

Securities & Exchange Commission of Pakistan

**Anti-Money Laundering/Counter-Terrorism Financing
Measures
for**

**Non-Profit Organizations
and
Registered Intermediaries**



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- ▶ **Financial Action Task Force – An Introduction**
- ▶ **FATF Recommendation 8 (Non-Profit Organizations)**
- ▶ **AML/CFT Regulatory Framework for NPOs**
 - Associations not for profit under Companies Act, 2017
 - Associations with Charitable and not for profit Objects Regulations, 2018
 - AML/CFT Guidelines for NPOs– Applicability and Objective
 - Terrorist Financing Process
- ▶ **National Terrorist Financing Risk Assessment**
- ▶ **AML/CFT Regulatory Measures for Intermediaries**
- ▶ **FATF Recommendation 22 & 23 (DNFBPs/Intermediaries)**



Financial Action Task Force (FATF)



- FATF was established in Paris (1989) by G-7 Summit to combat Money Laundering ('ML')
- Countering Financing of Terrorism ('CFT') mandate was added to the organization after September 11, 2001 attack on the United States
- FATF's Functions and Tasks:
 - a) Identify Money Laundering and Terrorist Financing (ML/TF) threats to the integrity of the financial system;
 - b) Develop and refine international standards for combating ML/TF;
 - c) Assess and monitor its Members through peer reviews;
 - d) Engage with high-risk jurisdictions in their national regimes;
 - e) Assist jurisdictions in implementing United Nations' Security Council's Resolutions

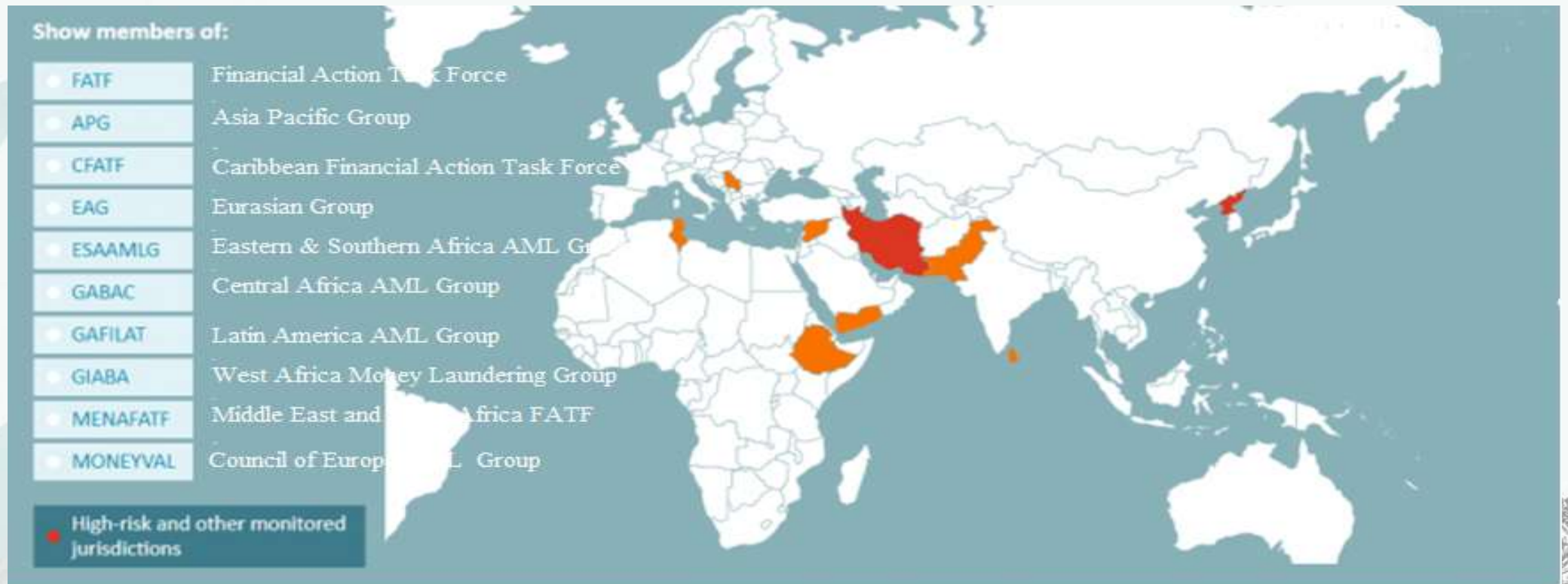


FATF Membership:

- 37 Members
- 9 Associate Members- *FATF-Style Regional Bodies*
- 23 Observer Organizations (*Including WB, IOSCO, IAIS*)

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- The UNSC requires all Member States to implement FATF's AML/CFT Recommendations.
- FATF Recommendations are globally recognized standards for AML/CFT. FATF promotes adoption and monitors implementation of these Recommendations.
- Pakistan is a member of APG- a FATF Styled Regional Body ('FSRB') and is required to adopt FATF standards as per membership obligations and also to comply with the UN Resolution.
- The SECP is actively pursuing implementation of AML/CFT regime in its regulated sectors.



THE WORLD BANK



Asia/Pacific Group
on Money Laundering

ASIA/PACIFIC GROUP ON MONEY
LAUNDERING

PAKISTAN ME2

Mutual Evaluation Report



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United Nations Security Council Resolution (UNSCR) 1267

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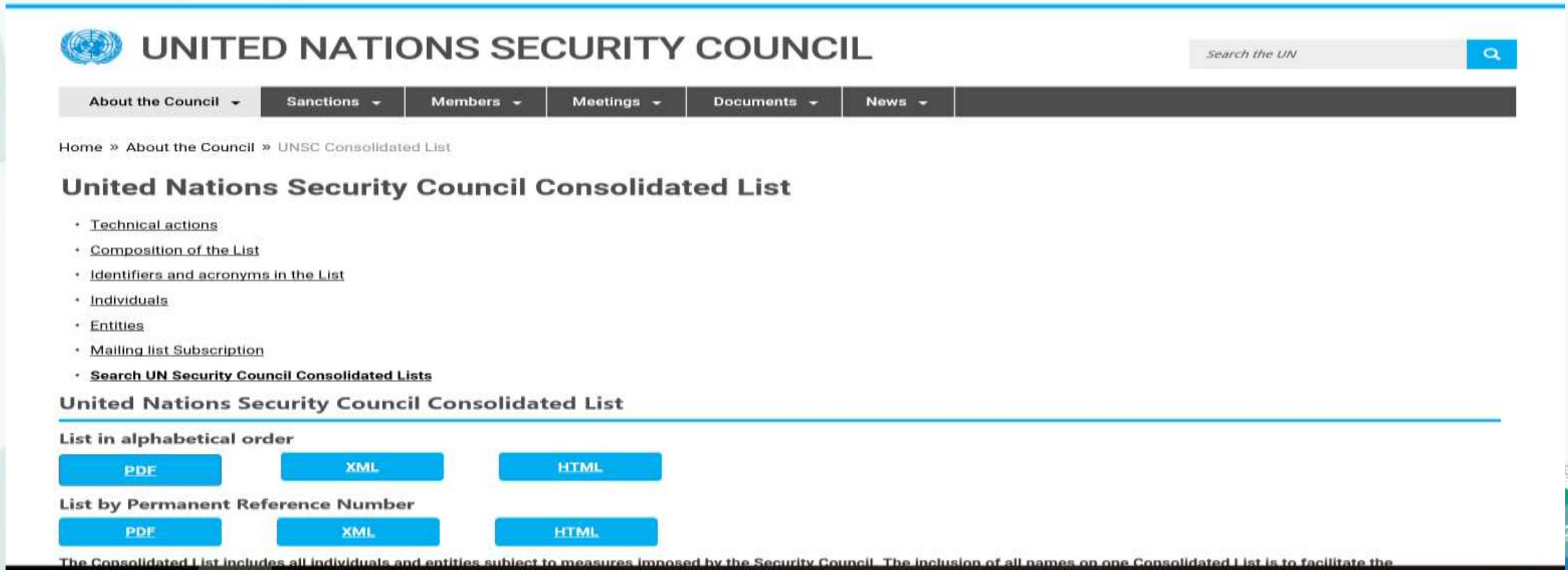
- The United Nations sanctions regime against designated persons and organizations was first established by Resolution UNSCR 1267 (1999) by imposing a number of measures against Al-Qaida associated individuals and entities.
- This sanctions regime has further been strengthened through a number of subsequent resolutions.
- The measures required to be implemented by states in accordance with these resolutions include asset freeze, travel ban and arms embargo in respect of individuals designated by the UN Sanctions Committee.
- The resolutions further provide procedures for listing and de-listing of individuals, access to funds for basic and extraordinary expenses, protection of rights of third parties, amongst other issues.



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United Nations Security Council Resolution (UNSCR) 1267

- Consolidated List of Designated Individuals and Entities
(<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>)



The screenshot displays the official website for the United Nations Security Council Consolidated List. At the top, the United Nations logo is positioned to the left of the text "UNITED NATIONS SECURITY COUNCIL". To the right is a search bar with the placeholder text "Search the UN" and a magnifying glass icon. Below this is a horizontal navigation menu with dark grey buttons labeled "About the Council", "Sanctions", "Members", "Meetings", "Documents", and "News", each with a small downward arrow. The main content area begins with a breadcrumb trail: "Home » About the Council » UNSC Consolidated List". This is followed by the title "United Nations Security Council Consolidated List". A list of links is provided, including "Technical actions", "Composition of the List", "Identifiers and acronyms in the List", "Individuals", "Entities", "Mailing list Subscription", and "Search UN Security Council Consolidated Lists". Below the links, the title "United Nations Security Council Consolidated List" is repeated. Underneath, the text "List in alphabetical order" is shown. There are three blue buttons labeled "PDF", "XML", and "HTML". Below these, the text "List by Permanent Reference Number" is shown, followed by another set of three blue buttons labeled "PDF", "XML", and "HTML". At the bottom of the page, a line of text states: "The Consolidated List includes all individuals and entities subject to measures imposed by the Security Council. The inclusion of all names on one Consolidated List is to facilitate the".

United Nations Security Council Resolution (UNSCR) 1373: 20/2019

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- In the wake of September 11, 2001 terrorist attacks, United Nations Security Council further reinforced its sanctions regime by adopting UNSCR 1373 (2001), which requires countries, *inter alia*, to put into place mechanisms enabling the designation of terrorist organizations and persons associated with terrorism **at the national level** and the consequent application of immediate sanctions.
- In order to combat terrorist financing and fulfill its obligations under UNSCR 1373, Pakistan relies on a number of legal provisions contained in the Anti-Terrorism Act, 1997. These provisions vary from proscription of organizations and persons, freezing and seizure of assets, etc., to criminalizing different forms of terrorist financing and other required measures.



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United Nations Security Council Resolution (UNSCR) 1373:

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Lists of Proscribed Organizations (<https://nacta.gov.pk/proscribed-organizations/>)



GOVERNMENT OF PAKISTAN NATIONAL COUNTER TERRORISM AUTHORITY ISLAMABAD

<https://www.nacta.gov.pk>

70 Organizations Proscribed by Ministry of Interior u/s 11-B-(1) r/w Schedule-I, ATA 1997

S#	Name of Organization	Date of Notification	S#	Name of Organization	Date of Notification
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United Nations Security Council Resolution (UNSCR) 1373:

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Lists of Proscribed Persons <https://nacta.gov.pk/proscribed-persons/>

NACTA

Log in



NACTA – Schedule-IV(Proscribed Persons) Data



Proscribed Persons List

Q Search

Page 1 of 1

ID	Name	Father Name	CNIC	Province	District
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AML/CFT Assessment of NPOs and Registered Intermediaries

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	NPOs	Designated Non-Financial Businesses & Professions (Intermediaries)
Relevant FATF Recommendation (Technical Assessment)	Rec. 8	Rec. 22 & 23
Relevant FATF Immediate Outcome (Effectiveness)	IO 10	IO 3
Number of licensed entities	~650	~200



FATF Recommendation 8: Non-Profit Organizations

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Review and assess NPO
sector and regulation

1. Identify & review

2. Outreach

3. Regulation & supervision

4. Effective information
gathering and investigation

5. International
cooperation



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AML/CFT Regulatory Measures for Non-Profit Organizations



Sectoral Profile of NPOs

Sr. No.	Class of NPO
1.	Section 42 companies
2.	NPOs registered under provincial laws
3.	International NGOs
4.	Unregistered NPOs/Charities



- **The Companies Act 2017**
 - Association with Charitable and not for Profit Objects Regulations, 2018
 - AML/CFT Guidelines for NPOs
- **The Societies Registration Act, 1860**
- **Voluntary Social Welfare Agencies (Registration and Control Ordinance), 1961**
 - The Voluntary Social Welfare Agencies (Registration and Control) Rules, 1962
 - SOPs 2017 for Punjab VSWAs/Guidelines for Sindh VSWAs
- **Model Charity Law**
- **Punjab Charities Act, 2018**
- **Policy for Regulation of INGOs in Pakistan, 2015**



- ▶ **Companies Act, 2017:**
 - Section 42 (licensing and revocation)
 - Section 43 (post-revocation proceedings)

- ▶ **Associations with Charitable and Not for Profit Objects Regulations, 2018 covers:**
 - Procedure for grant and renewal of license
 - Incorporation of association
 - Conditions applicable on section 42 companies
 - Fit and proper criteria for promoters, members, directors and CEO
 - Procedure post-revocation of license

- ▶ **AML/CFT Guidelines for NPOs, 2018**

Section 42 of Companies Act, 2017:

- ▶ Associations not for profit formed for promoting commerce, art, science, religion, health, education, research, sports, environmental protection, social welfare, charity or any other useful object
- ▶ The license granted under section 42 of the Companies Act, 2017 may be revoked by the Commission by an order in writing.
 - List of revoked licenses is periodically updated on SECP's website for reference by the banks for the purpose of freezing of bank accounts of such companies
- ▶ Among other grounds for revocation, clause (g) (iii) provides as under:

*“(g) the company is **run and managed by persons who are involved in terrorist financing or money laundering**; “*

Section 43 of Companies Act, 2017:

- ▶ Specifies that a company whose license has been revoked by SECP shall
 - Stop all its activities except the recovery of money owed to it
 - Not solicit or receive donations from any source
 - Transfer all its assets after satisfaction of all debts and liabilities to another section 42 company, preferably having similar or identical objects

- ▶ The members and officers of any section 42 company whose license has been revoked, or any of their family members, shall not be eligible to hold office in the company to whom the assets have been transferred for a period of five years



Associations with Charitable and Not for Profit Objects Regulations, 2018

(ANFP Regulations, 2018)



Introduction

- ▶ Regulations issued by SECP on 7th June 2018 to specify the requirements of licensing, registration and governance of associations not for profit under section 42 of the Companies Act, 2017
- ▶ Introduced various measures to mitigate the risks of money laundering and terrorist financing in respect of section 42 companies
- ▶ Existing associations required to immediately comply with all the requirements of the regulations.



ANFP Regulations, 2018

Salient Features

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- ▶ The Regulations, *inter-alia*, specifies procedures for:
 - **grant of licence** to associations with charitable and not for profit objectives,
 - **incorporation** of association as a public limited company,
 - **conditions** applicable to such companies with regard to their business operations
 - **fit and proper criteria** for the promoters, members, directors & CEO
 - **enhanced due diligence** of such companies and their members/directors in respect of money laundering/terrorist financing (ML/TF) risks

Salient Features

- **mechanism for renewal of licenses**, which is required to be renewed after a period of three years, subject to necessary due diligence
- **provisions for revocation of license** and transfer of assets after revocation of license to another section 42 company in the event of its winding up, as required under section 43.
- ▶ The regulations require that the company licensed under section 42 of the Act would utilise all its money, property, donations or income or any part thereof solely for promoting its objectives.

In terms of section 42 of the Act, such companies are strictly prohibited to distribute dividends, and their objects and activities shall not be against the laws, public order, security, sovereignty, and national interests of Pakistan.

ML/TF Risk Mitigation Measures

- ▶ Various measures to be undertaken by associations not for profit to mitigate the ML/TF risks, in line with the FATF Recommendation and the international best practices, including the following:
 - **Compliance with** the conditions prescribed in relation to the anti-money laundering and countering the financing of terrorism under the **applicable laws**;
 - Maintenance of a system of **sound internal control** to ensure safeguarding of the company's charitable assets.



ML/TF Risk Mitigation Measures

- Ensuring that donors, beneficiaries, promoters, members, directors, stakeholders, employees, volunteers or other people associated with the company or its associated company are not listed as a **designated individual or entity** which is subject to targeted financial sanctions;
- Ensuring that the promoters, members, directors and chief executive comply with **the fit and proper criteria** which, *inter-alia*, requires that:
 - none of such persons shall be associated with any money laundering or terrorist financing activities, illegal banking business, illegal deposit taking or financial dealings, and
 - understand the company's unique risks including the money laundering and terrorism financing risks in the locations where the company operates;



ML/TF Risk Mitigation Measures

- Maintaining the **register of donors and donations as well as the register of donees and beneficiaries** of the funds disbursed, etc., containing detailed information about the sources and usage of funds, particulars of donors and donees, purpose of donation, mode of payments, etc.
- **No portion of the company's income or profits would be distributed** by way of dividend to the members of the company or their close relatives.
- At the time of renewal of license, a **certification from the auditor** confirming that funds/donations have been received through proper banking channels.

ML/TF Risk Mitigation Measures

- Providing **clear Credit Information Report** in respect of members/directors who shall not have any overdue amount from the banks and financial institutions
- Providing **separate disclosures of local and foreign funds**, grants, contributions, etc. in the financial statements of such companies;
- Submitting a **monthly report to the Commission** in respect of amount received from local and foreign sources equivalent to or more than five million rupees;
- Specifying requirement of obtaining **security clearance in respect of foreign funding or foreign promoters, directors and CEO.**

AML/CFT Guidelines for NPOs 2018 - Applicability and Objectives

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- ▶ Primarily applicable upon associations not for profit licensed under section 42 of the Companies Act, 2017
- ▶ May also be adopted by NPOs registered or being regulated under other laws, to the extent these are not in conflict with their enabling laws
- ▶ Aimed to assist NPOs in developing a risk based approach and to strengthen their internal controls to guard against funds manipulation or exploitation of non- profit charitable activity into terrorist activity or their support networks.



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► Reasons for Vulnerability of NPO Sector

- NPOs enjoy high public trust and confidence
- Have large outreach, and global presence including operating in conflict zones, resulting in interaction with large number of people
- Are easy to be formed under most of the laws in vogue
- By and large, are single person driven, without collective thought process, esp. in small NPOs
- Exhibit complex financial operations arising from multiple currencies, multiple donors, etc.
- Income and expenditure streams unpredictable, STs harder to identify,
- Have varying level of regulations in different parts of the world



► Ways of NPO Abuse

- **NPO Fund** – Fundraising in the name of NPO and use for terrorism by fundraisers with or without its knowledge. Funds can be diverted to terrorist outfits while transmission to eligible recipients.
- **Use of NPO assets** – NPOs' transport facilities may be used to transfer people, cash, weapons, etc., communication network can be exploited by insiders, funds manipulated at the point of delivery to support terrorism, without the knowledge of sponsors/trustees
- **Abuse from within NPO** – Skimming off donations by those managing it, volunteers working in conflict zones are susceptible to collude with terrorists
- **Fake NPOs** – NPOs deliberately formed for terrorist activities under the guise of charitable activities



Terrorist Financing Process



Terrorist Financing Process

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- ▶ Terrorism financing is the financial support, in any form, of terrorism or of those who encourage, plan or engage in terrorism.
- ▶ Terrorism financing may vary in scale and sophistication:
 - Organised fundraising by domestic entities which are part of a larger, organised international network,
 - Fundraising by small, loosely organised and self-directed groups,
 - Recruitment of foreign terrorist fighters



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Raising Funds to Finance Terrorism:

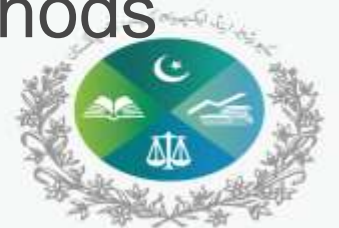
- NPOs can be used to disguise international funds transfers to high-risk regions.
- Funds raised for overseas humanitarian aid can be commingled with funds raised specifically to finance terrorism.
- Funds sent overseas by charities with legitimate intentions can also be intercepted when they reach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



Transferring Funds to Finance Terrorism:

► Key transmission channels:

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



Utilizing Funds:

- 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.
- Donations collected by NPOs for assisting families of victims of conflicts may be expropriated in certain cases by terrorist elements



► Adoption of Best Practices

- NPOs must undertake annual training of employees on AML/CFT issues, challenges and strategy, highlighting the repercussions of acting against national interests or security breaches
- NPOs must not establish or maintain links with proscribed individuals or organizations
- NPOs must not undertake political activities or surveys not related to their mandate

► Good Governance

- Identification of every board member, whether executive or non-executive and their screening against the UNSCRs lists
- AML/CFT policy to be approved by BOD, made public, and reviewed annually
- Commitment from the top required to develop and enforce the policy
- Considering a risk-based approach, NPOs may consider to have an independent oversight committee for operational, financial and risk oversight, including AML/CFT risks





Know your donor



Know your beneficiaries



Know your partner



► Know Your Donors

- Donors shall not be on the list of designated or proscribed individuals/entities
- Complete ID particulars of significant donors to be maintained
- NPO to conduct due diligence, through public search of information, regarding credentials of the donors, their key employees and senior management

► Know Your Beneficiaries/Partners

- Complete identification particulars of beneficiaries receiving contribution to be ascertained
- Complete organizational/corporate profile in case beneficiary is an entity
- In case of partnership arrangements, partners to ascertain beneficiaries' information
- Partner organization shall not be from any such organization whose license has been revoked by SECP or registration cancelled by the relevant authorities

► Know Your Employees

- Complete employment records of employees to be maintained by each NPO, whether local or foreign nationals, including permanent address, present address, copies of CNIC/passports, nationality, personal email ID, NTN, phone/mobile number, past experience, etc.

► Ensuring Transparency and Financial Accountability

- Solicitation of donations to clearly state the purpose of seeking funds, record of solicitation to be maintained and provided to Commission on demand
- Funds to be received through banking channels, dedicated bank account for receipts and separate accounts for the projects, joint signatories for operating bank accounts, identity of depositors and withdrawers to be ascertained, complete particulars of grantees maintained
- STR to be issued if transaction appear unusual/suspicious, irrespective of amount involved, and report to FMU if TF activity suspected
- Funds to be utilized in accordance with the approved objects as per MOA
- Foreign funds/economic assistance to be utilized on agreed areas of public welfare, etc.
- Internal Audit mechanism to be established to help identify risks, improve internal control and governance



Donations - Substantial donations or series of small donations from unidentified sources, foreign donations from sources subject to lax regulations, utilization conditional to partnership with suspected NPOs, favorable treatment to donor required, donations through unknown party, anonymous donors

Beneficiaries - Large number of small beneficiaries, beneficiaries receiving funds from multiple NPOs simultaneously, beneficiaries added to aid list after giving kickbacks to NPO, lists containing multiple manual corrections, intermediaries demanding payments for recommending beneficiaries, suspicious identity documents, identical characteristics or addresses, rounding up of beneficiary numbers



Partners - Project proposal is vague, project involve delegating work to unknown entities, partners not accessible at given contact numbers, unusual level of privacy/secretcy required, project delivery not demonstrable, auditor of choice, etc.

Employees - Living beyond means, appearing at unusual times, carrying out unassigned or non-delegated tasks, high staffing costs

Monitoring of Projects - Tampered invoices/paperwork, inventory shortages, procurement/tendering irregularities, higher cost of goods than planned, missing key documents, late or early invoicing, repeated system crashes, unnumbered or non-chronological records, late bank transfers, non-reconciliation of bank and accounting records, supplier payments in cash through employees, non-division of payment work



Illustrative Characteristics of High-Risk NPOs

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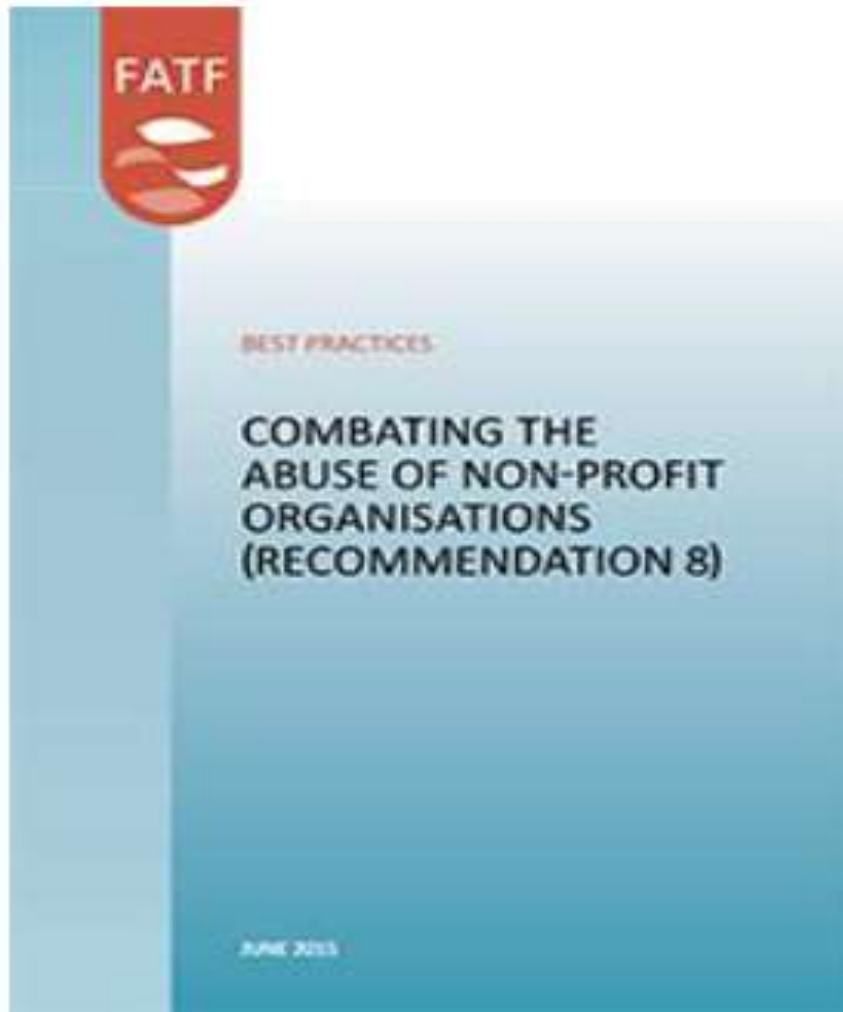
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Risk Parameter	Risk characteristics
Zone	Operating in conflict ridden and/or border zones including, but not limited to tribal agencies/ merged areas, sensitive areas of any province, and areas/regions that faced terrorist attacks in the past. However, this does not preclude the possibility of targeting of stable areas by the terrorists for soliciting financial support.
Activity	Primarily working in Health, Education, Social services or social welfare, and Housing
Legal status/level of formality	<ul style="list-style-type: none"> Unincorporated NPOs (High likelihood, low consequence) Incorporated/registered NPOs meeting criteria I and II (Low likelihood, high consequence)
Revenue/quantum of donations	Large size NPOs with annual grants/income/subsidies/donations of Rs. 10 million and above
Funding Source and destination	<ul style="list-style-type: none"> Foreign funding from sources not widely known Collection in the form of street donations, donation boxes, from anonymous donors, etc. Less supervisory control over the point of delivery
Geo-political factors	<ul style="list-style-type: none"> Having Nationals from unfriendly countries as sponsors of NPOs
Legal Compliance	<ul style="list-style-type: none"> Serious non-compliance by registered NPOs Involvement of sponsors/directors/ officers of NPOs in unlawful activities through other companies or business entities
Financial misconduct by NPOs or sponsors/ directors	<ul style="list-style-type: none"> 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

Setting up a Risk Management Function in your NPO^{3/20/2019}

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- ▶ **Assign responsibility for Risk Management** – Led by BOD or governing body, responsibility may be assigned to a senior management officer
- ▶ **Develop a Risk Management Policy** – proportionate to the size of charity and the services delivered
- ▶ **Communicate the Policy** - to every employee, consider publishing it within the organization in different modes to maximize exposure
- ▶ **Provide necessary training and guidance** – Training necessary for key employees and senior managers who can further sensitize their colleagues



National Terrorist Financing Risk Assessment



National Terrorist Financing Risk Assessment

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- ▶ First NRA on AML/CFT conducted in 2015-17
- ▶ NEC decided in August 2018 to review afresh NRA for TF
- ▶ NACTA and FIA assigned the task to conduct assessment in collaboration with all the stakeholders
- ▶ NACTA formed a Working Group to determine overall TF threats, vulnerabilities and consequential risks faced by the country
- ▶ Directions, Channels and Sources of TF highlighted in the report
- ▶ Overall TF threat of the country rated as “Medium”

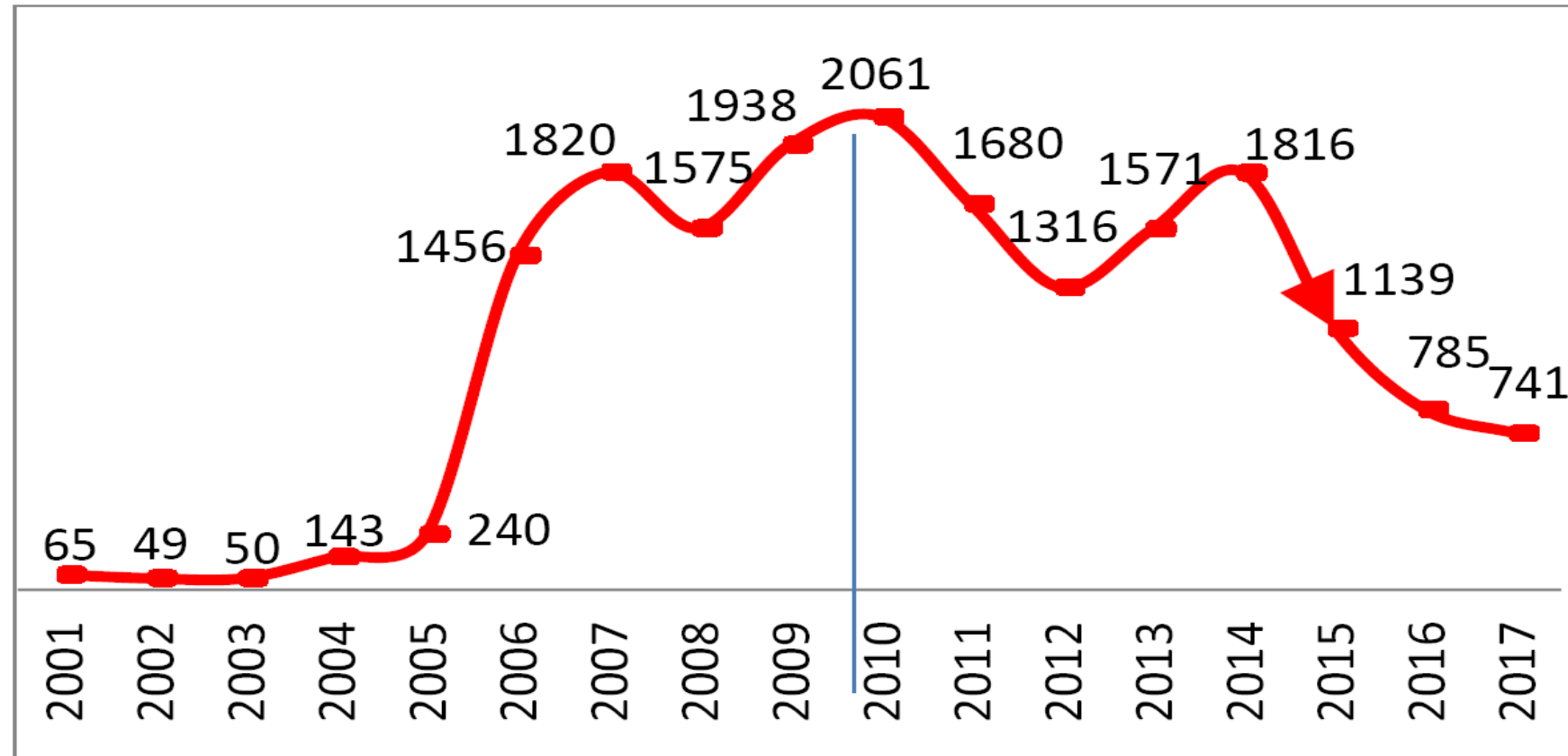


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National Terrorist Financing Risk Assessment

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(Number of Terrorist Attacks since 2001)



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► Direction of Funds

- The funds for terrorism and terrorist organizations may be generated both in home and foreign jurisdictions for operations within and outside the country. The funds may even pass through the country by using it as a point of transit.

► Sources of Funds

- These include proceeds generated from cash smuggling, kidnapping for ransom, narco-trafficking, smuggling of natural resources, extortion, dacoity/robbery and donations received/collected by unregistered NPOs

► Channels of Funds

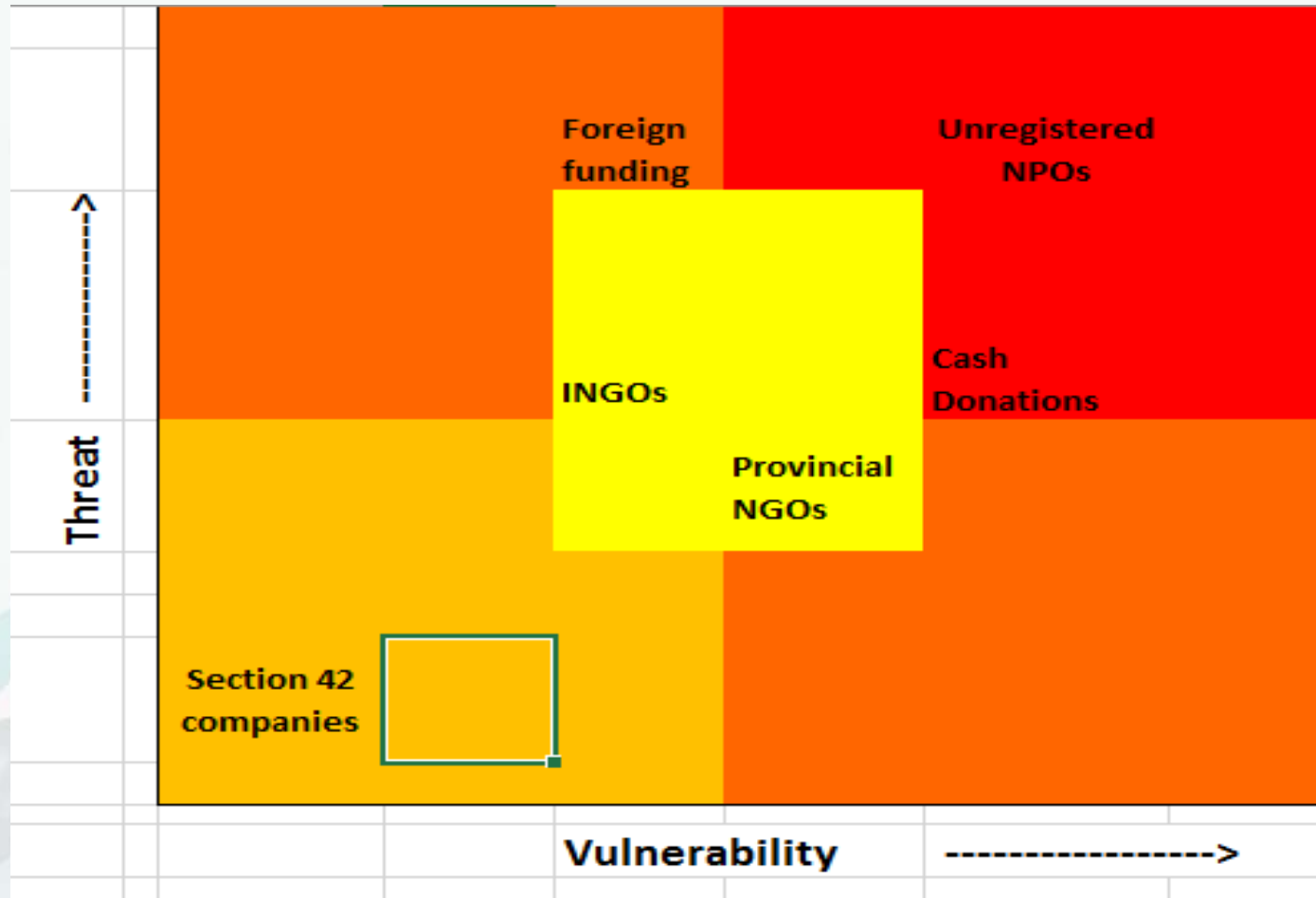
- The channels which have been specifically identified for terrorist financing purposes include Illegal Money or Value Transfer Services (MVTs) popularly called Hundi/Hawala, Non-Profit Organizations, Banking sector, virtual currencies, branchless/mobile banking, and other financial institutions, etc.

Terrorist Financing Risk Assessment

Sr. No.	Class of NPO	Risk Rating
1.	Section 42 Companies	Low
2.	NPOs regulated under provincial laws	Medium Low
3.	International NGOs	Medium Low
4.	Unregistered Charities	High



ML/TF Risk Heat Map for NPOs



► Policy Measures:

- National Action Plan
- Proscription of Organizations under ATA 1997
- Merger of FATA into KPK

► Legislative Measures

- Anti-Money Laundering Act, 2010
- Anti-Terrorism Act, 1997
- NACTA Act, 2013
- AML/CFT Regulations of SBP and SECP
- Guidelines on AML/CFT Regulations, 2018
- Associations with Charitable and not for Profit Objects Regulations, 2018
- AML/CFT Guidelines for NPOs
- SRO 31(I)/2018 dated 12th January, 2018

▶ Administrative Measures:

- MOU between SECP and NACTA on information sharing and coordination
- Freezing of Accounts of delicensed NPOs through arrangements between SECP and SBP
- Formation of Task Force on Terrorist Finance by NACTA with 27 stakeholders
- Awareness sessions to sensitize NPOs with AML/CFT risks
 - Conducted by SECP for section 42 companies
 - Conducted jointly by PCP, NACTA and SECP for all the NPOs



- ▶ Centralized database of all the NPOs to be developed which can be accessed by the relevant stakeholders for intelligence sharing, including EAD, MOI, SECP, MOSW, etc.
- ▶ Provinces to expedite adoption of Model NPO Law developed by NACTA.
- ▶ Risk based monitoring of NPOs to be carried out on regular basis
- ▶ Self-regulation of NPOs needs to be encouraged through adoption of best practices and good governance measures
- ▶ Outreach programs may be conducted for the purpose.



AML/CFT Regulatory Measures for Intermediaries



▶ Section 2. Definitions-

“Non-financial businesses and professions” means real estate agents, jewelers, dealers in precious metals *and* precious stones, lawyers, notaries and other legal professionals, accountants, **trust and company service providers** and such other non-financial businesses and professions as may be notified by the Federal Government;

▶ Section 7. Procedure and manner of furnishing information by reporting entities.

(1) Every reporting entity shall file with FMU, to the extent and in the manner prescribed by the FMU, Report of Suspicious Transaction conducted or attempted by, at or through such reporting entity, if it knows, suspects or has reason to suspect that the transaction or a pattern of transactions of which the transaction is a part,-

(a) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise proceeds of crime;

.....

(7) Every reporting entity shall, in accordance with the regulations issued by relevant regulatory authority of that reporting entity, conduct customer due diligence and maintain record of transactions, account files and documents obtained through such diligence.

- ▶ Regulation 16 requires intermediaries to:
 - ensure that while acting as company formation agent or providing other services, their clients are not involved in any type of suspicious activities or transactions implying money laundering or terrorist financing activities in line with the relevant Financial Action Task Force (FATF) recommendations;
 - ensure that the client is not placed on the United Nations Security Council (UNSC) list of designated persons or entities linked to terrorist financing or against whom a ban, sanction or embargo subsists, as available on its website;”



Recommendation 22: DNFBPs – Customer Due Diligence

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- ▶ FATF recommendation 22 specifies that the requirements for undertaking customer due diligence and record keeping apply to Designated Non-Finance Businesses and Professions (DNFBPs), which also includes Trusts and Company Service Providers (TCSPs). The aforesaid requirements for undertaking CDD and record keeping have been specified in FATF recommendations 10, 11, 12, 15 and 17.
- ▶ Paragraph (e) of the recommendation specifies that for TCSPs, the requirements would apply when they apply for or carry out transactions for a client concerning, inter-alia:
 - acting as a formation agent of legal person, or
 - providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement



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Recommendation 22: DNFBPs – Customer Due Diligence

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- ▶ As stated above, the FATF Recommendations (through recommendation no. 22 “*DNFBPs: Customer Due Diligence*”) require inter-alia the customer (client) due diligence and record-keeping requirements set out in Recommendations 10, 11, 12, 15, and 17, apply to the DNFBPs, which are listed below:
 - Recommendation 10 - *The Customer due diligence*
 - Recommendation 11 - *Record keeping*
 - Recommendation 12 - *Politically exposed persons*
 - Recommendation 15 – *New Technologies*
 - Recommendation 17 – *Reliance on third parties*



Recommendation 22: DNFBPs – Customer Due Diligence

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- ▶ The CDD measures specified in recommendation 10 include, inter-alia, the following:
 - (a) Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information.
 - (b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner.
- ▶ For legal persons and arrangements this should include the ownership and control structure of the client.



Recommendation 23: DNFBPs – Other Measures

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- ▶ The requirements set out in Recommendations 18 to 21 apply to all designated non-financial businesses and professions, subject to the following qualifications:
 - (a) Lawyers, notaries, other independent legal professionals and accountants should be required to report suspicious transactions when, on behalf of or for a client, they engage in a financial transaction in relation to the activities described in paragraph (d) of Recommendation 22. Countries are strongly encouraged to extend the reporting requirement to the rest of the professional activities of accountants, including auditing.
 - (b) Dealers in precious metals and dealers in precious stones should be required to report suspicious transactions when they engage in any cash transaction with a customer equal to or above the applicable designated threshold.
 - (c) **Trust and company service providers should be required to report suspicious transactions for a client when, on behalf of or for a client, they engage in a transaction in relation to the activities referred to in paragraph (e) of Recommendation 22.**



- ▶ Recommendation 23 - ***DNFBPs: Other measures specifies that ***the*** requirements set out in Recommendations 18 to 21, as enlisted below, apply to all DNFBPs:***
 - Recommendation 18 - *Internal controls and foreign branches and subsidiaries*
 - Recommendation 19 - *Higher-risk countries*
 - Recommendation 20 - *Reporting of suspicious transactions*
 - Recommendation 21 – *Tipping-off and confidentiality*



Customer Due Diligence/Enhanced Due Diligence

An intermediary needs to undertake enhanced customer due diligence measures and enhanced on-going monitoring in the following circumstances:

- (a) in respect of all complex or unusually large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose;
- (b) when it proposes to have a business relationship, or has established a business relationship, with any person from or in countries or territories outside the country, known to have inadequate AML/CFT measures;
- (c) for other categories of customers or other transactions which it considers may present a high risk of money laundering or the financing of terrorism;



(d) in respect of a business relationship or a transaction with a customer if the customer is from or in a country or territory for which the FATF has called for countermeasures including enhanced customer due diligence measures to be performed;

(e) for dealing with customers who are not physically present for identification purposes;

(f) where it proposes to have a business relationship with a foreign politically exposed person; and

▶ Intermediaries shall consider the FATF's website (link is provided below), of high risk and non-cooperative countries as well as for globally and locally designated/proscribed persons and organizations

- <http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions/>
- <http://www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.pdf>
- <https://nacta.gov.pk/proscribed-organizations/>,
- <https://nacta.gov.pk/proscribed-persons/>
- <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>



