

Pakistan Strategy

Pakistan’s exit from grey list to improve investor sentiment

Event

- FATF acknowledges Pakistan’s significant progress in meeting AML/CFT deficiencies and has decided that Pakistan is no longer subject to its increased monitoring list with immediate effect.

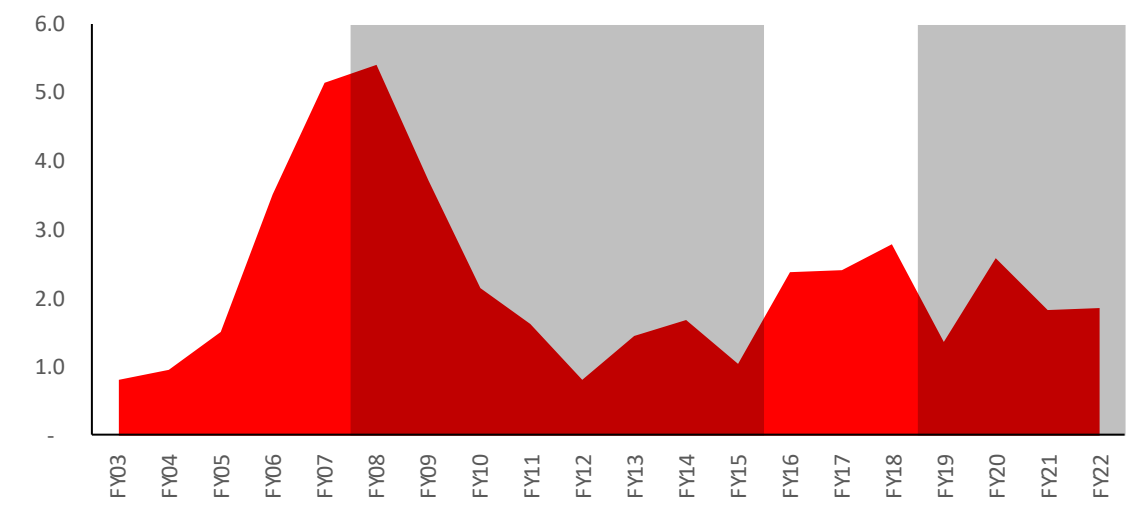
Impact

- The Financial Action Task Force (FATF) has decided by consensus that Pakistan has completed all substantial, technical and procedural requirements of both 2018 and 2021 Action Plans, encompassing 34 action items in total. Subsequently, Pakistan has been take out of the list of jurisdictions under increased monitoring with immediate effect.
- FATF acknowledged that deficiencies identified by FATF in June 2021 were completed in advance of the deadlines.
- However, Pakistan would continue to work with APG to further improve its AML/CFT system.
- The decision was taken during the FATF plenary meeting held in Paris, from October 20-21’22.
- Pakistan had made enormous progress in the Anti Money Laundering (AML) and Counter Financing of Terrorism (CFT) over the course of fulfilling requirements of both Action Plans. Despite many challenges, including COVID-19 pandemic, Pakistan continued the reform trajectory and sustained the high level political commitment of aligning its domestic AML/CFT regime with international best practices.

Outlook

- Removal of Pakistan from FATF grey list would provide reputational boost to the country, improve investor sentiments and allows to attract Foreign Direct Investment (FDI) that has been shrinking over the years. However, materialization of FDI inflows would take time given the uncertain political environment amid tightening of interest rates by FED which has led to capital flight from emerging markets.

Fig 1: FDI (US\$ bn) fell when Pakistan was in FATF Increased Monitoring or High Risk list from Feb'08-Feb'15 and Jun'18-Oct'22



Source: Foundation Research, October 2022

Table 1: EXECUTIVE SUMMARY**Effectiveness and Technical Compliance Ratings***Technical compliance ratings (C – compliant, LC – largely compliant, PC – partially compliant, NC – non-compliant)*

R.1 - Assessing risk & applying risk based approach	R.2 - National cooperation and coordination	R.3 - Money laundering offence	R.4 - Confiscation & provisional measures	R.5 - Terrorist financing offence	R.6 - Targeted financial sanctions – terrorism & terrorist financing
LC	LC	LC	LC	LC	LC
R.7 - Targeted financial sanctions – proliferation	R.8 - Non-profit organisations	R.9 - Financial institution secrecy laws	R.10 - Customer due diligence	R.11 - Record keeping	R.12 - Politically exposed persons
LC	LC	C	C	LC	LC
R.13 - Correspondent banking	R.14 - Money or value transfer services	R.15 - New technologies	R.16 - Wire transfers	R.17 - Reliance on third parties	R.18 - Internal controls and foreign branches and subsidiaries
LC	C	PC	LC	LC	LC
R.19 - Higher-risk countries	R.20 - Reporting of suspicious transactions	R.21 - Tipping-off and confidentiality	R.22 - DNFBBPs: Customer due diligence	R.23 - DNFBBPs: Other measures	R.24 - Transparency & BO of legal persons
C	C	C	LC	LC	LC
R.25 - Transparency & BO of legal arrangements	R.26 - Regulation and supervision of financial institutions	R.27 - Powers of supervision	R.28 - Regulation and supervision of DNFBBPs	R.29 - Financial intelligence units	R.30 - Responsibilities of law enforcement and investigative authorities
LC	LC	C	LC	C	LC
R.31 - Powers of law enforcement and investigative authorities	R.32 - Cash couriers	R.33 - Statistics	R.34 - Guidance and feedback	R.35 - Sanctions	R.36 - International instruments
LC	LC	C	LC	LC	LC
R.37 - Mutual legal assistance	R.38 - Mutual legal assistance: freezing and confiscation	R.39 - Extradition	R.40 - Other forms of international cooperation		
LC	PC	LC	LC		

Source: APG, Foundation Securities, October 2022

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.