

## PAKISTAN EXITS THE FATF INCREASED MONITORING LIST - WHAT'S NEXT?

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



**On October 21, 2022, President of the FATF Raja Kumar announced Pakistan's removal from the financial watchdog's "Increased Monitoring List" (IML) also known as the *grey list* during a press conference.<sup>1</sup> Pakistan was one of the two countries that were removed from the FATF's IML (along with Nicaragua) while 23 other countries still remain in the list, including Jordan, Turkiye and the United Arab Emirates (UAE).**

Pakistan's recent exit from the FATF IML comes after 4 years when the country was placed in the grey list on June 28, 2018 for failing to effectively act against terror financing on its soil.<sup>2</sup>

Pakistan first came on the FATF's radar after activities of the proscribed Tehrik-i-Taliban Pakistan (TTP) surged following the outfit's formation in December of 2007. There was a substantial increase in terrorist activities in the country after that.<sup>3</sup> Soon after, Pakistan was placed under the grey list on February 28, 2008.

<sup>1</sup> Tahir Sherani, "FATF removes Pakistan from grey list after 4 years", DAWN, published on October 21, 2022.

<https://www.dawn.com/news/1716183>

<sup>2</sup> "Pakistan passes 26-point action plan to comply with FATF", Pakistan Today, published June 27, 2018. <https://archive.pakistantoday.com.pk/2018/06/27/pakistan-passes-26-point-action-plan-to-comply-withfatf/>

<sup>3</sup> Muhammad Taimur Fahad Khan, "FATF's June 2022 Plenary Session And Pakistan's 'Grey List' Status", Issue Brief, Institute of Strategic Studies Islamabad (ISSI), published on June 29, 2022. [https://issi.org.pk/wp-content/uploads/2022/06/IB\\_Taimur\\_Jun\\_29\\_2022.pdf](https://issi.org.pk/wp-content/uploads/2022/06/IB_Taimur_Jun_29_2022.pdf)

From 2008, Pakistan had been in and out of the grey list. Once in 2012 before it was taken out in 2015 till the time Pakistan's placement in the FATF IML again in 2018.<sup>4</sup>

Now, Pakistan is out of the grey list after its leadership made a high level political commitment to address FATF's concerns. Pakistan effectively fulfilled all 34 Standards of the 2 Action Plans of 2018 and 2021.

On June 17, 2022, the 2nd FATF Plenary session for the year 2022 was held in Berlin and Pakistan's progress on the 2 Action Plans was reviewed. The review acknowledged the Action Plans' substantial and successful completion by Pakistan. However, Pakistan's exit from the grey list was dependent upon the green light of the FATF on-site inspection team that was instructed to visit Pakistan in the coming months to review the genuine implementation of Anti-Money Laundering (AML)/ Combating Financial Terrorism (CFT) reforms and regulations, their sustainability, along with the presence of the necessary political commitment for further improvement and continuity of these reforms in future.<sup>5</sup>

In line with this, a 15-member team of the FATF visited Pakistan on a 5-day visit from August 29, 2022 till September 02, 2022 and compiled its findings in this regard.<sup>6</sup> The findings of this report were then reviewed in the last plenary session for this year on October 18-21, 2022 in Paris.

In this Plenary of the FATF it was concluded that Pakistan had strengthened the effectiveness of its AML/CFT regime and addressed technical deficiencies to meet the commitments of its action plans. It appreciated Pakistan's efforts in addressing FATF's concerns regarding 2021's Action Plan well before the deadline and that Pakistan is no longer in the financial watchdog's increased monitoring process.<sup>7</sup>

However, the current exit from the IML does not mean that Pakistan is completely off the hook.

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4 Ibid.

5 Muhammad Taimur Fahad Khan, "FATF's June 2022 Plenary Session And Pakistan's 'Grey List' Status", Issue Brief, Institute of Strategic Studies Islamabad (ISSI), published on June 29, 2022.  
[https://issi.org.pk/wp-content/uploads/2022/06/IB\\_Taimur\\_Jun\\_29\\_2022.pdf](https://issi.org.pk/wp-content/uploads/2022/06/IB_Taimur_Jun_29_2022.pdf)

6 Kamran Yousaf, "FATF team completes onsite visit to decide Pakistan's fate", Express Tribune, published on September 03, 2022.  
<https://tribune.com.pk/story/2374628/fatf-team-completes-onsite-visit-to-decide-pakistans-fate>

7 "Outcomes FATF Plenary, 20-21 October 2022", Financial Action Task Force (FATF), accessed on October 20, 2022.  
<https://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-fatf-plenary-october-2022.html>

### ***What's next for Pakistan?***

Achieving FATF targets was by no means an easy feat. It was a “whole-of-nation” endeavour in which vital contributions were made by multiple ministries, departments and agencies at the Federal and Provincial levels.

The progress made by Pakistan, with regards to strengthening its domestic AML and CFT mechanisms, despite many challenges such as the COVID-19 pandemic along with the prevalent political and economic uncertainty, has helped the country to continue positively on a reform trajectory and align itself with international economic best practices.

This will positively contribute to improving national image, regain investors' trust and protect the national economic setup from being misused.

Nevertheless, the removal from the grey list, by no means, is a guarantee that it is going to be smooth sailing for Pakistan from now on.

After exiting the IML, Pakistan is now automatically placed in the “*Regular Follow-up List*” (RFL) by default. Thankfully, due to Pakistan’s effective and diligent fulfilment of FATF’s requirements in record time, and absence of any significant deficiencies, Pakistan was not placed under the *Enhanced Follow-up List* of the FATF, which is a more intensive mechanism.

Now Pakistan, under the RFL process, has become a part of the regular reporting system where it will submit regular reports to the APG review group regarding its continued ‘*technical, legal, institutional and operational*’ compliance.

In the last FATF Plenary session, Pakistan has been asked to continue working closely with the Asia-Pacific Group (APG) to further improve its AML/CFT system.<sup>8</sup>

Although Pakistan does not have any FATF Standard remaining in the “*Non-Compliant (NC)/ Partially Compliant (PC)*” category that require ‘re-rating’ but the Follow-up Reports will still need to be submitted to the FATF-Style Regional Body (FSRB), the APG in Pakistan’s case, in order for it to be analysed by the FSRB and/or the FATF Secretariat.

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<sup>8</sup> “Jurisdictions under Increased Monitoring – 21 October 2022”, Financial Action Task Force (FATF), accessed on October 26, 2022.  
<https://www.fatf-gafi.org/countries/s-t/turkiye/documents/increased-monitoring-october-2022.html#pakistan>

The analysis will then be followed by either a clean bill of health, or proposal for remedial actions and recommendations for re-rating in the next plenary session. Hence, as mentioned earlier, diligence and continued effort to maintain and improve the domestic system/ framework are required on Pakistan's part.

Moreover, it is also important to note here that besides AML/CFT and proliferation financing of weapons of mass destruction (WMDs), issues like corruption and tax crimes have also been added as *new priority areas* of the FATF mandate.

For now, Pakistan has significantly addressed FATF's Standards pertaining to AML/CFT. However, it is only going to be a matter of time when the FATF, after ensuring consolidation of Pakistan's measures with regards to AML/CFT, will raise concerns of corruption and tax crimes in the country. And Pakistan can once again find itself in the hot waters of the grey list if these challenges are not preempted well before time.

The menaces of corruption and tax crimes are rampant in Pakistan. According to the Transparency International's Corruption Perception Index (CPI), Pakistan ranks 140 out of the 180 countries indexed for corruption.<sup>9</sup> Pakistan's CPI score got worse from 2020, falling to 28 from 31 (out of 100 being the best and 0 being the worst).<sup>10</sup>

With regards to tax crimes, the national body that detects financial crimes regularly unearths tax crimes worth billions of rupees<sup>11</sup> in a country which constantly struggles to get aid tranches from the International Monetary Fund (IMF) and whose economy is further devastated by natural calamities like the recent devastating floods in the country this year.

Furthermore, the political factor that does manifest itself to some extent in the FATF cannot be ignored at the detriment of Pakistan's interests. India has played a significant role in keeping Pakistan grey-listed in the FATF by effective lobbying and using its position in the organisation to the maximum.

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<sup>9</sup> "Country Data – Pakistan", Transparency International, Corruption Perception Index (CPI) 2021, accessed on October 23, 2022.  
<https://www.transparency.org/en/countries/pakistan>

<sup>10</sup> Amin Ahmed, "Pakistan slides 16 spots on corruption perceptions index, now ranks 140 out of 180 countries: report", DAWN, published on January 25, 2022.  
<https://www.dawn.com/news/1671401>

<sup>11</sup> Mubarak Zeb Khan, "FBR detects Rs1bn tax fraud", DAWN, published on June 15, 2022.  
<https://www.dawn.com/news/1694890>

India has been a member of the FATF since 2010. It is also a member of FATF's 2 FSRBs namely, the APG and the Eurasian Group (EAG). It has also remained APG's co-chair during 2010-2012 (along with Australia – which is a permanent chair as it founded the group). Since the co-chair is a rotating role, India might assume this role soon, now that Pakistan will be reporting to it as part of the Follow-up system. In addition, India also enjoys good relations with rest of the FATF members (particularly France, UK and the US) as well can factor in substantially on the body's decisions regarding Pakistan, if the latter is not 'careful and diligent'.

### ***Conclusion***

To sum up the conversation, Pakistan's performance with regards to completing the FATF Action Plans' requirements has been remarkable to say the least. Compared to the performance of other scrutinised jurisdictions, Pakistan has fared well, especially in the areas of "special concern" to the FATF.

Therefore, it is highly pertinent for Pakistan to maintain the current momentum of progress and improvement and further build upon strengthening its national AML/CFT frameworks.

The next progress report is due on February 01, 2023 and Pakistan should be ready for it. It is also in the best interest of Pakistan to take pre-emptive measures such as formulate effective policies and devise workable frameworks in consultation with all the relevant national stakeholders to address the challenges of corruption and tax crimes as well.

If these challenges are not addressed and curbed now, Pakistan will find the FATF's goal posts changed again and find itself in a compromised position with the financial watchdog and become economic pariah for investors and commercial partners, further exacerbating national problems.