INSIGHT DAILY CURRENT AFFAIRS

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Pakistan is off FATF's grey list: what does that mean?

Why in the news?

- Pakistan is off the 'grey list' of the Financial Action Task Force (FATF) after four years, a development that has been welcomed across the country.

What does that mean? Let's start with FATF.

- The **Financial Action Task Force (FATF)** is commonly referred to as the world's "**terrorism financing watchdog**", which means it is the author — and custodian — of an international regime that works to ensure that the flows of money in the global financial system are not misused to fund terrorist activities.
- FATF describes itself as an **inter-governmental body** that works to "set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system".

And what is the FATF's grey list?

- FATF maintains a **"grey list" of countries that it watches closely**. In essence, these are countries that have, in the assessment of the FATF, failed to prevent international money laundering and terrorist financing, and are, therefore, on a global watchlist for bad behaviour.
- Until Friday (October 21), Pakistan was the most important country on the list. After it (along with Nicaragua) was taken off the list, 23 countries remain under watch.
- Among these countries are the Philippines, Syria, Yemen, the United Arab Emirates, Uganda, Morocco, Jamaica, Cambodia, Burkina Faso, and South Sudan, and the tax havens of Barbados, Cayman Islands, and Panama.

What are countries on the grey list expected to do?

- **FATF** calls these countries "**jurisdictions under increased monitoring**". Basically, these countries have to comply with certain conditions laid down by the FATF, failing which they run the risk of being "black listed" by the watchdog. Their compliance is periodically reviewed by the FATF.
- According to the FATF, when a jurisdiction is placed under increased monitoring, "it means the country has committed to **resolve swiftly the identified strategic deficiencies** within agreed timeframes and is subject to extra checks".
- Specifically, these jurisdictions are now "actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing".

So, has Pakistan done all this to the FATF's satisfaction?

- Yes, says the FATF.
- In June 2018, when it was first grey-listed, **Pakistan made an international commitment at the highest political level** that it would "**work with the FATF to strengthen its AML/CFT regime**, and to address deficiencies in its counter-terrorist financing-related actions".
- "AML/CFT" is FATF jargon for "Anti-Money Laundering/Combating the Financing of Terrorism".
- On October 21, the FATF announced 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, it said, "Pakistan is no longer subject to the FATF's increased monitoring process."

OK, but is that really true?

- Technically speaking, in the assessment of the FATF, Pakistan has completed the tasks that it was given.
- In an official statement, India has noted that "as a result of FATF scrutiny, Pakistan has been forced to take some action against well-known terrorists, including those involved in attacks against the entire international community in Mumbai on 26/11".
- However, "It is in global interest that the world remains clear that Pakistan must continue to take credible, verifiable, irreversible and sustained action against terrorism and terrorist financing emanating from territories under its control."

What practical benefits can Pakistan get as a result of the FATF de-listing?

- Ahead of the FATF's meeting, the Pakistani daily Dawn had said that "If removed from the [grey] list, Pakistan would **essentially receive a reputational boost** and get a clean bill of health from the international community on terrorist financing."

- There is research that suggests grey-listing negatively impacts the relationship of the concerned countries with international funders including banks and financial institutions that take note of FATF rankings, as well as existing and potential overseas investors in those countries.
- The Pakistani economy is in dire straits, and in desperate need of help and investment. On October 21, just ahead of the FATF announcement, the global ratings agency Fitch cut the country's sovereign rating to 'CCC+' from 'B-', following Moody's, which had earlier in the month cut Pakistan's rating to 'Caa1' from 'B3'.

Source: Indian Express