

# Guidelines on Implementation of TFS for PF for ICAP Reporting Firms

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## 1. Introduction and Purpose

These guidelines provide ICAP Reporting Firms with a robust framework to implement Targeted Financial Sanctions (TFS) for Proliferation Financing (PF). They reflect the requirements of United Nations Security Council (UNSC) Resolutions, Financial Action Task Force (FATF) standards, and Pakistan's updated national framework, incorporating recommendations from SECP and the Coordination Review and Monitoring Committee (CRMC) as of May 2025.



## 2. Definition of Proliferation Financing

Proliferation Financing (PF) refers to the act of providing financial services or resources for the manufacture, acquisition, possession, development, transport, or use of nuclear, chemical, or biological weapons and their means of delivery, including dual-use goods and technologies likely to contribute to proliferation.

## 3. Targeted Financial Sanctions (TFS) for PF

TFS are restrictive measures requiring the freezing of funds and prohibition of assets or services to individuals/entities designated under UNSC Resolutions. Freezing must occur without delay, and no assets should be made available directly or indirectly to such individuals/entities unless exempted by UNSC procedures.

## 4. Applicable UNSC Resolutions:

Country Flag	Country Name	UNSC Country Code	UNSCRs
	Democratic People's Republic of Korea (DPRK)	KP	1718 & successors
	Islamic Republic of Iran	IR	2231 & successors

## 5. International Legislative Framework for PF TFS

- UNSCR 1718 (and its successors)
- UNSCR 2231 (and its successors)
- FATF Standards (Recommendations):

### Relevant FATF Recommendations

- **Recommendation 1:** Identify, assess, and mitigate Proliferation Financing (PF) risks based on a risk-based approach.
- **Recommendation 2:** Implement coordinated AML/CFT/CPF policies and designate competent authorities.
- **Recommendation 7:** Implement Targeted Financial Sanctions (TFS) related to PF without delay and without prior notice.
- **Recommendation 15:** Assess and mitigate PF risks arising from Virtual Assets and Virtual Asset Service Providers (VASPs).

These Recommendations are binding for all countries and Reporting Firms are required to align their internal controls accordingly.

## 6. National Legislative Framework for PF TFS

- UNSC Act, 1948  
<https://mofa.gov.pk/wp-content/uploads/2020/10/THE-UNITED-NATIONS-SECURITY-COUNCIL-ACT-1948.pdf>
- AMLA, 2010  
<https://www.fmu.gov.pk/docs/Anti-Money-Laundering-Act-2010- amended- upto-Sep.%202020.pdf>
- ATA, 1997  
[https://www.fmu.gov.pk/docs/ATA\\_passed\\_by\\_Parliament.pdf](https://www.fmu.gov.pk/docs/ATA_passed_by_Parliament.pdf)
- SECA, 2004  
<http://www.secdiv.gov.pk/uploads/Doc-1%20Export%20Control%20Act- 2004- 0c0c.pdf>

- CRMC Guidelines on TFS for PF for DNFBPs  
[https://secdiv.gov.pk/uploads/CRMC\\_Guidelines\\_on\\_TFS%20Updated%20Draft%2021-05-2025%20Final-894f.pdf](https://secdiv.gov.pk/uploads/CRMC_Guidelines_on_TFS%20Updated%20Draft%2021-05-2025%20Final-894f.pdf)
- ICAP AML/ CFT Guidelines for ICAP Reporting Firms
  - <https://icap.org.pk/files/per/aml/AMCFTGuidelinesforAccountants.pdf>
  - <https://www.icmainternational.com/downloads/AML/AMLCFTGuidelinesforAccountants2020.pdf>
- MoFA Online SRO Portal  
<https://sro.mofa.gov.pk/subscribe>  
Reporting Firms should subscribe to receive real-time updates of new or amended SROs under UNSC Resolutions.

## 7. Obligations for Reporting Firms

Reporting Firms registered with ICAP are required to implement effective internal controls and compliance protocols to ensure timely and accurate implementation of Targeted Financial Sanctions (TFS) for Proliferation Financing (PF). These obligations are mandatory and form a core component of Pakistan's compliance with UNSC Resolutions and FATF Recommendation 7.

### I. Maintain Updated Sanctions List

- Reporting Firms must maintain and regularly update a sanctions database that includes all individuals and entities designated by the United Nations Security Council (UNSC), along with their known aliases, identification details, and affiliated entities.
- The list must be updated immediately upon issuance of a new or revised Statutory Regulatory Order (SRO) by the Ministry of Foreign Affairs (MoFA) or upon any amendments to the UN Consolidated List.
- Subscriptions to the MoFA SRO e-Portal are strongly recommended to ensure real-time alerts and regulatory compliance.

**Designated persons** are the names of individuals designated by UNSC for sanction measures.

- PF TFS list of designated persons is specified in UN Consolidated List.  
**Link:** <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>
- PF TFS list of designated persons is also available SECDIV's website.  
**Link:** [http://secdiv.gov.pk/unsc\\_sanctions\\_list](http://secdiv.gov.pk/unsc_sanctions_list)
- Reporting Firms may consider subscribing to MoFA's e-portal subscription service to maintain the updated sanctions list of UNSCRs.  
**Link:** <https://sro.mofa.gov.pk/subscribe>

## II. Conduct Customer Screening:

Reporting Firms are obligated to conduct **proactive and reactive screening** of clients to identify any matches with designated individuals or entities.

### **Screening must be performed:**

- Before onboarding new clients;
- On an ongoing basis, for the existing customer base;
- Immediately upon issuance of an SRO or UNSC list amendment;
- When changes occur in client identification documents or transaction patterns.

### **Screening protocols should:**

- Include all identifiers such as name, aliases, ID/passport numbers, date of birth, address, and nationality;
- Detect direct and indirect control or beneficial ownership;
- Extend to assets or funds derived from property owned or controlled by a designated party.

**Upon a positive match,** Reporting Firms must take reasonable measures to verify whether the customer is indeed the designated person by checking additional data and contacting MoFA if necessary.

**Without delay** means acting within hours of a designation by the UNSC.

- Reporting Firms are advised to search, examine and analyze past financial activities of designated person or related party.
- Always be wary of possible use of false identities, dual nationalities, multiple names and identities.
- Intermediaries are encouraged to conduct PF risk assessment

### III. Block and Reject

#### i. Existing Customers:

- Where an existing customer is confirmed to match a designated person, the firm must **immediately stop the provision of services**.

#### ii. Potential or New Customers:

- If the identity of a potential or onboarding client matches that of a designated individual/entity, and no transaction has yet been executed, the firm must **reject** the client and **prevent account opening or transaction initiation**.

#### iii. Handling False Positives:

- In the event of a name or identifier match that is not conclusively linked to a designated individual (“false positive”), the firm must:
  - Temporarily apply the freeze;
  - Notify ICAP and MoFA;
  - Await confirmation from MoFA before lifting any restriction.
- The freeze shall **remain in effect** until MoFA confirms:
  - The individual is delisted;
  - Or a formal determination is issued that it is a “false positive”.

All such cases must be **well documented** and supported with verification records.

**“False positive”:** where a customer’s name is similar with the name of designated person but he is not the designated person.

**Guidance on the Freezing of Funds:** If assets jointly owned by designated person cannot be segregated, entire asset should be subject to freezing.

- Frozen assets can continue to receive dividends, interest etc, but such benefit must remain frozen
- No outgoing payment should be made from the frozen funds without prior approval of MoFA

### IV. Proliferation Financing Risk Assessment and Mitigation

As required under **FATF Recommendation 1**, Reporting Firms must identify, assess, understand, and mitigate their Proliferation Financing (PF) risks. PF risk is a function of **three interrelated elements: Threat, Vulnerability, and Consequence**.

- **Threat:** The risk posed by designated persons/entities or their associates who may exploit weaknesses in TFS implementation. Threats may be actual or potential and vary by context.

- **Vulnerability:** Weaknesses in systems, sectors, or jurisdictions that can be exploited by PF actors. These include gaps in national control frameworks, smuggling, or organized crime.
- **Consequence:** The adverse outcome where funds/assets are made available to designated parties, including use for acquiring WMD materials. PF consequences pose greater risks than typical financial crimes.

#### **PF Risk Assessment Requirements:**


Reporting Firms must:

- Compile and document their PF risk assessments;
- Keep the assessment current and up to date;
- Use multiple information sources (e.g., CDD data, financial intelligence, law enforcement info, UN PoE reports);
- Establish a communication mechanism to exchange PF risk information with authorities.

#### **PF Risk Mitigation Requirements:**

Financial Institutions and DNFBPs must:

- Develop policies, controls, and procedures to manage PF risks;
- Monitor their effectiveness and update as necessary;
- Take risk-commensurate measures:
- For higher-risk scenarios: apply enhanced controls to detect breaches or evasion of TFS under Recommendation 7.
- For lower-risk scenarios: ensure minimum compliance aligned with the identified risk, without undermining the effectiveness of TFS obligations.

 For detailed guidance, refer to:

#### **FATF Guidance on Proliferation Financing Risk Assessment and Mitigation**

<https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-ProliferationFinancing-Risk-Assessment-Mitigation.pdf>

## **V. Report Relevant Authorities**

### **i. ICAP/CRMC/NACTA/MoI**

- Reporting Firms must report **immediately and in writing** to ICAP, CRMC, NACTA and MoI, upon taking any of the following actions:
  - Blocking of transactions;
  - Rejection of clients due to sanctions list matches

### **ii. Financial Monitoring Unit (FMU)**

- A **Suspicious Transaction Report (STR)** must be submitted to the FMU in the following cases:
  - Positive matches against the UN or MoFA sanctions lists;
  - Attempted transactions by a designated person or by a party acting on their behalf;
  - Any activity involving suspected proliferation financing.

**All reports must be submitted without delay.**

## **I. Recordkeeping and Audit Trail**

- Reporting Firms must maintain a detailed audit trail and documentation of all TFS-related activities. These include:
  - Screening Records: Date of screening, data sources used, names screened, results, and verification steps.
  - Freezing/Blocking Records: Date of action, asset description and value, account details, legal reference (e.g., SRO number).
  - Communication Records: Copies of notifications sent to ICAP, CRMC, MoFA, and FMU.
  - Decision Logs: Rationale and evidence for classification of cases as false positives, rejections, or escalations.
- All records must be:
  - Retained for a minimum of ten (10) years;
  - Stored in a manner that ensures accessibility for audits or inspections by regulatory bodies;
  - Protected to maintain confidentiality and integrity.

## **8. Situations indicating possible PF activities (Red Flags)**

Reporting Firms must be alert to a range of behavioral and transactional indicators that may suggest links to Proliferation Financing (PF). While no single indicator is necessarily conclusive, the presence of one or more red flags should prompt additional scrutiny, application of Enhanced Due Diligence (EDD), and where necessary, immediate escalation or regulatory reporting.

The following red flags are drawn from FATF typologies, UN reports, and CRMC guidance for DNFBPs (May 2025), and must be considered during customer due diligence and transaction monitoring.

### **A. Customer and Counterparty Risk**

- The customer's activity does not match their declared business profile.
- End-user information is inconsistent with the stated purpose of goods or services.
- Customer is vague, evasive, or incomplete when providing information.
- Customer is resistant to providing additional information upon request.
- Involvement of a customer or counterparty declared as a commercial business, whose transactions suggest they are acting as a money-remittance business.
- Involvement of designated individuals or entities in real estate or accounting services, consistent with typologies observed in PF abuse of DNFBPs.
- Involvement of a person connected with a country of proliferation concern (e.g., a dual national).
- Customers or counterparties are linked (e.g., they share a common address, IP address, phone number, or show signs of coordinated activity).
- Involvement of a university or academic research entity in a country of proliferation concern.

## B. Geographic and Jurisdictional Risk

- Transactions involve persons or entities in foreign countries of proliferation concern.
- Transactions involve foreign countries known for weak export controls or poor enforcement of export control laws.
- Orders are placed by firms or individuals located in countries other than the country of the stated end-user.
- Transactions routed through jurisdictions with known deficiencies in AML/CFT controls or export control enforcement.

## C. Transactional Patterns and Behavior

- Transactions are conducted using circuitous financial routes.
- Pattern of wire transfer activity lacks apparent business purpose or shows unusual frequency/volume.
- Transaction involves shipment of goods inconsistent with normal geographic trade patterns.
- New customer requests a letter of credit while awaiting approval of a new account.
- Wire instructions or payments originate from or are directed to parties not identified on original transaction documentation.
- Transactions conducted using personal accounts for industrial item purchases.
- Transactions between companies are based on “ledger” arrangements that avoid international financial flows.

## D. Structural and Business Integrity Indicators

- Transaction involves possible shell companies (e.g., minimal capitalization, vague ownership, or other shell-like characteristics).
- Companies or individuals involved have a history of export control violations.
- Financial institutions involved are domiciled in jurisdictions with poor PF control standards.
- Declared value of shipment is clearly under-valued relative to shipping costs or insurance.
- Documents or representations appear fraudulent (e.g., fake shipping, customs, or payment records).

## E. Payment and Asset Characteristics

- Use of cash or precious metals (e.g., gold) to pay for industrial equipment or raw materials.
- Inconsistencies in trade documents and payment flows (e.g., mismatched names, destinations, or pricing).
- Use of intermediaries or brokers without a clear commercial role in the transaction.

## 9. Exemptions and Delisting Process

Designated individuals or entities listed under United Nations Security Council Resolutions (UNSCRs) may apply for:



- **Exemptions** (e.g., to access frozen funds for basic living expenses, legal fees, or humanitarian needs), or
- **Delisting** (removal from the sanctions list if they no longer meet the designation criteria).

#### a) National Focal Point – Ministry of Foreign Affairs (MoFA)

- The Ministry of Foreign Affairs (MoFA) serves as Pakistan’s National Focal Point for implementing UNSCR 1730, which outlines procedures for individuals and entities to submit delisting and exemption requests.
- All such requests must be submitted through MoFA, which acts as the formal communication channel between the applicant and the relevant UN Sanctions Committee.

#### b) Responsibilities of Reporting Firms

- Reporting Firms must not unfreeze or release any frozen assets until they receive written, official confirmation from MoFA authorizing such action.
- In case of an application pending with MoFA, the freeze must remain in effect until a decision is communicated.
- MoFA may also confirm whether a case is a “false positive”, in which case the freeze may be lifted.

#### c) Exemption Grounds

Exemptions may be granted for:

- Basic expenses: including food, rent, mortgage, medical treatment, utility bills;
- Legal representation: reasonable fees for legal services;
- Extraordinary expenses: as approved by the relevant UN Sanctions Committee.

These must be explicitly approved and reflected in an official MoFA communication.

#### d) Delisting

Immediately upon receiving notification for the de-listing of an individual/entity from the Sanctions List, reporting firms have an obligation to respect the de-listing and unfreezing action and must:

- Ensure that internal systems are promptly updated to reflect the delisting, including removing the individual/entity from internal watch lists/databases of persons/entities subject to financial sanctions.
- Check whether they have frozen funds or assets of any individual/entity removed from the Sanctions List.
- Verify that the individual/entity is no longer subject to the asset freeze, unfreeze their assets, and reactivate any relevant business relationships, contracts, accounts, services, or agreements that were suspended due to the sanctions, unless other legal or regulatory barriers exist.
- Notify the delisted individual/entity that their assets are no longer subject to an asset freeze.

v) Report actions taken to their relevant regulatory authority without delay.

vi) Maintain comprehensive records of all actions taken in response to the delisting for audit and supervisory purposes. e) Resources and Further Guidance

- The MoFA and SECDIV websites provides updates, templates, and contact details for submitting exemption or delisting applications.

 <https://mofa.gov.pk>

 <https://secdiv.gov.pk/>