



## **RSTV SUMMARY: BIG PICTURE: FATF and Pakistan terror list**

*GS-II: Effect of Policies & Politics of Countries on India's Interests; India and its Neighborhood*

### **Introduction:**

- The Financial Action Task Force (FATF) decided to keep Pakistan in the list of "Jurisdictions under increased monitoring" or grey list till the next review of its compliance to the recommendations in February 2021.
- Pakistan has made progress across all action plan items and has now largely addressed 21 of 27 action items.

### **Background:**

- Pakistan was placed on the grey list in June 2018 and was given a plan of action to complete by October 2019 or face the risk of being placed on the black list.
- The points on which Pakistan failed to deliver included its
  - lack of action against the charitable organizations or non-profit organisations linked to the terror groups banned by the UN Security Council; and
  - Delays in the prosecution of banned individuals and entities like Lashkar-e-Taiba (LeT) chief Hafiz Saeed and LeT operations chief, Zaki Ur Rahman Lakhvi, as well as Jaish-e- Mohammad chief Masood Azhar.
- Only Saeed was sentenced for terror financing and Pakistan government claims the others are "untraceable". Queries have been raised on efforts made to trace them.
- Pakistan was found non-compliant in cracking down on terror financing through narcotics and smuggling of mining products including precious stones.
- The FATF process also showed concern about the 4,000 names that were on Pakistan's Schedule-IV list under the Anti-Terrorism Act up to January, but went missing in September 2020.

#### **What is FATF?**

- The FATF is an inter-governmental body that is now in its 30th year, working to "set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system".
- The FATF holds three Plenary meetings in the course of each of its 12-month rotating presidencies.
- It currently has 39 members, including two regional organisations — the European Commission and the Gulf Cooperation Council.
- India is a member of the FATF consultations and its Asia Pacific Group.



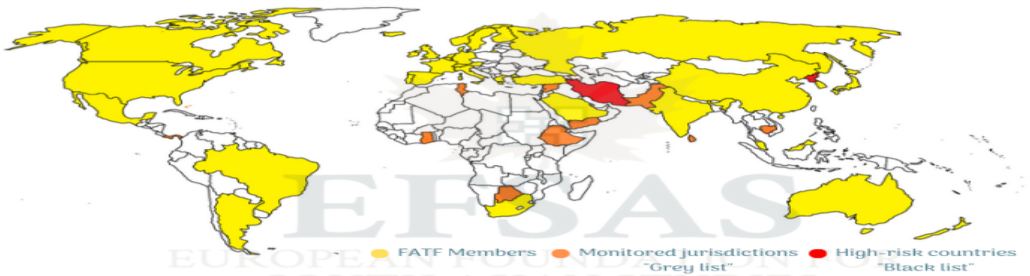
## FINANCIAL ACTION TASK FORCE (FATF)

### Mechanisms & Structure

#### WHAT DOES THE FATF DO?

- Sets international standards to combat money laundering and terrorist financing.
- Assesses and monitors compliance with the FATF standards.
- Conducts typologies studies of money laundering and terrorist financing methods, trends and techniques.
- Responds to new and emerging threats.

The FATF currently consists of 37 member States and two regional organisations (European Commission & Gulf Cooperation Council), representing most major financial centres in all parts of the globe.



#### FATF Associate Regional Members:

- Asia-Pacific Group (APG)
- CFATF
- Eurasian Group (EAG)
- ESAAMLG
- GAFILAT
- GIABA
- MENAFATF
- MONEYVAL
- GABAC

FATF  
Secretariat  
Paris

#### Other observer bodies:

- World Bank
- IMF
- OECD
- OSCE
- Asian Dev. Bank
- African Dev. Bank
- European Central Bank
- Egmont Group
- Europol & Interpol
- Eurojust
- UNODC & UNCTED

#### List of High-Risk 'Non-Cooperative Countries or Territories' ('Black list') & other monitored jurisdictions ('Grey list')

- Democratic People's Republic of Korea
- Iran

Bahamas	Botswana	Cambodia	Ethiopia
Ghana	Pakistan	Panama	Sri Lanka
Syria	Trinidad & Tobago	Tunisia	Yemen

#### Other countries stand:

- **Turkey support:** At the FATF Plenary, Turkey proposed that the members should consider Pakistan's good work and instead of waiting for completion of the remaining six of the 27 parameters, an FATF on-site team should visit Pakistan to finalize its assessment.
- On-site teams are permitted only after jurisdictions complete their Action Plans.
- Normally such a visit is a signal for exit from the grey or black list.
- When the proposal was placed before the 38-member Plenary, no other member seconded the move.
- It was **not** supported by even **China, Malaysia and Saudi Arabia**.
- China and Saudi Arabia had joined India, US and European countries, among others, to send Pakistan a stern message to complete the commitments on terrorist financing and money.



## India's stand

- India is a voting member of the FATF and Asia Pacific Group (APG), and co-chair of the Joint Group where it is represented by the Director General of India's Financial Intelligence Unit (FIU).
- Pakistan had asked for India's removal from the group, citing bias and motivated action, but that demand has been rejected.
- India was not part of the group that moved the resolution to greylist Pakistan last year in Paris. The movers were the **US, UK, France, and Germany**; China did not oppose.

## What is 'Grey List' and 'Black list'?


- The FATF "greylist" refers to countries that are under "monitored jurisdictions".
- "Blacklist" refers to those facing a "call to action" or severe banking strictures, sanctions and difficulties in accessing loans.

## What are the implications of placing a country under grey list?

### A Direct & Immediate Impact

-  **A decline in foreign transactions and foreign currency inflows** could lead to further widening of Pakistan's already large current account deficit (CAD)
-  **Financial Institutions** would be wary of transacting with Pakistani banks and some might want to even avoid Pakistan altogether
- FATF's Friday decision** could make it harder for foreign investors and companies to do business in Pakistan
-  **Accessing funds** from international markets would become tougher for Islamabad
- Islamabad would be made to go through all the (extra) scrutiny** which can hurt the economy very badly

**The financial sector** might take a hit as Standard Chartered, the largest international bank in Pakistan with 116 branches, as well as Citibank and Deutsche Bank, might decide to pull out



## Why FATF action matters?

- Pakistan faces an estimated annual loss of \$10 billion if it stays in the greylist; if blacklisted, its already fragile economy will be dealt a powerful blow.
- Pakistan's \$6 billion loan agreement with the International Monetary Fund (IMF) could be threatened.
- The IMF has asked Pakistan to show commitment against money laundering and terror financing.



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