

**SUMMARIZED NATIONAL RISK ASSESSMENT 2023 FOR DNFBS,
LEGAL PERSONS & LIMITED LIABILITY PARTNERSHIPS (LLPS) AND
WAQF, TRUSTS & COOPERATIVES (WTC)**

National FATF Secretariat Pakistan

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LIST OF ACRONYMS/GLOSSARY OF TERMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLA	Anti-Money Laundering Act, 2010
ATA	Anti-Terrorism Act, 1997
CDNS	Central Directorate of National Savings
CFT	Counter-Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
ECs	Exchange Companies
FATF	Financial Action Task Force
FIs	Financial Institutions
LEAs	Law Enforcement Agencies
LPLAs	Legal Persons and Legal Arrangements
ML/TF	Money Laundering/Terrorist Financing
NACTA	National Counter Terrorism Authority
NRA	National Risk Assessment
NPOs	Non-Profit Organizations
Predicate Offence	Crime that generates proceeds that are subsequently laundered to make them appear legitimate.
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
TCSPs	Trust and company service providers
TF	Terrorist Financing
Threat terrible.	An indication or warning of probable trouble, or of being at risk for something
VASP	Virtual Asset Service Providers
Vulnerability	A flaw in a system that can leave it open to a possible attack.

1. INTRODUCTION

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognized as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

As per FATF, identifying, assessing, and understanding Money Laundering (ML) and Terrorism Financing (TF) risks is an essential part of the development and implementation of a national anti-money laundering / countering the financing of terrorism (AML/CFT) regime therefore, countries are encouraged by FATF to undertake National Risk Assessment (NRA) for their ML/TF risks so that they may implement a risk based approach to AML/CFT by prioritization and efficient allocation of resources.

Being a responsible member of international community, Pakistan understands its obligations and is fully committed to take staunch measures to combat Money Laundering and Terrorism Financing hence, it completed its first comprehensive ML/TF National Risk Assessment in 2017, updated it in 2019 and has conducted its third National Risk Assessment in 2023.

2. OBJECTIVE OF THIS DOCUMENT

This document provides the findings of the Pakistan's National Risk Assessment 2023 to the readers in a brief form (Please note that the original report of NRA 2023 is very detailed). The purpose of this document is to provide guidance to the relevant stakeholders so that they can better understand their ML/TF risks and improve their AML/CFT controls. Stakeholders that are subject to Pakistan's AML/CFT laws are expected to use the findings of this document to update their internal risk assessment documents / Standard Operating Procedures in accordance with the findings of NRA 2023 and utilize their resources accordingly.

3. METHODOLOGY FOR CONDUCTING 2023 NATIONAL RISK ASSESSMENT

Pakistan conducted its first NRA conducted in 2017 using the World Bank's methodology. A subsequent NRA was undertaken in 2019 by using in-house hybrid methods which was more focused on inherent ML/TF threats and vulnerabilities.

Pakistan has made extensive improvements to its AML/CFT regime since 2019, resulting in improved information collection and understanding of its threats and vulnerabilities. The 2023 NRA incorporates this enhanced understanding, resulting in updated risk assessments. The NRA 2023 updates Pakistan's ML/TF risk profile using in-house methodology aligned with international best practices and FATF recommendations. As per the adopted methodology in NRA 2023, 04 rating scales used to assess the risks of ML/TF threats and vulnerabilities included "**Very High**", "**High**", "**Medium**" and "**Low**". It is important to note that low risk doesn't mean that no action is required; rather, as required by law, each stakeholder needs to take sufficient measures and adopt controls related to the low-risk items also.

An NRA Core Committee comprised of senior members from all the relevant stakeholders was constituted in 2021. NRA Core Committee was centrally coordinated by the National FATF Secretariat of Pakistan and supervised working groups comprised of senior officers from **LEAs, Regulators/ Supervisors, Intelligence Agencies and Ministries/ Government Departments.**

The working groups undertook a detailed work plan to complete the National Inherent Risk Assessment. Key elements of this work plan include;

- i. Listing of all available data, reports and other information related to ML/TF threats, national and Sectoral vulnerabilities, and developing data management framework
- ii. Developing ML threat profiles for each of the FATF-defined predicate offences
- iii. Developing TF threat profiles for each group of terrorist actors suspected of conducting TF
- iv. Developing Sectoral vulnerability profiles for each of the Financial Institutions (FI), Virtual Asset Service Providers (VASPs), and DNFBP sectors and profiles for NPOs and LPLAs
- v. Developing high-level national vulnerabilities and national consequences profiles for ML/TF
- vi. Planning workshops with all competent authorities to share and validate the profiles and to rate and validate the ratings of the threats and Sectoral vulnerabilities
- vii. Assess information gaps/confidence level of each rating result with experts

The following sources have been used to conduct the national risk assessment of Pakistan.

- i. Relevant Statistics/data/records from the concerned agencies/departments.
- ii. Relevant surveys, strategic analysis reports and other research documents.
- iii. Published research/reports of relevant international forums/organisations/bodies.
- iv. Media reports and open-source surveys.
- v. Focused meetings and discussions with relevant experts.

As stated earlier, the NRA 2023 exercise aims to conduct an objective and comprehensive inherent and residual risk assessment of the current and emerging ML/TF risks faced by Pakistan. Additionally, it aims to feed into the AML/CFT risk assessments carried out by regulators/supervisors of financial institutions, DNFBPs and other sectors. The summarized version of the findings of NRA 2023 is provided below:

4. SUMMARY OF NRA 2023

Pakistan's geo-strategic location, economic and social dynamics and porous border with Afghanistan have been taken into account while conducting the NRA-2023. The contextual factors of Pakistan's demographics, economic situation, literacy rate, undocumented economy and other global, regional and domestic factors were also considered while assessing ML & TF threats and vulnerabilities. NRA 2023 includes a detailed assessment of sectors such as financial sectors, Designated Non-Financial Businesses and Professions (DNFBPs), National Savings (NS), Legal Persons & Legal arrangements (LPLAs) and Non-Profit Organizations (NPOs) while the unregulated emerging area of virtual assets and virtual asset service providers was also evaluated to the extent of available data.

4.1. MONEY LAUNDERING RELATED THREATS ASSOCIATED WITH PREDICATE OFFENCES

Money laundering (ML) is a cognisable offence under the Anti-Money Laundering Act (AMLA) 2010. For the assessment of ML Threats, 23 major predicate offences were empirically examined in line with FATF methodology. Please note that predicate offences refer to crimes that generate proceeds that are subsequently laundered to make them appear legitimate. ML threat ratings were assigned to 21 predicate offences. As per the assessment, **corruption & bribery, illegal MVTs/ hundi/ hawala, tax crimes, smuggling and cash smuggling** were assessed as 'Very High' risk while **illicit trafficking in narcotic drug & psychotropic substances, trafficking in human beings & migrant smuggling, frauds & forgeries and cyber-crimes** were rated as "High" risk. The remaining predicate offences were assessed as "Medium" or "Low" ML threats from Pakistan's perspective. It is important to consider that the predicate offence of **Organized Crimes** was not separately assigned any rating as its impact has been considered in the assessment of all other predicates, to the extent of the involvement of organised groups in the commission of those crimes. Similarly, **Terrorism and Terrorism Financing** were not rated as their impact was covered under the TF Threats part of this NRA.

Rating Factors: The assessment of ML threats includes;

- i. A review of all the incidents based on the seriousness and magnitude of domestic and international crimes;
- ii. The estimated amount of proceeds generated and the potential of money laundering;
- iii. The capacity and resources of criminal actors and their level of sophistication to launder proceeds (including third-party launderers);
- iv. The level of criminal actors to continue committing a crime sustainably, and
- v. The sectors and channels used to launder proceeds.

The tabular form of the ML threat rating against each predicate offence is provided below:

Table 4.1. (a) Ratings of ML Threats by Predicate Offence		
Sr. No.	Type of Crime in Pakistan	ML Threat Rating
		2023
1	Corruption and Bribery	VH
2	Illegal MVTS/Hawala/Hundi	VH
3	Tax Crimes (Related to Direct Taxes and Indirect Taxes)	VH
4	Smuggling; (Including Customs Duties and Taxes)	VH
5	Cash Smuggling	VH
6	Illicit Trafficking in Narcotic Drugs and Psychotropic Substances	H
7	Trafficking in Human Beings and Migrant Smuggling	H
8	Fraud and Forgery	H
9	Cyber Crime	H
10	Kidnapping, Illegal Restraint and Hostage-Taking	M
11	Illicit Arms Trafficking	M
12	Extortion	M
13	Insider Trading and Market Manipulation	M
14	Counterfeiting and Piracy of Products	M
15	Environmental Crimes	M
16	Robbery or Theft	M
17	Sexual Exploitation, Including Sexual Exploitation of Children	L
18	Illicit Trafficking in Stolen and Other Goods	L
19	Counterfeiting Currency	L
20	Murder, Grievous Bodily Injury	L
21	Maritime Piracy	L

Key ML Sources and Channels

The ML threat assessment of predicate offences indicated that most of the funds used in money laundering were the illegal proceeds generated from committing the predicate offences; however, the activities like underreporting of legal business income/trade volume/wages/investments, as well as hiding assets or funds in offshore accounts or other undeclared financial irregularities also resulted in money laundering. The major channels used to launder proceeds generated from predicate offences included illegal MVTS/ hundi/ hawala, cash smuggling, bank accounts, real estate, construction industry, cash-intensive businesses, DPMS, and front & shell companies, etc. A summary table of key sources and channels used for ML is provided below:

Table 4.1. (b) Key Sources and Channels used for ML	
Sr. No.	Major Sources
1	Illegal proceeds generated from committing predicate offences including but not limited to embezzlement, kickbacks/commissions/bribes, extortions, drug trafficking, human trafficking, bonded labour, illegal organ removal, corruption, smuggling, fraud, illegal gambling, smuggling of people and weapons, tax evasion, false tax claims/credits/refunds, hawala/Hundi or any other predicate offence listed in the Schedule-I of AMLA,2010.
2	Under-invoicing or over-invoicing as well as underreporting of legal business income/trade-volume/wages/investments, as well as hiding assets or funds in offshore accounts or other undeclared financial irregularities.
Sr. No.	Major Channels
1	Cash/ Cash couriers
2	Illegal MVTs
3	Benami Accounts and properties
4	Shell companies
5	Front import & export companies
6	Offshore bank accounts
7	Trade-based funds transfers
8	Payment through intermediaries/ third parties
9	Investment in real estate/ Precious metals & stones/ other high-value assets
10	Investments in stocks/bonds/investment funds
11	Cryptocurrency

4.2. TERRORISM AND TERRORISM FINANCING RELATED THREATS

Pakistan has been fighting the menace of terrorism for the last two decades. Although terrorism incidents have been declining over the past few years since 2016, except for 2022, there remains a threat of terrorism and its financing due to the presence of terrorist organisations (TOs) in the region. Utilising the expertise of National Counter Terrorism Authority (NACTA), Pakistan formed a working group to conduct the assessment of terrorism and terrorism financing threats. The working group was led by the NACTA and included federal and provincial authorities to get input and data from all the relevant stakeholders on the overall landscape of terrorism and terrorism financing in the country. The assessment also took into account international reports and reliable open-source information.

Pakistan has proscribed 78 terrorist organizations under the Anti-Terrorism Act 1997, which is available publicly on the NACTA website. Please note that all these 78 proscribed TOs are not active rather, most of them are inactive, dismantled or merged into other TOs. A detailed **assessment of TF threats** was carried out during the NRA 2023 process by assessing a total of 87 terrorist organisations (TOs), including 78 proscribed TOs as well as some other non-proscribed and UN-listed entities. Based on the data provided by LEAs and from the intelligence inputs, it was found that 41 terrorist organisations have been active in Pakistan with varying degrees of operations. The rest of the TOs have either been dismantled, merged into other organisations or inactive for long. Based on the assessment, **04 TOs were considered as “very high” risk, 08 as “high” risk, 07 as “medium” risk and the remaining 68 as “low” risk.**

Key TF Sources and Channels

LEAs regularly consider and examine possible sources and channels during TF investigations which could be exploited or misused by terrorist organizations to fund their activities. A detailed assessment of these sources has been carried out during NRA 2023, considering their prevalence in TF investigations since 2019, use of the sources by TOs in funding their activities and the perceived TF threat posed by each source. A detailed

assessment of the sectoral channels has also been carried out by considering TF investigations involving these channels since 2019, relevant terrorist organizations, if any and perceived TF threats posed by each channel, including potential for misuse in TF. A summary table of risk ratings of all sources and sectoral channels exploited for TF is provided below:

Table 4.2. Key Sources and Channels exploited for TF		
Sr. No.	Sources	NRA 2023
1	Donations	Very High
2	Extortion	Very High
3	Narcotics trafficking	High
5	Cash smuggling	High
4	Misuse of Properties	Medium
6	Kidnapping for ransom	Medium
7	Goods/ Natural resources smuggling	Medium
8	Skin/ Hides collection	Low
Sr. No.	Channels	NRA 2023
1	Cash/ Cash couriers	Very High
2	Illegal MVTs	Very High
3	Banking	High
5	Branchless Banking	High
4	Virtual Currency	Medium
6	Exchange Companies	Medium
7	Securities	Low
8	Insurance	Low
9	NBFCs & <i>Modaraba</i>	Low
10	Microfinance	Low
11	Legal persons & legal arrangements	Low

Please note that Pakistan has a large, diverse, and vibrant Non-Profit Organization (NPO) sector and an overall assessment revealed that 6.75% of the NPOs are high-risk whereas 43.64% consists of Medium-risk and 49.61% are Low-risk.

4.3. ASSESSMENT OF INHERENT ML/TF VULNERABILITIES BY SECTOR

In addition to assessing ML and TF related threats, NRA 2023 also assessed how vulnerable different financial and DNFBP sectors were to ML and TF. It is important to understand that vulnerability refers to characteristics, traits or other features that can be exploited by threats or may facilitate their activities.

While conducting the **Inherent Sectoral Vulnerability Assessment**, Financial Sector, Designated Non-Financial Businesses & Professions (DNFBPs) and Legal Persons and Legal Arrangements (LPLAs) were examined.

4.3.1. Financial Sector

In Pakistan, the financial sector is comprised of several financial sub-sectors, i.e. Banks, Microfinance Banks (MFBs), Exchange Companies (ECs), Development Finance Institutions (DFIs), Brokers, Non-Banking Financial Companies (NBFCs), Insurance Companies and Central Directorate of National Savings (CDNS) hence, the **inherent Sectoral Vulnerability Assessment** examined ten sub-sectors in the Financial Institutions (FIs) sector. Of these sectors, four are regulated by SBP, five by SECP and the Central Directorate of National Savings is

regulated by the National Saving Supervisory Board. A summary table of vulnerability ratings of financial sectors is given as under;

Table 4.3.1. Inherent Vulnerability Assessment Ratings of the Financial Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	Financial Sector		
1	Banks	SBP	Very High
2	Microfinance Banks (MFBs)		High
3	Exchange Companies (ECs)		High
4	Development Finance Institutions (DFIs)		Low
5	Securities Market	SECP	Medium
6	NBFCs (Fund Management)		Medium
7	NBFCs (Lending & <i>Modarbas</i>)		Medium
8	Life Insurance Companies		Medium
9	Non-Life Insurance Companies		Low
10	Central Directorate of National Savings (CDNS)	National Saving Supervisory Board (NSSB)	Medium

4.3.2. Designated Non-Financial Businesses & Professions (DNFBPs)

Designated Non-Financial Businesses & Professions (DNFBPs) are comprised of real estate agents (including builders/ developers), Dealers of Precious Metals & Stones (DPMS), accountants and lawyers (including trust and company service providers -TCSPs and notaries). All these sub-sectors falling under the Designated Non-Financial Businesses and Professions (DNFBPs) were examined in NRA 2023. These sectors have been assessed based on their unique characteristics, clientele, the offered products and services, their geographic reach, and the channels they operate through. A summary table of vulnerability ratings of DNFBP sectors is given as under;

Table 4.3.2. Inherent Vulnerability Assessment Ratings of the DNFBP Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	DNFBP Sector		
1	Real Estate Agents	FBR	Very High
2	Dealers in Precious Metals & Stones (DPMS)		High
3	Lawyers, TCSPs and Notaries	PBC/ SECP	Low
4	Accountants	ICAP /ICMA	Low
		FBR	

4.4. LEGAL PERSONS AND LEGAL ARRANGEMENTS (LPLAS)

A detailed analysis has also been conducted to assess the inherent vulnerability associated with **Legal Persons and Legal Arrangements (LPLAs)** and their formation. In Pakistan, legal persons are companies, limited liability partnerships (LLPs) and cooperatives while legal arrangements include trusts and *waqfs* (a form of Islamic charitable trust). Companies and LLPs are registered and regulated by the Securities and Exchange

Commission of Pakistan at the federal level. In contrast, cooperatives, trusts and *waqfs* are registered and regulated under provincial and territorial laws. A summary table of vulnerability ratings of LPLA sectors is given as under;

Table 4.3.3. Inherent Vulnerability Assessment Ratings of the LPLA Sectors			
Sector		Supervisor	NRA 2023 Risk Rating
Sr. No.	Type of LP/LA		
1	Private Limited Companies	SECP	Very High
2	Public companies		Low
3	Companies Limited by Guarantee		Low
4	Foreign Companies		Very High
5	Limited Liability Partnerships (LLPs)		Medium
6	Cooperatives	As per provincial and territorial laws	Low
7	Trusts		Medium
8	<i>Waqfs</i>		Medium

It is important to note that LPLA are required to comply with the beneficial ownership obligations which means that they need to maintain and update the identity and information of their ultimate owners or controllers in order to combat money laundering, terrorist financing, and other predicate offences.

4.5. CONSEQUENCES OF ML/ TF RISKS

The **consequences of ML and TF** risks for Pakistan are evident and serious. The high ML/TF risks, accompanied by Pakistan's placement on the enhanced monitoring list by FATF from June 2018 to October 2022, adversely affected the financial and non-financial sectors. According to a study, this caused a cumulative decline of about USD 38 billion to the real GDP in Pakistan. The economic consequences of high ML/TF risk include lowered capital inflows and remittances, deteriorating business environment, decrease in international trade, blow to the reputation and goodwill of the country, decreased tax revenues etc. The social consequences of high TF risk include loss of precious lives, increase in internally displaced persons, unemployment and absence of education and health services in the conflict-ridden areas, blow to the tourism revenue and rise in sectarian sentiments. Whereas the social consequences of high ML risk include a rise in corruption and bribery, political instability and governance issues.

This summary of NRA 2023 provides critical ML/TF risk information to stakeholders, including law enforcement authorities, regulators/ supervisors, their regulated sectors/ entities and other competent authorities, so that they can have a clear understanding of the inherent ML/TF risks and can develop and implement the effective preventive measures and controls in line with the risk-based approach on an on-going basis. Sector/agency specific findings of NRA 2023 and guidance are provided in the following paras.

With the view to raise awareness of risks, promote transparency, and informing risk management policies and decisions, this part of the report provides the findings of NRA 2023 specifically related to DNFBPs.

5.1. DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPS)

The NRA 2023 assesses DNFBP sectors on the basis of their characteristics, types of clients, products and services offered, delivery channels and geographic factors. A brief introduction to each type of DNFBP sector and its vulnerabilities are discussed in the following Paras.

5.1.1. Real Estate Agents

The brief overview and features of real estate sectors are enumerated below:

- Complex and well-integrated with other sectors and businesses, including the financial sector.
- 40,833 real estate agents have been identified in the sector so far.
- One of the largest employment generating sectors in Pakistan including linked/allied industries
- Increasing demand for its products due to the growth of the country's population as one of the factor among others
- This sector comprises of sole proprietors, partnerships, joint ventures and other LPLAs including:
 - developers/builders who usually develop/build real estate.
 - agents/brokers in real estate typically market the products as a middleman on a commission/brokerage
- Many transactions or parts of them escape formal registration due to:
 - Transactions through "Iqarnama" or other informal agreements,
 - The absence of a central/computerised registry of land records in some geographic areas, and
 - The variability between notified and market value of properties.
- Large scale public frauds are also reported in this sector.

A. Nature of products and services

Real Estate sector actors offer a variety of vulnerable/risky products and services as mentioned in table below:

Properties	Types of Products
Build	Villas/houses/ luxury apartments/commercial offices/farm houses/warehouses
Unbuild	Residential/commercial/farm houses/auctions/agriculture land

Out of the products and services mentioned above, following products are considered highly vulnerable to ML/TF risks given their geographic location, increasing demand, pulling of funds from undocumented or cash-intensive sectors and inter/intra-businesses transactions:

- villas/open file plots,
- Farm Houses
- luxury apartments and
- land for commercial use

It is important to mention that funds derived from almost all types of undocumented businesses and predicate offences are usually parked in real estate products due to the anonymity and appreciation of value factor.

For TF, real estate products are considered less vulnerable than ML due to the variability of liquidating assets. However, previously the instances of proscribed persons/entities are found owning or associating with real estate businesses, funds of which may be used further in financing terrorism. All such properties have been now frozen and taken over by the Government of Pakistan.

In the case of ML, real estate products are considered highly vulnerable for receiving and parking proceeds of crime from multiple predicate offences, especially frauds & forgeries, cyber-crimes, corruption, hawala/ hundi, tax crimes, smuggling, human trafficking, arms & narcotic trafficking and insider trading.

B. Nature of Clientele

The sector's clients are as under:

- Resident Pakistanis,
- Overseas Pakistanis
- Foreign individuals/entities through local representative / LP/ LA
- Legal Person/Legal Arrangements
- Real Estate Agents

This sector is also used as an investment vehicle for High-Net-worth Individuals (HNWI), Politically Exposed Persons (PEPs), cash-intensive businesses and foreigners with high vulnerability for proceeds from predicate offences, including corruption, bribery, and tax crimes. Apart from the clientele that transacts for fulfilling housing and business needs, clients also use the sector for speculative and short-term gains, which sometimes distorts the genuine market values of the sectors' products.

C. Geographic reach of sector's activities

The sector's business activities are spread throughout Pakistan. However, most real estate transactions occur in urban and developed areas with rising housing requirements and commercial activities. The real estate sector also extends to some of Pakistan's ML/TF high-risk areas, including south Punjab and the bordering areas of KP and Balochistan, where the transactions generally relate to agricultural land or commercial warehouses.

D. Nature of delivery channels

Being a cash-intensive business, the real estate sector mostly faces cash transactions. The sector offers both face-to-face and non-face-to-face channels to clients. Anonymity remains the major concern in the sector as transactions are possible without the customer's presence. Further, recently "Web-Based Real Estate Hubs and Marketing Companies" have emerged, providing professional real estate buying/selling services to interested parties without requiring the clients' presence. These companies are involved in a large part of real estate transactions.

E. Key Vulnerabilities and Rating of the Sector

The main vulnerabilities of the sector include cash-based and high-value transactions with HNWIs/PEPs, non-centralized land registries, transactions carried out outside registry requirements, non-face-to-face property transactions through web-based and other solutions, opportunities for speculative activities, transactions between businesses and in the name of LPLAs, local and foreign investors and the chance to escape documentation due to variability of notified and market value of properties. Based on the vulnerabilities above, the overall risk rating of the sector has been kept at "Very High."

In view of the NRA 2023, stakeholders are encouraged to incorporate/update the NRA findings into their existing AML/CFT policies, procedures and internal controls to fulfil their AML/CFT obligations.

5.1.2. DEALERS OF PRECIOUS METALS AND STONES (DPMS)

The sector has following characteristics:

- Complex structures, involving miners, bullion dealers, gemstone dealers, refiners/ manufacturers, wholesalers and retailers including family businesses associating other family members.
- Identified potential population of DPMS is 18,675 beside many unregistered actors.
- Gold and high-quality precious gemstones are commercially explored minerals in this sector.
- Country-wide presence with major players operating in large urban centres.
- Domestic sales constitute 90% of the sector, while exports only account for 10%.
- Major gem export markets include Thailand, Sri Lanka, Europe, the USA, and East Asia.
- High turnover with transactions through cash in the informal economy.
- Many DPMS in Pakistan operate in the disguise of other businesses such as exchange companies, travel and tourism, trade, and property dealerships.
- Registered DPMS mostly operate as sole proprietorships.
- Mostly deal with middle-income customers, and their sales remain below the cash reporting threshold of PKR 2.0 million.

A. Nature of products and services

This sector offers a variety of products as mentioned below:

Precious Metals	Precious Stones
Gold Jewellery	Ruby
Gold Bars	Emerald
Diamond	Topaz
Platinum	Aquamarine
palladium	Fluorite
Silver	lapis-lazuli

Amongst these, gold bars are considered more vulnerable to ML/TF risks due to their less visibility, high value, ease of liquidation and consumer preference for savings, investment and trade. Gold is considered lucrative for TF and ML as criminals and their associates/ networks can fund terrorism and conceal, mobilise, and invest proceeds of crime swiftly.

B. Nature of Clientele

This sector has two types of suppliers: bullion dealers / wholesale gem suppliers and Retailers. Sector deals with several types of customers, including both foreign (minimal activity) and resident/ non-resident Pakistanis. Vulnerable clientele to ML/TF activity includes PEPs, HNWI, and cash-intensive businesses.

C. Geographic reach of sector's activities

The geographical spread and linkages are as under:

- operates all over Pakistan, including in border areas that are prone to smuggling
- does not usually deal with clientele from high-risk foreign jurisdictions
- Smuggling of precious metals and stones through airports has also been witnessed due to easy-to-carry/conceal products

D. Nature of delivery channels

- High-level of anonymity due to the extensive use of cash,
- involvement of the hawala/hundi network,
- prize bond trade and transacting with unregistered dealers.
- also use banking channels such as debit/credit cards or bank transfers.

E. Key Vulnerabilities and Rating of the Sector

- high-value transactions due to the high intrinsic value of the products,
- use of the sector's products by PEPs, HNWIs and LPLAs,
- anonymity in transactions,
- unregistered DPMS,
- presence of dealers in high-risk geographies,
- ease in use of the products for cross-border smuggling,
- association with hawala/hundi/prize bonds and currency exchange businesses.

Consequently, the overall risk rating of the sector is **"High"**. Stakeholders, particularly locally called **'jewelers'**, are encouraged to incorporate/update the above findings into their existing AML/CFT policies, procedures and internal controls to fulfil their AML/CFT obligations.

5.1.3. ACCOUNTANTS

As of June 30, 2022, the population of this sector stands at 171 accountancy firms/businesses which are required to be registered with supervisory authorities for AML/CFT supervision based on the type of their activities. Out of the total 171 accountants, 98 accountants are supervised by the FBR, 57 by Institute of Chartered Accountant of Pakistan (ICAP) and 16 by the Institute of Chartered & Management Accountant of Pakistan (ICMAP). The sector does not have a complex functional structure. The majority of reporting firms are sole proprietors, while some also exist as partnership concerns. The sector conducts a relatively low number of AML-specified transactions, of generally lower values, to a few clients. Most accountancy firms have little or no integration with the formal financial sector, and all reporting firms are registered with the FBR for tax purposes. Mostly, accountancy businesses have a presence only in large urban centres, although some firms also operate branches in less-populated areas.

SECP is Oversight Body for ICAP and ICMAP (Self-Regulatory Bodies). For that matter, SECP has assisted and guided the SRBs as and when required. Assistance has been provided to the SRBs in framing the Regulations for AML/CFT and subsequent guidelines. SECP has also provided guidance to the SRBs with regards to conducting their Sectoral Risk Assessment in addition to other matters where guidance is sought. Furthermore, being the oversight body, SECP requires the SRBs to submit information regarding their Supervision and Monitoring of the Reporting Firms under the respective AML / CFT Legislations.

A. Nature of products and services

The sector offers accounting and Trust and Company Service Provider (TCSP) services, with TCSP services being more common; however, they constitute a very small segment of the overall business of the sector. Frequently offered TCSP services include acting as a company formation agent and providing a registered office or address.

B. Nature of Clientele

The clientele of the sector includes both natural and legal persons. The majority of the clientele maintains continuing business relationships with the service providers. Clientele from high-risk geographies and foreign jurisdictions is very low relative to the overall clientele of the sector. Accounting firms have a direct relationship with their clients without any involvement of third parties. Amongst the overall clientele of the sector, the services provided to PEPs, non-residents and other high-risk clientele do not exceed 25% of the firms' business. The TCSP services provided by the sector to LPs are vulnerable to ML/TF risk in case of complex legal structures; however, the volume of such services is very low compared to the overall business of the sector.

C. Geographic reach of sector's activities

There are no reporting firms with offices in any high-risk foreign jurisdictions. Domestically, activities of the sector are concentrated in urban centres, while very few accountants had some activity in high-risk domestic areas such as South Punjab and the border areas of KP and Balochistan.

D. Nature of delivery channels

While transacting, formal banking channels are used in the sector. The transactions are carried out face-to-face, reducing risks of anonymity.

E. Key Vulnerabilities and Rating of the Sector

The main sector vulnerabilities include providing TCSP services to LPs, specifically in the case of complex legal structures. However, the volume of such services is very low compared to the overall business of the sector. The Sector is very small with relatively low turnover. Moreover, less than 5% of the overall business of the reporting firms pertains to AML-specified services. Furthermore, no activity linkages to foreign high-risk jurisdictions. Further, relationships are maintained on a long-term basis and transactions are carried out face-to-face. Based on the above, the overall vulnerability rating of the sector has been kept "Low" in NRA 2023.

5.1.4. LAWYERS & INTERMEDIARIES

There are about 186,956 lawyers/law firms in the country out of which only 138 offer regulated services of ML/TF concerns. These services are either provided by lawyers (125) registered under the Intermediaries Registration Regulations 2017 or by lawyers (13) providing services to the Asset Management Companies (AMCs) with respect to trust formation. These services are offered to businesses domestically only in urban areas of the country.

For TCSPs, there are no professional trust services providers in the country. However, company formation services are provided by some lawyers in addition to the provision of legal services to their clients. Such services are essentially provided by the lawyers registered under the Intermediaries Registration Regulations 2017 and by lawyers providing trust formation services to AMCs.

A. Nature of products and services

Some lawyers registered as intermediaries with the SECP provide legal consultancy, company formation and filing of corporate returns services to companies. These services are provided by sole law practitioners or representatives of law firms. Some lawyers also provide services related to the legal review of constitutive documents, registration of documents, registration of trust in collective investment schemes and legal consultancy to AMCs. These AMCs are registered with the SECP.

B. Nature of Clientele

The main clientele of lawyers registered as intermediaries include LPs specifically including AMCs. Also, lawyers may have individual high-risk clients such as PEPs and HNWLs.

C. Geographic reach of sector's activities

The business of lawyers is primarily domestic, with a concentration in urban areas, specifically Karachi, Lahore and Islamabad. Only a fraction of lawyers or law firms have clients or operations in domestic high-risk areas (South Punjab and the border areas of Khyber Pakhtunkhwa and Balochistan).

D. Nature of delivery channels

Communications with the clientele are mostly face-to-face while the transactions take place through banking channels such as cheques/pay orders, however, cash may also be used to settle payments for services obtained. Largely, the channels do not constitute anonymity and are not complex.

E. Key Vulnerabilities and Rating of the Sector

Given that lawyers do not carry out financial transactions for their clients and that there are a very low number of lawyers providing the services having ML/TF concerns e.g., company and trust formation, together with the fact that the majority of the services are provided to clients with whom they have long term and face-to-face relationships with the lawyers, this significantly reduces the vulnerability of the sector for ML/TF abuse. Since 2019, lawyers have been brought into the regulatory ambit through an amendment in the AML Act, 2010, which has resulted in an improved understanding of the sector, which has, in turn, resulted in a reduction in the inherent risk of the sector. Accordingly, the risk rating of this sector has assessed as **“low”** in NRA 2023.

5.2. KEY VULNERABILITIES OF THE DNFBP SECTORS & KEY FINDINGS OF NRA 2023

- High risk DNFBP sectors have been considered lucrative for public at large to park their licit/illicit proceeds since long.
- In this backdrop, DNFBP sectors are constantly prone to multiple ML/TF risks including potential misuse of these vast, undocumented and complex sectors particularly real estate and high value dealers of precious metals/stones.
- The involvement of High net-worth individuals, political persons and cash intensive businesses with these sectors for money laundering has affected the Pakistan's economy badly.
- On the basis of available information, the real estate sector has been assessed as **“Very High Risk”**, Dealers of Precious Metals and Stones as **“High Risk”** and remaining sectors as **“Low Risk”** in NRA 2023.

6. COMPANIES AND LIMITED LIABILITY PARTNERSHIPS (LLPS)

Legal persons in Pakistan, which include companies, LLPs and cooperatives, are subject to basic and beneficial ownership obligations, under which they are required to identify their ultimate owners or controllers and to maintain and disclose such information. These obligations generally aim to prevent and combat ML, TF, tax evasion, corruption and other illicit activities that may involve the use of shell companies or other opaque legal structures.

A brief introduction to each type of Company and Limited Liability Partnership and their vulnerabilities as described in NRA 2023 are discussed in the foregoing paras.

6.1. TYPES OF COMPANIES

The Companies Act 2017 is the primary law dealing with the registration and regulation of companies and is administered by the SECP. Any person desirous of forming a company may file physical or online application. The sectors in which these companies operate are given in the ensuing paragraphs.

Specialized companies (NBFCs, Insurance) & NPOs must obtain a Non-Objection Certificate (NOC)/permission letter from the relevant department of SECP before being incorporated. Companies' Shareholders can be natural and/or legal persons (both domestic and foreign). Companies can have multiple layers of ownership. Considering the importance of knowing the ultimate beneficial owner (UBO), the Companies Act of 2017 requires all companies to keep records of their UBO and file a form with SECP confirming that they are aware of the UBO. The clientele of companies is vastly diverse and consists of natural and legal persons who may include individuals from any segment of society.

6.1.1. Private Limited Companies (Multi-Member and Single Member)

As of June 30, 2022, 135,095 multi-member and 29,188 single-member companies were in this category. Private companies with paid-up capital not exceeding ten million rupees are classified as small-sized companies and are not required to file their audited financial statements with the registrar concerned.

A. Sectors and Activities

Private Limited Companies are largely providing services in sectors such as Engineering, Trading & Import/Export, Tourism & Allied Services, Information Technology & Allied Services, Construction & Real Estate, Marketing and Advertisement, Consultancy & other services.

B. Geography

Geographically, 89% of all Private Limited companies are registered in federal and provincial capital cities. Further, there is an inherent vulnerability that companies operating or registered near porous borders may have proscribed /designated persons as members, partners, directors or officers. Private Limited Companies with paid-up capital of more than one million rupees are required to get their accounts audited annually, as per the Companies Act 2017. Also, companies being taxpayers, are required to open bank accounts for conducting business transactions as per section 114A of the Income Tax Ordinance 2001 where banks perform KYC/CDD for all the persons being shareholders/directors who authorize the opening and operating of the account and for the persons who will operate the account.

C. Vulnerability Rating

Private Limited Companies may be vulnerable to be created for use as vehicles for the conduct of unauthorized business activities. SECP filed 122 STRs with the FMU from June 2021 to date. The investigations/offsite reviews revealed that these companies were engaged in leasing/financing/loan facility (licensed activities), MLM, pyramid/Ponzi schemes, and seeking deposits from the general public.

Based on all the above, the risk rating of Private Limited Companies is assessed as ***“Very High”*** in NRA 2023.

6.1.2. Public Companies (Including Listed and Unlisted Companies)

A. Sectors and Activities

There were 4,460 companies in this category as of June 30, 2022. These companies are engaged in different businesses. Main sectors include, Engineering & Allied, Fuel & Energy, Construction & Real Estate, Information Technology, Food & Allied Products, Textile, Sugar and Allied, Trading, Import/Export & Others. Similarly, not-for-profit associations mainly deal with Research & Development, Education & Healthcare and Social Welfare etc.

B. Geography

Geographically, 93% of all public companies are registered in federal and provincial capital cities. Moreover, NPOs may be vulnerable to transnational TF risk due to the receipt/ collection of funds for charitable purposes.

C. Vulnerability Rating

Public companies are required to make extensive disclosures under the Companies Act, 2017/International Financial Reporting Standards and widely exercise transparency in their ownership and statutory reporting structure. Furthermore, public listed companies must disclose particulars of significant shareholders and any change in beneficial ownership information of its directors, Chief Executives, and major shareholders. These companies' financial statements must be audited for each financial year. Further, listed Companies are required to immediately disseminate all price-sensitive information relating to the business and other affairs of the listed company. However, there is also a possibility that public listed companies may be vulnerable to insider trading or market manipulation. As a result of these combined factors, the vulnerability rating for public companies is ***“low”*** in NRA 2023.

6.1.3. Companies Limited by Guarantee

There is no capital involved in companies limited by Guarantee; instead, all members who are part of the company undertake to contribute an amount specified in the memorandum of association in the event of a winding up.

A. Sectors and Activities

As of June 30, 2022, there were 417 companies limited by guarantee operating in Pakistan. The sector mainly comprises of trade organizations.

B. Geography

Geographically, 87% of all guarantee limited companies are registered in federal and provincial capital cities. Companies operating in high-risk areas may be more vulnerable to ML/TF risk.

C. Vulnerability Rating

The low vulnerability of Companies Ltd by Guarantee emanates from the fact that they are mostly targeted toward promoting a specific business sector/activity. These companies comprise mainly trade organisations focused on bridging the gap between the government and business community and assisting in policy formulation for the development of their sector. Further, there may be no share capital involved & the companies only carry out predefined activities. Additionally, trade organisations are subject to licensing from the DG (TO) and registration under Section 45 of the Companies Act 2017. As a result of the above factors, the vulnerability rating for limited by-guarantee companies is **“low”** in NRA 2023.

6.1.4. Foreign Companies

Foreign companies are registered/incorporated abroad with a place of business or liaison/branch office in Pakistan or conduct any business activity in Pakistan. As of June 30, 2022, there are 1,084 foreign companies. These companies may have international operations in countries rated as high-risk or may have shareholders or directors from high-risk and monitored jurisdictions.

A. Sectors and Activities

Foreign companies may be exposed to ML/TF risks by having a transnational element in their business. Like other companies, foreign companies are also engaged in different businesses which largely include Engineering & Allied, Fuel & Energy, Construction & Real Estate, Information Technology, Consultancy & Other Services, Trading & Import/Export, Miscellaneous & Other.

B. Geography

Geographically, 99% of all foreign companies are registered in the federal and provincial capital cities. Foreign companies may also have international operations in high-risk countries. Out of 1,084 companies, 160 foreign companies have principal operations in FATF high-risk jurisdictions.

C. Vulnerability Rating

These companies are highly vulnerable to exploitation for ML/TF as the parent may have international operations in high-risk/monitored jurisdictions, and the members or directors of these companies may also reside in these jurisdictions. Furthermore, depending on the jurisdiction from which the company originates, there may be difficulties in obtaining accurate or up-to-date beneficial ownership information about the company. Due to the above factors, the vulnerability rating for foreign companies is **“Very high”** in NRA 2023.

6.2. LIMITED LIABILITY PARTNERSHIPS (LLP)

The LLP provides an alternative form of business organization, which has the flexibility of a general partnership while availing all the advantages of a limited liability company.

A. Sectors and Activities

66% of 1904 LLPs offer services/products in Construction & Real Estate, Information Technology, Consultancy, Trading, Import/Export and other services.

B. Geography

No foreign LLPs have been registered to date. 95% of all domestic LLPs are registered in federal and provincial capital cities. LLPs operating in high-risk/border areas are more vulnerable to ML/TF risk.

C. Vulnerability Rating

Due to the limited size of the sector, the materiality of operations, and a domestic setting of such LLPs, the vulnerability of this sector is rated as '**Medium**' in NRA 2023.

6.3. KEY VULNERABILITIES OF THE COMPANIES AND LLPS SECTORS AND KEY FINDINGS OF NRA 2023

- One of the key vulnerabilities of the Companies and LLP sectors to money laundering and terrorist financing includes potential misuse of Companies having complex corporate structures, in addition to trusts, charities and other legal arrangements due to concealing of the true identity and control of Ultimate Beneficial Owners (UBOs). This has exacerbated due to lack of awareness and compliance with the legal requirements for disclosing and reporting beneficial ownership information.
- While conducting the NRA 2023 exercise, it transpired that such private companies that have multi-layered structures of ownership or control structures, or have foreign companies/ entities/trusts (whether registered in Pakistan or not) as members/shareholders/beneficial owners, are mainly vulnerable to ML/TF. Moreover, companies having higher paid-up capital, turnover, etc., and inactive companies have also found to have a significant vulnerability to ML/TF activities.
- Further, the risk assessment also indicated that vulnerabilities emanate for companies operating or registered in areas close to porous borders. Such companies are more vulnerable to abuse by proscribed /designated persons who could use the company to finance their terrorist activities, although potential numbers of such companies are minimal.
- In addition to the aforementioned, the risk of manipulation is higher where export-oriented companies in Pakistan have associated concerns abroad or where the export pertains to intangible goods. Based on the above, the risk rating of Private Limited Companies is assessed as "**Very High**".
- Another category of legal persons which are rated high risk are foreign Companies and LLPs. These entities are highly vulnerable to exploitation for ML/TF as the parent entity may have international operations in high-risk/monitored jurisdictions, and the members or directors of these companies may also reside in these jurisdictions

Beneficial ownership obligations are the legal requirements that certain types of entities, such as, trusts, cooperatives and Waqf must comply with, to disclose the identity and information of their ultimate owners or controllers. These obligations vary by country and jurisdiction, but generally aim to prevent and combat money laundering, terrorist financing, tax evasion, corruption, and other illicit activities that may involve the use of shell entities or other opaque legal structures.

7.1. EXPLANATION OF COOPERATIVES, WAQFS & TRUSTS

A brief introduction, formation and activities of Waqf, Trust and cooperative societies and its vulnerabilities as described in NRA 2023 are discussed in the foregoing Paras.

7.1.1. Cooperatives

A Cooperative Society is a society/organization registered under the Cooperative Societies Act of 1925 based on equality to promote their economic interest.

There are three types of Cooperative Societies: Primary Level Societies, Secondary Level Societies and Apex Level Societies. The structure of apex and secondary-level societies is the same; however, the structure of primary societies differs from the other two. Secondary-level and apex societies have societies as their members, and there is no upper and lower restriction on membership; however, primary societies have natural persons as members and a minimum of 10 members are required for the registration of these societies; there are no restrictions on full membership of the society. Apex and secondary-level societies are managed at the provincial level by the Registrar, Cooperative Societies; primary societies are handled at the district level by an Assistant Registrar.

A. Formation and Ownership

Registration of a Cooperative society is online, and the online registration portal is accessible to all the relevant authorities, LEAs and the general public. The registering entities must provide details, purpose, author, activities, etc., at the time of registration.

B. Sector and Activities

21,986 cooperative societies were operating in Pakistan as of June 30, 2022. The majority of the registered cooperatives are agricultural cooperatives. Cooperatives also work for other purposes, including handicraft/industrial societies, farming societies, housing, thrift and credit, and are registered for multipurpose activities.

7.1.2. Trusts

A trust is the confidence of a natural person reposed upon the trustee in the form of property for the benefit of the beneficiary.

A. Formation and Ownership

“Trust” is an obligation annexed to the ownership of property and rising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner. The person who reposes or declares the confidence is called the “author of the trust”, The person who accepts the confidence is called the “trustee”, the person for whose benefit the confidence is accepted is called the “beneficiary”, The subject-matter of the trust is called “trust-property” or “trust-money”, the

“beneficial interest” or “interest” of the beneficiary is his right against the trustee as owner of the trust-property, The instrument, if any, by which the trust is declared is called the “instrument of the trust”. A natural person can be the author of the Trust. However, natural or legal person (either foreign or domestic) can be beneficiaries of a Trust. Registration of a trust is online, and the online registration portal is accessible to all the relevant authorities, LEAs and the general public. The registering entities must provide details, purpose, author, activities, etc., at the time of registration.

B. Sector and Activities

Trust may be ‘Private’ or ‘Public’. When the trust’s purpose is to benefit an individual or a group of individuals or their descendants, it is a private trust. When the trust’s purpose is to benefit the public or any section of the public, it is a public trust.

Public trusts perform social welfare activities for the help of needy people. They provide health facilities, education, food, shelter, etc. In the provinces of Sindh and Khyber Pakhtunkhwa, there is an additional category of trust known as the specialized trust, which carry out specialized activities. Specialized trusts are trusts created to establish collective investment schemes, private funds, pension funds, real estate investment trusts, exchange-traded funds, private equity and venture capital funds, debt securities trusts, etc., regulated under laws administered by the relevant regulator.

During the period July 01, 2021, till June 30, 2022, SECP issued 265 NOCs to these specialized trusts (i.e. (20) Pension funds, (235) Mutual Funds and (10) Real Estate Investment Trusts). Amendments to the provincial acts also allow legal persons to act as creator, beneficiary and trustee of trusts. In addition, these amendments include specific powers for the relevant regulator to oversee that certain provisions of the provincial act related to specialized trusts are implemented, including the power to verify the application for registration of the specialized trust based on the NOC issued by the regulator, inspect records and ensure compliance.

C. Geography

As of June 30, 2022, there were 2,606 trusts registered in the provinces and ICT in Pakistan.

D. Vulnerability Rating

Vulnerability characteristics of trusts include the following factors which may expose the trust to exploitation for ML/TF:

- trusts operating in border areas or merged districts,
- a foreigner being a trust member,
- trust sponsored from abroad,
- trusts having multiple layers of ownership or the funding not directly provided by the trust author(s) or is routed through multiple channels,
- details of beneficiaries of the trusts are not up to date, or their documentation is incomplete,
- the trust is not functioning as per the mandate or is found in violation of its purpose.

Any foreign trust must register with concerned provincial authorities to operate as a local trust. The main ML/TF risks lie in the ability to disguise funds in a trust structure and then to distribute the trust funds as a legitimate disbursement of the trust. As a result of these combined factors, the vulnerability rating for trusts is assessed as **“Medium”** in *NRA 2023*.

7.1.3. Waqf

Waqf is the property given in the name of God for religious and charitable purposes. In legal terms, permanent dedication by a person professing Islam of any movable or immovable property for any purpose is recognized by Muslim law as pious, religious or charitable. The main objective behind creating a waqf is that it should be dedicated for a purpose recognized as religious, pious or charitable under Muslim law. There are four pillars of waqf such as founder (waaqif), beneficiary (mawquf 'aleyhi), subject matter (mawquf), and the expression of offer (seeghah). Waqf is strictly regulated by the State in Pakistan because of their entrenchment with the politics of pirs (spiritual guides). Therefore, most philanthropic activities take place in the form of various legal forms, such as registered societies, trusts, and not-for-profit corporations.

A. Formation and Ownership/ Control Structure

The mutawalli, also known as the manager or custodian of waqf (i.e., charitable endowment), is the trustee of a waqf whose appointment is compulsory in Shia law. He has the power of management and administration of waqf properties. Mutawalli are the ones who are supposed to preserve the magnificent Islamic heritage. The Act requires the authorities to keep updated information and provide it on demand. The registration is online, and the portal is accessible to all relevant authorities, LEAs and the general public. The registering entry has to provide all the details at the time of registration.

B. Sector and Activities

Waqfs operate similarly to Non-Profit Organizations (NPO) and aim to create social values. Although most philanthropic activities in Pakistan take place through NPOs, a large number of waqf properties still exist, reflecting past practices, and religious institutions such as mosques, shrines (dargahs), and graveyards (janazagahs) continue to be established as Waqfs.

Waqf, involved in Islamic welfare activities, provides financial support. Beneficiaries of such support are poor people or victims of any disaster. Cash Boxes are installed at big Waqfs, especially shrines and Mosques are recipients of any charity. The latter may expose a Waqf to the risk of ML/TF.

As of June 30, 2022, there were 1,998 Waqfs registered in the provinces and ICT in Pakistan.

C. Vulnerability Rating

Vulnerability factors posed by *waqfs* likely expose a *Waqf* to the risk of ML/TF, including:

- *Waqf* property located in higher-risk geographical locations
- Shrines, especially those where the number of *Zaeerin*/visitors is greater
- Cash Boxes are installed;
- Private *waqf* properties, especially shrines and Mosques who are recipients of any foreign charity or donor agencies.

To date, a mapping of the sector revealed that almost all of the waqfs are working in the settled areas. The prominent waqf properties receiving a large number of donations in the form of cash in boxes and gifts are very few in number, i.e., less than 1% and almost all are under the Government's control. In contrast, the total number of private waqfs registered to date is very low. Based on the above factors, the vulnerability rating for waqfs is assessed as "**low**" in *NRA 2023*.

7.2. KEY VULNERABILITIES OF THE WAQF, TRUST AND COOPERATIVE SOCIETIES AND KEY FINDINGS OF NRA 2023

- One of the key vulnerabilities of the Waqf, Trust And Cooperative Societies sectors (WTC) to money laundering and terrorist financing includes potential misuse of complex corporate structures due to concealing of the true identity and control of Ultimate Beneficial Owners (UBOs). This has exacerbated due to lack of awareness and compliance with the legal requirements for disclosing and reporting beneficial ownership information.
- While conducting the NRA 2023 exercise, it transpired that such cooperative societies that having high working capital; higher number of members; operating in border areas and in multiple districts; and having members from multiple districts are vulnerable to ML/TF. Keeping in view the lack of involvement of legal persons, domestically oriented and small-scale businesses etc., the risk rating of cooperative societies is assessed as **“Low”**.
- A trust is the confidence of a natural person reposed upon the trustee in the form of property for the benefit of the beneficiary. It is a legal arrangement whose purpose is to benefit an individual or a group of individuals or their descendants. It transpired that trusts vulnerable to exploitation for ML/TF had factors like such trust operating in border areas or merged districts, a foreigner being a trust member, trust sponsored from abroad, trusts having multiple layers of ownership or the funding not directly provided by the trust author(s) or is routed through multiple channels, details of beneficiaries of the trusts are not up to date, or their documentation is incomplete, the trust is not functioning as per the mandate or is found in violation of its purpose. These factors may expose the trust to exploitation for ML/TF. The vulnerability rating for trusts is assessed as **“Medium”**.
- Waqf is the property given in the name of God for religious and charitable purposes. In legal terms, permanent dedication by a person, of any movable or immovable property for any purpose is recognized by Muslim law as pious, religious or charitable. It is observed that Waqf property located in higher-risk geographical locations, Shrines, especially those where the number of Zaerin/visitors is greater, waqf with Cash Boxes installed; and Private waqf properties, especially shrines and Mosques who are recipients of any foreign charity or donor agencies are vulnerable to ML/TF. The 1st inspection cycle of Waqfs revealed that prominent waqf properties receiving a large number of donations in the form of cash in boxes and gifts are very few in number, i.e., less than 1% and almost all are under the Government’s control. In contrast, the total number of private waqfs registered to date is very low. Based on the above factors, the vulnerability rating for waqfs is assessed as **“Low”**.