

Day Break

Tuesday, 22 October 2019

Strategy

Exhibit: Countries under monitored Jurisdiction as of Oct-19

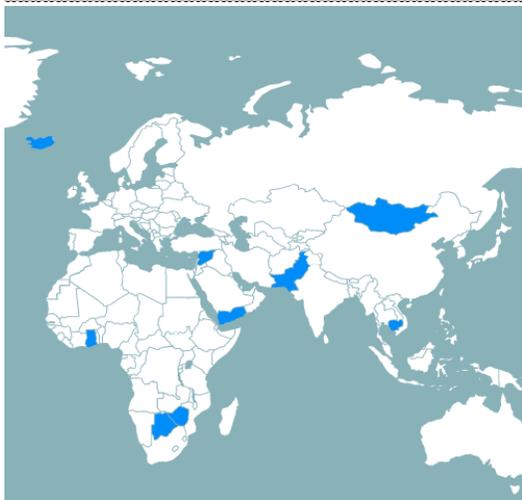


Exhibit: FATF National Risk Assessment (NRA) ratings for Pakistan

National Money Laundering Threat	Medium
National Money Laundering Vulnerabilities	Medium
Terror Financing Threat	Medium
Terror Financing Vulnerabilities	Medium

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Market & Economy

Pakistan showed progress on implementing FATF recommendations; however, more needs to be done and speedily

- FATF in its latest evaluation report has maintained Pakistan's status under the grey list category, with technical deficiencies still left unaddressed.
- So far out of the total set of 40 recommendations formulated by FATF, Pakistan is partially (27), largely (9) and fully complied (1) with 36 of the recommendations while 4 remain non-compliant.
- FATF lauded Pakistan's ongoing progress in implementing AML/CFT but has given a relatively, short timeline of 4months to fully complete implementation of AML/CFT, which in our view could be challenging.

Pakistan maintain a Grey-list status

As part of the country's on-going compliance with Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT), the FATF (Financial Action Task Force) in its latest evaluation report has maintained Pakistan's status under the grey list category, with technical deficiencies still left unaddressed.

Progress on implementing AML/CFT shows improvement...

To recall Pakistan was placed under the monitored jurisdiction back in Jun-18, whereby Pakistan authorities' made a commitment to work with the FATF and APG to strengthen its AML/CFT regime and to address the highlighted deficiencies. While Pakistan has made progress towards improving its AML/CFT regime since then, some of the technical deficiencies still need to be addressed and for that an extended deadline by 4months or by Feb-20 has been recommended. So far out of the total set of 40 recommendations formulated by FATF, Pakistan is partially (27), largely (9) and fully complied (1) with 36 of the recommendations while 4 remain non-compliant. In case of not meeting the above compliance by stated dates, FATF will take action, which could include the "FATF calling on its members and urging all jurisdictions to advise their FIs to give special attention to business relations and transactions with Pakistan."

...however, more needs to be done and speedily

Recent decision by FATF has to an extent averted Pakistan from falling into blacklist status, while the decision to remain in grey list was very much in-line with market consensus. To assert, FATF lauded Pakistan's ongoing progress in implementing AML/CFT but has given a relatively, short timeline of 4months to fully complete implementation of AML/CFT, which in our view could be challenging. At similar background, one of the structural benchmark under IMF includes successful implementation of AML/CFT measures; to which Pakistan has somewhat on varying degree shown satisfactory improvement.

Nevertheless, from a market perspective Pakistan has been on grey-list in 2008-09, and then from 2012 till 2015, during which market exhibited a low P/e averaging 7.6x, but not exclusively due to FATF grey-list status. With current market forward 2020 P/e of 5.8x (IGI coverage companies), which to an extent incorporates FATF outlook and weak macro trend, we recommend a cautious stance and prefer defensive stocks.

Exhibit: FATF Recommendation and Pakistan Status as of Oct-19

AML/CFT Policies and Coordination		
1	Assessing risks and applying a risk-based approach	PC
2	National cooperation and coordination	LC
Money Laundering and Confiscation		
3	Money laundering offence	LC
4	Confiscation and provisional measures	LC
Terrorist Financing and Financing of Proliferation		
5	Terrorist financing offence	LC
6	Targeted financial sanctions related to terrorism and TF	PC
7	Targeted financial sanctions related to proliferation	PC
8	Non-profit organisations	PC
Preventive Measures		
9	Financial institution secrecy laws	C
10	Customer due diligence	PC
11	Record keeping	LC
12	Politically exposed persons	PC
13	Correspondent banking	LC
14	Money or value transfer services	PC
15	New technologies	PC
16	Wire transfers	LC
17	Reliance on third parties	PC
18	Internal controls and foreign branches and subsidiaries	PC
19	Higher-risk countries	PC
20	Reporting of suspicious transaction	PC
21	Tipping-off and confidentiality	PC
22	DNFBPs: Customer due diligence	NC
23	DNFBPs: Other measures	PC
Transparency and Beneficial Ownership of Legal Persons and Arrangements		
24	Transparency and beneficial ownership of legal persons	PC
25	Transparency and beneficial ownership of legal arrangements	NC
Powers and Responsibilities of Competent Authorities		
26	Regulation and supervision of financial institutions	PC
27	Powers of supervisors	PC
28	Regulation and supervision of DNFBPs	NC
29	Financial intelligence units	PC
30	Responsibilities of law enforcement and investigative authorities	PC
31	Powers of law enforcement and investigative authorities	PC
32	Cash couriers	PC
33	Statistics	PC
34	Guidance and feedback	PC
35	Sanctions	PC
International Cooperation		
36	International instruments	LC
37	Mutual legal assistance	PC
38	Mutual legal assistance: freezing and confiscation	NC
39	Extradition	LC
40	Other forms of international cooperation	PC
PC	Partially compliant - There are moderate shortcomings.	26
LC	Largely compliant - There are only minor shortcomings.	9
NC	Non-compliant - There are major shortcomings.	4
C	Complaint	1
Total Recommendations		40

Source: FAFT, IGI Research

Exhibit: Sector-wise Money-laundering Vulnerabilities

Regulated Sectors – 'Varying Risk Levels'			
Financial institutions		DNFBPs	
Banking	medium	Real estate dealers	medium-high
Securities market	medium	Dealers in PM&S	medium-high
Insurance sector	medium	Accountants	low
Non-bank FIs	low	Lawyers/notaries	medium-low
Modarabas	low	Financial inclusion	low
Asset management	medium		
DFIs	low		
National Savings	medium-low		
Pakistan Post	low		
Unregulated Sector – 'high risk'			
The NRA assigns only one sector/activity as 'high risk': the alternative remittance sector also known as hawala/hundi. The NRA states that 'it is likely that hawala/hundi operators use legitimate funds to settle illegitimate transactions (e.g. smuggling, under invoicing, proceeds of corruption, etc.). The report states that 'a part of foreign exchange collected abroad may include funds for terrorist financing and the rupee counterpart disbursed in Pakistan may help terrorist financing.'			

Source: FATF

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