Da’esh Sanctions regime). The Committee comprises of the representatives of MoFA, Mol, NACTA, and intelligence agencies.

During 2019 Pakistan submitted listing proposals for four individuals for designation to the UNSC 1267 Sanctions Committee, which did not meet the necessary evidentiary threshold for listing, and the individuals were accordingly not designated

The Pakistan Listing Committee meets regularly, every quarter during the year and holds special meetings whenever necessary. It continues to work on the identification of targets for designations proposals, including associates of the UN-Designated Terrorist Persons and Entities. The Pakistan Listing Committee has considered additional six listing proposals during 2020. These proposals will be submitted to UNSC 1267 Sanctions Committee during 2021.

10.5.2 Domestic Sanctions Regime

Pakistan has an effective domestic sanctions regime in compliance with UNSCR 1373. Under this regime, Pakistan has put in place mechanisms enabling the designation of terrorist organizations and persons associated with terrorism at the national level and the consequent application of immediate sanctions.

The domestic sanctions list under UNSCR 1373 (ATA 1997) predominantly comprises Pakistan nationals living within Pakistan's territorial jurisdiction. However, a few foreign nationals living in Pakistan have also been placed on the Fourth Schedule of the ATA-1997. For instance, Pakistan had placed 10 individuals (Afghan nationals) on its Fourth Schedule during previous years for their association with EOCs. No assets were found against these individuals.

These individuals were removed from Pakistan's domestic sanctions list during the review of its Fourth Schedule by Pakistan (2019-20), however authorities continued to monitor them to determine any event of recidivism until these individuals moved back to Afghanistan. During February 2021, Pakistan notified Afghanistan that these individuals have moved back.

While extending requests to other jurisdictions for UNSCR 1373 designations, Pakistan keeps into consideration the following provisions of the resolution:

***Para-2(b)** Take the necessary steps to prevent the commission of terrorist acts, including by provision of early warning to other States by exchange of information;*

***Para-2 (d)** Prevent those who finance, plan, facilitate or commit terrorist acts from using their respective territories for those purposes against other States or their citizens;*

***Para- 2(f)** Afford one another the greatest measure of assistance in connection with criminal investigations or criminal proceedings relating to the financing or support of terrorist acts, including assistance in obtaining evidence in their possession necessary for the proceedings.*

10.5.3 International cooperation and information sharing on designated persons and entities

In addition, for further consideration for request to other jurisdictions for designations, Pakistan monitors whether domestic proscribed individuals and organizations have linkages with any associates in foreign jurisdictions. FIA and FMU regularly exchange information with foreign counterparts on both 1st and 4th schedulers.

During 2020, FIA has sought information about EoCs and certain domestically listed persons to 10 countries in both the cases regarding 4th schedulers and 1st schedulers.

FMU has sent 36 requests for information to its foreign counterparts regarding entities of concern.

In order to enhance the effectiveness of 1373 sanctions, Pakistan has approached a number of countries to seek information/assistance in regard to possible associates of some 4th schedulers on the basis of attempted banking transactions from those countries into the frozen accounts of 4th schedulers.

JG Comments & Analysis

There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 10.

The JG considered that Recommended Actions 1, 3, 4 and 5 for IO.10 are key Recommended Actions, since they include priority actions from the MER and are of significant importance based on Pakistan's risk and context.

Recommended action 1 is key and is largely addressed. Pakistan has undertaken a wide range of supervisory activities relating to DNFBPs to extend their TFS implementation. Designations are immediately disseminated to DNFBPs and to the necessary AML/CFT regulatory authorities ensuring prompt communication of listings and de-listings. The evidence provided also details guidance and training that has been made available to support DNFBPs, as well as the extent of engagement on each of these. There has been engagement with these outreach programmes, with 6 outreach sessions having been run and over 10,500 recorded views of these sessions, indicating a high level of engagement with these resources. A series of supervisory activities are ongoing and Pakistan has indicated that 203 inspections have taken place. This is the first inspection cycles for DNFBPs, and

Pakistan should continue to monitor the extent of any non-compliance with TFS obligations that is detected as part of this process. On the basis of the steps Pakistan has taken to support DNFBPs to extend their TFS implementation, a rating of largely addressed is justified.

Recommended action 2 is largely addressed. Further to IO.5, Pakistan has updated legislation which imposes new measures relating to beneficial ownership. This has included updated regulations imposing requirements to obtain and register details of beneficial owners. Pakistan has also made progress by taking action to strengthen implementation of its TFS regime in the registries of legal persons and legal arrangements by introducing a series of legal measures and screening new registrations against UNSC sanctions lists. This has led to the identification of 11 legal entities and investigations of 98 properties. Whilst this action is considered largely addressed, there are ongoing concerns relating to BO which have been identified in IO5.

Recommended action 3 is key and is largely addressed. Pakistan has taken a significant number of steps targeting NPOs vulnerable to TF abuses. This has included an NPO sector review and risk assessment, outreach and monitoring of NPOs. Pakistan completed the auditing process against all NPOs considered to be at high risk in 2020 and has commenced the auditing process of medium risk NPOs (5491 audits complete). A series of awareness raising campaigns have also been completed to disseminate information under newly enacted charity laws. This amounts to tangible progress to monitor NPOs vulnerable to TF and this action should accordingly be considered to be largely addressed.

Recommended action 4 is key and is largely addressed. Pakistan's auditing plan of NPOs is ongoing and on track to be complete by the end of 2022 (all NPOs considered at highest risk of TF have been audited and the audit of medium and low risk NPOs will be completed by September 2022). These audits check for compliance whilst also sharing information on TF abuse and explain the new rules and outreach has been fairly comprehensive (e.g. finished all high risk NPOs and 5491 medium risk). Additionally Pakistan has run a series of outreach sessions which included over 250 NPO participants and has put in place guidelines for understanding TF risk and complying with CFT framework. Pakistan should continue its planned programme of onsite visits by charity commissions. The above measures indicate that this action has been largely addressed.

Recommended action 5 is key and is partially addressed. Pakistan has provided evidence of 4 individuals who were nominated for listing under UNSC1267 in 2019 and considered for listing through 2020. The nominations were not deemed to have met the necessary evidentiary threshold for listing, and the individuals were accordingly not designated. Pakistan has indicated that it plans to make an additional 6 nominations to UNSC1267 Sanctions Committee during 2021, and indicated that this process has begun. It was not possible to give any further information of these listings at the time due to the confidential nature of the nominations. The MER included a priority action for Pakistan to nominate additional individuals and entities for designation at the UN, and to extend requests to other countries for UNSCR 1373. This was considered appropriate given Pakistan's risk profile and the high number of domestic proscriptions. An item has been included in the Action Plan asking Pakistan to provide evidence that it is taking action to use UN nominations and international requests to enhance the impact of sanctions beyond its jurisdiction.

Immediate Outcome 11

Low

Immediate Outcome 11

1. Address TC deficiencies highlighted in R.7 and strengthen Pakistan's legal framework for implementing TFS for PF without delay.

Pakistan has developed a comprehensive legal framework to implement FATF Recommendation 7. Pakistan has provided a full report of compliance against R.7 in its October 2020 Follow Up Report (FUR).

In implementing the framework, the SROs issued by the MoFA are timely disseminated to all AML/CFT and CPF authorities:

Dissemination of SROs without delay: MoFA has a dedicated e-portal (<http://202.83.172.66/app/signup/>) for the timely dissemination of the SROs "without delay" to all relevant stakeholders. The notification of any new SRO is immediately disseminated to 4233 registered AML/CFT regulatory authorities, CPF authorities, REs and other relevant stakeholders. Moreover, SROs are also published on the MoFA and SECDIV websites soon after their issuance (<http://mofa.gov.pk/unsc-sanctions/> & <http://www.secdiv.gov.pk/page/sro-unscr-sanctions>).

Moreover, all AML/CFT regulatory authorities, and other stakeholders have implemented in their internal systems the timely dissemination of SROs once issued by MoFA. The AML/CFT regulatory authorities electronically disseminate the SROs to respective REs registered in their data base, as an additional measure:

- SECP and SBP upon receipt of SROs by the MoFA e-portal, electronically circulates the SROs to their respective reporting entities which receive instant notifications on the issuance of SROs.
- CDNS and Pakistan Post have direct mechanism to circulate SROs electronically to its officers.
- FBR-DNFBPs, ICAP and ICMAP disseminate the relevant SROs electronically to their respective reporting entities as soon as they are issued by MoFA.
- PBC is included in the list of authorities to whom the SROs issued by MoFA are immediately disseminated.

Other stakeholders which include FBR-Customs, Ministry of Commerce (MoC) and Ministry of Maritime Affairs (MoMA) have also installed similar internal systems for timely dissemination of SROs to their respective stakeholders.

This recommended action is largely addressed.

2. Continue to expand the work of the CRMC, conduct outreach, and provide guidance to the private sector on TFS related to PF, including how to identify sanctions evasion activity being conducted on behalf of listed individuals and entities.

11.2.1. Expand the Work of CRMC

As indicated in IO 1 (RA # 7), the Federal Government constituted an Inter-Ministerial Committee CRMC in August 2018, in order to strengthen the implementation and enforcement of UNSCRs related to PF and to further strengthen the Countering Proliferation Financing (CPF) mechanism and domestically coordinate the processes. CRMC has replaced IET which was constituted in August 2016 and had limited mandate of inspection and enforcement related to UNSCRs and SECA – 2004. The IET was composed of 6 permanent ex-officio members (representing Pakistan Customs, Civil Aviation Authority, Ministry of Ports and Shipping, Intelligence, FIA and Disarmament Division of MoFA, and technical experts on required basis).

CRMC is a platform for coordination and exchange of information which is chaired by DG SECDIV. It has further expanded on the mandate of IET and comprises 21 members to include, along with the CPF authorities, all AML/CFT regulatory authorities, law enforcement authorities and government Ministries. The core mandate and functions of CRMC are: a) coordinate, review and monitor the implementation and enforcement of the SROs issued pursuant to UNSCRs covering CPF; b) issue guidelines or operational procedures in compliance of the UNSCR on CPF; c) exchange information amongst its members on regular basis in order to perform its functions and d) To conduct outreach to stakeholders for awareness and performance of its functions.

In line with the National Strategy, the CRMC developed a strategic approach to implement its mandate and guide its functions for seamless coordination and cooperation at the policy and operational level with regard to CPF and related sanctions evasion, by providing a platform for raising awareness of the CRMC Members of the CPF obligations, implementation issues and other ancillary matters.

This recommended action is largely addressed.

Since its establishment, the CRMC has held 14 meetings (8 plenary meetings and 6 sub-group meetings) as detailed below to coordinate and monitor the implementation and enforcement of the UNSCR related SROs.

The meetings, among other things, considered issues such as improving the effectiveness of implementation of UNSCR and guidance to relevant authorities to prevent sanctions evasion (ie, discussing and sharing international reports, including the DPRK panel reports), raising awareness and guidance on outreach (for example guidance to SBP for FIs to limit the accounts of DPRK diplomats to one account pursuant to UNSCRs), including tools and methods for conducting outreach and capacity building as well as seeking reports on the status of implementation.

Table 11.2.1: Schedule of CRMC Plenary Meetings

S #	No. of Meetings	Date of Meeting	# Participants	Outcomes
1	1 st CRMC Meeting	6 September 2018	25	CRMC introduction and reasons for establishment, awareness on UNSCR, information about reconfiguration of WeBoC RMS, instructions for outreach and joint activities where possible.
2	2 nd CRMC Meeting	22 November 2018	28	Update on new SROs, plan for outreach, issues related to implementation of UNSCR resolutions including scrutiny of financial activities of DPRK nationals and confirmation on limiting DPRK diplomats' accounts.
3	3 rd CRMC Meeting	25 March 2019	20	Discuss observations of APG MER 3 rd draft, legal consultation on relevant matters. Discussions on outreach strategy.
4	4 th CRMC Meeting	30 October 2019	22	Review of draft guidelines, deliberate APG MER observations, enhancing coordination through the CRMC platform, referral to 2008 FATF typologies report, under process amendments in legal statutes, limited liability partnership, submission of compliance reports on outreach, outreach by Ministry of Commerce, immediate reporting of suspicious attempted transactions.
5	5 th CRMC Meeting	31 December 2019	19	Status update of decision taken in earlier meeting, discussion on changes in guideline document, update on comprehensive SROs on DPRK and Iran, update on outreach activities, responses to clarification by stakeholders, amendment in import / export policy orders.
6	6 th CRMC Meeting	6 May 2020	21	Update on implementation of CRMC decisions, update on the steps taken by MoFA in relation to FATF, format of reporting outreach activities and the status of execution, development of the template for monitoring.
7	7 th CRMC Meeting	2 November 2020	28	Update on FUR, next steps for preparations of PoPR, , adoption of tracking sheet, integration of guidelines into respective regulatory systems, strengthening the inspection mechanism at entry / exit points.
8	8 th CRMC Meeting	30 March, 2021	19	Updates on recent developments, upgradation of Helplines, CRMC coordination strategy, tracking sheet, update on proposed change in Import / Export policy order, briefing on the finalization of PoPR.

As a result of the work carried out by the CRMC, in September 2020, comprehensive guidelines were issued in September 2020 for the relevant authorities to assist them to effectively implement TFS for PF. The guidelines included topics such as red flags to identify and report on sanctions evasions. These guidelines have been integrated in internal policies of the AML/CFT regulatory authorities and has helped to improve internal regulatory and monitoring functions. With the inception of CRMC, the scope and coverage of outreach activities has become institutionalized, coordinated and wide ranging due to addition of other Ministries / Departments as Members.

In addition, CRMC has developed a tracking-sheet in November 2020 to seek inputs and to monitor the activities carried out by its members to for the effective implementation of TFS for PF. This tracking sheet shall be updated to monitor and track the progress and reflect implementation of CRMC decisions and strategic priorities. Data/input fields reflected in the tracking sheet are

required to be submitted to CRMC on quarterly basis for regular and effective monitoring. The monitoring of compliance at the level of the CRMC helps in identifying any common compliance challenges requiring multiple stakeholder coordination within the CRMC platform.

11.2.2. Conduct Outreach

A three-tiered outreach strategy is followed as below: i) Outreach from the platform of CRMC, ii) Outreach by AML/CFT/CPF regulatory authorities, and iii) Internal outreach by REs

11.2.2(a) Outreach from the platform of CRMC

The legal framework provided by the UNSC Act, AMLA and ATA with respect to PF has been explained in the CRMC Guidelines. Moreover, the CRMC meetings provide a platform for outreach to the CRMC members which include AML/CFT regulatory authorities, enforcement agencies and Government Ministries.

This first tier of outreach sensitizes and raises awareness of the members about TFS for PF obligations and issues related to their implementation. In addition, the CRMC meetings also afford an opportunity to discuss details of and seek feedback on outreach activities conducted at all levels by its members, as in addition to the guidance provided by the CRMC, AML/CFT regulatory authorities, enforcement agencies and relevant government Ministries can conduct additional outreach activities in accordance with their specific mandates for their respective REs and stakeholders.

In its capacity as the Chair of the CRMC, SECDIV conducts outreach activities. In this regard, SECDIV has been developing annual plans for outreach and capacity building which entails interactions with the academia, business communities, research institutes, clearing agents and enforcement agencies.

Other CRMC Members also take part in outreach activities conducted by the AML/CFT regulatory authorities, government departments and enforcements agencies in their respective areas.

CRMC has also been conducting and delivering sessions on the TFS for PF sanction's regime. As an example, in the month of December 2020 and February 2021, representatives from MoFA took part in the outreach sessions for DNFBPs (real estate agents, DPMS, ICAP / ICMAP, lawyers, brokers, insurance agents, etc.) conducted as part of the UNODC outreach program. These sessions were arranged at all four provincial capitals and Federal capital. The participants were sensitized on national CPF and associated UN sanctions regime. A total of 1166 participants (705 physically and 465 virtually) participated. CRMC has also developed special modules to train Customs officials at the Customs training academy. These modules include special talks on PF-related matters, including the FATF requirements for awareness of junior, and mid-level Customs officials, separately. The last such training was held in December 2020.

Table 11.2.2: Capacity Building Sessions for Customs Officials

S #	Year	No. of Participants
1	2018	13
2.	2019	23
3.	2020	19

On behalf of CRMC, SECDIV and ACDIS representatives from MoFA take part in discussions at the international level for exchange of experiences aimed at enhancing the implementation of UNSC sanctions for example, in the 4th Experts Meeting on Comprehensive Implementation of Maritime provisions of the UNSC Resolutions related to DPRK, organized online by The Netherlands and the U.S. in March 2021. The key takeaways from such interactions are shared at the CRMC platform.

11.2.2(b) Outreach by AML/CFT Regulatory Authorities

All AML/CFT regulatory authorities have developed a "National AML/CFT/CPF Capacity Building Sessions Plan", duly presented before the General Committee in its 24th Meeting held on 25th November 2020 to ensure that outreach activities are focused and designed to address the priority areas for effective implementation of the national AML/CFT & CPF regime. The said plan is for two quarters starting from October 2020 till March 2021. These plans are updated regularly.

CRMC guidelines are the core part of training material/modules along with AML/CFT Regulatory Authorities' guidelines. The AML/CFT Regulatory Authorities have integrated the guidelines into

their outreach plans and, given specific directions to respective REs for employees' training /capacity building programs to promote a clear understanding of risks and obligations, including CPF.

In addition, the FMU issued a document on Red Flags indicators for PF that has been provided to all RE by the respective AML/CFT Regulatory Authorities and it is also used as part of the material in the trainings (<https://www.fmu.gov.pk/docs/Red-Flag-Indicators-for-Proliferation-Financing.pdf>).

During the outreach and training sessions, the issues covered are, include the national framework of AML/CFT/CPF, CDD, UNSCRs sanctions regimes, etc. The sessions also feature guidance on identification of sanctions evasion activities, employment of red flags, as well as procedures to be followed in case of alerts. A case in point sharing the UN Panel of Experts on DPRK, which familiarizes the participants with patterns of sanctions violations. In addition, websites of the AML/CFT Regulatory authorities contain essential guidance/FAQs relating to AML/CFT&CPF compliance requirement.

A complete overview of all the outreach undertaken by AML/CFT Regulatory Authorities in relation to broad AML/CFT risk and obligations, including PF and sanctions evasion risk can be found at RA4 of IO3. However further detail specific to PF is set out below.

Financial Institutions.

11.2.2(b)(i): Securities and Exchange Commission of Pakistan (SECP)

SECP has issued comprehensive guidance to REs covering the requirements of relevant UNSCR on CPF. The SECP guidance includes two sets of red-flags for the identification of sanctions evasion activities conducted on behalf of listed individuals and entities. The two sets of red-flags include the following:

- i) Potential proliferation financing and sanctions evasion activities (Accessible at: <https://www.secp.gov.pk/document/secp-aml-cft-guidelines-updated-jan%202021/?wpdmdl=41492&refresh=60361cfa45e551614159098>.)
- ii) Identification of persons suspected to be acting on behalf of or at the direction of designated/ proscribed individuals or entities. REs are required to use these minimum red flags to create scenarios for alert generation (seeks case study in RA 3), which may lead to filing of STRs and freezing of assets of suspected associates.(Section E of Directive on TFS obligation, available at: <https://www.secp.gov.pk/document/sro-920-i-2020-directive-tfs-obligation-and-reporting-2020/?wpdmdl=40342&refresh=6044b327916281615115047>.)

SECP has conducted 101 outreach sessions since 2018 until April 2021 for awareness raising including on CPF for its RE which has covered **5890** participants from Brokers, NBFCs, Insurance companies, among other. These sessions were also joined by the resource persons from other relevant agencies such as MoFA, FMU etc. (**see additional details in RA4 of IO3**).

SECP obtains feedback from participants of its sessions through pre- and post-questionnaires using UNODC methodology. See case study below.

Case study: Assessing the impact of outreach activities

The impact of outreach activities is also monitored regularly to identify ways and means for further improvement based on the participants' feedback. As indicated, UNODC conducted awareness sessions on AML/CFT and CPF obligations for private sector, including SECP RE. During these sessions, an exercise to evaluate the pre- and post-understanding of the participants was done. Questionnaires were answered before and after the session. The collected data showed that an average of 45% of the 279 participants were able to provide correct answers for pre-evaluation survey. However, there was a significant improvement shown post trainings, as there was an increase of 25.3% in knowledge of the participants, showing an average of 70% correct answers in the post evaluation survey

In addition to above, RE have also conducted sessions for capacity building by themselves to enhance their understanding on TFS for PF risks as reported in RA 6 of IO-4.

11.2.2(b)(ii) State Bank of Pakistan (SBP)

SBP has updated its Guidelines on compliance with UNSCR s requirements for its regulated sectors vide BPRD Circular Letter No.44 of 2020. The Guidelines include two sets of red flags to help regulated entities in identification of potential proliferation financing and sanctions evasion activities and potential associates of designated persons/ entities. Furthermore, dedicated CFT desks (**for details see RA 4 of IO-3**) have been established in each REs to ensure compliance with TFS obligation including PF. The desk acts as a focal point for compliance with TFS obligations, including

trade restrictions required by the UNSC resolutions.

SBP has conducted 117 outreach/capacity-building sessions for FIs and other stakeholders in different cities across Pakistan. Obligations of the regulated entities –with regards to TFS for PF are an integral subject of these sessions. SBP targets different levels of its regulated entities' hierarchy through different outreach/ awareness activities, which includes: i) Compliance Forum for Senior Executive; ii) Focused Meetings with CFT Heads/ Compliance Heads and iii) Risk based Outreach Sessions for Operational Staff.

The training sessions conducted by SBP cover all key aspects of AML/CFT/CPF regime including, among others, PF vulnerabilities, Pakistan's AML/CFT and CPF legal framework for implementation of UNSC sanctions, awareness indicators for identifying sanctions evasion activities, effective employment of red flags for screening and follow-up procedures for alerts. **(see additional details RA4 of IO3)**

SBP has ensured that outreach and awareness programs for REs should enhance their understanding on ML/TF and PF risks and AML/CFT and CPF obligations. Feedback is obtained by SBP through pre & post session by questionnaires covering the contents of the trainings. It indicates that on average, the sessions have increased the level of understanding of the participants from satisfactory to good prior to sessions, to very good and excellent after the outreach session. A case study of one session is provided below:

Case Study - Effectiveness of Outreach Sessions

SBP arranged a focused meeting with CFT Heads of all banks/MFBs in March 2021 to discuss MoFA 'Guidelines on TFS for PF. During the session, officials from MoFA conducted a presentation on the responsibilities of financial institution with regard to TFS on PF, followed by an extensive Q&A session where different aspects of the requirements were discussed.

Before starting the session, SBP conducted a questionnaire survey to gauge the participants' understanding of the subject. Similarly, the survey was conducted again after the session to determine the benefit of the session. Analysis of the results showed that an average of 70% of the participants were able to provide correct answers for pre-evaluation survey, while there was significant improvement visible in the post-session standards showing an average 94 % correct answers.

Outreach/ awareness sessions are an ongoing activity by SBP for which annual plans are drawn. However, sessions may also be conducted in addition to the plan, if the need is felt by the SBP.

Moreover, SBP REs also initiate requests for guidance/ clarifications regarding aspects of their TFS obligations under the law or SBP's regulatory framework, when required. To respond to such requests/ queries, SBP has dedicated officials who are available to the REs through email and/ or telephone.

In addition, REs are also required to chalk out and implement suitable Annual Training Programmes after conducting a Formal Training Need Assessment (Regulation-13: AML/ CFT Regulations for SBP's REs). The sessions conducted by REs cover wide range of topics including but not limited to risks identified by SBP REs through their internal risk assessment reports (IRAR), Pakistan's legal framework for implementation of UNSC sanctions, staff responsibilities relating to AML/ CFT and CPF especially requirements relating to TFS, CDD, analysis of abnormal/ out of pattern transactions and alerts generated thereof for possible STRs. Based on the examinations results and the discussions held between SBPs and RE, these sessions have contributed in the overall improvement of analysis skills in the area of CPF especially. Accordingly, the SBP REs have conducted thousands of sessions since 2018 as detailed in RA 6 of IO4.

11.2.2(b)(iii) CDNS Supervisory Board

CDNS training and outreach program for capacity building of its staff (2020-21) which includes the scope, objective, topics and the level of participation. CDNS, TINS and Supervisory Board have conducted outreach sessions which include AML/CFT and CPF obligations, implementation issues and capacity-building on identification of sanctions evasion activities. Audience of these sessions is CDNS Senior Management (Regional Directors, Directors of CDNS, Director Inspection & Audit and Director General CDNS). **(Please see RA4 of IO3 for an overview of the training undertaken).**

11.2.2(b)(iv) Pakistan Post

To provide AML/CFT awareness including ML/TF risk and AML/CFT & CPF obligations to the employees of PP several Master Trainers have conducted. **(Please see RA4 of IO3 for an overview**

of the training undertaken).

DNFBPs.

11.2.2(b)(v) FBR-DNFBPs, ICMAP and ICAP

FBR-DNFBPs, ICMAP and ICAP had issued detailed guidelines on TFS Screening that defines the reporting mechanism and procedure. In addition, they have conducted 04 awareness sessions on AML/CFT, which included TFS and sanction screening training. As part of internal capacity building mechanism, supervisors' training at DoT is underway. In addition to this, informative visuals / videos on TFS for AML/CTF/CPF have been released by FBR which are available at <https://www.fbr.gov.pk/introduction-aml-cft/152366/152367>. Moreover, manuals have been implemented as guides both for AML/CFT regulatory authorities and REs. *(for additional detail on Guidelines and Outcomes in IO-3 RA-7)*

An outreach plan includes outreach mechanism, which shall revolve around DNFBP population, geographical reach, specific requirements session types and their lengths with specific timelines. FBR-DNFBPs also conducted face to face interactions with DNFBPs at all the Federal & Provincial Capitals (Islamabad, Karachi, Quetta, Peshawar, and Lahore) with more than 250 DNFBPs till 1 January 2021; with sensitization of the entire legal framework regarding CPF and its subsequent applicability in field. FBR-DNFBPs' Training and Outreach Plan for 2020-2021 covering the scope, objective, targets and specific topics is attached as *(see additional details in RA4 of IO3)*.

11.2.2(c) Outreach by other relevant stakeholders

11.2.2(c)(i) Ministry of Commerce (MoC)

MoC has developed training program in consultation with CRMC to sensitize its attached departments and private bodies e.g., Chambers of Commerce, trade bodies, officials of the MoC and attached departments (TDAP, DGTO, TCP, PITAD, etc.) etc., about their CPF obligations. Similarly, webinars/seminars by TDAP are being arranged for the exporters and importers to raise their awareness about on the CPF obligations and help them identify designated entities, prohibitions and restrictions on trade and business activities associated with PF. The information on UNSCR is being displayed on websites of MoC and all its attached departments and a separate tab is specified for detailed information on UNSCR. Moreover, a monitoring mechanism is being developed to oversee awareness sessions, which will encompass quarterly reports, annual outreach plans, assessment questionnaires and feedback on training. The sessions on UNSCR are being carried throughout the year and new exporters and importers/ businesses are invited to attend on priority basis.

Trade Data Analytics System (TDAS), is a live source of trade data fed by PRAL, maintained by MoC. The database may be used to generate alerts for any trade made with UN Sanctioned countries. MoC has incorporated the sanctions / restrictions prohibitions on trade with designated entities pursuant to the UNSC Resolutions in Import / Export policy orders for providing clear directions on trade related sanctions obligations.

11.2.2(c)(ii) FBR-Customs

FBR-Customs regularly conducts internal capacity building workshops at Directorate General of Training and Research, as well as other venues throughout the country. FBR-Customs developed multiple CIT (Commodity Identification Training) modules for training related to strategic export control, which have been included in the specialized training conducted for newly inducted Customs officers. Numerous capacity-building trainings and workshops by field formations are conducted regularly throughout the country. Moreover, various trainings for implementation of strategic export control functions include End User Verification (EUV) training, Commodity Identification Training (CIT), Counter-Proliferation Investigation Methods (CPIM) trainings and accreditation trainings conducted regularly at Directorate General of Training and Research Karachi and other field formations. Moreover, FBR-Customs is also conducting awareness and capacity building sessions for its field formations on the matters related to strategic exports control, PF and sensitizing them with their obligations under UN sanctions regimes. These sessions are conducted in collaboration with Directorate General of Training and Research (DGTR) as well as SECDIV.

For internal capacity building, training sessions for Customs officers/officials and clearing agents are conducted by the Directorate General of Customs Training and Research at Karachi and its

regional Directorates at Lahore and Islamabad. In addition to this, under the Specialized Training Program, which is conducted for new officers every year, diverse training sessions have been implemented and over 100 officers have successfully been trained in matters of Strategic Trade Control Enforcement (STCE), Anti-Money Laundering, and CFT which is part of the module on "Customs Enforcement & Border Management". The module on "International Customs Laws" includes sessions on international obligations related to movement of illegal drugs, nuclear materials, firearms, and chemical and biological weapons. Moreover, around 200 Customs officials have been trained under the Program Global Shield (PGS) for export of strategic goods. Additionally, over 900 private sector stakeholders (Business Community and Clearing Agents) have also been trained under PGS.

In order to enhance enforcement of SECA – 2004, which also includes possible PF activities, and UNSCR; FBR has established National Counter Proliferation Units (NCPUs) in September 2018. Currently two teams of NCPUs are operational at MCC Exports Karachi and MCC Exports Port Qasim. Both are headed by WCO accredited STCE trainers. These NCPUs coordinate with and provides support to the field formations for profiling, targeting, examination and interdiction of suspicious consignments of strategic goods. Furthermore, Counter Proliferation Training Cell has been established at the Directorate of Training and Research, Karachi.

As a result, onsite and offsite examinations of import/export cargo, are conducted by FBR-Customs in accordance with the laid down parameters of Risk Management. Through internal capacity building and workshops as mentioned above, the workforce has been sensitized on the UNSCR and banned items. Every Examination Report is fed into the system whereby origin of the goods and relevant details are mentioned. Individual system-based studies were conducted by the Collectorate of Hyderabad, the Collectorate of Islamabad, the Collectorate of Peshawar, and the Collectorate of Lahore for the last three years to ascertain if there has been any sanctions' violations. It revealed that no export in contravention of the UNSR1718 and 2231 had taken place.

11.2.2(c)(iii) Ministry of Maritime Affairs (MoMA)

MoMA has formulated a comprehensive plan to conduct outreach and capacity building sessions. The Pakistan Marine Academy (PMA) and all attached departments have designed special training modules and arranging special lectures as part of syllabus for awareness about the UNSCR. These outreach sessions and other manuals are designed in the light of CRMC guidelines.

Ships send particulars and arrival information to agent electronically, which is passed onto the Dock Master Office (DMO) for examination and decision on berthing prospects through electronic medium where all KPT departments are connected through internal IPOS system including with WeBoc (www.weboc.com.pk). As per data, 9334 ships berthed at various ports in Pakistan, as a result of the processes in place and procedures followed for ascertaining the legitimacy of the ships and ensuring that the ships are not covered in the UN designated list, none of the ships belonged to the designated countries.

Table 11.2.8: Total Ships Berthed at Pakistan's Ports					
S #	Year	No of Ships of Ports			Total Ships per Year
		KPT	PQA	GPA	
1	2018	1987	324	48	2359
2	2019	1582	1517	40	3139
3	2020	1627	1630	24	3281
4	2021	295	258	02	555
Total		5491	3729	114	
Grand Total		9334			

3. Monitor FIs and DNFBPs for compliance with obligations pursuant R.7 and impose appropriate sanctions for non-compliance

11.3.1: Mechanisms for Compliance

Monitoring of compliance is done at two levels. At the 1st level the AML/CFT Regulatory Authorities monitor the compliance of the REs to ensure they are identifying sanctions evasion activities, potential matches and are taking follow-up actions (freezing etc.). REs are also required to report the results of their actions to the AML/CFT regulatory authorities and enforcement agencies. At the

This recommended action is partially addressed.

- Pakistan has made progress on monitoring of FIs for PF TFS obligations. For DNFBPs, authorities

second level, the AML/CFT regulatory authorities, report compliance in their respective areas to the CRMC as they are members or participants at the CRMC meetings. This is done in order to ensure domestic coordination and to share information on CPF implementation across the CRMC membership. As per the reports submitted by the AML/CFT regulatory authorities, no TFS for PF related sanction evasion activity has been detected, no attempted transaction or potential matches in the context of TFS for PF have been reported by REs to date.

Financial Institutions.

11.3.1(a): Securities and Exchange Commission of Pakistan (SECP)

As indicated in IO 3, SECP reviews compliance with TFS requirements and implementation of screening requirements, during the off-site. Performing on-site inspections for assessment of REs compliance with TFS requirements, including PF, is an integral part of SECP's supervisory framework. SECP's *Risk Based Supervisory Framework and Inspection Manual*, which guides SECP's examiners/ inspectors in their onsite assessments, includes requirements for the inspector to look into FI's compliance with UNSCR 1718 and 2231 and their successor resolutions), monitoring of dual use goods, reviewing controls for identification of associates acting on behalf etc. SECP's REs have embedded the warning signs/red alerts on PF in their internal systems and processes, which is then verified during the SECP onsite inspections.

Case example:

Based on the compliance reports submitted by the SECP regulated X-AMC regarding no match found, an on-site inspection was conducted to confirm on ground controls. During on onsite inspection of an Asset Management Company (X-AMC), the inspector checks to confirm whether the AMC has embedded the red flags into their screening system. In order to confirm it, a dummy customer from DPRK (High Risk jurisdiction) was added into the FI's system and it was noted that the system automatically generated an alert, and the approval was escalated to Chief Compliance Officer (CCO) along with an automatic email generated to take urgent action. Accordingly, it was observed that the CCO immediately rejected the customer.

SECP's focus on remedial actions, through updating/ strengthening of its REs implementation of Transaction Monitoring Systems (TMS) and Name Screening Solutions (NSS), data cleansing, increasing the number of AML/CFT analysts, provision of additional training to improve understanding of ML/TF risks etc. as demonstrated in the graph below. These measures have enabled the REs to minimize the chances of regulatory violations particularly with respect to TFS. The improvement is evident from the results of follow-up reviews of REs, which were conducted by SECP regularly, wherein, no violations of TFS obligations were observed:

Table 11.3.1: Status of Transaction Monitoring and Name Screening Status of Brokers, NBFCs and Insurance

Type of FI	Subject Area	2018	2019	(2020 -2021)
Brokers, NBFCs, Insurance	TMS	30 / 195 Brokers, 08 / 95 NBFCs and 03 / 50 Insurance companies	158 / 195 Brokers, 76 / 95 NBFCs and 07 / 50 insurance companies	188 / 195 Brokers, 84 / 95 NBFCs and 10 / 51 insurance Companies
	NSS	40 Brokers, 10 NBFCs and 05 Insurance companies	136 Brokers, 79 NBFCs and 30 insurance companies	174 Brokers, 89 NBFCs and 35 insurance Companies. It is pertinent to mention that All Life insurance companies have automated NSS while the remaining FIs are screening through excel based solutions. As stated above that the entities using excel based databases are small in size and <i>no TFS/PF related non-compliance was observed.</i>

In order to ensure the TFS effectiveness, SECP RE are also required to provide compliance reports against all designation SROs issued, *even where no matches are found*. In this regard,

have a strategy and has commenced thematic monitoring for over 400 entities. However, as these measures are only in their nascent stages, it is too early to conclude whether the measures in relation to DNFBPs have been effective or not.

enforcement actions have been taken against REs who do not report (even negative results) within the stipulated timeline. The REs that do not report within stipulated time period are either being penalized or warned depending upon the delay in response. As a result of these enforcement actions, it has been observed that REs have become more vigilant in relation to immediate screening, freezing and reporting. Details of such enforcement actions during the current reporting period are as follows:

Sector	Total Cases	Warning/ caution issued	Penalty Imposed	
			No. of entities	Amount PKR
Brokers	35	35	-	-
Insurance	13	12	1	100,000
NBFC	14	9	5	905,000
Total	62	56	6	1,005,000

Case Study:

A delay in TFS reporting was identified by a Modaraba Company which is engaged in Leasing business, although no positive match was found. An off-site query was raised by SECP enquiring the reason of delay which resulted in lapse of stipulated timeline for reporting. Furthermore, Show Cause Notice (SCN) was issued dated December 5, 2019 to the entity based on the off-site query. The Company submitted its response to the SCN issuance, wherein, the Company responded to SECP that the default of submission has been removed and an assurance for future compliance of the regulatory framework has been committed. Later, the follow-up confirmed that the Company has improved their compliance within this period. It is pertinent to note that the entity clarified that there were no matches found for Designated persons/ Persons associated with the proscribed persons.

11.3.1(b): State Bank of Pakistan (SBP)

Assessment of REs compliance with TFS on PF requirements is an integral part of SBP's supervisory framework. Monitoring of REs are undertaken through various supervisory tools, which include on-site inspections and off-site monitoring. In addition to the above, dedicated CFT desks have been established in the REs to ensure compliance with TFS obligation including PF. The desk acts as a focal point for complying with TFS obligations, including trade restrictions required by the UNSCR on PF.

Supervisory engagements on TFS for PF

As indicated in IO-3, SBP regularly assesses the effectiveness with respect to FI's implementation of systems/ processes, development of policies & procedures, staffing and training arrangements, etc. Supervisory activities are undertaken in the form of on-site inspections and off-site monitoring. SBP's AML/CFT& CPF Inspection Manual guides SBP's examiners/ inspectors in their onsite assessments, include requirements for the inspector to look into FI's compliance with UNSCR on PF, assess FI's controls and processes for monitoring of dual use goods, vessels & voyage under-invoicing and over-invoicing, etc.

SBP has prepared tools for its examiners to cover TFS for PF during onsite examinations: i) Checklist for implementation of UNSCR on PF, including freezing & unfreezing of accounts and transactions, ii) Red Flags indicating Proliferation Financing, iii) Checklist for Proliferation Financing, iv) Checklist on Trade Based ML; v) Red Flags indicating possible ML/TF or PF based trade activity and vi) Indicative list of High-Risk Transactions and Enhanced CDDFIs have implemented automated sanctions screening solutions which cover all the UNSC sanctions lists and embedded the scenarios in Transactions Monitoring Systems to identify suspected activities and report the same to FMU.

SBP on-site thematic inspection on PF

SBP undertook a specific on-site thematic inspection on PF in October 2020. The subject inspection entailed off-site assessment of the data reported periodically by the banks to SBP. In order to have adequate coverage and fair reflection of the industry with the available resources, a risk-based selection criterion with the following factors were devised for selection of FIS for on-site inspection: i) Volume of Foreign Trade Business, ii) Trade and Remittance Transactions involving high risk countries and potential dual usage goods (as per Export Control List) and ML/TF & PF risk rating.

Based on the above criteria, seven banks were selected for a comprehensive on-site review of the subject assignment of thematic inspection on PF. These seven banks handled approximately 60% portion of foreign trade business of the industry during January 2019 to June 2020. The inspection concluded in March 2021. The thematic review concluded with a satisfactory outcome in which there was not violation /breach by those REs with regard to TFS for PF.

The SBP's oversight has led to further improvement /updating/ strengthening of Transaction Monitoring Systems (TMS) and Name/Sanction Screening Solutions (NSS) including voyage tracking, provision of additional training to improve understanding of ML/TF risks etc. as demonstrated in the table below:

Table 11.3.2: SBP's Progress on Transaction Monitoring and Name Screening

Subject Area	Status as of October 2018	Progress from October 2018 to December 2021	Status as of April 2021
Transaction Monitoring System (TMS)	29 Banks, 07 MFBs & 12 ECs	• 31 out of 32 banks, 10 out of 11 MFBs & all 51 ECs have TMS. Only 01 small bank & 01 small MFB are in process of implementing the system. The bank has been subject to restrictions regarding on-boarding of new customers & opening of new branches and has committed to implement the system by 3rd Quarter of 2021 while the MFB is not mobilizing any deposits and has committed to implement TMS before starting mobilization of deposits. • 05 FIs replaced their existing TMS while 44 FIs implemented new TMS. • 23 FIs upgraded their TMS.	31 Banks, 10 MFBs & 51 ECs
Name Screening Solution (NSS)	27 Banks, 05 MFBs & 19 ECs	• 31 out of 32 banks, all 11 MFBs & all 51 ECs have NSS systems. Only 01 small bank is in process of implementing the system. The bank has been subject to restrictions regarding on boarding of new customers & opening of new branches and has committed to implement the system by 3rd Quarter of 2021. • 09 FIs replaced their existing NSS while 42 FIs implemented new NSS. • 33 FIs upgraded their NSS systems	31 Banks, 11 MFBs & 51 ECs

11.3.1(c): CDNS Supervisory Board

In order to comply with CPF obligations, CDNS brought changes in its regulatory framework (*CDNS AML/ CFT Regulations 2020*). National Savings has promulgated AML-CFT Supervisory Board's *Powers and Function Rules, 2020* and also formulated a Senior Management Committee for AML/CFT and CPF. In addition, CDNS has provided the relevant guidance available (CRMC guidance, FMU indicators, etc.) to its officers. **(see additional information in IO 3 RA #1)**

As indicated in IO 3, CDNS is neither involved in any sort of international transactions nor does it have any foreign clientele. Furthermore, all National Savings Centers are registered on MoFA portal to receive SRO's directly and immediately by respective branches. Off-site review mechanism requires the submission of the periodic reports. The Offsite Questionnaires are being submitted to the Supervisory Board. During the on-site inspections, 70 visits were made by the CDNS Supervisory Board and CDNS (V&M Wing) and 550 on-site inspections made by the DIA. **(see additional information in IO 3 RA #1).**

	11.3.1(d): Pakistan Post In October 2020 was decided to stop PP from providing any financial services, and to transfer the existing business to other regulated service providers. (see additional detail in IO 3 RA #1) <u>DNFBPs.</u> 11.3.1(e): FBR- DNFBPs, ICAP & ICMAP FBR, ICAP and ICMAP have issued regulations that covers TFS requirements as well as have put in place wholly risk-based strategies/plans to prioritize both offsite and onsite supervisory work for their DNFBPs. One of the key areas of focus includes TFS on PF. Inspection tool for TFS obligations include conducting testing of files and reviewing processes/systems used by the DNFBPs. As current inspection cycle is first for DNFBPs, major part of the supervision is spent increasing understanding of the reporting entities and their senior management of the importance of understanding and implementing TFS on PF, including sanctions evasion and its allied dissuasive sanctions (please see additional details in IO-4 RA-5).	
JG Comments & Analysis	There was consensus in the JG that Pakistan has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 11. The JG identified recommended actions 2-3 as key recommended actions as they relate to a priority action in the MER and requires Pakistan to improve the structural interagency framework to support implementation by FI and DNFBPs. Recommended action 1 is largely addressed. Pakistan has made several changes to its legal framework to address the R.7 technical deficiencies. In 2019 and 2020, Pakistan issued SROs to give effect to the UNSCR obligations under the DPRK and Iran programs to freeze assets of those individual and entities identified more in line with the standards. The SRO since March 2019 included new language that the freeze obligation explicitly applies to all person. Furthermore, the SROs now explicitly require the freeze to without prior notice in addition to without delay. The freeze cover the range of funds to include property owned or controlled, wholly or partly, directly or indirectly by the designated person. Pakistan also have implemented a mechanism for communicating the SRO updates to all FIs and DNFBPs on the MoFA portal as well as handling of delisting requests. Recommended action 2 is key and is largely addressed. Coordination, Review and Monitoring Committee CRMC was set up in 2018 to plan PF for government coordinated plan on TFS implementation. The MoFA has issue guidelines in Sept 2020 for TFS PF implementation. The guidelines included red flags and sanctions evasion. CRMC has been involved in training custom officials but it is unclear if it is a regular program or was a one-time basis outreach program. UNODC outreach programs were conducted in December 2020 and February 2021, to the DNFBP sectors (real estate agents, DPMS, ICAP / ICMAP, lawyers, brokers, insurance agents, etc.). Participants totaled over 1000 over virtual and in-person sessions. Outreach by AML/CFT regulators have set up an overall AML/CFT/CPF plan to address the areas for effective implementation from October 2020 to March 2021. There was a virtual outreach event in October 2020 to a financial association but would need to get an update on the proposed programmes for the 2nd quarter. Pakistan's Ministry of Maritime Affairs and Customs have conducted outreach and capacity building sessions. Recommended action 3 is key and is partially addressed. Pakistan has not had any potential matches in the PF context nor frozen any funds. Financial institutions are subject to supervision that includes compliance with the TFS CPF including reporting even in cases where no matches arise. Pakistan notes that for reporting entities that did not report within the specified period received warning or caution notices. And for 6 SECP reporting entities that failed to rectify the reporting deficiency, monetary penalties were issued, totaling financial penalties of 1,005,000 PKR (approximately 6,474 USD) for all violations. SBP conducted on-site thematic inspection of seven banks that were selected based on factors including volume of foreign trade, remittance transactions involving high-risk countries and ML/TF and PF risk rating. The inspections occurred Oct 2020 to March 2021. SBP found no violations by the reporting entities. Pakistan has made progress on monitoring of FIs for PF TFS obligations. For DNFBPs, authorities have a strategy and has commenced thematic monitoring for over 400 entities. Due to the process being in the initial stages and not yet able to assess implementation of the sector, the JG agreed that an action plan to demonstrate continued monitoring of the sector for PF TFS should be included.	
JG Summary Comments There was consensus among the Joint Group that Pakistan has not made sufficient positive and tangible progress on all IOs rated low or moderate in its MER. Therefore, the recommendation of the Joint Group is that the FATF proceed with its review of Pakistan, in line with the fourth round procedures and in accordance with the proposed action plan annexed to this report at Annex B.		

The Joint Group found that Pakistan had made positive and tangible progress on IO.1, IO.4, IO.6 and IO.9. On technical compliance, the Joint Group found that Pakistan had addressed or largely addressed the deficiencies identified in the MER on R.6, R.10 and R.10. However, the Joint Group found that there had not been sufficient positive and tangible progress on IO.2, IO.3, IO.5, IO.7, IO.8, IO.10 and IO.11.

Annex A: Technical Compliance⁹

Deficiency cited in MER	Actions taken	Joint Group Comments and Analysis
Recommendation 6 (“big 6”) Partially Compliant		
1. Delays in implementation, and lack of clarity of which entities are required to implement.	Pakistan implements TFS without delay, via the issuance of UN Act SROs which translate the UN designations into domestic legal obligations. The S.R.Os are shared with designated focal points in the AML/CFT Regulators and Federal and Provincial Governments, Implementing Departments and Agencies. MoFA has continued to issue S.R.Os the same day as the update is made by the Sanctions Committees. Further actions have been taken since January 2020 to address the outstanding observation in the 1st FUR of the review team in relation to the express requirement to implement TFS “without prior notice”. The Ministry of Foreign Affairs issued two consolidated SROs on 18 August 2020 covering the 1267/1988 Taliban Sanctions and 1267/1989 Al-Qaida and ISIL (Da’esh) Sanctions lists, wherein vide Para 2(a) the asset freeze obligation is without delay and ‘without prior notice’. The relevant Para of the amended SRO is as follows: 2 (a) “Freeze, without delay and without prior notice, the funds and other financial assets or economic resources of these individuals, groups, undertakings and entities, including” The amended SROs are accessible through MOFA’s website: Taliban List: http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-742-dated-18-August-2020-1.pdf ISIL and Al-Qaida List: http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-741-dated-18-August-2020.pdf For UNSCR 1373, amendments have been made in the ATA on 22-Aug-2020 in clause (a) of sub section (1) of section 11O of the ATA, the words, “without prior notice and without delay” have been inserted; available at http://na.gov.pk/uploads/documents/1599551546_738.pdf. In order to create a legal obligation for all natural and legal person to freeze funds or assets without delay, the word “all concerned” and “to take appropriate action” pursuant to UNSCRs has been rectified through issuance of Article 2 (h) of UNSC (Freezing and Seizure) Order, 2019 which defines person as: “Person” includes any agency, association, authority, body, company, department, entity, firm, office or individual; http://mofa.gov.pk/wp-content/uploads/2020/01/UNSC-Freezing-Seizure-Order-2019.pdf	The deficiency has been addressed. Freezing without delay Article 3 of the UNSC Order states that “any person in effective control of any property of a designated person or entity shall freeze or seize such property without delay.” Further, SROs issued require freezing without delay. As such, there is now a clear legal obligation for all natural and legal persons to freeze without delay. Since the MER, Pakistan has demonstrated that SROs are issued, published in the gazette, and disseminated to stakeholders without delay. 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. Extension of freezing obligation to all natural/legal persons 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, and it was not clear who or what entities are covered by the term “all concerned”. Therefore, it was not clear that the obligation to freeze applied to all natural and legal persons. Pakistan has taken the following measures to address this deficiency: Issuing the United Nations Security Council (Freezing and Seizure) Order 2019 (SRO 261(I)/2019) on 4 March 2019 (UNSC Order). This Order contains a general freezing

⁹ R.6, 10, and 20 must be addressed, as all of the Big 6 must be considered LC or C by the end of the observation period.

	The phrase, "all concerned" has been replaced with "all persons" in the SRO. The definition of person is now included as a footnote in the SROs. This now appears as paragraph 9 of the SRO: "9. NOW THEREFORE, all persons shall implement the measures stated in paragraph 2 of this order in accordance with the afore mentioned resolutions, against these listed individuals and entities in order to ensure full implementation of tall S.R.Os issued by the Federal Government, and, whereas any subsequent change to the list of individuals and entities will be communicated through issuance of S.R.Os." Copy of the SRO can be found at the following link: http://mofa.gov.pk/wp-content/uploads/2020/01/SRO-31-dated-16-January-2020.pdf	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)). Amending the 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. These SROs ensure that the obligation to freeze applies to all natural and legal persons. Pakistan authorities have additionally issued sector-specific regulations which compliment and reinforce the obligations in SROs.
2. No legal obligation for all natural and legal persons to freeze funds or assets without delay	In order to ensure comprehensive coverage of all requirements of R6, MOFA issued two consolidated SROs on 18 August 2020 covering the 1267/1988 Taliban Sanctions and 1267/1989 Al-Qaida and ISIL (Da'esh) Sanctions lists, where prohibition requirements under 6.5(c) have been comprehensively addressed. The links for the two SROs can be accessed at: http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-742-dated-18-August-2020-1.pdf http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-741-dated-18-August-2020.pdf The binding obligations for the prohibition required in 6.5(c) is comprehensively covered under para 2(a)(v) & (vi) of the above SROs. It is correct construction of Pakistan law that the two paragraphs are to be read together (due to the word "and" placed after paragraph (v)). The SROs prohibit all persons (natural or legal) from providing any funds, other assets, economic or financial resources or other related services, (including financial services) for the benefit of persons and entities covered by the Statutory Regulatory Orders(SROs). It was not the legislative intention, nor is it correct construction of Pakistan law that paragraph (vi) only applies to "donations". In fact the term "donations" was added by legislators in order to bring the context of Pakistan into the law and to assist law enforcement agencies in their application of this law. The correct interpretation of Para 2(a)(vi) is to extend application of paragraph 2(a)(v) to other classes of assets and services to the class of persons outlined in paragraph in paragraph 2a(v). In any event, paragraph (v) is expressed to prohibit the provision of economic, financial and related services for "such persons" benefit. The term "such persons" applies to those expressed in paragraph (2) of the preamble to the SRO, which includes "(listed persons and entities) and associated individuals, groups, undertakings and entities.	The deficiency has been addressed. Pakistan has taken the following measures to address this deficiency: - Issuing the United Nations Security Council (Freezing and Seizure) Order 2019 (SRO 261(I)/2019) on 4 March 2019 (UNSC Order). This Order contains 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)). - Amending the 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. These SROs ensure that the obligation to freeze applies to all natural and legal persons. Pakistan authorities have additionally issued sector-specific regulations which compliment and reinforce the obligations in SROs.

	In relation to sub-criterion 6.5(c) it is also notable that the prohibition against providing funds and other economic and related services is comprehensively covered in relation to UNSCR 1373 designations. Since January 2020, further amendments have been made in section 11J of the ATA whereby the following new sub-section (4) has been inserted; “(4). The provisions of sub-section (2) shall also apply to – (a) organizations owned or controlled, directly or indirectly, by proscribed organizations and proscribed persons; and (b) persons or organisations acting on behalf of, or at the direction of, proscribed organizations or proscribed persons.” http://na.gov.pk/uploads/documents/1599551546_738.pdf Hence, the prohibition of providing funds has now specifically been extended to the above categories in section 11J of the ATA.	
3. No public procedures for 1988 committee to review implementation, nor for affected persons to request inquiry whether money/property has been inadvertently frozen or seized	The delisting procedures related to 1988 committee can be found at: http://mofa.gov.pk/wp-content/uploads/2020/01/Delisting-Procedure-UNSC-1988-Committee.pdf	The deficiency has been addressed. 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.
4. Unclear whether prohibition to make available funds and assets available to designees also applies when they are jointly owned or controlled	The issue of “funds, assets and/or economic resources jointly owned or controlled has been addressed through amendment in paragraph 2(a) of the SRO which now reads, Asset Freeze (a) Freeze without delay the funds and other financial assets or economic resources of these individuals, groups, undertakings and entities, including: (i) all funds or other assets including funds derived from property that are owned or controlled by the designated person or entity, and not just those that can be tied to a particular terrorist act, plot or threat; (ii) those funds or other assets including funds derived from property that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; and (iii) the funds or other assets derived or generated from funds or other assets including funds derived from property owned or controlled directly or indirectly by designated persons or entities, as well as (iv) funds or other assets including funds derived from property of persons and entities acting on behalf of, or at the direction of, designated persons or entities, and to ensure that neither these nor any other funds, financial assets or economic resources are made available, directly or indirectly for such persons’ benefit, by their nationals or by persons within their territory; and no person shall make donations to individuals and entities designated by the Committee or those acting on behalf of or at the direction of the designated entities; Details: http://mofa.gov.pk/wp-content/uploads/2020/01/SRO-31-dated-16-January-2020.pdf	The deficiency has been addressed. Pakistan has issued the USNC Order which contains a general freezing obligation. According to Article 4 of the UNSC Order, the properties that are liable to be frozen or seized include properties “owned or controlled, wholly or partly, directly or indirectly, by a designated entity or individual.” In addition, Pakistan has updated the standard text used in SROs issued to give domestic effect to updates made by the UNSC. From 26 November 2019, SROs have contained a freezing obligation that applies to “those funds or other assets including funds derived from property that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities” (e.g. SRO 1441(I)/2019).
5. No enforceable requirements for Pakistan Post, CDNS, cooperatives or DNFBPs to	In order to ensure comprehensive coverage of all requirements of R6, MOFA issued two consolidated SROs on 18 August 2020 covering the 1267/1988 Taliban Sanctions and 1267/1989 Al-Qaida and	The deficiency has been largely addressed.

ensure resources are not made available to designees	ISIL(Da'esh) Sanctions lists, where prohibition requirements under 6.5(c) have been comprehensively addressed. The links for the two SROs can be accessed at: http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-742-dated-18-August-2020-1.pdf http://mofa.gov.pk/wp-content/uploads/2020/08/SRO-741-dated-18-August-2020.pdf The binding obligations for the prohibition required in 6.5(c) is comprehensively covered under para 2(a)(v) & (vi) of the above SROs. It is correct construction of Pakistan law that the two paragraphs are to be read together (due to the word "and" placed after paragraph (v)). The SROs prohibit all persons (natural or legal) from providing any funds, other assets, economic or financial resources or other related services, (including financial services) for the benefit of persons and entities covered by the Statutory Regulatory Orders(SROs).	The MER noted there were no enforceable requirements for Pakistan Post, CDNS, cooperatives or DNFBPs. As a consequence, it was unclear if the prohibition on funds applied to those FIs, DNFBPs, and all natural and legal persons in Pakistan. Pakistan has replaced the "all concerned" in the relevant SROs with "all persons". Therefore, the prohibition applies to all natural and legal persons in Pakistan. The use of "all persons" also means that there are enforceable requirements for Pakistan Post, CDNS, cooperatives and DNFBPs. However, there is a minor gap with respect to the prohibition contained in SRO 742 and the scope of application to the provision of funds to entities owned or controlled by the Taliban or persons acting on behalf of the Taliban who are not listed.
6. Unclear how UNSCR 1267/1989 and 1988, and UNSCR 1373 designations are communicated to DNFBPs, or if there are mechanisms for providing guidance to all REs holding targeted funds/assets.	During the period 2019-2020, MoFA, NACTA, SBP, SECP have conducted extensive outreach activities targeted towards the regulated entities, DNFBPs, NPOs, Pakistan Post and CDNS to create awareness about the obligations to enforce TFS. CDNS: All relevant employees of CDNS in all branches, regional offices and Head Office are trained and currently registered with portal of MoFA and received the updated SRO instantly on email address. These registered employees are of CDNS Compliance Department, Regional controlling offices and the official of branches who are responsible to implement these SRO. CDNS has also issued the guidelines for TFS obligation available at Link: http://savings.gov.pk/wp-content/plugins/download-attachments/includes/download.php?id=11127 PPO: Pakistan Post (AML & CFT) Supervisory Board vide notification no. 9-2/2018-P.O.I (Pt) dated 01.10.2020 has issued guidelines w.r.t TFS Obligation for Pakistan Post The relevant authorized officials of Pakistan Post have been registered with the MoFA online portal regarding updating / posting of SROs related to the UNSC Resolution 1267. The SROs issued by MoFA are forwarded to PMGS with the direction that the SROs be further disseminated to field offices immediately. DNFBPs: The concerned SRBs i.e. ICAP, ICMAP and PBC along with FBR are included in the list of authorities to whom the SROs issued by MoFA are immediately communicated.	The deficiency has been largely addressed. Pakistan has published detailed guidelines on the NACTA and MOFA websites which provides guidance to FIs, DNFBPs and other persons or entities that may be holding targeted funds or assets. Communication of designations is done through the MOFA online portal which provides updates on designations. Financial Institutions SBP has issued an enforceable BPRD circular to all banks/DFIs/MFBs about their TFS obligations and how to implement them. This Circular requires that SBP FIs are required to sign up for MOFA updates and notes that SBP will circulate SROs (for UNSCR 1267/1989 and 1988 designations) and Notifications (for UNSCR 1373 designations) in addition to ensure immediate action. https://www.sbp.org.pk/bprd/2019/C9-UNSC-Compliance-Guidelines.pdf Similarly, SECP has issued guidance to its REs as to how to implement TFS obligations. In terms of communicating designations, the MER noted that SECP communicates SROs and Notification to its REs to ensure immediate action. This process remains in place. In addition, all SECP regulated FIs are registered on the MOFA portal and receive email notifications about changes to SROs.

	In addition to this MoFA has created an online portal on MoFA website for immediate communication of designations of persons & entities on UNSC 1267 lists to the organizations registered with this portal. The ICAP and ICMAP are registered with this portal and they had advised their member registered firms to be registered with this portal in April, 2019 and August, 2019. Many registered member firms have registered with this portal and receiving the SROs issued by the MoFA without any delay. In addition to this, the ICAP and ICMAP immediately circulate the SROs issued by MoFA to their members to take following actions immediately: (a) Freeze without delay the customer's fund or block the transaction (if it is an existing customer); (b) Reject the customer, if the relationship has not commenced; (c) Lodge a STR with the FMU; (d) Notify the Ministry of Foreign Affairs, in case that person is designated under United Nations Security Council Resolutions, and Notify the National Counter Terrorism Authority, in case that person is designated under the Anti-Terrorism Act, 1997.	CDNS All relevant employees in all branches, regional offices and Head Office are trained and required to register with the MOFA portal. This means that the employees responsible for implementing SROs instantly receive updates to UNSCR 1267/1989 and 1988 designations when they are published. MOFA also circulates SROs and notifications to CDNS in addition to the email notification service. The relevant CDNS officers of are also registered on the NACTA portal and receive UNSCR 1373 prescription updates via email. CDNS has also issued internal guidance regarding TFS obligations: http://savings.gov.pk/wp-content/plugins/download-attachments/includes/download.php?id=11127 DNFBPs The concerned SRBs i.e. ICAP, ICMAP, FBR, and Pakistan Bar Council (PBC), are included in the list of authorities to whom the SROs issued by MOFA are immediately communicated. ICAP and ICMAP immediately circulate the SROs issued by MOFA to their members and FBR also send updates to their members when a change to SROs occurs. ICAP and ICMAP are registered with the MOFA portal and they have advised their reporting firms to be registered with this portal in April 2019 and again in August 2019. All reporting firms have registered with this portal and receiving the SROs issued by the MOFA without any delay. However, in case firms are not registered on the MOFA portal, dissemination of UNSC SROs is implemented in a timely manner email from ICAP/ICMAP to all members. However, it is not clear what steps PBC takes to communicate designations to lawyers and notaries beyond relying on the MOFA web portal.
7. Only banks, DFIs and REs regulated by SECP are required to report to the FIU on the identification of a relationship with a designee, and any actions they have undertaken.	The procedure of reporting by MoFA (1267) & NACTA (1373) to SBP/ SECP is now applicable to CDNS, Pakistan Post and DNFBPs. For UNSCR 1373, freeze actions for proscribed designees must be reported within 48 hours. The obligation has now also been extended to prohibition of funds through amendment in clause (d) of sub-section (1) of section 11O of the ATA (http://na.gov.pk/uploads/documents/1599551546_738.pdf). Through this amendment, the provisions of clause(d) on reporting obligations have been extended to clause (c) of sub-section (1) of section 11O to ensure that no money, property or services are made available, directly or indirectly, wholly or jointly, for the benefit of proscribed organizations and proscribed persons and a report thereof is submitted to the concerned office of the Federal Government.	The deficiency has been largely addressed. UNSCR 1267/1989 and 1988 Since the MER, Pakistan has issued SRO 261(I)/2019 – the United Nations Security Council (Freezing and Seizure Order), 2019, which requires that the seizing agency carrying out the freeze or seizure of property shall submit a report as set out in Form A to MoFA within 48 hours of the freezing or seizure. “Seizing agency” means any person, whether government or nongovernmental, public or private, who is required to freeze or seize property. This report includes reporting on

The prohibition of funds is covered by following regulatory instructions:

SBP Regulated Entities SBP's AML/CFT/CPF Regulations issued vide BPRD Circular No. 5 of 2020 (https://www.sbp.org.pk/bprd/2020/C5.htm) (https://www.sbp.org.pk/bprd/2020/C5-Annex.pdf)	
Reporting	
Obligations	Para 7(b)&7 (c) - Regulation 4
(Prohibition) Availability of Funds to designees: Para 2 – Regulation 4	

SECP - AML/CFT Regulations 2020	
TFS Obligations	Reg 25(1)(b)(ii) and 25(2) prohibit the regulated persons from providing financial services to proscribed/ designated entities

Apart from banks, DFIs and the REs regulated by SECP, additional FIs and DNFBPs are also required to report the freezing actions:

1. Real Estate Agents and jewellers: Section 13(1)(b) provides for prohibition of services whereas Section 13(1)(c) of the Regulations dated 29.09.2020 requires the REs to report to board regarding any freezing action undertaken by them.
(<http://download1.fbr.gov.pk/SROs/202092917976805SRO9242020.pdf>)
2. Accountants: Section 25(ii)(b) provides for prohibition of services whereas Section 25(iii) of the regulations (30.09.2020) requires all the accountants to report to ICAP and FMU any freezing action by accountants. (<https://www.icap.org.pk/files/per/aml/ICAPAMLCFTRegulations.pdf>). Further, Section 25(ii)(b) provides for prohibition of services whereas Section 25(iii) of the regulations issued on 30.09.2020 requires all the accountants to report to ICMAP and FMU any freezing action undertaken by the accountants. (https://www.icmap.com.pk/News_Pdf/AML_CFT_Regulations_ICMAPakistan.pdf).
3. CDNS: Regulation 7(1)(b)(ii) provides for prohibition of services whereas Section 7(2) of National Savings (AML CFT) Regulations, 2020 dated 30.09.2020 requires them to Report the results of screening with the supervisory board.
(http://www.finance.gov.pk/budget/NS_AML_CFT_Regulations_2020.pdf)
4. Pakistan Post: Refer to the response provided above.

This includes the obligation to implement other TFS related obligations under the AMLA, UNSC Act, and 1948 and ATA, and any regulations made thereunder". These instruments also require reporting to the relevant agency of actions taken in compliance with them.

steps taken to prevent the use, transfer, conversion, or disposal of frozen or seized property. However, this reporting obligation only applies to asset freezes and not actions taken in compliance with the prohibition requirements.

UNSCR 1373

Since the MER, Pakistan has amended section 110(1)(d) of the ATA to also require the person who is responsible for freezing or seizing to set out (within 48 hours of any freeze or seizure) "the steps taken to ensure that no money, property, or services are made available, directly or indirectly, wholly or jointly for the benefit of the prescribed organization or person". These steps taken will be included in the report submitted to the Federal Government. However, this reporting obligation is triggered by a freezing or seizure action, not any attempted violation of the prohibition under 11J(2) ATA, including attempted transactions.

Sector specific regulations

Pakistan has issued a number of regulatory instruments which expand on the default obligations in the Freezing and Seizure Order 2019 and the ATA.

Section 6A of the AMLA provides that AML/CFT regulatory authorities specified in Schedule IV of the Act (i.e., all relevant supervisory authorities for financial institutions and DNFBPs) are empowered to: (f) monitor and supervise, including conducting inspections, their REs to determine compliance with orders or regulations that impose TFS obligations, and (g) compel the production of information relevant to monitoring compliance with any orders, rules or regulations that impose TFS obligations.

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. Regulations are enforceable instruments and penalties for breaching any of these regulations are provided for in the AML/CFT Sanctions Rules, 2020. Sanctions may include administrative as well as monetary sanctions of up to one hundred million rupees (approx. USD 620,000) per violation. The sector specific regulations are as follows:

- Regulation 4 of the SBP Regulations 2020 mandates SBP reporting entities to report any assets frozen or actions taken with the prohibition requirements, including attempted transactions and account opening requests, to the FMU (regulation 4(7)(b)). In

All the above mentioned instruments are enforceable as Section 6A(2)(h) of the amended AMLA requires imposition of sanctions in case of non-compliance with any provisions of AMLA and regulations made there under. In this regards the sanctions have been issued by AML / CFT Sanction Rules, 2020 which apply to all the AML / CFT regulatory authority and oversight bodies of SRBs.
<http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-950I-2020.pdf>

- addition, they are required to report the freezing of funds or other financial assets to SBP within 48 hours (regulation 4(7)(c));
- Regulation 25(1)(c) of the SECP Regulations 2020 requires SECP reporting entities to file a STR to the FMU and notify the SECP of any actions taken under regulation 25(1)(b), which includes freezing funds, prohibiting making funds etc available, and rejecting attempted transactions;
 - Regulation 7(2) of the National Savings Regulations 2020 requires CDNS to report actions taken under regulation 7(1)(b) to the Supervisory Board, which includes freezing funds and assets, not providing services or property etc, and rejecting transactions and attempted transactions;
 - Regulation 13(1)(c) of the FBR Regulations 2020 requires real estate agents, DPMS, and non-ICAP/IMCAP accountants to report to the FBR and FMU of any action taken under regulation 13(1)(b), which includes freezing funds, not providing any services or property or any other related funds and reject the transaction or attempted transaction;
 - Regulation 25(iii) of the ICAP Regulations 2020 and IMCAP Regulations 2020 require ICAP/IMCAP member accountants to file an STR with the FMU and notify ICAP/IMCAP about actions taken under regulation 25(ii). Regulation 25(ii) requires ICAP/IMCAP member accountants to freeze relevant funds and assets, not provide services, property or funds, and reject transactions or attempted transactions;
 - Regulation 7(2) of the Pakistan Post (AML and CTF) Regulations 2020 require Pakistan Post to report actions taken under regulation 7(1)(b) to the Supervisory Board and FMU, which includes freezing funds and assets, not providing services or property etc, and rejecting transactions and attempted transactions.

The sector-specific regulations oblige the relevant FIs and DNFBPs 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 to supplement the obligations in the Freezing and Seizure Order 2019 or the ATA. As such they will not be required to report actions taken in compliance with the prohibition requirement.

8. Freeze actions for proscribed designees must be reported within 48 hours, but unclear whether reporting obligations only apply to freezing/seizing actions and not action in regards to prohibition of funds	See above.	See RA.7 above. The deficiency is largely addressed.
9. No measures to protect rights of bona fide third-parties	The UNSC Act, 1948 (ACT XIV) was amended, enacted into law, and notified in the Gazette of Pakistan on 30 July 2020. The amended UNSC Act can be accessed: http://mofa.gov.pk/wp-content/uploads/2020/09/Annex-IO10a-4-NEW.pdf Section 3 of the Act protects the rights of bona fide third parties: "No suit, prosecution or other legal proceedings shall lie against any person in respect of anything which is in good faith done or intended to be done under this Act".	The deficiency is addressed. Since the MER, 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.
10. Lack of publicly-known procedures for the review of designations by relevant committees for UNSCR, 1904, 1988, 1989 and 2083, nor to request review of false positives and inadvertent freeze or seizure of money and property	Aspects related to timely issuance of freezing order, its public knowledge, guidelines in case of inadvertent freezing/ seizing of assets, and procedure for review petition / delisting have been thoroughly updated and covered in UNSC (Freezing and Seizure) Order, 2019 at the following link: http://mofa.gov.pk/wp-content/uploads/2020/01/UNSC-Freezing-Seizure-Order-2019-1.pdf Under the Rules of Business 1973, the implementation of ATA 1997 falls in the ambit of the Ministry of Interior. Therefore, the application for an inadvertent freezing or false positive is to be sent to the Secretary Ministry of Interior. Such applications are regularly received and disposed of. Separately, the applicant also has the option of seeking relief from Court. There are numerous such cases where Courts have given relief in cases of false positives. NACTA Guidelines have been amended whereby the affected organizations or person may submit an application in writing to the Secretary, Ministry of Interior Islamabad or the concerned provincial Home Secretary, respectively. Please see Section 11 of the Guidelines on www.nacta.gov.pk Also note s110 of the ATA which states: (4) <i>On an application made by any affected person, the Federal Government shall inquire into the ownership and control of any money or other property that has been frozen or seized and, if it is satisfied that the money or other property has inadvertently been frozen or seized, the same shall be ordered to be released immediately</i> The delisting procedures related to 1988 committee can be found at: http://mofa.gov.pk/wp-content/uploads/2020/01/Delisting-Procedure-UNSC-1988-Committee.pdf	The deficiency is addressed. 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. Information regarding listing, delisting, and the UN Office of the Ombudsperson has been made public available on the MOFA website http://mofa.gov.pk/wp-content/uploads/2020/01/Delisting-Procedure.pdf 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 The MOFA Guidelines on Implementation of UNSCRs concerning TFS, Travel Ban and Arms Embargo set out the procedure for dealing with false positive matches. These Guidelines are publicly available on the MOFA website. The NACTA Guidelines explain that pursuant to section 110 of the ATA, on application by any affected persons, the Federal Government shall inquire into the ownership and control of any money or other property that has been frozen or seized, and if it is satisfied that the money or other property has inadvertently been frozen or seized, the same shall be ordered to be released. For proscribed organisations, the application should be made to the Secretary of the Ministry of Interior, while for proscribed persons the application should be made to the relevant

The delisting and exemptions procedure is given on the website of MOFA as well as included in the SRO in paragraph 10:

Delisting and Exemptions Procedure

“AND WHEREAS through paragraph 59 of United Nations Security Council resolution 2253 (2015) adopted under Chapter VII of the United Nations Charter, the UNSC has decided that all States are required to take all possible measures, in accordance with their domestic laws and practices, to notify or inform in a timely manner the listed individual or entity of the listing as provided in the relevant resolutions, the Committee’s procedures for considering delisting requests, including the possibility of submitting such a request to the Ombudsperson in accordance with paragraph 43 of resolution 2083 (2012) and the provisions of resolution 1452 (2002) regarding available exemptions, including the possibility of submitting such requests through the Focal Point mechanism. Details of the procedure for delisting and exemptions is available on following links:

http://www.mofa.gov.pk/documents/sro/Delisting_Procedure_Alqaida.pdf

<http://www.mofa.gov.pk/documents/sro/Exemptions.pdf>

Although, “actively informing the DP/Entity is not a FATF requirement” once the SRO is issued, it is served on the designated person/entity by the District Intelligence Coordination Committees (DICC)s and this information is provided to them.

provincial Home Secretary. These Guidelines are publicly available on the NACTA website.

https://nacta.gov.pk/wp-content/uploads/2018/11/Revised-Guidelines-on-UNSCR-1373_300920-Final.pdf

Joint Group Conclusion on R.6

Pakistan has largely addressed the technical compliance shortcomings in R.6.

The JG concurs with the re-rating of R.6 by APG from PC to LC in Pakistan’s 2nd Enhanced Follow-Up Report.

Minor deficiencies remain, as noted in the APG Follow-Up Report, 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 742 and the scope of application to the provision of funds to entities owned or controlled by the Taliban or persons acting on behalf of the Taliban who are not listed.

Recommendation 10 (“big 6”)

Partially Compliant

1. CDNS and Pakistan Post are not subject to AML/CFT requirements

Pakistan passed an amendment to the Anti-Money Laundering Act (AMLA) 2010 in September 2020. This amendment includes requirements for all reporting entities, including Pakistan Post and CDNS (please see below on the relevant criteria). The link to the amendment can be found at: http://na.gov.pk/uploads/documents/1601023870_810.pdf

In addition, AMLA provides the authority for the AML/CFT supervisory framework for Pakistan Post and CDNS. Section 6A read with Schedule IV of the Act identifies the Pakistan Post (AML/CFT) Supervisory Board for Pakistan Post Office Department (PPOD) as the AML/CFT Regulatory Authority for PPOD

This deficiency is addressed.

CDNS

Pakistan enacted amendments to the *Anti-Money Laundering Act 2010* (AMLA) in September 2020 to subject CDNS to AML/CFT obligations. The National Savings (AML/CFT) Supervisory Board for National Savings Schemes (the

National Savings (AML/CFT) Supervisory Board for National Savings Schemes as the AML/CFT Regulatory Authority for CDNS.

CDNS:

The National Savings AML and CFT Supervisory Board (Powers and Functions) Rules, 2020 have been approved by Federal Cabinet vide SRO # 954 (I)/2020 dated 30.09.2020.

http://www.finance.gov.pk/budget/SRO_AML_CFT_Powers_Fuctions_Rules_2020.pdf. These rules are made pursuant to section 43 and read with section 6A(1) and Schedule IV(1)(iv) of the AMLA (as amended).

Accordingly, the Supervisory Board has issued National Savings (AML and CFT) Regulations, 2020 (National Savings regulations) on 30.09.2020 for compliance of AML/CFT requirements (please see below on the relevant criteria). http://www.finance.gov.pk/budget/NS_AML_CFT_Regulations_2020.pdf

Further, AML/CFT Sanctions Rules, 2020, under Section-6A(2)(h) and Section-6C(c) of AMLA (as amended), have been issued. These Sanctions Rules provide for sanctions and penalties in respect of violations of the AMLA and the AML/CFT regulations, which includes the National Savings Regulations.

<http://www.fmu.gov.pk/docs/AML-CFT-Sanction-Rules-2020-SRO-NO-950I-2020.pdf>

Pakistan Post:

With regards to Pakistan Post, in light of observations made in the MER, the following steps have been taken:

1.Establishment of Postal Life Insurance Company Limited (PLICL), which is licensed, registered, regulated, and supervised by SECP; and

2.As for Pakistan Post's Financial Services business other than Life Insurance, Pakistan Post has entered into an agreement with a commercial bank (HBL), which is licensed, regulated, and supervised by SBP; whereby, this bank is responsible to comply with the SBP AML/CFT Regulations.

It may be noted that Pakistan Post has ceased to establish any new financial services relationship with customers.

During the transition period pending full transfer of legacy savings accounts and insurance policies, the Pakistan Post AML/CFT Supervisory Board is empowered to supervise Pakistan Post for AML/CFT requirements pursuant to the obligations on Pakistan Post in the AMLA (please refer to AMLA Amendments) Pakistan Post AML/CFT Supervisory Board Rules and the Pakistan Post AML/CFT Regulations.

See:

[https://communication.gov.pk/SiteImage/Misc/files/Notification%20\(PPOD\)%20Gazette\(1\).pdf](https://communication.gov.pk/SiteImage/Misc/files/Notification%20(PPOD)%20Gazette(1).pdf) and [https://communication.gov.pk/SiteImage/Misc/files/board123\(1\).pdf](https://communication.gov.pk/SiteImage/Misc/files/board123(1).pdf)

Supervisory Board) has been named as the AML/CFT Regulatory Authority for CDNS (Schedule IV of the AMLA).

Pakistan Post

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 SECP.

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 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.

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. The purpose of the Supervisory Board is to 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. The transfer of insurance business was required by SECP to occur by 31 March 2021. The transfer of the banking business banking business is expected to be completed by January 2022.

	In case of any violation/breach of SBP's AML/CFT/CPF Regulations by the commercial bank directly or due to its agent (e.g. PP), the bank will be ultimately held responsible and enforcement action would be initiated by SBP against the bank. If the bank determines that the violation/breach is caused due to negligence of some employee of PP, the bank may refer the matter to the Supervisory Board for taking necessary action against the employee.	
2. Lack of requirements for MFBs and ECs to undertake CDD when there are suspicions of ML/TF or doubts about the veracity or adequacy of previously obtained customer identification data.	AML Section 7A(1) requires that every reporting entity shall conduct CDD in the manner as may be prescribed and in accordance with the provisions of the Act in the following matters, namely: (a) entering into a business relationship; (b) conducting an occasional transaction above the prescribed threshold; (c) where there is a suspicion of money laundering or terrorist financing; or (d) where there are doubts about the veracity or adequacy of Previously obtained data. http://www.fmu.gov.pk/docs/Gazetted_Copy_AMLA_passed_Majlis-e-Shoora_24_09_2020.pdf	The deficiency is addressed. Since the MER amendments to the legal and regulatory framework have addressed the gaps. The amended AMLA (S.7(A)) requires FIs, including MFBs and ECs, to undertake CDD measures when: • Entering into a business relationship; • Conducting an occasional transaction above the prescribed threshold; • There is a suspicion of ML/TF; or • There are doubts about the veracity or adequacy of previously obtained data. This requirement is also included in new regulations issued by all the AML/CFT regulatory authorities (SBP, SECP, Supervisory Board).
3. Shortcomings in CDD requirements for banks and DFIs to identify and verify occasional customers.	AML Section 7A (2) (a) requires that every reporting entity identify the customer and verify the customer's identity on the basis of documents, data or information obtained from reliable and independent sources; http://www.fmu.gov.pk/docs/Gazetted_Copy_AMLA_passed_Majlis-e-Shoora_24_09_2020.pdf Further, the requirement is also part of new Regulations issued by all the AML/CFT Regulatory Authorities. References to the relevant provisions are provided below: SBP: Para 2 of regulation 2 of the SBP Regulations requires that SBP REs apply CDD measures as per section 7A (2) of the Act. In addition, para 3 and 4 Regulation 2 of SBP Regulations requires all SBP REs including Banks & DFIs to identify and verify customers/ occasional customers. An occasional customer is defined as a customer who conducts occasional transactions. For the purposes of identification and verification the SBP REs shall obtain at minimum the information and documents set out in the annexures I and II. The definition of customer and occasional customer includes natural and legal persons. (definition 21 of SBP Regulations). https://www.sbp.org.pk/bprd/2021/CL1.htm	This deficiency is addressed. The amended AMLA (S.7A(2)(a)) requires every reporting entity to identify the customer and verify the customer's identity on the basis of documents, data or information obtained from reliable and independent sources. All transactions carried out by occasional customers are subject to CDD measures regardless of the value of the transaction. While this is not explicit in the AMLA, new Regulations issued by all the AML/CFT Regulatory Authorities clarify that CDD measures apply to occasional customers.

	Further, ECs are only authorised to deal with individuals. Refer para 8A of Chapter 3 and Para 11A of chapter 8 of EC manual. https://www.sbp.org.pk/epd/ec/2018/EC-Manual.pdf. SECP: SECP has issued a notification S.R.O.105(I)/2021 specifying similar requirements established by SBP to conduct CDD with respect to in respect of every occasional customer https://www.secp.gov.pk/document/sro-directive-on-cdd-for-occasional-transaction/?wpdmdl=41489&refresh=60158226d5a801612022310 CDNS: National Savings Regulations, chapter III, Regulation 4(2) and 4(6), provide that the CDNS shall identify the customer and legal arrangement; and verify the identity of that customer and legal arrangement, respectively using reliable and independent documents, data or information as set out in regulation 4(9). The definition of customer includes natural and legal persons (Regulation 2(1)(c) of National Savings Regulations) http://www.finance.gov.pk/budget/NS_AML_CFT_Regulations_2020.pdf Pakistan Post: The Pakistan Post Regulations, chapter III, regulation 4(2) provides that the PPOD shall identify the customer; and verify the identity of that customer using reliable and independent documents, data or information as set out in regulation 4(9). Customer is defined as “any person or legal arrangement”. “Person” includes both legal and natural persons as defined in the AMLA. (section 2(1)(c) of Pakistan Post Regulations) https://communication.gov.pk/SiteImage/Misc/files/board123(1).pdf	
4. Shortcomings in CDD requirements for banks, DFIs and ECs to perform EDD	Financial Institutions are required to apply Enhanced Due Diligence (EDD) on business relationships and transactions when the risks are higher. The relevant references in the regulations are as follows: SBP: Para 16 (a) of Regulation 2 of SBP Regulations https://www.sbp.org.pk/bprd/2021/CL1.htm SECP: SECP Regulations, Chapter II section 21(1) (a). https://www.secp.gov.pk/document/securities-and-exchange-commission-of-pakistan-aml-cft-regulations-2020/?wpdmdl=40341&refresh=5f731460b12f31601377376 CDNS: National Savings Regulations, chapter III, regulation 4(16) (a).	This deficiency is addressed All financial institutions in Pakistan have obligations in sectoral regulation that mirror the requirements of the FATF standards to perform enhanced due diligence (EDD) where the ML/TF risks are higher:

	http://www.finance.gov.pk/budget/NS_AML_CFT_Regulations_2020.pdf Pakistan Post: The Pakistan Post Regulations, chapter III, regulation 4(16) (a) https://communication.gov.pk/SiteImage/Misc/files/board123(1).pdf	
5. Lack of requirements for banks, DFIs, MFBs to terminate the business relationships where they are unable to comply with relevant CDD measures.	AMLA Section 7D (1) requires that "Where a reporting entity is unable to complete CDD requirements, it (a) shall not open the account, commence business relations or perform the transaction; or shall terminate the business relationship if any; and (b) shall promptly consider filing a Suspicious Transaction Report in relation to the customer	This deficiency is addressed. Section 7D of the AMLA establishes obligations for all financial institutions in Pakistan to follow where they are unable to comply with their CDD requirements. S.7D(a) requires that financial institutions either not open the account, commence business relations or perform the transaction or must terminate the business relationship (if any).

Joint Group Conclusion on R.10

Pakistan has substantially addressed the key deficiencies identified with respect to R.10 in the MER.

Amendments to the AMLA and other related legislation has extended AML/CFT obligations to CDNS and Pakistan Post and clearly required MFBs and ECs to undertake CDD. The changes have also rectified deficiencies with respect to CDD requirements for occasional customers, shortcomings with EDD and establishes requirements for FIs to terminate business relationships when CDD measures cannot be complied with.

Recommendation 20 ("big 6")

Partially Compliant

1. STRs are not required to be reported promptly.	The Parliament of Pakistan enacted amendments to the AMLA, 2010 on 21-Feb-2020 vide gazette notification no. 22(8)/2019-legis (available at the national assembly's website: http://na.gov.pk/uploads/documents/1584020439_648.pdf Section 7(1) of the AMLA now reads as follows: ".....Provided that Suspicious Transaction Report shall be filed by the reporting entity with the FMU promptly ."	This deficiency was addressed by an amendment brought to Section 7(1) of the AMLA, which explicitly requires REs to report STRs to the FMU promptly.

Joint Group Conclusion on R.20

Pakistan has addressed the technical compliance shortcomings in R.20.

The JG concurs with the re-rating of R.20 by APG from PC to C in Pakistan's 2nd Enhanced Follow-Up Report.

Recommendation 20 was rated PC in the MER because REs are not required to report STRs promptly. This has been rectified by an amendment to the AMLA, which now explicitly requires STRs to be reported promptly.

Annex B: Action Plan

Immediate Outcome	Action Item(s)	Timelines
<u>IO.2</u>	Amend Pakistan's MLA legal framework to clarify that there is no mandatory requirement that an individual or legal person subject to an MLA request be notified of the existence of such request.	<u>May 2022</u>
<u>IO.3</u>	Demonstrate that supervisors are conducting both on-site and off-site supervision commensurate with the specific risks associated to DNFBPs, including applying appropriate sanctions where necessary.	<u>Sep 2022</u>
<u>IO.5</u>	Demonstrate that proportionate and dissuasive sanctions are applied consistently to all legal persons and legal arrangements for non-compliance with requirements to provide and maintain BO information.	<u>May 2022</u>
<u>IO.7</u>	Demonstrate an increase in ML investigations and prosecutions in line with Pakistan's risk profile, including cases involving foreign proceeds, stand-alone ML cases and cases involving legal persons.	<u>Jan 2023</u>
<u>IO.8</u>	Demonstrate that LEAs are continuing to restrain and confiscate criminal proceeds, instrumentalities and property of equivalent value for high risk crimes, with a focus on working with foreign counterparts to trace, freeze and confiscate assets.	<u>Jan 2023</u>
<u>IO.10</u>	Provide evidence that Pakistan actively seeks to enhance the impact of sanctions beyond its jurisdiction by nominating additional individuals and entities for designation at the UN and by making requests for designation to third countries under UNSCR 1373.	<u>May 2022</u>
<u>IO.11</u>	Demonstrate continued monitoring of DNFBPs for compliance with PF TFS and impose appropriate sanctions for non-compliance.	<u>Sep 2022</u>

3.2. PHILIPPINES

FATF/FSRB Membership: APG

Date of Mutual Evaluation On-Site Visit: 15-28 November 2018

Date of Adoption of Most Recent Mutual Evaluation Report: October 2019

Reason for ICRG Referral: Effectiveness criteria (low or moderate on 9 or more of the 11 IOs, with a minimum of two low ratings)

Observation Period Ended: February 2021

Post-Observation Period Findings Due to ICRG: June 2021

Date of ICRG Endorsement of Action Plan: TBD

ICRG Referral Criteria (re-ratings in parentheses)

"Big 6" Recommendations	3	5	6	10	11	20
MER Ratings	LC	LC	PC	LC	C	PC
Post-Observation Period Ratings			See annex A			LC

Immediate Outcomes Rated Moderate or Low

Immediate Outcomes	1	2	3	4	5	6	7	8	9	10	11
MER Rating	SE	ME	ME	ME	LE	ME	LE	LE	LE	LE	LE
Progress towards increasing effectiveness in accordance with procedures ¹⁰		N	N	N	N	N	N	N	N	N	N

Other Recommendations Rated PC or NC (re-ratings in parentheses)

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

¹⁰ Y = Yes, N = No, * = For ICRG Discussion

Improving Effectiveness

IO Rated Low or Moderate	Comments for ICRG Consideration	Remaining Actions to Be Taken
Immediate Outcome 2 Moderate	<u>Recommended Actions from MER:</u> 1. Enhance the capability of LEAs to identify and investigate transnational elements of cases with the cooperation of relevant counterparts, including by actively seeking MLA and extradition in their ML, TF and predicate offences investigations in keeping with the trans-national risk profile. Since the MER, the Philippines has taken the following steps: • Continuous implementation and provision of training, which includes international cooperation to key LEAs, in line with the multi-year AML/CFT capacity building roadmap • Issuance in January 2021 of the MLA Guidelines by the Department of Justice to all relevant competent authorities, and the planning/commencement of training on the guidelines to key personnel; • Adoption in February 2021 of the first International Cooperation Plan (ICP), in line with the National AML/CFT Strategy. The ICP consolidates the understanding of the Philippines' transnational risk profile and sets out concrete steps to encourage and support the enhanced use of international cooperation (both formal and informal) by all relevant authorities. <u>Capacity Building and Guidance to enhance capability of LEAs</u> <i>Training and capacity building</i> On 15 August 2018, the AMLC adopted an AML/CFT Capacity Building Roadmap (ACBR), which is multi-year blueprint on addressing the Philippines' capacity building and training needs for AML/CFT. One component of the ACBR is the provision of capacity building programs for law enforcement agencies (LEAs) undertaking predicate crime investigations, which includes components of international cooperation (both formal and informal). As the ACBR is adopted in line with the National AML/CFT Strategy (NACS), its implementation is monitored by the NACC – AML/CFT Awareness Subcommittee. International partners have been providing technical assistance to the Philippines through rolling out of financial investigation courses and further improving the financial investigation training modules, including recourse to international cooperation mechanisms in case a foreign nexus is identified in the case: - In 2019, the UNODC conducted a series of ML/TF investigation courses for AMLC investigators and LEAs, which culminated with a Train the Trainers Course. - In 2019, the Asian Development Bank (ADB), through an international expert in ML/TF investigations, assisted the AMLC in the development of Financial Investigation Course training modules. This course is aligned with the AMLC's Financial Crime Investigation Manual and with a focus on the target risk areas in the Philippines.	This recommended action is partially addressed Authorities should: - Fully implement (i) the AML/CFT Capacity Building Roadmap; (ii) the MLA Guidelines; and (iii) the ICP with regard to international cooperation. - Demonstrate an increase in formal outgoing requests.

Table 1: Trainings Provided by the AMLC to LEAs

	No. of Lectures	No. of Attendees	LEAs
2019	20	883	PDEA, NICA, ISAFF, AFP, JTFIG, DENR, PNP Groups and Regional Offices, NAPOLCOM, Office of the Ombudsman,
2020	8	470	
1 st Quarter 2021 (As of 15 March 2021)	7	335	

The Target Intelligence Packaging (TIP) workshops, which are used for coordination with LEAs on parallel investigations, include lectures on financial investigation techniques and processes, asset tracing and utilizing international cooperation mechanisms. The AMLC conducted fourteen (14) TIP Workshops in 2019 to first quarter 2021, with partner LEAs and other government agencies (see IO7 response for additional details).

For the AMLC, the Financial Crimes Investigation Group (FCIG) Investigation Manual includes a mechanism that, if during an investigation, an element or information that involves other jurisdiction is discovered, a referral shall be made to its Counselling Adjudication and Mutual Legal Assistance Unit (CAMU) and/or Financial Intelligence Analysis Group (FIAG) for their appropriate action

Issuance of MLA Guidelines and Trainings on MLA Process

In January 2021, the Department of Justice (DOJ), which is the central authority for formal international cooperation, issued Guidelines on Mutual Legal Assistance (MLA), to provide guidance to Philippine competent authorities on how to make outgoing MLA requests, and to foreign counterparts on how to submit MLA requests to the Philippines. The DOJ's Office of the Chief State Counsel (OCSC) handles the MLA process. The MLA Guidelines is posted in the DOJ website¹¹ and DOJ Webpage on International Legal Cooperation.

For 2019, DOJ participated in three (3) trainings on OSEC for prosecutors and LEAs from 3 different regions of the country. For 2020, the DOJ participated in a webinar series on handling and investigating labor trafficking cases of Overseas Filipino Workers. In these trainings/webinars, the DOJ highlighted the importance of international cooperation in combating crimes, including trafficking in persons and OSEC. As discussed in IO 2-2 and 7-, OSEC is identified as a high-risk crime with significant transnational risks.

The AMLC delivered a lecture on the process and the benefits of utilizing MLAs to member-agencies of the NALECC – Sub Committee on AML/CFT during its 18 December 2020 meeting.

International Cooperation Plan

The International Cooperation Plan (ICP) was adopted by the National AML/CFT Coordinating Committee (NACC) on 26 February 2021 (See IO 2-3 for further discussion). The ICP includes action plans on enhancing the use of risk-based prioritization in international cooperation. This includes considering high risk jurisdictions and factors, issuance of Advisories for high risk factors based on results of risk assessments and considering adopting a risk rating system when two or more factors are present to facilitate determination of priority requests (pages 27-28).

The ICP further provides for information dissemination and capacity building on the MLA Guidelines, the SEC's Access to Beneficial Ownership Information, and the Advisory on High-Risk Jurisdictions. Dissemination shall be made publicly via website publication (for the MLA Guidelines and the SEC process) and to all relevant agencies. Information campaigns shall also be conducted. For the Advisories, this will be periodically issued through the NACC, and this should be considered by the agencies in the agency-level risk-based approach to international cooperation.

¹¹ <https://www.doj.gov.ph/files/2021/MLACM/MLA-Guidelines.pdf>

Mutual Legal Assistance**Table 2: Incoming and Outgoing MLA Requests**

	2018	2019	2020	2021
Incoming	60	58	29	13
Outgoing	3	2	1	3

Incoming MLA Requests. Incoming requests from 2018, 2019 and 2020 show a declining trend, potentially due to the impact of Covid-19 on the operations of governments worldwide.

- a. In 2019 and 2020, the Philippines received 87 requests for assistance from 34 countries. Consistent with the risks, the United States is the top requesting country, followed by South Korea, Turkey, France, and Mexico.
- b. MLA requests were made in relation to the crimes of fraud-related offenses (i.e., cyber fraud, forgery/falsification, embezzlement, swindling), money laundering, child exploitation and human trafficking, and drugs, among others. This is consistent with the identified high-risk crimes in the country, noting in particular that the Philippines is a destination country for illicit funds in relation to online sexual exploitation of children (OSEC).
- c. In one case, direct coordination is made between the foreign and domestic agency for assistance in relation to seizure of assets. In the first quarter of 2020, the Office of the Ombudsman received a request for assistance from the US-DOJ regarding the seizure of certain assets, which are corruption proceeds moved to the US. Accused is also on trial in the Philippines for corruption and plunder. Assets involved include USD10.88 million worth of real property, USD1.5 million worth of investments, a Porsche Boxster and several wire transfers. Ombudsman Officials participated in an ensuing video conference US court hearing held in October 2020 to establish beneficial ownership of assets belonging to the children of the Accused in the corruption case.

Outgoing MLA Requests. The restrictions on mobility and challenges in the operations of the agencies, brought about by the pandemic, had an impact on the number of the Philippines' outgoing MLA request.

For 2019 – 2021, the Philippines made six (6) outgoing requests to US (3), Hong Kong, China and New Zealand. The outgoing requests were made in relation to the high-risk crimes of money laundering predicated on drug trafficking and fraud, and human trafficking/online child pornography

Extradition

For 2019, the Philippines received one (1) request for provisional arrest. The request, made by the US, involved a fugitive charged with sexual assault on a child by a person in a position of trust (2 counts); sexual exploitation of a child (2 counts); unlawful possession of a controlled substance (cocaine). Before the request could be implemented, the request was withdrawn as the fugitive was arrested in Qatar and sent to the US.

For 2020, the Philippine received 2 requests for extradition from Russia, both involving large scale fraud. Summary deportation orders have been issued against the subject fugitives of both requests. As the subjects were previously convicted in the Philippines, they will be immediately deported to Russia upon completion of service of sentence.

There have also been instances where deportation has been resorted to instead of extradition. In one case, a suspected terrorist was deported to the US to face trial for terrorism and terrorism financing.

For the given period, the Philippines does not have any outgoing extradition request. At present, the Philippines has only 13 bilateral extradition treaties and would only be able to submit a request to the State in which it has an extradition treaty. Where the State in which a fugitive-of-interest is located does not have an extradition treaty with the Philippines, deportation is resorted to when such

mechanism is allowed by that State.

2. Consider at a joint agency and agency level, the priority jurisdictions for international cooperation based on findings of risk assessments.

Since the adoption of the International Cooperation Plan, the NACC has issued two (2) Advisories on High-Risk Jurisdictions and Crimes based on risk assessments and studies conducted. The Advisories are disseminated to competent authorities to notify them and guide them in their prioritization for international cooperation.

On 26 February 2021, the NACC issued Resolution No.1, s. 2021 adopting an International Cooperation Plan (ICP) and directing all member-agencies to enhance international cooperation measures in line with the Plan. This includes increased measures and cooperation with identified high-risk jurisdictions based on risk assessments and studies conducted by relevant government agencies, including the AMLC.

- a. Under NACC Resolution No. 1, s.2021, NACC and NACC sub-committee member-agencies are directed to issue an Advisory, on high-risk unlawful activities, jurisdictions, and other high-risk factors, within one month from completion of their agency-level, sectoral or thematic risk assessments and studies, to guide other agencies in the implementation of their risk based international cooperation.
- b. The ICP includes NACC Advisory No. 1 (pages 41 -42) on High-Risk Jurisdictions and Unlawful Activities for Money Laundering and Terrorism Financing. The Advisory identifies the high-risk jurisdictions, the corresponding unlawful activities, and the flow of related funds in relation to the Philippines. This is based on the Second NRA, the AMLC Risk Assessment on External Threats, the AMLC's three (3) risk assessments/studies on Online Sexual Exploitation of Children (OSEC), AMLC Risk Information and Typologies on Drugs, the Risk Assessment on Legal Persons, and the 2021 Terrorism Financing Risk Assessment.

This recommended action is addressed

Table 3: Summary Table of High-Risk Jurisdictions and Unlawful Activities

Country/Jurisdiction	Unlawful Activities	Flow of Funds to and from the Philippines
United States of America	Online Sexual Exploitation of Children (OSEC), child pornography	Inflow
	Environmental Crimes	Outflow
	Drug Trafficking, Corruption, Fraud, Web-related crimes, Terrorism and Terrorism Financing	Inflow and Outflow
	Smuggling	Outflow
United Kingdom	OSEC, child pornography	Inflow
	Terrorism and Terrorism Financing	Outflow
	Investment Scams and Boiler Rooms	Inflow and Outflow
Australia	OSEC, child pornography, facilitation of prostitution, human and child sex trafficking and qualified trafficking in persons and violations of the child abuse law	Inflow
	investment scams, swindling	Inflow
	environmental crimes	
	terrorism and terrorism financing	Inflow and Outflow
	Web-related crimes	
China	Drug Trafficking	Inflow
	Environmental Crimes	
	Swindling	Inflow and Outflow

	Corruption, Web-related	Outflow
Hong Kong, China	fraud-related crimes, investment scams	Inflow and Outflow
	Environmental crimes	Inflow
	Web-related crimes	Outflow
France	fraud-related crimes	Inflow and outflow
	Environmental Crimes	Inflow
Canada	OSEC	Inflow
Saudi Arabia	OSEC	Inflow
Malaysia	Drug Trafficking	Outflow
	Terrorism and Terrorism Financing	Inflow and Outflow
Indonesia	Terrorism and Terrorism Financing	Inflow and Outflow
Trinidad and Tobago	Terrorism and Terrorism Financing	Inflow

The ICP was presented before the NACC members and the NACC sub-committee member-agencies. The NACC Resolution, ICP and Advisory No. 1 was also disseminated to all NACC and sub-committee members.

On 29 March 2021, the NACC Secretariat issued Advisory No. 2 based on the BSP's Sectoral Risk Assessment of Cash, Cross Border and Cross Sector Transactions. Results of the cross-border risk assessment disclosed that in terms of total value, Singapore, Australia, Germany, UK and the USA are the top five sources of suspected illicit funds while Singapore, USA and Hong Kong, China are the top destinations of suspected illicit funds. Crimes linked with these jurisdictions are drug trafficking, fraud and swindling, trafficking in person, corruption, terrorism and TF, and violations of e-Commerce Act and cybercrimes.

The conduct of the risk assessments/studies which underpin the ICP and the Advisories was coordinated with relevant competent authorities, such that even in the drafting stage, actions were taken to reach out to foreign counterparts with identified risks. Upon completion, and even prior to the formal issuance of the ICP and the risk advisories, the risk assessments/studies used as references were actively discussed and disseminated to domestic competent authorities, through both individual agency-level and coordination mechanisms. The risk assessments/studies were used by competent authorities as guides in their use and prioritization of international cooperation mechanisms and have also been disseminated to foreign counterparts.

3. Based on this process develop a priority international cooperation plan to guide FIU, LEAs, supervisors and others in their proactive international cooperation.

The Philippines adopted the International Cooperation Plan (ICP) on 26 February 2021.

Agencies have started implementation of the ICP Action Plans, as follows:

- a. The DOJ has published the MLA Guidelines in its website¹² and has started active dissemination and information campaign to local offices of the NPS and LEAs. There are further plans for lectures/outreach to relevant agencies on the MLA Guidelines and the benefits of utilizing the MLA mechanism to support investigations and prosecutions.
- b. The BSP furnished the NACC Secretariat of a copy of the BSP's SRA of Cross-Border Transactions and a summary of transnational high-risk factors identified. On 29 March 2021, the NACC Secretariat issued Advisory No. 2, corresponding to BSP's risk assessment and disseminated this to the relevant agencies.

This recommended action is largely addressed.

The Philippines should now work to actively implement the ICP.

¹² <https://www.doj.gov.ph/files/2021/MLACM/MLA-Guidelines.pdf>

- c. The AMLC proactively disseminated the TF Risk Assessment and Legal Persons Risk Assessment to the identified jurisdictions, to bring into their attention the risk information and explore areas to strengthen cooperation. The AMLC and the identified jurisdictions are presently coordinating for the sharing of operational information on the identified risks. The jurisdictions have also sought permission for further dissemination of the report to its LEAs.
- d. The AMLC, through Office Order No. 5, dated 30 March 2021, took practical measures to improve response times for processing of incoming MLA requests. The Office Order lays down clear timelines for administrative processes and specifying target times for processing of urgent and non-urgent requests.

4. Implement an improved and better resourced case management system in the DOJ central authority, supported by enhanced inter-agency cooperation on MLA, to better manage the Central Authority's workload of incoming requests

The DOJ – OCSC has adopted a new case management system, developed in-house, to support its functions as the Philippines' Central Authority on MLA. This is further complemented by ICP action plans and existing domestic mechanisms which is utilized to coordinate incoming and outgoing requests.

1. The DOJ's new MLA Case Management System is the digital record-keeping of all incoming and outgoing requests for MLA by the DOJ – OCSC. It was developed in-house by the DOJ's IT Division and was launched in November 2020. The System will assist the DOJ in monitoring the timeliness of responses to MLA requests.
 - a. The System captures the sequence of processes which an MLA request passes from the time the request is received up to its completion. It records the date when the MLA request is assigned to a State Counsel, and all intervening actions made, such as partial compliance of the request, request for clarification or additional information and documents, or case conference conducted. The System consolidates all the information pertaining to an MLA request, which can be quickly accessed, and provides a documented history of action made on the request. It assists the Office in the monitoring of MLA requests, as well as reviewing and streamlining procedures in handling MLA requests to ensure their prompt implementation. The data structures of the MLA Case Management System allow for the proper monitoring of incoming and outgoing requests.
 - b. Moreover, data recorded and information about the request can be accessed remotely by an authorized person. The System Administrator can also easily monitor the status of the case, thus, providing a procedure for follow up or reminder to the handling State Counsel or competent authorities to which the MLA request was referred. The updating of the files of each request to reflect developments on the request can be made real time.

To complement the DOJ's Case Management System and to further enhance inter-agency cooperation on MLA, the ICP provides for related action plans, which agencies have started implementing:

- a. **Improved referral and delineation of roles in executing international requests.** Action plans here include DOJ developing a consolidated directory of agencies for proper referrals and utilizing existing domestic cooperation mechanisms to coordinate responses for international requests and ensure timeliness of responses. This is due within 3 months from adoption of the ICP.

The DOJ already actively coordinates with the foreign central authority and concerned Philippine agencies regarding incoming and outgoing requests. This does not only clarify requirements for the MLA requests, but also allows foreign and domestic authorities to explore other avenues to expedite international cooperation.

This recommended action is largely addressed.

- b. **Improvement of Internal Processes.** Action plan includes making partial partial/provisional responses, pending full compliance with the MLA and other requests. The agency concerned shall submit to the DOJ-OCSC the information and documents readily available and identify the expected timeline to fully execute the request. This is due within 6 months from adoption of the ICP.
- c. **Improved and Better Resourced Case Management and Monitoring.** The DOJ shall seek, and the agencies concerned shall provide, regular updates (e.g., quarterly) on the status of incoming MLA requests. The DOJ and the agencies concerned shall also have regular coordination mechanisms to discuss developments and issues concerning all incoming MLA and extradition requests pending before the implementing agencies.

These updates will feed into the new case management system of the DOJ, which can then assist in the monitoring of the status of the requests.

5. Further enhance supervisors' regular engagement in international cooperation for AML/CFT including risk sharing, fit and proper checking and the conduct and results of supervision

Supervisors continue to strengthen and maximize cooperation mechanisms with foreign counterparts to support supervisory work. In addition to this, supervisors have expanded their international cooperation focus to include jurisdictions identified to have high transnational risks as identified in the risk assessments conducted and in risk information shared by the FIU and LEAs.

1. For BSP, the framework for international cooperation primarily considers, among other things, those jurisdictions where Philippine banks have an international presence, as well as home countries of foreign banks operating in the Philippines, for seamless exchange of supervisory information. In addition, jurisdictions identified as sources and destinations of criminal proceeds, based on national and sectoral risk assessments, as well as risk information obtained from the AMLC, LEAs and foreign supervisors/regulators, drive the direction and strategy of international cooperation.
2. The BSP has MOUs with supervisors from, among others, Germany (BaFin), Hong Kong (HKMA), China (CBRC), Chinese Taipei (Financial Supervisory Commission), and Thailand (Bank of Thailand) on cooperation and sharing of supervisory information. As of 1 March 2021, the BSP has MOU on information exchange and exchange of letter/cooperation agreement with 13 regulators in 13 jurisdictions, which cover central banking and other areas of cooperation of mutual interest, including AML/CFT supervision.
 - a. The Financial Services Agency (FSA) of Japan, FCA of UK and De Nederlandsche Bank¹³ have maintained informal information sharing arrangements with the BSP. The FSA and FCA agreed to exchange letters for purposes of providing relevant contact information and reciprocal notification of adverse developments, respectively, while arrangement with De Nederlandsche Bank shall be on an ad-hoc basis.
 - b. There are also ongoing technical discussions between BSP and USA counterparts for a possible MOU on home-host supervisory coordination given the significant transactions with USA. Likewise, a proposed MOU on cooperation on areas of mutual interest between the BSP and Bank of Russia is under consideration. Nonetheless, the absence of MOA/MOU with a counterpart regulator does not prevent the BSP from conducting information exchange, particularly in assessing fitness and propriety of directors, officers, and stockholders.
 - c. In 2019, the BSP had a meeting with Federal Reserve System (FRS) regarding updates on Philippine banking industry and supervisory concerns/plan on a universal bank.
3. BSP participates in various supervisory colleges wherein it connects with counterpart regulators and discusses issues concerning BSFIs. It fortifies home-host cooperative relationships and strengthens financial conglomerate supervision particularly with respect to overseeing their offices/units abroad. This is also an avenue for the BSP to share and learn supervisory practices and approaches. The BSP participated in supervisory colleges provided by ANZ, Maybank, and Deutsche Bank in 2019, and Standard Chartered Bank, ANZ and CIMB in 2020.

This recommended action is largely addressed.

¹³ The Dutch Central Bank and AML/CFT supervisory authority for the banking, insurance, and CSP sectors

4. The BSP's information sharing with other jurisdictions covers information on supervised entities, such as supervision status, ownership, and imposed enforcement actions, as well as information involving financial crimes and crisis situations. Typical information shared by BSP with foreign counterpart regulators relate to fit and proper assessment of proposed directors, officers, and stockholders (DOS) of BSFIs. Likewise, coordination and information exchange take place with host supervisors for onsite examination of branches abroad of Philippine banks and there are instances that the host supervisor meets with the BSP team to discuss the scope/coverage of the examination.
 - a. Outgoing Requests – In 2019, the BSP sent 89 requests to foreign supervisors, 82 of which were for purposes of assessing fitness and propriety of DOS while 7 requests pertain to the conduct of examination. This is markedly higher than the 38 requests made in 2018. 60 requests or 67 percent were responded to by foreign counterpart regulators while no feedback was received for the remaining 29 requests. In 2 cases, the requests for transfer of shares of stocks of banks were denied by the BSP due to the negative information received from the counterpart foreign supervisors.

In 2020, the BSP sent 48 outgoing requests, 45 of which were related to fitness and propriety of DOS, and 3 related to risk sharing. Feedback was received for 27 requests. The drop in number of outgoing requests for 2020 is attributed to the restrictions and slowdown in business activities or hiring of new officers/election of new members of the Board brought about by the Covid-19 pandemic.

BSP also made an outgoing request in relation to an on-going investigation of Philippine and foreign law enforcement agencies implicating two (2) banks in the Philippines.
 - b. In view of the results of risk assessment on cross-border transactions, the BSP reached out to foreign counterpart supervisors such as HKMA, MAS, FRS and BaFin. In January and February 2021, the BSP requested updates on ML/TF/PF typologies identified or gathered by these supervisors/FIUs that may suggest specific or emerging risk exposures, especially those involving Philippine financial institutions. This will be used in BSP's ongoing risk monitoring/surveillance and adoption of measures to address emerging ML/TF/PF threats to the financial sector. As of 9 March 2021, FRS, BaFin, HKMA and MAS have responded to BSP.
 - c. Incoming Requests – In 2019, the BSP received 10 requests from foreign supervisors, 7 requests were related to fitness and propriety of DOS, 1 request on result of examination and the remaining 2 pertain to risk sharing. All these requests were responded to by the BSP within internally prescribed timelines (ranging from 1 to 29 banking days from the receipt of request). The BSP has established a mechanism to ensure that all requests for information from foreign jurisdictions are promptly addressed, using a monitoring tool that tracks the progress of actions taken on the requests.

In 2020, the BSP received 11 incoming requests from other foreign regulators, 4 requests were related to fitness and propriety of DOS, 4 requests on risk sharing and 3 pertain to other forms of international cooperation. These requests were responded to by the BSP from 1 to 30 banking days upon receipt thereof.
5. The BSP has mechanism in place to ensure that all requests for information from foreign jurisdictions are promptly addressed. The Financial Supervision Sector of the BSP maintains Request and Offsite Activities Monitoring tool which is a live tracking document to monitor status of requests sent and received, including those involving international cooperation, among others. Any delays are being reported to higher management to address root cause and prevent similar delays from recurring in the future.
6. The Securities and Exchange Commission is a member of the International Organization of Securities Commissions (IOSCO). It has MOUs with Indonesia, Hong Kong, China, and Iran.
 - a. ***Incoming Requests.*** From 2018 to April 2021, the SEC received seventeen (17) incoming requests from other jurisdictions/foreign counterparts. The incoming requests came from the USA, Australia, Malaysia, Maldives, Mauritius, and the UK. These requests pertain to alerts, requests for information, and/or assistance in investigations related to investment frauds, violation of foreign securities law, and money-laundering.

- i. The US-SEC through the IOSCO Multilateral Memorandum of Understanding (MMOU) relates to an ongoing investigation of the US SEC on potential fraud and cryptocurrency pyramiding schemes made online.
 - ii. In 2020, the SEC received a request for assistance regarding an entity soliciting from the public to invest in their suspicious schemes. The SEC informed the requesting country that the subject entity has been issued with a Cease-and-Desist Order (CDO) for violation of the SRC by soliciting investment from the public without the necessary license from the SEC. The requesting country was also furnished with copies of the Advisory, CDO, and Resolution denying the Motion to Lift the CDO of the said entity.
 - b. **Outgoing Requests.** From 2019 – April 2021, the SEC has made seven (7) outgoing requests to counterparts from China, Malaysia, Colombia, Hong Kong China, Peru, UK and USA. The requests pertain to the SEC's ongoing investigations of investment frauds or possible violations of the SRC, and request for assistance for verification of registration and inquiry regarding different entities.
7. In March 2019, the SEC Commission *En Banc* created the SEC International Affairs Unit (IAU) in the Enforcement and Investor Protection Department (EIPD) to take charge of international affairs and cooperation.
- a. In February 2021, the IAU's application to the Global Financial Innovation network (GFIN), on behalf of the SEC, was accepted making the PSEC a member of this prestigious community of financial regulators concentrated on exploring the use of FINTECH and REGTECH in the regulation and supervision of the capital market.
 - b. The IAU is currently pursuing the SEC's membership in IOSCO MMOU Concerning Consultation and Cooperation and the Exchange of Information Appendix "A" entailing ushering the necessary legislative reforms and coordinating with the IOSCO, local stakeholders, and different agencies of government.
- During the SEC Performance Planning and Review Conference on 07 December 2020, one of the items agreed upon is the creation of an International Affairs Division to expand the functions of the IAU and make it a regular division of the SEC-EIPD with its own employees and functions focusing on international cooperation.
8. The Insurance Commission (IC) consistent with existing laws and regulations, extended cooperation with its foreign counterparts with respect to the exchange of supervisory information, including those related to AML/CFT purposes.
- a. From 2019 - 2020, the IC received three (3) foreign requests for information regarding directors, officers and/or stockholders (DOS), for purposes of assessing the fitness and propriety of the DOS, which were all responded by IC. The requests were made by Bank Negara Malaysia and Hong Kong Monetary Authority.
 - b. For the given period, the IC made a request to a foreign supervisor for purposes of assessing fitness and propriety of a covered person's directors, officers and/or stockholders (DOS).
9. PAGCOR is actively participating in different international engagements regarding casino industry. These engagements, such as gaming expos and summits, are attended by stakeholders, casino professionals, and industry regulators, among others. PAGCOR's participation forges connection to its counterparts from different jurisdictions. and enable the PAGCOR to expand its international cooperation reach through informal meetings, capacity building and assistance with foreign counterparts.
10. The AMLC, as supervisor, also looks into the foreign nexus of financial intelligence and on-going investigations that have compliance issues. The case identified in the "*Typologies on the Use of DNFBPs in setting-up entities alleged to have received funds from illicit activities*" involves a Filipino lawyer who acted either as the formation agent, corporate secretary or contact person of seven (7) entities that were identified as alleged beneficiaries of the illegal drug proceeds. The partners and incorporators of these juridical entities are mostly foreign nationals. The said lawyer also serves as an officer/director in one of these companies. Apart from conducting financial investigation of ML activities related to drug trafficking, the AMLC, as supervisor, is preparing administrative charges against the law firm of the said Filipino lawyer for performing the services of a DNFBP as defined in the AMLA, as amended, for acting as a formation agent, corporate secretary, and/or engaging in the operation or management of juridical entities established by his firm as director or officer. The AMLC is also preparing the administrative cases against several Universal Banks for failure to file Suspicious Transaction Reports (STRs) in relation to the DNFBP activities of the said lawyer and his law firm.

6. Enhance support mechanisms and joint agency cooperation to reduce delays with international cooperation. This should include monitoring the timeliness of responding to requests as part of the Philippines' broader efforts to reduce delays.

To continuously improve timeliness, the DOJ increased resources available to address MLA matters. Furthermore, the ICP provides for action plans, to be implemented by all relevant competent authorities, to enhance agency cooperation and reduce delays with international cooperation.

The DOJ has expanded its resources in addressing MLA matters. This includes adopting a new case management system. Further, the DOJ was able to secure, through a donation by UNODC, ICT equipment (computers with printers) which will be exclusively used for the MLA case management system. In 2019-2020, the DOJ also appointed eleven (11) additional State Counsels who shall also handle MLA requests.

The DOJ further enhanced its coordination among domestic agencies and requesting/requested State foreign through direct coordination with the Police Attaché, investigators and/or prosecutors of the requesting/requested State.

In cases where the request is to be implemented outside of the National Capital Region (NCR), these are referred directly to the concerned regional/local authority, instead of coursing the request through the main office in the NCR.

To support improvement in timeliness of responses, the International Cooperation Plan provides action plans to be implemented by all relevant agencies. This includes:

- a. **Applying Risk Based Prioritization.** Action plans for competent authorities include institutionalizing the use of risk-based prioritization, i.e., prioritize actions on requests, whether formal or informal, that involve high-risk factors or are otherwise urgent (i.e. risk of loss of evidence/funds, danger to persons). Competent authorities are required to adopt a risk-rating system in their internal procedures by the end of May 2021.
- b. **Improved referral and delineation of roles in executing international requests.** A cooperation gap identified is that some requests require responses from multiple agencies. Improper referrals may further delay the execution of the request. To address the gap, existing coordination mechanisms, inter-agency task forces or ad hoc mechanisms should be utilized to coordinate responses for international requests and ensure timely responses. For example, TIP workshops between the AMLC and LEAs include discussions to address formal or informal requests for assistance. In addition, the DOJ will make a list of all the relevant competent authorities who are the ideal implementor of the aspects of MLA requests by the end of May 2021.
- c. **Improvement of internal processes.** To improve timeliness, competent authorities should establish clear timeframes for administrative processes, adopt a checklist to evaluate mandatory requirements, and specify target times for processing of urgent and non-urgent requests. Competent authorities are required to formulate or update their respective internal guidelines/procedures on international cooperation by the end of August 2021. As appropriate, authorities will also consider making partial/provisional responses, pending full compliance of MLA and other requests.

On 30 March 2021, the AMLC adopted an Internal Guidelines on Mutual Legal Assistance to and from Foreign States, to streamline internal processes and improve timeliness in acting on and sending out MLA requests.

- a. The AMLC shall apply the RBA in prioritizing and executing MLA requests. Priority shall be given based on MLA treaties, high-risk unlawful activities, high-risk jurisdictions, huge amounts of instrumentalities or proceeds of crime, specific deadlines from requesting state, and other high-risk factors cited in the risk assessments.
- b. The internal guidelines provide clear processes and timelines from evaluation, referrals to other AMLC units. It streamlines internal processes particularly with respect to requests for bank inquiries and other court processes.

This recommended action is largely addressed

- c. The ideal turnaround time for responding to requests would be three (3) months for simple requests or within six (6) months for complex requests. The AMLC shall consider providing *interim* partial response if full execution is anticipated to take time due to the nature and complexity of the request.

The NBI as an attached agency of the DOJ was designated and given the authority to act on the various requests from foreign jurisdictions in the implementation of MLA requests, bilateral agreements, extradition treaties, deportation and counterpart's coordination. The NBI-International Operations Division undertakes the lead on this activities and processes in coordination with the appropriate divisions, regional and district offices as the case may require.

The PNP, through its Directorate for Intelligence's Foreign Liaison Division is the focal office of the PNP for foreign law enforcement agencies. It has established mechanisms and protocols to cater requests from its foreign counterparts relative to MLA and extradition processes.

Response Times for Mutual Legal Assistance. Timeliness of responses is affected by the nature of request, whether the request is simple which can be accomplished at an agency level, or complex, which requires court processes to accomplish. For 2020, timeliness is further affected by the restrictions brought about by the pandemic. For example, the period of the delivery of documents was at least 2 weeks, or a month, or longer, depending on the area/locality.

Table 5: Status of Incoming MLA Requests

Particulars	2019	2020	Total
Number of requests granted/ completed	5	6	11
Number of requests processed/acted upon	46	27	73

Table 6. Range of Response Time for Incoming Requests

Nature of Request for Assistance ¹	2019	2020
Provision/ production of documents, business records, travel records and evidence related to investigation/ prosecution requiring court processes	3 - 7 months	7 - 8 months
Service of summons, subpoenas, documents	6 days – 3 months	-
locating, identification and interview/ interrogate suspects	12 days	-
Provision of phone/ telecommunications documents requiring court process	1 year & 3 months	-
identification, location, and interview of persons/witness (taking of statements)	11 months	1 - 2 months
Authorization to use Evidence	-	3 days

¹ Nature of Request for Assistance is not consistent through years. Where there is no timeliness data provided, means that no such request was received or processed by the Philippine authorities.

7. Adopt a more proactive approach and better utilise existing arrangements to seek informal international cooperation, and not only to respond to requests from foreign counterparts.

Actions by FIU and Law Enforcement Agencies

This recommended action is partially addressed.

As seen in the table below, the AMLC's outgoing requests for information (RFIs) to various jurisdictions increased in 2018, 2019 and 2020. This shows an average increase of 179% between 2018 and 2020. Most of the requests with a nexus to foreign jurisdictions fall under the category "for determination of predicate crime".

Table 7: Summary of AMLC Outgoing RFIs Predicate Crime	No. of Outgoing RFIs			
	2018	2019	2020	Jan- Apr 2021
CHILD PORNOGRAPHY AND SIMILAR OFFENSES			3	
DRUG RELATED OFFENSES	2	5	1	
CORRUPTION	4			
HUMAN TRAFFICKING	2	1		
KIDNAPPING FOR RANSOM		1		
QUALIFIED THEFT		1		
SWINDLING/FRAUD/ESTAF ¹⁴	4	19	4	8
TERRORISM, TERRORISM FINANCING, AND SIMILAR OFFENSES	5	6	28	8
VIOLATION OF PENAL LAWS OF OTHER COUNTRIES			2	
FOR DETERMINATION OF PREDICATE CRIME ¹⁵	10	29	41	8
DEROGATORY				1
Grand Total	27	62	79	25

In addition to the RFIs, the AMLC's spontaneous disclosures (SDs) to various jurisdictions also significantly increased from 2018 to 2019 and 2020. Comparative assessment of 2019 and 2020 shows a 521% increase from only 19 SDs in 2019 to 112 SDs in 2020. Major growth drivers are SDs relating to child pornography and similar offenses, and swindling/fraud/estafa. SDs on Terrorism, Terrorism Financing, and Similar Offenses topped the chart in 2019.

Table 8: Summary of AMLC SDs Predicate Crime	No. of SDs Disseminated			
	2019	2020	Jan – Apr 2021	TOTAL
CHILD PORNOGRAPHY AND SIMILAR OFFENSES	2	84	115	201
DRUG RELATED OFFENSES		1		1

In addition to participating in international events, authorities (particularly agencies other than AMLC and BSP) should adopt a more proactive approach to seek informal international cooperation in line with the Philippines' risk profile.

14 The crime type "Violations of the Electronic Commerce Act" plotted in "Table 8.7: AMLC Egmont Secure Web Outgoing Requests" in the 2019 MER is lumped under "SWINDLING/FRAUD/ESTAF¹⁴" in this POPR.

15 The crime type "Money Laundering" and "Others" plotted in "Table 8.7: AMLC Egmont Secure Web Outgoing Requests" in the 2019 MER is lumped under "FOR DETERMINATION OF PREDICATE CRIME" in this POPR.

<i>Online</i>	HUMAN TRAFFICKING	1	1		2
	KIDNAPPING FOR RANSOM	1			1
	SWINDLING/FRAUD/ESTAFA	5	13		18
	TERRORISM, TERRORISM FINANCING, AND SIMILAR OFFENSES	9	4	165	178
	THEMATIC ISSUES/STUDY/RESEARCH (FOR SARs)		2	165	167
	VIOLATION OF OVERSEAS FILIPINOS ACT	1			1
	VIOLATION OF PENAL LAWS OF OTHER COUNTRIES		3		3
	VIOLATION OF SECURITIES REGULATIONS CODE		3		3
	FOR DETERMINATION OF PREDICATE CRIME		1		1
Grand Total		19	112	445	576

*Sexual*Exploitation of Children

In the Second NRA, human trafficking including child sex trafficking was rated as medium risk. In recent years however, Philippine authorities placed focus on OSEC as this is considered as one of the progressing transnational issues which is affecting the domestic populace and has further worsened due to COVID 19 pandemic.

From 2019-2020, the AMLC conducted three studies related to OSEC. The studies were widely disseminated by the AMLC to its foreign and domestic counterparts. The Philippine Internet Crimes Against Children Center (PICACC), which is composed of the PNP Women and Children's Protection Center (PNP WCPC), the NBI, the Australian Federal Police, and the United Kingdom National Crime Agency, was established to take a collective response to address OSEC. Out of the 176 referrals, 73 was resolved through entrapment, implementation of WSSECD and rescue operations while 21 other operations can be attributed to proactive investigations conducted by PNP-WCPC field units. Of the 94 resolved and proactive cases, 52 were referred by foreign authorities, 8 by international organizations, 12 by domestic authorities, 1 by domestic organization, and 21 proactive investigations.

The enhanced cooperation among local and foreign partners resulted to 58 nationwide police operations in 2020, which exceeded the 36 in 2019. Current data showed the number of rescued trafficked victims of OSEC rose from 120 in 2019 to 172 in 2020. While the number of arrested suspects registered a slight decrease from 39 in 2019 to 35 in 2020. The decrease, however, is attributed to the focused and intensified efforts to identify the trafficked victims and placing them immediately to caring facilities.

Terrorism and Terrorism Financing

There is increase in outgoing requests and spontaneous disclosures made by the AMLC on terrorism and TF. There had been an increase of 366% in the number of RFIs sent to FIUs from year 2019 to 2020. Requests arose from JTFIG meetings regarding the Jolo twin bombing in August 2020. Counter-terrorism operations of the police and military also led to seizure of financial records, including MSB transaction slips on remittances to and from abroad. Consistent with the risk, Indonesia, UAE and Syria are the top recipients of Terrorism and TF-related RFIs from the Philippines. Spontaneous disclosures were also made to FIU Indonesia and Malaysia in relation to FTFs and associated domestic subjects involved in the Jolo twin bombing.

In 2019 – 2020, the National Intelligence Coordinating Agency (NICA) made approximately 239 disseminations to foreign counterparts in relation to terrorism and terrorism financing. Disseminations made by the NICA, both proactive and reactive, supported the operations of foreign counterparts and disrupted TF activities.

The PNP DI utilizes regional and international cooperation, and regularly meets with Indonesia and Malaysia, who also shares similar T/TF risk. One avenue for coordination is the quarterly Trilateral

CT intelligence Cooperation Workshop, which serves as an avenue for mutual sharing of information, case assistance, joint operations/undertakings and capacity building. Requests and mutual sharing of information are also coursed through Police Attaches (PAs) in Indonesia, Malaysia, Pakistan, Thailand, Saudi Arabia, China, USA, and France. From 2019 to 2021, 55 requests/information sharing were made in relation to suicide bombings and FTF foreign financial support.

The PNP Mindanao Area Police Intelligence Office (MAPIO), which specifically operates in the high-risk area of Mindanao has a strong partnership with the Australian Federal Police (AFP) and the US Federal Bureau of Investigation. . For 2018 – 1st Quarter 2021, there is an estimated 68 mutual exchanges with the AFP and US FBI.

Fraud

RFIs were sent to other FIUs relative to the identified possible perpetrators of fraudulent activities and money laundering. In 2019, there were 19 requests to other FIUs, 7 of which relates to the case of Bank M who had received funds from foreign nationals who are not in the list of directors, officers, and stockholders of Bank M's TPIs and appeared to have linkages with ABC Group, a Malaysian company allegedly involved in money laundering and investment fraud. The AMLC maintained constant coordination with other FIUs as there were 4 requests sent in 2020 and 8 were sent in the first four months of 2021.

There was also a significant increase of 5 disseminations in 2019 to 13 in 2020 in the number of spontaneous disclosures related to swindling/ fraud shared to other FIUs. This can be attributed to the reports and referrals received by the AMLC from the domestic law enforcement agencies, covered persons and private individuals on various fraudulent activities, such as but not limited to boiler room schemes and romance scams. The AMLC gathered information on these referrals and identified the jurisdictions where most of the victims reside and/or the location of possible associate/s of the domestic perpetrators.

In November 2020, the NBI thru Interpol Manila (PCTC) requested assistance from Interpol Germany regarding verification of the Bank Certifications allegedly issued by two (2) Philippine Banks pertaining to funds of a fintech company involved in financial fraud in Munich, Germany. In December 2020, communications were received from the team of Munich Prosecutors and German Police. NBI and counterparts agreed share intelligence information to facilitate ease in information exchange and validation prior to the filing of formal mutual legal assistance request. To date, the leads provided by both parties has been helpful in the verification process and validation of existence of documents, evidence and personalities/entities which are suspected to be involved in the fraud.

Other High-Risk Crimes

The Philippine Drug Enforcement Agency (PDEA) utilized international cooperation mechanisms to support its anti-drug operations and investigations.

- a. One identified nexus jurisdiction for drug trafficking is Indonesia. On 13 November 2019, the PDEA and the AMLC participated in the Third Bilateral Meeting on Drug Control Cooperation between the Philippines and Indonesia. The purpose of the bilateral meeting was to share current drug trends and situations, discuss ways for collaboration on intelligence and investigation of drug cases, which is a high-risk crime in the Philippines. The parties also discussed mechanisms on conducting joint investigation for drugs and related ML involving personalities from both countries.
- b. In 2019, information sharing and strong coordination between the Philippines and counterparts led to the arrest of two (2) foreigners at the airport and the seizure of illegal drugs. Likewise, information sharing with another jurisdiction led to the discovery of a container, and the interdiction and seizure of 276 kilograms of methamphetamine hydrochloride.
- c. There is also an increase in the sharing of information with foreign counterparts, from 62 in 2019 to 109 in 2020.

The Office of the Ombudsman (OMB), which is the Philippines' constitutional anti-corruption body, enhanced its proactive international cooperation through increased engagements with counterparts.

- a. The OMB hosted knowledge-exchange visits for the Independent Commission against Corruption-Hong Kong, Commission for the Investigation of Abuse and Authority of the Federal Republic of Nepal, and the Anti-corruption Commission of Bhutan. In these events, there was a sharing of the best practices from the delegates of the Office of the Ombudsman, Nepal, Bhutan, and Hong Kong, China.
- b. On 2 to 3 July 2019, OMB participated in the first dialogue on the establishment of the ASEAN Ombudsman Forum which is envisioned to be the new multilateral platform among Ombudsmen in the ASEAN Region.
- c. In August 2019, OMB applied to become a voting member of the International Ombudsman Institute (IOI) which is the only global organization for the cooperation of more than 198 independent Ombudsman institutions from more than 100 countries worldwide.
- d. In August 2019, it pursued re-entry to the Asian Ombudsman Association (AOA) which is one of the six (6) regional chapters of the IOI. It also promotes the concepts of Ombudsmanship and encourages its development in Asia.

The OMB has also placed focus on asset recovery efforts related to proceeds moved to other jurisdictions (see IO 2-a, par. 14) and to foreign predicates. In February 2021, the Office of the Ombudsman received a request from the Corruption Eradication Commission of Indonesia, requesting for assistance in tracing assets in the Philippines said to have been illegally acquired by Indonesian nationals. Coordination through video conference is on-going and the Office of the Ombudsman is presently acting on the request.

As the Philippine authorities received numerous reports and complaints from international counterparts about sextortion cases wherein foreign nationals fall prey to unscrupulous elements on social media. The PNP Anti-Cybercrime Group (PNP-ACG) initiated an investigation that led to the information that citizens of Hong Kong China, Singapore, UK and USA became the target of cybercriminals. This led to the implementation of a massive operation of the PNP ACG, with the collaboration of these countries, aimed at neutralizing cybersex syndicates.

For 2018-2020, the BI has shown increasing actions in the deportation of individuals/fugitives who were found to be sex offenders, and who have committed fraud and cybercrime. There were 6492 deportations from 2018 until 3 May 2021. The BI proactively coordinates with the relevant embassies and foreign authorities to effect these deportations.

Asset Recovery Interagency Network – Asia Pacific (ARIN-AP)

In January 2019, the AMLC became a member of the ARIN-AP. The ARIN-AP serves as coordination mechanism, and network for international cooperation on sharing of asset recovery efforts of different jurisdiction. It is also a platform of sharing best practices, including identification beneficial ownership of assets, other information relevant to asset recovery. The AMLC participated in the ARIN-AP 6th Annual General Meeting and ARIN-AP Workshop on Finding Hidden Assets: Concealing the Beneficial Ownership of Proceeds of Crime, both held in Ulaanbaatar, Mongolia. The AMLC has responded to requests through ARIN-AP.

Memorandum of Understanding

In response to the identified high-risk jurisdictions, the AMLC prioritized the execution of a MOU on Information Exchange with the FIUs of China and Trinidad and Tobago. China is identified as a nexus jurisdiction with respect to drug trafficking, while Trinidad and Tobago were identified in the AMLC's tactical analysis on the Marawi siege. The AMLC executed MOU with China FIU on 17 January 2020, and the Trinidad and Tobago FIU on 27 January 2020.

- a. Following the execution of the MOU with China, the AMLC made 13 outgoing requests from March to May 2020. Requests involve crime activities suspected of money laundering. One of the requests for information pertains to several individuals, including Chinese nationals, who were reported to have brought large amounts of cash, in foreign currency (USD), into the Philippines on various dates from January to December 2019 via flights from Hong Kong, China and Singapore.

The AMLC also executed an MOU on Information Exchange with the FIUs of Bhutan (18 August 2019), Brunei Darussalam (13 November 2019), Papua New Guinea (13 November 2019), Timor Leste (13 November 2019) and Maldives (16 July 2020) to expand its international cooperation network.

In July 2019, the Office of the Ombudsman signed a bilateral agreement with the Office of the Ombudsman Thailand. The cooperation areas covered by the MOU generally refers to addressing and preventing corruption by means of knowledge exchanges, capacity-building interventions, and bilateral advocacy plans, among others.

The Maritime Security Agency of Indonesia and the Philippine Coast Guard signed an MOU on Maritime Security Cooperation on 11 June 2019. The MOU aims to provide framework for cooperation in the field of maritime security, including mutual exchange of information and sharing of best practices and lessons learned in maritime security.

Actions by supervisors

The BSP has entered into MOUs with relevant supervisors from different jurisdictions. Aside from MOUs, the BSP is a party/signatory to the multilateral MOU between members of the ANZ Supervisory College. The objective of this multilateral MOU is to set the framework for cooperation between the members in areas of common interest where cooperation is essential for the effective and efficient performance of prudential supervision functions. Likewise, the BSP has maintained informal information sharing arrangements with FSA, FCA and De Nederlandsche Bank. The FSA and FCA have Exchange of Letters arrangements with BSP for purposes of providing relevant contact information and reciprocal notification of adverse developments while arrangement with De Nederlandsche Bank shall be on an ad-hoc basis. Proposed MOUs with USA counterparts and Bank of Russia on home-host supervisory coordination and international cooperation, respectively, are underway.

In summary, the BSP is utilizing information sharing arrangements with different jurisdictions as evident in the 137 requests for information sent between 2019 and 2020 to different foreign regulators from several jurisdictions such as Malaysia, Singapore, Republic of Korea, United Arab Emirates, India, Myanmar, Turkey and USA. These are AML/CFT-related requests pertaining to fit and proper checking (2019 – 82 and 2020 – 45 requests), ML/TF risk sharing (2020 – 3 requests) and conduct of supervision/examination matters (2019 – 7 requests). Moreover, in 2021, the BSP has to date sent 6 letters in relation to ML/TF risk sharing to six foreign regulators and three FIUs (through the AMLC).

8. Create better awareness amongst competent authorities and international counterparts on the mechanisms to access basic and beneficial ownership information.

The SEC has passed several regulations related to beneficial ownership (BO) information. To create awareness on these regulations, the SEC has conducted outreach to government agencies and the public and has devised a process for requesting BO information by both domestic and foreign authorities. The AMLC has likewise stepped up its dissemination of information related to legal persons, showing an increasing trend since 2018.

On 26 January 2021, the SEC has issued Internal **Guidelines on the Safekeeping of Beneficial Ownership Information and Processing of Requests for and Release of the Beneficial Ownership Declaration Page of the General Information Sheet**. Said Guidelines include, among others, provisions on the processing of requests for the BO Declaration Page of the GIS from competent authorities in the Philippines, requests from foreign competent authorities, requests thru a subpoena issued by the courts, and requests from the public.

Outreach for Domestic Competent Authorities and Foreign Counterparts

The SEC utilizes existing coordination mechanisms for outreach to competent authorities on the recently issued regulations on beneficial ownership (See discussions in IO 5). The SEC is an active member of the National Law Enforcement Coordinating Committee (NALECC) and its Sub-Committee on AML/CFT, Sub-Committee on Organized Crime, Sub-Committee on Philippine Center on Transnational Crime; and Sub-Committee on Intelligence Coordination. During the 148th Regular Meeting of the NALECC-AML/CFT on 11 April 2019, the SEC presented a briefer SEC MC No. 17 - 2018 (2018 Revision of the GIS). The SEC likewise hosted the 151st Regular Meeting of the NALECC-SCAML/CFT on 26 November 2019 where it presented the SEC MC No. 15, Series of 2019 (2019 Revision of the GIS).

On 24 November 2020, the SEC acted as resource person in an online forum, "The Real Owners", organized by the Extractive Industries Transparency Initiative (EITI) as part of the PH-EITI's

This recommended action is partially addressed.

Authorities have posted guidelines on their website but should conduct more outreach activities to raise awareness amongst international counterparts on the mechanisms to access basic and beneficial ownership information.

Extractives Transparency Week. Said forum discussed good corporate governance featuring the government's anti-corruption and anti-money laundering efforts through the disclosure of the beneficial or real owners of extractive companies. It was attended by domestic competent authorities such as the Mines and Geosciences Bureau, Department of Energy, Bureau of Internal Revenue, Bureau of Customs, Philippine Ports Authority, National Commission on Indigenous Peoples, Department of Budget and Management, Bureau of Treasury, Bureau of Local Government Finance, Philippine Statistics Authority and Environmental Management Bureau.

The SEC conducted an orientation meeting on 08 February 2021 for LEAs and other competent authorities to increase their awareness and understanding on beneficial ownership and orient them on the new regulations issued by the SEC on BO including the procedures on how to request a copy of the BO Declaration page of the GIS of SEC-registered entities. The SEC has likewise conducted orientation briefings on the BO Transparency Guidelines during meetings of the three (3) NALECC-Sub-Committees in February 2021. (See discussions in IO 5).

The SEC was invited and participated in various international workshops on beneficial ownership. An SEC representative was a resource person in the following international workshops on beneficial ownership transparency:

- a. Regional Workshop on Promoting Beneficial Ownership Transparency, 22-23 July 2019, Kuala Lumpur, Malaysia (*UNODC, Malaysian Anti-Corruption Commission, and Stolen Asset Recovery Initiative*)
- b. Regional Workshop on Private Sector Corruption: Legal Frameworks, Enforcement and Prevention, 23-26 September 2019, Jakarta, Indonesia (*UNODC, KPK RI*)

The SEC also participated in the multi-stakeholder peer exchange event organized by the EITI and Open Government Partnership (OGP) on 17 March 2021 entitled *Beneficial Ownership in the Extractives Sector and Beyond: A Spotlight on the Philippines*. Said event highlights the initiatives of the SEC in establishing a mechanism to obtain beneficial ownership information of corporations registered with the SEC including those in the extractives industry. It was participated in by representatives from other jurisdictions such as Armenia, Indonesia, Mongolia and Nigeria.

On 5 April 2021, the SEC posted in its website the notice and process for competent authorities and foreign authorities for requesting BO information.¹⁶

Sharing of Beneficial Ownership Information

The creation of Supervision of Financial Institutions Sub-Committee of NACC provided an avenue for member-agencies and other NACC sub-committees to share information/coordinate among themselves, such as discussing the development of mechanism to improve access to beneficial ownership information. On 25 June 2020, the BSP sought the assistance of SEC to provide documents showing beneficial ownership information of several entities relative to the fraud incident involving a foreign financial institution and unduly implicating two local banks. The SEC promptly provided the requested documents on 29 June 2020. The requested information was used as part of the investigation, verification, and assessment of possible involvement not only of said local banks but also of the subsidiaries/affiliates of the foreign financial institution to the fraud incident.

Pursuant to the MOA dated 06 November 2013 between the AMLC and the SEC, the SEC furnished the AMLC the requested documents for 249 corporations which include Articles of Incorporation, By-Laws, and General Information Sheets (GIS) covering the years 2017-2019 of Philippine Offshore Gaming Operators (POGOs), their Local Gaming Agents (LGAs) and Service Providers (SPs). The purpose of the AMLC request was to determine the ownership and/or the ultimate beneficial owner(s) of the said entities.

From 2020 to March 2021, the SEC also acted upon a total of 312 RFIS from the AMLC involving individuals and entities. AMLC requests included a request for basic information and beneficial ownership information of entities and affiliation and/or membership of individuals in corporations and/or partnerships registered with the SEC.

¹⁶ <https://www.sec.gov.ph/aml-cft/frequently-asked-questions/>
<https://www.sec.gov.ph/notices/in-the-matter-of-requests-for-copy-of-the-beneficial-ownership-declaration-page-in-the-general-information-sheet/>

On 25 June 2020, the BSP sought the assistance of SEC to provide documents showing BO information of several entities relative to the fraud incident involving a foreign financial institution and unduly implicating two local banks. The requested information was used as part of the investigation, verification and assessment of possible involvement not only of said local banks but also of the subsidiaries/affiliates of the foreign financial institution to the fraud incident. The SEC promptly provided the requested documents on 29 June 2020. The BSP has ongoing coordination with the AMLC, law enforcement agencies, and international agencies on the investigation.

The SEC also shared, upon request, basic and beneficial ownership information to foreign counterparts.

- a. In 2020, an entity registered with the SEC was subject of an inquiry by a foreign jurisdiction. The said inquiry was regarding the registration of the entity and what type of business it is permitted to carry out. For the first question, the SEC answered in the affirmative. For the second question, the SEC furnished the requesting party of its Articles of Incorporation and Amended Articles of Incorporation on file with the SEC, for their reference.
- b. In 2021, the SEC received a request assistance in relation to an ongoing investigation of a Philippine corporate entity engaging in regulated capital market activities in the foreign jurisdiction. The foreign counterpart requested for basic and beneficial ownership information. The SEC responded and provided the requested information, which can be used in foreign counterpart's investigation.

From 2018-2021, the AMLC shared 111 financial intelligence products with information on legal persons to FIU counterparts and other foreign government agencies. The number of reactive intelligence products with information on legal persons shared increased by 583% from 2018 to 2020.

Table 9: AMLC Sharing of Information on Legal Persons

	2018	2019	2020	Jan-Mar 2021
Proactive		13	18	
Reactive	6	28	41	5

**JG
Comments
& Analysis**

There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 2.

The JG identified recommended actions 1, 3, and 6 as key recommended actions as they target fundamental issues that would support the Philippines requesting and providing timely international cooperation in line with the Philippines' risk profile.

Recommended action 1 is key and is partially addressed. In order to enhance the capability and raise awareness of LEAs, Philippines took active measures including i) AMLC adopted an AML/CFT Capacity Building Roadmap in Aug. 2018, and provide training and capacity building programs to LEAs; ii) DOJ provided MLA related trainings and issued *MLA Guidelines in Criminal Matters* in Jan. 2021, to guide LEAs on the preparation of outgoing requests and on facilitation the prompt and effective execution of requests, in addition to encourage LEAs to utilize the MLA mechanism following a risk-based approach; iii) NACC adopted its first *International Cooperation Plan (ICP)* in Feb. 2021, consolidating the understanding of the Philippines' transnational risk profile and sets out steps to encourage and support the enhanced use of international cooperation including by actively seeking MLA and extradition. The number of outgoing MLA requests however is still very few in the last two years (2 in 2019, 1 in 2020, and 3 by the end of observation period in 2021), while Philippines expected to have an increasing trend if without Covid-19 pandemic. These 6 requests is in relation to its higher ML threats. No outgoing extradition request during the period (deficiencies in R.39).

However, since the MLA Guidelines and ICP are recently adopted, the JG could not conclude that the changes had improved effectiveness and that tangible progress had been made on this recommended action. More time is required for the JG to ensure the implementations and achievements, and more outgoing requests the LEAs seek that are proportionate to the risk profile are expected.

Recommended action 2 has been addressed. NACC and NACC sub-committee member-agencies issued *Advisories* to guide competent authorities in prioritization for international cooperation based on risk identified. In Feb. and Mar. 2021, NACC has issued 2 *Advisories* on the basis of several ML/TF risk assessments and studies, notifying high-risk jurisdictions, the corresponding unlawful activities, and the flow of related funds. The *Advisories* are to be issued every time a risk assessment conducted by government agency identifies new transnational risks.

Recommended action 3 is key and is largely addressed. The Philippines has developed the ICP to guide all related authorities for proactively conducting international cooperation on a risk-based approach, both formal and informal, including proactive use of international cooperation mechanisms, enhancing timeliness of responses to international requests, and monitoring formal and informal requests for assistance. Further evidence is required on actively implement the ICP, since it was only adopted in February 2021.

Recommended action 4 is largely addressed. A new MLA Case Management System (the “System”) has been launched since Nov. 2020 by the DOJ, with the main functions of recording the timing and process from receiving to responding requests, updating files and reminding the follow-up procedures to the handling parties. The System is aiming to assist the DOJ in monitoring the timeliness of responses to incoming requests. In order to further enhance inter-agency cooperation and improve better resourced System, the ICP made action plans including the improvement of internal processes, improvement of response time for incoming requests, and development of regular coordination mechanisms, etc. Since the ICP and the System is recently adopted, it may need more time to prove the achievements.

Recommended action 5 is largely addressed. BSP’s international cooperation prioritizes jurisdictions with higher risks and jurisdiction that have banking supervisory business relationships with. After the adoption of the MER, BSP signed 3 MOUs on exchanging AML/CFT information with foreign counterparts. BSP exchanges information and holds meetings with other jurisdictions that covers fit-and-proper assessments (the majority of requests; 82 out of 89 in 2019 and 45 out of 18 requests in 2020), supervision status and results, and risks such as suspicious transactions or activities of banks, financial crimes information and crisis situations, and supervisory concerns, etc. Philippines provides information and cases on BSP’s international cooperation, however, the number of engagements were dropped. Philippines considers it as the results of the Covid-19 pandemic More MOUs is expected to be sign with foreign counterparts, since 21 more jurisdictions had been prioritized by BSP when conducting risk assessment. For incoming requests in 2020, BSP is able to respond the requests within 30 banking days and take action to track the progress.

The outgoing requests made by SEC mainly related to its ongoing investigations of investment frauds or possible violations, and the number was slighted increased. For incoming requests, SEC provides active cooperation. Besides the newly set-up of the IAU focusing on international cooperation in 2019, SEC is planning to create one more division to expand the functions of the IAU and make it a regular division of the SEC-EIPD with its own employees and functions focusing on international cooperation.

Other supervisors (IC,PAGCOR and AMLC) are all engaged in international cooperation. It is not clear whether the engagement is enhanced, however, considering the risk profile of the sectors and the actions taken by them, less weight is given.

Recommended action 6 is key and is largely addressed. By implementing the ICP, as part of the Philippines’ efforts to improve international cooperation includes requirements of improving joint agency cooperation and improving timeliness of responding requests. (by applying risk-based prioritization, improving internal processes and optimizing cooperation mechanism)Case conference can be conducted via Embassies, and DOJ advices LEAs to directly coordinate with their foreign counterparts when receiving and sending MLAs to save time.

In order to reduce delays, the DOJ also adopted a new case management system (see IO 2-4) that can monitor the timeliness of responding to requests. In addition, DOJ increased resources by appoint 11 additional State Counsels to handle MLA requests. The DOJ enhanced its coordination among domestic and foreign agencies.

The AMLC adopted an *Internal Guidelines on Mutual Legal Assistance to and from Foreign States* on March, 2021, which requires to apply RBA in prioritizing and executing MLA requests, streamlines internal processes, and clarifies the process and responding timelines(in general within 6 months for complex requests).

Philippines provided cases of timely responses including complex requests. In 2020, the responding time was less than 8 months(including requests requiring court process). Since the ICP is recently adopted, the JG is

expecting Philippines to fully implement it.

Recommended action 7 is partially addressed. From 2019 to 2020. The AMLC has seen a steady increase in proactive seeking informal international cooperation and an obvious increase in spontaneous disclosures to various jurisdictions related to both ML and TF. NICA made increasing disseminations to foreign counterparts in relation to terrorism and TF.

PDEA, NBI, PNP and BSP requested and provided informal international cooperation by participating in bilateral meetings- Multilateral cooperation was conducted through many channels such as ARIN-AP, JFIG and PICACC. International fora, training, dialogue or events were actively participated by authorities such as PNP and OMB, providing opportunities to establish and build relationships with counterparts.

Authorities' consciousness for informal international cooperation is raising, however, besides the AMLC and BSP, other agencies' seeking informal international cooperation was not adequate considering Philippines risk profile.

Recommended action 8 is partially addressed. SEC issued a *Guidelines* in Jan, 2021, that direct and govern the procedures for receiving, storing and safekeeping, processing of requests, both domestic and foreign, for and the release of the basic and beneficial ownership information, and conducted outreach through meetings, online forums and international workshops to government agencies and foreign counterparts to improve awareness.

AMLC conducted an obvious increase in the number of information exchanges, and the SEC also provided cases on responding foreign BO requests. BSP increased its awareness and seek from SEC to improve the use of BO. AMLC is expected by the JG to be more proactive (see more in IO5). More outreach activities can be taken to raise awareness amongst international counterparts on the mechanisms to access and BO information.

An action plan item was not specifically developed for IO.2 as action plan items for IO.7 adequately capture the remaining strategic deficiencies.

Immediate Outcome 3 Moderate	1. SEC, IC, PAGCOR, CEZA and AMLC should implement risk-based AML supervision. Sectoral Risk Assessments and data collection through AML Risk Rating System (ARRS) Questionnaire 1. The results of the 2016 and 2017 NRAs were initially used by the SEC, IC, PAGCOR and AMLC as baseline assessments for their respective sectors and prioritization for compliance checking. Subsequently, SRAs were conducted by these SAs except for IC which is targeting its SRA by 3Q of 2021 to be assisted by the AMLC. This is to give way to IC's AML and Corporate Governance (AMLCG) Division's newly hired personnel to undergo AML/CFT trainings. Detailed discussion on the various SRAs of the SAs including the results are in MRA Item b, Table 11. For the purpose of the SRA and to ensure that up-to-date information and data will be considered, the SEC collected data from CPs in November 2020 through an AML/CFT Survey Questionnaire. Said Questionnaire includes questions on inherent risks which will also guide the SEC CPs in the conduct of their Institutional Risk Assessment required to be undertaken under SEC Memorandum Circular No. 26, Series of 2020. 2. For DNFBPs, the AMLC also developed and sent out on 27-28 January 2021, a Sectoral Risk Assessment Questionnaire and Data Collection tool to supplement collection of data from open sources. The tool considers qualitative and quantitative information to be provided by the sector covering institutional overview, identification and understanding of threats/vulnerabilities, key AML/CFT processes and reporting obligations, inherent risk factors and thematic risk assessment. It focuses on information to support covered person's responses which includes among others: (a) an institution's general controls and practices; (b) processes related to account opening, sanctions screening, and monitoring of transactions; (c) CTR and STR; and (d) Risk areas (i.e., product/services, customer, geographic, delivery channel). It also serves as a tool in providing significant information to assess current and updated ML and TF threats facing the DNFBP sector, and for entities to fully understand and manage their risks. Also, a view of the DNFBP landscape, including the covered person's institutional overview (i.e., customer's profile, financial snapshot and regulatory snapshot) and understanding of its AML/CFT risks are some of the information gathered in the questionnaire. The outcome of this risk questionnaire shall be an input for the AMLCS' subsequent risk-based supervisory activities over Other DNFBPs on their AML/CFT framework, and in the prioritization of compliance examinations.	This recommended action is partially addressed. - SEC should continue to implement its risk-based AML/CFT supervision. - IC should progress its risk-based AML/CFT supervision. - PAGCOR should continue to develop its risk-based AML/CFT supervision across all the casino subsectors, prioritising high-risk casinos but also ensuring adequate coverage of lower risk casinos. - AMLC should implement risk-based AML/CFT

Adoption of AML and CFT Risk Rating System

3. The SAs developed their respective risk rating systems which will be applied for both offsite and onsite compliance checking of their CPs. The rating systems ensure comprehensive and uniform assessment and prescribe greater supervisory attention/focus to CPs exhibiting inadequate AML/CFT risk management frameworks. The SAs use the CPs risk ratings to identify the extent or intrusiveness of both offsite and onsite supervision activities. Other DNFBPs (i.e., Jewellers, Company Service Providers, Lawyers and Accountants, Real Estate) AML/CTF Supervision by the AMLC. The approach undertaken by the AMLC to conduct a risk-based approach in compliance checking of DNFBPs considers the results of the National Risk Assessment, for the initial baseline compliance checking, and subsequently the results of the DNFBPs risk assessment questionnaire which also shows the sectoral risk awareness of the CPs.
4. Sectoral Risk Assessment Questionnaire and Data Collection tool for Other DNFBPs – aside from collecting data from open sources, the AMLC also adopted a DNFBP Risk Assessment and Data Collection Questionnaire. This risk questionnaire and data collection tool has been sent to all DNFBPs and serves as a tool in providing significant information to assess current and updated ML and TF threats facing the DNFBP sector, and for entities to fully understand and manage their risks. (Please refer to discussion on paragraph 3 Sectoral Risk Assessments in page 6).
5. Due to the impact of the COVID-19 pandemic, on-site compliance checking is put on hold, however, the Compliance and Supervision Group (CSG) of the AMLCS is conducting off-site or remote compliance checking of DNFBPs wherein CPs submit required documents in relation to the AML/CFT compliance examination, and CPs should be available for interviews, when needed. The same components are evaluated during the off-site/remote compliance checking, as if it is an on-site compliance checking. The DNFBPs AML Risk Rating System (DARRS) is used as the main standard for risk-based supervision of DNFBPs under AMLC's supervision: Jewelry dealers; Company Service Providers, Lawyers; Accountants, and since January/February 2021, it also includes the Real Estate Brokers, Real Estate Developers, and Offshore-Gaming operator's Service Providers.
6. Results of the maiden/baseline compliance checks of these DNFBPs shall also be made as bases in the prioritization of succeeding/future examinations to be conducted by the CSG. Those CPs with risk ratings of "1" or Grossly Inadequate, meaning those entities which signifies the weakest risk management system and defective implementation which requires the highest degree of supervisory concern including the placement of the CP within the framework of prompt corrective action shall be priority for the succeeding compliance checks.
7. Prior to the conduct of on-site compliance examinations of POGOs, the AMLC conducted its own inspection of the POGOS, their Service Providers (SPs), and Local Gaming Agents (LGAs) to determine their existence, and readiness for on-site compliance checking, and if they are already conducting AML/CFT practices in their organization since their inclusion as CPs under the AMLA. Out of the total 49 operating POGOs licensed by PAGCOR back in March 2020, a total of 26 POGOs (53%) have been inspected and 17 (7.87%) out of the total 216 SPs accredited by PAGCOR, have been inspected. The outbreak of the COVID 19 pandemic however, put on hold all on-site activities until further notice. Despite suspension of on-site activities however, the AMLC continued its efforts, through off-site activities and coordination with other Supervisory Agencies in relation to the POGOs, SPs and LGAs, which includes the determination of Ultimate Beneficial Owners (UBOs) of these POGOS. Requests had been made from the following agencies for information on the UBOs:
 - a. Other Financial Intelligence Units (Through the Egmont Secured Web);
 - b. PAGCOR; and
 - c. Securities and Exchange Commission
8. The result of the inspection was used by the AMLC in the determination and prioritization of entities to be subject to base line compliance checking. In addition to the selection of POGOS that will be subject to compliance checking, the AMLC is in constant coordination with the PAGCOR to determine which POGO has the biggest operations (i.e client base, etc.) and POGOS who were allowed to resume operations.
9. Out of the 32 POGOS that were allowed by PAGCOR to resume operations as of 16 March 2021, 16 POGOs are included in AMLC's 2021 Work Plan. The selection was based on the inspection conducted prior to the pandemic where these POGOs were found to have initially started with their AML/CFT compliance activities, POGOs with big operations and still have on-going operations despite the slowdown brought about by the pandemic, among others. With the high-risk nature of operations of internet-based casinos, it is the AMLC's commitment to conduct a

supervision across all its supervised DNFBP sectors, and not just those covered persons that have registered with AMLC. This should include:

(i) scoping the size and identifying covered persons in the sectors; and

(ii) identifying and prioritising higher risk DNFBPs that are not yet registered with AMLC; and

(iii) undertaking risk-based off-site or on-site monitoring of DNFBPs as appropriate; and

(iv) utilising enforcement measures for non-compliance proportionately and dissuasively.

- CEZA/APECO should implement risk-based AML supervision.

100% compliance check of these POGOs, hence the number of POGOs to be inspected in the 2021 workplan may still increase with the ongoing hiring activities being conducted by AMLC to increase its manpower. As part of the MOA between AMLC and the PAGCOR, results of inspections and compliance checking activities are shared between the two organizations.

10. For the supervision of land-based casinos, the AMLC, as team lead, conducted on-site compliance checking, jointly with the PAGCOR on the six (6) biggest integrated resorts in the Philippines from the last quarter of 2018 to 2019. These 6 casinos are the biggest land-based casinos in the country with the most active players coming from different nationalities and has the top gross gaming revenues per PAGCOR's monitoring. Results of the compliance checking were discussed with casino management and shared with the PAGCOR. Casinos given an AML Risk Rating of "1 – Grossly Inadequate" are required to provide quarterly updates on the status of compliance on the AMLC Directives/Recommendations. Casinos with AML Risk Rating of "2 – Needs Improvement" on the other hand are required to provide semestral updates on the status of their compliance. Prioritization was done based on the gross gaming revenue generated by the casino (as shared by PAGCOR), and existence of junket operations, among others.
11. It is worthy to note that compliance of the casinos to the Directives of the AMLC and their appreciation of the undertaking is significantly increasing as shown in their commitments and actions taken/reported compliance (i.e., purchase of Casino Management Systems, increase in the conduct of training of employees, improved KYC procedures and enhanced MTPP). These reported compliance, however, are still subject to actual validation to be conducted by the AMLC once the threats of the COVID-19 pandemic has eased up.
12. Prior to the outbreak of the COVID pandemic, AMLC conducted inspection of the POGOs, their Service Providers (SPs) and Local Gaming Agents (LGAs) to determine their existence, and readiness for on-site compliance checking, among others. However, due to the community quarantine imposed by the government, the inspection, and all other on-site commitments have been temporarily suspended. Out of the total 49 operating POGOs licensed by PAGCOR, as of March 2020, a total of 26 POGOs (53%) have been inspected and 17 (7.87%) out of the total 216 SPs accredited by PAGCOR, have been inspected.
13. The result of the inspection was used by the AMLC in the determination and prioritization of entities to be subject to compliance checking. Aside from determining the existence of the POGO, the inspection also aimed to determine their awareness of their AML/CFT obligations and if they are already conducting AML/CFT practices in their organization since their inclusion as CPs under the AMLA. In addition to the selection of POGOS that will be subject to compliance checking, the AMLC is in constant coordination with the PAGCOR to determine which POGO has the biggest operations (i.e client base, etc.) and continuous updating of POGOS who were allowed to resume operations.

2. Sectoral vulnerability analysis should be expanded to include the assessment of cash transactions, cross-border and cross-sectoral linkages and a deeper assessment of risks associated with the casino sector.

1. The SAs have conducted SRAs, covering banks, MSBs and other types of FIs, and DNFBSs, including casino sector, to inform ongoing risk-based AML supervision. The scope of the SRAs cover, among others, priority areas such as cash and cross-border transactions, and cross-sectoral linkages, as relevant. Details of the ML/TF/PF risk assessments conducted by SAs on their respective sectors are, as follows:

Table 11: SRAs conducted by SAs

SA	Date of Approval of SRA Report	Sector / Coverage
BSP	January 2021 March 2021	<i>Banks and other BSP-supervised FIs (except MSBs)/ ML/TF/PF threats and vulnerabilities of banks and others BSFIs, as well as consequences of criminal activities; and the overall ML/TF/PF risks associated with the other priority areas such as trade-based ML/TF/PF, implementation of TFS regime, and financial inclusion products¹⁷; including</i>

This recommended action is largely addressed.

- IC should undertake a sector risk assessment for the insurance sector.

¹⁷ <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-017.pdf>

		risk assessment of cash, cross-border and cross-sector transactions ¹⁸ .
AMLC	March 2021	MSBs
AMLC	January 2021	Legal persons and other business entities ¹⁹
SEC	March 2021	Financing and lending companies / including assessment of cash transactions, cross-border and cross-sectoral linkages ²⁰
SEC	May 2021	Securities Sector ²¹
PAGCOR	January 2019	Casino sector / covering casino products and services, including junket operators, internet gaming, e-junket and proxy betting ²² .
AMLC, PAGCOR, APECO, CEZA	March 2020	Internet-based casinos and respective service providers /including risks associated with cash and cross border transactions ²³
PAGCOR	October 2020	ML/TF vulnerabilities of the operations of the e-Games, e-Bingo, and poker gaming sites
AMLC		Other DNFBPs – Jewellers, Company Service Providers, Lawyers and Accountants, Real Estate Risk Assessment

I. Banking Sector and other BSP-Supervised Financial Institutions (BSFIs)

2. The results of the SRA inform the BSP's AML/CFT supervisory strategies and priorities which are translated into the following recommended actions, among others:

Table 12:

Activity	Timeline
1. Enhance the scope of examination, as well as expand examination procedures, to cover the key findings in the SRA (such as impact of SRA on the institutional risk assessment (IRA) and alerts parameters, AML/CFT policy enhancements, review of CDD/actions taken on identified high risk sectors and jurisdictions)	2021 onwards
2. Enhance cooperation with identified high risk jurisdictions. The BSP initiated official communications with counterpart regulators of the jurisdictions identified as primary source and/or destination of ML/TF funds and requested information on updates on ML/TF/PF risk/typologies or concerns involving Philippine FIs.	Continuing
3. Strengthen offsite surveillance through periodic updating of AML/CFT dashboard and risk profile of BSFIs, identifying emerging typologies and continuing industry dialogue.	January 2021-December 2021
4. Develop and issue further regulatory guidance to BSFIs covering relevant areas such as TFS implementation, trade-based ML, and emerging trends and typologies	2021 – 2022
5. Conduct continuing outreach to relevant regulatory agencies and BSFIs to increase awareness on the results of SRA, conduct of IRA, beneficial ownership information requirements, enhanced preventive measures, TF mitigation, and emerging typologies	Ongoing

¹⁸ <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-005.pdf>

¹⁹ <http://www.amlc.gov.ph/images/PDFs/2020%20RISK%20ASSESSMENT%20ON%20LEGAL%20PERSONS%20-%20TYPOLOGIES.pdf>

²⁰ <https://www.sec.gov.ph/notices/anti-money-laundering-and-counteracting-financing-of-terrorism-sectoral-risk-assessment-2021-financing-companies-and-lending-companies/>

²¹ <https://www.sec.gov.ph/notices/anti-money-laundering-and-counteracting-financing-of-terrorism-sectoral-risk-assessment-2021-of-the-securities-sector/>

²² <https://www.pagcor.ph/pased/docs/casino-sector-risk-assessment-nov-2018.pdf>

²³ <http://www.amlc.gov.ph/images/PDFs/AMLC%20RISK%20ASSESSMENT%20ON%20INTERNET-BASED%20CASINO%20SECTOR%20IN%20THE%20PHILIPPINES.doc.pdf>

II. MSB Sector

3. The AMLC, with the assistance of the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the support of BSP completed its ML/TF risk assessment on the MSB sector on 26 March 2021. The MSB study covers non-bank entities engaged in remittance, money changing and/or foreign exchange dealing. These comprise Remittance and Transfer Companies (RTCs) such as remittance agents, Electronic Money Issuers (EMIs), or remittance platform providers that provide MVTs; Money Changers and Foreign Exchange Dealers (MC/FXD). The results will be disseminated through outreach sessions in 2021 during regular quarterly meetings of the AMLC and Association of Remittance Company Compliance Officers (ARCCO). A session was held on 17 March 2021.

III. Securities, Financing Companies and Lending Companies Sectors

4. The SEC has completed an ML/TF risk assessment of the financing companies and lending companies (FC/LC) sector in March 2020. The SEC takes off with its SRA from the findings made in the Philippines Second NRA on ML/TF (Second NRA) covering the years 2015 and 2016. For the FC/LC sector, given the low ratings on sectoral variables associated with oversight and regulatory matters, the overall ML/TF vulnerability of the sector is medium. However, records of the regulatory authority and the AMLC did not show any typology involving the use of lending companies for ML/TF. Moreover, there has been no reported abuse of financing companies for ML/TF. In the risk assessment recently conducted by the SEC, there were typologies reported in the use of FCs to facilitate the crime of carnapping. The overall ML/TF risks for the FC/LC sector is assessed as MEDIUM. This rating is based on an assessment of the criminal threat environment, vulnerabilities of the sector and the associated consequences²⁴.
5. The SEC has completed its Sectoral Risk Assessment for the securities sector in May 2021. For the Securities Sector, the overall ML/TF risks is assessed as medium. The assessment is based on responses to questionnaires, data from the BSP and the AMLC particularly on STRs, prosecutions and other actions involving the sector, the Serious and Organized Crime Threat Assessment, focus group discussions with law enforcement and other government agencies, industry experts and representatives as well as the results of the audit made and the NRA. For this Sector, the involvement of cash in predicate offenses or ML/TF offenses has been considered in the SRA and was found to have not been extremely huge. In majority of the STR, the predicate offenses have been committed in the home jurisdiction. Only a small number was filed by involving cross-border related STR where predicate offenses were suspected to be committed in China. The SEC has completed its Sectoral Risk Assessment for the securities sector in May 2021. For the Securities Sector, the overall ML/TF risks is assessed as medium. The assessment is based on responses to questionnaires, data from the BSP and the AMLC particularly on STRs, prosecutions and other actions involving the sector, the Serious and Organized Crime Threat Assessment, focus group discussions with law enforcement and other government agencies, industry experts and representatives as well as the results of the audit made and the NRA. For this Sector, the involvement of cash in predicate offenses or ML/TF offenses has been considered in the SRA and was found to have not been extremely huge. In majority of the STR, the predicate offenses have been committed in the home jurisdiction. Only a small number was filed by involving cross-border related STR where predicate offenses were suspected to be committed in China."

IV. Casino Sector

6. In reference to the result of the casino sector risk assessment in November 2018, land-based casinos have the highest risk to ML/TF due to the volume of transactions and level of cash activity; the internet-based casinos ranked second in terms of ML/TF vulnerability mainly because the sector has recently grown, and ML/TF preventive measures are still developing. The increasing demand for the offshore gaming sector or internet-based casino operations poses a potential threat and risk to ML/TF. Hence, the AMLC, in collaboration with PAGCOR, APECO, and CEZA, conducted risk assessment focused on internet-based casinos and respective SPs. PAGCOR also conducted a risk assessment on the operations of the e-Games, e-Bingo, and poker gaming sites to understand the ML/TF risks across this sub-sector in the casino industry.

²⁴ <https://www.sec.gov.ph/notices/anti-money-laundering-and-counteracting-financing-of-terrorism-sectoral-risk-assessment-2021-financing-companies-and-lending-companies/>

7. The AMLC performed two (2) phases of the study on internet-based casinos: 1) the 1st phase of the study was jointly conducted by AMLC and BSP in 2019²⁵; and 2) the 2nd phase of the study covers the risk assessment on ML/TF and was supported by tactical financial intelligence reports. The preliminary study or the first phase considered the transaction reports of offshore gaming operators, or internet-based casinos, including their respective service providers covering the period January 1 to August 28, 2019.
8. The phase 2 study on internet-based casinos is conducted by AMLC, in collaboration with PAGCOR, APECO and CEZA. The study considered the sector risk to ML/TF by assessing PAGCOR's 59 POGOs, 218 SPs, and three gaming laboratories, as well as the CEZA's 24 interactive gaming licensees (IGLs) and 18 interactive gaming support service providers (IGSSPs). The phase 2 of the study covered all covered and suspicious transaction reports filed on POGOs, SPs, IGLs, and IGSSPs. The overall findings of the study include: (1) low level of AML/CFT Awareness and Regulation; (2) increasing level of threat to ML/TF and other fraudulent activities; (3) high number of unregulated or unsupervised Service Providers; and (4) low level of beneficial ownership identification.
9. The report includes assessment on risks associated with cash transactions and cross border transactions. It also contains typologies and suspicious indicators to guide LEAs in their investigations, supervisors in their supervisory actions, and CPs for their STR filing. The report disclosed that the overall risk of the internet-based casinos is in the upper-medium level that requires a mitigation strategy to be immediately implemented considering its vulnerability risk and impact.

i. On e-Games, e-Bingo, and Poker Gaming

10. PAGCOR conducted a risk assessment on the operations of the e-Games, e-Bingo, and poker gaming sites to understand the ML/TF risks across this sub-sector in the casino industry. The report entitled "*A Risk Assessment of e-Games, e-Bingo and Poker Gaming Sites*" was approved by the PAGCOR BOD on October 28, 2020.
11. Based on the result of this risk assessment, the study recommends the following actions to be accomplished:
 - a. Address the low number of e-Games, e-Bingo, and Poker gaming sites operators registered in the AMLC Registration System through a regulatory order/issuance;
 - b. Give further outreach to the e-Games, e-Bingo, and Poker gaming sites particularly in their training needs to understand and enhance their AML knowledge and for them to have a better understanding of their AML/CFT obligations;
 - c. Conduct random visitation/ offsite and onsite compliance checking to e-Games, e-Bingo, and Poker gaming sites; and
 - d. Conduct a further study, as warranted, with reference to the result of an AML/CFT examination.
12. Having the above recommendations, PAGCOR included the Electronic Gaming/Poker operations in its Action Plans for 2021.

3. Supervisors, the FIU and LEAs should exchange risk information to guide priorities and to support conduct of supervision (planning and operational levels). AMLC should feed information on covered transactions into off-site surveillance processes to enhance understanding of ML/TF financial flows across sectors.

Cooperation and collaboration among the AMLC, LEAs and the SAs were enhanced and strengthened resulting in timely and proactive exchange of data or risk information, including sharing of tactical/strategic studies, case typologies, and other statistical information emanating from CTRs and STRs and other relevant ML/TF reports. These feed into the conduct of RBA to AML/CFT supervision and regulation of SAs and were likewise used for surveillance activities as the same supports analysis and policy enhancement. Sharing of risk information between and among AMLC, LEAs and SAs was strengthened as demonstrated through: (i) conduct of coordination meetings, (ii) active engagements and (iii) exchange of relevant information/data/reports among these agencies. As a consequence of Covid-19 pandemic, the use of technology and online platforms to share information and discuss issues and strategies has been maximised.

This recommended action is partially addressed.

- AMLC should increasingly analyse CTR and STR information and share with the BSP and other supervisors.

²⁵ Joint Study on the Impact of the Possible Cancellation of Licenses of POGOs on the Foreign Exchange and Real Estate Markets

- a) **Coordination Meetings.** The sub-committees that support the NACC, as provided in the NACS, continue to hold regular meetings (at least quarterly), mostly through virtual channels, to track progress of implementation of action plans in the NACS and the ME RAs, and discuss cross-cutting emerging issues and concerns. Moreover, the SFISC, SDSC, and NALECC provide member-agencies a venue to regularly meet, discuss and share, among others, observed AML/CFT trends/typologies, status of NACS action plans and AML/CFT initiatives and regulations/issuance per member-agency such as VASPs, fit and proper rules.
- b) **Active Engagements.** Memorandum of Agreements (MOA) are in place to govern the information sharing arrangements between and across these agencies. Pursuant to the MOA, AMLC shares its analysis of CTRs and STRs, and other relevant information (such as CPs under investigation and subject of freeze order issued) to supervisors and LEAs. Enhanced coordination is also evident the conduct of SRA. The AMLC assists the different SAs in the conduct of their SRAs. SEC's Technical Working Groups on SRA include representatives from the AMLC and BSP while the BSP's assessment teams were also joined by AMLC representatives.
- c) **Exchange of Risk Information.** Risk information gathered through information sharing mechanisms are used to guide AML/CFT priorities and risk-based supervisory activities of the SAs. The AMLC shares to the SAs relevant typologies culled from their analysis of CTRs/STRs, and industry and institution-wide data which are used by the SAs in their supervisory activities. Use of this information for both offsite surveillance and onsite examination are demonstrated below.

A. Sharing of Risk Information on Banks and MSBs between the BSP and the AMLC and other SAs

Pursuant to the MOA on Information Exchange/Compliance and Enforcement Policies on 24 April 2019, the AMLC actively provides information/reports to the BSP such as:

- i. CTR and STR analysis and typologies related to high risk predicate crimes such as TF, fraud, and human trafficking;
- ii. Studies and typology reports such as the SRA of internet-based casino, study of VASPs transactions, financial crimes during pandemic, use of Filipinos and businesses in illegal activities, among others; and
- iii. Compliance issues noted during its course of investigation; cases filed and/or administrative sanctions imposed to BSFIs and/or its officers; and market intelligence on BSFI's potential involvement to ML/TF, depending on the gravity.

B. Sharing of Risk Information on SEC-Covered Persons Between SEC and AMLC/BSP/LEAs

The AMLC maintains an online information-sharing portal through which it shares information with the SEC. The information received from the AMLC is used in the investigations conducted by the SEC in gathering further evidence regarding the illegal activities of certain entities involved in violations of the SRC. Evidence gathered by the SEC on such illegal activities is likewise shared with the AMLC for purposes of freezing of assets of persons or entities involved in the laundering of proceeds from such illegal activities. This has resulted in the freezing of the assets by the AMLC in at least two (2) cases. Both cases involve the fraudulent offering and selling of securities to the public. From 2020 to March 2021, the SEC also acted upon a total of 312 requests for information from the AMLC involving individuals and entities. AMLC requests included a request for basic information and beneficial ownership information of entities and affiliation and/or membership of individuals in corporations and/or partnerships registered with the SEC.

In the conduct of the SRA of the securities sector and financing companies and lending companies' sector, the SEC organized Technical Working Groups which include representatives and experts from the AMLC and the BSP as members. The BSP shares risk data and information on covered persons jointly supervised/regulated by the BSP and the SEC (i.e., subsidiaries or affiliates of banks or those engaged in quasi-banking functions). The AMLC, on the other hand, provides statistical data on STRs, CTRs, Border Cash Transaction Reports, and ML/TF cases involving the sectors subject of the risk assessment. The data and information gathered were considered in the said assessment of risk. From August 2020 to January 2021, the TWG held a total of five (5) virtual meetings and regularly exchanged communication and updates through electronic mails. The AMLC is also a member of the TWG constituted by the SEC for the conduct of the sector review of the NPO Sector.

- Supervisors should continue to improve and embed the use and exchange of risk information from the FIU and LEAs to support supervision.

To gather inputs in determining the predicate crimes most likely to be the source of ML/TF risks in the sectors subject of the risk assessment, the SEC conducted an Focus Group Discussion (FGD) with LEAs and other competent authorities on 08 February 2021. FGD involves a small group of participants from related background who discuss a specific topic for research and the exchange of viewpoints to gain an in-depth understanding of the subject at hand.

C. Insurance AML/CFT supervision by the IC

The IC and AMLC have an existing MOA which has been updated/amended on 22 October 2020, which include sharing of information. With this development, significant increase in information sharing between IC and AMLC is expected more particularly on Information Exchange, Compliance and Enforcement policies.

IC shares Compliance Checking Reports to the AMLC which are the result of IC's onsite examination, and other relevant information necessary for IC's appropriate supervisory and enforcement actions and conduct timely investigation.

After the conduct of compliance checking, AMLCGD issues its reports, containing findings on possible violations of AML/CFT rules and regulations. In case there is a finding against the company, IC shall issue a letter directing the company to explain. Should the explanation be insufficient to justify the findings, AMLCGD shall immediately transmit its findings to the AMLC for investigation and further action. In 2018, IC have transmitted 3 compliance checking report to AMLC and 2, more or less, in 2019.

D. Sharing of Risk Information on Casinos Between PAGCOR and AMLC/LEAs/SAs

The PAGCOR entered into a mutual cooperation agreement with Philippine National Police (PNP), National Bureau of Investigation (NBI), Bureau of Immigration (BI), and the Office of Cybercrime (OOC) under the Department of Justice (21 March 2019). The joint agreement created the inter-agency council composed of the said LEAs and PAGCOR which will handle intelligence gathering on illegal online gambling, centralized information sharing, intelligence operations, surveillance, raids, arrest, and prosecution of illegal online gaming activities. PAGCOR gives its full cooperation to the members of the task force by validating licenses, providing business, tax, and other record information. It also provides financial grants to these agencies to boost their law enforcement capacities.

Through the effort of the inter-agency council, several successful operations of LEAs in coordination with PAGCOR against casinos operating without licenses which resulted in the arrest of illegal online gaming operators/staff. Personalities apprehended for operating without a gaming license will face appropriate charges in court. Refer to table below for details:

LEA	Involved	Violation	Date/Place
BI	342 Chinese ²⁶	violation of the Anti-Illegal Gambling Act, as amended in relation to RA 10175 or the Cybercrime Prevention Act of 2012	December 19, 2019 Quezon City
PNP	44 Chinese and 9 Filipinos ²⁷	violating Republic Act 11469, the Bayanihan to Heal as One Act; illegal possession of firearms and illegal gambling	April 25, 2020 Parañaque City
PNP	63 Chinese and 13 Filipinos ²⁸	the business entity located in the address was not registered; violated the order of PAGCOR suspending all POGO operations and all its service providers during the enhanced community quarantine in Luzon	May 5, 2020 Makati City

²⁶ <https://es.reuters.com/article/instant-article/idUSKBN1Y00JC>

²⁷ <https://www.philstar.com/nation/2020/04/26/2009832/illegal-pogo-raided-44-chinese-9-pinoys-caught>

²⁸ <https://www.pna.gov.ph/articles/1102075>

PNP	265 Chinese ²⁹	running illegal offshore gaming operation	May 18, 2020 Las Pinas City
PNP	90 Chinese and 2 Malaysians ³⁰	failed to provide pertinent records such as passports and working permits that could prove the legality of their online gaming operation	May 31, 2020 Bacoor, Cavite
PNP	151 foreign nationals ³¹	unregistered online gaming operation	June 4, 2020 Quezon City
PNP	50 Chinese and 1 Myanmar national ³²	disobedience to authority, illegal gambling, and violations of a city ordinance on physical distancing and the Cybercrime Prevention Act	July 8, 2020 Makati City
PNP	2 Filipinos ³³	illegal gambling (online bingo) in relation to the Cybercrime Prevention Act	September 19, 2020 Quezon City

1. PAGCOR and AMLC also signed a MOA for mutual assistance and cooperation. The realization of the MOA resolved various issues regarding the effectiveness of AML/CFT in the casino industry. This strengthened the effective implementation of the AMLA in the gaming industry. It is worthy to note some of the salient provisions of the MOA like the establishment of a joint coordination committee which facilitate close cooperation of AMLC and PAGCOR; the information exchange between AMLC and PAGCOR promotes and encourages cooperation and coordination to effectively prevent, control, detect, investigate and prosecute unlawful activities under the AMLA and ML activities arising therefrom and, TF; and for compliance and enforcement, in the course of preliminary administrative investigation and clarificatory hearings, the AMLC may request to interview the concerned PAGCOR examiner, and/or obtain his/her sworn statement/affidavit, about the details of the findings/violations disclosed to AMLC subject to the prior approval of the PAGCOR Chairman and CEO. Exchange of information by AMLC and PAGCOR as regard background checks of entities/individuals are being practiced.

Table 17:

<i>Request of Information Exchange</i>	<i>Number of entity/individual involved</i>
AMLC to PAGCOR	1
SEC to PAGCOR	6
PAGCOR to AMLC	5
PAGCOR to AMLC	5
AMLC to PAGCOR	2

Reports/replies regarding the above requests on exchange of information were acted upon by the concerned agencies.

On 4 March 2019, PAGCOR submitted a Letter of Intent to be a member of the NALECC and its Sub-Committee on AML/CFT. The inclusion of PAGCOR in the NALECC and its Sub-Committee on AML/CFT is essential in terms of (a) coordination among supervisory agencies and other government entities engaged in law enforcement; (b) exchange of relevant information; and (c) identification of priority areas for joint law enforcement activities. PAGCOR is currently drafting a tripartite agreement with the other AGAs (APECO and CEZA).

Recently, the SEC formally requested PAGCOR for gaming information/records of 6 individuals regarding an ongoing investigation involving fraud in one of the stock brokerage firms in the country

²⁹ <https://www.gamblinginsider.com/news/9145/philippine-police-battles-illegal-gaming-operations>

³⁰ <https://www.benarnews.org/english/news/philippine/Chinese-arrested-05312020110512.html>

³¹ <https://newsinfo.inquirer.net/1285999/151-foreigners-held-after-raid-on-illegal-pogo-firm-in-quezon-city>

³² <https://news.abs-cbn.com/news/07/09/20/makati-govt-closes-raided-illegal-pogo>

³³ <https://www.msn.com/en-ph/news/national/couple-in-qc-nabbed-for-holding-illegal-online-bingo/ar-BB19cTFC>

that eventually led the SEC to seize control of its operation.

PAGCOR also coordinated with the BSP regarding reported/identified illegal gambling using social media platforms. The coordination focused on the use of different FIs as transaction conduits in the conduct of illegal activities.

4. Improve market entry controls across all sectors with deficiencies, and considering extending such controls to junket operators, to ensure criminals and their associates are prohibited from ownership and management.

To deter criminals from using the CPs, SAs have implemented robust market entry controls, comprised of programs, policies and procedures to ensure that criminals and associates are prohibited from managing/owning CPs. This resulted in increasing numbers of denial of applications for directors and officers due to failure to meet the SAs' fit and proper requirements.

Market entry controls for FIs and casinos have been strengthened through the issuance and application of regulations and measures to ensure that criminals and their associates are prohibited from establishing, owning or managing any FIs or casinos. Effective implementation of market entry controls is also demonstrated through clean-up of databases, denial of establishment of entities and/or their owners believed to be linked to criminal activities, cancellation of license, among others. The details of actions taken/being taken by the SAs are presented below:

MSBs

To improve the registration process for MSBs, the BSP has introduced series of enhancements³⁴ requiring entities who wish to operate as MSBs need first to seek BSP's authorization to perform such activity before they can apply for incorporation with the SEC or Cooperative Development Authority (CDA). Such enhancement aims to avoid previous incident wherein corporate entities were able to operate as MSB without prior BSP approval. Further, it sets clear expectations for both the applicant MSBs and BSP.

From December 2018 to 15 February 2021, BSP completely processed 211 applications, 103 of which (49 percent) were denied for not having met the enhanced fit and proper requirements.

Also, embedded in BSP's risk-based supervisory activity is monitoring the fitness and propriety of stockholders and officers. Said officers are regularly vetted against BSP's watchlist, MID, and information from the AMLC as aforementioned. Individuals involved in transfers/changes of shares and those newly appointed for key management positions also undergo the same vetting process. As of 28 February 2021, none out of the 291 operators/directors/officers of the MSBs registered from 2019 to 15 February 2021 has been subjected to imposition of sanctions such as suspension or disqualification for violations of existing rules and regulations or being remised in their functions.

Banks and Other BSFIs

The BSP continues to implement market entry controls for banks and other BSFIs. From 2018 to 2020, there were 34 denied applications for directors and officers of banks. Further, eight prospective stockholders of banks were not approved. The denials were mainly due to failure to possess required qualifications and/or meet the prescribed requirements. For Non-Bank Electronic Money Issuers, 17 applications from 2017 to 2020 were returned due to failure to comply with existing requirements such as minimum capital, expected business model, and submission of documents. Meanwhile, two out of around 90 officers were disqualified for negative information noted during the evaluation process. For trust entities, since 2017, only four trust companies were licensed.

Securities AML/CTF Supervision by SEC

To deter persons who are not fit and proper from owning and/or managing a corporation, the Revised Corporation Code explicitly provides the rules on disqualification of directors, trustees, or officers

This recommended action is partially addressed.

- Deficiencies identified in the MER regarding market entry controls for FIs supervised by SEC and IC and for DNFBPs should be fully addressed

³⁴ Mainly based on Circular 1039 on Amendments to the N and P Regulations for Non-Bank FIs, with the latest version published in BSP's 2020 Citizen's Charter and posted in the BSP website for public information on 28 July 2020: <https://www.bsp.gov.ph/Pages/Regulations/GuidelinesOnTheEstablishmentOfBanks/RegistrationOfPawnshopsAndMoneyServiceBusiness.aspx>

under Title III, Section 26 of the Code.³⁵

Pursuant to SEC Office Order No. 177 (Guidelines on Monitoring List), the SEC likewise maintains an alert and monitoring system containing a confidential list of corporations, partnerships, or associations as well as individuals, who are under investigation or respondents/accused in cases filed with the Commission and other requesting agencies³⁶ including the AMLC and other competent authorities. Persons who are included in the Monitoring List and who attempt to establish a new corporation or file any application with the SEC are required to obtain prior clearance from the SEC-Enforcement and Investor Protection Department (SEC-EIPD) before their applications will be processed. The Company Registration System (CRS) of the SEC incorporates alerts for those persons or entities included in the SEC's Monitoring List and the United Nations Sanctions List. These procedures apply to all applications for registration and licensing including applications of SEC CPs.

As of 30 March 2021, there are 1,619 corporations/entities included in the SEC CRS Watchlist.

Before issuing said clearances, individuals under the Monitoring List, who are usually the incorporators, directors, officers and/or subscribers of an applicant company, are summoned to appear before the SEC-EIPD to shed light on their involvement in certain activities found to be violative of laws enforced by the SEC or are subject of any investigation by the Commission. They are also asked to explain the purpose and nature of the operations of the business they are attempting to register. In most instances, such persons no longer pursue their intention of filing their application with the SEC.

Insurance AML/CTF Supervision by IC

On 13 June 2020, IC issued IC CL No. 2020-71 on Revised Code of Corporate Governance for Insurance Commission Regulated Companies, and IC CL No. 2020-72 on Submission of Annual Corporate Governance Report. The Revised Corporate Governance Code provides for grounds for disqualification of directors including fit and proper rule.

On 07 September 2020, IC issued IC CL No. 2020-90 on Online Submission of Reports on Negative List of Officers and Employees. Under the said CL, CPs are required to submit quarterly reports on negative list of officers and employees through the IC AML and Corporate Governance (AMLCG) Division Online Submission Portal, which shall be monitored by the corporate governance unit of the IC. As of 30 September 2020, AMLCG received 12 reports on negative list since the transfer of its submission to AMLCGD on 07 September 2020.

The IC, in order to promote professionalism on the workforce of the ICREs, mandated all ICREs to submit the list of all ICREs' inactive as well as active officers/employees who may have been found guilty of, please refer on the table above, or with pending complaints filed against them before the company, any administrative body or court for misconduct, such as willfully violating any provisions of the Insurance Code; attempting fraud, misrepresentation or dishonest practices, and misappropriating or converting to his own use of illegally withholding moneys required to be held in fiduciary capacity.

The reports must specify the violations committed together with all necessary supporting documents. In case the company has no such mentioned officers/employees, it has to submit a certification to that effect. Officers and employees under the Negative List are restricted in holding officership/board of directorship in any ICRCs under IC CL No. 2020-71 dated 13 June 2020. Likewise, application for officership/directorship of those whose names are under the Negative List shall be assessed depending on the gravity of offense or violation. Pending complaints against the said officer/employee should not exceed three (3) years from the time the officer/employee was placed in the Negative List. Further, if there is no subsequent action/proceeding has been filed or proceeded against the said officer/employee, the Negative List shall be lifted. The officer/employee shall, however, be reinstated in the Negative List once a ruling or finding of guilt, has been issued.

Moreover, officers and/or board of directors who have been convicted by final judgement of any acts prohibited under IC CL No. 2020-71 shall be permanently disqualified to hold office in any ICRCs.

³⁵ [2019Legislation_RA-11232-REVISED-CORPORATION-CODE-2019.pdf \(sec.gov.ph\)](#)

³⁶ Section 2 (f) – "Upon the request of any government agency or instrumentality, any corporation, partnership, association or individual in connection with an investigation conducted by it"

In addition to the foregoing, although fit and proper requirements are included in the Annual Corporate Governance Report to be uploaded in the respective website of ICRCs, IC plans to issue another CL on fit and proper rules before the end of December 2021 which shall include among other things recommendations to address market entry control gaps to prevent criminals as Ultimate Beneficiary Owners from managing/owning CP supervised by IC, or earlier due to the voluminous workload of the AMLCG Division and the adverse effect brought about by this pandemic that restrict mobility.

Nevertheless, IC issued CL No. 2018-61 dated 23 November 2018, on international Cooperation and Exchange of Information. In the late December 2019, IC received 2 fit and proper related requests from its foreign counterpart where IC have responded to such request. On the other hand, IC also sent one (1) fit and proper related request to its foreign counterpart in February 2020. The number of requests provided herein is dependent upon the request received by IC as they come, where IC shall provide information as requested more particularly where IC is under obligation to disclose the information or to the extent permitted for by law. (Please refer to IO2 on the procedure, controls and safeguards in place in IC's conduct of International Cooperation and Exchange of Information).

Casinos AML/CTF Supervision by PAGCOR

On market entry, PAGCOR requires information on integrity, financial soundness, and business ability of applicants, and suitability of the Board of Directors. The Board of Directors, compliance officer representing a gaming corporation, sole proprietors, and partners are subject to the submission of the personal disclosure statement (PDS) to PAGCOR on an annual basis. To strengthen the market entry control, PAGCOR issued memoranda³⁷ as a guide for its licensing departments³⁸. The concerned departments in the issuance of licenses coordinate with PAGCOR AML Supervision and Enforcement Department (PASED) names of individuals and entities for background checking. PASED in turn transmits the same to the AMLC for verification in their checking system. Junket operations are marketing strategies of host casinos through agreements. It is an arrangement between a casino and a junket operator to facilitate a period of gambling by one, or a group, of foreign player(s) at the casino. Casinos are obliged to submit to PAGCOR a notification form³⁹ containing information such as names of Licensee and Junket Operator, their addresses, date and period of the agreement, terms of agreement, and on a monthly basis, a report listing the names of all its junket operators. For the directors and key officers directly involved in the day-to-day operations of the junket, their names, date and place of birth, nationality and copy of passports are also submitted to PAGCOR.

In addition, the host casino is required to submit a warranty or certification that the host casino has conducted a probity check of Third Party Chip washing or Junket Operator and it was found that Third Party Chip washing or Junket Operator (i) is of good repute, having regard to character, honesty and integrity (ii) is of sound and stable financial background and (iii) has a consistent track record of compliance with the legal and regulatory requirements applicable to it, whether in relation to its business as a chip washing/junket operator or otherwise and whether in the Philippines or elsewhere.

Fit and proper requirements are included in the scope of examination of casinos as well as junket operators. The Gaming Employment License (GEL) of casino employees are verified. GEL is an authorization issued by PAGCOR granting a person the privilege to be employed as a gaming employee with no criminal record.

CEZA

On August 4, 2020, CEZA coordinated with various LEAs particularly the PNP, NBI and BI in conducting issuance of search warrant and successful arrest of 75 foreign nationals involved in illegal online gaming operations. Said foreigners are facing criminal charges and undergoing deportation procedures. This was prompted through the monitoring of high internet bandwidth usage of a CEZA registered enterprise in the Cagayan Freeport. CEZA issued a suspension of operations of the said registered enterprise.

³⁷ Memorandum No. PASED/2020-01-032 and PASED/2020-01-033 dated January 27, 2020, with the subject "Resolution on Market Entry Control"

³⁸ Gaming Licensing and Development Department (GLDD) issues licenses to land-based casinos, and electronic gaming and Poker sites and the Offshore Gaming Licensing Department (OGLD) issues licenses to POGOs.

³⁹ Casino Regulatory manual (CRM) Form No. 34, Third-Party Chip washing and Junket Operators Notification Form

5. Continue its efforts to identify illegal remittance operations (e.g. hawala) and apply proportionate and dissuasive sanctions.

The BSP, in coordination with the Department of Interior and Local Government (DILG) and various local government units (LGUs), has continuously identified operating MSBs without proper authorization from the BSP and/or have been delisted. The enhanced coordination with the LGUs on information sharing specifically on entities issued with permits to operate as MSBs based on 2019 and 2020 LGU reports resulted in the identification of at least 217 and 130 unregistered entities, respectively. Appropriate and dissuasive sanctions were also imposed ranging from issuance of warning/show cause letters to institution of appropriate criminal cases. A total of Php37.9 million was imposed on two (2) MSBs. The BSP registration of eight (8) entities were cancelled while three (3) individuals were disqualified from being officers of any BSFI. There were also eight (8) entities (including their directors and officers) referred to the BSP's Office of the General Counsel for filing of appropriate criminal charges and to the AMLC for possible violations of the AMLA of 2001, as amended.

The BSP also augmented its manpower by adding 12 personnel for the expanded supervisory and surveillance activities resulting in enhanced evaluation of LGU reports and other information sources which led to a more targeted surveillance and coordinated action between the BSP and other authorities, specifically in preventing unregistered MSBs to continue operating.

Details of the actions taken and will be taken by the BSP

Continuous Identification of Unregistered MSBs. The BSP has partnered with the LGUs through DILG since 2009 providing an effective and regular surveillance mechanism to identify illegal remittance operators.

Equally important is ensuring that all registered MSBs are actually operating and continue to comply with existing BSP rules and regulations and be managed by competent operators. The re-registration has addressed such concerns. However, re-registration (which started in January 2017 and ended on 30 April 2018 after two extensions), produced relatively low turn-out as only 46.9 percent of the expected number of re-registrants applied for registration/re-registration. A number of operating entities that did not beat the re-registration deadline subsequently filed their application, and having met more stringent requirements, they are now BSP-registered entities. Meanwhile, the enhanced coordination with the LGUs on information sharing specifically on entities issued permits for operating MSB primarily handles the identification of unregistered MSBs.

The strengthened mechanism to identify illegal remittance operators, primarily hinged on LGU-based surveillance and resolution, resulted in the identification and resolution of entities that were operating without BSP registration. Such mechanism involves: (a) information sharing between the BSP and the LGUs particularly on the periodic reporting of LGUs of remittance operators, among others, operating within their jurisdiction; (b) evaluation of such LGU reports against BSP records to identify those operating without BSP registration; and (c) coordination of the BSP and LGU to take appropriate actions on identified unregistered entities. This long existing cooperative surveillance and enforcement mechanism with LGUs which started upon signing of Memorandum of Agreement (MOA) between the DILG in 2009, was re-affirmed and enhanced with the execution of the BSP and DILG Joint Memorandum Circular (JMC) No. 1, s. 2019, which was approved on 15 November 2019. The enhanced JMC strengthened the guidelines on the issuance and renewal of business permits by the LGUs in consideration of the new registration requirements of the BSP, institutionalized the submission of LGU licensing reports to ensure effective implementation and monitoring of information sharing agreement, and further strengthened the supervision and regulatory oversight given the growing number of entities operating as MSB nationwide. Periodic information dissemination campaign continued despite the outbreak of the COVID-19 pandemic as all 1,634 chief executives of cities and municipalities and all 81 Provincial Governors nationwide were sent letters to remind them of the expectations in the joint memorandum with the BSP. This resulted in increase in the number of LGUs from 508 in 2019 to 592 as of 31 March 2021 or by 16.5 percent that complied with the reporting requirements.

The said enhanced coordination resulted in the identification of at least 217 unregistered MSBs for the period September 2019 to end March 2020 in the evaluation of 2019 LGU reports, and 130 for the period September 2020 to end March 2021 in the evaluation of 2020 LGU reports. The following supervisory actions have been taken/to be taken on the said unregistered entities within the timeline stated below:

This recommended action is partially addressed.

Authorities should:

- Sustain the additional manpower in the BSP for MSB sector.

- Ensure that unregistered MSBs (since the re-registration requirements and consolidation of the sector were implemented) are not able to operate. This requires further coordination with LGUs, use of other intelligence including of CTR/STR information from banks.

- Ensure that illegal MSBs that are unregistered and do not meet fit and proper requirements, in particular MSBs that are evading the requirement to register with BSP, are identified and sanctioned.

Activities	Results/Effect	Timeline
1. Evaluate the reports submitted by 508 LGUs on the entities operating as MSBs and issued Business Permits.	Identified at least 217 entities (<i>enforcement actions deployed on unregistered entities are discussed under Imposition of Proportionate and Dissuasive Sanctions on Unregistered MSBs</i>) engaged in MSB without BSP registration operating in at least 62 cities/municipalities or 12 percent of all reporting LGUs.	November 2020
2. Notify and continuously coordinate with the LGU to require presentation of BSP certification of registration upon renewal of business permit and/or resolution of identified entities operating without BSP registration	All LGUs concerned have been notified. Enforcement actions taken by the LGUs on unregistered entities have been obtained (details under Imposition of Proportionate and Dissuasive Sanctions on Unregistered MSBs). Such resulted in the increased awareness of the LGUs concerned on their responsibility to require, among others, the presentation of BSP registration upon renewal of BP and deter operating of MSB without BSP registration. This is manifested in the high number of inquiries (1,304) received on the requirements and procedures to register with BSP, as required in the renewal of BP.	Continuing
3. Inform the entities engaged in MSB without BSP registration of the requirements to register with the BSP and the possible sanctions imposed for operating without BSP registration, and determine/assess whether or not they may be allowed to regularize their operation based on the existing guidelines on handling unregistered entities	Resulted in the actual application for registration of four (4) identified unregistered MSBs as of end-February 2021 and increased awareness on the registration requirements of the entities engaged in MSB. This is manifested by the high number of inquiries on the requirements and procedures to register with BSP, including those from identified unregistered MSBs.	Continuing

To supplement the surveillance through LGU coordination, other sources of information are continuously monitored which include market intelligence report, information received from other authorities such as AMLC or collected from offsite supervision particularly complaints received by BSP through its Center for Learning and Inclusion Advocacy (CLIA) and media news, and the lists of entities which sought BSP endorsement to SEC or CDA on the intended MSB operation. Information of operating MSBs gathered from these different sources are mapped against BSP records to identify possible unregistered MSB and further evaluated and validated as to their existence and operating status through LGU reports and/or SEC i-view⁴⁰, coordination with LGU, AMLC, SEC and/or CLIA, as applicable, and/or conduct of ocular inspection. From 2019 to end of March 2021, 56 entities were identified as operating illegally from sources such as submission of periodic reports and payments of annual fees despite being delisted and complaints received from consumers.

The wide range of enhanced mechanisms and formalized guidelines coupled with personnel augmentation resulted in intensified surveillance and consistent application of systematic approach of identification, validation and deployment of enforcement actions on unregistered entities.

Imposition of Proportionate and Dissuasive Sanctions on Unregistered MSBs. Consistent with the BSP's Supervisory Enforcement Framework and in order to discourage unauthorized MSB operation and level the playing field, a range of available proportionate and dissuasive enforcement sanctions were imposed on unregistered MSBs and those that operate beyond transactional limits of its license, taking account of their risk profile and justifications.

⁴⁰ SEC i-View is an online system that allows the general public, other government and private entities to view and print company reports for a fee.

Among the factors considered in the imposition of sanctions were the extent and intent of unauthorized operation, and AML/CFT related violations committed while engaging in unauthorized operation. For instance, unregistered MSBs with low risk profile were allowed to regularize their operations subject to the compliance with the enhanced licensing requirements of the BSP but were imposed sanctions such as monetary penalties and/or business restrictions (i.e., transaction volume or branching limit). Otherwise, they were denied issuance of business permit, forcing them to cease operations. In fact, at least 128 unregistered entities without or with cancelled BSP registration were no longer allowed to continue business operations with the cancellation of/denial of issuance of business permit from 2019 to end March 2021.

Moreover, escalated sanctions such as disqualification from BSP registration and prosecution under Section 36 of RA No.7653, as amended, for persistent violations of BSP licensing rules and regulations handle the recidivist operators of unregistered MSB, including those with known involvement in the ML/TF activities or any financial fraud. Likewise, severe sanctions were imposed on MSBs that operate beyond the transactional limits allowed in their license coupled with low level of compliance with their obligations under the AMLA and its RIRR as well as deficient control mechanisms to prevent ML/TF. These sanctions include cancellation of registration, imposition of monetary penalties, and disqualification of concerned directors/officers/operators. Similar to the recidivist operators of unregistered MSBs, operators of this type of MSB were also referred to AMLC and BSP-OGCLS for further investigation and prosecution. In view thereof, possible criminal fines and imprisonment served as deterrents against any unauthorized MSB operations.

Below is a summary of the enforcement actions and sanctions imposed on entities engaged in MSBs without BSP registration and on MSBs operating beyond their authority or license :

Enforcement Actions/Sanctions Imposed (2018 to end March 2021)		
Type	Number	Amount/Percent to Total Identified Unregistered MSBs
1. Warning/Show Cause Letter	103	47%
2. Accepted for re-registration	28	13%
3. Ceased to operate as MSB per LGU reports	128	59%
4. Monetary penalties	2	P37.900 million
5. Disqualification from BSP registration	4	n.a.
6. Cancellation of BSP registration	8*	n.a.
7. Disqualification from becoming officers of any BSP Financial Institutions – for Owners/Operators of de-registered MSBs	3	n.a.
8. Referred to OGCLS and AMLC for possible criminal prosecution	8	n.a.
Total	284	P37.900 million

*Except for the three (3) MSBs which registration were cancelled in 2016.

The above enforcement actions and imposition of sanctions have increased the awareness of MSBs on the requirement to register with the BSP as well as to comply with AML/CFT rules and regulations. Such is evident in the increasing number of inquiries on registration and filed applications for BSP registration by the MSBs, as follows:

Table 23:

	2019	2020
Received Application for BSP Registration	83	96
Received Inquiries on BSP Registration and Compliance with AML/CFT	data not available – started to record inquiries only in 2020	1,304

Similar to the recidivist operator of unregistered MSB, operator of this type of MSBs were also referred to AMLC and OGCLS for further investigation and prosecution. In view thereof, possible criminal fines and imprisonment served as deterrents against any unauthorized MSB operations.

6. PAGCOR should resolve its conflict of interest in its role as casino operator and AML/CFT supervisor and should ensure casino agents are captured in the scope of its examinations

The cited conflict of interest in PAGCOR's role as operator and regulator is addressed by the execution of MOA for mutual assistance and cooperation between PAGCOR and AMLC in January 2020. Under the MOA, the compliance checking of PAGCOR-operated casinos shall be conducted/led by the AMLC. The MOA is anchored on the resolution adopted by PAGCOR BOD which intended to exponentially increase the level of compliance and effectiveness of the AML/CFT system in the casino industry and resolve the conflict of interest in its role as a casino operator and AML/CFT supervisor. In the said resolution, PAGCOR approved the grant of authority to the AMLC to conduct or lead the onsite examinations on all PAGCOR Casino Filipino (CF) branches, its satellites, and Satellite Operations Groups (SOGs).

The results of this AMLC-led examination of Casino Pm in 2019, proved that PAGCOR enforced and preserved the integrity of the AML/CFT system in the casino sector.

Table 24:

AML/CFT Area	No. of Findings	No. of Recommendations
Board & Senior Management oversight	2	5
ML/TF Prevention Program	1	3
Internal Controls and Audit-	1	2
Customer Due Diligence (CDD)-	4	6
On-going Monitoring-	1	2
CTR/STR	3	7
Training	1	3
Recordkeeping	1	1
Total	14	29

Other compliance checking conducted jointly by PAGCOR and AMLC in 2019 and 2020 covered three (3) integrated casinos and one (1) PAGCOR operated casino led by AMLC and three (3) private casinos. The joint examination arrangement under the MOA ensures check and balance since the MOA also contains a provision that results of inspections and compliance checking activities are to be shared between PAGCOR and AMLC.

This recommended action is largely addressed.

Authorities should:

- Increase examination in the supervision of casinos of their use of agents, in particularly relating to junket operators (as both agents and customers of the casino) and junket participants (as customers of the casino).

- Supervisors should ensure that AML/CFT controls are correctly functioning in the casino sector so that ML/TF risks associated with junkets are mitigated.

I. On the MRA to cover casino agents in examinations

As aforementioned, junket operations are marketing strategies of host casinos through agreements/contracts. Casinos, as the CP, are held liable for any violation/s of their respective junket operators concerning AML/CFT obligations. Thus, all issued regulatory orders for land-based casinos are extended to junket operations. It follows therefore that onsite examinations cover AML/CFT measures implemented by the casinos on their junket operators. Junket agreements entered by the casinos are likewise covered to ensure that such arrangements are in line with AML/CFT requirements.

Since junket operations are identified to be of high-risk product and with a high level of vulnerability to ML/TF, the examination team assesses the policies and procedures in conducting customer acceptance, verification, and on-going monitoring of junket accounts and transactions as well as the recordkeeping procedures. Employee training is also verified to ensure it includes junket personnel. Targeted sample accounts/transactions of junkets were also checked and verified.

The following are the general findings and observations noted concerning junket operations, and subsequent mitigating action initiated by PAGCOR:

- b. Absence of AMLA provisions in the agreements between the host casinos and junket operators. The host casinos were required to include AML provisions in their new and renewed agreements with junket operators. Casinos committed to revise their agreements to include AML/CFT policies and procedures, and AMLA requirements. PAGCOR required the casinos to submit copies of the amended agreements which they complied with immediately.
- c. On customer acceptance and verification, host casinos were observed to have reliable procedures on CDD particularly for junket players. Aside from the CDD guidelines issued by PAGCOR, these host casinos were also covered by the Casino Regulatory Manual (CRM) which includes provisions for junkets regarding player identification, recordkeeping, and transaction monitoring.
- d. After the concluded examinations to casinos with junket operations, it is worthy to note that casinos are conducting a wide range of practices to mitigate the risks of criminality exposure, such as the following:
 - Implementing an ML/TF Prevention Program which includes policies and processes concerning CDD, transaction monitoring, systems to report covered and suspicious transactions, and AML/CFT training;
 - Conducting due diligence on junket operators and their employees, generally including an application process, identity verification procedures, sanctions and PEPs screening, obtaining NBI/ police clearance, and open source database screening;
 - Notifying PAGCOR of Junker Operators and its agents/ employees names;
 - Requiring junket operators, their agents and employees to have gaming license issued by PAGCOR;
 - Retaining detailed records of gaming activity of all junket players;
 - Recording of all gambling activities;
 - Using CCTV surveillance footage to identify the context behind suspicious transactions; and
 - Conducting enhanced due diligence on higher-risk customers.

7. SEC and CMIC should work together to find a resource efficient solution to harmonise the duplication of AML/CFT supervision.

The perceived duplication of functions between SEC and Capital Markets Integrity Corporation (CMIC) has been resolved when the AML Division (AMLD) of the Enforcement and Investor Protection of SEC was created in 2018. AMLD was created to anchor, centralize and coordinate the Commission's AML/CFT supervision of its CPs to ensure their compliance with the AMLA and its IRR, and in the prevention of ML/TF. Among the functions of AMLD are the following⁴¹:

This recommended action is addressed.

⁴¹ <https://www.sec.gov.ph/about-us/departments-and-offices/>

- a. Coordination with the AMLC;
- b. Review and recommend to the *En Banc* the proposed AML/CFT related rules of Self-Regulatory Organizations (SRO) and other market participants;
- c. Plan and conduct AML/CFT audit and examinations in coordination with the Company Registration and Monitoring Department (CRMD), Markets and Securities Regulations Department (MSRD) and the Corporate Governance and Finance Department (CGFD) and refer its ML/TF findings to the AMLC for prosecution and other appropriate action;
- d. Act on all matters pertaining to compliance by SEC CPs with the AMLA, as amended and the rules and regulations issued by the Commission related to AMLA;
- e. Prepare and recommend to the *En Banc* advisories on AML/CFT related matters;
- f. Act as resource center for investors and other government agencies on AML/CFT related matters;
- g. Investigate and hear, *motu proprio*, or upon complaint or referral, violations of the rules and regulations of the Commission concerning AML/CFT matters;
- g. Prepare Orders or Decisions for the imposition of fines or other administrative sanctions for violations of the rules and regulations of the Commission on AML/CFT matters in accordance with Section 54.1 (a) of the SRC;
- h. Prepare and file criminal complaints for violation of the rules and regulations promulgated by the Commission on AML/CFT matters in accordance with Section 73 of the SRC;
- i. Actively prosecute criminal complaints for violation of the rules and regulations of the Commission on AML/CFT matters before the DOJ and the Courts;
- j. Attend and render assistance to walk-in clients and act on and respond to e-mail/written concerns, tips or referrals on AML/CFT-related matters;
- k. Enforce all AML/CFT and Proliferation of Weapons of Mass Destruction rules and regulations promulgated by the Commission; and
- l. Perform such other AML/CFT-related functions as may be directed by the EIPD Director, the SEC Chairperson and Commissioners.

The AML/CFT compliance audit currently being conducted by the SEC through the EIPD is pursuant to what is provided for in Part 3: AML/CFT Examinations of the AMLD Operations Manual as approved by the Commission *En Banc*. The clear and distinct role of the AMLD eliminates the duplication of functions with the CMIC.

On the other hand, the CMIC is a registered SRO by the SEC. It was a spin off the Philippine Stock Exchange's Market Regulation Division and was official incorporated in March 2011. Pursuant to Section 39.1.1.53 of the 2015 IRR of the Securities Regulation Code, it is mandated to enforce compliance with provisions of the securities laws regulating brokers, dealers and trading on SRO and SRO rules.

To further ensure that there is no duplication in terms of AML compliance inspections, before the CMIC submits to the SEC its audit program and calendar for the year including the manner of selection and prioritization used by it in formulating its audit program. The manner of selection and prioritization shall be based on the historical and potential risks that each member posed to the market as required under SRC Rule 39.1.1.6. The program is intended for the prudential examination being regularly conducted by the CMIC. Under the current set-up, CMIC will continue to conduct the prudential examination and supervision of its member brokers and dealers subject to the authority of the SEC to conduct periodic or parallel examination to validate the CMIC's findings as well as to conduct on-spot audit inspections of the relevant SRO Department to check if it is fulfilling its duties and responsibilities as an SRO.

Moreover, the functions of CMIC's Audit and Compliance Department⁴², comprised of two units: - the Regular Examination Unit, and - the Risk Management Unit also do not cover AML /CFT related matters to wit:

- a. Regular Examination Unit – conducts monthly audit of all Trading Participants, including their branches and agencies relative to the trading activities of Trading Participants including monitoring compliance with reportorial requirements (which do not include CTRs/STRs nor freeze order related reports) required under the SRC (Title V, Rule 17.1);
- b. Risk Management Unit - assesses the financial and risk profiles, such as the Risk Based Capital Adequacy (RBCA) Ratio and other related financial matters. The RMU conducts a monthly spot (financial) audit of all Trading Participants' capitalization requirements, books and records.

⁴² <https://www.cmic.com.ph/main/aboutUs.html#>

In addition, after series of consultation meetings between the CMIC and other concerned departments of the SEC, the SEC wrote the CMIC informing them that the AML/CFT supervision including the conduct of AML/CFT examinations of SEC covered persons including those subject to the prudential supervision of the CMIC shall henceforth be exclusively undertaken by the SEC through the AMLD-EIPD. The letter further provides that the CMIC, as an SRO, will continue to conduct the prudential examination and supervision, i.e., financial responsibility, dealings of members with the public, back office procedures, trading practices, and supervision of its member brokers and dealers subject to the oversight authority of the SEC.

8. AMLC should work with other supervisors to establish more efficient referral rules to prioritise application of administrative sanctions, in order to ensure supervisory actions are proportionate and dissuasive. Further, all supervisors should also apply/continue to apply appropriate sanctions for non-compliance of AML/CFT supervisory guidelines where warranted.

Efficient Referral Rules between the AMLC and the BSP

Consistent with risk-based principle, the MOA signed in 2019 between the AMLC and the BSP limits referrals of Reports of Examinations (ROEs) to those BSP **supervised** entities with Vulnerable and Poor AML/CFT Compliance. This shall likewise be adopted in the MOAs with other SAs.

Pursuant to AMLC Resolution No. 12 (24 January 2018), as amended by AMLC Resolution No. 69 (17 June 2020), the AMLC adopted its prioritization policy in the **evaluation** of ROEs referred by the BSP for BSFIs. Such prioritization provides a risk-based approach for the escalation of supervisory actions and an opportunity to identify and take appropriate actions on banks with systemic deficiencies.

Based on the prioritization policy in AMLC Resolution No. 12 (24 January 2018), as amended by AMLC Resolution No. 69 (17 June 2020), the following actions were taken on the ROEs referred by the BSP to the AMLC from 2013-2020, as well as other compliance issues referred to or identified by the AMLC:

Table 25:

Triggers	No.
Non-registration with AMLC	8
Compliance Checking on Late Submission of Covered Transaction Reports	7
BSP Examinations on Covered Persons	7
Validation of Corrective Actions made by Covered Persons	6
Complaints/Referrals from Other SAs, Other Departments within AMLC and the General Public	6
Voluntary Disclosure sent by Covered Persons	4
TOTAL	38

On August 4, 2020, CEZA coordinated with various LEAs particularly the PNP, NBI and BI in conducting issuance of search warrant and successful arrest of 75 foreign nationals involved in illegal online gaming operations. Said foreigners are facing criminal charges and undergoing deportation procedures. This was prompted through the monitoring of high internet bandwidth usage of a CEZA registered enterprise in the Cagayan Freeport. CEZA issued a suspension of operations of the said registered enterprise.

Sanctions for non-compliance

AMLC Enforcement Actions and Administrative Sanctions

Upon receipt of the assigned Report of Compliance (ROC), the Litigation and Evaluation Group (LEG) shall conduct a fact-finding investigation, which shall involve an ex parte evaluation of all

This recommended action is partially addressed.

Authorities should:

- Continue use of the new policy for referrals from BSP to AMLC.

- Implement similar policies for referrals for IC or SEC to AMLC

- Utilise proportionate and dissuasive sanctions where DNFBPs are determined non-compliant with AML/CFT requirements.

documents submitted by the Compliance and Supervision Group (CSG) in connection with the subject ROC. The LEG shall determine whether a prima facie case exists as to warrant the filing of a Formal Charge against the CP based on the ROC submitted for violation of the AMLA, its implementing rules and regulations, guidelines and issuances of the AMLC.

As of 28 January 2021, there are 67 ROCs produced by the CSG and referred to the LEG. If the LEG determines that there is a prima facie case, it shall prepare a Memorandum, with supporting annexes, addressed to the Director of the Investigation and Enforcement Department (IED), recommending the filing of Formal Charge against the CP subject of the ROC, and a proposed Formal Charge.

The resolution of administrative cases may be categorized into: (1) resolutions based on the merits of the case and (2) resolutions based on the benefits under Rule II, Section 3(e) of the Rules of Procedure in Administrative Cases (RPAC).

Regardless of the category, the resolution of these administrative cases undergo the same process wherein the AEU drafts the Council Resolution and Administrative Resolution for approval. After which, the AEU issues a Notice of Resolution to the CP involved.

For resolutions on the merits of the case, the CP may be imposed a monetary penalty, a warning, a non-monetary penalty (i.e. reprimand, submission of Compliance Commitment indicating specific timelines of concrete measures to correct, revocation of certificate of registration issued by the AMLC, referral to the appropriate SA or Appropriate Government Agency for appropriate action, or publication of the Administrative Resolution), dispensation of the imposition of monetary sanctions, or even a combination of the above-mentioned.

For resolutions based on availing of the benefits under Rule II, Section 3(e) of the RPAC, the Council grants the motion of the CP to pay the assessment of the CP. The benefit of availing Rule II, Section 3(e) of the RPAC is that after payment, the case is stricken off the records of the AMLC as if no case was filed. However, in some cases, the Administrative Resolution might require the written validation of the CSG for good causes alleged in the Motion before the AEU issues the order for the case to be stricken off the records of the AMLC.

To date, out of the 52 administrative cases in the dockets of the AEU, the Council has already issued 17 Administrative Resolutions.

Out of the 17 Administrative Resolutions, 3 (17.64%) were resolved based on the merits of the case and 14 (82.35%) were resolved based on Rule II, Section 3(e) of the RPAC. Out of the 14 Administrative Resolutions availing of Rule II, Section 3(e) of the RPAC, 8 cases were already stricken off the records of the AMLC. The remaining six (6) cases have yet to pay the assessment or are awaiting the conduct of validation of the CSG.

A total amount of PHP12,470,000.00 was collected as an assessment for those CPs who availed of Rule II, Section 3(e) of RPAC. The amount collected is forwarded to the Bureau of Treasury. The AEU is awaiting P10,010,000.00 as an assessment for those cases with Administrative Resolutions availing of Rule II, Section 3(e) of the RPAC.

Out of the 67 ROCs (shown below in a table) produced by the CSG, the LEG filed 52 Formal Charges before the Adjudication and Enforcement Unit (AEU). If the LEG finds no prima facie case after evaluation of the ROCs, he shall prepare a Memorandum for the non-filing of formal charge.

As of 28 January 2021, for the remaining 15 ROCs: two (2) are under evaluation by the LEG, six (6) were referred back to CSG for additional evidence or clarification, five (5) are for filing of formal charges and two (2) are for recommendation of non-filing of formal charge.

Furthermore, out of the 52 administrative cases (filed formal charges), 34 are pending before the AEU and 17 are with Council Resolution already.

BSP Enforcement Actions and Administrative Sanctions

Issuance of appropriate supervisory enforcement actions. Consistent with the adoption of RBA, the BSP applies proportionate supervisory enforcement actions to maintain or improve high AML/CFT standards in order to protect the safety and soundness as well as the integrity of the financial system against ML/TF/PF activities. In this respect, imposition of enforcement actions are commensurate

to the size, risk profile, and systemic importance of the BSFIs.

Range of enforcement actions include any or a combination of the following: (i) directive to take remedial actions; (ii) issuance of written warnings; (iii) restriction on relevant operations; (iv) imposition of monetary penalties; (v) disqualification of directors, officers and employees; and (vi) inclusion in the watchlist. Escalated enforcement actions are also being imposed to dissuade non-compliance and send strong signal to the BSFIs to take corrective actions such as requirement to execute a Letter of Commitment or initiation into Prompt Corrective Action, as warranted. From December 2018 to December 2020, the BSP issued request for (i) remedial actions on 519 banks and 56 non-bank financial institutions (NBFIs), (ii) written warnings on 9 banks, (iii) restricted business operations of 8 banks, and has imposed/assessed monetary penalties on 12 banks and 1 NBFIs amounting to PhP25.9 million.

For entities engaged in MSBs without BSP registration and operating beyond authority or license, refer to IO 3 RA 5 on the enforcement actions and sanctions imposed by the BSP.

Impact/Effectiveness:

Deployment of proportionate supervisory enforcement actions was intended to achieve desired results and change in behaviour. Thus, we noted that BSFIs have improved their AML/CFT controls and implementation. Most UKBs and TBs (representing 99 percent of the Philippine Banking System) have noted improvement on certain processes such as risk management practices, customer identification, customer risk profiling, transaction monitoring, among others. This is evident in the decrease by 42 percent in the number of findings noted on these areas.

Further, STRs filed by the BSFIs to the AMLC has significantly increased by 257 percent from 282,239 cases in 2017 to 1,008,457 cases in 2020. For the first quarter of 2021 alone, the STRs filed have reached 641,747. This shows that the BSFIs are progressively learning to identify various threats that are trying to exploit the industry. Based on available data, the number of closed accounts, and prohibited accounts due to suspicious transactions were also noted to be increasing by 82 percent from 3,252 in 2017 to 5,932 in 2019. For the period January to June 2020, the number of closed accounts has reached 4,555 which is 76 percent of the aggregate closed accounts for the whole 2019.

SEC Enforcement Actions and Administrative Sanctions

CPs are required to file CTRs and STRs with the AMLC. To be able to file their reports, they are required to register with the AMLC to have access to the portal for the submission of the STRs and CTRs. The SEC began to strictly monitor and enforce compliance by CPs with this requirement beginning 2019. Monitoring and follow-up conducted has resulted in greater awareness of this requirement and a higher percentage of compliance by CPs. The table below shows the level of compliance with the requirement to register. Those who fail to comply with this requirement are sent notices of deficiency. Failure to comply will result in the imposition of the appropriate fines.

Table 36:

Covered Persons	No. of CPs (As of 26 March 2021)	%
Registered and with Updated Registration with AMLC	581	61.61%
Not Updated beyond 2 Years	42	4.45%
Due for Updating	1	0.11%
Unregistered	319	33.83%
Total	943	100.00%

As of 26 March 2021, the SEC issued a total of 637 reminder letters to those CPs who are not yet registered with the AMLC or whose registration needs to be updated. Out of the 637 SEC CPs issued with reminder letters, 237 CPs have responded. This resulted to an increase in the number of SEC CPs that are now registered with the AMLC or whose registration are now updated.

The SEC's 2018 AML/CFT Guidelines further requires CPs to formulate their ML and TF Program (MTPP) and to submit the same to the SEC within six (6) months from its effective date. The formulation of the MTPP to be adopted and implemented by CPs provides them with the policies and procedures for establishing an effective risk-based AML/CFT framework. The MTPP forms the basis for evaluating the sufficiency of CP's AML/CFT framework. The Guidelines require the CPs to revise their existing manuals to be consistent with the said guidelines and submit a copy of the same to the SEC. A CP which fails to submit a revised MTPP within the prescribed period is subject to a penalty of Five Hundred Pesos (PhP500.00) per day of delay until the revised MTPP has been submitted to the SEC. As of 29 March 2021, a total of 448 CPs or 47.50% have submitted their revised MTPPs. Out of 495 CPs who have not yet submitted their MTPPs, 232 or 46.86% have been issued with a Notice of Deficiency (NOD). Out of 232 CPs who have received a NOD, 56 or 24.13% have complied with the said NOD.

The SEC has also imposed the following monetary penalties for late or non-submission of the MTPP:

Table 37:

Year	No. of Corporations Penalized	Amount of Fines Imposed
2019	40	PhP1,245, 800.00
2020	20	PhP1,813,300.00

Further, those CPs which have been audited in 2020 and found to have deficiencies were issued with Compliance Audit Deficiency Notices (CADNs) by the SEC. The CPs issued with CADNs have filed their replies within the 30-day period from receipt of the notice. Their replies contained time bound action plans. There were CPs that already included in their replies their revised MTPPs addressing the deficiencies indicated in the CADNs. Action plans of the CPs include formulation of IRA and its presentation to the Board for approval and adoption, strengthening of the Compliance Unit, conduct of internal audit including AML/CFT compliance, procurement of equipment for digitization requirements, capacity building of directors, senior management officers, and relevant employees on AML/CFT matters, among others. The SEC is closely monitoring the progress of the implementation of the submitted action plans. CPs have shown their eagerness to cooperate with the SEC.

IC Enforcement Actions and Administrative Sanctions

Under the IC's ACRRS, an AML/CTF composite rating of "2" and "1" will require submission by the ICRE to the IC of a written action plan with specific timeline duly approved by the BOD aimed at correcting the noted inefficiencies in BOD and SM oversight, inadequacy in AML and CTF policies and procedures, weakness in internal controls and audit, and/or ineffective implementation within the prescribed reasonable period of time. An AML rating of 1 shall also be considered as conducting business in an unsafe or unsound manner. For this reason, prompt remedial action shall also be automatically initiated on the ICRE, which shall include imposition upon the ICRE, its board of directors, senior management and/or officers of appropriate enforcement actions under Section 62 of CL No. 2018-48, as amended, which includes:

- Written reprimand;
- Suspension or removal from the office they are currently holding; or
- Disqualification from holding any position in any IC regulated entities.

Regardless of AML/CTF composite rating assigned, corresponding fines or monetary penalties shall be imposed against ICREs for commission of violations provided under Section 63 of CL No. 2018-48, as amended.

This ACRRS shall be used by IC in the conduct of its SRA on the 3rd quarter of 2021 since the ACRRS has been issued only on 24 February 2020, added to that is the outbreak of covid-19 which prompted IC to issue an advisory suspending all IC onsite-examinations.

Pursuant to IC CL 2018-48, as amended by CL Nos. 2018-60 and 2019-65, the IC imposed the following supervisory sanctions from 2019 to 31 August 2020:

Table 39:

Sanctions Issued	2019	2020 (as of 31 August 2020)
Show cause letters	130	6
Written Warnings	2	3
Monetary Penalty	4	42
Submission of Action Plan	6	-

In 2019, 96 ICREs out of 231 as of 11 November 2020, failed to update their AML Electronic Registration System to the AMLC on or before the expiration date of their respective registration date. As a result, IC sent them a show cause letter. In 2020, these ICREs were imposed a monetary penalty depending on their size and gravity of violation. Failure of ICREs to update registration with the AMLC is considered as Serious Violation which shall be imposed a monetary penalty ranging from Php5,000.00 for Micro up to Php500,000.00 for Large Entities under category B.

9. BSP should make more efficient use of thematic examinations to address sectoral risks arising from ML/TF abuse.

To supplement institutional onsite examination, horizontal or thematic reviews are also conducted by the BSP to effectively utilize and manage resources in identifying the emerging sources of ML/TF/PF risks and vulnerabilities in the financial sector. This allows for a simultaneous review or diagnoses of AML/CFT measures and practices of selected BSFIs covering a particular area of concern. The results of the thematic reviews will be used to craft responsive and practical guidelines to reinforce the industry's capabilities to identify, mitigate and prevent emerging ML/TF/PF risks. These thematic reviews are anchored on the following:

- Identified high risk areas in the 2017 NRA;
- Emerging risks, trends and typologies on ML/TF solicited from reinforced surveillance activities and environmental scanning;
- Risk information from continuous coordination with the AMLC pursuant to the MOA, other SAs and LEAs, and engagement with relevant industry associations.

With the above framework in place, the BSP conducted the following thematic examinations, wherein results were cascaded to the BSFIs and industry associations through guidance papers and outreach sessions:

Year	Thematic Exams Conducted	Basis	Number and type of BSFIs covered	Regulatory Guidance Issued/Webinar Conducted
2019	Online Gaming Businesses (OGB)	Emerging risk. There is notable increase in OGB customers, transactions as well as related crimes and money laundering activities based on the report from AMLC and LEA.	UKBs (14)	Memorandum to All Universal and Commercial Banks on Common Red Flags on Online Gaming/Casino-Related Business (OGB) Accounts, dated 13 June 2019
2019	Illegal Investment Activities	Fraud was rated as high-risk predicate offenses in the 2017 NRA and identified during the BSP's surveillance activities, and as noted by other supervisors (SEC and AMLC).	UKBs (5) TBs (3) RB (1) VCE (1)	M-2019-028, Preventive Measures Relevant to Illegal Investment Activities or Schemes, dated 26 November 2019 ⁴³
2020	Correspondent Banking	Correspondent banking services facilitate transnational transactions involving huge amounts, which criminals may take advantage of to mask illicit proceeds of crime (e.g.,	UKBs (5)	Circular No. 1078, s. 2020, Guidelines on Correspondent Banking Relationships,

This recommended action is largely addressed.

- The BSP should continue to use thematic reviews when appropriate to understand and address ML/TF risks in and across its sectors.

⁴³ <https://www.bsp.gov.ph/Regulations/Issuances/2019/m028.pdf>

		drugs, smuggling) into the financial system thereby increasing transaction risks for correspondent banking. Transactions coursed through correspondent banking relationships include cross-border transfers and trade transactions.		dated 09 March 2020 ⁴⁴
2020	Human/Child Trafficking	Emerging risk. There is notable increase in online child exploitation cases in the Philippines based on the information from LEAs and AMLC.	UKBs (7) MSBs (4)	M-2020-092, Guidance Paper on Managing ML Risks Related to Online Sexual Exploitation of Children (OSEC); and Webinar on Best Practices to Manage ML/TF Risks Arising from Online Sexual Exploitation of Children (OSEC) Coursed thru Banks/MSBs, conducted on 26 August 2020; Proposed guidance paper on managing ML risk arising from OSEC ⁴⁵
2020	Targeted Financial Sanctions and Proliferation Financing	Based on the findings noted in the last MER and aligned with Strategic Objective No. 5 of the Philippines' National Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) Strategy (NACS) 2018-2022 to <i>"develop and strengthen mechanisms to prevent, disrupt and combat terrorism, terrorism financing and proliferation financing."</i>	Banks (7) EMI (1) VCE (1) MSB (1)	"Strengthening Implementation of Targeted Financial Sanctions and Proliferation Financing Risk Management Framework" was issued through Memorandum to All BSFIs No. M-2021-015 dated 16 March 2021 and conduct of outreach sessions on the expected measures and best practice to counter PF and effectively implement TFS ⁴⁶
2020	Terrorism and Terrorist Financing	TF was rated as high risk in the 2017 NRA. The result of the Mutual Evaluation Report was also considered as well as the Strategic Objective No. 5 of the Philippines' National Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) Strategy (NACS) 2018-2022 to <i>"develop and strengthen mechanisms to prevent, disrupt and combat terrorism, terrorism financing and proliferation financing."</i>	Banks (7) EMI (1) VCE (1) MSB (1)	"Enhancing the Control Framework on Terrorism and Terrorist Financing" was issued through Memorandum to All BSFIs No. M-2021-015 dated 16 March 2021 covering best practices and areas for improvement with emphasis on red flag indicators/typologies on transactions related to terrorism and TF; and conduct of capacity building initiatives.

10. Further outreach should be provided to all sectors to improve understanding, in particular of the new obligations which came into effect in 2018. The confusion caused by the scoping issue in relation to lawyers and accountants should be resolved to ensure AML/CFT compliance can be enforced.

The SAs had intensified their capacity building and outreach activities for their respective supervised entities and relevant industry associations. Training sessions and learning events are regularly

This recommended action is partially addressed.

Authorities should:

⁴⁴ <https://www.bsp.gov.ph/Regulations/Issuances/2020/c1078.pdf>

⁴⁵ <https://www.bsp.gov.ph/SitePages/Regulations/RegulationDisp.aspx?ItemId=4432>

⁴⁶ <https://www.bsp.gov.ph/SitePages/Regulations/RegulationDisp.aspx?ItemId=4483>

hosted or conducted in partnership with relevant agencies and institutions to continuously reinforce understanding and awareness of CPs' Board of Directors, officers, and employees of their AML/CFT obligations and strengthen their capabilities to mitigate risks arising from ML/TF/PF activities. The SAs shifted to offering virtual or online courses to ensure continuous engagement and delivery of AML/CFT courses to the supervised entities.

Apart from continuous AML/CFT trainings being conducted by the SAs, other forms of feedback mechanism that offer additional venues for SAs to provide further guidance to supervised entities are also implemented through the following, among others:

- a. the conduct of regular examinations and thematic reviews, particularly during pre and post examinations discussions/meetings;
- b. issuance of guidance and reminders to address emerging risks, particularly those observed during the pandemic,
- c. focused group discussions and meetings with the industry associations; and
- d. one-on-one consultation to clarify issues/concern on AML/CFT regarding supervised institution.

These activities resulted in increased awareness among supervised CPs of their AML/CFT obligations. These were demonstrated in the increase in registered CPs of AMLC, SEC and PAGCOR. Also, AML/CFT policies of CPs have improved. For BSPFI, these translated to improvements in the implementation of AML/CFT obligations such as adoption of new parameters and alerts in their transaction monitoring systems relating to (i) high risk customers/accounts such as MSB and OGB clients, watch listed individuals, and those included in the Consolidated Sanction List; (b) frequent and unusual large amount of inward remittances and fund transfers; and (c) UBO determination, among others.

Below are the detailed outreach activities conducted by the SAs in their respective sectors and the corresponding impact/effectiveness of their initiatives:

A. Banks and MSBs

Training Sessions and Learning events. 52 training sessions were conducted by the BSP through the industry associations or invited as resource speakers for BSFIs and other stakeholders from December 2018 to March 2021 with class size ranging from 30 - 90 participants per session, except for the webinars conducted with 70 to 828 participants from the financial sector. Topics covered include, among others, AML/CFT regulations on implementation of RBA on CDD process and on-going monitoring, ultimate beneficial ownership, IRA, TFS obligations of banks and the new ML/TF Risk Assessment System (MRAS). The training sessions also provide opportunities to discuss newly issued regulations/guidelines and emerging issues/concerns. Participants can freely ask questions or clarifications during these learning sessions to facilitate learning and understanding. The BSP also conducted three (3) training sessions and learning events to other stakeholders (i.e., school, international organizations, domestic/foreign regulators, and supervising authorities) in 2019 to discuss topics including AML/CFT regulations and risk assessment results, among others.

The BSP also conducted outreach activities specific for the MSB industry from 2019 to 2021 which already incorporated responsibilities and obligations of the MSB and their operators under the existing laws and regulations and the required preventive measures such as CDD, transaction reporting and record keeping and retention, among others. Sanctions for non-compliance are also given emphasis on the training. With the significant developments in AML/CFT landscape, the BSP will continue its AML/CFT outreach program in 2021. Key activities of the outreach program include cascading the results of SRA and providing learning sessions to clarify regulatory expectations on recent issuances. Please refer to table below for the remaining outreach activities from April to December 2021:

Coverage	Date(s)	Target Participants	Host
AML/CFT rules and regulations; UBO identification and verification; implementation of TFS; key emerging ML/TF/PF risks and typologies	April to December 2021 (9 sessions)	Relevant stakeholders such as the BSFIs and industry association members	BAIPHIL
AML/CFT rules and regulations; UBO identification and verification; implementation of TFS; key emerging ML/TF/PF risks and typologies	2 nd Qtr to 4 th Qtr (3 sessions)	Relevant stakeholders such as the BSFIs and industry association members	RBAP

- Continue outreach and education to FIs in relation to AML/CFT requirements, particularly MSBs and FIs supervised by SEC and IC.

- Significant outreach and education is also required across all DNFBP sectors, to ensure AML/CFT requirements are understood and DNFBPs are registered with AMLC.

- For lawyers and accountants, this outreach and education should include clarifying extent and scope of capture as covered persons, noting the exclusion in the AMLA from the definition of "covered person" of "lawyers and accountants acting as independent legal professionals in relation to information concerning their clients or where disclosure of information would compromise client confidences or the attorney client relationship", and how this impacts on the application of AML/CFT requirements set out in the 2018 IRR.

SRA Results, Key emerging ML/TF/PF risks and typologies; new AML/CFT rules and regulations	April – June 2021 (3 sessions)	Relevant stakeholders such as the BSFIs and industry associations, including in other regions outside Metro Manila	BSP	- For jewellery dealers and dealers in precious metals and stones, this should include clarifying extent and scope of capture as covered persons of those dealers that may never trade in metals or stones for transactions in excess of PHP1,000,000.

Regulatory Issuances. The evolving financial and AML/CFT landscape requires strategic response to ensure that the AML/CFT regulatory and supervisory frameworks are aligned with international standards and best practices and to promote the sustained resilience and integrity of the Philippine financial system, thus the continuous enhancement of supervisory framework and issuance of regulatory guidance and reminders. Likewise, robust surveillance activities identifying emerging risk, concerns or typologies resulted in the issuance of targeted regulatory guidance, surveillance reports and iAMLatest and i-Remit Express newsletters, which are thematic compilation of articles, regulations, international standards, best practices, and emerging areas of interest related to mitigation of ML/TF/PF risks.

Industry Discussions. The BSP Committee regularly holds meeting with industry associations to discuss AML/CFT matters, among others. Further, the AMLC regularly hosts quarterly meetings with the Association of Bank Compliance Officers (ABCOMP) and the different MSB associations to discuss the following: (a) Recent AMLC issuances; (b) Proposed AML/CTF legislation; (c) Updates on the Mutual Evaluation of the Philippines; (d) Compliance issues affecting their industries; (e) Recent trends and typologies; (f) Execution of Information Sharing Protocols (ISPs); and (g) Other AML/CTF concerns. These quarterly meetings allow the AMLC to regularly coordinate with representatives from the banking and MSB industry as well as hear feedback from these industries on their implementation of the AMLA, the 2018 IRRs and issuances of the AMLC. It also allows the AMLC to promote the execution of ISPs with these entities as a more effective and efficient means of sharing AML/CTF information.

Regular Examinations. The BSP's onsite examination process includes meetings /discussions with Management and Board of Directors to explain identified weaknesses and risks as well as clarify regulatory expectations.

The BSP also actively responds to clarifications or issues raised by the BSFIs and relevant industry associations.

B. Securities Brokers and Dealers, Associated Persons and Other Entities Regulated and Supervised by the SEC

The SEC implemented a comprehensive Outreach Program in 2020 for its CPs, competent authorities, other LEAs, FIs, NPOs, and other regulated entities. The outreach includes seminars, webinars, Focus Group Discussions, fielding of survey questionnaires, use of feedback mechanisms, responding to emails and phoned in queries, among others. The continuing outreach program is designed to enhance awareness on current and emerging ML/TF risks, the AML/CFT obligations of CPs under the AMLA, TFPSA and their IRR, regulatory issuances of the SEC and AMLC issuances, increase understanding of the concept of beneficial ownership and how to identify beneficial owners, access to beneficial ownership information by competent authorities, the risk based approach to AML/CFT and the implementation of the guidelines on targeted financial sanctions, emerging risks, and updates on sanctions lists, and typologies for money laundering and terrorist financing and recent reports or issuances of the FATF.

Training Sessions and Learning Events. Amidst the COVID-19 pandemic in 2020, the SEC was able to organize a total of seven (7) webinars in 2020 and three (3) webinars in February-March 2021 for SEC CPs via virtual platform. An increased awareness of the need to stay updated on AML/CFT risks and AML/CFT obligations is shown by the growing number of participants in the webinars being conducted. The growing number of webinar participants has prompted the SEC to increase the attendance capacity of its webinars to 500 persons per webinar.

Regulatory Issuances. The SEC has also launched its AML/CFT corner in the SEC website⁴⁷ to provide their CPs and the public with information on AML/CFT matters. To date, the AML/CFT corner contains the following information categories/folders:

⁴⁷ <https://www.sec.gov.ph/aml-cft/amf-irr>

- a. Laws, Rules and Regulations;
- b. Memorandum Circulars;
- c. Notices;
- d. Forms; and
- e. Frequently Asked Questions

Industry Discussions. In response to numerous requests from the public, SEC representatives have acted as resource speakers since 2018 in a number of seminars organized by other government agencies and private organizations to explain and clarify the new requirements under the AML/CFT rules and regulations issued by the SEC.

Regular Examination. During the conduct of on-site examinations of CPs, the SEC likewise took the opportunity to enhance the awareness and understanding of CPs of their AML/CFT obligations through a detailed discussion of the audit components, highlighting the CPs' obligations to register with the AMLC, report covered/suspicious transactions and make and maintain a record of all customer relationships and transactions, among others. The presentation to CPs also include information on new AML/CFT issuances of the SEC and other relevant information concerning the CPs.

Impact/Effectiveness:

The SEC's sustained outreach program contributed to an increase in the number of SEC CPs registered with the AMLC or whose registration have been updated in 2019-2020 and the submission of the revised/amended MTPP incorporating the provisions in the 2018 AML/CFT Guidelines for SEC CPs. CP have likewise increased their understanding of the RBA to AML/CFT and cognizant of the risk factors that they need to focus on as a result of the deficiency notices sent to them by the SEC. In one of the training events, 92.5% of the participants have answered that their companies have their own MTPP:

C. Insurance

Training Sessions and Learning Events. On 29 October 2019 and 27 November 2019, IC and AMLC Secretariat provided AML/CTF Training for ICREs to enhance their understanding of ML/TF risks to be able to effectively implement their AML/CFT obligations and to better comprehend the timely submission of documentary requirements under AMLA, Rules and Regulations, IC circular letters and issuances, and most importantly, to keep them abreast with trends and recent developments in combating ML/TF. The purpose of the training is to raise awareness of their obligation as ICREs under the AMLA. This is also an opportunity for IC to remind all ICREs of their obligation to register with the AMLC.

On 14 October 2020, IC through the AMLCG Division and as part of IC Insurance Consciousness Week, conducted a Webinar on AML/CFT regulations and its relation to Insurance Law aimed to educate the public on what IC is doing. The said webinar had been attended by 400 participants coming from various sectors, i.e . Life, Non-Life, Pre-Need, HMOs, MBAs, intermediaries, Insurance Brokers, and law students attended the said Webinar.

Industry Discussions. The IC acted as resource speaker in the Microinsurance MBA Association of the Philippines (MiMAP) otherwise known as RIMANSI's Online Governance and AMLA Workshop held on 21-22 October 2020. The IC resource speaker in the said Workshop imparted basic concepts, principles and practices in corporate governance including compliance, performance standards, governance scorecard and role of the Board in a mutual microinsurance context. The said workshop focused on the Insurance Commission Regulatory Compliance Requirements and Annual Corporate Governance Report.

On a regular basis, the IC also engages its covered persons at the industry level through meetings or dialogues with industry leaders and representatives of the regulated entities led by members of the Philippine Insurers and Reinsurers Association (PIRA-monthly), Philippine Life Insurers Association, Inc. (PLIA-quarterly), and Pre-Need Federation (bi-monthly). At other times, the IC also engages its covered persons on a bilateral level focused on specific concerns. IC's engagements with its covered persons provide opportunities for an exchange regarding specific issues that extend to compliance with AML/CFT regulations.

On 28 December 2020 IC-PLIA Joint Working Group (JWG) held a virtual meeting to discuss PLIA's AML concerns.

IC plans to conduct outreach program by mid June in 2021 which shall include consolidation of genetic results and best practices of companies subjected to compliance examination so that IC, in this way, may influence the behavior of all ICREs in a preventive manner.

D. Other DNFBPs

Training Sessions and Learning Events. In 2019, the AMLC conducted AML/CFT Trainings for DPMS, lawyers, accountants, and CSPs to increase awareness of their new obligations as CPs under the AMLA. These trainings also provided an opportunity for online registration by DNFBPs not yet registered with the AMLC, to register on-the-spot during the events. With the passage of R.A. 11521 in January 2021 which included real estate professionals as covered persons, the AMLC forthwith conducted AML/CFT trainings for this professionals via online platforms.

From 2020 to 2021, AMLC-accredited trainers have also conducted virtual AML/CFT trainings for a total of 2,610 representatives from 807 various covered persons, including 391 officers and staff from 26 pawnshops/jewelry dealers and dealers in precious metals and stones.

With respect to lawyers and accountants, it is emphasized in these trainings that they are considered CPs persons only if they provide the services specified under the AMLA, as amended by R.A. No. 10365, and the law respects the well-established principle of attorney-client privilege and similar client confidences. The RA. 10365 is a clear guidance that specifies the covered services that are being performed that would make lawyers and accountants, and company service providers, as covered persons under the AMLA as amended. They are considered CPs, only if they provide the following services:

- a. acting as a formation agent of juridical persons;
- b. acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons;
- c. providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; and
- d. (iv) acting as (or arranging for another person to act as) a nominee shareholder for another person;

Persons who provide any of the following services are also considered CPs under RA 10365:

- a. managing of client money, securities or other assets;
- b. management of bank, savings or securities accounts;
- c. organization of contributions for the creation, operation or management of companies; and
- d. creation, operation or management of juridical persons or arrangements, and buying and selling business entities.

Impact/Effectiveness:

Due to the quarantine imposed by the government brought about by the COVID 19 pandemic, on-site physical outreach activities has been suspended, however, the registration group of the AMLCS continuously address the registration and other AML/CFT concerns of CPs through electronic mails and phone calls. A combination of skeleton work force and work from home arrangement has been implemented by the Secretariat to ensure that operations in the Secretariat is continued despite quarantine protocols. These resulted to a slow yet steady improvement in the registration from this sector:

There may be thousands of lawyers and accountants in the country but not all of them are covered persons. Their universe vis-à-vis registration with the AMLC will never match and no precise number

can be given. Similar with law and accounting professionals, the AMLC does not have the actual number of jewelry dealers in operation. However, as a remedy to compel registration, the AMLC directed the other covered persons, like banks and other financial institutions, with whom these DNFBPs invariably transact, to strictly require from clients identified as DNFBPs, based on information obtained, to present their AMLC Certificates of Registration as part of their CDD. The banks and other covered persons will be required to explain if they fail to observe this requirement. This move, coupled with the DNFBP trainings being conducted by th AMLC and the queries being directly addressed via emails and phone calls, contribute to the increasing registration of DNFBPs.

E. Casinos

Learning Events. PAGCOR designed a training module⁴⁸ for AML/CFT basic knowledge and conducted training for the casino operators/key officers/auditors/compliance officers from the land-based casinos. In 2019, ten (10) batches of BAFC were conducted. As of March 2020, only two (2) training were conducted due to the pandemic. In 2021, two (2) batches were conducted for the POGOs AMLCOs and their key officers. In addition, PAGCOR and AMLC were invited to conduct an AML/CFT training to the BODs and Senior Management of two (2) Integrated Resorts in the first quarter of 2021.

Table 53:

<i>Training Dates</i>	<i>Number of Participants</i>
March 11-12, 2019	21
March 18-19, 2019	16
September 5-6, 2019	22
October 3-4, 2019	80
October 16-17, 2019	24
November 11-12, 2019	22
November 18-19, 2019	29
December 2-3, 2019	33
December 9-10, 2019	36
December 16-17, 2019	19
February 21-22, 2020	68
March 9-10, 2020	20
March 16, 2021	31
March 18, 2021	33
Total	454

PAGCOR and AMLC conducted a joint awareness seminar on POGOs. The seminars improved the understanding of POGOs in ML/TF risks to effectively implement their AML/CFT obligations. Relatively, PAGCOR conducted a preliminary inspection on all operational POGOs. This was aimed to prepare the POGOs for an actual onsite examination wherein the level of compliance and effectiveness of their AML/CFT system will be rated.

PAGCOR established its action plans for 2021 which include outreach activities for the different casino sub-sectors: see table under **RA (a)**.

⁴⁸ Basic AML Foundation Course (BAFC)

Impact/Effectiveness:

Considering the outreach activities before and during the pandemic, there is a significant effect on the number of POGOs registration in the AMLC Online Registration System (ORS).

Table 55:

Year	Total No. of CPs Registered
2018	4
2019	32
2020	42

11. The Philippines should rectify its TC deficiencies related to supervision, including:

- i. the scope gaps in the coverage of financing and lending companies and the lack of coverage of real estate.
- ii. PAGCOR's record keeping requirements and sanctions for financial transactions not yet covered under existing guidelines, and in relation to reliance of third parties/agents (particularly junket operators).

The Philippines has addressed the TC deficiencies in the MER. In its meeting on 11 March 2021, the SEC *En Banc* has approved to include all FC/LCs as CPs by the SEC for AML/CFT purposes. Further, the AMLA was further amended in 29 January 2021 by Republic Act No. 11521, which among others, included real estate developers and brokers as one of the CPs under the AMLA.

PAGCOR, in its Memorandum dated 30 January 2020, required all licensees to strictly comply with the five (5) year safekeeping requirements of all CDD records and transactions of customers, including those of the junket players. Further, PAGCOR, on 16 March 2020, issued Regulatory Order No. RO-2020-03-001 addressed to all casinos, which includes a provision on record-keeping requirements all CDD records and business correspondence, and results of any analysis undertaken and casino transactions of customers for at least five (5) years.

Details of the action taken to address the above TC deficiencies are as follows:

Scope Gaps of the Coverage for Financing and Lending Companies (FCs/LCs)

As discussed in **RA 2** of this IO, the SEC now includes all FCs/LCs as CPs for AML/CFT purposes. A Memorandum Circular (SEC MC No. 4, Series of 2021) amending certain provisions of SEC Memorandum Circular No. 16, Series of 2018 (2018 AML/CFT Guidelines)⁴⁹ and SEC Memorandum Circular No. 29, Series of 2020 (Guidelines on the Submission and Monitoring of MTPP) was issued by the SEC on 30 March 2021. The new Circular further requires all FCs/LCs to register with the AMLC and submit their MTPPs to the SEC within two (2) months from the effective date of the Circular.

The said entities will however be subjected to risk-based supervision by focusing supervisory resources only on areas identified to be of higher risk for ML/TF. This will enable the SEC to ensure that all FCs/LCs are effectively supervised by allocating its resources only in areas where it is most needed.

I. Lack of Coverage of Real Estate

Paragraphs 1-4, the AMLA, as amended by virtue of R.A 11521, took effect on January 2021 includes Real Estate Developers and Brokers.

As defined in Sec. 3(m), "Real estate developer refers to any natural or juridical person engaged in the business of developing real estate development project for the account of the developer and

This recommended action is largely addressed.

- Address deficiencies in the AMLA and the CIRR relating to scope of capture of casinos as covered persons (see c.22.1(a)).

⁴⁹ Under SEC Memorandum Circular No. 16, Series of 2018, financing companies and lending companies are considered as covered persons only if such companies fall under any of the following conditions: (a) with more than 40% foreign participation in its voting stock; or (b) with paid-up capital of Ten Million Pesos (PhP10,000,000.00) or more.

offering them for sale or lease.”

Sec. 3(n) “Real estate broker refers to a duly registered and licensed natural person who, for a professional fee, commission or other valuable consideration, acts as an agent of a party in a real estate transaction to offer, advertise, solicit, list, promote, mediate, negotiate or effect the meeting of the minds on the sale, purchase, exchange, mortgage, lease or joint venue or other similar transactions on real estate of any interest therein.”

III. PAGCOR's record keeping requirements and sanctions for financial transactions not yet covered under existing guidelines, and in relation to reliance of third parties/agents (particularly junket operators).

An advisory⁵⁰ dated 31 January 2020 addressed deficiencies in CDD rules and record-keeping requirements on casinos. It enjoined all licensees to strictly comply with the five (5) year safekeeping requirements of all CDD records and transactions of customers, including those of the junket players. Further, a provision⁵¹ in the issued AML/CFT guidelines for casinos covers the record-keeping requirements. Under this regulation, casinos are required to keep all CDD records and business correspondence, and results of any analysis undertaken and casino transactions of customers for at least five (5) years. The form of records is sufficient to permit reconstruction of individual transactions. Covered and suspicious transactions are required to be submitted to the FIU within the period required.

On sanctions for financial transactions, a provision⁵² in an issued regulatory order explicitly states that PAGCOR and the AMLC shall impose administrative sanctions upon any casino for any violation of the regulatory order, AMLA, and its CIRR, for failure or refusal of the casino to comply with valid orders from PAGCOR or AMLC, Resolutions and Memorandum Circulars and other applicable issuances.

Fines shall be determined by PAGCOR which shall be commensurate as well as appropriate for a specific violation of the casino. In no case shall be the fines be more than Five Hundred Thousand Pesos (PHP 500,000.00) per violation and shall the aggregate fine exceed 5% of the assets of the respondent casino.

The current regulatory framework of PAGCOR provides administrative penalties and sanctions, like suspension or revocation of license, against casinos found to be performing prohibited acts including violation of any conditions attached to the grant of provisional/regular license.

With regard to the reliance of third parties/agents, particularly junket operators, a provision⁵³ in a regulatory order states that casinos may rely on third-party financial institutions and other DNFBPs to perform elements of CDD measures. However, the ultimate responsibility for CDD measures remains with the casino relying on the third-party. Casinos are required to (a) immediately obtain necessary information concerning the CDD measures, (b) take steps to satisfy itself that copies of the identification data and other relevant documentation relating to CDD requirements will be made available from the third-party upon request without delay, and (c) satisfy itself that the third-party is regulated, and supervised or monitored for, and has measures in place for compliance with, CDD and record-keeping requirements.

**JG
Comments
& Analysis**

There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 3.

⁵⁰ PASSED Advisory 2020-001, Guidance on the Conduct of Customer Due Diligence, reporting of Suspicious Transactions, and Recordkeeping

⁵¹ Section 6 of Regulatory Order No. 2020-03-001 “AML/CFT General Guidelines for Casinos”

⁵² Section 16 of RO 2020-03-001 “AML/CFT General Guidelines for Casinos”

⁵³ Section 5A of RO 2020-03-001 “AML/CFT General Guidelines for Casinos”

The JG identified recommended actions 1, 5, 8 and 10 as key recommended actions as they were considered to be key since they address the fundamental expectations of developing and applying a risk-based supervisory model, identifying illegal remittance operations, ensuring proportionate and dissuasive sanctions are applied for non-compliance and that there is outreach to relevant sectors so they are aware of their AML/CFT obligations.

Recommended action 1 is key and is partially addressed. Assisted by the BSP, the SEC, IC, PAGCOR and AMLC have commenced a programme of implementing risk-based supervision. While frameworks for risk-based supervision have been developed, these are at varying levels of implementation. For the SEC, IC and PAGCOR, implementation has commenced but needs to be progressed and developed. For AMLC (as the supervisor of DNFBPs) and for CEZA/APECO, implementation is only at a very early stage.

Recommended action 2 is largely addressed. Steps have been taken to analyse sector vulnerability, improve and update understanding of ML/TF risks, particularly relating to cross sector issues, cash and international transactions. The BSP has completed sector risk assessments relating to cash, cross-border and cross-sector transactions and TBML, financial inclusions product and together with the AMLC, the MSB sector. For the casino sector, and building on the 2018 sector risk assessment, PAGCOR, AMLC and AGAs have undertaken subsector assessments relating to internet-based casinos and e-games, e-bingo and poker. The SEC has recently completed a sector risk assessment for the securities sector. However, the IC has not undertaken a risk assessment for the insurance sector.

Recommended action 3 is partially addressed. The Philippines has set out an increased use of coordination meetings, updating of MOAs and improvements to exchange of risk information between the AMLC, supervisors (particularly BSP) and LEAs. This includes examples of 1) AMLC sharing information with the BSP relating to banks and MSBs, and compliance findings from the BSP to AMLC, 2) sharing within AMLC, 3) sharing between SEC and AMLC, BSP or LEAs, 4) sharing between IC and AMLC and 5) sharing between PAGCOR and AML/BSP or LEAs. This has included CTR and STR analysis by the AMLC. Further exchange of risk information to guide priorities and to support conduct of supervision should be undertaken.

Recommended action 4 is partially addressed. The deficiencies identified in the MER relating to FIs supervised by SEC and IC remain, although IC is in the process of implementing measures to prevent criminals as ultimate beneficial owners. PAGCOR have implemented additional measures to consider underlying beneficial ownership or criminality for casinos. Deficiencies relating to other DNFBPs have not been addressed. AML/CFT controls have not been directly extended to junket operators. For junket operators therefore, the only controls are the requirement that casinos are required to submit a warranty or certification that a probity check is (i) is of good repute, having regard to character, honesty and integrity (ii) is of sound and stable financial background and (iii) has a consistent track record of compliance with the legal and regulatory requirements applicable to it, whether in the Philippines or elsewhere. No information has been provided in relation to the other DNFBP sectors.

Recommendation action 5 is key and is partially addressed. The BSP has increased its manpower by 12 for supervision and surveillance of the MSB sector. It has also enhanced its coordination with local government units (LGUs) to ensure business permits are only issued to registered MSBs and that unregistered MSBs are identified and reported. Due to this, and other market intelligence including information from AMLC, some unregistered MSBs have been identified and been issued warning letters for operating while unregistered. Some unregistered MSBs have also ceased to operate or been accepted for registration. However, there are approximately 1,000 LGUs that are not submitting reports to the BSP in relation to MSBs. Further steps are required to ensure that unregistered MSBs (since the re-registration requirements and consolidation of the sector were implemented) are not able to operate. This requires further coordination with LGUs, use of other intelligence including of CTR/STR information from banks. Further steps are also required to ensure that illegal MSBs that are unregistered and do not meet fit and proper requirements, in particular MSBs that are evading the requirement to register with BSP, are identified and sanctioned.

Recommendation action 6 is largely addressed. To resolve the conflict of interest, PAGCOR and AMLC have entered a MOA. Under the MOA, all AML/CFT compliance monitoring of PAGCOR owned casinos is undertaken by AMLC. In relation to junkets, amendments to the AML/CFT Regulatory issuance have been made that restrict the ability of casinos to rely on junket operators as a counterparty or intermediary for CDD purposes in relation to junket participants. The regulations now clearly restrict the junket operator to only being an agent of the casino to conduct CDD. However, noting the junket operator is itself also a customer of the casino, concerns remain regarding the application of AML/CFT controls relating to junkets.

Recommended action 7 is addressed. Since the MER the decision was taken that CMIC will no longer engage in AML/CFT supervision. Rather, it will only engage in prudential supervision. All AML/CFT supervision of brokers and dealers is now undertaken by the SEC itself, through the AML Division created in 2018.

Recommended action 8 is key and is partially addressed. Since the MER, the AMLC has updated its Rules on Procedure in Administrative Cases (RPAC) which have replaced the previous Rules on Imposition of Administrative Sanctions (RIAS). This provides for graduated penalties, which have increased, that are based on the risks involved, value and gravity of offence and size of the covered person. The AMLC has also amended its policy for referrals from the BSP. The new policy is more risk based, taking into consideration the gravity of violations and findings, risk-ratings and other prioritisation criteria. Only referrals relating to vulnerable or poor AML/CFT compliance are

accepted. Similar policies are intended to be updated for referrals from SEC and IC, who since the MER have also both imposed sanctions on covered persons for AML/CFT compliance. No sanctions have been imposed for AML/CFT non-compliance on any DNFBPs to date. An action item on this recommended action was combined with other action items in IO.3.

Recommended action 9 is largely addressed. The BSP reports several thematic reviews undertaken as part of its supervision (mostly relating to universal banks) during 2020 to supplement its inspections, with corresponding guidance or education provided. Thematic reviews include customers that are online gaming businesses, illegal investment, correspondent banking, human child trafficking, TFS relating to both TF and PF. The BSP is increasingly making use of thematic examinations to address sectoral risks from ML/TF.

Recommended action 10 is key and is partially addressed. The BSP, SEC and IC each undertake outreach and education to their respective sectors. Similarly from PAGCOR and AMLC in relation to the casino sector, although many small casinos are yet to register with AMLC to be able to comply with AML/CFT reporting obligations. For the vast majority of other DNFBPs (apart from those registered with AMLC) there has been limited outreach to date and a lack of clarity of the extent and scope of capture as covered persons. For real estate agents, considering they are new to AML/CFT capture, outreach is commencing well.

Recommended action 11 is largely addressed. The scope gaps for lending and financing companies and real estate agents has been addressed. Similarly in relation to record keeping requirements for financial transactions in casinos and restrictions on junket operators acting in any capacity other than as agent of a casino. However, the underlying deficiencies in the AMLA and the CIRR (as per c.22.1(a)) remain.

Immediate
Outcome 4

Moderate

Recommended Actions from MER:

- 1. Extend AML/CFT controls directly to casino junket operators, or strictly enforce agency requirements to ensure appropriate agreements are in place, and are subject to adequate supervision.**

Extension of AMLC/CTF Controls to Casino Junket Operators

AML/CTF controls are also applicable to casino junket operators under the Philippine AML/CFT Framework.

Junket operations are marketing strategies of host casinos through agreements/ contracts. It is an arrangement between a casino and a junket operator to facilitate a period of gambling by one, or a group, of foreign player(s) at the casino. The junket operators will identify prospective junket players who will generally be residents of a foreign country. In return for bringing the player(s) to the casino, the casino pays the junket operator a commission based on the collective gambling activity of player(s) on the junket.

Since casinos are captured as the covered person under the AMLA, they are held liable for any violation/s of their respective junket operators concerning the complete set of AML/CFT obligations on casinos. Subsequently, under the Casino Regulatory Manual, a Licensee or holder of a Provisional License/Authority to Operate shall be held liable for acts or omissions which are violations of the permit or contrary to the provisions of said document and regulatory orders issued by PAGCOR, including violation of the AMLA, the CIRR, and all related issuances by the AMLC.

All casinos that are regulated by the PAGCOR, are required to comply with their CDD and Reporting obligations as provided under their respective Money Laundering and Terrorism Financing Prevention Program (MTPP), CDD Guidelines, PAGCOR Casino Regulations, the CIRR and the AMLA.

As regards to junket operations, considering the additional risk posed by the arrangement, additional ML preventive measures were put in place, casinos are obliged to submit to PAGCOR (1) a Notification Form (Form 34) containing information such as names of Licensee and Junket Operator, their addresses, date and period of the agreement, commencement of junket operations, number of gaming tables, and rolling commission program employed for that particular junket group, and on a monthly basis, a report listing the names of all its junket operators. For the directors and key officers directly involved in the day-to-day operations of the junket, their names, date and place of birth, nationality and copy of passports are also submitted to PAGCOR. This requirement allows PAGCOR to conduct market entry control process on junket operators which ensures that junket operators have no criminal records.

Casinos are also mandated to keep a record of every junket operator which shall include (a) Company registration/incorporation papers/business registration for sole proprietorship and partnership; (b) Junket Agreements; (c) List of shareholders, directors, and key officers with name, address of the usual place of residence, contact number, date of birth, place of birth, age, nationality and

This recommended action is partially addressed.

Authorities should:

- Increase examination in the supervision of casinos of their use of agents to strictly enforce AML/CFT requirements, in particular relating to junket operators and junkets participants and the mitigation of associated ML/TF risks by casinos.
- Ensure that ML/TF risks associated with junkets are mitigated in the Philippines casino sector.

photocopy of passport; and (d) Address in the Philippines.

Casinos are also required to maintain a junket player database containing the identification information of junket players (passport data) as required under the CRM. Information from the junket player database goes to the same CDD measures and screening as regular customers of the casinos. Casinos also monitor the CDD efforts of junket operators based on their written agreement. The Junket Player Database shall be populated/uploaded by the Licensee by means of an automatic capture device (e.g. passport scanner/reader) that will collect all the passport information required.

Uploading of data into the Junket Player Database shall only be done by personnel duly authorized by the Licensee and recognized by PAGCOR as such. The Licensee shall submit the names of its authorized personnel to the PAGCOR Monitoring Team copy furnished Licensing Department of PAGCOR.

This process, ensures that all junket players are identified and that appropriate CDD measures are undertaken by the Casino licensee, including record keeping of all relevant transactions sufficient to re-create all financial transactions of a junket player. These records are subject to the regular AML/CFT examination of the PAGCOR and AMLC.

PAGCOR has also issued CDD Guidelines for Land-based Casinos. CDD requirements are applicable to all casino customer, regardless of type, which includes junket players.

//. Strict enforcement of requirements to ensure appropriate agreements are in place, and subject to adequate supervision

There are PAGCOR Monitoring Teams (PMT) assigned 24/7 in casinos. The PAGCOR monitoring team, in addition to their regular function to oversee gaming operations, are also ensuring that AML/CFT regulations are being performed. While they are monitoring the gaming activities of junket players, they are also checking whether appropriate Covered Transaction Reporting are being done and appropriate CDDs are being undertaken. The monitoring team also validates actual transaction records based on their real time monitoring of gaming activities for high-risk players.

The PMT relays their observation to the PAGCOR AML Supervision and Enforcement Department (PASED) for recording and basis of future AML/CFT compliance checking.

To ensure that Casinos are complying with their CDD obligations in relation to junket players, the PMT, has full monitoring access in the Junket Player Database for purposes of determining the eligibility of the Junket Player and the Casino Management System including the Junket program and player rating modules for purposes of determining the arrival date of the Junket Player.

The Licensee notifies immediately the PAGCOR Monitoring Team:

- of the Junket Player's arrival date and show proof thereof (e.g., Junket Program enrolment, player rating and/or surveillance coverage), and;
- of the enlistment of the Junket Player into the Junket Player Database pursuant to paragraph (g) 1. above, upon which the PAGCOR Monitoring Team shall write down the date of enlistment in the Junket Players Eligibility Monitoring Form (Form No. 65).

Aside from physical inspection and determination of GGR, PMT has a dedicated monitoring room equipped with CCTV monitoring equipment that is compliant with PAGCOR's requirement for full coverage/ monitoring of the casino operations, and that is capable of recording all video taken by the cameras. The recordings of gaming activities are also being used by the PASED in validating transaction recording and compliance with the CDD measures related to junket players.

Through regular offsite and onsite supervisory engagements, such as on-site inspections with a particular focus on junket operations. The PAGCOR AML/CFT Inspection Team (1) assesses the compliance of casinos to the requirements of the AMLA, which includes all the product and services of the casino such as junket operations, gaming operations, treasury operations, and the like; (2) Monitors and reports on the effectiveness of the casinos' management of its exposure to ML/TF; (3) Conducts regular/ spot inspection on the AMLA implementation; and (4) Identifies and observes other issues or matters that may have an adverse effect on the casinos' overall compliance to the AMLA, its CIRRs and other relevant issuances. (Please refer to the response in IO3-d (*market-entry controls for junket operators*), and IO 3-k (*record keeping requirements*)).

As of January 2021, eight (8) land-based casinos have junket operations. Seven (7) of them have already undergone compliance checking. The AML/CFT Inspection Team assessed the quality of risk management, performed verification of sampled accounts and transactions, and rendered conclusions about the integrity of the system as well as the level of compliance with the AMLA, its CIRR, and other relevant issuances. Hereunder is the summary of casinos with junket operations as of January 2021:

Casino	Number of Junket Operators
Casino C*	17
Casino S*	11
Casino R*	11
Casino O*	20
Casino W*	1
Casino Ro*	2
Casino St	1
Casino P*	6
Total	69

**Undergone on-site examination*

Of the 8 casinos with junket operations, 7 had undergone examination as of January 2021 which covers AML/CFT measures implemented by the host casinos on their junket operators. The common observation among the casinos was the agreement between the host casino and junket operator needs to have AML/CFT provisions. Three (3) of the 7 casinos were recommended to include AML/CFT provisions in their junket agreements. In their submitted progress reports, all the three (3) casinos had included the AML/CFT provisions in their agreements with the junket operators.

2. The Philippines should include real estate agents as covered persons under the AMLA.

On 30 January 2021, Republic Act (R.A.) No. 11521 [2021 AMLA Amendments] took effect, which amends the AMLA 2001. Section 3 defines covered persons (CPs) which includes Real Estate Developers and Brokers. Based on the 2021 AMLA Amendments, the AMLC issued AMLC Regulatory Issuance (ARI) No. 1, Series of 2021, which amended the 2018 Implementing Rules and Regulations (2018 IRR) of the AMLA to likewise cover Real Estate Developers and Brokers. Please see our responses in Recommended Action k. of IO 3 for more details.

This recommended action is addressed.

3. Implement measures to ensure:

- i. Universal and commercial banks should continue to implement a RBA and further improve AML/CFT measures in relation to ongoing CDD and monitoring, understanding source of funds and beneficial ownership.
- ii. MSBs should maintain a RBA as they embed their newly established MLPPs. Competent authorities should continue to take steps to ensure that previously registered MSBs are no longer operating and apply appropriate sanctions to any found to be doing so. Competent authorities should also take steps to identify and apply appropriate sanctions to any MSBs, such as smaller hawala operators, that have never been registered.
- iii. Other FIs should ensure that they understand their ML/TF risks, implement a RBA and their AML/CFT obligations, including the requirement to report CTRs/STRs.
- iv. FIs should apply reduced due diligence (where lower ML/TF risks are identified) to promote financial inclusion.
- v. FIs should continue to improve their understanding and implementation of TFS obligations.

Banks in the Philippines continue and enhance processes to implement RBA and improve AML/CFT measures in relation to ongoing CDD and monitoring, understanding source of funds and beneficial ownership, as follows:

This recommended action is partially addressed.

- Banks, MSBs and other FIs should continue to improve their RBA and implementation of AML/CFT requirements.

- Ensure that unregistered MSBs (since the re-

a. On RBA:

To implement RBA, universal and commercial banks (UKBs) conduct periodic institutional risk assessment (IRA) at least once every 2 years or as often as the Board and senior management may direct, depending on the level of risks identified in the previous IRA, or other relevant AML/CFT developments, that may have an impact on the bank's operations (i.e. emerging risks identified in the NRA/SRA). As of March 2021, 43 out of 46 UKBs (representing 91 percent of the Philippine Banking System [PBS]) have conducted their IRA while the rest are in process of completing the same. The results of sectoral and national risk assessment and other reports issued by the AMLC and BSP are being considered in IRA. Quantitative data and qualitative information on the banks' products/services, customers, delivery channels, and geographical location were used in their IRA.

Meanwhile, to guide in the RBA to implementing CDD, all UKBs have adopted and implemented customer risk profiling methodology (RPM) (31 of which are automated) which considers key factors such as nature of business, employment, service/products, source of funds, country or origin, negative information, among others. As part of RBA to implementing AML/CFT measures, the customer risk profile will drive the conduct of applicable due diligence, such as reduced due diligence (RDD) for low-risk customers, and enhanced due diligence (EDD) for high-risk customers.

b. On Ongoing CDD and monitoring

Ongoing CDD of banks include updating the customer information and profiles based on risk and materiality, to ensure adequate additional responses to higher risk clients and transactions may be taken by the bank. All UKBs have adopted processes and procedures for their ongoing CDD and monitoring. They have also implemented electronic monitoring system for AML/CFT. Some of the improvements noted include the following:

- Customers with average and lower risk profiles are subjected to different intensity of ongoing monitoring commensurate to their risk profile. For example, updating of customer information is beyond one year [two years for normal risk (34 out of 40 UKBs or 85 percent) and 3 years for low risk (31 out of 40 UKBs or 78 percent)] unless with triggers identified during transaction monitoring. These triggers also warrant an updating of the risk profile of the clients. The ongoing monitoring depends on risk and materiality of the clients. Low risk clients are subject to monitoring based on meeting certain parameters, while high risk clients are subject to stricter scrutiny.
- 38 out of 40 UKBs or 95 percent adopt electronic AML system. This is being complemented by manual monitoring. In this respect, UKBs pay particular attention to the trainings of the bank personnel in spotting STR. UKBs have set red flags that would warrant front liners to report STs to their respective officers.
- Reassessment of customer risk profiles to high risk based on information gathered during monitoring, such as negative news or filing of STRs. Customers involved in STRs are subject to enhanced monitoring of accounts (34 out of 40 UKBs or 85 percent) and transactions and included in the watchlist database (32 out of 40 UKBs or 80 percent). UKBs set trigger activities such as (i) change in information (i.e. source of funds, PEP, related parties, etc.), (ii) negative news, (iii) STR (i.e. filed and for investigation), (iv) sudden spike of transactions or change in account activities, (v) use of new product/service, among others.
- UKBs gather the necessary supporting document, such as proof of source of fund, conducting public searches and negative information searches to support profile of the client, particularly those exhibiting large and frequent transactions. Banks close the accounts in case of failure to provide supporting documents or if transactions are unexplained or beyond their risk appetite. The number of closed accounts and prohibited accounts due to STR increased by 82 percent from 3,252 in 2017 to 5,932 in 2019. For the period January to June 2020, the number of closed accounts has reached 4,555 which is already 76 percent of the aggregate closed accounts for the whole 2019.
- Adoption of additional parameters for high-risk clients/emerging risk in the AML/CFT electronic monitoring systems (31 out of 40 or 78 percent). For example, certain alert scenarios are set to capture significant transactions which apparently deviate from their profile such as those of "sleeper accounts", change in nature of business to high-risk activity, and expansion of operations to high-risk jurisdictions. Parameters in response to emerging risks are also adopted such as scenarios to detect OSEC.
- Transaction limits are recalibrated to trigger further due diligence on transaction that breached the limits. For example, thresholds for cross-border transactions of clients.
- 31 out of 40 UKBs or 78 percent have adopted risk-based approach in alerts disposition. This means that banks provide more resource, allocate more time, and expedite the process of disposing alerts that are regarded by the bank as high risk. There is an average increase of 5 to 10 personnel (ranging from 17% to 47% increase) in the AML units/departments of some UKBs. Meanwhile, the riskiness of the alerts is based on the set parameters such as the risk profile of the clients involved (client segmentation, those that were already subjected to previous STR filing, negative news), the riskiness of the product, transaction amount, and crimes involved.

c. Understanding source of fund

Banks continuously improve process of understanding the source of funds of customers. The following are some current best practices of Philippine banks in understanding source of funds:

registration requirements and consolidation of the sector were implemented) are not able to operate. This requires further coordination with LGUs, use of other intelligence including of CTR/STR information from banks.

- Ensure that illegal MSBs that are unregistered and do not meet fit and proper requirements, in particular MSBs that are evading the requirement to register with BSP, are identified and sanctioned.

- FIs should develop understanding and implementation of obligations under the new frameworks for TFS relating to terrorism.

- UKBs obtain information on source of fund, source of wealth of their clients and other factors, e.g. the amount of funds to be deposited or the size of transactions, and regularity or duration of the transaction, which are mandatory information to assess customer profile. To ensure this information is obtained and considered, UKBs adopt automated system (26 out of 40, 65 percent) with source of funds as required field, or a manual review system (i.e., dedicated account opening personnel separate from marketing officers [33 out of 40, 83 percent], existence of maker-checker [39 out of 40, 97.5 percent], have second level reviewer (70 percent) is embedded in the account opening process.
- Nature of businesses, capital information, and financial statements of juridical persons are scrutinized to ensure that their transactions are consistent with their profile. For high-risk clients, the presentation of audited financial statements and/or ITR is required.
- Comparing historical transactions vis-à-vis the profile of the customers. Any transaction that deviates from customer's recorded profile requires the presentation of source of fund from the client (e.g. proof of deed of sale, ITR, among others).
- UKBs pay closer attention to remittance transactions and require the submission or disclosure of source of fund for their remittance/wire transfer transactions. (29 out of 40 requests for proof of source of fund, 73 percent)
- Comparing source of funds with the expected and actual transactions of clients.

d. On identification of ultimate beneficial owners (UBO)

UKBs gather the UBO upon account onboarding and require the customer to update the same based on review cycle or as necessary as a result of transaction monitoring. Banks obtain information on UBO as mandatory requirement before account opening, with the use of automated system or quality assurance/review as mechanisms to ensure implementation (see bullet 1 under item c above on understanding source of fund). Further, part of verification process is to verify customer information and beneficial information based on the presentation of IDs, corporate registration documents (37 out of 40, 92.5 percent UKBs), and beneficial information searches such as those from the Securities and Exchange Commission (21 out of 40, 52.5 percent UKBs), Philippine Stock Exchange, Department of Trade and Industry and database from third party service providers. 33 out of 40 banks, also mentioned that they identify and verify the UBOs, thru internet searches. Most banks consider their clients that have complex beneficial ownership information as high risk, thereby subjected to EDD and monitoring.

The actions initiated in items a to d above resulted in concrete improvements such as increase in the number of STRs for the period 2018-2020. As noted, there is a 57.0 percent increase in the number of STRs filed by UKBs from 329,579 to 516,226 cases for years 2018 to 2020, respectively, while 302,514 cases were reported for the first quarter of 2021 alone. Moreover, based on the onsite examination, UKBs demonstrated improvements in the areas of CDD, UBO identification and verification, transaction monitoring, and alerts disposition, among others. We highlight sample cases of eight (8) UKBs that have implemented reforms in their AML/CFT framework to improve the conduct of risk based CDD, including obtaining source of fund, identification and verification of UBO and ongoing monitoring.

ii. MSBs should maintain a RBA as they embed their newly established MLPPs. Competent authorities should continue to take steps to ensure that previously registered MSBs are no longer operating and apply appropriate sanctions to any found to be doing so. Competent authorities should also take steps to identify and apply appropriate sanctions to any MSBs, such as smaller hawala operators, that have never been registered.

a. MSBs' application of RBA

MSBs' increasing understanding of and compliance with AML/CFT obligations are manifested in the results of the RBA onsite examinations conducted from 2017 to March 2020. This trend is expected to continue as MSBs are apprised and reminded of their obligations under the AMLA, as amended, not only during the onsite examinations, but in conjunction with BSP's outreach activities. Shown in **Table 1 of Annex IO 4 - 2** are six (6) entities that were rated "Sound (4)" or "Adequately Sound (3)" in their first onsite examinations. In addition, since the last examination, major MSB operators have improved their understanding of the attendant risks in their respective business model and business operations. They also applied customer categorization in terms of risk and tiering of transactions in terms of amount. As a result, said MSB operators were able to focus their resources on the types of customers and transactions/activities that posed higher risks. For instance, the MSB operators with wide network and international operations and use agents as one of the delivery platforms are well aware of their vulnerabilities to the proceeds of crimes such as OSEC, online scam, romance scam and the likes. To mitigate such risk, this class of MSB primarily strengthened their customer and transaction monitoring and agent's accreditation and oversight, among others. On the other hand, domestic remittances with value of P5,000 and less are generally classified as low risk by this type of MSB thus subject only to reduced due diligence.

Another class of MSBs are those that deal mostly with business entities and generally transact in high value. This class of MSBs are also aware of their high exposure to ML related to corruption, smuggling, drugs, etc. Thus, this class of MSB has strengthened its customer due diligence as the primary preventive measures, along with transaction monitoring.

The cited improvement in risk understanding and strengthened implementation of preventive measures have been noted during the conduct of the onsite examination, the reason the composite ratings of 18 MSBs and Pawnshops with MSB functions were upgraded due to improvements in their overall ML and TF risk management and control framework, relative to size, complexity, and risk profile. These entities exhibited positive developments and/or enhancements in the efficiency of Board of Directors and Senior Management oversight, soundness of AML Policies and Procedures, robustness of internal controls and audit, and/or effectiveness of implementation. Essentially, these are the four (4) components of the AML Risk Rating System (ARRS) adopted by the BSP as basis for assessing the ML/TF risk management framework of BSFIs, including MSBs.

The increasing trend of STR/CTR filing may show the effective customer/transaction monitoring - as more resources are devoted therein, and increasing level of compliance by the MSB industry with its AML/CFT obligation:

Transactions Filed to AMLC*	2017	2018	2019	2020	Total
Covered Transactions	119,508	171,264	227,747	193,799	712,318
Suspicious Transactions	27,667	122,528	196,505	435,699	782,392
Total	147,175	293,792	424,252	629,498	1,494,717
*Including EMI					

The above improvements are results of appropriate interventions and enforcement actions instituted across the risk-based supervision cycle. Weaknesses and findings in the AML compliance framework are identified and discussed during exit conference or post-examination meetings with BSFIs' Board of Directors and Management. The weaknesses, findings and BSFIs' replies are considered in assigning the composite ratings using the ARRS, as well as in determining the appropriate directive/remedial action to be taken, and/or supervisory enforcement/administrative sanction or monetary penalty that may be imposed on the BSFI.

The BSP continued to implement the RBA to BSFIs as well as deepened its understanding of the MSB industry in terms of MSBs transactions and operations despite the health risk posed by the pandemic through enhanced off-site activities. Among the activities performed by the BSP in lieu of on-site examination was the conduct of trend analysis of MSBs volume and value reports to determine MSBs that are operating beyond their allowed transaction limits. Result of said activity shall aid in the prioritization of on-site examination/verification upon its resumption. Industry level surveys were likewise conducted to (i) determine MSBs compliance with their AML/CFT obligations; (ii) gather information on MSBs existing AML/CFT control, policies and procedures; and (iii) gather information on the impact of COVID-19 on MSBs, particularly on its strategic direction, financial condition, overall operations and the possible changes in the MSBs business model as a result of the pandemic. Finally, close coordination with the AMLC were performed to identify high risk entities/entities based on the CTR/STR submission of covered person for prioritization of examination.

b. Steps taken and sanctions against unregistered or illegally operating MSBs

Please refer to the recommended action IO 3-E with regard to the efforts to identify illegal remittance operations (e.g., hawala) and apply proportionate and dissuasive sanctions.

iii. Other FIs should ensure that they understand their ML/TF risks, implement a RBA and their AML/CFT obligations, including the requirement to report CTRs/STRs.

a. Other FIs under BSP supervision:

Understanding the overall ML/TF risk. Based on available quantitative and qualitative data on other FIs (representing 5.0 percent of the Philippine Financial System) under BSP supervision which

includes non-savings and loans associations (NSSLAs), pawnshops (PSs), trust entities (TEs), 2 NSSLAs (40 percent), 4 TEs (100 percent), 11 PSs (50 percent), have undertaken their IRA (i.e., involvement in ML cases, new emerging risks identified in the NRA/SRA, among others).

Implementation of RBA. Other FIs (100 percent TEs, 81 percent PSs, 40 percent NSSLAs) have adopted and implemented measures to mitigate the risks identified. The risk mitigation includes enhancing their AML/CFT policies and procedures in line with the risks identified, strengthening corporate governance, implementing compliance testing and audit, applying RBA on CDD, conducting transaction monitoring and enhanced due diligence to high risk products/services/customers/geography, among others.

Improvements as noted by supervisor. The aforementioned improvements were observed by supervisor which translated to either an adequate (rating of 3) or sound (rating of 4) of other FIs' ML/TF risk management [NSSLAs (64 percent), trust entities (60 percent), affiliated NBFIs {(i.e., leasing, securities) (75 percent)}]. The ML/TF Risk Assessment of the BSP takes into consideration all of those areas, from identification of risk to adoption of policies and procedures and effective implementation.

AML Reporting Obligation. Understanding of their AML/CFT obligations is demonstrated, among others, by the noted *increase in the number of STR relative to other FIs under BSP supervision*. STRs filed by other FIs to the AMLC has remarkably increased by 877 percent from 2017 to 2020. For the 1st Qtr. of 2021 alone, the increase has reached by 596 percent from 2017. On the other hand, there was a 17.0 percent increase in CTRs filed by other FIs from 2017 to 2020. This shows that they are progressively learning to identify various threats that are trying to exploit the industry.

Transactions Filed to AMLC	2017	2018	2019	2020	1 st Qtr. 2021
Covered Transactions	540,183	618,258	802,883	614,146	142,242
Suspicious Transactions	47,119	209,613	273,438	460,586	328,135

Regular Coordination with MSBs. The AMLC regularly coordinates with MSBs through quarterly meetings with MSB associations, particularly the Association of Remittance Companies Compliance Officers (ARCCO) to keep MSBs aware of AML/CTF risk areas, recent amendments to the AMLA, as well as new AML/CTF obligations under the recent rules and regulations issued by the AMLC. Said meetings are attended regularly by approximately 80 representatives from the AMLC and the MSBs.

To assist members in understanding their AML/CFT obligations and risks, ARCCO organized a webinar on Online Sexual Exploitation of Children (OSEC) on 9 October 2020. The webinar was attended by 100 participants from MSBs. The AMLC Secretariat Executive Director discussed the OSEC studies of the AMLC. Based on studies conducted by the AMLC, MSBs are identified as the predominant channel for funds related to OSEC. Notably, there has been significant increase in OSEC-related STRs filed by MSBs – from 59.29% of total OSEC STRs in 2015-2018, to 97.32% in 2019 to first semester 2020.

b. *FIs in the Securities Sector*

The SEC issued Memorandum Circular No. 26, Series of 2020 entitled *Guidelines in the Implementation of a Risk-Based Approach to AML/CFT and Adoption and Development of a Risk Rating System for SEC Covered Persons* on 24 September 2020 and became effective on 11 October 2020. Said Circular requires SEC covered persons to identify, assess and understand their ML/TF risks and implement a risk-based approach.

As a result of the issuance of the MC on RBA, covered persons have submitted their amended MTPP which reflects a better understanding of the ML/TF risks and AML/CFT obligations that SEC covered persons are required to comply. Among the additional policies included are:

(I) Customer Identification, verification and Monitoring

- (a) identification of the risk posed by each customer as part of customer identification and verification;
- (b) assessment of the level of monitoring to be applied for each customer;
- (c) CDD requirements are to be applied on the basis of materiality and risk of customers;
- (d) ongoing monitoring to continually assess the risks, understanding the transactions and activities of the customers;
- (e) keep current and accurate all material information of each customers

(II) Internal Audit

- (a) appoint a qualified personnel who is independent and have direct reporting line to the covered person's Board of Directors or the Audit Committee.
- (b) conduct of an internal audit at least once every two (2) years which shall evaluate the risk management process, degree of adherence to internal control mechanisms in relation to existing controls associated with money laundering and terrorist financing.

(III) Covered transaction and suspicious transaction monitoring system

- (a) upgrade of the covered transaction monitoring system to generate a more complete and accurate report.
- (b) shift to an electronic system of monitoring suspicious transactions.

To effectively enforce such requirement, the SEC conducts sustained outreach to its covered persons to ensure that they fully understand their AML/CFT obligations. The SEC likewise conducts a RBA of checking compliance by covered persons with such obligations including the requirement to report ST/CT.

As a result of the outreach conducted, covered persons are now aware of their AML/CFT obligations. Covered persons have taken steps to address AML CFT deficiencies, to wit:

- Compliance Unit/Department shall ensure that all updates relating to the AML framework of the company are properly disseminated and taken up with the BOD.
- Institutional Risk assessment shall be conducted and presented to the BOD for approval.
- Engagement of an independent internal audit to conduct an evaluation of the AML CFT framework of the firm.
- Establishment of a Compliance Department to ensure that all AML requirements are properly implemented.
- Upgrade of the covered transaction monitoring system to generate a more complete and accurate report.
- Shift to an electronic system of monitoring suspicious transactions.
- Update and revise the MTPP to include detailed AML policies, procedures and clear reporting lines.
- To strengthen the AML awareness of the BOD, Officers and staff, an AML training program shall be prepared by the Compliance Dept. for the conduct training.
- Allot a budget for the purchase of a scanner to comply with the digitization requirements.

c. FIs in the Insurance Sector

IC requires all Insurance Commission Regulated Entities (ICREs) to register with the AMLC to be able to report CTRs/STRs during on-boarding of its customers, and for purposes of reporting said transactions in a secured manner. All ICREs shall register and/or update their registration every two years as prescribed by the AMLC by directly coordinating with the latter.

STRs shall be filed within the period prescribed under the registration and reporting guidelines of the AMLC. Take note that this provision under CL 2018-48 shall be amended to align it with the newly

issued Republic Act No. 11521 dated 29 January 2021, An Act Further Strengthening the AMLA, Amending RA 9160, otherwise known as the AMLA of 2001, as amended.

In case of newly licensed ICREs, registration must be done not later than ninety (90) days from receipt of their Certificate of Authority from IC. Newly licensed ICREs that failed to register within the prescribed period shall be meted a monetary penalty based on the ICREs size and gravity of violations, the computation of which is on a per compliance checking or monitoring basis.

Likewise, any ICRE that failed to register electronically to the AMLC or update its registration, shall not be issued a license or certificate of authority to operate as insurance, pre-need, HMO, MBA, insurance, and reinsurance brokers until such a time they register and/or update their registration to the AMLC.

In 2019, 96 ICREs out of 231 as of 11 November 2020, failed to update their AML Electronic Registration System with the AMLC before the expiration of their respective registration date. As a result, IC sent them a show cause letter. In 2020, these ICREs were imposed a monetary penalty depending on their size and gravity of violation. Failure of ICREs to update registration with the AMLC is considered as Serious Violation which has a monetary penalty ranging from Php5,000.00 for Micro up to Php500,000.00 for Large Entities under category B.

On 24 February 2020, the Insurance Commission issued Circular Letter No. 2020-08 on the Insurance Commission Anti-Money Laundering and Counter-Terrorism Financing Risk Rating System (ACRRS) for ICREs. The CL shall be used by the IC in the conduct of on-site AML and CTF compliance checking of ICREs.

iv. Fis should apply reduced due diligence where lower ML/TF risks are identified) to promote financial inclusion.

a. *RDD in the Banking Sector*

Based on the results of IRAs and risk profiling, BSFIs have adopted and/or amended their policies and procedures to ensure that RDD procedures are implemented on identified customers, products or services posing low risks. The IRA exercise identifies certain products that are considered low risk based on certain parameters such as i) functionality of the products ii) controls and limits in place to mitigate the possible abuse, iii) profiles of the possible user of the products, among others. See next paragraph for typical outcomes of such risk assessments. Meanwhile, customers are risk rated accordingly based on certain risk factors such as (i) financial profile, including consideration on their source of fund and source of wealth, as well as their expected transactions, (ii) frequency of transactions, and (ii) products/services availed. Customers assessed as low risk are accorded RDD which includes gathering of fewer information or requirements upon onboarding, lesser intensity of transaction monitoring (in which monitoring is based on certain triggers only, i.e. sudden significant transactions, etc) and longer interval of updating of records.

RDD procedures are applied to the following products:

- a. *Basic Deposit Accounts (BDA)*. It is a financial inclusion product introduced through BSP Circular 992 dated 11 January 2018. It was designed to meet the need of the unbanked for a low-cost, no-frills deposit account. Target markets include those that are under social classes D and E, or those that have low to nil income or indigenous people. The features of BDA include simplified account opening requirements, minimal initial deposit amount (not more than PhP 100 or around US\$2), and no maintaining balance and dormancy charges. With the combination of the product profile (minimal transaction), and customer profile (indigenous people), RDD, are being accorded. RDD includes the gathering of less stringent requirement upon account opening to promote financial inclusion which allow them to have access to the financial system. There was a recorded increase in the number of banks offering BDA products, from 119 in Q3 2019 to 130 in Q3 2020. During the same period, the number of BDAs exponentially increased by 100 percent to 6.2 million from 3.1 million while the total amount of BDA grew by 70 percent to P4.5 billion from P2.7 billion⁵⁴s. RDD includes the gathering of less stringent requirement upon account opening to promote financial inclusion which allow them to have access to the financial system.

⁵⁴ 2020 Financial Inclusion Initiatives

- b. *Electronic money.* Electronic money issuers have implemented a tiered CDD that promotes financial inclusion, wherein the functionality of the e-money account will depend on the level of verification conducted in the customer. For instance, clients who availed of payment services only (subject to wallet size limit of P50,000 per month and incoming/outgoing limit of P10,000 per month, thus considered as low risk) are accorded reduced due diligence upon account opening due to the limitation in the use of the e-money product.

The reduced CDD comprised of gathering the name of a client and his/her mobile number only. Customers need to undergo full CDD and verification to avail other products and services such as fund/wire transfer to other Fis, cash-out, among others.

- c. *Restricted Deposit Account.* This financial inclusion product was launched to promote financial inclusion and to ensure that the micro business owners and low-income households are able to manage their finances. Target segments includes indigenous people and other low-income households who do not have a valid identification card. The account is subject to certain control limits such as that (i) aggregate credits in a year is limited to PHP100,000; and (ii) account is prohibited from receiving or sending foreign remittances. If there are any suspicion related to the account, banks need to conduct complete CDD. Moreover, account opening is subject to condition that the customer shall obtain a valid ID within 12 months from opening. Clients are also required to provide their name, date of birth, source of fund, nationality, and address, as part of the BSFI's RDD procedures. Based on available data, there are 176,632 restricted deposit accounts as of July 2020.
- d. *Employee Benefit Trust* – Employee benefit trust of some banks/trust entities (2 out of 25 BSFIs) considers this product as low risk due to the following features: (i) account is for investment of employee retirement benefits; (ii) withdrawal transactions are made during retirement/consummation of agreement between employer-employee; and (iii) availed by known companies (i.e., listed companies, top companies).

Based on IRA, BSFIs were able to identify some types of clients as low risk subject to RDD such as farmers and Pantawid Pamilyang Pilipino Program (4Ps) Recipients.

b. RDD in the Securities Sector

The SEC monitors compliance with such requirements through on-site examinations and issues the corresponding notice of deficiency to CPs concerned requiring them to remedy such deficiencies.

The SEC has likewise issued SEC Memorandum Circular No. 21, series of 2020 entitled Rules on Simplified Onboarding Procedures for Low-Risk Accounts, which became effective on 15 August 2020. Regulated FIs such as broker dealers in securities, government securities eligible dealers, investment houses, underwriters of securities, investment company advisers and mutual fund distributors amended their policies and procedures and/or their MTPP to ensure that RDD procedures are implemented on identified accounts posing low risk or an account opened and maintained by an individual investor with an initial and subsequent deposit, investment or re-investment amounting to an aggregate of not more than Fifty-Thousand Pesos (Php50,000.00). These regulated FIs may adopt a different risk-based approach following the said regular requisites and procedures in determining other accounts as being low-risk accounts.

c. RDD in the Insurance Sector

Section 12 of IC CL No. 2019-65 provides that ICREs may apply simplified or reduced CDD measures where lower risks of ML/TF have been identified through an adequate analysis of risk by the ICRE and based on the result of the institutional risk assessment, simplified or reduced CDD measures may be applied. The simplified or reduced measures shall be commensurate with the lower risk factors. However, simplified or reduced CDD measures are not acceptable whenever there is suspicion of ML/TF, or where specific higher risk scenarios apply.

IC noted that 15 out of 18 (84%) of the companies subjected to AML/CFT compliance checking have a clear, written, and graduated customer acceptance policies and procedures, including a set of criteria for customers that are likely to pose low, normal, or high risk to their operation. The companies specified the criteria and description of the types of customers that are likely to pose low, normal or high ML/TF risk to their operations, as well as the standards in applying reduced, average and enhanced due diligence, including a set of conditions for the refusal to conduct the transaction.

It has also been noted that 84% of the companies inspected were risk profiling their customers to low, normal or high risk, depending on the type of customers, nature of the service or product availed of, the purpose of the transaction, the amount of funds transacted by the customer and the size of the transactions undertaken and lastly the existence of suspicious transaction.

On the other hand, these companies were also noted to have reduced their due diligence measures upon verification of the identity of their customer and the beneficial owner after the establishment of the business relationship, reducing the frequency of customer identification updates, reducing the degree of ongoing monitoring and scrutinizing transaction based on a reasonable monetary threshold and not collecting specific information on carrying out specific measures to understand the purpose and intended nature of the business relationship but inferring the purpose and nature from the type of transactions or business relationship established.

v. Fis should continue to improve their understanding and implementation of TFS obligations.

To assist CPs understand and implement their TFS Obligations under the AMLA, as amended, and the TFPSA, the AMLC issued, on 28 May 2020, AMLC Regulatory Issuance No. 4, Series of 2020 on the Freeze Order for Potential Target Matches under the UN Security Council Consolidated Lists (TFS). The AMLC also issued a Question and Answer (Q&A) Guide to further assist the CPs understand the provisions of AMLC Regulatory Issuance No. 4, Series of 2020.

CPs have also been attending webinars on TFS such as the Fintelekt Course on CTF on 3 November 2020, as well as summits like the AMLC-Fintelekt AML/CTF Annual Summit Philippines which featured TFS topics on 23 November 2020. These webinars and summits further assist CPs in honing their skills in TFS screening and complying with their TFS obligations.

a. Understanding and Implementation of TFS Obligations in the Banking Sector

BSFIs continue to improve their understanding and implementation of TFS obligations through the following, among others.

- a) *Inclusion of TFS in the IRA.* BSFIs' IRA methodology considers assessment of products, customers and geographic location which may be exposed to TFS on Terrorism, TF and PF.
- b) *Adoption of their own specific policies and procedures.* Based on the results of their IRA as well as regulations and issuances of the AMLC and BSP, BSFIs have enhanced their policies and procedures on TFS implementation to prevent sanctions risks and its evasion. This includes procedures such as sanction screening, application of sanctions risk rating of customers or account relationships as part of the CDD during onboarding and upon trigger event, and hierarchy of actions to be taken on name match, potential target match, and target match.
- c) *Implementation of Sanction Screening.* BSFIs use sanctions screening system that is either internally developed (59 out of 90 select BSFIs) or acquired from a third-party service provider (31 out of 90 select BSFIs). Sanctions list database from UNSC and local designations through the AMLC and Anti-Terrorism Council (ATC), and defining due diligence procedures for name match, potential target match, and target match. They apply sanctions screening measures on their customers and transactions. The sanctions screening system is either internally developed or acquired from a third-party service provider.

In addition, *TFS awareness is continuously being enhanced by the BSFIs.* Since 2018, BSFIs continue to enhance their existing training programs and conduct learning sessions for their directors, officers and employees to include special/advanced topics on ML/TF/PF such as TFS. The topics covered in these trainings include: (i) the Philippine Legal Framework on TFS, its IRRs, and BSP/AMLC and other relevant issuances such as TF Resolutions, UNSC Resolutions, US persons and sanctions, and consequences of breaching sanctions; (ii) principles of TF, and ST reporting, and investigation; and (iii) customer Identification, transaction monitoring process, and screening. The BSFIs conduct these regular trainings to ensure that their personnel are adequately aware of the TFS requirements under existing laws and regulations, and how this shall be implemented in their daily activities or operations. BSFIs also attend trainings offered by the AMLC and the BSP on TFS implementation.

b. Understanding and Implementation of TFS Obligations in the Insurance Sector

Section 3 of IC CL No. 2019-65 requires ICRES to include in their MTPPs mechanism to comply with the prohibitions from conducting transactions with designated persons and entities, as set out in relevant United Nations Security Council Resolutions (UNSCRs) relating to the preservation and suppression of terrorism and terrorist financing and financing of proliferation of weapons of mass destruction.

In relation thereto, Section 14 of CL 2019-65 requires ICRES to secure the consent of all their customers to be bound by obligations set out in the relevant United Nations Security Council Resolutions

relating to the prevention and suppression of proliferation financing of weapons of mass destruction, including the freezing and unfreezing actions as well as prohibitions from conducting transactions with designated persons and entities.

The IC gave ICREs until 31 December 2020 to comply with foregoing pursuant to Advisory No. 28-2020 dated 20 August 2020.

On 29 October 2019 and 27 November 2019, IC and AMLC provided AML/CTF Training for Insurance Commission Regulated Entities (ICREs) to enhance the understanding of ICREs in AML/CTF risks to be able to effectively implement their AML/CTF obligations and to better comprehend the timely submission of documentary requirements under AMLA, Rules and Regulations, IC circular letters and issuances, and most importantly, to keep them abreast with trends and recent developments in combating ML/TF. The purpose of the training is to raise awareness of their obligation as ICREs under the AMLA. This is also an opportunity for IC to remind all ICREs of their obligation to register with the AMLC. (Please see IO3 j.III pp.64 &65)

The IC created a Joint Working Group (JWG) composing of IC officials and representatives of PLIA, to resolve issues involving IC CL No. 2019-65. Some requirements of IC set out in IC CL No. 2019-65 resulted to different interpretations/applications of ICREs. Hence, the Commission decided to form a JWG to once and for all, harmonize the application of IC CL No. 2019-65 of all ICREs.

c. Understanding and Implementation of TFS Obligations in the Securities Sector

The SEC, in coordination with the AMLC, conducted a webinar on TFS on 15 October 2020 which was attended by a total of 167 participants including representatives from 104 SEC CPs.

The SEC will implement a sustained outreach program for the purpose of increasing awareness and compliance by CPs with the rules and regulations on TFS and it will form part of the areas covered in the on-site examinations as well as in the implementation of the ARRS.

Compliance checking with the rules and regulations obligations on TFS by covered persons will form part of the areas to be reviewed in the on-site examinations as well as in the implementation of the enhanced ARRS. The examination focuses on the processes to implement freeze orders, account inquiry, and asset preservation orders, and other similar orders issued by the courts. The review also includes sanctions screening tool list and database of the covered persons, the internal control mechanisms to identify customers, accounts, transactions, funds or other assets of designated individuals and entities for terrorism, TF, and PF as well as their capability to immediately implement necessary actions and controls.

- 4. Review legal framework to determine whether scope of capture of DNFBPs as covered persons meets FATF standards and is fit for purpose in the Philippines. Conduct further outreach to DNFBPs (other than the integrated resort casinos and trust entities) to clarify which are captured as covered persons, the extent to which their activities are captured by AMLA, and to promote registration with AMLC. This should be prioritised to 1) casinos, 2) jewellery dealers and dealers in precious metals or stones, 3) company service providers (CSPs), and then 4) law and accounting sectors. This outreach should leverage relationships with other regulatory and self-regulatory bodies, as well as industry associations.**

I. Scope of capture of DNFBPs as Covered Persons meets FATF standards

The AMLC reviewed the legal framework on DNFBPs and examined the scope of coverage provided under the law. After careful review, the AMLC, through Advisory Opinions, finds that there are no scope gaps as to coverage of certain DNFBPs under the AMLA. These Legal Opinions bolster the rules and regulations [i.e., Casino Implementing Rules and Regulations (CIRR), the 2018 IRR and the DNFBP Guidelines] issued by the AMLC in the exercise of its rule-making power. Under Philippine law and jurisprudence, it is elementary that rules and regulations issued by administrative bodies (i.e., AMLC) to interpret the law (i.e., AMLA) which they are entrusted to enforce, have the force of law, and are entitled to great respect. Administrative issuances partake of the nature of a statute and have in their favor a presumption of legality. As such, courts cannot ignore administrative issuances especially when its validity was not put in issue. Unless an administrative order is declared invalid, courts have no option but to apply the same.

Moreover, the DNFBPs themselves, recognize that they are covered by the AMLA, based on the following factors:

- i. Increasing registration of DNFBPs (see below for table with relevant data on DNFBP registration);
- ii. Increase in CTR/STR filing by DNFBPs;
- iii. Examination of casinos and scheduled examinations/inspections of other DNFBPs; and

This recommended action is partially addressed.

Authorities should:

-Conduct outreach across DNFBP sectors to clarify scope issues, capture as covered persons and promote registration with AMLC (the number of registrations from DNFBP sectors is currently very low).

- Take steps to ensure that lawyers and accountants clearly

- iv. Reforms and corrective measures adopted by the examined casinos.

a. Casinos as Covered Persons

In an Advisory Opinion dated 29 March 2021 (AMLC Advisory Op. No. 21-083), the AMLC affirmed that the scope gap for casinos cited in the MER do not exist for the following reasons:

- i. Section 8 of the CIRR essentially reiterated Section 3(a)(9) of the AMLA, as amended, designating casinos, including internet and ship-based casinos, as CPs, with respect to their casino cash transactions related to their gaming operations. The CIRR was promulgated by the AMLC and the AGAs — PAGCOR, CEZA), and APECO, as the implementing rules and regulations of the AMLA for purposes of casinos.
 - ii. Section 3 of the CIRR categorically states that it applies to **all** casinos, including internet- and ship-based casinos, operating within the territorial jurisdiction of the Philippines and authorized by the AGA to engage in gaming operations. This unqualified scope of the CIRR expresses the clear intent to cover casinos—businesses authorized or operated by the AGA to engage in gaming operations—as covered persons for the mere fact of being casinos, as defined under the law.
 - iii. With regard to the reference to “casino cash transactions”, it is interpreted in the context of covered transaction reporting where such term finds its only practical application, i.e., covered transaction refers to a single *casino cash transaction* involving an amount in excess of Five Million Pesos (P5,000,000.00) or its equivalent in any other currency. Under the legal maxim *noscitur a sociis*, where a particular word or phrase is ambiguous in itself or is equally susceptible of various meanings, its correct construction may be made clear and specific by considering the company of words in which it is founded or with which it is associated.² It is a basic rule in statutory construction “*that the particular words, clauses and phrases should not be studied as detached and isolated expressions, but the whole and every part of the statute must be considered in fixing the meaning of any of its parts and in order to produce a harmonious whole. A statute must be so construed as to harmonize and give effect to all its provisions whenever possible.*” The foregoing interpretation is the most logical interpretation on the use of the term “casino cash transaction” under the AMLA and the CIRR. To ascribe the term as a qualification for a casino to be a covered person would defeat the purpose of the AMLA as it will give rise to a circumstance where a particular casino is a covered person at one time, and not in another. This interpretation is the one actually being implemented and enforced.
 - iv. All casinos, including integrated resorts and those operated by PAGCOR, as well as all Philippine Offshore Gaming Operators (POGOs) with Authority to Resume Operations (AROs) from PAGCOR, are registered with the AMLC. Casinos under the jurisdiction of CEZA and APECO have also registered with the AMLC. It should be pointed out that POGOs and internet-based casinos have NO CASH TRANSACTIONS, but they nevertheless register with the AMLC. (See below, Table on Casino Registration, IO 4-d)
- Additionally, as correctly cited in the MER, all PAGCOR-supervised casinos are also complying with the Customer Due Diligence Guidelines issued by PAGCOR.
- v. Finally, a substantial portion of the sector, including all the integrated resorts and the PAGCOR-operated casinos, have successfully been the subject of AMLC compliance inspection in the past few years. Nothing can make it clearer that casinos, without qualification, are covered persons under the AMLA than the actual compliance by these casinos with their AML/CTF obligations and allowing themselves to be subjected to AMLC inspection

b. Jewelry Dealers and Dealers in Precious Metals and Stones as Covered Persons

In an Advisory Opinion dated 29 March 2021 (AMLC Advisory Op. No. 21-084), the AMLC confirmed that jewelry dealers, and dealers in precious metals and stones, without qualification, are CPs under the AMLA for the following reasons:

understand their AML/CFT obligations and that the scope of professional secrecy is applied appropriately (so that it does not impact the effectiveness of reporting or on the timely access to information by the FIU, LEAs or other competent authorities).

– Take steps to ensure that jewellery dealers and dealers in precious metals and stones clearly understand the extent and scope of capture of transactions in excess of PHP1,000,000 under the AMLA, and provide clarity to such dealers that may never engage in transactions of this threshold regarding whether they are covered persons under the AMLA.

-Address scope deficiencies in c.22.1

- i. To clarify the implementation of Sections 3(a) (4) and (5) of the AMLA on jewelry dealers, and dealers in precious metals and stones, the AMLC promulgated the 2018 IRR and supplemented by the DNFBP Guidelines. To give life to the said provisions, the 2018 IRR clarified that they pertain to three specific CPs: (a) jewelry dealers, (b) dealers in precious metals, and (c) dealers in precious stones. This clarification is adopted verbatim under the DNFBP Guidelines. Under the foregoing clarification, there are two elements for a person or entity to be considered as either jewelry dealer, dealer in precious metals, or dealer in precious stones: (1) engagement in the business of “dealing” (referring to the phrase “who, as a business, trade in”), and the object of the business, i.e., jewelry, precious metals, or precious stones. The foregoing scope expresses the clear intent to cover jewelry dealers, dealers in precious metals, and dealers in precious stones—as CPs for the mere fact of being dealers—engaged in the business of buying or selling—of jewelry, precious metals, and precious stones.
- ii. With regard to the reference to “for transactions in excess of One million pesos (P1,000,000.00)”, it is interpreted in the context of covered transaction reporting where such term finds its only practical application. The justifications under the legal maxim *noscitur a sociis* cited in the preceding section on Casinos as CPs are likewise applicable here. The said interpretation is the most logical interpretation on the use of the term “for transactions in excess of One million pesos (P1,000,000.00)” under the AMLA and its 2018 IRR. To ascribe the said phrase as a qualification before a jewelry dealer, dealer in precious metals, and dealer of precious stones can be considered as a CPs would defeat the purpose of the AMLA as it will give rise to a circumstance where a particular dealer is a CPs at one time, and not in another. This will make supervision very complex and problematic. Additionally, to attribute the term “for transactions in excess of One million pesos (P1,000,000.00)” to covered transaction reporting will give life to the intention of the Legislature to increase the default threshold for covered transactions (i.e., in excess of PHP500,000.00), which congressmen felt to be too low for the jewelry industry.
- iii. As proof that the current legal framework is being implemented and enforced, as discussed above, registration of jewelry dealers has been increasing since 2018, with that seventy-four (74) persons/entities currently registered with AMLC (See below Table on DNFBP registration). This is expected to further increase as the AMLC is targeting to complete the scoping of the entire jewelry sector.

c. Lawyers and Accountants as Covered Persons

In an Advisory Opinion dated 29 March 2021 (AMLC Advisory Op. No. 21-086), the AMLC concluded that persons (including lawyers and accountants) providing the covered services under the AMLA, include solo practitioners as covered persons for the following reasons:

- i. Section 3(e) of Republic Act No. 9160, also known as the *Anti-Money Laundering Act of 2001*, as amended (AMLA), is explicit that the word “person”, as used in the law, refers to both natural and juridical persons. This provides the context of the category of covered persons listed under Section 3(a) (7) of the AMLA. Section 3(a) (7) of the AMLA used the term “persons” providing the covered services. This is in stark contrast to the more limited scope of Financial Action Task Force (FATF) Recommendations 22 and 23, which only refers to lawyers, notaries, other legal professionals, and accountants. It highlights the legislative intent to expand the coverage to anyone, whether natural or juridical person, who provides the covered services and not to single-out legal and accounting practitioners. A cardinal rule in statutory construction is that when the law is clear and free from any doubt or ambiguity, there is no room for construction or interpretation. There is only room for application.
- ii. The law being clear, the covered person under Section 3(a) (7) of the AMLA applies to both natural (i.e., individuals) and juridical persons (e.g., partnerships, corporations) for as long as they provide the covered services. This equally applies to lawyers and accountants providing the covered services. Thus, solo practitioners (as well as law/accounting firms) are covered persons if they provide any of the covered services.
- iii. All persons providing the covered services are CPs, regardless if they are lawyers, accountants, or other professions or businesses. As CPs, lawyers and accountants providing the covered services are required to register with the AMLC, regardless of the presence of actual performance of the covered services.

1. In an Advisory Opinion dated 29 March 2021 (AMLC Advisory Op. No. 21-087), the AMLC concluded that:

- i. All persons providing the covered services are CPs, regardless if they are lawyers, accountants, or other professions or businesses. As CPs, lawyers and accountants providing the covered services are required to register with the AMLC, regardless of the presence of actual performance of the covered services.
- ii. The AML/CTF obligations shall apply only to the covered services; and lawyers and accountants engaged in purely legal/accounting services are not required to report covered and suspicious transactions but are not precluded from reporting ML/TF activities to the AMLC.

II. **Further Outreach to DNFBPs**

The AML/CFT Guidelines for DNFBPs (ARI B No. 1) was issued on 10 May 2018 and took effect on 29 June 2018. Sec. 51 thereof requires the registration of DNFBPs. The Secretariat took aggressive actions to educate the DNFBPs (jewelry dealers/DPMS and CSPs, and casinos in coordination with PAGCOR) on AML/CFT, and to get them registered with the AMLC electronic reporting system. These aggressive actions consisted of information dissemination campaign through lectures specially designed for DNFBPs, and participation in conferences sponsored by the DNFBP associations. Aside from enhancing cooperation with the Department of Trade and Industry (DTI), the AMLC is coming up with a Memorandum of Agreement with the DTI to help in the environmental scanning of all players in the jewelry sector. The efforts are paying off as the number of registrations is increasing every year, if not only for the COVID-19 pandemic last year which adversely impacted all business activities, including DNFBP registration. Moreover, with the recent enactment of R.A. No. 11521 to include the real estate brokers (REBs), real estate developers (REDs), and the service providers of offshore gaming operators (OGO-SPs) as CPs, the AMLC conducted webinars in coordination with the Professional Regulatory Board on Real Estate Service (PRBRES) and other industry associations to educate these new CPs on AML/CFT and enjoy their registration with the AMLC.

DNFBP Sector Registration as of 23 April 2021								
Year	Jewelry Dealers	Law Firms	Accounting Firms	CSPs	REB*	RED*	OGO-SPs*	Total
No. of Entities	-	-	-	-	30,000	-	-	
2018	9	1	7	1				
2019	25	8	1	5				
2020	30	10	2	8				
2021	11	7	0	15	2,079	480	68	
Total as of 23 April 2021	75	26	10	29	2,079	480	68	2,726

*new CPs under RA 11521 (took effect on 30 January 2021)

This is the same trend with regard to the Casino Sector. Republic Act (R.A.) No. 10927 placed the Casino Sector under the coverage of the AMLA. The constant coordination by the Secretariat with the Appropriate Government Agencies (AGAs), namely, the PAGCOR, CEZA, and APECO, the education campaign conducted, as well as the compliance checking the Secretariat started to undertake, are the factors that have been driving the registration of this sector with the AMLC:

Casino Sector Registration as of 23 April 2021						
Year	PAGCOR			CEZA	APECO	OGO****
	Integrated Resorts	POGOs	Land-based	Internet-Based	Internet-Based	
No. of Entities	13	54	-	18	-	-
2018	11	4*	0	0	0	
2019	2	28**	35	5	1	
2020	-	19***	12	0	1	

2021	-	3*	1	0	0	0	
Total as of 23 April 2021	13	43*****	48	5	2	0	111

*4 less 2 POGOs inactive/no longer operating (remaining: 1)

**26 less 5 POGOs inactive/no longer operating (remaining: 24)

***19 less 4 POGOs inactive/no longer operating (remaining: 16)

****Offshore Gaming Operator as per Sec.3[a][10], AMLA as amended by RA 11521.

*****out of 43, only 35 have Authority to Resume Operations (ARO) from PAGCOR as of 16 March 2021

On 30 July and 11 October 2019, the AMLC conducted AML/CFT training for DNFBPs to help raise the level of awareness among DNFBPs of the ML/TF risks and their obligations under the AMLA, as amended. Please refer to IO3, RA(j) for the particulars on the attendees, the topics discussed, and the other details of these trainings. With the inclusion of the real estate brokers and dealers as new CPs under RA No. 11521, on 18 February and on 1, 8, 10 and 12 March this year, the AMLC rolled out massive information campaigns and conducted free webinars on AML/CFT Fundamentals which included a walkthrough of the Registration Procedure for the Real Estate Stakeholders. Additionally, on 15, 18 and 22 March 2021, the AMLC provided similar Webinars in partnership with the Professional Regulatory Board of Real Estate Service (PRC-PRBRES).

5. Provide further education and assistance to enable DNFBPs (other than to trust entities) to identify, understand and assess their ML/TF risks, implement their AML/CFT obligations on the basis of risk; and to report CTRs/STRs. This should also be prioritised to 1) casinos, 2) jewellery dealers and dealers in precious metals or stones, 3) CSPs, and then 4) law and accounting sectors.

The AMLC adopted an inclusive strategy to raise AML/CTF awareness among the DNFBP sector and bring them within the purview of the Philippine AML/CTF Regime. During the drafting of the Casino Implementing Rules and Regulations (CIRR) in 2017, the AMLC, together with the Appropriate Government Agencies (AGAs), regularly consulted the Integrated Resorts (IRs) and casinos for feedback and comments in the drafting of the CIRR. Upon effectivity of the DNFBP Guidelines in May 2018, the AMLC immediately conducted outreach activities through coordination meetings with the other DNFBPs, such as the jewellery dealers and dealers in precious metals and stones, CSPs, law firms and accounting firms, as well as the Integrated Bar of the Philippines (IBP) (official lawyers association) and the Philippine Institute of Certified Public Accountants (PICPA) (official accountants association). Prior to the pandemic, the AMLC also regularly held AML/CTF caravans in Manila for the DNFBPs. During the pandemic, the AMLC continued the AML/CTF caravans for the DNFBPs through virtual platforms such as Webex and Zoom. With the recent amendment of the AMLA under Republic Act No. 11521, the AMLC, together with the Professional Regulatory Board of Real Estate Service (PRBRES), as well as the associations of real estate developers and real estate brokers, continues to provide virtual AML/CTF caravans for the real estate sector. All these activities have resulted in the significant increase in the registration of the DNFBPs with the AMLC. To further encourage the registration of DNFBPs, the AMLC has not begun penalizing DNFBPs for non-registration and continues to accept and process registration requests from the DNFBPs.

The AMLC also disseminated the DNFBP Risk Assessment and Information Collection Questionnaire in the first week of February 2021 through an online link emailed to all DNFBPs registered with the AMLC to require them to answer the same. The risk assessment questionnaire will provide DNFBPs significant information to assess the current ML/TF threats facing their sector and will help them further understand and manage the risks they may face in the operation of their business and comply with their legal obligations. The risk assessment questionnaire focuses on information such as: (a) the institutions risks and threats; (b) mechanisms that can mitigate their risks; (c) assessment of clients and understanding client risks [geography, nationality, etc.]; (d) financial/transaction profiles; I transaction reporting; among others. By responding to the risk assessment questionnaire, DNFBPs' awareness to the risks facing their institutions and their sector as a whole, increases. As of 31 March 2021, the Risk Assessment Questionnaire was sent to 101 DNFBPs (consisting of 59 Jewelers, 18 Lawyers, 10 Accountants and 11 Company Service Providers) wherein 41% of the population have responded. Majority of the respondents indicated that they have established AML/CFT Boards, conducted Institutional Risk Assessments, Developed ML and Terrorism Prevention Programs (MTPP), and included AML/CFT trainings to their employees. Casinos were not included in the questionnaire since they were covered in a different risk assessment conducted by PAGCOR.

For casinos that have been subject to AML/CFT compliance examinations, significant findings on their IRA were discussed with the casino management. Through the quarterly and semestral updates on the actions taken by these casinos on the directives of the AMLC, it can be shown that these casinos have increased awareness and understanding of their ML/TF risks. Their IRAs are undergoing

This recommended action is partially addressed.

Authorities should:

- Provide further education and assistance across the large number of DNFBP sectors to: 1) increase the number of registrations of covered persons (which are currently very low), 2) develop and build understanding of ML/TF risks and AML/CFT requirements.

updates, and on the next scheduled compliance examination, IRAs will again be re-evaluated.

Compliance examinations performed by the AMLC aims to check the level of AML/CFT compliance of CPs. As discussed in IO3, the coverage of compliance examinations covers the four (4) components: (i) Senior Management Oversight; (ii) MTPP; (iii) Internal Controls and Audit; and (iv) Implementation of the MTPP). Through the detailed discussions of the findings in these 4 components, it can be considered that, these examinations can also be a form of “further education” for the DNFBPs, including the casinos. The detailed discussion with the management of the findings, CPs are being “educated” (although not through a formal training set-up) on their obligations and the gaps/lapses in their implementation of their AML/CFT controls. Appreciation of the laws and regulations is seen from the covered persons when actual findings that impacts their own institutions and their own operations are being discussed. The actions taken and other commitments to be undertaken by these CPs to comply with the directives of the AMLC and the necessary enhancements needed in their AML/CFT controls that needs to be implemented show increase in the level of their awareness of their AML/CFT obligations to ensure protection of their institutions against the ML/TF threats.

Other outreach and “further education” activities being conducted, although not through a formal training set-up, are the numerous emails and phone calls being received by the AMLC, through the Compliance and Supervision Group- Registration Staff. Inquiries not just on registration and reporting processes are being addressed, but also other concerns related to AML/CFT.

For the CPs and the public, the AMLC conducted 19 lectures covering 1279 participants to promote general AML/CFT awareness to effectively combat ML/TF (NACS SO 7). The primary targets of these lectures are industries that are starting to improve in terms of regulatory reach such as the DNFBPs and the insurance sector.

For other supervising and relevant government agencies, lectures on the operational aspect of AML/CFT supervision were given along with different workshops to enhance the respective risk rating frameworks of each agency. The result of the workshop is the amendment and/or release of supervisory regulations by the respective agencies.

JG Comments & Analysis

There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 4.

The JG identified recommended actions 1, 2, 3(ii) and 4 as key recommended actions as they are fundamental to ensuring that there is comprehensive coverage of all FIs and DNFBPs and that there is an overall ML/TF risk understanding by these reporting entities.

Recommended action 1) is partially addressed. The Philippines has not extended AML/CFT controls directly to junket operators. Rather, amendments to the AML/CFT Regulatory issuance have been made that restrict the ability of casinos to rely on junket operators as a counterparty or intermediary for CDD purposes in relation to junket participants. The regulations now clearly restrict the junket operator to only being an agent of the casino to conduct CDD. However, noting the junket operator is itself also a customer of the casino, concerns remain regarding the application of AML/CFT controls relating to junkets. These requirements are not yet being strictly enforced.

Recommended action 2) is addressed. Effective 30 January 2021, the AMLA and its 2018 Implementing Rules and Regulations were updated to include “real estate developers and brokers” in the definition of covered person. Real estate developers and brokers must now comply with AML/CFT requirements (as a type of covered person).

Recommended Action 3) is partially addressed.

(i) The Philippines has provided summaries and examples of how banks continue to implement a RBA and the various AML/CFT requirements identified as challenges in the MER. This indicates that universal and commercial banks are continuing to improve a RBA and AML/CFT measures in relation to ongoing CDD and monitoring, and understanding source of funds and beneficial ownership.

(ii) The Philippines has documented supervisory findings reflecting reregistered MSBs to be developing a RBA as they establish their AML/CFT programmes. This also indicates that MSBs are developing their RBA and embedding understanding of AML/CFT requirements. The BSP is taking steps to identify and apply sanctions to unregistered MSBs. It has increased its manpower by 12 for supervision and surveillance of the MSB sector. It has also enhanced its coordination with local government units (LGUs) to ensure business permits are only issued to registered MSBs and that unregistered MSBs are identified and reported. Due to this, and other market intelligence including information from AMLC, some unregistered MSBs have been identified and been issued warning letters for operating while unregistered. Some unregistered MSBs have also ceased to operate or been accepted for registration. However, there are approximately 1,000 LGUs that are not submitting reports to the BSP in relation to MSBs. Further steps are required to ensure that unregistered MSBs (since the re-registration requirements and

consolidation of the sector were implemented) are not able to operate. This requires further coordination with LGUs, use of other intelligence including of CTR/STR information from banks. Further steps are also required to ensure that illegal MSBs that are unregistered and do not meet fit and proper requirements, in particular MSBs that are evading the requirement to register with BSP, are identified and sanctioned.

(iii) The Philippines has provided summaries and examples of how non-bank FIs are continuing to develop their understanding of ML/TF risks, implement a RBA and AML/CFT measures. In relation to CTR/STR reporting, the number of reports from BSP supervised MSBs and other non-bank FIs has increased significantly.

(iv) The Philippines have provided examples of products (across BSP, SEC and IC supervised FIs) and ongoing guidance that continue to promote reduced due diligence to promote financial inclusion (where ML/TF risks are lower). This indicates reduced due diligence is being utilised to some extent.

(v) A new TFS legislative framework has been enacted and is being implemented in the Philippines (under the Anti-Terrorism Act 2020). Understanding and (effective) implementation of TFS obligations under the new framework is developing.

Recommended Action 4) is partially addressed. The AMLA has been amended to include offshore gaming operators as a category of covered person. In relation to the existing deficiencies regarding (see c.22.1(a)) scope of capture of other types of casino as a covered person, the same deficiencies identified in the MER remain. There have been no changes since the MER to the legal framework by which jewellery dealers, dealers in precious metal or stones, CSPs or lawyers and accountants are captured as covered persons (see c22.1(c)-(e)). There has been minimal outreach to the affected DNFBP sectors to clarify these issues, i.e. which are captured as covered persons, the extent to which their activities are captured by AMLA, and to promote registration with AMLC. The understanding of ML/TF risks and AML/CFT obligations and the number of DNFBP registrants with the AMLC remains very low (compared to the potentially very large number of covered persons in the Philippines across these DNFBP sectors).

Recommended Action 5) is partially addressed. There has been outreach and assistance to those DNFBPs registered or in the process of, registering with AMLC such that their understanding of risks and AML/CFT obligations (including CTR/STR reporting) is improving. However, outreach and assistance to the vast majority of other DNFBPs in the Philippines remains in its very early stages. This is reflected by the very low number of DNFBP registrants with AMLC (compared to the potentially very large number of covered persons in the Philippines across these DNFBP sectors). The level of understanding of ML/TF risks and AML/CFT requirements by the vast majority of DNFBPs remains in its very early stages.

Taking into account the risk, context and materiality of the Philippines, the JG decided to not include any specific action items for IO.4 in the action plan. Strategic deficiencies were considered to be adequately addressed by action items under IO.3.

Immediate Outcome 5

Low

Recommended Actions from MER:

1. **Undertake a comprehensive ML/TF risk assessment of all types of legal persons operating in the Philippines, including characteristics of particular types of legal person or arrangement, or features of their establishment or ongoing management and control that would contribute to or mitigate ML/TF risk followed by targeted awareness raising of the ML/TF vulnerabilities posed by legal persons and arrangements.**

Since the release of the Mutual Evaluation Report, the Philippines has made some significant strides in addressing the Recommended Actions. In 2020-2021, the Philippines has conducted the following assessments:

- (a) the ML/TF Risk Assessment on Legal Persons and Other Business Entities (December 2020); and
- (b) BSP's assessment of business trust and legal arrangements, as part of the broader sectoral risk assessment (SRA) for banks and other BSP-supervised financial institutions (March 2021).

To communicate the risks and vulnerabilities identified in the risk assessments in these sectors, the supervising authorities have rolled out training/workshop plans and programs to raise awareness of the risks and vulnerabilities. Some of these trainings and workshops have already been conducted, which cover central banking and other areas of cooperation of mutual interest, including AML/CFT

This recommended action is partially addressed.

Authorities should:
- conduct more outreach in order to properly disseminate through CPs, supervisors and LEAs as well to the broader public in general the risks of ML/TF associated with the misuse of legal

supervision. Based on the feedback from the attendees of the SEC webinar on legal persons and beneficial ownership, they have attained a higher level of awareness on beneficial ownership information, the risks pose in their respective sectors and the vulnerabilities of their institutions to these risks. Targeted Awareness and dissemination: In January 2021, the AMLC disseminated the study to the Supervisors – BSP, SEC, IC and PAGCOR, to law enforcement agencies and covered persons with existing MOA and PPPP agreements. The executive summary of the study was also posted on the AMLC website for the guidance of all covered persons, and public and private stakeholders. In February 2021, the AMLC shared the study with foreign counterparts through the Egmont Secure Web; and with other relevant law enforcement agencies. The AMLC also presented the results of the LPRA to banks (through the Association of Bank of Compliance Officers (ABCOMP), and MSBs (through the Association of Remittance Company Compliance Officers (ARCCO) during the quarterly meetings in March 2021. Ninety-four (94) covered persons attended these quarterly meetings. ABCOMP and ARCCO were reminded to disseminate the findings and consider the application of the recommendations in their respective member institutions Following the dissemination of AMLC of the results of the risk assessment of legal persons in January 2021, the SEC has informed its supervised and regulated entities on the release of such study through the webinars and meetings conducted by the SEC in January-March 2021. Please refer to outreach conducted by SEC as mentioned in IO3 (c) and (j), such as the SEC's presentation during the audit opening programs to covered persons, meetings with LEAs and webinars conducted during this period. The SEC, in partnership with the AMLC, has conducted a webinar on the results of the risk assessment of legal persons and other business entities last 12 March 2021, The SEC has also a dedicated portion in its website on AML/CFT matters where the latest issuances may be posted as well as other information materials such as FAQs and brochures. The AMLC's link to the summary report of the risk assessment of legal persons and other business entities is likewise posted on the AML/CFT corner in the SEC website.⁵⁵	persons in the Philippines.
2. Introduce measures to ensure bearer share warrants, nominee directors and nominee shareholders are not misused for ML/TF in line with the FATF requirements. The SEC issued the Memorandum Circular (MC) No. 1, Series of 2021, Guidelines in Preventing the Misuse of Corporations for Illicit Activities Through Measures Designed to Promote Transparency of Beneficial Ownership or the BO Transparency Guidelines. The Circular incorporated comments received by the SEC from the public, other government agencies and relevant stakeholders. It was signed on 27 January 2021 and took effect on 29 January 2021. The BO Transparency Guidelines provide for the following, among others: • Prohibition against the issuance/sale/public offering of bearer shares/bearer share warrants; • Disclosure and recording of the alienation, sale or transfer of shares; • Mandatory disclosure of the person on whose behalf the corporation is registered and the nominators/principals of nominee incorporators/first directors and shareholders of corporations applying for registration within 30 days from the issuance of company's Certificate of Registration; • Mandatory disclosure of nominators/principals/persons on whose behalf one acts as director/trustee/shareholder of existing corporations within 30 days from the date the Circular became effective or within 30 days from the time they became or assumed the role of or started acting as nominee directors/trustees/shareholders; • Administrative sanctions; and • Criminal actions and criminal liability. The imposition of administrative sanctions shall be without prejudice to the filing of criminal charges against persons responsible for the violation of Title XVI of the Revised Corporation Code of the Philippines as well as other applicable laws, rules and regulations. For enforcement, the said Circular provides for administrative sanction which include fines in the amount of PHP5,000.00 to PHP2,000,000.00 (approx. USD 100-40,000), plus not more than PHP1,000.00 for each day of a continuing violation, but in no case to exceed PHP2,000,000.00; and suspension or revocation of certificate of incorporation.	This recommended action is partially addressed. The Philippines has enacted Guidelines but the recent enactment of these measures meant there was no time to gauge the effectiveness of the measures. Authorities should: - Review whether the 30 day period for registering BO information ensures that there is timely and accurate information available. -Ensure that the fines and

⁵⁵ https://www.sec.gov.ph/wp-content/uploads/2021/03/2021AML_2020-RISK-ASSESSMENT-ON-LEGAL-PERSONS-TYPOLOGIES.pdf

	The SEC has issued a Notice⁵⁶ on the step-by-step guide in complying with the mandatory disclosures through an online platform. As of 11 May 2021, a total of 12,254 submissions/disclosures were received by the SEC through the online portal. .	sanctions available for non-compliance are sufficiently proportionate and dissuasive.
	3. Ensure certain competent authorities seek expedient access to bank records (with appropriate integrity controls) and that mechanisms operate to ensure that information on the beneficial ownership of a company can be determined in a timely manner The Philippines ensures that competent authorities, especially law enforcement agencies, can seek expedient access to bank records in different ways, such as direct request to the AMLC, the Targeted Intelligence Packaging Workshop, Information-Sharing Portal where various intelligence products can be accessed. Furthermore, mechanisms are put in place to ensure information on the beneficial ownership of a company can be determined in a timely manner. These mechanisms consist of supervisory issuances to promote transparency of beneficial ownership information, revision of the General Information Sheet (GIS), and safekeeping of beneficial ownership information and processing of requests for and release of the beneficial ownership declaration page of the GIS. The details are provided below. Expedient access to bank records. Trainings and seminars provided by the AMLC and SEC raised awareness among competent authorities on the use of beneficial ownership information to support their operations. These trainings/seminars has led to the increase in requests for information from competent authorities, and reactive and proactive disseminations made by the AMLC. The AMLC provided trainings/seminars for LEAs covering topics on fundamentals of money laundering and terrorism financing, financial investigation, and financial analysis. The use of financial intelligence with bank account information, including seeking information on subject legal persons, in case development is emphasized during these trainings/seminars. From 2019 to the first quarter of 2021, the AMLC conducted 35 trainings for LEAs, which was attended by 1688 participants. Aside from these trainings, the Targeted Intelligence Packaging (TIPs) Workshops conducted, which are used for coordination with LEAs on parallel investigations, include lectures on financial investigation techniques and processes. This lecture includes extensive discussions on the financial documents and bank account information to support financial investigations of the LEAs. From 2019 to first quarter of 2021, fourteen (14) TIP workshops were conducted by the AMLC. These trainings and engagements led to increase in requests for information by LEAs and disseminations of the AMLC related to legal persons. From 2019 to April 2021, the AMLC disseminated 1284 reactive intelligence products and 592 proactive intelligence reports with information on bank accounts on individuals and legal entities to LEAs, AMLC-FCIG, Foreign FIUs and other agencies Mechanisms to ensure that information on the beneficial ownership of a company can be determined in a timely manner. Since the 2019 MER, the Philippines has widened its access to mechanisms for beneficial ownership information, to include i) access of BO information held by covered persons through the AMLC, and ii) access BO information through the new GIS of the SEC. The AMLC has enhanced existing instruments⁵⁷ and channels, and implemented new mechanisms to ensure adequate and expedient sharing of BO information, as contained in bank account information.	This recommended action is partially addressed. Authorities should: - Ensure that LEAs have timely access to BO information. - Take measures to improve compliance by legal persons with BO obligations and ensure that Bo information held is accurate and up to date.

⁵⁶ <https://www.sec.gov.ph/amf-notices/beneficial-ownership-transparency-declaration-form/>

⁵⁷ Guidelines on information sharing as given by AMLC Resolutions 40 and 140, series of 2018, and AMLCS Office Order 35 and 45, 2019.

LEAs and other competent authorities have access to, and AMLC shares bank records and KYC records with the beneficial ownership information through:

- a direct request to the AMLC
- the Targeted Intelligence Packaging (TIP) Workshop – where LEAs and financial investigators come together to share information for intelligence and investigative purposes. Details and process of TIP are found in
- the information-sharing portal maintained by the AMLC. Through this portal, LEAs and other competent authorities can directly access bank records from AMLC's different proactive and reactive intelligence products

The new General Information Sheet (GIS) of the SEC serves as a mechanism for other competent authorities to access beneficial ownership information, other than through bank account information.

The new GIS, as provided under SEC Memorandum Circular No. 15, Series of 20 now captures beneficial ownership information from all SEC-registered corporations. On 20 November 2020, SEC Memorandum Circular No. 30, Series of 2020, Revision of the General Information Sheet (GIS) of Foreign Corporations to Include Beneficial Ownership Information, took effect. Said Circular requires all SEC registered foreign corporations to disclose their beneficial owners in the GIS.

As of 31 December 2019, a total of 223,406 domestic corporations have submitted their General Information Sheet (GIS) with beneficial ownership information. It comprises around 39% of the total 571,192 active domestic corporations in 2019. For 2020, a total of 209,959 domestic corporations have disclosed their beneficial owners in the GIS. The GIS is an annual report submitted by registered corporations to the SEC.

The SEC has issued three (3) Memorandum Circulars and one (1) Notice relating to the submission of the GIS in 2020 due to COVID-19 pandemic allowing the extension of the deadline to submit or adopting changes in the manner of submitting the GIS through courier service or registered mail which may explain a lower number of processed submissions in 2020 as compared in 2019. The documents submitted through courier service had to undergo the process of disinfection owing to the risk of being infected with the COVID 19 virus through such documents. The submission of the GIS through electronic mail and couriers in 2020 likewise took more time in uploading them in the SEC's database.

SEC issued MC No. 1, Series of 2021 (Guidelines in Preventing the Misuse of Corporations for Illicit Activities through Measures Designed to Promote Transparency of Beneficial Ownership [BO Transparency Guidelines], – It requires that all registered Corporations to keep and preserve in its principal office adequate, timely, and accurate information relating to its beneficial owner or owners to be identified in the manner provided for in SEC MC No. 15, Series of 2019 or any amendments thereof.

This is without prejudice to the requirements to disclose beneficial ownership information in the General Information Sheet (GIS), which shall remain in full force and effect.

The SEC En Banc approved on 26 January 2021 the SEC Office Order No. 19, Series of 2021 SEC's Internal Guidelines on the Safekeeping of Beneficial Ownership Information and Processing of Requests For and Release of the Beneficial Ownership Declaration Page of the GIS. Said Guidelines include, among others, provisions on the processing of requests for the BO Declaration Page of the GIS from competent authorities in the Philippines, requests from foreign competent authorities, requests thru a subpoena issued by the courts, and requests from the public.

The SEC has likewise posted in its website a guide⁵⁸ for competent authorities, both domestic and foreign, to access the BO Declaration page in the GIS.

The SEC conducted three (3) orientation briefings to competent authorities through presentation and discussion during the meetings of the NALECC Sub-Committees in February 2021 on how to access BO information in the GIS.

⁵⁸<https://www.sec.gov.ph/aml-cft/frequently-asked-questions/>
<https://www.sec.gov.ph/notices/in-the-matter-of-requests-for-copy-of-the-beneficial-ownership-declaration-page-in-the-general-information-sheet/>

One of the action plans for more effective coordination with LEAs and other competent authorities raised during those meetings is the execution of the Data Sharing Agreement or Memorandum of Agreement (MOA). These agreements shall provide competent authorities access to BO information in a timely manner. At present, the SEC has twenty-nine existing MOAs with other domestic competent authorities.

Under the SEC - AMLC MOA, the SEC shared BO information contained in the GIS - BO Declaration Page submitted by all SEC-registered corporations. The AMLC made a request for basic information and beneficial ownership information of Philippine Offshore Gaming Operators (POGOs), their Local Gaming Agents (LGAs) and Service Providers (SPs). In July 2020, the SEC furnished the AMLC the requested documents for 249 corporations consisted of Articles of Incorporation, By-Laws and GIS covering the years 2017-2019. The purpose of the AMLC request was to determine the ownership and/or the ultimate beneficial owner(s) of the said entities.

Further, the AMLC maintains an online information-sharing portal through which it shares information with the SEC. The information received from the AMLC is used in the investigations conducted by the SEC in gathering further evidence regarding the illegal activities of certain entities involved in violations of the Securities Regulation Code. Evidence gathered by the SEC on illegal activities is likewise shared with the AMLC for purposes of freezing of assets of persons or entities involved in the laundering of proceeds from such illegal activities. This has resulted in the freezing of the assets by the AMLC in at least two cases. Both cases involve the fraudulent offering and selling of securities to the public. From 2020 to March 2021, the SEC also acted upon a total of 248 requests for information from the AMLC involving individuals and entities.

In coordination with the SEC, PAGCOR endorses its applicants for Company registration that have the intention to engage in gaming operations. Applicants are required to submit among others, the Articles of Incorporation or Amended Articles of Incorporation, as the case may be, for evaluation. The primary purpose in the Articles of Incorporation should be in consonance with the PAGCOR charter. SEC as mandated to regulate the corporate sector, requires the submission of this document among others which is utilized for regulatory purposes to ensure full and timely disclosure of material information, protect the investors, and minimize if not eliminate fraudulent or manipulative devices and practices. Moreover, the SEC complies with requests for information on beneficial ownership from regulatory agencies, such as PAGCOR, in the conduct of their investigations, due diligence and policy.

To ensure adequate BO information of companies in the gaming sector will be determined in a timely manner, PAGCOR issued Memorandum No. PASED/2020-01-032 and PASED/2020-01-033 dated January 27, 2020, with the subject "Resolution on Market Entry Control" as a guide for the Gaming Licensing and Development Department (GLDD) and Offshore Gaming Licensing Department (OGLD). The resolution was implemented to prevent criminals or their associates from being professionally accredited, or holding, or being the beneficial owner of a significant or controlling interest or holding a management function. Before the grant of a license, individuals will be subjected to criminality, and fit and proper including but not limited to the Board of Directors, key officers, individual stockholders who own 20% or more and beneficial owners. The concerned departments in the issuance of a license, GLDD, and OGLD, coordinates with PAGCOR AML Supervision and Enforcement Department (PASED) names of individuals and entities for background checking. PASED in turn transmits the same to the AMLC for verification in their checking system.

From the perspective of ensuring relevant BO information on companies can be determined in a timely manner through CPs in the gaming sector, Regulatory Orders are issued regarding CDD guidelines covering BO identification, verification and monitoring obligations under the CIRR; and adjust the extent of customer due diligence measures commensurate with the ML/TF risk identified. Section 11 of RO 2018-11-002 "CDD Guidelines for Land-based Casinos" sets out measures to be undertaken by casinos to identify beneficial owner of a transaction or take reasonable measures to verify the identity of said beneficial owner, where the beneficial owner is not the customer. It further required casinos to establish and record the true identity of its clients based on official documents; maintain a system of verifying the true identity of its clients.

For the insurance sector, Section 7 of CL 2019-65 requires ICREs to identify and verify their clients' beneficial ownership. Further, under the same Section, ICREs are required to comply with AMLC's Guidelines on Identifying Beneficial Ownership and any amendments thereto.

IC also issued CL No. 2019-63 on Dissemination of the AMLC's 2018 Guidelines on Identifying Beneficial Ownership for ICREs information and compliance.

4. Following the release of the Guideline on Beneficial Ownership, conduct outreach to competent authorities, financial institutions and other covered persons on beneficial owner requirements.

This recommended action is largely addressed.

After the approval of the Guidelines on Beneficial Ownership, such as SEC Memorandum Circular No. 1, Series of 2021, in January 2021; MC No. 30, Series of 2020, in October 2020; and MC No. 15, Series of 2019, in July 2020; BSP Circular No. 1022 dated 26 November 2018; and AMLC Regulatory Issuance A, B and C, No. 3, Series of 2018, the Philippines actively conducted seminars/webinars/workshops to competent authorities, financial institutions and other covered persons under the supervision of the SEC, BSP, PAGCOR and IC. Despite the limitations posed by the pandemic, the Philippine supervising authorities exerted utmost effort to reach out to their stakeholders to help them increase their awareness on beneficial ownership requirements.

AMLC's Outreach to Covered Persons

The AMLC discussed extensively the Guidelines on Beneficial Ownership as part of the agenda for the following quarterly meetings of the AMLC with the Association of Bank Compliance Officers of the Philippines (ABCOMP) and the MSBs:

The Guidelines on Beneficial Ownership are also discussed in the AML/CFT trainings conducted by the AMLC for the DNFBPs. In 2019, the AMLC conducted AML/CFT Trainings for dealers in precious metals and stones, lawyers, accountants, and company service providers to increase awareness of their new obligations as covered persons under the AMLA. After the issuance of regulations and guidance, the BSP ensures that the regulatory requirements and expectations are adequately explained and discussed in the regular trainings for BSFI. From 2018 to March 2020, trainings conducted for BSFIs include topics explaining and demonstrating the UBO requirement (identification/verification), and informing them of relevant ML/TF typologies. These training/ learning events allow participants to freely ask questions or clarifications to facilitate understanding.

SEC's Outreach to LEAs, Covered Persons and other Competent Authorities

The SEC continues its implementation of sustained outreach to further enhance awareness and understanding by competent authorities, financial institutions, SEC-covered persons and other SEC-regulated entities on beneficial ownership requirements, including outreach to the general public on the concept of beneficial ownership. A better understanding by the general public of the importance of beneficial ownership transparency would generate more support and cooperation in promoting beneficial ownership transparency. Such outreach is likewise in line with efforts to generate public support for the enactment of a Beneficial Ownership Registry Law.

On 24 November 2020, the SEC participated as resource person in an online forum, "The Real Owners," organized by the Philippines Extractive Industries Transparency Initiative (EITI) as part of the PH-EITI's Extractives Transparency Week. Said forum discussed good corporate governance featuring the government's anti-corruption and anti-money laundering efforts through the disclosure of the beneficial or real owners of extractive companies. It was attended by domestic competent authorities such as the MGB, DOE, BIR, BOC, PPA, NCIP, DBM, BTr, BLGF, PSA and EMB and representatives from the extractives industry.

The SEC also participated in the multi-stakeholder peer exchange event organized by the EITI and Open Government Partnership (OGP) on 17 March 2021 entitled *Beneficial Ownership in the Extractives Sector and Beyond: A Spotlight on the Philippines*. Said event highlights the initiatives of the SEC in establishing a mechanism to obtain beneficial ownership information of corporations registered with the SEC, including those in the extractives industry. It was participated in by representatives from other jurisdictions, such as Armenia, Indonesia, Mongolia and Nigeria.

Outreach to Covered Persons and Other SEC-Regulated Entities

In response to numerous requests from the public, the SEC has acted as resource speakers in several seminars organized by other government agencies and private organizations to explain and clarify the new requirements under the AML/CFT rules and regulations issued by the SEC, including the requirement on the disclosure of beneficial ownership information.

The COVID-19 pandemic did not stop the SEC in the conduct of its sustained outreach program to its covered persons and other regulated entities from 2020 to March 2021, particularly on the topic of Beneficial Ownership. Outreach to covered persons and other SEC-regulated entities on beneficial ownership requirements is now being done through the use of virtual/online platforms.

On 24 March 2021, the SEC attended as resource person during the online forum of the Caucus of Development NGO Networks (CODE-NGO). The CODE-NGO is the largest network of social development organizations in the Philippines, composed of 6 national and 6 regional CSO networks representing 1,600 NGOs, people's organizations and cooperatives. The SEC representative discussed the salient features of MC No. 1, Series of 2021 (BO Transparency Guidelines) and the filling out of the BO Transparency Declaration (BOTD) Forms. The webinar was attended by more or less 150 representatives of CODE-NGO's members. The lecture and presentation materials are available⁵⁹ to all the 1,600 member-organizations of CODE-NGO through its website.

The on-site virtual examinations of covered persons conducted in 2020, were used as an opportunity to enhance the awareness and understanding of covered persons of their AML/CFT obligations, including beneficial ownership identification and verification requirements, through a detailed discussion of the audit components before the start of the audit proper. From February 2020 – February 2021, the SEC has presented to a total of seventy (70) covered persons during the audit opening programs, which were attended by members of the Board of Directors and the senior management, as well as the concerned employees such as the covered persons' frontliners. The targeted participants are officers and directors of broker-dealers, investment companies, and financing and lending companies covered under SEC MC No. 16, series of 2018.

BSP's Outreach to Financial Institutions

The BSP's risk-based-supervision incorporates efforts to foster understanding by BSFIs of the AML/CFT legal framework, including for UBO requirements, to enable them to strengthen their AML/CFT processes commensurate to their respective risk profiles. BSP's approach may be broken down as follows:

- a. Issuance of implementing regulations and guidance to clearly set regulatory requirements and expectations. In this regard, the BSP; (i) issued Circular 1022 dated 26 November 2018⁶⁰ to provide specific requirement on the identification and verification of (UBO of customers; and (ii) disseminated, through Circular Letter 2019-002, the AMLC's Resolution on Identification of Beneficial Owners, which provides illustrative examples in identifying the beneficial owners of customer as reference for BSFIs.
- b. As part of ongoing supervision, onsite examination serves as opportunity to discuss and clarify pertinent issues, including identification and verification of UBO. Examination findings are adequately discussed with BSFIs' management and Board of Directors to ensure that they understand the importance of the requirement on UBO identification and verification, as well as regulatory expectations and how compliance therewith will arm them against being used in ML/TF activities. Appropriate directives are then issued to ensure that BSFIs will take necessary actions on noted deficiencies and areas for improvement. All these form part of the Report of Examination. Assessment of BSFIs' UBO identification/verification process is included in sixteen (16) Reports of examination (See POPR on IO4, item c, and POPR IO3, item h)
- c. Regular outreach activities is an integral part of the BSP's AML/CFT supervisory approach to reinforce the industry's understanding of AML/CFT requirements and promote enhancements in their AML/CFT controls and processes (see IO3). From December 2018 to February 2021, forty-five (45) trainings conducted for BSFIs included topics explaining and demonstrating the UBO requirement (identification/verification), and informing them of relevant ML/TF typologies. During these training/ learning events, participants freely raised questions and clarifications that facilitated better understanding. As SAs adopt to the new normal, learning sessions shift to virtual platforms to ensure continuing delivery of outreach activities to supervised entities. **See POPR on IO3 (j)** for details of the training sessions and learning events conducted by the BSP.
- d. One-on-one consultation by BSP with BSFIs are conducted and queries from BSFIs are sufficiently addressed. Identification of UBOs, conflict on UBO threshold, treatment of UBOs of OGB Service Providers, and mutual fund beneficial ownership were among the queries resolved by the BSP.

To ensure that the improvements in UBO identification process are sustained by the banks, their self-assessment functions include in their respective compliance testing and internal audit manuals,

⁵⁹ <https://code-ngo.org/secgoodgovernance/?fbclid=IwAR0AIQBYF1F3jRnuXCaxEwqhYFuQur5EdNGsrwzLwe0MaqS67XPkriwjRzA>

⁶⁰ <https://www.bsp.gov.ph/Regulations/Issuances/2018/c1022.pdf>

	certain procedures to assess consistent compliance/conduct of UBO identification processes by all business units concerned. PAGCOR'S Outreach to Casinos PAGCOR designed a training module, Basic AML Foundation Course (BAFC), and conducted training for casino operators which covers AML/CFT-related topics including CDD and beneficial ownership. IC's Outreach to Covered Persons For the insurance sector, Section 7 of CL 2019-65 requires ICREs to identify and verify their clients' beneficial ownership. Further, under the same Section, ICREs are required to comply with AMLC's Guidelines on Identifying Beneficial Ownership and any amendments thereto. IC also issued CL No. 2019-63 on Dissemination of the AMLC's 2018 Guidelines on Identifying Beneficial Ownership for ICREs information and compliance.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 5. The JG identified recommended actions 1 and 3 as key recommended actions as measures that are fundamental to improving effectiveness in the Philippines by ensuring that there is a comprehensive understanding of ML/TF risks posed by all types of legal persons and arrangements and enacting a framework to prevent the abuse of bearer share warrants, nominee directors and nominee shareholders.. Recommended action 1 is a key recommended action and is partially addressed. The risk assessment of ML allows for a comprehensive identification and understanding of the specific risks associated with the different types of legal persons and legal arrangements that are possible to be created in the Philippines. However, the TF assessment does not seem to be so comprehensive in the identification and understanding of TF risks posed by some types of legal persons (sole proprietorships and non-stock corporations), requiring further elaboration. Likewise, the ML/TF assessment carried out by BSP regarding the risks posed by trusts and other legal arrangements do not seem to be comprehensive enough with recognized deficiencies in what regards the operation in the Philippines of foreign incorporated trusts. As for outreach activities designed to disseminate the risks associated with each type of legal person and legal arrangements, they are still at a very initial stage requiring further development. The JG strongly recommends that the Philippines keep on enhancing its understanding of the ML/TF risks posed by all types of legal persons and legal arrangements incorporated and operating in the country and intensify its outreach program with the purpose of disseminating the conclusions of the risk assessments through CPs, supervisory authorities, LEAs and general public. Considering the need to prioritize issues to be included in the action plan, the JG decided not to include any action plan item related with this recommended action because, notwithstanding the deficiencies identified, the already perceived understanding of risk associated with legal persons and legal arrangements by the Philippine authorities does not warrant the inclusion of a specific action plan item to address this recommended action. Recommended action 2 is partially addressed. The enactment of MC1 of series 2021 by SEC represents a positive step in terms of addressing this recommended action. However, it's relatively recent enactment, combined with the early implementation of an outreach program in order to disseminate its contents within CPs, competent supervisory authorities and LEAs, makes it early to determine its effectiveness. Moreover, doubts on the dissuasiveness of the sanctions applicable due to the breach of BO obligations raises also questions of effectiveness of this Guideline in addressing this recommended action as required by the Methodology. Recommended action 3 is a key recommend action and is partially addressed. The renewed format of the GIS capturing BO information and the access that competent authorities and LEAs have to the information contained in the GIS through the SEC improved theoretically the access to BO information reducing the dependence of those entities on bank records to obtain BO information. These obligations extend to foreign registered corporations as well. However, the extremely low level of compliance in submission of their updated GIS by corporations (only around 40% or less submitted their GIS to the SEC in the past four years) renders in practice this legal improvement as highly ineffective. Moreover, no enforcement actions have been taken by the SEC in order to correct this situation. At the same time, the AMLC improved its mechanisms of	

cooperation with LEAs in order to facilitate the access of these to BO information it contains in its databases, although in a way that still presents some difficulties in terms of timely access to BO information by LEAs.

Recommended action 4 is largely addressed. Since the adoption of the first BO dedicated normative acts in 2018 the Philippine authorities have been developing outreach programs to CPs, competent supervisory authorities and LEAs in order to enhance their knowledge on BO information disclosure/registration requirements.

Immediate Outcome 6

Moderate

Recommended Actions from MER:

1. Significantly enhance the staffing and capability of AMLC's FIU function (including filling vacant positions and going beyond the planned establishment).

During the onsite visit last November 2018, only fifteen (15) personnel were assigned to the AMLC-FIAG. The number of personnel has increased to twenty-nine (29) or by 93%. The current AMLC-FIAG manpower is complemented by enhancements in technological tools, improvements in case prioritization processes, and furtherance in capacity building of current staff.

Over the years, the AMLC-FIAG, has evolved to cater the different requirements of intelligence products. Currently, AMLC-FIAG is divided into five (5) sub-units, namely: STR Analysis Division, CTR Analysis Staff (Data Mining), Strategic Analysis and Operational Intelligence Staff, and Tactical Analysis Divisions 1 & 2. Below is the actual breakdown of the dedicated resources for the core functions of the FIU as of 01 May 2021.

DETECTION AND PREVENTION DEPARTMENT-FINANCIAL INTELLIGENCE AND ANALYSIS GROUP		
Office/Unit	No. of Personnel During On-site ME (Nov 2018)	Current Number of Personnel
Office of the Director and Deputy Director	1	8*
STR Analysis Division (STRAD)	3	3
CTR Analysis Staff (CTRAS)	3	4
Strategic Analysis and Operational Intelligence Staff (SAOIS)	2	3
Tactical Analysis Division (TAD) 1	3	6
Tactical Analysis Division (TAD) 2	3	5
Total	15	29

*Six (6) Staff are performing analysis-related tasks as assigned by the Detection and Prevention Department (DPD) Director or FIAG Deputy Director

The AMLC launched the STR Alert System in December 2020. This system sends alerts to financial intelligence analysts via email once STRs related to pre-programmed parameters are received in the AMLC portal. Current topics that are pre-programmed in the system are STRs related to Freeze Orders, Terrorism Financing, and Child Exploitation, among others. The criteria are updated on an ongoing basis to reflect new typologies, studies, and priorities of AML/CTF counterparts.

Aside from closed and open sources and to the tools outlined above, the AMLC takes advantage of the use of other analytical tools. In recent years, the AMLC receives around 18 Million Cash Transaction Reports (CTRs) annually. These CTRs provide very rich information for financial intelligence gathering purposes. In 2018, AMLC invested in a technology tool costing around P54 Million (approx. USD 1 Million) by acquiring the SAS Data Mining System to process the CTRs and produce useful information needed for financial intelligence, improving AMLC-FIAG's analysis capability by producing around 3,000 alerts per day. These alerts are analysed to identify potential subjects of proactive Data Mining Intelligence Reports (DMIRs). Enhancement of analytical tools and software systems for analysis is an ongoing priority of the AMLC to continue the improvement of AMLC-FIAG's financial intelligence analysis capabilities.

The AMLC is continuously improving the skill sets of its analysts and investigators. From December 2019 to the end of 2020, analysts have actively participated in various AML/CFT trainings,

This recommended action is partially addressed.

Authorities should:

- Continue to increase staffing of AMLC to ensure that there are adequate human resources available to fulfil AMLC's mandate.

workshops, and exchange programs. 2. LEAs (other than AMLC) should enhance their development and use of financial intelligence and other relevant information to develop evidence and trace criminal proceeds in keeping with each LEA's areas of responsibility and the Philippines' risk profile. AMLC has supported enhancing LEAs' use of financial intelligence through implementation of initiatives targeted to promote and improve effective national cooperation between AMLC to support LEAs to combat ML and TF. The AMLC and the LEAs collaborate through Target Intelligence Package (TIP) Workshops, which result in actual use of financial intelligence for parallel investigations.. Aside from this, TIPs are effective in establishing rapport and trust among members of the AMLC and LEAs, which foster easier information sharing among the participants. The Target Intelligence Packaging (TIP) workshop is a coordination mechanism designed to facilitate the enlisting of partner law enforcement agencies (LEAs) in ML/TF investigation. The TIP is aimed at actively engaging relevant LEAs in ML/TF investigation, identifying areas for coordination and collaboration; and establishing commitment through a mutually approved agency tasking. Aside from this, TIPs are effective in establishing rapport and trust among members of the AMLC and LEAs, which foster easier information sharing among the participants. From 2019 to 2021, AMLC facilitated the conduct of and shared information on 1,606 POIs in fourteen (14) TIP Workshops. In these fora, analysts and investigators also lectured on the financial intelligence cycle, ML/TF investigation, the roles of the FIUs in combating ML/TF, and the importance of cooperation and coordination among domestic agencies. The lectures also highlight how financial intelligence can be useful to LEAs in tracing the funds, assets, and activities of criminals. The TIPs allow LEAs to have transactional and KYC information on about 1,606 POIs involved in 240 cases which useful for predicate crime and parallel investigations. These events have also promoted increased sharing of information and improved cooperation between AMLC and counterparts through frequent networking among agencies which has made communicating their needs easier and faster. Gathering Feedback on AMLC's Intelligence Products For the NGAs (including LEAs), 91% of the respondent agencies deemed that the AMLC's intelligence reports are relevant. Likewise, majority or 81% of the respondents from the Foreign FIUs considered the same. This can be seen in the responses wherein majority found that the AMLC's intelligence reports provided new information on Persons of Interest (POIs) and major contribution to their analysis/investigation. Other responses include that the AMLC reports provided previously unknown names or leads and minor contribution to their analysis/investigation as well as confirmed information already known to the recipients. <u>Actions Taken on the Financial Intelligence Shared by AMLC</u> The following instances showed that the intelligence reports shared by the AMLC have contributed to the LEAs' investigation. - The Ombudsman's case study in 2019, - For PNP-ACG, the status or the actions taken on the intelligence products shared by the AMLC included one arrest/case solved with additional three cases filed in court. On the AMLC Study "Child Pornography in the Philippines: An Evaluation using STR data (STR Data from 2015 to 2018)", the feedback as well as the actions taken by the recipients, including FIUs, can be seen in the succeeding narrative. In 2019, the AMLC conducted a study on child pornography in the Philippines based on the extracted STRs from 2015 to 2018. The study has identified, among others, common indicators and typologies on child pornography, channels used in sending money related to said crime, source countries, destination of money in the Philippines, and the senders and beneficiaries involved in child pornography activities based on the STR data.	This recommended action is partially addressed. Authorities should: -Ensure that LEAs, independently of the AMLC, are capable of developing and using financial intelligence.

In order to identify individuals and financial flows associated with child pornography and to improve global information sharing mechanisms and gather information to enhance financial analysis, the AMLC study and list of suspected offenders and facilitators identified in the 2015 to 2018 STR data were shared with domestic LEAs investigating child pornography, other FIUs identified in the study as sources of funds, Bangko Sentral ng Pilipinas as the supervising authority of the Covered Persons (CPs) reporting the related STRs, and Covered Persons registered in the AMLC Public-Private Partnership Program (AMLC PPPP).

The AMLC received 29 feedback from twenty-four (24) FIUs, three (3) LEAs and two (2) private sector partners^[1]. 86% of the respondents found that the study is relevant as it (a) provided quality information and (b) new information on persons of interests (POIs), previously unknown names or leads. Also, the study provided major and minor contribution to analysis/investigation of the recipient. The information contained in the study confirmed information already known to the recipients. FIU of Belgium commented that "The spontaneous exchange of information submitted by AMLC contained actionable information. While CTIF-CFI (FIU Belgium) assessed the information provided from an operational angle and a strategic angle. This assessment led to the dissemination of a single case file to the Federal Prosecutor." FIU of Canada mentioned that "Report was of high quality, no improvements suggested at this time."

Some of the FIUs with whom the study was shared conducted operational analysis and shared new information on some POIs identified by the AMLC in its study. This led to the generation of new leads and expansion of the list of POIs identified in the study.

As mentioned above, the operational analysis made by FIU of Belgium resulted in the dissemination of a single case file to their Federal Prosecutor. On the other hand, the PNP-DIDM/WCPC verified that six (6) individuals identified in the AMLC study were previously arrested from 2013 to 2017 for offenses relating to OSEC, while other suspects are subject for validation by PNP-DIDM/WCPC.

To continue the AMLC's efforts in combating OSEC, the AMLC updated its previous study which was already introduced earlier. The Post-2019 study report, entitled "Child Pornography in the Philippines: Post-2019 Study using STR data from 2019 to first semester of 2020", used the STRs submitted to AMLC from 01 January 2019 to 30 June 2020 to determine the impact of the AMLC first study on the filing of STRs, channels used by offenders to send money to facilitators, modus operandi of child pornography in the Philippines, senders and beneficiaries as well as the amounts of the remittances related to child pornography. This post-study updates the findings in the first report, identify financial red flag indicators and keywords related to child pornography. New suspected offenders and facilitators in child pornography activities have also been identified in the report. The public bulletin of the AMLC second study on Child pornography is uploaded and available in the AMLC website.

The AMLC study also contributed to the increase of STRs related to child pornography based on the findings of the AMLC in its second child pornography study conducted in 2020. STRs submission have increased by 1,654% from 2018 to 2019 and 156% from 2019 to first semester of 2020. The observed increase in STRs could be attributed to the sharing of the AMLC study on child pornography with the CPs members of the AMLC Public-Private Partnership Program, and also because of the enhanced and stronger collaboration and cooperation of AMLC with its partner CPs which raised its awareness on child pornography. This is evident in some of the STRs that specifically indicate that the subjects being reported were identified based on the list of POIs provided by the AMLC in relation to its first study on child pornography.

The AMLC study also paved the way and was used as a starting reference for the Egmont Information Exchange Working Group (IEWG) project on Child Sexual Abuse and Exploitation (CSAE) that was co-led by AMLC, Australian Transaction Reports and Analysis Centre (AUSTRAC) and United Kingdom Financial Intelligence Unit (UKFIU). The project has produced an amalgamated strategic intelligence picture related to online streaming of CSAE and a collation of financial indicators and keywords. It also engaged foreign private sector entities which includes information sharing and monitoring of effects and benefits of the report. Sharing of the financial indicators and keywords with participating FIUs and private sector entities resulted in identification of financial transactions related to CSAE and subsequent filing of STRs/SARs to FIUs. The AMLC had shared with six (6) participating private sector entities the list of arrested and/or convicted facilitators in the Philippines for their checking and monitoring. This project has also led PayPal and Interpol General Secretariat to collaborate with AMLC. The full version of the report was shared with the Egmont member FIUs and shared by AMLC with domestic LEAs investigating OSEC cases. The list of financial indicators and keywords related to OSEC was shared with the members of AMLC PPPP. Its public bulletin was posted in the websites of the Egmont Group and AMLC.

In September 2019, the AMLC study was likewise used in a Trilateral Partnership Program (TPP) between AMLC, AUSTRAC and UK National Crime Agency (UKNCA). In 2020, the TPP also came

	out of a report on Live-Distance Child Abuse which will be shared also with the domestic LEAs investigating CSAE or online sexual exploitation of children (OSEC) cases, as well with the members of the AMLC PPPP. The collaboration among the participant FIUs has enabled the development of an operational list of Philippine facilitators and a snapshot of the identified offenders from UK and Australia. UKNCA and AUSTAC are developing a list of suspected offenders from their countries, which will be referred to their domestic law enforcement. The AMLC study and Egmont IEWG project report were also presented in various webinars on OSEC and meetings of the AMLC with CPs and LEAs.	
	3. Enhance AMLC's proactive dissemination to other LEAs, including spontaneous disclosures to support other LEAs' operational needs for predicate investigations, parallel ML or TF investigations and asset tracing investigations, as well as the operational needs of AML/CFT supervisory authorities. The AMLC significantly increased its proactive and reactive intelligence disseminations since the ME in 2018. The significant increase is thoroughly discussed below and evidenced by the increase in number of Proactive Intelligence Reports (PIRs) and Reactive Intelligence Reports (RIRs) disseminated by the AMLC to its authorized recipients. Since the ME, the AMLC- FIAG has implemented SOPs for analysis that prioritize dissemination of spontaneous STR cases and addressing requests from LEAs and Supervising Authorities (SAs). Alongside the reactive financial intelligence reports shared with LEAs and SAs, the AMLC also disseminates Proactive Intelligence Reports (PIRs) to support LEAs' operational needs for predicate investigations, parallel ML or TF investigations and asset tracing investigations, as well as the operational needs of AML/CFT supervisory authorities. As a result, dissemination of proactive intelligence reports significantly increased by 327% in 2019 and 176% in 2020 (details are presented below). PIRs are the primary intelligence products disseminated by the STR Analysis Division (STRAD), CTR Analysis Staff (CTRAS), and Strategic Analysis and Operational Intelligence Staff (SAOIS). PIRs contain an analysis of a subject's profile, financial transactions, and other related information from various sources. Generally, PIRs are shared with authorized end-users for the purpose of crime prevention. There are several types of PIRs: • Intelligence Brief (IB) – This is a proactive intelligence report, produced by the STRAD, triggered by the STR Risk-based Prioritization System, which include the subject profile/KYC information and transactional analysis. This emanates from the analysis of High Priority STRs received by the AMLC. • Information Transmittal Sheet (ITS) – This is a proactive intelligence report, produced by the STRAD, triggered by the STR Risk-based Prioritization System. This emanates from the analysis of Medium Priority STRs received by the AMLC. • Data Mining Intelligence Report (DMIR) – This is a proactive intelligence report, produced by the CTRAS, triggered by the SAS Financial Crimes Monitoring System. • Strategic Analysis Report (SR) – This is a proactive intelligence study, produced by SAOIS, which detects thematic patterns and trends to identify emerging risks. • Spontaneous Disclosure (SD) – This may be considered a catch-all for all other spontaneous disseminations by AMLC-FIAG, ranging from referrals of tactical intelligence reports that may be of interest to the recipient agency, to sharing of information on possible leads, to dissemination of operational intelligence. The Information Transmittal Sheets (ITSs) and Data Mining Intelligence Reports (DMIRs), which were introduced in 2020, streamline intelligence sharing for Medium-Priority STRs and strengthen the surveillance of entities conducting high-value financial transactions. ITSs include the profile of the subject/s and relevant STR narrative, whereas DMIRs result from the assessment of subjects conducting high value financial transactions resulting from alert generation of the AMLC's proprietary Data Mining System (DMS) tool. Based on subjects' transaction patterns and counterparties, DMIRs may cover multiple suspected predicate crimes.	This recommended action is largely addressed.

As to Strategic Analysis Reports (SR), the strategic and operational intelligence products have been increasing since 2017, due to improvements in staffing and analytics tool resources (i.e., adoption of SAS Enterprise Guide in data mining and statistics generation which is superior to the spreadsheet because it can process larger datasets). In addition, AMLC aims to be more proactive in detecting thematic patterns and trends to identify emerging risks. Prior to the re-organization of the AMLC, AMLC-FIAG was a smaller group with limited analytical tools, thus there were challenges in producing strategic reports. Some notable SRs are presented below.

In 2020, there are 508 PIRs, which is up by 176% compared to the full year figure of 184 PIRs in 2019. On the other hand, the first four months of 2021 also shows 170% (592 vs 219) increase in PIRs dissemination compared to the number of disseminations in the first four months of 2020.

Tactical reports

During the COVID-19 Pandemic, various high-profile ML and probable corruption cases surfaced. One of these cases is the DE Scandal wherein the AMLC received requests for information (RFIs) from the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), National Bureau of Investigation (NBI) and FIU Germany.

4. Further improve the quality of intelligence analysis by FIAG.

To further improve the quality of intelligence analysis by AMLC-FIAG, the AMLC has employed the following solutions since the ME: additional information sources; development/acquisition of application systems and analytical tools; hiring of additional capable and qualified people; training of personnel; and being adaptive to the situations and circumstances surrounding it.

Internal databases available to analysts are as follows:

- i. CTR/STR Database - contains all the transactions reported by Covered Persons;
- ii. Foreign Currency Declarations Database - contains all currency declaration transactions on individuals or corporations departing and arriving in the country;
- iii. Intelligence Database - contains information on watch listed individuals and organizations locally and globally;
- iv. Land Registration Authority Database (separate from CTR as requested by FIAG) - data came from the LRA database (external) below which is tailored to the needs of the analysts;
- v. Document Management System Database (ESW/RFI/Spontaneous Disclosure) - central repository for the filing, routing and storage of electronic versions of documents used in the Secretariat;
- vi. Covered Person Registration Database - contains registration information of the covered persons;
- vii. KYC Documents Database - contains KYC related information of the specific individual or corporation;
- viii. STR Attachment Database - contains supporting documents of the STRs filed;
- ix. Electronic Returns Database - contains financial records and information on a certain subject related to a filed case in court;
- x. Information Sharing Database - contains information related to reports disseminated through ISP;
- xi. SAS Database – contains data related to the alerts based on set parameters which help analysts in performing advanced analysis; and
- xii. i2 Analyst Links Database - contains linkages between two or more financial transactions.

Broadening of Intelligence Gathering Process and Channels. Aside from broadening the KYC and information gathering from LEAs and NGAs, the AMLC also expanded its database resources available to analysts. Effective 2019, in addition to above internal databases, analysts also have access to the following external databases:

- xiii. Two proprietary name screening databases, namely Refinitiv's World Check and Dow Jones Risk and Compliance, which aid AMLC-FIAG analysts in cross-referencing POIs against sanction lists and other adverse media;

This action item is largely addressed.

- xiv. Bureau of Immigration (BI) Travel database through an application program interface (API) connecting directly to the travel database which enables AMLC-FIAG to acquire travel information faster⁶¹;
- xv. The Land Registration Authority (LRA) real estate transactions reports involving amounts in excess of PHP500,000;
- xvi. SEC-iView, an online system, which can be accessed by analysts thru Internet-enabled PCs to get SEC documents;
- xvii. PCTC's I-24/7, security technology network, which operates using Internet protocols and state of the art security technology. It delivers fast, reliable and secure information in a highly user-friendly manner permitting immediate analysis and identification. It gives easy and immediate access to criminal information (drugs, counterfeit credit cards and fraudulently identity documents, stolen vehicles, international notices, weapons and explosives tracking system, fingerprints and DNA, Stolen works of art); and
- xviii. DTI BNS Database, where analysts can check if the sole proprietorship business is registered in Department of Trade and Industry.

LEAs can directly access SEC-iView, PCTC's I-24/7 and DTI BNS. For other databases, the LEAs can always coordinate with the AMLC and the latter will share what the LEAs need thru ISP.

With the expanded database resources, information is more readily available and accessible to analysts. For instance, LRA information can now be timely accessed by analysts and need not wait for LRA's submission of physical copies of the requested documents. Moreover, the name screening databases provide additional centralized sources of information especially for sanction lists, adverse media, and PEPs. More relevant information results in better analysis, which in turn results in high-quality financial intelligence products.

Improving Analysts' Tools Sets

As the AMLC continues to strengthen its FIU functions and resources, new tools have been developed and/or procured starting mid-2018:

- i. *STR Prioritization System* – This is a Risk-based Prioritization System employed by the STR Analysis Division (STRAD) which automates the classification of STRs as high, medium, or low priority depending on the suspicious circumstance or unlawful activity/predicate crime. The system also provides room for flexibility so that the STRAD Unit Head can amend the prioritization and tagging of the predicate crime involved.

The AMLC shifted to an Auto-Profiling System wherein the system will automatically review, assess, profile (assign the risk level), and save every STR in the database that the AMLC receives, without human intervention, using established criteria programmed in the system.
- ii. *STR Email Alert System* – This is an alert system, programmed to send email alerts to financial intelligence analysts once STRs related to pre-programmed parameters are received in the AMLC portal. The criteria will constantly change based on the typologies, studies, and demands of the AML/CTF regime.
- iii. *Proprietary Data Mining System Tool* – This transaction monitoring software facilitates the surveillance of high value transactions through the generation of alerts on subjects which have breached analyst-determined parameters/thresholds.
- iv. *IBM i2 Analyst Notebook* – This charting software allows analysts to create a network diagram of entity relationships and financial transactions to use visual analysis in drawing trends and patterns. This tool helps analyst to see links/network/role of the subjects immediately.
- v. *CTR/STR Database Search Engine Improvements* – Several improvements have been made to the existing search engine/database query tool to broaden information sources as well as streamline the intelligence gathering and reporting process. As of July 2020, system performance enhancements and the integration of various information such as real estate data from the Land Registration Authority (LRA) and details of KYC attachments to STRs filed by the CPs have been completed. In the pipeline are the following projects:

⁶¹ This has been tested and currently undergoing on-going technical refinements

Slated for completion in 2021:

- a) Inclusion of previous search results in the dataset, so that analysts may quickly determine whether the subject has already been the subject of another search before;
- b) Generation of a templated Financial Intelligence Report (FIR) for sections that may be automated;
- c) Saving of the FIRs in a centralized database to facilitate searches and updating/editing of previous reports;
- d) Enhancements to exported summary tables;
- e) Automated KYC information requests for CPs*;
- f) Linking of the database search engine with the IBM i2 Analyst Notebook;
- g) Requests for information/replies should be through the portal*;
- h) KYC docs are searchable in the database*; and
- i) For other agencies to have an online query so information can be retrieved easily and quickly.

**These are the top priorities*

The AMLC has continued to hire additional personnel. In AMLC-FIAG, the number of personnel increased from fifteen (15), during the ME onsite visit, to twenty-nine (29) to date. Increased resources have supported AMLC-FIAG conducting more in-depth analysis and enhanced information shared in financial intelligence reports with LEAs. Feedback from LEAs on cases disseminated since 2018 has been positive in this regard, as outlined above.

The AMLC is committed to constantly improve the skill sets of its analysts. From December 2019 to the end of 2020, analysts have actively participated in various AML/CFT trainings, workshops, and exchange programs. As of end-September 2020, 5 out of the 22 AMLC-FIAG staff are CAMS. This number is expected to increase as training budget was also allocated to additional CAMS related capacity building programs. Three (3) analysts are currently undertaking post-graduate degrees in data analytics and data science from prestigious domestic and international academic institutions. All three are awarded with full scholarships, one of which is part of the 2020 Fulbright Academic Scholarship sponsored by the US Embassy.

In TF cases involving foreign nationals being investigated by JTFIG, the AMLC representatives immediately request consent from the source LEA to further share the information on the foreign nationals during JTFIG meetings. (The request for consent made is transcribed in the JTFIG Post-Activity Report prepared by the AMLC representative(s)). Once consent is given, the AMLC-FIAG analyst will prepare either a spontaneous disclosure or RFI to the concerned FIU(s).

During the COVID-19 pandemic, the AMLC has ensured that the quality of intelligence analysis is not compromised. The AMLC recognized the significant impact of the COVID-19 pandemic on business operations due to health risks and measures implemented to control the spread of the virus. Hence, the AMLC directed all covered persons to send all requested KYC documents to the AMLC Portal. This ensures that the KYC documents needed for financial intelligence analysis are available to the analysts.

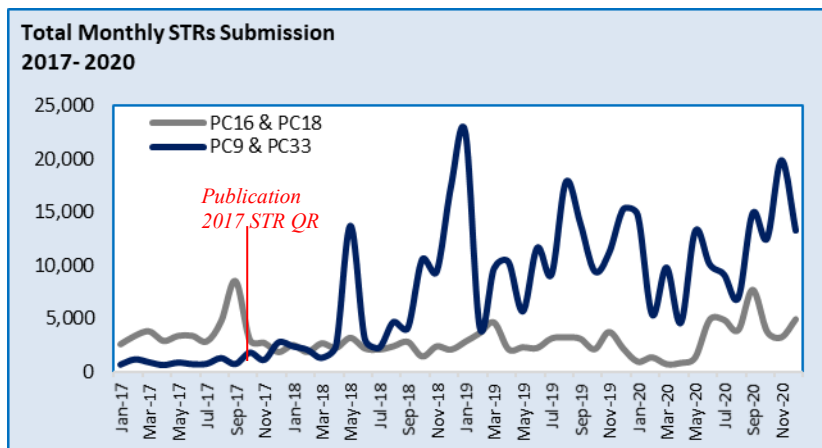
The AMLC added information sources, developed or acquired application systems and analytical tools, continue to hire capable and qualified people, train its personnel, and adapt to changes, to ensure improvement in the quality of intelligence analysis by AMLC-FIAG.

Thus, the quality of intelligence analysis has significantly improved due to collaborative efforts between AMLC-FIAG and stakeholders (both internal and external) wherein the AMLC has employed dynamic solutions, which include: additional information sources; development/acquisition of application systems and analytical tools; hiring of capable and qualified people; training its personnel; and being progressively adaptive to difficult situations (e.g. Covid 19 pandemic) to continuously produce useful intelligence products.

5. Continue to take measures to improve STR quality and address challenges with defensive reporting of STRs, and support greatly improved cross border cash reporting to ensure AMLC has sufficient relevant and accurate information that assists it to perform its duties.

The increasing number of registered CPs and better appreciation of typologies and reporting guides issued by AMLC can be seen as among the contributing factors in the continuous increase in STR filing. Initial assessment also show increase in filing using the different suspicious indicators which indicate that CPs are actively assessing the financial behavior of their clients to determine whether an STR should be filed. STR filing also emanate when violations of CPs internal AML/CFT controls are noted. Moreover, there are continuous engagements with CPs (e.g., outreach, lectures, sharing of studies), coordination with AMLC-DCQS and AMLC-CSG on STRs with noted deficiencies to minimize defensive filing and to improve the quality of STRs. AMLC is also a developing system that will allow faster assessments of the STR Quality.

In the phase 1 STR Quality Review, which covers the period 2017-2020, a special section was dedicated for “Frauds and Illegal Exactions and Transactions under Articles 213, 214, 215 and 216 of the Revised Penal Code, as amended” (PC16), and “Forgeries and Counterfeiting under Articles 163, 166, 167, 168, 169 and 176 of the Revised Penal Code, as amended” (PC18). The two predicate offenses were identified as among the most misused reasons for filing. Oftentimes, CPs use the two reasons for filing transactions to describe swindling. It is notable that the combined percentage share of the two predicate offenses to the total STR filing is decreasing from 15% in 2017 to 4% in 2020. As shown in the figure below, the combined STRs of PC16 and PC18 were higher than the STR filings related to Swindling (PC9) and Fraudulent Practices and Other Violations Under the Securities Regulations Code of 2000 (PC33) for January to November 2017. However, towards the end of 2017, the trend reversed. It should be noted that the maiden STR Quality Review (STR QR), published on the AMLC website in October 2017, was primarily which intended to serve as guide to CPs in filing high quality STRs. The shift in the STR distribution for these predicate offenses could indicate that the STR Quality Review was somehow effective in commonly misused reasons for reporting.

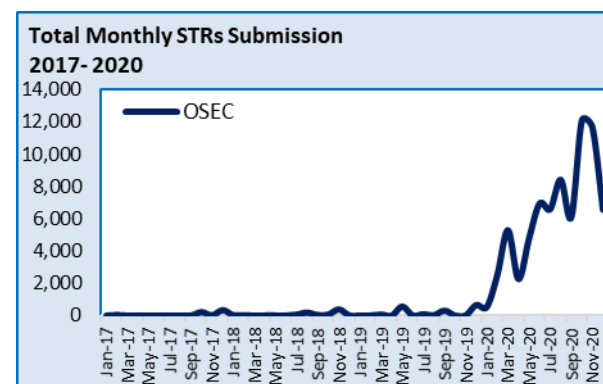


PC16: Frauds and Illegal Exactions and Transactions

PC18: Forgeries” and “Counterfeiting

PC9: Swindling

PC33: Fraudulent Practices and Other Violations Under the Securities Regulations Code of 2000



This recommended action is partially addressed.

Authorities should:

- continue to improve cross border cash reporting.

STRs-related to Online Sexual Exploitation of Children (OSEC) showed a sharp increase starting January 2020. It should be noted that the AMLC has shared various OSEC-related operational studies and typologies reports to CPs, FIUs, and other relevant domestic and international partners since 2019. In 2020, the results of the studies were also presented in various webinars and knowledge sharing forums such as the Inter-Agency Council Against Trafficking (IACAT) Webinar Series on "Online Sexual Exploitation of Children: A Spotlight on International Cooperation and Financial Dimensions" last July 2020, and with the Association of Remittance Company Compliance Officers last October 2020. These series of studies significantly increased awareness of CPs on typologies and persons-of-interest (POIs) which triggered the increase in STR filings related to OSEC.

The AMLC is currently conducting the 2nd STR QR to assess the investigative values of the STR submissions. This will also measure technical compliance of the STRs with the current AMLC Registration and Reporting Guidelines (ARRG). The objective of the study is to identify the reporting gaps to help Covered Persons (CPs) improve the submission of STRs and to minimize defensive reporting. The STR QR is a 3-Phase Study covering STRs from 2017-2020. Phase 1 (Data Discovery), which discusses the trends, composition, and patterns of STR filings, was completed in March 2020. Phase 2 (Technical compliance to the ARRG) and Phase 3 (Assessment of investigative value) are currently on-going and are expected to be released in the 2nd Quarter of 2021.

AMLC-CSG and AMLC-DCQS conduct monthly briefings on the ARRG for CPs with an average of 30 participants per briefing. This continuing initiative by the AMLC to host events free of charge to CPs is a manifestation of AMLC's effort and commitments to increase reporting awareness of CPs. This also serves as an avenue to highlight the importance of high-quality STR submissions. In the ARRG briefings, CPs receive clarifications and/or personalized technical assistance from AMLC resource persons on the process of CTR and STR submission. The AMLC likewise coordinates closely with CPs regarding CTR/STR filing. For instance, the AMLC-DCQS has a dedicated mobile number for ease of communication and to address queries from CPs swiftly to correct STR submissions and/or provide guidance/receive clarifications on the nature of the transactions they were reporting. Aside from the periodic briefings, AMLC-CPG also conducts ad-hoc trainings and caravans to educate CPs on the latest developments in AML/CFT guidelines and regulations. For instance, as of 1 March 2021, AMLC-CPG had conducted two (2) online AML/CFT Webinar for Real Estate Stakeholders which were participated by more than 1,200 attendees.

AMLC-DCQS is the dedicated unit responsible for data quality and collection. All data quality issues observed during data analysis and intelligence gathering are referred to the AMLC-DCQS and/or AMLC-Application Development Staff (ADS) for resolution of the issue. The AMLC-DCQS investigates and coordinates with AMLC-ADS to check if the data quality issue raised by the analyst is system- or data-related. If the issue is caused by misreporting of the CPs, AMLC-DCQS will initiate both formal and informal dialogue with the concern CP. Once properly guided by AMLC-DCQS, the CP re-submits the misreported transactions, if necessary. The AMLC-DCQS' refers to the AMLC-CSG compilations of commonly observed issues for its compliance evaluation. In 2020, there were 22 data quality endorsements to AMLC-CSG. Aside from this, AMLC-FIAG also endorsed 11 compliance issues to AMLC-CSG since 2019.

Thru the collaborative efforts of AMLC-ADS and AMLC-FIAG, an internal application called STR Quality Review System (SQRS) is being developed which aims to create a formal feedback mechanism for the STR quality. In the SQRS, analysts can rate the intelligence value of the STR. The rating will then be saved in a database which will be accessible by the AMLC-DCQS and other units of the AMLC for proper evaluation and appropriate actions. The target implementation of the SQRS is on 2nd Quarter of 2021.

The AMLC has introduced and implemented measures to improve STR quality through continuous STR quality review and disseminating the result thereof, conducting regular briefings to update the CPs on latest AMLC issuances/guidelines, providing hotlines for all inquiries related to ST reporting including reaching out to CPs individually to correct their STR submissions and/or provide guidance/receive clarifications on the nature of the transactions they were reporting.

Cross-border Cash Reporting

FOREIGN CURRENCY DECLARATION FORMS IN THE AMLC DATABASE
Number of Forms

YEAR	Declarations from Banks	Declarations from Individuals (Sourced from BOC)		Total FCDFs from BOC	Grand Total
	Outbound	Inbound	Outbound		
2018	503	206	468	674	1,177
2019	434	914	636	1,550	1,984
2020	103	403	103	506	609
TOTAL	1,040	1,523	1,207	2,730	3,770

FOREIGN CURRENCY DECLARATION FORMS IN THE AMLC DATABASE
Total Declared Amount (in USD million)

YEAR	Declarations from Banks	Declarations from Individuals (Sourced from BOC)		Total FCDFs from BOC	Total
	Outbound	Inbound	Outbound		
2018	4,702.46	18.86	54.60	73.46	4,775.93
2019	6,065.25	353.83	56.73	410.55	6,475.81
2020	1,548.65	453.88	18.84	472.52	2,021.37
TOTAL	12,316.36	826.57	130.17	956.53	13,273.1

As shown in the tables above, as of 31 December 2020, the AMLC database contains a total of 3,770 Foreign Currency Declaration Forms (FCDFs) amounting to USD13.27 billion covering the period January 2018 to December 2020.

In 2019, the number of FCDFs handled by the Bureau of Customs (BOC) significantly increased both in terms of the number of FCDFs submitted and their total value (at 130% and 459% growth respectively), with much of the growth attributable to declarations of inbound passengers (which increased by 344% in volume and 1,776% in amount). Similarly, the total value of FCDFs from banks significantly increased in 2019 (at 29% growth), despite the decrease in volume (at 14% decline). For the period 2015 to 2019, bank declarations have consistently comprised at least 94% of the total value of FCDFs despite making up less than half of the total volume (ranging from 22% to 49%).

However, In 2019, the number of FCDFs handled by the Bureau of Customs (BOC) significantly increased both in terms of the number of FCDFs submitted and their total value (at 130% and 459% growth respectively), with much of the growth attributable to declarations of inbound passengers (which increased by 344% in volume and 1,776% in amount). As to value, notwithstanding the decrease in total value of outbound FCDFs by 74%, the total value of inbound FCDFs continue to increase (at 28%, compared to 2019). Per checking, majority of the value of inbound FCDFs came from the months of January and February 2020. In February 2020, it was reported¹ that Philippine Senate probed the spike in cash brought into Philippines. Approximately USD160 million were brought in by dozens of Chinese citizens from December 2019 to February 2020 which may be the possible reason of continuous increase in FCDFs value in 2020 despite fewer travels/flights.

Information from 739 FCDFs has been used by AMLC for various purposes, such as:

- In terms of tactical case referrals, FCDs were a source of information for intelligence reports provided to both local and foreign FIUs and LEAs. For one such intelligence report, FCDs were found to support allegations that an individual may possibly be engaged in criminal activities due to financial activity not commensurate with the subject's economic or financial profile.
- In terms of proactive tactical analysis, intelligence reports were generated as a review of top individuals in terms of high frequency and high value submission of FCDs. These individuals were searched in the AMLC's financial transaction database to check for possible suspicious activity and/or reports of suspicious transactions against them. Most recent results yielded no high-risk findings.
- In terms of strategic analysis, there is an ongoing study on Bulk Cash Transportation using the FCDs in AMLC's database as the primary dataset. Intelligence reports produced in item 2 will form part of the inputs for the study.

Various government agencies are collaboratively making efforts to enhance the intelligence value embedded in FCDs and streamline the intelligence gathering process. Coordination meetings on the matter have been organized among the BOC, Bureau of Immigration (BI), BSP, and the AMLC, which are targeted to culminate in the drafting of a MOA.

On 13 September 2019, the AML, BSP and BOC met to discuss further ways to improve the FCD system. The discussion includes the updating of the declaration form, digitizing the declaration system, and to provide the BOC with currency counting machines to be placed in different international airports to ensure quick validation of FCDs. As a result of this engagement, the BSP monetary board has approved the donation of thirteen (13) multi-currency counting machines (procurement ongoing – turnover Q3 of 2021) and are now in the process of developing the digital FCD platform.

On 19 February 2020, the AMLC, BSP and BOC had another inter-agency meeting which resulted in the improvement of FCD distribution to passengers, outlined circumstances when the BOC can 'hold' currency when there are instances of non-declaration or misdeclaration to allow the AMLC to investigate, focal persons and communication channels were identified for quick coordination between the agencies in relation to FCD concerns, and submission of FCD in digital format. This led to several interceptions and seizures of currencies related to the violation of FCD guidelines in 2020.

On 13 January 2021, the AMLC had a catch-up meeting with the head of the legal department and head of the enforcement security service of the BOC to discuss updates on the implementation of the FCD system in all the international ports in the Philippines and to ensure that FCD guidelines are properly implemented.

The AMLC also provided trainings to the members of the Security Services of the BOC (in 2019 face to face) and Bureau of Immigration (in 2020 via Zoom). Both trainings had the same module which included discussions on the importance and proper implementation of the FCD system in all international ports in the Philippines.

Better coordination among the BOC, BSP, and the AMLC significantly improved cross border cash reporting in 2019, as it increased both in terms of volume and total value (at 130% and 459% growth respectively), with much of the growth attributable to declarations of inbound passengers (which increased by 344% in volume and 1,776% in amount).

6. Further enhance AMLC's information sharing, and broader support to LEAs on terrorism and TF, and predicate offences (beyond fraud, drugs and corruption) that pose a higher level of threat for ML.

The AMLC adopted guidelines and maximized the use of technology to ensure a smooth, organized, and secured way of sharing information to law enforcement agencies, other government agencies, and participants to the Private-Public Partnership Program (PPPP) through an internet-based Information Sharing Module in the AMLC Web Portal. The AMLC also facilitated TIP Workshops and participated in task forces such as the JTFIG. The success of these initiatives is reflected in the increasing number of information shared between the AMLC and LEAs.

This recommended action is largely addressed.

The AMLC utilizes a secure Information Sharing Portal for the electronic sharing of information with partner government agencies with which the AMLC has signed a Memorandum of Agreement.⁶² The AMLC uses the Information Sharing Portal to: (a) upload advisories/share intelligence reports, and (b) view and download the feedback provided by partner agencies who have access to the portal. While partner agencies have access to view and download the intelligence reports/advisories sent by AMLC. In addition, partner agencies use the portal to provide feedback on the intelligence report shared by the AMLC. They can also download the Request for Information Form if they want more information on a certain subject and an in-depth analysis on the subject's analysis. To further improve the ease of access to financial information by the LEAs and other partner agencies., the AMLC has updated its guidelines on information sharing to include the two-way Information Sharing Portal. Through the two-way Information Sharing Portal, the AMLC and the external users will be able to do the following:

1. Share information, which is currently a one-way feature for FIAG;
2. Send Request for Information (RFI) which is currently being done through snail mail, courier, messenger, and email, and
3. Provide feedback on the information received, which is currently available to external users.

This solution enhanced the existing one-way Information Sharing Module into the AMLC Information Sharing Portal (ISP) – a fully integrated information exchanged portal patterned after the Egmont Secured Website (ESW). This solution will transform the one-way module, wherein the AMLC merely sends information to LEAs, Government Agencies, and PPPP participants, into a portal, wherein the AMLC and the other user-entities may be able to exchange information with one another.

Aside from traditional channels of sharing information, the AMLC also facilitated and/or participated in TIP Workshops, usually a 3-day thematic conference, which are attended by various relevant LEA stakeholders. During the conferences, all participating agencies present intelligence and investigation findings in relation to pre-agreed cases and/or targets. The TIP Workshops serve as a venue for intelligence requests and inter-agency coordination, and has paved the way for parallel investigations. This has also fostered exchanges of information among AMLC and the LEAs which were later processed and transformed into intelligence reports. The significant increase in reactive intelligence products in 2019 can be attributed to the success of the TIP Workshops. From 2019 to February 2021, 240 cases involving 1,606 POIs have been developed through TIPs.

In 2020, amidst the COVID- 19 pandemic, the AMLC facilitated two (2) TIP workshops on illegal drugs involving 38 cases and 103 persons of interest. See Summary Table under Recommended Action (b) above. Aside from the mentioned crimes above, the AMLC, together with the PNP-Directorate for Investigation and Detective Management (DIDM) and NBI, conducted a subject-targeted packaging/case conference on 4-6 September 2019, the purpose of which was to identify potential POIs involved in child trafficking and exploitation. The group initially worked on the AMLC's strategic study using 1,505 STRs on child exploitation and 793 STRs on human trafficking. involving 147 suspected facilitators based in the Philippines, and 448 offenders who are mostly foreign nationals. The said case conference resulted in the identification of additional 699 POIs by LEAs.

The AMLC is also active in task forces on terrorism and TF such as the Joint Terrorism Financial Investigation Group (JTFIG which is an interagency law enforcement task force group consisting of international and domestic agencies such as the Federal Bureau of Investigation (FBI), U.S. Special Armed Forces, Australian Federal Police (AFP), the AMLC, the National Bureau of Investigation (NBI), the Philippine Center on Transnational Crime (PCTC), Philippine National Police (PNP) and the Armed Forces of the Philippines (AFP). Its task is to address TF threats in the country and in Southeast Asia region, to enhance the overall counterterrorism capacity of the agencies through undergoing trainings on terrorism and TF, and to enhance international and domestic cooperation among the member agencies. At least 1 analyst from AMLC-FIAG and 1 investigator from AMLC-FCIG are always present in the JTFIG meetings which convene weekly. AMLC-FIAG assigned a dedicated TF-cases analyst/expert in JTFIG This is because the AMLC-FIAG is very mindful that TF is a high-risk crime and dedicating an officer who already has expertise in the nature and characteristics of TF cases in the JTFIG will be more effective and efficient. JTFIG referrals/requests are processed within one week since results are critical to be reported quickly. With this, a significant increase in intelligence sharing in TF can be observed.

The AMLC is able to quickly gather and share relevant financial intelligence involving emerging persons of interest (POIs) possibly involved in TF through informal sharing of information in the JTFIG meetings which allows for proactive collaboration and cooperation with JTFIG member LEAs.

⁶² The Information Sharing Portal is also used to share information to Covered Persons (CPs) which are members of the AMLC's Private-Public Partnership Program (PPPP). The CPs under the PPPPs have signed Information Sharing Protocol with the AMLC.

In 2020, there have been 65 referrals from the JTFIG with 132 Filipino subjects and 126 foreign subjects who were searched in the database, with the results reported to the AMLC-ED and AMLC-FCIG through post activity reports and to the JTFIG through weekly meetings. Compared to the 32 referrals from the JTFIG in 2019, the referrals in year 2020 were a 200% increase. Through the informal sharing of information in the JTFIG meetings, intelligence products were also observed to increase. There was a 700% increase in the number of intelligence products related to JTFIG from 2019 to 2020. There were 78 intelligence products in 2020 versus the 11 intelligence products in 2019. As of April 30, 2021, there were 24 referrals with 69 Filipino subjects and 1 foreign subject coming from the JTFIG meetings.

JTFIG DURING THE PANDEMIC

-During the pandemic, although face-to-face meetings have not been possible, the AMLC still participates in the weekly meetings of JTFIG through online meeting platforms, such as Zoom. The members understand the risks of attending meetings concerning terrorism and TF online but also realize the importance of meeting weekly to keep up with the trends and current terrorism situation in the Philippines.

Through the exchange of information in JTFIG, member agencies were also able to discuss current trends in the current terrorism and terrorism financing activities in the country and come up with action steps on how to prevent these activities. In one instance, the Bureau of Immigration representative, with the help of AMLC representatives, suggested steps to prevent the influx of suspected foreign terrorist fighters (FTFs), who enter under the guise of gatherings and activities conducted by religious organizations and NPOs. It was suggested that verification be first made with the SEC to determine whether the organization is registered with the SEC and is compliant with filing of updated GIS (including declaration of beneficial owner), pursuant to the relevant SEC regulations. If not, then the foreign party who arrive here for the organizations' activities will not be permitted entry into the country. In this manner, legitimate organizations are also protected from TF abuse.

The AMLC was able to interview members of the JTFIG through online meetings and collect significant information pertaining to current trends and patterns as well as status of the cases of FTFs in the Philippines which are relevant to the study being conducted by AMLC on the country's risk and exposure to FTFs. Some of the members who shared and participated in the interviews were from the BI, NBI and PCTC, which have become vital contributors in the study.

The FTF study which was released in January 2021 was initially shared with select LEAs and supervising authorities in February 2021. Subsequent disseminations to other relevant stakeholders will be made after receiving feedback from select LEAs that provided substantial inputs (through interviews and questionnaires) during the study's data gathering phase.

The JTFIG also played a big part on the increase in intelligence products in 2020, with a total of 78 JTFIG intelligence products, with 34 proactive reports and 44 reactive reports disseminated by FIAG compared to the 11 JTFIG intelligence products disseminated in 2019 which are only reactive in nature. The table below shows the increase in JTFIG disseminations to various domestic and international agencies. As of April 30, 2021, there are 24 proactive reports disseminated internally.

Dissemination of Reactive Intelligence Products

In 2019, 332 Reactive Intelligence Reports (RIRs) were disseminated, of which 158 were referred to AMLC's investigators and supervisors for ML/TF investigation and to support their AML/CFT compliance checking, 105 to domestic recipients, and 67 to other FIUs. For the year 2020, 600 RIRs were disseminated, of which 256 were provided to AMLC-FCIG for ML/TF investigation, 234 to domestic institutions, and 106 to other FIUs. The significant increase in RIRs (an 81% increase from 2019 to 2020) is a result of the inter-agency Target Intelligence Packaging (TIP) Workshops organized by the AMLC as described above. In the first four months of 2021, a total of 125 RIRs were shared, 69 to domestic institutions, 29 to FCIG and 27 to foreign counterparts.

Consistently since 2019, the top predicate crime is swindling or fraud. This is partly due to the wide coverage of the Estafa law in the Philippines which covers various types of fraud and scams from product scams to even some types of investment scam, identity theft, among others.

In TIP Workshops, AMLC's intelligence analysts and investigators meet with relevant LEAs for specific predicate crimes such as drugs, terrorism and TF, and graft and corruption. In 2019, TIP Workshops for terrorism and TF, investment scams/swindling, child sexual exploitation and human trafficking, and graft and corruption were held in September, October, November, and December,

respectively. This facilitated exchanges in information among AMLC and the LEAs, which were later processed and produced intelligence reports. Thus, as recommended in the MER, the AMLC has greatly enhanced information sharing, and broader support to LEAs on terrorism and TF, and predicate offences (beyond fraud, drugs and corruption) that pose a higher level of threat for ML through the information sharing portal, regular conduct of TIPs (In 2019, the pioneer TIP Workshops for terrorism and TF, swindling/fraud, and graft and corruption were held in September, October and December, respectively and 2 TIPs in 2020 prior to Covid 19 lockdown), active participation in the weekly JTFIG meetings, and effective dissemination of intelligence products.	
7. AMLC should ensure the confidentiality of information is protected when sharing intelligence in an informal manner. Confidentiality of information has always been observed by the AMLC and its Secretariat. Further, the AMLC continuously enhanced ways in ensuring the confidentiality of information through execution of memoranda and information sharing agreements; deployment of a secured information sharing portal; establishment of an information sharing center; provision for security training; and continuous review of regulations, laws and policies, among others. As of end February 2021, the AMLC has executed 38 Memoranda of Agreement (MOAs) with domestic law enforcement and government agencies, and 14 Information sharing agreements with CPs⁶³ under the Public-Private Partnership Programs (PPPP) Information sharing among domestic government agencies are covered by the Document Security Protocol and security training is provided to government employees. As of July 2020, 50 Memoranda of Understanding (MOUs) were signed with financial intelligence units, and foreign governments. The MOUs are for information sharing with FIUs and foreign law enforcement agencies (i.e. FBI). If the FIU is a member of the Egmont, then the information sharing is coursed through ESW. If the FIU is not a member of ESW, then the sharing will be made via secure/encrypted email. The AMLC Information Sharing Portal (ISP) was launched in August 2019 for the electronic dissemination of reports to National Government Agencies (NGAs) with which the AMLC has signed MOAs as well as CPs which are members of the AMLC's PPPP. The AMLC ISP is a secured platform which has enabled not just faster information sharing but has also institutionalized and streamlined feedback mechanisms with domestic partners. There were 367 proactive intelligence reports and 338 reactive intelligence reports disseminated from 2019 to the first four months of 2021. Although provisions on information security and confidentiality are existing in the 2018 AMLC IRR and there were no cases of violation of the said provision, there were still amendments in the AMLA to strengthen the importance of information security and confidentiality. The amendments in the AMLA made it explicit as a statutory law. Under Republic Act No. 11521, or the 2021 Amendments to AMLA, a new provision was inserted to ensure information security and confidentiality. Section 8-A reads as follows: "SECTION 8-A. INFORMATION SECURITY AND CONFIDENTIALITY – THE AMLC AND ITS SECRETARIAT SHALL SECURELY PROTECT INFORMATION RECEIVED OR PROCESSED AND SHALL NOT REVEAL, IN ANY MANNER, ANY INFORMATION KNOWN TO THEM BY REASON OF THEIR OFFICE. THIS PROHIBITION SHALL APPLY EVEN AFTER THEIR SEPARATION FROM THE AMLC. THE AMLC SHALL FORMULATE RULES GOVERNING INFORMATION EXCHANGE AND DISSEMINATION, THE SECURITY AND CONFIDENTIALITY OF SUCH INFORMATION, INCLUDING PROCEDURES FOR HANDLING, STORAGE, AND PROTECTION OF, AS WELL AS ACCESS TO SUCH INFORMATION." Further, pursuant to the MOA signed in 2021, the AMLC and PNP set up Fusion Center where both agencies can share information relating to ML/TF, and associated predicate crimes, The Fusion Center, which is housed inside the PNP headquarters in Quezon City, will allow both agencies to maximize their resources and strengthen their feedback mechanism through the timely exchange of data. For informal requests for information from LEAs and NGAs, the AMLC policy is to acknowledge these requests and requesting parties are asked to formally send an email in support of their request.	This recommended action is largely addressed.

⁶³ 2 Universal Banks, 1 E-money Issuer, 4 Money Service Business

	AMLC-FIAG shares intelligence through the ISP. In the event that the agency is yet to register with the ISP (i.e., newly signed MOA), AMLC sends the information through password-encrypted email to ensure the confidentiality of the shared file. Moreover, files are embedded with watermarks and reminders on the confidentiality of the information. The AMLC employs its Document Security Protocol, based on Executive Order No. 608, Series of 2007, which provides the guidelines on the Security of Classified Matter in Government Departments and Instrumentalities. This Protocol ensures that the information shared by the AMLC to the LEAs and other government agencies will be handled properly depending on the document's security classification. On 02 October 2020, thirty (30) AMLC personnel attended the Document Security Protocol Webinar conducted by the National Intelligence Coordinating Agency (NICA). This Webinar taught the attendees on how to properly handle documents shared by the AMLC with other government agencies, and vice versa, depending on the document's security classification and the personnel's security clearance. Each AMLC employee is required to sign a Confidentiality Waiver upon onboarding. Aside from the waiver, there are also confidentiality trainings which are being offered to all AMLC employees on a regular basis. Latest offering was scheduled in March 2021 entitled "Briefing on Organization Policies in Handling Sensitive and Confidential Information and Related Topics". All employees were reminded on the proper handling of documents under <i>The New Economy</i> arrangement with the issuance of guidelines through Memorandum 2020-168. All employees were enjoined to exercise due diligence in handling, delivering, storing of confidential/restricted documents, whether physical or electronic. Employees were required to track documents, maintain logbooks, and report breach of confidentiality, if any.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 6. The JG identified recommended actions 1, 2, 4 and 6 as key recommended actions as they relate to the core capacity and functions of the FIU and also address issues of development, dissemination and use of financial intelligence. Recommended action 1 is a key recommended action and is partially addressed. Although there was a relatively solid growth in the manpower of FIAG, an improvement in proceedings and IT solutions the current level of staffing does not achieves the recommend action and still does not seems to be adequate for an effective discharge of FIAG's functions and duties. An action plan is created for the enhancement of the staffing capabilities of FIAG commensurate with the perceived needs. Recommended action 2 is a key recommended action and is partially addressed. Although the AMLC supports LEAs in developing financial intelligence for the investigation of predicate offences and ML there is no tangible evidence that LEAs are developing and using financial intelligence by themselves, relying totally in the disseminations of the AMLC for that purpose. Although the situation being a little bit better in the FT side because LEAs tend to rely more actively in their own sources of intelligence which includes, on occasion, financial intelligence, overall the dependence of the LEAs on the disseminations from the AMLC warrants an action plan item dedicated to address this deficiency. Recommended action 3 is largely addressed. Since the MER significant developments have been made in terms of the proactive dissemination of FIRs by the FIAG on the terms required by this recommended action. Recommended action 4 is a key recommended action and is largely addressed. Since the MER the quality of intelligence analysis by FIAG has improved substantially by (i) expanding additional information sources; (ii) development/acquisition of application systems and analytical tools; (iii) hiring of capable and qualified personnel; and (iv) training of personnel. Recommendation action 5 is partially addressed. Since the MER the AMLC has introduced and implemented measures to improve STR quality through continuous STR quality review, conducting regular briefings to update the CPs on latest AMLC issuances/guidelines, providing hotlines for inquiries related to ST reporting and/or providing guidance/receiving clarifications on the nature of the transactions CPs were reporting. However, the cross border cash declaration forms, especially at entry ports in the Philippines, show a volume of FPDFs and total amount involved that do not seem in line with the risk profile of the Philippines.	

	Recommendation action 6 is a key recommended action and is largely addressed. The increase in utilization of the FIAG information sharing portal combined with the growing number of entities, including all relevant LEAs, with access to it, the creation and increased usage of the TIPs that allow for the exchange of information between the AMLC-FIAG and relevant LEAs and the participation in specialized task forces, all have contributed for the tangible enhancement of the information sharing capabilities of the AMLC-FIAG both in terrorism and TF as well as in a wide range of predicate offences. Recommended action 7 is largely addressed. Since the MER the AMLC promoted the enhancement of confidentiality through (i) negotiation and implementation of memorandum and information sharing agreements both with competent authorities, LEAs and CPs; (ii) deployment of a secured information sharing portal; (iii) establishment of an information sharing center; and (iv) provision for security training; and continuous review of regulations, laws and policies.	
Immediate Outcome 7 Low	3. Taking into account AMLC's role as the lead ML investigation agency, greatly increase FCIG staffing to add appropriately skilled investigators for ML and financial investigations up to and beyond the 2018 establishments. Ensure dedicated staff, with the specialised knowledge on financial crimes, within LEAs with financial investigation units. <u>AMLC Staffing</u> The AMLC's Financial Crimes Investigation Group (FCIG) is the primary designated authority to investigate ML offenses. It also supports other agencies like the PNP, NBI and PDEA in obtaining banking and other financial documents. With the increasing number of investigations being undertaken by these agencies, the goal of FCIG is to certainly add skilled financial investigators. In the approved reorganizational structure of FCIG, the authorized number of positions in FCIG is fifty-one (51), including two (2) Deputy Directors and two (2) administrative officers. The hiring of competent and skilled people is being fast-tracked by the AMLC-AFITSG (Administrative, Financial and IT Services Group) to completely fill-up all the established positions in the reorganizational structure of FCIG. During the onsite visit in November 2018, there were eighteen (18) investigators. With the reorganization of the AMLC, some investigators were transferred in 2019 to the other departments in AMLC and Bangko Sentral ng Pilipinas (BSP) and new investigators were likewise hired in 2019, 2020 and 2021. To date, the total number of investigators is twenty-seven (27), or an increase of nine (9) investigators. New staff were also added to the AMLC-LEG. From eleven (11) legal officers in 2018 (during the onsite visit), the number has increased to eighteen (18) as of 30 March 2021, or an increase of seven (7) legal officers. The investigators and legal officers are assigned in five (5) different sub-groups specializing on different high risk predicate crimes, namely Anti-Drug Trafficking Staff (ADTS), Anti-Terrorism Financing Staff (ATFS), Anti-Fraud Staff (AFS), Anti-Corruption Staff (ACS), and Other Offenses Staff (OOS). In some complex cases requiring more investigators within the AMLC, investigators from other subgroups are likewise assigned to the case. Each AMLC-FCIG sub-group has counterpart AMLC-LEG lawyers also working in the same specialized sub grouping. The LEG evaluates the investigation reports by the FCIG investigators and determines appropriate action and thereafter there is constant coordination with the handling investigator when the LEG drafts pleadings, motions, and affidavits in civil and criminal cases. Not only that the LEG ensures that the evidence is sufficient to establish the existence of probable cause to support an <i>ex parte</i> petition for freeze order, <i>ex parte</i> applications for bank inquiry, and complaints for ML and terrorism financing (TF). The LEG also ensures that the evidence is adequate to support a petition for civil forfeiture and provisional remedies. The LEG also assists the FCIG investigators when attending meetings and case conferences with the OSG, the DOJ and the OMB. Table No. 1 shows the yearly increase in the number of investigators and legal officers, including their assigned sub-groups, thus:	This recommended action is not addressed. Authorities should: - Continue to increase FCIG staffing - Continue to increase the number of skilled investigators in AMLC - Consider forming a dedicated financial investigation unit in the PNP

Table No. 1: No. of Investigators and Legal Officers								
Sub-Groups	FCIG Investigators				LEG Legal Officers			
	2018	2019	2020	2021	2018	2019	2020	2021
Anti-Drug Trafficking	19	8	8	8	11	4	5	7
Anti-Corruption		5	5	5		5	5	5
Anti-Terrorism Financing*		3	4	5				
Anti-Fraud		3	4	4		3	5	6
Other Offenses		3	5	5				
Total	19	22	26	27	11	12	15	18

*TF investigators are dedicated to investigating TF offences and will join to support ML investigators when TF is being raised through commission of predicate crimes such as drug trafficking, kidnapping and other predicate offences.

AMLC-FCIG investigators are comprised mostly of accountants (48%), lawyers (19%), CPA-lawyers (11%), and IT and related courses (22%). 26% of FCIG staff have law enforcement background. All FCIG staff have well-developed financial investigative skills and expertise, and have attended relevant trainings on financial investigation, forensic examination, asset tracing, interviewing witnesses, search and seizure, and other capacity building activities. The AMLC investigators assist in filing criminal complaints in ML cases, and act as witnesses in both criminal and civil cases.

A great majority of investigators have earned post-graduate studies in various fields like Master in Business Administration, Master of Laws, Doctor of Laws, Master in Forensic Accounting, Master in National Security Administration, Master in Industrial Security Management, Master in Applied Finance, Master in Public Administration, and Master in Management, other disciplines, including professional certifications the following post-graduate studies. To further enhance their knowledge and skills, four (4) investigators have earned global certification as Certified Anti-Money Laundering Specialist (CAMS) and one (1) as Certified Fraud Examiner (CFE).

For continuous capacity building of AMLC-FCIG staff, they attend various trainings, seminars/webinars, both local and international to enhance their investigative skills. The attendees of the various trainings and seminars are required to cascade their learnings to other members of the AMLC. This mechanism allows all members of the AMLC to benefit from trainings and seminars Materials provided in the seminars and training are also furnished/distributed to other members of the AMLC.

The Targeted Intelligence Packaging (TIP) Workshop is a new initiative organized by the AMLC launched after the 2019 MER. The TIP intends to promote national cooperation on AML/CFT investigations between key counterparts. During these workshops, primary focus is enhancing the sharing of ML and TF intelligence and related predicate offenses.

A number of training sessions have been conducted with LEAs and other government agencies (GAs) since 2019. From 2019 to February 2021, the AMLC facilitated/attended fourteen (14) TIP workshops to increase the capacity of LEAs and other stakeholders in using financial intelligence (detailed in IO 6a-b) and financial investigations including conducting parallel investigations for ML

cases. The increase in the number of investigators helped in developing more investigation reports which, after evaluation by the Legal Evaluation Group (LEG), served as basis for the filing of Petitions/Applications/Cases filed in 2019, 2020, and 2021.

As seen in Table 9 above, since the 2018 ME, the AMLC focused on organizing trainings and strengthening its coordination with LEAs. As shown in table 4, fourteen (14) TIP workshops were held in 2019 up to the 1st quarter of 2020. As a result, there has been a significant increase in the number of investigations and cases filed between 2019 and 2020 since the TIP workshops commenced as shown in the table 9 above, significant surge in the number of cases such as bank inquiries (56.25%), freeze orders (171.43%) and money laundering complaints (20%) were observed in 2020 compared with the previous year. Further, for the 1st quarter of 2021, the AMLC has filed 21 cases, which is already 41% of the case filings if to be compared with the 51 cases filed in the previous year.

With regard to the decrease in number of Civil Forfeiture Cases from 2019 to 2020, this is attributed to the impact of Covid-19. There are challenges with regard to asset tracing and investigation for civil forfeiture cases because of travel restrictions and lockdowns but despite these hindrances the AMLC and Law Enforcements Agencies continuously develop cases and investigations, hence, the increase of bank inquiries and freeze orders by 56.25% and 171.43%, respectively. These are expected to ripen to filing of criminal actions and forfeiture cases in the near future. In fact, after easing of travel restrictions and lifting of lockdowns in 2021, the AMLC with the OSG were able to file five (5) Civil Forfeiture petitions in the first quarter of 2021.

LEA and Prosecutor Staffing for Financial Investigations and ML-related Cases

For the period covering 2018-2021, the PDEA and PNP dedicated thirty (30) and twenty-nine (29) staff, respectively, to handle financial crimes/ ML investigations. Including conducting parallel investigations with FCIG. The PNP staff consist of deputized ML investigators, designated personnel in the AMLC-PNP Fusion Center I, and Fusion Center II:

Table No. 10 Number of Dedicated Personnel for Financial Investigation		
LEA	No. of Staff	Date
PDEA	30	2018-2021
PNP	29	2021

In addition, Ombudsman investigators are trained to conduct initial investigation relating to money laundering. Whenever investigations of graft and corrupt practices show red flags relating to the commission of probable money laundering, OMB Investigators initially identify the source, transfer and/or eventual use of public funds and identification of persons involved. The OMB and the AMLC also coordinates with respect to the investigations, with both agencies pursuing investigations, in accordance with their mandates. AS of this date, there are 104 OMB investigators. As part of the continued commitments of the OMB to address the high risks of corruption, the Office is in the process of hiring an additional 50 investigators. All new investigators will receive training on the conduct of financial investigation.

In the third quarter of 2019, the Office of the Solicitor General (OSG) reconstituted the AMLC-OSG Task Force. From fifteen (15) members, there are now eighteen (18) members, including the Solicitor General. The OSG serves as the statutory counsel of the AMLC before the courts for applications for bank inquiries, petitions for issuance of freeze orders and actions on civil forfeiture. The new members were also the participants of the above mentioned IDLO Trainings.

During the TIP workshop held on 26-30 October 2020 between the PDEA and AMLC and in the series of case conferences held thereafter, the Guidelines on the Enlistment of Deputized AML Investigators was drafted. Initially, fifty (50) Deputized AML Financial Investigation Officers (DAFIs) representing all the regions in the Philippines were drafted as DAFIs which is expected to be fully implemented within the year.

	The DOJ likewise created a dedicated team of prosecutors for Anti-Money Laundering through the issuance of Department Order No. 213, 14 September 2020. Previously, ML Prosecutors were part of the Anti-Fraud Team of the DOJ. The dedicated team, composed of nine (9) prosecutors, will be targeted for enhanced capacity building on ML prosecutions and ensure proper focus on ML cases.	
	4. Ensure certain LEAs seek expedient access to bank records (with appropriate integrity controls) for AML/CFT functions and predicate crime investigations; amend legislation to include tax crimes as predicate offences to ML; and empower AMLC, as an LEA, to exercise the fullest range of investigative powers. Since the adoption of the mutual evaluation report, the Philippines has taken significant steps both to enhance the investigative powers of the AMLC and to improve other LEAs' access to bank records. In addition, amendments to relevant laws in January 2021 have included tax crimes as predicate offences to money laundering. <u>New Legislation Enhancing the AMLC's Investigative Powers</u> On 30 January 2021, Republic Act (R.A.) No. 11521 otherwise known as "An Act Further Strengthening the Anti-Money Laundering Law, amending for the purpose Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act of 2001, as amended", took effect.⁶⁴ Among the new amendments in the law are the following: Tax Evasion as a Predicate Offense This amendment includes Section 254 of the National Internal Revenue Code (NIRC), Attempt to Evade or Defeat Tax (which is the tax evasion provision in the NIRC) as Predicate Offense to Money Laundering where the basic tax due in the final assessment is in excess of Twenty-Five Million Pesos (PhP25,000,000.00) per taxable year, for each tax type covered; Subpoena Power of the AMLC The amendment empowered the AMLC, as a LEA, to exercise the fullest range of investigative powers. It can now apply for the issuance of a subpoena <i>ad testificandum</i> and/or subpoena <i>duces tecum</i> with any competent court; Search and Seizure Order Another amendment is that the AMLC can now apply for the issuance of a search and seizure warrant/order with any competent court. <u>LEA's access to bank records</u> LEAs like the PNP, NBI, PDEA, and the BOC which are primarily involved in the investigation of predicate offenses are given expedient access to bank records and/or information through the various mechanisms instituted by the AMLC after the mutual evaluation in 2018. Some of these mechanisms include the establishment of the Information Sharing Portal (ISP) to LEAs and GAs; application for search warrants by the AMLC-FCIG investigators; use of the Targeted Intelligence Packaging (TIP) workshops, and the establishment of the Fusion Center by the PNP and AMLC. These mechanisms strongly demonstrate that the bank secrecy laws are pierced through the operation of the AMLA and that relevant bank records/information are being shared with counterpart LEAs with	This recommended action is partially addressed. Authorities should: - Facilitate timely access to banking and financial information - Collect statistics and case studies to demonstrate the effectiveness of the AMLA amendments and the new fusion center - Ensure a sufficiently broad range of tax evasion offences are captured as predicate offences for money laundering.

⁶⁴ <http://www.amlc.gov.ph/images/PDFs/RA%2011521.pdf>

expediency, while still protecting the integrity of the said bank record/information.

With the issuance of AMLC issued Office Order No. 45, Series of 2019 with the Subject: Internal Guidelines on the Exchange, Sharing, and Dissemination of Financial Intelligence and Other Information, LEAs can expeditiously access information on certain bank records on a more secured and faster platform through the AMLC-FIAG. Sharing of information became automated with the establishment of an Information Sharing Portal (ISP) to LEAs, GAs, and AMLC-FCIG.

Targeted Intelligence Packaging (TIP) Workshops

The TIP workshops have evolved into an effective and efficient information sharing and parallel investigation mechanism. In July 2020, the AMLC Executive Director (ED) approved the Guidelines on Target Intelligence Packaging and was intended to form as integral part of the AMLC-FCIG Investigation Manual. With the new amendments with the AMLA, enactment of the Anti-Terror Law, TIP Guidelines, and the approval of the Criminal Forfeiture Guidelines, the said current Investigation Manual is undergoing amendments/revisions and will be presented to the Council for approval in the second quarter of 2021. Nevertheless, the said TIP Guidelines is now being applied to AMLC Secretariat's TIP with partner LEAs and other government agencies (OGA). The following provisions of the TIP Guidelines ensure that participating LEAs/OGAs were provided expedient access to bank accounts/information of personalities/entities subject of their investigation, and that confidentiality of information is ensured. The AMLC-FCIG shall endeavor to conduct at least three (3) TIPs in a year for each of the five (5) AMLC-FCIG sub-groups and shall cover the three (3) main islands of the Philippines: Luzon, Visayas and Mindanao.

Confidentiality of information is ensured in the TIP Workshops considering that TIP Workshops are only be conducted with agencies and LEAs with existing MOAs with the AMLC. Section 5 of the Guidelines on Target Intelligence Packaging for the AMLC provides for confidentiality of information which states that "All information and documents, including POIs or subjects, their financial information, and any information or document shared or presented during or in relation to the TIP, shall be confidential in nature. This must be clearly communicated to all participants in all instances.

Parallel Investigations.

The AMLC, LEAs and other GAs are actively doing pro-active parallel financial investigations when pursuing money laundering and associated predicate offenses or unlawful activities. Significant information, including bank and allied records, are immediately shared with all authorized end-users. A feedback mechanism is in place for all information shared and/or received by each agency.

Use of Confidential Informant of AMLC

There are several instances that AMLC investigators obtained from the confidential informants in their possession financial information and documents linking the illegal drug activity and the laundering of illegal drug proceeds. The usual financial documents are deposit slips which proved the payment of the illegal drugs as well as a "notebook" or ledger which shows the "remittances". However, these informants, for fear of their life, would not want to execute sworn statements or testify in Court. In this case the AMLC investigator will use the information as leads and share the bank information to the LEAs for their establishment of predicate crime and/or eventual arrest. Included in the sharing are the profiles of the POIs as well as their known associates. In this way, they instantly gain access to the bank records without the formalities required during the bank inquiry.

Bank records seized during legitimate operations by AMLC independently, or jointly with other LEAs;

The financial records are obtained either by LEA alone, or AMLC, or jointly by LEA and AMLC. For LEA, they seized the same during their operations and the same are inventoried and shared with AMLC. For AMLC, the financial records are seized during implementation of Search Warrant, provided by confidential informants or private complainants and witnesses. There are instances that the LEA (BOC, PDEA, PNP) would ask the assistance of AMLC during Search warrant applications and during the implementation of Letter of Authority by the BOC. Vice versa, the AMLC usually would seek the assistance of the LEA in the implementation of Search warrant, in this case, the financial records are obtained jointly. The investigators already utilized the following investigative techniques

in gathering intelligence and pieces of evidence in order to freeze and forfeit assets as well as file money laundering cases:

1. Discreet ocular inspections.
2. Surveillance activities, jointly and/or separately with LEAs;
3. Acquisition of confidential informants;
4. Controlled deliveries.
5. Interview of witnesses and resource persons.
6. Use of CCTV footages.
7. Application for Search Warrant;
8. Use of forensic evidence.
9. Undercover operations.
10. Background investigations.

The methods of providing LEAs expedient access to bank records are not limited to the abovementioned forms and channels. The AMLC is constantly reviewing its systems, processes, and procedures with the objective of delivering effective and efficient information sharing with other LEAs while maintaining appropriate integrity controls. Nevertheless, attached are appreciation letters and plaques of appreciation from different LEAs given to AMLC-FCIG investigators as resource persons during capacity building seminars and trainings. These show adequacy and effectiveness of the current forms and channels of coordination and information sharing with other LEAs relative to the investigation and prosecution of ML/TF cases as well as its predicate crimes

AMLC- PNP FUSION CENTER

On 15 February 2021, a MOA was executed by and between the AMLC and the PNP creating a “FUSION CENTER”, the main objective of which is for the PARTIES to promote and encourage cooperation and coordination to effectively prevent, control, detect, investigate, and prosecute unlawful activities under Section 3(i) of the AMLA, as amended, and money laundering activities arising therefrom, and terrorism financing. The PARTIES shall likewise endeavor to cooperate in the areas of information exchange and capacity building measures to enhance the capability of both parties in addressing money laundering, terrorism financing and unlawful activities in the country.

The fusion center will also become the conduit for implementing the action plans of the National Anti-Money Laundering/Countering the Financing of Terrorism Strategy (NACS) on the timely sharing of information between Law Enforcement Agencies. The NACS is the national strategy adopted as a policy of the government to be implemented by all relevant government agencies and instrumentalities as provided under Executive Order No. 68, series of 2018.

The fusion center is housed in the premises of the PNP Headquarters in Camp BGen. Rafael T. Crame, Quezon City, Metro Manila. The fusion center shall serve as the information sharing hub between the PARTIES to efficiently exchange information and intelligence, maximize resources, streamline operations, and improve the ability of the PARTIES to fight money laundering, terrorism financing, and other crimes by merging data from a variety of sources.

In addition to the exchange of information, the PARTIES shall cooperate in other ways, including the exchange of studies, research, information on current, new and emerging trends and typologies pertaining to money laundering and terrorism financing. Joint trainings may be undertaken by the PARTIES to ensure the inter-operability of their respective personnel.

The AMLC-FCIG staff are now rendering daily duties (except weekends and holidays) to the center, on a rotation basis. At least fifteen (15) personnel have been assigned to the Fusion Center by PNP hierarchy.

5. Implement objective 2 and other related objectives of the NACS, to enhance the effective identification of ML arising out of predicate crime investigations and financial intelligence in keeping with the risk profile. This can include mechanisms and guidelines related to the referral by LEAs of possible ML elements arising out of predicate crime investigations.

In July 2020, the Guidelines on Targeted Intelligence Packaging (TIP) was issued. TIPs engage various national security agencies (NSAs), law enforcement agencies (LEAs) and government agencies (GAs) with mandates to investigate money laundering (ML), terrorism (T) and terrorism financing (TF). The TIP process adds value to AMLC ML/T/TF investigations because it enhances the cooperation and collaboration with NSAs and LEAs. It also provides an "investigative trigger" that may warrant the opening of an ML/TF investigation. In addition, the inter-personal relationships that are developed in TIPs, both with the ranking officials of the agencies and the operatives on the ground, improve the level of engagement and have paved the way for establishment of trust and confidence among our counterparts. Such trust and confidence encourage the sharing of more information that will initiate financial investigations by the AMLC and new or additional information to further existing investigations or start a separate investigation with respect to our counterparts. Thus, the Guidelines were issued to formalize the policies and procedure governing the conduct of TIPs, including administrative processes and logistical concerns, without compromising the confidentiality of financial information and the investigation process.

As provided in the TIP Manual, after the conduct of each TIP, a post-activity report or PAR should be submitted. This should include data on the number of attendees, the POIs discussed, the taskings to be done by each agency, and others. For the summary of the TIPs conducted in 2019 to February 2021. During the last day of the TIP, the "tasking" document is signed by the head of all agencies or their designated representatives present during the TIP. It serves as a commitment of the agency which they must endeavour to comply within the set timelines. It shall also include actions to be taken that will improve operational efficiency of the agencies in their investigation.

As can be seen in Table 4 above, the focus of TIP workshops are high risk crimes. This has resulted in the increase in filing of ML-related processes, and criminal and cases predicated on high-risk crimes, such as drug trafficking, fraud/SRC violations, environmental crimes, corruption and smuggling.

In July 2020, Office Order No. 18 was issued by the AMLC, constituting the Technical Working Group (TWG) for the Revision/Updating of the AMLC-FCIG Investigation Manual. Some of the salient features to be revised include the following: (1) to include in the preparation of the Investigation Report the investigative tools used, e.g. net worth analysis; multiple account analysis; deposit-withdrawal analysis; surveillance; interviewing witnesses; and others. (2) to include in the manual the subject on lifestyle check; (3) the use of AMLC badge during search and seizure and/or police operations. The new AMLC-FCIG Investigation Manual will enhance the identification and investigation by strengthening and expediting the workflow of the AMLC-FCIG and will also adopt the newly passed Anti-Terrorism Act of 2020 into the Manual.

This recommended action is not addressed.

6. Apply significantly greater resources and to more effectively pursue ML arising out of high risk predicate crimes and foreign predicate crimes whilst focusing on prosecuting different types of ML, including third party and stand-alone ML.

From 2019 to February 2021, AMLC-FCIG investigators hosted/attended fourteen (14) TIP trainings to aid them in using financial intelligence and for the conduct of parallel investigations of high-risk crimes.

The TIP workshops had assisted the AMLC in establishing the ML offense and caused the filing of cases, particularly those predicated on illegal drugs, fraud, corruption, environmental crimes, and SRC violations. The table below shows the number of ML investigations, indicating therein the predicate crimes and ML types:

This recommended action is partially addressed.

Authorities should:
- Increase resourcing to effectively pursue ML cases in line with the Philippines' risk profile

Table No. 12 ML Cases Filed in 2019 & 2020 and Number of Ongoing ML Investigations				
	Predicate Crime	ML Type		Total No. of Cases
		Self-Laundering	Third Party Laundering	
ML Cases Filed in 2019				
1.	Fraud	2	0	2
2.	Corruption	3	0	3
	Total	5	0	5
ML Cases Filed in 2020				
1.	Drugs	2	0	2
2.	Corruption	3	0	3
3.	Qualified theft	1	0	1
	Total	6	0	6
ML Complaints/Cases Filed in 2021 (as of 31 March 2021)				
1.	Drugs	1	0	1
2.	OSEC	1	0	1
	Total	2	0	2
Ongoing Money Laundering Investigations				
1.	Drugs	17	6	23
2.	Corruption	10	0	10
3.	Estafa/Swindling/Fraud	19	0	19
4.	SRC Violation	7	0	7
5.	Violation of E-Commerce Law	1	0	1
6.	Child exploitation	4	0	4
7.	Environmental crime violation	1	8	9
8.	Smuggling	3	0	3
9.	Robbery and kidnapping	1	0	1
	Total	63	14	77

The following are some of the recent convictions for ML:

A. The Case of People of the Philippines vs. Maia Santos-Deguito, et al., (For: Violations of Section 4(f) of Republic Act [RA] No. 9160, as amended, Regional Trial Court [RTC], Makati City, Branch 149)

In its Decision dated 10 January 2019, the RTC-Makati City, Branch 149, convicted Maia Santos-Deguito (Deguito) for eight (8) counts of violations of Section 4 (f) RA No. 9160, otherwise known as the Anti-Money Laundering Act of 2001, as amended (AMLA). The Decision is related to the hacking incident into the Information Technology (IT) system and Society for Worldwide Interbank Financial Telecommunications (SWIFT) facility of Bangladesh Bank, committed in February 2016. Deguito was the manager of the branch of the Philippine bank where portions of the proceeds of the hacking were transacted.

The AMLC - Litigation and Evaluation Group (LEG) formed a team to handle and collaborate with the DOJ in the prosecution of the case. The prosecution presented thirteen (13) witnesses in seven (7) hearing dates from 21 June 2018 to 14 August 2018. The main witness of the prosecution was the AMLC's financial investigator.

Relying heavily on the testimony of AMLC's financial investigator, the Court found that the prosecution has fully established the guilt of the accused. The Court concluded that Deguito not only facilitated the subject illegal bank transactions but also coordinated and collaborated in the execution and implementation of the said transactions (which constituted money laundering) to ensure easy and prompt crediting and transfer to the account of William Go, which was also opened by Deguito, disregarding, and putting aside any obstacle and distraction including the stop payment instruction.

B. The Case of People of the Philippines vs. Clemente Agcamaran, et al.,

In its Decision dated 26 July 2019, the RTC-Marikina City convicted Clemente Agcamaran guilty for five (5) counts for violation of Section 4 (b) of Republic Act No. 9160, as amended, for allowing transactions on six (6) checks in the total amount of Php1,245,028.25, despite knowledge that these were proceeds of Qualified Theft. Agcamaran allowed transactions into the account of Theresa Agnes C. Analupa (Analupa), thereby giving the funds transacted a semblance of legitimacy. He also opened accounts in the name Anna Liezl Gatdula, despite knowing that said accounts were opened in furtherance of the depositor's illegal activities. The funds represented by said Checks represent the proceeds of the unlawful activity of Qualified Theft.

Agcamaran was sentenced to suffer the penalty of imprisonment from four (4) years to five (5) years and to pay a fine of One Million Five Hundred Thousand Pesos (Php1,500,000.00) in all of the five (5) information, with subsidiary imprisonment in case of insolvency.

C. People of the Philippines vs. Angela Ruth Torres

The case is related to case A above. In the Judgment dated 8 March 2021, the Regional Trial Court (RTC) - Makati City, Branch 141, convicted Angela Ruth Torres (Torres) guilty beyond reasonable doubt for violation of Section 4 (f) RA No. 9160, otherwise known as *The Anti-Money Laundering Act of 2001*, as amended (AMLA), in Crim. Case Nos. R-MKT-19-02359-CR. The RTC found that Torres, former RCBC Jupiter Branch Senior Customer Relations Officer (SCRO), and the assistant of Deguito, the former Branch Manager, facilitated the laundering of the funds generated from the hacking of the Bangladesh Bank's Information Technology (IT) system.

As presented and proved by the Prosecution, Torres knew that the funds credited to the four (4) RCBC dollar accounts were amounts (USD 81M) derived from an unlawful activity. Further, her acts which then help and assist Deguito in the facilitation of the laundering, were sufficiently proven by the Prosecution.

The above money laundering convictions involved high risk crimes, several persons of interest (POIs), and various bank accounts used to launder funds representing proceeds of the unlawful activities:

Table No. 13 Number of ML Convictions from 2019-2021			
Year Convicted-ML	ML Case Against	Predicate Crime	ML Type
2019	Maia Santos-Deguito, et al.	E-Commerce Law	Third Party ML/Stand Alone ML
2019	Clemente Agcamaran, et al.	Qualified Theft	Third Party ML
2020	Louie Nickolson	Fraud	Self laundering

	2021	Angela Ruth Torres	E-Commerce Law	Third Party ML/Stand Alone ML	
	7. In order to address the significant need for greater resources to be allocated to ML investigations, the Philippines should consider certain LEAs be designated to conduct their own ML investigations (with appropriate integrity controls). LEAs, other than AMLC, have their own dedicated units working on financial investigations. National Bureau of Investigation (NBI) For instance, the NBI has specialized units/division that investigate money-laundering related offences like the (1) Anti-Graft Division which has eleven (11) investigative personnel whose primary mandate is to investigate graft-related cases; (2) Anti-Fraud Division 11 whose primary mandate is to investigate fraud related cases; and the (3) Anti-Drug Task Force whose primary mandate is to investigate drug-related activities. Other investigative and intelligence units of the NBI are also capable of investigating ML-related activities since NBI investigators are trained to conduct financial investigation as this is one of the subjects in the NBI Academy. A specialized topic on money laundering is also discussed in the academy. The NBI has been modernized to adequately meet the increasing demands of an expanded investigative and detective work. It has the authority to conduct ML and TF congruent to the investigation of the predicate offenses. In the conduct of NBI investigation, collaboration with other law enforcement agencies is greatly encouraged and actually being exercised during financial investigation. NBI also requests the assistance of the AMLCS in obtaining valuable bank information through the conduct of bank inquiry, asset recovery and implementation of freeze orders. This is in consonance with the Memorandum of Agreement between the NBI and AMLCS with respect to exchange of information and mutual assistance.. Philippine Drug Enforcement Agency (PDEA) Agents of the PDEA are also well-trained in conducting financial investigation due to the conduct of several TIPs in the past years. They now consider the value of financial records discovered during their drug operations aside from the seized drug paraphernalia, cash and other assets. The financial records are thus referred to AMLC to determine other transactions, beneficial account owners, account details, and potential links with other POs and subjects. See sample cases in item f below. There is very close coordination between AMLC-FCIG investigators and PDEA agents. In fact, during the TIP held between PDEA and AMLC on 26-30 October 2020, and in the series of case conferences held, the Guidelines on the Enlistment of Deputized AMLC Financial Investigators (DAFIs) was discussed (attached is draft copy of said Guidelines). The draft of the said guidelines was initially submitted to the PDEA for comment on 18 November 2020 and they have no opposition to the said guidelines. Initially, fifty (50) Financial Investigation Officers representing all the entire regions in the Philippines were drafted as DAFIs. Essentially, the major objectives of the aforesaid Guidelines are the following: - Cause the filing of complaints with the or the Office of the Ombudsman (OMB) for the prosecution of ML or TF offenses; - Apply before the Court of Appeals (CA), <i>ex-parte</i>, for the freezing of any monetary instrument/property alleged to be proceeds of any unlawful activity as defined under the provisions of Republic Act (R.A.) No. 9160, also known as the "Anti-Money Laundering Act of 2001" (AMLA), as amended, R.A. No. 10168, also known as the "Terrorism Financing Prevention and Suppression Act of 2012" (TFPSA) and R.A. No. 11479 or the Anti-Terrorism Act of 2020 (ATA); - Inquire or examine any particular deposit or investment, including related accounts, when it has been established that there is probable cause that the deposits or investments, including related accounts involved, are related to a money laundering offense under the AMLA, TFPSA or ATA; - To institute civil forfeiture proceedings and all other remedial proceedings through the Office of the Solicitor General (OSG);				This recommended action is largely addressed.

Office of the Ombudsman

The Office of the Ombudsman also conducts financial investigation. As of 31 December 2020, its Field Investigation Office has a total of one hundred sixty-six (166) field investigators in its central and sectoral offices. Some field investigators have attended trainings on money laundering investigation during the TIP workshops and IDLO-sponsored trainings. The objective of the AMLC is to regularly engage them in capacity building trainings in the future, thus:

Table No. 14 Number of Ombudsman Investigators			
Office	Lawyers	Non-Lawyers	Total
Central office (Field Investigation 1 & 2)	29	75	104
OMB-Luzon	4	14	18
OMB-Visayas	3	8	11
OMB- Mindanao	3	10	13
OMB-MOLEO	2	18	20
TOTAL	41	125	166

The OMB and AMLC work closely together in pursuing ML and corruption cases as described in the succeeding section.

8. LEAs should regularly refer possible ML aspect to AMLC to pursue parallel ML investigations, whilst continuing with predicate crime investigations. However, LEAs should also support AMLC in ML investigations where their investigative powers are insufficient.

This recommended action is not addressed.

LEAs and other government agencies work closely with AMLC in pursuing ML investigations related to their predicate crime investigations.

The AMLC shares its investigation reports to the Office of the Ombudsman (Ombudsman) in pursuing parallel investigations on ML and corruption-related cases. The reports, in most cases, were used by the Ombudsman in their prosecution of the predicate crimes. In fact, from 2019 to 2021, some AMLC-FCIG investigators were called in to testify before the Sandiganbayan in relation to their prosecution of the following cases:

- a. In 2019, four (4) investigators testified before the different divisions of the Sandiganbayan in graft cases against members of the House of Representatives and the Senate. They testified on AMLC's reports which were submitted to the Office of the Ombudsman. The investigators also submitted their own Judicial Affidavits on the cases.
- b. In February and March 2020, and in March 2021, AMLC investigators testified in another graft case against a former congressman.

In 2019 and 2020, the AMLC filed six (6) corruption cases to the Office of the Ombudsman. The cases are presently undergoing preliminary investigation.

Table 15. Money Laundering Cases filed by AMLC and Cases Filed for Predicate Crimes			
ML Cases filed by the AMLC	Unlawful Activity of ML Case	Predicate Crime Case	Predicate Crime Case Filed By:
2018			
Case 1	Corruption	Sec. 3(i), Anti-Graft and Corrupt Practices As (RA 3019)	National Bureau of Investigation (NBI)
Case 2	Drugs	-	-
Case 3	Corruption	Sec. 3(e), RA 3019	NBI
Case 4	Drugs	Sec. 8, Comprehensive Dangerous Drugs Act (RA 9165)	Philippine Drug Enforcement Agency (PDEA) and Philippine National Police (PNP)
Case 5	Drugs	Sec. 5, RA 9165	PDEA
Case 6	Corruption	Sec 3(e), RA 3019	NBI
Case 7	Corruption	Sec. 3(e), 3019	NBI
2019			
Case 8	Fraud	Estafa, Article 315, Revised Penal Code (RPC)	NBI
Case 9	Corruption	Sec. 3(i), RA 3019	NBI
Case 10	Corruption	Sec. 3(e), RA 3019	NBI
Case 11	Fraud	Estafa, Article 315, RPC	Philippine Deposit Insurance Corporation (PDIC)
Case 12	Corruption	Sec. 3(e), RA 3019	Field Investigation Office, Office of the Ombudsman (FIO-OMB)
2020			
Case 13	Drugs	Sec. 5, RA 9165	Criminal Investigation and Detection Group (CIDG)
Case 14	Drugs	Sec. 11 and 12, RA 9165	NBI
Case 15	Qualified Theft	Qualified Theft, Article 310, RPC	Metrobank
Case 16	Corruption	Sec. 3(e), RA 3019	FIO special team 15 (Visayas)
Case 17	Corruption	Sec. 3(e), RA 3019	NBI

Case 18	Corruption	Sec. 3(e), RA 3019	NBI
2021			
Case 19	Online Sex Exploitation	Online Sex Exploitation	PNP
Case 20	Drugs	-	-

9. Review the impact of the civil forfeiture mechanism and applicable timelines on the pursuit of ML investigations with a view to increasing the numbers of ML investigations.

In February 2020, the AMLC revised the FCIG Investigation Manual. The revisions to the AMLC-FCIG Manual address the policies and procedures that outline priorities for ML investigations, criminal confiscations and convictions. As a result, the number of criminal cases has increased since the ME. (see Tables 8, 15, 17 and 18)

Any evidence gathered can be used for a Civil Forfeiture and ML cases. The table below will show the investigation and prosecution of Civil Forfeiture (CF) cases also resulted to the filing of ML cases:

Table 16: Cases when CF cases was used to pursue ML investigation and prosecution		
ML Cases filed by the AMLC	Unlawful Activity of ML Case	With CF Case
2018		
Case 1	Corruption	-
Case 2	Drugs	□
Case 3	Corruption	-
Case 4	Drugs	□
Case 5	Drugs	□
Case 6	Corruption	-
Case 7	Corruption	-
2019		
Case 8	Fraud	□
Case 9	Corruption	-
Case 10	Corruption	-
Case 11	Fraud	□
Case 12	Corruption	-
2020		
Case 13	Drugs	□
Case 14	Drugs	□
Case 15	Qualified Theft	-
Case 16	Corruption	-

This recommended action is not addressed.

Case 17	Corruption	-
Case 18	Corruption	-
2021 (as of 31 March)		
Case 19	Online Sex Exploitation	-
Case 20	Drugs	1

When the AMLC conduct investigations, it pursues to gather evidence to support criminal cases and assets that can be forfeited. The ideal situation is to that the AMLC will file a Money Laundering Case and a Petition for Civil Forfeiture. However, in cases when there is insufficient evidence to support criminal conviction, the AMLC resorts to Civil Forfeiture.

In the above table, with the increase of ML case filings shows that the AMLC increases its focus on seeking criminal convictions in the above mentioned cases. This, however, does not mean that the AMLC is not looking to forfeit anymore because the strategy is to seek conviction and criminal forfeiture.

On 21 January 2021 the Secretary of Justice signed Department Order No. 013 with regard to Criminal Forfeiture in Terrorism Financing and Money Laundering Offenses after conviction and its reporting. Pursuant to E.O. No. 68 and Article 45 of the Revised Penal Code of the Philippines, the Department Order directs all prosecutors to move for an order of forfeiture of proceeds or instruments of the crime in all terrorism financing and predicate money laundering offenses, following conviction, and actively handle the same. It is further directed to establish policy guidelines to ensure that the said practice of moving for an order of forfeiture upon conviction shall be adhered to at all times.

10. In order to address the challenges with the number and range of ML investigations leading to prosecutions and convictions, the Philippines should consider prosecutors being actively involved in assisting LEAs (including FCIG) during investigations to support successful ML evidence collection and to advise more broadly on the approach to investigations.

This recommended action is largely addressed.

The Department of Justice (DoJ) issued Department Order No. 213 on 14 September 2020 on the reorganization of existing Divisions and Task Forces of the Office of the Secretary of Justice Prosecution Staff in order to develop specialization and expertise in respective fields of criminal prosecution. Department Order No. 213 created a new Task Force on Anti-Money Laundering consisting of ten (10) members, including a Chairperson, and a new Task Force on Counter Terrorism (including Insurgency and Terrorism Financing) consisting of thirteen (13) members, including its own Chairperson.

Since the issuance of Department Order (DO) 213, the DOJ resolved 12 pending ML complaints filed by the AMLC finding probable cause that resulted to the filing of Information before the Courts. As of 24 March 2021, there are only three (3) pending ML complaints pending under Preliminary Investigation by the DOJ and these were filed late January and February 2021.

On 21 January 2021, the Secretary of Justice signed Department Order No. 014 addressed to all prosecutors in the Anti-Money Laundering Task Force and the Counter-Terrorism and Terrorism Financing Standing Committee. The Department Order directs the prosecutors to actively pursue and monitor the investigation of money laundering and terrorist financing cases, and to actively participate in periodic TIP workshops. The participation of prosecutors in the investigation of AML/CFT cases shall include, but not limited to, counselling law enforcement agencies and other government agencies on the matter of the sufficiency of evidence gathered prior the filing of complaint.

In compliance with Department Order No. 014 dated January 21, 2021, AML TF assists AMLC investigators/lawyers in the case build up:

1. by participating in TIP workshops - two prosecutors participated in a TIP workshop with AMLC investigators and PDEA last February 2021: and
2. by giving advice through case conferences on the sufficiency of evidence gathered before the filing of the complaint.

Before the filing of two (2) complaints by the AMLC in 2021 to the DOJ, these complaints were referred to the AML Task Force for preliminary evaluation after which they provided guidance as to the evidence required for the complaint to prosper and lead to the filing of court cases. The AMLC investigators/lawyers address these concerns prior to the filing of the complaints.

Since the Mutual Evaluation, the DOJ and AMLC have shown great improvement in the filing of criminal information (indictments) before the courts. The creation of the task forces has brought about close collaboration and cooperation between the AMLC Litigation and Evaluation Group (AMLC-LEG) and the DOJ. Since its creation, the DOJ's Anti-Money Laundering Task Force has conducted conferences with the AMLC on four (4) criminal cases for money laundering, two (2) of which have been endorsed to another member of the Task Force for preliminary investigation. The conferences have led to stronger evidence and a more expeditious process in the prosecution of cases of money laundering. Moreover, the Chairperson of the Anti-Money Laundering Task Force communicates developments on money laundering cases to the AMLC-LEG on a weekly basis and provides a report to the Prosecutor General on a monthly basis. Ten (10) money laundering cases were filed between 2013 to 2018. In contrast, for the seven (7)-month period from constitution of the Task Force in September 2020 to March 2021, twelve (12) money laundering cases were filed in court. This brings a total of fourteen (14) money laundering cases filed in court since the Mutual Evaluation in 2018. These results and figures attest to the effectiveness of the collaborations between the AMLC and the DOJ's Anti-Money Laundering Task Force, and of the latter's effort to improve the number and quality of money laundering prosecutions.

With regard to obtaining a common understanding on money laundering evidence, the AMLCS recalled the IDLO training on Anti-Drug Money Laundering, conducted on 16-20 November 2020 and participated in by AMLCS Investigators, the DOJ and the Office of the Solicitor General (OSG) Anti-Money Laundering Task Force members. The said training course lays out jurisprudence on money laundering taken from the US and the Philippines as well as discussion of live cases which may help guide investigators and prosecutors in unifying its approach on establishing evidence for ML cases.

Cooperation and Joint Effort of the AMLC and the DOJ which resulted in the swift trial and eventual conviction in a high-profile ML case.

The AMLC formed a team composed of Legal Officers and investigators to work collectively on a very high-profile ML case with DOJ. The case was investigated by the AMLC in cooperation with NBI and primary witnesses for the prosecution were the lead AMLC financial investigators.

The AMLC-LEG prosecution team took an active part in the successful prosecution of the case, in collaboration with the DOJ prosecutors. The AMLC and the DOJ had a series of case conferences in preparation for the prosecution of the case and during the trial proper. These case conferences strengthened the working relationship of the two agencies, not just in this case, but in all other money laundering cases being prosecuted.

Due to the joint effort of the AMLC and the DOJ, and the case conferences which were held almost every day from the start of the prosecution's time to present their evidence, the conviction was secured in a timely and efficient manner.

Aside from the above-mentioned hearing dates for the presentation of prosecution, there were other hearing dates wherein Motions were heard. After the prosecution presented its evidence, the defendant filed a Motion for Demurrer to Evidence, alleging that the prosecution was not able to present evidence that may sustain her conviction, even without any defense evidence. After a series of case conferences, the AMLC and the DOJ filed a written opposition thereto which supported DOJ arguments resulting in the motion being denied by the Court.

The AMLC Legal Officers in consultation with AMLC-FCIG investigators, alongside with the DOJ Prosecutors, cross-examined and attacked each witness in defense of Deguito. The good working relationship between the two (2) agencies is one of the main factors in the swift trial and conviction of Deguito which was secured after a continuous trial within a short period of six (6) months. The case is presented in item d, above.

JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 7. The JG identified recommended actions 1, 2, 3, 4, 6 and 7 as key recommended actions. Recommended action 1 is a key recommended action and is not addressed. In the MER 2019, Philippines submitted that in July 2018 a decision was taken to increase the established positions in FCIG to 51. Further in this submission in 2021, Philippines again mentioned that in the approved reorganizational structure of FCIG, the authorized number of positions are 51. The Financial Crimes Investigation Group (FCIG) being the primary designated authority to investigate ML offenses under AMLC is still lacking in appropriate number of skilled investigators for ML and financial investigation. Also Philippines has mentioned that the number of investigators in the AMLC in 2018 were 18 which now has been increased to 27. There is still a deficiency of 24. PNP which has investigative powers to pursue ML cases and it has been mentioned that there is an increase in the number of investigations being undertaken by PNP but it is unclear whether it has its dedicated financial investigation unit with dedicated staff or not. Therefore, Philippines need to work towards increasing FCIG staffing at priority as well as adequately staffing its skilled investigators for ML and financial investigation in AMLC. Along with this, Philippines should also form a dedicated financial investigation unit, if not done so far, in the PNP as the number of ML investigations being undertaken by PNP has increased. Recommended action 2 is a key recommended action and is partially addressed. Although Philippines has included tax crimes as a predicate crime in its amended AMLA, expedient access to LEAs, other than the AMLC, has still not been fully made. The mechanisms provided show that the LEAs still do not have direct access to the banking and financial information. Further the amendments made to the AMLA, regarding tax as predicate offence to ML and powers of AMLC, were made in January 2021 and therefore their effectiveness/outcome in ML investigation process cannot be ascertained in such a short span of time. Also the formation of a Fusion Center for collaboration between AMLC and PNP is a recent initiative as the MOA was signed in February 2021 and therefore the effectiveness of this initiative cannot be ascertained in such a short time span. Philippines need to focus more on providing direct and expedient access to LEAs for banking and financial information without compromising its security concerns. Further, Philippines should demonstrate, through statistics and case studies, the effectiveness of the amendments made to the AMLA as well as the Fusion center, in ML investigations. With respect to the amendments to make tax offences a predicate offence for ML. It is noted that the Philippines has introduced a threshold meaning tax offences are only a predicate offence when they meet a threshold of 25 million pesos (approximately 540,000 USD). Though Philippines has stated that the use of threshold does not diminish the Philippines' ability to address tax evasion cases below the threshold because the Bureau of Internal Revenue (BIR) can criminally prosecute the violations below the threshold and forfeit the proceeds of tax evasion, however this would be for tax evasion and still would not allow the Philippines to pursue ML investigations and prosecutions for predicate offences that fall below the threshold. The Philippines should consider amending the law to ensure a sufficiently broad range of tax evasion offences are captured as predicate offences for money laundering. Recommended action 3 is a key recommended action and is partially addressed. The data presented reflects the deficiency present in identification of ML arising out of predicate crimes and financial intelligence in keeping with the risk profile. Still there are cases where no parallel ML investigation is being done, neither the information is being referred to other LEAs.. As per Table 5 in RA 1 though there is a slight increase in the number of bank inquiries from 2018-2021 but still the increase is not in line with the risk profile of Philippines. For instance, number of cases where bank enquiry has been authorized by court and council in respect of smuggling is only 1 from 2018-2020 and zero in 2021 despite smuggling being a high risk predicate crime for ML. Similar inference can be drawn from the data reflected in Table No. 6 regarding Court-Issued Freeze Order and Council-Issued Freeze Order. Further in Table No. 7 on Petition for Civil Forfeiture, no case of smuggling as a predicate offence has been mentioned and the number of cases in which petition for civil forfeiture has been made is not in line with the risk profile of Philippines, where smuggling, tax evasion, IP violation, Illegal Manufacture and Possession of Firearms, Ammunitions and Explosives, environment crimes, Plunder and Violations of the Anti-Graft and Corrupt Practices Act are a high risk crimes. In table 8 and 9, money laundering complaints filed with OMB or DoJ are 7, 5, 6, 2 in number for the year 2018, 2019, 2020 and 2021 respectively. Among these, drugs, corruption, fraud and OSEC have been mentioned as predicate offences. These complaints as filed by AMLC are not in line with the risk profile of Philippines as no complaint has been filed for smuggling as a predicate offence for ML. All this reflects that the ML arising out of predicate crime investigations and financial intelligence is not in line with the risk profile of Philippines. In addition to this, there is a mention of an Office Order No. 18 issued in July 2020 by the AMLC, constituting the Technical Working Group (TWG) for the Revision/Updating of the AMLC-FCIG Investigation Manual. This order came out in July 2020 but it seems the revision/Updating of the AMLC-FCIG Investigation Manual has still not been done. Further no reference has been made to mechanisms and guidelines related to the referral by LEAs of possible ML elements arising out of predicate crime investigations. Therefore, Philippines should demonstrate that the ML investigations arising out of the predicate crimes are in line with its risk profile. It should build up a mechanism and guidelines for referral by LEAs of possible ML element arising out of predicate crime investigation. Recommended action 4 is a key recommended action and is partially addressed. Philippines has shown some progress in increasing the conviction in ML related cases since its MER, but has not provided the details of cases

related to foreign predicate crimes. Also the number of cases related to third party and stand-alone ML, as provided, is not in line with the risk profile of Philippines. More detailed analysis and submissions in form of case studies, statistics is required, especially for ML arising out of foreign predicate offence. Philippines should also demonstrate progress in terms of prosecution of various forms of ML offences.

Recommended action 5 is largely addressed. Though NBI and PDEA are making efforts to run a parallel ML investigation in predicate crimes, it is still not clear whether PNP also is doing ML investigation or is referring the ML cases to concerned LEAs. PNP and PDEA have their own separate investigation units for ML related crimes.

Recommended action 6 is a key recommended action and is not addressed. As mentioned above, there are still cases where no parallel ML investigation has been done, neither the information been referred to other LEAs. Philippines have not provided details of referrals of ML aspect made to AMLC by LEAs other than Office of Ombudsman. Therefore, Philippines need to show demonstrative actions towards referrals made by LEAs to AMLC in predicate crimes investigation having ML aspect and should also provide data related to referrals made by LEAs other than OMB, to AMLC.

Recommended action 7 is a key recommended action and is not addressed. As per the submission and the mentioned cases, the focus of Philippines LEAs is still on civil forfeiture rather than thorough ML investigation. There is no mention whether the review on impact of the civil forfeiture mechanism has been conducted or not. The cases mentioned in submission to IO7, none of them shows any reference by LEAs to the AMLC or concerned LEAs for ML investigation. In all these cases, the end result has been forfeiture and freezing of bank accounts only. Philippines still need to provide a review of the impact of the civil forfeiture mechanism and applicable timelines on the pursuit of ML investigations. Rather than focusing only on civil forfeiture, Philippines should also demonstrate that the LEAs pursue simultaneous ML investigation also which in turn results in ML prosecution, conviction and confiscation.

Recommended action 8 is largely addressed. Since the Mutual Evaluation, the DOJ and AMLC have shown some improvement in the filing of criminal information (indictments) before the courts. The creation of the task forces has brought about close collaboration and cooperation between the AMLC Litigation and Evaluation Group (AMLC-LEG) and the DOJ. However such cooperation needs to be further enhanced.

To help prioritize the action items, the JG has combined a number of the action items for IO.7 and also prioritized the action items to only include the action items considered to be the most strategically important.

Immediate Outcome 8 Low	Recommended Actions from MER: Implement priority actions of the NACS, in relation to confiscation; ensure agency level policies and specific action plans are in place with effective implementation in line with the risk profile. This should include prosecutors and all LEAs prioritising asset tracing and obtaining confiscation orders at the point of conviction and sentencing for profit driven crimes, including orders for property of corresponding value. The Member-agencies of the NACC and its sub-committees have taken concrete actions to address and implement NACS Action Plans related to confiscation. Among the actions taken are the following: - As part of the NACS Action Plan relating to asset management and to ensure agency level policy, the AMLC issued its Asset Preservation Guidelines, on 27 January 2020. - In line with the NACS Action Plan on the creation of coordination mechanisms for parallel investigations, including asset tracing, the AMLC and LEAs engage in enhanced targeted intelligence packaging (TIP) workshops. Participants in the TIP workshops also discuss and strategize on asset identification. The TIP workshops which run from 3 to 5 days also include a training component on financial investigation, including asset tracing. - Moreover, the Department of Justice (DOJ) on 21 January 2021, issued Department Order (DO) No. 014 directing prosecutors in the Anti-Money Laundering Task Force to actively pursue and monitor the investigation of anti-money laundering and terrorist financing cases, and to participate in periodic TIP workshops. TIPs have evolved into an effective and efficient channel in asset tracing. As one of the enhancements made after the ME, the AMLC-FCIG endeavors to conduct at least three (3) TIPs in a year for each of the five (5) AMLC-FCIG sub-groups and shall cover the three (3) islands of the Philippines: Luzon, Visayas and Mindanao.	This Recommended Action is partially addressed. Authorities should: - take steps to develop and implement clear policies in all LEAs on asset tracing, restraint and confiscation (ie. a policy on "following the money") - continue to pursue asset tracing and confiscation in line with the Philippines' risk profile.

	d. On 15 February 2021, a MOA was executed by the AMLC and the PNP creating a "FUSION CENTER", the main objective of which is timely information exchange and capacity building measures to enhance the capability of both parties in addressing money laundering, associated predicate offenses and terrorism financing. The fusion center will become the conduit for implementing the action plans of the NACS. Joint trainings may be undertaken by the PNP and AMLC to ensure the inter-operability of their respective personnel, including for purposes of pursuing seizures and confiscations of identified instrumentalities and/or proceeds of crime. The AMLC and LEAs closely coordinate in investigations to determine the scheme and scope of criminal activities. Case conferences are conducted to strategize actions and collaborate in tracking the assets/properties owned by criminals, with AMLC also providing information on assets registered in the nominees. During TIPs, vital information is also gathered on all the known addresses of POIs which are likewise shared by FCIG for analysis. AMLC then disseminates potential ML and proceeds-of-crime (POC) cases to LEAs for further investigations including identifying and tracing the assets. The AMLC also instituted measures to assist prosecutors and LEAs in prioritizing asset tracing, restraint and criminal confiscations: a. Roll-out of capacity building sessions for prosecutors and LEAs on financial investigation, which includes asset tracing. - For LEAs, the AMLC with the help of Asian Development Bank (ADB) developed a Financial Intelligence Course Modules which includes asset tracing as a component. For 2019, the AMLC conducted 20 training sessions for different LEAs. - The AMLC with the IDLO also developed training modules for prosecutors. There has been 3 roll-outs of the training program, with at least twenty (20) prosecutors from the AMLC, DOJ, OSG and OMB participating in each course. b. Asset identification and forfeiture mechanisms (civil and criminal) is also a component in lectures provided during TIP workshops and AMLC provided trainings. It also an area of focus for other AMLC and LEA joint ML investigations with predicate crime investigations. The AMLC and the PDEA also entered into a Memorandum of Agreement on Criminal and Civil Forfeitures, and Legal Matters on 11 August 2020. The MOA also provides guidelines for conviction-based forfeiture of proceeds of drug trafficking, which is a high-risk crime in the Philippines. Under the guidelines, the AMLC and PDEA shall coordinate their civil and criminal forfeiture efforts; and consider the designation of the PDEA as receiver of certain properties to preserve and administer of properties, at the latter's expense, during the pendency of civil forfeiture proceedings. PDEA shall endeavour to pursue criminal forfeiture under their charter, Republic Act No. 9165. The Supreme Court <i>En Banc</i> approved on 23 March 2021 the Rule on Asset Preservation, Seizure, and Forfeiture in Criminal Cases under Republic Act No. 9160, as Amended, which can assist competent authorities in the recovery of instrumentalities and proceeds of crime at the point of conviction.	
	2. Taking into account AMLC's role as the lead asset tracing and civil forfeiture agency, greatly increase FCIG staffing to add appropriately skilled staff up to and beyond the 2018 establishments. AML-CFICG staff has increased from 18 in 2018 to 27 as of 30 April 2021. They are assigned in five (5) different sub-groups specializing on different high-risk predicate crimes, such as illegal drug trafficking, terrorism financing, fraud, corruption, and other offenses. The AMLC-LEG handles civil forfeiture cases, alongside the Office of the Solicitor General. From eleven (11) legal officers in 2018 (during the onsite visit), the number has increased to eighteen (18) as of 31 March 2021, or an increase of seven (7) legal officers.	This Recommended Action is partially addressed. Authorities should: - continue to increase FCIG staffing and ensure there is adequate

In January 2020, the AMLC approved the new Asset Preservation Guidelines (APG). The APG is being implemented by Special Services Staff (SSS) under the AMLC-LEG, who will facilitate and manage asset planning with the AMLC-FCIG investigators. Presently, two (2) legal officers are assigned to the SSS. On 6 October 2020, the composition of the AMLC Asset Management Task Force was reconstituted. The functions of the task force are: (a) Manage and Preserve the assets and properties that are subject of an Asset Preservation Order and Judgement of Forfeiture, (b) Formulate policies and internal processes on the management and preservation of assets and properties, (c) Monitor the implementation of the AMLC Guidelines on the Management/Preservation, Disposition and Turn-over of Assets or Properties subject of Civil Forfeiture Proceedings (d) Prepare and Maintain an official list/inventory of managed/preserved assets/properties, (e) Refer any compliance issues or violations of covered person/s on the submission of detailed written returns as enumerated under Sections 16 and 55 of Rule of Procedure for Civil Forfeiture, Asset Preservation and Freeze Order to the Compliance and Supervision Group; (f) Centralize the AMLC's coordination and collaboration efforts in the management and preservation of assets and properties and (g) Perform other function in relation to the management and preservation of assets and properties.	resourcing of FCIG and AMLC.
3. Amend provisions in AMLA and other statutes to address the technical compliance gaps outlined at Recommendation 4. On 30 January 2021, Republic Act 11521 otherwise known as, "An Act Further Strengthening the Anti-Money Laundering Law, amending for the purpose Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act of 2001, as amended" took effect. The amendment includes several provisions that addresses technical gaps identified in Recommendation 4. On the lack of power of the AMLC to make seizures: Section 7 (Powers and Functions of the AMLC) now includes the authority to apply before the courts for a search and seizure warrant: <i>"SEC. 7. Creation of Anti-Money Laundering Council (AMLC). – XXX</i> <i>"(13) IN THE CONDUCT OF ITS INVESTIGATION, THE AMLC SHALL APPLY FOR THE ISSUANCE OF A SEARCH AND SEIZURE ORDER WITH ANY COMPETENT COURT;"</i> A new subsection under Section 1.9 of Rule 6 on Powers and Functions of the AMLC of the 2018 Implementing Rules and Regulations of Republic Act No. 9160, as amended (2018 IRR) was added by ARI 1-2021: <i>"Section 1. Powers and Functions.</i> <i>xxx</i> <i>C. ML/TF Investigator.</i> <i>xxx</i> <i>1.9. Financial Investigator.</i> <i>xxx</i> <i>1.9.4. In the exercise of its investigative functions, the AMLC may:</i> <i>(a) xxx;</i> <i>(b) xxx;</i> <i>(c) xxx;</i> <i>(d) xxx;</i> <i>(e) <u>apply for the issuance of a search and seizure order with any competent court;</u></i>	This recommended action is largely addressed.

On provisions that enable the authorities to take steps to void or prevent actions that prejudice the country's ability to freeze, seize or recover property subject to confiscation:

SECTION 6. *Section 12 of the same Act is hereby amended inserting a new paragraph to read as follows:*

"(a) Civil Forfeiture – X x x.

"NO COURT SHALL ISSUE A TEMPORARY RESTRAINING ORDER OR A WRIT OF INJUNCTION AGAINST ANY PROVISIONAL ASSET PRESERVATION ORDER OR ASSET PRESERVATION ORDER, EXCEPT THE COURT OF APPEALS OR THE SUPREME COURT."

On asset preservation. Republic Act No. 11521 includes as a function of the AMLC the preservation, management and disposal of assets.

"SEC.7. Creation of Anti-Money Laundering Council (AMLC). – xxx. The AMLC shall act unanimously in the discharge of its functions as defined hereunder:

XXX

"(14) TO PRESERVE, MANAGE OR DISPOSE ASSETS PURSUANT TO A FREEZE ORDER, ASSET PRESERVATION ORDER, OR JUDGMENT OF FORFEITURE: PROVIDED, HOWEVER, THAT PENDING THEIR TURNOVER TO THE NATIONAL GOVERNMENT, ALL EXPENSES INCURRED IN RELATION TO THE DUTIES HEREIN MENTIONED SHALL BE DEDUCTED FROM THE AMOUNT TO BE TURNED OVER TO THE NATIONAL GOVERNMENT."

Rule 6 on the Powers and Functions of the AMLC of the 2018 IRR, as amended by **ARI 1-2021**, to include the following provision:

"Section 1. Powers and Functions.

xxx

F. Asset Management Unit

1.14. Asset Manager

The AMLC shall preserve, manage or dispose assets subject of a freeze order, asset preservation order, and judgment of forfeiture. pending the turn over to the national government, all expenses incurred in relation to the duties mentioned shall be deducted from the amount to be turned over to the national government.

For this purpose, it shall account for all expenses incurred that are related to the preservation of the value, management of funds, properties or monetary instruments and disposition of the same, and deduct these expenses from the gross value of the assets prior to turnover of the net value to the national government in accordance with acceptable accounting standards.

Even prior to the amendment of the AMLA, the AMLC implemented measures to ensure proper management of assets through the issuance of the **Asset Preservation Guidelines (Resolution No. 14 dated 27 January 2020)**. Under the Guidelines, The AMLC may file a motion for an appointment of a receiver of any asset/property subject of an APO when such asset/ property is in danger of being lost, removed, wasted or dissipated or materially injured. In the case of perishable personal properties, in order to preserve their value during the pendency of the case, the AMLC may file a motion in court to sell at public auction such assets/properties and the proceeds of the sale be placed under *custodia legis*, subject to the outcome of the case.

The Guidelines also created an Asset Preservation Unit (APU), whose function includes, among others, assisting the AMLC in asset preservation planning, acting as a court designated receiver, and

preserving/managing/ disposing assets that have been turned over to its possession for custody and control.

On 6 October 2020, the AMLC constituted an Asset Management Task Force (AMTF) composed of nine (9) officers. Among the functions of the AMTF include asset inventory and monitoring; and Asset planning in relation to the possible filing of cases.

4. Prosecutors, AMLC, NBI, PNP, PDEA, etc. should prioritise the assets tracing, restraint and criminal confiscation actions on all high-risk predicate crimes, foreign predicate crimes and proceeds moved to other jurisdictions. This should include obtaining confiscation orders at the point of conviction and sentencing for profit driven crimes.

Philippine competent authorities prioritize tracing, restraints/seizures/freezing and confiscations/forfeitures. In so doing, authorities utilize a combination of mechanisms, from inter-agency coordination, investigative techniques to legal processes.

Among the legal processes utilized by AMLC and competent authorities to complement asset tracing mechanisms is AMLC's authority to conduct bank inquiry and apply for freeze orders.

Bank inquiry is one of the methods used by the AMLC to identify assets that can be subject to freeze and forfeiture. A total of 60 bank inquiries were conducted from 2018 – 2020, with the numbers steadily increasing every year. Moreover, it demonstrates complexity of cases investigated, as can be seen in the numerous bank accounts involved in the cases.

In line with the risk, the AMLC was able to freeze assets in 43 cases from 2018 to March 2021. All the freeze orders issued are related to high-risk crimes or high-priority cases due to large proceeds involved. Amount of frozen assets for the period is 3,118,032,578.84.

Table 1: SUMMARY OF FO 2018 – 2021 (as of 31 March 2021)

Unlawful Activity	Cash and Other Monetary Instrument (in Bank)			Real Properties	Motor Vehicles	Other types of assets with Valuation (Insurance and Other Investments etc.)	Other types of assets without Valuation (Insurance and Other Investments etc.)
	In Philippine Peso	US Dollar (in Peso)	Other Currencies converted into Peso				
Drugs (24)	1,728,985,343.43	89,096,328.10	5,469,105.19	86,990,369.70	18,765,342.00	40,204,759.11	49 Real Properties, 21 Motor Vehicles, 21 Shipping Vessels, 22 Firearms, 3 Insurance Policies and Assorted Jewelry made of gold
Qualified Theft	65,647,838.77	1,580,733.60	-	-	-	-	-

This recommended action is partially addressed.

Authorities should:

- continue to prioritize asset tracing, restraint and confiscation in all high-risk predicate crimes, foreign predicate crimes and proceeds moved to other jurisdictions.

(2)							
Fraud (6)	4,364,184.18	856,477.46	-	52,296,000.00	-	-	2 Motor Vehicles
SRC Violation (5)	289,403,705.9	20,228,386.53	-	-	-	357,499,586	29 Real Properties, 73 Motor Vehicles and 1 Shipping Vessel
Smuggling (2)	6,795,905.54	-	-	-	-	339,857.65	-
Environmental Crime (1)	1,243,981.57	-	-	-	-	-	-
Corruption (1)	338,771,481.57	1,486,746.007	-	-	1,769,000	910,834.84	-
Violation of E-Commerce (1)	5,157,419.78	169,191.90909	-	-	-	-	-
Human Trafficking (1)	-	-	-	-	-	-	3 Motor Vehicles
Terrorist Financing (11 freeze orders)*	69,546,954.00	1,431,181.17					8 Motor Vehicles, 3 real properties consisting of 126 hectares
Total 43	2,509,916,814.74	114,849,044.78	5,469,105.19	139,286,369.70	20,534,342.00	398,995,037.60	81 Real Properties, 107 Motor Vehicles, 22 Shipping Vessels, 22 Firearms, 3 Insurance Policies and Assorted Jewelry made of gold
	3,189,050,714.0181 Real Properties, 107 Motor Vehicles, 22 Shipping Vessels, 22 Firearms, 3 Insurance Policies and Assorted Jewelry made of gold.						

*From 2018-2020

For Civil Forfeiture cases, the AMLC was able to institute 18 cases from 2018 – March 2021 (See Table 7, IO 7-a), covering the amount of Php916,526,646.49. Of the cases filed 17 correspond to high-risk crimes, as identified in the 2nd NRA.

There are also increasing actions for asset tracing, seizures and confiscation with regard to Terrorism Financing which is also a high-risk crime. See IO9 for data on TF related freeze orders and forfeitures.

Civil Forfeiture Cases Tables Below

Table 2: AMLC Civil Forfeiture Cases per Predicate Crime (2018 – March 2021)						
Unlawful Activity	No. of Cases	Cash and Other Monetary Instrument (in Bank)		Real Property	Motor Vehicles	Insurance
		In Philippine Peso	Other Currencies converted into Peso			
Drugs	13	696,412,409.16	41,506,095.75	43,097,379.56 Plus: 21 Real Properties (No Valuation yet)	18,366,000 Plus: 5 Motor Vehicles	7,327,394.16 Plus: Assorted Jewelry made of gold
Smuggling	1	134,725.31	401,797.70	-	-	-
Fraud	3	99,488,840.73	-	-	8 Motor Vehicles (No Valuation yet)	9,282,443.17
Kidnap for Ransom	1	509,560.95	-	-	-	-
Terrorism Financing	4	52,831,620.36	14,990,502.54	-	-	-
TOTAL	22	849,377,156.51	56,8983,95.99	43,097,379.56 Plus: 21 Real Properties (No Valuation yet)	18,366,000 Plus: 13 Motor Vehicles	16,609,837.33 Plus: Assorted Jewelry made of gold
GRAND TOTAL		984,348,769.39 Plus: 21 Real Properties, 13 Motor Vehicles and Assorted Jewelry made of gold (No Valuation yet)				

Civil Forfeiture Cases Judgements:

Table No. 3 Civil Forfeiture Judgement					
Case	Unlawful Activity	Decision	Cash and Other Monetary Instrument (PHP)	US Dollars	Motor Vehicle
ER, et al. (December 2018)	Fraud	2018	150,046.65	222,805.69	-
AB et al. (February 2019)	Drugs	2019	1,132,149.97	-	430,000.00
DT, CJ Shop, etc.	Drugs	2019	23,349,257.59	-	-
JAV	Fraud	2019	191,142.24	-	-
TOTAL FORFEITURES			24,822,596.45	222,805.69	430,000.00

Criminal Confiscation

The DOJ issued on 21 January 2021 Department Order (DO) No. 013 on criminal forfeiture after conviction. The DO directs all prosecutors to, move, upon conviction, for an order of forfeiture of proceeds or instruments of the crime in criminal cases for terrorism financing, predicate crimes, and money laundering offenses. It further directed the establishment of policy guidelines to ensure that the practice of moving for an order of forfeiture upon conviction shall be adhered to at all times.

On 23 March 2021, the Supreme Court *En Banc* approved the Proposed Rule on Asset Preservation, Seizure, and Forfeiture in Criminal Cases under Republic Act No. 9160, as Amended.⁶⁵

⁶⁵ On 27 January 2021, the Supreme Court issued Memorandum Order No. 05-2021 creating and constituting the Special Committee on the Proposed Rule on Criminal Confiscation and Forfeiture. On 23 February 2021, the Supreme Court issued Memorandum Order No. 13-2021 creating and constituting the Technical Working Group (TWG) on the Proposed Rule on Preservation, Confiscation, and Forfeiture

The Rule on Asset Preservation, Seizure, and Forfeiture in Criminal Cases under Republic Act No. 9160, as Amended, will apply to all criminal actions before any court involving crimes or offenses defined as unlawful activity under Section 3(i), or money laundering offenses under Section 4, of Republic Act (R.A.) No. 9160, or the Anti-Money Laundering Act of 2001, as amended.

The Rule provides that asset forfeiture may be imposed upon a person convicted with finality of a crime or offense as an accessory penalty, divesting him or her of:

1. properties subject of the crime or offense;
2. the proceeds or fruits of the crime or offense; and/or
3. any property used as the means of committing a crime or offense.

It further provides that the proceeds or fruits of the crime or offense may include all the assets and properties of the convicted person either owned or held by him or her or in the name of some other persons if the same shall be found to be manifestly out of proportion to his or her lawful income. Forfeiture may include any thing or item of value, real or personal, tangible or intangible, or any interest therein or any benefit, privilege, claim or right with respect thereto.

Asset forfeiture may be alleged in the criminal information against the accused. After filing of the criminal information, the prosecution may apply for the issuance of an asset preservation order against specific properties sought to be forfeited, forbidding any transaction, withdrawal, deposit, transfer, removal, conversion, concealment or other disposition of the specific property. The court may issue a provisional asset preservation order valid for twenty (20) days, and set a summary hearing within the same period to determine whether it should be modified or lifted, or an asset preservation order be issued, which shall be valid during the entire duration of the proceedings.

When the property preserved is perishable or is disproportionately expensive to keep or store, it may be released from preservation upon deposit of its cash equivalent, or sold in a public auction, and the proceeds deposited with the branch clerk of court to be disposed according to the final judgment of the court. A receiver of real properties may also be designated by the court when it appears that such property or fund is in danger of being lost, removed or materially injured, wasted or dissipated, or during the pendency of an appeal, or other cases when it appears that the appointment of a receiver is the most convenient and feasible means of administering or disposing of the property in litigation.

Properties may also be seized before or after the filing of a criminal information, by virtue of a search warrant or warrantless arrest, and disposed of in accordance with the Rules on Criminal Procedure.

The Rule also provides that expenses incurred in the proceedings for the preservation, custody, maintenance, seizure, and forfeiture of the subject properties pending their disposition, as well as expenses for publication and court costs, may be deducted from the amount to be turned over to the National Government, and that all forfeited properties shall be turned over within a reasonable period of time to the Bureau of Treasury.

The Rule further provides that asset forfeiture in criminal cases shall proceed independently of proceedings for civil forfeiture against the same property, and that asset forfeiture following a conviction will apply only to those properties not recovered in a parallel civil forfeiture case, and vice versa.

Finally, it also incorporates the provisions under Sections 12(b) and (c) of the AMLA on criminal forfeiture relating to third-party claims on forfeited assets, and to payment of property of corresponding value in lieu of forfeiture in cases where the order of forfeiture cannot be enforced due to the condition of the property.

The Office of the Ombudsman is vested with powers, functions and duties to investigate and prosecute any act or omission of any public or employee, office or agency. It has a primary jurisdiction

in Criminal Cases. While the Rules have been approved by the Supreme Court, it is still undergoing formalities of signing and publication, which we expect to be completed by May 2021. Present policies of the Supreme Court prohibit the sharing of the Rules until all formalities are finished.

over cases cognizable by the Sandiganbayan.

- a. Since 2018, the Office of the Ombudsman was able to secure favorable decisions in certain high-profile cases before the Sandiganbayan (Special Anti-Graft Court). In said decisions, certain accused were held solidarily liable in the total amount of One Hundred Eighty Million Three Hundred Thousand Pesos (Php180,300,000.00), in connection with the crimes of Plunder and two sets of Graft and Corruption cases.

Table 4: Criminal Forfeiture of the Office of Ombudsman

Date of Decision	Position of lead accused at the time of the commission of the crime	Crime charged	Amount of civil liability in favor of the Philippines
December 7, 2018	Senator	Plunder	Php124,500,000.00
September 6, 2019	Congressman	Graft and Corruption	Php27,000,000.00
February 5, 2021	Congressman	Graft and Corruption	Php28,800,000.00

IO 8 - Case Study #16. On 3 February 2021, the Sandiganbayan partially granted the Petition for forfeiture against a former Armed Forces of the Philippines Comptroller and members of his family. In the Decision, certain properties of the respondents amounting to One Hundred Two Million One Hundred Twenty-Six Thousand Three Hundred Fifty Three Forty Six Centavos (Php102,126,353.46) were ordered forfeited in favor of the State.

The comptroller has another forfeiture case pending at the Second Division pertaining to his and his family's bank deposits and investment accounts totaling P55.596 million

- b. In addition to this, the Sandiganbayan also forfeited properties in favor of the Republic in the following cases:
- SB-12-CVL-0002 involving Spouses D & M amounting to Php 9,003,879.42 decided on July 7, 2020
 - SB-13-CVL-0003 involving Mr. M amounting to Php 3,130,653.00, which was fully satisfied on July 27, 2020
 - SB-11-CVL-0002 involving Mr. DM. amounting to Php 15, 806,403.65 decided on July 1, 2019.
- c. In the lower courts, the Office of the Ombudsman was able to secure convictions from 2018 to 2021 that also included civil indemnities in the form of restitution or reparation totaling to Php83,142,223.44 in cases involving violation of RA 3019, Malversation of Public Funds or Failure to Render Accounts under the Revised Penal Code.

Recovery of Assets Moved to Foreign Jurisdictions

The Office of the Ombudsman, NBI and the AMLC have also placed focus on recovering proceeds of corruption moved to another jurisdiction. The NBI filed criminal complaints against JLN and other personalities involved in the Priority Development Assistance Fund (PDAF) Scam. The AMLC conducted initial financial investigation on the personalities charged by the NBI before the Office of the Ombudsman.

Simultaneously with the investigation conducted in the Philippines, the AMLC sent a request, through the Egmont Secured Web (ESW), to the US for assets possibly located and accumulated by JLN in the US. The US gov't found real properties and bank accounts maintained by JLN and/or registered in the name of her children. The US-DOJ requested the Philippine government, thru MLAT, for

	evidence against JLN to be used for the forfeiture actions. The AMLC sent the requested documents, consisting mostly of bank records/documents, to the US through the DOJ. The Office of the Ombudsman also attends (virtual) hearings to assist the US DOJ in the forfeiture case. The US forfeiture action is still pending. The AMLC and DOJ are also seeking to enforce a civil forfeiture judgment in relation to drug trafficking. In 2020, an MLA request has been sent to Hong Kong, China to enforce the judgment in the amount of HKD1,378,591.23 and USD 33,020.84. The DOJ and DFA are also coordinating with the central authorities of China and Macao for the enforcement of the same judgment, in the amounts of RMB 3,646,768.20 (China), and MOP 315,567.17 and HK\$7.5 million (Macao).	
	5. All relevant LEAs and prosecutors should implement strategic actions to widen the use of civil forfeiture and support activities that speed up the process to complete civil forfeiture actions. Actions taken by the AMLC, together with law enforcement agencies and the OSG, in order to speed up the process of civil forfeiture actions. The OSG issued a Memorandum dated 18 February 2021 with regard to the OSG's Policy guidelines in filing and prosecuting of civil forfeiture cases. Upon transmittal of the initial draft petition, the OSG shall complete, finalize and file the petition for civil forfeiture with utmost dispatch. The AMLC may send advance copies of the documents via electronic mail to the handling solicitor to facilitate coordination. Further, in cases of extreme urgency or where the public interest requires it, or where there is a high risk that legal action may be rendered futile, the OSG, upon written request, may deputize the legal officers of the AMLC-LEG to file the petition for civil forfeiture. Lastly, in the exigency of service, the OSG, as it deems necessary, deputize AMLC legal officers to act as collaborating counsel or to appear as special counsel in hearings. During the pendency of the civil forfeiture case, the AMLC together with the law enforcement agencies, assisted the court in serving court orders and notices to respondents, covered persons and relevant government agencies, as well as the implementation of court orders for annotation on titles of real properties thru the Registry of Deeds, Provincial and City Assessors Office.	This recommended action is largely addressed. Authorities should - Continue to identify barriers to asset confiscation and enact policies and procedures to overcome these barriers and actively pursue asset confiscation as a strategic priority for all LEAs and prosecutors involved in asset restraint and confiscation actions.
	6. Take action to ensure that relevant cross border measures are applied to all main entry/exit, sea/air ports of the country and provide more resources to BOC, especially human resources. In line with the increasing number of cases involving the physical cross-border transportation of currencies and bearer negotiable instruments (BNIs), AMLCS Office Order No. 12 dated 26 May 2020 was issued constituting the Cross-Border Transportation of Currencies and Bearer Negotiable Instruments Task Force. The Chairperson of the Task Force is the Executive Director, with five (5) Co-Vice Chairperson coming from the different departments in the AMLC. The Chairperson sets the operational and policy direction of the task force, in accordance with the <i>Executive Order</i> creating the Task Force Against Bulk Cash Smuggling, the AMLA or R.A. No. 9160, as amended, and The Terrorism Financing Prevention and Suppression Act of 2012 or R.A. 10168, and relevant rules and regulations. Four (4) different Sub-groups were created, as follows: Sub-Group on Financial Investigation which shall pursue the conduct of financial investigation on the intelligence report shared by the Sub-Group on Intelligence and Typology Development, and bulk cash smuggling cases referred by the BOC and other relevant LEAs.	This recommended action is partially addressed. Authorities should: - continue to ensure that relevant cross border measures are applied to all main entry/ exit points, sea/ air ports of the country. - take measures to ensure that false declarations of currency are being detected and currency confiscated at all major entry/ exit points in the

- b. Sub-Group on Intelligence and Typology Development which shall continuously exchange information with the BOC, using the AMLC portal, to effectively implement the measures on physical cross border transportation of currencies and BNIs. It shall also coordinate with its international counterpart to obtain relevant derogatory information on individuals/groups subject of its analysis; and forward any information to the other sub-groups for appropriate action.
- c. Sub-Group on Legal and Litigation which shall be responsible for the legal review of rules, regulations, order, policies, circulars relating to physical cross-border transportation of currencies and BNIs. It shall also be responsible for the filing of appropriate cases in court.
- d. Sub-Group on Domestic Cooperation and Policy Development which shall undertake studies on recent money laundering and terrorism financing trends and standards to physical cross-border transportation of currencies and BNIs for the adoption of necessary policies, procedures, and guidance.

The Task Force has met several times already and some of the cases they are working on are the referrals from the BOC:

The BOC has established various programs to address cross border problems, especially relating to smuggling including cash smuggling. Among their initiatives are the following:

- a. Establishment of the BOC ETRACC System to general real time and accurate information and to monitor the movement and location of containers using tracking devices and link it in real time with the electronic documentary system;
- b. Establishment of the ETRACC Central Monitoring Station;
- c. Creation of the Quick Response Team composed of personnel of the Enforcement and Security Service (ESS) which will respond to Alerts in the ETRACC System;
- d. Establishment of the Inspection Unit which is tasked to supervise the conduct of rigid inspection/examination of shipments from the Selectivity System. To support this Selectivity System, the ESS contributes input to the process;
- e. Continuous raids of warehouses reported to be involved in manufacturing and/or storage of illicit articles by virtue of Letters of Authority signed by the Commissioner of Customs;
- f. With the activation of the Water Patrol Division in the ESS, the BOC procured Fast Boats and have entered into a Memorandum of Agreement with the Philippine Coast Guard for the maintenance and manning pending the readiness of the skills of BOC personnel;
- g. Improvement of K9 detection capacity; and
- h. In October 2020, the ESS spearheaded the regular submission of Foreign Currency Declarations by all concerned international airports.

The number of personnel in the BOC has greatly increased from December 2018 to October 2020, as shown in the table below:

Table No. 5 No. of BOC Personnel			
No. of Personnel	As of December 2018	As of December 2019	As of October 2020
Permanent Employees	2,820	3,009	3,260
Casual Employees	4	15	20
Total Number of Employees	2,824	3,024	3,280

Pursuant to the MOA between the AMLC and the BOC, dated 20 June 2017, as amended on 21 December 2018, the BOC shall regularly submit a report to the AMLC on the physical cross-border transfer of currencies and other monetary instruments based on the Customs Declaration Forms prescribed for this purpose, for all airports and seaports for arriving passengers from abroad. Any amount imported or exported in excess of current laws, policies, rules and regulations shall be immediately reported to the AMLC through fastest means of communication available. Unauthorized, undeclared, or misdeclared currencies shall be subject to seizure and forfeiture proceedings which may be initiated by the BOC on the matter.

country, especially given the high risk from this identified in the MER.

The table below shows the number of foreign currency declaration forms found in the AMLC Database for the period from December 2018 to December 2020:

Table No. 6 No. of FX Declarations Received by AMLC				
YEAR	Declarations from Banks	Declarations from Individuals (Sourced from BOC)		Total
	Outbound	Inbound	Outbound	
2018	503	206	468	1,177
2019	434	914	636	1,984
2020	103	403	103	609

The AMLC, in its Resolution No. 237, approved the following recommendations as contained in the Initial Report on the Cross-Border Transport of Bulk US Dollars at the NAIA:

- a. The MOA between the AMLC and BOC has been revisited and provisions were included to address the matter, more specifically to consider assigning AMLC personnel to the airports or delegating the authority to BOC personnel in the airports for its implementation for the purpose of preventing/disrupting ML/ TF.
- b. Establish cooperation/ collaboration with appropriate agencies with countries pre-identified to have the most frequency or highest amounts with which currencies have been imported/exported, for the purpose of information/intelligence sharing (1) to determine purpose of transfer of cash; and (2) to combat ML/TF and to do appropriate actions thereafter;
- c. The Foreign Currency Declaration Form, aside from amending it to include specific details of the bulk cash transport, should be regularly/randomly checked for accuracy of the data/information/figures entered therein. Moreover, sources/s of the cash and purpose/s of the transportation should be established by requesting the passenger to provide additional documents. Otherwise, the cash could be detained for temporary custody by the BOC or other appropriate agencies pending the verification/investigation by AMLC or other concerned agency which shall complete the same within a prescribed number of days from the submission of the pertinent documents;
- d. Request BSP to provide cash counters to the BOC in order to facilitate the counting of identified bulk cash imported/exported through the airports;
- e. Conduct study on the profiles of the persons/entities importing/exporting bulk currencies for a given/specific period in order to determine if funds imported/exported are proceeds of criminal activities or to be used in terrorism financing, and to initiate investigation to determine criminal and/or administrative liability/ies;
- f. Tracking/tracing the ultimate destination of imported bulk cash by coordinating with the concerned agencies (i.e. PAGCOR, casinos) for the examination of identified covered persons (i.e. casinos, MSBs, banks) who are identified to be importing (or facilitating the importation) of bulk cash, in order to determine possible links to ML/TF or predicate crimes;
- g. Conduct information awareness/seminars/trainings to different agencies (i.e. BOC, BI, airport personnel) on indicators/red flags on ML/TF through bulk cash importation/exportation and to emphasize to counterparts the importance of cooperation and proactive intel/info exchange to prevent and disrupt importation/exportation of bulk cash without identified lawful purpose/s; and
- h. Apprise the Compliance and Supervision Group (CSG) the findings of the initial investigation for its appropriate actions.

The AMLC-FCIG is in close coordination with the BOC and BSP with regards to cross-border transport of foreign currencies at the Ninoy Aquino International Airport (NAIA). While money laundering is the focus of this investigation, AMLC-FCIG is also looking at TF considering that at the inception of this investigation in 2019 there were reports that some POIs travelled to Mindanao. Based on the information shared by BOC and the results of AMLC investigation, there are five (5) groups composed of more or less sixty-eight (68) individuals either acting as couriers or on their own, being monitored and investigated.

- i. At the request of AMLC, the BSP examined two (2) foreign exchange companies who are declared to be the recipients of the foreign currencies being transported by one of the groups being monitored. The examination that commenced on 26 February 2020 has already been concluded and the AMLC shall but furnished with the report of examination (ROE) of the BSP.
- ii. This matter on the transport of bulk foreign currencies has already reached national consciousness following the Senate Blue Ribbon Committees investigation. Bills have been filed to curve out this practice and further strengthening the powers of the AMLC to address what seems to be still lacking in the country's efforts to fight money laundering and terrorism financing.
- iii. The NICA and PNP-CIDG continue to make referrals regarding the cases they are handling involving the local terrorist groups (LTGs). NICA has shared one (1) NPO who has a network operating in the whole country. CIDG on the other hand referred the arrest they made in Visayas involving two (2) individuals and four (4) organizations which they are related to and believed to be connected with a communist-terrorist group.

7. Provide specialised training to investigators, prosecutors and judges, in line with the recommended action in the IO.7 as the lack of designated courts to file charges in relation to financial crimes and the turnover in the judiciary are also challenges with respect to freezing and forfeiture actions.

The AMLC-IDLO courses consists of several modules, there are (1) Fundamentals of Money Laundering, including Substantive and Procedural Laws (2) Investigation Techniques and Developing Case Strategy and Technical Writing, which includes drafting of Civil Forfeiture Petitions (3) Trial Skills which includes, trial objections, presentation of testimonial and documentary evidence for civil forfeiture and money laundering cases, (4) Mock Trial Proper, and (5) Inter-Agency Coordination.

AMLC-IDLO Trainings Conducted			
No.	Title	Date	No. of Participants
1.	Basic Trial Advocacy Course	02-06 Dec. 2019	Total Participants - Twenty-one (21): AMLCS – Seven (7) lawyers DOJ – Four (4) prosecutors OMB – Five (5) special prosecutors OSG – Five (5) solicitors
2.	Investigation and Prosecution of Corruption Based Money Laundering Case	17-21 Feb. 2020	Total Participants - Twenty (20) AMLCS – Eight (8) lawyers/Investigators OMB – Eight (8) special prosecutors/ investigators OSG – Four (4) solicitors
3.	Anti-Drug Money Laundering Course	16 – 20 Nov. 2020	Total Participants - Twenty (20) AMLCS - Ten (10) lawyers/investigators DOJ - Five (5) prosecutors OSG – Five (5) solicitors

This recommended action is not addressed.

The Philippines should launch specialized training for investigators, prosecutors and judges in relation to financial crimes and freezing and forfeiture actions.

	Please also see IO 7, recommended action 1.	
	8. As identified by the NACS, create an Asset Management Office, providing mechanisms for the preservation and management of assets subject to provisional and confiscation actions. On 30 January 2021, Republic Act 11521 expressly empowered the AMLC to preserve, manage or dispose assets subject of a freeze order, asset preservation order and judgement of forfeiture. The Council approved the AMLC's Asset Preservation Guidelines (APG), through Resolution No. 14 dated 27 January 2020. Under the Guidelines, The AMLC may file a motion for an appointment of a receiver of any asset/property subject of an APO when such asset/ property is in danger of being lost, removed, wasted or dissipated or materially injured. In the case of perishable personal properties, in order to preserve their value during the pendency of the case, the AMLC may file a motion in court to sell at public auction such assets/properties and the proceeds of the sale be placed under <i>custodia legis</i>, subject to the outcome of the case. The Asset Preservation Guidelines is being implemented by the AMLC - Special Services Staff (SSS)/ Asset Management Task Force (AMTF), which also participates in asset planning with the specialized subgroups of the AMLC's FCIG and the LEG. The participation of the SSS/ AMTF begins when a Freeze Order has been referred to it. The FO will be the basis for the inventory of the different types of properties. Said properties will be subjected to asset planning for effective seizure. Asset planning usually takes place on the third (3rd) month of an FO. During asset planning, the investigators and lawyers of said groups, identify the assets for inclusion in petitions for issuance of freeze order or for civil forfeiture; costs of preservation and management of the assets; their nature; the relative impact of the case; ease of access to the property. Before the Freeze Order expires, a Civil Forfeiture case is filed. When the Court finds merit on the case, a Provisional Asset Preservation Order (PAPO) and eventually an Asset Preservation Order (APO) is issued by the Court. When the Court decides on the affirmative on the CF case, it issues a Writ of Execution of the judgment to confiscate assets in favor of the Republic of the Philippines. The confiscated assets should it be monies/ monetary instrument will then be turned over to the Bureau of Treasury (BTr) or government agency concerned or to the requesting foreign state thru MLAT. However, should it be a real property, the annotated land title will be turned over to the BTr or it may be sold to the public and the proceeds thereof will be turned over either to BTr or government agency concerned or to the requesting foreign state thru MLAT. Same scenario applies if the asset concerned is a personal property. At any rate, the case will be deemed terminated once the property or proceeds has been transferred to the proper recipient. The SSS /AMTF has also assisted in the implementation of freeze and preservation orders, conducting ocular inspections and posting of notices on real properties in various parts of the country, for the purpose. It has also made onsite visits to newly forfeited properties. Further discussion of this can be found in items 7 and 9 below. The SSS /AMTF has initiated the inventory of assets under preservation orders and is continually updating said inventory as new cases are filed, and assets forfeited and/or liquidated, as the APG requires. The inventory of frozen and preserved assets reflects approximate values of Php2.70 billion in cash; Php150 million worth of insurance policies such as traditional life insurance, variable life insurance; Php44 million in stocks; Php845 million in real properties; and Php127 million in motor vehicles. Total assets in the inventory amounted to Php4,349,728,557.29. The AMLC has initiated and is now engaged in talks with the Bureau of Treasury (BTr), custodian of government assets, and the DOF to formalize the guidelines and processes attendant to management, preservation and turnover of forfeited properties. The AMLC and the BTr are considering and working towards a Memorandum of Agreement for the purpose. 8.8.13 Developments on the creation of Asset Management Group (AMG) With the amendment of Republic Act No. 9160 which resulted to the enactment of Republic Act No. 11521, the authority of the AMLC to preserve, manage, or dispose assets pursuant to a freeze order, asset preservation order, or judgment of forfeiture is strengthened. Given this additional functions, creation of an Asset Management Group (AMG) is vital to effectively discharge the functions as mandated by the law. The AMG will have thirteen (13) personnel and	This recommended action is largely addressed.

	authorized to deputize and seek assistance from other units of the AMLC. The AMG will act as the centralized asset management of the AMLC. Among its functions are the following: - Assists the AMLC in: (a) planning for asset freezing and/or asset preservation, including the recommendation of the appointment of a receiver if the asset and property subject of FO or APO is in danger of being lost, removed, wasted, dissipated, materially injured, or whenever it appears that the appointment of a receiver is the most convenient and feasible means of administering the asset and property; and (b) planning for preservation of assets upon issuance of FO or APO, through appraisal, cost-benefit analysis and market research; and (c) preparation of valuation and appraisal reports; - Preserves, manages, and disposes assets that have been turned over to its possession for temporary custody and control; - Upon order of the Court, on its own initiative or on motion by AMLC, causes and oversees auction sale of perishables, including recommendation of minimum; - Conducts annual evaluation and review of the existing asset management guidelines of the AMLC based on the reports and data, and recommends more efficient and cost-effective mechanisms in the preservation, management, and disposition of assets and properties; - Coordinates with and assists the Sheriff in the conduct of the sale of the forfeited assets, and turns over assets, as indicated in forfeiture orders in civil and criminal cases, to any of the following: Bureau of Treasury, or any government agency that may be designated by law, or any foreign government agency as allowed by mutual legal assistance treaties or conventions or under the principle of reciprocity, as determined by the Department of Foreign Affairs (DFA), or to such other claimants as be ordered by the Court; - Serves a copy of the PAPO and/or APO through itself or any of the deputized officers of the AMLC, as indicated in criminal cases, upon the accused or any person acting on his or her behalf, or the person/s in possession of the property of the accused, or in whose name the property of the accused is registered, and upon the covered persons or government agencies, as the case may be; and to submit a return to the Court specifying information on the assets preserved; - Causes the service and annotation of the FO, PAPO and APO, forfeiture judgment or order on titles, tax declarations covering the property, certificate of registrations and other proofs of ownership, with the appropriate property registries; - Accounts for all expenses related to the preservation, management and disposition of assets subject of FO and APO so that the same may be deducted prior to official turnover to the Bureau of the Treasury; - Acts as receiver in cases where the Court designates the AMLC as receiver of the assets that are covered by the civil forfeiture proceedings. It may likewise secure and/or procure the services of receivers, licensed appraisers and third party assessors to assist in the management of the subject assets; and On 17 March 2021, the proposal for the creation of AMG was submitted to Bangko Sentral ng Pilipinas' Organizational Development Department. The AMLC Secretariat Management has presented the proposal to the BSP Governor/ AMLC Chairman and the same was approved on 26 March 2021. It will be presented and discussed as well to the Monetary Board for its concurrence.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 8. The JG identified recommended actions 1, 2, 3, 4, 6 and 7 as key recommended actions. Recommended action 1 is a key recommended action and is partially addressed. The Philippines has taken some steps to prioritise asset tracing and confiscation including enacting asset management guidelines and a Memorandum of Agreement on Criminal and Civil Forfeitures and Legal Matters between the AMLC and Philippine Drug Enforcement Agency (PDEA). However, none of the measures specifically address the issue of prioritizing the pursuit of asset confiscation as a policy priority. The Philippines has not been able to demonstrate that the measures that have been taken have improved case outcomes with respect to asset tracing, seizing or confiscation with no significant increase in asset confiscation statistics since the MER. The Philippines needs to continue to take steps at the policy and operational levels to prioritise asset tracing, restraint and confiscation action for example, by requiring prosecutors and LEAs to routinely consider asset confiscation actions (including property of corresponding value) at the point of conviction/sentencing. Recommended action 2 is a key recommended action and is partially addressed. In the MER it was noted that the Philippines intended to increase the staffing of FCIG to 51. However the staff strength currently stands at 27 only which is an increase from 18 staff at the time of the MER on-site. Considering the staffing needs for FCIG that the Philippines had previously expressed, while there has been positive progress, staffing remains inadequate	

and is 50% of what the Philippines has estimated is required.

Recommended action 3 is a key recommended action and is largely addressed. Legislative amendments enacted on 30 January 2021 through the amendment law titled “An Act Further Strengthening the Anti-Money Laundering law amending for the purpose Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act of 2001, as amended” (Republic Act 11521) addressed the major technical compliance gaps identified in the MER

Recommended action 4 is a key recommended action and is partially addressed. Philippines has been able to secure court orders in civil forfeiture cases which shows its commitment and improvement in ability to secure confiscations. However, Philippines has not been able to demonstrate confiscation action at the point of conviction in criminal forfeiture cases. The Philippines was not able to demonstrate that property of equivalent value or instrumentalities or proceeds of crime have been confiscated. Philippines was not able to demonstrate that confiscation is regularly being pursued as a strategic priority, for example, regularly considering and pursuing asset confiscation at the point of conviction/sentencing for all profit driven crimes. Similarly, Philippines has not been able to demonstrate confiscation action in TF cases. Details relating to freeze orders amounting to 69 million PHP have been provided, but no details relating to confiscation action completed at the point of conviction in TF cases has been provided.

Recommended action 5 is largely addressed. The Philippines has identified some steps to speed up the process to complete civil forfeiture actions through the OSG Memorandum issued on 18 February 2021 relating to the OSG’s policy guidelines in filing and prosecuting of civil forfeiture cases. However, the guidelines do not consider other LEAs also involved in asset restraint and confiscation and to not strategically widen the use of civil forfeiture in the Philippines.

Recommended action 6 is a key recommended action and is partially addressed. The Philippines was not able to demonstrate that relevant cross border measures are applied to all main entry/ exit points, sea/ air ports of the country. The response of Philippines is restricted to measures applied/ action taken in this regard at Ninoy Aquino International Airport alone. Also while the number of foreign currency declaration forms found in AMLC database have been provided, the instances of currency confiscations and details relating thereto have not been furnished by Philippines. Philippines needs to demonstrate that false declarations of currency are being detected and currency confiscated at all major entry/ exit points in the country, especially given the high risk from this identified in the MER.

Recommended action 7 is not addressed. Since the MER, Philippines has not provided specialized training to investigators, prosecutors and judges. While the drafting and filing of freeze orders and civil forfeiture petitions, has been incorporated into other training there does not appear to be any specialised, in-depth training specific to asset confiscation. The Philippines needs to carry out specialised training for investigators, prosecutors and judges in relation to financial crimes and freezing and forfeiture actions relating thereto.

Recommended action 8 is a key recommended action and is largely addressed. The Philippines has made the AMLC the competent authority responsible for asset management and enacted legal amendments to enable the AMLC to preserve, manage or dispose of assets (Republic Act 11521). The Philippines has also enacted Asset Preservation Guidelines to facilitate asset management.

To help prioritize the action items, the JG has combined a number of the action items for IO.7 and also prioritized the action items in the action plan to only include the action items considered to be the most strategically important.

Immediate
Outcome 9

Low

Recommended Actions from MER:

1. **Amend legislation to empower AMLC to exercise comprehensive investigative powers such as search, seize, taking witness statements and use of special investigative techniques when conducting TF investigations.**

On 30 January 2021, the AMLA amendments under Republic Act (R.A.) No. 11521 took effect. Section 7 (Creation of the Anti-Money Laundering Council (AMLC) now includes the additional functions, among others,

- (13) *In the conduct of its investigation, the AMLC shall apply for the issuance of a search and seizure order with any competent court (Section 7 [13] AMLA, as amended)*

This recommended action is partially addressed.

Authorities should:
- take steps to implement the new legislation and improve effectiveness with respect to the use of search and seizure powers and taking of

	(14) <i>In the conduct of its investigation, the AMLC shall apply for the issuance of subpoena ad testificandum and/or subpoena duces tecum with any competent court;(Section 7 [14], AMLA, as amended)</i> Use of investigative techniques/tools. Outside of the TIP mechanism and the limitations in gathering financial intelligence, partner LEAs perform special investigative techniques like undercover surveillance, Social media intelligence (SOCMINT), application of search/arrest and cyber warrants to terrorism and terror financing subjects. This was evident in the case of KAH , wherein the NBI applied for and implemented cyberwarrant against KAH. Use of special investigative techniques are inherent aspects of intelligence/investigative operations of the Philippine law enforcement agencies which they apply as often as needed, depending on the intelligence/investigative requirements of a particular case. The Mindanao Area Police Intelligence Office (MAPIO), as the operating arm of the Philippine National Police Directorate for Intelligence, particularly utilize special investigative techniques such as the deployment of online covert assets and various intelligence disciplines (i.e. SOCMINT, TECHINT, OSINT, etc.) to achieve a high degree of reliability in their investigations of terrorism financing. Details can be found in paragraph 18.h below. Likewise, for purposes of investigating terrorism related activities, the ATA allows the use of surveillance of suspected persons, interception, and recording of private communications. (Sec. 16 of the ATA)	witness statements in the investigation of TF cases - ensure that the AMLC has a comprehensive set of investigative powers, including the use of special investigative techniques, in TF investigations.
	2. Enhance the identification, investigation and prosecution, of TF in keeping with the risk profile (domestic and transnational TF risks). This should include using the findings of updated TF risk assessments to target stand-alone TF and financing terror networks as well as TF arising out of counter terrorism actions and investigations. The effective identification, investigation and prosecution of TF remains a high priority for the Government of the Philippines and numerous initiatives have been taken the last 2 – 3 years to strengthen efforts to combat TF. As outlined in detail below, these include: • significant efforts to further enhance understanding of the evolving TF risk profile, including through completion of the 2021 Terrorism and Terrorism Financing Risk Assessment, completion of the 2021 Study of Foreign Terrorist Fighters, and participation in a number of regional initiatives/strategic studies, including the FICG SEACTF Report (2018): ISIL and Regional Terrorist Financing, SEA CTFWG (2019) TF Disruption Toolkits the SEA CTFWG FIU Self-Assessment; and the inclusion of TF analysis in the sector risk assessments (Legal Persons and MSB risk assessments, please see or refer to discussion on risk studies below) • <u>strengthening of mechanisms for intelligence/information sharing and investigations</u>, including the use of TIP workshops, adoption by the AMLC of Memoranda of Agreements with relevant LEAs, creation of the AMLC-PNP Joint Fusion Center, and enhanced use of the Joint Terrorist Financing Investigations Group (JTFIG) mechanism; and • <u>a considerable increase in the number of officers dedicated to TF intelligence and investigative functions, both in the AMLC and in relevant law enforcement agencies (LEAs)</u>. While the AMLC remains the lead designated agency for TF investigations and has increased the size of the unit dedicated to investigating TF, other LEAs and intelligence agencies with investigative arms are empowered to investigate TF. From 2018-2020, there is a notable increase in the total number of TF dedicated personnel in 10 relevant agencies including AMLC. Most of the indicated staffing represent only the manpower at the national office (i.e. AFP, NBI, and PNP DI and IG) and does not include TF operatives strategically deployed in various parts of the country. These initiatives have led to a significant increase in the number of TF investigations undertaken, from only 12 in 2018 (at the time of the mutual evaluation onsite visit), to 66 in 2019, 75 in 2020 and 20 on the 1st Quarter of 2021. The data represents significant increase in the identification and investigation of TF activity in 2019 following the adoption of the MER and was sustained in 2020 despite the hurdles brought about by the pandemic.	This recommended action is not addressed.

At the time of the mutual evaluation, no TF cases had been filed for prosecution. In November 2019, the Philippines' first TF prosecution was filed in court, and a second prosecution was filed in December 2020. With the increase in TF investigations, it is expected that further prosecutions will be filed in 2021. **On 29 March 2021, the AMLC filed two (2) more criminal complaints for TF before the Department of Justice (DOJ).**

TF investigations are not solely undertaken by the AMLC. Under the July 2020 NICA Intelligence Directive, investigation of TF cases and financial investigations of terrorism cases are not limited to investigation agencies only but also to those intelligence units with investigative powers or with investigative arms. NICA, J2 AFP, BI, PNP and ISAFP all have regional offices with dedicated counter-terrorism units. NBI's Counter Terrorism Division (CTD) with its current manpower is reinforced by its field offices, when necessary. The NBI-CTD has successfully availed of reinforcement/assistance from its field offices in its past investigations, particularly in the following locations: Davao, General Santos City, Zamboanga, Cagayan de Oro and Iligan City. Meanwhile, NICA, BI, ISAFP and PNP's CIDG and IG all have dedicated counter-terrorism units nationwide capable of conducting investigations. Other PNP units like the Directorate for Intelligence and Anti-Cybercrime Group operates on a national level similar to AMLC.

Table 1.A Summary of Status of TF Cases from 2014 to March 2021

	2014-2017	2018	2019	2020	Jan- Mar 2021	Total
No. of Case Referrals	18	12	132	93	28	283
a. TF Complaints filed and pending with the DOJ	2	-	-	-	2	4
a. TF Cases filed in court (<i>through the DOJ</i>) for prosecution	-	-	1	1		2

Table 1 B. EXPANDED Summary of Status of TF Cases from 2014 to March 2021

	2014-2017	2018	2019	2020	Jan- Mar 2021	Total
No. of Case Referrals	18	12	132	93	28	283
a. Other Agency Referrals (i.e. <i>thru TIP, MOA, Fusion Center</i>)	18	12	61	42	8	141
b. JTFIG Referrals	-	-	32	44	20	96
c. AMLC (FIAD/FCID)	-	-	39	7	-	46
No. of Cases under Investigation/ For Case Build-up	18	12	66	75	7	178
a. Other Agency Referrals	18	12	45	49	4	128
b. JTFIG Referrals	0	0	21	26	3	50
c. <i>Stand-Alone TF</i>			7	6	6	19
Investigation Reports developed for the filing of the following:	7	3	40	30	2	82
b. Bank Inquiry and	2	1	7	6	-	16

c. Freeze Order	2	-	-	5	-	7
d. Civil Forfeiture	1	-	1	2	-	4
e. TF Complaints filed and pending with the DOJ	2	-	-	-	2	4
f. For information sharing	-	2	32	17	-	51
No. of Actions taken/Cases filed	5	-	12	15	-	32
b. Bank Inquiry	2	-	7	6	-	15
c. Freeze Order (cases include Council issued freeze orders)	2	-	3	5	1	11
d. Civil Forfeiture	1	-	1	3	-	5
e. TF Cases filed in court (through the DOJ) for prosecution	-	-	1	1		2

The 66 cases referred to the AMLC in 2019 resulted in 40 investigation reports recommending further actions, e.g., information sharing, conduct of bank inquiry or issuance of freeze orders. Although the COVID-19 pandemic significantly affected ongoing investigations the ATFS delivered in 2020 a total of 27 investigation reports for 8 BI/FO, 2 CF and 17 information sharing with LEAs. From 2019 to the first quarter of 2021, there were nineteen (19) standalone TF cases generated by STRs.

Since 2019, targeted investigations and other legal offensives have been launched against the designated Abu Sayyaf Group (ASG) and their supporters, the New Peoples' Army (NPA) of the Communist Party of the Philippines (CPP) known for extorting "revolutionary taxes" and specific NPOs serving as its legal fronts.

i. TF prosecutions – summary of overall progress

The two (2) TF cases investigated in previous years resulted in the filing of criminal complaints for TF before the DOJ and later, the filing of Criminal Information by the DOJ in the proper Courts in 2019 and 2020. The AMLC successfully caused the filing of the country's first TF case, People vs. JJ, before a Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) Regional Trial Court. The filing was made on 13 November 2019 months after the adoption of the country's MER. AMLC investigators and the concerned LEAs' main challenge was Jolo, Sulu being a high-risk area. This in effect prolonged the investigation and prosecution phases. Nonetheless, AMLC's coordination with the subject bank ultimately reinforced the investigation that led to the filing of TF charges with the DOJ.

The second TF case was filed on 9 December 2020 in Marawi City against FRM, who was charged for MAKING AVAILABLE MATERIAL SUPPORT (vehicle) for the use of the Maute Group in furtherance of its terroristic activities. She is currently detained in Taguig City Jail under BJMP after the DOJ has filed for motion to transfer venue of the trial in Taguig City. No schedule has yet been set to date due to the COVID-19 pandemic. The Office of the Court Administrator of the Supreme Court directed the Marawi RTC and the parties to submit their comments on DOJ's request for transfer.

During the investigation of the Maute Group case, the unstable security situation in Marawi City, Lanao del Norte following the siege caused significant delays in the retrieval/release of documentary evidence and the filing of appropriate charges. Concerned local government unit had to perform more thorough lengthy process of verification prior to issuance of requested documents. There was also an instance when the property record requested is not available because the property is unregistered. Partner LEAs also find the situation in the province very risky. Lastly, the group's wide domestic and international networks consisting of 41 local and 14 foreign individuals and 8 entities also increased the complexity in the conduct of investigation. The rehabilitation of Marawi City is

expected to be completed by December 2021. The provisions of the new anti-terror law will allow law enforcers to act proactively on intelligence reports on potential terrorist activity. Thus, is expected to address the security challenges not just in Marawi City but in all regions where TF is occurring. Authorities may also seek assistance from the military assigned to security risk areas. Should a case go to trial, the DOJ may request a transfer of the venue for the trial in Manila.

ii. **Terrorist financing freezing – summary of overall progress**

In addition to TF prosecutions, TF investigations have also led to the freezing of terrorist assets. From 2018 – 2020, assets subject of freeze orders in relation to terrorism and TF includes PhP69 million (USD 1.4 million) worth of cash and accounts, and 126 hectares of real property and 8 vehicles. A total of PhP217,165.06 (USD 4,471.18) and a 5-hectare land from two (2) UN designated individuals were frozen in 2019. In 2020, the amount of freeze assets is PhP16,174,089.81 (USD333,005.76) the bulk of which was withheld from two (2) CTG subjects and the rest from LTG individuals.

Table 2. Total Amount of Assets Subject of Freeze Orders		
GRAND TOTAL OF AMOUNT FROZEN (Cash and Bank Deposits)	PHP 69,546,954.00	USD 1,431,891.17
LAND/Real properties	126 Hectares	
Vehicles	8 units	

iii. **Risk assessments and strategic studies**

Further to the *increase* in the number of TF investigations, the AMLC, in coordination with LEAs, has facilitated the conduct of several recent risk assessments to update the TF risk understanding and actionable intelligence across the public and private sectors:

The 2021 Terrorism and Terrorism Financing Risk Assessment, which was approved by the Council on 26 January 2021, is an update to the 2nd NRA, particularly on the understanding and assessment of terrorism and TF risks in the country. It concluded that the overall risk exposure of the Philippines to terrorism and TF is HIGH. Terrorism threat is rated HIGH given the high number of violent incidents associated with terror/threat organizations. Factors such as the rise in the numbers of foreign fighters, the emergence of suicide bombings by foreign perpetrators as well as the birth of local suicide bombers attest to the HIGH rating of terrorism threat in the country. The **study** was shared with all agency-members of the NACC-TFPFSC, Supervising agencies, LEAs with existing MOAs, and FIUs through the ESW. Further, the results of the study were shared with the banks and MSBs during the regular quarterly meetings of the AMLC with the Association of Bank Compliance Officers (ABCOMP) and Association of Remittance Company Compliance Officers (ARCCO) in March 2021.

Foreign terrorist fighters (FTF) Study. On 25 January 2021, the AMLC approved the study on foreign terrorist fighters (FTF) and suspected foreign-linked Terrorism Financing Based on STR submissions study identified the country's risk exposure to FTFs and cross-border terrorism-linked activity through the integration of strategic, operational, and tactical analyses.

Both studies identified the potential threat on the use of MSBs in terms of frequency, and banks in terms of transfer of value. Further, STR information from both studies identified international inward remittances, implying that the country is at a significantly higher risk of being a recipient rather than a source of terrorism financing. Likewise, majority of the STRs were valued at below PHP10,000 (approximately USD206.00), which matches the profile of international inward remittances sent through MSBs.

In the 2021 T/TF Risk Assessment, 70% of the STRs were reported by MSBs and Pawnshops., 9% electronic money issuers, while 29% STRs were reported by banks. The remaining 1% of the STRs were shared by insurance companies, reinsurers and financing companies. MSB and bank were institutions used by terrorist groups in facilitating TF-related proceeds. Based on the table presented in

MRA IO9-MRA 2 (Table 1-A.. Risk Profile of Cases handled by AMLC 2019-2021), 11 cases involved the banking system, while 9 cases involved MSBs and 10 cases involved cross-border transfers.

Legal Persons Risk Assessment. In 2020, the AMLC, with the support of the SEC, completed its risk assessment on legal persons and business entities (LPRA). The LPRA also assessed the TF risk associated with the sector using STRs, studies and TF cases under investigation. Based on the terrorism- and TF-related STRs filed on accounts of legal persons and business entities which account for 0.20% of the total sample STRs used in the study, have estimated STR value at PhP1.566 billion (USD32.2 million) or about 0.003% of the estimated total value of STRs on legal persons and business entities. Moreover, the 172 terrorism- and TF-related STRs involved non-stock corporations (i.e. foundations, education services, etc.), and certain types of businesses, such as construction firms, gas/petroleum, and trading businesses, among others. Terrorism- and TF-related transactions were related mostly to existing TF cases, such as the Maute and other domestic threat groups, jointly handled by the AMLC and intelligence agencies. International funding with an estimated value of PhP60.2 million (USD1.2 million) by foreign NGOs and charities is likewise observed in the sample terrorism- and TF-related STRs. From 2008 to July 2020, the AMLC responded to 68 case referrals/requests for information involving 234 legal persons and other business entities. Strategic study on online gaming and **common funding of threat groups (terrorist group)**⁶⁶ led to the identification and analysis of over 1,308 legal persons/business entities. These strategic studies were likewise disseminated to select intelligence agencies and competent authorities to support their investigations on the predicate offenses and terrorism.

2021 MSB Risk Assessment. On 26 March 2021, the AMLC completed its risk assessment on the MSB Sector. Following the results of the T/TF RA, the AMLC, in coordination with the AUSTRAC and support of the BSP, conducted a sector review on the potential risks involving the sector, with focus on certain crimes including terrorism and TF. The MSB RA uses STRs, studies, cases and other supervisory information from the BSP and AMLC. From 2017 – 2020, MSBs reported 2,007 STRs with estimated STR value of about PhP20.0 million (USD412,456.18). There also appears an increase in MSB's ST reporting on T/TF, with over 350% growth in 2020 compared to 2019. The common range of TF-related funds is between PhP 500.00 and PhP5,000.00 (below US\$ 100). In the AMLC T/TF risk assessment study, over 6,000 STRs were reported by SA-MSBs, EMIs and Pawnshops that are possibly related to terrorism and its financing from 2018 to 2020. Most of the STs associated with T/TF were reported under the *suspicious indicators*' category⁶⁷.

In relation to T/TF-remittance related-STRs, Malaysia, Saudi Arabia, USA, Lebanon and Qatar appear to have the most number of foreign addresses, either as counterparty or subjects of STRs. Domestic locations of beneficiaries of these T/TF related -STRs include Basilan, Zamboanga, Metro Manila, and Sulu.

The BSP likewise completed its **3rd Sectoral Risk Assessment** on BSP—supervised financial institutions in March 2021. The Net risk for TF is high which is primarily driven by the presence of insurgent and terrorist groups which appear to have a systematic and established method of raising funds for their operations.

While the COVID-19 pandemic restrictions delayed the prosecution proceedings of the Maute case until December 2020, the AMLC continues to develop priority cases through the following mechanisms—TIP workshops, MOA and the JTFIG.

iv. **Cases resulting from Joint Investigation and Coordination Mechanisms among the Law enforcement agencies**

The Target Intelligence Packaging or TIP. The term "Target Intelligence Packaging" denotes a case-based discussion to formulate strategies in investigating the cases and/or POIs. Nevertheless, the TIPs conducted by the AMLC with other LEAs are infused with discussion of various topics to highlight the importance of financial investigation for purpose of constricting the sources of funds of terrorists. From 2019 – 2020, the AMLC facilitated three (3) TIP workshops relating to terrorism/TF. TIP workshops are done at least 3 times a year in 3 key locations across the country. This is to ensure that LEAs based in Luzon, Visayas and Mindanao areas are reached out. As a result of the TIP workshops and ongoing investigative activity and cooperation, the AMLC-ATFS developed twelve (12) TF-related cases, eight (8) of which were TIP targets in 2019 and have reached bank inquiry stage, freeze order and filing of civil forfeiture. AMLC was able to disrupt the operations of the CTG

⁶⁶ 1,287 unique entities and individual beneficiary names were identified in the strategic study on the common funding of NGOs related to a specific threat/terrorist group.

⁶⁷ Suspicious circumstance indicators such as "The transaction is similar, analogous or identical to any for the foregoing."; "The amount involved is not commensurate with the business or financial capacity of the client"; "There is a deviation from the client's profile/past transactions."; "There's no underlying legal or trade obligation, purpose or economic justification."; and "The client is not properly identified."

targets, CFO-1, CFO-2 and FMC and MAD when it filed civil remedies on the assets/funds of its legal organizations responsible for its fund generation.

The TIP mechanism considerably reinforced AMLC's efforts in addressing terrorism financing. The inter-personal engagement both with the heads of agencies and the operatives on the ground paved the way for the establishment of trust and confidence among agency partners. This "trust and confidence-building" is further developed when AMLC and LEAs began engaging in actual investigations. The ATFS, following its adoption of the TIP, has intensified its engagements with other LEAs like ISAFP, PNP DI, MAPIO, CIDG and IG purposely to develop assigned cases. In 2020, the AMLC-ATFS held 2 separate case conferences pertaining to subject EJTB with NICA and PNP DI-MAPIO. These collaborations resulted to good leads enabling the case to progress despite the ongoing pandemic and AMLC's operational boundary.

The ATFS also takes opportunity in regularly participating in various intelligence and coordinating bodies like the Joint Terrorism Financing Investigation Group (JTFIG), National Anti-Money Laundering and Countering the Financing of Terrorism Strategy (NACS), National Law Enforcement Coordinating Committee (NALECC) and National Task Force to End the Local Communist Armed Conflict - Legal Cluster Committee (NTF-ELCAC-LCC)⁶⁸. Regular attendance to these bodies had opened gateways of information and the establishment of active lines with relevant agencies. Thus, enabling the AMLC and partner agencies to achieve timely and effective exchange of actionable intelligence vital to TF investigations.

The Anti-Money Laundering Council-Philippine National Police (AMLC-PNP) Fusion Center. On 15 February 2021, the AMLC and PNP entered a MOA to promote and encourage cooperation and coordination to effectively prevent, control, detect, investigate, and prosecute money laundering and its predicate offenses and terrorism financing. Prior to this, the AMLC executed MOA with each PNP-Group. With the new MOA, cooperation and coordination has been extended to cover all Groups and Units in the entire PNP.

The fusion center shall also serve as the conduit for implementing the National Anti-Money Laundering/Countering the Financing of Terrorism Strategy (NACS)⁶⁹ and all other operational mechanisms with regards to timely information sharing between Law Enforcement Agencies. To date, AMLC investigators had conducted a total of **18** case conferences in the AMLC-PNP Fusion Center attended by at least **63** participants.

Joint Terrorism Financing Investigation Group (JTFIG). The JTFIG, which was established in 2014, has 15 member agencies, including the two (2) foreign law enforcement agencies⁷⁰.

As JTFIG members, agencies can utilize various forms of assistance from the U.S. government such as the legal process (or the use of FBI's subpoena powers for subjects/entities within their jurisdiction), access to U.S. Terrorist Screening Center (TSC) Global Exchange Management System (GEMS)⁷¹ database and the Palantir Lapis⁷² database, access to Letterhead Memorandum (LHM)⁷³, and the Emergency Disclosure Requests (EDR), which had been very useful in cases involving the use of social media platforms like the Facebook.

⁶⁸ The NTF-ELCAC was created by virtue of Executive Order No. 70 on 4 December 2018 to institutionalize the whole-of-nation approach in attaining inclusive and sustainable peace, by adopting a national peace framework. It is chaired by President Rodrigo R. Duterte and constituted by the heads of 19 concerned departments and government agencies, including two representatives from the private sector. AMLC is member of the NTF-ELCAC's Legal Cooperation Cluster (NTF-ELCAC-LCC).

⁶⁹ The NACS is the national strategy adopted as a policy of the government to be implemented by all relevant government agencies and instrumentalities as provided under Executive Order No. 68, series of 2018.

⁷⁰ US Federal Bureau of Investigation (FBI); Anti-Money Laundering Council (AMLC); National Bureau of Investigation – Counter Terrorism Division (NBI-CTD); Philippine Center on Transnational Crime (PCTC); Philippine National Police-Directorate for Intelligence (DI); PNP- Intelligence Group; PNP - Criminal Investigation and Detection Group; PNP -Anti-Cybercrime Group; PNP-Anti-Kidnapping Group; PNP-Special Action Force; Bureau of Immigration – Anti-Terrorism Group (BI-ATG); Office of the Deputy Chief of Staff for Intelligence (J2), Armed Forces of the Philippines; Intelligence Service, Armed Forces of the Philippines (ISAFP); PNP DI's Mindanao Area Police Intelligence Office (MAPIO); Australian Federal Police (AFP).

⁷¹ GEMS is a terrorist watch list database (DB) maintained by the U.S. which allow account holders from various member countries to perform identity-based searches of terrorist information for screening purposes only.

⁷² Palantir Lapis is an analytical and case management tool, like I2Analyst

⁷³ Another form of FBI disclosure report/referral

Border Control and Advance Passenger Information. On 15 December 2020, President Rodrigo Roa Duterte signed Executive Order (EO) No. 122 entitled “Strengthening Border Control Through the Adoption and Implementation of the Advance Passenger Information System” (*Implementing Rules and Regulations was approved on 15 January 2021*). Among the matters considered in the issuance of the EO is United Nations Security Council Resolution (UNSCR) Nos. 2178 (2014), which calls upon member states to, among others, require airlines operating in their territories to provide Advance Passenger Information (API) to appropriate national authorities to detect departure from, attempted travel to, entry into or transit through their respective territories. The following mechanisms under the said EO and its IRR will further enhance the identification, investigation and prosecution of TF:

- a. Commercial carriers, whether aircraft or sea vessel, are required to provide API to the Bureau of Immigration (BI) within the required timelines;
- b. Creation of BI-Advance Passenger Information System (APIS) Operation Center under the direct supervision of the BI Commissioner, to perform security vetting or derogatory information verification after the receipt of API, and which is to operate 24/7. In performing security vetting and derogatory information verification, the BI may refer when necessary, to various law enforcement and non-law enforcement databases such as notices issued by International Criminal Police Organization, and those subjects of UN Security Council sanctions and travel bans.
- c. Subject to existing treaties, laws, rules and regulations, and whenever consistent with national interest, the BI may share information contained in the API in furtherance of regional or international security. API may also be shared to the following law enforcement agencies, among others, (1) NBI; (2) PNP; (3) NICA; (4) Armed Forces of the Philippines; (5) National Security Council; and (6) Anti-Terrorism Council, in furtherance of national security, law enforcement, immigration, intelligence and counter-terrorism functions.
- d. The BI-Anti-Terrorist Group under the Office of the Commissioner shall maintain close coordination with and provide assistance to other law enforcement officers in matters involving terrorism, transnational crimes and other illegal activities that may require the use of the API data.
- e. The issuance of E.O. No. 122 and its IRR is very timely in view of the recently enacted Anti-Terrorism Act (ATA) of 2020, which now criminalizes the travel or attempt to travel for the purpose of perpetrating, planning, or preparing for or participating in terrorism or providing or receiving terrorist training (Section 11 of the ATA).

Disruptions of TF operations

The foregoing mechanisms, while mostly through counter-terrorism and warfare, considerably contributed to the disruption of TF operations in the country as most of those who have been neutralized are known leaders.

From 2018-2020, the PNP SAF reported launching about 115 counterterrorism (CT) operations nationwide, of which 101 or 87% were directed towards “confirmed” or positively identified terrorists (see Table 7 below). These CT operations against these terrorists may have direct implications on their operations and finances considering that they were known to be involved in KFR/extortion activities to fund their operations.

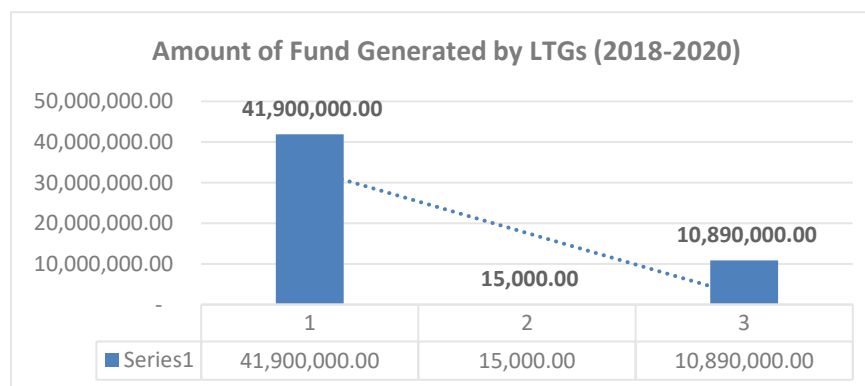
Table 7. PNP Special Action Force Counterterrorist Operations Launched (2018-2020)

Year	CT operations launched	Operations against Confirmed Terrorists
2018	31	27
2019	35	32

2020	49	42
TOTAL	115	101

Statistics also showed a steady decline in LTG manpower during the period (see Table 8 above). The total number of surrenderees is higher compared with the number of arrested and killed in government operations (see Table 8.a below). Notably, 25 out of 215 arrested and killed are identified group leaders/sub-leaders of ASG and Daulah Islamiyah, Daesh liaison, FTF facilitator, FTF suicide bomber, IED/bomb expert and IED-making instructor/trainor. The identified FTF facilitator and suicide bomber are the Indonesian couple involved in the August 2020 Jolo twin bombing incident and are currently under investigation of AMLC.

LTGs used to gain lucratively from their extortion and criminal activities. AMLC studies and RAs show increase in funds (i.e., COVID-19, T/TF RA, MSB, RA, FTF). Statistics showed the amount of funds generated by the group in the last 2 years were lower compared to the amounts recorded in (see chart below). These funds were proceeds of KFR activities and ransom payments which are usually paid in cash to avoid passing through the FI system. But during this pandemic, the LTGs may resort to collecting funds through other means to avoid physical collection of cash which may result to their possible arrest.



Source: PNP-DI

On the other hand, STR narratives filed by pawnshops (2021 MSB RA) stated that most STRs filed on extortion pertain to the activities of the CPP/NPA. The estimated STR value of robbery/extortion, and T/TF-related STRs filed by pawnshops amounted php17.08 million.

Based on the 2021 T/TF RA, the STR-values for the period 2018 -2020 are given as follows:

Table 8.d STR-values (2018-2020)			
Year	No. of STRs	Estimated Value	(in USD Amount)
2018	524 STRs	Php269.24 Million	5,552,485.05

	<table><tr><td>2019</td><td>1,063 STRs</td><td>Php160.32 million</td><td>3,306,248.71</td></tr><tr><td>2020</td><td>7,230 STRs</td><td>PhP1.066 billion</td><td>20,624,169.93</td></tr></table> Further, cash-related (deposits, withdrawals, cash payments) is estimated at PhP304 million (USD6.2 million) and international inward remittances is at PhP579.31 million (USD11.9 million).	2019	1,063 STRs	Php160.32 million	3,306,248.71	2020	7,230 STRs	PhP1.066 billion	20,624,169.93																																																
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3.	Increase the numbers of dedicated TF investigators and enhance TF investigation and prosecution capacity amongst competent authorities on TF investigations, including regular specific financial investigation training to enhance the identification of TF and supporting evidence. <i>Increase in TF Investigators</i> Different security/intelligence/law enforcement agencies have allocated manpower resources to investigate terrorism financing alongside counter-terrorism, and coordinate with AMLC on said investigations. Below is the reported manpower of different LEAs involved basically in counter-terrorism and have lately included the terrorism financing aspect in terms of monitoring and addressing terrorism. <table><tr><th colspan="4">Table 9. Comparative Data on TF Manpower by Agency (2018-2020)</th></tr><tr><th rowspan="2">AGENCY</th><th colspan="3">No. of Personnel</th></tr><tr><th>2018</th><th>2019</th><th>2020</th></tr><tr><td>NICA</td><td><91</td><td><91</td><td>91</td></tr><tr><td>J2, AFP</td><td>4</td><td>5</td><td>5</td></tr><tr><td>NBI-CTD</td><td>9</td><td>9</td><td>3</td></tr><tr><td>BI</td><td>42</td><td>42</td><td>40</td></tr><tr><td>PNP-DI</td><td>4</td><td>4</td><td>18</td></tr><tr><td>PNP-IG</td><td>-</td><td>114</td><td>223</td></tr><tr><td>PNP DI-MAPIO</td><td>11</td><td>11</td><td>11</td></tr><tr><td>PNP-ACG</td><td>4</td><td>4</td><td>6</td></tr><tr><td>ISAFP</td><td>-</td><td>-</td><td>15</td></tr><tr><td>AMLC</td><td>3</td><td>4</td><td>5</td></tr><tr><td>TOTAL</td><td>77</td><td>193</td><td>417</td></tr></table> Under the July 2020 NICA Intelligence Directive, investigation of TF cases and financial investigations of terrorism cases are not limited to investigation agencies only but also to those intelligence units with investigative powers or with investigative arms.	Table 9. Comparative Data on TF Manpower by Agency (2018-2020)				AGENCY	No. of Personnel			2018	2019	2020	NICA	<91	<91	91	J2, AFP	4	5	5	NBI-CTD	9	9	3	BI	42	42	40	PNP-DI	4	4	18	PNP-IG	-	114	223	PNP DI-MAPIO	11	11	11	PNP-ACG	4	4	6	ISAFP	-	-	15	AMLC	3	4	5	TOTAL	77	193	417	This recommended action is partially addressed. Authorities should: - increase the number of TF investigators in AMLC, NICA and other bodies.
Table 9. Comparative Data on TF Manpower by Agency (2018-2020)																																																									
AGENCY	No. of Personnel																																																								
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TOTAL	77	193	417																																																						
4.	Increase FCIG staffing to add appropriately skilled investigators for TF and financial investigations. Ensure dedicated staff, with specialised knowledge on financial crimes, within LEAs with financial investigation units. The AMLC created a TF Sub-Group composed of FCIG investigators (ATFS) and LEG lawyers. The total strength of ATFS in 2018 was three (3), all with extensive law enforcement background. In	This recommended action is partially addressed. Authorities should:																																																							

2019, the ATFS reassigned one staff to another area but added two new members who are lawyers with criminal investigation and litigation proficiencies, for a net gain of 1 staff member. In 2020, ATFS gained one (1) additional staff with central banking and auditing experience, raising the group's total strength to five (5)⁷⁴. With the current ATFS manpower, partner LEAs act as reliable reinforcements in TF investigations.

Table 10. ATFS Manpower Complement (2018-2020)			
Year	Number of ATFS Investigators		% increase
	From	To	
2018	2	3	50%
2019	3	4	33%
2020	4	5	25%

The investigative skills/capabilities of ATFS investigators are continuously being developed and honed through various trainings / webinars. From 2019 to March 2021, ATFS investigators attended/participated in the following capacity building programs/trainings:

Table 10-a. Training/Non-Training Programs				
No.	TITLE	PROVIDER	INCLUSIVE DATES	VENUE
1	Workshop on Counter Terrorism Social Media Intelligence	PNP - DI	4 April 2019	Camp Crame, Quezon City
2	Counterterrorism Investigation Course	US FBI	17-21 June 2019	Davao City
3	Basic Level Course on Countering the Financing of Terrorism	UNODC	9-12 July 2019	Diamond Hotel Makati
4	Workshop on Conducting a Proliferation Financing Risk Assessment	RUSI	13-15 August 2019	Makati City
5	Workshop on "Countering the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction (by non-State actors)"	UNODC	17-19 September 2019	Ulaanbatar, Mongolia
6	Counter-DPKR Scenario-Based Facilitated Discussion	US Embassy-Manila	4-9 November 2019	Singapore
7	Regional Counterterrorism Investigation Course 2020	FBI	13-17 January 2020	Bali, Indonesia
8	JAPIC PSRTG 1 st Semester 2020 Validation Workshop for Financing Terrorism	AFP-PNP	25 June 2020	Online
9	Palantir Lapis Training	FBI/US SOC	1-2 and 7-8 July 2020	Online
10	Advance Financial Investigation	IDLO	14-16 September 2020	Online

- Continue to increase staffing as current staffing is still not adequate to address the materiality and risks in the Philippines.

- continue recruitment and training activities to ensure there are skilled investigators for TF and financial investigations.

⁷⁴ Please note that the resources of other law enforcement and intelligence agencies dedicated to TF are outlined in our response to Recommended Action (c) above.

11	CAMS Examination Review Class	ACAMS	16 March 2020 and still ongoing	Online
12	Firearms Proficiency Training	Bureau of Customs	5-6 November 2020	BOC Compound, Manila
13	Countering Terror Financing (Participated by AMLC Investigators and DOJ Prosecutors)	US DOJ ICITAP Philippines	1-5 March 2021	Pasay City
14	Palantir Lapis Training	FBI/US SOC	30 March 2021 – ongoing	Online
Table 10-b. Webinars				
No.	TITLE	WEBINAR HOST	DATE STARTED	DATE COMPLETED
1	AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism): Risk-Based Response, Combating Terror Financing and Corruption	Fintelekt	17 April 2020	17 April 2020
2	CEP webinar on global threat posed by ISIS and al-Qaida and continuing challenges in combating terrorism financing through social media	Counter Extremism Project	29 April 2020	29 April 2020
3	Exchange of Experiences and Lessons on Virtual Assets Service Providers (VASPs): Singapore, Japan, and the Philippines	World Bank	18 May 2020	18 May 2020
4	Cryptocurrency Workshop and FATF Travel Rule Webinar	Chainalysis	8 October 2020	9 October 2020
5	2020 Fintelekt Annual AML/CFT Summit	Fintelekt	23 November 2020	27 November 2020

Trainings:

In mid-2019, the JTFIG (through the FBI) conducted a counter-terrorism investigation course for investigators, analysts and prosecutors in Davao City, Philippines. JTFIG members were exposed to different investigative tools and techniques, including effective interviewing techniques, study of the existing anti-terrorism laws, and social media intelligence presented by a Facebook specialist. Participants were tasked to present their agency's capabilities. AMLC briefed the participants about financial intelligence and financial investigation processes. Cases for investigation were referred after these trainings.

In January 2020, JTFIG (through the FBI) hosted another training, entitled Regional Counterterrorism Investigation Course 2020, held in Bali, Indonesia. Philippine-based JTFIG members were able to establish professional contacts and network with their counterparts from Indonesia and Malaysia. The course also aimed at strengthening the investigative skills of the participants through a weeklong case study with fellow participants from different agencies and jurisdictions. This allowed them to gain knowledge from the subject matter experts and on the best practices from other jurisdictions. One of the highlights of the training is the Analysis of Social Media in Terrorism and Terrorism Financing (TF) Investigation including the legal considerations in using the social media as evidence. Emphasis on the social media analysis and exploitation as a powerful tool, interview techniques, overview of the numerous social media applications and tools, terrorism financing and relevant case studies were also discussed.

Aside from the yearly training, the FBI also made available to JTFIG member-agencies access to the U.S. Terrorist Screening Center Global Exchange Management System (GEMS) database and

the Palantir Lapis. GEMS is a terrorist watch list database (DB) maintained by the U.S. which allows account holders from various member countries to perform identity-based searches of terrorist information for screening purposes only. The Palantir Lapis, on the other hand, is an enterprise level information exchange platform and analytical tool used by the U.S. Special Operations Command. The program allows Partner Nations to collaborate with U.S. and other Partner Force users with its Classification Backed Access Controls (CBACs). This expanded the AMLC-ATFS's sources of information and network beyond its usual JTFIG collaborative partner agencies.

AMLC- ATFS investigators likewise underwent the advance financial investigation training in September 2020 organized by the International Development Law Organization (IDLO) in partnership with the AMLC, and supported by the U.S. State Department, Bureau of International Narcotics and Law Enforcement Affairs (INL). The course covered in depth money laundering processes, common investigative techniques and tools available.

The AMLC ATFS attended the Countering Terror Financing course organized by the U.S. DOJ ICITAP Philippines from 1-5 March 2021 with 16 participating AMLC investigators and 14 prosecutors from the Department of Justice (DOJ). The training focused on the available investigation and analysis techniques, applicable laws, case presentations and encouraged strong and consistent collaboration with other law enforcement agencies.

5. LEAs should regularly request AMLC to pursue parallel TF investigations with the LEAs' terrorism investigations or predicate investigations that may have TF elements (e.g. kidnapping for ransom matters).

The following case studies manifested the strong collaboration between AMLC and LEAs in the conduct of parallel TF investigations.

- IO 9 Case Study 1, JJ Case** - This case featured AMLC's role in linking the Abu Sayyaf Group (ASG) to the kidnapping incident and bridging the gap between operational and financial investigations by determining financial transactions that would link the proceeds of the crime and the perpetrators. Sometime April 2016, AMLC was requested by local LEAs to provide assistance in monitoring a bank account allegedly owned by an ASG member responsible for the kidnapping of ten (10) Indonesian crew members of a tugboat. The AMLC immediately coordinated with the subject covered person to monitor the activity of the identified ATM account.

In order to obtain evidence on the identification of suspects as well as the use and movement of proceeds, AMLC investigators conducted a surveillance operation coordinated with the bank and sought its cooperation in monitoring the account. AMLC investigators were able to obtain from the bank closed circuit television (CCTV) footages, containing the images of the persons who withdrew from the account through ATM withdrawals. Through a controlled delivery, JJ, on several occasions, was allowed to withdraw portions of the proceeds from the ATM. Investigation also confirmed that the ABC bank account is a savings (ATM) account owned by ASG members, spouses JJ and AJ, residing in Sulu. On 1 May 2016, the 10 kidnapped crew members were released by the ASG. Subsequently, due to the increased withdrawal activity from the said bank account and the release of kidnapped crew members, the AMLC and the intelligence and law enforcement agencies agreed on 10 May 2016 to freeze the bank account to prevent further dissipation of funds while continuing the surveillance on JJ and other suspected members of the ASG.

In a resolution dated 13 May 2016, the AMLC directed ABC Bank to freeze the remaining balance in the bank account of JJ and AJ, since the said account belongs to or is controlled by the ASG, a UN-designated terrorist organization. A total of PhP498,653.68 (USD10,266.70) from the said account is now subject of indefinite freeze by the AMLC. After a Petition for Civil Forfeiture was filed by AMLC, thru the Office of the Solicitor General (OSG), the amount of PhP498,653.68 (USD10,266.70) is now subject of an Asset Preservation Order.

On 15 October 2018, a complaint for Terrorist-Financing was also filed with the Department of Justice (DOJ). The DOJ filed criminal information to the Regional Trial Court (RTC) Branch 3, Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) on 13 November 2019 docketed as Criminal Case No. 2761-3 entitled "*People of the Philippines vs JJ*" for Violation of Section 8, R.A. No. 10168.

This recommended action is partially addressed.

The Philippines has submitted case studies but there is no evidence of any change in policy or procedure since the MER in 2019 that supports a change in practice, procedure or policy that requires LEAs to regularly request AMLC to pursue parallel TF investigations.

- **IO 9 Case Study 2, FRM/M Group** - The MG was one of the domestic terrorist groups designated by the Anti-Terrorism Council (ATC) under ATC Resolution No. 13 and subject to the targeted financial sanctions (TFS) by virtue of AMLC Resolution No. TF- 34 (s. 2020).

Prior to the designation, the AMLC coordinated with the Armed Forces of the Philippines (AFP), the Department of National Defense (DND) and the ATC on the proscription of the Daulah Islamiyah – Maute Group as a terrorist group pursuant to Republic Act Nos 10168, and then Human Security Act of 2007, following the group's attempt to overtake and establish an Islamic caliphate in Marawi in 2017. Based on the investigation, AMLC directed various banks and corresponding government agencies, to freeze without delay, the bank accounts, assets and properties, and all related accounts of subject individuals/entities. In the course of the investigation, it was found that FRM allowed the MG members to use her vehicles and provided property to a terrorist organization which facilitated the group's terrorists acts.

The AMLC also inquired into the accounts and caused the filing of a petition for civil forfeiture of the ₱52,200,000.00 cash seized from the MG. AMLC also directed the banks to freeze without delay, effective indefinitely, the bank accounts, vehicles and real properties of the abovementioned subjects, and for the *Bangko Sentral ng Pilipinas* to preserve and prevent the withdrawal/disposition of the ₱52,200,000.00 cash seized from the MG that was recovered by the military during the Marawi Siege.

The frozen assets of the MG involved fifty-nine bank accounts with a total amount of Php28,547.65; Php52.2 million cash seized in Marawi City; nine (9) motor vehicles; and a 120-hectare agricultural and mineralized land located in Lanao del Sur which was under the effective control of the MG as in fact they used this as training ground for their ISIS inspired terroristic acts.

On 23 October 2020, after finding probable cause, the Department of Justice issued a Resolution recommending the filing of information against FRM for terrorism financing. On 9 December 2020, a TF case was filed before the Regional Trial Court, 12th Judicial Region, Marawi City against FRM under Case No.8302-2020.

- **IO 9 Case Study 3, AEA and FMN** - This investigation was triggered by letter-referral from PNP-IG requesting the conduct of financial investigation on AEA, and AMLC's continuing coordination with the PNP-CIDG on a certain FMN.

AEA is listed (QDi.414) in the UNSC Resolution (UNSCR) 1267 on 18 June 2018 for being a facilitator for ISIL. AEA was arrested on 26 September 2017 by elements of PNP and BI for the crime of Kidnapping and Serious Illegal Detention, and he was brought before the Office of the Regional State Prosecutor of Region IX, Zamboanga City on 22 September 2000. In an Affidavit of Identification executed by an ASG kidnap victim, AEA allegedly supplied ASG leader ES with night vision goggles, military uniforms, satellite telephone and cash sometime in October 2000. PNP-IG also disclosed that he funneled funds from Saudi Arabia to the Philippines thru the wives and relatives of ASG members.

FMN was among those being utilized by the ASG for their financial transactions and logistical needs, including the facilitation of recruitment and travel of foreign fighters to the Philippines. FMN was arrested in April 2019 in Zamboanga City along with three (3) other followers of ASG Sub-leader HHS for illegal possession of explosives. FMN is the wife of an ASG member under HHS's group.

Investigation showed FMN received PHP25,000.00 from AEA on 25 July 2016, through T Co. located in KSA.

The AMLC sought assistance from the DOJ for a possible MLA request with the US or KSA to secure copies of documents that could be used as evidence for filing terrorism financing case against the subjects.

The continuing multi-agency coordination between the AMLC and its domestic partners resulted to positive outcomes in this case which includes discovery of international nexus. AMLC's coordination with private partners (banks, MSBs), and its proactive response to media articles and other information regarding TF-related sanctions, likewise greatly contributed to its success.

- **IO 9 Case Study 4. FMC and MAD Case-** This is a case involving members of the Communist Party of the Philippines – New People's Army (CPP-NPA), a local communist/terrorist group. Intelligence build-up conducted by the Philippine Army (PA) resulted in the identification of FMC and MAD as finance officers of CPP-NPA operating in the region.

During the implementation of a search warrant on 7 February 2020, the PNP-CIDG found a fragmentation grenade, firearms and ammunitions. The operatives also recovered cash amounting to PHP557,360.00 kept inside a safety deposit box.

The PNP-CIDG referred the case to the AMLC on 20 February 2020 for financial investigation and to freeze the cash recovered in this counter-terrorism operation such being related to terrorism/financing of terrorism. AMLC immediately reviewed the case and after finding probable cause⁷⁵ that such funds are related to financing of terrorism and/or terrorism, the AMLC issued a Freeze Order on 28 May 2020 against the PHP 557,360.00 cash seized from the subjects. The CA later extended the Freeze Order. The AMLC filed a civil forfeiture case on the assets frozen, and the RTC has issued an Asset Preservation Order (APO) on 22 February 2021. **On 29 March 2021, complaints for violation of Section 8 of R.A. No. 10168 were filed against FMC and MAD with the DOJ.**

IO 9 Case Study 5. (CFO-2) – This case was referred to the AMLC by the NICA and ISAFP. **It refers to the surrender of two (2) former CPP-NPA rebels who have knowledge of the terrorism activities and source of funding of the CPP-NPA in northern central Mindanao.** After execution of Sworn Statements of the rebel returnees, and several case conferences, the AMLC issued a resolution on 4 October 2019 authorizing the FCIG-ATFS to inquire into the three (3) bank accounts of RMP/RMP-NMR. After bank inquiry, the AMLC issued a Resolution on 26 December 2019 directing the bank to freeze the three (3) bank accounts and 12 other related accounts with total outstanding balance of PhP 15,036,193.15. Thereafter, the AMLC filed a petition for Civil Forfeiture through the OSG. On 07 October 2020, the Regional Trial Court issued an Asset Preservation Order forbidding the withdrawal or any other transaction of the funds in the frozen accounts. In return, the RMP filed for a motion to discharge APO.

- **IO 9 Case Study 6. MM-** Considering that MM is a UNSCR 1267 designated terrorist, and with the end view of building a case for terrorism and/or terrorism financing, **her case was shared with law enforcement and intelligence agencies in one of the TIP Workshops and with JTFIG member agencies. Through the JTFIG, AMLC requested for FBI's legal process in obtaining documents from Western Union pertaining to monetary transfers and identifications documents associated with MM.** The FBI responded and submitted pertinent documents and even allowed its use in legal proceedings.

AMLC also requested relevant information from Financial Crimes Investigation Board (MASAK), Turkey thru ESW, which consequently confirmed that MM indeed received money transfers through a money service business (MSB) from a Turkish national.

Further, it is through the TIP workshop conducted by AMLC's ATFS that an information was received on MM's real property located somewhere in Zamboanga area. Immediately upon receipt of such information, the AMLC verified with the Land Registration Authority (LRA) and found out that MM is indeed a registered co-owner of a parcel of land consisting of fifty-seven thousand three hundred eighteen (57,318) square meters, more or less, located in Barangay Calabasa, Zamboanga City and covered by Transfer Certificate of Title (TCT) No. T-195736 issued by the Registry of Deeds of Zamboanga City.

On this account, the AMLC froze for an indefinite period, the said parcel of land covered by TCT No. T-195736, in the name of MM, et. al., located in Brgy. Calabasa, Zamboanga City, pursuant to Section 11 of R.A. 10168.

⁷⁵ Probable cause was established through the subscribed Joint Affidavit of witnesses who have personal knowledge on the involvement of the subjects in facilitating the flow of funds to CTG.

- **IO 9 Case Study 7. EJTB**– E's case was referred by the Bureau of Immigration (BI) to the AMLC through the JTFIG in January 2019 after being held captive by the Syrian Democratic Forces (SDF) in Syria along with her husband, K and one AJL. K is a senior member of the ISIL and was designated by the UNSC and the U.S. Department of Treasury Office of Foreign Assets Control (OFAC)⁷⁶. He was later reported to have died in a government operation in Syria.

E was identified to be K's facilitator when he travelled to Syria in 2015 to join the ISIL. Immigration records showed the couple, together with E's children, departed on 16 May 2015 at the Cebu International Airport bound for Tokyo, Japan where the family took a connecting flight to Turkey⁷⁷, and from there, a likely land travel to Syria⁷⁸. At that time, E was the only one who was gainfully employed as accounting head of a cocoa export and manufacturing company, which happens to be owned and managed by her relatives. STR reports on one of her two (2) bank accounts showed proximity to the time the family left for Syria, which became the basis for the conduct of bank inquiry on the said accounts including one (1) credit card account. An indefinite freeze order was likewise implemented on the said accounts.

Further coordination with the JTFIG member agencies including the FBI and the Australian Federal Police (AFP) identified another POI who could also be directly associated with E and K, identified only as ATS. ATS also travelled to Syria with E and K and this was supported by the Immigration records. The PNP-DI confirmed ATS to be a former police officer who had also succeeded in recruiting another fellow police officer. ATS was also associated with Rajah Solaiman Movement (RSM) (QDe.128)⁷⁹ founder, Hilarion Del Rosario Santos III alias Akmad Santos (QDi.244)⁸⁰ and had allegedly died in Syria in a suicide bombing⁸¹.

Another POI is E's employer and uncle, identified as ECB, who was a manager/president of two (2) cocoa manufacturing companies where E worked as accounting head for almost nine (9) years. Immigration records showed ECB travelled to Turkey sometime in December 2017, during which E and K were deemed to be in Syria. Investigation on the possibilities of their likely collaboration is still ongoing as of this reporting while result of bank inquiries are also forthcoming.

- **IO 9 Case Study 8. RNT** – This is another successful case that resulted from effective and timely collaboration between the AMLC and the JTFIG member agencies, particularly the PNP. T's planned bombing operation in Zamboanga City on November 2020 was thwarted after T and two (2) cohorts were killed in a maritime interdiction by the police in Zamboanga City on November 25, 2020. T's group was onboard a pump boat heading towards Zamboanga City, and they were carrying explosives purposely for the planned bombing in Zamboanga City. **The police authorities were able to locate T based on the addresses in the bank records provided by the AMLC.** T is linked with the DI-ASG operating in Basilan and Sulu provinces. His group receives fund from Foreign Terrorists' in Middle East and Indonesia intended to fund bombings and other terroristic activities in Mindanao. The police estimated 5,000 lives were saved from the foiled bombing attempt of T's group.

During financial investigation, the police were able to identify a red flag from T's transaction records showing the very same actors, sending, and receiving funds repeatedly for almost a month, but uses a new set of contact numbers for every transaction made. This modus is likely intended to avoid detection or association of the transactees to a particular contact number / individual, thus further implying a good understanding of the banking system by the transactees.

⁷⁶ <https://www.un.org/securitycouncil/content/muhammed-reza-lahaman-kiram> and <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20180824.aspx> (last accessed on 22 January 2020).

⁷⁷ Data obtained from the Bureau of Immigration (BI) and Australian Federal Police (AusFP).

⁷⁸ Data obtained from the National Bureau of Investigation (NBI).

⁷⁹ https://www.un.org/securitycouncil/sanctions/1267/aq_sanctions_list/summaries/entity/rajah-solaiman-movement (Last accessed on 18 August 2020).

⁸⁰ https://www.un.org/securitycouncil/sanctions/1267/aq_sanctions_list/summaries/individual/hilarion-del-rosario-santos (Last accessed on 18 August 2020).

⁸¹ Data obtained from the JTFIG-PNP Directorate for Intelligence.

- **IO 9 Case Study 9. CAA** – Another successful inter-agency collaboration with the JTFIG agencies led to the indictment by the US of foreign terrorist fighter-Kenyan national and Al-Shabaab member, CAA. CAA's case was referred to the JTFIG on 1 July 2019 by the Bureau of Immigration following his arrest by the PNP-CIDG in Zambales. AMLC immediately conducted database search and financial investigation on CAA but yielded negative result. CAA was a suspected member of the terror group, Al-Shabaab, that pledged allegiance to Al-Qaeda. CAA yielded a 9mm pistol, improvised explosive device, hand grenade and other bomb making components. At the time of his arrest, CAA was studying to be a pilot in an aviation academy in Pasay City, National Capital Region. The FBI identified Moroccan national, AM, who also studies at the same aviation school as being associated with CAA via a social networking service. AMLC DB search on AM showed positive results. AMLC investigation on CAA and AM is still ongoing.

On December 02, 2019, CAA was charged before the Bureau of Immigration Special Prosecutors for violation of the Philippine Immigration Act of 1940, as amended.

On 5 October 2020, the FBI based in the Embassy of United States in Manila, furnished, and shared to the BI information regarding CAA, on the serious charges he has to face in the US and that a Warrant was issued by the Southern District of New York on 1 October 2020.

On 21 October 2020, BI acquired physical custody of CAA. On 28 October 2020, the BI received a letter from the Office of the Director of Public Prosecution, Republic of Kenya stating therein that their Office is aware of the charges filed against CAA in the United States' Southern District of New York and poses no objection to the latter seeking deportation or legal removal of CAA from the Philippines to face trial in the United States.

CAA was deported and departed the country on 14 December 2020. His departure was in accordance with the Bureau's deportation process.

6. The Philippines should consider allowing early coordination between LEAs and prosecutors on the TF offence to improve evidence collection and other investigation actions.

The Philippines has considered this matter carefully and has recently taken significant steps to facilitate early coordination between LEAs and prosecutors on TF investigations. This is being achieved primarily through (i) the creation of a Counter-Terrorism and Terrorism Financing Standing Committee in the DOJ to act as a focal point on all terrorism and TF -related issues, and (ii) the participation of prosecutors who are members of the AML/CTF Task Force in TIP Workshops relating to TF (and AML) matters. These two measures will greatly strengthen both overall coordination and practical cooperation on TF cases "on the ground".

In a letter dated 29 January 2021, the Secretary of Justice (SOJ) furnished the AMLC Secretariat copies of several Department of Justice (DOJ) Department Orders, including DO Nos. 012 and 014. The foregoing Department Orders, all dated 21 January 2021, pertain to the following:

Table 11. Department of Justice (DOJ) Department Order (DO)

DO No.	Subject	Particulars
012	Creation of a Counter-Terrorism and Terrorism Financing Standing Committee and the Designation of its Members	• In the interest of service, pursuant to relevant laws, and to ensure coordinated, consistent and coherent actions of the DOJ on all matters involving counter-terrorism, a Counter-Terrorism and Terrorism Financing Standing Committee in the DOJ was created. • The Standing Committee shall serve as the focal point in the DOJ for all efforts involving counter-terrorism, terrorism financing, and other terrorism-related matters, including but not limited to assistance in the investigation and prosecution of cases and coordination thereof with relevant regional

This recommended action is partially addressed.

- Philippines has made progress in terms of training, workshops and developing a understanding for early coordination between LEAs and prosecutors on the TF offence to improve evidence collection and other investigation actions but has not submitted any such example of early coordination between LEAs and prosecutors on TF offence.

provincial, and city prosecution offices as well as attendance and participation in inter-agency task forces and meetings, congressional hearings, and capacity-building activities. To this end, **enhanced coordination and consultation with the Anti-Terrorism Council and Anti-Money Laundering Council shall be observed in accordance with relevant laws and agreements.**

The CT/TFSC convened on 1 March 2021 spearheaded by DOJ and attended by state prosecutors, members of the Committee and several AMLC representatives. The gathering was prefaced by a detailed discussion of the Department Order No. 12 creating the CT/TFSC along with the other relevant issuances (i.e. D.O. 13 and 14).

In this light, the head of the DOJ task force laid down the strategic framework to be observed by the Committee, which essentially consists of close, active, and time-bound coordination of state and local prosecutors with other key agencies with the end in view of disrupting acts of terrorism, dismantling terrorist groups, and securing court convictions against all perpetrators.

It is noteworthy that the recently concluded US ICITAP & US OPDAT sponsored workshop held from March 1 to 5, 2021 for the AMLC & DOJ led to the filing of 2 TF cases on 29 March 2021.

Another similar workshop is scheduled to be held sometime in the first week of May 2021 where some key members of the Committee from other regions are expected to fly in if circumstances permit.

A good working relationship is likewise expected of the other members of the Committee albeit under a different office within the Department. The members under the DOJ-Legal Staff are long-time point-persons in CT/TF and Mutual Legal Assistance concerns.

The abovementioned strategic framework was likewise echoed by an official of NICA in a meeting with the DOJ as regards CT/TF matters on March 25, 2021. A system of replicating in the regional level the close and active coordination and working relationship among the DOJ state prosecutors, the intelligence community (NICA/ISAFP, etc.), and AMLC is strongly considered.

To fully integrate the law enforcement arm in the CT/TFSC framework, the head of the DOJ task force conducted a whole-day training on ATA and Criminal Justice Responses to Terrorism before 220 officers from PNP-NCRPO on March 26, 2021. We expect further cementing of this relationship with the PNP by May 2021 in view of the expected change of leadership.

Table 11.a Summary of Participants in the ATA and Criminal Justice Responses to Terrorism Training

Unit	Chief Intel/Inves	Senior Inves/Intel Operative	Total

Regional Headquarters			
RID	1	1	2
RIDMD	1	1	2
ATTG	1	4	5
RSOG	1	2	3
5 District Headquarters			
DID, NEMSQ	5	5	10
DIDM, NEMSQ	5	5	10
45 Police Stations			
Station Intelligence Section	45	45	90
Station Investigation Section	45	45	90
RMFB			
Intelligence Section	1	2	3
Investigation Section	1	2	3
CIDG-NCR			
Intelligence Section	1	2	3
Investigation Section	1	2	3
TOTAL			224

Convening all the members via digital platform to be organized by the Undersecretary-in-charge is planned in the 2nd quarter of the year. Addition of members from other regions not heretofore known as problem areas in CT/TF matters may likewise be considered given the changing landscape and circumstances of CT/TF.

014 Participation of Prosecutors in the Anti-Money Laundering Task Force in the Investigation of Anti-Money

- The DOJ recognizes that TIP workshops being conducted periodically by AMLC and LEAs are venues for inter-agency sharing of information on anti-money laundering and terrorist financing cases **in order to formulate strategies and develop tasking during case buildup for prosecution.**

Laundrying and Terrorist Financing Cases and in Periodic Target Intelligence Packaging Workshop

- Prosecutors in the Anti-Money Laundering Task Force and the members of the Counter-Terrorism and Terrorism Financing Standing Committee are directed to actively pursue and monitor the investigation of anti-money laundering and terrorist financing cases, **and to actively participate in periodic TIP workshops.**
- The participation of prosecutors in the investigation of AML/CTF cases shall include, but shall not be limited to, **counseling law enforcement agencies and other government agencies on the matter of the sufficiency of evidence gathered prior to the filing of a complaint.**

Although the COVID-19 pandemic has stalled the proposed TIP workshop with DOJ in 2020, AMLC has aligned its 2021 Roadmap with the said workshop as one of the top priorities. AMLC is also taking into consideration the participation of DOJ's Task Force on money laundering and terrorism financing in regular TIP workshops conducted with LEAs. Such engagement would facilitate the resolution of pending cases with the DOJ and strengthen the collaboration between the DOJ and the AMLC.

Basic Trial Advocacy in Anti-Money Laundering Cases. The training was sponsored by the International Development Law Organization (IDLO), in coordination and in partnership with the AMLCS. The training was participated in officers of the AMLCS, DOJ, Office of the Solicitor General (OSG) and Office of the Ombudsman (OMB) – Office of the Special Prosecutor (OSP):

Table 12. Summary of IDLO Participants by Agency

Name of Agency/Office	Number of Participants
AMLCS	Nine (9) Personnel
DOJ	Four (4) Personnel
OSG	Six (6) Personnel
OMB – OSP	Seven (7) Personnel

AMLC's TF groups (investigators, analysts and legal officers) and selected DOJ prosecutors underwent the Countering Terror Financing Course on 1-5 March 2021 in Pasay City, Manila. It was organized by the U.S. DOJ's Criminal Division International Criminal Investigative Training Assistance Program (ICITAP). The 20-hour training course aims to provide select AMLC analysts and investigators, DOJ prosecutors with a coordinated program to expand sharing of intelligence, interagency cooperation, and increased prosecution integration; impart knowledge and skills necessary to open investigations; equip necessary tools to enhance fact-based evidence sufficient to launch new investigations as well as, the conviction of offenders and the seizure of illicit funds; provide a "deep dive" of MSBs; improve suspicious & currency transaction reports in terms of data content and coordination with originators; synthesis of financial data and analysis of records when viewed through a terrorism aperture; and discuss the development and use of intelligence products and how parallel money laundering investigations can support substantive counterterrorism (CT) and criminal cases.

7. AMLC should conduct ongoing outreach and guidance to regulated entities on terrorism and TF red flag indicators, and the obligation to file STRs related to TF.

The AMLC has conducted ongoing (increased) outreach and guidance to regulated entities on terrorism and TF issues. As outlined below, this has led to a very significant increase in the number of TF-related STRs submitted by reporting entities, from 524 TF-related STRs in 2018 to over 7,000 in 2020.

AMLC Regulatory Issuance No. 4, Series of 2020 and the Sanctions Guidelines were discussed during the 3rd Quarter 2020 Quarterly Meetings between the AMLC and the Association of Bank Compliance Officers (ABCOMP) the associations of Money Services Business (MSBs) held on 17 September 2020 and 24 September 2020, respectively. During the said meetings, the

This recommended action is largely addressed

representatives from the Universal/Commercial banks and MSBs propounded several questions on their implementation of the said regulations. The AMLC was able to provide these covered persons with a better understanding of their obligations to identify and freeze terrorist assets without delay based on the provisions of AMLC Regulatory Issuance No. 4, Series of 2020 and the Sanctions Guidelines.

The AMLC also issued AMLC Regulatory Issuance (ARI) No. 2 (s.2021) amending ARI No. 4 and expanding the coverage of the TFS to include those designated by the Anti-Terrorism Council.

On 3 March 2021, the AMLC issued the 2021 Sanctions Guidelines with the directive to all covered persons to have the Guidelines downloaded and disseminated to the concerned offices and personnel for reference and appropriate guidance.

On 15 October 2020, the SEC hosted a webinar on Risk Based Approach and Targeted Financial Sanctions (TFS). The webinar was attended by representatives from 104 covered persons and 63 officials from the SEC. The webinar not only discussed TFS that is related to terrorism financing but also TFS related to proliferation financing.

In addition to AMLC's outreach campaign activities, the AMLC Executive Director delivered lectures on the ATA at the following events:

Table 13. AMLC's Lecture Events for the ATA	
Date	Event
11 July 2020	De La Salle University-Center for Professional Development in Business
13 July 2020	P&A Grant Thornton
28 July 2020	Securities and Exchange Commission
10 August 2020	Department of the Interior and Local Government
1 October 2020	National Intelligence Coordinating Agency (NICA)
23-27 November 2020	2020 Fintelekt Annual AML/CFT Summit

The executive summary of the Terrorism and TF Risk Assessment was posted on the AMLC website in February 2021. The executive summary contained the basic elements of the RA as well as the red flag indicators and suspicious triggers. The study assessed over 8,000 STRs from 2018-2020, highlighting the notable increase in 2020.

In addition to the T/TF RA, the executive summary of Legal Persons' Risk Assessment (LPRA) was also posted on the AMLC website in February 2021. The LP RA also assessed the TF threat associated with legal persons and business entities particularly identifying the industry types at risk to TF. The TF-related STRs involved certain types of businesses such as construction firms, gas/petroleum and trading, and non-stock corporations.

Both studies were shared with the banks and MSBs during the regular quarterly meetings of the AMLC with the Association of Bank Compliance Officers (ABCOMP) and Association of Remittance Company Compliance Officers (ARCCO) in March 2021. The AMLC shared the significant TF findings, particularly on the risks, emerging threats, and compliance of the CPs (by showing relevant statistics) as to the reporting of STs. The AMLC likewise presented the LPRA, including its TF findings, to the legal persons and business entities that attended the SEC webinar held on 12 March 2021.

Furthermore, the BSP, AMLC and the local government are recommended to mitigate the T/TF risks associated with the MSB through the following efforts:

	- The AMLC and BSP must conduct massive awareness campaigns and AML/CTF trainings to MSBs, particularly those in high-risk areas, and raise awareness of potential risks and sanctions. In this manner, MSBs improve their risk understanding, reporting compliance, and KYC/CDD procedures. - The BSP and AMLC should monitor the implementation and compliance of financial institutions with the BSP Memorandum⁸² on applying appropriate diligence when dealing with MSBs classified as high-risk.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 9. The JG identified recommended actions 1, 2, 3, 4, 6 and 7 as key recommended actions as they are fundamental to improving the effectiveness of TF investigations and prosecutions in the Philippines. The JG identified recommended actions 1, 2, 3, 4, 6 and 7 as key recommended actions as they are fundamental to improving the effectiveness of the asset confiscation regime in the Philippines. Recommended action 1 is a key recommended action and is partially addressed. The Philippines has made significant progress in respect to passing new legislation but still it is not able to demonstrate effective implementation on ground. Also more clarity is required in respect of execution of amended legislation. Hence, the effectiveness of recently introduced arrangements in TF laws and TF coordination mechanism needs more time for evaluation. Recommended action 2 is a key recommended action and is not addressed. The Philippines has made some progress in identification, investigation and prosecution, of TF. However, the efforts are not commensurate with the risk profile (domestic and transnational TF risks) as the number of cases investigated, prosecuted and resultant conviction is very low. Further, the methodology used for the risk assessment need more clarification. Recommended action 3 is a key recommended action and is partially addressed. The Philippines has made good progress by Increasing the numbers of dedicated TF investigators in some specified agencies, however marginal increase was noticed in AMLC, NICA and other bodies. The lower increase creates gap in efforts of enhancing TF investigation and prosecution capacity. Recommended action 4 is a key recommended action and is partially addressed. The progress needs improvement as the absolute numbers shows low progress in comparison to number of TF investigations and risks involved. Philippines has made progress by Increasing FCIG staff to add appropriately skilled investigators for TF and financial investigations with training. Recommended action 5 is partially addressed. - Philippines has submitted good case studies having TF elements, parallel investigations and coordination among LEAs. However, the statistics of total terror cases and terror financing cases investigated are missing. Recommended action 6 is a key recommended action and is partially addressed. Philippines has made progress in terms of training, workshops and developing a understanding for early coordination between LEAs and prosecutors on the TF offence to improve evidence collection and other investigation actions but has not submitted any such example of early coordination between LEAs and prosecutors on TF offence. Recommended action 7 is a key recommended action and is largely addressed. Since 2018, the AMLC has conducted ongoing and increased outreach and guidance to regulated entities on terrorism and TF including disseminating information and guidance through the AMLC website, webinars, and private sector meetings, conferences and other events.	
Immediate Outcome 10	Recommended Actions from MER: Amend the legal framework, including: to be able to take ex parte action against persons or entities proposed for designation pursuant to UNSCR 1373; to introduce the preliminary asset preservation orders; to allow individuals to be designated as terrorists under s.17 of the HSA; to allow for an evidentiary standard of 'reasonable grounds/basis' for proposing designations under UNSCR 1267 and deciding whether or not to make a designation under UNSCR 1373.	This recommended action is partially addressed. Philippines has made

⁸² Memorandum No. M-2019-029 on 12 December 2019 amending Memorandum No. 2016-004 on the Reminder on Sound Risk Management Practices in Dealing with FXD/MC/RTC.

Low

Legal Framework

The Anti-Terrorism Act of 2020 which repealed the Human Security Act of the Philippines has reshaped its legal framework to implement FATF R. 6. The new legal framework has been lengthy discussed in the full report of compliance in its March 2021 Follow Up submission. As a result of this development, the Philippines has requested for re-rating of R6 and the APG team responded positively, and the Philippines is now rated largely compliant (LC).

The Anti-Terrorism Act (ATA) of 2020 took effect on 19 July 2020. The ATA's Implementing Rules and Regulations (IRR) took effect on 19 October 2020.

Section 25 of the ATA provides for the UNSCR 1373 designation process. It authorizes the Anti-Terrorism Council (ATC) to: a) Designate by adoption the UNSC Consolidated List; b) Act on request for designations from foreign jurisdiction and supra-national jurisdictions based on the UNSCR 1373 criteria; c) Domestically designate individuals, groups of persons, organizations or associations based on "probable cause" and d) Submit proposals for designation to the UNSC, foreign jurisdiction or supra-national jurisdiction (Rule 6.8, ATA-IRR)

A. Ex parte Designation

Designations under Section 25 of the ATA are done **ex parte**. The ATC go through the designation process without notice and hearing extended to the proposed designee. Designees are informed of the designation after the fact through publication of the notice. Section 8 of the Internal Guidelines for Designation provides that, "The *electronic publication of the ATC Resolution shall serve as notice to the designee as to the fact of designation.*" Section 10 of the Internal Guidelines for Designation further provides for the Confidentiality of the Designation Process, such that the request/proposal to designate itself, is treated confidentially.

B. Preliminary Asset Preservation Order

The assets of those designated under Section 25 of the ATA are subject to the freezing authority of the AMLC and targeted financial sanctions (TFS) under Rules 6.4 and 8.8, ATA-IRR.

C. Allow Individuals to be Designated as Terrorist

Section 25 of the ATA allows the designation of an individual as terrorist: "Xxx The ATC may designate an individual, groups of persons, xxx upon finding of probable cause xxx

D. Evidentiary Standard of 'reasonable grounds/basis'

"Probable cause" under Rule 6.3 of the ATA-IRR refers to a "reasonable ground of suspicion" and it is administratively determined by the ATC.

- a. This quantum of evidence is also applicable for proposals for designation under UNSCR 1267, as provided under Rule 6.3 of the ATA IRR: "*for proposals for designation under Rule 6.8, probable cause shall refer to a reasonable ground of suspicion supported by circumstances warranting a cautious person to believe that the proposed designee meets the requirements for designation.*" Rule 6.4 of the ATA IRR further provides that, "All designations made under this Rule shall not be dependent upon the pendency of any criminal proceeding against the proposed designee."
- b. In establishing probable cause, the ATC may consider the following: (Section 6, Internal Guidelines for Designation)

significant progress by amending The Anti-Terrorism Act of 2020 and has also introduced legal framework enabling ex parte action against persons or entities proposed for designation pursuant to UNSCR 1373: introduced the preliminary asset preservation orders; allowed individuals to be designated as terrorists under s.17 of the HSA; allowed evidentiary standard of 'reasonable grounds/basis for proposing designations under UNSCR 1267 and deciding whether or not to make a designation under UNSCR 1373.

However, the effectiveness of recent changes in legal framework for TFS without delay is still uncertain and case studies highlighting the implementation on ground are required.

	i. intelligence information, including financial intelligence, from Philippine and foreign government agencies; ii. publicly available information, e.g., pending cases and designation in other jurisdictions; iii. other credible, open-source information, e.g., media reports, material disseminated by the proposed designee, and social media references; and iv. any other information provided by relevant government agencies that is relevant and logically capable of supporting any decision to designate. E. <u>Deciding Whether or Not to Make a Designation under UNSCR 1373</u> Section 25 of the ATA requires the determination of probable cause if a designee meets the criteria for designation under UNSCR No. 1373.	
	2. Once the legal framework is fixed, enhance the use of the designation framework to more effectively deny funds to domestic terror groups operating in the Philippines. Following the passage of the ATA, the ATC has adopted the UN Consolidated List and has made domestic designations in line with Section 25 of the ATA. Corollary to this, the AMLC has issued the corresponding Sanctions Freeze Order against those designated by the ATA. In just two (2) months after the effectivity of the ATA Implementing Rules (or adoption of the Designation procedures) The ATC issued the following domestic designation resolutions: a. ATC Resolution Nos. 12⁸³, designating the Communist Party of the Philippines and the New People's Army also known as Bagong Hukbong Bayan (CPP/NPA) as terrorist organizations, associations, and/or groups of persons. The designation took effect on 29 December 2020, upon completion of its publication. b. ATC issued Resolution No. 13⁸⁴ designating as terrorist organizations the Islamic State East Asia, Maute Group, Daulah Islamiyah, and other associated groups as terrorist organizations, associations, and/or groups of persons. The designation took effect on 29 December 2020, upon completion of its publication c. ATC Resolution No. 16 designating Individuals affiliated with the Local Terrorist Groups which were designated under ATC Resolution No. 13. The designation, which identified 10 individuals, took effect on 13 May 2021. d. ATC Resolution No. 17, designating the Central Committee Members of the Communist Party of the Philippines and the New People's Army. The designation, which identified 19 individuals, took effect on 13 May 2021. The AMLC issued the corresponding Sanctions Freeze Order, as follows: a. The AMLC issued Resolution TF-33, in relation to ATC Resolution No. 12. TF-33 took effect on 27 December 2020, upon completion of its publication. b. The AMLC issued Resolution TF-34, in relation to ATC Resolution No. 13. TF-33 took effect on 27 December 2020, upon completion of its publication. c. The AMLC issued Resolution TF-35, in relation to ATC Resolution No. 10, which domestically adopted the Consolidated List under UNSCR 1267, 1988 and 2235. TF-35 took effect on 21 February 2021. d. The AMLC issued Resolution TF-39, in relation to ATC Resolution No. 16. TF-39 took effect on 13 May 2020, upon completion of its publication. e. The AMLC issued Resolution TF-40, in relation to ATC Resolution No. 17. TF-40 took effect on 13 May 2020, upon completion of its publication.	This recommended action is partially addressed. The legal framework has been recently introduced hence it is too early to make a conclusion that amendments in the laws related to designation framework is more effective in denying funds to domestic terror groups operating in the Philippines. Philippines need to show examples showing any domestic designation against individuals after the amendment.

⁸³ <https://www.officialgazette.gov.ph/2020/12/09/resolution-number-12-2020/>

⁸⁴ <https://www.officialgazette.gov.ph/2020/12/09/resolution-number-13-2020/>

The Sanctions Freeze Order issued by the AMLC contains the following: a. The SFO directed all covered persons (CPs) and relevant government agencies to freeze and preserve without delay the properties and funds (pursuant to Rule 8.8 of the ATA IRR) including related accounts, belonging to any persons, organizations, associations, or groups of persons named in ATC Resolution No. 12, until the basis for the issuance of the Freeze Order. b. The SFO requires CPs and relevant government agencies to submit a written return to the AMLC of any properties or funds frozen. c. The SFO notifies all persons and entities of the prohibition under Section 8 of the TFPSA against dealing with property or funds of, or making available property or funds, or financial services or other related services to CPP/NPA. Based on the returns received from CPs, no funds or assets as described above were found.	
3. Continue to improve understanding and implementation of TFS requirements to ensure all covered persons are aware of obligations to identify and freeze terrorist assets without delay. To address the identified gaps and recommended actions, the AMLC, as lead agency with the expanded mandate, issued regulations and guidelines to implement the TFS mandate with the objective of improving the understanding and foster effective implementation of the TFS requirements among CPs. To ensure that CPs will have a better understanding of the TFS requirements, the Supervising Authorities will issue their respective regulations or adopt the AMLC regulations and guidelines and thereafter conduct awareness raising programs (e.g., webinars, newsletters, outreach) and other engagement activities with the relevant sector. <u>A. Issuances to Enhance Awareness of TFS Obligations</u> To assist CP in understanding and implementing their TFS Obligations under the AMLA, as amended, and the TFPSA, the AMLC issued, on 28 May 2020, AMLC Regulatory Issuance No. 4, Series of 2020, on the Freeze Order for Potential Target Matches under the UNSC Consolidated Lists (TFS). The AMLC also issued the 2020 Sanctions Guidelines,⁸⁵ which is a Question and Answer (Q&A) Guide, to further assist the covered persons understand the provisions of AMLC Regulatory Issuance No. 4, Series of 2020. To incorporate those designated under Section 25 of the ATA and those proscribed by the Court of Appeals pursuant to Section 26 of the ATA in the TFS regulations, the AMLC issued ARI No. 2 – 2021 on 31 January 2021, amending ARI No. 4-2020. To incorporate the TFS provisions and amendments brought about by the ATA and AMLA amendments, the AMLC issued the 2021 Sanctions Guidelines, on 3 March 2021. To provide responses to common CPs questions related to the freezing of funds and other assets, the filing of a return, STR submissions and other relevant questions, the AMLC issued and posted in its website the Primer on AMLC TF Resolutions 33 and 34,⁸⁶ on 24 March 2021. The primer is a compilation of frequently asked questions received by the AMLC on the implementation of the TF-33 and TF-34. To further improve TF and TFS compliance, understanding and awareness of BSP-supervised financial institutions (BSFIs), the BSP issued the following regulations and guidance related to TF and	This recommended action is largely addressed. Philippines has made consistent effort in improving understanding and implementation of TFS requirements to ensure all covered persons are aware of obligations to identify and freeze terrorist assets without delay.

⁸⁵ [http://www.amlc.gov.ph/images/PDFs/SANCTIONS%20GUIDELINES%202020%20v%2030%20June%202020%20\(1\).pdf](http://www.amlc.gov.ph/images/PDFs/SANCTIONS%20GUIDELINES%202020%20v%2030%20June%202020%20(1).pdf)

⁸⁶ [http://www.amlc.gov.ph/images/PDFs/\[Final\]%20Primer%20on%20AMLC%20Resolution%20Nos.%20TF-33%20and%20TF-34.pdf](http://www.amlc.gov.ph/images/PDFs/[Final]%20Primer%20on%20AMLC%20Resolution%20Nos.%20TF-33%20and%20TF-34.pdf)

TFS, informed by the issuances of the AMLC, the ATC, as well as results of thematic review conducted in October 2020 (see RA e) and sectoral risk assessment (SRA) on TF and TFS. These issuances aim to inform the BSFIs of the latest law/regulations/guidance relating to TFS and highlight expectations and actions that should be taken by the BSFIs to enable them to comply with their obligations to implement TFS without delay. These issuances are used by the BSFIs as reference or guide in enhancing their systems, policies and procedures to implement TFS for TF, including how to timely identify, freeze and report target match. For example, the Sanctions Guidelines provide for specific actions that should be taken by BSFIs in case of name match, possible target match and target match, which should be covered by the policies and processes of BSFIs. These improvements/actions taken are assessed during offsite supervision (documents/policy review) and regular examination (to assess effectiveness of implementation). Positive and tangible impact of the issuances disseminated to BSFIs, based on latest available data, are listed in MRA (e)(6) below.

Table 1 (BSP): BSP REGULATORY ISSUANCES ON TFS

BSP Issuances	Focus/Reminders to BSFIs
Section 923 of the MORB on Compliance with UNSCR (<i>posted/disseminated in the BSP website under Financial Stability Regulations – Manual of Regulations</i>) (2018) Circular Letters (CL) to disseminate and implement AMLC Resolutions relating to TFS, as follows: CL-2020-035 dated 27 July 2020 - AMLC Regulatory Issuance (ARI) No. 4 dated 28 May 2020 on freeze order for potential target matches under the UNSCR Consolidated Lists and the Sanctions Guidelines 2020. CL-2021-007 dated 13 January 2021 - AMLC Resolution Nos. TF-33 and TF-34, series of 2020, on the issuance of Sanctions Freeze Order against those subjects of designation of the Community Party of the Philippines and the New People's Army (CPP/NPA) and 17 other groups designated as terrorist organizations. CL-2021-013 dated 10 February 2021 - ARI No. 2 dated 31 January 2021 on the amendments to certain provisions of ARI No. 4, Series of 2020 CL-2021-018 dated 01 March 2021 - AMLC Resolution No. TF-35, Series of 2021, implementing the necessary TFS on designations made by the ATC, pursuant to ATC Resolution 10, Series of 2020 CL No. CL-2021-023 dated 19 March 2021 disseminating and implementing the 2021 Sanctions Guidelines issued by the AMLC on 03 March 2021. (All posted/disseminated in the BSP website under Financial Stability Regulations – Circular Letters.)	As part of CDD process, BSFIs are required to adopt appropriate policies and procedures to implement TFS without delay to comply with UNSCR, ensure that individuals/entities be prohibited from making any types of transactions or services for the benefit of designated persons and entities owned or controlled, directly or indirectly, by designated persons or entities; and persons and entities acting on behalf of, or at the direction of, designated persons or entities pursuant to relevant UNSCR such as 1267 (1999) and its successor resolutions, and 1373 (2001); and report to AMLC the actions taken, including attempted transactions. These were issued to disseminate TFS related guidance/regulations to enhance BSFIs' understanding and implementation of their TFS obligations under the AMLA, as amended, and the TFPSA. These provide, among others, the directive and coverage of the freeze orders and specific guidance to implement TFS against individuals and entities listed in the UNSC Consolidated List and those designated by the ATC. All CPs and government agencies are directed to freeze without prior notice and preserve without delay property or funds, including related accounts, that are maintained or registered with, possessed or controlled by them, if any, which belong to any of the persons, organizations, associations or group of persons mentioned in the UNSC Consolidated List, those designated by the ATC and proscribed by the Court of Appeals, including those persons or entities included in the subsequent updates, modifications and amendments to the foregoing.
Memorandum No. M-2021-15 dated 16 March 2021 on Guidance Papers on Managing TF and PF and Implementation of TFS, entitled "Enhancing the Control Framework on TF" and "Strengthening Implementation of TFS and PF Risk Management Framework" (<i>posted/disseminated in the BSP website under Financial Stability Regulations – Memorandum to All BSFIs</i>)	This guidance paper was informed by the results of the thematic review on TF and TFS. It highlights the good practices, relevant typologies and red flag indicators related to terrorism and TF, and implementation of TFS. They likewise identify areas for improvement to strengthen measures to detect, prevent, and mitigate risks arising from the aforementioned activities. BSFIs are expected to use

	these guidance papers in strengthening their AML/CFT risk management framework in a manner consistent with and appropriate to their risk profile.
Memorandum No. M-2021-17 dated 17 March 2021 on BSP's 3 rd Sectoral Risk Assessment (SRA) for Banks and Other Non-Bank Financial Institutions (NBFIs), where part of the scope covers assessment of key risk or priority areas such as TF risk and implementation of TFS regime. <i>(posted/disseminated in the BSP website under Financial Stability Regulations – Memorandum to All BSFIs)</i>	The SRA report presented the overall threat and vulnerabilities of TF posed to BSFIs (banks and other NBFIs) and TFS risks. It also noted scope for enhancements on the BSFI's systems and controls in order to mitigate TF activities and implement TFS.

B. Awareness Raising Programs

To ensure that CPs are made aware of the TFS framework and their obligations, engagement activities were conducted in the form of lectures/webinars. The engagement activities focused on the TFS obligations of CPs with the objective of improving their understanding and implementation of their obligations under the TFS framework.

Through its sustained outreach program, the SEC has conducted the following activities, which include webinars and discussions on the obligations of covered persons, including TFS:

- a. *Webinar on RBA to Supervision and TFS conducted on 15 October 2020 and 15 December 2020.* The webinars were attended by a total of 369 participants broken down as follows:

Table 2 (SEC) WEBINAR ON RBA TO SUPERVISION AND TFS

PARTICIPANT	Oct 2020	Dec 2020	RESOURCE PERSON
	NUMBER	NUMBER	
Brokers/Dealers	51	93	RBA to Supervision – SEC TFS – AMLC
Investment House	2	7	
Government Securities Eligible Dealers	4	3	
Investment Company Advisers/Mutual Fund Distributors/Investment Companies	3	5	
Financing Companies	34	60	
Lending Companies	10	15	
SEC Personnel	63	19	
TOTAL	167	202	

- b. During the opening program on the 2020 on-site examinations of SEC covered persons, which were done virtually, the SEC provided a detailed presentation of the audit components before the start of the audit proper. The presentation provides a detailed discussion on the covered person's AML/CFT obligations, particularly their obligations under the TFS framework.

From February 2020 – February 2021, the SEC has presented to a total of seventy (70) covered persons attended by members of the Board of Directors and the senior management, as well as the concerned employees such as the covered persons' frontliners.

- c. To inform all SEC Covered Persons of their obligations under the TFS framework and enjoin them to comply with the AMLC issuances on TFS, the SEC has posted on its website the appropriate Notice⁸⁷. Likewise, in order to guide covered persons in the conduct of TFS screening and its implementation, the SEC has posted on the AML/CFT corner of the SEC website links⁸⁸ to the following:
- UN Sanctions List
 - US Treasury's Office of Asset Control (OFAC)
 - Specially Designated Nationals and Blocked Persons List
 - US World Bank Country Corruption Index
- d. To ensure that CPs under the SEC are informed of the latest AMLC issuances, the 2021 Sanctions Guidelines⁸⁹ of the AMLC is posted on its website.
1. Cognizant of the need to deepen the BSFI's understanding and implementation of their TFS obligations, the BSP has taken strategic and targeted actions to raise awareness of these obligations and inform BSFIs of the appropriate measures they need to take. These include enhancing its regulatory framework and adopting the new BSP ML/TF risk assessment system or MRAS⁹⁰, issuing targeted regulatory guidance on TFS (as previously discussed in issuances, Table 1 above), conducting ongoing assessment of the TFS framework through examinations, performing thematic reviews to understand the industry practices on TFS, coordinating with the AMLC and other relevant agencies, and conducting outreach activities on TFS. In particular, the MRAS specifically highlights TFS (TF and PF) implementation as a distinct component of the assessment of the effectiveness of the BSFI's internal controls and implementation of the ML/TF Prevention Program and quality of risk management.
 2. **Robust engagement and enhanced coordination.** BSP gathers various sources of information that feed into its TFS supervision. These sources were collected through enhanced cooperation and collaboration with AML/CFT partners (i.e., AMLC, NALECC/NACC), intensified outreach and continuous discussions with BSFIs/industry associations, regular and targeted sharing of risk information with AMLC, supervisory agencies, and other AML/CFT partners, for policy alignment and strategy coordination on TFS, and conduct of SRA in 2020 which include TFS risks.
 3. **Ongoing outreach activities/industry engagements.** BSP continuously reinforces the level of AML/CFT awareness of covered persons including TFS obligations to identify and freeze assets of designated persons without delay through different modalities. First, the conduct of regular learning sessions by the BSP as resource speakers for BSFIs and other stakeholders hosted by different industry associations.

Fifty-two (52) sessions were conducted from December 2018 to March 2021, with class size ranging from 30 - 90 participants per session. These covers, among others, AML/CFT regulations on TFS obligations and compliance with UNSCRs as part of customer due diligence process and on-going monitoring.

Table 4 (BSP): TRAININGS CONDUCTED ON TFS/TF

Year	No. of trainings	Participants	Number* and type of covered person/BSFIs	Topics covered
Dec 2018	2	Directors, officers, and employees (class		AML Rules and Regulations, including TFS

⁸⁷ [ANTI-MONEY LAUNDERING COUNCIL \(AMLC\) REGULATORY ISSUANCES – FREEZE ORDER FOR POTENTIAL TARGET MATCHES UNDER THE UNITED NATIONS SECURITY COUNCIL CONSOLIDATED LISTS \(TARGETED FINANCIAL SANCTIONS\), SANCTIONS GUIDELINES 2020 AND Q&A: THE ANTI-TERRORISM ACT \(ATA\) OF 2020 - Securities and Exchange Commission](#)

⁸⁸ <https://www.sec.gov.ph/aml-cft/important-links/>

⁸⁹ https://www.sec.gov.ph/wp-content/uploads/2021/03/2021AMLC_SANCTIONS-GUIDELINES.pdf

⁹⁰ <https://www.bsp.gov.ph/Regulations/Issuances/2020/m084.pdf>

		size per training ranges from 30 - 90 attendees)	110 banks and NBFIs	requirements, AML Risk Rating System,
2019	29		260 banks and NBFIs	AML Rules and Regulations, including TFS
2020	15		177 banks and NBFIs	requirements, AML Risk Rating System, NRA;
2021**	6		125 banks and NBFIs	

*Approximate numbers based on available training data

**As of March 2021

To ensure that MSBs understand their obligations under the TFS framework, the BSP conducted outreach activities specific for the MSB industry from 2019 to 2020 which among others include TF/TFS-related topics such as policies and procedures and regulatory expectations on sanctions screenings, CDD, freezing and reporting mechanisms, among others.

Table 5 (BSP): AML/CFT OUTREACH TO MSBs WITH TF/TFS MODULE

Years	# of trainings conducted	No. of Participants
2019	12	1,305 ¹
2020	2	180
2021 ²	2	290

¹ The decrease in the number of training is due to the change in approach where under BSP Circular No. 1039, participants shall be limited to proprietors, partners, directors, presidents or officers of equivalent rank and function and overall heads of pawnshops and MSBs and heads of the compliance unit. Obligation to conduct AML/CFT training to employees of pawnshops and MSBs rests with them as part of their continuing AML/CFT training program as required under Section 4809Q of the MORNBF. Said Circular also included reputable training providers, in addition to BSP and AMLC, to conduct said training/seminar.

²As of March 2021

Targeted *capacity building programs on TFS*. BSP has developed a Webinar Series on ML/TF Typologies or the ML/TF Risk Management Series to discuss the exposure to or prevalence of proceeds from various ML/TF/PF activities or predicate crimes coursed through BSFIs. It provides the results of the thematic reviews conducted by BSP, which include the red flag financial indicators as well as best practices/measures to improve risk management processes against these activities. The key results and findings of the thematic review on TFS and TF were discussed in the webinar series last 13 January 2021 and 15 February 2021 for the MSBs and banks/other BSFIs, respectively. The thematic review revealed that BSFIs recognize the risks posed by terrorism and TF on their operations and they have generally established ML/TF risk management framework and control that are proportionate to their risk profile, albeit with noted areas for improvements. Most BSFIs have adopted policies and procedures to implement the requirements of TFS and have installed sanctions screening system with due regard to the complexity and nature of their respective operations. In-depth understanding of their TFS obligations should be further developed and sustained given the complexity of TFS requirements. Scope for improvements include, among others, TFS risk assessment and improvement on transactional sanction screening, particularly for non-accountholders or walk-in customers.

Planned *outreach activities for 2021*. To ensure that CPs are abreast with any updates related to TFS, the following are the BSP's planned schedule of learning events for BSFIs through industry associations:

Table 6 (BSP): 2021 REGULAR AML/CFT TRAININGS AND LEARNING EVENTS

Coverage	Date(s)	Target Participants (Number and type of covered persons/BSFIs)	Host
AML/CFT rules and regulations; UBO identification and verification; key emerging ML/TF/PF risks and typologies (with separate module on TFS)	March to December 2021 (various dates- 5 sessions)	63 Universal/Commercial Banks (UKB), Thrift Banks (TB), Rural Banks (RB)	Bankers Institute of the Philippines (BAIPHIL)

	March to December 2021 (4 sessions)	422 RB	Rural Bankers Association of the Philippines (RBAP)
AML/CFT rules and regulations (with separate module on TFS)	March to December 2021 (4 sessions)	93 Banks composed of 77 institutional members (represented by the Chief Compliance Officers) and 16 associate members from UKB, TB, RB	Association of Bank Compliance Officers (ABCOMP)

In addition, targeted capacity building activities for 2021 on the cascade of the results of the assessment of TFS implementation as part of the broader SRA of the BSP and thematic review are, as follows:

Table 7 (BSP): 2021 BSP AML/CFT OUTREACH PLAN (Targeted Capacity Building Activities)

Coverage	Specific Activities	Date(s)	Target Participants	Host
SRA on TFS, Guidance/ expectations on TFS implementation	Cascade of SRA results including TF and TFS for TF Information on the vulnerabilities of BSFIs on TF and TFS	February 2021 (done – 773 participants)	Relevant stakeholders such as the BSFIs and industry associations	BSP
SRA Results, Key emerging ML/TF/PF risks and typologies; new AML/CFT rules and regulations (with results of TFS assessment and guidance/expectations on TFS implementation)	Identification of risk mitigation measures Supervisory expectations of TFS implementation by BSFIs	March 2021 (done- almost 800 participants) April; May; and June 2021 (3 sessions)	Relevant stakeholders such as the BSFIs and industry associations	BSP

Surveillance Reports. Part of the continuous industry engagements is the dissemination of iAMLatest newsletter (*Surveillance Report on AML/CFT Trends*) to BSFIs and industry associations. iAMLatest is a thematic compilation of articles, regulations, international standards, best practices, and emerging areas in the sphere of prevention of ML/TF/PF risks. On 29 June 2020 issue of iAMLatest released to different industry associations, two of the topics covered are “Targeted Financial Sanctions” and “Countering TF”. The issuances provided practical guidance to BSFIs in order to further strengthen their measures on sanctions screening, CDD, freezing of accounts without delay, closure of accounts and reporting mechanism. The following are the noted improvements/tangible outcomes in the policies, systems, controls of respondent BSFIs brought by iAMLatest awareness:

- considered in the IRA and resulted in an increase in the internal risk rating
- warranted changes or enhancements in policies and procedures resulted in heightened monitoring and/or recalibration of AML/CFT systems such as transaction monitoring tools, sanctions screening system
- updated and/or expanded the scope of compliance testing and audit included and/or reinforced in their training modules
- prompted client database clean-up or review and/or updating of customer records, profile, and tagging of risk resulted in prohibition of dealings with certain types of customers/transactions

Continuing engagement/guidance to BSFIs as part of ongoing supervisory activities. BSP actively responded to clarifications or issues on TFS raised by the BSFIs, industry associations, and other relevant government agencies, which actually form part of the spectrum of capacity building activities of BSP. These include transfer of knowledge and expertise through continuous dialogue with supervised entities, industry engagements or outreach activities/seminars.

As part of AMLC's engagement program, the AMLC Regulatory Issuance No. 4, Series of 2020 and the Sanctions Guidelines were discussed during the 3rd Quarter 2020 Quarterly Meetings between the AMLC and the Association of Bank Compliance Officers (ABCOMP), and the associations of Money Services Business (MSBs) held on 17 September 2020 and 24 September 2020, respectively. During the said meetings, the representatives from the Universal/Commercial banks and MSBs propounded several questions on their implementation of the said regulations. The AMLC was able to provide these CPs with a better understanding of their obligations to identify and freeze terrorist assets without delay based on the provisions of AMLC Regulatory Issuance No. 4, Series of 2020 and the Sanctions Guidelines. To ensure widest coverage of the AMLC's TFS awareness program, topics on TFS framework and TFS obligations were included and were discussed by international experts in the 2020 AML/CFT Summit. These sessions are widely attended by CPs.	
4. Authorities should continue outreach and targeted information sharing to assist FI/DNFBPs to screen for TFS. This should include identifying persons acting on behalf of designated persons or entities, noting the prevalence of affiliates of TF organisations in the Philippines. Relevant Authorities of the Philippines have continuously undertaken outreach and targeted information sharing programs related to TFS screening, particularly on identifying persons acting on behalf of designated persons or entities to the various CPs through online seminars, webinars and regular meetings with the concerned sectors as outlined in detail below. The AMLC also issued the Sanctions Guidelines, incorporating the relevant provisions of the 2018 Beneficial Ownership guidelines, to assist CPs in determining any person who is acting for and in behalf of a designated person or entity. Details of Actions Taken While referring to the awareness activities as mentioned above under item c), the AMLC has conducted two (2) AML training caravans for DNFBPs in October 2019 and November 2019 to help raise awareness among DNFBPs of ML/TF risks and their obligations under the AMLA, as amended, which include their obligations related to TFS including known practices and procedures on how to identify individuals who are acting on behalf of a designated individual or entity. Webinars on the Sanctions Guidelines for MSBs and SEC regulated entities were conducted from October-December 2020. Participants were from 287 CPs. The webinar includes discussion on known practices or procedures on how to identify individuals who are acting on behalf of a designated person or entities. The Sanctions Guidelines provides guidance to CPs on how to identify beneficial owners, particularly Section 4 of the 2020 AMLC Sanctions Guidelines (now under the 2021 Sanctions Guidelines) "Ownership and Control": <i>Ownership under these Guidelines include beneficial ownership". A "beneficial owner" refers to any natural person who: "Ultimately owns or controls the customer and/or on whose behalf a transaction or activity is being conducted; or Has ultimate effective control over a legal person or arrangement".</i> <i>If the ultimate beneficial owner of a juridical person (legal person) is a designated person, the financial sanctions shall also apply to the said juridical person.</i> <i>If the ultimate beneficial ownership of an entity rests with a designated person (for example, they own a corporate body which owns another corporate body), the AMLC takes the view that all entities that are part of the ownership chain are subject to financial sanctions.</i> As mentioned in item c above and in Immediate Outcome 4, RA item v, the BSP continues to provide appropriate thematic regulatory guidance, capacity building and outreach activities to improve understanding and implementation by BSFIs of their TFS obligations, in general. This include providing awareness and increasing understanding both on the required freezing action and the expectation on the required screening of customers and transactions, including the identification of related accounts and persons who are acting on behalf of clients. Some of the actions conducted by	This recommended action is partially addressed. Philippines has shown some progress in outreach and targeted information sharing to assist FI/DNFBPs to screen for TFS. However, there seems lack of case studies and examples on ground showing the effectiveness in identifying persons acting on behalf of designated persons or entities.

BSP include the conduct of outreach activities, strengthened discussions and engagements with the industry, and ongoing supervision through conduct of horizontal or comparative thematic examination, and reinforced off-site surveillance activities.

In addition to thematic examinations, intensified supervisory activities were undertaken which include the conduct of virtual/onsite examinations that includes assessment of the TFS framework and compliance of BSFIs and deployment of wide range of enforcement actions or directives to enhance TFS frameworks. In terms of offsite supervision, activities conducted include the issuance of surveillance report (iAMLatest issues on TFS and TF) and targeted advisories (i.e., circular letters to BSFIs), proactive coordination with AMLC and other LEAs to gather and analyze TF/TFS-related data/reports and information submitted by banks. BSFIs have demonstrated improvements in their systems and controls in the implementation of TFS on TF, particularly based on regular follow through engagements (e.g., feedback survey, dialogue, clarificatory meetings, consultations) on the actions taken by BSFIs relative to TFS compliance with the targeted regulatory issuances disseminated by BSP. Based on latest available data⁹¹, around 90% of them find the targeted regulatory issuances on TFS important and useful in the continuous and proactive enhancement of their existing sanctions screening policies and procedures. In particular, some of the BSFIs have reported improvements in their policies, systems, and controls such as heightened monitoring and/or recalibration of AML/CFT systems (e.g., transaction monitoring tools, sanctions screening system), and updating and/or expansion of the scope of compliance testing and audit. The issuances also prompted client database clean-up or review and/or updating of customer records, profile, and tagging of risk.

Outreach programs. The requirements and the rationale of the regulations were discussed during industry trainings. *(please refer to trainings conducted in Table 6 & 7 above)* These trainings include discussions on the requirement for BSFIs to adopt and implement appropriate policies and procedures for TFS, the regulatory expectations for BSFIs to, among others, adopt a sanctions screening system that will identify financial transactions from high risk customers and sanctions countries/institutions (UNSCR/OFAC sanctions), ensure that individuals/entities are prohibited from making any types of transactions or services for the benefit of designated persons and entities under the UNSCRs and under the domestic/local lists, and implement TFS without delay. The training sessions and learning events, through industry associations, reinforce understanding and awareness of BSFIs' Board of Directors, officers, and employees of their AML/CFT obligations and strengthen their capabilities to mitigate risk from ML/TF/PF activities. The training sessions also provide opportunities for participant to freely ask questions or clarifications to facilitate better appreciation of newly issued regulations/guidelines and emerging issues/concerns.

All these activities resulted in the improvement on the BSFIs' understanding and implementation of their TFS obligations.

Case 1 (BSP): In 2019, XYZ Bank was able to implement a freeze order issued by the AMLC against one (1) account related to persons under UNSCR (1267) sanctions list in the amount of PhP217 thousand (around USD4,343). The freezing was effectively implemented due to the coordinated efforts of AMLC and the Bank. Moreover, XYZ Bank has existing procedures in handling sanctions freeze, freeze orders, such as investigation of individuals/personalities included in the freeze order, identification of related accounts and review of transaction history, among others. The Bank established a separate unit solely dedicated to investigating accounts under freeze orders, and any suspicious transactions raised by the branches and/or compliance office.

In addition to the webinars conducted by the SEC as mentioned in item (c) above, it will continue to conduct outreach program to its CPs aimed at increasing awareness and understanding of TFS requirements with focus on best practices and procedures on identifying individuals who are acting on behalf of designated individuals and entities and to ensure their effective implementation.

As part of its outreach activities, PAGCOR designed a training module, Basic AML/CFT Foundation Course (BAFC), and conducted training intended for casino operators. This certification course was designed to build the capacities of compliance officers and/or offices tasked with implementing the AMLA, its CIRR and other relevant issuances. Part of the training is the Customer Identification Process (CIP) and CDD. In particular, this course increases participants' understanding of the requirements on the (1) CDD and risk classification of customers with regard to the customers' source of funds, occupation, residence or origin, status as politically exposed persons (PEPs), **adverse media exposure**, the types of services, products, and transactions sought by the customer (2) ongoing monitoring; (3) TFS screening of customers; (4) including the identification of customers and persons who are acting on behalf of the customers.

⁹¹ Based on responses from 33 UKBs, 16 TBs, 17 RBs as of December 2020

In January 2021, PAGCOR issued an advisory⁹² on Targeted Financial Sanctions (TFS) to all casinos for the implementation of AMLC resolutions related to TFS.

On targeted information sharing, PAGCOR made an initial step for the widest dissemination of designated persons listed in the UNSC Consolidated List and those designated by the Anti-Terrorism Council (ATC) by posting an advisory in its website.⁹³

To ensure timely access to the UNSCR Consolidated list, PAGCOR is now in the process of incorporating the UNSC Consolidated List and those designated by the ATC in the PAGCOR National Database of Restricted Persons (NDRP). This database is accessible online to authorized representatives of casinos. This is usually used in the CDD process of casinos and monitoring of restricted persons from playing in casinos. A coordination had been recently made with the concerned department of PAGCOR for the inclusion of the above-mentioned designated persons in the database.

PAGCOR is the one maintaining this database for restricted persons which provides ITS licensed casinos and PAGCOR-operated casinos information/data relating to the restricted customers and check a player's gaming profile and entitlement. The database affords immediate input of basic data and affords real-time output of the processed information to authorized terminals (authorized representatives of gaming operators).

5. Enhance risk-based supervision of TFS by FI/DNFBPs.

Risk-based supervision. As part of its ongoing risk-based supervisory activities, the BSP conducts risk-based onsite examinations of BSFIs which include assessment of TFS implementation. Among the common supervisory findings noted during examinations include weaknesses on the BSFIs' sanctions screening processes/proof of verification against the UNSC and other relevant sanctions list, and deficiencies in their internal policies related to transaction alerts and in the closure/freezing of accounts of subject customers and their materially linked accounts. BSFIs are therefore directed, among others, to improve their sanctions screening by (i) implementing processes to ensure completeness of watch list database, and to screen customers and disambiguate those with hits or initial name matches; (ii) adopting appropriate procedures to identify and report related accounts, and (iii) conducting and documenting due diligence procedures for customers with probable positive name match. The BSFIs examined from December 2018 to March 2021 are, as follows:

Table 9 (BSP) : ONSITE EXAMINATIONS OF BANKS^{1/}

	Dec-18	2019	2020 ²	2021 ³	Total
Banks – Universal and Commercial Banks	1	25	21	6	53
Banks – Thrift Banks	1	22	3	6	32
Banks – Rural Banks	1	13	6	1	21

Table 10 (BSP) : ONSITE EXAMINATION FOR OTHER FIs

	Dec-18	2019	2020	2021	Total
Trust Entities	0	5	0	1	6

This recommended action is partially addressed.

Deficiency in findings of onsite examination of BSFIs still persists due to lack of clear data on them.

⁹² PASSED Advisory 2021-001, "Targeted Financial Sanctions" - <https://www.pagcor.ph/pased/docs/PA-2021-001-Memorandum-on-Targeted-Financial-Sanctions.pdf>

⁹³ <https://www.pagcor.ph/pased/docs/PA-2021-001-Memorandum-on-Targeted-Financial-Sanctions.pdf>

VCEs	0	4	1	2	7
EMIs	0	1	1	0	2
Pawnshop	0	0	3		3
MSB	0	28	7	1	36
NSSLA	0	1	0	1	2

1/ These banks are prioritized for onsite examinations based on the characteristics, institutional frameworks, their institutions risk profiles (ARRS ratings). Scope of examination and prioritization are likewise affected by identified sector/institutional ML/TF risk information obtained from LEAs, AMLC, and other SAs.

2/ Due to the COVID-19 pandemic, regular onsite examination of banks was deferred from March to December 2020. Nonetheless, the BSP continuously implements offsite supervision and monitoring of these banks thru virtual/online communications with banks, desk/virtual thematic reviews, and offsite assessment/ updating of banking sectors institutional ML/TF risk profiles. The latter was conducted considering the current profile/business model of the bank, its product/services offered, geographic locations, channels, news, among others. There is also a constant dialogue between BSP and banks of any issues relevant to mitigation of ML/TF risks, and compliance with AML/CFT rules and regulations.

3/ As of 24 March 2021

- a. **Enhanced AML risk rating system.** In line with its risk-based approach in AML/CFT supervision, BSP focuses on significant risk exposures of BSFIs⁹⁴ which require allocation of more supervisory resources and the determination of the frequency of onsite examinations and intensity of supervisory activities and monitoring actions. One of these significant risks is TFS-TF. Thus, in the enhancement of the AML Risk Rating (ARRS) and shift to MRAS (starting 2021), the assessment of TFS-TF implementation is one of the highlighted areas. The MRAS will be used as the primary tool for risk-based AML/CFT supervision with due regard to the application of the principle of proportionality. The MRAS provides a more systematic approach in assessing a BSFI's ML/TF/PF risk profile, wherein part of understanding the risk and context of an FI is having an appreciation of its business model and operations, among others.

While TFS on TF was previously assessed as part of the Implementation sub-component of the ARRS, the new AML/CFT rating system or MRAS highlights TFS (TF and PF) implementation as a distinct component of the assessment of effectiveness of internal controls and implementation of the ML/TF Prevention Program and quality of risk management. Under the MRAS, the net or residual ML/TF/PF risk of a BSFI is determined based on three (3) factors, namely: (1) *inherent risk* (IR); (2) *quality of risk management* (QRM) and *controls* to mitigate the risks; and (3) *self-assessment system*. Assessment of inherent risk, including for TF and TFS for TF, requires a thorough understanding of both the nature of the BSFI's activities (products and services offered), profile of clients or business relationships, delivery channels, counterparties, and geographical location of the BSFI and its customers. Parameters and ratings were developed informed by existing data and BSFIs' dashboards, various literatures on ML/TF/PF risk assessments, and risk and context information. On the other hand, the QRM and quality of self-assessment systems are derived from the previous AML risk rating of BSFIs. The overall assessment shall be informed by the institutional knowledge gained from various supervisory activities and peering across banks. The net ML/TF/PF risk rating will be considered in the holistic assessment of the overall risk profile of the BSFI. This, in turn, will be used to inform or adjust the overall supervisory approach of the BSP. The results will not only drive the frequency, scope, focus and procedures during on-site examinations of BSFIs or thematic reviews across the sector, but will also influence the intensity and intrusiveness of BSP's off-site monitoring and supervisory activities. In terms of control, BSFIs are assessed whether they have well-defined processes for handling and implementing freeze orders; sanctions screening tool and adequate internal control mechanisms; procedures to identify customers, accounts, transactions, funds or other assets of designated individuals and entities for terrorism, TF and PF;

⁹⁴ Banks, non-banks, quasi-banks, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers, remittance and transfer companies, electronic money issuers and other financial institutions which under special laws are subject to Bangko Sentral supervision and/or regulation, including their subsidiaries and affiliates, which are also covered persons, wherever they may be located

and that they immediately implement necessary actions on potential target matches and target matches depending on the designation of such individuals/entities.

- b. **In addition, coordination on TFS was enhanced.** BSP has gathered various sources of information that feed into the overall assessment of the ML/TF/PF profile of BSFIs and in the latest SRA. These information were collected through robust stakeholder engagements (i.e., NALECC/NACS), intensified outreach and continuous discussions with BSFIs/industry associations, regular and targeted sharing of risk information with AMLC, supervisory agencies, and other AML/CFT partners
- c. **Thematic review on TFS.** From 21 October to 4 November 2020, the BSP conducted a thematic review on TFS on TF which aims to (i) assess the BSFI's measures and internal control mechanisms to identify, take necessary action and report TF and other related activities, and (ii) understand their existing policies and practices as well as challenges they face in implementing requirements of TFS. This thematic review was aligned with the NACS objectives to, among others, develop and strengthen mechanisms to prevent, disrupt and combat terrorism and TF. The review covered ten (10) selected BSFIs representing each type of BSFI (e.g., banks, MSBs, e-money issuers, and virtual currency exchanges) in order to fully assess the TFS policies and procedures across the supervised sectors. The selection process was informed by the data and information gathered during the planning stage of the thematic review, such as the AMLC reports and summary of TF-related STRs. The scope includes evaluating the comprehensiveness of institutional risk assessment (IRA) on terrorism and TF, adequacy of procedures to ensure compliance with obligations under the TFPFA, including mechanisms to identify and freeze terrorist assets. As to approach, the selected BSFIs presented their TFS implementation framework, including list of systems or tools and scenarios/parameters incorporated in their AML system to flag activities/identify designated persons, among others. This was followed by a review of the TFS-related policies and analysis of transactions and TF-related reports and list of scenarios/parameters incorporated in their AML system to flag activities/identify designated persons, among others.

Results of the review indicated that most BSFIs have adopted policies and procedures to implement the requirements of TFS and have installed sanctions screening system that is appropriate to the complexity and nature of their operations. For sanctions screening, the UNSC list is included by default in the sanctions system. Scope for improvements include enhancements in assessing sanctions risk, which cover evasion techniques that can cut across the other operations of the institution, improve sanctions screening to cover funds/transactions of non-accountholders/walk-in customers, and enhance transaction monitoring through adoption of red flag indicators to identify TF/TFS activities. BSFIs are expected to implement capacity building and awareness programs for frontline employees on policies, procedures and typologies regarding TFS, and for their Board of Directors and Senior Management to set a clear and proactive tone as well as to establish culture of compliance in their respective organizations to ensure effective implementation. BSFIs are also expected to review existing processes and address any gaps identified based on the results of the review. These are discussed in detail in the thematic review report issued through a Memorandum to All BSFIs under Memorandum No. M-2021-15 dated 16 March 2021⁹⁵ or the Guidance Papers on Managing TF and PF and Implementation of TFS, entitled "Enhancing the Control Framework on TF" and "Strengthening Implementation of TFS and PF Risk Management Framework". BSFIs should consider the guidance papers in improving their respective ML/TF/PF risk management frameworks and processes to ensure effective implementation of TFS requirements.

- d. **Enforcement actions.** The applicable range of enforcement actions imposed by BSP include any or a combination of the following: (i) directive to take remedial actions; (ii) issuance of written warnings; (iii) restriction on relevant operations; (iv) imposition of monetary penalties; (v) disqualification of directors, officers and employees; and (vi) inclusion in the watchlist. Any issues related to TFS are embedded in the directives to the BSFIs for their appropriate action.

From December 2018 to April 2021 2020, a total of forty-one (41) thirty-nine (39) thirty-six (36) enforcement actions were imposed against BSFIs⁹⁶ relating to FTS on TF implementation. These include 331 28 directives to take remedial actions (actions plans/commitment letters) and 8 written warnings. Remedial actions are continuously followed through by periodic review of updates provided by concerned BSFIs in line with their committed plans. Meanwhile, issues subject to warnings and restrictions are strictly monitored in the succeeding examination. Most of the casinos, particularly the Integrated Resorts (IRs) that are regulated by the PAGCOR, acquired an intelligence database that covers PEPs, global sanction lists, and heightened risk individuals/ organizations to identify and manage financial, regulatory, and reputational risk

⁹⁵ <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-015.pdf>

⁹⁶ Include UKBs, TBs, RBs, and MSBs

In the AML/CFT examinations (compliance checking), PAGCOR extends its inspection in the implementation of TFS screening. Findings/observations and latest updates/progress reports are as follows:

Casino / Period Covered	Findings / Observation	Latest Updates
Casino S November 4, 2017 – August 31, 2018	Negative file/watchlist and PEP checking are not being conducted and/or documented, and clients are not tagged as such.	The casino has established a PEP database in accordance with its risk-based policies. Additional due diligence measures addressing this observation shall be included in the revisions to the MLPP. A quantitative and qualitative procedure for conducting due diligence and patron risk assessment & screening procedures. The casino has contracted with a system provider for the implementation of an electronic AML solution, Base60, and integration of World-Check in the screening process.
Casino C Jan. 1, 2018 – March 31, 2019	Front-liner personnel do not have access to the subscription database service or any other sanctions or international or local negative watchlist thereby allowing the creation of an account of a patron without proper verification and appropriate CDD measures based on the result of verification	The casino has provided World-Check access to all relevant front-line employees and has implemented an automatic real-time World-Check screening system that is used by front-line staff for all patron membership enrolments. These processes are incorporated into the casino management system (CMS) and automatically conducts World-Check screenings. Cage staff has dedicated World-Check login accounts for patron screenings. A refreshed World-Check screening was also performed for all existing patrons in the database in February 2020.
Casino R July 1, 2018 – June 30, 2019	Front-liner personnel in Membership do not have access to the subscription database service or any other sanctions or international or local negative watchlist thereby allowing the creation of an account of a patron without proper verification.	The casino has implemented - At the point of processing the application for membership of a prospective member, the Membership Services Team, after gathering the minimum customer information, shall conduct an intensive checking of the patron's name against watchlist, PEP database, and/or open-source. Based on the foregoing, an application shall be accepted, unless the applicant is or has been convicted, by final and executory judgment, of a money laundering or terrorist financing offense, or penalized by final and executory enforcement action related to money laundering or terrorist financing in any jurisdiction, based on the checking.
Casino O July 1, 2018 – June 30, 2019	Front-liner personnel does not have access to the subscription database service or any other sanctions or international or local negative watchlist thereby allowing the creation of an account of a patron without proper verification.	Casino completed its integration between the World-Check system and the customer membership management system for all its member patron from the start of the operation to date to ensure that all patrons signing-up in the membership program may not have an adverse hit related to money laundering and other related crimes. Covering the start of this initiative in June 2019 until April 2020, the AML Compliance Team was able to elevate the risk level of additional five patrons to high-risk due to their Worldcheck hit. These patrons were included in the list of other identified high-risk patrons being monitored on a monthly basis as regards their transactions with the casino.

		In the same period, membership of additional 29 patrons were discontinued and banned in casinos due to adverse information related to them, which had there been no proactive use and integration of the World-Check system, may go undetected due to the availability of limited information.
Casino Pm September 1, 2018 – August 31, 2019	There are no criminality checks or sanction list checks performed in the onboarding process, posing a risk that suspicious individuals may establish and maintain a relationship with the casino.	▪ Verification of customer's identity is already incorporated in the Casino's CDD Guidelines, version 2020. ▪ Compliance issued a memorandum regarding the conduct of verification procedure to ascertain the true identity of customers during the conduct of CDD. ▪ Compliance Office has procured services of an independent, private CDD customer database service provider (i.e., World-Check, Dow Jones, et c.), which shall be used in checking the background of customers during onboarding and updating of CDD records ▪ Compliance Office shall likewise prepare a database of customers' risk profiles. ▪ Compliance Office shall also include the verification process of customer identity by the Security Department/Division, prior to the approval of on- boarding.
Casino W January 1, 2019 – Oct. 31, 2019	Verification during onboarding is limited to local PEPs only. The casino's internally developed database was not able to cover Philippine law enforcement agencies' watch list, sanctioned person, sanctioned countries as per FATF list and PAGCOR banned players. Also, the system is not yet configured to identify Foreign PEP's and close associates and family members of both local and foreign PEPs.	Major improvements were performed on the casino's database for name/profile screening under the Internal Security. 2 nd phase of this project is on-going, wherein; foreign PEPs and their close associate from South Korea and the USA (main demographics) were already encoded since February 2020.
Casino M January 1, 2019 – Nov. 30, 2019	The internally developed database used in screening applicants prior to enrolling their membership is limited to local PEPs at the national level, department secretaries, local government officials (mayor to board member).	On-going
Casino Ro September 1, 2019 – October 31, 2020	No specific measures on TFS screening. The casino developed a database for PEP, data from PAGCOR NDRP and GEL holders.	Access to the World-Check will be extended to the Marketing Department Head as needed. To be implemented immediately.

	In the conduct of the AML/CFT Compliance Audit on SEC Covered Persons, the examiners inquire on the following: CDD; risk profiling of customers; identification of beneficial owners; compliance with recordkeeping requirements; among others. The SEC further examines on the covered person's whether the covered person has clients subject to financial sanctions, embargoes or similar measures and inquires on their awareness of the UN Sanction List and the FATF Grey list and Black list. As a result of the audit, sixteen (16) covered persons were sent notice of deficiencies which include among others, deficiencies in the policies and procedures in their MTPP. Most of the MTPPs submitted do not have procedures for targeted financial sanctions. To address the deficiencies, covered persons have revised their MTPPs to include provisions on freeze orders, bank inquiry, and asset preservation orders and all TFS-related directives of the AMLC. The SEC will continue to include in its AML/CFT supervisory examinations and consultation meetings and interviews with its covered persons the matter of compliance with rules and guidelines on TFS.	
	6. Complete the initial risk rating of registered NPOs introduced under the SEC 2018 NPO Guidelines. Review whether the requirements imposed across the entire registered NPO sector are necessary. Increase targeted risk-based supervision and monitoring of the NPO sector, including enhanced outreach to those NPOs most at risk of TF. As part of the regulatory framework of the SEC on NPOs, it issued the 2018 NPO Guidelines, later amended by SEC in 2019 (2019 NPO Guidelines) The 2019 Guidelines enhance and support the targeted risk-based supervision of NPOs at risk of TF abuse. Changes adopted include the following: - It emphasizes a more targeted risk-based approach to supervision by focusing on NPOs at risk of TF abuse. The targeted risk-based approach ensures that resources are efficiently used and NPOs are not unduly burdened. - It seeks to implement measures designed to encourage NPOs to promote transparency. - It aligns its provisions with the policies enunciated in the Revised Corporation Code of the Philippines (RCCP). - It makes the risk assessment for at-risk NPOs a collaborative effort on the part of the SEC and the AMLC. - It enhanced the Mandatory Disclosure Form (MDF) to make the information required to be disclosed clearer and more comprehensive. The NPO Guidelines include a risk assessment component. This risk assessment component is intended to assist the SEC in developing programs/policies to implement risk-based supervision over NPOs that were identified in the NPO Sector Review. This risk assessment is an on-going and a continuing activity of the SEC as part of its supervisory function. Among the risk indicators being considered are the exposure to terrorist financing threats, actual involvement in activities that expose them to such risks, and poor or inadequate governance practices. As part of its periodic review of the adequacy of current measures over the NPO sub-set that may be abused for terrorism financing, the SEC is reviewing the NPO Sector Review and reassessing new information on the sector's potential vulnerabilities to terrorist activities to ensure the effective implementation of measures. <u>Targeted Risk-Based Supervision</u> NPOs operating in areas where there are active terrorist threats or having a presence in communities targeted by terrorists or supporters of terrorism are being monitored and are subjected to audit. Outreach to the trustees and officers of such NPOs will be conducted to enhance their awareness of the risks and the measures needed to be able to protect their organization.	This recommended action has been partially addressed. The Philippines has conducted a significant amount of outreach to the NPO sector and issued new NPO Guidelines which reinforce the need for a risk-based approach. However, the risk assessment of the NPO sector remains incomplete and compromises the Philippines understanding of risk in the NPO sector meaning that targeted risk-based supervisory and outreach measures may not be as effective as they could be. Authorities should: - Complete the NPO sector risk assessment to support targeted risk-

The SEC refers all evidence of criminal violation involving terrorist financing to the AMLC for appropriate action or the DOJ for the appropriate preliminary investigation for other crimes. The SEC also coordinates with LEAs and other government agencies through various inter-agency meetings as avenue for exchange/sharing of information involving NPOs at risk and/or under close monitoring.

based supervision and outreach.

The DSWD is also continuously monitoring the application of the Public Solicitation Law. As of October 2020, the DSWD has monitored 356 individuals, groups and organizations conducting unauthorized public solicitation for charitable purposes. Most of these were monitored to be using digital platforms during the onset of the Covid19 pandemic.

So as not to curtail fund-raising activities for those affected by the pandemic, DSWD-SB called the attention of the concerned organizations and they were provided with technical assistance (TA) on how to secure solicitation permit from the Department. This was done hand-in-hand with the Field Offices who has jurisdiction over them. Information drives were also conducted by SB through an orientation webinar on Public Solicitation to advocate to the public the regulatory services of the Department. This resulted in an increase on the number of organizations/SWDAs applying for solicitation permit.

Outreach

On 28 January 2020, the SEC conducted a consultation workshop on TF Risks with NPOs. The objective of the workshop was to help the participants identify, assess, and understand TF risk to which their organizations/sector are/is exposed. The workshop also aimed to gather inputs from the participants to serve as SEC's basis for its periodic TF risk of the sector and to develop best practices for NPOs at risk of terrorist financing abuse. The workshop mechanics involved lectures and discussion on basic TF concepts, risk factors and indicators.

The SEC has conducted outreach to NPO to enhance their awareness on the risk of TF abuse faced by NPOs in the Philippines and the best practices to protect themselves from the risk of TF abuse. Likewise, in response to numerous requests from the public, the SEC has acted as resource speakers in a number of seminars organized by other government agencies and private organizations to explain and clarify the 2019 NPO Guidelines. The webinars outlined the different ways NPOs can be abused for terrorist financing purposes and how NPOs can protect themselves through observance of good governance practices and through being aware of the risks to which they are exposed.

The SEC conducted more or less sixty (60) seminars for NPOs regarding the new NPO Guidelines, either organized or initiated by SEC or through invitations from other government agencies and private organizations. The seminars, which were conducted from 2018-2020, were participated in by no less than 4,000 trustees, officers and representatives of various NPOs.

For 2020, despite the COVID-19 pandemic, the SEC was able to conduct two (2) webinars entitled "*Protecting Non-Profit Organizations (NPOs) from Money Laundering and Terrorist Financing Abuse.*" The webinars were attended by a total of 360 participants including representatives of 279 NPOs, including NPOs whose principal offices or areas of operation are outside the National Capital Region or Metro Manila.

A significant number of NPO representatives also attended the orientation webinars conducted by SEC on beneficial ownership (BO). These webinars underscored the importance of knowing and disclosing the BO of an NPO as a measure to prevent such organizations from being misused for TF purposes. Please refer to responses in IO 5 (d) for the details of these webinars.

The SEC has also launched its AML/CFT corner in the SEC website⁹⁷ to provide the public with information on AML/CFT matters.

Likewise, in response to numerous requests from the public, the SEC has acted as resource speakers in a number of seminars organized by other government agencies and private organizations. On 24 March 2021, the SEC was invited by the Caucus of Development NGO Networks (CODE-NGO) to discuss the BO Transparency Guidelines. The CODE-NGO is the largest network of social development organizations in the Philippines, composed of 6 national and 6 regional civil society organization (CSO) networks representing 1,600 Non-Governmental Organization (NGOs), people's organizations and cooperatives. The webinar was attended by more or less 150 representatives of CODE-NGO's members.

⁹⁷ <https://www.sec.gov.ph/aml-cft/amlf-lrr>

On 26 March 2021, the SEC attended the Online Community-Based Dialogue with the Commission on Human Rights (CHR) and CSOs/NPOs, wherein the SEC provided updates on SEC Memorandum Circular No. 25, Series 2019 or the 2019 NPO Guidelines. The SEC also discussed the ongoing periodic Sector Review being conducted as well as the effects and importance of the assessment being taken. To address the concerns of the attending NPOs, the SEC answered the questions of the attendees through an open forum.

NPO Requirements

The DSWD is also continuously reviewing regulatory guidelines and policies that will continuously protect SWDAs, and to streamline the common documentary requirements of regulatory agencies.

The DSWD conducted outreach activities through online platform, Orientation-Webinar on Public Solicitation in particular, to ensure transparency for the generated funds and accountability of the donees and the donors. The activity aimed to increase public awareness on laws and DSWD guidelines related to public solicitation and to seek public's support in advocating DSWD regulatory services of the target public.

DSWD conducted three webinars on Public Solicitation conducted in the 3rd quarter of 2020. These was attended by 23 participants from 11 charitable, social development, humanitarian disaster relief, educational organizations. The participants came from organizations and individuals monitored by SB to be conducting unauthorized public solicitation activities during the (COVID-19) pandemic

7. Examine whether increased coordination among SEC, DSWD and PCNC (and reducing the repetition of requirements for those registered NPOs with regulatory obligations to each) would improve the Philippines' overall supervision or monitoring and understanding of its NPOs at risk to TF abuse.

With regard to supervision and monitoring of NPOs in the Philippines, the following is highlighted:

- Registration with the SEC grants juridical personality to an NPO in order to open a bank account, raise or solicit funds, avail of tax exemptions and other benefits of having a legal personality. The SEC supervises and monitors compliance of NPOs with the reportorial requirements such as the General Information Sheet and Annual Financial Statements and other applicable rules and regulations of the SEC. Such regulations are generally applicable to all corporations subject to supervision and regulation by the SEC. Pursuant to SEC Memorandum Circular No. 4, Series of 2013, additional documents are required to be filed with the annual audited financial statements for non-stock and non-profit organizations and foundations. Such additional documents include a sworn statement of the organization's President and Treasurer on the accuracy and completeness of Schedule of Receipts or Income Other Than Contributions and Donations, Schedule of Contributions and Donations, Schedule of Disbursements According to Sources and Activities, among others.
- The SEC also undertakes administrative and initiates criminal actions against those NPOs violating any of the laws being implemented by the SEC. For example, NPOs that undertake investment taking activities or engage in lending and financing activities without a license or violates any order or rules and regulations issued by the SEC may be issued Cease and Desist Orders or prosecuted before the Department of Justice and the courts. This was done in the case of a religious non-profit organization that solicited investments from the public by calling them donations while enticing them with huge profits which they called blessings. Such entities may also be penalized for performing ultra vires acts or acts not authorized by law or by the articles of incorporation.
- NPOs intending to undertake specialized activities subject to regulation by the DSWD need to register, be licensed/accredited by the DSWD to be able to legally undertake them. These activities are social welfare activities and development programs funded by the government or from fund drives or endowments. The requirements are not imposed on all NPOs but only on those granted certain privileges or status by the DSWD. Only SEC registered entities may be registered as Social Welfare and Development Agencies (SWDA) with the DSWD. Thus, they are required to present proof of SEC registration. The DSWD is the national policy and regulatory institution for social welfare and development. As a government agency, it is mandated to

This recommended action has been largely addressed.

set standards and provide consultative services to organizations engaged in social welfare and development activities. DSWD also monitors performance and compliance of these SWDAs and may suspend or revoke registration of non-compliant entities. This authority of the DSWD, however, is limited and exclusive only to SWDAs and does not cover all NPOs. SEC does not supervise such entities as they are exclusively subject to the supervision of the DSWD. Insofar as the SEC is concerned, it acts as company register for such entities and requires annual financial reports and general information sheets which are applied to all corporations registered with the SEC. The SEC monitors compliance of these SWDAs with the annual reports required to be submitted under existing rules and regulations of the SEC in order for these SWDAs to retain their juridical personalities and maintain their good standing as active registered entities with the SEC.

- The PCNC, on the other hand, although not a government agency, has a Memorandum of Agreement (MOA) with the Department of Finance. The MOA designates the PCNC as the certifying organization of NGOs seeking donee institution status from the Bureau of Internal Revenue (BIR). A “donee institution status” is a non-stock corporation or association availing of Income Tax Exemption under the National Internal Revenue Code (NIRC) of the Philippines, organized and operated exclusively for religious, charitable, scientific, athletic, or cultural purposes, or for the rehabilitation of veterans, no part of its net income or asset shall belong to or inure to the benefit of any member, organizer, officer or any specific person. The BIR issues donee institution status to those certified or endorsed by the PCNC. With donee status, donations made to these NGOs are exempted from donor’s tax and are deductible from the taxable income of donors. Only SEC registered organizations are being certified or endorsed by the PCNC. Thus, PCNC requires proof of SEC registration.

To increase coordination among the SEC, DSWD and PCNC and to review the requirements of these offices in relation to supervision or monitoring of NPOs under their jurisdiction, the SEC organized a series of meetings with DSWD and PCNC. From 2019 to March 2021, a total of four (4) coordination meetings have been conducted. During the initial meetings, the group discussed the compliance policies, guidelines and requirements for registration, licensing, and accreditation of certain types of NPOs that seek to engage in social welfare and social welfare and development activities. As a result of the discussion, the group was able to identify areas where they may be able to increase coordination so as to reduce the registration and monitoring requirements for such NPOs. There is however no duplication of functions since the requirements of the DSWD or the PCNC are only for purposes, respectively, of being given the privilege to undertake those social welfare and development activities or be able to avail of tax exemption as a donee institution. They are not being required of all NPOs.

In subsequent meetings, the SEC, DSWD and PCNC deliberated on the steps to be taken in the enforcement of the action plans agreed upon. The following are now being implemented:

- i. Streamlining of the respective documentary requirements of the agencies with the inclusion of the Certificate of No Derogatory Information (CNDI) issued by SEC;
- ii. Inclusion in the SEC registration system a Pro Forma Articles of Incorporation (AOI) and By-Laws template for NPOs intending to accredit with the PCNC;
- iii. Designation of an SEC Email exclusive for NPOs and SEC contact person to process CNDI requests.
- iv. Exchange of information regarding the NPOs for purposes of risk information sharing.

As part of the implementation of the agreed action plan, the SEC has integrated a Pro Forma AOI and By-Laws template in the system generated forms in its Interim Registration System (IRS). The pro forma AOI and By-Laws are applicable to NPOs applying as a SWDA with the DSWD and/or applying as an NGO for accreditation with the PCNC and BIR Certificate of Registration as Donee Institution. A trigger query/tick box title is incorporated on the IRS for the applicant to check. This option in the registration process of the SEC for NPOs will reduce possible amendments of AOI and By-Laws to incorporate the necessary provisions required by DSWD, PCNC and BIR.

For strengthened coordination and to promote information sharing, capacity building and enhanced monitoring, the SEC, DSWD and PCNC agreed to execute a Memorandum of Agreement (MOA). The MOA shall embody the agencies’ cooperation and mutual interest to cooperate in the regulation, supervision and monitoring of certain types of NPOs that seeks to undertake certain types of regulated activities or avail of privileges such as tax exemptions and having a donee institution status. To reiterate, such requirements are not imposed on NPOs as a whole but only on certain types of NPOs.

	The DSWD intends to execute a MOA with AMLC related to: i) information sharing on registration/licensing of NPOs; and ii) promoting and encouraging cooperation and coordination to ensure that NPOs are not exploited for TF; and iii) referral mechanism that would warrant the investigation of an NPO if it is suspected of to be involved in any unlawful activities, relative to money laundering, money laundering, and terrorist financing.	
	8. Undertake further analysis in relation to the unregistered NPO sector to determine the level of associated TF risk. The Philippines in its 2018 NPO RA covered the possible TF risks associated with domestically unregistered organizations. It should be noted however that the term ‘unregistered NPO’ was used loosely in this Risk Assessment and it would be wrong to consider unregistered organizations as a ‘sector’. These organizations have no juridical/legal personality in the Philippines, they are not registered and therefore they do not fall under the supervisory responsibility of the SEC. Notwithstanding this and considering the presence of qualitative data from the LEAs, the Philippines assessed the risks posed by these organizations to TF. In pages 36 – 38 of the NPO RA (terrorism financing threat), the Philippines identified 32 organizations based on intelligence received from LEAs (27 organizations) and STRs (5 organizations). All 32 organizations regardless of legal status were assessed. Of these, 13 are unregistered. Following are the composition of the unregistered organizations: - Six are international funders with no known domestic presence which were alleged to be providing material support to terrorist organizations in the country. While they may be registered as NPOs in their countries of origin, they are not registered domestically. Two have no positive match in the AMLC database, while the remaining four are merely counterparties (or fund senders) to domestic NPOs and other recipients, and do not own a bank accounts in the Philippines. - The remaining seven are domestically situated. Five of which have no match in the AMLC database and likely do not own a bank account. One while showing results of financial activity only pertaining to the receipt of remittances which were paid out in cash to the operators, and likely do not own a bank account. The remaining organization (1 sectoral party list) while having no exact name match in the SEC registry has a corresponding namesake (likely the actual legal name) registered with the SEC. Considering the non-registration with the SEC of the identified 13 organizations, the types of services or activities performed by these unregistered organizations were gathered from the information provided by the LEAs and on open source. As to further analysis, the Philippine FIU conducted tactical analysis and provided financial intelligence reports to LEAs containing the findings associated with both the registered NPOs and unregistered organizations. Case samples are as follows: - In 2017, the AMLC received an intel on an SEC-registered NPO and a presumed NPO (unregistered) which are allegedly used by a terrorist organization in raising funds. The unregistered organization did not yield a positive match in the AMLC database which is consistent with the NPO RA which states that unregistered organizations are hampered from opening bank accounts. Further, there are 4 NPOs based in Country G with no domestic presence which are alleged international funders of the said terrorist group. The results of analysis were provided to the FCIG and subsequently shared with the LEAs. - From 2019 to early 2021, three financial intelligence reports (FIRs) which include the unregistered organizations identified in the NPO RA were shared with relevant LEAs. These emanated from requests for information on individuals and organizations suspected to be involved in terrorism, terrorism financing, communist insurgency, or secessionist movement in the country. Others were alleged to have links with a terrorist organization. Two FIRs conclude that the direct connection of the subjects (i.e., individuals, organizations) to terrorism financing cannot be established. However, one FIR concludes the likelihood of involvement to possible unlawful activity/ies of the identified organizations based on STRs stating, (i) inclusion in the sanction list of organizations in several jurisdictions alleged of providing funds or being financial conduits to terrorist activities, (ii) with adverse media reports relating to terrorism and terrorism financing related activities. Similar with registered NPOs, the risk associated with unregistered organizations (reported by LEAs as NPOs) lies on the services and activities they perform. This aspect has been significantly covered in the 2018 NPO RA. While organizing a group of people for whatever purpose is not a crime, registration is needed to have a legal personality. Further, there are rules in place which prevents unregistered organizations from “raising and disbursing funds intended for legal persons/arrangements/organizations (those with legal or juridical personalities) or NPOs for purposes as defined in R8”. In addition to the enabling regulations of the Philippines to ensure that raising of funds for TF purposes are hampered (e.g., Public Solicitation Law, inability to open bank accounts, other possible criminal liability) for both registered and unregistered organizations, the recent passage of RA 11479 or the Anti-Terror Law ensures that any organization, whether registered or unregistered, is prevented from being used/abused for terrorism and/or TF. Section 3 (m) of RA 11479 states that “terrorist organizations, association or group of persons shall refer to any entity organized for the	This recommended action has not been addressed. The Philippines still relies on the 2018 NPO sector risk-assessment which was assessed in the MER. There has been no significant new work done to determine the level of TF risk in the unregistered NPO sector.

	purpose of engaging in terrorism...". Further in Sec. 14 it is stated that "no person, regardless of relationship or affinity, shall be exempt from liability under this section." RA 11479 may be used to prosecute both registered or unregistered organizations, whether fronting as an NPO or otherwise, found to be engaged in terrorism/TF. Freezing and civil forfeiture proceedings may be instituted on funds generated by registered or unregistered organizations when the same is found to be associated with terrorism and/or financing of terrorism. In summary, the associated level of risk for both registered NPOs and unregistered organizations have been assessed in the 2018 NPO RA (low medium). Further analysis of the identified unregistered organizations has been done and shared with relevant LEAs in the form of FIRs. The enabling laws of the Philippines and recent passage of the Anti-Terror Law prevent the ability of "raising funds" (a major component of NPO's definition) of any organization (whether registered or not) for terrorism or TF purposes.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 10. The JG identified recommended actions 1, 2, 4, 5 and 8 as key recommended actions as they are fundamental to effectiveness on IO.10. Recommended action 1 is a key recommended action and is partially addressed.The Philippines has made significant progress by amending The Anti-Terrorism Act of 2020 and has also introduced legal framework enabling ex parte action against persons or entities proposed for designation pursuant to UNSCR 1373: introduced the preliminary asset preservation orders; allowed individuals to be designated as terrorists under s.17 of the HSA; allowed evidentiary standard of 'reasonable grounds/basis for proposing designations under UNSCR 1267 and deciding whether or not to make a designation under UNSCR 1373. However, the effectiveness of recent changes in legal framework for TFS without delay is still uncertain and case studies highlighting the implementation on ground are required. Recommended action 2 is a key recommended action and is partially addressed.The legal framework has been recently introduced hence it is too early to make a conclusion that amendments in the laws related to designation framework is more effective in denying funds to domestic terror groups operating in the Philippines. Philippines need to show examples showing any domestic designation against individuals after the amendment. Recommended action 3 is largely addressed: Philippines has made consistent effort in improving understanding and implementation of TFS requirements to ensure all covered persons are aware of obligations to identify and freeze terrorist assets without delay. Recommended action 4 is a key recommended action and is partially addressed. The Philippines has shown some progress in outreach and targeted information sharing to assist FI/DNFBPs to screen for TFS. However, there seems lack of case studies and examples on ground showing the effectiveness in identifying persons acting on behalf of designated persons or entities. Recommended action 5 is a key recommended action and is partially addressed. : Deficiency in findings of onsite examination of BSFIs still persists due to lack of clear data on them. Recommended action 6 is a key recommended action and is partially addressed. The Philippines has conducted a significant amount of outreach to the NPO sector and issued new NPO Guidelines which reinforce the need for a risk-based approach. However, the risk assessment of the NPO sector remains incomplete and compromises the Philippines understanding of risk in the NPO sector meaning that targeted risk-based supervisory and outreach measures may not be as effective as they could be. An action item on this issue was subsumed into a broader action item on NPOs. Recommended action 7 is a key recommended action and is largely addressed. The Philippines has increased coordination between NPO supervisors through regular meetings that have led to concrete actions to streamline supervision including exchange of information and streamlining of documentary requirements. Recommended action 8 is a key recommended action and is not addressed. The Philippines still relies on the 2018 NPO sector risk-assessment which was assessed in the MER. There has been no significant new work done to determine the level of TF risk in the unregistered NPO sector. An action item on this issue was subsumed into a broader action item on NPOs.	
Immediate Outcome 11	Recommended Actions from MER: 1. Implement a legal framework to implement TFS on PF without delay and develop regulatory and operational mechanisms for implementing, monitoring compliance and applying sanctions for breaches.	This Recommended Action is largely addressed

Low

Philippines has developed the legal framework to implement FATF R. 7 and has provided a full report of compliance in its February 2021 Follow Up Report. The preliminary APG team's conclusion is that Philippines is at a level of largely compliant (LC).⁹⁸

Implement a legal framework to implement TFS on PF without delay

The AMLA's declaration of policy was amended by Republic Act No. 11521 to include state policy to implement TFS related to the financing of the proliferation of weapons of mass destruction (PF). As part of the AMLA 2021 amendments, TFS and PF are defined under sections 3(o) and 3(p) respectively.

In addition, AMLC now has a mandate to implement TFS on PF under Section 7 (15) of the AMLA, as amended. This authority is further reproduced in ARI No. 1-2021 Section E-1.13 (amendment to the AMLA 2018 Implementing Rules and Regulations)

The phrase 'freeze without delay' is operationalized and defined as provided in the ARI 1 – 2021, to be within a matter of hours from the time that the designation and the freeze order is published in the AMLC website, in accordance with Rule 10, Section 5.1 TFS Related to PF.

ARI No. 2, s. 2021 (TFS Guidelines). Section 20 thereof, provides that the Council shall issue TFS to implement the relevant UNSCR relating to the prevention, suppression and disruption of proliferation of WMD and PF: UNSCR 1718, UNSC 2231 and their Successor resolutions and other UNSCR related to proliferation of WMD and PF.

Section 21.1 thereof provides: "The TFS shall require all persons, including private individuals and entities, to freeze the following within a matter of hours from the time that the designation and the freeze order is published in the AMLC website, and without prior notice x x x".

In addition, the **AMLC Resolution on Targeted Financial Sanctions related to PF**, provides for a standing freeze order, "directing all persons, including private individuals, and entities, such as, but not limited to covered persons and concerned government agencies, to FREEZE the properties or funds of designated persons or entities or those whose identities match with all the information provided in the Consolidated List (Target Match)", which include UNSCR 1718 and 2231 and their successor resolutions .

Regulatory and operational mechanisms for implementing, monitoring compliance and applying sanctions for breaches

With the passage of the 2021 AMLA Amendments and the issuance of the relevant regulations, the AMLC, the Supervisory Authorities (SAs, i.e. BSP, SEC and IC), and the Appropriate Government Agencies (AGAs, i.e. PAGCOR, CEZA and APECO) shall now include in their examinations, compliance of TFS on PF obligations by their supervised - covered persons.

The BSP has in fact started supervisory actions to determine readiness of its covered persons in implementing TFS on PF obligations (see IO 11-3 below). Supervisory actions related to TFS on PF are also discussed in IO 11-5 below.

Failure of the covered persons to perform their TFS on PF obligations would render them liable to administrative sanctions under the AMLC Rules of Procedure in Administrative Cases, without prejudice to the filing of criminal complaint, where warranted.

Philippines should issue a step-by-step guidance for the de-listing, unfreezing procedures and publish it widely.

⁹⁸ The Philippines Draft Follow-Up Report and Analytical Tool is targeted to be circulated by the APG to the Global Network in the week of 1 April 2021.

- a. Failure to implement the TFS freeze without delay is considered as a grave violation, which imposes the administrative penalty of up to Php 20 million, depending on the gravity and size of the covered person.
- b. Failure to file suspicious transaction reports is a major violation, which imposes the maximum penalty of Php 10 million per violation.
- c. Failure to comply with the other obligations under TFS Resolution is considered as a serious violation, which imposes the maximum penalty of Php 5 million per violation.

In addition, covered persons may also be liable for Enforcement Actions, such as Warning, Compliance Letter, Notarized Compliance Commitment, Restitution of Funds or Property, etc. under AMLC Regulatory Issuance No. 5, Series of 2020, otherwise known as the Enforcement Action Guidelines, for failure to perform their TFS on PF Obligations.

On 2 March 2021, the AMLC updated its **Sanctions Guidelines**, which is in a Q&A format to inform and guide covered persons and stakeholders on the obligations under the TFS regime. A new chapter (Chapter 10) was added entirely devoted to TFS on PF.

Memorandum Circular No. 21-06 (MC) issued by the DTI – Strategic Trade Management Office (STMO). Implementation of Financing and Brokering Under Republic Act No. 10697, otherwise known as Strategic Trade Management Act, to implement the requirements of UNSCR 1718 and 2231 and their successor resolutions.

The MC is issued pursuant to the penal provision provided under Section 19(a)(3) of Republic Act 10697 or the Strategic Trade Management Act. Violations of Section 19 (a)(3) in relation to PF pursuant to UNSCR 1718 and 2231, is now considered as a predicate offense to ML [Section 3(i)(34), AMLA, as amended by RA No. 11521].

The MC requires any natural or juridical person to apply for an individual authorization from STMO before they can engage in brokering activities or making available or providing funds to facilitate the movement/flow of any strategic goods and/or related services if the parties involved in the transaction/s is any of the following: i) a designated person under UNSCR 1718 and its subsequent resolutions; ii) a designated person under UNSCR 2231 and its subsequent resolutions; iii) any entity owned or controlled by a designated person; iv) any individual or entity who acts on behalf of or under the direction of a designated person; or any person in, or v) who is a national of, the Democratic People's Republic of Korea.

STMO Memorandum Circular (MC) No. 20-013 (dated 6 April 2020) re: STMO List of Prohibited Users. The MC provided, among others, the following:

- a. The UNSC Consolidated List of Individuals and Entities have been adopted as the STMO own List of Prohibited Users including updates to the list which may be access through the UNSC and STMO websites
- b. Prohibits any persons from engaging in any trade with those included in the List of Prohibited Users.
- c. Enjoins all to download and check the List of Prohibited Users before engaging in any cross-border transactions.

Secretary of Trade and Industry Advisory⁹⁹ to All Persons Who Might Be Transacting Business with Sanctioned Individuals and Entities advising government agencies and businesses to:

- a. Update themselves of current multi- and uni-lateral lists of sanctioned individuals and entities to avoid sanctionable activities;
- b. Conduct due diligence which includes checking the parties to the transactions, verifying end use and end users of the commodities being traded, checking shipping routes, and validating payment arrangements, among others, to ensure that the transactions conform with the UNSC and sanctioning states; and
- c. Comply with applicable authorization requirements of sanctioning states.

Under Rule VIII, Section 1 (a) and (c) of the STMA IRR, any person who engages:

⁹⁹ <https://www.dti.gov.ph/archives/advisories-archives/sanctioned-individuals-and-entities/>

- i. in any of the regulated activity prohibited by or in contravention of the STMA and its IRR, including: failure to register, acts without an authorization, or acts in breach of the conditions and terms of an authorization or governmental end-use assurances; or
- ii. In any activity prohibited by, or in contravention of, any orders or regulations issued by the NSC-STMCom to implement the provisions of the STMA.

May be criminally held liable to suffer the penalty of imprisonment ranging from 6 years to 12 years and a fine of 1 million to 5 million pesos.

The above penalties are in addition to any administrative penalties that may be imposed for violation of the STMA under Rule VI Section 1 of the STMA-IRR.

National Security Council-Strategic Trade Management Committee (NSC-STMCom) also adopted Resolution No. 04 (2021) (adopted and signed on 26 January 2021) re: Approval and Publication of the National Strategic Goods List Annex III (Nationally Controlled Goods) of Republic Act No. 19687, also known as the STMA of 2015. In compliance with UNSCRs 1718 and 2231, goods/commodities prohibited for trade to/from Iran and DPRK have been included in the Philippine National Strategic Goods List.

2. The skills and resources of relevant competent authorities should be strengthened to implement TFS related to PF.

Strengthened the skills to implement TFS related to PF

The Philippines has taken action to strengthen the skills of the various AML/CFT and CPF competent authorities with regard to the implementation of TFS related to PF through a set of following training activities:

- a. On 12-14 February 2019, the Pacific Northwest National Laboratory, together with the US Embassy in Manila conducted a Workshop on CPF in the Philippines. Agencies who participated include the Department of Trade and Industry – Strategic Trade Management Office (DTI-STMO), AMLC, BSP, Department of Foreign Affairs, National Security Council, and Anti-Terrorism Council – Program Management Center.

The 3-day training provided context of counter-proliferation finance, including CPF roles and responsibilities of each agency and international legal requirements. There were discussions and exercises related to relevant UN Security Council Resolutions, targeted financial sanctions and FATF Recommendation 7.
- b. On 13 – 15 August 2019, the U.S. Department of State conducted the National Risk Assessment on PF workshop. This was participated in by several law enforcement agencies and intelligence agencies.
- c. On 2-3 December 2019, key officers of the DTI-STMO, AMLC, and other law enforcement and government agencies participated in the “Southeast Asia Proliferation Security Initiative Workshop”. The discussions were on the provisions of United Nations Security Council resolutions (UNSCR) targeting North Korean proliferation of weapons of mass destruction.
- d. As part of the engagement of the DTI-STMO and the AMLC with a Consortium¹⁰⁰ of technical assistance providers, the Phase 1 of the project (Discovery Module for CPF) was conducted on 27 – 29 May 2020, 1 June 2020 and 8 June 2020 through a series of webinars. The purpose of the discovery module is to provide basic knowledge and raise awareness about PF so

This recommended action is addressed

¹⁰⁰ The Consortium is composed of Office of Cooperative Threat Reduction, Bureau of International Security and Nonproliferation, U.S. Department of State, representing the U.S. Department of State's Export Control and Related Border Security Program, Office of Cooperative Threat Reduction, the Royal United Services Institute, and the European Union's Partner to Partner.

that the participants can engage in discussions in the future. Country examples on the implementation of a CPF framework were also provided (i.e. Malaysia and Latvia). Participant-agencies for the Discovery Module are the following: Office of the Senior Deputy Executive Secretary, Department of Foreign Affairs, Department of Finance, Anti-Terrorism Council – Program Management Staff, National Security Council, Department of National Defence, Department of Information and Communications, Technology Department of Transportation, Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, Philippine Amusement and Gaming Corporation, Cagayan Economic Zone Authority, Aurora Pacific Economic Zone and Freeport, DTI-STMO and AMLC.

- e. The US Embassy in Manila is organising a training on 31 March 2021, for government regulatory agencies, foreign affairs ministries defense acquisition officials on Countering Illicit Financial Activity by Sanctioned Weapons Proliferators. The training will cover, among others, real-world examples of how weapons proliferators use front companies, ML, and sanctions evasion techniques, including in South and Southeast Asia; and a thorough understanding of the complex sanctions evasions typologies involved in weapons transfers and how these techniques result in long-term risks, costs, and vulnerabilities for countries and the financial sector.

In addition, in continuation of the project with the Consortium, awareness and outreach programs are planned for competent authorities that would be involved in the implementation of the new PF-related law and regulations. This will be done by having small group meetings, training, and workshops for relevant government agencies.

Strengthened the resources to implement TFS related to PF

The AML/CFT supervisors of the AMLC, SAs and AGAs will also be the one to supervise and check compliance of the covered persons of their TFS on PF Obligations.

- a. Supervisors from the AMLC's Compliance and Supervisor Group (CSG) increased from twelve (12) in 2018 to seventeen (17) as of March 2021. CSG supervisors have attended lectures/seminars from international providers (i.e., Fintelkt, ACAMS, etc. webinars on sanctions) to enhance their understanding and skills with respect on supervision related to TFS.
- b. As of March 2021, there are fifty-three (53) BSP supervisors/examiners who are primarily responsible for assessing the compliance of BSFIs with AML/CFT and CPF legal framework and the adequacy of their ML/TF and PF risk management framework, including for TFS on PF. The specialized unit also trains the general examiners to conduct AML/CFT assessment of simple BSFIs like small sized banks/FIs offering basic banking services.
- c. The AML Division (AMLD) of the SEC oversees the compliance by SEC covered persons and other SEC registered entities with the AMLA and its IRR, and the rules and regulations promulgated by the SEC on AML/CFT matters. To date, the AMLD has fifteen (15) personnel composed of lawyers, examiners, and investigators.
- d. The AML and Corporate Governance Division (AMLCG Division) of the Insurance Commission is the dedicated unit for AML supervision of its covered person. The AMLCG Division has 9 positions, of which, 7 positions are filled up as of March 2021, with one contract of service.
- e. The PAGCOR's Anti-Money Laundering Supervision and Enforcement Department, which is in charge of AML/CFT supervision of casinos has seen an increase in supervisors from four (4) in 2018 to eighteen (18), as of March 2021.

The respective AML Risk Rating System adopted by the supervisors provide for assessment of ML/TF/PF risk profile of CPs and the sound integration with the other risk areas.

- a. BSP's recently adopted ML/TF Risk Assessment System (MRAS) highlights TFS (TF and PF) implementation as a distinct component of the assessment of effectiveness of internal controls and implementation of the ML/TF Prevention Program and quality of risk management. Examination procedures were also crafted to be used by the examiners as reference in assessing the implementation by BSFIs of TFS for PF. BSP is also coordinating with the DTI-STMO for more information on dual use goods and outreach activities to the BSFIs on PF.

- b. AMLC - CSG is also coordinating with several suppliers for the procurement of a system to test the TFS screening systems of covered persons, including the testing of their TFS on PF systems. The AMLC plans to test the effectiveness of the screening systems of sampled covered persons based on their risk profile, as well as that of their customers and products offered. A total of Php5 million (approximately US\$100,000) has been allotted in the AMLC's budget for 2021 for the procurement of such testing system which is scheduled in the 2nd Quarter of 2021.

Resources of the AMLC for financial intelligence and investigations will likewise be utilized in monitoring reports, gathering intelligence and investigating the predicate crime related to the STMA and PF.

On the part of the STMO, to operationalize the Advisory on Dealing with Sanctioned Individuals, Bureau Order 21-05 was issued as the STMO's *Internal Procedure on Processing Information from Stakeholders re: DTI Memorandum Circular (MC) 20-13 and DTI-STMO Advisory to All Persons Who Might Be Transacting Business with Sanctioned Individuals and Entities and its subsequent issuances*. This is to ensure that a mechanism is in place if a report is received on possible violation of the STMA.

The NACC Sub-committee on Terrorism Financing and Proliferation Financing will also monitor the implementation of action plans which are complementary to the existing PF legal framework. This includes capacity building for the STMO, development of the necessary regulations, creating mechanisms for disclosure of sanctions list, understanding of PF risks and, mapping of proliferation network and dissemination to the relevant agencies.

On 30 March 2021, the AMLC issued Office Order No. 6 s. 2021 reconstituting the current Terrorism and TF Task Force to also handle PF.

3. Conduct awareness raising and capacity building activities for government agencies, covered persons and the general public to inform them of their obligations relating to TFS against PF.

Following the creation of the legal framework on TFS-PF, authorities proceeded to conducting capacity building measures; first, by making sure that supervisors are well equipped and informed about TFS PF through knowledge transfer and skills training. Second, a thematic review allowing supervisors to gauge existing systems within the financial sector. Thereafter, roll out sessions and awareness raising activities were conducted. Effectiveness of these information campaign will be measured through feedbacks and other metrics.

A Discovery Module on PF has been rolled out by the Consortium last 27 – 29 May 2020, 1 June 2020 and 8 June 2020.

AMLC Regulatory Issuance No. 4, Series of 2020 and the Sanctions Guidelines were discussed during the 3rd Quarter 2020 Quarterly Meetings between the AMLC and the Association of Bank Compliance Officers (ABCOMP) the associations of Money Services Business (MSBs) held on 17 September 2020 and 24 September 2020, respectively. Although PF was not yet covered by the Sanctions Guidelines, the same was nevertheless included in the discussion.

Upon passage of the law, the new provisions under Republic Act No. 11521 (2021 AMLA Amendments) and ARI 2-2021 (2018 AMLA IRR, as revised), including TFS on PF obligations of covered persons were discussed in the in AMLC's quarterly meetings with banks (2 March 2021) and MSBs (17 March 2021).

During the 2020 AML/CFT Summit (Virtual) hosted by the AMLC and Fintelekt, Local and global experts shared insights on a range of key topics including TFS and PF. The session on **TFS Obligations on Terrorism, TF, and PF** (*Centre for Financial Crime and Security Studies, RUSI*) was widely attended by 899 participants – 671 from government agencies and 228 covered persons.

Majority of the participants from the government are predominantly from the Supervisors (500 attendees); other attendees are from law enforcement agencies, prosecutors and other relevant government agencies. For the private sector attendees, 141 are from BSP-supervised covered persons, 26 from SEC-supervised, 10 from IC-supervised, 13 from PAGCOR-supervised and 16 from DNFBPs. The

This RA is partially addressed.

Philippines should demonstrate that covered persons understand their PF TFS obligations

other private attendees are from foreign organizations/agencies and academe.

During the Virtual Consultation with the UN Analytical Support and Sanctions Monitoring Team (MT) on 10 December 2020, the AMLC made a presentation on TFS for representatives from fourteen (14) domestic law enforcement and intelligence/security agencies. This includes TFS on PF and its planned implementation, as provided in the proposed amendatory bill to the AMLA (now Republic Act No. 11521, effective 20 January 2021).

Agencies who attended were the Office of the National Security Advisor, the National Intelligence Coordinating Agency, ATC – Program Management Staff, Department of National Defense, Department of Justice, Department of Interior and Local Government, Department of Information and Communications Technology, Bureau of Immigration, Philippine Center for Transnational Crime, Armed Forces of the Philippines, Philippine National Police, National Bureau of Investigation, Philippine Coast Guard and Office for Transport Security,

On 25 February 2021, the US Embassy in Manila organized a virtual training course for the private sector on Countering Illicit Financial Activity by Sanctioned Weapons Proliferators. During the training, experts provided participants with, among others, case studies and typologies of prohibited entities and financial transactions, and practical tools, methodologies to recognize sanctions evasion tactics by prohibited entities; and conduct of due diligence screening and disrupt illicit transactions. The training was attended by approximately 200 participants from the private sector, which includes representatives from banks and MSBs.

Capacity Building for BSP Supervised Financial Institutions (BSFIs)

- a. **Regular outreach activity/industry engagements.** As part of its capacity building plan that is integrated to its overall AML/CFT supervisory framework, BSP undertakes regular capacity building engagements through industry associations to guide their AML/CFT activities, including TFS obligations. These capacity building engagements are conducted through continuous dialogue with BSP's covered persons and industry outreach activities. These trainings cover, among others, compliance with UNSCR, obligations of BSFIs with respect to TFS on PF. Fifty-two(52) sessions were conducted from December 2018 to April 2021. The trainings were attended by the banks' front liners, senior management, board of directors, compliance officers, auditors, and respective members of industry associations, among others. These trainings also convey BSP's supervisory expectations and share strategies for improvement to the BSFIs. There are further planned learning events for 2021 to BSFIs through industry associations. (Please refer to IO 10-c for the trainings conducted by BSP on TFS/PF and for the planned learning event for 2021 to BSFIs through the industry associations).
- b. **Targeted capacity building programs on TFS.** Capacity building/outreach programs for BSFIs are also steadily reinforced through virtual webinars to keep them abreast with emerging ML/TF and PF typologies as well as international standards and commitments on AML/CFT/CPF, which include compliance with TFS requirements. BSP has developed a Webinar Series on ML/TF Typologies or the ML/TF Risk Management Series to discuss the exposure to or prevalence of proceeds from various ML/TF and PF related activities or predicate crimes coursed through BSFIs. Since August 2020, BSP has provided a total of six (6) webinars, including topics on TFS on PF, to BSFIs with almost a total of 2,700 participants, which discussed the results of the thematic reviews conducted by BSP, the red flag financial indicators as well as best practices/measures to improve risk management processes against these activities. The key results and findings of the thematic review on TFS on PF were discussed in the webinar series scheduled last 13 January 2021 and 15 February 2021 for the MSB sector and the banks/other BSFIs, respectively. The thematic review revealed that BSFIs have adopted policies and procedures to counter PF and implement TFS, although there are still areas that warrant enhancements. These include conduct of appropriate institutional risk assessment, as well as adoption and/or enhancement of policies on TFS and control measures on PF. BSFIs are expected to implement capacity building and awareness program for frontline employees on policies, procedures and typologies regarding PF and TFS, and their Board of Directors and Senior Management to set a clear and proactive tone as well as to establish culture of compliance in their respective organizations to ensure effective implementation. BSFIs are also expected to review existing processes and address any gaps identified based on the results of the review. BSP is set to intensify its capacity building/outreach program in 2021. (please refer to IO 10 for the 2021 BSP AML/CFT Outreach Plan). This includes cascading the results of the assessment of TFS implementation as part of the broader sectoral risk assessment of the BSP and the findings in the thematic review. Training sessions also provide opportunity to clarify regulatory expectations on recent BSP issuances.
- c. **Surveillance Report/Monitoring.** In addition, the BSP has disseminated on 29 June 2020 to all BSFIs, through their industry associations, iAMLatest newsletters on TFS and PF, with the objective of enhancing awareness on compliance with TFS obligations. The issuances provided practical guidance to BSFIs in order to strengthen measures on sanctions screening,

CDD, freezing of accounts without delay, closure of accounts and reporting mechanism. In a span of six (6) months since their dissemination, BSFIs have already demonstrated improvements in their systems and controls in the implementation of TFS on PF based on these issuances.

In a feedback survey conducted by BSP in December 2020 with a total of 66¹⁰¹ respondents, 70% and 71% of them find the iAMLatest issues on TFS and PF, respectively, important and useful in the continuous and proactive enhancement of their existing sanctions screening policies and procedures. Survey results also disclosed improvements/tangible outcomes in the policies, systems, controls of respondent BSFIs brought by iAMLatest awareness on the issue on TFS (Please refer to IO-10, RA 3, B, No. 10)

- d. To determine further the impact of the foregoing BSP's capacity building efforts and to assess improvement on the part of its supervised entities, we note that banks have taken concrete actions to strengthen their TFS implementation. Specifically, in the same feedback survey, it was disclosed that 90% of the BSFIs have disseminated targeted regulatory guidance such as Circular Letter on CL-2020-035 issued on 27 July 2020 (*Sanction Guidelines/Freeze order for Potential Target Matches under UNSCR Consolidated Lists* and Circular Letter CI-2020-026 issued on 10 May 2020 (*FATF Publications on High-Risk and Other Monitored Jurisdictions*), within their organizations that eventually lead to improvement in their TFS obligations such as adoption/enhancement of parameters and alerts in transactions monitoring systems relative to persons or entities designated or included in the UNSC Consolidated Lists, among others.
- e. Further, BSP actively responded to clarifications or issues on TFS raised by the BSFIs, industry associations, and other relevant government agencies, which actually form part of the spectrum of capacity building activities of BSP. These include transfer of knowledge and expertise through continuous dialogue with supervised entities, industry engagements or outreach activities/seminars.

Capacity building for SEC- supervised covered persons and the public in general.

- a. The SEC conducted webinars on 15 October 2020 and 15 December 2020 for 369 covered persons to increase their level of understanding and awareness on their AML/CFT obligations including TFS-PF. SEC will continue with its outreach programs on TFS obligations.

The SEC will also periodically send out questionnaires to its covered persons to gain feedback on their understanding and compliance with its AML/CFT obligations including those related to TFS -PF.
- b. During the opening program on the 2020 virtual - on-site examinations of SEC covered persons, the SEC provided a detailed presentation of the audit components. The presentation provides a detailed discussion on the covered person's AML/CFT obligations, which includes TFS - PF. From February 2020 – February 2021, the SEC has presented to a total of seventy (70) covered persons attended by members of the Board of Directors and the senior management, as well as the concerned employees and frontliners.
- c. The SEC has posted on its website a Notice¹⁰² informing all SEC Covered Persons and directing them to comply with the AMLC issuances on TFS including identifying persons acting on behalf of the designated persons or entities particularly as it relates to designated organizations in the Philippines and their members. Likewise, the 2021 Sanctions Guidelines¹⁰³ of the AMLC is posted on the SEC website.

¹⁰¹ 33 UKBs, 16 TBs, 17 RBs

¹⁰² [ANTI-MONEY LAUNDERING COUNCIL \(AMLC\) REGULATORY ISSUANCES – FREEZE ORDER FOR POTENTIAL TARGET MATCHES UNDER THE UNITED NATIONS SECURITY COUNCIL CONSOLIDATED LISTS \(TARGETED FINANCIAL SANCTIONS\), SANCTIONS GUIDELINES 2020 AND Q&A: THE ANTI-TERRORISM ACT \(ATA\) OF 2020 - Securities and Exchange Commission](#)

¹⁰³ https://www.sec.gov.ph/wp-content/uploads/2021/03/2021AMLC_SANCTIONS-GUIDELINES.pdf

TFS, including TFS-PF obligations have been discussed as part of the on-going outreach activities to the real estate sector. From February to March 2021, the AMLC has conducted eight (8) webinar-lectures for the real estate sector, with an approximately 3,884 attendees. The AMLC will continue roll out of these webinars in the following months.

4. Commence supervision of TFS relating to PF, including identifying the vulnerable sectors for PF and understanding the risk of UN sanctions evasion.

While the law on TFS-PF was only recently passed, supervisors are already taking steps to integrate PF supervision into their framework. BSP, which supervises the most dominant sector, in terms of number and materiality, have started thematic examinations on PF even prior to the passage of the law. Supervisors have existing mechanisms to cover TFS in general, which can be used also for TFS on PF supervision. This will be further revised or clarified to show clear applicability to TFS-PF.

Risk-Based Supervision/Onsite Reviews/Examinations. As part of its ongoing risk-based supervisory activities, from December 2018 to April 2021, the BSP has conducted risk-based onsite examinations of BSFIs which include assessment of TFS for PF implementation. Among the common supervisory findings noted during examinations include weaknesses on the BSFIs' sanctions screening processes, proof of verification against the UNSC and other relevant sanctions list, and deficiencies in their internal policies related to transaction/customer alerts. BSFIs are directed, among others, to improve their sanctions screening by (i) implementing processes to ensure completeness of watchlist database, and to disambiguate clients with positive matches; and (ii) adopting appropriate control mechanism to identify and report related accounts covered by the freeze order. (Details of the onsite examinations are found under Tables 9 and 10, POPR 10-10)

Results of the examination were discussed with the BOD and/or Management of the BSFI to explain the rationale of the regulations and further clarify the regulatory expectations. Part of the enforcement actions issued include directives to the BSFIs to implement concrete actions to improve their policies and processes on TFS relating to PF. Progress of BSFIs' actions are monitored on a continuous basis.

Enhanced AML risk rating system. In line with its risk-based approach in AML/CFT supervision, BSP ensures that supervisory attention continues to be proportionately focused on FIs that have greater impact on the financial system and engaged in higher risk activities and deploy prompt and calibrated enforcement actions to reinforce prudent risk taking behavior. One of these significant risk activities is TFS. Thus, in the enhancement of the AML Risk Rating and shift to MRAS, the assessment of TFS implementation is one of the key areas highlighted. (Please refer to IO 10 for details of the MRAS).

Enhanced coordination. BSP has also gathered various sources of information that feed into its the overall assessment of the ML/TF/PF profile of BSFIs and the recent sectoral risk assessment which covers TFS on PF. These information were collected through continuing stakeholder engagements (i.e., AMLC, NALECC, NACC/NACC Subcommittees), intensified outreach and continuous discussions with BSFIs/industry associations, regular and targeted sharing of risk information with AMLC, supervisory agencies, and other AML/CFT partners.

SRA covering PF and TFS on PF.¹⁰⁴ Results of the SRA disclosed that PF threat to BSFIs is low due to minimal transactions/connections with DPRK and Iran, and minimal import and export of dual-use goods. The assessment also showed that the net risk arising from TFS in relation to PF is medium-high considering the BSFIs' vulnerability to TF on PF. BSFIs have institutionalized concrete measures to mitigate PF risk. These include adopting sanction screening procedures for their customers and transactions to comply with the UNSCR on PF and maintaining updated sanctions list database from relevant sources such as the UNSCR and defining due diligence procedures and hierarchy of actions for target match clients. Scope for improvements noted include incorporating PF sanctions risk in their institutional risk assessment and enhancing transaction monitoring and red flag indicators to proactively identify PF-related activities. BSFIs should continue to develop and sustain their in-depth understanding of TFS obligations given the complexity of TFS requirements, including enhancing training sessions to focus on TFS on PF.

Thematic Review. BSP conducted from 21 October to 4 November 2020 a thematic review on TFS, including PF. The scope, purpose, review process and procedures, approach, and results of the TFS thematic review are discussed in IO 10. These are discussed in detail in the thematic review report issued through a Memorandum to All BSFIs under Memorandum No. M-2021-15 dated 16

This RA is partially addressed.

Philippines should demonstrate that supervisors undertake risk based supervision of PF TFS by FI/DNFBPs.

¹⁰⁴ <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-017.pdf>

	March 2021 or the Guidance Papers on Managing TF and PF and Implementation of TFS, entitled “Enhancing the Control Framework on TF” and “Strengthening Implementation of TFS and PF Risk Management Framework”¹⁰⁵. Targeted Regulatory Issuances. BSP issued Circular Letter No. CL-2021-013 dated 10 February 2021 to all BSFIs, disseminating for information and strict compliance, (i) AMLC regulatory guidance on TFS related to proliferation of WMD and PF (UNSCR Nos. 1718 [2006] – concerning Domestic People’s Republic of Korea and 2231 [wh2015] – concerning the Islamic Republic of Iran and their successor resolutions under the UNSC Consolidated List); and (ii) ARI No. 2 dated 31 January 2021 on the amendments to certain provisions of ARI No. 4, Series of 2020. These aimed to further increase awareness of BSFIs on their TFS obligations based on the issuances. BSP has also issued CL No. CL-2021-023 dated 19 March 2021 disseminating and implementing the 2021 Sanctions Guidelines which now include TFS on PF. In light of the inclusion of PF among the predicate offenses under the AMLA, as amended, under R.A. No. 11521, the AMLC has incorporated awareness on TFS-PF in its AML/CFT caravans and trainings for DNFBPs, particularly the real estate sector. The AMLC also orients the DNFBPs during the said caravans and trainings of their obligations for TFS-PF screening, filing of STRs and freezing of funds and properties related to TFS-PF.	
JG Comments & Analysis	There was consensus within the JG that Philippines has not made sufficient positive and tangible progress in increasing effectiveness for Immediate Outcome 11. The JG considers Recommended Actions 1,3,4 are key Recommended Actions because they focus on having a mechanism for implementation of PF TFS without delay, and ensuring the obligations on all relevant persons are supervised appropriately. While all Recommended Actions are important, Recommended Action 2 which deals with capacity building is not strategically key to the progress of Philippines with respect to IO11. Recommended action 1 is a key recommended action and is largely addressed. Philippines has made several changes to its legal framework to address the technical deficiencies under Recommendation 7, as noted in the draft FUR. In 2021, Philippines amended the AMLA’s declaration of policy to implement TFS related to PF, and designated the AMLC as the authority with power to implement PF TFS. The phrase “without delay” was operationalized and defined to mean within a matter of few hours. Furthermore, the amendment to AMLC prohibits any person or entity, including private individuals, from making funds available to designated persons or entities, and provides provisions for implementing, monitoring compliance and applying sanctions for breaches. However, the steps to be followed for lifting of TFS based on mistaken identity are not publicly available and deficiencies remain with respect to mechanism for communicating de-listings, or guidance to FI s and DNFBPs on this issue. Recommended action 2 is addressed. The Philippines has taken adequate measures to strengthen the skills of relevant competent authorities through training activities in partnership with certain organizations, and increased the resource strength for implementation of PF TFS. PF TFS implementation has been incorporated as a specific task within the administrative and supervisory functions of competent authorities, along with enhancement of personnel resources. Recommended action 3 is a key recommended action and is partially addressed. . Philippines has been conducting awareness and capacity building activities by endowing supervisors with the necessary skills, and enabling supervisors to conduct thematic reviews to gauge existing systems. The outreach was done with specific focus on awareness on guidelines, role of supervisors, LEAs, intelligence/security agencies. BSP has conducted capacity building programs on PF TFS obligations with BSFIs through workshops, newsletters, and gauged the effectiveness through feedback surveys. SEC conducted 2 webinars in 2020 for 369 covered persons. AMLC has conducted 8 webinars for real-estate sector. However, the actions have not been extended to all covered entities, especially DNFBPs. It is also not clear whether the awareness programs cover all aspects of practical implementation of PF TFS, clearly outlining the obligations of competent and relevant authorities. Recommended action 4 is a key recommended action and is partially addressed. The Philippines has not had any matches for PF TFS or identified any assets or frozen any funds. Philippines notes that BSP is has incorporated PF TFS implementation compliance in its supervision and that shortcomings have been identified in the compliance of BSFIs. The JG notes the progress made by Philippines with respect to this recommended action but is of the opinion that deficiencies with respect to supervision of DNFBPs still remain and hence this RA remains only Partially Addressed.	

¹⁰⁵ <https://www.bsp.gov.ph/Regulations/Issuances/2021/M-2021-015.pdf>

JG Summary Comments

The JG reached consensus that tangible and positive progress was not made across all IOs rated low and moderate in the Philippines' MER. As a result, an action plan was developed and is annexed to this report (see Annex B).

Annex A: Technical Compliance¹⁰⁶

Deficiency cited in MER	Actions taken	Joint Group Comments and Analysis
Recommendation 6 <i>Partially Compliant</i>		
1. There are shortcomings relating to the evidentiary standard of proof for making a UNSCR 1267 proposal to the UN for designation as well as for domestic designations under UNSCR 1373.	Since the MER, the Philippines has repealed the HSA and enacted the Anti-Terrorism Act 2020, RA.11479 (ATA) and its Implementing Rules and Regulations (ATA IRR). Under this new legislative framework, the following provisions have been adopted: • There are procedures and guidelines for identifying targets for designation, including for proposing names under UNSCR 1267/1989 or 1988. The procedures and guidelines address identifying persons or entities for designation under UNSCR 1373, including on request from foreign jurisdictions. • The threshold for proposing names for inclusion under UNSCR 1267/1989 or 1988, or designating under UNSCR 1373, is “probable cause”, which is defined as “a reasonable ground of suspicion supported by circumstances warranting a cautious person to believe that the proposed designee meets the requirements for designation”. This is not dependent upon the pendency of any criminal proceeding against the proposed designee. 6.1(b) – met. While the MER did not identify a specific deficiency in relation to c.6.1(b), the relevant legislative framework has changed since the MER. The ATA IRR includes procedures and guidelines for identifying targets for designation, including for proposing names under UNSCR 1267/1989 or 1988. 6.1(c) – met. The threshold for proposing names for inclusion under UNSCR 1267/1989 or 1988, or designating under UNSCR 1373, is “probable cause”. ‘Probable cause’ is defined as “a reasonable ground of suspicion supported by circumstances warranting a cautious person to believe that the proposed designee meets the requirements for designation”. This is not dependent upon the pendency of any criminal proceeding against the proposed designee. Relevant provision of the ATA: Sec. 25. Designation of Terrorist Individual, Groups of Persons, Organization or Associations. – xxx Xxx	Since the MER, the Philippines has repealed the <i>Human Security Act 2007</i> and enacted the <i>Anti-Terrorism Act 2020, RA. 11479 (ATA)</i>. The ATA retains the language of “probable cause” which was found in the MER to be a higher standard than “reasonable grounds or “reasonable basis”. However ,the Philippines has also enacted the <i>ATA Implementing Rules and Regulations 2020 (IRR)</i> which further specifies that for the purposes of the ATA, probable cause is defined as “a reasonable ground of suspicion supported by circumstances warranting a cautious person to believe that the proposed designee meets the requirements for designation.”

¹⁰⁶ R.20 was already re-rated LC in Philippines 1st FUR.

	The ATC may designate an individual, groups of persons, organization, or association, whether domestic or foreign, upon finding of probable cause that the individual, groups of persons, organization, or association commit, or attempt to commit, or conspire in the commission of the acts defined and penalized under Sections 4, 5, 6, 7, 8, 9, 10, 11 and 12 of the Act. Relevant provision of the ATA Implementing Rules: Rule 6.3. Domestic designation by the ATC through a determination of probable cause xxx For purposes of designation under Rule 6.2. and Rule 6.3 and for proposals for designation under Rule 6.8, probable cause shall refer to a reasonable ground of suspicion supported by circumstances warranting a cautious person to believe that the proposed designee meets the requirements for designation.	
2. For UNSCR 1373 designations, authorities cannot operate ex parte against an entity proposed for designation and there is no mechanism to operate against an individual.	Relevant provision of the ATA: Sec. 25. Designation of Terrorist Individual, Groups of Persons, Organization or Associations. – xxx Xxx The ATC may designate an individual, groups of persons, organization, or association, whether domestic or foreign, upon finding of probable cause that the individual, groups of persons, organization, or association commit, or attempt to commit, or conspire in the commission of the acts defined and penalized under Sections 4, 5, 6, 7, 8, 9, 10, 11 and 12 of the Act. Relevant provision of the ATA Implementing Rules: Rule 6.3. Domestic designation by the ATC through a determination of probable cause Upon a finding of probable cause, the ATC may designate: a. an individual, groups of persons, entity, organization, or association, whether domestic or foreign, who commit, or attempt to commit, or conspire or who participate in or facilitate the commission of any of the acts defined and penalized under Sections 4, 5, 6, 7, 8, 9, 10, 11, and 12 of the Act; b. xxx c. a person or entity acting on behalf of, or at the direction of, the individual groups of persons, entity, organization, or association under paragraph (a) of this Rule.	The ATA and IRR have clarified that designations made under both UNSCR 1267 and UNSCR 1373 can be made ex parte (s. 25 ATA, rule 6.3 IRR).

	6.2(a) – met. For UNSCR 1373 designations, s.25 of the ATA states that the ATC may designate an individual, groups of persons, organisation or association, whether domestic or foreign, as a terrorist (individual or entity). 6.3(b) – met. The MER identified it was not possible to operate ex parte against individuals or entities. Since the MER, the Philippines has implemented the following provisions which enable designations to be made ex parte and designated persons and entities are not notified in advance: • For UNSCR 1373 designations, s. 25 of the ATA and Rules 6.2 and 6.3 of its IRR, state that the ATC may designate an individual, group of persons, organization, or association as a terrorist. Rule 6.6 of the ATA IRR states that the designation shall be immediately executory and shall be valid from the date of publication of the corresponding ATC resolution. • For UNSCR 1267/1989 and 1988 designations, section 25 of the ATA and Rule 6.1 of its IRR, state that the ATC shall automatically adopt the UNSC Consolidated List of terrorist individuals, groups of persons, organizations or associations. Rule 6.6 of the ATA IRR states the designation shall be effective until the designated individual or entity has been removed from the UNSC Consolidated List. • Rule 6.4 of the ATA IRR states that all designations shall not be dependent upon the pendency of any criminal proceeding against the proposed designee. As noted in section 8 of the Internal Guidelines for Designation, the electronic publication of the ATC Resolution shall serve as notice to the designee as to the fact of designation.	

Joint Group Conclusion on R.6

The Philippines has repealed the law that was in effect at the time of the MER and enacted the new *Anti-Terrorism Act 2020, RA.11479 (ATA)* and the *ATA Implementing Rules and Regulations 2020 (IRR)*. The new law largely addresses the two deficiencies identified in the MER on R.6.

Annex B: Action Plan

Immediate Outcome	Action Item(s)	Timelines
<u>IO.3</u>	All relevant DNFBP supervisors should demonstrate risk-based AML/CFT supervision of covered sectors through onsite and offsite examinations and enforcement measures.	<u>January 2023</u>
<u>IO.3</u>	Demonstrate that supervisors implement AML/CFT controls to mitigate the risks associated with casino junkets.	<u>September 2022</u>
<u>IO.3</u>	Continue efforts to implement the new registration requirements and apply proportionate and dissuasive sanctions to unregistered and illegal remittance operators.	<u>September 2022</u>
<u>IO.5</u>	Enhance and streamline LEAs access to BO information, through the AMLC's mechanisms, including by improving the timeliness and accuracy of such access and enforce BO disclosure obligations in order to obtain a higher level of timely submission of the GIS through the application of proportional and dissuasive sanctions to non-compliant corporations	<u>January 2023</u>
<u>IO.6</u>	The FIU should continue increasing its human resources to ensure that it maintains effective operational analysis capacities, and facilitates timely access by LEAs and other competent authorities to information protected by bank secrecy.	<u>May 2022</u>
<u>IO.7</u>	Demonstrate an increase in the development and use of financial intelligence and an increase in financial investigative skills of LEAs tasked with ML investigations.	<u>Jan 2023</u>
<u>IO.7</u>	Demonstrate an increase in ML investigations and prosecutions in accordance with Philippines' risk profile, including crimes with a transnational element and/or foreign proceeds, and using formal and informal international cooperation where necessary.	<u>Jan 2023</u>
<u>IO.8</u>	Ensure that LEAs prioritise asset tracing and confiscation at the point of conviction in criminal cases, in line with the Philippines' risk profile.	<u>Jan 2023</u>
<u>IO.8</u>	Demonstrate that cross border measures are applied to all main sea/ airports of the country including detection of false declarations of currency and confiscation action resulting therefrom with particular focus on high risk activities in line with the Philippines' risk profile.	<u>May 2022</u>
<u>IO.9</u>	Demonstrate that LEAs are identifying TF in line with Philippines' risk profile (including by using the findings of the TF risk assessments), and proactively initiating financial inquiries and conducting separate parallel financial investigations to identify TF.	<u>Jan 2023</u>
<u>IO.9</u>	Demonstrate that LEAs are investigating TF in line with the Philippines' risk profile, with a particular focus on standalone TF offences and financing of terror networks as well as TF arising out of counter terrorism actions and investigations.	<u>Jan 2023</u>
<u>IO.9</u>	Demonstrate that TF is being prosecuted in line with the Philippines' risk profile.	<u>Jan 2023</u>
<u>IO.9</u>	Increase the numbers of dedicated TF investigators and enhance TF investigation and prosecution capacity, including regular specific financial investigation training on different types of TF activity. Ensure dedicated staff, with specialised knowledge on financial crimes, within LEAs with	<u>May 2022</u>

	financial investigation units.	
<u>IO.10</u>	Use the TFS framework to effectively deny funds to designated persons and entities in line with the risk profile of the Philippines.	<u>September 2022</u>
<u>IO.10</u>	Demonstrate that appropriate measures are taken with respect to the NPO sector (including unregistered NPOs) without disrupting legitimate NPO activity.	<u>September 2022</u>
<u>IO.10/11</u>	Demonstrate that covered persons understand their TFS obligations.	<u>September 2022</u>
<u>IO.10/11</u>	Demonstrate that supervisors undertake risk based supervision of TFS by FIs/DNFBPs.	<u>September 2022</u>
<u>IO.11</u>	Issue a step-by-step guidance for the de-listing, unfreezing procedures and publish it widely.	<u>January 2022</u>