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

DIRECTORATE GENERAL OF DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPs)

Federal Board of Revenue

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FBR (DNFBPs) is pleased to publish this version of DNFBPs Frequently Asked Questions (FAQs) on AML/CFT aiming to facilitate FBR regulated designated non-financial businesses and professions 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 document is specially focused on NRA 2019.

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

What was the role of the Federal Board of Revenue (DNFBP) in the preparation of Pakistan National Risk Assessment on Money Laundering and Terrorism Financing 2019 (NRA 2019) and Sectoral Inherent Risk Assessment?

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 FBR representative was part of the working group formed to prepare NRA 2019.

The FBR played a key role in its capacity as Pakistan's DNFBP regulator. FBR being the regulator of the designated non-financial businesses and professions, comprising of Real Estate Agents, Dealers in Precious Metals and Stones and Accountant (other than regulated by ICMAP and ICAP), also contributed in assessing Sectoral Inherent Risk Assessment (SIRA) with a focused exercise that was aimed at better understanding the ML/TF risks in selected sectors). FBR also facilitated FMU in hosting outreach sessions 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. Moreover, another effort regarding Sectoral Inherent Risk Assessment (SIRA) has also been made during 2020 for supplementing the NRA, 2019.

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 DNFBP is facing, determining how these risks are mitigated by a DNFBPs AML programme controls and establishing the residual risk that remains for the DNFBPs. 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 FBR-DNFBPs can effectively implement their risk-based AML/ATF frameworks. The FBR uses a risk-based supervisory framework in undertaking its AML/CTF mandate.

Where can I find the FBR-DNFBPs contact person for my sector?

- For AML/TF compliance related queries, please email at help.dnfbp.fbr@gmail.com or call at 051-9107099