ASSESSING PAKISTAN'S AML AND CFT SYSTEM: LEGISLATIVE DESIGN, INSTITUTIONAL CAPACITY, AND RISK MITIGATION AGAINST FATF'S STANDARDS

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Abstract
Money laundering (ML) and terrorist financing (TF) undermine global financial stability and security by exploiting gaps in legislative design and institutional capacity risk mitigation efforts. The Financial Action Task Force's (FATF) guidelines have evolved to counter illicit financial networks around the globe, yet Pakistan's large informal economy, periodic placement on the FATF grey list (2008, 2012, 2018), and fragmented regulatory frameworks have impeded effective compliance with the FATF's norms. This study presents assessment to Pakistan's various legislative reforms, particularly the Anti-Money Laundering Act and Anti-Terrorism Act with recent amendments, further creation of the National Anti-money Laundering (AML) and combating the financing of terrorism (CFT) Authority in 2023, which have increased technical compliance from 41% to 72% within two years. This study demonstrates each guideline to domestic regulations and analyses Mutual Evaluation Reports (MERs) to establish full or substantial compliance with the "Big Six" recommendations. Follow-up evaluations indicate improvements in customer due diligence (CDD), suspicious-transaction reporting (STR), and targeted sanctions driven by enhanced inter-agency coordination and capacity-building initiatives. An analysis of Pakistan's FATF gray-list journey and legislative reforms revealed persistent gaps in the application of multiple overlapping statutes that continue to exist that give rise to legal uncertainty. Finally, this study provides specific actionable recommendations for legal, institutional, and operational reforms designed to close the gaps identified in Pakistan's AML and CFT framework.

Keywords: Financial Action Task Force (FATF), FATF Grey List, Mutual Evaluation Report (MER), Technical Compliance, Immediate Outcomes (IOs), Risk-Based Approach (RBA), Targeted Financial Sanctions (TFS)

1. Introduction: Contextualizing the issue and background

Money laundering (ML) and terrorist financing (TF) pose significant threats to global financial systems. Specifically, ML activities are estimated to have annual costs ranging from $800 billion to $2 trillion, accounting for 2-5% of global GDP.[1] Pakistan, a developing country, in terms of population, ranks 5th in the world with a population of 246.2 M.[2] Pakistan experiences substantial annual losses through ML activities, with an average annual loss exceeding $10 billion.[3] The prevalence of traditional hawala and hundi systems facilitates illicit transfer. These informal value-transfer systems bypass traditional banking channels, making detection and regulation extremely challenging.

The United State (US) Department's International Narcotics Control Strategy Report from 2017 suggests Pakistan's illicit cash outflows are comparable to other developing nations.[4] Global Financial Integrity (GFI) designates Pakistan as the 23rd largest source of illicit financial Outflows averaged $11.8 billion annually from 2005 to 2014.[5] These activities undermine the

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[1] Thakur, J., & Kaur, R. (2025). The Promise and Perils of Machine Learning in Finance. *FinTech and Financial Inclusion*, 120-135.

[2] Countrymeters (2024) Pakistan population. https://countrymeters.info/en/Pakistan

[3] Khan, A., & Akhtar, N. (2021). Legal, administrative and judicial framework in Pakistan to combat tax evasion and money laundering: an analytical study. *Review of Politics and Public Policy in Emerging Economies*, 3(1), 69-77.

[4] U.S. Department of State. (2017). *International Narcotics Control Strategy Report, Volume I: Drug and chemical control* [PDF]. https://www.state.gov/wp-content/uploads/2019/04/2017-INCSR-Vol.-I.pdf

[5] Imam, S. K. (2023, May 4). *Pakistan's organized crime dilemma: Money laundering: The way forward* [Issue paper]. Centre for Governance Research. https://cgr.com.pk/wp-content/uploads/2023/05/05-ML-Pakistan-Dilemma.pdf

Money laundering (ML) and terrorist financing (TF) are a major menace to the international financial systems. In particular, the costs per annum of ML activities amount to 2-5 percent of global GDP, which in the case of Pakistan is estimated to be between $800 billion and 2 trillion (population) 5th most populous country in the world with a 246.2 M population.[3] There are high losses to Pakistan through ML activities since the prevalence of traditional hawala and hundi systems makes it easier to transfer money illicitly. These informal systems of value transfer do not use the conventional banking systems, and it is highly difficult to detect and regulate them. According to the International Narcotics Control Strategy Report of 2017 by the United State (US) Department, Pakistan is rated at the 23rd largest source of illicit financial Outflows of about 11.8 billion per year on average, between the years 2005 and 2014[6]. These activities deteriorate the integrity of financial institutions as they take advantage of weak regulations within the national systems. Also, TF and other criminal operations via illegal finance are a direct threat to the national and international security, [6] since these sources can be exploited to promote violence and destabilize areas[7].

The global illegal market that encompasses use of terrorism, organized crime and corruption are closely related to money flows that have international guidelines of anti-money laundering (AML) and countering financing of terrorism (CFT) activities provided by financial action task force (FATF) that has been encouraging global collaboration and adherence to international standards to curb illicit cross-border financial movements. The frameworks are vital in safeguarding the international financial system in order to support the increasing threats of ML and TF that take advantage of the regulatory loopholes and disparities in the legislation of the countries. The transparency of the financial institutions and the international partnerships are also critical when it comes to ensuring that the financial crime is highly sophisticated and has a multinational character because the AML and CFT systems are essential to safeguard the integrity of the financial institutions and encourage the global collaboration.

This is because Pakistan has a complex economic, political, and security environment which makes it prone to ML and TF. Since 2008, 2012 and 2018, monitoring of FATF grey-list has been identified to be non-compliant with various core recommendations. In turn, in the 2019 Mutual Evaluation Report (MER) by the Asia/Pacific Group (APG), Pakistan did not meet the FATF key requirements, especially in the domain of customer due diligence (CDD), beneficial ownership (BO) disclosure, and TF controls.[11] Subsequent MER follow-ups in 2020[12] and 2021 noted incremental legislative advances such as expanded reporting obligations and upgraded enforcement powers, but persistent weaknesses in inter-agency coordination, inconsistent application of sanctions, and inadequate supervision of non-bank sectors continued to undermine effectiveness.[13] By mid-2022, although Pakistan had addressed 26 from 27 action items of FATF action plan, systemic deficiencies remained, including limited prosecutorial capacity, reliance on informal value-transfer systems, and slow Mutual Legal Assistance (MLA) processes, which still posed material risks for financial integrity and delayed full FATF compliance.[14] Pakistan's successful exit from the grey list in October 2022 marked a milestone in harmonising its AML and CFT framework with international standards.

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[6]Gallant, M. (2022). Using an Anti-Money Laundering Terrorist Finance Approach to Harness a Convoy. *Criminal Law Quarterly*, *70*(2), 292-309.

[7] Schott, P. A. (2006). *Reference guide to anti-money laundering and combating the financing of terrorism.* World Bank Publications.

[8] Kar, D., & Spanjers, J. (2017). Transnational crime and the developing world. *Global Financial Integrity*, *53*, 53-59.

[9] Helfstein, S., & Solomon, J. (2014). Risky business: the global threat network and the politics of contraband.

[10] Beekarry, N. (2011). International anti-money laundering and combating the financing of terrorism regulatory strategy: a critical analysis of compliance determinants in international law. *Nw. J. Int'l L. & Bus.*, *31*, 137.

[11] APG (2019), Anti-money laundering and counter-terrorist financing measures - Pakistan, Third Round Mutual Evaluation Report, APG, Sydney http://www.apgml.org/includes/handlers/get-document.ashx?d=389ff465-24a1-41cf-9ab9-27edc2e4c836

[12] Asia/Pacific Group on Money Laundering. (2020). *Pakistan: 1st enhanced expedited follow-up report.* https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-1st-Follow-Up-Report-Pakistan-2020.pdf

[13] Asia/Pacific Group on Money Laundering. (2021, May 7). *Pakistan: 2nd enhanced expedited follow-up report.*https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-2nd-Follow-Up-Report-Pakistan-2021.pdf.coredownload.inline.pdf

[14] Asia/Pacific Group on Money Laundering. (2022, February). *Pakistan: 4th enhanced expedited follow-up report*. https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-Pakistan-FUR-2022.pdf

This study seeks to provide three principal research questions (RQs) that comprehensively map the key domains necessary for evaluating Pakistan's AML and CFT systems. RQ1 analyses the alignment of Pakistan's legislative framework relative to FATF's 40+9 recommendations. This encompasses assessing the intricacy and breadth of relevant statutes and regulations for criminalizing and controlling ML and TF activities. RQ2 addresses the issue of institutional capacity: What techniques are used by regulatory bodies to implement and align the AML and CFT measures to meet the Immediate Outcomes (IOs) of FATF, including the detection, investigation and prevention of illicit finance activity? RQ3 what are still the areas of implementation gaps and what are the specific areas of reform that would be needed to fill the gaps? These queries were made specific to the AML and CTF scenario in Pakistan by relating the legislative framework to the actual risk reduction issues.

Thus, although Pakistan has put a lot of effort into implementing comprehensive AML and CFT legislation and has been scanning its economy to detect financial crimes, there are still considerable gaps in the system that cause the country to struggle when it comes to changing its rules to be able to meet the standards on the global arena in combating ML and TF. This three-port questionnaire offers an in-depth diagnosis of the prevailing situation of the AML and CFT regimes in Pakistan and actionable suggestions on how out of these voids can be sealed and thus place the changing AML and CFT activities in Pakistan in the context of world trends. Together, they contribute to the comprehensive and timely analysis that contributes to the understanding of transitional AML and CFT reforms in the countries with complex security and governance issues.

2. Methodology: Format of the research paper

This paper evaluates the AML and the CFT frameworks based on their adherence to the 40+9 recommendations of the FATF and their reforms toward the accomplishment of the eleven IOs. In this study the difference between technical compliance and CFT systems is made; the design of the law that is the AML and compliance with the law is called technical compliance and the aspect of whether the institutions are really putting these laws to meaningful changes is called CFT systems. The paper applies the open benchmarking procedure to the comparison of the national laws, regulations, and practices with the expectations of FATF and the determination of the areas of compliance or non-compliance.

The paper is a mixed-method one, as it includes a doctrinal legal analysis to identify the legal basis of AML and CFT requirements and an institutional mapping to understand the roles and coordination mechanisms of the key regulatory institutions in Pakistan, such as Financial Monitoring Unit (FMU), State Bank of Pakistan (SBP), Federal Investigation Agency (FIA), Federal Board of Revenue (FBR), and so on. The development of AML and CFT measures is the main component of this paper. The analysis is going to be divided into a logical sequence first to analyze the law and then the ability of the institutions and lastly how these institutions perform their duties. Figure 1 indicates the logical flowchart on three important stages: Law -Capacity - Delivery as the approach to systematizing the understanding and evaluation of the reforms of the AML and CFT system in Pakistan.
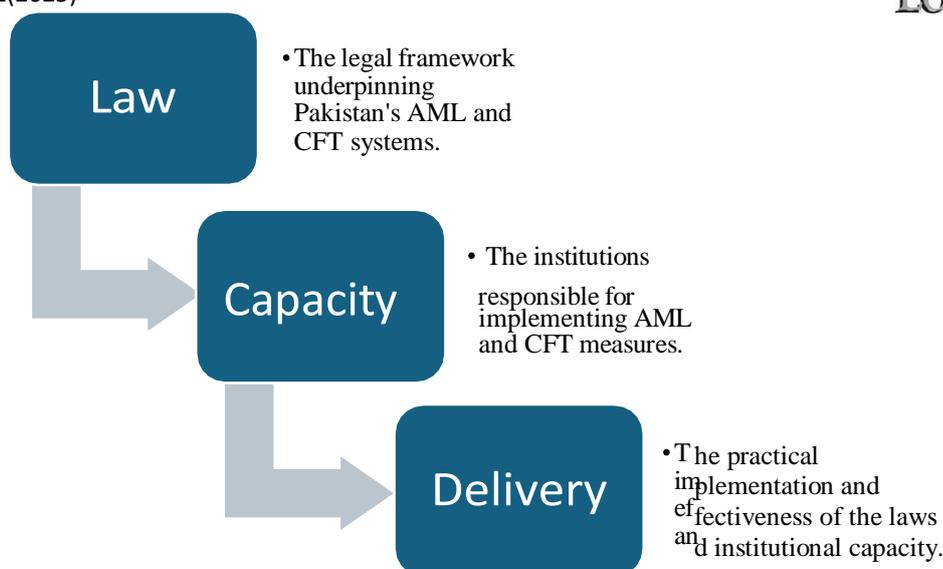
Figure 1. Logical Sequence of Pakistan's AML/CFT Assessment
Source: Author's own compilation

The data is organized into four key objects, which include a cross-walk of FATF Recommendations to national laws, an institutional map of coordination flows, an evidence matrix of each IO, and quantitative and qualitative data analysis of publicly reported key sources of its ML and TF activities including the FMU, SBP, and other official sources of data. All of the assertions of the research were bonded to a particular legal device or authority in Pakistan. This makes sure that clear and replicable evaluation of AML and CFT systems in Pakistan is carried out according to the standards of FATF.

3. Pakistan's AML/CFT Framework from Statute to System: Where the Risk Lives

The AML and CFT framework of Pakistan has adopted a lot as compared to when it joined the APG, which is a FATF-style regional regulator, in May 2000 and has fully embraced international AML and CFT standards through various amendments to primary and secondary legislative overhaul to enhance its framework. Nevertheless, it still has an issue regarding countering the risks of ML and TF. The process of replacing the statutory compliance with the working system in the country shows the improvement and the existing weakness. This is the primary risk that lies in the enforcement of the policies, regulatory oversight, and integration of the international standards into the local practices.[15]

These regulations are to satisfy and inculcate international trust of legal and financial procedures of the nation. Internationally accepted AML and CTF guidelines, including the FATF provide an activity- based AML and CTF process, which involves particular businesses, professions and professionals. They have the obligation to act as the initial point of defense in order to curb the ML and TF risks. This part also discusses the major features of the AML and CTF system in Pakistan that has been going in the right direction to match the global standards, especially in the contribution by FATF in formulating policies to curb the ML and TF based crimes.

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[15] Jaffery, I. H., & Mughal, R. A. L. (2020). Money-laundering risk and preventive measures in Pakistan. *Journal of money laundering control*, *23*(3), 699-714.

3.1. Historical Evolution of Pakistan's AML/CFT Framework

Pakistan's involvement in AML and CFT frameworks signifies a complicated development influenced by internal weaknesses and global regulatory demands. The evolution of these frameworks intensified after the creation of the FATF by G-7 in 1989 in Paris[16] and subsequent international initiatives. The framework for addressing ML and TF has evolved in response to new threats. Prior to the 1980s, international standards concentrated solely on drug-related ML.[17] However, following the 9/11 attacks, TF became essential, as the United Nation Security Council Resolution (UNCR)1373 mandated that states to criminalize TF[18] and implement the FATF's nine special recommendations on the matter.

Parallel, the Palermo Convention (2000) and Merida Convention (2003) expanded AML and CFT to include organized crime, corruption, and proliferation financing.[19] Directive 2015/849 in Europe mandated risk-based approaches and three-tier risk assessment.[20] Digital assets and virtual currencies have recently been the focus of the FATF, which has updated VASP guidance and strengthened controls on emerging payment methods.[21] The international AML and CFT frameworks have evolved in recent decades. Figure 2 shows the global shift from early AML efforts to more comprehensive and evolving CFT and digital economic regulations.
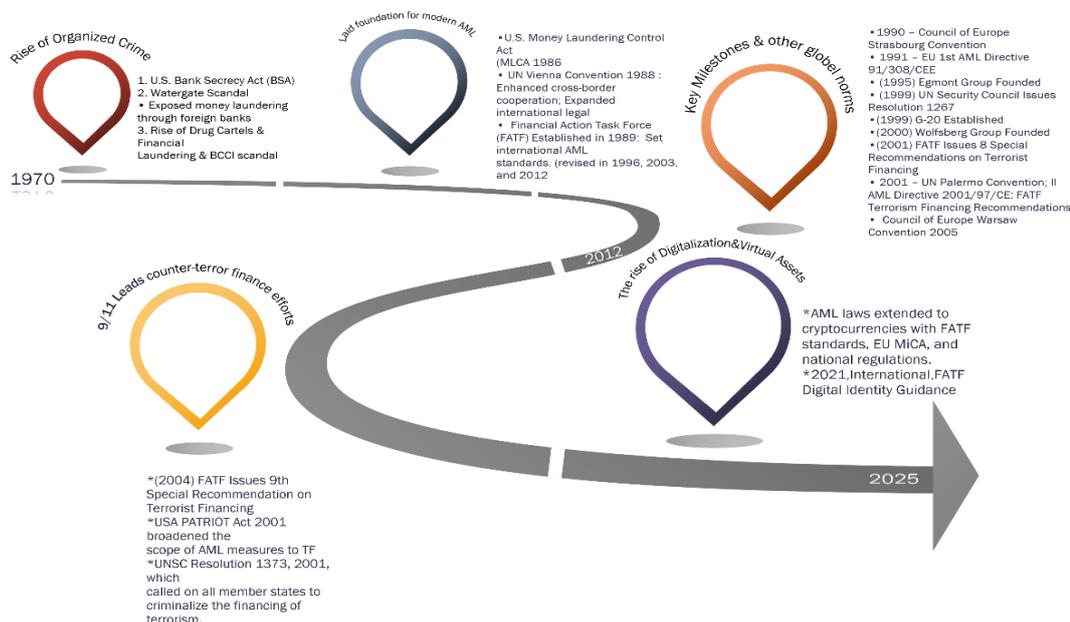

Figure 2. Key International AML and CFT Milestones
Source: Author's own compilation

[16] Mekpor, E. S. (2019). Anti-money laundering and combating the financing of terrorism compliance: Are FATF member states just scratching the surface?. *Journal of Money Laundering Control*, *22*(3), 451-471.

[17] Le Nguyen, C. (2014). The international anti-money laundering regime and its adoption by Vietnam. *Asian Journal of International Law*, *4*(1), 197-225.

[18] Borlini, L., & Montanaro, F. (2016). The evolution of the EU law against criminal finance: the hardening of FATF standard within the EU. *Geo. J. Int'l L.*, *48*, 1009.

[19] Zoppei, V. (2017). The International Law-Making Process. In *Anti-money Laundering Law: Socio-legal Perspectives on the Effectiveness of German Practices* (pp. 33-68). The Hague: TMC Asser Press.

[20] Helgesson, K. S., & Mörth, U. (2016). Involuntary public policymaking by for-profit professionals: European lawyers on anti-money laundering and terrorism financing. *JCMS: Journal of Common Market Studies*, *54*(5), 1216-1232.

[21] Tortato, A. (2022). New Game, New Rules the Current and Upcoming Regulatory Framework for Crypto Exchange Platforms.

Similarly, the historical path of Pakistan's AML and CFT framework can be divided into several distinct phases. The initial phase (1990s-2000s) was characterised by limited domestic legislation and a fragmented approach to prevent financial crime, unlike many developed countries, such as US, that began implementing comprehensive AML measures in the 1970s and the 1980s.[22] Pakistan's formal entry into this domain was delayed, with AML laws not coming into effect until the 2000s. During this period, Pakistan's approach was primarily reactive, with existing legislation such as Control of Narcotic Substances Act of 1997 and the National Accountability Bureau (NAB) Ordinance of 1999 addressing ML indirectly through provisions related to asset forfeiture and suspicious transaction reports (STRs).[23]

The transformative period of Pakistan started with the accession to the APG and the formation of FMU based on the AML Ordinance 2007.[24] This was the first AML legislation in Pakistan. Nevertheless, what became the AML Act, 2010, a broad law in terms of its content was in line with the recommendations of the FATF. This Act provided three main purposes: prevention of ML, fighting TF, and the opportunity to forfeit assets through such activities. This law had been broad in the definition of ML encompassing placement, layering, and integration processes and provided institutional mechanisms, such as National Executive Committee (NEC) and greater authority to FMU. Amendments made in 2015, 2016, 2019, and 2020 made important changes by increasing penalties according to the international standards, such as up to ten years of imprisonment of individuals, 25 million rupees fines or 100 million rupees of legal entities.

The AML and CTF framework in Pakistan was significantly evolved in the light of its placement on the grey list by the FATF in June 2018, requiring compliance with an extensive 27-point action plan.[25] About 15 significant laws and more than 30 implementing regulations were enacted by the government,[26] specific supervisory frameworks of specified non-financial businesses and professions (DNFBPs) were established and the mechanisms of cross-border cooperation were tightened.

The global AML and CFT framework evolved from the FATF's original 40 recommendations in 1990 through subsequent revisions in 1996, and 2003, to encompass TF in the 40+9 system, and finally to the comprehensive, integrated recommendations in 2012.[27] Further refinements in 2019 and 2022 have expanded the standards to address the virtual assets and strengthens beneficial ownership (BO) rules, ensuring that the framework remains robust against evolving financial threats.[28]

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[22] Levi, M., & Reuter, P. (2006). Money laundering. *Crime and justice*, *34*(1), 289-375.

[23] Sanction Scanner. (2021, August 2). *Anti-money laundering (AML) in Pakistan*. Sanction Scanner. https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-pakistan-479

[24] Butt, T. A., & Hadi, S. (2025). An Analysis of Anti-Money Laundering Framework in Pakistan. *Qlantic Journal of Social Sciences and Humanities*, *6*(1), 219-230. https://doi.org/10.55737/qjssh.vi-i.25315

[25] Malik, G. M. (2025). Pakistan's AML and CFT regime: assessing strategies, challenges and future direction in the evolving financial crime landscape. *INTERNATIONAL JOURNAL OF SOCIAL SCIENCES BULLETIN*, *3*(8), 702-719.

[26] Aziz, J., & Fatima, N. (2021). Measuring Pakistan's Technical Compliance with FATF Recommendations. *Available at SSRN 3857976*.

[27] Borlini, L., & Anema, F. J. (2018). Money laundering regulation in the European Union. In *The money laundering market: regulating the criminal economy* (pp. 55-85). Agenda.

[28] Force, F. A. T. (2012). *International standards on combating money laundering and the financing of terrorism & proliferation: the FATF recommendations* (pp. 90-93). Paris: FATF/OECD.

The implementation of Pakistan was based on a more condensed schedule and tried to introduce thirty years of international best practices in a comparatively relatively brief time frame. This speedy adoption offered a chance to integrate the new international standards and issues of the institutional capacity and good implementation. Figure 4 highlights the experience of Pakistan on the FATF grey list of 2008-2022. This shows major milestones and changing compliance of Pakistan with international AML and CFT standards.
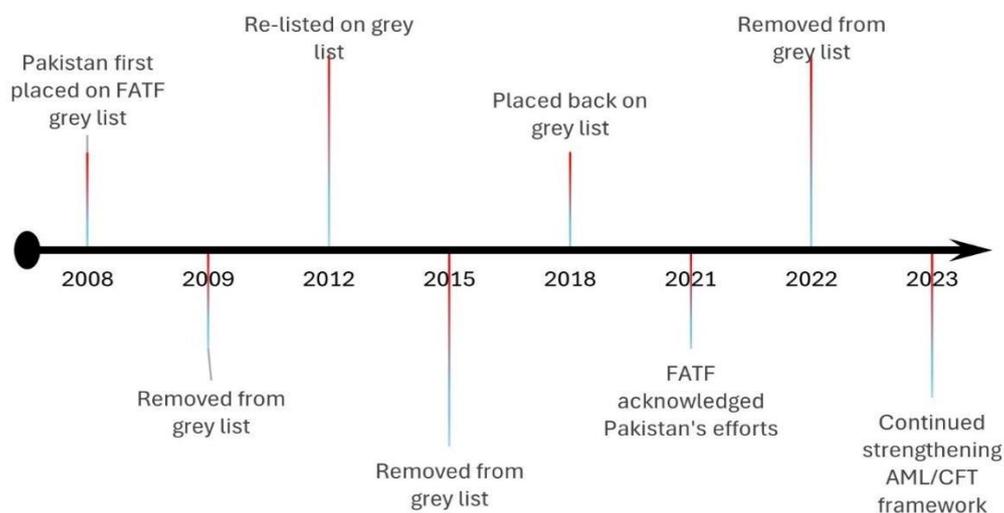

Figure 3. Pakistan's FATF Grey List journey (2008–2023)
Source: Author's own compilation

Figure 3 shows the varying position of Pakistan on the FATF greylist in the period between 2008 and 2022. Pakistan had been listed initially in 2008, but crossed off in 2009, following regulatory improvements. Nevertheless, it was listed in 2012 and 2018 because of the failure to fully follow the FATF recommendations. Consequently, since 2021, Pakistan has achieved a lot as 26 out of 27 action plan items were fulfilled, which led to the elimination of Pakistan off the greylist in 2022.

3.2 Overview of Pakistan's AML/CFT framework
Pakistan's legislative framework for AML and CFT has undergone significant evolution since the 2019 APG mutual evaluation, culminating in the establishment of a comprehensive legal architecture aligned with the FATF's Recommendations. Pakistan adopted 20 UN treaties and resolutions to combat ML and TF.[29] However, these efforts have been futile owing to the inadequate implementation of frameworks. Country's geographical diversity presents the challenges of establishing a sustainable framework. The AML act of 2020, serves as the primary legislative instrument, accompanied by the National AML and CFT Authority Act of 2023 (NAMLCFTA), which creates Pakistan's unified national AML and CFT authority, collaborating with various federal and provincial entities, including law enforcement and

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[29] Sultan, N., Mohamed, N., Bashir, M. A., & Bashir, M. F. (2022). The anti-money laundering and counter financing of terrorism policy in Pakistan: is it truly combating or just a high-level desk work bureaucracy?. *Journal of Public Affairs*, *22*(4), e2731.

regulators,[30] to ensure the effective implementation of AML and CFT laws and global standards.

Core Criminalization Framework (R.3, R.5): AMLA 2020, Section 3,[31] establishes a comprehensive ML offence meeting Vienna and Palermo Convention requirements under R.3. The statute's broad predicate offence schedule covers major crime categories, eliminating the dual criminality requirement. In Justice Qazi Faez Isa v. The President of Pakistan (PLD 2021 SC 1),[32] and the Supreme Court (SC) established that a necessary element of ML is the commission of a predicate offence, creating a sine qua non relationship where the execution of the offence gives birth to the proceeds of crime, which attracts the criminal conduct of ML. The SC's analysis extends beyond statutory interpretation to recognize that predicate offences under Schedule-I create a temporal and substantive nexus that determines jurisdictional competence.

ATA of 2020 criminalizes TF based on FATF R.5, which includes collection of funds as well as the provision of funds to be used as terrorists. The law goes up to those acts that are perpetrated outside of Pakistan. Nonetheless, technical gaps in the coverage of TF offence by the TF offence amendments have been filled by later amendments. Section 6(3) has been revised to outright ban direct funding of proscribed entities and individuals and this provides courts with the opportunity to assess schemes like crowd funding platforms and ML conduits to cover up the source and placement of funds to terrorist networks.

Confiscation and Provisional Measures (R.4): The confiscation system in Pakistan is well legislatively covered by various mechanisms. The AML Act of 2020, Ss. 8- 11 introduce provisional attaching powers, forfeiture process, and management of assets,[33] and the AML (Forfeited Properties Management) Rules, 2021 offer the working structures in the management of seized assets. While the legislation does allow conviction-based and, under specific conditions, non-conviction-based forfeiture, its effectiveness is restricted by such limitations as the implementation problems, including the APG MERs to the AML and CFT system of Pakistan, which was published in 2019 and initially contained serious gaps.[34]

Targeted Financial Sanctions (TFS) architecture (R.6, R.7): The TFS legal framework exhibits structural complexity via multiple pathways. For UNSCR 1267 obligations under R.6, Pakistan was implemented through the UN Security Council Act of 1948, and UNSC (Freezing and Seizure) Order of 2019, with operational guidance via SBP Guidelines on TFS under UNSC Resolutions (2020). Legislative design enables "without delay" implementation through Statutory Regulatory Orders (SROs), although APG evaluation noted timing delays in practice. These delays suggest that while Pakistan had mechanisms in place, their practical application

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[30] National Assembly of Pakistan. (2023). *National Anti-Money Laundering and Counter Financing of Terrorism Authority Act, 2023.* Act No. LIII of 2023. Retrieved from https://na.gov.pk/uploads/documents/64dca9ac888f3_643.pdf

[31] *Anti-Money Laundering Act, 2010 (amended up to September 2020).* Retrieved from https://amlcft.gov.pk/system/files/Anti-Money-Laundering-Act-2010-amended-upto-Sep.%202020.pdf

[32] Supreme Court of Pakistan. (2021). *Justice Qazi Faez Isa v. President of Pakistan* (PLD 2021 SC 1). https://images.assettype.com/barandbench/2022-01/390deaf7-2d35-436e-bc73-b41c36ceca78/Justice_Qazi_Faez_Isa_v_President_of_Pakistan.pdf

[33] ibid

[34] APG (2019)

for sanctions was not as efficient or timely as required, affecting its overall effectiveness in combating terrorist financing. [35]

Preventive Measures Integration (R.10-16, R.22-23): Pakistan's preventive measures framework demonstrates sectorial regulatory sophistication. The SBP AML/CFT/CPF Regulations for Banks and Development Financial Institutions establish comprehensive CDD requirements aligned with R.10, incorporating risk-based approaches and BO identification obligations. In the same fashion, the SECP AML and CTF Regulations, 2020 (amended to September 2023) elaborate preventive measures it requires of the securities and insurance sectors.

The FBR AML and CTF Regulations on DNFBPs, 2020, which extends to non-financial businesses and professions, is a positive step in the field of legislation because it frames supervisory standards and regulatory requirements of lawyers, accountants, and real estate professionals under R.22-23. Nevertheless, the effectiveness of implementation across the categories of DNFBP is considerably different as witnessed by the recent formation of a special group of DNFBPs at the FBR.

Beneficial Ownership (BO) Transparency (R.24-25): BO legislative reforms have demonstrated thorough coverage by the Companies Act, 2017 and Companies (General Provisions and Forms) Regulations, 2018, which provide ultimate requirements of BO declaration under the Regulation 19A. The framework also needs continuous disclosure updates and maintenance of BO registries by SECP, but the practical access by qualified authorities still needs to be enhanced. Legal arrangements under R.25 The approach of Pakistan concerning legal arrangements under federal complexity is reflected on provincial trust law reforms, such as the Punjab Trusts Act, 2020 and the ICT Trust Act, 2020. Although these tools ensure minimum transparency standards, the provincialized approach creates the possibility of gaps in the overall coverage.

Financial Intelligence and International Cooperation (R.29, R.37-40): The AMLA 2020 Section 6 establishes the FMU as Pakistan's financial intelligence unit with comprehensive powers for STR and CTR receipt, analysis, and dissemination. However, legislative constraints on FMU dissemination to provincial Counter-Terrorism Departments (CTDs) represent a significant structural limitation identified in the APG evaluation. The International Cooperation Legal Framework demonstrates recent strengthening through the MLA (Criminal Matters) Act of 2020, establishing a central authority framework and comprehensive MLA procedures. This legislation addresses the previous gaps in formal MLA capabilities, although implementation effectiveness requires continued development.

Table 1. Crosswalk of FATF "Big Six" Recommendations → Pakistan's National AML/CFF Legal Framework

FATF Recommendation	Pakistan Legal Instruments (Key Subordinate/Regulatory Instruments)	Pakistan Progress to Address FATF Technical Compliance	MER 2019/ Current Rating Status
R.1 – Risk Assessment & RBA	- Anti-Money Laundering Act (AMLA) (Section 5, NEC; Section 6, FMU)	- Progress: Pakistan amended the AMLA 2010 in 2020 to broaden the scope of risk assessments to include a	PC (MER 2019) → LC

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[35] Asia/Pacific Group on Money Laundering. (2021, May 7). *Pakistan: 2nd enhanced expedited follow-up report* [PDF]. Financial Action Task Force. https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-2nd-Follow-Up-Report-Pakistan-2021.pdf.coredownload.inline.pdf

FATF Recommendation	Pakistan Legal Instruments (Key Subordinate/Regulatory Instruments)	Pakistan Progress to Address FATF Technical Compliance	MER 2019/ Curret Rating Status
	- National AML & CFT Authority Act, 2023 (NAMLCFTA 2023)	risk-based approach across sectors. Enhanced coordination with NACTA and sector-specific regulations. - Challenges: Limited resources for implementing a comprehensive risk-based approach across all sectors.	(FUR Oct 2020)
R.2 – National Cooperation & Coordination	- AMLA (NEC; Coordination Provisions) - NAMLCFTA 2023 (National coordination body for AML/CFT policy)	- Progress: Formalized coordination through national committees. Establishment of NAMLCFTA 2023 to improve coordination between federal and provincial authorities.	LC (MER 2019)
R.3 – ML Offence	- AMLA Section 3 (Defines money laundering offence)	- Progress: Pakistan's laws comprehensively criminalize money laundering. Prosecutions are underway, although only self- laundering cases dominate the prosecutions, and complex cases often lack progress due to resource constraints.	LC (MER 2019)
R.5 – TF Offence	- Anti-Terrorism Act (ATA) 1997 (as amended 2020) Section 6 and 7.	- Progress: TF is criminalized, and special TF courts have been established. However, convictions are disproportionately low, and investigations are limited due to resource constraints.	LC (MER 2019)
R.6 – Targeted Financial Sanctions for TF	- UNSC Act, 1948 - UNSC (Freezing & Seizure) Order, 2019 - SBP Guidelines on TFS under UNSC Resolutions (2020)	- Progress: Pakistan has made improvements, including issuing freezing orders promptly, but implementation gaps remain, particularly among smaller FIs and DNFBPs.	PC (MER 2019) → LC (FUR Oct 2020)
R.10 – Customer Due Diligence	- SBP AML/CFT/CPF Regulations (2020) - SECP AML/CFT Regulations (2020, amended 2023)	- Progress: CDD obligations are applied effectively across sectors, particularly in banking. Regulations are in place for risk-based customer identification. DNFBPs still lag behind in implementation.	PC (MER 2019) → C (FUR Feb 2021)
R.11 – Record-Keeping	- SBP AML/CFT Regulations - SECP Regulations (2020) - FBR AML/CFT Regulations for DNFBPs (2020)	- Progress: Record-keeping practices are now enforceable for most sectors. Retention periods and access rights are defined. Minor gaps remain, especially in DNFBPs.	PC (MER 2019) → C (FUR Oct 2020)

FATF Recommendation	Pakistan Legal Instruments (Key Subordinate/Regulatory Instruments)	Pakistan Progress to Address FATF Technical Compliance	MER 2019/ Current Rating Status
R.20 – Reporting of Suspicious Transactions	- AMLA 2010 Section 7 (STR and CTR obligations) - FMU Mandate (s 6)	- Progress: The STR reporting framework is now in place, with enhanced requirements for banks and NBFIs. However, timeliness and quality of reporting remain challenges.	PC (MER 2019) → C (FUR Oct 2020)

The ratings scale: Compliant (C), Largely compliant (LC), Partially compliant (PC), and Non-compliant (NC)

Source: Author's own compilation

The FATF recommendations are assessed using a risk-based approach, with the "big six" recommendations, such as 3, 5, 6, 10, 11, and 20, these are crucial for an effective AML and CFT framework. These recommendations encompass the criminalization of ML and TF offences, targeted financial sanctions for TF, CDD, and the reporting of suspicious transactions. Regional agencies such as MER of the APG evaluate the quality of a state in terms of adherence to the FATF standards. The effectiveness ratings of the countries are categorized as effective enough or even moderately. Non-compliant and partially compliant countries with three or more of these Big Six recommendations can also be taken through the process of the International Cooperation Review Group. The crosswalk table of the FATF recommendations on the legal reforms in Pakistan is depicted in table 1 above with emphasis on the legal instruments.

3.3. Legislative Gaps and Implementation Challenges

Pakistan has made progress in addressing AML and CFT deficiencies, however there are still significant legislative and operational shortcomings. The 2019 MER by the APG identified several deficiencies, including an underdeveloped National Risk Assessment (NRA) process, lack of enforceable obligations for DNFBPs; insufficient measures for legal entities, trusts, and waqfs; and lack of a formal MLA framework. These inadequacies hinder effective oversight and the ability to trace and seize the proceeds of predicate offences.

Pakistan's inaugural NRA in 2017 identified eight high-risk threats of predicate offences: corruption, smuggling, narcotics trafficking, cheating, fraud, kidnapping for ransom, extortion, illegal arms trafficking, and exploitation of hawala/hundi. The scope of ML related offences is insufficient, and the extent of available monetary penalties is undefined. Targeted financial sanctions on terrorism and terrorist financing were also lacking.[36] These deficiencies were reflected in Pakistan's assessments scores against the FATF Recommendations.

Pakistan was assessed as "compliant" in one and largely compliant in nine. Pakistan received a rating of partially compliant in twenty-six and non-compliant in four out of the 40 FATF recommendations.[37] Figure 5 below is the pie chart displaying Pakistan's FATF 40 recommendation ratings by count.

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[36] Rahman, K., & Rehman, R. (2023). Case study: Pakistan's journey off the FATF grey list and the role of the Institute of Chartered Accountants of Pakistan. *International Federation of Accountants, August*, *16*.
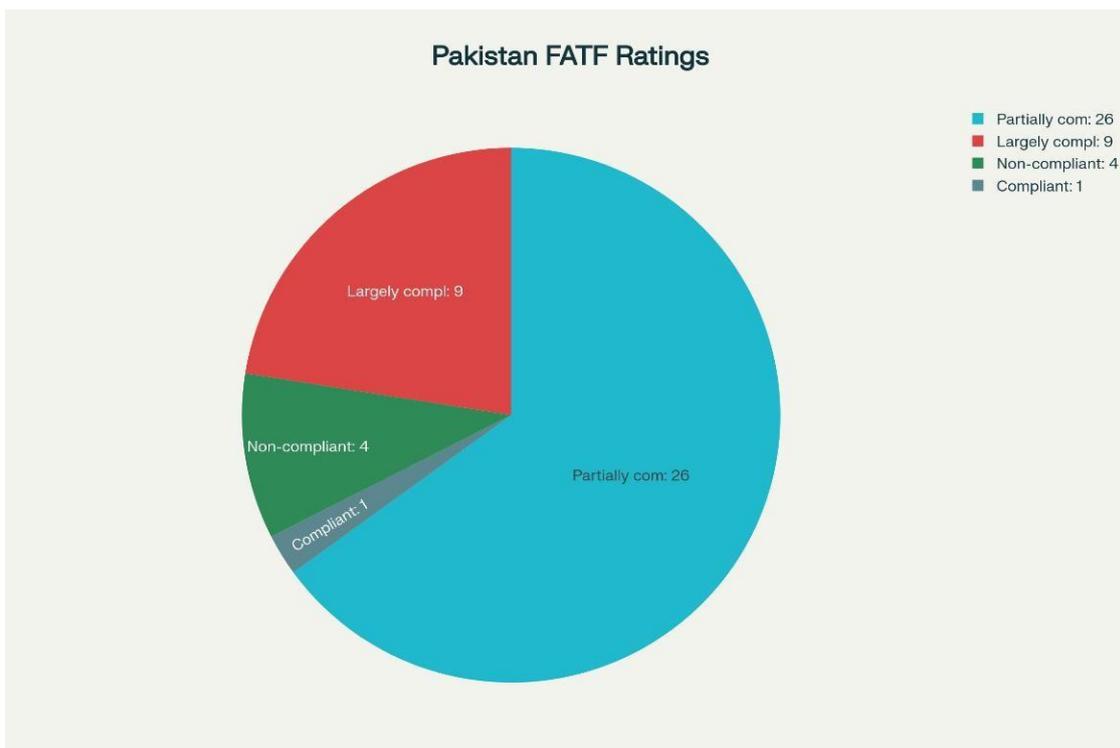[37] APG (2019)

Figure 4. Pakistan's 40 FATF Recommendation Ratings by Count
Source: Author's own compilation

This chart highlights the difference between technical compliance and tangible effectiveness: only one of the recommendations had full compliance, and nine were mostly so, but the rest were partially compliant.

On the very first day after adoption of the MER, Pakistan worked out an extensive Action Plan of 34 points which included legislative changes, [38] regulatory projects, and a reorganization of the institutions. By October 2022, Pakistan had executed extensive reforms, such as the AML (Second Amendment) Act of 2020; the Anti-Terrorism (Second Amendment) Act of 2020; and the MLA Act of 2020, resulting in upgrades to 38 of the 40 FATF recommendations in the APG follow-up process. [39]

The elevation of DNFBPs, including the Institute of Chartered Accountants (ICAP) and Cost and Management Accountants (ICMAP), to designated AML and CFT regulators filled a regulatory vacuum, and the establishment of a National FATF Secretariat and coordinated supervisory committees facilitated cross-agency synchronization. [40] These developments demonstrate Pakistan's resolution to constructing a formal NRA framework and supervisory mechanisms that had been missing.

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[38] Basel Institute on Governance. (2022, December). *Country briefing: Pakistan – A Basel AML Index briefing following the decision of the Financial Action Task Force (FATF) to delist Pakistan from its list of jurisdictions under increased monitoring ("grey list") in October 2022*. https://baselgovernance.org/sites/default/files/2022-12/221215_december_pakistan_delisting.pdf

[39] Asia/Pacific Group on Money Laundering. (2022, February). *Pakistan: 4th Enhanced Follow-Up Report*. https://www.fatf-gafi.org/content/dam/fatf-gafi/fsrb-fur/APG-Pakistan-FUR-2022.pdf

[40] Rahman, K., & Rehman, R. (2023)

Figure 5. FATF Ratings: 2019 vs. 2022 MER Follow-Ups
- 2019: C=1, LC=9, PC=26, NC=4
- 2022: C=7, LC=31, PC=2, NC=0

Source: Author's own compilation

Despite Pakistan's exit from the FATF grey list in October 2022, fundamental gaps in BO transparency persist, undermining the entire edifice of AML and CFT compliance. As late as April 2025, SECP proposed amendments to establish a centralized Ultimate Beneficial Ownership (UBO) Registry,[41] indicating that three years post-delisting, Pakistan had not operationalized one of the most critical components of modern AML and CFT architecture. However, the SECP announced the establishment of a centralized UBO Registry for the corporate sector.[42] The FBR's introduction of Section 181E in the Income Tax Ordinance, 2001, requiring electronic submission of BO particulars, remains operationally ineffective due to the absence of prescribed electronic submission formats as of December 2023.[43] This administrative gap exemplifies how technical compliance can be achieved on paper, while remaining operationally meaningless.

In summary, while Pakistan has successfully constructed comprehensive legal frameworks, evidenced by its improvement from 41% to 72% technical compliance between 2020 and 2022,[44] the effectiveness dimension remains largely unaddressed, with the original 3% effectiveness rating never reassessed.[45] Yet, persistent gaps reveal that legislative upgrading alone cannot substitute for the sustained institutional capacity, resources, and inter-agency coordination necessary to translate technical compliance into practical deterrence and disruption of ML and TF networks.

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[41] Mettis Global News. (2025, April 15). *SECP proposes centralized UBO registry for companies*. https://mettisglobal.news/secp-proposes-centralized-ubo-registry-for-companies/

[42] Securities and Exchange Commission of Pakistan. (2025). *SECP establishes centralized UBO registry for corporate sector*.

[43] EY Global. (2024, January 11). *Pakistan's requirement to furnish ultimate beneficial owner particulars by 31 December 2023 still lacks prescribed electronic submission format*. https://www.ey.com/en_gl/technical/tax-alerts/pakistan-s-requirement-to-furnish-ultimate-beneficial-owner-part

[44] Basel Institute on Governance. (2022, December)

[45] Ibid, effectiveness rating status

4. Institutional capacity (IC): The line of defense under AML/CFT laws in Pakistan

AML and CFT initiatives in Pakistan involve sophisticated mechanisms of regulators and authorities working together to combat illicit financial activities. These authorities include the following government agencies, financial institutions, law enforcement bodies, and international organizations.[46] For example, government agencies play a pivotal role in the implementation and oversight of AML and CFT frameworks in Pakistan. These agencies are responsible for enforcing laws, regulating financial systems, and ensuring compliance with the international standards set by the FATF and other overseers.

Section 5 of the AML Act 2020 establishes a two-tier governance framework to steer Pakistan's AML and CFT regimes. At its apex, the National Executive Committee (NEC), chaired by the finance minister and supporting the NEC is the General Committee (GC), composed of federal secretaries and heads.[47] Table 2 given below illustrates the two-tier governance framework.

Table 2. Two-tier AML/CFT governance framework in Pakistan

Level	Authority	Composition	Core Responsibilities
Tier 1 – Policy Oversight	National Executive Committee (NEC)	- Chaired by Finance Minister - Members: Ministers of Foreign Affairs, Law & Justice, Interior; SBP Governor; SECP Chair; FMU DG	- Recommend AML/CFT rules & national policy - Define predicate offences - Propose FATF countermeasures - Collect & review STR/CTR and supervisory statistics
Tier 2 – Implementation	General Committee (GC)	- Secretaries: Finance, Interior, Foreign Affairs, Law & Justice - Heads: NAB, FBR, FIA, ANF; SBP Deputy Governor; SECP Commissioner; FMU DG	- Develop AML/CFT strategy - Issue directives to investigators & regulators - Review operational data (STR/CTR, prosecutions, supervisory actions) - Approve FMU budget & staffing - Support NEC's functions

Source: Author's own compilation based on AML Act, 2010, amended 2020

This layered structure ensures high-level policy coordination and operational oversight across Pakistan's complex financial and law-enforcement landscape. Directly beneath the above authorities the Federal Government establish a FMU under S.6 of AML Act, which shall be housed in the SBP.[48] SBP oversees the majority of financial system assets, imposing prudential AML and CFT Regulations on banks, Development Financial Institutions (DFIs) and Non- Banking Financial Companies (NBFCs).[49] Figure 6 shows the clear line of authority from the Federal Government through to the FMU's core operational functions.

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[46] Akhtar, N., Khan, A., & Raza, M. (2023). Technological advancements and legal challenges to combat money laundering: evidence from Pakistan. *Pakistan Journal of Humanities and Social Sciences*, *11*(1), 473-483.

[47] Anti-Money Laundering Act, 2010 (amended up to September 2020).

[48] ibid

[49] Business Recorder. (2009, March SBP oversees majority of financial system assets. https://www.brecorder.com/news/3613313#:~:text=The%20State%20Bank%20of%20Pakistan%20has%20made ,integrity%20and%20safety%20of%20the%20financial%20system
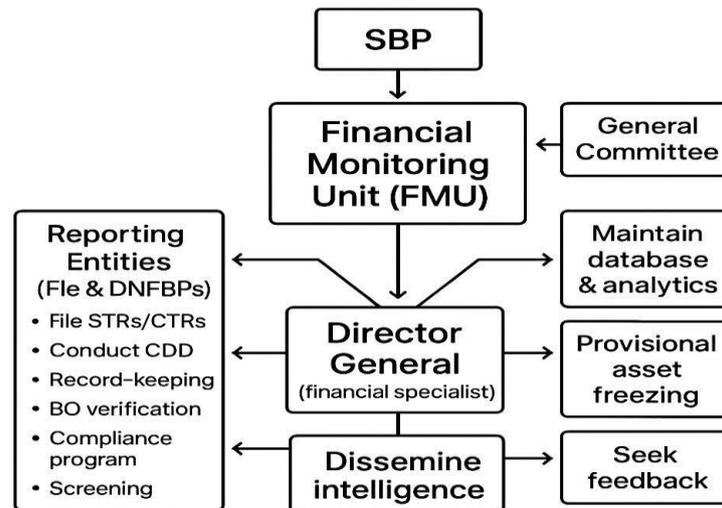
Figure 6. FMU Organizational Structure and Core Functions
Source: Author's own compilation

Financial institutions are required to cooperate with law enforcement agencies to act as the first line of defense against ML and TF through strict compliance measures.[50] Enhanced Know- Your-Customer (KYC) practices and risk management strategies are emphasized to improve inter-agency coordination and enforcement.[51] Section 6A of the AML Act 2020 formally designates Pakistan's AML and CFT regulatory architecture into two complementary layers, each empowered to oversee compliance within their respective sectors. Figure 7
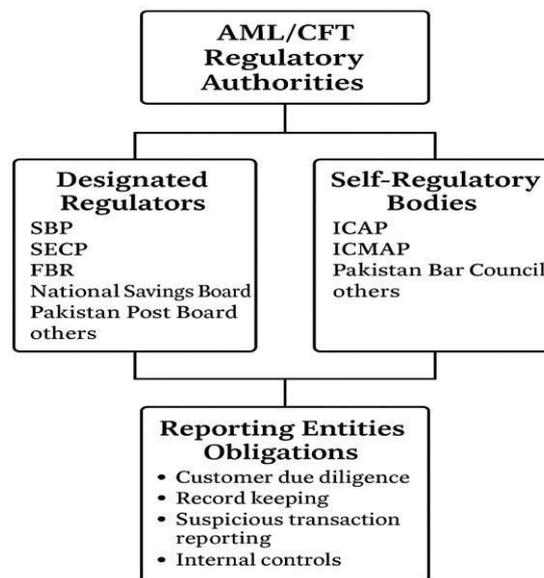

Figure 7. *AML/CFT Regulatory and Self-Regulatory Authorities under AML Act 2020*
Source: Author's own compilation

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[50] Ahmed, M. (2024). The role of financial institutions in combating money laundering in Pakistan. *Pakistan Journal of International Affairs*, 7(2).
[51] Inamullah, M., & Aleemi, A. R. (2024). Enforcement of Anti-Money Laundering Policies in Pakistan: A Narrative Review. *International Journal of Trends and Innovations in Business & Social Sciences*, 2(4), 488-501.

Designated Regulators oversee compliance within their respective sectors, and self-regulatory bodies (SRBs) governing professions and businesses that require close oversight to mitigate ML and TF risks. Table 3 outlines the detailed responsibilities of regulatory authorities in imposing AML and CFT requirements on financial institutions and businesses.

Table 3. The AML and CFT regulatory authorities

Authority	Role	Entities/Businesses Covered
State Bank of Pakistan (SBP)	Imposing AML requirements on financial institutions licensed or regulated under SBP's authority.	Banks and financial institutions licensed under SBP regulations.
Securities and Exchange Commission of Pakistan (SECP)	Imposing AML requirements on entities licensed or regulated under SECP's authority.	Securities firms, capital markets, insurance companies, etc.
Federal Board of Revenue (FBR)	Imposing AML requirements on specific non-financial businesses and professions.	Real estate agents, jewellers, dealers in precious metals and stones, accountants (not ICAP/ICMAP members).
National Savings (AML and CFT) Supervisory Board	Imposing AML and CFT requirements on national savings schemes.	National savings schemes.
Pakistan Post (AML and CFT) Supervisory Board	Imposing AML and CFT requirements on postal services.	Pakistan postal services.
Institute of Chartered Accountants of Pakistan (ICAP)	Acting as a self-regulatory body (SRB) for its members, ensuring AML/CFT compliance.	ICAP members (Chartered Accountants).
Institute of Cost and Management Accountants of Pakistan (ICMAP)	Acting as a self-regulatory body (SRB) for its members, ensuring AML/CFT compliance.	ICMAP members (Cost and Management Accountants).
Pakistan Bar Council	Acting as a self-regulatory body (SRB) for legal professionals, ensuring AML/CFT compliance.	Lawyers and legal professionals enrolled with the Bar Council or Provincial Bar Councils.

Source: Author's own compilation

Table 3 clearly presents the AML and CFT regulatory authorities and the specific entities or businesses that they govern under the S.6 (A) AML Act, which refers to the regulators and SRBs listed in Schedule-IV of the Act. Further, under these authorities, jointly impose statutory duties on "Reporting Entities" to file STRs, conduct risk-based CDD, identify BO, retain records for at least five years, implement robust compliance programs, and screen new and existing customers against PEP, high-risk, terrorist financing, and proliferation lists under S.7.

4.1 Institutional Role and Resources challenges: Pakistan's AML and CFT framework consists of four critical dimensions of the institutional role to investigate and combat predicate offences, which include inter-agency collaboration, risk assessment and management, technology integration, and alignment with international standards. However, resource allocation reveals significant disparities that affect operational effectiveness. FMU lack resource facilities and operations especially dealing with the growing amount of financial intelligence. Although he received 12,454STRs between 2007-2016 and 26,022 in 2021, it only resulted in 342.

STRs were sent to police departments, [52] which reflected bottlenecks and possible capacity limitations. The jurisdictional constraints do not give the FIA Economic Crime Wing the ability to enforce laws on a provincial

basis where high levels of financial crime exist, thus providing criminals with a jurisdictional arbitrage opportunity.[53] FIA division of duties has also created a problem of coordination that the criminals can use to their advantage. According to the Quarterly Report of SBP, Q4, 2023, the major actions are taken so far, leading to fines of ten financial institutions, with the United Bank Limited and Habib Bank Limited being fined the greatest, [54] showing a wide range of weaknesses in CDD, foreign exchange activities, and overall banking controls. Figure 8
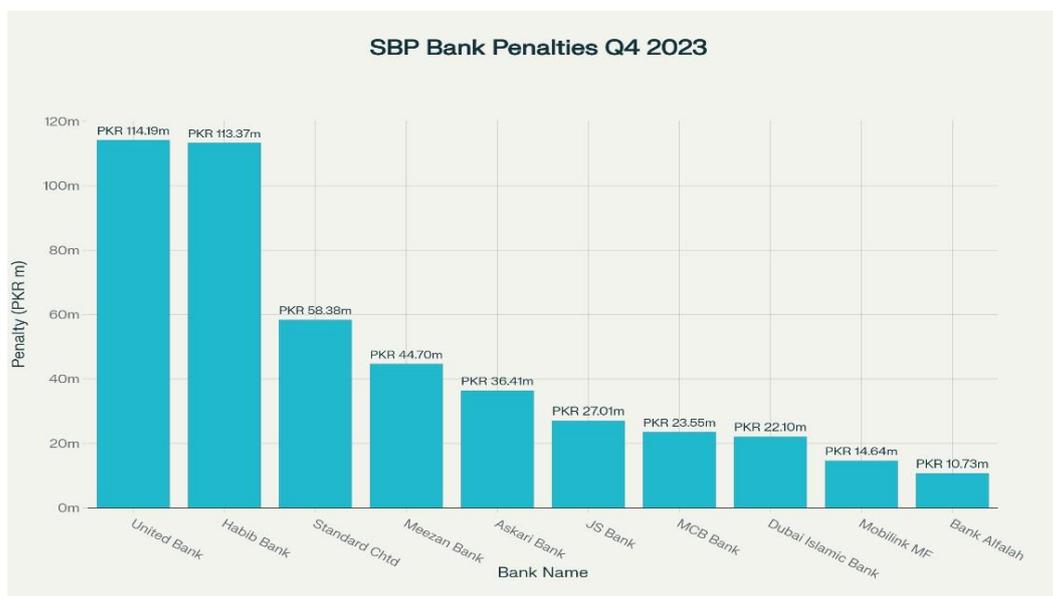

Figure 8: SBP-imposed monetary penalties on banks, Q4 2023.
Source: Author's own compilation based on SBP Q4 Report 2023.

There is a challenge of provincial-level coordination which is a result of constitutional separation of responsibility that exists between federal and provincial governments. CTDs have enhanced coordination in operations, and their systems of sharing financial intelligence are unsatisfactory. The National Counter Terrorism Authority (NACTA) mandates to coordinate the law enforcers agencies have not been executed even though it is ambitious. The issues of the framework are the inter-agency exchange of information and cohesive threat evaluation. It is operating with a challenge of lack of financial allocation. Even though its budget has grown in 2013/14 by PKR 95 million to PKR 170 million in 2018/19, with PKR 109 million being spent on employee related costs only. This represented a marginal increase from the PKR 143 million allocated in FY 2017/18.[55] NACTA's Federal-Provincial

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[52] Financial Monitoring Unit. (2021). *Quarterly report (July–September 2021).* Government of Pakistan. https://www.fmu.gov.pk/docs/2021/Quarterly-report-Q3-2021-Jul-Sep-21.pdf

[53] Imran, M., Murtiza, G., & Akbar, M. S. (2024). Money laundering in Pakistan: Combating strategies and preventions. *Annals of Human and Social Sciences*, 5(2), 62-76.

[54] State Bank of Pakistan. (2023). *Quarterly report: October–December 2023.* Retrieved from https://www.sbp.org.pk/BS/2023/Oct-Dec.pdf

[55] Tanoli, Q. (2018, April 29). *Peanuts for NACTA this year too.* The Express Tribune. https://tribune.com.pk/story/1698044/peanuts-nacta-year

Coordination Framework, whilst comprehensive in design, encounters implementation difficulties.

4.2. Institutional Coordination and Information Sharing: The AML and CTF systems of Pakistan are sophisticated and demand the alignment of different institutions. The FMU acts as the key coordinating unit though there is still disjointed coordination despite legislative frameworks. The FIA, NAB, ANF and FBR are agencies that work in silos having scarce mechanisms of exchanging real-time information.[56]

In Pakistan, the main agency of coordinating AML and CFT efforts is NACTA. It also cooperates with other government agencies, such as the FBR, SBP, FIA, and SECP, to launch attacks on the illegal money flows and cut off terrorist groups on their financial resources.[57] Figure 9 illustrates the Pakistani AML and CFT institutional coordination map.
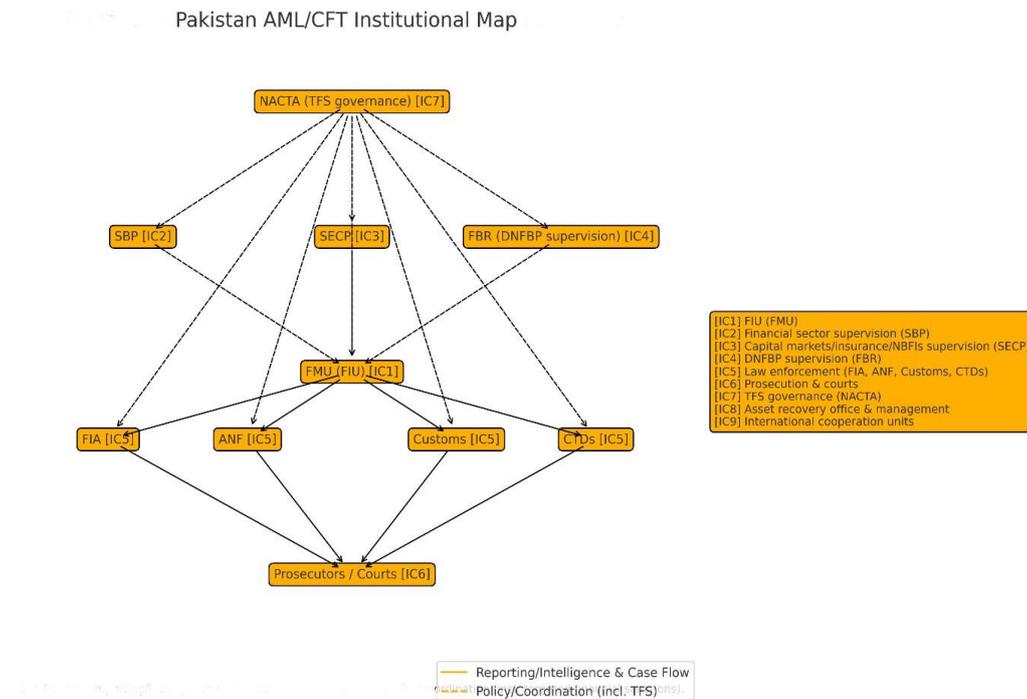

Figure 9. Pakistan's AML and CFT Coordination Mechanism
Source: Author's own compilation

The FATF governing organization in Pakistan, NACTA, formulates the national policy framework of AML and CTF, undertakes risk assessment and facilitates inter-agency exchange of intelligence. FMU intelligence is utilized by law enforcement agencies in the country to explore ML and TF networks, [58] block suspect accounts, and strike illicit proceeds, in Pakistan through the FIA, ANF, Customs Intelligence, and CTDs.

Pakistan's AML and CFT system involves investigations that are transferred to specialised courts for prosecution under various laws. Multiple designated agencies provide legal support

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[56] Rahman, H., Sadiq, A., & Shah, S. A. (2023). Resurgence and Response: Evaluating the Effectiveness of Pakistan's Counter-Terrorism Strategies amidst Rising Terrorism Threats. *Pakistan Journal of Social Research*, *5*(04), 24-37.

[57] Khan, A., Mehmood, S., Khan, A. S., Afridi, S. J., Khan, R. A., Feroz, S., & Amin, A. (2020). Countering Violent Extremism in Pakistan. *Elementary Education Online*, *19*(4), 6155-6160.

[58] Khan, M. A., & Ahmad, J. (2020). Financial Intelligence And Its Role In Pakistan's Investigation of Terrorist Financing.

to align prosecutorial actions with the FATF deadlines. The process of coordination among different parts of the institutions is formalized by using Joint Intelligence Directorate of NACTA, quarterly information-sharing meetings and secure channels of communication. Such integrated governance would make sure Pakistan perfects its laws, creates capacity within financial institutions, and maintains international cooperation.

Nonetheless, gaps in technological infrastructure impair the capability[59] to share analytical and cross-border information at FMU that requires sustained investment in human resources, technological infrastructure as well as coordination protocols to enhance operational effectiveness.[60] Multiple agencies have specific databases with no standardized format, which delays the processing of the STRs. The FMU has difficulty related to timely reporting to law enforcement agencies, with only 1.31% of reports being submitted in 2021.[61] Authority overlaps and confuse on investigative authority, so delays and gaps in the enforcement coverage may occur.[62]

5. Risk mitigation: Do reforms match the FATF compliances?

Immediate Outcomes (IOs) framework is one of the FATF tool to measure the efficiency of the AML and CFT frameworks to predicate offences reforms. It is concerned with practical outcomes or measures that deal with the ML and TF risk. The framework consists of 11 outcomes, which measure the effectiveness of AML of a country and the effectiveness of the CTF system in the real world. The ratings of effectiveness were based on the four-level scale that included High Effectiveness (HE), Substantial Effectiveness (SE), Moderate Effectiveness (ME), and Low Effectiveness (LE).

In the context of Pakistan, some IOs will take on a vital role due to the risk profile of the country and operational risk issues. The evaluation of the FATF IOs performance in Pakistan shows that there is a mixed picture in terms of policy pledges to operation outcomes where financial sanctions are strong but investigations, prosecution, and asset recovery remain a challenge.

Under IO.7, the amount of investigations related to a ML came to 2,420, 354 of which were in the prosecution phase but none of the investigations resulted in a satisfactory prosecution and conviction rate during the assessment of the APG MER 2019, [63]. ML studies have been studied regarding some of the offenses in great numbers especially drug peddling and tax evasion. Such an impressive discrepancy between inquiries and effective prosecutions highlights systemic procedural obstacles, such as the ambiguity between cognizable and non-cognizable categories of offences, the red tape between agencies in taking cases, and a lack of capacity among law-enforcement agents in the financial field to do such work.

The federal arrangement of Pakistan and the multi-layered interactions among organizations like the NACTA, provincial CTDs and federal agencies analysis of IOs are salient to determine the effectiveness and implementation of AML and CTF model in Pakistan. The IO.1 (Risk, Policy and Coordination) evaluates the awareness on the ML and TF risks in Pakistan and the coordination between the federal and provincial government. It also determines the ability of FMU to gather and evaluate financial intelligence overseen by concerns regarding the dissemination of information between the FMU and provincial CTDs. The critical benchmarks corresponding to the situation of Pakistan are IO.7 and IO.8, as they imply the emphasis on the proceeds that are linked to corruption and the quest of the complex cases of ML. IO.9 focuses on the problem faced by Pakistan to counter TF networks in the country. These IOs offer an integrated roadmap to the evaluation of the AML and CTF system risk mitigation implemented by Pakistan when it comes to interrupting the illicit financial flows and financing structures.

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[59] SEJO, D. S. *Qamer Abbas* (Doctoral dissertation, International Islamic University, Islamabad).

[60] Malik, G. M. (2025). Theoretical foundations of money laundering and terror financing: conceptual analysis of legal frameworks and global challenges.

[61] Sultan, N., & Mohamed, N. (2023). Financial intelligence unit of Pakistan: an evaluation of its performance and role in combating money laundering and terrorist financing. *Journal of Money Laundering Control*, *26*(4), 862-876.

[62] Aziz, J., & Fatima, N. (2021). Measuring Pakistan's Technical Compliance with FATF Recommendations. *Available at SSRN 3857976.*

[63] Asia/Pacific Group on Money Laundering (APG). (2019).

5.1 Institutional Effectiveness in Achieving FATF's IOs: Pakistan's 2021 MER revealed uniformly low effectiveness ratings across all eleven IOs, with ten rated as "LE" and one (IO.2 - International Cooperation) rated as "ME".

Table 4. Pakistan's FATF Immediate Outcomes MER report

Outcome	IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11
MER 2021	Low	Moderate	Low	Low	Low	Low	Low	Low	Low	Low	Low

Source: Author's own compilation based on MER report 2021

Table 4 presents a harsh assessment, necessitating comprehensive institutional reforms and operational enhancements that continue to shape Pakistan's AML and CFT landscape. The transformation from this baseline provides a compelling case study on regulatory compliance under international scrutiny. Table 5 summarizes Pakistan's IO performance across FATF IO.1–11.

Table 5. Pakistan's FATF Immediate Outcomes: Risk Mitigation Assessment

Immediate Outcome	Key Risk Drivers indicated in APG's MER 2019	Mitigation Measures	Progress / Action Taken
IO1: Risk Assessment & Coordination	- Porous Afghan border - Large informal economy	- 2023 NRA with granular ML/TF risk mapping - NACTA-led federal–provincial SOPs for TF case coordination	- NRA 2023 completed, identifying five "Very High" ML risks and profiling 41 terrorist groups - Nationwide SOP rollout in 2019 enhancing investigator–prosecutor cooperation
IO2: International Cooperation	- Procedural delays in MLA & extradition - Underutilized outgoing requests	- FMU MOUs with 15+ FIUs - Case-based intelligence sharing (e.g., 2021 VBIED)	- 18 of 22 incoming MLA requests responded with zero refusals - Intelligence from VBIED case linked suspects to cross-border remittances

Immediate Outcome	Key Risk Drivers indicated in APG's MER 2019	Mitigation Measures	Progress / Action Taken
IO3: Supervision of DFIs & DNFBPs	- CDD/KYC lapses - Weak DNFBP oversight	- SBP's quarterly penalties and targeted enforcement - goAML training for DNFBPs planned	- PKR 1,123 m in penalties imposed in 2023; Q1 2024 penalties rose to PKR 776 m - Major banks UBL, HBL, SCB disciplined for CDD/KYC failures
IO4: Preventive Measures	- TBML, sanctions evasion - Cash-heavy exchange companies	- ADB pilot: TBML STR increase and quality enhancement - Automated sanctions-screening in major banks	- TBML STRs increased 398%, from 38 to 191 monthly reports - goAML enhancements and automated screening implemented in banking sector
IO6: FIU Functionality	- Delayed STR reporting - Limited tax data access	- goAML enhancements; proactive STR analyses - Customs data integration	- Q4 2022: 6,373 STRs and 1,350,026 CTRs processed, 510 disseminations - Customs declaration data integration operational
IO7: ML Investigation & Prosecution	- Low conviction despite high investigations - Procedural confusion	- Specialized ML training for prosecutors and FIU–law enforcement workshops	- 2,420 investigations and 354 prosecutions completed - First conviction for self-laundering in corruption case achieved
IO8: Asset Recovery	- Low cross-border seizures - Fragmented agency roles	- Proposals for coordinated national asset-recovery strategy - NAB-led high-profile case learnings	- NAB secured substantial recoveries in high-profile corruption cases - Draft national strategy under consideration
IO9: TF Investigation & Prosecution	- Provincial capacity disparities - Underuse of FMU intelligence	- CTD capacity-building in K-P and Punjab models - FIA–FMU joint task forces	- K-P CTD cases rose 231% (90→298) in 2023 - Punjab CTD achieved 49 of 58 convictions
IO10: TFS for TF	- Delayed SRO issuance - DNFBP non-compliance	- Real-time SRO portal updates - Bank automation for UN & domestic sanctions screening	- SRO portal established for UN listings; automates updates - Major banks frozen assets under UNSCR 1267/1373
IO11: Proliferation Financing	- Low private-sector awareness - No recorded freezes	- CCRM export-controls liaison with FMU - Bank screening system upgrades to include PFS lists	- SRO portal covers proliferation designations under UNSCR 1718/2231 - Lead banks enabled to screen against PFS sanctions lists

Source: Author's own compilation

Table 5 shows the assessment of the IOs. Although there are strengths in the implementation of financial sanctions, there are persistent challenges in investigations, prosecutions, and asset recovery. The number of ML investigations is low, with only one conviction of self-laundering

related to corruption. The FIA's reliance on traditional evidence-gathering methods hampers the development of complex financial trials.

In the sphere of TF enforcement (Immediate Outcome 9), Pakistan registered 228 terrorism- financing cases and secured fifty-eight convictions, yet this output remains disproportionate to the scale of assessed TF risks. While Khyber Pakhtunkhwa's CTD reported a dramatic 231% increase in TF cases (90 to 298) and Punjab CTD accounted for 49 of 58 convictions, performance across other provinces and the FIA lagged significantly.

Pakistan has enforced specific financial sanctions, however, the impact of the recommended measures has been watered down due to historical delays and gaps in compliance by non-bank financial institutions and By Non-Government Organizations. The weakest aspect of Pakistan is asset recovery that has a low worth of recovered assets compared to the country risk profile of the ML and TF. The bulk cash mobility is unevenly detected across borders, property surveillance does not have a BO register and coordination across agencies is disrupted by gaping mandates. The lack of a coordinated national asset-recovery policy and archaic forfeiture regimes limits the ability of LEAs to identify and destroy laundering networks. Improving the AML and CTF system in Pakistan needs a long-term commitment to investigative capability, prosecutor development and policy integration in asset-recovery.

6. Gaps in Pakistan's AML/CFT Framework and Proposing Reforms

Through a comprehensive review of Pakistan's AML and CFT legal design, examined whether the institutions are successfully implementing these laws into meaningful reforms. Findings of this study found that Pakistan's AML and CFT framework encompasses multiple overlapping legal instruments, which address ML, TF, and MLA related financial crime. There are two principal statutes, the AML Act, 2010 (amended in 2020) and the ATA, 1997 (amended in 2020), which contain provisions that sometimes conflict with or raise questions of statutory interpretation when applied concurrently with other statutes continue to enforce. This section identifies areas where significant gaps continue to exit in the application of these laws and give rise to legal uncertainty. Furthermore, it provides specific, actionable recommendations for legal, institutional, or operational reforms that can effectively close these gaps.

6.1 The following gaps identified in Pakistan's AML and CFT framework.

1. *Predicate-Offence Scope and Duplication: The* AML Act defines "predicate offences" by reference to Schedule I (fraud, forgery, narcotics, etc.) and ML in S.3. While ATA targets "terrorist acts" and "terrorist property" under section 2 (aa) yet does not list ML per se as predicate but criminalizes financing of terrorism in Ss 6–8. Without expressly including TF, unless added later by the amendments.

   In the above situation conflict of law may arise and investigators under the AML Act may hesitate to apply S.3 to TF where the predicate offence is governed by ATA alone, diluting evidence gathering and asset-freezing powers. Likewise, ATA's asset-freezing under section 11 overlaps with AMLA's forfeiture in S.9, imposing dual processes for the same property. Procedural complexity in determining whether TF constitutes a predicate offense under the AML Act or a standalone offense under ATA

2. *Supervisory and Enforcement Authorities:* AML Act S.6A delegates AML and CFT supervision to multiple bodies (SBP, SECP, FBR, SRBs) with overlapping Jurisdictions, and Section 6A (2) (h) empowers each authority to impose sanctions independently. AML and CFT Sanction Rules 2020 differ sanctioning rules, but no coordination system exists; simultaneous investigations may conflict and impose inconsistent penalties.

   The enforcement mechanisms of the ATA and AML Act assets seized under different legal authorities, creating custody disputes. ATA Section 11-O provides that provincial approved officers have authority to search and hold cash in their suspicion of being connected with terrorism. Nevertheless, S.11-P has a provision of 48-hour rule whereby cash must be released within the 48 hours unless a court order is provided. Conversely, the AML Act authorizes the federal agencies to search and seize under S.14 of the Act, and provides varying procedural requirements. Although it usually has to be approved in the court, BS-20 officers are authorized to sanction the seizure in emergencies.

   Another provision under the AML Act is the provisional attachment of property up to a period of 180 days which can be extended to further periods and offering a longer time limit in comparison with the ATA. There is a conflict where a bank operation involving a terrorist activity initiates concurrent jurisdiction between SBP, S.A under S.6A concerning AML compliance, FIA, S.14 to investigate and provincial CTDs under ATA Section 11-O to seize. There is ambiguity in the lack of precedence rules because the authority in terms of the primary jurisdiction in such overlapping cases remains unclear. The lack of clear primacy determinations between the National AML and CFT Authority and the actual regulators leaves a legal gap that can be manipulated by well-developed criminals and at the same time subjects the valid businesses to conflicting requirements of compliance.

3. *Cross-Border Cooperation and Mutual Assistance*: The MLA Act, 2020 S.2(c): Specifies a central authority as the office of the secretary to the Ministry of Interior, Ss 4 and 5 confers all the exclusive powers to process all foreign requests at the cost of sector regulator. Conversely, the AML Act S.6B allows independent international cooperation by sector regulators including SECP, SBP and FBR. The

cooperation of these regulators may be directly with their overseas counterparts, through the passing of the centralized approval requirement under the MLA Act.

The direct bilateral cooperation powers that are provided through AML Act are therefore incompatible with the centralized powers of MLA Act, which poses legal and procedural difficulties. We can see the practical implications of these struggles in the FATF MER (2019) which recognized the challenge of coordination, and the APG Follow-Up Report (2021) which admitted that the centralized approach led to delays in the prioritization of urgent cases, including TF cases that need the freezing of assets urgently. The channel duplication slows the urgent freezing/repatriation of assets.

The other important legal tussle is between the judicial and executive controls in the asset procedures. The MLA Act, S.13 has placed the judicial jurisdiction on foreign freezing and seizure orders, which has to be registered by the court and then such orders are to become effective in Pakistan. This is done to provide a due process of the law, such as the right to be heard by the individuals concerned and appeal. Conversely, the Extradition Act 1972 puts in place the executive control, where the Federal Government has the discretion to cancel or suspend extradition proceedings, (S.13) with little judicial interference. Under S.12 of the Extradition Act, there is a two-month rule which states as follows that an individual be automatically released in case the extradition proceedings are finished within two months. This is contrasted with the judicial-based approach of the MLA Act which is more robust because of the protection of the processes. The fact that the procedures used in these two structures differ raises constitutional issues especially in the right to a fair trial under Article 10A because asset freezing by the MLA Act is more keenly judged as compared to the extradition procedure that is controlled by the executive.

Combined, both of these overlapping enactments create legal asymmetries that not only confuse the regulated entities but also obstruct the law-enforcement agencies. The above tensions demonstrate a disintegrated AML and CFT structure that does not have a clear normative hierarchy, consistent definitions, and reconciled supervisory mandates. In order to eliminate these ambiguities, Pakistan ought to work towards the following objectives.

6.2 Reforms to Bridge AML/CFT Gaps

This part will give more specific action recommendations on legal, institutional, and operational changes that will seal the gaps found in the AML and CTF system in Pakistan.

- ➤ Schedule I of the Amend AML Act to add TF offences (ATA Ss 6 8) as predicate offences in S.3. Compliant with FATF Recommendation 3 (Targeted Financial Sanctions Related to Terrorism and TF), of ensuring equal criminalization of predicate offences.

- ➤ Use of a single Financial Crime Recovery Act is to consolidate temporary attachment, judicial forfeiture and asset repatriation measures. Intersects AMLA S. 9 and ATA S.11 timelines into a more gradual period of hold (e.g., 72 hours of primary detention, 180 days of extension with a court order), which lowers the level of duplication in the process. UNCAC Article 31 (Confiscation) principles encourage the efficiency of the procedures and the recovery of assets.

- ➤ Add a statutory primacy clause, which creates that, in overlapping statutes on AML and CFT, a single process under the suggested amendments to the AMLA, or in implementing new comprehensive financial crimes laws, takes precedence. This would be an efficient way of having a clear normative hierarchy avoiding conflicting orders that will result in jurisdictional conflict and custody disputes between federal and provincial regulatory bodies.

- ➤ Proposing a Regulatory Coordination Protocol within the National AML and CFT Authority Act, 2023: Have a lead supervisor per industry (e.g., SBP of banks and SECP of securities). Demand establishing joint-investigation teams in intersector cases. Create a self-binding dispute resolution process led by the Director General of the authority. Besides, it actualizes FATF Recommendations 2 (National Cooperation and Coordination) by entrenching inter-agency cooperation.

- ➤ Equalize Sanction Guidelines in all AML/CFT regulators to harmonize the penalty ranges and criteria. Employs best practices in FATF Recommendation 35 (sanctions) and has proportional and uniform enforcement.

- ➤ Revise the MLA Act to identify express exceptions enabling the sector regulators to undertake direct mutual assistance as provided by AMLA S. 6B with post-hoc notification by the central authority. Adopts FATF Recommendation 40 (International Cooperation), which enables a

faster bilateral exchange of information without centralized oversight of the treaty. Create a faster process of urgent request where asset freezes can be affected within 24 hours pending formal registration by MLA. Shows the FATF focus on imminent response in cases of TF and minimizes the risk of asset flight.

7. Conclusion

This paper has discussed that Pakistan has made extensive legislative and administrative changes including; the amendment of AML Act of 2010, updating ATA of 1997 and the creation of the National AML and CFT Authority in 2023 to bring its legal framework in line with the recommendations of the FATF. These changes covered several technical compliance gaps and led to a substantial rise in enforcement efforts, including the growth of STRs and financial fines on banks. Nevertheless, due to the presence of various overlapping laws and divided regulatory obligations, the jurisdiction has caused a lack of uniformity in applying AML and CFT laws. The reforms on the design of laws and institutional capacity have not borne yet to translate these reforms into resultant investigations, prosecutions and recovery of assets. These inadequacies prevent persistence on the prosecutorial level; enforcement agencies still do little to coordinate their efforts and much of the informal economy still cannot be regulated. As a result, operational performance is still below technical compliance, there are significant loopholes in the capabilities of Pakistan in disrupting illicit financial transactions.

The present research paper contributed to the scholarly knowledge of the intersection of legislative changes and institutional frameworks in the Pakistani context with the FATF framework and the connection between legal architecture and governance capability in determining an outcome on AML and CFT. This investigation illuminates the disjuncture between the theoretical parameters of legal systems and how the law is put into practice in the transitional contexts of regulation by creating a new crosswalk paradigm that bridges the gap between legal theory and its practical implementation. This research is not free of its limitations which should be recognized. To begin with, this study uses a crosswalk table to show the Big Six recommendations of FATF on legal reforms and institutional capacity of Pakistan at one point and not the reform paths over time. Second, the review itself solely relies on secondary sources, including statutes, MERs, follow- up reports and regulatory directives, without interviews and surveys on regulators, law-enforcement workers or industry practitioners, which would have been valuable to understand how implementation works and decision-making. Third, operational effectiveness is not testable due to the lack of an event-study to examine the outcomes of the enforcement after the amendment.

Nevertheless, the results provide a priceless insight into the AML and CTF legal framework and institutional capability of Pakistan that provide a risk reduction of predicate offences in legalization to the FATF requirements. The paper also suggests to future empirical studies that would investigate the mechanism underlying inter-agency information sharing and conviction rates, as a measure of procedural reforms effect on the outcome of the trials. Moreover, cross-jurisdictional comparative studies between jurisdictions which have substantial informal sectors might be helpful in informing the strategies to integrate the unregulated markets into formal AML and CFT systems.

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