CRMC GUIDELINES FOR DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPS) ON TARGETED FINANCIAL SANCTIONS (TFS) FOR PROLIFERATION FINANCING (PF)

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CHAPTER 1: BACKGROUND AND INTRODUCTION TO PROLIFERATION FINANCING

1. Background

What is proliferation financing?

Proliferation financing (PF) is the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and **dual-use goods** used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations[1].

In more recent times the scope of the definition of PF has been broadened to capture the various ways in which WMD proliferation can be financed and built upon[2]. They include:

a. Financial products and services directly related to trade in proliferation-sensitive goods;

b. Licit and illicit revenue raising activities facilitating proliferation financing.

c. Financial or corporate infrastructure that facilitates the first two categories above.

It is important to note that modern proliferation does not tend to involve the purchase of finished off-the-shelf weapons. Rather than purchasing and transferring a complete WMD system, most proliferators seek the individual goods and component parts needed for the development of WMD and missile programmes in order to manufacture and develop in country. As a result, procurement for their WMD programmes becomes harder to detect as goods are sought from a variety of companies in a number of different countries over a longer period of time. Disruption of one shipment is less likely to hinder the overall programme, as the goods are more easily replaceable.

The Financial Action Task Force (FATF) Recommendations 6 and 7 requires each country to implement targeted financial sanctions regimes to comply with the United Nations Security Council resolutions (UNSCRs) relating to the prevention and suppression of terrorism and terrorist financing, and proliferation and counter proliferation financing (CPF). The requirement to apply TFS in relation to these UNSCRs is a requirement in law in Pakistan. These are:

- UNSCR 1989 Al Qaida Sanctions List
- UNSCR 1988 Sanctions List (the Taliban)

[1] FATF Status Report on Combating Proliferation Financing (2010)

[2] RUSI – Guide to Conducting a National Proliferation Financing Risk Assessment, 2019

- UNSCR 1737 (Iran) Financial Sanctions List
- UNSCR 1718 (DPRK) Financial Sanctions List

The scope and nature of DPRK-related sanctions have been expanded. On the other hand, UNSCR 2231 (2015), endorsing the Joint Comprehensive Plan of Action (JCPOA), terminated previous provisions of resolutions relating to Iran and WMD proliferation, including UNSCRs 1737 (2006), 1747 (2007), 1803 (2008) and 1929 (2010), but retained TFS on a number of individuals and entities designated pursuant to these resolutions and also established new specific restrictions, including a number of other measures. TFS obligations under the country-specific approach are mandated in laws of Pakistan.

There are many other UNSCRs relating to PF, particularly in relation to the DPRK. These resolutions require broader measures to be applied against the DPRK, but for the purpose of the present guidelines these obligations will not be considered as the focus is on financial sanctions. Further details of these can be found in the CRMC Guidelines (link).

Detecting PF is very difficult, and this guidance, whilst not binding, aims to assist reporting entities to understand methods and trends which financiers of proliferation have employed and to assist and raise awareness particularly amongst Designated Non-Financial Businesses and Professions (DNFBPs)[3] about the legal obligations and risks of PF sanctions evasion in Pakistan. Annexed to this guidance is a consolidated list of all the guidance issued by various authorities on Pakistan regarding counter PF. There is a further recommended reading list containing broader material relating to this issue (see Annex 2).

The requirement for countries to implement TFS to counter PF is important to the national security of Pakistan and more broadly, to global security. The recent United Nations DPRK Panel report states the following: "*The Panel assesses, based on information provided by Member States, information obtained by the Panel and open-source reporting, that the Democratic People's Republic of Korea continues to access international financial systems through joint ventures, offshore accounts, shell companies, virtual asset service providers (e.g. cryptocurrencies) and overseas banking representatives. The illicit revenue generated from sanctions evasion activities and laundered through these networks both directly and indirectly supports the country's weapons of mass destruction and ballistic missile programmes. These networks' obfuscation methods and techniques continued to exploit those Member States with lax or minimal financial oversight, rules and regulations*[4]". This recent message from the DPRK Panel of Experts, and the increased focus from the FATF on counter PF emphasizes the need for countries to act swiftly and effectively to prevent sanctions evasion.

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[3] Whilst this Guidance is aimed at DNFBPs, it is also relevant to all Financial Institutions and organisations in Pakistan

[4] UN Panel of Expert report 2021

How is PF different that ML and TF?[5]

	ML	TF	PF
Purpose	Use of illicit funds in the regulated system	Supports terrorist activities	Acquisition of WMD
Source of funds	Internally from within criminal organizations	Internally from self-funding cells (centered on criminal activity) and externally from benefactors and fundraisers	State-sponsored programs
Conduits	Favors formal financial systems	Favors cash couriers or informal financial systems such as hawala and currency exchange firms	Favors formal financial system
Detection Focus	Suspicious transactions such as deposits uncharacteristic of customer's wealth or the expected activity	Suspicious relationships, such as wire transfers between seemingly unrelated parties	Individuals, entities, states, goods and materials, activities
Transaction Amounts	Large amounts often structured to avoid reporting requirements	Small amounts usually below reporting threshold	Moderate amounts
Financial Activity	Complex web of transactions often involving shell or front companies, bearer shares, and offshore secrecy havens	Varied methods including formal banking system, informal value- transfer systems, smuggling of cash and valuables	Transactions look like normal commercial activity, structured to hide origin of funding
Money Trail	Circular – money eventually ends up with the person who generated it	Linear – money generated is used to propagate terrorist groups and activities	Linear – money is used to purchase goods and materials from brokers or manufacturers

2. Purpose and Scope

These Guidelines provide a tool to DNBPs and AML/CFT regulatory authorities to strengthen compliance with the obligations related to the implementation of TFS related to PF, including the

[5] Table published in Brewer, J Study of the Typologies of Financing of WMD Proliferation, Project Alpha at the Centre for Science and Security Studies (CSSS) at King's College London

identification of potential sanctions evasion. The Guidelines will help the AML/CFT regulatory authorities and DNFBPs both in proactively identifying and understanding their obligations and undertaking appropriate mitigating measures.

These Guidelines are non-exhaustive and do not set any limit on the measures required to be taken in order to meet obligations under the legal and regulatory framework currently in force. It may also be noted that the Guidelines are not the only source of guidance on implementing TFS for PF and that other national and international bodies publish guidance which may be helpful in meeting respective obligations (see **Annex 2**).

Whilst this guidance focuses on DNFBPs, it is important at the outset to note that the obligation to apply targeted financial sanctions, including freezing assets of any person or entity listed in the relevant UNSCRs strictly applies to every person and entity in Pakistan.

3. The Committee for Coordination, Review and Monitoring (CRMC)

The CRMC has been established vide S.R.O. 1067(I)/2018, to effectively implement cooperation and coordination of relevant agencies domestically within Pakistan for all matters relating to PF. It is also mandated to monitor the enforcement of related UNSC resolutions and further strengthen Pakistan's PF system.

To achieve this mandate, the CRMC may issue guidelines or operational procedures to be followed by all concerned for effective implementation and enforcement of the decisions of the Federal Government taken in compliance of the United Nations Security Council (UNSCR) resolutions on PF.

4. FATF requirements relating to CPF

The FATF has issued specific Recommendations that require countries to impose obligations on DNFBPs to implement preventive measures, including specific measures for compliance with targeted financial sanctions (TFS) related to PF. This is due to the fact that international trends reveal the abuse of DNFBPs by financiers of PF to enable the financing or the movement of goods to facilitate proliferation.

FATF Recommendation 7 requires countries to effectively implement TFS to comply with the UNSCRs relating to the prevention, suppression and disruption of proliferation and its financing. The obligations apply to two country-specific regimes for the DPRK and Iran and requires countries to freeze without delay the funds or other assets of, and to ensure that no funds and other assets are made available, directly or indirectly to or for the benefit of (a) any person or entity designated by the United Nations (UN), (b) persons and entities acting on their behalf or at their direction, (c) those owned or controlled by them.

In addition, the FATF Recommendations require countries to enforce specific obligations on financial institutions (FIs) and DNFBPs and to adopt measures to effectively monitor and ensure compliance by FIs and DNFBPs with the relevant laws or enforceable means governing the obligations under Recommendation 7. The relevant AML/CFT Regulatory Authorities tasked with this in Pakistan are outlined below.

In 2020, the FATF introduced a new requirement for countries relating to PF that is not yet in force. The new FATF Recommendation 1 requires countries to identify and assess the PF risks (with risk being the potential breach, non-implementation or evasion of the targeted financial sanctions obligations relating to PF) in the country. Further, FIs and DNFBPs will in due course be required have in place processes to identify, assess, monitor, manage and mitigate proliferation financing risks. The undertaking of a risk exercise in relation to PF is not required by any law of Pakistan, and the FATF are not yet assessing countries on this requirement. Nevertheless, the CRMC encourages DNFBPs to consider their potential exposure to sanctions evasion for PF as part of their internal risk processes and this document aims to assist that process.

In addition, the FATF made changes to Recommendation 2 and a new Interpretive Note to this Recommendation was issued. The updated Recommendation 2 requires countries to have national CPF policies informed by the risks as well as references to CPF in the context of national co-operation and co-ordination. The new Interpretative Note sets out the inter-agency framework to promote domestic co-operation, co-ordination, and information exchange.

Finally, in 2021, the FATF revised the Interpretive Note to Recommendation 15 to clarify the applicability of PF risk assessment and mitigation requirements to virtual asset activities and service providers.

Pakistan is committed at all levels of government to combatting ML/TF and PF and with the implementation of UNSC Resolutions.

5. Legal Framework in Pakistan for Implementation of UNSC Resolutions related to PF

a. **United Nations Security Council Act, 1948 (XIV of 1948):** Chapter-VII resolutions of the UN Security Council are implemented in Pakistan through the UNSC Act, 1948 (XIV of 1948) as amended in 2020. The Act empowers the Federal Government to apply measures to give effect to the decisions of the UN Security Council and is the overarching law in respect of all TFS measures in Pakistan. The Ministry of Foreign Affairs (MoFA), on behalf of the Federal Government, issues Statutory Regulatory Orders (SROs) under the UNSC Act 1948. The SROs provide the full legal basis for the implementation of all aspects of the sanction's measures.

b. **Statutory Regulatory Orders (SROs)** under the UNSC Act 1948: Pakistan has issued a series of SROs to give effect to UNSC sanctions lists for DPRK designated persons (SRO 1465(I)/2019 and SRO 805(I)/2020) and for Iran designated persons (SRO 1492(I)/2019 and SRO 898(I)/2020).

c. **Export Control Act on Goods, Technologies, Materials and Equipment related to Nuclear and Biological Weapons and their Delivery Systems Act– 2004:** The Act further strengthens controls on export of sensitive technologies related to nuclear and biological weapons and their means of delivery. It also prohibits abetment. Strategic Export Control Division (SECDIV) at the Ministry of Foreign Affairs acts as licensing and implementing authority for the control lists items (available at http://www.secdiv.gov.pk/uploads/Control_Lists_4thf55d.pdf) as well as those falling under the "catch- all". Any person who contravenes any provision or attempts to commit or abets the commission of an offense, under this Act or any order, rules and regulations framed thereunder shall be tried by a Court of Session.

d. **Anti-Terrorism Act-1997 (as amended).** The ATA as amended in 2020 prescribe the penalty for violation of the relevant SROs under the UNSC Act 1948.

e. **Anti-Money Laundering Act-2010 (as amended).** The AMLA empowers all AML/CFT regulatory authorities for DNFBPs to supervise compliance with TFS for PF obligations. The AML/CFT regulatory authorities are further empowered to enforce compliance with TFS by imposing sanctions, including monetary and administrative penalties on any of their respective REs that fail to comply with the relevant TFS obligations.

f. **SRO 1067(I)/2018 dated 28 August 2018:** constituted an Inter-Ministerial Committee for Coordination, Review and Monitoring (CRMC) responsible for the coordination, review and monitoring of implementation and enforcement of the CPF laws in place in Pakistan and to issue guidelines/operational procedures where required.

g. **AML/CFT sanctions rules 2020:** The Sanction Rules are applicable to all DNFBPs and provide for monetary and administrative penalties for breaches of compliance of AML/CFT obligations, including TFS PF obligations.

h. **AML/CFT sectorial regulations**: The various AML/CFT regulatory have issued sectorial AML/CFT regulations that include TFS PF obligation:

  i. Federal Board of Revenue Anti Money Laundering and Countering Financing of Terrorism Regulations for DNFBPs, September 2020.

  ii. Anti-Money Laundering and Combating Financing of Terrorism Regulations for Cost and Management Accountants Reporting Firms Issued by Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan), September 2020.

  iii. Anti-Money Laundering and Combating Financing of Terrorism Regulations for Chartered Accountants Reporting Firms Issued by Institute of Chartered Accountants of Pakistan (ICAP), September 2020.

6. What are DNFBPs?

DNFBPs are defined in Section 2 of AMLA 2010 (as amended) and include:

a. **real estate agents,** including builders and real estate developers, when performing the prescribed activities in the prescribed circumstances and manner;

b. **dealers in precious metals and precious stones**, including jewelers and gem dealers, when performing the prescribed activities in the prescribed circumstances and manner;

c. **lawyers, notaries, accountants and other legal professionals who** carryout monetary transactions for their clients concerning the following activities: - (I) managing, operating, buying and selling of real estate, legal persons and legal arrangements and preparing documents therefor; (II) managing of client money, securities or other assets; (III) managing bank, savings or securities accounts; or (IV) organizing contributions for the creation, operation or management of companies;

d. **trust and company service providers**, when they carry out monetary transactions or services for a client concerning the following activities:– (I) acting as a formation agent of legal persons; (II) acting as or arranging for another person to act as a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons; (III) providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; 3 (IV) acting as or arranging for another person to act as a trustee of a trust or performing the equivalent function for another form of legal arrangement; and (V) acting as or arranging for another person to act as a nominee shareholder for another person;

e. such other designated non-financial businesses and professions as may be notified by the Federal Government.

7. AML/CFT Regulatory Authorities for DNFBPs in Pakistan

The AMLA Act 2010 (as amended) has designated the following as AML/CFT regulatory authorities for DNFBPs, responsible for the oversight and monitoring of the implementation of TFS for PF in Pakistan:

a. **Federal Board of Revenue (FBR)** for real estate agents, jewelers, dealers in precious metals and precious stones and accountants who are not the members of ICAP and ICMAP (www.fbr.gov.pk) ;

b. **The Institute of Chartered Accountants of Pakistan (ICAP)** established under the Chartered Accountants Ordinance, 1961 (Act X of 1961) for their respective members (www.icap.org.pk)

c. **The Institute of Cost and Management Accountants of Pakistan (ICMAP)** established under the Cost and Management Accountants Act, 1966 (Act XIV of 1966) for their respective members (www.icmp.com.pk);

d. **The Pakistan Bar Council and Provincial Bar Councils** for lawyers and other independent legal professionals that are enrolled the respective Bar Councils (www.pakistanbarcouncil.org).

8. Guidance documents on TFS for PF issued in Pakistan

A number of guidance and red flag documents have already been issued in Pakistan to assist reporting entities to apply and understand their obligations in relation to TF and PF. A consolidated annex of all the relevant guidelines and red flag documents is attached at **Annex 3.**

In addition, the CRMC as well as the AML/CFT regulatory authorities established DNFBPs helplines to provide additional guidance to DNFBPs to properly identify prohibited transactions and ensure compliance with legal and regulatory obligations.

DNFBPs Helplines

	Contact information
CRMC	Email Address: ddpsecdiv@mofa.gov.pk Phone Lines: +92-51-9216448
FBR	Phone Line: +92-51-9107099 Email Address: help.dnfbp.fbr@gmail.com
ICAP	Phone Line: +92 21 35184102 Email Address: aml.dept@icap.org.pk
ICMAP	Phone Line: +92 51 4865562 Email Address: aml.supervisor@icmap.com.pk

9. Summary of DNFBPs Obligations on TFS for PF

Obligations to freeze, seize and the prohibition on providing funds and assets

The TFS obligations to be applied by all DNFBPs to prevent PF are set out in both the relevant SROs6 and the AML/CFT sectorial regulations. The obligations apply immediately upon issuance of the SRO and must be undertaken without delay and without notice to the subject of the freezing action:

The relevant S.R.O.s prescribe that:

a. Any person in effective control of any property of a designated entity or designated individual shall freeze or seize such property without delay.

b. The obligation to freeze or seize commences from the date of issuance of the S.R.O notification concerning the designated entity or designated individual.

c. The properties liable to be frozen or seized include:

[6] (SRO 1492(I)/2019, SRO 898(I)/2020) for Iran designated persons (SRO 1465(I)/2019 and SRO 805(I)/2020) for DPRK.

i. all funds or other assets that are owned or controlled by the designated persons or entities, and not just those that can be tied to a particular act, plot or threat of proliferation;

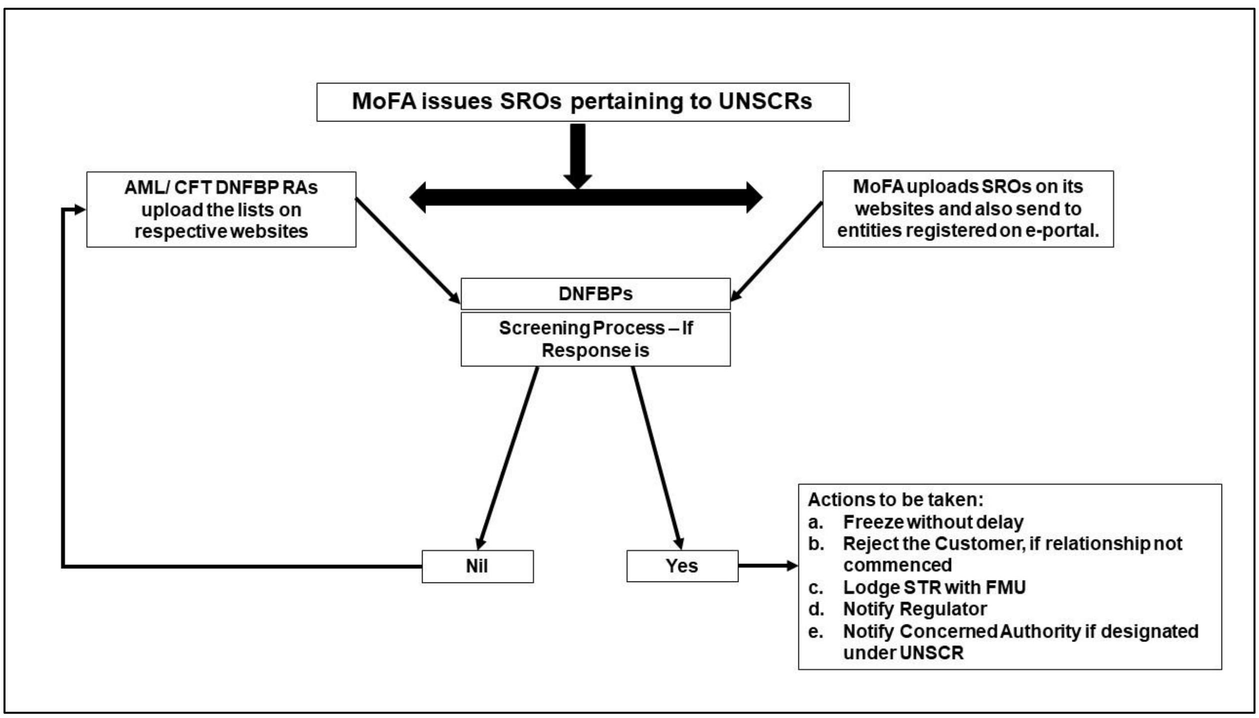
ii. those funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities;

iii. the funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities;

iv. funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities.

It should also be ensured that any funds or other assets are prevented from being made available to any persons or entities, to or for the benefit of designated persons or entities unless licensed, authorized or otherwise notified in accordance with the relevant SROs notified by MoFA.

The following diagram provides on how implementation of TFS would apply pursuant the SROs issued by MoFA:



Pursuant to section 7H of the AML Act, in order to comply with TFS, the DNFBP shall:

a. develop mechanisms, processes and procedures for screening and monitoring customers and potential customers to detect any matches or potential matches with the stated designated person – or if beneficial owners of the designated person – in the SROs issued by MoFA. Further guidance on the CDD process in relation to PF can be found at the various sectorial guidance (**See Annex 2**).

b. If during the process of screening or monitoring of customers or potential customers a positive or potential match is found, the DNFBP shall:

- freeze the relevant funds and assets, without delay, in accordance with the respective SRO;
- not provide any services or property or any other related funds in accordance with the respective SRO;
- reject the transaction, attempted transaction or the customer if the relationship has not commenced.

c. In all cases above, the DNFBP shall report to the respective AML/CFT Authority and FMU.

d. The DNFBP is prohibited, on an ongoing basis, from providing any financial services / services to proscribed/ designated entities and persons or to those who are known for their association with such entities and persons, whether under the proscribed/ designated name or with a different name. The DNFBP should monitor their business relationships with the entities and individuals on a continuous basis and ensure that no such relationship exists directly or indirectly, through ultimate control of an account and where any such relationship is found, the DNFBP shall take immediate action as per law, including reporting to the FMU.

e. Implement any other obligation under the AML Act, United Nations (Security Council) Act 1948 and Anti-Terrorism Act 1997 and any other regulations made thereunder.

f. No person shall provide any assets or service, directly or indirectly, wholly or jointly, to any designated entity or designated individual, or to any person acting on behalf of or at the direction of the designated entity or designated individual, except with the prior written approval of the authorized agency.

g. It is the responsibility of Regulators / Supervisors and the respective regulated entities to remain abreast and up to date regarding TFS evasion activities to maintain and execute suitable mitigation measures, and to ensure that all the relevant entities and employees are adequately informed and trained on the relevant policies, processes, and procedures. This document aims to assist this process.

If a DNFBP breaches these requirements, it is liable to the following sanctions in accordance to Rule 4 of AML/CFT Sanctions Rules 2020:

a. monetary penalty;

b. condition, limitation or restriction on the DNFBP's business or product offerings;

c. revoke license or de-registration of the DNFBP;

d. temporary or permanent prohibition on any natural person who holds an office or position involving responsibility for taking decisions about the management of the DNFBP, including but not limited to: (i) issuing a written warning; (ii) imposing a temporary suspension; or (iii) removal from service;

e. censure/ warning/ reprimand;

f. direction to the person to undertake any given actions, including but not limited to: (i) comply with the requirements within a specified time period through a remedial plan; (ii) conduct internal inquiries; or (iii) take disciplinary action against directors, senior management and other officers.

10. Prohibited Relationships

The AMLA, ATA and relevant SROs set out circumstances which constitute prohibited relationships, such as the set-up of anonymous, numbered accounts, or the set-up of accounts in a name which are known or suspected to be fictitious.

All DNFBPs must pay special attention to services, products or transactions that may allow anonymity and take additional measures to prevent their use in money laundering or terrorist / proliferation financing activity. DNFBPs AML/CFT regulatory authorities should include any such service, product, or transaction within those requiring enhanced due diligence.

DNFBPs are advised to undertake CDD (Customer Due Diligence) and EDD (Enhanced Due Diligence) for high-risk customers and jurisdictions and initiate countermeasures or enhanced measures for countries with material deficiencies in their AML/CFT/CPF regimes.

CHAPTER 2: HOW DNFBPS COULD BE ABUSED FOR PROLIFERATION FINANCING

Recent typologies7 have underscored the fact that DNFBPs sectors face exploitation by designated persons and entities, or those acting on their behalf or under their control, for the purposes of effecting a potential breach, non-implementation, or evasion of PF-TFS. Below are some examples of how DNFBPs can be exploited for PF and other key methods:

Trust and company service providers (including lawyers, notaries, and other legal professionals and accountants providing these services): use of shell and front companies, legal persons with ownership and control through nominees, legal persons or legal arrangements without apparent business reasons, company formation services.

DPRK and Iran PF-TFS (e.g. UNSCR 2231 (2015), UNSCR 2270 (2016) OP 16) note that the both countries frequently use front companies, shell companies, joint ventures and complex, opaque ownership structures for the purpose of violating measures imposed in relevant UNSCRs, and the UNSCR 2270 (2016) also directs the UNSC 1718 Committee to identify individuals and entities engaging in such practices and designate them to be subject to relevant targeted financial sanctions in DPRK UNSCRs.

Typologies identified by the UNSCR 1718 Panel of Experts (PoE) indicated that designated persons and entities, and those persons and entities acting on their behalf have quickly adapted to sanctions and developed complex schemes to make it difficult to detect their illicit activities. One UNSCR 1718 PoE investigation in 2019 found that at least five front companies had been established by designated entities and those acting on their behalf to hide their beneficial ownership of the various cross-border (US-Dollar- denominated) financial transactions involving two different jurisdictions in Asia, and a different front company was used in each different transaction. In another UNSCR 1718 PoE investigation, shell and front companies were set up for transferring funds to designated persons and entities, and the companies were subsequently closed when the UNSCR 1718 PoE started enquiries about the companies.

Dealers in precious metals and stones: designated persons and entities engaging such dealers to transport gold and diamonds to obtain foreign exchanges to finance their transactions. UNSC1718PoE reports highlight an investigation into DPRK diplomatic representatives smuggling gold between two countries in the Middle East (August 2020 Report) and the DPRK's involvement in gold mining in Sub-Saharan Africa (March 2020 Report).

Disguising themselves as residents of another jurisdiction. Proliferators will structure transactions or corporate actions in order to appear to be a legitimate business based in a lower-risk jurisdiction, often one neighbouring the sanctioned country. Shell and front companies and firms in

[7] FATF Guidance on Proliferation Financing Risk Assessment and Mitigation, pg.25

some countries have been implicated in sanctions evasions schemes directed from the UN listed countries.

Source: UNSCR 1718 PoE Report (S/2019/691; S/2020/151; S/2020/840)

What constitutes risk in the context of Proliferation Financing:

As outlined by the FATF revised R.1 and its INR.1 to require countries and private sector are required to identify, assess, understand, and mitigate their proliferation financing risks (PF risk). In this context, PF risk refers strictly and only to the potential breach, non-implementation, or evasion of the targeted financial sanctions (TFS) obligations referred to in criteria 7.3[8].

- **Risk of a potential breach or non-implementation of targeted financial sanctions:** This risk may materialize when designated entities and individuals access financial services, and/or funds or other assets.

- **Risk of evasion of targeted financial sanctions:** This risk may materialize due to concerted efforts of designated persons and entities to circumvent targeted financial sanctions (e.g. by using shell or front companies, joint ventures, dummy accounts, middlemen and other fraudulent/sham intermediaries).

The concept of risk involves considering the concepts of threat and vulnerability. Below are elements specific to a PF risk assessment[9]:

- **Threat** refers to designated persons and entities that have previously caused or with the potential to evade, breach or exploit a failure to implement PF-TFS in the past, present or future. Such threat may also be caused by those persons or entities acting for or on behalf of designated persons or entities. It can be an actual or a potential threat. Not all threats present the same risk level to all countries and private sector firms.

  One of the principal challenges in mapping the PF threat emanating from the DPRK is not only that the North Korean regime uses a variety of deceptive practices to finance its WMD and ballistic missile programs, but also that a large amount of North Korean illicit financial activity transiting financial systems tends to look like traditional money laundering or smuggling schemes that, at first blush, may not have an obvious connection with the DPRK's WMD program[10].

  PF typologies show that North Korea has engaged in illicit profit-generating crimes such as wildlife trafficking and drugs trafficking, small and non-nuclear arms trafficking, cybercrime (including hacking of financial messaging systems, extortion, or theft of

[8] FATF Risk assessment guidance
[9] FATF Risk assessment guidance
[10] National proliferation financing risk assessment, 2018. U.S.

cryptocurrency assets), labour exploitation (for example in the construction and food processing industries), and smuggling of cash and high-value goods, among others[11].

For example, in a number of cases where U.S. authorities have uncovered North Korean PF networks, the financial facilitators working on behalf of Pyongyang were not attempting to directly acquire sensitive or dual-use goods that can be utilized for weapons development purposes, but rather were engaging in elaborate schemes to evade U.S[12].

- **Vulnerability** refers to matters that can be exploited by the threat or that may support or facilitate the breach, non-implementation, or evasion of PF-TFS.

  For a country, these vulnerabilities may include weaknesses in the laws or regulations that comprise a country's national counter proliferation financing regime. When looking at national vulnerabilities a country could consider for example[13]: i) to what extent there is strong political will to combat CPF; ii) to what extent there is existence of significant dual-use goods industry and trade; iii) to what extent trade of dual- use goods is conducted with countries of PF diversion; iv) to what extent laws or regulations and supervisory oversight considers PF issues; v) to what extent there is transparency of legal persons and legal arrangements, including ultimate beneficial ownership

  National vulnerabilities would also look at contextual features of a country that may provide opportunities for designated persons and entities to raise or move funds or other assets. For instances, countries will also need to consider that risk exposure to some proliferators may be higher than to others. Geographic proximity to proliferating countries might make it possible for certain actors to prefer some jurisdictions over others.

[11] FATF Risk assessment guidance
[12] National proliferation financing risk assessment, 2018. U.S.
[13] RUSI, Guide to Conducting a National Proliferation Financing Risk Assessment, 2019

Countries' Exposure to Proliferation Activities[14]

Country A	Country B	Country C
Geographical Exposure	Geographical Exposure	Geographical Exposure
Country A is close to Iran and is at risk of sensitive goods and materials being diverted.	Country B is not located near any major proliferator but has a sophisticated manufacturing base which could be exploited by proliferators.	Country C is not located near any major proliferator but has pockets of areas controlled by non-state actors who might seek to procure controlled goods.
Related Finance	Related Finance	Related Finance
Country A is not a financial hub but has local banks where funds from the proliferating state could be deposited.	Country B is a financial hub, and therefore provides correspondent banking services to banks, including those in Country A.	Country C is not located near any major proliferator but has pockets of areas controlled by non-state actors who might seek to procure controlled goods.
	Country B hosts several front companies that facilitate transactions and trade on behalf of Iran.	Country C has limited financial channels, and most cash is carried physically over the border.

For private sector firms, vulnerabilities may include features of a particular sector, a financial product or type of service that make them attractive for a person or entity engaged in the breach, non-implementation or evasion of PF-TFS[15].

11. Situations Indicating Possible Proliferation Financing (Red Flags)

The 2008 Financial Action Task Force (FATF) issued the Typologies Report on Proliferation Financing which provides a starting point to assist both public and private sectors in understanding the threats and situations where customers, transactions and other account activities may be involved in proliferation financing. Since then, proliferators have developed more sophisticated networks to hide such activities. Some of these recent proliferation financing- related sanctions evasion techniques have been captured in the reports submitted by the UN Panel of Experts (PoE) to relevant UNSC or UNSCR committees.

In addition to the FATF typologies and UN PoE reports, national authorities and academic institutions have identified a number of situations, which may indicate possible proliferation financing activities. A consolidated list of the red flags is contained at Annex 3. However, information contained in this Annex is not uniquely determinative of proliferation financing, and proliferation financing activities may share similar traits with money laundering (especially trade-based money laundering) and terrorist financing activities.

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[14] RUSI, Guide to Conducting a National Proliferation Financing Risk Assessment, 2019

[15] FATF Risk assessment guidance

Annex 1: Guidance documents on TFS for PF issued in Pakistan

A number of guidance and red flag documents have been issued in Pakistan to assist reporting entities to apply and understand their obligations in relation to targeted financial sanctions.

The CRMC has issued comprehensive Guidelines on the implementation of the UN Security Council Resolutions concerning TFS on PF. These guidelines should be read in conjunction with each other. The CRMC guidelines are available on the SECDIV website:

http://www.secdiv.gov.pk/uploads/CRMC_Guidelines_on_TFS_for_PF-8209-09da.pdf

In addition, the Competent Authorities have issued relevant sectorial guidelines for understanding AML/CFT and CPF obligations:

a. FBR:

- AML / CFT Guidelines for Real Estate Agents for countering TF and PF https://download1.fbr.gov.pk/Docs/20201222151242210546AML-CFTRealEstateAgents.pdf
- AML/ CFT Guidelines for Accountants for including countering proliferation financing (CPF) https://download1.fbr.gov.pk/Docs/202116111219989AMLCFTComplianceProgramGuidelines_Accountants(Final).pdf
- Guidelines for Dealers in Precious Metals and Stones including guidelines for Countering Proliferation Financing https://download1.fbr.gov.pk/Docs/20211271413917848AMLCFTProgramComplianceGuidelines_DPMS.pdf
- Webinars on AML/CFT obligations https://www.fbr.gov.pk/aml-cft-legislation-regulations/152366/152369

b. ICAP and ICMAP

ICAP and ICMAP guidelines as well as FAQs on TFS are available on the respective websites under:

- ICAP: https://icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf
- ICMAP: http://www.icmap.com.pk/downloads/AML/AMLCFTGuidelinesforAccountants2020.pdf.
- ICAP Guidance Document: https://icap.org.pk/files/per/aml/Guidelines-TargetedFinancialSanctions.pdf.
- ICAP FAQs Document: https://icap.org.pk/files/per/aml/FAQs-on-TFS-Obligations.pdf
- ICMAP Guidance Document: http://www.icmap.com.pk/News_Pdf/GuidelinesTargetedFinancialSanctions_TFS.pdf

- ICMAP FAQs Document: http://www.icmap.com.pk/downloads/FAQs_on_TFS_Obligations_ICMAPakistan.pdf

c. FMU

The Financial Monitoring Unit (FMU) has also issued Red Flag Indicators against PF for DNFBPs which are available on the AML/CFT Regulatory authorities' website:

- FBR: https://download1.fbr.gov.pk/Docs/202138183501457Red-Flag-Indicators-for-Proliferation-Financing(1).pdf.
- ICAP: https://icap.org.pk/files/per/aml/RED-FLAGs-for-DNFBPs-on-TFS-related-to-TF-and-PF.pdf
- ICMAP: https://www.icmap.com.pk/downloads/AML/RED-FLAGs-for-DNFBPs-on-TFS-related-to-TF-and-PF.pdf.
- Lawyers: https://pakistancode.gov.pk/dnfbps/images/guidelines.pdf.

Annex 2: Reading List

- **FATF Typologies report on Proliferation Financing 2008 - http://www.fatf-gafi.org/media/fatf/documents/reports/Typologies%20Report%20on%20Proliferation%20Financing.pdf**

- **FATF Guidance on Counter Proliferation Financing 2018 - https://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf**

- **FATF Risk Assessment Guidance 2021 - https://www.fatf-gafi.org/publications/fatfrecommendations/documents/proliferation-financing-risk-assessment-mitigation.html**

- **UN Panel reports**

    - Most recent report: S/2021/211 - E - S/2021/211 -Desktop (undocs.org)

    - **A list of other reports can be found here: https://www.un.org/securitycouncil/sanctions/1718/panel_experts/reports**

- **Jonathan Brewer, Study of Typologies of Financing of WMD Proliferation https://www.kcl.ac.uk/csss/assets/study-of-typologies-of-financing-of-wmd-proliferation-2017.pdf**

- **Guide to Conducting a National Proliferation Financing Risk Assessment, RUSI, 2019** (See RUSIs resources on proliferation financing including the PF risk assessment) https://rusi.org/explore-our-research/topics/proliferation-financing

Annex 3: Consolidated list of the red flags Red-Flags applicable to all Categories of DNFBPs

The following consolidated list of red-flags are based on the FMU Guidance, CRMC guidelines as well as the FATF Guidance[16] that looked at proliferation financing- related sanctions evasion techniques have been captured in the reports submitted by the UN PoE to relevant UNSC or UNSCR committees.

The following list is not uniquely determinative of proliferation financing, and proliferation financing activities may share similar traits with money laundering (especially trade-based money laundering) and terrorist financing activities.

It is recommended that that the DNFBP reach out to their respective AML/CFT regulatory authorities as well as the CRMC to provide further guidance

Customer Specific Red-Flags

- When customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation sensitive or military goods, particularly to higher risk jurisdictions.
- When customer or counter-party, or its address, is the same or similar to that of an individual or entity found on publicly available sanctions lists.
- Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination etc.
- Customer vague/incomplete on information it provides, resistant to providing additional information when queried.
- The customer is a research body connected with a higher risk jurisdiction of proliferation concern.
- When customer's activities do not match with the business profile provided to the reporting entity.
- When customer is vague about the ultimate beneficiaries and provides incomplete information or is resistant when requested to provide additional information
- When customer uses complicated structures to conceal connection of goods imported /exported, for example, uses layered letters of credit, front companies, intermediaries and brokers.
- When a freight forwarding / customs clearing firm being listed as the product's final destination in the trade documents.
- Use of professional intermediaries and firms to mask parties to transactions and end users.
- When final destination of goods to be imported / exported is unclear from the trade related documents provided to the reporting entity.

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[16] FATF guidance 2008, FATF Guidance 2018 and FATF Risk Assessment Guidance 2021

Transaction Specific Red-Flags

- Project financing and complex loans, where there is a presence of other objective factors such as an unidentified end-user.
- The transaction(s) involve an individual or entity in any country of proliferation concern.
- Transaction involves person or entity in foreign country of diversion concern.
- The transaction(s) related to dual-use, proliferation-sensitive or military goods, whether licensed or not.
- Involvement of a small trading, brokering or intermediary company, often carrying out business inconsistent with their normal business.
- Transaction involves persons or companies (particularly trading companies) located in countries with weak export control laws or weak enforcement of export control laws.
- Transaction involves possible shell companies (e.g. companies do not have a high level of capitalization or displays other shell company indicators).
- Transaction demonstrates links between representatives of companies exchanging goods i. e. same owners or management.
- Use of cash or precious metals (e.g. gold) in transactions for industrial items.
- The transaction(s) involve the shipment of goods inconsistent with normal geographical trade patterns i.e. where the country involved does not normally export or import or usually consumed the types of goods concerned.
- Over / under invoice of dual-use, proliferation-sensitive or military goods, trade transactions.
- When goods destination/shipment country is different from the country, where proceeds are sent/ received without any plausible reason

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