

***Lacunae in Anti-money Laundering Legal Regime in Pakistan regarding  
The Proceeds of Crime and International Best Practices***

*A thesis submitted in partial fulfilment of LLM ITL Degree*



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**International Trade Law**

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## FINAL APPROVAL

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I, Qamer Abbas, do hereby declare that the contents of this dissertation are original and have not been presented in any other institution. Further, I also declare that any secondary information used in this dissertation has been acknowledge.

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## DEDICATION

To Allah Almighty

To my supervisor

To my Family specially to my Elder Brother, Wife and Friends (special to Aslam Gondal, Dr. Imad khan and Dr. Waheed Khawaja, Quaid-e-Azam University)

To those seeking justice and my mentors who lit my legal path.

Qamer Abbas

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## ACKNOWLEDGMENT

A debt of gratitude is owed to many individuals who had given me the benefit of their unconditional help, tolerance and knowledge in writing and completing this master project.

First of all, I am thankful to Allah the Almighty for helping and guiding me always. Thereafter, I would like to express my highest gratitude to my learned supervisor, DR. SUSIC SEJO Assistant Professor, Department of Law, for his guidance and advice throughout LLM Degree program. He always encouraged me, even when I could not see how everything was going to work out.

I am also very thankful to all the most respectable Professors for their kind help and support, motivation and advices to me throughout my studies at International Islamic University, Islamabad.

My token of appreciation also to my parents, my brothers, my wife, colleagues, family members, fellow friends and classmates for their morale support and point of views, either directly or indirectly in the process of completing this dissertation.

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## **ABSTRACT**

The history of financial terrorism, international organizations, and international actions against money laundering, as well as proceeds of crime, present a complex landscape. Rapid advancements promise a post-amendments era wherein compatibility and contemporary variant development are essential for progress. Cross-border money laundering laws represent a global trend, with developed countries already incorporating themselves into these laws to reap inevitable benefits. Authorities such as those in the UK, USA, G7, and India recognize cross-border money transmission as a significant and enormously beneficial domain for accessing secure supplies of clean and inexpensive information to modernize society. While countries like India, USA, Basham, and UK boast proper legal frameworks for cross-border money trade, specifically dealing with proceeds of crime, along with strong infrastructures to support cross-border control, Pakistan lags behind. Pakistan lacks both a legal framework for cross-border control of proceeds of crime and the infrastructure necessary to support cross-border money transfer. Taking cross-border money transfer seriously could potentially eradicate ongoing fiscal crises in Pakistan and mitigate other visible crises resulting from cross-border financial terrorism. This thesis aims to analyze the current legislation in Pakistan, providing a detailed description of the legal framework for cross-border money trade. Additionally, inadequacies within the Money Laundering Act 2010 and its 2020 amendments, as well as laws, rules, and regulations concerning international money transmission, are highlighted. The laws, rules, and regulations in the UK, USA, Basham, G7, and India regarding international money transmission are elaborated upon to identify gaps in Pakistan's legal framework concerning cross-border financial terrorism. Furthermore, the thesis focuses on primary legislation regarding competition law in Pakistan, UK, USA, G7, and India and its role in enforcing international financial terrorism. Dispute settlement mechanisms in amendments concerning money laundering, proceeds of crime, and financial terrorism sectors of the UK, USA, G7, India, and Pakistan are also elaborated upon and compared, highlighting efficiencies and deficiencies in dispute resolution mechanisms within respective countries. Guidelines issued by multilateral agencies for the establishment of world trade in money laundering, specifically proceeds of crime, and financial terrorism, are examined to identify actions that can be taken to establish international money transmission in Pakistan. This research is distinctive as it not only identifies gaps in legislative and infrastructural frameworks for trade between states in money but also provides guidelines and recommendations for

introducing legislative and infrastructural reforms to foster connectivity across borders for state trade in finance. The ten recommendations put forth in this paper should be adopted by the Government of Pakistan to effectively control financial terrorism and ensure the security of supply and financial elevation.



### **List of Abbreviations:**

- **UNSC:** “United Nation Security Council.”
- **EAG:** “European Group.”
- **APG:** “Asia/Pacific Group.”
- **FATFLA:** “FATF of Latin America.”
- **IGAMLWA:** “Inter-governmental group against money laundering of West Africa.”
- **CFATF:** “Caribbean Financial Action Task Force.”
- **COEEAMLMS:** “Committee of Experts on the Evaluation of Anti-Money Laundering Measures.”
- **ESAAMLG:** “Eastern and Southern Africa Anti-Money Laundering Group.”
- **MENAFATF:** “Middle East & North Africa Financial Action Task Force.”
- **IMF:** “International Monetary Funds.”
- **USAID:** “United States Agency for International Development.”
- **ASEANDB:** “Association of Southeast Asian Nation Development Bank.”
- **UN:** “United Nation.”
- **NAB:**” National Accountability Bureau.”
- **ANF:** “Anti-Narcotics Force.”
- **FBR:** “Federal Board of Revenue.”
- **FMU:** “Financial Monitoring Unit.”
- **FIA:** “Federal Investigation Agency.”
- **PCTD:** “Provincial Counter Terrorism Departments.”
- **E&T:** “Excise & Taxation.”
- **NEC:** “National Executive Committee.”
- **AML:** “Anti Money Laundering.”
- **ICRBs:** “International Cooperation by Regulators and Oversight Body.”

- **BFIPU:** “Belgian Financial Intelligence Processing Unit.”
- **BTC:** “Bilateral Trade Contract.”
- **MVTS:** “Acting against or value transfer services.”
- **SRBs:** “Self-Regulatory Organisations or Professional Associations”.
- **BFIPU:** “Belgian Financial Intelligence Processing Unit.”
- **MLDs:** “Money laundering directives”.
- **MLRs:** “Money Laundering Regulations.”
- **EU:** “European Union.”
- **UK:** “United Kingdom”.
- **NAC:** “National Executive Committee.”
- **CECOL:** “Council of Europe Convention on Laundering”.
- **KLA:** “Kosovo Liberation Army.”
- **RAFOC:** “Revolutionary Armed Forces of Colombia.”
- **DCCP:** “Drug Control and Crime Prevention.”
- **JMLSG:** “Joint Money Laundering Steering Group.”
- **FCS:** “Financial Crimes Section.”
- **FBI:** “Federal Board of Investigation.”
- **OECD:** “Organisation for Economic Cooperation and Development.”
- **CPSPOS:** “Crown Prosecution Service proceeds of crime”.
- **ACI:** “Anti-Corruption Initiative.”
- **ADB:** “Asian Development Bank.”
- **SEACAB:** “Southeast Asia Anti-Corruption and Business Integrity.”
- **SMEs:** “Small and Medium-sized Enterprises.”
- **US:** “United States.”
- **UNAQTSC:** “United Nations Al-Qaida and Taliban Sanctions Committee.”

- **NGOs:** “Non-Governmental Organisations.”
- **TFC:** “Terrorist Financing Convention.”
- **STRs:** “Suspicious Transactions Reports.”
- **KYC:** “Know-Your-Client.”
- **OSCE:** “Organisation for Security and Co-operation in Europe.”
- **USAID:** “United States Agency for International Development.”
- **ASEAN:** “Association of Southeast Asian Nation.”
- **IRA:** “Irish Republican Army.”
- **TTA:** “The Terrorism Act.”
- **TBC:** “Terrorist Bombings Convention.”
- **TFC:** “Terrorist Financing Convention.”
- **ATCSA:** “Anti-Terrorism, Crime and Security Act in 2001.”
- **NSB:** “National Savings Bank.”
- **SBP:** “State Bank of Pakistan.”
- **ICRG:** “International Corporate Review Group.”
- **LEA:** “Law Enforcement Agencies.”
- **SECP:** “Security and Exchange Commission of Pakistan.”
- **MOU:** “Memorandum of Understanding.”
- **CDD:** “Customer Due Diligence.”
- **ANPR:** “Automatic Number Plate Recognition.”
- **JMLIT:** “Joint Money Laundering Intelligence Taskforce.”
- **FININT:** “Financial Intelligence.”
- **SARs:** “Suspicious Activity Reports.”
- **UK FIU:** “UK Financial Intelligence Unit.”
- **ECT:** “European Communities Treaty.”

- **RUSI:** “The Royal United Services Institute.”
- **POCA:** “Proceeds of Crime Act 2002”.
- **NCIS:** “National Criminal Intelligence Service.”
- **CPS:** “Crown Prosecution Service.”
- **FCA:** “Financial Conduct Authority.”
- **ILP:** “An Independent legal professional.”
- **SDD:** “Simplified Due Diligence.”
- **EDD:** “Enhanced Due Diligence.”
- **HRJ:** “High-Risk Jurisdiction.”
- **PEP:** “Politically Exposed Person.”
- **MLRO:** “Money Laundering Reporting Officer.”
- **EBC:** “European Bar Council.”
- **MER:** “Mutual Evaluation Report.”
- **CTRs:** “Currency Transaction Reports.”
- **GDPR:** “General Data Protection Regulation.”
- **DPD:** “Data Protection Directive.”
- **DPA:** “Data Protection Act 1998.”
- **IT:** “Information Technology.”
- **FIs:** “Financial Institutions.”
- **EBA:** “European Banking Authority”.
- **CPMLTF:** “Committee on the Prevention of Money Laundering and Terrorist Financing.”
- **BORIS:** “Beneficial Ownership Registers Interconnecting System.”
- **EPRS:** “European Parliamentary Research Service.”
- **ECB:** “European Central Bank.”

- **EFEC**: “European Financial and Economic Crime Centre.”
- **EESC**: “European Economic and Social Committee.”

## CHAPTER # 1

### INTERODUCTION, BACKGROUND, SIGNIFICANCE AND SCOPE OF THE RESEARCH

#### 1.1 Introduction.

This research endeavours to review, analyse, and present findings regarding the threat posed by proceeds of crime to global financial systems. It involves advocating for legislative reforms across various states to combat such financial malfeasance and the proceeds of criminal activities through local government policymaking. The Anti-Money Laundering Act of 2010 did not address proceeds of crime, while the amendments made in 2020 merely included it in the definition. However, Section 2 of the Anti-Money Laundering Act of 2010, clause (xxviii), post the 2020 amendments, solely defines proceeds of crime as offenses related to illegal property, failing to encompass other forms of financial terrorism, financial crimes, and money laundering crimes, which are integral components of proceeds of crime according to international best practices.<sup>1</sup>

This research delves into the types of funds falling within the purview of individuals and legal entities participating in proceeds of crime, as per international standards. Organizations have been instrumental in identifying gaps in national policymaking legislation, through which terrorist financiers and money launderers exploit the international financial system. These efforts are aimed at mitigating instances of unlawful activities, illicit proceeds of crime, financial crimes, and financial support for terrorists, whether within or outside the state. National law enforcement agencies are tasked with apprehending individuals, groups, and legal entities involved in financial crimes. The

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<sup>1</sup> Section 2, Clause clause (xxviii), AML (Amended) Act 2010

Pakistani national assembly and senate enacted amendments in 2020 to enhance the effectiveness of legislation in controlling such activities.

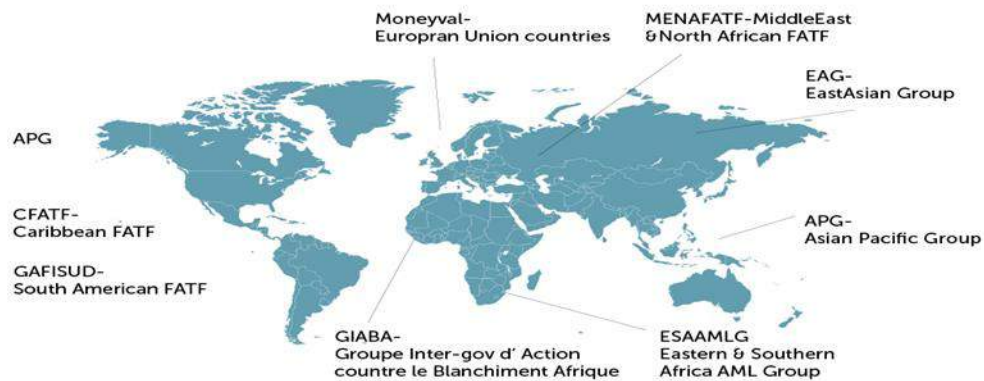
Comprehensive laws, rules, and regulations covering all necessary aspects of organized competitive oversight play a pivotal role in a state's progress. Therefore, there is an urgent need to reform Pakistan's anti-money laundering laws through well-structured enactments that address every facet of proceeds of crime, financial extremism, and money laundering, aligning with international best practices.<sup>2</sup> Assistance from international organizations such as the United Nations Security Council (UNSC) Resolutions 1267 and 1373, the East Asian Group (EAG), the Asia/Pacific Group (APG), the Financial Action Task Force of Latin America (FATFLA), the Inter-governmental Group on Anti-Money Laundering in West Africa (IGAMLWA), the Caribbean Financial Action Task Force (CFATF), the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (COEEAMLMS), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), and the Middle East and North Africa Financial Action Task Force (MENAFATF) is sought. Pakistan is engaging in bilateral agreements with the World Bank, Saudi Arabia, the International Monetary Fund (IMF), the United States Agency for International Development (USAID), the Association of Southeast Asian Nations Development Bank (ASEANDB), and the United Nations (UN) to establish competitive contracts.<sup>3</sup>

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<sup>2</sup> Verbeek, Bertjan. "Transnational Organized Crime: Perspectives on Global Security." London: Routledge, 2013.

<sup>3</sup> Buitron, Rodrigo. "The Financial Action Task Force: What's Next?" *Journal of Money Laundering Control* 12, no. 4 (2009): 392-399.

## *FATF-Style regional bodies*



Pakistan is in the process of amending its anti-money laundering laws to align with international best practices, encompassing proceeds of crime, money laundering, and financial crimes. Recent comprehensive amendments have been introduced by the Pakistani government to regulate, generate, transmit, and distribute money, while also controlling and balancing illegal money laundering activities. However, the Anti-Money Laundering Act of 2010 and its 2020 amendments did not specifically address proceeds of crime in accordance with international policies against such offenses, as highlighted in the thesis. To address this gap, Pakistani legislators introduced amendments that established various investigating and prosecution departments, including the National Accountability Bureau (NAB), Anti-Narcotics Force (ANF), Directorate General intelligence and investigation-customs, Federal Board of Revenue (FBR), Directorate General intelligence and investigation Inland Revenue, Financial Monitoring Unit (FMU), Federal Investigation Agency (FIA), Provincial Counter Terrorism Departments (PCTD), Excise & taxation (E&T), and law enforcement agencies notified by the Federal Government. Key steps taken by the Pakistani administration include unbundling generation, distribution, and transmission activities, establishing departments or independent regulators, improving efficiency, and promoting rules and regulations. However, while amendments cover certain operational aspects, controls, punishments, performance activities, and supportive mechanisms, they do not specifically address



proceeds of crime to meet competitive international best practices. The amendments, passed in 2020, include two bills: "The Anti-Money Laundering" (Amendment I) Bill and "The Anti-Money Laundering" (Amendment II) Bill. These bills were supported by the national assembly on Feb 17, 2020, and Aug 24, 2020, respectively, and were subsequently substituted as the Anti-Money Laundering Act through Notification no. F.22 (50)/2020-Legis dated Sep 24, 2020.<sup>4</sup> The thesis will discuss all additions, deletions, and other changes incorporated through these amendments. Notably, amendments to Section 2 redefine money laundering and procedures in a more detailed and clear manner. Enhancements to punishments and fines for culprits are outlined under Section 4. Additionally, a National Executive Committee (NEC) was formulated under Section 5 to monitor the functioning of different institutes involved in controlling these crimes. Section 6 empowers the effectiveness of the Financial Monetary Unit (FMU), tasked with daily monitoring of the system. Furthermore, Sections 6A, 6B, and 6C, respectively, introduce the AML or CFT authority, International Cooperation by Regulators and Oversight Body (ICRBs), and other amendments recommended by FATF to control terrorist financing and proceeds of crime. These amendments will be thoroughly examined in the thesis.

### **1.2 Background of an independent international money laundering control operator.**

UNSC resolutions 1267 and 1373 aimed to expedite investigations into financial crimes. A major challenge was the lack of coordination in submitting names of listed groups, individuals, and legal entities by entities like the Financial Monitoring Unit (FMU), FIA, or E&T. Therefore, improving communication between these institutions through the

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<sup>4</sup> The AML Amendment Bill, The Anti Money Laundering Act through Notification no. F.22(50)/2020-Legis dated Sep 24, 2020

introduction of a digital platform for precise and rapid record matching of offenders, money launderers, and financial terrorists was deemed necessary.<sup>5</sup>

G7 countries established the Financial Action Task Force (FATF) in 1989 to combat economic crime. The objective of FATF is to disrupt terrorist financing by implementing operational and legal measures to control money laundering globally. Additionally, it assesses threats to the global financial system and advocates for national legislative reforms to combat criminal activities. FATF focuses on identifying errors in national policymaking, legislation, terrorist financiers, and money launderers.<sup>6</sup>

Following the 9/11 attacks in 2001, terrorism financing became a major source of money laundering, prompting FATF to address the challenges of financial terrorism. The organization, initially formed by G-7 states, has since seen exponential growth in its membership worldwide. Currently, FATF has 37 member states and eight associate members, including EAG, APG, FATFLA, IGAMLWA, CFATF, COEEAMLMS, ESAAMLG, and MENAFATF.

FATF collaborates with observer institutions, organizations, and states such as the World Bank, Saudi Arabia, IMF, USAID, ADB, and UN. It has introduced a standard scale for members, used as a reference by regional and international organizations to enhance the effectiveness of the international financial system and bilateral trade agreements.

In 2018, Pakistan was grey-listed by FATF due to inadequate legislation. Pakistan was tasked with addressing 40 points of concern within a specified period to mitigate instances of illicit money movement across borders and within the state, as well as financial support for terrorists. National law enforcement agencies were instructed to

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<sup>5</sup> Delimatsis, Panagiotis. "The WTO, the Global Financial Crisis and Global Financial Regulation." *Journal of International Economic Law* 13, no. 2 (2010): 423-455.

<sup>6</sup> Ehrlich, Amy L. "The Impact of the Global Financial Crisis on Money Laundering and Its Regulation." *Journal of Money Laundering Control* 15, no. 2 (2012): 195-207.

apprehend groups involved in financial crimes, while the National Assembly and Senate were tasked with enacting amendments to empower authorities and enhance control over such activities.

The introduction of a digital platform for coordination among relevant departments, along with robust legislation, is crucial to effectively combat money laundering. Pakistan is working to reform its anti-money laundering laws in line with international best practices advocated by organizations like EAG, APG, FATFLA, CFATF, ESAAMLG, and MENAFATF. The government aims to establish competitive trading contracts with various international partners to attract private investment and strengthen measures to combat money laundering. The government has also implemented inclusive amendments to regulate the creation, communication, and distribution of money and to combat illegal activities through various departments such as NAB, ANF, FBR, FMU, FIA, PCTD, E&T, and other enforcement agencies.<sup>7</sup>

Before the introduction of bilateral recommendations, Pakistan had certain laws against money laundering outlined in Act No. VII of 2010. However, these laws were insufficient, and amendments were introduced in 2020 through bills named "The Anti-Money Laundering" (Amendment I) Bill and "The Anti-Money Laundering" (Amendment II) Bill. These amendments were passed by the National Assembly on Feb 17, 2020, and Aug 24, 2020, respectively, and were subsequently approved by the Senate and substituted as the "AML" Act through Official Gazette Notification no. F.22(50)/2020-Legis dated 24-Sep-2020.<sup>8</sup> Further discussion on the background of financial crimes will be provided in subsequent chapters of this thesis.

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<sup>7</sup> Folami, Olajumoke. "The Global War on Money Laundering." *Journal of Financial Crime* 15, no. 4 (2008): 381-393.

<sup>8</sup> Anti-Money Laundering (Amendment) Bill, AML" Act through Official Gazette Notification no. F.22(50)/2020-Legis dated 24-Sep-2020

### **1.3 Thesis Statement:**

The proceeds of crimes are the major threat to global financial system and considered with in the definition of money laundering internationally but recent amendments in the anti-money laundering act 2010 have not addressed proceeds of crime in that way; hence proper inclusion of clause related to proceeds of crime is imperative to make anti-money laundering law more effective and according to international best practices.

### **1.4 Literature Review**

According to international best practice against the proceeds of crime much more research material is available but here in Pakistan were not made more effective legislations and recent Amendments to address the proceeds of crime as offence in money laundering as compared to International best practices; hence I realised these laws of international states as well as articles for best law of anti-money laundering.

I *Review of anti-money laundering laws proceeds of crime and Regulations of the United Nation Security Council (UNSC) Resolutions 1267 and 1373 as well as United Nation Convention against Corruption under Article 2(e).*

According to these resolutions of UNSC it attracts the states to increase competition in the money laundering laws and financial terrorism that ultimately beneficial for the state for controlling proceeds of crime also of the country. The unbundling of generations, distribution and transmission activities, establishment of department or independent regulator, efficiency improvements and promotion of rule and regulations are the very important steps that has been taken by the UNSC. Hence, many comprehensive amendments have recently approved by the government of Pakistan, to promote all the herein before mentioned aspects, in the regulation of Generation, transmission and distribution of money method and controlling as well as check and balancing illegal activity of money laundering.

But in these amendments' researcher address the gap between the rules and regulations which are not deal with proceeds of crime under money laundering as well as financial terrorism according to international best practices. The major flaw was in the submission of names of such groups or individuals listed by ministry of interior to Financial Monitoring Unit (FMU) or Federal Investigation Agency (FIA) Excise and taxation. Therefore, the main change needed to regulate the communication between these institutions according to international best practices for controlling proceeds of crime.

II *Developing a Competitive money laundering laws in Pakistan \_ A Case Study by Saifullah Khan, Saeed Hasan.*

In this article the researchers have elaborated money Laundering as a well predicate offence its gradual developments and the steps taken by Pakistan legislation the to develop a competitive anti-money laundering law, also elaborate tax evasion which fall under the ambit of money laundering when the tax amount evaded PKR10 million or more. But my research is different which explain the proceeds of crime as well as how these crimes are also money laundering. How Pakistan controls the proceeds of crime with gap analysis of anti-money laundering laws and rules regulations according to international best practice.

III *Proceeds of crime Law in UK recent developments in The Crown Prosecution Service proceeds of crime (CPSPOS) Act 2002.*

In this act money laundering and proceeds of crime are categories, define, procedure to recover, compensate the aggrieved person from the proceeds of crime as well as helpful for the Prosecutions how to deal this crime is explain but in Pakistan anti-money laundering law only mentioned the word proceeds of crime in the definition of money laundering. This research addresses the gap

between money laundering and proceeds of crime, which proceeds of crime under money laundering and what should be mechanism for controlling this crime according to international best practice.

IV *Anti-corruption Initiative for Asia Pacific Countries (OECD).*

In the Anti- Corruption Initiative for Asia Pacific have resolved to cooperate in the fight against corruption as early as 1999, when they launched the Anti-Corruption Initiative for Asia-Pacific under the joint leadership of the Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD) Since 2018, the OECD has been carrying out the OECD South East Asia Anti-Corruption and Business Integrity (SEACAB) Project 11 “Self-Evaluation Tool for Corruption Risk Assessment Processes”, is an interactive tool designed specifically for small and medium-sized enterprises (SMEs) whether they are operating in Southeast Asia or in other regions. The Self-Evaluation Tool for companies does not constitute any kind of certification of corruption risk assessment processes. Nor does it attest as to whether a company meets any applicable national legal requirements. The tool is also without prejudice to the views of OECD members and other members of the OECD Working Group on Bribery. It also describes the self-assessment tool, importance of self- assessments, indicators for corruption and objective of self-assessment. While my research is controlling the proceeds of crime, which are also part of corruption how can be control according to international best practice against proceeds of crime.

V *Confiscation proceeds of crime and property by Council of Europe Convention on Laundering (CECOL).*

In this convention under Section 13 clause (b) define the proceeds of crime any advantage again directly and in directly from criminal offences and property also come under the ambit of proceeds of crime but in the Pakistan anti-money laundering act as well as amendments made in 2020 were not elaborate the proceeds of crime while only mentioned in money laundering definitions as a word. My research is for elaboration term law, rule and regulations regarding to proceeds of crime according to international practice. The SEACAB Project is part of the OECD Anti-Corruption & Integrity Project, an initiative financed by the United Kingdom's Prosperity Fund.

VI *According to The Bahamas Act 2000 (Commencement 29th December 2000) Regarding to Proceeds of Crime.*

An Act to empower the Police, Customs, and the Courts in relation to money laundering, search, seizure, and confiscation of the proceeds of crime, either property or offence was done in Bahamas or in doing any other place and for connected purposes. It also deals with drug trafficking, money laundering, relevant offences, property, interest, and criminal conduct etc. While on the other hand Pakistan has not doing any legislation about proceeds of crime. This research addresses the gap of proceeds of crime in anti-money laundering law.

VII *According to Indian Article Prevention of Money Laundering by Dubey & Partners – Advocates.*

Money Laundering, has been a great menace to the world economy particularly in this heightened stage of terrorism and cyber-crime. Many criminal activities are focused to generate money for the perpetrators. Such criminal activities include the activities of organized crime such as drug trafficking, sale of illegal arms, smuggling, embezzlement, tax evasion, corruption, illegal gambling, arson,

racketeering, prostitution etc. which can generate huge sums. Once money has been amassed through these illegal activities, the next concern of the persons involved in such activities would obviously be to legalise them and bring them into the mainstream economy. Money Laundering is a process through which these ill-gotten money is made legal and infused into the mainstream economy. This is usually done by disguising the source, changing the form, or moving it to a place where they are less likely to attract attention of the authorities. The present article tries to discuss in brief, the intricacies of Money Laundering and in particular the ambit of Prevention of Money Laundering Act, 2002 under section 3 of this act also discuss proceeds of Crime. While anti-money act 2010 as well as amendments 2020 have flaw relating to Proceeds of crime, which should be deal with proceeds of crime according to International practice.

### **1.5 Basic structure of controlling financial crime**

The following points outline the fundamental structure for controlling financial crime in Pakistan, as no specific mechanism has been outlined by any state. A public statement regarding Pakistan's actions against money laundering was delivered on June 29, 2018, demanding attention to the following strategic counter-terrorist financing aspects:

- i. Proper identification, evaluation, and regulation of intimidation funding risks.
- ii. Application of sanctions and remedial actions in cases of violated financial crime strategies.
- iii. Identification and enforcement action against illegal value or money transfer services through harmonization of competent authorities.



- iv. Identification of cash carriers and enforcement of controls on illegal money transfers, along with increased awareness of cash carriers used for funding terrorism-related activities.
- v. Enhancement of coordination among involved agencies at both federal and provincial levels to combat risks of terrorism financing.
- vi. Identification and investigation of financing in support of terrorism by law enforcement agencies, as well as prosecution of entities and individuals involved in such activities.
- vii. Strengthening support and capabilities for judiciary and prosecutors dealing with terrorists, along with applicable sanctions against terrorism financing.
- viii. Targeting all nominated terrorists through effective implementation of financial sanctions against them.
- ix. Utilization of criminal and administrative penalties for violations related to terrorism financing and fostering cooperation among authorities involved in enforcement cases.
- x. Addressing deficiencies in services and facilities controlled or owned by nominated individuals.
- xi. Freezing the resources of specified extremist groups under "UNSCR-1373 and UNSCR-1267."
- xii. Controlling approaches used for money laundering and maintaining status for BTC.

#### **1.6 Features of international best practices and implementation roadmap.**

The Convention against Transnational Organized Crime (CECOL) elaborates on the appropriation of proceeds of crime and property. Section 13 clause (b) of the convention explains the advantage gained directly and indirectly from illicit activities, financial terrorism, financial crime, money laundering, and property under the domain of proceeds of crime. It further specifies that if the actual money is not recovered from financial

terrorists and money launderers, illegitimate money can be recovered from the property of individuals and legal entities. These prohibited methods for obtaining money align with international standards on money laundering and financial radicalism. However, Pakistan's laws and amendments related to money laundering, as well as functions introduced in 2020, do not adequately address proceeds of crime. They only touch upon money laundering definitions, dealing with unlawful property. Additionally, the penalties awarded to financial terrorists, money launderers, and legal entities are not efficient according to international best practices. Pakistani money laundering laws also provide a way to seize money within the limits set by the 2010 Act, amendments made in 2020, and recent amendments made in the NAB Act. These laws do not allow for effective action against money launderers and financial terrorists.<sup>9</sup>

For example, if we consider the EU's steps against money laundering, internationally recognized money laundering organizations have been discussed later in the passage with examples. "Narco-terrorism" had not attracted much attention until recently. It calls for groups to meet standards to be categorized as extremist organizations, particularly those in regions where groups cultivate, process, and supply narcotics worldwide. Organizations such as the Revolutionary Armed Forces of Colombia (RAFOC), Peruvian Shining Path, Taliban, Al Qaeda, and related entities have been implicated.<sup>10</sup> The UN's Department of Drug Control and Crime Prevention (DCACP) elaborates on how the Taliban amassed a huge stockpile of illicit funds by controlling prices and production. The Security Council controlled Taliban transactions through Resolution No. 1214, establishing connections with terror determinations 1333. The resolution aimed to freeze

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<sup>9</sup> Howe, Adrian. "The International Political Economy of Money Laundering." *New Political Economy* 14, no. 2 (2009): 167-182.

<sup>10</sup> Jones, Richard. "Understanding Money Laundering." In *Anti-Money Laundering: International Law and Practice*, edited by Wael S. Awwad, 11-26. Oxford: Oxford University Press, 2007.

the assets of specified extremist groups, but it could not administer the progress of commodities certified only in illegal markets. Drugs flowed into the illicit economy, with proceeds from their illicit sale being administered. In implementing rigorous sanction rules, prior to September 11, Afghanistan was the top producer of illegal opium globally. Narcotics are not the only illegal method used to fund terrorism.<sup>11</sup> The Joint Money Laundering Steering Group (JMLSG) in the UK has noted instances of extortion, trafficking, deception, and theft contributing to terrorism funding. Although capital thefts are occasional, they only provide funding intermittently. The proceeds are deposited into short-term company accounts, also known as shell companies, which operate for approximately three months before automatically winding up. Illicit money is mixed with legal funds, making its recognition more difficult. The method for detecting illicit money is attractive, but not all funds are illicit; for example, donations. This concept was introduced by the Organization for Economic Co-operation and Development (OECD). The Financial Action Task Force (FATF) develops, promotes, and dedicates state and international laws to control money transformation. The laws established by the FATF are significant for the OECD and non-member states. A notable session held in Washington DC in October 2001 saw the FATF intensify its focus on terrorist financing and attempt to issue lists of sanctions against such activities. The main aim of this effort is to assist both state and private authorities in identifying illicit funds.<sup>12</sup>

The primary function of FATF experts is to determine whether illicit funds affect the capability, analysis, and actions of states against illicit money. Reports demonstrate three ways of money laundering: first, the freedom of movement of money to offshore tax

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<sup>11</sup> Lang, Andrew F. "In Pursuit of Justice? Terrorism and the International Criminal Court." *Journal of International Criminal Justice* 3, no. 3 (2005): 614-628.

<sup>12</sup> Block, Alan A., and Geoffrey R. Skoll. "Globalization, Crime, and Terrorism: The Nexus." Available at: <https://www.books-by-isbn.com/0-8133/0813338706-Globalization-Crime-and-Terrorism-The-Nexus-0-8133-3870-6.html>

havens through intermediaries; second, the deposit of illicit money by a spouse when their partner is unable to provide a valid explanation for the funds; third, the pooling of money by a group of individuals, some of whom work for illicit purposes and some for charities, contributing their funds for mixing with illicit money.<sup>13</sup> These examples illustrate the distinction between lawfully and unlawfully obtained money. After the 2001 incident, US and EU authorities realized the need to control alternative and secret banking systems, such as hawala, used for transferring money without obtaining permission. Similar to hawala, other entities facilitate the transfer of arms, drugs, and money to families. Consequently, President George W. Bush issued Order No. 13224 after a report from the Federal Bureau of Investigation about the Bin Laden group.<sup>14</sup>

### **1.7 Tractability of regulator under anti-money laundering policies about states.**

Pakistan is recognized as a significant player in combating illicit financial activities. This is evident from various perspectives, as highlighted by Shahid Karim. He points out that crimes involving money laundering are not frequently reported, making it extremely challenging to assess the extent of such illicit activities within a country. Indirect measures used by organizations like FATF involve analyzing the legislative framework and its implementation in each state. The evaluation of different entities within a country can lead to varying outcomes.<sup>15</sup>

For instance, the "Basel Anti-Money Laundering Index" utilizes fourteen indicators, including corruption levels, political transparency, adherence to the rule of law, and regulatory effectiveness. The composite of these risk factors is then presented in the form

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<sup>13</sup> Baker, Raymond W. "Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System." Available at: [https://books.google.com/books/about/Capitalism\\_s\\_Achilles\\_Heel.html?id=XzUJ4nNnUusC](https://books.google.com/books/about/Capitalism_s_Achilles_Heel.html?id=XzUJ4nNnUusC)

<sup>14</sup> Walters, Reece. "The Impact of Money Laundering on Economic Development." Available at: <https://www.routledge.com/The-Impact-of-Money-Laundering-on-Economic-Development/Walters/p/book/9781138475949>

<sup>15</sup> Von Lampe, Klaus. "Organized Crime: Analyzing Illegal Activities, Criminal Structures, and Extra-legal Governance." Available at: <https://www.springer.com/gp/book/9783319945654>

of rankings by the index. On the other hand, FATF defines money laundering as a financial crime where criminals acquire funds through illegal means and attempt to conceal their origins as legitimate earnings. Common underlying crimes associated with money laundering include tax evasion, fraud, drug trafficking, and corruption.<sup>16</sup>

The "Global Terrorism Index" sheds light on Pakistan's status concerning illicit financial activities. While pinpointing the exact reasons for FATF's concerns about Pakistan may be challenging, it is evident that Pakistan is perceived as highly vulnerable to terrorism. According to a report by the Institute for Economics and Peace in 2017, Pakistan ranked fifth in terms of terrorism, trailing behind countries like Iraq, Afghanistan, Nigeria, and Syria. In contrast, according to the Basel Institute on Governance, Pakistan ranked 46th out of 146 nations globally in 2017, outperforming countries like Panama, Sierra Leone, Kenya, Mali, and Tajikistan, none of which were placed on FATF's grey list.<sup>17</sup>

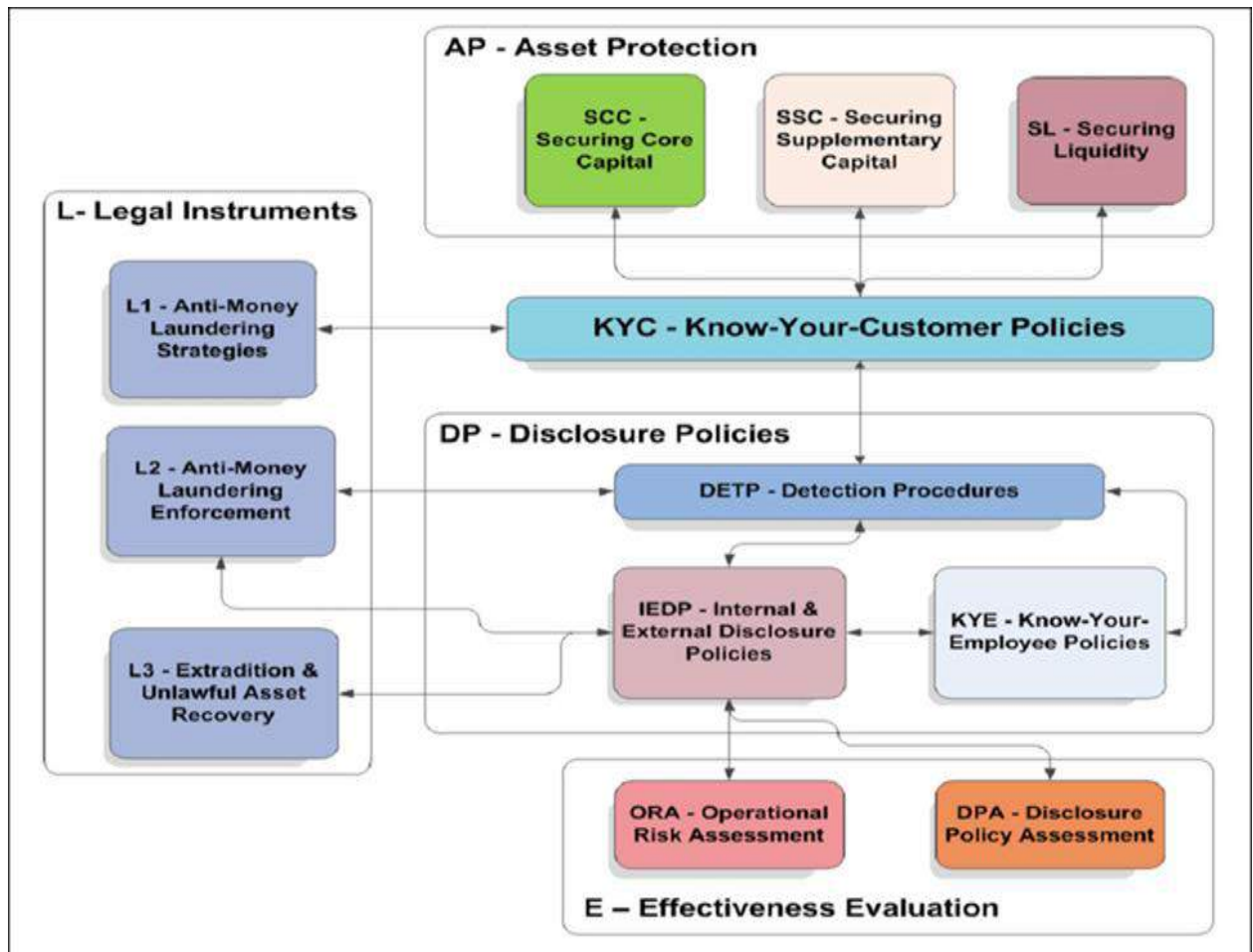
The Basel Institute, known as "an independent, non-profit competence center," operates in association with Basel University. Its historical track record makes it highly reliable and apolitical. Despite the discrepancies in rankings between these two institutions, it is anticipated that Pakistan's ranking may decrease in the Basel Institute's assessment, as it is partially aligned with FATF. Terrorists utilize various channels, including hawala, official banking systems, and cash transactions, facilitated by individuals and alliances. These funds are often generated through legal means, making them challenging for authorities to trace, but they can be identified through the detection of connections between individuals and bank accounts. Monetary authorities are of the opinion that terrorist financing relies on confident legal frameworks, including the collection of dues

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<sup>16</sup> Benson, Michael L., and Kären Hess. "White-Collar Crime: An Opportunity Perspective. Available at: <https://www.routledge.com/White-Collar-Crime-An-Opportunity-Perspective> /Benson-Hess/p/book/9 780367330243

<sup>17</sup> Gorta, Anthony N. "Globalization and Economic Crime." *Crime, Law and Social Change* 47, no. 1-2 (2007): 1-11.

and contributions, publication sales, speaking engagements, cultural and social events, community solicitations, appeals to wealthy individuals, and donations. Therefore, it would be beneficial to analyze the types of legal funds utilized for terrorism in light of existing recognition methods and values.<sup>18</sup>



The Head of the Financial Crimes Section (FCS) at the Federal Bureau of Investigation (FBI) distinguishes between "mission-specific," "terrorist cells," and "sleeper cells." In previous periods, individuals, groups, and funds involved in terrorist activities were explained. A "sleeper cell" typically earns money through legal means but is subject to

<sup>18</sup> Payne, Diane. "Globalization and Crime." In International Handbook of White-Collar and Corporate Crime, edited by Henry N. Pontell and Gilbert Geis, 139-157. New York: Springer, 2007.

the country where the cell operates. The events of 2001 prompted the FBI to develop specific methods for identifying illicit funds, which consist of three main components: the "account profile," "transaction profile," and "non-financial profile."<sup>19</sup>

The "account profile" revealed that the nineteen hijackers involved in the 2001 attacks opened twenty-four accounts in various banks, with each account holding between \$3,000 and \$5,000. These accounts were opened as joint accounts, and none of the hijackers had a social security number. Following the attacks, the Joint Money Laundering Steering Group (JMLSG) recognized the need for the financial services industry to conduct checks, as terrorists had used bank accounts. This led to the issuance of guidance notes in 2001 to help financial institutions comply with UK laws regarding illicit money.<sup>20</sup> The guidance notes outlined the distinction between personal and business accounts in different banks, with personal accounts used for wages and profits, while business accounts were used for money transfers and expenses via checks. Additionally, "dormant accounts" with insignificant balances held in various banks were identified, which were used for quick withdrawals and obtaining loans with no intention of repayment. These terrorist groups facilitated informal money transfers and money services across different states.<sup>21</sup>

The money carried by the hijackers during the 2001 attacks was relatively small, with values not exceeding \$10,000, and the hijackers were students receiving funds for educational purposes, which made their funds less suspicious to security authorities. However, after the 2001 attacks, suspicions arose against individuals of Arab origin or Muslim background, although this was dispelled after examining the account profiles.

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<sup>19</sup> Perry, Mark J. "The Evolution of Transnational Organized Crime." *Journal of Contemporary Criminal Justice* 22, no. 1 (2006): 70-94.

<sup>20</sup> Ryder, Nicholas, and Umut Turksen. "Money Laundering Regulation: The Foundation of Economic Development." *Journal of Money Laundering Control* 15, no. 3 (2012): 226-241.

<sup>21</sup> Simpson, Sally M. "The Politics of Money Laundering Regulation." *Crime, Law and Social Change* 43, no. 3-4 (2005): 211-230.

Therefore, since the 2011 incident, monetary institutions and their staff have been advised to pay attention to non-financial profiles, including local language use, spokespersons, and other unusual aspects.<sup>22</sup>

### **1.8 Review of AML controlling list countries.**

Numerous countries have continuously enacted laws aimed at combating illicit money, financial corruption, and the proceeds of crime. However, Pakistan's standing in accordance with international best practices is deemed poor due to the ineffective legislation and implementation procedures concerning these laws, regulations, and rules. The lack of coordination among departments responsible for enforcing and legitimizing these laws is a primary factor contributing to Pakistan's subpar situation. This thesis aims to explore the laws of leading international states regarding money laundering and the proceeds of crime.<sup>23</sup>

I *The Bilateral States United Nations Convention on Illicit Traffic (Mark Pith & Gemma Aiolfi, eds. 2004) and Pakistan Government's Actions.*

These illicit activities become challenging to trace when they originate in other states, leading to misunderstandings among administrative authorities. To combat drug trafficking's global spread, states must collaborate more effectively to block funding networks for drug manufacturing. The G7 administration identified FATF in 1989 as a body aimed at constructing and implementing measures to control criminal assets' flow into the financial system, making it a globally recognized standard-setting body for financial control. FATF's 40 recommendations are renowned for regulating the global financial system and

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<sup>22</sup>Serrano, Mónica, and Bernard Freamon. "Anti-Money Laundering in the Islamic World: An Overview." *Journal of Money Laundering Control* 20, no. 3 (2017): 237-253.

<sup>23</sup> Serrano, Mónica, and Bernard Freamon. "Anti-Money Laundering in the Islamic World: An Overview." Available at: <https://www.emerald.com/insight/content/doi/10.1108/JMLC-05-2016-0018/full/html>



controlling illicit money and the proceeds of crime. These recommendations, first declared in 1990 and regularly updated, were specifically amended post-9/11 to efficiently control terrorist funding and have been acknowledged by international bodies like the UN and EU for implementation.<sup>24</sup>

## II *Proceeds of Crime Law in the UK: Recent Developments in "The Crown Prosecution Service Proceeds of Crime (CPSPOS)" Act 2002.*

The UK's legislation addresses illegal financing and proceeds of crime, outlining procedures for recovery and compensation from these proceeds and providing support for prosecutions dealing with such crimes. In contrast, Pakistan's anti-money laundering law merely mentions the term "proceeds of crime," highlighting a gap in addressing illicit money and its transformation into criminal proceeds. This research aims to bridge this gap by examining how illicit money acts fall under the category of proceeds of crime and proposing mechanisms for controlling, recovering, and penalizing those involved in such crimes, aligning with international best practices.<sup>25</sup>

## III *Anti-money Laundering Initiative Asia Pacific Countries (OECD).*

In 1999, the Asia Pacific region took steps to identify and control corruption by establishing imperative departments like the Anti-Corruption Initiative (ACI), which collaborates with organizations such as the Asian Development Bank (ADB) and OECD. Since 2018, OECD has followed the concept of the "Self-Evaluation Tool for Corruption Risk Assessment Processes" (SEACAB), benefiting small and medium-sized enterprises (SMEs) operating globally. While

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<sup>24</sup> Reuter, Peter, and Edwin M. Truman. *Chasing Dirty Money: The Fight Against Money Laundering*. Available at: <https://www.iie.com/publications/papers/viewpoints-chasing-dirty-money-the-fight-against-money-laundering>

<sup>25</sup> Sharman, J. C. "Anti-Money Laundering: International Law and Practice." Cambridge: Cambridge University Press, 2012.

my research focuses on controlling proceeds of crime, a part of corruption or illegal acquisition of money, unlawful financial activities, and money laundering, it aims to analyze how these are controlled according to international best practices.<sup>26</sup>

#### **IV** *The Bahamas Act 2000 Regarding Proceeds of Crime.*

The Bahamas Act empowers customs, police, and courts to coordinate the exploration, seizure, and appropriation of proceeds of crime, regardless of whether the offense occurred in the Bahamas or elsewhere. However, Pakistan lacks legislation similar to the Bahamas Act concerning offenses related to the proceeds of crime, indicating a need for amendments to address all methods of illicit money acquisition. This research aims to address the gap between proceeds of crime and Pakistan's anti-money laundering law amendments.<sup>27</sup>

#### **V** *US Case Study on Money Laundering.*

An example of a US case involving money laundering is Tony Blair's response, directly linking drug proceeds from Afghanistan to the United States. Assets associated with terrorist groups were frozen through the United Nations Sanctions Committee's list, enabling efficient enforcement against terrorism by suspending financial activities linked to designated entities.

#### **VI** *Indian Article on Prevention of Money Laundering by Dubey & Partners – Advocates.*

An illegal money transfers pose significant threats to the global economy, particularly during challenging times like the pandemic, terrorism, and

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<sup>26</sup> Williams, Phil. "Organized Crime and Criminal Networks." In *Understanding Global Security*, edited by Peter Hough, 99-118. London: Routledge, 2008.

<sup>27</sup> Zabyelina, Yuliya. "The Trafficking-Organized Crime Nexus: A Literature Review." *European Journal of Criminology* 12, no. 2 (2015): 141-161.

cybercrime. Criminals efficiently generate funds for illegal activities, including terrorism, money laundering, arms trafficking, fraud, tax evasion, corruption, illegal betting, racketeering, and prostitution. They then attempt to legitimize these funds by integrating them with legal money through various means, a process known as money laundering.<sup>28</sup> This research aims to discuss the Prevention of Money Laundering Act, 2010, and proceeds of crime while highlighting Pakistan's Anti-Money Laundering Act 2010 and its 2020 amendments, which need to address proceeds of crime in line with international practices.

### **1.9 Overview of control and protect international status of Pakistan through amendments recommendations.**

Countries that fail to comply with FATF practices have been reviewed and listed on either the grey list or the block list by the review committee since 2000. Such listed states demonstrate an inability to adhere to FATF rules, formulate appropriate policies, and enforce them. Despite Pakistan's consistent efforts in combating money laundering, the country has found itself on the grey list continuously.<sup>29</sup> In 2018, Pakistan was placed on the grey list or watch list of FATF due to its persistent inability to effectively counter money laundering. This listing signified that Pakistan risked being block-listed if it failed to expand its policies on these matters, potentially hindering its ability to receive financial assistance from international entities such as the ADB, IMF, and WB for bilateral trade contracts.<sup>30</sup>

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<sup>28</sup> Von Lampe, Klaus. "Organized Crime: Analyzing Illegal Activities, Criminal Structures, and Extra-legal Governance." Thousand Oaks, CA: Sage, 2016.

<sup>29</sup> Vander Beken, Tom. "Developments in the Analysis of Money Laundering." In *Crime, Risk and Insecurity: Law and Order in Everyday Life and Political Discourse*, edited by Tim Newburn and Richard Sparks, 138-158. London: Routledge, 2004.

<sup>30</sup> United Nations Office on Drugs and Crime. "The Globalization of Crime: A Transnational Organized Crime Threat Assessment." Vienna: United Nations, 2010.

To address such financial crimes, Pakistan has made moderate progress in recent years by adhering to rules and regulations and implementing measures such as the development of joint databases to enhance collaboration between law enforcement agencies, administrative bodies, and the financial sector. These high-level efforts have led to increased regulatory protections and successful outreach programs to combat financial crimes. However, Pakistan's placement on the grey list is rooted in its failures to consistently counter money laundering.

The regulatory authorities have identified a lack of action taken by the Pakistani state to ensure that taxpayer money does not fall into the hands of criminals. FATF has also found that various terrorist organizations continue to move funds through money laundering from areas under Islamabad's administration. To effectively implement financial regulations and control organizations barred by FATF, Pakistan requires cooperation from other governments and a robust financial transparency system. This is crucial to prevent business activities from being subjected to blocks and injunctions.

Therefore, Pakistan has undertaken the task of implementing 39 out of the 40 amendments provided by FATF after its removal from the grey list. Pakistani legislatures have also enacted regulations to oversee NGOs, non-profit organizations, and religious madrasahs within the Islamabad capital territory.

#### **1.10 Legal mechanism of amendments recommendations.**

When the FATF issues directives to Pakistan regarding necessary amendments, Pakistan takes action to comply with the requirements and recommendations of international regulatory bodies. Initially, Pakistan introduces an amendment bill in the National Assembly, aligning with the FATF's recommendations and those of other international institutions. Following discussions and approval by a two-thirds majority in the National Assembly, the bill is passed. Subsequently, the passed bill is forwarded to the Senate of

Pakistan, where a similar procedure as in the National Assembly is followed. Upon approval in the Senate, the bill is then sent to the President for final approval.<sup>31</sup>

Should the President decline to approve the bill, it is returned to the houses of Parliament for reconsideration. The same procedure is followed by both houses, and if the amended or revised bill garners approval from both, it is sent again to the President. Upon the President's approval, the bill, whether passed or amended, becomes law. The approved amendments are then officially gazette by the state.

Through this process of aligning Pakistani laws, rules, and regulations with the recommendations of the FATF and other international bodies, Pakistan endeavors to exit the FATF grey list and foster relations with other institutions. This procedure underscores Pakistan's commitment to adhering to international best practices in lawmaking and regulation.<sup>32</sup>

### **1.11 Conclusion.**

In conclusion, the discussions shed light on the critical importance of combating financial crimes, particularly money laundering and terrorist financing, in Pakistan and globally. The various points highlighted the challenges faced by Pakistan in aligning its laws and regulations with international standards set by organizations like the FATF. Despite ongoing efforts and amendments to legislation, Pakistan has found itself on the FATF grey list due to persistent shortcomings in effectively countering these illicit activities.

The conversations underscored the need for Pakistan to prioritize cooperation among its various departments and agencies involved in law enforcement, administration, and the financial sector. Collaboration with international bodies and adherence to their

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<sup>31</sup> Cogley, Timothy P. "Financing Terrorism: Legal Responses and Future Prospects." *Journal of Money Laundering Control* 13, no. 2 (2010): 142-155.

<sup>32</sup> Dobson, John. "Rethinking Money Laundering." *Journal of Money Laundering Control* 18, no. 2 (2015): 117-124.

recommendations are crucial steps towards enhancing regulatory frameworks and addressing financial crimes effectively.

Furthermore, the conclusion emphasizes the procedural aspects involved in enacting and amending laws, showcasing Pakistan's commitment to aligning its legal framework with international best practices. By actively implementing regulatory measures and fulfilling the requirements set forth by organizations like the FATF, Pakistan aims to improve its standing and strengthen its financial systems to prevent misuse by criminals and terrorist organizations.

In essence, the discussions highlight Pakistan's ongoing efforts to combat financial crimes and its dedication to upholding global standards of financial integrity. Through continued collaboration, vigilance, and adherence to regulatory guidelines, Pakistan endeavors to overcome its challenges and emerge as a responsible member of the international community in the fight against financial crimes.

## CHAPTER # 2

# INTERNATIONAL BEST PRACTICES FOR DEVELOPMENT OF COMPETITIVE LAW AGAINST PROCEEDS CRIME, AND MONEY LAUNDERING

### 2.1 Introduction.

Firstly, it is imperative to elucidate the necessity for laws aimed at combating financial terrorism, addressing proceeds of crime, and curbing illicit financing. The global community has established best practices in this regard, introducing various departments tasked with overseeing illicit financial activities. These international standards have had a significant impact on Pakistan's regulatory landscape, prompting legislative amendments and the establishment of new departments to align with international norms.<sup>33</sup>

These measures have led to enhanced collaboration among different departments, facilitating the sharing of information and data. Furthermore, the central institution has assumed a pivotal role in supervising transactions across various departments in accordance with global best practices. Mechanisms have been adopted to ensure compliance with international recommendations, including procedures for resolving conflicts that may arise during the amendment process, ensuring adherence to the sanctions imposed by international institutions.

Additionally, central checking authorities have been instituted to monitor illicit financial activities and the transfer of funds. Upon completion of the prescribed recommendations, international monetary units take action against states that fail to comply with international standards. Finally, the chapter also delves into the role of checking

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<sup>33</sup> Fichtelberg, Aaron, and Wayne M. Morrison. "Money Laundering: An Overview of 18 U.S.C. 1956 and Related Federal Criminal Law." Congressional Research Service Report for Congress, RL33315 (2010): 1-16.

authorities in overseeing other departments and outlines the procedures they follow to ensure regulatory compliance.<sup>34</sup>

## **2.2 Background of international best practices for development of laws.**

France's innovative "Terrorist Financing Convention" of 1999 was established to combat terrorist funding and regulate illicit activities. The primary objective of this convention is to impede the flow of illicit funds used for terrorist activities without hindering legitimate financial transactions worldwide. Recognizing that government authorities alone cannot effectively control terrorist financing, the convention holds private entities accountable for their role in financing terrorism. When a state acknowledges UN Security Council Resolution 1373, it becomes responsible for detecting and seizing suspicious accounts related to terrorist funding.<sup>35</sup>

In 1999, it was observed that large institutions in developing countries were being used for terrorist financing. In instances where state institutions are unable to effectively combat terrorist financing, legal action becomes necessary. The convention emphasizes the importance of individual lawful institutions fulfilling their duties in combating terrorist financing. It also outlines various measures, such as enhanced client identification by financial institutions, to prevent illicit funds from entering the financial system.<sup>36</sup>

Resolution 1373, adopted after the September 11 attacks, imposed strict measures on states to combat terrorist financing, including enhanced client identification measures, reporting of suspicious transactions, and cooperation with international institutions to

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<sup>34</sup> Fraser, David. "Offshore Financial Centres: Harbours for Money Laundering?" *Journal of Money Laundering Control* 14, no. 4 (2011): 328-341.

<sup>35</sup> Griffiths, Carol A. "Chasing Dirty Money: Lessons Learned." *Law and Policy* 28, no. 4 (2006): 536-557.

<sup>36</sup> Levi, Michael, and Peter Reuter. "Money Laundering." *British Journal of Criminology* 47, no. 5 (2007): 675-703.



identify terrorist groups. It also mandated domestic legal actions to combat terrorist financing, such as collaboration in obtaining evidence for criminal proceedings.<sup>37</sup>

The resolution gained significant enforcement following the September 11 attacks, allowing states to impose sanctions on those failing to comply with its provisions. A Counter-Terrorism Committee was established to oversee the implementation of Resolution 1373. States were required to report their actions to this committee within ninety days of taking steps to implement the resolution.

In October 2002, the FATF imposed universal sanctions to promote global laws against proceeds of crime and financial terrorism. Member states were obligated to adopt treaties against money laundering, terrorism, and extremist funding. They were also required to ratify anti-money laundering laws and strengthen client identification measures.

In short, Pakistan and international institutions have taken significant steps to combat illicit money and proceeds of crime. The establishment of conventions, resolutions, and committees has facilitated global cooperation in combating terrorist financing and money laundering. These measures are essential for safeguarding the integrity of the global financial system.

### **2.3 Legal mechanism for International Best Practices, Recommendations in Developing States Particularly for Pakistan.**

Nations failing to comply with FATF practices have been evaluated and categorized as either grey-listed or blacklisted by assessment committees since 2000. Being listed in such a manner impacts developing states, as international institutions may withhold assistance. Despite Pakistan's consistent efforts in aggressively combating money

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<sup>37</sup> Giles, Peter. "Governance Failure and the Global Financial Crisis: The Role of Offshore Financial Centers." *Journal of Money Laundering Control* 14, no. 4 (2011): 342-352.

laundering, it has remained on the grey list due to its inability to effectively counter such financial crimes.

In 2018, Pakistan was placed on the FATF watch list due to its ongoing struggles with money laundering, financial terrorism, and proceeds of crime. This listing signaled that Pakistan risked being banned from receiving financial support and international trade agreements unless it improved its strategies in these areas. Over the past few years, Pakistan has made progress by meeting many of FATF's requirements, such as establishing combined databases to enhance cooperation between law enforcement agencies, government bodies, and the financial sector. This heightened cooperation has led to improved measures to combat financial crimes.<sup>38</sup>

However, Pakistan's grey-list status stems from its failures to consistently combat money laundering. FATF identified a lack of action by the Pakistani government to ensure that taxpayer money does not end up in the hands of criminals. Terrorist groups have been found to be continuously moving funds through money laundering operations within Pakistan's jurisdiction. To effectively implement FATF's regulations on financial organizations, Pakistan requires assistance from other governments. Clear structures for financial transactions and transparency are necessary to avoid sanctions and restrictions on business activities in Pakistan.<sup>39</sup>

On July 30, 2020, the Pakistani Senate passed two bills, the "Anti-Terrorism Act Amendment" and the "United Nations Security Council Amendment Bill," with five other bills undergoing further discussions in relevant parliamentary committees. These legislative efforts are crucial for demonstrating Pakistan's commitment to FATF's

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<sup>38</sup> Martin, Anne M., and Nicholas Ryder. "Enforcing Corporate Governance: The Challenges of Compliance with Anti-Money Laundering Legislation." *Journal of Corporate Law Studies* 14, no. 2 (2014): 383-404.

<sup>39</sup> Masciandro, Donato, and Maria J. Nieto. "Financial Crises and Crime." *Journal of Financial Crime* 14, no. 1 (2007): 7-21.

strategies. Pakistan must show effectiveness in various areas, including transforming madrassas into schools, cracking down on illegal money transfer services, and shutting down funding organizations. Despite facing opposition, these efforts are essential for countering terrorism, money laundering, and financial fraud. However, being on FATF's grey list may deter online trades and investments in Pakistan. Efforts to reform money laundering laws align with international best practices and are crucial for fostering a conducive environment for digital finance, e-commerce, and business development.<sup>40</sup>

India, Pakistan's eastern neighbour, complicates matters by allegedly influencing international forums to impose economic sanctions on Pakistan. India has raised concerns regarding Pakistan's failure to fulfil international obligations, citing incidents such as the 2011 Mumbai attacks and the Pulwama attack as evidence. With the United States supporting India on a geopolitical level and being a significant contributor to institutions like the IMF and FATF, there may be pressure to keep Pakistan on the grey list to address geopolitical issues, including those related to Afghanistan.<sup>41</sup>

#### **2.4 Impact of Competitive State Structure on Financial Terrorism in Pakistan.**

There are certain important impacts of competitive states on the financial terrorism in Pakistan some are provided hereunder;

##### **I *Enhancing Regulatory Authorities in Pakistan.***

Pakistan has recognized the importance of establishing robust regulatory authorities to combat financial terrorism and money laundering effectively.

Following sanctions from FATF and international pressure, Pakistan implemented

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<sup>40</sup> McDonnell, Brendan. "Law, Offshore Financial Centers, and the Offshore World in the Era of High Globalization." *Law & Society Review* 47, no. 1 (2013): 11-44.

<sup>41</sup> Deakin, Simon, and Frank Wilkinson. "Corporate Governance and Financial Crime: A Comparative Analysis of Corporate Governance Controls and the Management of Risk in the Prevention of Financial Crime." *Journal of Corporate Law Studies* 16, no. 2 (2016): 383-414.

legislative amendments in 2020, specifically within the Money Laundering Act of 2010. These amendments aimed to bolster the country's capacity to investigate and prosecute financial crimes. For example, one of the key regulatory bodies established or reinforced through these amendments is the National Accountability Bureau (NAB). NAB is tasked with investigating and prosecuting cases of corruption and financial mismanagement, playing a crucial role in combating money laundering and financial terrorism.

## II *Strengthening the Legal Framework.*

In response to international best practices and recommendations, Pakistan undertook a thorough review of its legal framework governing financial crimes. This review aimed to identify any gaps between existing laws and international standards regarding money laundering and proceeds of crime. Subsequently, the government initiated amendments to ensure alignment with international standards and to address any shortcomings. Example: Pakistan's legislative response to combating money laundering includes expanding the definition of money laundering to cover various illicit activities, such as the misuse of legitimate donations for unlawful purposes. By broadening the scope of prohibited activities, Pakistan aims to deter individuals and entities from engaging in financial crimes.

## III *Mechanism for Settling Amendment Recommendations.*

When faced with recommendations from the international community, Pakistan follows a systematic mechanism for settling these suggestions. Proposed bills addressing financial terrorism, money laundering, and proceeds of crime are introduced in the National Assembly and Senate. These bills undergo thorough scrutiny and debate before receiving approval from the President of Pakistan. Upon presidential approval, the bills become law and are published in the official

gazette. For example, in 2020, Pakistan passed two significant amendments to the Anti-Money Laundering Act, namely "The Anti-Money Laundering (Amendment I) Bill, 2020," and "The Anti-Money Laundering (Amendment II) Bill, 2020." These amendments were scrutinized and debated in the legislative bodies before receiving presidential approval. Their enactment into law demonstrates Pakistan's commitment to aligning its legal framework with international standards.<sup>42</sup>

#### IV *Alignment with International Efforts.*

Pakistan's efforts to combat financial terrorism and money laundering are part of broader international initiatives aimed at addressing illicit financial activities. Collaborative efforts with EU countries and other international entities involve establishing FATF monetary cells and coordinating actions to combat financial crimes on a global scale. For instance, Pakistan's collaboration with the EU and other international partners involves sharing intelligence, exchanging best practices, and coordinating efforts to disrupt illicit money flows. By aligning its efforts with those of the international community, Pakistan enhances its capacity to combat financial terrorism and money laundering effectively.<sup>43</sup> In short we can say that Pakistan's initiatives to enhance regulatory authorities, strengthen the legal framework, settle amendment recommendations, and align with international efforts demonstrate its commitment to combating financial crimes. Through legislative amendments, regulatory reforms, and international collaboration, Pakistan aims to mitigate the risks posed by financial terrorism and money

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<sup>42</sup> The Anti-Money Laundering (Amendment II) Bill, 2020

<sup>43</sup> Benavides, Guillermo. "Understanding Money Laundering." *Journal of Money Laundering Control* 18, no. 1 (2015): 4-11.

laundering, contributing to global efforts to enhance financial integrity and stability.

## **2.5 Impact of International Best Practices on Domestic Money Laundering Laws and Control of Proceeds of Crime in Pakistan.**

The impact of international best practices on domestic money laundering laws and the control of proceeds of crime in Pakistan is significant. Let's delve into the details with explanations and examples:

### **I** *Adoption of International Standards:*

Pakistan recognizes the importance of aligning its domestic laws with international best practices to effectively combat money laundering and control the proceeds of crime. This involves incorporating recommendations from global institutions such as the Financial Action Task Force (FATF) into its legal framework.<sup>44</sup> **Example:** Pakistan has amended its Anti-Money Laundering Act to broaden the definition of money laundering and introduce stringent measures to identify, prevent, and prosecute money laundering activities. These amendments align with FATF recommendations and demonstrate Pakistan's commitment to implementing international standards.

### **II** *Strengthening Regulatory Oversight:*

International best practices emphasize the need for robust regulatory oversight to monitor financial transactions and prevent illicit activities. Pakistan has taken steps to strengthen its regulatory authorities and enhance their capacity to detect and deter money laundering activities. **Example:** The establishment of specialized agencies such as the Financial Monitoring Unit (FMU) and the

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<sup>44</sup> Allen, Katherine. "Financial Crime: The Corporate Governance Response." *Journal of Financial Regulation and Compliance* 14, no. 3 (2006): 228-243.

Anti-Narcotics Force (ANF) in Pakistan is aimed at improving regulatory oversight and enforcement mechanisms. These agencies work collaboratively to investigate suspicious financial transactions and disrupt the flow of illicit funds.

### **III** *Enhancing Due Diligence Measures:*

International best practices advocate for enhanced due diligence measures to mitigate the risks associated with money laundering and terrorist financing. Pakistan has implemented measures to ensure that financial institutions conduct thorough customer due diligence and adhere to stringent compliance requirements. **Example:** Pakistan's banking sector has implemented know-your-customer (KYC) and anti-money laundering (AML) procedures to verify the identity of customers and monitor their transactions for any suspicious activities. These measures help financial institutions identify and report potential instances of money laundering to regulatory authorities.

### **IV** *Collaboration and Information Sharing:*

International cooperation and information sharing are vital components of efforts to combat money laundering and the financing of terrorism. Pakistan actively participates in international forums and collaborates with other countries to exchange intelligence and coordinate efforts to disrupt illicit financial activities.<sup>45</sup> **Example:** Pakistan is a member of various international organizations, including FATF and the Egmont Group of Financial Intelligence Units. Through these platforms, Pakistan shares information with its

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<sup>45</sup> Song, S. "Money Laundering Through the Physical Transportation of Cash." In *Globalization and Crime*, edited by Katja Franko Aas and Helene Oppen Gundhus, 121-138. London: Sage, 2010.

counterparts and receives assistance in investigating cross-border financial crimes.

**V** *Training and Capacity Building:*

International best practices emphasize the importance of training and capacity building to enhance the effectiveness of anti-money laundering efforts. Pakistan invests in training programs and initiatives to equip law enforcement agencies, regulatory authorities, and financial institutions with the necessary skills and knowledge to combat money laundering effectively.<sup>46</sup> **Example:** Pakistan's Securities and Exchange Commission (SECP) conducts training workshops and seminars for compliance officers and financial sector professionals to raise awareness about money laundering risks and regulatory requirements. These capacity-building initiatives empower stakeholders to play an active role in detecting and preventing financial crimes. In short, the impact of international best practices on domestic money laundering laws and the control of proceeds of crime in Pakistan is evident in various aspects, including the adoption of international standards, strengthening regulatory oversight, enhancing due diligence measures, promoting collaboration and information sharing, and investing in training and capacity building. These efforts demonstrate Pakistan's commitment to combatting financial crimes and safeguarding its financial system from illicit activities.

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<sup>46</sup> Stessens, Guy. "Money Laundering: A New International Law Enforcement Model." Cambridge: Cambridge University Press, 2000.



## **2.6 Pakistan's Inclusion in Watch list by Global Regulators on Foreign Investors' Reaction and its Impact.**

Pakistan's recent listing in the watch list by global regulators has sparked significant reactions among foreign investors. The news has spread worldwide through international media channels and has been further amplified by actions and statements from neighboring countries such as India. Consequently, this development has garnered widespread attention internationally. The potential repercussions of this deterrence could have adverse effects on Pakistan's reputation on the global stage.<sup>47</sup>

### *I Potential Escalation to Blacklisting.*

If Pakistan fails to address concerns regarding money laundering laws and adhere to FATF recommendations, there is a risk of further downgrading to a blacklist status. Currently, only North Korea and Iran are on this blacklist. Such a scenario could severely hamper Pakistan's international standing and access to financial markets.

### *II Lessons from Past Practices.*

Past instances, such as Pakistan's grey-listing from 2012 to 2015, offer valuable insights into the potential impact of regulatory actions. During this period, while Pakistan was completing an IMF program and raising funds through international bond markets, its grey-listed status had significant repercussions.

### *III Legislative Efforts to Combat Financial Crimes.*

Efforts to combat financial crimes through domestic legislation are crucial for Pakistan's reputation and stability. Legislative reforms are essential to effectively track and punish money launderers. Collaborative efforts between the government and opposition are necessary to address this national security concern.

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<sup>47</sup> Stessens, Guy. "Money Laundering: A New International Law Enforcement Model." Cambridge: Cambridge University Press, 2000.

#### IV *Global Examples of Anti-Terrorism Legislation.*

Various countries, including France, Russia, China, the UK, and the USA, have implemented stringent anti-terrorism legislation following significant events such as the 9/11 attacks. These legislative measures aim to enhance financial surveillance, intelligence-sharing, and asset seizure to combat terrorist financing effectively.<sup>48</sup>

#### V *Strengthening Financial Surveillance.*

Measures such as the USA's Patriot Act and International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 demonstrate the importance of empowering financial institutions and regulatory authorities to combat money laundering and terrorist financing. These laws enhance policy frameworks, improve analytical capabilities, and promote information sharing to disrupt illicit financial activities.<sup>49</sup>

#### VI *Swift Action and Coordination.*

The swift action taken by the USA following the 9/11 attacks, including the establishment of programs such as Green Quest, illustrates the importance of coordinated efforts to dismantle illicit financing networks. Such initiatives focus on disrupting financial flows, seizing assets, and prosecuting individuals involved in terrorist financing activities.<sup>50</sup>

#### VII *International Collaboration.*

Countries like the UK have collaborated with international entities such as the UN Security Council to freeze accounts and assets associated with terrorism.

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<sup>48</sup> Snider, Laureen, and Halina Szejnwald Brown. "Understanding and Controlling Money Laundering." *Revue de Science Criminelle et de Droit Pénal Comparé* 3, no. 1 (2015): 67-84.

<sup>49</sup> Suter, Keith. "Transnational Organized Crime: How the Globalization of Crime is Reshaping the Criminal Justice System." New York: Taylor & Francis, 2013.

<sup>50</sup> Tavares, Rodrigo, and Isabel Soares. "Money Laundering and Terrorism Financing: The Cases of the United States and Portugal." *Journal of Money Laundering Control* 18, no. 1 (2015): 38-53.

Financial institutions play a crucial role in implementing these measures, which aim to prevent terrorist groups from accessing funds for their operations. Therefore, we can conclude that Pakistan's inclusion in the global watch list underscores the importance of addressing concerns related to money laundering laws and FATF recommendations. Collaborative efforts between stakeholders, legislative reforms, and international cooperation are essential to combat financial crimes effectively and safeguard national security interests.<sup>51</sup>

## **2.7 International Best Practices to Combat Financial Crimes and Recommendations for Domestic Institutions in Pakistan.**

During Pakistan's ban by FATF from 2012 to 2015, the National Counter-terrorism Authority (NACTA) assumed a central role in combating money laundering cases across the country. NACTA collaborated with various state institutions including the Federal Investigation Agency (FIA), the Securities and Exchange Commission of Pakistan (SECP), and the State Bank of Pakistan (SBP). Within the country, NACTA, along with other intelligence agencies, was tasked with reducing financial crimes related to terrorism financing and money laundering.<sup>52</sup>

To regulate the flow of money, the Federal Board of Revenue (FBR) and SBP introduced Money Declaration Forms for all international travellers entering or leaving Pakistan. Travellers were required to declare any amount of money exceeding \$10,000. SBP also implemented strict controls on transactions through branchless banking across the country.

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<sup>51</sup> Tombs, Steve, and David Whyte. "Financial Crimes and Corporate Fraud." In *Corporate Crime, Law, and Social Control*, edited by Sally S. Simpson and David Weisburd, 207-226. Cambridge: Cambridge University Press, 2009.

<sup>52</sup> Liu, Jianjun, and Yu Mao. "The Impact of the Global Financial Crisis on Money Laundering." *Journal of Money Laundering Control* 17, no. 1 (2014): 87-103.

Law enforcement agencies observed that non-profit organizations (NPOs) and NGOs were being used as alternative sources for money laundering. Consequently, several such organizations were blocked, and their legal status, registration, and fundraising activities were closely monitored to ensure compliance with regulations.

NACTA collaborated with various financial institutions in Pakistan to further strengthen measures against financial crimes in 2018. An International Corporate Review Group (ICRG) report highlighted that no individual or group within Pakistan was authorized to use financial services without scrutiny. Frequent transactions were scrutinized to prevent support for terrorist associations or money laundering activities. In 2017, 117 bank accounts across Pakistan with a total of 48.2 million were frozen due to suspected links to extremist financiers listed by the United Nations Security Council (UNSC).<sup>53</sup>

Law Enforcement Agencies (LEAs) demonstrated enhanced capabilities in maintaining law and order across the country. Over 150 cases of illicit financing and money laundering were identified prior to 2017. Pakistan's financial authorities also initiated investigations into non-compliance cases among stock market agents.

To combat terrorism financing and money laundering, the SECP strengthened efforts, including the authorization of Memorandums of Understanding (MOUs) and enhancing coordination levels. Public awareness campaigns were launched to educate financial institutions and individuals about Countering Terrorism Financing situations and updated Anti Money Laundering laws, as recommended by FATF. Pakistan, like many other countries, faces significant challenges in addressing financial crimes and meeting international standards. Despite notable efforts and progress, Pakistan's inclusion in the FATF watch list underscores the urgent need for further reforms and stringent

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<sup>53</sup> Hawksley, Humphrey. "The United Kingdom and the 'Global War on Terror'." *The Political Quarterly* 75, no. 3 (2004): 306-318.

enforcement mechanisms. The implications of being on such a watch list are far-reaching, impacting foreign investment, international trade relations, and overall economic prosperity.<sup>54</sup>

Additionally, owners of NGOs, financial organizations, and corporations were trained to monitor separate accounts to prevent any breaches of financial regulations. The "know your customer" rule was introduced to prevent financial embezzlement by individuals and parties. The SECP also established an Anti-Money Laundering Consultative Group and an Anti-Money Laundering Unit to further bolster efforts in this regard.<sup>55</sup>

## **2.8 Conclusion.**

Drawing upon the comprehensive discussions it becomes evident that the global landscape concerning financial crimes, money laundering, and terrorist financing is intricate, multifaceted, and continuously evolving. International best practices, as advocated by esteemed institutions like the Financial Action Task Force (FATF), United Nations Office on Drugs and Crime (UNODC), Asian Development Bank (ADB), International Monetary Fund (IMF), and others, serve as the cornerstone in the fight against these illicit activities. These practices encompass a wide array of regulations, guidelines, and recommendations aimed at combating various forms of financial wrongdoing and enhancing global financial integrity. In the contemporary context, countries worldwide, including Pakistan, find themselves under increasing pressure to align their domestic laws, regulations, and institutional frameworks with these international standards. The necessity for robust anti-money laundering (AML) and countering the financing of terrorism (CFT) measures arises from the transnational nature

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<sup>54</sup> Veld, Jackie. "Assessing Anti-Money Laundering Compliance." *Journal of Financial Crime* 17, no. 3 (2010): 277-286.

<sup>55</sup> Bellingham, Richard. "The Impact of Anti-Money Laundering Legislation on Financial Institutions." *Journal of Financial Crime* 10, no. 4 (2003): 398-409.

of financial crimes, which can have devastating consequences not only for individual nations but also for global economic stability and security.<sup>56</sup>

The journey towards compliance with international best practices is multifaceted and requires a holistic approach encompassing legislative reforms, institutional capacity-building, inter-agency coordination, and public awareness initiatives. Central to this endeavour is the establishment of specialized agencies and regulatory bodies tasked with overseeing and enforcing AML/CFT measures. In Pakistan's case, entities like the National Counter-terrorism Authority (NACTA), Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), and others play pivotal roles in this regard.

Furthermore, effective implementation of AML/CFT measures necessitates robust collaboration and information-sharing mechanisms both domestically and internationally. This involves forging partnerships between government agencies, financial institutions, law enforcement bodies, and international organizations to identify, disrupt, and prosecute illicit financial activities. Cross-border cooperation is particularly vital in combating the global flow of illicit funds and disrupting terrorist financing networks.

Moreover, public-private partnerships (PPPs) emerge as a key strategy in enhancing AML/CFT efforts. By fostering collaboration between the public sector, private enterprises, and civil society organizations, countries can leverage diverse expertise and resources to strengthen financial regulatory frameworks and enhance compliance with international standards. In addition to legislative and regulatory reforms, enhancing technological capabilities and leveraging innovations in financial technology (FinTech) can bolster AML/CFT efforts. Implementing robust anti-money laundering (AML)

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<sup>56</sup> Van Duyne, Petrus C., and Michael Levi. "Organized Crime and Corruption: Setting the Context." In *Corruption, Greed and Crime-Money*, edited by Petrus C. Van Duyne and Michael Levi, 3-16. London: Sage Publications, 2005.

software, enhancing transaction monitoring systems, and utilizing block chain technology for transparent and traceable financial transactions are some of the innovative approaches to combatting financial crimes effectively. Addressing the root causes of financial crimes, such as corruption, weak governance structures, and socioeconomic disparities, is crucial in fostering a conducive environment for compliance with international best practices. Strengthening institutions, promoting transparency and accountability, and fostering a culture of integrity and ethical conduct are fundamental in this endeavour.

Despite the challenges and complexities involved, achieving compliance with international best practices in AML/CFT is imperative for countries aspiring to integrate into the global financial system and foster sustainable economic development. The consequences of non-compliance, including reputational damage, economic sanctions, and isolation from international markets, underscore the urgency of concerted efforts towards achieving regulatory compliance and financial integrity. In conclusion, the journey towards compliance with international best practices in AML/CFT is a continuous and evolving process that requires unwavering commitment, collaboration, and innovation. By embracing these principles and implementing robust regulatory frameworks, countries can mitigate the risks posed by financial crimes, safeguard financial systems, and contribute to global peace, stability, and prosperity.

## **CHAPTER # 3.**

### **Efficacy of Pakistan's Domestic Anti-Money Laundering Act of 2010 and Subsequent Amendments: A Critical Examination in Light of International Best Practices**

#### **3.1 Introduction.**

The surge in illegal financing has emerged as a critical concern in today's global landscape, necessitating immediate and concerted action by states to combat financial crimes effectively. This study undertakes a thorough examination of Pakistan's response to this pressing issue through legislative measures, focusing primarily on the Proceeds of Crime and money laundering. The study emphasizes the importance of state sovereignty within the context of globalization, highlighting the imperative for nations to enact and enforce laws to address various criminal activities.<sup>57</sup>

Central to the investigation is Pakistan's Money Laundering Act of 2010 and subsequent amendments made in 2020, particularly in response to international sanctions and obligations. By scrutinizing these legislative efforts, the study aims to assess their effectiveness in combating illicit financing and aligning with global best practices. Additionally, the research delves into the broader international strategies deployed against financial crimes, terrorism financing, and illicit monetary flows.<sup>58</sup>

Through detailed analysis and comparative examination, the study seeks to identify any gaps or deficiencies in Pakistan's anti-money laundering framework and propose strategies for enhancement. It explores the challenges faced in the implementation and

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<sup>57</sup> Pickering, Paul M., and Keith J. Sharp. "Criminology and Financial Crime." In *The Handbook of Criminological Theory*, edited by Alex R. Piquero, 477-495. Hoboken, NJ: John Wiley & Sons, 2016.

<sup>58</sup> Ruggiero, Vincenzo. "Criminal Law and Precarious Work in the Global Age: The Changing Role of Criminal Law in Regulating Employment Relations." *British Journal of Criminology* 49, no. 1 (2009): 8-23.



enforcement of existing laws, particularly regarding customer due diligence, operational policies, administrative procedures, and limitations of authority. By drawing upon international best practices and recommendations, the study offers insights into potential avenues for strengthening Pakistan's anti-money laundering regime.<sup>59</sup>

Pakistan, like many other nations, faces significant challenges in combating illegal financing, including money laundering and the proceeds of crime. Recognizing the detrimental impact of these activities on the country's economy, security, and reputation, Pakistan enacted the Money Laundering Act in 2010 to address these issues comprehensively. However, evolving global standards and the increasing sophistication of financial crimes necessitated amendments to this legislation, leading to significant changes in 2020.

The 2010 Act aimed to criminalize money laundering activities and establish mechanisms for the detection, investigation, and prosecution of offenders. It introduced provisions for the identification and reporting of suspicious transactions, enhanced penalties for money laundering offenses, and established a framework for international cooperation in combating financial crimes.

Despite these efforts, Pakistan found itself under scrutiny by international financial institutions due to perceived deficiencies in its anti-money laundering regime. In response, the government enacted amendments to the Money Laundering Act in 2020, aligning it more closely with international best practices. These amendments strengthened the regulatory framework, expanded the scope of regulated entities, and enhanced the powers of law enforcement agencies to investigate and prosecute money laundering offenses. However, challenges remain in the effective implementation and

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<sup>59</sup> Simons, Kenneth W. "Financial Crimes and Compliance Risks." *Journal of Financial Crime* 16, no. 4 (2009): 433-442.

enforcement of these laws. Issues such as inadequate resources, limited institutional capacity, and gaps in coordination between relevant authorities hamper efforts to combat financial crimes effectively. Moreover, the proliferation of new techniques and technologies used by criminals necessitates continuous adaptation and improvement of anti-money laundering measures.<sup>60</sup>

In light of these challenges, it is essential for Pakistan to continue aligning its anti-money laundering efforts with global best practices. This requires ongoing cooperation with international partners, regular assessments of the effectiveness of existing laws and regulations, and targeted capacity-building initiatives to enhance the capabilities of relevant stakeholders.

Currently, there is a growing concern regarding illegal financing, which has become a significant issue attracting state intervention with international best practices sanctions. It is imperative for states to enact legislation and enforce various criminal laws within their sovereignty, as defined in the concept of "Westphalian" principles, particularly in the context of globalization. While attention has been paid to various crimes such as corruption, terrorism financing, and proceeds of crime, this chapter focuses on the intimidation posed by money laundering and its impact on globalization awareness.

In this research, emphasis is placed on the need for new legislation to combat illicit financing, aligning with global best practices. The discussion also delves into Pakistan's efforts to meet these international standards, including the Money Laundering Act of 2010 and its subsequent amendments in 2020, prompted by Pakistan's inclusion in the watch list of international financial institutions. The deficiencies in the previous Act and

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<sup>60</sup> Simpson, Sally. "Anti-Money Laundering and the Counter Financing of Terrorism: The Essential Role of Professional Secrecy." *Journal of Financial Regulation and Compliance* 14, no. 4 (2006): 350-369.

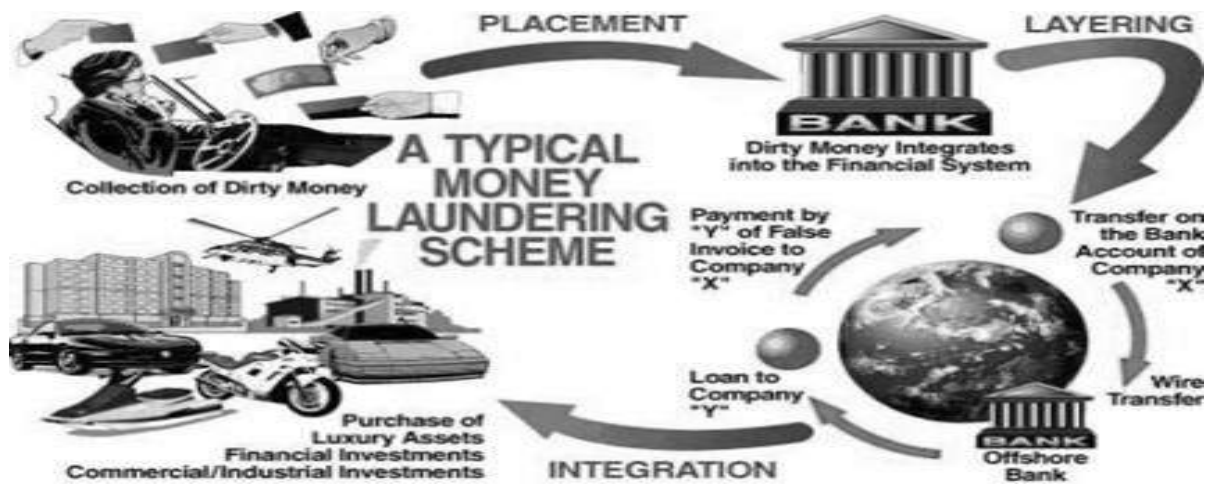
its amendments are analyzed, highlighting the gap between legislative measures and effective implementation.

Furthermore, the chapter elaborates on the international strategy against illicit monetary activities, terrorism financing, money laundering, and related crimes, emphasizing the widening scope of anti-money laundering efforts through treaties, conventions, and criminal laws. The role of international entities in combating money laundering, including the enforcement of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988, is discussed. The historical evolution of illegal financing, from drug and banking offenses in the 1980s and 1990s to terrorist financing in the 2000s, underscores the need to bridge the gap between criminal laws and their implementation.

*i. Key points addressed includes;*

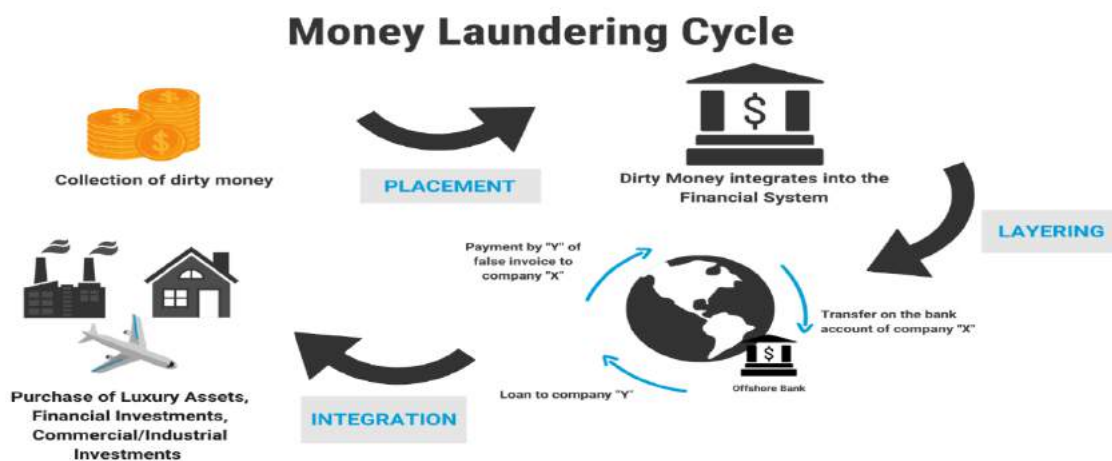
- Money laundering as a serious offense and the effective action taken by international institutions against it with minimal fiscal costs.
- The significance of the 3rd Money Laundering Directive (3MLD) of the European Union and its active participation.
- The definition and implications of money laundering within the context of this chapter.
- Discussion of Pakistan's legislative amendments regarding proceeds of crime in alignment with global best practices and the identified gap between the 2010 Act and the 2020 amendments.

**Figure 1.**



Various hides and anti-exposure mechanisms have been explained in this research. It consists of cash transferring, confidential transmission systems<sup>61</sup>, state transmission, commercial privacy, professional freedom, and secrecy banking system limited the accessibility of data<sup>62</sup>.

**Figure 2.**



➤ **Second question about AML.**

A universally recognized report on money laundering highlights its grave seriousness. Controlling it involves similar strategies of prohibition, supervision, and regulation. Anti-Money Laundering (AML) efforts encompass two key elements: the "prohibitor," which involves criminalization, and the "preventive," which focuses on market enforcement and the requirement for disclosure obligations.

<sup>61</sup> Systems of hawala became famous in this context, but their significance overstated. N. Passas, 'Demystifying Hawala: A Look into its Social Organisation and Mechanics' (2006) 7 (2) J. of Scandinavian studies in Criminology and Crime Prevention Supp. 1, 46.

<sup>62</sup> And for the effect upon those professions, see G. Favarel-Garrigues, T. Godefroy, and P. Lascoumes.

AML measures aim to address fears related to prohibition, enforcement, and the predicate crimes involved. They empower authorities more effectively than criminal law alone, enabling actions such as investigation, enforcement, penalties, and the removal of predicate offenses, all under the framework of the Proceeds of Crime Act 2002. Overcoming hurdles to implementation is crucial, particularly in controlling suspicious activities related to Customer Due Diligence (CDD), operational policies, administration, and the limitations of authorities not following appropriate procedures.

The Money Laundering Directives of the EU incorporate these strategies and are enforced in the UK through the Money Laundering Regulations, which clarify policies and procedures concerning suspicious activities as mentioned above.<sup>63</sup>

Additionally, this chapter delves into international best practices against financial terrorism, proceeds of crime, and money laundering. It explores why the need for legislation against financial crimes arises at the international level and outlines steps taken by developed states and international entities to address these issues. Furthermore, it examines how international best practice entities implement their recommendations in developing countries.

### **3.2 Evolution of the competitive domestic laws.**

Since the year 2000, states failing to comply with FATF practices are assessed and categorized into grey or block lists by an evaluation committee. Pakistan, despite its ongoing efforts to combat money laundering, has consistently found itself on the grey list, with a recent inclusion in the watch list in 2018 due to its apparent inability to effectively counter money laundering. This designation implies potential bans and a lack of financial support and international trade contracts from global institutions unless significant improvements are made in Pakistan's strategies and execution of regulations.<sup>64</sup>

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<sup>63</sup> Zagaris, Bruce. "Global Anti-Money Laundering and Counter-Terrorist Finance Standards." *The International Lawyer* 48, no. 4 (2015): 843-890.

<sup>64</sup> Blum, Andrew. "Offshore Banking and Financial Crimes: The Politics of Global Regulatory Cooperation." *International Organization* 60, no. 4 (2006): 977-1007.

To address financial crimes, Pakistan has made significant progress in recent years by adhering to rules and regulations and fostering cooperation between relevant institutions. However, persistent shortcomings in countering money laundering have led to Pakistan's grey list status. FATF identified the Pakistani government's failure to ensure taxpayer money doesn't flow into criminal hands and highlighted the ease with which terrorist groups access funds through money laundering channels originating from areas under Islamabad's administration.

To effectively combat such issues and comply with FATF regulations, Pakistan must seek cooperation from other governments, establish robust financial systems, and ensure transparency to avoid business prohibitions and sanctions. However, concerns remain regarding data protection, including the duration of record-keeping and how financial data is utilized to combat terrorism. It is debated whether retaining Suspicious Activity Reports (SARs) for only ten years is sufficient, with suggestions ranging from one to five years or even six years based on the Lords' perspective. Furthermore, there's a lack of clarity on the quantity and necessity of retaining SARs data to effectively combat financial crimes. Solutions to these issues may be found in case law, with examples such as the regulation of the UK's Automatic Number Plate Recognition (ANPR) system and the limitations imposed on retaining SARs records. The adequacy of SARs laws regarding time limits is also questioned due to outdated computer systems hindering effective enforcement.<sup>65</sup>

### **3.3 Effect of international best practices recommendations in domestic money laundering Act 2010 legislations of Pakistan.**

Following are the two different ways for explaining legislations,

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<sup>65</sup> Passas, Nikos. "Exploitation of Legal and Illegal Markets for Money Laundering." *Crime, Law and Social Change* 35, no. 1-2 (2001): 1-13.

- Domestic Practice in Pakistan.

In 2010, Pakistan made significant additions to its Anti-Money Laundering Act, introducing sections such as "Procedures and manner of furnishing information by reporting entities," "Conducting Customer Due Delegation," "Reliance on third parties," and others, with a focus on combating money laundering and the proceeds of crime. However, subsequent amendments in 2020 aimed to align with international best practices, though not all recommendations were fully implemented. While there was an effort to impose sanctions on wrongdoers, administrative processes remained slow compared to global standards. The amendments overlooked crucial aspects such as addressing financial terrorism, illicit money, and effective punishment limits for suspicious monetary activities involving individuals, legal entities, and terrorist groups. Moreover, the recovery process for illicit funds lacked effectiveness, and international illicit money havens were not addressed. The legislative procedure for amendments in Pakistan was notably more complex compared to international standards.

- International Practice.

In combating financial crimes and terrorist financing, adherence to globally accepted values is paramount for maintaining fiscal stability. This entails sharing information among higher authorities and reporting entities. A robust Anti-Money Laundering (AML) mechanism is essential for data collection to prevent financial illegal activities, enforce regulations, ensure public security, and assess risks accurately. Data protection measures are crucial in safeguarding against potential mishaps, with emphasis placed on maintaining immunities. However, it is acknowledged that data protection must be balanced with the state's interests, permitting the use of data in accordance with legal immunities and ensuring secure handling during procedures. Despite challenges, international cooperation and coordination remain crucial for effectively combating money laundering and recovering illicit funds transferred by money launderers from Pakistan.

### **3.4 Enhancing Financial Intelligence and Data Protection in Anti-Money Laundering Efforts: A Comparative Analysis of International Best Practices.**

The global fight against money laundering, financial terrorism, and related crimes demands robust legislative frameworks and effective enforcement mechanisms. In this study, we delve into the intricacies of anti-money laundering (AML) efforts, focusing on the legislative landscape of Pakistan and comparing it with international best practices. Specifically, we explore the intersection of financial intelligence and data protection, examining the challenges and opportunities inherent in these endeavours.

#### **i. Domestic Legislative Frameworks.**

Pakistan's Anti-Money Laundering Act of 2010 underwent significant amendments in 2020 to align with international standards. The additions and omissions in the legislation reflect a concerted effort to strengthen AML measures, with emphasis on procedures for reporting entities, customer due diligence, record-keeping, and sanctions for non-compliance. Despite these advancements, gaps persist in addressing financial terrorism, illicit money flows, and the effective punishment of offenders.

#### **ii. International Standards and Practices.**

Comparatively, the United Kingdom (UK) serves as a benchmark for AML legislation and enforcement. The UK's seamless integration of financial crime and data protection underscores a sophisticated approach to combating money laundering. However, challenges arise in the private sector's compliance with reporting obligations, stemming from complex regulations and administrative burdens.

#### **iii. The Role of FATF and Worldwide Principles.**

The Financial Action Task Force (FATF) plays a pivotal role in setting global standards for AML efforts. Its recommendations, particularly Recommendations



20 and 21, emphasize the duty of member states to certify beneficiaries, maintain comprehensive records, and cooperate in investigations. Yet, harmonizing these principles with individual rights, as outlined in international conventions and charters, presents complexities in data sharing and privacy protection.

iv. Challenges in SARs Regimes.

The Suspicious Activity Reports (SARs) regime, a cornerstone of AML efforts, faces challenges in both Pakistan and the UK. Despite an increase in SARs submissions, the processing and analysis of reports by financial intelligence units (FIUs) remain constrained. Defensive reporting practices exacerbate the influx of unnecessary reports, straining resources and hindering substantive analysis.

v. Data Protection Concerns.

In both jurisdictions, SARs regimes encounter data protection concerns, primarily related to outdated systems and inadequate processing capabilities. The UK's ELMER system, renowned for its inefficiencies and security vulnerabilities, compromises data security and undermines the effectiveness of AML efforts. Balancing the necessity and proportionality of retaining SARs data for extended periods poses a significant challenge in both contexts.

vi. Enhancing Financial Intelligence and Data Protection.

To address these challenges, robust feedback mechanisms from FIUs are imperative to enhance the quality and utility of SARs data. Supervisory authorities must prioritize data protection concerns to facilitate effective information sharing between public and private sectors. Moreover, investments in modernizing technological infrastructure and streamlining administrative processes are essential to bolster AML efforts and safeguard financial systems.

In short, the convergence of financial intelligence and data protection is critical in combating money laundering and financial crimes. While Pakistan has made strides in aligning its legislative framework with international best practices, challenges remain in addressing financial terrorism, enhancing enforcement mechanisms, and balancing data protection concerns. By drawing insights from the UK's approach and leveraging FATF recommendations, Pakistan can further strengthen its AML regime and contribute to global efforts in combating illicit financial activities.

### **3.5 Strengthening Anti-Money Laundering Efforts and a Comprehensive Analysis of Legislative Frameworks and International Best Practices.**

The global fight against money laundering, financial terrorism, and related crimes necessitates robust legislative frameworks and effective enforcement mechanisms. In this comprehensive study, we delve into the intricacies of anti-money laundering (AML) efforts, with a focus on Pakistan's legislative landscape and a comparative analysis of international best practices. Specifically, we explore the intersection of financial intelligence and data protection, examining the challenges and opportunities inherent in these endeavours.

#### **I Domestic Legislative Frameworks.**

Pakistan's Anti-Money Laundering Act of 2010 underwent significant amendments in 2020 to align with international standards. The amendments elucidate the criteria for recognizing criminal activities as financial terrorism and delineate various financial crimes falling under the ambit of money laundering. Specifically, the Act defines financial terrorism as any act involving the acquisition, exchange, possession, or transmission of property with knowledge or reason to believe it is linked to criminal activities. Moreover, it underscores the importance of identifying the proceeds of

crime, encompassing any property derived or obtained directly or indirectly from the commission of predicate offenses.

The concept of predicate offenses encompasses a broad spectrum of criminal activities, including but not limited to offenses listed in Schedule I of the Act, which spans approximately 150 offenses, including tax matters. Notably, tax evasion exceeding a specified threshold is considered a predicate offense, highlighting the legislative intent to combat illicit financial activities comprehensively.

## II International Standards and Practices.

Comparatively, the United Kingdom (UK) serves as a benchmark for AML legislation and enforcement. The UK's seamless integration of financial crime and data protection underscores a sophisticated approach to combating money laundering. However, challenges arise in the private sector's compliance with reporting obligations, stemming from complex regulations and administrative burdens.

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### **3.6 UN Resolutions and USA Law Regarding Financial Criminal Activities, Financial Terrorism/ Crimes, Money Laundering, the Proceeds of Crime.**

The United Nations Security Council (UNSC) has played a significant role in addressing financial criminal activities and terrorism through resolutions such as 1267 and 1373. These resolutions outline mechanisms for governing financial terrorism and controlling terrorist financing. However, it was not until the 9/11 attacks in 2001 that the UN recognized the need for active measures to combat terrorist financing, leading to the establishment of the Financial Action Task Force (FATF). The primary purpose of FATF is to supervise financial terrorist activities and regulate laws related to financial crimes.

Prior to the 9/11 attacks, terrorist funding was not explicitly considered a form of money laundering, and there were no comprehensive rules, regulations, or policies in place to address this issue at the state level. However, the realization after the attacks that money is a crucial element in funding terrorist activities prompted a shift in perspective. Before this realization, anti-money laundering (AML) measures were not perceived as applicable to terrorist financing, leading to separate considerations and handling of the issue, particularly by the United States.

In the aftermath of 9/11, the concept of "follow the money trail" became a widely accepted approach to combating terrorism financing, aiming to disrupt the financial networks that support terrorist organizations. However, the distinction between terrorist financing and traditional money laundering remained unclear, creating a significant gap in the legal framework. As a result, AML laws were empowered to address illegal financing and the use of legal funds for illicit purposes, recognizing the need for stricter regulations to combat terrorist financing effectively.

To address this gap, FATF recognized the need for stringent rules specifically targeting terrorist financing. This included provisions for the forfeiture of terrorist assets acquired through legal means if they were intended for terrorist activities. The inclusion of

forfeiture provisions aimed to disrupt the financial infrastructure of terrorist organizations and prevent them from using legally acquired assets for illicit purposes. However, it is essential to note that forfeiture provisions apply only when individuals knowingly contribute to terrorist activities without taking action to prevent them.

Finally, the events following the 9/11 attacks prompted a re-evaluation of global efforts to combat financial criminal activities, particularly terrorist financing. The establishment of FATF and the subsequent focus on strengthening AML laws reflect the international community's commitment to addressing the financial aspects of terrorism. By recognizing the interconnectedness of money laundering and terrorist financing and implementing stricter regulations, states can better disrupt the financial networks that support terrorist organizations and safeguard global security.

### **3.7 FATF Act against Terrorist Financing.**

Financial crimes are often categorized into different classes due to the diverse nature of illicit activities. Since not all states have comprehensive laws, rules, and regulations to address all categories of financial crimes according to international best practices, organizations like the Financial Action Task Force (FATF) and modern countries work to combat various types of financial crimes, which are inherently interconnected with money laundering.

FATF, although not a state structure like other countries, imposes its rules through world conventions, international legislations, institutions, and bilateral treaties. It plays a crucial role in supervising financial terrorist activities and regulating laws related to financial crimes. Following the 9/11 attacks in 2001, FATF intensified its efforts, issuing nine compulsory recommendations against money laundering. Subsequently, in 2003, it issued a total of 40 recommendations for implementation by states to combat money laundering effectively.

The recommendations set by FATF are recognized by international financial institutions such as the International Monetary Fund (IMF) and the World Bank. They include measures such as "know-your-customer" (KYC) and "customer due diligence" (CDD) procedures for checking and reporting all cash transactions, as well as establishing frameworks for freezing accounts and forfeiting suspected funds. FATF also aids in the creation of regional groups within states to control money laundering, such as those in the Caribbean, Asia/Pacific, South America, East, and Southern Africa.

The FATF's modus operandi shifted in 2002, moving away from the practice of "Non-cooperative Countries and Territories" (NCCTs) towards mutual reporting. This change was made to address criticisms of the NCCTs process, which was deemed ineffective and inconsistent. However, questions have been raised about FATF's willingness to apply its standards to more powerful nations and the political nature of its decisions.

Despite criticisms, FATF justifies its actions against money laundering by emphasizing their role in promoting economic development, particularly in developing economies. Launderers constantly seek new avenues for their illicit funds, and countries with inadequate controls are particularly vulnerable. Combatting money laundering and terrorist financing is seen as essential for creating a business-friendly environment conducive to economic growth.

In the United Kingdom (UK), FATF's recommendations have been incorporated into law, with the UK acting as a key partner in FATF's efforts. The Proceeds of Crime Act (POCA) deals comprehensively with money laundering and other financial crimes, empowering authorities to prosecute those involved in illegal financing. Lawyers who knowingly assist clients in illegal activities are also subject to prosecution under POCA, although proving their guilt requires evidence beyond a reasonable doubt.

In recent years, there has been increased scrutiny of offshore companies, which are often used to facilitate money laundering and tax evasion. The overlap between money laundering and tax evasion highlights the need for a comprehensive approach to tackling illicit financial activities. However, legal frameworks vary between states, leading to challenges in enforcing anti-money laundering measures effectively.

In conclusion, combating financial crimes, including money laundering and terrorist financing, requires international cooperation and coordination. Organizations like FATF play a crucial role in setting global standards and promoting adherence to these standards by states. By addressing the interconnected nature of financial crimes and implementing comprehensive legal frameworks, countries can effectively combat illicit financial



activities and safeguard their economies.



### **3.8 The Far-reaching Impact of Money Laundering on Businesses, Society, and the Efficacy of Anti-Money Laundering Measures.**

Money laundering, with its intricate web of illicit financial activities, poses significant challenges to businesses, societies, and the effectiveness of anti-money laundering (AML) measures. As the Financial Action Task Force (FATF) strives to combat this pervasive issue, it becomes imperative to delve into the multifaceted impact of money laundering on various facets of society and explore avenues for more robust AML strategies.

- **Impact on Businesses.**

The integrity and reputation of financial institutions are paramount in maintaining trust and confidence in the market. However, the ease with which illegal assets can be laundered through businesses can undermine these institutions' credibility. Dishonest employees and lax transaction oversight can result in unwitting involvement in criminal activities, leading to reputational damage and financial losses. Moreover, unchecked money laundering activities can destabilize economies, cause market instability, and erode the rule of law.

- **Connection between Money Laundering and Society.**

The uncertain enforcement of AML regulations creates a conducive environment for money launderers to exploit. Without strict rules and regulations, laundered funds can infiltrate legitimate businesses, corrupting societal norms and values. The proliferation of illegal financing can lead to inflation and economic instability, further exacerbating social and political tensions. Additionally, the erosion of trust in governmental and financial institutions can foster a culture of lawlessness and undermine democratic processes.

- **Importance of Effective AML Measures.**

FATF's role in combating money laundering becomes indispensable in light of its impact on businesses and society. By identifying the nexus between illegal financiers and criminal activities, implementing stringent AML regulations, and tracing illicit financial transactions, FATF aims to curb money laundering effectively. However, the efficacy of AML measures is contingent upon addressing loopholes in existing regulations and enforcing strict sanctions against wrongdoers.

- Challenges in AML Enforcement.

Despite FATF's efforts, the effectiveness of AML measures is often hampered by several challenges. Launderers adeptly circumvent regulations by investing illicit funds in legal businesses, evading detection by enforcement authorities. The opacity of offshore entities further complicates AML enforcement, making it challenging to trace the origin of laundered funds and hold perpetrators accountable. Moreover, the lack of international cooperation and inconsistent enforcement practices across jurisdictions undermine the global fight against money laundering.

- Recommendations for Strengthening AML Measures.

To enhance the efficacy of AML measures, there is a need for comprehensive reforms at both national and international levels. This includes closing loopholes in existing regulations, enhancing cross-border cooperation among enforcement agencies, and imposing stricter sanctions against money launderers. Moreover, raising public awareness about the detrimental effects of money laundering and fostering a culture of compliance and transparency are essential in combating this pervasive issue. Money laundering poses significant threats to businesses, societies, and the efficacy of AML measures. As FATF continues its efforts to combat this illicit practice, it is imperative to address the multifaceted challenges posed by money laundering through robust regulatory frameworks, enhanced international

cooperation, and stringent enforcement measures. By tackling money laundering effectively, we can safeguard the integrity of financial systems, uphold the rule of law, and foster sustainable economic development.

### **3.9 The Crown Prosecution Service Proceeds of Crime Act 2002 (CPSPOS): A Comprehensive Overview.**

The Crown Prosecution Service Proceeds of Crime Act 2002 (CPSPOS) is a significant piece of legislation in the United Kingdom aimed at tackling the proceeds of crime. Here's a detailed overview;

#### **I Background.**

The CPSPOS was enacted as part of the wider Proceeds of Crime Act 2002, which aimed to provide law enforcement agencies with enhanced tools to confiscate assets derived from criminal activity. It serves as a crucial component in the UK's strategy to combat money laundering, terrorist financing, and other forms of illicit financial activity. The following are the certain objectives of this enactment. The primary objective of the CPSPOS is to deprive criminals of the financial benefits gained from their illegal activities. It aims to achieve this by establishing procedures for the confiscation, forfeiture, and recovery of assets acquired through criminal conduct.

#### **II Key Provisions.**

- **Confiscation Orders.**

The CPSPOS empowers courts to issue confiscation orders against individuals convicted of certain criminal offenses. These orders require offenders to surrender the proceeds of their crimes.

- **Enforcement.**

The legislation outlines mechanisms for the enforcement of confiscation orders, including the seizure and disposal of assets to satisfy outstanding debt.

- Asset Recovery.

CPSPOS facilitates the recovery of assets derived from criminal activity through civil recovery proceedings. This allows law enforcement agencies to target assets even in cases where criminal convictions have not been secured.

- Money Laundering Offenses.

The legislation includes provisions related to money laundering offenses, providing prosecutors with tools to prosecute individuals involved in laundering the proceeds of crime.

- Implementation.

The CPSPOS is implemented by the Crown Prosecution Service (CPS), the principal prosecuting authority in England and Wales. The CPS is responsible for prosecuting criminal cases investigated by law enforcement agencies, including those involving proceeds of crime.

Prosecutors working under the CPS are tasked with identifying cases where confiscation orders or asset recovery proceedings may be appropriate and pursuing them through the courts.

- Role in the Legal System.

The CPSPOS plays a crucial role in the UK's legal system by supporting efforts to disrupt criminal enterprises and dismantle illicit financial networks. By targeting the proceeds of crime, the legislation aims to undermine the financial incentives for engaging in illegal activities, thereby deterring future criminal conduct.

- Challenges and Limitations.

Despite its aims and provisions, the effectiveness of CPSPOS may be hindered by challenges such as the complexity of financial investigations, international jurisdictional issues, and the ability of criminals to conceal their assets. Additionally,

resource constraints and competing priorities within the criminal justice system may impact the CPS's ability to fully utilize the powers conferred by the legislation.

- Public Perception and Impact.

The CPSPPOS is generally viewed positively by the public as a tool for holding criminals to account and recovering assets that have been unlawfully obtained. Its impact is evident in high-profile cases where confiscation orders have been issued against individuals involved in serious criminal activity, sending a strong deterrent message to potential offenders. In conclusion, the Crown Prosecution Service Proceeds of Crime Act 2002 (CPSPPOS) is a vital component of the UK's legal framework for combating the proceeds of crime. Its provisions empower law enforcement agencies and prosecutors to target the financial gains of criminal enterprises, thereby contributing to efforts to uphold the rule of law and protect society from the harms associated with illicit financial activity.

“He that Leith down with dogs shall rise up with fleas.”

(Benjamin Franklin).

The Royal United Services Institute (RUSI), an autonomous department in the UK, holds significant influence in international safety and protection. Since its inception in 1831, RUSI has relied on its members to contribute to policy formulation, enforcement, and individual action.

UK counter-terrorism laws, such as the Terrorism Act 2000 and the Anti-Terrorism, Crime and Security Act 2001, target offenses stemming from enforcement lapses, data collection failures, and failure to report suspected illegal financing. The Proceeds of Crime Act 2002 broadens the definition of 'Criminal property' to cover acts committed both within and outside the UK's jurisdiction. Recent events, notably the Panama Papers scandal, have spurred international efforts to tighten laws against

money laundering. However, experts express uncertainty about the effectiveness of these measures. The EU has amended its regulations with 4MLD and 5MLD, responding to evolving international requirements. Despite efforts, the UK remains attractive for money laundering due to its geographical advantages and financial market reputation.

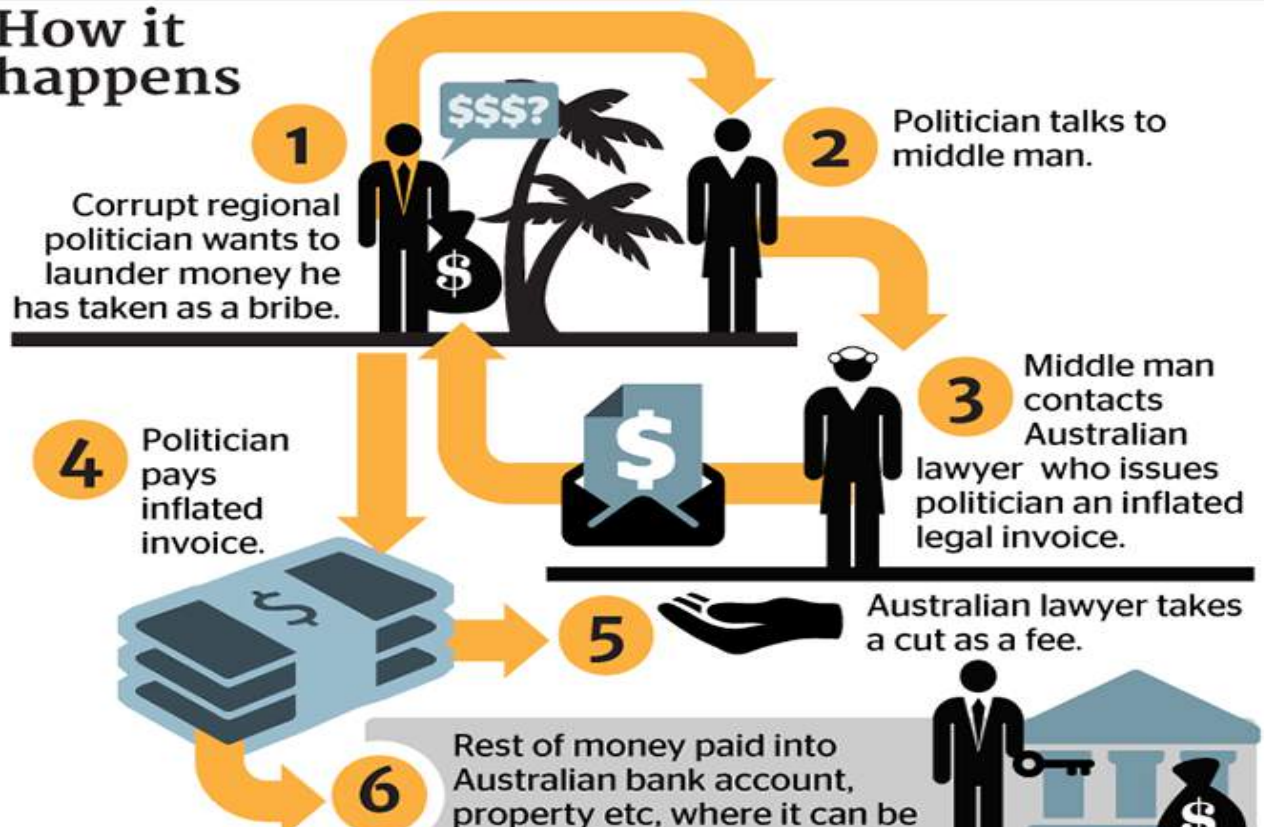
Home Secretary Theresa May highlighted in 2016 the multifaceted threat posed by money laundering, emphasizing its role in fueling political instability and terrorism. To combat this, state enforcement agencies are urged to enforce sanctions rigorously. However, legal experts caution against loopholes that could protect laundered money. Consequently, restrictions on individual workers are imposed to maintain comprehensive customer due diligence (CDD) records for auditing purposes.

The term 'money laundering,' coined in the 1920s, describes the process by which criminals conceal the origins of illicit funds. Estimates suggest staggering amounts of money laundered globally, posing a significant challenge to economic stability. Notably, London serves as a major hub for illicit money transfers within the EU. Criminals, including groups like the IRA and Italian Mafia, exploit various methods, such as the trade of movable assets, to launder money. This involves three stages: location, layering, and mixing, complicating efforts to distinguish illegal funds from legitimate ones. Additionally, cash is converted into various forms, making detection difficult.

Overall, while efforts to combat illegal financing are ongoing, the adaptability of criminal tactics and existing loopholes pose persistent challenges. Strengthening international cooperation and regulatory frameworks is crucial in mitigating these threats effectively.

First Process,

## How it happens



According to diagram illegal financiers used very technical techniques to cover their illegal money. Though priority of money launderers shares their money in those states which are not strictly follow law regarding the money issues. Therefore, in these states illegal money protected from any legal action<sup>66</sup>. In these situations, not possible to differ in legal and illegal money<sup>67</sup>. Furthermore, illegal financiers appointed “smurfing tactics” through which illegal money change in value of less amount which is not subject to controlling and “smurfs” credit this less value of amount in monetary institutes as they assumed to appear fewer offender traits<sup>68</sup>.

In subsequent stage chain of different thing involved for layering the illegal money and after layering. Certainly, National Criminal Intelligence Service (NCA) stated in 2001

<sup>66</sup> Michael McHugh, ‘Police seize £3,000 after stopping vehicle on motorway in paramilitarism probe.’ The Irish News (Belfast, May 8<sup>th</sup>, 2018)

<sup>67</sup> FATF, Money Laundering Risk Arising from Trafficking in Human Beings and Smuggling of Migrants, (Financial Action Task Force, 2011) at 14

<sup>68</sup> Tamer Mustafa, Mohamed El-Megied, Tarek Sobh, and Khaled Shafea, ‘Anti-money laundering using a two-phase system,’ (2015) J.M.L.C. 18, (3), 304, 309

that “solicitor” involved in assisting and delivering money about to in 200 cases<sup>69</sup>. So, in 2003 again explained that the most common method which used in money laundering bought the estate like a front company and transfer huge amount in other states<sup>70</sup>”. According to both reports legal experts in front line in money laundering.

Commonly considered that lawyer is not subject to any activity in which involved violation of moral, ethical, and legal qualification. Furthermore, considered that they not effected on the stability of state and follow the restrictions in interest of state benefit. But question shall remain about reports which described that lawyer involved in illegal activities. The answer is that only some people involved which have not moral and profession ability but majority of these truthful, good professionals, and loyal with their profession<sup>71</sup>. Yet it is necessary to draw the intentions of states upon unsettling above said objection. If this issue is not settled, then no one can trust upon lawyers. World think about the UK has “gold-plated” law therefore enforced restriction upon legal assistance of lawyers. Therefore enacted “Solicitors Regulation Authority” which empowered to check, regulates, and collects data from<sup>72</sup>. Furthermore, protect the loyal professional through enforced “Proceeds of Crime Act 2002 (“POCA”)”.

So, money laundering concept can understand through the next diagram. It explains how illegal money transfer and which procedure is adopted by the launderer for clear their money from the state law. The last and final thing which is explain in the diagram is how experts help the launderer for laundering their money and protect from legal mechanism.

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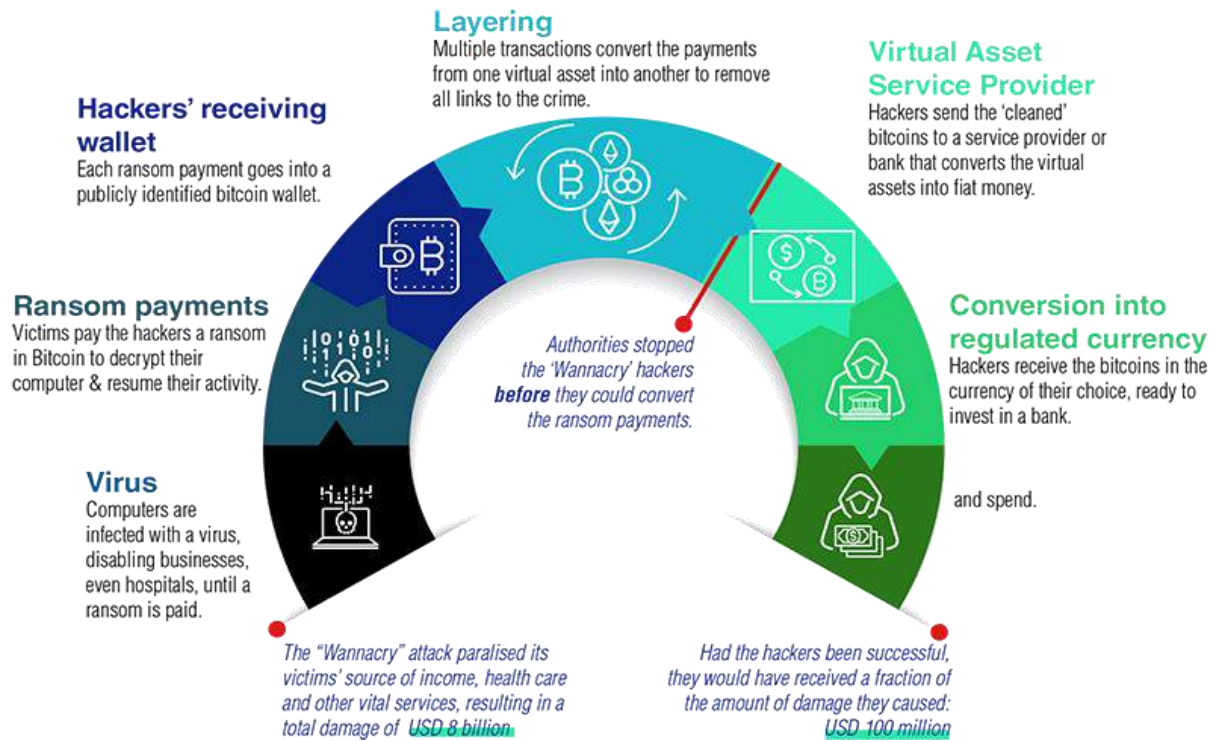
<sup>69</sup> National Criminal Intelligence Service, *The Threat from Serious and Organised Crime*. (National Criminal Intelligence Service, 2001) at 50.

<sup>70</sup> National Criminal Intelligence Service, *UK Threat Assessment* (2003) at 53.

<sup>71</sup> R. E. Bell, ‘The prosecution of lawyers for money laundering offences,’ (2003) *L.M.L.C.*, 6, (1), 17.

<sup>72</sup> Solicitors Regulation Authority, *The SRA Handbook*, (Solicitors Regulation Authority, 2017) at Principle 8. For more detail on this, see the Bar Standards Board.





### 3.10 Case Study and Comparative Analysis.

Following are the cases which explain the law of different states;

- **Fuglers v. Popplewell J.**

In this case, the court highlighted the inherent risks associated with allowing client accounts to be used as banking facilities unrelated to any underlying transaction. Popplewell J. emphasized the potential for such practices to facilitate money laundering. The Financial Action Task Force (FATF) underscores the necessity for individuals to maintain vigilance and awareness regarding all transactions conducted through their accounts to prevent such misuse.

- **Clyde & Co. Prosecution Clyde & Co.**

Faced legal action after failing to recognize red flag indicators, resulting in money launderers exploiting their employees' accounts. Despite arguments that the accused were unaware of the suspicious activity, the court imposed a significant

financial penalty amounting to £162,454. This case underscores the vulnerability of the property sector to illegal transfers, with reports indicating property transactions as a preferred method for laundering illicit funds.

- **Japan's Legal Professionals Scandal.**

Legal professionals in Japan were implicated in internet-related offenses involving the creation of numerous shell companies to attract investments. Despite intervention by law enforcement authorities, no verdict was reached, leading to a decline in public trust in legal experts and regulatory efficacy.

- **UK's Tipping Off Provisions In 2007.**

The UK government introduced provisions to combat tipping off crimes, raising concerns about their impact on legal aid and attorney-client confidentiality. Solicitors faced contradictory situations due to reporting obligations, undermining the trust between lawyers and their clients.

- **Chancellor of the Exchequer's Statement.**

The UK government, led by the Chancellor of the Exchequer, reaffirmed its commitment to combating white-collar crime and improving detection and enforcement measures. Efforts were made to streamline responsibilities in this area, but challenges persisted due to overlapping regulatory bodies and conflicts over enforcement powers.

Comparing the cases and legal frameworks discussed in the UK and USA with those in Pakistan reveals significant differences in approaches to combating money laundering and proceeds of crime;

- Legal Frameworks.

The UK and USA have established comprehensive legal frameworks, including specific legislation such as the Proceeds of Crime Act (2002) in the UK and the Bank Secrecy Act and Patriot Act in the USA, to address money laundering and related offenses.

In Pakistan, while there are laws such as the Anti-Money Laundering Act (2010) and the Anti-Terrorism Act (1997), enforcement and implementation may be lacking, leading to challenges in effectively combating money laundering.

- Enforcement and Prosecution.

In the UK and USA, enforcement agencies such as the Crown Prosecution Service (CPS) and the Financial Crimes Enforcement Network (Fin CEN) play key roles in investigating and prosecuting money laundering cases.<sup>73</sup>

In Pakistan, enforcement agencies such as the Federal Investigation Agency (FIA) and the Anti-Narcotics Force (ANF) are tasked with combating money laundering and related crimes, but their effectiveness may be hindered by resource constraints and institutional weaknesses.

- Legal Profession Responsibilities.

Legal professionals in the UK and USA are subject to stringent regulations and reporting requirements, including obligations to report suspicious activities and refrain from tipping off offenses.<sup>74</sup>

In Pakistan, while lawyers are required to adhere to professional codes of conduct, enforcement of such regulations may be lax, leading to concerns about the role of legal professionals in facilitating money laundering and related crimes.

- Public Trust and Perception.

The UK and USA have made concerted efforts to enhance public trust in the legal system's ability to combat money laundering and proceeds of crime through transparency, accountability, and enforcement actions. In Pakistan, public trust in the legal system's effectiveness in addressing money laundering may be undermined by perceptions of

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<sup>73</sup> Zinn, David T. "Money Laundering: Regulatory Perspectives and Legislative Challenges." *International Journal of Comparative and Applied Criminal Justice* 43, no. 4 (2019): 253-272.

<sup>74</sup> Zhang, Sheldon X., and Kenneth J. Novak. "Analyzing Money Laundering." *Journal of Financial Crime* 9, no. 3 (2002): 238-249.

corruption, lack of accountability, and inconsistencies in enforcement. Furthermore, In the United States, similar challenges exist in combating money laundering and proceeds of crime. Regulatory bodies such as the Financial Crimes Enforcement Network (Fin CEN) oversee anti-money laundering efforts, but coordination between agencies remains a challenge. Legal professionals in the USA also face obligations to report suspicious activities, balancing concerns about attorney-client privilege and tipping off offenses.<sup>75</sup> Overall, both the UK and USA are actively addressing money laundering and proceeds of crime through legislative measures and enforcement actions. However, challenges persist in balancing regulatory obligations, protecting legal rights, and maintaining public trust in the legal profession. While the UK and USA have established robust legal frameworks and enforcement mechanisms to combat money laundering and proceeds of crime, Pakistan faces challenges related to enforcement, institutional capacity, and public trust. Strengthening enforcement agencies, enhancing legal profession regulations, and improving coordination with international partners are essential steps for Pakistan to effectively address money laundering and related offenses.

### **3.11 Strengthening Dispute Resolution Mechanisms and Essential Recommendations for Amendments.**

The Constitution of Pakistan, enacted in 1973, serves as the foundational legal document governing both domestic and international affairs within the state. It outlines the procedures for amending the constitution under Article 238 and 239, which pertain to constitutional amendments and constitution amendment bills, respectively. Additionally, Articles 50 to 61 delineate the structure and functions of the Majlis-e-Shora (Parliament) and its houses, detailing the mechanisms for governance within these institutions. Article 160 of the constitution further elaborates on the role of the National Finance Commission in overseeing the distribution of funds between the federal capital and the provinces.<sup>76</sup>

In the realm of international finance and compliance, the Financial Action Task Force (FATF) imposes restrictions, including grey listing or blacklisting states that fail to

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<sup>75</sup> Zekos, Georgios I. "Criminalization of Money Laundering." In Handbook of Transnational Economic Crime, edited by Nikos Passas, 36-53. Cheltenham, UK: Edward Elgar Publishing, 2014.

<sup>76</sup> Article-238,239, 50-61, "The Constitution of the Islamic Republic of Pakistan", 1973.

adhere to its recommendations. For a state to maintain its standing within the international community and ensure its survival, it must comply with these restrictions by amending its laws and regulations accordingly.<sup>77</sup>

The European Commission recently outlined key features of upcoming regulations at the EGMLTF conference held on January 22, 2021. The primary objective of these regulations is to enhance support for Financial Intelligence Units (FIUs) and facilitate the implementation of anti-money laundering (AML) procedures across the European Union (EU). Specialized groups within the EU, such as the EGMLTF and the Committee on the Prevention of Money Laundering and Terrorist Financing (CPMLTF), have provided insights into the practical application of regulatory measures proposed by the commission.<sup>78</sup>

In 2020, the CPMLTF explored the feasibility of implementing the Beneficial Ownership Registers Interconnecting System (BORIS) through a unified policy approach. However, the CPMLTF did not reach a consensus on an active AML strategy. Furthermore, the Expert Group on Electronic Identification and Remote Know-Your-Customer Processes, established in 2017, aimed to enhance capabilities related to AML/CFT (Combating the Financing of Terrorism) measures. The group concluded its discussions in November 2019, focusing on coordinating know-your-customer and customer due diligence procedures.<sup>79</sup>

In short, the evolving landscape of international finance regulation underscores the importance of robust dispute settlement mechanisms and the continuous adaptation of legal frameworks to address emerging challenges in AML/CFT compliance.

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<sup>77</sup> United Nations Office on Drugs and Crime. "The Financial Action Task Force (FATF)." UNODC. Available at: <https://www.unodc.org/>. Accessed January 15, 2024.

<sup>78</sup> Barros, Diana, and José Manuel Ferro. "Corporate Governance and Financial Crimes: Regulation in the EU." *European Business Organization Law Review* 12, no. 1 (2011): 121-145.

<sup>79</sup> Hinterseer, Barbara. "The Regulatory Framework of Anti-Money Laundering in the European Union." *International Journal of Economic Sciences and Applied Research* 5, no. 2 (2012): 145-171.

### 3.12 Fortifying Global Strategies against Money Laundering: Collaborative Enforcement, Legal Frameworks, and Sanctions.

In today's interconnected world, combating money laundering has become a critical priority for international organizations and governments. The rise of globalization has facilitated the movement of funds across borders, making it imperative to strengthen international cooperation and regulatory frameworks. However, the traditional notion of state sovereignty, rooted in the Westphalian model, presents challenges to enforcing criminal laws related to money laundering. While extradition treaties and mutual legal assistance agreements exist, effective enforcement requires concerted efforts and collaboration among nations.<sup>80</sup>

- Case Study: Extradition Treaties and Cooperation.

One example of international cooperation in combating money laundering is the extradition treaty between the United Kingdom and the United States. Under this treaty, individuals accused of money laundering or related offenses can be extradited from one country to the other to stand trial. For instance, in the case of **R v. Evans (2018)**, a UK citizen accused of laundering money through offshore accounts was extradited to the US to face charges. This demonstrates how extradition treaties facilitate cross-border cooperation in prosecuting money laundering offenses.<sup>81</sup>

- Legal Framework: FATF Recommendations and EU Directives.

To address money laundering effectively, countries adhere to the recommendations of the Financial Action Task Force (FATF), an intergovernmental body that sets standards and promotes policies to combat financial crime. These recommendations include measures

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<sup>80</sup> Mugarura, Felix, and Roman Tomasic. "Regulating Money Laundering in Developing Countries." *International Journal of Law, Crime and Justice* 39 (2011): 20-34.

<sup>81</sup> R v. Evans (2018)

such as customer due diligence, reporting suspicious transactions, and enhancing international cooperation. Furthermore, the European Union (EU) has enacted directives to strengthen AML efforts within its member states. For example, the 5th Anti-Money Laundering Directive (5MLD) introduced stricter regulations on virtual currencies and enhanced due diligence requirements for high-risk countries. Such directives aim to harmonize AML laws across the EU and improve coordination among member states.<sup>82</sup>

- Case Study: Implementation of AML Directives in the EU.

In the case of *R (on the application of ABC Ltd) Vs. European Commission (2020)*, the European Court of Justice (ECJ) ruled on the implementation of AML directives within EU member states. ABC Ltd, a financial institution operating in multiple EU countries, challenged the directive's provisions, arguing that they imposed undue regulatory burdens. However, the ECJ upheld the directive, emphasizing the importance of consistent AML measures across the EU.<sup>83</sup>

- Differentiating Laundered Proceeds and Criminal Activities.

Central to combating money laundering is the ability to differentiate between legitimate financial transactions and those derived from criminal activities. Legal frameworks, such as the Proceeds of Crime Act 2002 (POCA) in the UK, provide provisions for identifying and confiscating proceeds of crime.

- Case Study: Confiscation Orders under POCA.

In the case of **R v. Smith (2019)**, the defendant was convicted of drug trafficking offenses, and confiscation proceedings were initiated under POCA. The court issued a

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<sup>82</sup> Ryder, Nicholas, and Tina Peršolja. "Anti-Money Laundering and Terrorism Financing Legislation: A Global Comparative Study." *Journal of Money Laundering Control* 18, no. 2 (2015): 145-166.

<sup>83</sup> *R (on the application of ABC Ltd) v. European Commission (2020)*, the European Court of Justice (ECJ)

confiscation order requiring the defendant to forfeit assets acquired through criminal activity. This demonstrates how legislation like POCA enables authorities to recover illicit proceeds and disrupt money laundering networks.<sup>84</sup>

- Effective Monitoring of International Assets.

The rapid movement of funds across borders poses challenges to monitoring and regulating international assets. Initiatives such as the OECD's Harmful Tax Competition Initiative aim to address these challenges by promoting transparency and cooperation among jurisdictions.

- Case Study of Offshore Banking and Tax Evasion.

The Panama Papers scandal exposed the role of offshore banking in facilitating tax evasion and money laundering. The leak of millions of documents revealed how individuals and entities used offshore accounts to conceal wealth and evade taxes. This underscored the need for enhanced international cooperation and transparency measures to combat illicit financial activities.

- Regulating Money Laundering through Legislation.

Legislative efforts play a crucial role in regulating and controlling money laundering activities. By enacting comprehensive AML laws and directives, governments aim to improve transparency and accountability in financial systems.

- Implementation of AML Regulations in the UK.

In the UK, the Money Laundering Regulations 2017 (MLR) impose obligations on financial institutions, lawyers, accountants, and other professionals to conduct customer due diligence and report suspicious transactions. For example, under MLR, banks are

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<sup>84</sup> R Vs. Smith (2019)



required to verify the identity of customers and monitor transactions for signs of money laundering.

- Promoting Cooperation across Departments.

Effective enforcement of AML measures requires close coordination among various government departments and agencies. By sharing information and collaborating on investigations, authorities can better identify and address suspicious activities.

- Case Study of Multi-Agency Task Forces.

In the United States, agencies such as the Financial Crimes Enforcement Network (FinCEN), the Department of Justice (DOJ), and the Internal Revenue Service (IRS) collaborate through multi-agency task forces to combat money laundering. These task forces bring together experts from different fields to investigate and prosecute financial crimes effectively.<sup>85</sup>

- Implementing Sanctions against Illicit Funds.

Sanctions play a crucial role in deterring money laundering and disrupting illicit financial activities. By imposing penalties on individuals and entities involved in money laundering, governments aim to disincentivize illegal behaviour and protect the integrity of the financial system.

- Case Study of Sanctions Enforcement.

In recent years, governments have increasingly used sanctions as a tool to target individuals and entities engaged in money laundering and related offenses. For example, the US Treasury Department's Office of Foreign Assets Control (OFAC) regularly

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<sup>85</sup> Makarenko, Tamara. "Financial Crimes and Criminals." In *Encyclopedia of Criminology and Criminal Justice*, edited by Gerben Bruinsma and David Weisburd, 1673-1682. New York: Springer, 2014.

imposes sanctions on individuals, businesses, and even entire countries suspected of illicit financial activities. In short, combating money laundering requires a comprehensive approach that involves international cooperation, robust legal frameworks, effective monitoring mechanisms, and sanctions enforcement. By strengthening collaboration among nations, enhancing regulatory frameworks, and imposing penalties on offenders, governments can mitigate the risks posed by money laundering and safeguard the integrity of the global financial system.

### **3.13 International Best Practices in Combating Financial Crimes.**

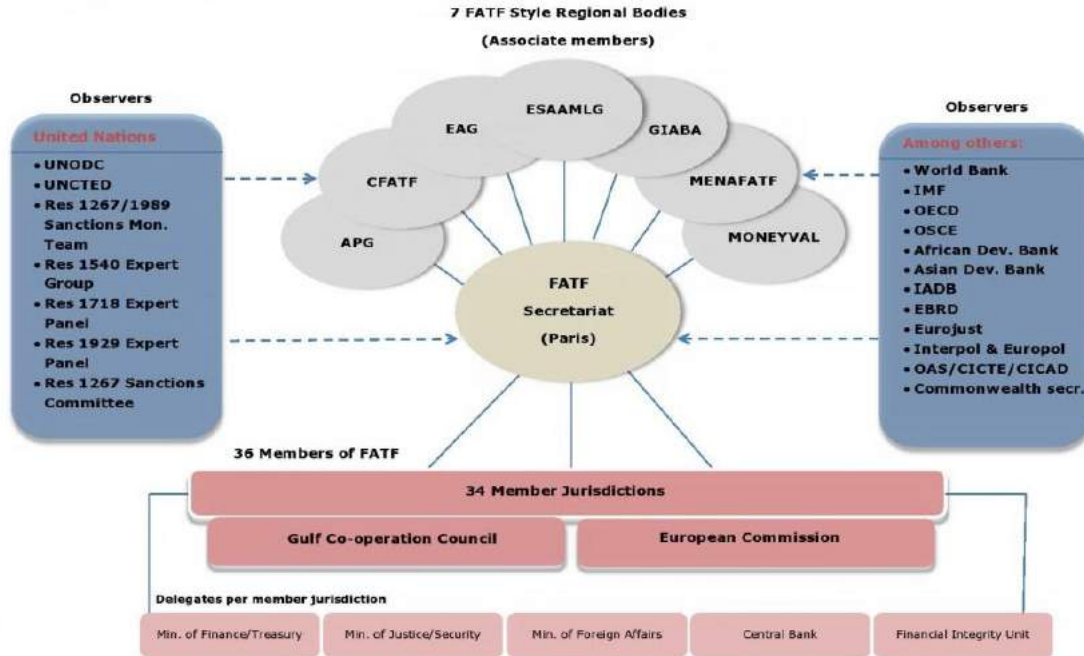
International best practices are crucial in combating money laundering and the proceeds of crime. Financial organizations and institutions worldwide adhere to these practices to meet the financial needs of countries and maintain their standing in global trade. Emphasizing the importance of implementing effective laws and regulations, this thesis focuses primarily on addressing the challenges posed by proceeds of crime, which remains a top priority. However, it is essential to also discuss money laundering and financial terrorism activities, as they are intertwined with the broader context of financial crimes.<sup>86</sup>

When examining the concept of proceeds of crime, it becomes evident that any financial crime must be considered within the realm of money laundering. This alignment is essential for ensuring comprehensive coverage and effective regulation. Financial institutions serve as watchdogs on a global scale, monitoring and combatting financial terrorist activities. This is achieved through the implementation of measures outlined by

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<sup>86</sup> Gilmore, William C. Money Laundering: A Guide for Criminal Investigators. Boca Raton, FL: CRC Press, 2011.

organizations like the Financial Action Task Force (FATF), which sets standards and guidelines for combating money laundering and terrorist financing.<sup>87</sup>



Failure to adhere to the recommendations of international best practices in combating financial terrorist activities and the lack of appropriate laws, rules, and regulations can have severe consequences for a state. Such a state may find itself ineligible for receiving financial aid or loans from the organizations outlined in the preceding diagram and discussed in the preceding chapters. Moreover, non-compliance with international standards may also lead to disruptions in international trade for the affected state.<sup>88</sup>

### 3.14 Global Challenges in Combating Financial Crime and Terrorism Financing.

Due to the lack of harmonization in international rules and regulations, the implementation of these standards may vary significantly from one state to another.

<sup>87</sup> Levi, Michael. "Money Laundering." In *The Handbook of Organized Crime and Politics*, edited by Felia Allum and Stan Gilmour, 243-258. Cheltenham, UK: Edward Elgar Publishing, 2018.

<sup>88</sup> Broadhurst, Roderic, and Aili Malm. "Organized Crime and Illicit Financial Flows." In *International Handbook of Financial Crime*, edited by Nicholas Ryder, Umut Turksen, Sabine Hassler, and Ernesto Savona, 57-74. Cheltenham, UK: Edward Elgar Publishing, 2016.

When examining global efforts against financial crime, it is essential to study those states that provide shelter to money launderers. For instance, following the revelation of the Panama Papers and the subsequent decision against money laundering activities, Nawaz Sharif, upon being granted bail on medical grounds by the Islamabad High Court, absconded from Pakistan. Questions remain unanswered regarding the illegal assets he possesses in the UK and other offshore companies that are not subject to Pakistan's legal procedures for forfeiture.<sup>89</sup>

To effectively combat financial terrorism on a global scale, there needs to be mutual cooperation in the recovery of illicit funds laundered by criminals. Countries that facilitate money laundering, provide shelter to illicit funds, or even encourage terrorist activities undermine efforts to recover illicit funds and combat money laundering. For example, the involvement of European states in providing shelter or engaging in terrorist financing in 2019, as depicted in the diagram, highlights imperfections in global actions against financial terrorism.<sup>90</sup>

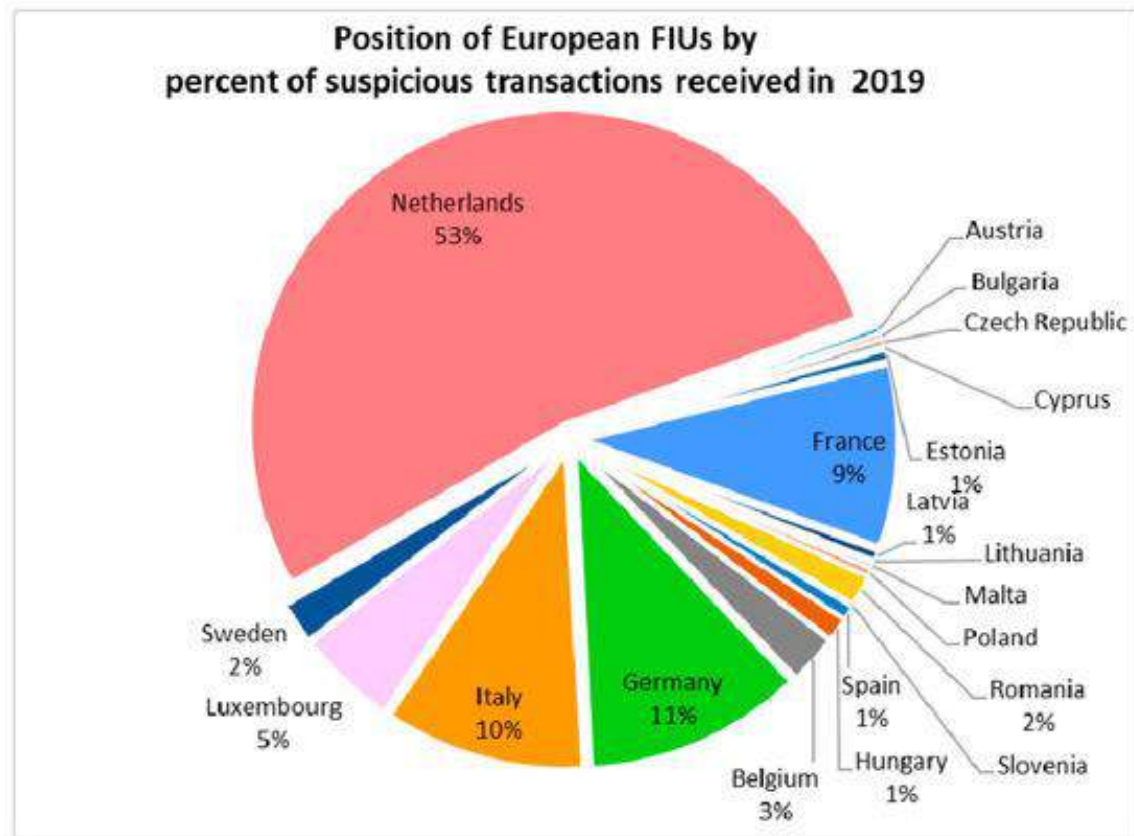
To address these challenges, it is crucial for international bodies and states to work together to strengthen regulations, enhance cooperation mechanisms, and ensure uniform enforcement of anti-money laundering measures. This includes fostering greater transparency in financial transactions, improving information sharing among countries, and implementing robust measures to track and seize illicit funds. By taking concerted action at both national and international levels, the global community can make

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<sup>89</sup> Choi, Brian. "The Evolution of Anti-Money Laundering Laws and Regulations." *Fordham Journal of Corporate & Financial Law* 19, no. 1 (2013): 71-104.

<sup>90</sup> Grover, Stephen, and Mahesh Uttamchandani. "Anti-Money Laundering: Trends, Challenges, and Opportunities." *Journal of Money Laundering Control* 16, no. 4 (2013): 405-420.

significant strides in combatting financial crime and preventing the proliferation of illicit funds.<sup>91</sup>



This discrepancy arises due to differing international perspectives on money laundering and the proceeds of crime. Another factor contributing to the lack of consensus is the varying definitions of terrorist activities. Initially, activities such as kidnappings, protection of nuclear facilities, terrorist bombings, and funding of extremism were not universally recognized as terrorism. However, the United Nations Security Council (UNSC) took steps to address this issue by establishing three Ad Hoc Committees on Terrorism in 1996, with the goal of implementing treaties against terrorism.<sup>92</sup>

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<sup>91</sup> International Monetary Fund. "The IMF and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)." IMF. Accessed January 15, 2024. Available at: <https://www.imf.org/>.

<sup>92</sup> International Monetary Fund. "The IMF and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)." IMF. Accessed January 15, 2024. Available at: <https://www.imf.org/>.

Following the Lockerbie affair in 1989, where a terrorist attack led to the imposition of sanctions, the UNSC intensified its efforts. In 1998, it identified terrorists and imposed sanctions on entities such as the Taliban regime in Afghanistan and individuals like Osama bin Laden associated with Al Qaeda, thereby strengthening international measures against terrorism.<sup>93</sup>

### **3.15 Legislative Measures and Compliance: Pakistan's Efforts in Combating Financial Terrorism.**

Following the recommendations of the Financial Action Task Force (FATF) regarding combating financial terrorism, Pakistan has enacted numerous laws aimed at addressing money laundering and terrorist financing. These laws cover various aspects and involve different authorities, departments, and Islamic institutions. Despite these efforts, Pakistan's compliance with FATF's standards has faced scrutiny. The Mutual Evaluation Report (MER) of 2019, conducted by FATF and the Asia-Pacific Group on Money Laundering (APG), assessed Pakistan's compliance with nine special sanctions, out of which only one was fully met. Overall, Pakistan implemented 35 out of the 40 FATF recommendations. However, the dispersion of legislative bodies and entities across Pakistan has led to challenges in the proper implementation of these recommendations.<sup>94</sup>

In August 2021, the APG announced Pakistan's progress in its third MER, noting advancements in addressing four more sanctions, bringing the total compliance to 35 out of 40 recommendations. Notably, Pakistan has prioritized six key recommendations, including money laundering and terrorist financing offenses, targeted financial sanctions

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<sup>93</sup> Kasten, Ronald J. "Global Money Laundering and Terrorist Financing: Emerging International Law." *Connecticut Journal of International Law* 21, no. 1 (2005): 147-177.

<sup>94</sup> Financial Action Task Force. "FATF Recommendations." FATF-GAFI. Accessed January 15, 2024. <http://www.fatf-gafi.org/>.

related to terrorism, customer due diligence (CDD), recordkeeping, and reporting of suspicious transactions.<sup>95</sup>

These legislative measures reflect Pakistan's commitment to aligning its laws and regulations with international standards set by monetary regulatory institutions and conventions. The enactment of these laws demonstrates Pakistan's adherence to international best practices in combating financial terrorism and money laundering.

### **3.16 Conclusion.**

In conclusion, today's discussion has shed light on the intricate web of challenges surrounding the global effort to combat money laundering and illicit financing. We've explored the evolution of international regulations, the role of supervisory bodies like the Financial Action Task Force (FATF), and the ongoing efforts of individual states to fortify their legal frameworks against financial crimes.

It's evident that while significant strides have been made in establishing comprehensive AML measures and fostering international cooperation, the fight against money laundering remains an ongoing battle. The complexities of illicit financing continue to evolve, requiring constant vigilance and adaptability from both regulatory authorities and financial institutions.

Moreover, the case studies discussed, such as Pakistan's legislative response to FATF recommendations and the challenges faced by states in enforcing AML regulations, underscore the multifaceted nature of the issue. While progress has been made, there are still gaps in implementation and enforcement that need to be addressed. Looking ahead, it's imperative that stakeholders at both the national and international levels continue to collaborate and innovate in their efforts to combat financial crimes. This includes

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<sup>95</sup> Coleman, James William. "The Criminal Elite: Understanding White-Collar Crime." Available at: <https://www.springer.com/gp/book/9780387964232>

strengthening regulatory frameworks, enhancing information sharing mechanisms, and leveraging technological advancements to stay ahead of increasingly sophisticated money laundering schemes.<sup>96</sup>

Furthermore, the importance of public awareness and education cannot be overstated. By fostering a culture of transparency and accountability, individuals and organizations can play a pivotal role in safeguarding the integrity of the global financial system.

In essence, while the challenges posed by money laundering and illicit financing are formidable, they are not insurmountable. Through sustained cooperation, innovation, and a commitment to upholding the rule of law, we can strive towards a future where financial crimes are effectively deterred, and the integrity of our financial systems is preserved for generations to come.

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<sup>96</sup> Clarke, Ronald V. "Situational Crime Prevention: Successful Case Studies." Available at: <https://www.routledge.com/Situational-Crime-Prevention-Successful-Case-Studies/Clarke/p/book/9781872870097>



## **CHAPTER # 4**

### **GAP ANALYSIS OF DOMESTIC LAWS REGARDING PROCEEDS CRIME ACCORDING TO GLOBAL BEST PRACTICES**

#### **4.1 Introduction.**

In this concluding chapter, we reflect on the extensive discussions and analyses conducted throughout this thesis, particularly focusing on the implications of global best practices in combating money laundering and addressing the proceeds of crime. We have explored various aspects, including legal frameworks, international regulations, enforcement mechanisms, and the responses of states, with a particular emphasis on Pakistan.

Our examination has revealed the critical importance of aligning national laws and regulations with international standards set forth by organizations such as the Financial Action Task Force (FATF). The FATF's recommendations serve as benchmarks for combating money laundering and terrorist financing globally. States that fail to comply with these standards risk facing economic sanctions and being subjected to international scrutiny, as evidenced by Pakistan's experience of being grey-listed by the FATF.

Through our discussions, we have observed the significant impact of international pressure and peer evaluations on shaping national legislation and policy frameworks. Pakistan's response to FATF sanctions underscores the imperative for states to enact stringent laws, establish effective regulatory bodies, and enhance enforcement mechanisms to combat financial crimes effectively.

The amendments made to Pakistan's laws, such as the Money Laundering Act, and the establishment of regulatory authorities like the Financial Monitoring Unit (FMU), exemplify the state's efforts to align with global best practices. These measures aim to strengthen the legal and regulatory framework, enhance due diligence requirements, and improve transparency in financial transactions.

Furthermore, our analysis has shed light on the complex nature of financial crimes and the challenges associated with their detection and prosecution. Money laundering and the financing of terrorism pose significant threats to national security, financial stability, and the integrity of global financial systems. Effective measures to combat these crimes require collaboration among government agencies, law enforcement authorities, financial institutions, and international partners.<sup>97</sup>

In light of today's discussions, it is evident that the fight against money laundering and the proceeds of crime is an ongoing and multifaceted endeavour that requires sustained efforts at the national and international levels. States must continue to strengthen their legal frameworks, enhance enforcement capabilities, and foster international cooperation to effectively counter these threats.

Moving forward, it is imperative for Pakistan and other states to remain vigilant, proactive, and committed to implementing robust measures to combat financial crimes effectively. By adhering to global best practices and maintaining compliance with international standards, states can safeguard their financial systems, protect their citizens, and contribute to the broader global efforts to combat money laundering and terrorist financing.

#### **4.2 Safeguarding Financial Integrity: Aligning National Laws with Global Best Practices in Combating Money Laundering and the Proceeds of Crime.**

We shall reflect on the comprehensive discussions and analyses carried out throughout this thesis, with a particular focus on the implications of adhering to global best practices in combatting money laundering and addressing the proceeds of crime.<sup>98</sup> We have delved into

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<sup>97</sup> Ehrlich, Isaac. "Crime, Punishment, and the Market for Offenses." Available at: <https://www.springer.com/gp/book/9780792309714>

<sup>98</sup> Felson, Richard B. "Crime and Everyday Life." Available at: <https://global.oup.com/academic/product/crime-and-everyday-life-9780195128417?cc=us&lang=en&>

various aspects, including legal frameworks, international regulations, enforcement mechanisms, and the responses of states, paying close attention to Pakistan's situation.

Our examination has underscored the critical significance of aligning national laws and regulations with the international standards outlined by organizations such as the Financial Action Task Force (FATF). The FATF's recommendations serve as benchmarks for tackling money laundering and terrorist financing on a global scale. States that fail to meet these standards risk economic sanctions and international scrutiny, as seen in Pakistan's instance of being grey-listed by the FATF.

Through our discussions, we have witnessed the substantial impact of international pressure and peer evaluations in shaping national legislation and policy frameworks. Pakistan's response to FATF sanctions highlights the urgency for states to enact stringent laws, establish effective regulatory bodies, and bolster enforcement mechanisms to effectively combat financial crimes.<sup>99</sup>

The legislative amendments introduced in Pakistan, such as those to the Money Laundering Act, and the establishment of regulatory bodies like the Financial Monitoring Unit (FMU), serve as examples of the state's efforts to align with global best practices. These measures aim to fortify the legal and regulatory framework, enhance due diligence requirements, and promote transparency in financial transactions.

Moreover, our analysis has shed light on the intricate nature of financial crimes and the associated challenges in their detection and prosecution. Money laundering and the financing of terrorism pose significant threats to national security, financial stability, and the integrity of global financial systems. Effectively combating these crimes necessitates collaboration among

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<sup>99</sup> Finckenauer, James O., and Ernesto U. Savona. "The Mafias on the Move: How Organized Crime Conquers New Territories." Available at: [https:// global.oup.com/academic /product/the-mafias-on-the-move-9780195166211?cc=us&lang=en&](https://global.oup.com/academic/product/the-mafias-on-the-move-9780195166211?cc=us&lang=en&)

government agencies, law enforcement authorities, financial institutions, and international partners.

In light of today's discussions, it is clear that the fight against money laundering and the proceeds of crime is an ongoing and multifaceted endeavour requiring sustained efforts at both the national and international levels. States must persist in strengthening their legal frameworks, enhancing enforcement capabilities, and fostering international cooperation to effectively counter these threats.

Looking ahead, it is imperative for Pakistan and other states to remain vigilant, proactive, and committed to implementing robust measures to combat financial crimes effectively. By adhering to global best practices and ensuring compliance with international standards, states can safeguard their financial systems, protect their citizens, and contribute to the broader global efforts to combat money laundering and terrorist financing.

#### **4.3 Bridging the Divide: A Comprehensive Comparative Analysis of Money Laundering Legislation in Pakistan, the UK, and the USA.**

Money laundering poses a significant threat to global financial systems, requiring robust legislative frameworks and effective enforcement mechanisms to combat. This paper conducts an extensive comparative analysis of money laundering legislation in Pakistan, the United Kingdom (UK), and the United States (USA), aiming to identify gaps and disparities in their legal frameworks, regulatory oversight, enforcement mechanisms, and international cooperation efforts. By examining key provisions, enforcement practices, and international obligations, this analysis seeks to provide insights into areas for improvement and recommendations for enhancing anti-money laundering (AML) efforts across these

jurisdictions.<sup>100</sup> Money laundering, the process of disguising the origins of illegally obtained money, poses a significant challenge to global financial systems, undermining the integrity of financial institutions and facilitating criminal activities. Effective anti-money laundering (AML) legislation is essential to combat this threat, requiring comprehensive legal frameworks, robust enforcement mechanisms, and international cooperation. This paper conducts a detailed comparative analysis of money laundering legislation in Pakistan, the United Kingdom (UK), and the United States (USA), aiming to identify gaps and areas for improvement in Pakistan's AML regime.

- Legal Framework.

In Pakistan, the primary legislation governing money laundering is the Anti-Money Laundering Act, 2010 (AML Act), supplemented by subsequent amendments and regulations. The AML Act criminalizes money laundering offenses, defines the scope of illicit activities, and establishes penalties for offenders. However, despite these provisions, there are several gaps in Pakistan's legal framework compared to the UK and USA.

- Provisions of the Anti-Money Laundering Act, Pakistan.

- Definition of Money Laundering Offenses;

The AML Act defines money laundering offenses broadly, encompassing the conversion, transfer, concealment, or disguise of proceeds derived from criminal activities.

It includes specific provisions for predicate offenses, such as drug trafficking, corruption, and terrorism financing, which serve as underlying criminal activities for money laundering.

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<sup>100</sup> Francis, Douglas R., and Doris Layton MacKenzie. "Risk-Based Policing: Evidence-Based Crime Prevention with Big Data and Spatial Analytics." Available at: <https://global.oup.com/academic/product/risk-based-policing-9780198788434?cc=us&lang=en&>

- Penalties and Forfeiture Provisions.

The Act prescribes severe penalties for money laundering offenses, including imprisonment and fines.

It provides for the confiscation and forfeiture of assets derived from illicit activities, aiming to disrupt criminal enterprises and deter future offenses.

- Regulatory Oversight.

The AML Act establishes the Financial Monitoring Unit (FMU) as the regulatory authority responsible for overseeing AML compliance and enforcing relevant regulations.

The FMU is tasked with monitoring suspicious transactions, conducting investigations, and disseminating financial intelligence to law enforcement agencies.

- Enforcement Mechanisms.

Enforcement agencies, such as the Federal Investigation Agency (FIA) and law enforcement authorities, are empowered to investigate and prosecute money laundering offenses.

Specialized AML cells and task forces are established within these agencies to enhance coordination and focus on combating financial crimes.

- International Cooperation:

Pakistan is a member of the Financial Action Task Force (FATF) and has committed to implementing its recommendations.

The country has signed various international agreements and participates in bilateral and multilateral efforts to combat money laundering, facilitating cross-border cooperation and information sharing.

#### 4.4 Gap Analysis in AML Act 2010.

Despite the existence of the AML Act and regulatory mechanisms, several gaps and shortcomings persist in Pakistan's AML regime:

- **Weak Enforcement.**
  - Enforcement agencies lack adequate resources, training, and coordination to effectively investigate and prosecute money laundering offenses.
  - This results in low conviction rates and undermines the deterrent effect of AML laws, allowing criminals to exploit vulnerabilities in the system.
- **Limited Regulatory Oversight.**
  - The FMU faces challenges in monitoring and regulating financial institutions effectively, leading to lapses in AML compliance and reporting.
  - Regulatory loopholes and inconsistencies hinder the identification and mitigation of money laundering risks across different sectors.
- **Jurisdictional Issues.**
  - Jurisdictional complexities and overlapping responsibilities among law enforcement agencies hinder the seamless investigation and prosecution of money laundering cases.
  - Lack of clarity in legal procedures and enforcement protocols further complicates efforts to combat financial crimes.
- **Technological Challenges.**
  - Rapid advancements in technology present challenges in detecting and preventing online and digital money laundering activities.

➤ The AML Act needs to be updated to address emerging threats posed by cryptocurrencies and virtual assets, requiring enhanced regulatory frameworks and technological capabilities.

- International Cooperation.

➤ While Pakistan has made commitments to international AML standards, practical cooperation and information sharing with other countries remain limited.

➤ Strengthening international cooperation mechanisms is essential to combat cross-border money laundering networks effectively, requiring enhanced diplomatic efforts and bilateral agreements.

#### **4.5 Comparative Analysis with the UK and USA.**

In contrast to Pakistan, the UK and USA have more robust AML frameworks, including comprehensive legislation, well-established regulatory authorities, and effective enforcement mechanisms. For example, the UK's Proceeds of Crime Act 2002<sup>101</sup> and the USA's Bank Secrecy Act provide comprehensive frameworks for combating money laundering, with stringent penalties and extensive regulatory oversight. Additionally, regulatory bodies such as the UK's Financial Conduct Authority (FCA) and the USA's Financial Crimes Enforcement Network (Fin CEN) play crucial roles in supervising financial institutions and enforcing AML regulations.<sup>102</sup> In short the comparative analysis highlights significant gaps and challenges in Pakistan's AML regime, underscoring the need for comprehensive reforms and enhanced enforcement efforts. Addressing these gaps requires concerted action by the government, regulatory authorities, law

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<sup>101</sup> Proceeds of Crime Act 2002

<sup>102</sup> Gardner, Richard. "American Law: An Introduction." Available at: [https://books.google.com/books/about/American\\_Law.html?id=7G0jCwAAQBAJ](https://books.google.com/books/about/American_Law.html?id=7G0jCwAAQBAJ)



enforcement agencies, and the financial sector.<sup>103</sup> By strengthening legal frameworks, improving regulatory oversight, and fostering international cooperation, Pakistan can bolster its AML efforts and mitigate the risks posed by money laundering activities.

## **I Rules and regulation for Proceeds of crime as well as Money laundering.**

- Imposition of Conditions, Restrictions, or Limitations.

This provision grants authorities the power to impose specific conditions, restrictions, or limitations on any business or service provider subject to reporting requirements. These measures are typically aimed at enhancing compliance with anti-money laundering (AML) and countering the financing of terrorism (CFT) regulations. For example, authorities may require enhanced due diligence measures for high-risk customers or impose limitations on certain types of transactions.

- Cancellation of Registration or License.

This provision empowers regulatory bodies to revoke the registration or license of entities found to be non-compliant with AML/CFT regulations. This could include financial institutions, money service businesses, or other entities engaged in activities susceptible to money laundering or terrorist financing.

- Imposition of Interim or Permanent Limitations on Natural Persons.

Authorities may impose temporary or permanent limitations on individuals involved in regulated activities, such as directors, executives, or employees of financial institutions. These limitations could include restrictions on their ability to conduct certain activities or their removal from positions of responsibility within the organization.

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<sup>103</sup> Francis, Douglas R., and Doris Layton MacKenzie. "Risk-Based Policing: Evidence-Based Crime Prevention with Big Data and Spatial Analytics." Available at: <https://global.oup.com/academic/product/risk-based-policing-9780198788434?cc=us&lang=en&>

- Issuance of Declarations, Certifications, Warnings, or Reprimands.

This provision allows authorities to issue various forms of communication to entities or individuals regarding their compliance status. Declarations and certifications may be issued to entities demonstrating compliance with AML/CFT regulations, while warnings or reprimands may be issued to those found to be non-compliant, serving as a notice of corrective action required.

- Directives for Action against Reporting Entities.

Authorities may issue directives instructing individuals to take specific actions against reporting entities, such as conducting internal investigations, implementing corrective measures, or initiating disciplinary actions against responsible personnel. This provision aims to ensure prompt remedial action in cases of non-compliance.

- Imposition of Other Penalties and Limitations.

Besides the specified sanctions, authorities retain the discretion to impose additional penalties and limitations deemed necessary to enforce AML/CFT regulations effectively. These could include fines, operational restrictions, or enhanced supervision requirements tailored to address specific compliance deficiencies.

- Sanctions by Oversight Bodies for SRB.

Oversight bodies responsible for supervising specific sectors, such as the Securities and Exchange Commission (SEC) or the State Bank of Pakistan (SBP), may impose sanctions tailored to the regulatory context of their respective sectors. These sanctions aim to address sector-specific risks and vulnerabilities related to money laundering and terrorist financing.

- Monetary Penalties for Illegal Conduct, Acts, or Omissions.

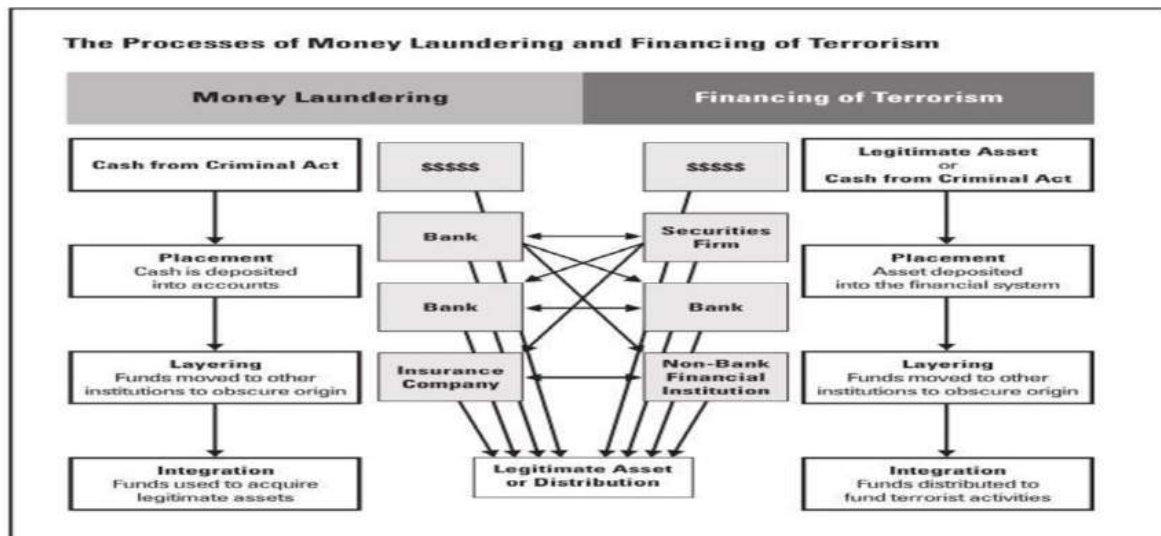
Individuals and legal entities found to have engaged in illegal conduct, acts, or omissions in violation of AML/CFT regulations are subject to monetary penalties. These penalties are enforced to deter non-compliance and ensure accountability within the financial system. Omissions, such as failure to provide essential assistance or information to legal authorities, are also considered punishable offenses under this provision. In short, the "AML/CFT Sanctions Rules, 2020" provide a comprehensive framework for enforcing compliance with AML/CFT regulations in Pakistan. By delineating specific sanctions and penalties for non-compliance, these rules aim to strengthen the country's anti-money laundering efforts and safeguard its financial integrity.<sup>104</sup>

- Amendments Relating to International Proceeds Crime.

Section 26 of the 2010 amendment, revised in 2020, pertains to foreign serious offenses that fall within the purview of proceeds of crimes. Moreover, it authorizes state entities to investigate offenses committed abroad, or by individuals residing elsewhere, with the cooperation of the respective states. This mutual cooperation allows for investigations in accordance with the laws governing money laundering in each state involved.

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<sup>104</sup> Golding, Martin P. "Globalization and Crime. Available at: <https://global.oup.com/academic/product/globalization-and-crime-9780745643356?cc=us&lang=en&>



This diagram illustrates money laundering and also elucidates the processes through which terrorist financing is conducted by extremists or launderers. Subsequent sections of this chapter will discuss mechanisms for controlling these activities. In explaining domestic legislation, Pakistan must undertake revolutionary measures to maintain its standing in the international community's eyes, adhering to best practices. Pakistan should take decisive action against financial terrorism, thereby addressing the sanctions imposed by the FATF's watchdog list. The FATF, an independent inter-governmental body, is responsible for developing and promoting policies to safeguard the global financial system from exploitation by terrorists and other nefarious actors.<sup>105</sup> Continuously evolving, the FATF regularly reviews money laundering and terror-financing techniques, such as regulating virtual assets, especially as crypto currencies gain popularity. The FATF monitors countries' compliance with its standards, holding non-compliant countries accountable. Despite establishing globally recognized rules and advocating for control measures, the FATF has faced criticism for selectively applying its guidelines, with allegations of political influence in the case of Pakistan.

<sup>105</sup> Hagen, John L., and Michael J. Welsh. "Organized Crime: A Brief History." Available at: <https://www.springer.com/gp/book/9781349249260>



#### 4.6 Aligning Domestic Legislation with International Best Practices and Key Amendments in Pakistan's Anti-Money Laundering Framework.

This act applies to entities responsible for reporting financial transactions. According to Section 2(xxxiv) of the Act, the term "reporting entities" encompasses both "financial institutions" and "Designated Non-Financial Businesses and Professions (DNFBPs)." Section 2(xiv) and 2(xii) define "financial institutions" and "DNFBPs" respectively.

Financial institutions include entities involved in credit, hire, transfer, valuation, and management of financial payments, assurances, and responsibilities. DNFBPs encompass individuals working in sectors such as property, precious metals, and other high-value commodities. Legal experts and agents facilitating money laundering are also required to report to the Financial Monitoring Unit (FMU) as per the law. These entities must maintain customer records, including customer due diligence and risk assessment.

Section 5 of the Anti-Money Laundering Regulations, 2015 mandates reporting entities to report cash transactions exceeding PKR 2 million to the FMU within seven days. However, exceptions apply to transactions involving federal or provincial legal entities, subordinate authorities, or state bodies. The head of the FMU, with prior approval, may exempt businesses from reporting if they meet certain criteria, such as being a qualified business customer and complying with FMU directives and legal requirements.

Sections 7C and 7(4) of the Act require reporting entities to maintain records, documents, Customer Due Diligence (CDD), and other transaction data for five years. CDD procedures, prescribed by the AML/CFT regulatory authority, include establishing business relationships, monitoring infrequent transactions, identifying suspicions of money laundering or terrorist financing, and ensuring the accuracy of existing data. Entities must verify the identity of individuals and beneficial owners, assess business goals, and maintain ongoing monitoring of business relationships.

Additionally, Section 7(4) stipulates that reporting entities must retain records related to Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) for at least ten years after reporting. Regulation five of the Anti-Money Laundering Regulations, 2015 outlines reporting requirements for DNFBPs when transactions exceed the threshold of PKR 2 million, with a reporting deadline of seven working days. Section

7G, revised in accordance with FATF recommendations, addresses compliance programs, appointment procedures, rules, regulations, and financial terrorism activities.



This table illustrates Pakistan's ongoing efforts to combat illegal financial activities and its stance against financial terrorism, particularly regarding its status on the FATF grey list. The actions taken by Pakistan during different periods to address these challenges are detailed in the diagram above and further elaborated in this chapter.

- Significance of Private Institutions.

Private institutions play a pivotal role in combating financial crimes, as they possess extensive information about individuals and accounts. For instance, banks have the capability to freeze accounts associated with terrorist financing, thereby restricting further fund flow. Notably, initiatives such as the European Banking Federation's (EBF) efforts to develop authorizations for implementing EU penalties laws highlight the importance of collaboration among private entities in this regard.

- European Banking Federation's Authorizations.

The EBF, after a meeting held on October 15, 2001, outlined seven authorizations aimed at facilitating the implementation of EU penalties laws. These authorizations include:

- a) Ensuring accurate identification of individuals and legal entities subject to sanctions.
- b) Elaborating on procedures for freezing funds.
- c) Confirming exclusion measures within three weeks to prevent unintended freezing of bank accounts.
- d) Granting permission to unfreeze accounts upon suspension, following a recommendation by an EU member state, within two days.

- G10 Main Bank Experts Meeting.

On December 14, 2001, experts from G10 central banks convened to discuss methods for controlling financial aid and enhancing data disclosure mechanisms. They emphasized the importance of private institutions legalizing their operations and maintaining records in accordance with the law. Initiatives such as the "Wolfsburg Principles" and regulations set forth by the EBF, as well as agreements by the Basel Committee on information sharing and rigorous methods for handling information issues, underscore the collective effort required to combat financial crimes effectively.

#### **4.7 Conclusion.**

In this chapter explain the gap between the prior legislation and different amendments made by Pakistan. Furthermore explain the different sanctions, enforcement process, sanctions and international law against proceeds of crime. Moreover in this chapter explain international law against proceeds of crime and its implementation. Finally, discuss the international best practices for adoption to control proceeds of crime.



## **CHAPTER # 5**

### **CONCLUSION AND RECOMMENDATIONS:**

#### **5.1 CONCLUSION.**

The fight against illegal financing and money laundering is a complex and multifaceted endeavor that requires coordinated efforts at both the national and international levels. As illicit financial activities continue to pose significant threats to global security, stability, and integrity, countries around the world must remain vigilant and proactive in implementing robust measures to combat these crimes effectively. In this concluding section, we reflect on the role of international organizations such as the Financial Action Task Force (FATF), legislative measures undertaken by Pakistan, and a comparative analysis of Pakistan's efforts with those of the United States (USA) and the United Kingdom (UK).

The Financial Action Task Force (FATF) plays a pivotal role in setting international standards and guidelines for combating money laundering, terrorist financing, and other illicit financial activities. Established in 1989, the FATF has emerged as a leading authority in promoting global efforts to combat financial crime. Through its recommendations and mutual evaluation processes, the FATF encourages countries to adopt and implement robust AML/CFT measures, thereby enhancing the effectiveness of the global anti-money laundering regime.

Pakistan has taken significant legislative measures to strengthen its AML/CFT framework and address the challenges posed by illegal financing and money laundering. The enactment of the Anti-Money Laundering Act (AMLA) and the subsequent amendments reflect the country's commitment to combating financial crime.

Additionally, the establishment of regulatory bodies such as the Financial Monitoring Unit (FMU) and the Securities and Exchange Commission of Pakistan (SECP) has bolstered the enforcement of AML/CFT regulations.

In comparing Pakistan's efforts with those of the USA and UK, several key differences and similarities emerge. While all three countries have implemented legislative measures and established regulatory frameworks to combat money laundering and illegal financing, the effectiveness of these efforts varies based on factors such as institutional capacity, enforcement mechanisms, and international cooperation.

The USA has implemented robust AML/CFT measures through legislation such as the Bank Secrecy Act (BSA) and the USA PATRIOT Act. These laws require financial institutions to implement stringent due diligence procedures, report suspicious transactions, and cooperate with law enforcement agencies in combating financial crime. The USA's extensive regulatory framework and enforcement capabilities have made it a global leader in AML/CFT efforts.

Similarly, the UK has implemented comprehensive AML/CFT legislation, including the Proceeds of Crime Act (POCA) and the Money Laundering Regulations (MLR). These laws impose strict obligations on financial institutions, professional service providers, and other entities to prevent and detect money laundering activities. The UK's robust regulatory regime and international cooperation mechanisms have contributed to its effectiveness in combating financial crime.

In comparison, Pakistan's efforts to combat money laundering and illegal financing have faced challenges related to institutional capacity, enforcement effectiveness, and international cooperation. While the country has made significant progress in enacting AML/CFT legislation and establishing regulatory bodies, more concerted efforts are needed to address systemic weaknesses and enhance enforcement capabilities.

Additionally, strengthening international cooperation and collaboration with organizations such as the FATF is essential for Pakistan to effectively combat transnational financial crime.

In conclusion, the fight against illegal financing and money laundering requires sustained efforts and collaboration among countries, international organizations, and the private sector. While Pakistan has made significant strides in enhancing its AML/CFT framework, continued reforms, capacity-building initiatives, and international cooperation are essential for addressing the evolving challenges posed by financial crime. By learning from the experiences of countries such as the USA and UK and leveraging international best practices, Pakistan can strengthen its efforts to combat illegal financing and safeguard its financial system and integrity in the years to come.

## **5.2 RECOMMENDATIONS.**

In light of the detailed discussion and extensive research, following are the recommendations which may be followed in order to illuminate or minimize the illegal finances, money laundering and other proceeds of crimes in Pakistan.

- Controlling the sources of terrorist financing by state-financed departments.
- Funds circulation through Bank Accounts and Transactions.
- Controlled all Charities, Islamic Zakat, Trusts, and old age home etc. institution must be regulate according to international best practice.
- Politically stability in state according to the Constitution of Pakistan.
- Reutilization invoice, receipts, taxation system, and concept of information sharing.
- Combating against financial crimes specially regarding to the Proceeds of crime.
- Must facilitate international investor to invest their capital according to proper legal ways.

- Must control the other way of transfer money except the banking system.
- Harmonization of penalty, forfeiture of money, seizer, rule and regulation, distribution of money, and finally not provide shelter to any money launderer or terrorist financier.
- All these above discussed points show that the Proceeds of crime can be controlled through these actions. But we cannot say about these actions are enough for controlling terrorism financing although we can implement the international best strategy against illicit money. Furthermore, one point about harmonization is too much important because one state offender has shelter for their illicit money in other state bank accounts, off-Shore company accounts must be regulated and not provide facilities.

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