SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM (AML/CFT)

GUIDELINES

FOR

NON PROFIT ORGANIZATIONS (NPOs)

2018

CONTENTS

1 INTRODUCTION

1.1 Background

The changing trends and pattern of Money laundering (ML) and Terrorist Financing (TF) is a major global concern. The recommendations of Financial Action Task Force (FATF)[1] and the resolutions passed by the United National Security Council (UNSC) are aimed at handling ML/TF issues across the globe.

Like other regulated entities in the financial and corporate sectors, Non Profit Organizations (NPOs) are not immune to ML/TF abuses. NPOs have remained in focus considering their inherent risk of money laundering and terrorist financing. Many instances locally and worldwide have revealed terrorist abuse of charitable organizations to raise and move funds, provide logistic support, encourage terrorist recruitment or otherwise cultivate support for terrorist organizations and operations. Terrorist elements also try to exploit every system from where they can collect money and fund their terrorist activities, including corporate sector.

1.2 The Financial Action Task Force (FATF) and its Recommendation for NPOs:

FATF has issued a set of recommendations, which are widely endorsed as the international standards for AML and CFT[2]. FATF defines an NPO as "*a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of good works".*

FATF Recommendation 8 is reproduced as under:

Non-profit organisations
"Countries should review the adequacy of laws and regulations that relate to non-profit organisations which the country has identified as being vulnerable to terrorist financing abuse. Countries should apply focused and proportionate measures, in line with the risk-based approach, to such non-profit organisations to protect them from terrorist financing abuse, including:

- *(a) by terrorist organisations posing as legitimate entities;*
- *(b) by exploiting legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and*
- *(c) by concealing or obscuring the clandestine diversion of funds intended for legitimate purposes to terrorist organisations."*

[1] http://www.fatf-gafi.org/
[2] http://www.fatf-gafi.org/publications/fatfrecommendations/

FATF recommends increased transparency within the non-profit sector and the implementation of a regulatory scheme that includes NPO sector outreach, sector monitoring, effective intelligence and information gathering, and the establishment or strengthening of cooperative relationships between relevant regulatory and law enforcement agencies. In addition, FATF advises countries to encourage the non-profit sector to:

- adopt methods of best practice with respect to financial accounting, verification of program specifics, and development and documentation of administrative, and other forms of control;
- use formal financial systems to transfer funds; and
- perform due diligence and auditing functions of partners and field and overseas operations respectively.

FATF has also issued various reports and detailed guidance to help prevent the NPO sector from the abuse of terrorist financing[3].

1.3 Legal Framework for NPO Sector

Currently, different laws are applicable to regulate the NPOs sector at federal and provincial level. The NPOs are mainly registered and regulated in Pakistan under the following laws:

- The Companies Act 2017
- The Societies Registration Act, 1860.
- The Trusts Act, 1882.
- The Charitable Endowments Act, 1890.
- Voluntary Social Welfare Agencies (Registration and Control Ordinance), 1961
- Local Government Ordinance, 2001
- The Cooperative Societies Act, 1925
- The Religious Endowment Act, 1863

Keeping in view the gravity of the ML/TF issues at the global level, Government of Pakistan has taken various legislative measures to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime in Pakistan. The Anti- Money Laundering Act, 2010 was promulgated to provide for prevention of money laundering, combating financing of terrorism and forfeiture of property derived from such activities.[4] The Anti-Terrorism Act ,1997[5] is the country's main legislation governing prosecution of terrorism. The Companies Act, 2017 also casts a duty on every officer of a company to endeavor to prevent the commission of any fraud or offences of money laundering including predicate offences[6]. To mitigate ML/TF risks in respect

[3] http://www.fatf-gafi.org/publications/fatfgeneral/documents/terroristfinancing.html
[4] http://www.fmu.gov.pk/docs/laws/Anti-Money%20Laundering%20Act%202010-As%20amended%20upto%20May%202016.pdf
[5] http://www.molaw.gov.pk/molaw/userfiles1/file/Anti-Terrorism%20Act.pdf
[6] https://www.secp.gov.pk/document/companies-act-2017/?wpdmdl=28472

of NPOs under its regulatory purview, the Securities and Exchange Commission of Pakistan (SECP) has also issued the Associations with Charitable and not for Profit Objects Regulations 2018[7].

1.4 National Initiatives for combating Money Laundering & Terrorist Financing:

- Pakistan is a member of the FATF-Style Regional Body (FSRB), the Asia/Pacific Group (APG) on Money Laundering. APG assess Pakistan's efforts to combat money laundering and terrorist financing.

- **Anti-terrorism Act, 1997** is the country's main legislation governing prosecution of terrorism. Anti-Terrorism Act 1997 is covering terrorism, financing of terrorism and preventive measures for combating terrorism in the form of proscription of individual and organization under section 11EE and 11B.

- **Financial Monitoring Unit (FMU)** was established in 2007, designated as a central agency in Pakistan in the fight against money laundering and terrorist financing. FMU has a decisive role to play in the detection and investigation of financial crimes. (www.fmu.gov.pk)

- Pakistan has introduced various legislations to combat ML/ TF, including enacting the **Anti Money Laundering Act, 2010.**

- SECP has established an **Anti-Money Laundering (AML) Department** to effectively address any potential of money laundering within the capital markets, Insurance, the NBFCs and the not-for-profit corporate sector.

- SECP has issued detailed Regulations titled '**Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018**' which are available at https://www.secp.gov.pk/document/anti-money-laundering-act-2010-3/?wpdmdl=31812.

- SECP has prohibited all officers of companies from providing any assistance or funding including charity/donation to the entities and individuals contained in the list of proscribed organizations updated by National Counter Terrorism Authority (NACTA), in terms of **SRO 31(I)/2018 dated 12th January, 2018**[8].

1.5 Target Audience

These Guidelines are primarily aimed to assist the following stakeholders:

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[7] https://www.secp.gov.pk/document/association-with-charitable-and-not-for-profit-objects-regulations-2018/?wpdmdl=31768

[8] https://nacta.gov.pk/proscribed-organizations/, https://nacta.gov.pk/proscribed-persons/

- All NPOs licensed under section 42 of Companies Act, 2017
- Others NPOs registered under different Provincial laws
- Regulators of NPOs
- Supervisors of NPOs
- Civil society

1.6 Objectives of Guidelines

These Guidelines are intended to assist NPOs licensed and registered as Associations not for profit under section 42 of the Companies Act, 2017 to serve as a tool for prevention from ML/TF abuses. These Guidelines may also be adopted by NPOs registered under other laws, to the extent these are not in conflict with their enabling laws.

These Guidelines will not only assist in improving Pakistan’s outlook by encouraging increased adherence to the AML and CFT standards set internationally but will also complement enhancing the level of understanding about the due diligence with respect to AML/CFT in the NPO sector. These guidelines also suggest policies, procedures and internal controls for NPOs to comply with the AML/CFT framework and international best practices. These are also likely to assist in improving Pakistan’s outlook by encouraging increased adherence to the AML and CFT standards set internationally.

2. TERRORIST FINANCING EXPLAINED

Terrorism financing is the financial support, in any form, of terrorism or of those who encourage, plan or engage in terrorism. Following are the methods of terrorist financing:

a. <u>Raising funds to finance terrorism</u>

Terrorist groups may utilize different fundraising methods based on the sophistication required and their objectives. The abuse of NPOs for terrorist financing purpose may be undertaken in a number of ways:

- These can be used to disguise international funds transfers to high-risk regions.
- Funds raised for overseas humanitarian aid can be commingled with funds raised specifically to finance terrorism.
- Funds sent overseas by charities with legitimate intentions can also be intercepted when they reach their destination country and siphoned off for use by terrorist groups.

b. Transferring funds to finance terrorism

Legitimate donors may utilize a transfer mode based on its utility and reliability rather than with the expressed purpose of concealing transactions. Terrorist organizations may utilize informal transfer channels including hundi and hawala. The key transmission channels that may be used to transfer funds for terrorism financing include:

i. Banking sector
ii. Remittance sector
iii. Legitimate businesses and 'front' businesses posing as legitimate businesses
iv. Cross-border movement of cash
v. Electronic payment systems, new and online payment methods.

c. Using funds to finance terrorism

TF generated funds may be utilized for:

- operational funding (direct use), for purchasing weapons or bomb-making equipment, paying insurgents, which has more severe consequences in the form of attacks, etc.
- organizational funding (indirect use), providing a support mechanism for terrorists through helping recruitment of terrorists, covering their living expenses, expanding networks and consolidating their presence in communities.

NPOs operating in crises and war zones are at greater risk of being infiltrated and exploited by terrorist groups in such areas. Funds sent to conflict ridden and war zones for humanitarian aid are at increased risk of being used for financing terrorism if they are sent through informal channels or through start-up NPOs.

3. RISK FACTORS FOR NPO SECTOR

3.1 Introduction

NPOs are defined by their purpose, their reliance on contributions from donors and the trust placed in them by the wider community. They exist with a commitment to voluntary action, a desire to improve society and improving quality of life. They often process large amounts of cash and regularly transmit funds between different regions and countries. They often operate in areas of high risk, recipients that are hard to reach and deliver services in extreme conditions. Combination of these factors exposes NPOs to an elevated risk of criminal and terrorist abuse.

NPOs can be abused in different manners, including exploitation of charitable funds, abuse of assets, misusing of name and status and setting up an NPO for an illegal or improper purpose.

Not all NPOs are inherently high risk organizations, and it is desirable to identify the high risk NPOs, i.e NPOs which by virtue of their activities or characteristics, are likely to be at risk for terrorist financing abuse, for the purpose of proper risk management. A detailed matrix elaborating the different risk typologies is appended as ***Annexure "A".***

3.2 Reasons for Vulnerability of NPO Sector

NPOs are vulnerable to terrorism and other criminal abuse, because they[9]:

- enjoy high levels of public trust and confidence, which is crucial to their success;
- often rely on goodwill and voluntary support from donors in one form or another;
- are subject to limited board oversight because of most of the directors working in voluntary capacity;
- retain more money than for-profit entities due to their tax exemption status;
- are diverse in nature, involved in a broad range of activities and reaching out to all parts of society. Because of this outreach, large numbers of people come into close contact with NPOs, including those who may abuse them, through their services, the use of their property and through their trustees and volunteers;
- are relatively easy to set up;
- may depend on one or two individuals who play a key, and often unsupervised, role, particularly within smaller NPOs;
- have a global presence, including those operating in conflict zones and/or where there is little infrastructure, and frequently move money, goods and people to these areas;
- often have complex financial operations including multiple donors, investments and currencies, often receiving and using cash, having to account for high volumes of small scale transactions and using informal money transfers;
- may have complex programs of operation and may pass funds through partner organizations to deliver their services, as well as operating directly themselves;
- may have unpredictable and unusual income and expenditure streams, so suspicious transactions may be harder to identify;

[9] *Source: Compliance toolkit: Protecting Charities from Harm, Charity Commission, UK*

- may have branches and/or projects that are not under the direct supervision or regular control of management;

- may be subject to different and, in some cases, weaker levels of regulation in different parts of the world; and

- are powerful vehicles for bringing people together for a common purpose and collective action, and may inadvertently provide a ready-made social network and platform of legitimacy for terrorists or terrorist sentiments.

3.3 Ways of NPO Abuse:

It is evident from research on CFT with respect to NPOs governance and FATF guidelines that NPOs systems have risks of financing terrorism in different ways. The abuse of NPOs may occur in the following ways[10]:

(i) NPO fund

Funds may be raised in the name of a NPO or charitable purposes, which are then used by the fundraisers for supporting terrorist purposes. An NPO may be used to launder money or be used as a legitimate front for transporting cash or other financial support from one place to another.

(ii) Use of NPO assets

NPO vehicles may be used to transport people, cash, weapons or terrorist propaganda, or NPO premises used to store them or arrange distribution. The communications network of an NPO may be exploited to allow terrorists to contact or meet each other.

(iii) Use of an NPO's name and status

Individuals supporting terrorist activity may claim to work for an NPO and trade on its good name and legitimacy in order to gain access to a region or community. They may use the NPO and/or its name as a seemingly legitimate cover to travel to difficult to reach places to take part in apparently appropriate but actually inappropriate activities such as attending terrorist training camps. An NPO may give financial or other support to an organization or partner that provides legitimate aid and relief. However, that organization or partner may also support or carry out terrorist activities.

(iv) Abuse from within an NPO

Although it is less likely than abuse by third parties, those within an NPO may also abuse their position within the NPO and the name of NPO itself for terrorism purposes. This might include 'skimming' off money in charitable collections and sending or using the funds to support terrorist activities. People within an NPO may arrange for or allow NPO premises to be used to promote

[10] *Source: Compliance toolkit: Protecting Charities from Harm, Charity Commission, UK*

terrorist activity. Sponsors themselves may also be held accountable for engaging in inappropriate behavior or making inappropriate comments for a similar purpose.

NPOs may use volunteers they know to be likely to promote terrorism to influence the NPO's work. They may abuse the NPO by allowing those involved in terrorist activity to visit or work with them.

(v) NPOs set up for illegal or improper purposes- Fake NPOs

In extreme cases, terrorists may try to set up a fake or fictitious organization, promoted as a legitimate charitable organization but whose ultimate purpose is to raise funds, use its facilities or name to promote or coordinate inappropriate and unlawful activities. The purpose of such an NPO is ostensibly to collect and distribute funds and donations for legitimate purposes but it is in reality a front for the laundering of money, generation of funds for terrorism purposes or for rallying support for terrorist activities.

3.4 Regulatory Approach to Mitigate ML/TF Risks

The regulatory approach adopted by SECP for regulation of section 42 companies and for mitigation of ML/TF risks duly consider the varying risk characteristics of such companies and the associated risk parameters, depending upon the funding sources, revenue base size, transaction size, scope/magnitude of operational activities, fitness criteria for members/directors, etc. and mode of receiving funds. These characteristics alongwith relevant risk parameter, the regulatory lifecycle stage and the additional requirements or relaxation therefrom are tabulated in ***Annexure "B"***.

4. LEGAL/ COMPLIANCE REQUIREMENTS:

The NPOs registered as associations not for profit under the Companies Act, 2017 must comply with the laws of the country in letter and spirit.

These laws include, but are not limited to, the following:

- Anti-Money Laundering Act, 2010
- Anti-Terrorism Act, 1997
- Companies Act, 2017
- Associations with Charitable and Not for Profit Objects Regulations, 2018
- Income Tax Ordinance, 2001
- Prevention of Electronic Crimes Act, 2016

NPOs operating as international NGOs (INGOs) shall comply with the policy issued by the Federal Government for such NPOs, as amended from time to time.

The National Counter Terrorism Authority (NACTA)[11] has also drafted Model Charity Law which is in process of enactment and which contains various provisions to ensure transparency and accountability, sharing of registration details amongst the provinces, and assessment mechanisms. This law provides an effective legal and monitoring framework for NPOs in line with the FATF Recommendations No. 8. In addition, this law also complies with international requirements under UN Security Council's Resolutions 1267, 1373, 1526 and 2368 and national security concerns.

5. FUNDAMENTAL PRINCIPLES OF GOOD PRACTICES:

5.1 Adoption of Best Practices:

i) NPOs must take appropriate steps to identify and assess the ML/ TF risks for donors, customers/ beneficiaries (including persons, group of persons and organizations, etc.), country specific or geographic areas, products, services, transactions and delivery channels. Based on risk assessment, the NPO shall take measures to mitigate the risks.
ii) Training of employees and staff on AML/CFT strategy and issues may be conducted on an annual basis. Record of such trainings may be maintained.
iii) NPOs shall not indulge in activities that amounts to breach of security or in any activity inconsistent with Pakistan's national interests, or contrary to Government policy.
iv) NPOs shall also not take part or assist in any kind of political activities, conduct research or surveys unrelated to their activities. Violation may lead to cancellation of their license and/or registration.
v) NPOs shall not engage in money laundering, terrorist financing, weapon smuggling, anti-state activities or maintain links with the proscribed individuals or organizations.

5.2 Good Governance:

i) The management must have in place adequate measures to clearly identify every board member, both executive and non-executive.
ii) The most important element of a successful AML/CFT program is the commitment of senior management, including the chief executive officer and the board of directors, to the development and enforcement of the AML/CFT objectives.
iii) The management must frame its AML/CFT Risk and Compliance Policy, which shall be approved by the Board of Directors and be publicly made available. The NPO shall review the said policy on an annual basis. Management must communicate updated version of the policy clearly to all employees on an annual basis along-with statement from the chief executive officer.
iv) The management must also consider to establish an independent and well-resourced compliance function within the NPO to achieve the objective of AML/CFT Risk and Compliance Policy.

[11] https://nacta.gov.pk/counter-financing-of-terrorism/

v) Based on a risk-based approach, the NPOs may consider forming an independent oversight committee of its operations, and each NPO must select the oversight structure, which best suits its needs.

5.3 Know Your Beneficiaries and Partners:

i) NPO must ascertain correct and complete identification particulars of each of its beneficiary (person, group of persons or organization etc.) who receives cash or services or in-kind contributions.
ii) In case the beneficiary is an organization/ group of persons, the donor NPO must have knowledge of detailed profile and particulars of such organization. NPO shall ensure that its beneficiaries are not linked with any suspected terrorism activity or any link with terrorist support networks.
iii) In case where the projects are implemented through partnership agreements with other partners, the NPO shall make it a part of its project agreements that partners shall maintain and share beneficiaries' information.
iv) NPOs must ensure that the partner organizations shall not be from any such organization whose license has been revoked by SECP[12] or registration cancelled by other authorities.

5.4 Know Your Donors:

i) Before receiving funds from a donor, NPOs must establish that the donor is not placed on the United Nations' list of persons who are linked to terrorist financing or against whom a ban, sanction or embargo subsists.
ii) NPOs shall undertake best efforts to document the identity of their significant donors. NPO must collect and maintain record or correct and complete identification particulars of major donors.
iii) NPOs shall conduct, on a risk-based approach, a reasonable search of public information, including information available on the Internet, to determine whether the donor or their key employees, board members or other senior managerial staff are suspected of being involved in activities relating to terrorism, including terrorist financing.

5.5 Know your Employees:

NPO must maintain records of particulars of its employees (both Pakistani or foreign nationals), including but not limited to permanent address, present address, copy of NIC, passport number, nationality, personal email ID, NTN, phone or mobile number, past experience, etc.

[12] https://www.secp.gov.pk/document/revocation-of-license-granted-to-not-for-profit-companies-ngos-under-section-42-of-the-companies-ordinance-1984/?wpdmdl=22560

5.6 Ensuring Transparency and Financial Accountability:

i. Soliciting Donations:

Any solicitation of donations must clearly state the goals and purposes for seeking funds (how and where these donations are to be expended) so that the donors as well as persons examining the NPOs disbursement of funds can check as to whether the funds are used against the determined goals.

ii. Receipt and disbursement of Donations and Funds:

a. NPO must receive all donations and funds through banking channel and which must be in conformity with the books of accounts of NPO.
b. The identity of depositors and withdrawers must be ascertained by the NPO.
c. The NPO should account for all disbursements including the name and particulars of grantee, the amount disbursed, date and form of payment. Disbursements may be made through proper banking channel except in extreme circumstances, which may require cash or currency transactions. Detailed internal records of cash transactions, if any, may be kept and oversight needs to exercised while handling such disbursements.
d. In case transactions with the parties including donors appear unusual or suspicious, regardless of the amount involved and whether or not made in cash, NPOs shall consider to issue suspicious transaction report (STR). In addition, transactions which give rise to a reasonable ground of suspicion that they may involve financing of activities relating to terrorism, shall also be reported to the Financial Monitoring Unit (FMU) at http://www.fmu.gov.pk/contactus.html.

iii. Utilization of Funds:

NPOs receiving legitimate foreign contributions or foreign economic assistance shall appropriately utilize these financial resources on the agreed areas of public welfare, simultaneously ensuring due monitoring, accountability and transparency of their governance, management and funding streams.

iv. Internal Audit

NPOs may consider to set up an internal audit function to help identify risks, provide an assurance to the board of directors on NPO's risk management effectiveness, internal control and governance processes.

6 RED FLAGS/HIGH RISK INDICATORS FOR NPOs

6.1 Donations:

- If unusual or substantial one-time donations are received from unidentifiable or suspicious sources
- if a series of small donations are received from sources that cannot be identified or checked
- if conditions attached to a donation are as such that NPO would merely be a vehicle for transferring funds from one individual or organization to another individual or organization
- where donations are made in a foreign currency or foreign sources where financial regulation or the legal framework is not as rigorous
- where donations are conditional to be used in partnership with particular individuals or organizations where the NPO has concerns about those individuals or organizations
- where an NPO is asked to provide services or benefits on favorable terms to the donor or a person nominated by the donor
- where payments received from a known donor but through an unknown party
- where donations are received from unknown or anonymous bodies
- where payments received from an unusual payment mechanism where this would not be a typical method of payment.

6.2 Beneficiaries:

- where NPO provides financial assistance, services or support on the basis of a certain sum of money per beneficiary and the numbers are relatively high
- where an NPO provides services to large numbers of beneficiaries, where it may be easier to disguise additional beneficiaries
- where there may appear signs that people may have been placed on distribution and aid lists by providing kickbacks and bribes to officials
- lists of beneficiaries contain multiple manual corrections, multiple names may appear, may contain more family members
- evidence that third parties or intermediaries have demanded payment for recommending or nominating beneficiaries
- fake or suspicious identity documents

- beneficiaries with identical characteristics and addresses or multiple identical or similar names and signatures

6.3 Partners:

- the project proposal is vague or lacks adequate financial or technical details
- the structure or nature of the proposed project makes it difficult to identify the partner and verify their identity and details
- the proposals include delegating work to other unknown partners or newly formed organizations
- it is difficult to contact the partner at their main address, or their telephone numbers are not working
- the project involves unusual payment mechanisms, or requests for cash, or for money to be paid into an account not held in the name of the partner, or in a country in which the partner is not based and not where the project is being carried out
- partners request unnecessary or unusual levels of privacy and secrecy
- requests by partners to use a particular auditor or accountant

6.4 Employees:

- indications that staff may be living beyond their means or appearing at unusual times
- staff carrying out tasks or jobs they should not be, or other unusual staff behavior or conduct
- sudden or increased staffing costs

6.5 Monitoring of Projects:

- invoices and paperwork have been tampered with, altered in crucial aspects with handwritten amendments
- inventory shortages
- there is a lack of evidence to show fair and transparent tendering or procurement procedures
- invoices and papers recording a higher cost for goods or services than expected or agreed
- missing key documents or only copies can be produced, which raise suspicions perhaps because they are poor copies or because key details are illegible or have been altered

- signatures confirming receipt or payment are missing or the invoice is unsigned or undated
- receipts have been signed and dated a long time after the goods or services should have been delivered
- particularly late or early invoicing
- repeated excuses of system crashing, losing records or paperwork
- relief, goods or items provided by the NPO in connection with the project have been tampered with,
- documents accompanying goods and items are missing
- the local community is receiving aid or assistance by other unexplained or unexpected means
- unexpected transactions, where commission charged or no receipts are available
- figures in documents or records that look familiar or may be repeated
- discrepancies between budgeted needs and payments requested
- requests for payment in cash to be made to an unknown third party or other organization
- payment of administration costs not appearing to relate to the project or which appear unusually high taking into account the nature of the project
- cash advances and payments that are unusually frequent and/or have not been recorded or approved
- funds are not being banked or accounted for
- infrequent and/or poor reconciliation of local banking and accounting records / bank reconciliations not done in a timely manner
- payments to suppliers via cash payments to employees
- offers for monitoring to be carried out by friends or known associates of the local partner without the need for the NPO to carry out an inspection or checks on the partner themselves
- requests to use particular officials in the locality for monitoring purposes
- emails from new or unusual email addresses not in the partner's domain name or from someone who is not a previously agreed contact point
- inconsistencies between narrative reports and financial claims and reports

Illustrative Characteristics of High Risk NPOs

Sr. No.	Risk Parameter	Risk characteristics
I	Zone	Operating in conflict ridden and/or border zones including, but not limited to tribal agencies/ merged areas, sensitive areas of any province, and areas/regions which have experienced terrorist attacks. However, this does not preclude the possibility of soliciting financial support by the terrorists from other areas.
II	Activity	Primarily working in service activities including: • Health • Education • Social services or social welfare • Housing
III	Legal status/level of formality	• Unincorporated NPOs (High likelihood, low consequence) • Incorporated/registered NPOs meeting criteria I and II (Low likelihood, high consequence)
IV	Revenue/Quantum of donations	Large size NPOs with annual grants/income/subsidies/donations of Rs. 10 million and above
V	Funding Source	• Foreign funding from unknown sources • Foreign funding from high-risk countries or those characterized by lower AML/CFT compliance • Major collection in the form of public/street donations, donation boxes, from anonymous donors, etc.
VI	Geo-political factors	Having nationals from unfriendly countries as sponsors of NPOs
VII	Legal Compliance	• Serious non-compliance by registered NPOs • Involvement of sponsors/directors/ officers of NPOs in unlawful activities through other companies or business entities
VIII	Financial misconduct by NPOs or sponsors/ directors	• Violation of licensing conditions by licensed NPOs • Failure to observe accounting and auditing principles in the recognition, measurement and disclosure through financial statements • Serving as conduit in respect of illicit financial transactions

ANNEXURE "B"

Regulatory Approach to Mitigate Money Laundering/Terrorist Financing Risks

Characteristics of NPO alongwith reference to relevant provision of law	Relevant risk parameter	Regulatory lifecycle stage	Additional Requirement (for high risk)/ Relaxation (for low risk)
Instances of High Risk			
Regulation 15 NPOs soliciting donations from foreign sources NPOs having foreign promoters, directors or CEO	Source of Funding or appointment of promoter/ director/ officer	Licensing/approval of change in promoter/ director	Security clearance from concerned government agencies
Third Schedule to the Act NPOs having annual gross revenue (grants/income/ subsidies/ donations) including other income/revenue of Rs. 200 million and above.	Revenue base Size	Regulation/ supervision stage	Applicability of IFRS (Enhanced financial reporting framework makes it easier to detect misuse of charitable funds)
Regulation 14 All NPOs receiving cumulative funds amounting to rupees five million or above from any single source of funding during a month	Transaction Size	Regulation/ supervision stage	Monthly reporting to SECP required
Regulation 4 In case of a single object company, at least one promoter shall have adequate experience in the proposed field In case of multiple objects, at least one promoter in each field of the proposed objects possessing adequate	Scope of operations	Licensing/renewal stage	Relevant experience of promoters in the proposed field(s) required

experience in that field so that all the promoters or directors collectively have sufficient experience related to each object			
Instances of Low Risk			
<u>Regulation 7</u> In case of a promoter representing or nominated by an entity or by Government or an institution or authority or other statutory body of the Federal or Provincial Government(s)	Source of Funding	Licensing/ renewal stage	Relaxation from the requirement to deposit start-up donation, and in such a case, the start-up donation shall be contributed by the said entity, Government, institution, authority or statutory body as the case may be
<u>Third Schedule to the Act</u> NPOs having annual gross revenue (grants/income/ subsidies/ donations) including other income/ revenue of less than Rs. 200 million	NPO Size	Regulation/ supervision stage	Accounting standards for NPOs containing fewer/ less stringent requirements than IFRS
<u>Regulation 7</u> Members representing or nominated by Government or an institution or authority or other statutory body of the Federal or Provincial Government(s)	Fitness and propriety of members of company	Appointment of new member	Relaxation from the requirement of meeting fit and proper criteria
<u>Regulation 7</u> - Nominees of Government or an institution or authority or other statutory body of the Federal or Provincial Government(s) - CEO and directors of a non-bank microfinance company	Fitness and propriety of directors and CEO of company	Appointment of new director and CEO	- Relaxation from the requirement of meeting fit and proper criteria

licensed under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003			- Relaxation from the requirement of meeting fit and proper criteria (such persons shall be required to comply with the fit and proper criteria specified in Non-Banking Finance Companies and Notified Entities Regulations, 2008)
Regulation 7 In case of receipt of funds exceeding twenty thousand rupees	Mode of receiving funds	Operational stage	Receipt of funds, grants, contribution and donations through proper banking channels and not in cash
NPOs certified by Pakistan Center for Philanthropy[13] for tax exemption status	Operational performance	Operational stage	Classified as 'safe charities' by NACTA[14]

NB: Reference in this matrix to regulations means the relevant provision of the Associations with Charitable and not for Profit Objects Regulations, 2018

[13] www.pcp.org.pk/ngo.html
[14] https://nacta.gov.pk/safe-charities-list/