

# From Greylisting to Reform

## Pakistan's FATF Engagement, 2018–2022



The Financial Action Task Force (FATF) develops global standards to curb money laundering and terrorist financing. It evaluates countries on both technical rules and real-world effectiveness, and it places underperforming jurisdictions under “increased monitoring,” commonly referred to as the grey list. Pakistan’s engagement has involved intensive legislative reform, regulatory action, and institutional coordination to address identified deficiencies and to align with international standards



# Pakistan's FATF trajectory at a glance



**Jun 18'**

Pakistan was placed on the grey list due to structural deficiencies in its anti-money-laundering and counter-terrorist-financing framework, including gaps in law, coordination, risk assessment, and regulation of high-risk sectors such as DNFBPs.

**Oct 19'**

After initial steps, FATF noted limited progress and issued a strong call to complete outstanding actions by February 2020.

**Jun 21'**

Following an intensive legislative push, Pakistan was deemed largely compliant on 21 of 27 items, and was urged to complete the remainder.

**Feb 20'**

Pakistan was assessed as largely compliant on 14 of 27 action-plan items.

**Oct 20'**

FATF found Pakistan compliant on 26 of 27 terrorism-financing action-plan points and, in parallel, issued a 7-point action plan focused on money laundering, reflecting findings from the mutual evaluation process.

## The 27-Point Action Plan (2018): core gaps and initial response

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# 2019–2020: from piecemeal steps to whole-of-government reform

By late 2019, FATF pressed for faster progress. Pakistan established a National FATF Coordination Committee to drive cross-government delivery, mandate supervision over high-risk sectors such as real estate and precious metals, expand oversight to lawyers and accountants through their self-regulatory bodies and the FBR, and empower the Financial Monitoring Unit over transactions through Pakistan Post and National Savings. These moves sought to close supervisory gaps flagged in national risk assessments.

Between February and October 2020, Parliament passed around fifteen laws to address the remaining points, an unusually active legislative period that reflected broad political commitment to compliance.

## Pivotal Legal Instruments

### Anti-Terrorism Act (ATA) amendments, 2020

Increased penalties, broadened the scope of terrorism-financing offences, strengthened freezing and seizure, and added Section 11-000 to domesticate and enforce UNSCR 1267 and 1373 decisions

Enhanced fines and imprisonment for money laundering, tightened customer due diligence obligations, extended record-keeping, and raised penalties for failures to file STRs and for tipping off

### Anti-Money Laundering Act (AMLA) amendments, 2020

### Foreign Exchange Regulation Act (FERA) amendments, 2020

Made core offences cognizable, raised penalties, and accelerated adjudication, directly targeting illegal MVTS, including hawala and hundi

Advanced transparency in beneficial ownership to disrupt concealment of criminal proceeds

### Benami Transactions rules and ordinance

Established a comprehensive domestic framework for requesting and providing MLA, a precondition for effective investigations and confiscation across borders

### Mutual Legal Assistance (Criminal Matters) law

Collectively, these measures addressed the plan's demands for stronger sanctions, faster and more coordinated investigations, better asset freezing, and clearer legal pathways for cooperation. By October 2020, Pakistan had moved to 21 of 27 items largely compliant.

## Building investigative capability and demonstrating effectiveness

Beyond formal compliance, FATF emphasizes effective outcomes. Several reforms were designed to convert legal powers into case results:

### Investigative techniques

New Section 19-C of the ATA authorized undercover operations, interception, and digital forensics for terrorism-financing cases, reducing reliance on eyewitness testimony and improving evidentiary quality. AMLA updates enabled similar techniques for ML and predicate offences

### Joint investigations and coordination

JITs can now co-opt specialists from federal and provincial institutions, while AMLA provisions mandate cooperation across agencies, improving throughput from detection to prosecution

### Expanded remedial toolkit

Courts gained authority to forfeit substitute property where primary assets are unavailable, closing a common loophole in asset recovery

These steps supported the Action Plan's call for effective, proportionate, and dissuasive sanctions and for demonstrable results in investigations, prosecutions, and confiscations.



# Targeting illicit flows: cash couriers and informal transfer channels



FATF identified illegal MVTS and cash smuggling as high-risk channels. Pakistan responded on several fronts:

FERA amendments increased penalties and made violations permanently cognizable, enabling more decisive enforcement against hawala/hundi operators. Related offences were integrated into the AMLA schedule, allowing ML charges tied to foreign-exchange violations.

Point-of-sale integration: Federal Board of Revenue rules on online integration of businesses mandated electronic fiscal devices for retailers, a measure intended to reduce unrecorded cash transactions that facilitate ML/TF. Smuggling deterrence: changes under the Finance Act 2020–21 and related measures tightened definitions, accelerated adjudication, and broadened enforcement support against currency and goods smuggling.

These actions spoke directly to the plan's requirements on MVTS and cash-courier regimes.

## The 7-Point ML Action Plan (2021): deepening the reforms

After Pakistan reached 26 of 27 TF targets in June 2021, FATF introduced a 7-point plan to consolidate progress on money laundering.

Priorities included enhancing international cooperation, demonstrating effective supervision and sanctions for DNFBPs, increasing ML investigations and confiscations, and monitoring DNFBPs for proliferation-financing requirements with consequences for non-compliance.

### DNFBPs: regulation and supervision

A persistent weakness had been limited oversight of lawyers, accountants, real-estate agents, and dealers in precious metals and stones. By 2021–2022, Pakistan introduced AML/CFT regulations for lawyers and other independent legal professions, clarified obligations for self-regulatory bodies, and updated FBR DNFBP rules through SRO 128(1)/2022. Authorities began on-site and off-site inspections for relevant DNFBPs. These steps were reflected in upgraded ratings under Recommendation 28.

### Mutual legal assistance and cross-border action

With the Mutual Legal Assistance (Amendment) Act, 2021 and updated internal guidelines, Pakistan addressed gaps in seeking and providing assistance, freezing, and confiscation across borders. Technical ratings under Recommendations 37 and 38 improved from non-compliant to largely compliant and partially compliant respectively, marking tangible progress while leaving room for further strengthening of asset-freezing mechanisms.

### Data, statistics, and performance management

FATF expects jurisdictions to maintain robust statistics on STRs, investigations, prosecutions, convictions, and confiscations. Pakistan empowered the National Executive Committee to oversee statistics, while FMU and NACTA upgraded databases. The rating for Recommendation 33 (Statistics) improved to compliant, reflecting better evidence of system performance.

# Technical compliance and on-site validation

By early 2022, Pakistan's technical framework had been upgraded across almost the entire FATF corpus, with 38 of 40 recommendations rated largely or fully compliant. The FATF approved an on-site inspection that concluded in September 2022, the customary final step before a country exits the grey list. The dual track of action-plan delivery and mutual-evaluation follow-ups indicated that Pakistan's legal, regulatory, and supervisory architecture had been substantially realigned with FATF standards

## What changed inside the system

A credible engagement with FATF requires not only laws, but also institutions and processes that can deliver results. Several changes stand out

### Whole-of-system coordination

The National FATF Coordination Committee created a focal mechanism, aligning ministries, regulators, LEAs, and provincial authorities, and extending coverage to vulnerable sectors such as Pakistan Post and National Savings

### Risk-based adjustments

The Updated National Risk Assessment and sector-specific rules supported targeted interventions, for example on hawala/hundi and cash smuggling, which FATF singled out as high-risk channels

### Evidence-ready investigations

Expanded investigative powers, stronger inter-agency cooperation, and procedural tools to handle substitute assets increased the likelihood that cases would reach conviction and confiscation

### Sharper sanctions and direct UNSC implementation

ATA and AMLA amendments increased penalties, tightened freezing and forfeiture, and embedded compliance with UNSCR 1267 and 1373 directly into domestic law, closing a persistent enforcement gap

### Supervision beyond banks

New regulatory frameworks brought DNFBPs into scope, clarified supervisory responsibilities for self-regulatory bodies and the FBR, and operationalized inspections

## Remaining priorities

The progress recorded by 2022 reflects a sustained political commitment to FATF objectives. Continued attention is still needed in several areas, consistent with FATF's focus on effectiveness:

- Sustained enforcement against high-risk channels. The legal architecture against illegal MVTS and cash couriers now exists; it must continue to translate into seizures, prosecutions, and final confiscations that match the risk profile
- Consolidation of DNFBP supervision. Inspections and sanctions should remain consistent and proportionate, with demonstrable compliance across legal, accounting, real-estate, and precious-metals sectors
- International confiscation pathways. With MLA procedures in place, Pakistan can further strengthen freezing and confiscation outcomes linked to cross-border cases, building on the partial improvement under Recommendation 38
- Performance management. The enhanced statistics regime should continue to track STR handling, investigation throughput, conviction rates, and asset recovery, allowing authorities to calibrate resources based on measurable outcomes



# Bottom Line

Pakistan's engagement with the FATF has shifted from defensive compliance to a system-wide overhaul. The state moved from scattered measures in 2018–2019 to a coordinated reform program in 2020–2022, comprising approximately 15 legislative acts, dozens of regulatory instruments, new supervisory coverage for DNFBPs, upgraded investigative powers, and a more coherent framework for cross-border cooperation. This translated into 21 of 27 action-plan items largely compliant by October 2020, 26 of 27 TF items by June 2021, and 38 of 40 technical recommendations largely or fully compliant by early 2022, followed by an on-site inspection in September 2022. The trajectory illustrates what sustained political commitment and institutional coordination can deliver, provided that legal reforms remain anchored in measurable enforcement outcomes.