



The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN

AML SUPERVISION DEPARTMENT



ANNUAL REPORT 2022

Table of Contents

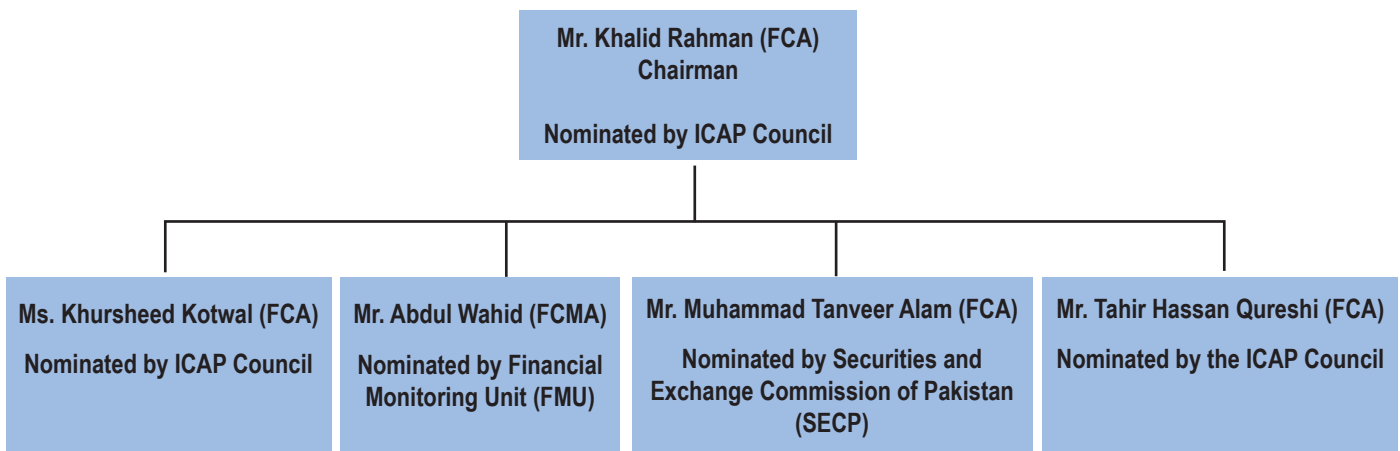
| | |
|---|----|
| ICAP AML Supervisory Board | 02 |
| Profile of AML Supervisory Board | 03 |
| Message from the Chairman | 05 |
| Our Role as an Anti-money Laundering (AML) Supervisor | 06 |
| Our Approach To AML Supervision | 06 |
| Highlights | 07 |
| Risk Matrix and Risk Assessment of Reporting Firms | 07 |
| Risk Rating of Reporting Firms | 08 |
| On-site Inspections (Full Scope) | 09 |
| On-site Inspections (Thematic) | 10 |
| Sanctions Imposed on Reporting Firms | 10 |
| Highlights of Supervision Cycle-2022 | 11 |
| Pakistan out of The Fatf 'Grey List' | 11 |
| Awareness Sessions / Webinars For AML / CFT | 12 |
| Aml Supervision Department – Organogram | 12 |
| 2023 Key Planned Activities | 13 |
| Landscape of Reporting Firms – Risk Assessment | 14 |
| AML Supervisory Board – Meetings and Attendance | 16 |
| AML Supervisory Board – Activities | 16 |
| What is Required from an ICAP Reporting Firm? | 17 |
| Glossary | 18 |

ICAP AML SUPERVISORY BOARD

RESPONSIBILITIES

The AML Supervisory Board of ICAP is responsible for monitoring and supervision of the Chartered Accountants Firms with respect to the compliance of the AML / CFT Regulations issued by ICAP.

COMPOSITION OF THE BOARD



PROFILE OF AML SUPERVISORY BOARD



**Mr. Khalid Rahman, FCA
Chairman**

Mr. Rahman worked with Pakistan Petroleum Limited for around 20 years in various senior management positions including CEO & MD, DMD, CFO and Company Secretary. Later he was appointed as MD/ CEO of Sui Southern Gas Company Ltd for three years. He served the Institute of Chartered Accountants of Pakistan as COO / Secretary from 2013 to 2015.

He was elected as a Council Member in 2009–2013 and subsequently for the second and third term in 2017-2021 and from 2022 to 2026 respectively. He served as the Vice President of ICAP for the year 2011-2012 and chaired the Examinations Committee, Professional Accountants in Business Committee (PAIB) and Overseas Coordination Committee. He also served on the Audit Committee, Executive Committee, Investigation Committee and currently he chairs the AML Supervisory Board and the Governance Committee and is the member of the Accounting Standards Board.

Mr. Abdul Wahid is a member of AML Supervisory Board of ICAP since March 2020 He has vast AML / CFT supervisory experience and currently serving as Director Financial Monitoring Unit (FMU), Government of Pakistan since 2010. He introduced the DNFbps including ICAP to the AML / CFT regime in 2018 during Pakistan's Mutual Evaluation and remained instrumental in development of the AML & CFT – A Guide for Accountants issued by ICAP in 2018.



Mr. Abdul Wahid, FCMA



**Ms. Khursheed Kotwal,
FCA**

Ms. Khursheed is an elected Council Member of the Institute of Chartered Accountants of Pakistan. She currently chairs the Digital Accounting & Assurance Board. She has served on the various ICAP Committees: Audit Committee Member serving for the third time, Digital Accounting & Assurance Board, CA Women's Committee, Corporate Affairs & Govt. Relations Committee, Fiscal Law Committee, Economic Affairs & Govt. Relations.

Mr. Tanveer has been working with the Securities and Exchange Commission of Pakistan (SECP) since 2009 and is currently serving as its Additional Director at Listed Companies Department, Supervision Division. In SECP, he had been involved in the supervision of listed companies, participants of stock market and regulated entities including brokerage houses of Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited. He specializes in detecting money laundering offences, corporate crimes and forensic analysis of financial data.



Muhammad Tanveer Alam
FCA, ACMA



Mr. Tahir has served on various Committees of the ICAP and Pakistan Banks' Association. Before joining Allied Bank Limited, he held senior management positions in The Bank of Punjab (General Manger Finance / Member Credit Committee), Habib Bank Limited (Head of Finance) and MCB Bank Ltd (CFO / Company Secretary). He joined Allied Bank Limited (ABL) in 2008 and served as Chief, Audit & Risk Review (A&RR), Chief Financial Officer, Chief Operating Officer (COO) and Chief Executive Officer (CEO).

Mr. Tahir Hassan Qureshi, FCA

MESSAGE FROM THE CHAIRMAN



I am pleased to share the Annual Report on the activities of the AML Supervision Department and AML Supervisory Board for the year 2022 along with the corresponding year i.e. 2021.

The years 2021-22 have been challenging years for the country as the country had to strengthen the Compliance Regime for Money Laundering and Terrorism Financing to ensure that Pakistan achieves a satisfactory assessment rating at the time of the review performed by the Financial Action Task Force (FATF). I am very pleased to mention that in October 2022, Pakistan successfully made its way out of the FATF Grey List. ICAP, being an important member of the Government Core Committee on AML/CFT, played its significant role in this journey.

In accordance with the regulatory changes taking place in the areas of Anti – Money Laundering (AML) and Countering Financing of Terrorism (CFT) Regime, ICAP was designated as an AML / CFT Regulatory Authority under the Anti Money Laundering Act, 2010. As an AML / CFT Regulatory Authority, ICAP is required to ensure compliance of the AML / CFT by its member firms. In this regard, ICAP has issued “Anti Money Laundering and Combating of Financing Terrorism Regulations for Chartered Accountants Reporting Firms” for its member firms.

This report highlights the measures undertaken by ICAP to facilitate the members in carrying out effective compliance of the AML / CFT Regulations.

I take this opportunity to compliment the ICAP management and staff and in particular Mr. Raheel Rehman for the work done in the area of creating awareness and compliance of the AML and CFT regulations. Also, I would like to place on record the guidance and support provided by the ICAP Council and the AML Supervisory Board which helped in successful implementation of the AML regulations for ICAP members.

Mr. Khalid Rahman, FCA
Chairman, AML Supervisory Board

OUR ROLE AS AN ANTI-MONEY LAUNDERING (AML) SUPERVISOR

FATF mutual evaluation in 2019 highlighted various aspects of non – compliance including the lack of supervision and regulation of Designated Non – Finance Businesses and Professions (DN-FBPs). In order to cater the compliance issues, Pakistan amended its Anti Money Laundering Act, 2010 (AMLA 2010) and designated various organizations (including ICAP) as AML / CFT Regulator. The Institute of Chartered Accountants of Pakistan (ICAP) is authorized to monitor and supervise the members in practice with regard to the compliance of the AMLA 2010 and the AML / CFT Regulations issued by ICAP.

Our work as a SRB (Self-Regulatory Body) is subject to oversight by the Securities and Exchange Commission of Pakistan (SECP) being an oversight body for ICAP and ICMAP.

OUR APPROACH TO AML SUPERVISION

Our approach to AML supervision will ensure that we effectively monitor our Reporting firms and take measures when necessary to secure compliance with the ICAP AML/CFT Regulations.

We deliver this effective approach in a number of ways:

- Adopt a risk-based approach to monitoring, where inspections are prioritized according to the AML/CFT risk rating of firms. In other words, AML/CFT inspections are conducted based on ICAP's AML/CFT risk matrix, which is initially derived from firms' responses to offsite monitoring questionnaires (Form B).
- Take enforcement or disciplinary action against firms that don't meet the requirements of the AML/CFT Regulations in light of Sanctions Rule and the enforcement Policy.
- Provide Reporting Firm members and our AML team with up to date information on the domestic and international risks of money laundering and terrorist financing which affect our Reporting firms and accounting Sector as a whole.
- Encourage our Member Firms and the general public to report actual or potential breaches of the AML/CFT Legislations, providing a confidential channel for those wishing to remain anonymous.
- Provide information to our Reporting firms on the money laundering and terrorist financing practices that apply to the accountancy sector and a description of the circumstances in which we think there is a high risk of money laundering and terrorist financing.
- Publish formal guidance for ICAP reporting firms which is designed to help firms understand what is expected of them, particularly in relation to taking a risk-based approach.
- Offer support to Member firms, via our Dedicated Helpline (email address and helpline), to help them meet the requirements of legislation.
- Publish other guidance and materials that explain the responsibilities of accountancy firms under AMLA 2010 and the AML/CFT Regulations, and explanations of what we consider is best practice.

HIGHLIGHTS

ANNUAL RETURNS SUBMISSION DRIVE

Annual Returns - 2021

In 2021, out of total population of Chartered Accountants firms, 70 firms have been identified as reporting firms by submitting Form B.

Annual Returns – 2022

In 2022, out of total population of Chartered Accountants firms 57 firms have been identified as reporting firms by submitting Form B.

These firms are providing AML specified service to their respective clients and hence, falls under the ambit of AML/CFT Regulations.

Analysis of Reporting Firms



RISK MATRIX AND RISK ASSESSMENT OF REPORTING FIRMS

| FI/DNFBP Entity | Inherent Vulnerability | | | | | | Total Inherent Vulnerability Score |
|-----------------|---|---|---|---|---|-----------------------------|------------------------------------|
| | Entity Characteristics | Product and Services | Nature of Clientele | Goegraphic Reach | Delivery Channels | | |
| Entity # 1 | Score between 1 (Low) and 4 (Very High) | Score between 1 (Low) and 4 (Very High) | Score between 1 (Low) and 4 (Very High) | Score between 1 (Low) and 4 (Very High) | Score between 1 (Low) and 4 (Very High) | Average Vulnerability Score | |

| Mitigating Controls | | | | | | | | Total (Residual) Risk Score |
|---|---|---|---|---|---|---|----------------------------------|---|
| Risk Assessment | Policies, Procedures and Systems | Customer Due Diligence | Enhanced Measures | Targeted Financial Sanctions | Suspicious Transaction Reporting | Internal Controls | Total Controls Score | |
| Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Score between 1 (Very High) and 4 (Low) | Average Mitigating Control Score | Score between 1 (Low) and 4 (Very High) as per Heat Map |

The Institute uses a risk model which has five inherent vulnerabilities of an entity (i.e., entity characteristics, products and services, clientele, geographic reach, and delivery channels).

To assess the mitigating controls of an entity, the model uses seven types of controls in line with the broad categories of controls as expected by the FATF Standards, including under Immediate Outcome 4 of the Assessment Methodology for Effectiveness (i.e., risk assessment, policies and procedures, Customer Due Diligence (CDD), enhanced measures and Targeted Financial Sanctions (TFS), suspicious transaction reporting, and internal controls).

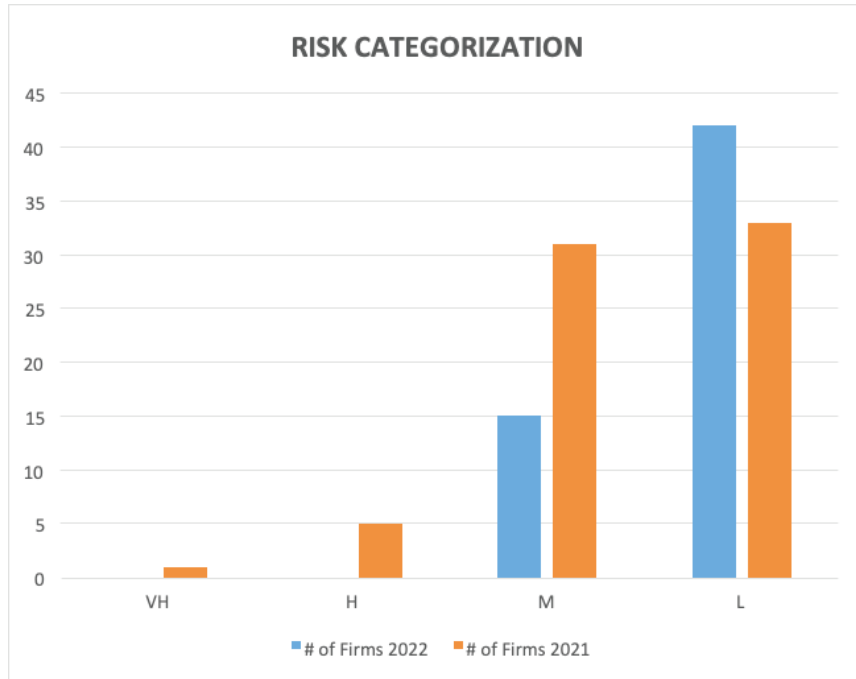
The Total (Residual) Risk Rating is determined using a heat map (see below), where the Level of Mitigating Controls is on the y-axis and the Level Inherent Vulnerability on the x-axis. The residual risk rating of each entity acts as a proxy to understand the distribution of ML/TF risks throughout the sectors in order to allow the allocation of supervisory resources accordingly.

| | | | | |
|--------------------|-------------------|----------------------|----------------------|-------------------------|
| Low Controls | Medium Total Risk | High Total Risk | Very High Total Risk | Very High Total Risk |
| Medium Controls | Low Total Risk | Medium Total Risk | High Total Risk | Very High Total Risk |
| High Controls | Low Total Risk | Medium Total Risk | High Total Risk | Very High Total Risk |
| Very High Controls | Low Total Risk | Low Total Risk | Medium Total Risk | High Total Risk |
| | Low Vulnerability | Medium Vulnerability | High Vulnerability | Very High Vulnerability |

RISK RATING OF REPORTING FIRMS

The AML Supervision Department has completed the off-site monitoring for the year 2021 and 2022, on the basis of the risk matrix, the risk assessment of the Reporting firms for the two supervision cycles is as under;

| Risk Rating | # of Firms 2022 | # of Firms 2021 |
|----------------|-----------------|-----------------|
| Very High (VH) | - | 01 |
| High (H) | - | 05 |
| Medium (M) | 15 | 31 |
| Low (L) | 42 | 33 |
| TOTAL | 57 | 70 |



ON-SITE INSPECTIONS (FULL SCOPE)

The AML Supervision Department started its on – site inspection programs on the basis of Risk Based Supervision mechanism. The On-Site Inspection plans of supervision cycles were approved by the AML Supervisory Board of ICAP. Details of inspections are as under;



| ONSITE FULL SCOPE INSPECTIONS – Supervision Cycle – 2022 | | |
|--|---------------------------|----------------------|
| Reporting Firm Risk Rating | # of ICAP Reporting Firms | # of Firms inspected |
| Medium | 15 | 04 |
| Low | 42 | 07 |
| Total | 57 | 11 |

| ONSITE FULL SCOPE INSPECTIONS – Supervision Cycle – 2021 | | |
|--|---------------------------|----------------------|
| Reporting Firm Risk Rating | # of ICAP Reporting Firms | # of Firms inspected |
| Very High | 01 | 01 |
| High | 05 | 04 |
| Medium | 31 | 08 |
| Low | 33 | 06 |
| Total | 70 | 19 |

ON-SITE INSPECTIONS (THEMATIC)

The results of the off – site monitoring questionnaires identified that the reporting firms under ICAP supervision are carrying out Company Service Provider (CSP) Services more than the Accounting Services. The services mainly include “Acting as a Formation Agent” and “Provision of Registered Office address for administrative or correspondence purposes”. Therefore, the AML Supervisory Board of ICAP also advised the AML Supervision Department to carry out thematic inspections, of the reporting firms where CSP services are provided to the clients, based on following themes;



- (i) to check compliance with regards to Customer Due Diligence (CDD) including beneficial ownership, and;
- (ii) to check compliance with regards to Targeted Financial Sanctions (TF & PF both) of the reporting firms.

This thematic inspection exercise is in addition to the Full Scope Onsite Inspections under the Risk Based Supervision methodology.

Supervision Cycle (2021) – The thematic inspections have covered the Medium and Low risk rated firms. Total six (06) firms were subject to thematic inspections in the first supervision cycle.

Second Supervision Cycle (2022) – The thematic inspections have covered the medium and Low risk rated firms. Four (04) thematic inspections have been completed for the year 2022.

SANCTIONS IMPOSED ON REPORTING FIRMS

As provided in the AML/CFT Sanctions Rules 2020 and the related ICAP Enforcement Policy, ICAP have a range of proportionate and dissuasive sanctions available to enforce the AML/CFT obligations.



Reporting firms were subject to sanctions depending on the severity of compliance breaches identified in the course of inspections. The approach adopted allowed for a gradation of sanctions that can be applied in accordance with the circumstances, while ensuring proportionality, effectiveness and dissuasiveness. It is pertinent to mention that the compliance level of the reporting firms has enhanced in the second supervision cycle. Details of sanctions imposed on the basis of inspections are as follow:

| Type of Inspection | Year 2021 | | Year 2022 | |
|------------------------|-----------|------------|-----------|------------|
| | WARNINGS | DIRECTIONS | WARNINGS | DIRECTIONS |
| Off – Site Monitoring | 05 | - | 10 | - |
| Thematic Inspections | - | 02 | - | - |
| Full Scope Inspections | 01 | 06 | - | 05 |
| TOTAL | 06 | 08 | 10 | 05 |

HIGHLIGHTS OF SUPERVISION CYCLE-2022

During second supervision cycle - 2022, AML Supervision Department noted that the compliance status with respect to AML/CFT of the reporting firms enhanced as compared to first supervision cycle-2021.

- Improvements in following areas were observed:
 - Designation of dedicated Compliance Officer in the reporting firms;
 - In depth verification of the beneficial ownership and availability of relevant evidences for the inspection team;
 - Establishment of Independent Audit Function within the reporting firms and the comprehensive testing of the AML system by the independent audit. The reports of the Independent Audit Function also shared with the inspection team;
 - Appropriate record keeping of evidences related to TFS screening;
 - Adequate training provided to the front line staff responsible for AML compliance.
- Following areas require consideration and greater focus on the part of the reporting firms;
 - Enterprise Risk Assessment should include all aspects like Geography, Nature of Services, Nature of Clientele, Use of Technology and Delivery Channels;
 - The reporting firm should prepare separate clients files for the purpose of AML specified services provided to their clients.

PAKISTAN OUT OF THE FATF 'GREY LIST'

A joint delegation of the FATF and Asia Pacific Group (APG) paid an onsite visit to Pakistan from August 29, 2022 to September 02, 2022 to verify the country's compliance with its 34-point action plan. The FATF technical team verified and acknowledged Pakistan's successful completion of all action items -of both action plans.

During FATF Plenary on October 21, 2022, the FATF welcomed Pakistan's significant progress in improving its AML/CFT regime. FATF highlighted that Pakistan has strengthened the effectiveness of its AML/CFT regime and addressed technical deficiencies to meet the commitments of its action plans regarding strategic deficiencies that the FATF identified in June 2018 and June 2021, the latter of which was completed in advance of the deadlines, encompassing 34 action items in total.

Therefore, FATF concluded that Pakistan is no longer subject to the FATF's increased monitoring process.

The ICAP as an SRB of Accountants played vital role during this success journey of Pakistan of exiting the grey list. Further, National FATF Secretariat of Pakistan congratulated the President ICAP for ICAP's resolute support in the overall success journey of Pakistan of exiting the grey list.



AWARENESS SESSIONS / WEBINARS FOR AML / CFT

The Institute arranged a series of Awareness Sessions in the form of Webinars for members in order to assist them in understanding the AML / CFT Regulations and the related requirements. The Awareness Sessions were attended by a vast majority of the practicing members.

| DATE TOPIC | PRESENTING BODIES LOCATION | PARTICIPATING BODIES | # OF PARTICIPANTS | TOPIC | LOCATION |
|-------------------|----------------------------|---|-------------------|--|---|
| February 02, 2021 | UNODC & ICAP | ICAP Members of Islamabad and Rawalpindi (Zoom all over Pakistan) | 82 | Outreach and Capacity building session on AML / CFT | Face to Face sessions along with Zoom |
| February 09, 2021 | ICAP | All ICAP Members | 374 | Webinar on AML / CFT. Following topics are covered; - Overall AML / CFT Regime of Pakistan - AML / CFT Regime for Members outside Practice - AML / CFT Regime for Members in Practice | Through Zoom all locations and live broadcasted on Facebook |
| November 04, 2021 | UNODC & ICAP | ICAP Members of Karachi | 36 | Outreach and Capacity building session on AML / CFT | Face to Face sessions |
| November 15, 2021 | UNODC & ICAP | ICAP Members of Lahore | 56 | Outreach and Capacity building session on AML / CFT | Face to Face sessions |
| December 22, 2021 | UNODC & ICAP | ICAP Members of Islamabad and Rawalpindi | 48 | Outreach and Capacity building session on AML / CFT | Face to Face sessions |
| June 21, 2022 | ICAP & SAFA | ICAP Members all over Pakistan | 123 | Webinar on Awareness Session on AML | Zoom |
| August 16, 2022 | ICAP & FMU | ICAP Members all over Pakistan | 175 | STR Reporting & goAML awareness session | Zoom |

Expert delegation from the Financial Monitoring Unit (FMU), MOFA and NACTA also participated in the Awareness Sessions and shared their expertise on AML / CFT regulations with our members. A detailed session was also conducted on filing of Suspicious Transaction Reports (STRs) by FMU participants.

The Institute will continue to arrange Awareness Sessions for its members in order to update them with the evolving procedures.

AML SUPERVISION DEPARTMENT – ORGANOGRAM

The AML Supervisory Board of ICAP is assisted by a dedicated AML Supervision department in carrying out its responsibilities of supervision and monitoring of members for the purpose of ensuring compliance of AML / CFT Regulations. The structure of the department is as under;

Mr. Raheel Rehman, ACA
 Head of AML Supervision Department

Experience:

- Experience of more than a decade
- Certified AML / CFT Professional
- Core member of Pakistan’s AML / CFT team dealing directly with FATF / APG
- Served as SVP – Head of Compliance at NBP Fund Management Limited (a subsidiary of National Bank of Pakistan).

Mr. Arsalan Ahmed, ACA
 Manager AML Supervision Department – Lahore

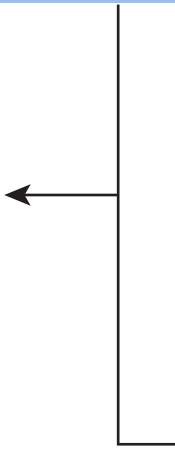
Experience:

More than 6 years of experience in leading Chartered Accountants firms and Financial Sector i.e. Deloitte and Pakistan Credit Rating Agency (PACRA). This includes around 2-year experience of AML / CFT function at ICAP.

Ms. Syeda Sarah Dilshad
 Senior Officer- AML Supervision Department – Karachi

Experience:

- Dealing with the legal matters in the AML Supervision department
- Assisting the Head of Department in carrying out onsite inspections and related matters



2023 KEY PLANNED ACTIVITIES




Off-Site Inspections:

The AML Supervision Department will perform the Off-Site monitoring i.e. Form ‘A’ & Form ‘B’ of the firms for the period from 1st July 2022 to 30th June 2023.



Out Reach Programs:

Institute will continue to provide the support to its members though ongoing out reach programs and awareness sessions. AML Supervision Team is committed to improve the compliance of AML / CFT Legislations by the reporting firms.

| | |
|--|--|
| <p>On-Site Inspections:</p> <p>AML Supervision Team will expedite the process of onsite inspections of reporting firms to check the effectiveness of compliance with AML/CFT Regulations.</p> | <p>AML /CFT Workshop:</p> <p>Two days AML / CFT workshop to be held in 2023 for the members of ICAP. Experts in the field of AML / CFT from different organisation will be invited as a speakers/trainers. This workshop will play vital role in better understanding of AML / CFT Laws and Regualtions.</p>  |
| <p>AML Dashboard:</p> <p>AML Supervision Department is in the process of establishment of AML Dashboard for effective and efficient management of inspection process.</p>  | <p>Mutual Cooperation:</p> <p>The Institute will take steps to collaborate with other AML regulators i.e. SECP to share relevant information with each other for effective and efficient implementation of AML / CFT Laws.</p>  |

LANDSCAPE OF REPORTING FIRMS – RISK ASSESSMENT

| <p>Summary of Risk Assessment (Form B)</p> | | | | |
|---|--|---|--|---|
| <p>[1] Sector's inherent characteristics</p> | <p>[2] Nature of products and services provided</p> | <p>[3] Nature of the clientele</p> | <p>[4] Geographic reach of Sector's activities</p> | <p>[5] Nature of Delivery Channels</p> |
| <p>Number of reporting firms is small, with 57 firms covered under the activity – based definition.</p> <p>Turnover is low.</p> <p>Concentrated in large urban centers of Pakistan where they are involved in providing services to some non – regulated sectors.</p> <p>Less complex functional structure.</p> | <p>Accounting and TCSP services, higher – risk TCSP services more common than covered accounting services, but very small % of overall business.</p> <p>Transactions are of medium size.</p> | <p>Clientele is mixed and includes natural persons and legal persons.</p> <p>Majority is continuing business relationship.</p> <p>High-risk and foreign country's clients are very small % of overall business.</p> | <p>Some limited linkages to Afghanistan.</p> <p>Some international affiliation in the sector.</p> <p>Primarily domestic activities concentrated in urban centers rather than high ML / TF risk domestic areas.</p> | <p>Face to face in nearly all cases, and almost no accounting firms use complex delivery channels.</p> <p>However, nearly half of the reporting firms accept bearer cheque or cash as payment methods</p> |

NATURE OF PRODUCT AND SERVICES PROVIDED BY THE REPORTING FIRMS

| | |
|---|---|
| <p>Nature and scope of vulnerable products and services offered</p> | <p>Reporting Firms offers both covered accounting services as well as covered TCSP services, of the two, TCSP services appear to make up a much large portion of the covered service offerings. The relative frequency of TCSP services increases the risk posed by the accounting sector as it relates to Beneficial Ownership transparency.</p> <p>Frequently offered services include acting as a company formation agent (36% of covered population) and providing a registered office or address (20%).</p> <p>Reporting Firms conducts a relatively low number of covered transactions.</p> |
|---|---|

NATURE OF CLIENTELE

| | |
|---|---|
| <p>Nature of business relationship with clients</p> | <p>More than 80% of ICAP – Reporting Firms maintain an ongoing business relationship with their clients, rather than one-offs. Almost no business goes through third-parties and Reporting Firms generally have a direct relationship with their clients.</p> |
| <p>Customer status</p> | <p>While PEPs and other high-risk client types are represented amongst the clientele, in no Reporting Firms did they represent more than 25% of that accountants' business.</p> <p>Similarly, in no Reporting Firms were non-resident clients more than 25% of the accountant's business.</p> |
| <p>Clients' occupation or business:</p> | <p>Varied clientele, though focus on TCSP services indicates that there is a possibility for complex legal structures and difficulty in identifying the beneficial owner, though this is a relatively small portion of their business.</p> |

GEOGRAPHIC REACH OF REPORTING FIRMS ACTIVITIES

| | |
|--|--|
| <p>High risk jurisdictions for ML/TF</p> | <p>There are no activity linkages identified to Democratic People's Republic of Korea (DPRK) or Iran.</p> |
| <p>Countries or areas of concern for ML/TF</p> | <p>Even fewer Reporting Firms had activity linkages to domestic areas identified in the National Risk Assessment (NRA) as high-risk domestic areas for ML/TF (South Punjab and the border areas of KP and Baluchistan) and no activity linkages to India.</p> <p>There is no ICAP Reporting Firm with offices in any FATF-grey-listed country outside of Pakistan (countries with international offices include Afghanistan, Australia, Canada, Saudi Arabia, UAE, UK, US)</p> |

NATURE OF DELIVERY CHANNELS

| | |
|--|---|
| <p>Anonymity</p> | <p>While 90% of Reporting Firms onboard client in a face-to-face manner, nearly half accept bearer cheque or cash as payment types.</p> |
| <p>Complexity of delivery channels</p> | <p>The Reporting Firms has fairly simplistic channels of delivery.</p> |

AML SUPERVISORY BOARD – MEETINGS AND ATTENDANCE

The tenure of the First AML Supervisory Board was expired on June 30, 2022. Mr. Abdul Husain Basrai - Chairman of the Board completed his tenure. Mr. Khalid Rahman was nominated as the Chairman of the AML Supervisory Board for next term of 2022-2024.

Further, the ICAP's Council nominated Ms. Khursheed Kotwal as member of the AML Supervisory Board in place of Mr. Abdul Husain Basrai for term of 2022-2024.

During the year of 2022, three (03) AML Supervisory Board meetings held. The detail of attendance are as follows:

| Name of Members | # of meetings attended | January 17, 2022 | June 17, 2022 | October 24, 2022 |
|---------------------------------------|------------------------|------------------|------------------|------------------|
| Mr. Abdul Husain Basrai – Ex Chairman | 01 | Attended | Leave of absence | Not on Board |
| Mr. Khalid Rahman – Chairman | 03 | Attended | Attended | Attended |
| Mr. Abdul Wahid | 01 | Leave of absence | Attended | Leave of absence |
| Mr. Tahir Hassan Qureshi | 03 | Attended | Attended | Attended |
| Mr. Muhammad Tanveer Alam | 03 | Attended | Attended | Attended |
| Ms. Khursheed Kotwal | 01 | Not on Board | Not on Board | Attended |

AML SUPERVISORY BOARD – ACTIVITIES

The AML Supervisory Board has performed the following duties during the period under consideration;

1. Identified, assessed and updated the risks of ML and TF to which the Institute's members in practice are subject to and have incorporated the same in National Risk Assessment (NRA)
2. Evaluates and assess on a regular basis the performance of the AML Supervision department;
3. Approved the annual supervision plan for the year 2023
4. Monitored progress on Off-site and On-site Inspections for the Supervision Cycle of 2021-22
5. Reviewed the findings presented in the On-site inspection reports prepared by the AML Supervision Department and applied sanctions to the reporting firms where required
6. Designated Head of AML Supervision Department to liaise with AML Oversight Body (SECP) and other AML related government agencies, and monitor and manage the Institute's compliance with its responsibilities as a Regulatory Authority
7. Make recommendation to the Council of ICAP to amend the Enforcement Policy by giving opportunity of hearing to reporting firm before imposing any sanction under Sanctions Rules 2020, Council have approved the proposed amendments
8. Issued show cause notices to firms for non-submission of Form 'A'
9. Evaluate the AML Supervision Department's participation in implementation of AML Regime in Pakistan (FATF Recommendations)
10. Approved SOPs for submission of Form A and B, that will be followed with effect from June 2023.

WHAT IS REQUIRED FROM AN ICAP REPORTING FIRM?

Criminals are attracted to the accountancy sector as a way of giving legitimacy to businesses that are a front for money laundering. Accountancy services may be used to create corporate structures or help to legitimize the movement of proceeds of funds. Accounting firms are particularly attractive for those seeking to engage in money laundering due to the credibility that their services can offer.

The National Risk Assessment of Money Laundering and Terrorist Financing (NRA) 2019 identified Accounting profession as "Medium "risk.

Therefore, ICAP's Reporting firms play a critical role in detecting and preventing money laundering and terrorist financing. In this regard;

- Each Reporting firm must comply with:
 - a) AMLA 2010; and
 - b) ICAP AML/CFT Regulations 2020
 - c) Any other Directive issued by ICAP in light of AML/CFT requirements
- Reporting firms can refer to the following Guidelines Material issued by ICAP for Reporting Firms:
 - a) AML/CFT FAQs
 - b) FAQs on TFS
 - c) Guidelines on TFS
- To prevent money laundering, Reporting Firms must:
 - a) carry out a firm-wide risk assessment to understand the money laundering and terrorist financing risks the firm faces;
 - b) establish, maintain and regularly review policies, controls and procedures to mitigate and manage effectively the risks identified through a firm-wide risk assessment;
 - c) carry out proper customer due diligence on clients, which includes a risk assessment of the money laundering risks of the client and verify the client's identity and source of funds (where appropriate). The amount and type of verification procedures should reflect the risk rating of each client;
 - d) train all staff so that they can properly identify AML risks, red flag indicators and suspicious activities;
 - e) register the reporting firm on goAML portal and appoint a nominated officer to report STR (if any) to FMU; and
 - f) appoint compliance officer to ensure correspondence with ICAP AML Department in matters related to AML/CFT.

GLOSSARY

| | |
|----------------------------|--|
| AML / CFT | Anti-Money Laundering / Countering Financing of Terrorism |
| DNFBPs | Designated Non-Financial Business and Professions |
| STR | Suspicious Transaction Reports |
| FMU | Financial Monitoring Unit |
| FAQs | Frequently Asked Questions |
| TFS | Targeted Financial Sanctions |
| AMLA 2010 | Anti-Money Laundering Act, 2010 |
| ICAP AML / CFT Regulations | Anti-Money Laundering and Combating Financing of Terrorism Regulations for Chartered Accountants Reporting Firms |
| NRA | National Risk Assessment |
| ICAP | The Institute of Chartered Accountants of Pakistan |
| SECP | Securities and Exchange Commission of Pakistan |
| SRB | Self-Regulatory Body |
| ML / TF | Money Laundering / Terrorist Financing |
| FATF | Financial Action Task Force |
| APG | Asia / Pacific Group |
| TCSP | Trust & Company Service Provider |
| PEPs | Politically Exposed Persons |
| CDD | Customer Due Diligence |



**The Institute of
Chartered Accountants
of Pakistan**

CA
PAKISTAN