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فصل بینک

**Anti Money Laundering
(AML) and Countering
Financing of Terrorism
(CFT) Awareness
Presentation**

What is Money Laundering

Money Laundering is the process by which proceeds from criminal activities are introduced into the financial system as apparently legitimate funds to conceal their true origin.

There are 3 stages of Money Laundering:

- Placement- This is when illegal/criminal proceeds are introduced into the Financial System
- Layering- In this stage, these funds are moved around, often in a series of complex transactions across various banks and countries in order to build a fake trail to mask the original source
- Integration- In this stage, these funds are moved back into business and financial system, as legitimate funds with a plausible source

What is Terrorism

Terrorism is the use of violence for political or religious purposes by any natural person who;

- a) Commits, or attempts to commit terrorist acts by any means, directly or indirectly, unlawfully and willfully;
- b) Participates as an accomplice in terrorist acts;
- c) Organizes or directs others to commit terrorist acts; or
- d) Contributes intentionally to the commission of terrorist acts by a group of persons with the aim of furthering the terrorist act or with the knowledge of the group's intention to commit the terrorist act.



What is Terrorism Financing

Terrorist financing involves the solicitation, collection or provision of funds with the intention that they may be used to support terrorist act or organization. Funds may stem from both legal or illicit sources. More precisely, a person commits the crime of financing of terrorism “if that person by any means , directly or indirectly, unlawfully or willfully, provides or collects funds with the intention that they should be used or in knowledge that they are to be used, in full or part, in order to carry out an offense”

The primary goal of individuals or entities involved in the financing of terrorism is therefore not necessarily to conceal the source of money but to conceal both the financing and nature of the financed activity.

There is one constant in terrorism- the requirement for financing. There must be a steady source of fund from the point of origin to the point of distribution, with out money terrorist are challenged and less likely to succeed.

Targeted Financial Sanctions (TFS)

Sanctions are measures imposed by governments or by international organizations, such as the United Nations, against a target. This target could be an entire country, a political or social regime, an organization, vessel, port or an individual. FATF Recommendations include implementing targeted financial sanctions against terrorism and the financing of the proliferation of weapons of mass destruction (WMD). Targeted financial sanctions under the FATF Recommendations cross reference United Nations standards and asset freeze provisions and related lists pursuant to UNSC Resolutions.

The Government of Pakistan under the United Nations (Security Council) Act, 1948 gives effect to the decisions of UNSC. The Ministry of Foreign Affairs issues Statutory Regulatory Orders (SROs) to provide legal cover for implementing sanction measures under UNSC resolutions. Similarly, for implementing sanction measures under Security Council Resolution 1373 (2001), the Ministry of Interior and respective Home Departments/ Chief Commissioner ICT issues Notifications of proscribed entities and individuals respectively, pursuant to the Anti-Terrorism Act, 1997

National Risk Assessment on Terrorist Financing & Money Laundering

- A comprehensive update of the National Risk Assessment of ML and TF in the country was undertaken with the objective to articulate an updated and accurate assessment of ML/TF risks that Pakistan faces and to simultaneously develop and implement a comprehensive plan to continue to counter them.
- Terrorist Financing (TF) threats in Pakistan emanate both from foreign and domestic sources. The domestic TF sources include proceeds generated from cash smuggling, kidnapping for ransom, smuggling of natural resources, extortion and donation.
- The most vulnerable channels identified for TF include Hundi/Hawala, unregistered charities, virtual currencies, etc.
- Long porous border with Iran and Afghanistan is major cause of cash smuggling, illegal trade, narco-trafficking, kidnapping for ransom, extortion and illegal border crossing. In addition, terrorism is also funded externally by Hostile Intelligence Agencies and other anti-state elements.

Predicate Offences

A predicate offence is a crime that is a component of a more serious crime. Currently, the Government of Pakistan includes the below list of crimes as predicate offences as per AML Act 2010.

- Participation in an organized criminal group and racketeering;
- Terrorism, including terrorist financing;
- Trafficking in human beings and migrant smuggling;
- Sexual exploitation, including sexual exploitation of children;
- Illicit trafficking in narcotic drugs and psychotropic substances;
- Illicit arms trafficking;
- Illicit trafficking in stolen and other goods;
- Corruption and bribery;
- Fraud;
- Counterfeiting currency;

- Counterfeiting and piracy of products;
- Environmental crime;
- Murder, grievous bodily injury;
- Kidnapping, illegal restraint and hostage-taking;
- Robbery or theft;
- Smuggling (including in relation to customs and excise duties and taxes);
- Tax crimes (related to direct taxes and indirect taxes);
- Extortion;
- Forgery;
- Piracy; and
- Insider trading and market manipulation.

Trade Based Money Laundering

Trade Finance is the financing for trade activity in both domestic and international markets. A trade transaction requires a seller of goods and services as well as a buyer. Various intermediaries such as banks and other financial institutions can facilitate these transactions by financing the trade

Trade Based Money Laundering is defined as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.

Trade Based Money Laundering is achieved through;

- Misrepresentation of the price, quantity, or quality of imports or exports (Under Invoicing, Over Invoicing, Multiple Invoicing)
- False pricing through secret co-operation
- Short Shipment- shipping fewer goods than invoiced
- Over Shipment- exporting more goods than invoiced
- Phantom shipping- fraudulent documents presented and no actual goods shipped.

Proliferation Financing (PF)

Proliferation Financing (PF) is the act of providing funds or financial services which may be used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans 'shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for nonlegitimate purposes), in contravention of national laws or, where applicable, international obligations.

“Dual Use Goods” means items, which can be used for both civil and military purposes

Emergent Risks -Covid-19

- The Internet and social media have changed the modes of communication due to anonymity, access to wider range, remote management and relative ease of electronic payments. Criminals are taking advantage of the COVID -19 pandemic to carry out financial fraud and exploitation scams including advertising and trafficking in counterfeit medicines, offering fraudulent investment opportunities.
- FIA has registered numerous cases and enquiries against banned individuals and entities that were using cyber space for the purpose of their extremist ideology and crowd funding which reveals that this channel is vulnerable to be used for Terrorist Financing.
- The current Covid-19 Epidemic has seen a rise in the number of people soliciting donations via social media and fund raising against fake charities. Further, collection of donation in personal accounts is also strictly prohibited by the State Bank of Pakistan.

Consequences of Money Laundering (ML) and Terrorism Financing (TF)

Financial Consequence:

- The impact of ML and TF will be highest if the banking channels are used for inflow or outflow of ML/TF funds, given the large size of the banking sector. Detection of TF is of special concern as the amount involved are very small and have legitimate sources.
- Utilization of shell or benami companies for committing frauds, ML and TF can also lead to reputational loss to Pakistan.
- Integrity of the financial system is impaired

Economic and Reputational Consequences

- Impaired economic growth.
- Reduced domestic and foreign direct investment.
- Inflow of illegitimate wealth and terrorism funding.
- Distorted market prices of good, commodities and services

Social Consequences

- Increased social power of criminals.
- Emotional trauma to victims and deaths
- Increased rates of incarceration.
- Reduced confidence in public sector institutions.
- Increased costs to legal businesses and activities.
- Outflow human capital and capital flight.

Important Regulatory Updates

The following Key Updates are available on SBP web site:

- [Measures to Combat COVID 19 Pandemic –](#)
- [Measures to Combat COVID 19 Pandemic – Branchless Banking Operations](#)
- [Measures to Mitigate COVID-19 Pandemic – AML/ CFT Regulations](#)
- [Guidelines on Compliance of Government of Pakistan’s Notifications issued under United Nations Security Council \(UNSC\) Resolutions](#)
- [Anti-Money Laundering and Combating the Financing of Terrorism \(AML/CFT\) Regulations](#)
- [Branchless Banking Regulations for Financial Institutions](#)
- [Compliance of AML/CFT Regime by Banks/ DFIs – Biometric Verification of Existing Customers](#)
- [Standard Operating Procedures \(SOPs\) to Facilitate and Streamline Account Opening Process of Politically Exposed Persons \(PEPs\)](#)
- [Acceptance of Proof of Registration \(PoR\) Card held by Afghan Refugees as Valid Identity Document for Account Opening](#)
- [Prohibition of Dealing in Virtual Currencies/Tokens](#)