

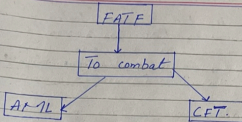
Q:- What is FATF and how does this work? Pak is currently on the Grey list of FATF, what are the implications of being on the Grey list?

Sol: 1) Exordium:

The Financial Action Task Force (FATF) is an intergovernmental organization comprising 39 member states established by the G-7 summit that was held in Paris in 1989. It operates as a global standard setting body in the field of anti-money laundering (AML) and counter-terrorist financing (CTF). The FATF's main objective is to combat money laundering, terrorist financing and other related threats to the integrity of the international financial system.

2) Role and Objectives:

The primary role of the FATF is to develop and promote policies to combat money laundering and terrorist financing. It sets international standards and promotes their implementation through mutual evaluations, Capacity building initiatives and co-operation among member countries.



3) Working mechanism of FATF:

FATF works through a collaborative and multi-step process involving member countries and international organizations. Here's the breakdown of how the FATF operates:

(a) Standard-Setting:

The FATF develops international standards known as FATF recommendations. These recommendations provide a comprehensive framework for countries to combat money laundering, terrorist financing and other related threats. The FATF regularly reviews and updates these standards to adapt to evolving risks and challenges.

(b) Membership:

The FATF consists of 39 member countries, including major economic and financial centers. Additionally, there are

regional bodies and international organizations participate as observers. FATF holds regular meetings and discuss efforts to combat money laundering and terrorist financing.

(c) Evaluations and Assessments:

FATF conduct mutual evaluations of its member countries. Evaluations involve an in-depth analysis of the country's legal and regulatory framework, implementation of preventive measures, international co-operation and effectiveness of supervision.

(d) Mutual Evaluation Reports

Following the evaluations, the FATF prepares the Mutual Evaluation Report (MER) for each member country which provides a detailed analysis of the country's AML/CFT system, highlighting strengths, weaknesses and recommendations for improvement.

(e) Follow-up Process:

The FATF engages in an ongoing follow-up process with member countries to track their progress in addressing the identified deficiencies.

(f) Outreach and Guidance:

FATF provides guidance and support to member countries and the broader international community.

(g) International Co-operation:

The FATF promotes international co-operation and collaboration among member countries and relevant stakeholders. It encourages countries to exchange information, co-operate on investigations and assist each other in combating cross-border money laundering and terrorist financing activities.

(4) What are FATF's 'black' and 'grey' lists?

These terms do not exist in official FATF terminology but are colloquial phrases used to describe two lists of countries maintained by the body. The 'black list' is the term used for FATF's list of "High-Risk Jurisdictions subject to a Call of Action". Countries being the part of black list are deemed to have significant strategic deficiencies in their financial regimes. The second list is of countries with strategic deficiencies in their regime to counter money laundering and terrorist financing. This list is colloquially referred to as 'grey' list.

(5) Background of Pakistan in FATF:

Pakistan has appeared on the FATF grey list multiple times since 2008, signaling the organization's heightened scrutiny of

money laundering and taxation financing in the country. This grey list designation has had a significant impact on Pakistan's economy.

(6) Implications for Pakistan being on the grey list.

Being on the grey list has several implications for Pakistan's financial system, economy and international reputation.

(a) Increased scrutiny and Monitoring:

Once on the grey list, the country's AML/CFT come under increased scrutiny. The FATF and its member countries closely monitor the progress and involves regular reporting and evaluations to demonstrate concrete actions and improvements.

(b) Potential Financial and Economic Consequences:

Being on Grey list has adverse effects on Pakistan's economy and financial system. It reduces Foreign direct investment (FDI) and international financial transactions, as investors and institutions perceive higher risks associated with the country.

(c) Enhanced Due Diligence by Financial Institutions:

Financial institutions, including banks are more cautious when dealing with transaction involving Pakistan. They are likely to apply

enhanced due diligence measures to mitigate the potential risks associated with AML/CFT. This results in increased compliance costs and delays in financial transactions.

(d) Impact on International Trade:

Pakistan faces challenges in international trade, particularly if trading partners adopt stricter AML/CFT measures as a precautionary measure. Trade related transactions may face additional scrutiny and delays affecting the efficiency of the country's trade activities.

(e) Reputation and Perception:

Being on the grey list, it negatively impacts the country's international reputation and perception. It can undermine investor confidence and hinder diplomatic relations with other countries. Reputational damage can take time to rebuild even after addressing the deficiencies.

Countries under FATF lists (Oct '23)

Black list

- Democratic people's Republic of Korea.
- Iran.
- Myanmar

Grey list

- Bulgaria
- Croatia
- Nigeria
- Philippines etc

(7)

Conclusion:

Pakistan has strengthened the effectiveness of its AML/CFT regime and addressed technical deficiencies to meet the commitments of its action plan regarding strategic deficiencies. Therefore, FATF, a global money laundering and terrorism financing watchdog, removed Pakistan from a list of countries under "increased monitoring" also known as the grey list (Tahir Shevani, FATF removes Pakistan from grey list after 4 years, Oct'22)