



# PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

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PSBA/Notice-155

May 20, 2024

## NOTICE FOR MEMBERS

### Capacity Building Session in Coordination with FMU

**Attn: CEOs of TREC Holders and respective Compliance Teams,**

Respected Members,

This is with reference to the subject session conducted by SECP on May 14, 2024, at PSX, on the role of FMU, the working of GoAML, and the Beneficial Ownership regime.

As requested during the session, please find enclosed herewith the presentation of the above-mentioned session.

Thank you,

\_\_\_\_\_sd  
**AKBER ALI**  
Officer - Secretariat

**Copy to:**

1. PSBA Website

# BENEFICIAL OWNER IDENTIFICATION & VERIFICATION

MAY 14, 2024

FOR PSX & PMEX Brokers

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Securities & Exchange  
Commission of Pakistan

**MAHEEN FATIMA, FCA**

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## Securities & Exchange Commission of Pakistan

**Ms. Sumera Baloch, Additional Director, FMU**

**Mr. Yasir Ishaque Lashari, Additional Director, FMU**

**Mr. Shahzad Hussain, Deputy Director, FMU**

**Mr. Aamir Ali, Assistant Director, FMU**

# OUTLINE

- ✓ BO- Background
- ✓ Int'l Emphasis/ Requirements
- ✓ BO as a Part of Customer Due Diligence
- ✓ Beneficial Ownership Transparency
- ✓ Shell Companies
- ✓ Requirements Related to UBO
- ✓ New 'The Companies Regulations, 2024' Forms
- ✓ Illustrations to Determine BO
- ✓ Possible sources to find BO



# DISCLAIMER



The purpose of this session is to create awareness and education about the subject and is in no way to give advise or legal opinion.

The views expressed herein are those of the presenter(s) and do not necessarily reflect the views of the Securities and Exchange Commission of Pakistan (SECP).



# BENEFICIAL OWNERSHIP TRANSPARENCY

1. Release of the Panama Papers, Pandora Papers and Paradise Papers
2. Tax havens -getaway vehicles for tax evaders, criminals, and corrupt politicians
3. The term beneficial ownership is now more widespread
  - **What** does it mean and
  - **Why** is it important
4. The quest to identify the 'real' owners, or Ultimate Beneficial Owners **CRITICAL**
5. Understanding who you're doing business . **CRITICAL**
6. Financial intermediaries/REs ; **CHALLENGES**
7. Beneficial Ownership verification
  - Who holds a **legal entity's reins.**
  - Prevents activities like **money laundering and terrorist financing, financial crimes & other illicit activities**



# POTENTIAL MISUSE OF LEGAL PERSONS

## GUIDANCE ON BO OF LEGAL PERSONS STATES

The Puppet Masters report published in 2011 by the World Bank / UNODC StAR, Examination of over 150 cases of large-scale corruption revealed that most cases of large-scale corruption involve **the use of one or more corporate vehicles to conceal BO;**

**Corporate vehicles can be misused for various illicit purposes,** including ML, bribery and corruption, insider dealings, tax fraud, terrorist financing (TF), sanctions evasion and other illegal activities;

The misuse of LPs can be **significantly reduced if information regarding both the legal owner and the BO's becomes available** to the authorities in a timely manner

In general, **the lack of adequate, accurate and up-to-date BO information** facilitates ML/TF;





# "THE PUPPET MASTERS" REPORT

1. Report says, **the complex web of corruption facilitate the concealment and transfer of stolen assets across borders;**
2. How **Masters Exploit legal and financial systems globally to ML and hide their illicit gains.** It highlights the detrimental **impact of such activities on economic development, governance,** and the rule of law in both developed and developing countries;
3. The report sheds light on **various mechanisms used by puppet masters, including shell companies,** offshore accounts, and complex financial structures, to obscure the origins and ownership of illicit funds;
4. The report calls for **coordinated efforts** among governments, FI's, and LEA's to strengthen legal frameworks, improve information-sharing mechanisms, and enhance the capacity to investigate and prosecute cases of corruption and ML.



# INTERNATIONAL EMPHASIS

- **G20 Leaders** made their commitments to effectively implement the FATF standards on beneficial ownership. [Meeting of G20 Finance Ministers & Central Bank Governors (Jakarta, 17-18 February 2022)].
- **G7 countries** also committed to implementing and strengthening registries of company beneficial ownership information in their respective jurisdictions. [2021]
- **The OECD and the World Bank** both developed resources in assisting countries to assess risks related to beneficial ownership transparency and implement beneficial ownership framework for meeting international standards.
- Finally, **IMF lending**, routinely includes measures or commitments related to transparency of beneficial ownership in relation to procurement contracts.



# UBO VERIFICATION: REGULATORY LANDSCAPE

- **FATF's 10th Recommendation:** This recommendation underscores the necessity of **recognizing the beneficial owner and taking reasonable steps (Substantive approach) to confirm their identity** to the financial institution's satisfaction.
- **FATF's Guidance on Beneficial Ownership of Legal Persons:** This guidance proposes that, depending on the specific risk level of countries, verification measures may include **confirming the identity of any natural person(s) listed as a beneficial owner and verifying the basis for identifying a person as a beneficial owner.**
- **Article 13(1)b** of the 4th EU AML Directive reemphasizes the **need to identify the beneficial owner and take reasonable measures to verify their identity.**
- **EBA's Risk Factor Guidelines** suggest the acceptance of data from the client when verifying the beneficial owner's identity and **the need to increase the quantity and quality of information obtained for CDD purposes.**



# THE FATF'S RECOMMENDATION NO. 10 ON CDD

- According to the FATF, the following customer due diligence (CDD) measures are to be taken by an institution:
- Identifying the **customer** and **verifying that customer's identity using reliable, independent source documents, data or information.**
- Identifying the **beneficial owner**, and taking reasonable measures to **verify** the identity of the beneficial owner such that the financial institution is satisfied that it **knows who the beneficial owner is.**
- Obtaining information on the purpose and intended nature of the business relationship.



## FATF RECOMMENDATION-24 (*TECH. COMPLIANCE*)

FATF Revised R-24 states that,

*Countries should assess the risks of misuse of legal persons for ML or TF, and take measures to prevent their misuse. Countries should ensure that there is **adequate, accurate and up-to-date** information on the beneficial ownership and control of legal persons that can be obtained or accessed rapidly and efficiently by competent authorities, through either a **register of beneficial ownership or an alternative mechanism.** .....*

*Countries should consider facilitating access to BO and control information by FI's [March 2023]*



# IMMEDIATE OUTCOME (IO)-5 LEGAL PERSONS AND LEGAL ARRANGEMENT

## *IO-5 Gauge for Effectiveness*

Legal persons and arrangements are **prevented** from misuse of ML or TF, and information on their BO is available to competent authorities without impediments.



Securities & Exchange Commission of Pakistan



# NEED FOR REVISION OF FATF REC 24

- Revision to the Recommendation was a response to the outcomes of FATF Mutual Evaluations which show a **generally insufficient level of effectiveness** in combatting the misuse of legal persons for ML/TF **globally**.
- As reflected in the MERs, **countries' effectiveness under IO-5 is the lowest among all IOs, with 9% of countries meeting the effectiveness requirement of the IO. [[Pak-LE/negligible]]**
- With respect to TC, countries (out of approx.177) have an **insufficient compliance level on Recommendation 24, with less than 50% of countries rated compliant or largely compliant.** [Pak LC)
- In many countries, information on the BO (in addition to the legal owner) of a company is not available as it is not collected and/or **sufficiently verified at the time the corporate vehicle is created, nor at any stage throughout its existence.**

<https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Beneficial-Ownership-Legal-Persons.pdf.coredownload.pdf>



## INTERPRETIVE NOTE OF REC.24

- **Revised Rec-24 requires countries to adopt a multi-pronged approach to BO information including as a minimum:**
- (1) a company approach **and**
- (2) by a public authority or body (for example a tax authority, FIU, company registry, or beneficial ownership registry). **Information need not be held by a single body only,**
- (3) Countries may decide to use an alternative mechanism instead of (2) if it also provides authorities with efficient access to adequate, accurate and up-to-date BO information. **There must be some specific mechanism that provides efficient access to the information.**
- (4) Any additional supplementary measures that are necessary to ensure the beneficial ownership of a company can be determined ;





# LEGAL PERSONS AND LEGAL ARRANGEMENTS

Sr. No.	Type	Includes	Regulated By	Main Laws
1.	Legal Persons (LP's)	i. Companies and ii. Limited Liability Partnerships	SECP	The Companies Act, 2017, LLP Act, 2017 and The Companies Regulations, 2024
		iii. Societies	Provincial Authorities	The Cooperative Societies Act, 1925
2.	Legal Arrangements (LAs)	i. Waqfs		The Punjab Waqf Properties Ordinance, 1979 etc.
		ii. Trusts		The Punjab Trusts Act, 2020 etc.

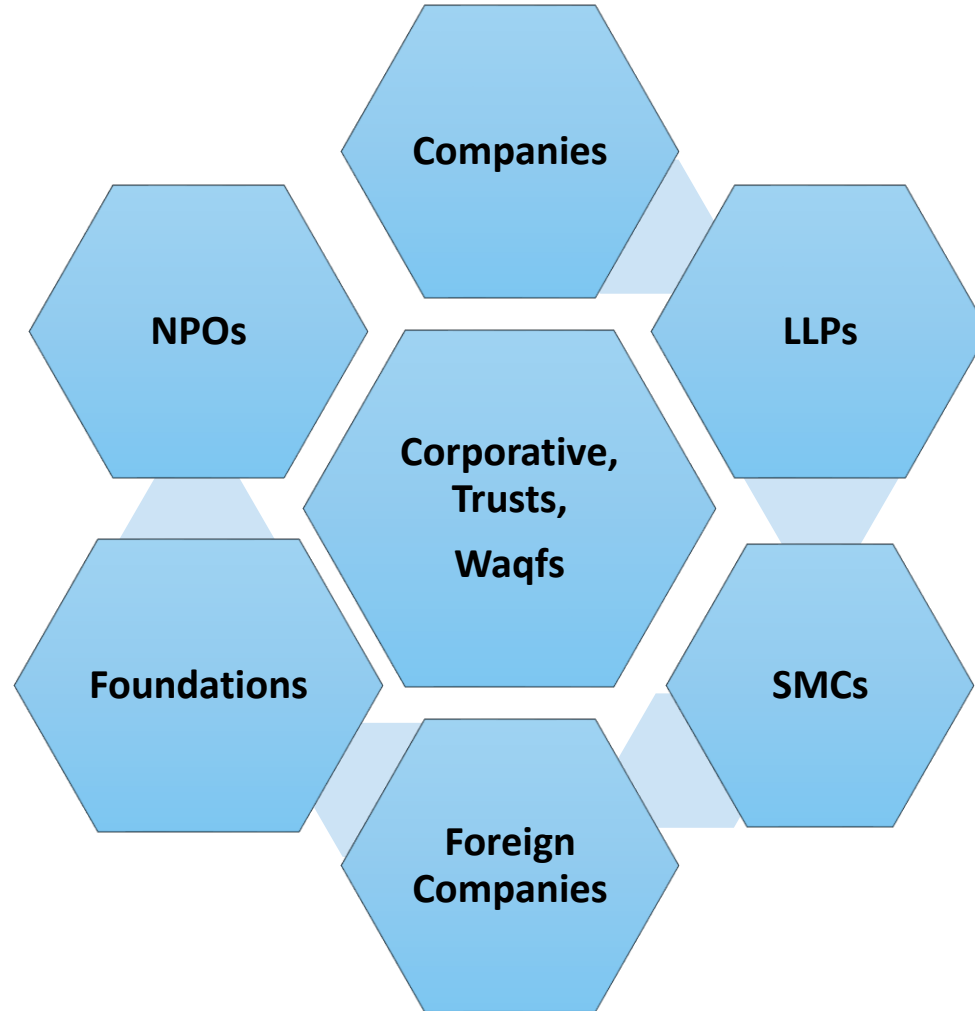


# RATINGS OF LPLA'S

Inherent Vulnerability Assessment Ratings of the LPLAs				
Type of LP/LA	No. of LP/LAs (30-06-2022)	NRA 2019 Risk Rating	SRA 2021 Risk Rating	NRA 2023 Risk Rating
Private Limited Companies	164,283	High	High	Very High
Public companies	4,460	Low	Low	Low
Companies Limited by Guarantee	417	Medium	Low	Low
Foreign Companies	1,084	High	High	Very High
Limited Liability Partnerships (LLPs)	1,904	High	Medium	Medium
Cooperatives	21,986	Low	Low	Low
Trusts	2,606	High	Medium	Medium
Waqfs	1,998	High	Medium	Medium
<b>TOTAL</b>	<b>198,738</b>			



# Who is included?



# SHELL COMPANIES

- i. Different reports/leaks exposed the widespread use of shell companies for ML in different countries worldwide;
- ii. Shell companies may also be referred to **as mailbox companies, front companies, personal investment companies or international business** companies.
- iii. They only **exist on paper** and have no physical location, staff, revenue, or significant assets, but they may have bank accounts or investments.
- iv. While shell companies **can be created quickly and affordably** in the legal, financial system to raise funds, hold stocks, or serve as limited liability trustees, they are not necessarily illegal.
- v. Shell companies can be established by registered agents in most countries to hide UBO



# Uses of Shell Corporations

Money Laundering

Tax Evasion

Anonymity

Asset Protection

Investment



## FEW EXAMPLES

- There have been many high-profile cases of ML involving shell companies. Here are a few examples:
  - The 1MDB scandal (2015): Billions of dollars** were allegedly stolen from the Malaysian sovereign state fund and laundered through shell companies and offshore bank accounts.
  - Danske Bank scandal (2018):** Denmark's largest bank was in a money laundering allegedly of **EURO 800 billion** scandal involving shell companies.
  - Paradise Papers (2019):** The leak revealed the widespread use of offshore tax havens and complex financial structures to avoid taxes and conceal wealth
  - Pandora Papers (2021):** As covered by sanctions.io, the Pandora Papers is a release of nearly **12 million leaked documents** revealing the corrupt dealings and money laundering via shell companies of the global elite.



# BRAIN TEASER

The Global Tax Evasion report reveals that Pakistanis held off-shore assts (cash, shares, bonds, investments, real estate sector) worth?

- a) 5.8 billion USD
- b) 11.8 billion USD
- c) 19.2 billion USD
- d) 24.9 billion USD

<https://tribune.com.pk/story/2442637/pakistanis-overseas-wealth-falls>



# TAX HAVENS- DATA BY FINANCIAL SECRECY INDEX

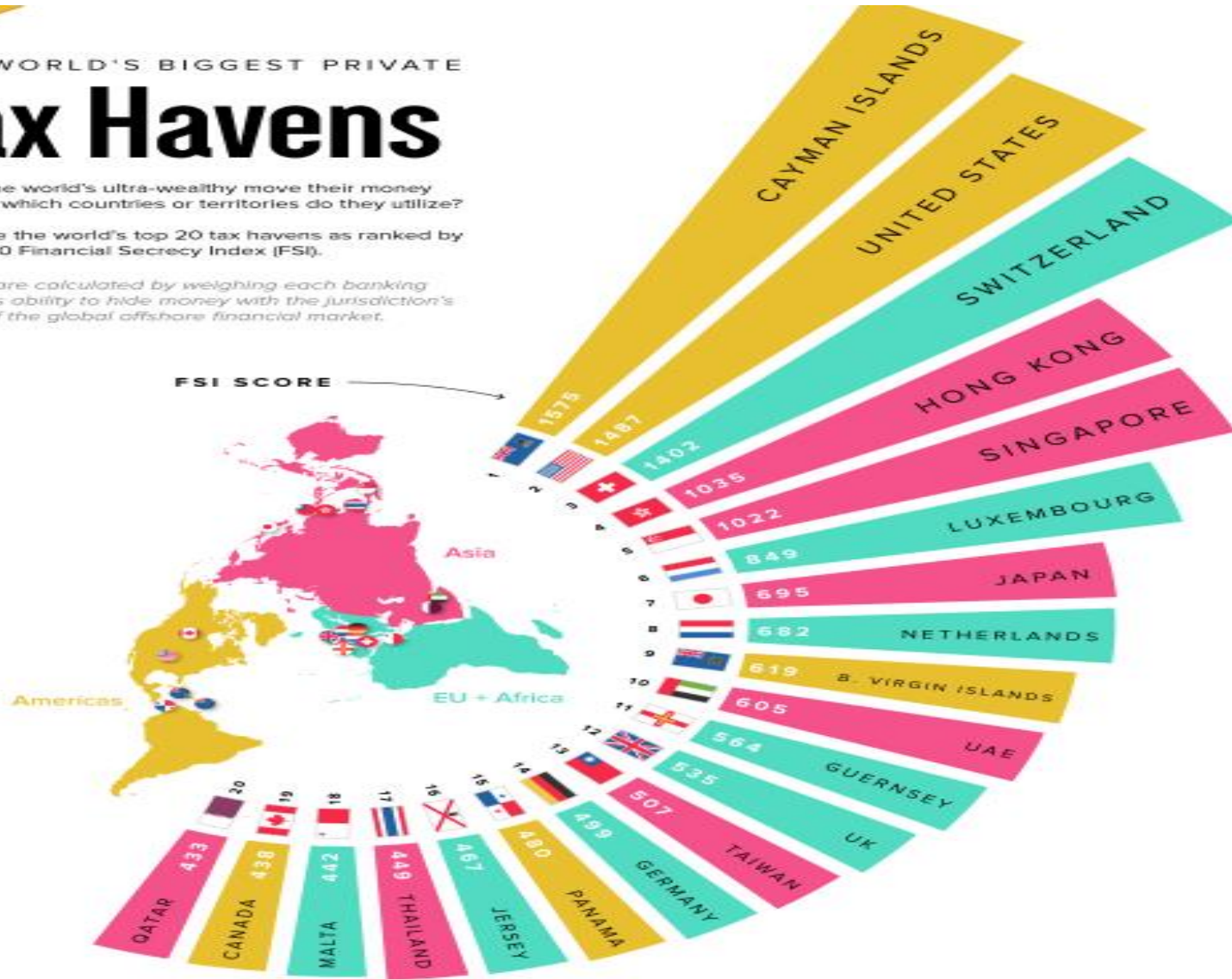
THE WORLD'S BIGGEST PRIVATE

## Tax Havens

When the world's ultra-wealthy move their money around, which countries or territories do they utilize?

Here are the world's top 20 tax havens as ranked by the 2020 Financial Secrecy Index (FSI).

- Scores are calculated by weighing each banking system's ability to hide money with the jurisdiction's share of the global offshore financial market.





## SHELL COMPANY INDICATOR.

- i. **Outlier directorships:** Unrealistic number of directorships
- ii. **Mass registration:** Formation patterns where number of companies share names, addresses, or directors.
- iii. **Jurisdictional risk:** High risk jurisdictions
- iv. **Financial anomalies:** When the revenue of a firm appears to be way out of odds with the number of employees /operations– this may present as millions of dollars in revenue, but only a handful of employees
- v. **Dormancy** flags show companies that have laid dormant for extended periods;
- vi. **Circular ownership:** 1 company owns a significant stake in another, which in turn owns a stake in the first company creating a loop or "circle";
- vii. **Outlier ages:** Information that shows outliers to an expected norm, even one with a very wide range, can be an indicator of shell company risk.

viii. **Address** is letter Box or apparently suspicious or not traceable.

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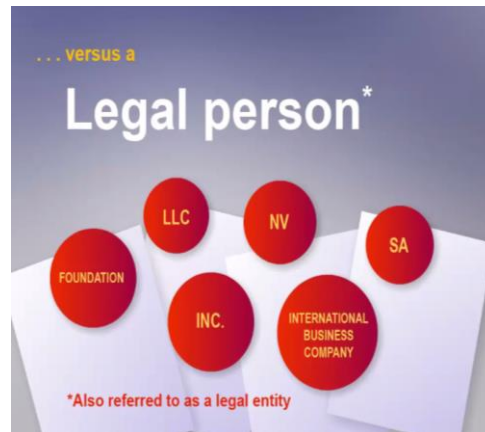
# NEED FOR CUSTOMER DUE DILIGENCE (CDD)

- Financial Institutions/RPs mandate- proper assessment of their prospective customers before opening an account.
- This assessment is important because;
  - It helps verify the identity of customers and the nature of their business.
  - It helps to verify the identity of the BO
  - It prevents criminals from abusing financial systems for fraudulent and money laundering activities.



# WHO IS A BENEFICIAL OWNER?

- *Natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted.*
- *It also includes those persons who exercise ultimate effective control over a legal person or arrangement.*
- *Senior Management*



# LITMUS TEST

**Beneficial Ownership requires three Test:**

## **1- Ownership Test**

**Voting right** is the right of a member (shareholder) to vote on an agenda item in a general or an extraordinary general meeting of the company.

## **2- Control Test**

**Effective control** in the context of UBO is a term generally understood to refer to situations in which ownership and/or control is exercised through a **chain of ownership** or by **means of control other than direct control**.

## **3- Senior Management approach**

- e.g. CEO, Chief Operating Officer, Chief Financial Officer



# UNDERSTANDING BENEFICIAL OWNERSHIP

I. Beneficial ownership is not legal ownership in all circumstances.

**The three key points to understand are:**

- **Legal ownership is not synonymous with beneficial ownership.** People tend to assume that legal owners are the same as beneficial owners, and therefore do not differentiate between the two. In AML/CFT, this distinction is very important;
- The **BO is always an individual who ultimately owns or controls a legal** entity or arrangement, such as a company, a trust, a foundation, etc.
- An individual can be an indirect owner of a company through another company in which the individual has ownership;



# UNDERSTANDING BENEFICIAL OWNERSHIP

**II. Natural persons :** In most instances the individual customer is buying for oneself, so the customer and beneficial owner are the same.

**III. Legal persons (e.g. company):** The separation of beneficial ownership from legal ownership occurs more frequently with legal persons and arrangements e.g. companies and trusts. In many cases, the legal owner of the legal person is the beneficial owner, but not in all circumstances

***“ultimate beneficial owner” means a natural person who ultimately owns or controls a company, whether directly or indirectly, through at least twenty five percent shares or voting rights, or by exercising control in that company through other means, as may be specified.”***

This definition provides for 25% and above ownership, directly or indirectly, for the controlling ownership test.



# IDENTIFYING BENEFICIAL OWNERSHIP FOR LEGAL PERSONS

## Limited Companies/ Corporations

### TEST 1: The Legal Ownership Test

This test is still about control, but control primarily through legal ownership. In general the threshold to use is 25% or more to determine controlling legal ownership, but there may be a need to use a lower threshold.

1. **Ownership threshold approach:** The natural person(s) who directly or indirectly holds a minimum percentage of ownership interest in the legal person, so that he/she can exercise controlling ownership interest (e.g. voting rights).

Any individual owning more than a certain percentage of the company i.e. 25%. If 25% is the threshold there can only be a maximum of 4 beneficial owner as provided in Section 123A of the Companies Act.

While 25% or more may be used for the controlling ownership test, If the 25% threshold does not identify any beneficial owners, or there are concerns or doubts that the 25% threshold has correctly identified all the beneficial owners, it is recommended that a lower threshold of 20% be used, and then 10%, if needed.

Individuals may not meet the ownership threshold (e.g. below 25%) but because they are connected (e.g. family or extended family), collectively they can exercise control – refer to Test 2.

These concepts will be explained in the examples following this table.



## **TEST 2:**

### **The Control Test**

This is normally the second test used to identify beneficial owner. This test is used when there is doubt that the person with the controlling ownership interest is the beneficial owner or where no natural persons exerts control through ownership interest

For example, no one owns more than 25% or more, or there are so many layers of indirect ownership that it is difficult to identify the individuals who own the company in the top layer.





<p>2. <b>Majority interest approach:</b> Shareholders who exercise control alone or together with other shareholders, including through any contract, understanding, relationship, intermediary or tiered entity.</p>	<p>For example, to appoint or remove the majority of the board of directors, or its chair, or CEO of the company; This can be achieved by exercising 25% or more of the voting rights other than through legal ownership e.g. shareholders agreement to vote collectively to control a company even though individually they do not have 25% or more.</p>
<p>3. <b>Connections or contractual relations approach:</b> Natural persons who may control the legal person through other means</p>	<p>For example, the natural person(s) who exerts control of a legal person through other means such as personal connections to persons in positions described above or that possess ownership.</p> <p>The natural person(s) who exerts control without ownership by participating in the financing of the enterprise, or because of close and intimate family relationships, historical or contractual associations, or if a company defaults on certain payments.</p>
<p>4. <b>Company director's position approach:</b> The natural person(s) responsible for strategic decisions that fundamentally affect the business practices or general direction of the legal person.</p>	<p>The identification of the directors may still provide useful information.</p>



### TEST 3: The Senior Management Test

In the event the beneficial owner cannot be identified or verified through Tests 1 and 2, the use of the senior management approach is an alternative test of beneficial ownership.

5. **Senior management approach (alternative test):** The natural person(s) who exercises executive control over the daily or regular affairs of the legal person through a senior management position.

For example, Dispersed ownership; Multiple layers of ownership, including in overseas secrecy jurisdiction.

The senior management test for, example, may include the chief executive officer (CEO), chief financial officer (CFO), managing or executive director, or president.

It is the natural person(s) who has significant authority over a legal person's financial relationships (including with financial institutions that hold accounts on behalf of a legal person) and the ongoing financial affairs of the legal person.



# IDENTIFICATION AND VERIFICATION OF BO

## Clause 7A (2) of AML Act, 2010 and SECP AML Regulations, 2020

- Regulated Person required to understand the **nature** of the customer's **business and its ownership and control structure**.
- The Regulated Person **shall identify the BO and take reasonable measures** to verify the identity of the BO by using **reliable and independent document, data or sources of information** such that the FI is satisfied that it knows who the beneficial owner is. *[Clause 11]*
- Following information shall be obtained for identification and verification of BO: *[Clause 12]*
  - Name, legal form and proof of existence;
  - The address of the registered office and, if different, a principal place of business
  - The powers that regulate and bind the legal person or arrangement,
  - Names of the relevant persons having a senior management position in the legal person or arrangement;



## VERIFICATION OF BO FOR CUSTOMERS THAT ARE LPS, AS PER SECP AML/CFT/CPF REGULATIONS, 2020

**1**

**Identifying the natural person(s) (if any) who ultimately has a controlling ownership interest in a LP**

**2**

**If doubt in 1, or where no NP exerts control through ownership interests, the identity of the natural person(s) (if any) exercising control of the LP**

**3**

**Where no NP is identified under (1) or (2), the identity of the relevant NP who holds the position of senior managing official**



# LEGAL ARRANGEMENTS

For trusts, the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership)



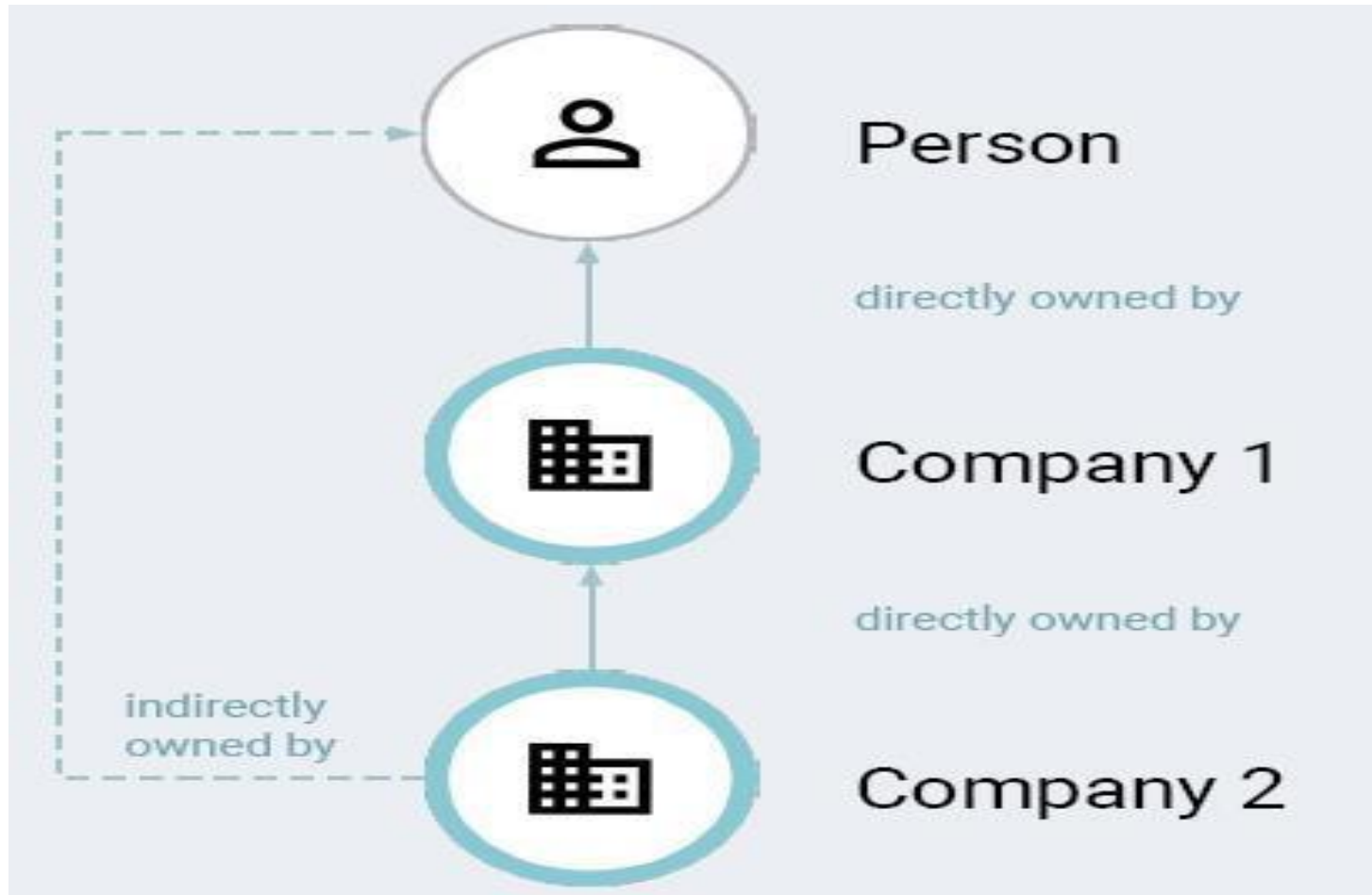
For waqfs and other types of legal arrangements, the identity of persons in equivalent or similar positions as specified in (a).



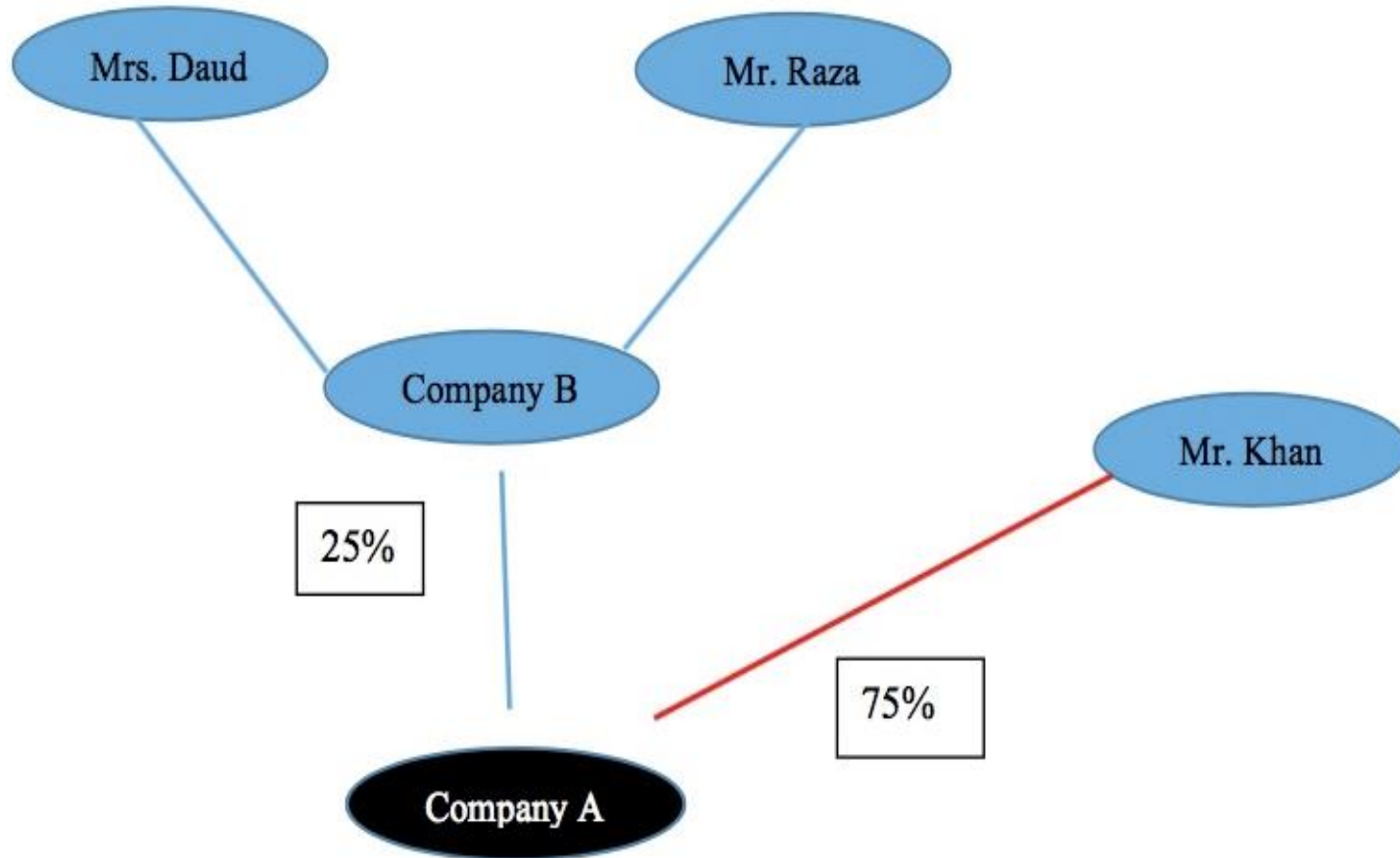
Where any of the persons specified in (a) or (b) is a legal person or arrangement, the identity of the BO of that LP



# ULTIMATE BENEFICIAL OWNER SITUATIONS

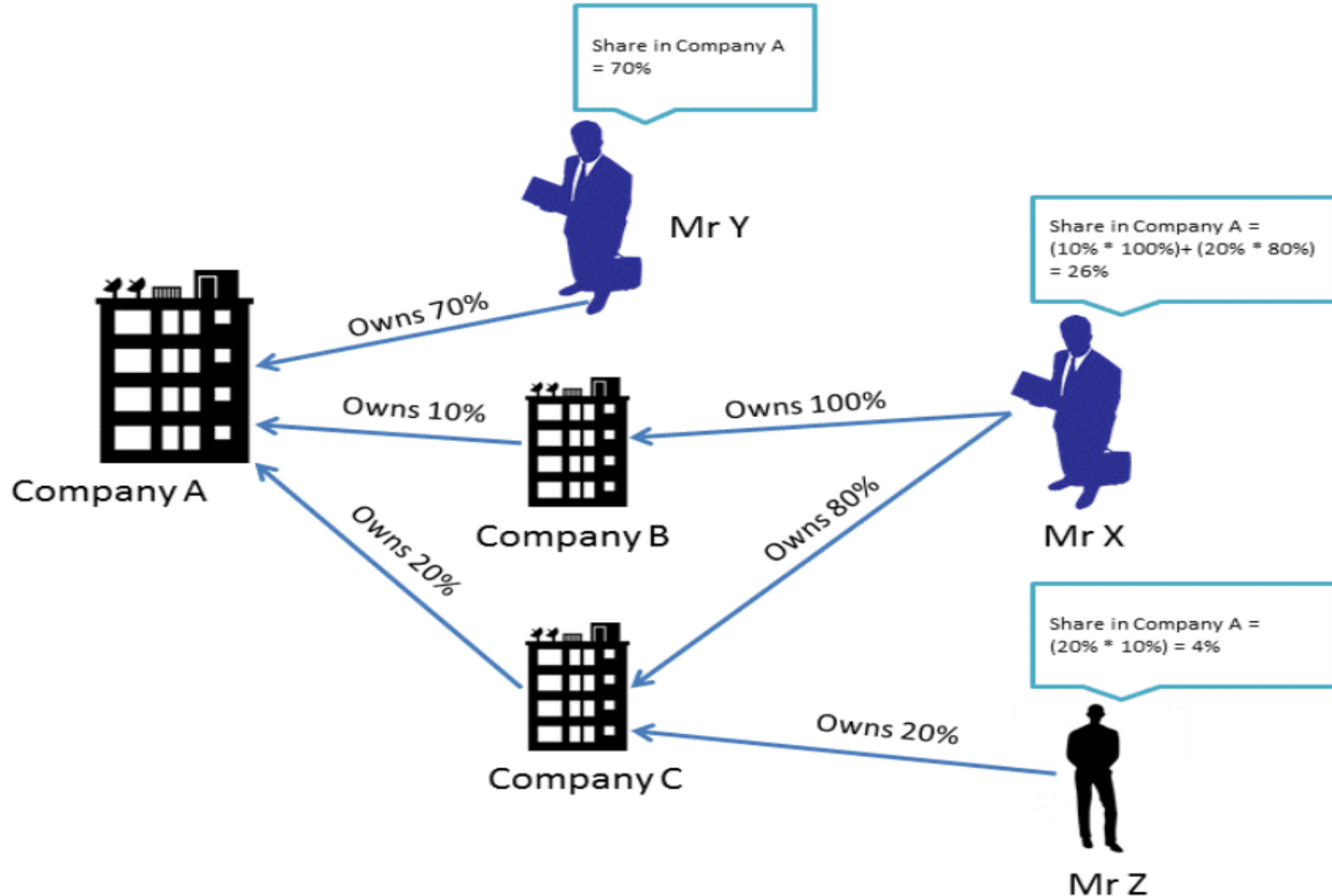


# PRE-EXISTING ARRANGEMENT



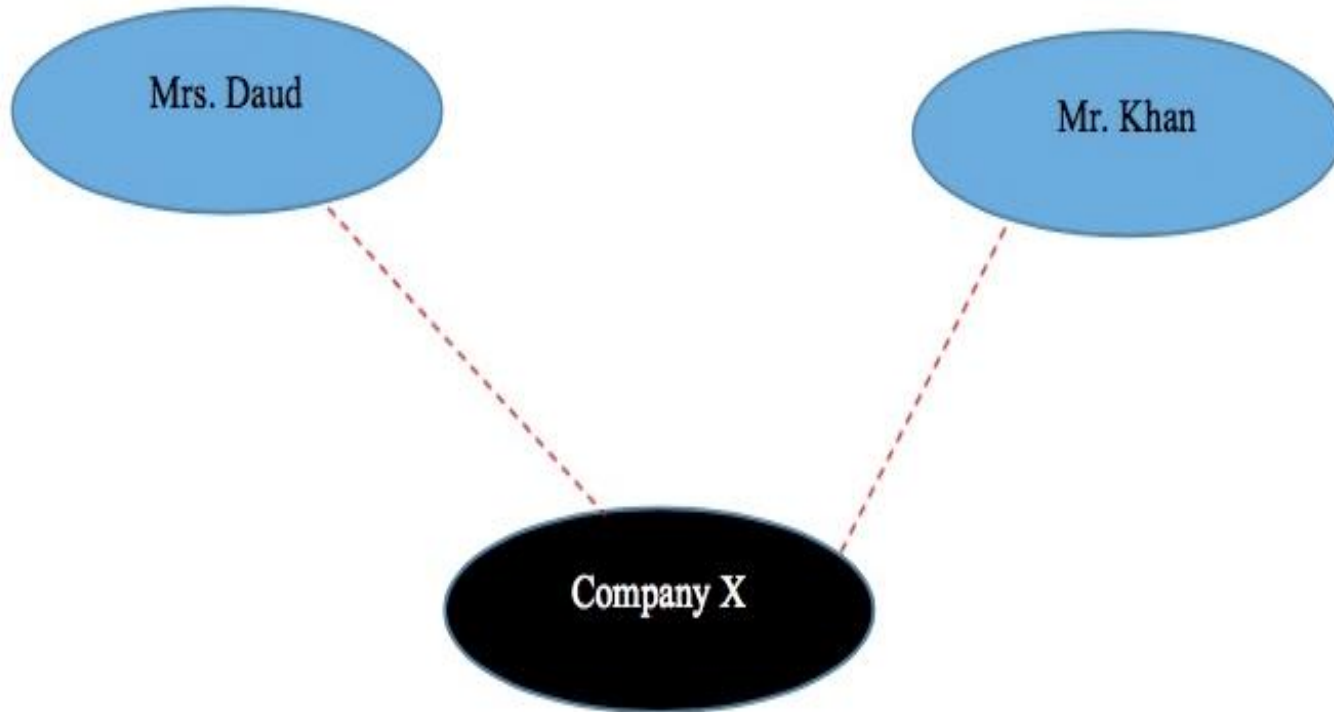
# COMPLEX STRUCTURE

## WHO IS UBO IN COMPANY A ?





# SHAREHOLDER AGREEMENT



# CHALLENGES IN BO

- i. It is challenging to ensure that the BO information is: **adequate, accurate and up-to-date**, particularly when the **ownership chain involves LPLA's spread across multiple jurisdictions, or complex networks;**
  
- i. **Regulatory loopholes in BO disclosure requirements in one country** have serious consequences globally because illicit financial flows are not constrained by national borders. The Panama leak documents revealed that shell companies were created in jurisdictions with loose regulations, including the British Virgin Islands and the Cayman Islands.
  
- ii. The lack of such information of LPs **by law enforcement, FIUs and other competent authorities is a significant impediment** to the production of financial intelligence and subsequent investigation.



# USEFULNESS OF BO TRANSPARENCY

- Ensures **an accurate disclosure** regime
- Helpful in **detection and prevention of financial** crimes;
- Allows the authorities to “**follow the money**” in financial investigations involving suspect accounts/assets held by corporate vehicles;
- Enhanced **investor confidence** in financial and capital markets;
- Protects RPs **from financial and reputational risks**;
- Protection of the interests of **minority shareholders**

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# STATUTORY FRAMEWORK FOR BENEFICIAL OWNERSHIP

Primary & Secondary Legislation	Relevant Provisions
Anti Money Laundering Act (AMLA) 2010	Section 7A (Conducting CDD) (amended on 24-09-2020)
Companies Act 2017	Section 123A (Record of ultimate beneficial owner) (amended on 26-08-2020)
Limited Liability Partnership Act, 2017	Section 8 (amended on 27-08-2020)
The Companies Regulations, 2024	Regulation 13,20, 23, 48
Limited Liability Partnership Regulations, 2018	14(A) (Register of UBO) amended on 28-09-2020
SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020	Regulation 11, 13, 14, 16, 17 & 21 (issued on 28-09-2020 amended on 21st Sept, 2023)

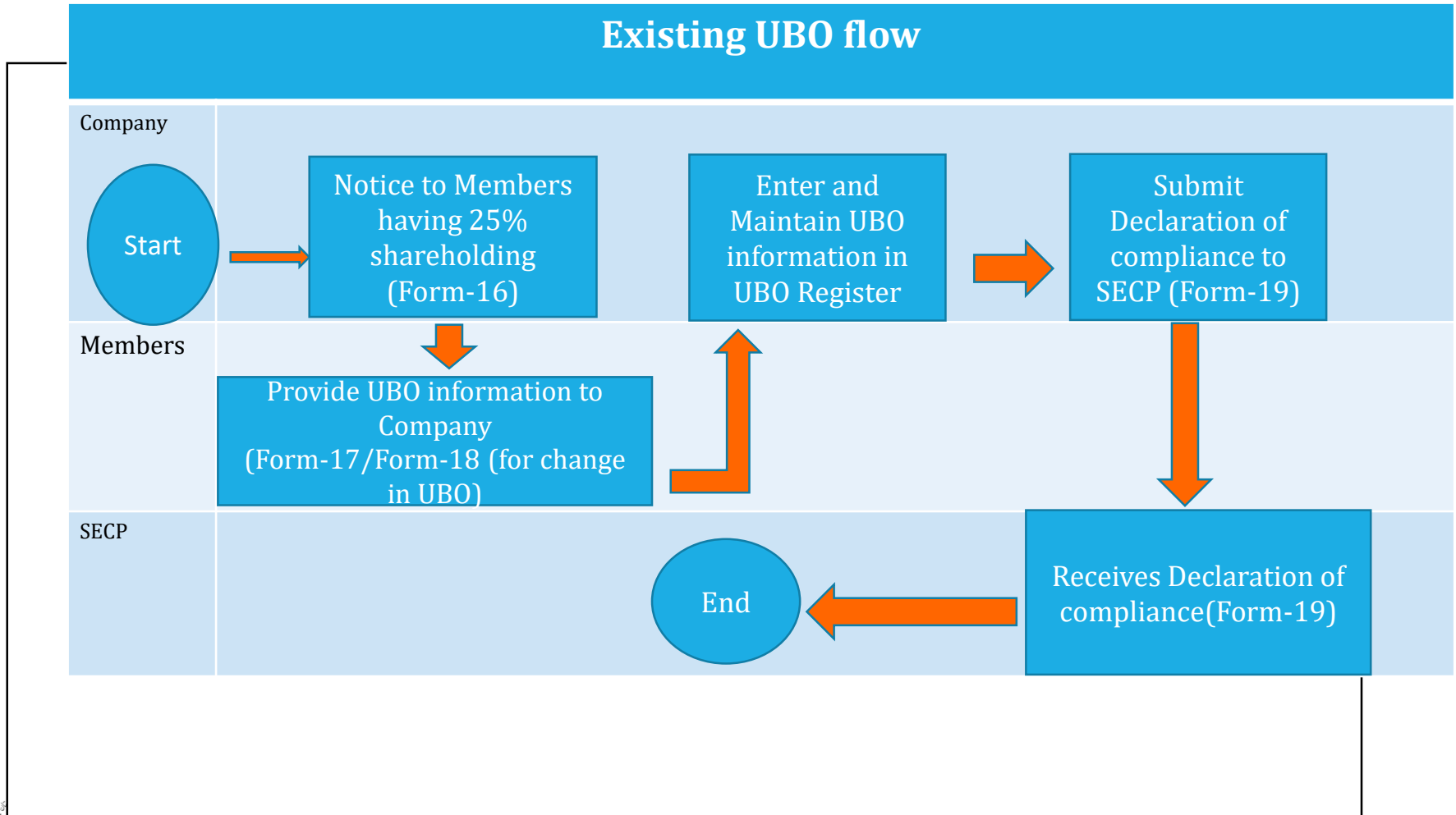


# SUMMARY OF REQUIREMENTS

- **Section 123A of the Companies Act, 2017**
  - **“ultimate beneficial owner”** means a natural person who ultimately owns or controls a company, whether directly or indirectly, through at least 25% shares or voting rights or by exercising effective control in that company.
  - A company shall maintain information of its ultimate beneficial owners (UBOs)
  - Every company shall maintain a register of its UBOs and shall record/keep updated particulars, and provide a declaration to this effect to the registrar
  - Penalty for non-compliance: company Rs10M, director/officer/other person Rs1M



# SECP: WORKFLOW OF UBO REPORTING:



# IN THE NEW 'COMPANIES REGULATIONS, 2024' FORMS HAVE BEEN RENUMBERED

Notice to Members having 25% shareholding

Form 42

Form 16

Members provide UBO information to Company

Form 43

Form 17

Members provide information of change in UBO to Company

Form 44

Form 18

Company Enters and Maintains UBO information in UBO Register

Submit Declaration of compliance to SECP

Form 45

Form 19



# PROVISIONS FOR BO IN ICAP REGULATORY FRAMEWORK

## ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM REGULATIONS FOR CHARTERED ACCOUNTANTS REPORTING FIRMS

For the purposes of conducting CDD as required under section 7A(2) of the AML Act in the circumstances set out under subsection (1), every reporting firm shall comply with sections 9-23 of these Regulations.

### Beneficial Ownership - ICAP-AML-CFT Regulations 9 to 16.

9. The reporting firm shall:

(a) **Identify** the customer; and

(b) **Verify the identity** of that customer using reliable and independent documents, data or information

11. The reporting firm shall also **identify the beneficial owner** and take reasonable measures to verify the identity of the beneficial owner by using reliable and independent document, data or sources of information, **such that the reporting firm is satisfied that it knows who the beneficial owner is.**

16. The reporting firm **shall identify and verify the identity of the customer and beneficial owner before establishing a business relationship** or conducting transactions for occasional customers.





## CONCLUSION

- i. UBO verification is a **critical tool in the fight against** financial crimes in AML/CFT.
- ii. Challenges exist in journey toward greater transparency and accountability in corporate structures continues.
- iii. FI's to play critical role.**
- iv. Journey of UBO verification - a testament to promote transparency and accountability in corporate structures.
- v. Progress and challenges - promise of a more transparent and accountable corporate world.
- vi. Int'l emphasis shows that BO is increasing risk area. So, Regulators and FI's need to work aggressively on this.**



## Possible sources of BO

Corporate Registers

Publicly Available Information

Third-Party Data Providers

Government Agencies and Regulators

Business Registry Websites

Regulatory Filings

Sanctions Lists and Watchlists





**THANK YOU**



# Reporting of STRs/CTRs

**Financial Monitoring Unit**

Aamir Ali Shaikh

# Recommendation 29

## Financial Intelligence Units

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Establishment of a FIU

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Operationally Independent

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Free of External Influence or Interference

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**Receipt of STRs & Threshold-based Reports**

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Analysis (**Operational** and **Strategic**)

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**Dissemination (Spontaneous and Upon Request)**

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**Authority to Seek Information**

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Access to Other Databases or Information

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**Information Sharing with Other Authorities**

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Egmont Group Membership

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**Use of Analytical Software**

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**Systems in place for Information Security and Confidentiality**

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Integrity & Skills of Employees

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# Various Models of FIUs

There are four FIU models: judicial, law enforcement, administrative, and hybrid.

- The **Judicial Model** is when an FIU is established within the judicial branch of government. In this model “disclosures” of suspicious financial activity are received by a country’s investigative agencies from its financial sector so the judiciary powers can react (e.g., seizing funds, freezing accounts, conducting interrogations, detaining people, conducting searches, etc.).
- The **Law Enforcement Model** implements anti-money laundering measures alongside existing law enforcement systems, supporting the efforts of multiple law enforcement or judicial authorities with concurrent, or sometimes competing, jurisdictional authority to investigate money laundering.
- The **Administrative Model** is a centralized, independent, administrative authority, that receives and processes financial sector information and transmits disclosures to judicial or law enforcement authorities for prosecution. It functions as a “buffer” between the financial and law enforcement communities.
- The **Hybrid Model** serves as a disclosure intermediary and a link to both judicial and law enforcement authorities. It combines elements of at least two FIU models.

\*Source: Egmont Website

## Financial Monitoring Unit

- Financial Intelligence Unit of Pakistan
- A Central National Agency to receive & analyze STRs/CTRs and disseminate financial intelligence to LEAs
- FMU's Website ([www.fmu.gov.pk](http://www.fmu.gov.pk))

## Evolution

- Created in Oct 2007 and housed in SBP
- **Autonomous Body**
- **Operationally Independent**
- Reports to GC and NEC

# Financial Monitoring Unit (FMU)

FINANCIAL INTELLIGENCE UNIT OF PAKISTAN

# Scope & Operations of FMU

<p>Receive &amp; Analyze STRs/CTRs and disseminate financial intelligence to LEAs and refer matters to regulatory or administrative bodies</p>	<p>Conducting Strategic Analysis and developing typologies</p>	<p>Maintain FMU's Database of STRs/CTRs</p>	<p>Formation of Regulations concerning STRs/CTRs</p>
<p>Recommend AML/CFT measures to authorities</p>	<p>Freeze any property (for 15 days)</p>	<p>Cooperate with foreign FIUs</p>	<p>Coordinate with domestic &amp; int'l stakeholders</p>
<p>Represent at Int'l Forums</p>	<p>Coordinating NRA Exercise</p>	<p>Coordinating Mutual Evaluation Exercise</p>	<p>Coordinating FATF Action Plan</p>



Legislative Framework

UNSC Act

Anti Money Laundering

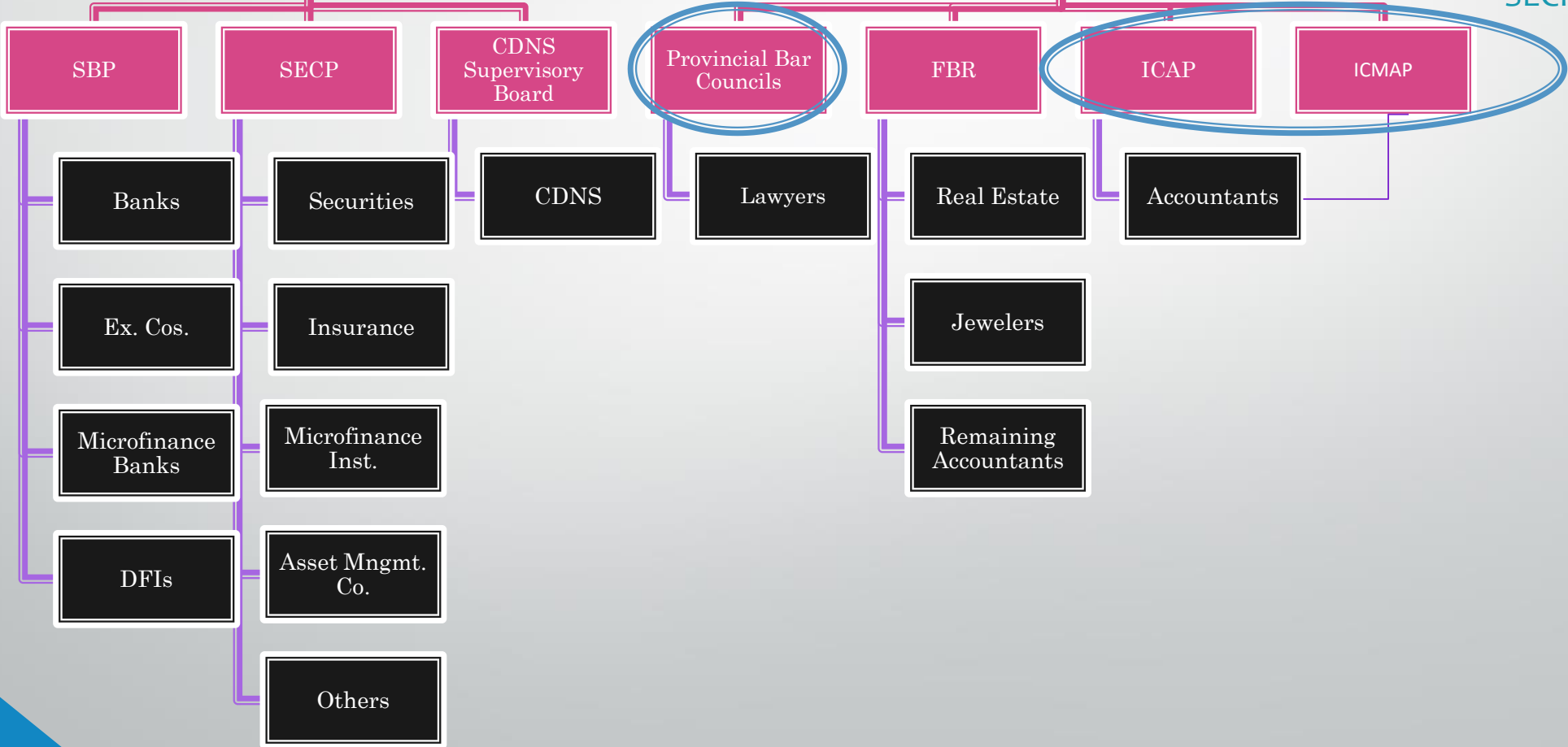
Anti Terrorism Act

AML / CFT Regulatory Authorities for FIs

AML / CFT Regulatory Authorities for DNFBPs

MoJ

SECP



# Definition of a Financial Institution

- “financial institution” includes any person carrying on any one or more of the following activities, namely:-
  - (a) acceptance of **deposits** and other repayable funds from the public;
  - (b) lending in whatsoever form;
  - (c) financial leasing;
  - (d) money or value transfer;
  - (e) issuing and managing means of payments including but not limited to credit and debit cards, cheques, traveller’s cheques, money orders, bank drafts and **electronic money**;
  - (f) financial guarantees and commitments; and

# Definition of a Financial Institution

(g) trading in —

(i) money market instruments;

(ii) foreign exchange;

(iii) exchange, interest rate and **index instruments**;

(iv) transferable **securities**;

(v) **commodity futures trading**;

(h) participation in shares issues and the provision of services related to such issues;

(i) individual and collective **portfolio management**;

(j) safekeeping and administration of cash or liquid securities on behalf of other persons;

(k) investing, administering or managing funds or money on behalf of other persons;

(l) insurance business transactions;

(m) money and currency changing; and

(n) carrying out business as **intermediary**;

# Currency Transaction Report

- Requirement under section 7(3) of AML Act
- Defined in section 2(xi)
- General exemption of reporting for transactions with financial institutions, departments/agencies of federal/provincial/local governments and statutory bodies
- Discretionary exemption for 'Qualified Business Customer'

'Threshold for CTRs in countries is usually Dollars 10,000 and on the basis of aggregation'

'Threshold for CTRs in Pakistan is PKR 2 million and on a single transaction'

# What is Suspicious Transaction?



Money  
Laundering

Terrorism  
Financing

Proliferation  
Financing



# Identification of Suspicious Transactions



Internal Transaction Monitoring Systems



Red Flag Indicators



Front Desk Employees/ Market Information



External Information

Adverse Media Reports  
Social Media  
Red Books  
Sanction Lists

# STR Reporting – AML Act

**7. Procedure and manner of furnishing information by reporting entities.—(1)** Every reporting entity shall file with FMU, to the extent and in the manner prescribed by the FMU, Report of Suspicious Transaction conducted or attempted by, at or through such reporting entity, **if it knows, suspects or has reason to suspect** that the transaction or a pattern of transactions of which the transaction is a part,-

- (a) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise proceeds of crime;
- (b) is designed to evade any requirements of this Act;
- (c) has no apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction; or
- (d) involves financing of terrorism, including fund collected, provided, used or meant for, or otherwise linked or related to, terrorism, terrorist acts or organizations and individuals concerned with terrorism:

**Provided that STR shall be filed by the reporting entity with the FMU promptly.**

(2) Any government agency, autonomous body, oversight body for SRB, AML/CFT regulatory authority, domestic or foreign, may share intelligence or report their suspicions within the meaning of STR or CTR to FMU in normal course of their business and the protection provided under section 12 shall be available to such agency, body or authority.

# STR Reporting – AML Act

**7D. Inability to complete CDD and tipping off.**— (1) Where a reporting entity is unable to complete CDD requirements, it—

(a) shall not open the account, commence business relations or perform the transaction; or shall terminate the business relationship if any ; and **(b) shall promptly consider filing a Suspicious Transaction Report in relation to the customer.**

(b) Where a reporting entity forms a suspicion of money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the customer, **the reporting entity shall not pursue the CDD process and shall file a STR.**



# SECP (AML/CFT/CPF) Regulations, 2020

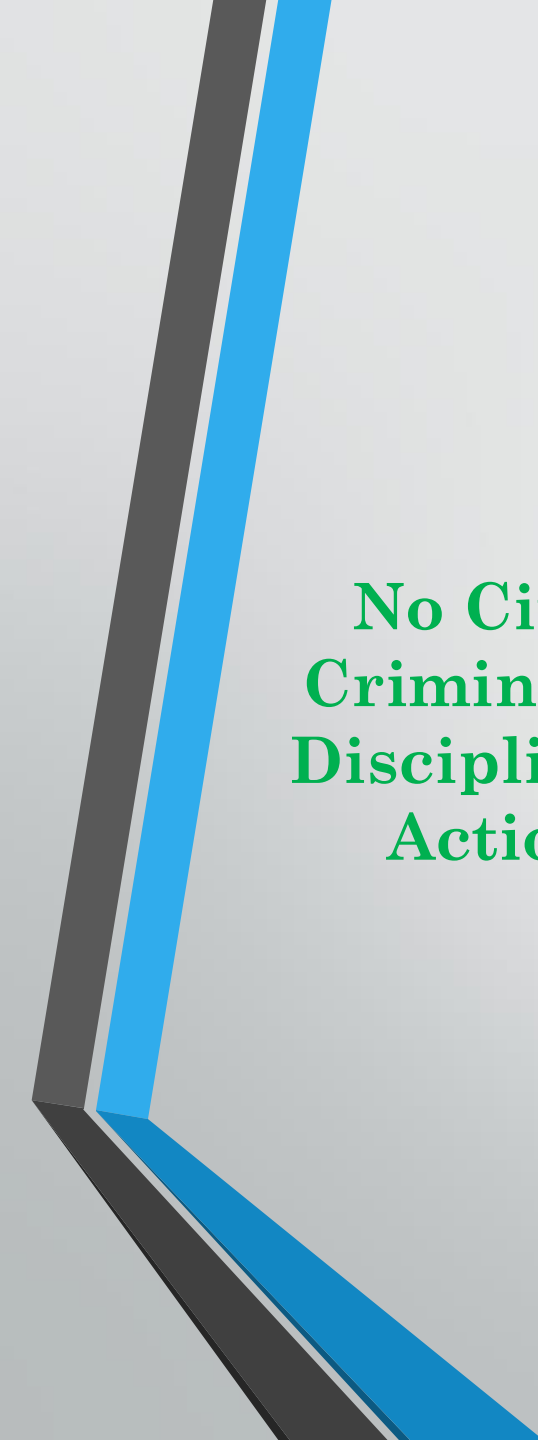
25. (1) The regulated person shall undertake TFS obligations under the United Nations (Security Council) Act 1948 and/or Anti-Terrorism Act 1997 and any regulations made there under, including:

(a) develop mechanisms, processes and procedures for screening and monitoring customers, potential customers and beneficial owners/associates of customers to detect any matches or potential matches with the stated designated/proscribed persons in the SROs and notifications issued by MoFA, NACTA and MoI.

(b) If during the process of screening or monitoring of customers or potential customers the regulated person finds a positive or potential match, it shall immediately: i. freeze the relevant funds and assets without delay the customer's fund/ policy or block the transaction, without prior notice if it is an existing customer in accordance with the respective SRO. ii. prohibit from making any funds or other assets, economic resources, or financial or other related services and funds in accordance with the respective SRO iii. Reject the transaction or attempted transaction or the customer, if the relationship has not commenced.

**(c) In all cases referred to in (b), the regulated person shall file a suspicious transaction report to the FMU in case that person is designated under United Nations Security Council Resolutions, or proscribed under the Anti-Terrorism Act, 1997 and simultaneously notify the Commission in the manner as may be instructed from time to time by the Commission.**

(d) implement any other obligation under the AML Act 2010, United Nations (Security Council) Act 1948 and Anti-Terrorism Act 1997 and any regulations made there under.



**No Civil,  
Criminal or  
Disciplinary  
Action**

**12. No civil or criminal proceeding against reporting entities in certain cases.** — Save as otherwise provided in section 7, the reporting entities and their officers including but not limited to directors, chief executive, chief financial officer, employees, agents of the reporting entity or other authorized officers of a reporting entity shall not be liable to any civil, criminal or disciplinary proceedings against them for furnishing information required under this Act or the rules or regulations made thereunder in good faith.

**33. Liability for failure to file STR and for providing false information**

**33. Liability for failure to file STR and for providing false information.**— (1) Whoever willfully fails to comply with the STR requirement as provided in section 7 or give false information shall be liable for imprisonment for a term which may extend to five years or with fine which may extend to five hundred thousand rupees or both.

(2) In the case of the conviction of a reporting entity, the concerned AML / CFT regulatory authority may also revoke its license or registration or take such other administrative action, as it may deem appropriate.

**34. Disclosure of information  
(Tipping off)**

**34. Disclosure of information.—**

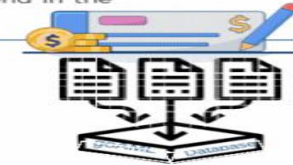
- (1) The directors, officers, employees and agents of any reporting entity or intermediary which report an STR or CTR pursuant to this law or any other authority, are **prohibited from disclosing, directly or indirectly, to any person that the transaction has been reported** unless there are disclosure agreements for corporate groups in accordance to regulations made hereunder; and
- (2) A violation of the sub-section (1) is a criminal offence and shall be punishable by a **maximum term of five years imprisonment** or a **fine which may extend to two million rupees or both.**
- (3) Any confidential information furnished by a reporting entity or any other person under or pursuant to the provisions of this Act, shall be kept **confidential by the FMU, investigation agency or officer** as the case may be.



**32,072**

### Suspicious Transaction Reports

In this time frame, FMU introduced a new STR type, named **STR-T**, which delves into all aspects of Trade-Based Money Laundering (TBML). The STR reporting also witnessed an increasing trend in the current year.



### Currency Transaction Reports

In 2023, Reporting Entities submitted over 6.8 million Currency Transaction Reports (CTRs) for transactions of Rs. 2.0 million and above, marking a **6% increase** from the previous year.

**6,853,600**



**805**

### Proactive Financial Intelligence

The highest number of proactive financial intelligence disseminations in 2023 targeted offences such as **Tax Evasion, Hawala/Hundi, and Terrorism Financing**.

### Reactive Financial Intelligence

FMU provided 877 reports to requesting stakeholders concerning **54,354 parties**, including Individuals, Entities, and Accounts.

**877**



**06**

### Strategic Analysis Report

In 2023, FMU has conducted **06 strategic analysis** on following areas.

- ML/TF Risks Associated to Hawala/Hundi
- ML/TF Risks Associated to Frequent Foreign Remittances-UAE
- ML/TF Risks Associated to Afghan Nationals/Refugees/Migrants in Pakistan
- ML/TF Risks Associated to Branchless Banking Sector
- ML/TF Risks Associated with NPOs
- Strategic Analysis Report on Proscribed Individuals Linked with EOCs

### International Cooperation

In 2023, FMU fostered international collaboration by signing MoUs with counterpart Financial Intelligence Units (FIUs) of South Africa, Japan, and Indonesia which brings the total number to **18 MoUs** signed with different FIUs. The year saw the processing of 102 international cooperation requests.

**102**



**42**

### Capacity Building Sessions for Stakeholders

FMU's focus in 2023 remained on capacity building of its different stakeholders, with 42 awareness sessions either organized by FMU or conducted in collaboration with other stakeholders such as UNODC, ADB, FINTRAC etc. While **18** of these sessions were tailored for **Reporting Entities** and **24** for **Law Enforcement Agencies (LEAs)**.

The goAML taskforce and FMU compliance team conducted **05 compliance meetings** to share feedback on quality of STR reporting.

### Circulars and Guidelines

In 2023, FMU also issued **02 guidance documents** for Reporting Entities.

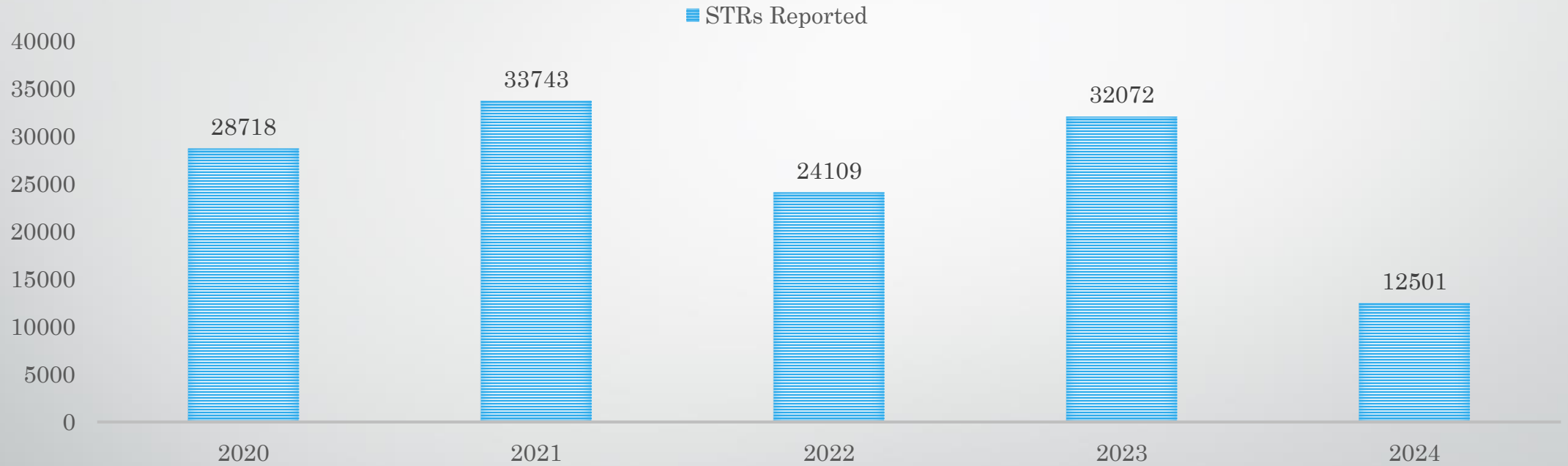
- Guidance Document on ML/TF Risks Associated with Hawala/Hundi
- Guidance Document on Financial Frauds

**02**



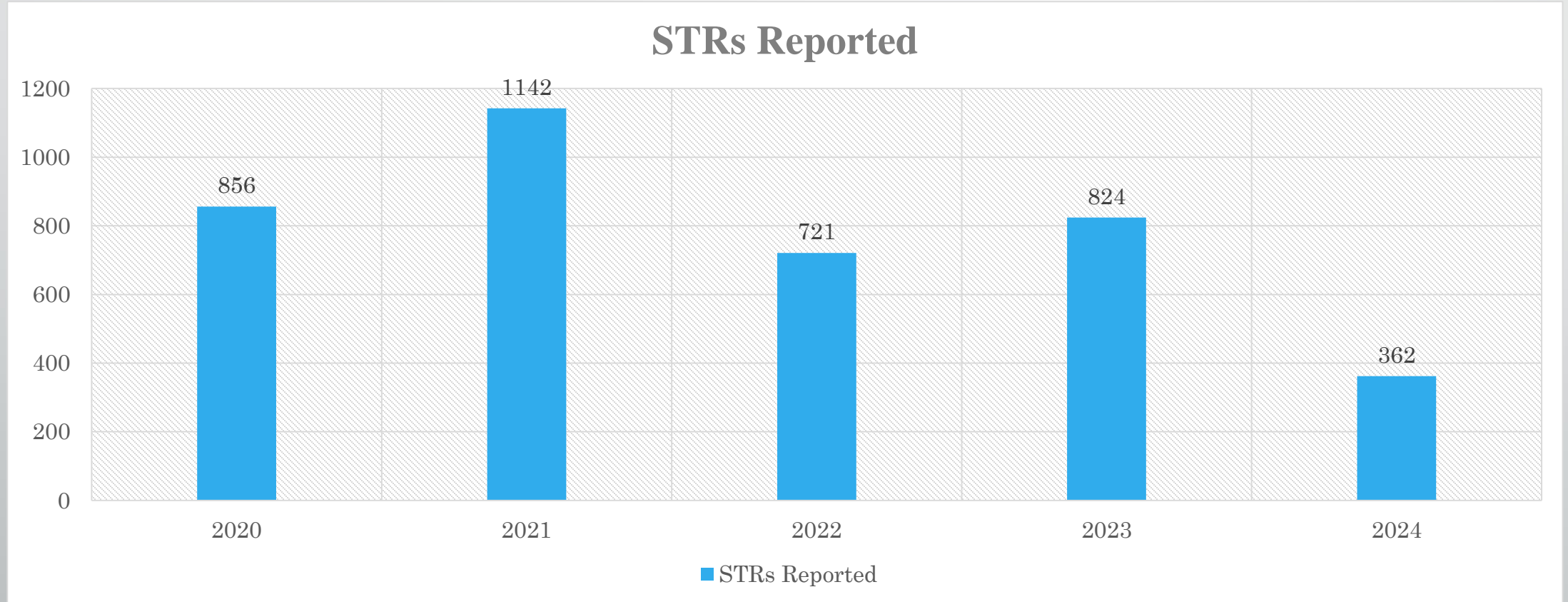
# Overall Statistics on STRs at FMU

(Apr, 2024)



# Reporting Statistics for SECP Regulated Entities

(Apr, 2024)



# Some Clarifications/Guidelines Issued to Reporting Entities

- **Confidentiality with respect to STR/CTR information and records**
  - Reference to section 34(1) & 7(6) of AML Act, 2010
  - Ensure confidentiality and only sharing with authorized agencies/persons
  - Assessment of legal mandate
  - Refer such matters to FMU and guide LEAs to coordinate with FMU
- **Guidelines for Financial Institutions on Tax Amnesty Scheme for Construction Sector**
  - The Tax Amnesty Scheme does not provide immunity from the application of Anti-Money Laundering Act, 2010.
  - Measures including customer due diligence, reporting of suspicious transactions and currency transactions



# Some Clarifications/Guidelines Issued to Reporting Entities

- **Guidelines on Reporting of STRs on Designated/Proscribed Individuals/Entities and their Associates**
  - Complete details of suspect including the details of linked individuals/entities
  - Data Quality of Report
  - Relationship & Transactional Analysis
  - Counterparty details
  - Delisting of persons/entities
- **Guidelines for the Reporting Entities on filing of Suspicious Transaction Reports and Currency Transaction Reports**
  - Comprehensive Guidelines for Reporting of STRs/CTRs
  - Covers both legal & operational aspects
  - Defines in depth the Process of Filing of STRs/CTRs on goAML
  - Address issues identified in reporting of STRs/CTRs

# STR Reporting guidance on attempted transactions by proscribed/designated individuals

## Do Not Report

- Attempt of Balance inquiry or account statement inquiry
- Attempt to login account on mobile applications
- Mobile top-up attempts
- Attempt to pay utility bills, school fee, university fee or other educational institutions fee or testing service fees

## Consider Reporting When

- Information which is previously unknown or may help to identify any close associate of proscribed/designated individuals

## Points to Consider

- Focus on transactions attempted by proscribed/designated individuals to other individuals/ entities
- Provide complete details of the attempted transaction in the reason for reporting field of the STR, including Date of transaction, Nature of transaction, Amount involved in transaction, Transaction location, Detail of counterparty(ies), Name of foreign country and detail of remitter in case of foreign remittance, and Reason for rejection of transaction/Account opening

## **Guidelines for Reporting Suspicious Transaction Reports (STRs) on Cancellation / Blockage of CNICs / Passports & Registrations / Licenses by the Authorities**

- STRs escalated just on the basis of blocking/cancellation without any analysis
- The reporting be made when there is a suspicion of ML/TF/PF or other crimes
- STR reporting shall be on multi factor approach
- Also includes indicators

# STRs based on inquiries from Law Enforcement Agencies (LEAs) and Regulators

- STRs reported solely on the basis of inquiry letters
- Lack thorough analysis
- Reported against inoperative accounts, accounts with no transactional activity or old transactions having no link with the suspected offence.
- No selection of appropriate indicators
- No indication of sharing of information
  
- High level of transactional activity conducted by the person or entity under inquiry of LEAs, which is inconsistent with the profile of that person or entity.
- High value cash transactions, transfers, foreign remittances, currency exchange, which appears to be unusual.
- The identification of transaction(s) linked with the offence for which the person or entity is being investigated or inquired.
- Transactions without economic sense/ lawful purpose.
- Lack identification and analysis of linked individuals or relationships suspectedly involved in suspicious transactional activity.

# Confidentiality of Queries Raised by the FMU

- Confidentiality Priority: Treat FMU queries with the highest level of confidentiality and prioritize them.
- Authorized Consumption: Queries are intended solely for the authorized staff of relevant compliance/liaising departments.
- Internal Communication: Do not forward/discard queries to other departments or staff. Draft separate emails for internal correspondence.
- Legal Obligation: Maintain confidentiality under Section-34 of the AML Act 2010. Disclosure is a criminal offense with severe punishments.

# FMU's Analysis Process

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# INITIAL SCREENING OF STRs

## Prioritization of STRs

Keyword Searches	Functionalities to support the mechanism	Workflow of STRs
<ul style="list-style-type: none"><li>▪ High-Risk Crimes</li><li>▪ Terrorist Organizations</li><li>▪ High-Risk Businesses/Occupations</li><li>▪ High-Risk Geographies -Domestic (include people belonging to those geographies)</li><li>▪ High-Risk Geographies -International (include people belonging to those geographies)</li><li>▪ High-Risk Products/Channels</li></ul>	<ul style="list-style-type: none"><li>▪ Keyword Search</li><li>▪ Watch lists</li><li>▪ Profile Query</li><li>▪ Indicators</li><li>▪ Volumes &amp; frequencies (P/A/E)</li><li>▪ Custom Query</li></ul>	<ul style="list-style-type: none"><li>▪ Archive</li><li>▪ Escalated in a FI</li></ul>

# Detailed Analysis (Tactical)

- FMU Database Search
  - External Databases Searches (public & private)
  - Reviewing A/c Opening and KYC/CDD Forms
  - Reviewing other transactions/relationships
  - Statement of Accounts
    - Analysis of Transactions in A/c
    - Focus on out-of-pattern transactions
  - Identify transactions for further analysis
    - Counterparty details
    - Relationships b/w individuals / businesses
  - Soliciting ancillary information e.g., KYC/CDD details of Linked accounts, comments on account conduct, instruments copies, etc.







**STRATEGIC  
ANALYSIS  
OF STRs**

Inward/Outward Remittances

Human Trafficking

Drug Trafficking

Branchless Banking

Hawala/ Hundi Business

Virtual Currency

Afghan Nationals

High Value Cash Transactions

Misuse of NPOs

Misuse of Donations

Trade-Based Money Laundering (TBML)

Jewelers and Gemstone Dealers in Pakistan

Real Estate

Petroleum Sector

Misuse of Prize Bonds

Cash Couriers

Proscribed or Designated Individuals/Entities and their Associates

# Dissemination

## Law Enforcement Agencies Section 6(4)(c)

- Federal Investigation Agency (FIA)
- National Accountability Bureau (NAB)
- FBR- Customs
- FBR- Inland Revenue
- Anti Narcotics Force (ANF)
- Counter Terrorism Departments (CTDs)

## Regulators/SRBs Section 6(5)

- State Bank of Pakistan (SBP)
- Securities and Exchange Commission of Pakistan (SECP)
- Federal Board of Revenue
- National Savings (AML and CFT) Supervisory Board
- Pakistan Post (AML and CFT) Supervisory Board
- Institute of Chartered Accounts of Pakistan
- Institute of Cost and Management Accountants of Pakistan
- Pakistan Bar Council

# Feedback

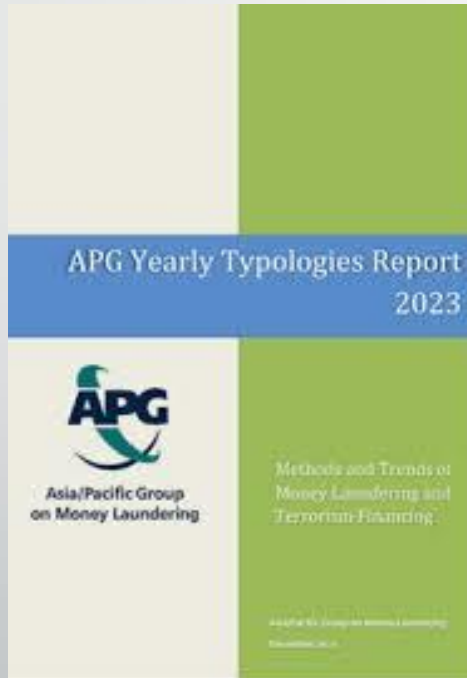
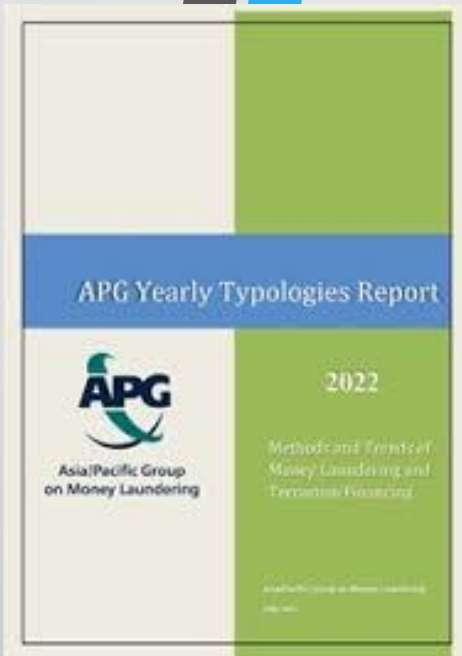
## **Feedback from LEAs/Regulators**

- LEAs provide feedback on the disseminated STRs, and they also seek FMU's assistance in their own cases on confidential basis
- Standard feedback form is shared along with the Intelligence Disseminated
- Periodic feedback also provisioned on agreed format

## **Feedback to REs**

- Feedback is provided on case-to-case basis
- Typologies, Case Studies, Strategic Analysis, etc. prepared and shared on FMU Website
- Compliance Forum Meetings held with REs in which feedback is provided
- One on One meetings held with Reporting Entities to provide feedback
- Many other clarifications and documents developed
- Circulation of various red flags

# Pakistan's contribution in APG Typologies Projects



- Pakistan's 09 case studies were published in APG's Typologies Report of 2022.
- Pakistan's 12 case studies were published in APG's Typologies Report of 2023.
- The areas in which these typologies were published include:
  - Hawala
  - Corruption
  - Tax evasion
  - TF
  - Fraud
  - Ponzi Scheme
  - Standalone ML; trade in precious metals and stones
  - Drug Trafficking
  - Use of virtual assets
  - Misuse of legal persons
  - TBML
  - Smuggling



# Reporting of STRs & CTRs on goAML

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Shahzad Hussain

# goAML - Intro

goAML is a suite of tools developed by UNODC specifically for FIUs as a global response to ML & TF

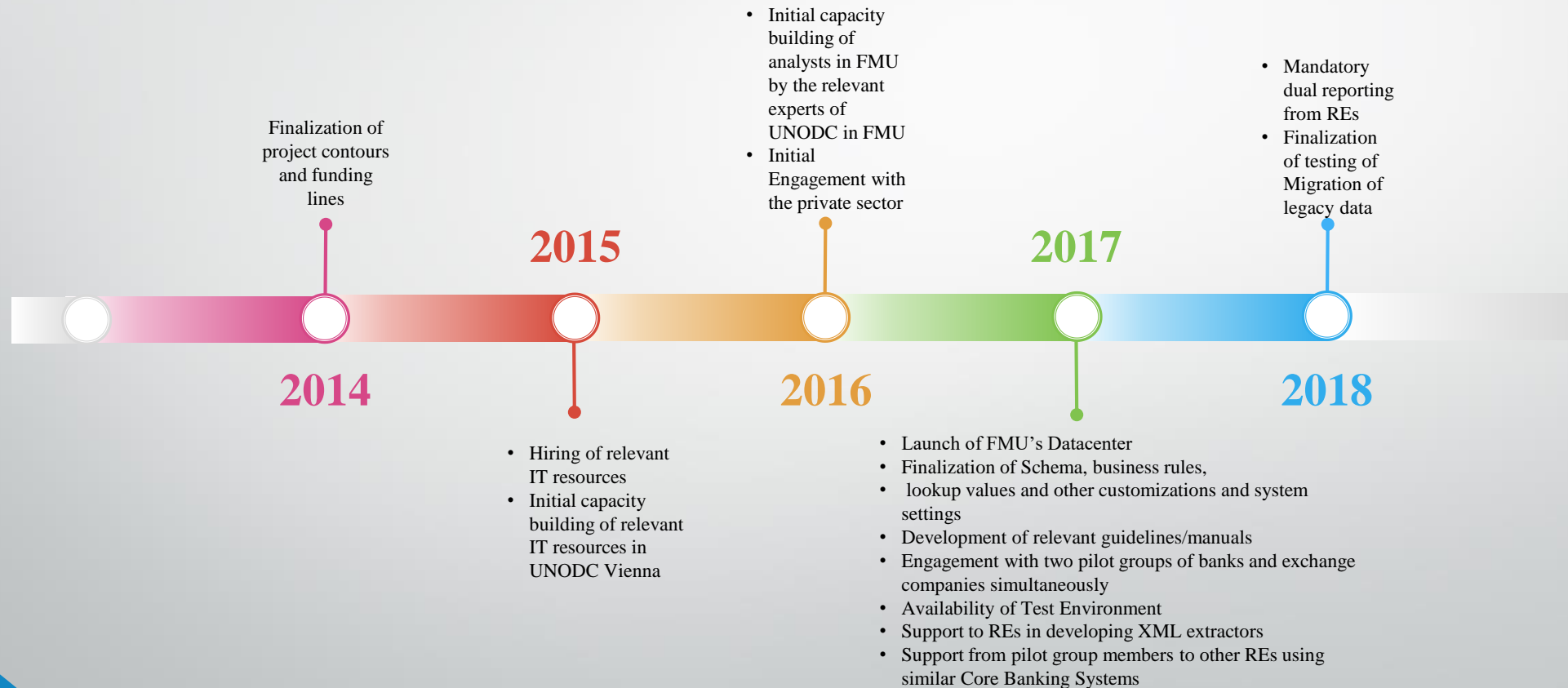
goAML is a complete suite of tools from data collection to dissemination of intelligence

It enables reporting entities to report STRs/CTRs online

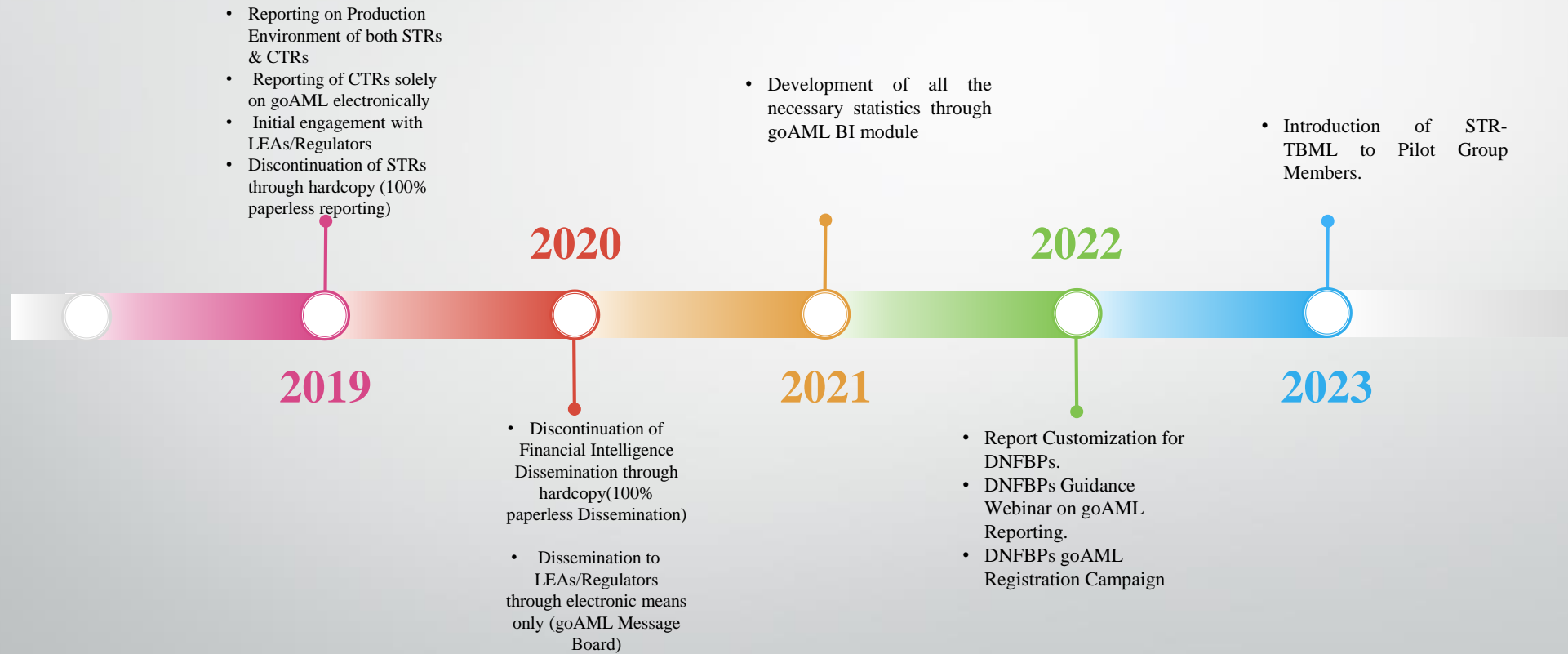
## goAML Rollout to Reporting Entities

- Pilot Groups
- Capacity Building of REs for goAML
- Test Environment
- Live Environment

# FMU's goAML Project Journey



# FMU's goAML Project Journey





# How to Report on goAML

Follow below mentioned online link

- <http://www.fmu.gov.pk/goaml>

Register Organization (Organization ID)

Register as reporting person (using Organization ID)

STRs/CTRs can be reported on goAML via two modes:

- goAML Web Reports
- goAML XML Reports

Any query pertaining to reporting of STRs/CTRs can be referred through:

- [goamlhelpdesk@fmu.gov.pk](mailto:goamlhelpdesk@fmu.gov.pk) or goAML Message Board

## Total Registered Reporting Entities on goAML (As on 30<sup>th</sup> April 2024)

Total Registered REs (Active) as on 30 <sup>th</sup> April 2024			
Agency Type	Total Number of REs Registered on goAML		
<b>Reporting Entities from DNFBPs Sector of Pakistan</b>		<b>DNFBPs REs Total</b>	
Real Estate	1450	<b>1,805</b>	
Dealers in Precious Metals and Stones (DPMS)	85		
Accountants (FBR)	195		
Accountants (ICAP)	67		
Accountants (ICMAP)	8		
<b>SECP Regulated REs</b>		<b>SECP REs Total</b>	
Asset Management Company	24	<b>462</b>	
Brokerage House	272		
House Finance Service	2		
Insurance Company	48		
Investment Finance Services (Non-Banking)	38		
Leasing Company	5		
Micro Finance Institutions (MFIs)	37		
Modaraba Company	23		
REIT/Funds Management Company	13		
<b>SBP Regulated REs</b>			<b>SBP REs Total</b>
Development Financial Institution	10		<b>99</b>
Electronic Money Institution (EMI)	7		
Exchange Company (A)	37		
Foreign Bank	4		
Islamic Bank	6		
Microfinance Bank	12		
Private Commercial Bank	14		
Public Bank	5		
Specialized Bank	4		
<b>Central Directorate of National Savings</b>		<b>1</b>	
<b>SBP BSC</b>		<b>1</b>	
<b>Total Number of Registered Reporting Entities on goAML as on 30<sup>th</sup> April 2024</b>		<b>2,368</b>	

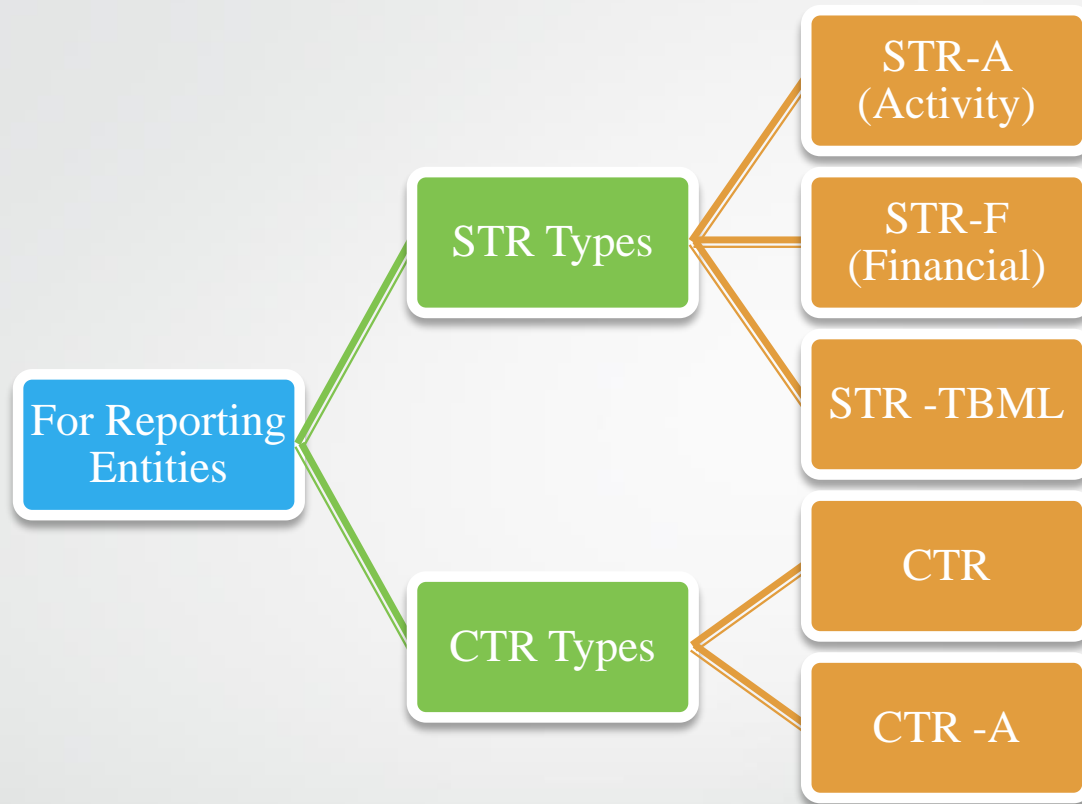
# Registration Timeline

(Feb 15, 2024)



# How to Report on goAML

- There are 3 types of report submission:
  - Web Report
  - XML File Upload
  - Direct Interface



## Report Types on GoAML

# Components of Report

Report Type

Report  
Reference  
Number

Reason

Action Taken

Reporting  
District

Report  
Indicators

Parties or  
Transactions

Attachments

# Reporting of STR-A

3 types of parties can be reported in Activity based STRs (STR-A)

- Person
- Account
- Entity

If an entity or person is maintaining any type of relationship with the bank than it should be reported as **Account**.

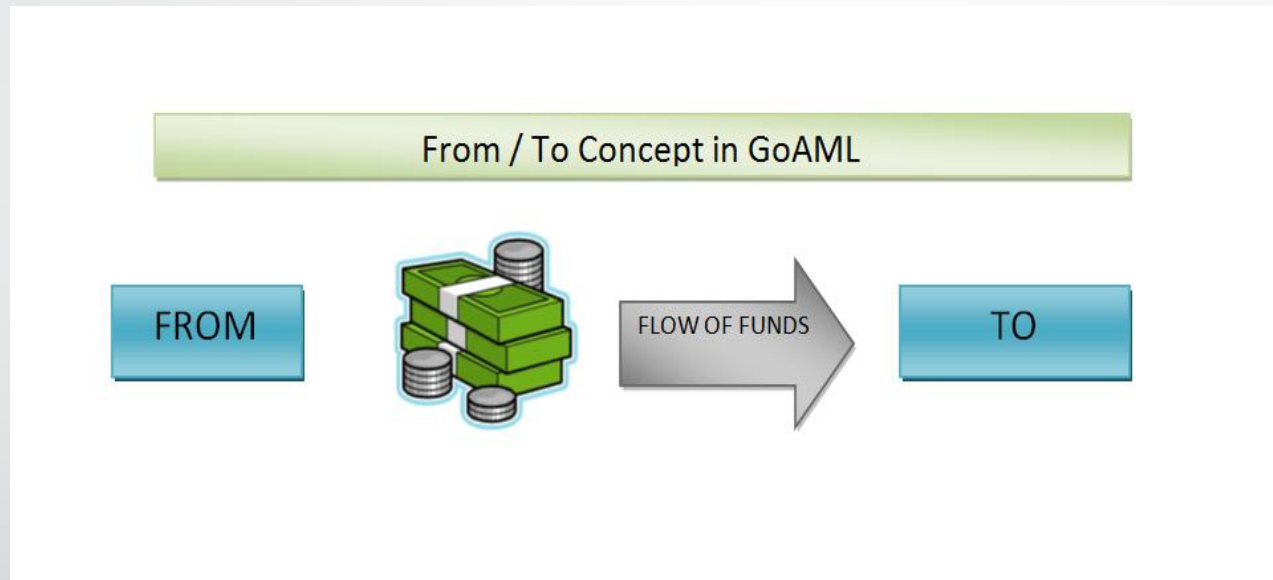
Party Type Person should be reported for walk-in Customers

More than two parties can be reported in same STR-A

Minimum requirement for reporting a party is Name of the party and a unique identified of the party.

# Reporting of STR-F

Transaction reporting in goAML is based on the concept of “Flow of Funds”



- This concepts capture the detail of conductors or counterparties, if transactions are reported in good manner.



# After Submission requirements

The STRs submitted on goAML passes through three filters for final acceptance:

- Data Validation by the system
- System based rules
- FMU compliance team

## Status of report

- Failed Validation
- Transfer from Web
- Processed
- Rejected

Acknowledgments from FMU

# Resubmission of rejected STRs

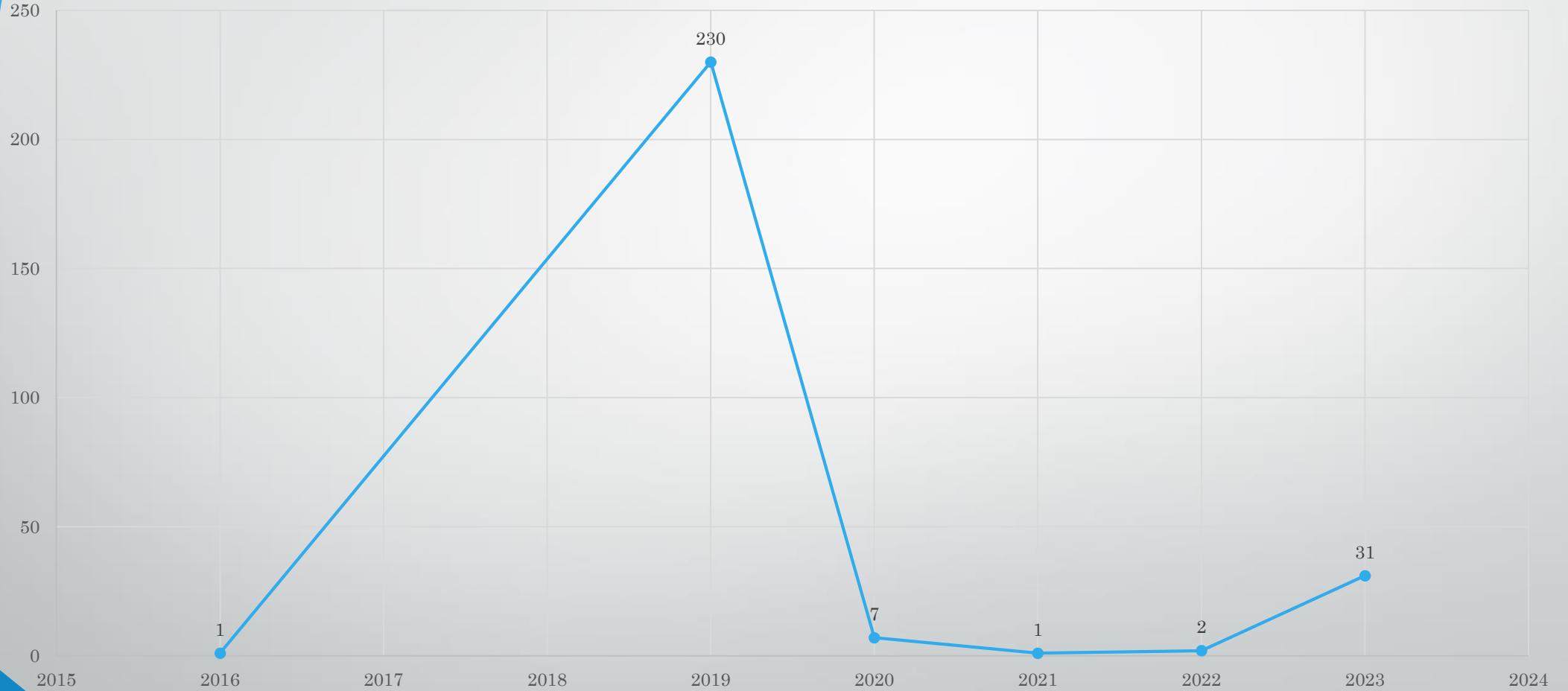
- Rejected STRs must be resubmitted to FMU
- FMU prepares stats of rejected STRs and goAML allows to compile compliance cases
- Rejected STR must be reverted
- Sole responsibility of Reporting Entity to resubmit the rejected STR
- Use of Message Board for internal communication
- Preparation of backups for reporting on goAML



# Sector Assessment

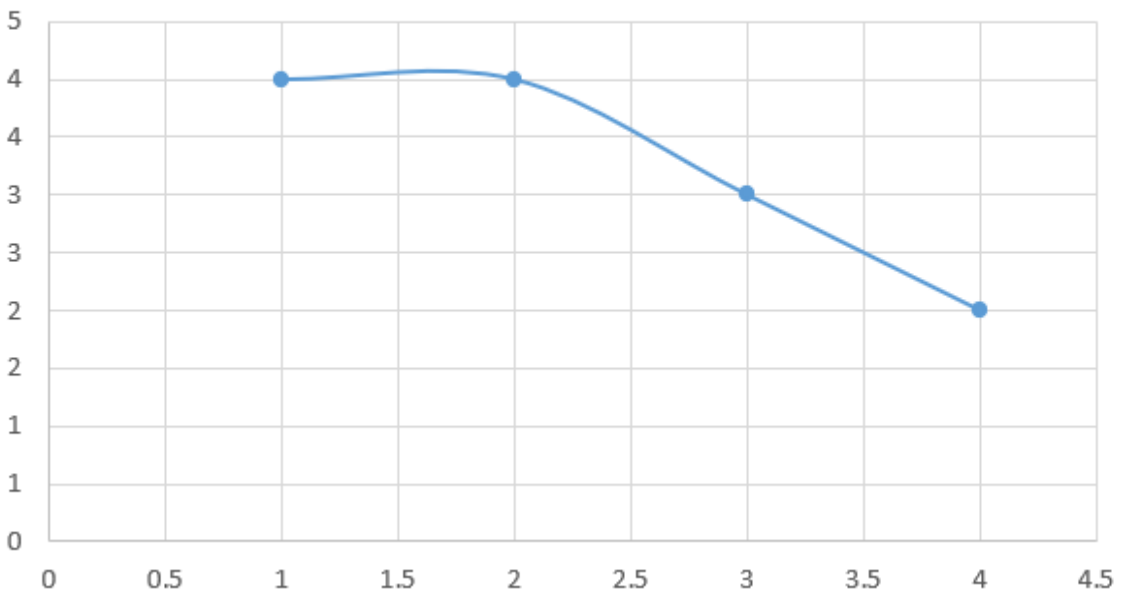
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# Registration Timeline

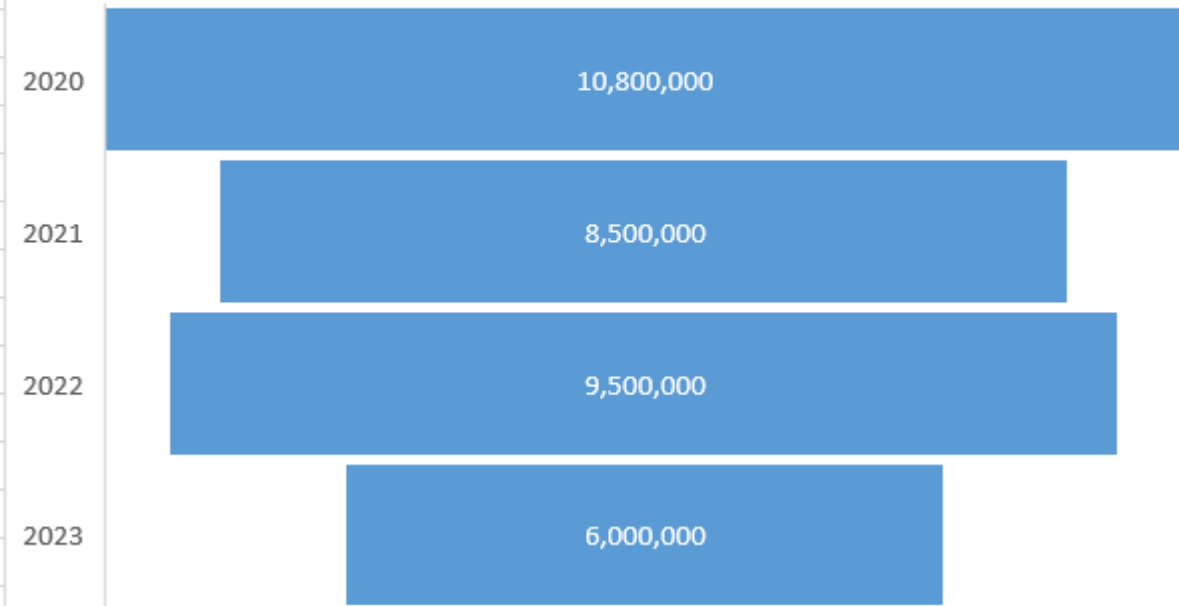


# CTR Reporting

Transaction Count

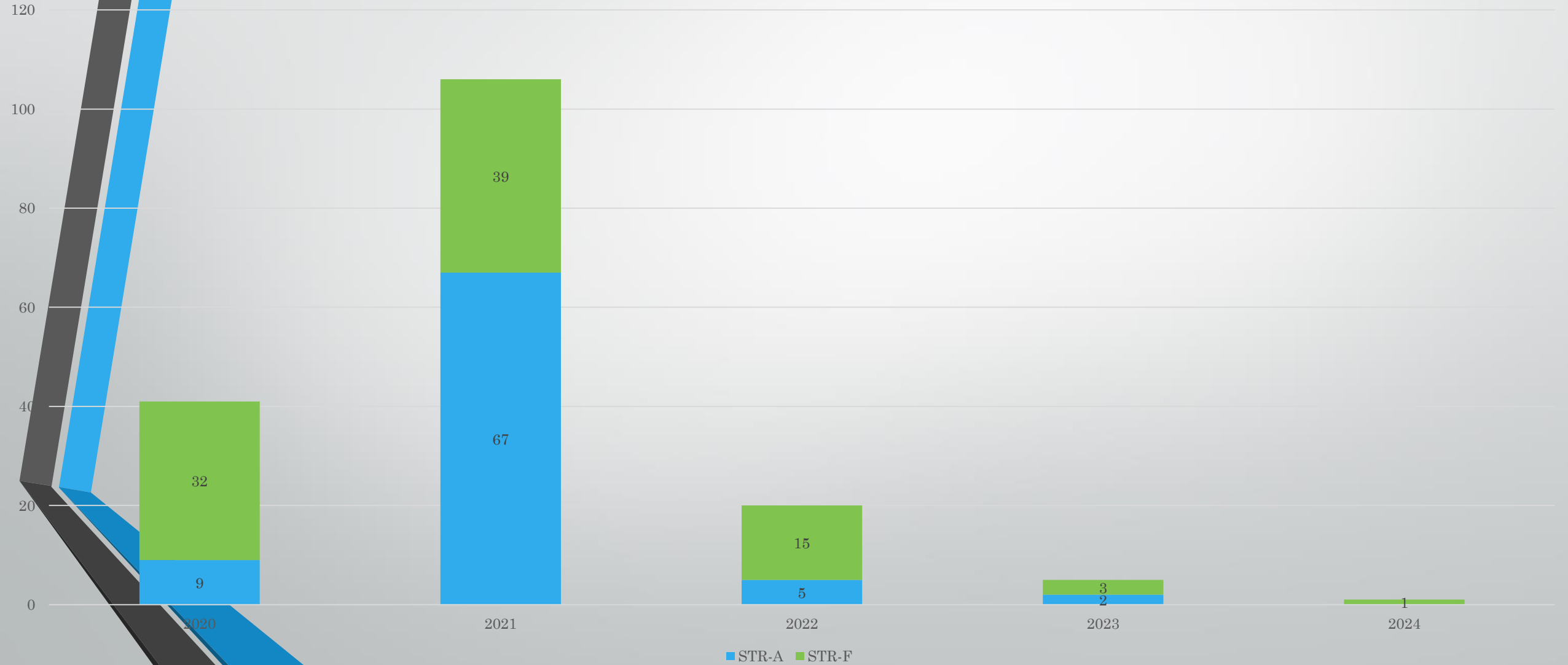


Amount Involved



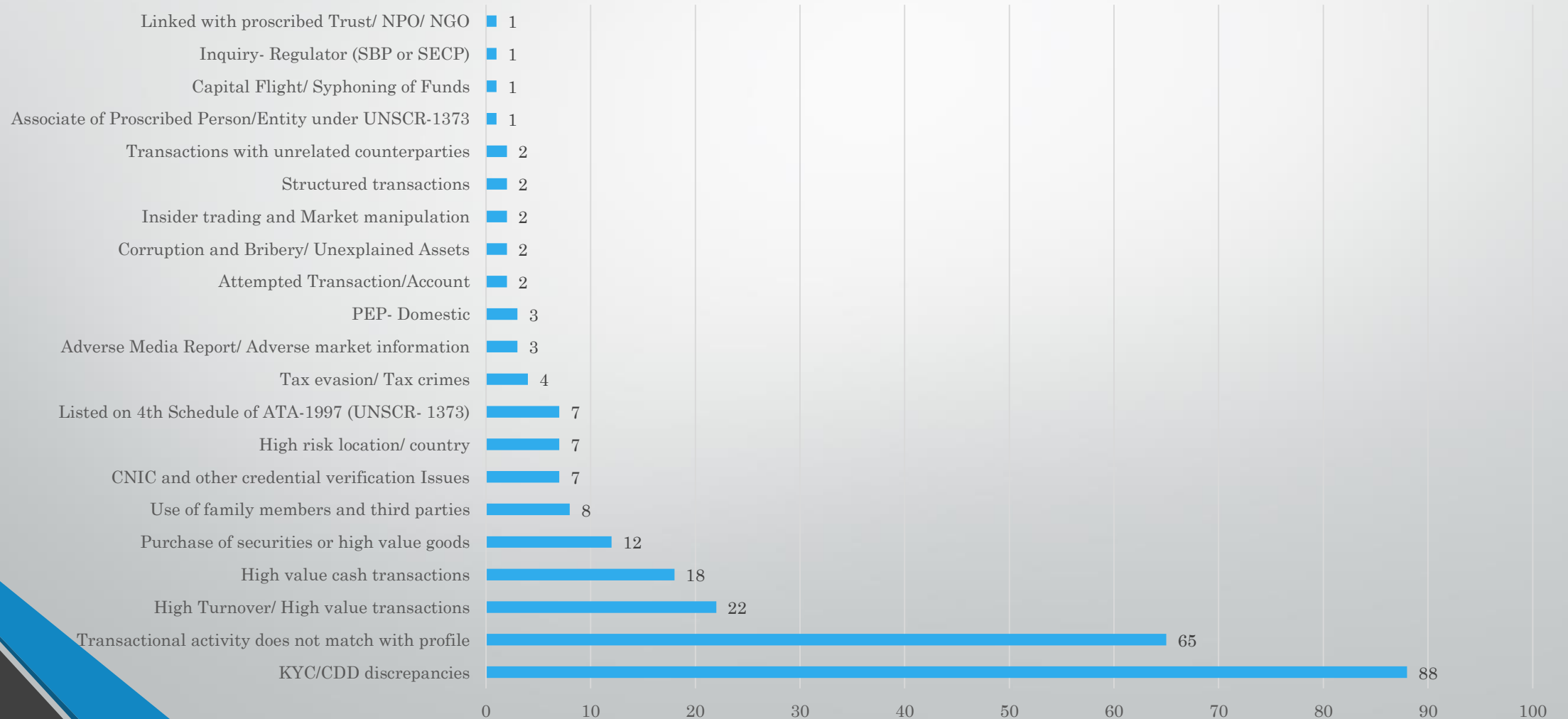
Year	Transaction Count	Amount
2020	4	10,800,000
2021	4	8,500,000
2022	3	9,500,000
2023	2	6,000,000
<b>Grand Total</b>	<b>13</b>	<b>34,800,000</b>

# STR Reporting



# STR Indicators

Indicator Count



# Observations in Reporting from Brokerage Houses - 2023

- 5 STRs reported in 2023
- 2 STR-As reported while 3 STR-Fs reported
- All STRs reported in the first six months period
- 3 from Karachi while 1 from Lahore & Islamabad each
- 4 Brokerage Houses reported out of 272 registered on goAML
- Reported against general indicators like HTO and profile mismatch while one reported on a person listed on 4<sup>th</sup> Schedule
- 5 CTRs have been reported by 4 Brokerage Houses



# General Issues

- Overall declining trend in reporting
- Reporting of STRs by certain entities only
- Reporting not demonstrating high-risk predicate crimes
- More focus on activity-based reports
- Selection of sole indicator
- Conversion of STRs into Financial Intelligence
- Reports rejected not resubmitted



# Red Flag Indicators

# Predicate offences related to the securities sector

- Insider Trading
- Market Manipulation
- Securities Fraud

# Red flags / high-risk indicators

## Insider Trading

- The customer makes a large purchase or sale of a security, or option on a security, shortly before news is issued that affects the price of the security.
- The customer is known to have friends or family who work at or for the securities issuer.
- The customer lives in the locality where the issuer is located.
- The customer's purchase does not correspond to his or her investment profile. For example, the customer may never have invested in equity securities, but does so at an opportune time.
- The customer's account is opened or significantly funded shortly before a purchase.
- The customer sells his or her position in a security in conjunction with a significant announcement about the security.

# Red flags / high-risk indicators

## Market Manipulation

- The customer engages in large or repeated trading in securities that are illiquid, low priced or difficult to price.
- The issuing company has no apparent business, revenues or products.
- The issuing company has experienced frequent or continuous changes in its business structure and/or undergoes frequent material changes in its business strategy or line of business.
- The officers or insiders of the issuing company are associated with other low priced, illiquid or low volume companies.
- The officers or insiders of the issuing company have a history of regulatory violations.
- The issuing company has failed to make required regulatory disclosures.
- The issuing company has been the subject of a prior trading suspension.
- The customer deposits physical securities together with a request to journal the shares into multiple accounts that do not appear to be related, or to sell or otherwise transfer ownership of the shares.
- One party purchases securities at a high price and then sells them at a considerable loss to another party.
- A customer journals securities between unrelated accounts for no apparent business reason.
- A customer engages in prearranged or other non-competitive securities trading, including wash or cross trades of illiquid or low priced securities.

# Case Study

- Insider Trading

Mr. Asad is a member of Board of Directors of ABC Bank Ltd. Mr. Asad got the information that ABC Bank Ltd is going to be merged with XYZ Bank Ltd in two months as the matter was finalized in the board meeting.

Mr. Asad knew that after the spread of the news of the merger the share price of ABC Bank Ltd will hike in the stock exchange and a premium will also be paid to the shareholders at the time of merger by the acquiring entity. Mr. Asad instantly approached two businessmen Mr. Ali & Mr. Noshad and informed them of the inside news of the merger. The trio purchased various shares instantly from the market in the names of their family members / benamis to get undue benefit on the increase of the stock value and the premium which will be paid by the acquiring entity.

# Case Study

- Securities Fraud

Mr. Sultan and Mr. Khadim opened an office nearby a residential locality for the facilitation of trade of stocks in the name of SK Enterprises. They printed brochures for investment in stocks guaranteeing the profits at higher rates for investors and security of their investment. They hired various young graduates as sales representatives offering good salary and commissions. They were also able to open an account in the name of their business entity in a bank giving fake documents.

Many people were lured for the investment through sales representatives. Some people started investing in various securities. Initially, people were paid good profits on their investments. An online application was also available to check the statements of the stocks and information related to the stock balances. Suddenly, various people started investing through the company in anticipation of the heavy profits. Finally, after looting a substantial amount from general public, the owners of the business transferred all the funds abroad and disappeared.

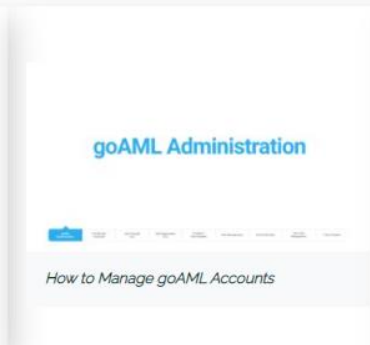
# Explainer Videos and Tutorial Videos on STR/CTR Reporting

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## AML/CFT Awareness



## goAML Tutorial Videos





# Q&A Session

