Frequently Asked Questions
on
Anti-Money Laundering and
Combating Financing of Terrorism
Focused on NRA 2019

Fourth Batch

SECP

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

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SECP is pleased to publish this fourth version of SECP's Frequently Asked Questions (FAQs) on AML/CFT aiming to facilitate SECP's regulated financial services industry and investors to comprehend and implement their obligations under the AML/CFT regime and to meet evolving regulatory expectations for anti-money laundering and sanctions compliance. This batch is specially focused on NRA 2019.

The following questions and answers have been prepared for illustrative purposes only.

What was the role of the Securities and Exchange Commission (SECP) in the preparation of Pakistan National Risk Assessment on Money Laundering and Terrorism Financing 2019 (NRA 2019)?

The preparation of the 2019 NRA was led by the Financial Monitoring Unit (FMU) with the active involvement of the key supervisory and government authorities involved in the fight against money- laundering (ML) and terrorist financing (TF) and private sector representatives. The SECP representative was part of the working group formed to prepare NAR 2019.

The SECP played a key role in its capacity as Pakistan's corporate regulator. SECP being the regulator of the financial institutions comprising of Insurance companies, Brokers, Asset Management Companies, Non-Banking Financial Institutions and Modarbas contributed in assessing sectoral vulnerabilities. Moreover, contribution was made to the chapter of Legal Persons being the corporate regulator of the Country. Specifically, SECP conducted data calls requesting information from its regulated institutions, met with industry representatives for input and feedback and conducted the analysis of threat and vulnerabilities for each of the sectors it supervises. This analysis was provided to FMU as it prepared the overall national assessment of ML and TF risks.

SECP also facilitated FMU in hosting an outreach session at the Karachi in August 2019 to provide an overview of the findings to the sectors it supervises.

Is this Pakistan's first NRA?

No. Pakistan performed its first national ML risk assessment during 2015-2017, which was followed in 2018 with an assessment of its TF risk (TFRA), later an addendum to TFRA was conducted in 2019 followed by a Transnational paper. Later, the consolidated TFRA was prepared combining TFRA and it's addendum. However, a wide-reaching and comprehensive update to the earlier risk assessment exercises was the need of the time. NRA 2019 constitutes an important basis to continued strengthening of Pakistan's framework to combat ML and TF.

What was the Methodology for NRA 2019?

The methodology for this NRA refers to the following concepts as defined by the FATF Guidance on NRA:

- A threat is a person or group of people, object or activity with the potential to cause harm to, for example, the state, society, the economy, etc. In the ML/TF context this includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future ML or TF activities.
- Vulnerabilities comprise those things that can be exploited by the threat or that may support or facilitate its activities. In the ML/TF risk assessment context, looking at vulnerabilities as distinct from threat means focusing on, for example, the factors that represent [weaknesses in AML/CFT systems or controls or certain features of a country. They may also include] the features of a particular sector, a financial product or type of service that make them attractive for ML or TF purposes.
  Note: this revised NRA focuses on inherent vulnerabilities, so we have put the reference to weaknesses in AML/CFT in brackets.
- Inherent risk: refers to ML/TF risk prior to the application of AML/CFT controls.
- Consequence refers to the impact or harm that ML or TF may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society in general.
- Likelihood of ML/TF: the likelihood of ML/TF threat actors exploiting inherent vulnerabilities

What is the purpose of a risk assessment?

The key purpose of a risk assessment is to drive improvements in risk management through identifying the general and specific money laundering and terrorist financing risks a FI is facing, determining how these risks are mitigated by a FI's AML programme controls and establishing the residual risk that remains for the FI. The results of a risk assessment can be used for a variety of reasons, including to:

- identify gaps or opportunities for improvement in AML/CFT policies, procedures and processes
- make informed decisions about risk appetite and implementation of control efforts, allocation of resources, technology spend
- assist management in understanding how the structure of a business unit or business line's AML compliance programme aligns with its risk profile
- develop risk mitigation strategies including applicable internal controls and therefore lower a business unit or business line's residual risk exposure
- ensure senior management are made aware of the key risks, control gaps and remediation efforts
- assist senior management with strategic decisions.
- ensure regulators are made aware of the key risks, control gaps and remediation efforts across the FI
- Assist management in ensuring that resources and priorities are aligned with its risks.

What are the key findings of threat assessment?

The new threat rating in NRA 2019 does not reflect a change in the national situation, but rather reflects a better understanding and more effective analysis of the threats that exist, owing to more comprehensive information and statistics and a greater level of local experience and expertise about ML/TF threats.

Threat analysis concerning all crimes, including the 21 designated predicate offences under the FATF Standards, which was complemented by a threat analysis of illegal MVTS/ Hawala/Hundi and cash smuggling. In total 23 ML threats were rated; 7 ML threats were rated high for Illicit Trafficking in Narcotic Drugs, Corruption and Bribery, Smuggling, Cash Smuggling, Tax Crimes, Illegal MVTS, Terrorism/TF; 9 as medium-high for Organized Crime, Human Trafficking, Arm Trafficking, Robbery, Market Manipulation, Cybercrime, Fraud and forgery, Kidnapping, Extortion; and 5 as medium for Sexual Exploitation, Trafficking of Good, Counterfeiting Currency, Piracy of Products, Murder; and 2 as medium low for Environmental Crime and Marine Piracy

Which financial services sectors were assessed to have the highest inherent risks?

The national inherent vulnerability assessment consisted of an assessment of inherent ML/TF vulnerabilities of 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 financial sector of Pakistan consists of banks, non-bank finance companies (NBFC) & modarbas, asset management companies & collective investment schemes (AMC & CISs), and other financial institutions including exchange companies (ECs), development finance institutions (DFIs), the Central Directorate of National Savings (CDNS), and the Pakistan Post Office, brokers and investment advisors, and insurance companies. The DNFBP sector comprises real estate dealers, dealers in precious metals and stones (mostly jewelers), auditors and accountants, lawyers and notaries. Lawyers engage in company service providers (CSP) activities but there is no separate category of CSPs in Pakistan. Trust services are not offered by any specialized service providers in Pakistan; however, for the purpose of establishment of trusts, services of lawyers may be obtained.

The inherent ML/TF vulnerabilities have been evaluated for various sectors, both financial and non-financial. The inherent ML/TF vulnerabilities are identified for 17 economic and financial sectors taking into consideration their customers, products and geographical locations. The assessment indicates;

- 8 sectors as highly vulnerable i.e., Banking, MFBs, Exchange Companies (EC), EC-B category, Real Estate Dealers, Hawala/Hundi, CDNS, Pakistan Post;
- 5 sectors as medium high i.e., , Lawyers & Notaries, Securities, AMCs & CISs, Dealers in Precious Metals, NBFCs & Modaraba; life insurance assessed and ,
- 2 sectors as Medium i.e. Auditors and Accountants
- 2 sectors as low i.e., Non-life insurance and Development Financial Institution (DFIs).

Why is this assessment important and what should I do with this information?

Financial institutions and designated non-financial businesses and persons (including non-profits) are expected to (i) understand the nature and level of the money laundering and terrorist financing risks which they face and (ii) apply AML/CTF policies and procedures to mitigate and monitor these risks.
The findings from the NRA provide a useful foundation upon which both the SECP and regulated financial institutions can effectively implement their risk-based AML/ATF frameworks. The SECP uses a risk-based supervisory framework in undertaking its AML/CTF mandate.

Where can I find the SECP contact person for my sector?

- For AML/TF screening related queries, please email aml.dept@secp.gov.pk
- For insurance related queries, please email ins.aml.dept@secp.gov.pk
- For AMCs/NBFCs/Modarabas related queries, please email scd.aml.dept@secp.gov.pk
- For investment related queries, please email smd.aml.dept@secp.gov.pk