

Money Laundering in Pakistan and Worldwide: Causes, Methods, and Socioeconomic Effects



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Money laundering

- The word “**laundry**” literally means “**cleaning**”
- Metaphorically, money laundering refers to “**cleaning on money**”



Money laundering



“Any financial transaction which generates an asset or a value as the result of an illegal act.”

What is Money Laundering?

Money laundering is the name given to the process by which illegally obtained funds are given the appearance of having been legitimately obtained.

According to Swiss Bank:

Money laundering is a process whereby the origin of funds generated by illegal means is concealed (drug trafficking, gun smuggling, corruption, etc.)

Money laundering includes:

- Drug Trafficking
- Extortion
- Corruption
- Fraud

Objectives of Money Laundering

Money laundering is performed systematically and clandestinely, making it difficult to identify exactly how much money is involved, what methods are employed and what the magnitude of the problem is.

Hide:

To reflect the fact that cash is often introduced to the economy via commercial concerns which may knowingly or not knowingly be part of the laundering scheme, and it is these which ultimately prove to be the interface between the criminal and the financial sector

Contd..

clearly explains that the money launderer uses transfers, sales and purchase of assets, and changes the shape and size of the lump of money so as to overshadow the trail between money and crime or money and criminal.

Invest:

The criminal spends the money: he/she may invest it in assets, or in his/her lifestyles.

Criminals of Money Laundering

- Drug dealers – Drug trafficking
- Mobsters / Gang members - Extortion
- Bad politicians – Corruption
- Bad public officers - Corruption
- Embezzlers - Fraud
- Terrorists – Terrorist activities



people smuggling



arms trafficking



tax evasion



theft



drug trafficking

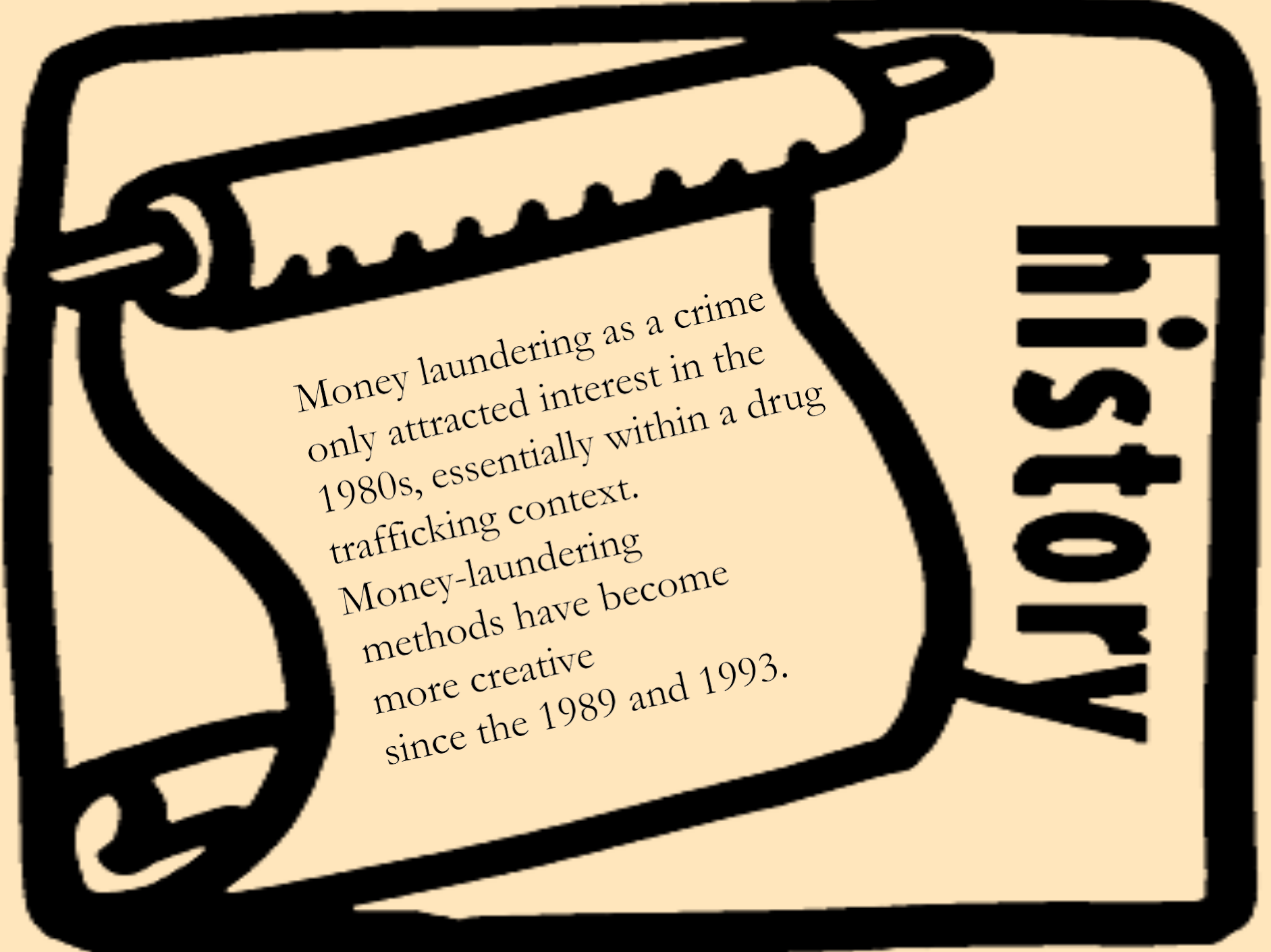


corrupt practices



terrorism





Money laundering as a crime only attracted interest in the 1980s, essentially within a drug trafficking context. Money-laundering methods have become more creative since the 1989 and 1993.

history

History/Background:

- **Terrorist financing, although only one aspect of money laundering, has become a critical concern following the events of September 11, 2001.**
- **The international dimension of money laundering was evident in a study of Canadian money laundering police files. They revealed that over 80 per cent of all laundering schemes had an international dimension.**

GLOBAL MONEY LAUNDERING



Money Laundering & Globalization

- ❖ The 20th Century was characterized by a number of structural changes in the World economy. In the last decade of this century, Globalization became the buzz word: bringing together nation states to make the world a “global village” .
- ❖ The main pillars of this process were Liberalization and Deregulation of national economies.
- ❖ Some of the prominent changes in this century were rapid developments in financial information, exponential growth of technology and communication which allowed money to move anywhere in the world with speed and ease.

Money Laundering & Globalization

- ❖ These developments combined, created both opportunities and risks for the society. One of these risks is the increase crime and criminality. **The phenomenon of money laundering is an aspect of organized crime**
- ❖ The society witnessed the proliferation of organized criminal groups, operating across national boundaries and sovereignties

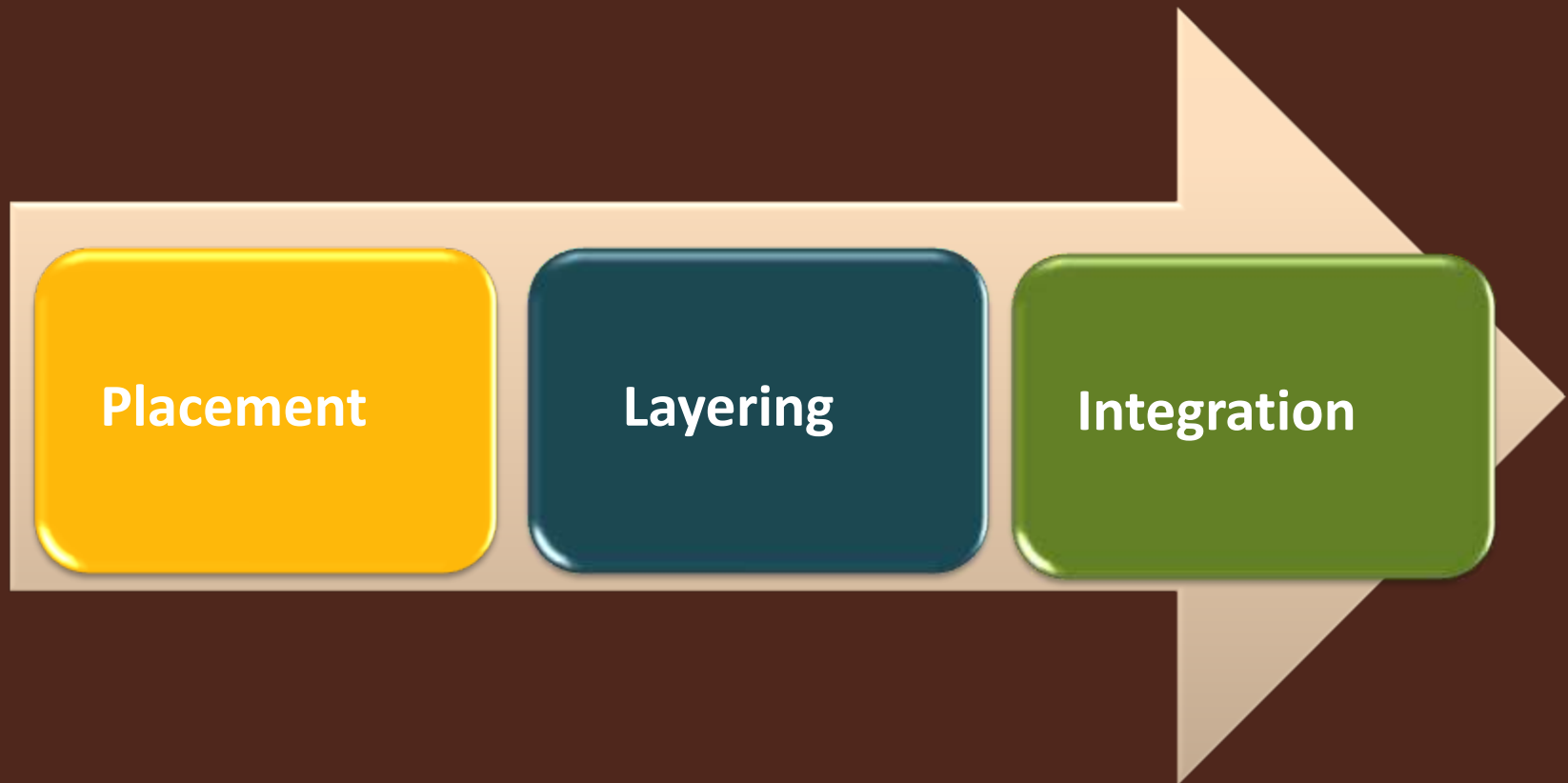
How much money is laundered every year?

- ❑ Since money laundering is an illegal activity therefore one can only estimate the amount of money laundered every year.
- ❑ The International Monetary Fund, for example, had stated in 1996 that the aggregate size of money laundering in the world could be somewhere between 2- 5% of the world's gross domestic product
- ❑ This is \$800 billion - \$2 trillion in current US dollars.

PROCESS OF MONEY LAUNDERING



PROCESS OF MONEY LAUNDERING

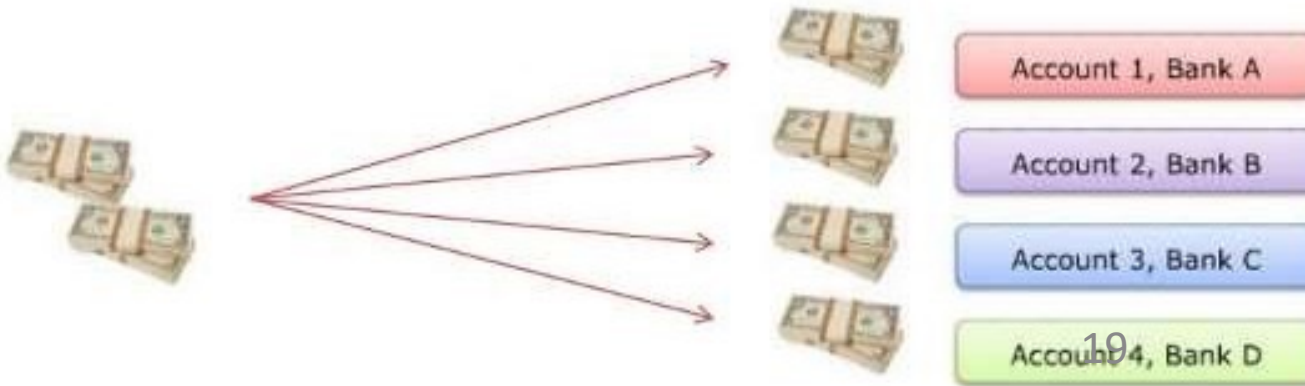


PLACEMENT

- **Placement** refers to the physical disposal of bulk cash proceeds derived from illegal activity.
- This is the first step of the money-laundering process and the ultimate aim of this phase is to remove the cash from the location of acquisition so as to avoid detection from the authorities.

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LAYERING

Layering is the movement of funds from institution to hide their origin.

- It consists of putting funds, which have entered the financial system, through series of financial operations to mislead potential investigators and to give the funds the appearance of having legal origins.
- Again, obscuring the source is the key.
- Launderers may purchase expensive items such as jewelry, yachts, or cars in order to change the money's form.

INTEGRATION

- **Integration** refers to the reinsertion of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds.
- The funds may be reintroduced in the economy through, for instance, the purchase of luxury items or through investment in assets such as shares in a company or real estate.

HOW MONEY LAUNDERING WORKS:



Collection of dirty money

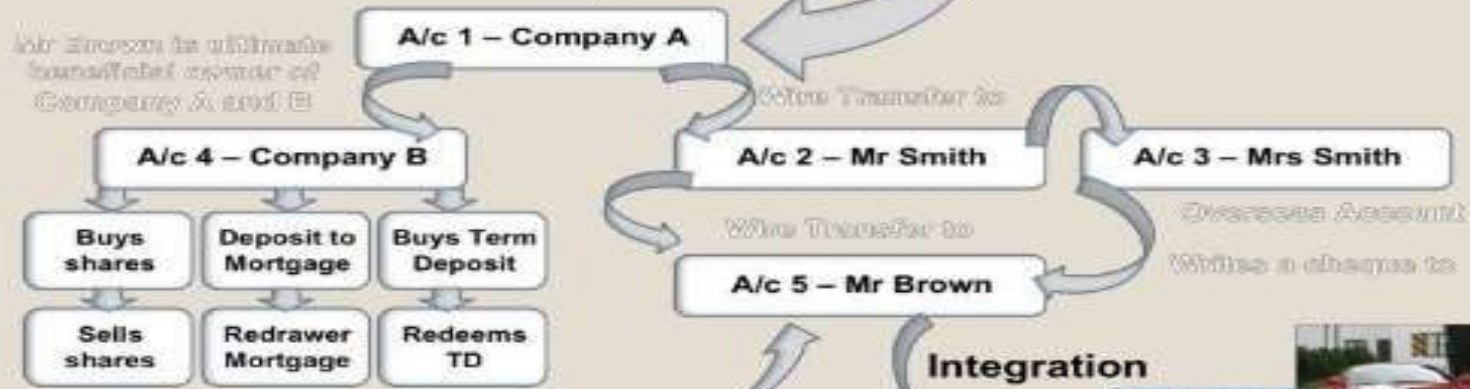


- Cash deposit
- Cheques deposit
- Wire Transfer



Dirty money integrates into the financial system

Layering



Proceeds of transactions wired to Mr Brown's account

Integration



Luxury goods purchased with proceeds of crime

Circulation of funds between related accounts to disguise their origin.

2/9/2017

Money Laundering Techniques

- **Bulk cash smuggling** involves literally smuggling cash into another country for deposit into offshore banks or other type of financial institutions that honour client secrecy.
- **Structuring** also referred to as “smurfing,” is a method in which cash is broken down into smaller amount, which are then used to purchase money orders or other instruments to avoid detection or suspicion.

Contd...

- **Cash-intensive business** occurs when a business that legitimately deals with large amounts of cash uses its accounts to deposit money obtained from both everyday business proceeds and money obtained through illegal means. Businesses able to claim all of these proceeds as legitimate income include those that provide services rather than goods, such as strip clubs, car washes, parking buildings or lots, and other businesses with low variable costs.

Contd...

- **Trade-based laundering** is in which invoices are altered to show a higher or lower amount in order to mask the movement of money.
- **Shell companies** and trusts are used to disguise the true owner or agent of a large amount of money.
- **Bank capture** refers to the use of a bank owned by money launderers or criminals, who then move funds through the bank without fear of investigation.

Contd...

- **Real estate laundering** occurs when someone purchases real estate with money obtained illegally, then sells the property. This makes it seem as if the profits are legitimate.
- **Casino laundering** involves an individual going into a casino with illegally obtained money. The individual purchases chips with the cash, plays for a while, then cashes out the chips, and claims the money as gambling winnings.

Causes Of Money Laundering

- **Absence of legislation**
- **Evasion of tax**
- **Increase in profits**
- **To make black money appear white money**
- **Limited risks of exposure**

OBJECTIVES OF MONEY LAUNDERING

- **The main objectives of money launderers are thus to place their funds in the financial system without arousing suspicion, to move them around, often after a series of complex transactions crossing multiple jurisdictions so that it becomes difficult to identify their original sources, and finally to move the funds back into the financial and business systems so that they appear legitimate.**

OBJECTIVES OF MONEY LAUNDERING

- **Money laundering is performed systematically and clandestinely, making it difficult to identify exactly how much money is involved, what methods are employed and what the magnitude of the problem is.**

OBJECTIVES OF MONEY LAUNDERING

- **Hide:** to reflect the fact that cash is often introduced to the economy via commercial concerns which may knowingly or not knowingly be part of the laundering scheme, and it is these which ultimately prove to be the interface between the criminal and the financial sector
- **Move:** clearly explains that the money launderer uses transfers, sales and purchase of assets, and changes the shape and size of the lump of money so as to obfuscate the trail between money and crime or money and criminal.
- **Invest:** the criminal spends the money: he/she may invest it in assets, or in his/her lifestyles

CRIMINALS OF MONEY LAUNDERING

Drug Dealers:

Drug dealers usually deal with large amounts of cash, making it difficult for authorities to make a paper trail.
Large amounts of cash raise red flags.



CRIMINALS OF MONEY LAUNDERING

Mobsters/ Gang members:

Like drug dealers, these individuals (in a group form) perform many cash transactions while maintaining safe networks overseas.



Bad Politicians: With greater access to money and lobbyist networking, the act of money laundering can seem to be one of the best way to protect one's assets.

Bad Public Officials: Mainly, anyone in a position of authority whose actions normally go unquestioned will take advantage of an opportunity like this

Embezzlers: Cases have proven that people who have taken money from an employer or their own place of business will normally partake in activities to hide these newly acquired assets.

CRIMINALS OF MONEY LAUNDERING

Terrorists:

Terrorists are big in money laundering. Terrorist activities must be financed; otherwise explosives and other weaponry would not be an obtainable asset.



CAUSES OF MONEY LAUNDERING



CAUSES OF MONEY LAUNDERING

Absence of legislation
Evasion of tax
Increase in profits
To make black money appear white money
Limited risks of exposure



people smuggling



arms trafficking



tax evasion



theft



drug trafficking



terrorism



corrupt practices

Absence of Legislation Against Money Laundering:

Absence of legislation against money laundering give a free hand to criminals. sometimes governments itself is involved they do this to win political rivals, to please their allies and to strengthen their rule. Also CBR (Central Board of Revenue) has never bothered to unearth laundered money, rather always joined hands with the and money launderers.



Evasion of Tax:

Tax evaders launder money so that they can lie about where money and assets came from in order to evade tax. And sometimes they simply operate outside that part of the economy where records are kept.



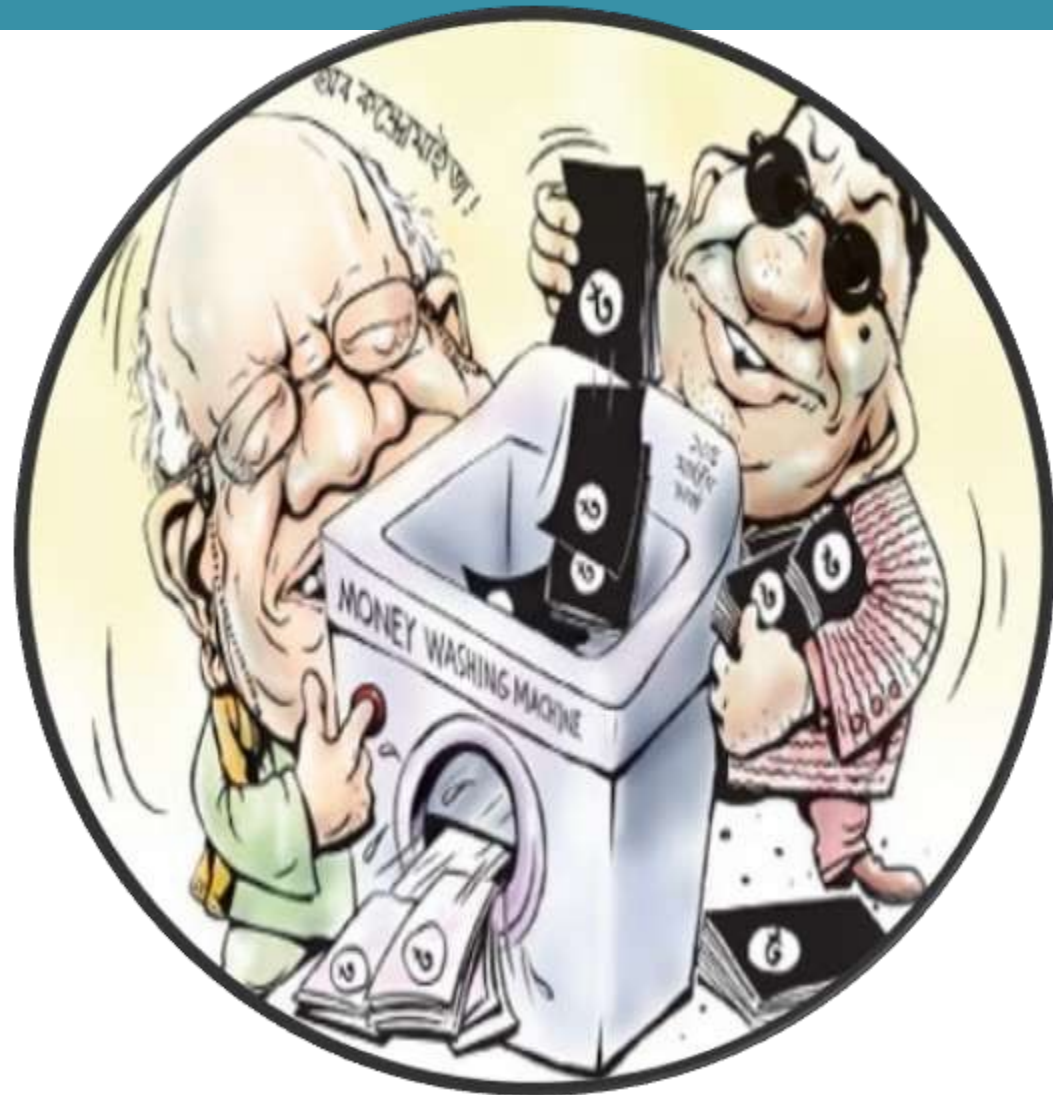
Increased Profits:

When people have incentive for more profit in any particular area, such as in production and trading of drugs, arms, and across the borders trade, they start taking risk to earn higher profits.



To Appear Black Money Legitimate:

In money laundering, black money usually becomes legitimate after a series of process. And less risk is involved of being caught. This doesn't happen in other economic crimes. So in order to appear their money more legitimate they go for money laundering.



Limited Risks:

The availability of multiple opportunities for personal enrichment without the risk of being exposed is another cause of money laundering. Such economic environments are much more conducive to make black money.



EFFECTS OF MONEY LAUNDERING ON ECONOMY



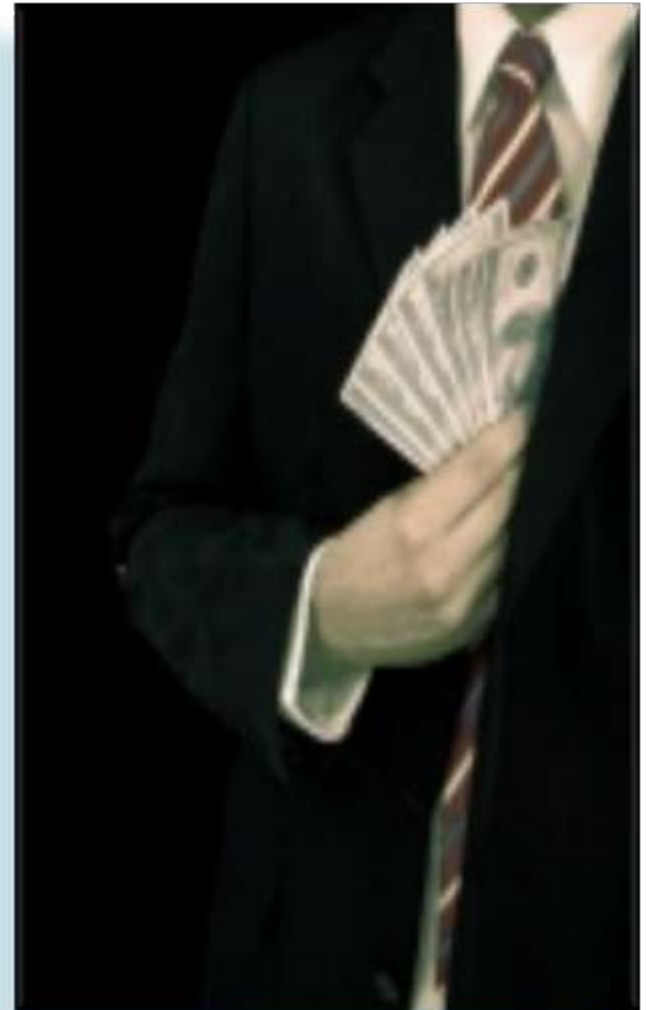
Economic Distortion and Instability:

Money launders "invest" their funds in activities that are not necessarily economically beneficial to the country. They redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer.



Money Laundering Facilitates Corruption and Crime:

Money laundering reduces criminals cost of crime, thereby increasing the level of crime. Lax anti-money laundering policies encourage the criminal activities and corruption.



Loss of Control of Economic Policy:

Some phases of money laundering transactions are "underground" or in the informal sector of the economy, such transactions do not appear in official monetary and financial statistics, thus giving misleading information to policymakers and leads to misallocation of resources.

Undermining the Integrity of Financial Markets

Large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, This can result in liquidity problems to financial institutions.

Indeed, criminal activity has been associated with a number of bank failures around the globe.

Risks to Privatization Efforts:

A large pile of US dollar bills, including \$100 and \$50 bills, overflowing from a yellow money bag with a dollar sign on it. The background is a light blue gradient.

- ❑ **Privatization can also serve as a vehicle to launder funds. Criminal organizations have funds to purchase formerly state-owned enterprises and use them for their own interests.**

Reputation at stake:

- **The reputation of a country and its financial institutions can be tarnished by an association with money laundering. The negative reputation that results from these activities diminishes legitimate global opportunities and sustainable growth while attracting international criminal organizations with undesirable reputations and short-term goals. This can result in diminished development and economic growth.**

Money Laundering distorts capital and trade flows

- **Laundering of outbound illicit funds constitutes the facilitation of illicit capital flight, which drains resources from developing economies, and extensive money laundering of all forms can deter legitimate inward foreign direct investment (FDI). The obvious effect of illicit capital flight is to worsen the scarcity of capital in developing countries.**

Evasion of Tax:

- **Laundered money is usually untaxed, meaning the rest of us ultimately have to make up the loss in tax revenue. People who indulge into money laundering do not declare the funds to the tax authorities. As a result taxes are not paid for the ill-gotten funds. This effectively reduces tax revenues for the governments and ends up damaging economic development.**

EFFECTS OF MONEY LAUNDERING ON SOCIETY:



Increase In Criminal Activities:

Money Laundering allows drug traffickers, smugglers, and other criminals to expand their operations. This drives up the cost of government due to the need for increased law enforcement and health care expenditures (for example, for treatment of drug addicts) to combat the serious consequences that result.

Concentration of Power To Criminals

Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. As the economic power is in the hands of criminals so they have a corrupting effect on all elements of society. In extreme cases, it can lead to the virtual take-over of legitimate government.

Undermines Democracy:

The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society.

EFFECTS OF MONEY LAUNDERING ON BUSINESS:

If funds from criminal activity can be easily processed through a particular business, either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes all stakeholders of company i.e. shareholders, suppliers, customers, employees etc.

Absence of legislation against money laundering

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Effects of Money Laundering

- Effects of money laundering on Economy**
- Effects of money laundering on society**
- Effects of money laundering on Business**

Effects of money laundering on Economy

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Anti-Money Laundering Laws

Anti-money laundering laws reflect an effort made the government to stop money laundering methods that involve financial institutions. Under the guidelines set forth by anti-money laundering, or “AML” financial institutions are required to verify large sums of money passing through the institution, and they are required to report suspicious transactions. It is estimated that money laundering is so prominent globally, that it is impossible for the Financial Action Task Force to produce estimates or figures as to its scope.

Prevention of Money Laundering Act, 2002 (PMLA)

It is an act to prevent Money Laundering and to provide for confiscation of property derived from, or involved in, money laundering and to punish those who commit the offence of money laundering.

WHO CAN INVESTIGATE A CASE OF MONEY LAUNDERING ?

As per Sections 48 & 49 of the PMLA, the officers of the Directorate of Enforcement have been given powers to investigate cases of Money Laundering. The officers have also been authorised to initiate proceedings for attachment of property and to launch prosecution in the designated Special Court for the offence of money laundering.

What are the possible actions which can be taken against persons / properties involved in money laundering?

1. Attachment of property under sec 5.

1. Where the Director, or any other officer not below the rank of Deputy Director authorised by him for the purposes of this section, has reason to believe (the reason for such belief to be recorded in writing), on the basis of material in his possession, that:-

2. (a) any person is in possession of any proceeds of crime;

3. (b) such person has been charged of having committed a scheduled offence;

2. Imprisonment for a term not less than 3 years, it may extend up to 7 years and shall be liable to fine which may extend to 5 Lakh rupees. (It may extend up to 10 years and In case offence is punishable under the Narcotics and Psychotropic substances Act, 1985)

3. The prosecution or conviction of any legal juridical person is not contingent on the prosecution or conviction of any individual.

Financial Action Task Force (FATF)

- It was formed in 1989 by a coalition of countries. This intergovernmental agency was designed to develop and promote international cooperation for combating money laundering.**
- As of 2015, the FATF is comprised of 34 different countries, but the agency is always seeking to expand its membership to more regions.**
- Headquartered in Paris, France, the FATF also works to combat the financing of terrorism.**

FATF

The FATF has developed recommendations to combat money laundering, and the agency has three functions in regards to this criminal activity:

- Monitoring the progress of member countries in their anti-money laundering measures**
- Reviewing trends and techniques in money laundering, reporting these, as well as new counter measures, to member countries**
- Promoting FATF anti-money laundering measures and standards globally**

Bank Secrecy Act

- The Bank Secrecy Act (the “BSA”) also known as Currency and Foreign Transactions Reporting Act was enacted by US Congress in 1970, as an effort to combat the use of financial institutions in money laundering crimes. The Act contains laws that require financial institutions to report certain transactions to the United States Department of Treasury, including transactions in excess of \$10,000(cash transactions on daily aggregate basis).**
- The institutions must also file a Suspicious Activity Report, or “SAR,” if they consider any financial transaction suspicious or believe the funds comes from unlawful activities. The Act is also responsible for the creation of the Financial Crimes Enforcement Network, which makes reports of money-laundering or suspicious activity available to criminal investigators around the world.**

Other Anti-Money Laundering Regulations

- **The Money Laundering Control Act of 1986**, which prohibits engaging in any transactions involving proceeds generated from illegal activities.
- **The 1988 Anti-Drug Abuse Act**, which expanded the definition of “financial institution” to include car dealers and real estate personnel, requiring them to file reports on transactions involving large amounts of currency.
- **The Money Laundering Suppression Act of 1994** requires banks to develop and institute training in anti money laundering examination procedures.

Contd..

- **The 1992 Annunzio-Wylie Anti-Money Laundering Act, which requires more strict sanctions for violations of the BSA, and requiring additional verifications, recordkeeping, and reporting for wire transfers.**
- **The Money Laundering and Financial Crimes Strategy Act of 1998 requires banking agencies to develop training for examiners.**
- **Unfortunately, as these money laundering regulations are put into place, criminals work to find new methods to prevent their activity from becoming detected or considered suspicious.**

The Role of Financial Institutions in Combating Money Laundering

In this age of electronic transactions to and from financial institutions around the globe, anti money laundering laws attempt to quell money laundering by requiring these institutions to identify and report suspicious activities. Technology has also paved the way for anti-money laundering software, detects large increases in account balances or large withdrawals, and which filters data and classifies it according to levels of suspicion. Software is also used to detect transactions with banking institutions in blacklisted or hostile countries. When such transactions are identified, the program alerts bank managers who then study the information and decide whether it should be reported to the government.

Penalties for Money Laundering

The penalties for money laundering vary greatly depending on the circumstance and the amount of funds involved. The penalties may also vary if the acts occurred in more than one jurisdiction. In addition to imprisonment, punishment for money laundering may include large fines, restitution, and community service. Typically, more the money involved, the harsher the punishment.





Global Economics of Money Laundering

**Economic Impacts of Money Laundering and Countering it in a
New Collaborative Strategy**



Hypothesis

The proper design of AML regulations and institutions willing to detect and report depends on a joint collaborative global effort.

Quote:

**“It’s bad to talk about money-laundering. Instead you talk about asset-management structure and tax beneficial schemes.”
(John Sweeney)**

Paper Overview

Strategies to improve AML compliance in a multinational bank

Economic Consequences of inadequate AML program

Loss of Banks' Operational Integrity and financial Stability as an Effect of Money Laundering

Establishment of communication channels and cooperation with other banks to reduce money laundering

Improved technological software hastens the detection of unusual financial transactions





Talking Points

- 1 Economic and Unintended Consequences**
- 2 Operational Strategy**
- 3 Software Detection**
- 4 Communication Establishment**



Project Purpose

How does Money Laundering link into economic crime?

Money laundering offence is ALWAYS a secondary offence resulting from the involvement of handling the proceeds of crime. It can not exist alone, but money laundering automatically happens when relevant illegal activities (primary offence) generate any form of assets that are then handled or processed further on.

Which industries exposed to AML?

Banks and Other Depository Institutions

Electronic banking and fund transfer

Third party payment

Correspondent Accounts (Domestic/Foreign)

Private Banking and etc. Non-Bank Financial Institutions

Credit card industry • Money remitters and Money

Exchange house • Insurance companies • Securities

Casino and Gambling businesses

Dealer in high value items (Jewellery, Precious Metals, Art, etc.)

Travel agencies • Vehicle sellers • Accountants, Auditors, Lawyers

Trust and Company Service Providers (TCSP) • Real Estate



Economic and Unintended Consequences

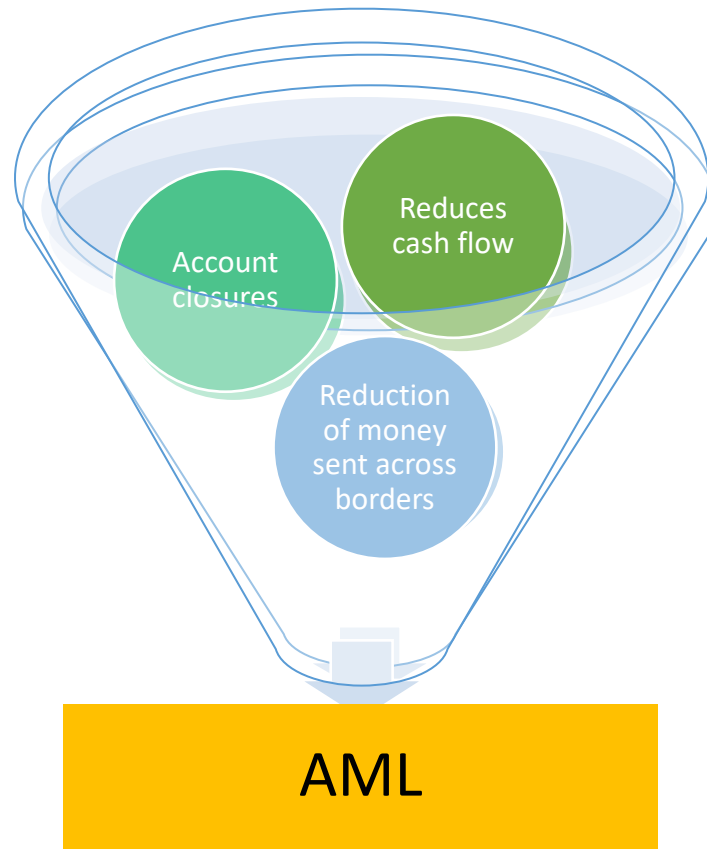




Financial Action Task Force (FATF)

- **Established in 1989 at G-7 in Paris.**
- **Created to regulate and deter money laundering.**
- **Introduction into the banking systems throughout the world.**

Unexpected Consequences of AML



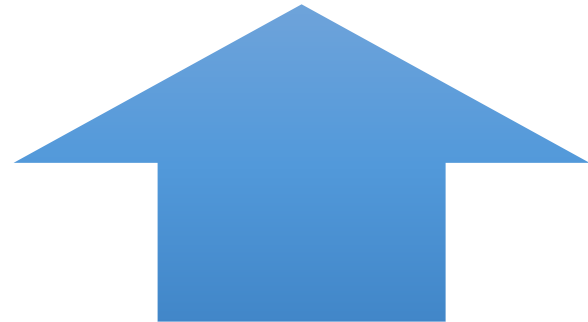
How AML Changed Banking



**Large-scale
account closures**

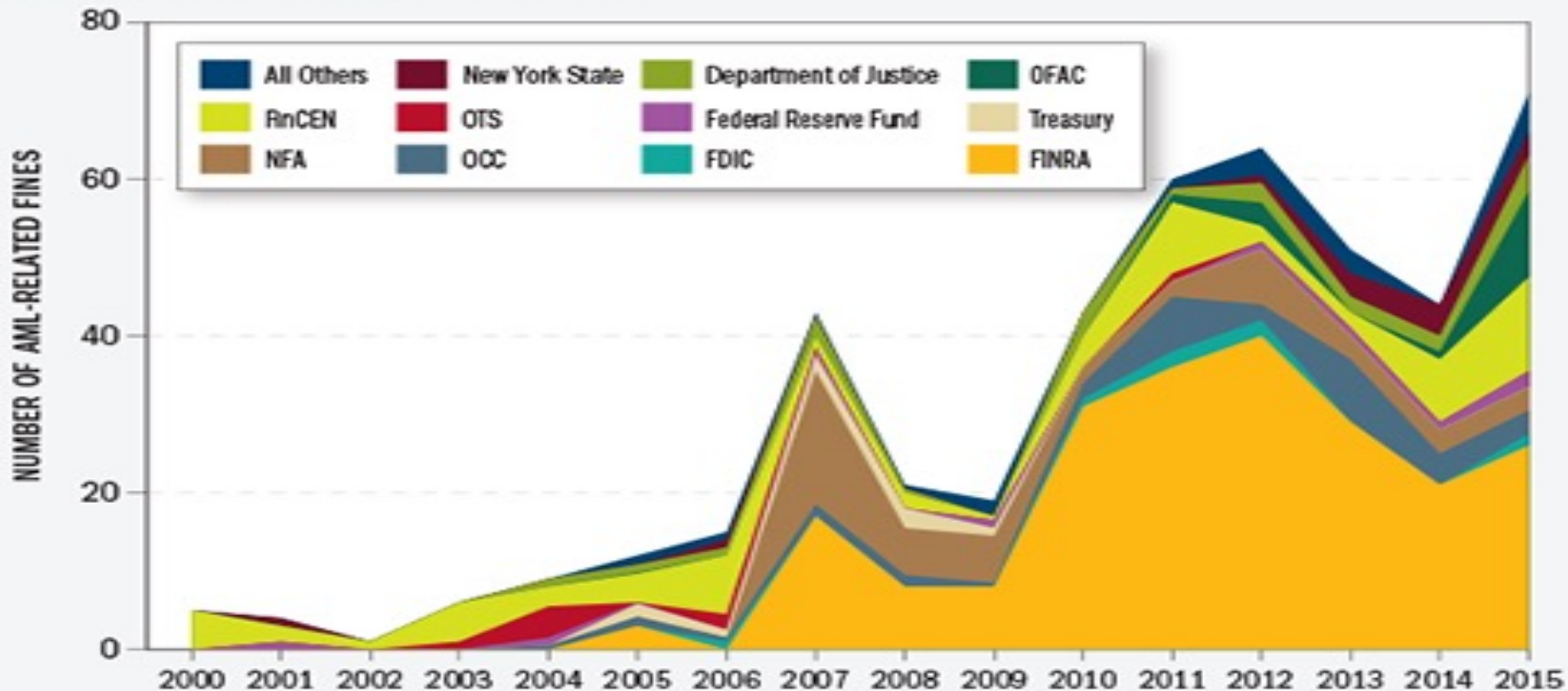


“De-risking”



Fines Issued

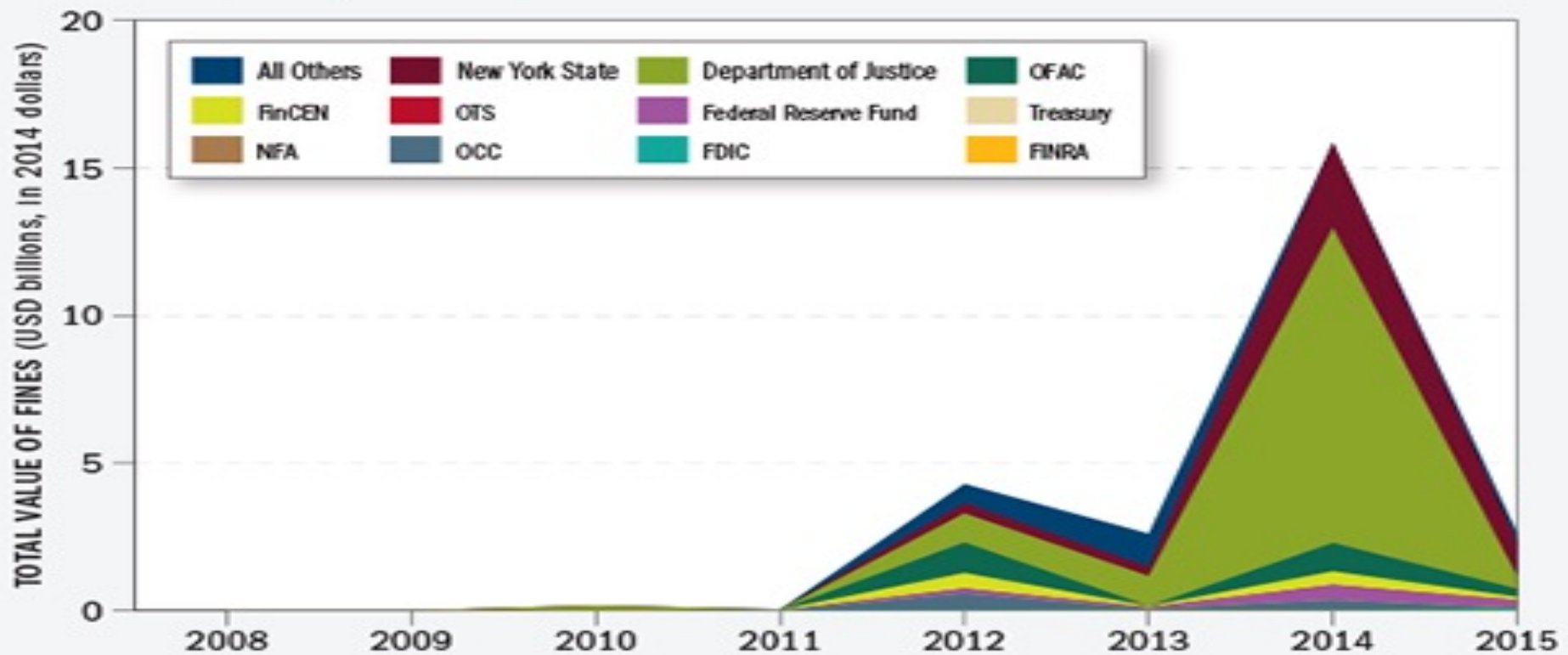
FIGURE 1: NUMBER OF AML-RELATED FINES BY U.S. REGULATORS, 2000-2015



Source: Data compiled from ACAMS reports of enforcement actions.⁷

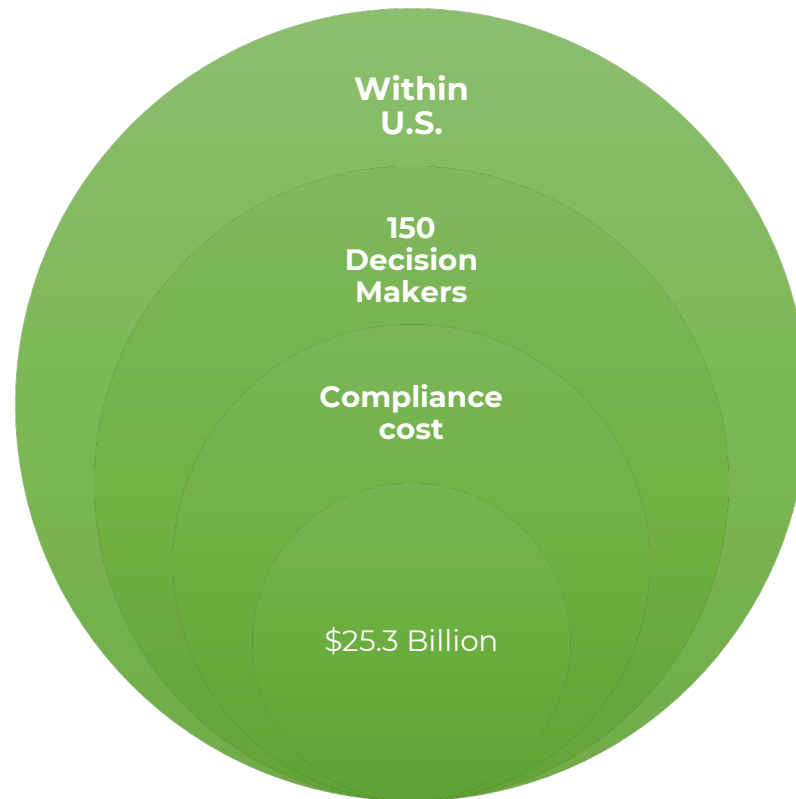
Financial Repercussions

FIGURE 2: VALUE OF AML-RELATED FINES BY U.S. REGULATORS, 2008–2015



Source: Data compiled from ACAMS reports of enforcement actions.

Ongoing Cost of Maintenance



A photograph of a modern building's interior, featuring a large, curved, multi-level atrium with a complex, geometric ceiling structure. The space is illuminated with warm, golden light, and several people can be seen walking on the upper levels. The overall atmosphere is one of architectural grandeur and modern design.

Understanding Operational Strategy



Risks Financial Institutions Face

- **Strategic**
- **Compliance**
- **Reputational**
- **Operational**



Strategic Risk

- **Opposing business decisions, improper implementation of decisions, lack of responsiveness to industry changes**
- **Function of the compatibility of the institution's strategic goals, and the strategies in achieving the goals**



Compliance Risk

- **Violations or noncompliance with laws, rules, regulations, practices, internal policies and procedures, or ethical standards**
- **Exposes the institution to fines, money penalties, payment of damages, and voiding of contracts**
- **Lead to decrease in reputation and limited opportunities for new market expansion**



Reputational Risk

- **Negative opinion or perception**
- **Impacts the ability to establish new relationships or to continue serving current market**
- **May expose the organization to lawsuits, financial loss, or a decline in customer base**



Operational Risk

- **Fraud or error that result in the inability to deliver services, maintaining a positive market position, and management of information**
- **Function of processes, people, systems, and external events**
- **Exists daily in financial institutions**



Money Laundering Impacts

- **Individual attempts to alter the monetary proceeds obtained from an illegal activity into funds with a seemingly legal source**
-
- **Left unchecked, may eliminate the operational integrity and financial stability**
 - **Misallocation of resources from falsification of assets**
 - **Protecting funds, rather than economic benefit**



AML Program Non-compliance

- **Consequences may include:**
 - **Regulatory enforcement actions**
 - **Penalties**
 - **Seizure of funds**
 - **Imprisonment of individuals involved**
- **Recent non-compliance:**
 - **US Bank - 2018**
 - **HSBC - 2012**



Effective AML Governance Framework

- **Culture of compliance**
- **Established policies and procedures**
- **Training and adequate use of resources**
- **Ongoing monitoring of outlined metrics**
- **Independent review of effectiveness**

Software Detection



Software Detection Strategies

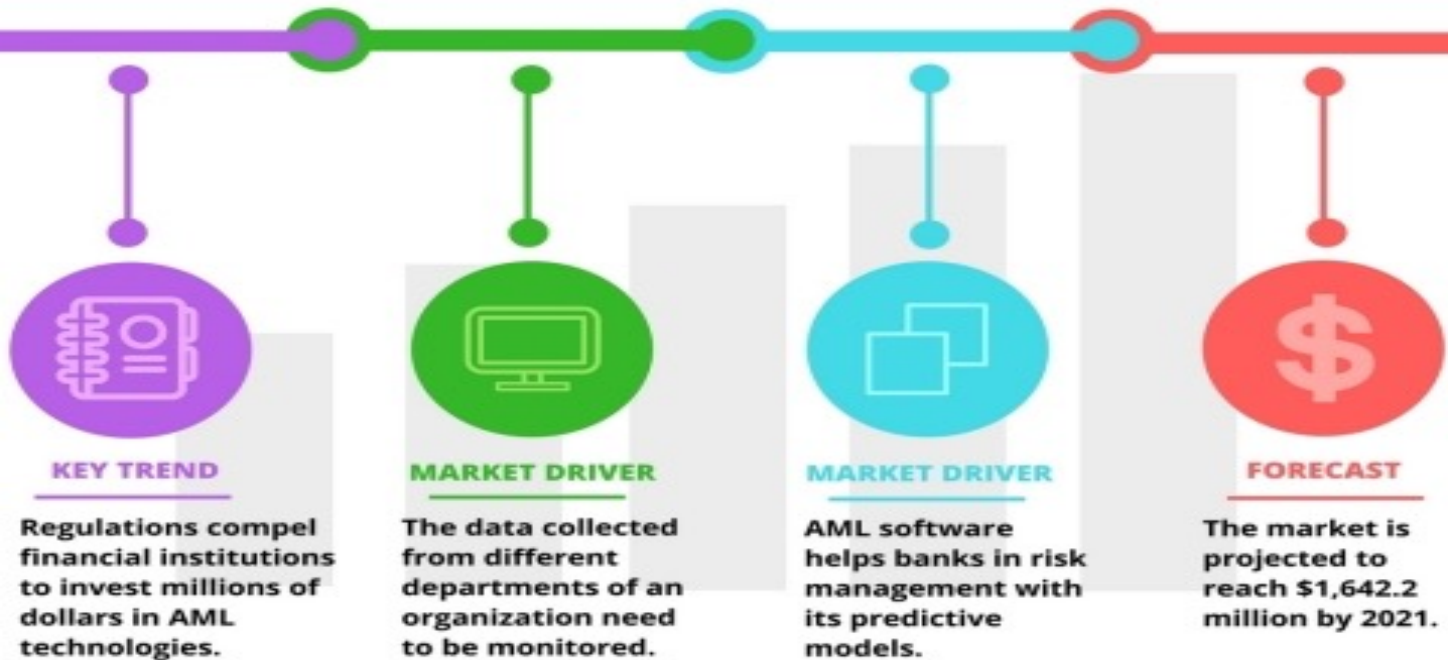
- **ADS- ALERTING AND DETECTING STRATEGIES**
- VALIDATION STRATEGIES**
- TWO-PERSON RULE**
- LACK OF TRAINED ENGINEERS**
- CRYPTOGRAPHY AND CYBERSECURITY**

Project Objective

**An Integrated
Collaborative
Framework
and Compliance
Strategy.**



GLOBAL ANTI MONEY LAUNDERING SOFTWARE MARKET





Establishing Communication





Internal Communications

Biggest factors that leads to ML occurring:

1: Lack of communication between departments

2: Ignoring established procedures

Both issues solvable by working groups



What are Working Groups?

A working group consists of employees from a wide range of departments, including:

AML/Anti-Fraud teams: Experts on combating money laundering

IT employees: Bulk of compliance work requires on efficient/effective communications

Legal Department: Will help guarantee compliance with law, provides expert opinions on legal issues in a timely fashion

Senior Management: Helps provide other members of working group with feedback from company leadership

Middle Management: Responsible for implementing AML or anti-fraud procedures



External Communications

- **Regulators often expect all AML functions in banks to be standardized across international lines**
- **Ultimate goals are standardization, centralization, and optimization**
- **Similar to internal issues, to successfully combat ML banks need concise external communication**

Money Laundering In Pakistan



Money laundering is the method used for transferring money earned through clandestine means¹ to or from a foreign land without paying the tax applicable on the transferred amount.² It can also be defined as converting illicit monetary assets into legitimate possessions.³ Money laundering is recognized as a crime in domestic law worldwide. It is also considered a thought crime.⁴ The United States Treasury Department has defined money laundering as disguising financial transactions and funds that are used by terrorists or other criminals for their illicit purposes.⁵ Money laundering can be carried out through several kinds of financial and commercial activities, for instance digital money transfers, cash transactions, credit card payments, offshore property building, and wire transfers, Money laundering can be carried out through several kinds of financial and commercial activities, which include supposedly legal actions such as digital money transfers, cash transactions, credit card payments, offshore property building and wire transfers.⁶ Money is also laundered through trading, drug trafficking, smuggling, etc., thus allowing Anti-Money Laundry (hereinafter A.M.L.) international financial and legal authorities to describe money laundering as an illegal activity⁷ that is intertwined with other serious crimes.⁸ Notably, the financing of terrorist and other criminal organizations is also conducted through the channels of money laundering

There are various ways to launder money, each method having a certain level of complexity associated with it. Nonetheless, money launderers almost always perform the following interlinked three steps:

- 1) placement, or structuring, of funds;**
- 2) layering; and**
- 3) integration.**

The only exceptions include cases that involve non-cash funds that might already be present in the fiscal system.

The methods and magnitude of money laundering, and its causes and effects, in different countries, including Pakistan, the United Kingdom (U.K.), and the United States (U.S.), will be elaborated in this paper, along with the measures for preventing the crime, regionally as well as internationally.

CAUSES, METHODS, AND EFFECTS OF MONEY LAUNDERING

CAUSES OF MONEY LAUNDERING

Several factors give rise to money laundering, and they may be present within a country or state, or might operate transnationally. Some of the most prominent factors that lead to money laundering are discussed below.

TAX EVASION

Tax evasion leads to the hiding of financial assets owned by a person or company to evade taxes, people hide their assets and the sources of their earnings. Generally, the rationale behind avoiding paying taxes is accumulating wealth. Moreover, some people do not give a portion of their wealth to the government, particularly if they feel that their tax money would not benefit their well-being or if they have no concern for the public good.

Tax evaders might also perform manipulations of their tax forms by not reporting the correct amount of income that they get from different sources. Upon fearing that the authorities might track their concealed monetary and nonmonetary assets and earnings, they either transfer their money to foreign banks, or invest in property ventures furtively by hiding their identities and reassigning ownership of their nonmonetary assets and property into someone else's name, usually that of a family member without the will or capacity to control that asset independently. This constitutes tax evasion if the transferred property is not shown on income tax returns and can lead to money laundering if the cash or property is transferred to foreigners' accounts surreptitiously. This type of laundering is also performed by politicians, especially those who are in or seeking power. They hide their monetary and nonmonetary wealth assets or transfer them to foreign lands to avoid scrutiny by tax authorities. Hence, this crime is performed by the "will" of politically powerful elites, whose influence surpasses the authority of A.M.L. authorities and, thus, the practice continues until they lose their political influence or power.

WEAK FINANCIAL REGULATIONS

Another cause of money laundering is the weakness and inadequacy of financial regulations and relevant authorities within a country. For instance, if the tax department is not strong enough to question the politicians, elites, and general public about their earnings and “monetary and nonmonetary” assets, then it is not difficult for people to hide taxes and perform money laundering by buying property in relatively more stable but offshore economies.

Money laundering and tax evasion are crimes which need to be curbed by the financial regulatory authorities and institutions. The financial regulatory authorities in each country need to re-examine their policies and financial regulatory principles to check if they can be implemented effectively or if there are any loopholes that might allow politicians and the elite classes to conceal the details and sources of their assets, as well as destinations of money that they receive or transfer to foreign regions at any given time.

BRIBERY

Bribery is also linked to weak financial regulations as financial regulatory authorities or airport officials might be bribed by money launderers to allow them to transfer funds abroad without paying the applicable taxes and by not tracking down the sources or destinations of the money. This paves the way for secured money laundering facilitated by the officials of airport authorities. As a consequence, the money illegally moves out of the country.

CORRUPTION

Corruption is unethical conduct aimed at gaining personal benefits by using either authority or bribery. Politicians, statesmen, ministers, etc. hide the monetary and nonmonetary assets that they earn illegitimately, i.e., through means of corruption. For instance, they might take bribes and would prefer to transfer the bribe money into foreign banks or other investments. They would thus avoid transferring it to local or personal bank accounts so that local financial auditing authorities do not discover the bribe amount. Hence, their corruption causes a flow of cash to foreign banks or causes them to hide their financial assets as well as the sources of earning, which leads to money laundering. It is of paramount importance we curb corruption in order to prevent this form of crime

FAILURE OF BANKS IN DETECTING LAUNDERED MONEY

Another reason for the untracked facilitation of money laundering is the failure of banks to detect and report the money in their reserves that is being laundered. Huge sums of money are transferred by money launderers to foreign banks, and some accept without carrying out any effective inspection as to their source.

Unfortunately, there is no automated mechanism devised worldwide to accurately track down the source of money; neither do most banks usually pay any attention to it because of the costs associated with it. Furthermore, there is no incentive to use resources to investigate the money that has been placed in their financial reserves. Therefore, the issue remains untouched and unrestrained, and causes banks not to perform sufficient scrutiny over the funds that reach their branches through wire transfers or any other means, which consequently encourages money launderers to transfer funds to foreign banks without any threat of being accountable for the actual source of the money. For example, in 2010 H.S.B.C. was convicted of being involved in money laundering as it did not scrutinize the movement of laundered cash that its different branches worldwide were receiving and transacting.³ Consequently, the bank was fined \$1.9 billion by the international financial regulatory and A.M.L. authorities.

BORDERS

Online financial transactions and the smuggling of cash through airports are not the only means of laundering money. Cash is also smuggled physically through borders, particularly in those countries where there is weak or no vigilance over cross-border trafficking. For instance, this practice is more common across the international borders of countries where the border area is either mountainous or too long to control and monitor strictly and continuously, e.g., across the Mexico–U.S. border or the Afghanistan–Pakistan border. The money launderers, in such a case, act as smugglers and either cross the border themselves or assign the chore to their loyal followers. Drug lords prefer to launder money by smuggling cash in return for drugs and vice versa. This is the quickest and safest mode of money laundering for them as they do not have to create any bank accounts and never have to show their identity during online transactions. They remain undercover and get money through furtive sources of money laundering.

This issue has affected the peace of the countries where the smuggling of cash and weapons is taking place across borders.⁴¹ There have been reported cases in which the smuggled currency has been used for illegitimate purposes, i.e., mostly for financing terrorist and anti-state activities in these countries.

THE METHODS OF MONEY LAUNDERING

There are also several methods that smugglers and money launderers use to perform the crime of money laundering without bringing it to the attention of any A.M.L. authorities

STRUCTURING OF MONEY

This method entails the division of large amounts of cash, which need to be laundered, into smaller amounts. Each divided amount is then transferred, through money orders, online transactions, cash deposits, etc., to foreign banks. The nontaxable sum, which can be legally traveled with, can also be taken to the foreign country by traveling legitimately. The scheme of dividing a sum of money into smaller portions and transferring the portions is also termed “smurfing.” It generally includes the first stage of money laundering—the placement of funds in foreign banks—either through online transfers, wire transfers, money

SMUGGLING

This method involves taking bulk cash to a foreign country by deceiving the airport or border authorities of the actual amount of money being displaced. This amount is then deposited into a bank of that foreign country, where the money laundering laws might be weaker or not strictly enforced. This is considered to be the most common method of money laundering.

LAUNDERING THROUGH TRADE

Money laundering through trade happens when invoices are either undervalued or overvalued costs, respectively. Traders often accomplish this by providing fake invoices and accounts.



N.G.OS.

Founding a non governmental organization (hereinafter N.G.O.) and registering it in another country and providing funds to it can lead to money laundering if the N.G.O. is not making use of the funds for a noble cause for the local public.⁶¹ Some businessmen create trust organizations and give their money to them as a charity payment so that the charitable amount is not taxed; this therefore avoids taxation. If such an N.G.O. or trust organization is working in another country and the funds are provided to it in the foreign land illegitimately, then it certainly constitutes money laundering.

On the other hand, ironically, some N.G.Os. have also been reported to be linked with terrorist or anti-state elements, and the funds are generated to such elements through N.G.Os.⁶⁴ For instance, in Pakistan, after the attack on the Army Public School children in Peshawar, several N.G.Os. were banned from Pakistan by the Interior Ministry because those N.G.Os. were reportedly involved in anti-state activities and were also diverting their funds to finance terrorism.⁶⁵ Similarly, “madrassahs” and educational trust institutes that were receiving laundered money from abroad were also shut down by the Pakistani government.

ROUND TRIPPING

Round tripping is used for money laundering, as well as for tax evasion. This is a technique through which a company sells its assets to another company and then, at the same time, signs an agreement to buy some or all of the same assets at the same price. The selling and buying of assets liquefies the latter, facilitating their quick conversion into cash and vice versa. The cash can be moved abroad by labeling it as “foreign direct investment” (hereinafter F.D.I.) and is exempted from tax. For instance, an individual or a company might hire a foreign law firm or any other organization and pay it for their services; it then cancels the agreement exactly at the time when the money (fee) has been sent.

BANK CONTROL

In this method, money launderers become major shareholders of a bank in a foreign or local region where there is weak scrutiny related to money laundering. Hence, by making an investment in the bank and gaining some shares, the money launderers try to gain influence over the bank and perform money laundering through it without scrutiny as it becomes a major client of that bank. This kind of money laundering is very rarely identified because the financial regulatory authorities consider the movement of currencies from the bank as usual cash proceeds. Nonetheless, examples of investigating banks for money laundering cases exist in recent history; for instance, H.S.B.C. was fined \$1.9 billion after conviction for money laundering.

depict the “dirty money” as clean money that is included in their profit, and this constitutes money laundering. For example, a person enters a casino with huge sums of cash earned through illegal means. He plays the game for a while and gives all the cash to the casino. This cash is represented by casinos as a profit amount earned through gambling wins. However, it is not investigated whether the person who gave the cash to the casino might have originally worked for that casino or for a money launderer who is connected directly to the casino.

MONEY LAUNDERING THROUGH REAL ESTATE

Some criminals buy property with cash earned through illegal means and then sell the property to reacquire the cash, so as to justify it as legitimate money. As the illegitimate money is converted into legitimate earnings, it is considered laundered money. It is also possible that the price of that property may be underrepresented to reduce the taxable amount. This hides the exact amount of money spent on buying the property, and it is mainly done to evade tax.

FOREIGN EXCHANGE

Uncertified and unregulated foreign exchange companies also have a presence in different regions of several countries. These companies also collect remittances and then deliver the relevant amount of remittance to the families of the senders without notifying government authorities. These foreign exchange companies have multiple currencies with them and they usually transfer funds abroad upon the requests of the locals. Meanwhile, the government never notices that the foreign exchange companies are transferring funds abroad or are collecting cash that is sent to them from people from foreign lands as remittances. Hence, the government is deprived of the collection of remittances, as well as the taxes that it can get from the cash that is sent abroad. As a result, this method of currency exchange or remittances, which is also related to Hawala or Hundi, is illegal in most countries.

EFFECTS OF MONEY LAUNDERING

The effects of money laundering are socioeconomic in nature. Money laundering affects the nation's economy, as well as giving rise to several social costs. On the one hand, it spoils the strength of the economy by causing a corrosive impact; on the other hand, it acts as a social evil. Some of the major impacts of money laundering are discussed below.

ECONOMIC IMPACTS

Money laundering reduces the control of government over economic policy. It also raises the risk of the potential failure of banks, businesses, and government to implement economic policies. Furthermore, due to globalization, the impacts reach international monetary systems and can adversely affect international currencies and economies, depending upon the volume of money laundering.

Vulnerable Emerging Markets

Money laundering also affects emerging markets in those regions where it is established. Emerging markets are more vulnerable to the impact of money laundering because financial regulatory authorities give more attention to well-established and strong markets than to emerging ones.

For instance, cross-border trade can be an emerging market if the relations between the bordering countries have been recently established, as peaceful and agreements of economic cooperation and trade development have been signed. In such a case, if the encouragement of trade is greater than the oversight over trade, then the smugglers, drug lords, and even terrorists will benefit from it by moving their black money, drugs, and arms across the border to support their criminal activities there. Hence, the impacts of money laundering are both microeconomic and macroeconomic in nature.

Damage to the Private Sector

Damage to the private sector is another adverse effect that the money launderers cause to the economy of a nation. Money launderers often act through front companies, which acquire their funds. By acquiring large amounts of funds they can lower the prices of their services or products to a large extent to penetrate the market. They gain competitive advantage when other companies are not able to match their prices. Hence, intense competition can devastate existing small and medium-sized private companies because smaller companies usually lack sufficient capital to bear the brunt of price competition.

An example of this is the founding of a foreign exchange company, which may offer its services at a very low profit and then destroy the operations of other—certified—foreign exchange companies. Hence, that company will also proceed with money laundering activities without bringing it to the knowledge of the local government or by hiding the exact amount of the financial transactions that it carries out. Instances have occurred in the United States where money launderers have adopted this strategy, particularly for exchanging currencies of high international value with low-value regional currencies.

Failure of Banks and Financial Institutions

Money laundering can cause the failure of banks and financial institutions. For instance, if a large sum of money is transferred to a bank and then, after a short duration, that money is transferred to another bank, it may cause a liquidity problem to the financial assets of that bank. The bank can go bankrupt if a large number of people start approaching it to withdraw their deposits upon knowing that a massive amount of money has been moved from that bank by money launderers. There are many examples of such incidents in history; for instance, the failures of the Liberty Reserve Bank and Bank of Credit and Commerce International (hereinafter B.C.C.I.) are both cases where banks have failed owing to money laundering

Reputation

Money laundering tarnishes the reputation of financial institutions and the nation's economy especially when money laundering also causes the embezzlement of funds etc. In such a case, market confidence diminishes and investors lose interest in the local market. Moreover, if the speculations of the ill reputation of the market reach abroad, then it also reduces the chances of F.D.I. This results in declining economic opportunities for the economy at both domestic and international levels. Hence, it eventually leads to weaker economic growth and it becomes harder to revive the economy.

Impact on Economic Policy

As money laundering tarnishes the reputation of the financial institutions of a country, it might also affect the related economic indicators and variables, for instance the interest rate, which can affect inflation, Consumer Price Index (hereinafter C.P.I.), and the value of the currency of that country. This can cause monetary instability and can also affect the prices of goods in the country.¹⁰³

Decline in Tax Revenues

Money laundering directly affects the government's tax revenue. As A huge sum of currency that could have been taxed is moved abroad. This loss of revenue must be covered by the government by collecting more taxes from other taxpayers by increasing the tax rate.¹⁰⁴ This hurts honest taxpayers, as well as making tax collection tougher for the government as the public may retaliate by protesting against the hike in tax rates.

SOCIAL IMPACTS

Money laundering gives birth to a number of social costs and dilemmas. It also affects the reputation of a country at the international level if it appears that the financial institutions of that country might be involved in money laundering. Furthermore, it can expose or encourage the people of a country to smuggling, drug trafficking, etc. Money laundering can also contribute to other crimes, as criminals, drug lords, smugglers, black money owners, etc. have to hide their source of income; moreover, they have to employ money laundering techniques to conceal their black money under the cloak of legality or safety from law enforcement agencies. Hence, money laundering gives a safe haven to criminals and terrorists to hide their illegally earned money and, therefore, motivates others to enter the criminal world as they might consider any of the methods of money laundering to be a promoter and cover to their criminal activities. Thus, crime will spread in society, which has not only geographical but also international implications because the nature of the crime has become global in scope.

GLOBAL MAGNITUDE AND COMBATING OF MONEY LAUNDERING

MAGNITUDE OF THE PROBLEM

Several financial regulatory organizations have attempted to predict the overall scale of money laundering. Michel Camdessus, the former managing director of the I.M.F., predicted that the total volume of money being laundered has reached approximately 55% of the total gross domestic product (G.D.P.) of all the countries in the world. Nonetheless, it is almost impossible to give an exact estimate of the total magnitude of money that is being laundered owing to the furtiveness associated with each of the money laundering methods. The Financial Action Task Force (hereinafter F.A.T.F.) confirms this: “Overall, it is absolutely impossible to produce a reliable estimate of the amount of money laundered.”

Similarly, researchers and scholars have also been unable to estimate the precise amount of money being laundered at the global level. Nonetheless, rough estimates still suggest that the overall global volume of money laundering might be in the billions of U.S. dollars.

MONEY LAUNDERING

As explained in the first section of this paper, money laundering causes adverse effects to the economy and society of a country; therefore, there is a need to curb this crime by banishing and eliminating all of the conditions that support it. Most nations, including Pakistan, need to take serious but focused action immediately so as to rid this disease from and within society, particularly if the money laundering is widespread there. It is also notable to mention here that the curbing of money laundering will also cause a demise in other relevant criminal activities for instance, drug trafficking, smuggling, and the financing of terrorism because all of these crimes are financed by money laundering activities. To end this disease from society, there are a few options for instance, legislation, the judicious implementation of laws, strengthening the rule of law, the creation and collaboration of A.M.L. agencies at the national and international levels, strict security at airports and borders, enhanced accountability of politicians, and strict implementation of tax laws that can be utilized

INTERNATIONAL A.M.L. ORGANIZATIONS

There are several organizations that work to curb money laundering activities at the international level. The most prominent among them are mentioned below.

FINANCIAL ACTION TASK FORCE (F.A.T.F.)

In 1989, the G7117 countries founded the F.A.T.F., headquartered in Paris, France. At present, thirty-six countries are members of F.A.T.F. The main purpose of F.A.T.F. is to devise an intergovernmental response for curbing money laundering; however, in October 2001, after 9/11, it took on another essential goal in order to accomplish the combating the financing of terrorism. It creates policies and strategies and gives advice to the governments for A.M.L. and Combating Financing Terrorism (hereinafter C.F.T.) laws and policy reforms. It also monitors the government's financial activities to track any misappropriation related to money laundering regulations and provides suggestions to the governments upon identifying any irregularities. It can also suggest financial sanctions against countries that do not obey international regulations and policies.

NATIONS OFFICE ON DRUGS AND CRIME

The United Nations Office on Drugs and Crime (hereinafter U.N.O.D.C.) maintains up-to-date data related to drug trafficking, smuggling, money laundering, and terrorism financing. It was founded in 1997 to create a combined mechanism to curb money laundering and the illegal trafficking of drugs. It also offers technical and financial assistance to governments to devise effective mechanisms for curbing money laundering.

FINTRACA

FINTRACA, Financial Transactions and Reports Analysis Centre of Afghanistan, was founded in 2004 as an A.M.L. agency. It is a semiprivate organization that works within Da Afghanistan Bank. Its core function is to prevent access to the Afghan financial system to money launderers and those who are suspected of using the money to finance terrorism. It works as a financial intelligence unit (hereinafter F.I.U.), gathering information and performing data analysis to track down the sources and destinations of money that come to or leave the Afghan financial system. Upon tracking the illegal origins or destinations of money, it coordinates with security agencies and law enforcement departments to curb illegal financing activities and to investigate whether the money is being used to finance terrorism.

INTERNATIONAL A.M.L. STANDARDS

There are several standards that are followed by several countries worldwide to form the basis of their policies to counter money laundering and the financing of terrorism. Some of the most prominent ones are mentioned below.

UNITED NATIONS CONVENTION AGAINST ILLICIT TRAFFIC IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES

Originally passed in 1988–1989, this convention offers a legal mechanism to combat drug trafficking at an international level. The United Nations implemented this policy mechanism in 1989 and made it compulsory for its member states to follow this set of rules for combating drug manufacturing, distribution, and trafficking, which join hands with money laundering.

NATIONS CONVENTION AGAINST TRANSNATIONAL ORGANIZED CRIME

Presented in 2000, this multilateral treaty is focused on curbing transnational organized crimes. The General Assembly of the United Nations adopted this treaty, also named the Palermo Convention, on November 15, 2000.¹³⁷ It has three core purposes:

To thwart drug and human trafficking, particularly for women and children

To prevent the smuggling of migrants through all channels of traveling, i.e., sea, air, and land.

To prevent the illegal manufacturing of arms that might be used for terrorist activities.

These three purposes have been defined according to the contemporary international laws of money laundering and arms, drugs, and human trafficking.

NATIONS CONVENTION AGAINST CORRUPTION

This convention contains seventy-one articles and eight chapters. It puts emphasis on curbing corruption, bribery, the misappropriation of funds, and money laundering. It also offers technical assistance, data exchange, and asset recovery mechanisms to the governments.

F.A.T.F. RECOMMENDATIONS

The recommendations provided by the F.A.T.F. in 1989 have also been considered the basis of the A.M.L. laws that have been enacted worldwide. The forty recommendations are related mainly to curbing organized crimes, drug trafficking, money laundering, and smuggling.

CRITICISMS OF A.M.L. STANDARDS

The new regulations have also been criticized. For instance, Yehudah Barlev, who has been a fraud investigator and is associated with an international agency, Barlev Investigative Accounting, considers the newly implemented A.M.L. laws to be “short-sighted” and easily violable by money launderers. Moreover, criminals are still pursuing their activities by bypassing A.M.L. regulations and they usually find new methods to violate A.M.L. laws.¹ For instance, ATMs provide safe opportunities for terrorists to withdraw funds that are transferred to their accounts. Al-Qaeda members have been found to be continually using this method.

In another instance, The Economist criticized the effectiveness of A.M.L. and C.F.T. regulations as “costly failures” because, on the one hand, they are causing huge costs for the implementation of A.M.L. and C.F.T. laws and, on the other hand, they have failed to prevent terrorists from receiving financing. The Economist estimates that A.M.L. efforts cost the European Union and the United States around \$700 million in the year 2000 and this cost reached \$5 billion within three years.

Moreover, for what concerns providing training to employees of financial institutions, the issue is that financial organizations will not provide training as they consider it costly, as well as risky because the employees might leave the organization if they find a better job. In such a case the firm would get no benefit from training the employees. Hence, the requirement to train employees in a financial organization becomes null and void.

INTERNATIONAL MONEY LAUNDERING CASES

In the past two to three decades, some cases of money laundering have grabbed the attention of the media owing to the unexpected identified criminal and the high volume of money laundering evidence found in these cases. Some prominent cases are mentioned below.

Bank of New York

The incident of money laundering took place in the late 1990s, when Russian capital equivalent to U.S.\$7.1 billion was laundered through bank accounts that were in control of some executives of the Bank of New York. Reportedly, one of the vice presidents of the bank was identified as guilty of transferring capital and was charged with offenses after a thorough investigation was completed. Initially, the bank was not found guilty and the offense remained toward the employee side of the bank; however, after further investigations, in 2005, the bank accepted its mistake of not following the recommended procedure of A.M.L. regulations and paid \$38 million in fines.

Credit & Commerce International (B.C.C.I.)

B.C.C.I. was found guilty of laundering money for drug traffickers in the mid-1980s. The estimated amount laundered was in the billions of dollars. As a penalty for such a huge contribution to the crime, the bank was forced to close and was liquidated in 1991 upon the proving of the money laundering charges.

H.S.B.C.

H.S.B.C. was found to be involved in keeping laundered money and approving the transactions of drug traffickers, banned Iranian organizations, and terrorists from 2001 to 2010. It was penalized in 2012 and paid around \$1.9 billion in fines.

Standard Chartered Bank

Standard Chartered Bank was found guilty of laundering billions of dollars for Iran for a decade in the 2000s. It facilitated around 60,000 transactions for Iran and the total worth of these transactions was approximately \$250 billion. The bank was fined \$340 million for its involvement in laundering money and facilitating illegal transactions.

Liberty Reserves Bank

The Liberty Reserves bank of Costa Rica was found to be involved in laundering around \$6 billion. After the proving of the charge, the bank was suspended and closed by U.S. federal authorities.

Vatican Bank

The Vatican Bank in the Vatican City, known in Italian as Istituto per le Opere di Religione (I.O.R.), was charged with facilitating monetary transactions found to be linked with money laundering. The bank was investigated by the Italian authorities and \$30 million were seized from the bank as a punishment for facilitating the money laundering transactions.

Previously, the Vatican Bank had also been found to be linked with a monetary scandal of around \$1.3 billion and the collapse of \$3.5 billion currency worth of the Banco Ambrosiano in 1982. The Vatican Bank did not accept the charges, though it paid \$250 million in fines for the embezzlement of funds in the 1980s.

A.M.L. LEGISLATION IN DIFFERENT COUNTRIES

The international community has given particular attention to curbing money laundering since 9/11. New laws, rules, and regulations have been made under the International Convention for the Suppression of the Financing of Terrorism. The F.A.T.F. in particular has played an effective role in implementing its A.M.L. approach by intervening in international cases of money laundering.

THE U.S.

The U.S. has been affected by money laundering to a very great extent. The hilly terrain along the Mexico–U.S. border makes it difficult for U.S. border security forces to keep watch over each part of the border. This unsafe border has made it challenging for U.S. security agencies, particularly its southern border surveillance agencies, to track and prevent drug lords and smugglers from making their way to the United States. Smugglers also enter the United States from Mexico by digging hidden tunnels and thus crossing the border surreptitiously through the underground tunnels or mountains.¹⁷⁵ Recently, an 800 yard-long tunnel was discovered that connected the U.S. to Mexico across the border and half a mile underneath California.¹⁷⁶ An estimated two tons of cocaine were seized from the same tunnel.¹⁷⁷ As a result, money laundering and drug trafficking activities have been prevailing in that border region; its effects also reach the U.S., being felt more profoundly in particular regions, and have caused a constant worry for U.S. law enforcement and financial regulatory agencies. The United States has placed a high importance on money laundering by regulating two areas: 1) preventive money laundering measures and 2) criminal offenses measures.

PREVENTIVE MONEY LAUNDERING MEASURES

The United States Congress has enacted various laws to prevent money laundering activities. The first law, the Bank Secrecy Act (hereinafter B.S.A.), was passed in 1970, and since then a series of amendments as well as new Acts have been proposed, debated, and implemented. These laws regulate the activities of banks, brokers, and other financial institutions. These laws make it compulsory for financial organizations and individuals to report any suspicious money laundering activity to the U.S. Department of Treasury. The FinCEN works as the U.S. F.I.U. and investigates these reports. Banks have also been advised to provide training to their employees to identify and avoid the money laundering and suspicious transactions, as regulated by the Money Laundering and Financial Crimes Strategy Act of 1998. However, attempts have also been made to violate this law. For instance, transactions that exceed \$10,000, must be reported,¹⁸³ but offenders violate this rule by breaking the total amount of cash transaction into amounts smaller than \$10,000 and then depositing, withdrawing, or transacting from different locations. This is still considered a legal violation in the United States because the actual amount of the transactions is kept hidden from the government and no information is provided about the original source of the money

To keep a watchful eye on the transactions carried out by the customers of financial institutions, the B.S.A. authorizes financial institutions, including banks, to use the Know Your Customer (K.Y.C.) strategy. This strategy entails adopting a thorough understanding of the nature of the customer's financial account, as well as their full name, address, and other details, and information on the origin of money that reaches the customer's account. In the U.S., all bank accounts are scrutinized by software to audit financial transactions and flag any suspicious or misreported transactions. If any suspicious transaction is found, it is included in a suspicious activity report, which is filed by the financial institution to the Department of Treasury .

In addition, the Department of Treasury devised a national money laundering strategy, which allowed the creation of a special task force with the name of High Intensity Financial Crime Area (hereinafter H.I.F.C.A.). H.I.F.C.A. inspects, tracks, and curbs money laundering activities at every level, i.e., local, state, and federal. The Intelligence Reform & Terrorism Prevention Act of 2004 relates to the prevention of terrorism financing by curbing money laundering by transferring currency across the border.

CRIMINAL OFFENSES MEASURES

As per the U.S. Money Laundering Control Act of 1986, money laundering is a crime. The Act prohibits individuals from hiding the source of their financial earnings as well as receiving money that has been earned through crime. Moreover, any action of transferring money, whether or not any financial institution is involved, is considered a financial transaction even if it is merely passing a bag of money from one person to another. If that transfer is intended to conceal the source of the money, then it will be considered unlawful.

IMPACTS OF A.M.L. LEGISLATION

Financial institutions that fail to conform to the rules devised by the B.S.A. are fined and punished according to the severity level of their noncompliance. For instance, Riggs Bank was prosecuted and then closed owing to its failure to follow the B.S.A. for applying A.M.L. rules to the foreign financial transactions that its customers were carrying out. A number of institutions, including the Federal Reserve and the Office of Comptroller of the Currency, examine the transactions of banks and of all other financial institutions.¹⁹⁸ The F.B.I. also becomes involved if it has to investigate the money laundering in relation to another crime.¹⁹ To prevent cross-border cash smuggling, the U.S. government has criminalized any unreported transfer of cash exceeding \$10,000 across the border. To move such an amount for business or trade purposes, it has to first be filed on an International Transportation of

Currency or Monetary Instruments Report (C.I.M.R.) or else it is considered money laundering. Similarly, businesses such as automobile dealerships, which have to transport automobiles from one region to another and have to transfer a high amount of cash from one dealership to another, are required to file Form 8300 with the International Revenue Service to describe and confirm the source of the cash

THE U.K.

The United Kingdom has enacted new laws for curbing the roots of money laundering from its territory. For instance, it passed three major laws immediately after the 9/11 attacks. These include:

The Criminal Justice and Police Act 2001

The Anti-Terrorism, Crime and Security Act 2001

The Proceeds of Crime Act 2002

The Serious Organised Crime and Police Act 2005

The Money Laundering Regulations 2007

All of these Acts make it compulsory for the government to prevent money laundering activities and arrest as well as penalize those found to be involved

money laundering. Provisions have also been added that highlight the importance of providing training and knowledge to the general public. For instance, the Proceeds of Crime Act 2002 makes it mandatory for financial organizations to provide training and knowledge to their employees about preventing money laundering and identifying any activity that may constitute money laundering. If an organization or the relevant person in that organization fails to report a suspicious money laundering activity, a punishment of five years' imprisonment is levied on that organization/person. The punishment for carrying out money laundering offenses as an individual can amount to fourteen years' imprisonment. The same punishment was added in the Money Laundering Regulations 2003,²¹⁰ which was amended and replaced by the new Money Laundering Regulations in 2007²¹¹ and enacted as per EU directives 91/308/EEC, 2001/97/EC, and 2005/60/EC.²¹²

Not only does the action of transferring cash from abroad constitute money laundering, but tax evasion, hiding property liable to taxation, misappropriating tax records, embezzling funds in a financial organization, and helping someone perform money laundering are also included in the clauses of A.M.L. Acts in the United Kingdom.²¹³ The punishment for each case is determined by the courts according to the severity of the violation and the individual's contribution to the crime.

A.M.L. statutes and their amendments have played an essential role in tracking the money launderers. After the A.M.L. Regulations of 2007–08, a number of reports have been submitted to the U.K. government by financial organizations regarding suspicious money laundering transactions. For instance, in 2009, approximately 228,834 reports were submitted to the government by organizations and employees.²¹⁵ This number increased in 2010, when 240,582 reports were provided.²¹⁶ The number increased again in 2011 to over 250,000. Importantly, each year, 80% of the reports were provided by banks and financial institutions. This gives an indication of how seriously financial organizations and individuals were reporting suspected money laundering activities to the government.

Although investigations were made and not all cases that were reported were considered money laundering offenses, the high level of reporting suggests that corporations, banks, and the general public have taken the need to avoid money laundering seriously.

LAUNDERING AND PAKISTAN

Money laundering has taken hold in Pakistan. This crime has flourished over the last three decades through black money, which the political and elite classes possess alongside having political influence and power in the country. Unfortunately, no government during this period has been successful in effectively implementing laws to curb money laundering and its precursor crimes, such as drug trafficking, smuggling, and corruption; neither has the government devised any effective mechanisms to combat tax evasion. People try to evade taxes as tax laws are not strict enough to make them accountable for unpaid taxes. Although new laws have aimed at curbing money laundering, they have lost effectiveness as the government has never discouraged the patterns in society that facilitate money laundering/

CHANNELS OF MONEY LAUNDERING

Money laundering is carried out in Pakistan through different channels, as explained below.



DRUG TRAFFICKING

Pakistan is in the Golden Crescent region, an area where opium and its cultivation and trade are widespread, owing to its geographical location. Its neighboring countries, Iran, Afghanistan, and India, have a high volume of opium cultivation and trade origins. Drug trafficking within these countries, as well as across their boundaries, takes place regularly because the borders, especially the Afghanistan–Pakistan, Iran–Pakistan, and Iran–Afghanistan borders, are not strictly protected and monitored. Drug traffickers move the drugs across the border and get cash in return from the drug lords, who are pursuing their activities furtively in Pakistan as well as in its neighboring countries. The cash movement is usually unreported and is surreptitiously carried out, which is in itself money laundering.

Owing to the high prices of the drugs that are trafficked along the borders of Pakistan, the amount of cash moved is usually very high, sometimes in the hundreds of millions of Pakistani rupees. Thus, a high amount of currency is laundered by the drug traffickers as “black money” or “dirty money” and stays unchecked, particularly if the drug traffickers have good contacts within the establishment

Pakistan's northwestern border with Afghanistan is too long to have surveillance over and can be too costly for the government to keep a continuous check over it, whether using manual or automated surveillance systems. The absence of constant surveillance has assisted smugglers and drug traffickers throughout history and they have been successful in establishing their underground drugs and money laundering empire by smuggling merchandise and drugs in both directions across the border, and by moving cash in a similar fashion. This has strengthened the money laundering and untaxed trade, which has now emerged as a giant market that has the capability to rival the local market economy in Pakistan's North-West Frontier Province

SMUGGLING OF CASH

Cash is smuggled across the borders of Iran and Afghanistan, as well as through airports. For this, smugglers try to evade the security checks to launder money and they also bribe authorities or someone in the surveillance team to let them move the cash abroad.

CORRUPT POLITICIANS AND ADMINISTRATORS

Regrettably, corrupt politicians and administrators are paving the way for major crimes to take hold in the country, for instance corruption, bribery, money laundering, and "whitening" black money. The corrupt officeholders are promoting these crimes either by becoming directly involved in money laundering, making offshore properties, drug trafficking, smuggling, corruption, misappropriation of funds, bribery, etc. or by taking bribes from those who are involved in such crimes. Reportedly, investigations have also been launched against some politicians accused of having contact with smugglers, money launderers, and drug lords.

In this regard, it is not only politicians but also personnel in the administrative and anticorruption departments who have been found guilty of taking bribes from money launderers, who have been allowed to take huge amounts of cash out of the country and, in return, took bribes from them. Employees in the antinarcotics squads and airport authorities have assisted money launderers and drug traffickers in taking currency abroad. There is a need to keep a strict check on personnel, as well as on those who are working in such departments, where money launderers can entice someone by giving large bribes to allow their money laundering activities.

REAL ESTATE BUSINESS

Some money launderers buy property using laundered or black money and then sell the property quickly for someone to buy it and give them the money, which will then be considered “legitimately earned.” This facilitates them in whitening their black money and leads to the crime of money laundering.

TAX EVASION

Many elites in the country avoid paying taxes. For this, they usually bribe the tax office employees to either show their tax status as “paid” or to not notify the tax authorities of the fact that the tax has not been paid. Usually, the bribe is a small chunk of the tax amount, which rich people never hesitate to give and the worker who receives it considers very good, because the salaries of government workers are not sufficiently high to afford a fashionable lifestyle. A large number of incidences of bribery have led Pakistan to have the highest prevalence of bribery in South Asia

Money launderers also bribe officials of the relevant A.M.L. authorities to allow the transfer of large amounts of cash abroad and label the transfer as “clean” without paying the applicable tax on it, by either reporting an incorrect amount of transferred cash or not reporting it at all.²⁴⁴ Hence, money laundering proceeds in two ways, i.e., by evading taxes and by transferring cash to foreign banks successfully for the sake of getting property abroad, and the widespread culture of bribes plays an essential role in supporting this.

HUNDI

Hundi has been a major channel of money laundering in India and Pakistan. Through this method, overseas nationals send remittances to their relatives, friends, family, etc. It works as a credit transfer or IOU and transfers money without actually moving it from one region to another. As a result, neither the government nor the economy notices the transfer, which directly makes it a money laundering channel.

Although the government of Pakistan has made this method of money transfer illegal, there are still many Hundi operators working in the country surreptitiously and it might also be possible that some foreign exchange companies use this process to hide their taxable earnings from the government. In addition, a study indicated that the total volume of annual currency transfers through Hundi is around \$15 billion, which is a significant amount and indicates the strength of the Hundi channel for laundering money.

TERRORISM FINANCING

Terrorists require money to finance their activities. The sponsorship is provided by their patrons, who are usually found to be money launderers and drug traffickers, and sometimes politicians and the elite of society, who support them in a disguised manner. Nonetheless, funding from foreign anti-state elements overshadows all other sources of terrorist funding, which establishes the pathways of money laundering. Terrorist organizations have been found to be involved in money laundering. This has been found to be true particularly in Pakistan, where foreign intelligence agencies, namely RAW, Blackwater, and the CIA, have been found to be involved with terrorists and to have financed anti-state elements. For instance, the recent incident of arrest of an Indian Army intelligence officer, Kalbhushan Yadav, who was found to be commanding a strong terrorist network in Pakistan, is a clear instance of the Indian Army RAW's involvement in funding anti-state terrorist activities, which were pursued by Kalbhushan Yadav's network in different areas of Pakistan, particularly Quetta and Karachi. The tarnished peaceful situation of Karachi is also a consequence of that terrorist network's surreptitious financing by either foreign agencies or local people.

Now, in such cases, all the money that the terrorists receive is actually "laundered" money, because it is kept hidden and neither its original source nor its destination are revealed to the government by the financiers. Hiding the source and channels of money is essential for the terrorists to continue financing their activities without being traced by local law enforcement agencies. Hence, money laundering goes hand-in-hand with terrorist activities

PAKISTAN AND INTERNATIONAL A.M.L. STANDARDS AND ORGANIZATIONS

Pakistan has never exercised a leading role in any of the A.M.L. international standards or organizations, although Pakistan has been a member of them and has actively participated in the meetings of these conventions and organizations since their founding. Pakistan also gets support from the U.N.O.D.C. in terms of technical and advisory assistance for curbing the drug trade and money laundering through its northwestern border region. Moreover, Pakistan also has a cooperative relation with INTERPOL and can approach it for the arrest of any serious criminal who has escaped its law enforcement agencies but is pursuing criminal activities from a foreign land, or conversely INTERPOL can also inform Pakistan of the activities of a Pakistani person who is suspected to be involved in money laundering.

As a result of legislation over the last ten years from Pakistan's parliament designed to combat money laundering, drug manufacturing and trading, and corruption, the international A.M.L. organizations have taken Pakistan off the list of countries that have a high prevalence of money laundering and drug trafficking. This has also given rise to a chance of establishing cooperation with international A.M.L. organizations with renewed vigor to combat money laundering and related crimes

PROMINENT CASES OF MONEY LAUNDERING IN PAKISTAN

Some prominent cases of money laundering have been reported over the last decade, and those occurring in Pakistan are mentioned below.

THE CASE OF THE KHANANI AND KALIA FOREIGN EXCHANGE COMPANY

The Khanani and Kalia Company, in Pakistan, operated foreign currency exchange and was involved in money laundering. Javed Khanani and Munaf Kalia were arrested and handed over to the F.I.A. Both were found guilty of around \$10 billion out of Pakistan and were charged according to the law by the F.I.A. upon the completion of investigations. U.S. authorities also charged both with involvement in money laundering in United States and offshore regions.

THE CASH SMUGGLING CASE OF AYYAN ALI

The Pakistani model Ayyan Ali was arrested at Islamabad Airport when U.S.\$506,000 were found in her bag, which she was reported to be taking to Dubai. This amount is far higher than the maximum cash limit allowed to be taken out of Pakistan, which was set at \$10,000 and \$60,000 a year. The amount that Ali had was ten times higher than that.

Legal action was taken against Ali, who was immediately sent to Adiala jail. Investigations were also held; however, Ali was granted bail and was released from jail after paying heavy fines of around 50.5 million (5.5 crore) Pakistani rupees for her violation of Pakistan's A.M.L. laws. As a punishment, her name was also added to the exit control list to prevent her from traveling again outside the country

A.M.L. LEGISLATION IN PAKISTAN

Although a very thorough body of legislation has already been made for curbing money laundering, its effectiveness is lost when law enforcement authorities do not put behind bars those money launderers who have political power or enough money to bribe law enforcement agencies' officials. This selective approach keeps the seed of corruption and money laundering alive. Similarly, the government can implement A.M.L. laws strictly to punish its opponents but it never repeats the same procedure against its own political party members. Nonetheless, the most prominent legislation made so far against money laundering includes the following:

Anti-Money Laundering Ordinance 2007

Anti-Money Laundering Act 2010

Anti-Money Laundering Rules 2010

Anti-Money Laundering Regulations 2010

Amendments to the A.M.L. Act 2010

All of these pieces of legislation have criminalized money laundering and have given the state the power to arrest and detain anyone who pursues this crime. Jurisdictions and validations of Acts have also been defined, along with the relevant procedures and conditions. In this regard, offenses by individuals, as well as by organizations, have been added to the same category.

EFFECTS OF A.M.L. LEGISLATION IN PAKISTAN

The effects have not been profound, though they have been enough to demonstrate that law enforcement agencies have taken measures to curb money laundering in Pakistan. For instance, the cases of Ayyan Ali, Dr. Asim, etc. are considered to have been major cases of offenses under the A.M.L. Acts. Recently, the Supreme Court of Pakistan has accepted the hearings against Prime Minister Nawaz Sharif for the charges of buying offshore property with laundered money. Such cases, if decided judiciously, can pave the way for the strict implementation of A.M.L. laws in Pakistan, which are still deficient in terms of their effective implementation.

CONCLUSION

Money laundering has been recognized as a major crime at the international level. Terrorists, drug traffickers, smugglers, black money owners, etc. use different money laundering methods to finance their activities, to traffic drugs, and to clean their illegitimately earned assets. Whichever method is implemented, the three steps of money laundering placement, layering, and integration of funds take place. Although A.M.L. organizations in all countries have formulated certain mechanisms, rules, and policies for preventing and curbing money laundering, these policies have been insufficient, whose magnitude has increased to up to billions of U.S. dollars at the international level.

Money laundering causes negative effects to the economy, such as devaluing capital, lowering the growth rate, affecting interest rates and the C.P.I., causing inflation, and defaming financial institutions, which leads to curbing opportunities for domestic and foreign direct investment. In addition, the social costs of money laundering are of an adverse nature as it can result in providing safe havens to criminals, i.e., the drug traffickers, terrorists, and other criminals who are benefitting from laundering cash. The primary reasons for the social costs of money laundering is found in the fact that this crime is entwined with other serious crimes, i.e., tax evasion, smuggling, whitening of black money, corruption, terrorist financing, and trafficking of illicit drugs and arms. All of these crimes can cause deep adverse effects on the socioeconomic landscape of a society; furthermore, these crimes are considered among the main channels of money laundering, both in Pakistan and globally, as set out above.

Therefore, it is essential for law enforcement agencies to curb the crime of money laundering by foiling the channels of money laundering and the tactics that criminals use for laundering

For this purpose, law enforcement agencies need to devise effective strategies and mechanisms to increase cooperation at the domestic, regional, and international level to keep track of the activities that are directly or indirectly linked to money laundering. A continual and strict security on porous international borders and at airports will prevent smugglers and money launderers from moving cash from one region to another. Furthermore, by keeping a strict check on wire transfers and other methods of currency transfers, financial institutions can also play their role in tracking laundered money as well as the sources of the money, and consequently report any suspicious money transfer to the security agencies.

In addition, tax authorities need to devise thorough and investigative auditing strategies in order to keep track of elites' incomes, so that no one can launder cash to avoid taxes. For this purpose, tax revenue departments should also be made independent and sufficiently powerful so that they may not be bribed or influenced politically by any powerful elite. Furthermore, corruption and bribery are other problems that accompany money laundering, because a corrupt person will prefer to hide money acquired from bribes or corruption to avoid being tracked and penalized by law enforcement authorities.

Sharif Brothers-Money Laundering Case:

Mian Nawaz Sharif and Mian Shahbaz Sharif were alleged of money laundering and used the Hudaibiya Paper Mills as cover for money laundering during the late 1990s. The Hudaibiya Paper Mills case is still pending in the National Accountability Bureau.



President Zardari-Money Laundering Case:



President Zardari is alleged of misappropriated as much as \$1.5 billion.

President Zardari - Money Laundering Case:

NAB opened a fresh case against him: the so-called BMW car reference (a BMW was imported in 1993 allegedly for Zardari and allegedly while evading customs duties). Fast forward to March 2008 and Zardari was cleared of all charges in the BMW case, without recourse to the NRO.

President Zardari - Money Laundering Case:

In 1994 Ms Bhutto, Asif Zardari and their agent Jens Schlegelmilch were alleged to have received \$60 million in kickbacks from SGS in exchange for the award of a pre-shipment inspection contract to the Swiss company.

President Zardari - Money Laundering Case:

In 2003, Ms Bhutto and Mr. Zardari were convicted of simple money laundering by a Geneva investigating judge who handed down a six-month suspended sentence.

The case was pending in the Swiss court when then President Pervez Musharraf promulgated the National Reconciliation Ordinance and the government dropped the case in April 2008.

Anti -money
Laundering and
Counter -Terrorist
Financing measures
Pakistan



Pakistan completed its first ML (Money Laundering) and TF (Terrorist Financing) National Risk Assessment in 2017 and assigns a national risk-rating of ‘medium’ for both ML and TF. However, the NRA lacks a comprehensive analysis.

Competent authorities have varying levels of understanding of the country’s ML and TF risks, and the private sector has a mixed understanding of risks. While Pakistan has established a multi-agency approach to implement its AML/CFT (Anti-Money Laundering and Countering the Financing or Terrorism) regime, it is not implementing a comprehensive and co-ordinated risk-based approach to combating ML and TF.

2) Pakistan is using financial intelligence to combat ML, TF, predicate crimes and to trace property for confiscation purposes but only to a minimal extent. Critically, the FMU (Financial Monitoring Unit of Pakistan) cannot spontaneously or upon request disseminate information and the results of its analysis to provincial CTDs (Counter- Terrorism Department) which are designated as TF investigation authorities. To a minimal extent, CTDs are accessing FMU information and financial intelligence during TF investigations but only with permission of the court.

3) Pakistan LEAs have undertaken 2,420 ML investigations, resulting in 354 prosecutions (primarily self-laundering cases) and the conviction of one natural person for self-laundering related to corruption. Proportionality and dissuasiveness of the sanctions against natural persons could not be assessed due to a lack of information. Pakistan's law enforcement efforts to address ML are not consistent with its risks.

4) Pakistan LEAs (Law Enforcement Agencies) have measures to freeze, seize, and prevent dealing with property subject to confiscation. LEAs are seizing some assets in predicate offences cases, but not in ML cases. Overall, the value of confiscated funds is not commensurate with Pakistan's ML/TF risk profile. In addition, the cross-border cash declaration system is not effectively utilised to seize cash/BNI (Bearer Negotiable Instrument) at the border.

5) Pakistan faces a significant TF threat. TF cases are identified by number of mechanisms but not via financial intelligence. Pakistan has registered 228 TF cases and convicted 58 individuals (Pakistan has not undertaken any TF investigations of legal persons), which is not consistent with Pakistan's overall level of TF risk. The vast majority of investigations and all of convictions were obtained at the provincial level including 49 convictions in Punjab. A total of nine TF convictions for all other provinces in Pakistan is not consistent with province specific TF risks. NACTA (National Counter Terrorism Authority) has taken some recent steps aimed at improving TF coordination and integration with counter-terrorism strategies.

6) Pakistan gives domestic effect to UNSCR (United Nations Security Council Resolution) 1267 by issuing Statutory Regulatory Order, but despite recent improvements, there are numerous instances where Statutory Regulatory Order were not issued “without delay” - there are other technical shortcomings. Pakistan has proscribed 66 entities and approximately 7,600 individuals under the Anti-terrorism Act pursuant to UNSCR 1373. Most banks and larger ECs (Exchange Companies) have automated screening systems for all customers and transactions, and have frozen some funds pursuant to UNSCR 1267 and UNSCR 1373. The non-banking sector and DNFBPs (Designated Non-Financial Businesses and Professions) are conducting manual screening during customer on-boarding at best and have not frozen any funds, which is not consistent with Pakistan’s TF risks. All FIs (Financial Institution) and DNFBPs are not screening for persons acting on behalf of, or at the direction of, a designated/proscribed person or entity; and most FIs and all DNFBPS are not applying TFS to designated persons that are beneficial owners.

7) Pakistan gives domestic effect to TFS (Targeted Financial Sanctions) for PF (Proliferation Financing) by issuing Statutory Regulatory Order; however, SROs (Statutory Regulatory Order) are not issued without delay - there are other technical shortcomings. Screening by FI and DNFBPs is similar to that of TFS for terrorism and TF. No funds or assets owned have been frozen. Committee for Coordination, Review and Monitoring of UNSCR Resolutions on Counter-Proliferation activities are mainly related to countering proliferation activities. SBP (State Bank of Pakistan) and SECP (Securities and Exchange Commission of Pakistan) are undertaking some general TFS monitoring, but actions exclusively focused on TFS for PF were not demonstrated.

8) Most Banks and larger exchange companies have an adequate understanding of their AML/CFT obligations and have conducted internal ML/TF risk assessments, which underpin a reasonable understanding of customer ML risk but not TF risk. These entities apply record-keeping requirements and have risk-based CDD (Customer Due Diligence) policies/procedures - a significant deficiency is their lack of effective identification of beneficial owners. Overall, they apply adequate EDD measures and have AML/CFT internal controls. Banks and ECs report STRs (Suspicious Transaction Report). All other FIs have limited understanding of their ML/TF risks; are in a nascent stage of implementing risk-based CDD and internal controls; and smaller entities lack proper systems to identify PEPs. NBFIs are not filing STRs commensurate with ML/TF risks in these sectors. There are no enforceable AML/CFT requirements for Pakistan Post, CDNS (Central Directorate of National Savings) and DNFBPs (Designated Non-Financial Businesses and Professions).

9) The State Bank of Pakistan does not have a clear understanding of the ML and TF risks unique to the sectors it supervises. The State Bank of Pakistan is improving its understanding and is implementing a risk-based approach including conducting regular on-site and thematic AML/CFT (Anti-Money Laundering and Countering the Financing or Terrorism) supervision activities. Some improvement in AML/CFT compliance is evident as a result of SBP's supervision, but the value of monetary sanctions imposed is low. The Securities and Exchange Commission of Pakistan has a limited understanding of ML/TF risks and has not implemented a risk-based supervisory approach. AML/CFT supervision is limited to KYC/CDD requirements. There is little evidence that SECP's supervisory activity is improving AML/CFT behaviour. Pakistan Post, CDNS and DNFBPs are not supervised for AML/CFT compliance.

10) Pakistan has limited mitigating measures for legal persons and there is no supervisory oversight for AML/CFT purposes. There are no measures in place to address the ML and TF risks posed by trusts, including foreign trusts, and *waqfs* in Pakistan. Reporting entities are required to obtain beneficial ownership information before entering into a business relationship. Competent authorities (including LEAs) can access this information along with basic information on legal persons held by SECP and provincial cooperative registries.

11) Pakistan does not have a formal framework for MLA but can execute MLA on the basis of treaties, reciprocity and some legislative provisions. In general terms, Pakistan is responding to MLA and extradition requests. Pakistan has made over 140 outgoing MLA requests, but the low numbers of outgoing ML-related and TF-related MLA and extradition requests is not consistent with Pakistan's risk profile. Pakistan seeks and provides informal international cooperation on some occasions; however, LEAs are not using the FMU to seek financial intelligence from foreign FIUs effectively. Pakistan's ability to share beneficial ownership information is severely limited.

Priority Actions

a) Pakistan should adequately identify, assess and understand its ML/TF risks including trans-national risks and risks associated with terrorist groups operating in Pakistan such as Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and this should be used to implement a comprehensive and co-ordinated risk-based approach to combating ML and TF.

b) Pakistan should significantly enhance the use of financial intelligence in ML, TF and predicate crime cases, particularly the use of financial intelligence to target terrorist groups and higher- risk predicate crimes. The AMLA (Anti-Money Laundering Act 2010 (and amendments) should be amended to allow the FMU to spontaneously disseminate its financial intelligence to CTDs and for CTD's to directly request financial intelligence from the FMU. Pakistan should also enhance; (i) STR (Suspicious Transaction Report) reporting by all Res (Reporting Entity) ; (ii) FMU's access to other sources of information; and (iii) financial intelligence development and dissemination, consistent with Pakistan's ML/TF risks.

c) Enhance the use of the ML offence commensurate with Pakistan's ML risks. This should include increasing investigators', prosecutors' and judges' capacity; changing the non-cognizable nature of the ML offence; clarifying the requirement for LEAs to consult with the FMU in ML investigations of tax offences; and providing all LEAs with special investigative techniques powers in ML cases.

d) Improve asset confiscation commensurate with Pakistan's ML/TF risks including cross-border currency. This should include development of a national policy and objectives to pursue confiscation in all ML, TF and higher-risk predicate crime cases; enhancement of investigators', prosecutors' and judges' capacity and implementation of procedures to support their action.

e) Enhance the use of the TF offence commensurate with Pakistan's TF risks, particularly the active targeting of terrorist groups operating in Pakistan. This should include integration of TF into Pakistan broader counter-terrorism approach; actions to enhance operational coordination and cooperation between the (FIA Federal Investigating Agency) and CTDs; and enhancement of investigators', prosecutors' and judges' capacity and implementation of procedures to support their action, particularly the FIA.

f) Address technical deficiencies in Pakistan's legal framework for implementing TFS for terrorism/TF without delay, improve implementation by all FIs and DNFBPs including in relations to persons /entities acting on behalf of or at the direction of listed persons/entities, and improve enforcement of TFS including enhanced asset management and TF investigations. Pakistan should nominate additional individuals and entities for designation at the UN, and should extend requests to other countries for UNSCR 1373.

g) Address technical deficiencies in Pakistan's compliance with R.8. Once at-risk NPOs (Non-Profit Organizations) from all sectors across Pakistan are identified, Pakistan should initiate and resource a greatly enhanced and targeted programme of outreach, TF risk mitigation, monitoring of at-risk NPOs, and investigations into TF abuse, without disrupting or discouraging legitimate NPO activities.

h) Address technical deficiencies in Pakistan's legal framework for implementing TFS for PF; improve implementation by all FIs and DNFBPs including in relations to persons/entities acting on behalf of or at the direction of listed persons/entities; and expand the work of the CRMC (Committee for Coordination, Review and Monitoring) of UNSCR Resolutions on Counter-Proliferation to support implementation by FIs and DNFBPs and monitoring of compliance by SBP and SECP.

i) Supervisor should issue revised AML/CFT regulations to rectify remaining technical deficiencies including extending specific AML/CFT obligations to CDNS, Pakistan Post and DNFBPs, and provide further guidance to REs on the relatively newer requirements. Supervisors should enhance risk-based supervision of all FIs and conduct supervision of DNFBPs with the aim to immediately increase REs application of preventative measures commensurate with their risks (particularly TFS and PEPs) and STR reporting. Where non-compliance is identified, all supervisors should impose dissuasive sanctions in order to enhance the compliance culture of FIs and

j) Due to the significant ML/TF risks posed by hawala/hundi, Pakistan should enhance enforcement actions against hawala/hundi under the Foreign Exchange Regulation Act 1947, and undertake ML and TF investigations and prosecutions of hawala/hundi operators where appropriate.

k) Pakistan should assess the ML and TF risks for all types of legal persons and legal arrangements and introduce measures to: (i) require legal persons and arrangements to obtain adequate, accurate and timely beneficial ownership information of those natural persons who ultimately own or control those structures; (ii) require legal persons/trustees to hold beneficial ownership information or for such information to be disclosed to, or registered with, authorities; and (iii) mitigate the risk associated with bearer instruments and nominee arrangements for companies including, for instance, disclosure requirements for the natural persons who ultimately own or control those instruments.

l) Continue to improve Pakistan's ability to consistently provide and seek timely MLA (Mutual Legal Assistance). This should include addressing hurdles to MLA under the ATA (Anti-Terrorism Act 1997) , NAO (National Accountability Ordinance) and AMLA (Anti-Money Laundering Act 2010 or enacting a standalone MLA (Mutual Legal Assistance) aw, and increase LEAs (Law Enforcement Agencies) capacity to consider international elements in all ML/TF and higher-risk predicate crime cases. Pakistan should enhance its cross-border cash cooperation. LEAs should also continue to the FMU to exchange financial intelligence with foreign FIUs, and Pakistan should continue to pursue Egmont Group membership.

Recommendations

- **Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information.**
- **Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose”.**
- **If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, directly by law or regulation, to report promptly its suspicions to the financial intelligence unit (FIU).**
- **Other global organizations fighting money laundering include: The United Nations, The International Monetary Fund, The World Bank.**

Recommendations

- **The truth is that no individual nation has the power to stop money laundering alone**
- **If one country is hostile to laundering, criminals simply look elsewhere for a place to clean their money. Therefore, Global cooperation is essential.**
- **The most prominent international organization in this respect is probably the Financial Action Task Force (FATF), which has 33 member states and international organizations on its roster list as of 2005. The FATF issued the "40 Recommendations" for banks that have become the anti-money-laundering standard.**

Recommendations

Some of these recommendations include:

- **Identify and do background checks on depositors.**
- **Report all suspicious activity. (For example, if a background check revealed that depositor A works in a steel factory, and he typically deposits \$2,000 every two weeks, a series of 10 \$9,000 deposits over the course of two weeks should raise a red flag.)**
- **Build an internal taskforce to identify laundering clues.**
- **Financial institutions should not keep anonymous accounts or accounts in obviously fictitious**

Recommendations

- **Financial institutions should, in relation to politically exposed persons, in addition to performing normal due diligence measures:**
 - **Have appropriate risk management systems to determine whether the customer is a politically exposed person.**
 - **Obtain senior management approval for establishing business relationships with such customers.**
- **Take reasonable measures to establish the source of wealth and source of funds.**
- **Conduct enhanced ongoing monitoring of the business relationship.**

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Organizations Fighting for Money Laundering

Other global organizations fighting money laundering include the

- United Nations,**
- the International Monetary Fund,**
- The World Bank**

THANK YOU





Questions?

