

*Final Report on*

**Comparative Analysis of Global AML/CFT  
Legislations and Exploration of  
Best Practices in AML/CFT Compliance Regime**

**Funded by**

**South Asian Federation of Accountants**

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<b>Acronyms</b>	
AACOB	Association of Anti-Money Laundering Compliance Officers of Banks in Bangladesh
ACC	Anti-Corruption Commission
ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AFN	Afghan Afghani
AG	Attorney General
AML	Anti Money Laundering
AMLA	Anti Money Laundering Act
AML LD	Anti-Money Laundering and Proceeds of Crime Law (legislative decree)
AML-PC	Anti-Money Laundering and Proceeds of Crime Law
ALPA	Asset (Money) Laundering Prevention Act
ALPR	Asset (Money) Laundering Prevention Act Rules
ATA	Anti-Terrorism Act
BEA	Bangladesh Economic Association
BFI	Banks and Financial Institutions
BFIU	Bangladesh Financial Intelligence Unit
BNI	Bearer Negotiable Instrument
BO	Beneficial Ownership
C.	Criterion
CAPA	Confederation of Asia and Pacific Accountants
CAW	Chartered Accountants Worldwide
CBSL	Central Bank of Sri Lanka
CBWTR	Cross Border Wire Transfer Report
CCR	Counterfeit Currency Report
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CFT LD	Law on Countering the Financing of Terrorism (legislative decree)
CII	Critical Information Infrastructure
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CISI	Chartered Institute for Securities and Investment
CMMS	Case Management and Monitoring System
CPA	Certified Practising Accountant
CTR	Cash Transaction Report
DAB	Da Afghan Bank
DeoC	Department of Cooperatives
DMLI	Department of Money Laundering Investigation
DNFB	Designated Non-Finance Businesses
DNFBP	Designated Non-Finance Businesses and Professions
DoLMA	Department of Land Management and Archive
DPMS	Dealers in Precious Metals & Stones
ECIR	Enforcement Case Information Report
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force

FBR	Federal Board of Revenue
FCRA	Foreign Contribution Regulation Act
FI	Financial Institution
FIA	Federal Investigation Agency
FINNET	Financial Intelligence Network
FINTRAC	Financial Transactions and Reports Analysis Centre
FinTRACA	Financial Transactions and Reports Analysis Centre of Afghanistan
FIR	First Information Report
FIU	Financial Intelligence Unit
FIU-IND	Financial Intelligence Unit of India
FMU	Financial Monitoring Unit
FTRA	Financial Transaction Reporting Act, Sri Lanka
FXD	Foreign Exchange Dealer
GD	Goods Declaration
IASB	International Accounting Standards Board
ICAB	Institute of Chartered Accountants of Bangladesh
ICAI	Institute of Chartered Accountants of India
ICAEW	Institute of Chartered Accountants in England and Wales
ICAN	Institute of Chartered Accountants of Nepal
ICAP	Institute of Chartered Accountants of Pakistan
ICGN	International Corporate Governance Network
ICMAB	Institute of Cost and Management Accountants of Bangladesh
ICMAI	Institute of Cost Accountants of India
ICMAP	Institute of Cost and Management Accountants of Pakistan
ICSI	Institute of Company Secretaries of India
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INR	Indian Rupee
IRDA	Insurance Regulatory and Development Authority
IRDAI	Insurance Regulatory and Development Authority of India
ISA	International Standard on Auditing
KYC	Know Your Customer
LCTR	Large Cash Transaction Report
LEA	Law Enforcement Agency
LLP	Limited Liability Partnership
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MLPR	Money Laundering Prevention Rules
MMA	Maldives Monetary Authority
MoCTCA	Ministry of Culture, Tourism and Civil Aviation
MoHA	Ministry of Home Affairs
MOI	Ministry of Interior
MoU	Memorandum of Understanding
MRE	Mutual Recognition Agreement
MSP	Money Service Provider
MSPCO	Money Service Provider Company
MVTS	Money or Value Transfer Service

NBFI	Non-Bank Financial Institution
NCTC	National Counter Terrorism Centre
NITI Aayog	National Institute for Transforming India
NGO	Non-Government Organisation
NPO	Non-Profit Organisation
NRA	National Risk Assessment
NRB	Nepal Rashtra Bank
NRP	Nepalese Rupee
NTEC	National Target Exploitation Centre
OCR	Office of the Company Registrar
PAO	Provisional Attachment Order
PAN	Permanent Account Number
P/CVE	National Strategy on Preventing and Countering Violent Extremism
PEP	Politically Exposed Person
PF	Proliferation Financing
PMLA	Prevention of Money Laundering Act
PML-FTA	Prevention of Money Laundering and Financing of Terrorism Act
PMLR	Prevention of Money-laundering (Maintenance of Records) Rules
MLPA	Money Laundering Prevention Act
R.	Recommendation
RBI	Reserve Bank of India
RE	Reporting Entity
SAR	Suspicious Activity Report
SEBI	Securities and Exchange Board of India
SRB	Self-Regulatory Body
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TCSP	Trust and Company Service Provider
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
UAE	United Arab Emirates
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolutions
VASP	Virtual Asset Service Provider
VDASP	Virtual Digital Asset Service Provider
VO	Voluntary Organisation

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## **Executive Summary of comprehensive study and comparative analysis on AML/CFT legislations in SAFA member countries**

### **Overview**

The study provides a comparative analysis of the AML/CFT legislations among the SAFA member nations by conducting an in-depth analysis of the nations' existing AML/CFT regimes. Each country's latest MER and FURs have been considered to conduct a comparative and in-depth analysis. It is inferred that the seven jurisdictions have undertaken legislative measures to address the deficiencies highlighted by MER/FUR to a large extent. The comparative analysis has highlighted the need for a coordinated regional approach to strengthen AML/CFT frameworks in SAFA member countries. By addressing the identified gaps, these countries can enhance their ability to combat ML/TF effectively. A summary of country-specific legislative/regulatory changes in the AML/CFT regime along with the comparative analysis of AML/CFT Legislations in SAFA member countries is presented below:

#### *Key legislative/regulatory changes in AML/CFT regime*

#### **Afghanistan**

- Post MER (2011), the Anti-Money Laundering and Proceeds of Crime Law (AML-PC) was enacted in 2014 and amended in 2015. The CFT law was passed by the parliament and approved in 2014.
- The AML-PC (2015) incorporated risk assessment. The country initiated the first National Risk Assessment (NRA). AML-PC established the composition of the National Coordination Commission, criminalised money laundering (ML) and included various provisions like provisional and confiscation measures, overriding of secrecy, identification and verification of natural persons, legal persons and beneficial owners; enhanced due diligence (EDD) and ongoing due diligence measures, record-keeping, politically exposed persons (PEPs), correspondent banking relationships, risk assessment arising out of new technologies, reliance on third parties, internal AML programs, exemption from liability for bona fide parties for suspicious transaction reporting (STR), special monitoring of transactions and measures for high-risk



countries, power of supervisory authorities, mutual legal assistance (MLA), other forms of international cooperation and wire transfer rules.

- FinTRACA implemented various AML/CFT measures including enforcement measures like warning letters and license revoking, launched an online hawala portal for the Money Service Provider Companies (MSPCOs) and converted STR from manual to electronic in the central zone of Afghanistan. STR increased by 21.14% from 2021 and 8% from 2020. FinTRACA issued STR guidelines for banks, non-profit organisations (NPOs), life insurance, money service businesses, businesses involved in electronic funds transfer, investment, cash couriers, trusts and company service providers (TCSPs), accountants, lawyers and real estate agents. It publishes annual reports and various statistics.
- AML-PC (2015) defined bearer negotiable instruments (BNIs) as per MER's recommendation. The Customs Department is authorised to collect and request information and restrain cash or BNIs for false declaration. A false declaration is subject to confiscation and fines. The Regulation Governing the Reporting and Control of Physical Transfers of Currency, BNIs, Gold, other Precious Metals or Precious Stones applies to the transfers for both inbound and outbound persons and through the international airports and land borders of the country.
- The general provisions under the AML-PC (2015) apply to Designated Non-Finance Business or Professions (DNFBPs). The confidentiality provisions do not apply to attorneys, notaries and other independent legal professions. In 2023, FinTRACA emphasised the DNFBP sector by conducting surveys in the Balkh and Kabul provinces.
- The Law on Extradition of the Accused, Convicted Individual and Legal Cooperation (2013) regulates extradition and legal cooperation on cases between Afghanistan and other countries. Electronic Money Institutions (EMIs) regulation (2020) defined an EMI and inserted obligations like conducting due diligence measures, periodic internal audit reviews, Know Your Customer (KYC) policies and procedures, training programs and reporting.
- The CFT (2014) included the TF offence, freezing mechanism of funds/property without delay, sanctions for NPOs and their requirement to maintain records. Relevant regulations concerning target financial sanctions (TFS) and proliferation financing (PF)

shall be issued by the Afghanistan National Security Council or the office of the Attorney General.

## **Bangladesh**

- The National Strategy for Preventing Money Laundering and Combating Financing of Terrorism (2019-2021) focuses on preventing crime proceeds from integrating into the financial system. Key areas include inhibiting unauthorized movement of funds and trade-based money laundering (TBML), effective judiciary system, modern border control procedures, systematic management and implementation of freezing and confiscation of crime proceeds, transparency in ownership of legal persons and arrangements, corporate governance and strict AML/CFT compliance in reporting entities (REs).
- The Evidence (Amendment) Act 2022 sets out the objective factual circumstances to infer the intent and knowledge required to prove the commission of criminal offences under c.3.8 and c.5.5 (currently c.5.6). It allows the admissibility of digital records and digital signatures in court.
- The Bangladesh Financial Intelligence Unit (BFIU) released Electronic KYC (e-KYC) guidelines (2019), covering digital customer onboarding, identification, verification, KYC profiles, risk profiling, risk assessment, record-keeping, and third-party reliance. The TBML guidelines highlighted the issues of over-invoicing, under-invoicing and multiple invoicing, and emphasized risk-based approaches, customer assessment, bank screening, transaction monitoring, training and reporting suspicious transactions. Non-Bank Financial Institutions (NBFIs) guidelines (2023) mandated the establishment of a central compliance unit, a chief AML compliance officer, branch AML compliance officer and prohibited NBFIs from opening anonymous accounts.
- The 2024-25 budget proposed a 15% tax on black money to combat ML. The government also approved a strategy to freeze/confiscate unreported offshore assets of Bangladeshi nationals in 2022. The Cyber Security Act (CSA) 2023 replaces the Digital Security Act (DSA) 2018 to assure cyber security and counter cybercrimes. The National Cyber Security Agency replaced the Digital Security Agency and will monitor online communication and counter cybercrimes. Cyberterrorism qualifies as an offence and is subject to a maximum of 14 years imprisonment or a fine of BDT 10 million.

- The lack of requirement for insurance companies to determine if the beneficiary or the beneficial owner of the beneficiary is a PEP was addressed by the latest instructions to insurance companies issued by the BFIU in 2022.

## India

- Concerning R.4, the Prevention of Money Laundering (Restoration of Confiscated Property) Rules were published in 2016 and amended in 2019.
- The National Investigation Agency (NIA) has registered 103 cases of terror financing (TF) and the conviction rate in TF cases investigated is 94.11%. The Unlawful Activities (Prevention) Amendment Bill (2019) provided special mechanisms to deal with terrorist activities, designation of terrorist organisations, property seizure approval, NIA investigation and insertion of the International Convention for Suppression of Acts of Nuclear Terrorism in the schedule of treaties.
- The NPO definition was expanded. REs must register an NPO client's information on National Institute for Transforming India (NITI) Aayog's DARPAN portal. The portal publishes guidance notes for NPOs and donors to combat TF. As per FCRA amendments (2023), NGOs must provide details of movable and immovable assets created using foreign contributions.
- Insurance Regulatory and Development Authority (IRDA) AML/CFT Guidelines (2022) asserted insurers to pay special attention to ML threats arising from the development of new technologies and non-face-to-face business relationships. Master Circular on KYC norms/AML/CFT obligations of banks (2014) extended the roles and responsibilities of the principal officer to ensure overall compliance. As per AML/CFT master guidelines by IRDAI (2022) and the Securities and Exchange Board of India (SEBI) (2024), the internal audit function should be independent, adequately resourced and aligned with the size of the business and operations, organization structure, number of clients and other such factors.
- In 2023, the government brought practising-chartered accountants (CAs), company secretaries (CS), cost and works accountants (CWAs), TCSPs and Virtual Asset Service Providers (VASPs) under the ambit of the Prevention of Money Laundering Act (PMLA) albeit lawyers and legal professionals have not been covered.

- The Companies Act (2013) stipulates central government to make rules to provide the manner of holding and disclosing beneficial ownership (BO) and beneficial interests.
- FIU-IND provided information on numerous operational and strategic analyses and key ML/TF trends, typologies and developments during 2012-2023 concerning diamond-related transactions, prepaid payment instrument (PPI) ecosystem; cash transaction report (CTR), STR, cross border wire transfer report (CBWTR), counterfeit currency report (CCR); online gaming, gambling, cybercrime and virtual digital assets. FIU-IND is in the process of guiding the filing of defensive STRs.
- MLA guidelines in Criminal Matters (2019) considered court concerns for prompt responses concerning the service of documents on persons residing abroad. The guidelines provided for the service of documents on authorities of foreign countries preferably within 10 days of receipt of request for offences committed against women and children.
- The Bharatiya Sakshya Adhinayam (2024) replaced the Indian Evidence Act (1872). It provides electronic oral evidence. The Bhartiya Nyaya Sanhita (2024) that replaced the Indian Penal Code (IPC) 1860 added terrorism and organised crime (including cybercrime) as offences. Damage to the monetary stability of India by production, smuggling or circulation of counterfeit Indian currency is added to the provision. The Bhartiya Nagarik Suraksha Sanhita (2024) that replaced the CrPC (Criminal Procedure Code) 1973 allows trials, inquiries and proceedings in electronic mode, provides for the seizure of both movable and immovable properties but does not provide a time limit up to which property can be attached.

## **Maldives**

- The first NRA was completed in 2022. The current National Action Plan on P/CVE (2020-2024) aims to prevent violent extremism by collaborating among individuals, communities and institutions through ‘whole of government’ and ‘whole of society’ approach.
- The Prevention of Money Laundering and Financing of Terrorism Act (PML-FTA) 2014 criminalized ML/TF and expanded confiscation to include proceeds of crime, instrumentalities and property. The Regulation on Management of Confiscated Funds and Properties (2020) covers managing confiscated funds, third-party rights and record keeping. PML-FTA outlined freezing procedures for designated terrorists or organizations under UNSCR 1373. It focuses on monitoring NPOs for money transfers

and preventing TF. It prohibits criminal, civil, disciplinary or administrative proceedings for breach of banking or professional secrecy.

- As per PML-FTA, financial institutions must not keep anonymous accounts. The 2015 regulations on ML/TF prevention for money transfer and money-changing businesses, life insurance and family takaful insurance businesses included CDD and record-keeping. PML-FTA incorporated record-keeping. The regulations on securities sector were published in 2016. PML-FTA mandates REs to identify PEPs, obtain senior management approval and identify wealth sources. The 2020 PEP Guidance paper helps address PEP challenges. PML-FTA includes provisions on cross-border correspondent banking relationships, payable through accounts. It defined money or value transfer service (MVTS) and asserted customer verification (CDD). Administrative sanctions are available for non-compliance as per the 2015 Regulation for money transfer businesses and money-changing businesses. The Maldives Monetary Authority (MMA) monitors MVTS. PML-FTA has no wire transfer definition albeit the aforementioned 2015 regulations have.
- PML-FTA and the 2015 regulations include internal controls and programs, STR, compliance of obligations by foreign subsidiaries and branches. The STR obligations do not extend to lawyers, notaries, accountants, auditors, tax advisors and other independent legal professionals. Reporting obligations have been extended to DNFBPs like dealers in precious metals and stones (DPMS) and dealers in real estate. Specific STR regulations exist for banks and securities institutions. The guidelines for consumer finance institutions and money remittance institutions (2016) included aspects of CDD, STR reporting and other preventive measures. PML-FTA deals with the prohibition against tipping off and specific regulations exist for money transfer and money-changing businesses, life insurance businesses and securities institutions. It defined DNFBPs and prohibited their operation without prior registration by competent authorities; stipulated legal persons to maintain adequate, accurate and current information on BO and control structure. All documents to Registered Businesses would be issued electronically only. The current threshold for cross-border cash declaration is 10,000 US\$ or its equivalent in Maldivian Rufiyaa or foreign currency. PML-FTA provides provisions for MLA and extradition.
- The AML/CFT compliance of REs with requirements of PML-FTA (part two) is supervised by the competent authorities. Regulatory/supervisory authorities for

DNFBPs also issue sanctions. The FIU shall inform supervisory authorities of REs non-compliance. PML-FTA authorises FIU to access and review information, analyse and disseminate STRs. The FIU-MMA should prepare and publish annual report. It is an operationally independent unit formally established under the PML-FTA within the MMA. For obtaining Egmont membership, co-sponsors from the Egmont group to the Maldives conducted their final on-site assessment with the FIU in 2023. FIU-MMA signed various MoUs recently with foreign counterparts- Japan Financial Intelligence Center, Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia. In 2024, a MoU was signed between the Capital Market Development Authority (CMDA) and the Securities and Exchange Commission of Sri Lanka.

## Nepal

- Post-MER 2023, the Asset (Money) Laundering Prevention Act (ALPA), 2008 was amended in 2024. As per the amended ALPA, institutional risk assessment must be revised and translated into plans, policies or procedures at least annually and presented to the regulator. Government and REs should conduct risk assessments annually and implement risk-based plans, policies and actions. PF and its preventive/regulatory measures have been added. Hundi, human smuggling, piracy, terrorist activities, foreign terrorist fighters and virtual currency are criminalised. The imprisonment for ML is increased to up to 15 years and for TF, it increased to ‘7 to 20 years’ from between ‘3 to 20 years.’
- The amended ALPA incorporated the maintenance of confidentiality of customer information. The Coordination Committee will oversee the NRA’s execution. The National Coordination Committee is converted into the Coordination Committee. A Directive Committee is set up that mandates directives, policies and reviews at the national level. The National AML/CFT report should be presented in the parliament annually.
- Concerning updated c.4.13(b) - ‘compensating the victims of crime by using confiscated properties’ under R.4, payment of loss and compensation to the victim shall be required.
- The rights of bona fide third parties along with compensation measures are clarified. The Ministry of Home Affairs (MoHA) and the Social Welfare Council (SWC) shall regulate and supervise NPOs. ALPA (amended 2024) clarified customer identification

and verification. Presently, both shall be done for conducting transactions for occasional customers. The customers must be identified and verified by the REs within 3 days of establishing a business relationship or conducting the transaction. As required by c.10.20, ALPA clarified reporting of STRs in case of risk of tipping off. ALPA amended the filing of STR 'immediately' from the earlier provision of no later than 3 days. The definition of 'payable through accounts' has been inserted.

- Draft Information Technology and Cyber Security Bill (2024) was released to regulate the activities of information technology and cyber security. The Tourism Act (1978) and the Land Revenue Act (1978) shall deal with the licensing, regulation and supervision of casinos and real estate respectively with criminal offences, involving certain sectors whose transactions exceed a specified sum or cover more than a specified area.
- Nepal-FIU shall approve an independent auditor for AML/CFT. The AML/CFT Audit shall be conducted for Banks and Financial Institutions (BFIs), brokers, casinos, cooperatives, insurance companies, merchant banks, real estate businesses and other specified companies. The sharing of BO information is extended to legal persons. The companies must disclose BO information to registration-related bodies like the Office of the Company Registrar (OCR). Non-declaration or false declaration of information is subject to civil confiscation of properties and fines.
- Nepal Rashtra Bank (NRB) Act was amended to include issuance of standards and directives for regulating, monitoring and supervising financial cooperatives. However, such oversight would be at the request of the Department of Cooperatives (DeoC) and for the cooperatives with share capital or annual transactions exceeding NPR 500 million. The NRB Act also prescribes fines (section 99) and punishment under a new section 100A in addition to the existing penalties in the Cooperatives Act. AML/CFT directives for hire purchase companies (2024) specified aspects like CDD, Enhanced CDD, reporting threshold transactions and suspicious transactions via. goAML software.
- Employees from various law enforcement agencies (LEAs), regulatory bodies or other relevant entities can be deployed at the FIU. The FIU shall be able to impose a fine of up to NPR 10 million from NPR 1 million.
- ALPA (amended 2024) has added special investigation techniques under section 19 to be followed by the investigating authority for investigating cases related to ML/TF/PF. The procedures shall include controlled delivery, undercover operations, accessing

computer systems or other electronic devices, interception of telecommunications etc. among others. The deficiency in c.31.4 has been addressed by adding the provision for requesting information by all LEAs in ALPA. All LEAs that investigate predicate offences shall be able to investigate ML. Earlier, the Department of Money Laundering Investigation (DMLI) was the sole authority to conduct ML investigations. Sanctions have been added which shall apply to the concerned officials in addition to the Board of Directors by the regulators, as recommended under c.35.2.

- As per amendment in section 3 under the MLA Act, the execution of foreign judicial verdict shall be conducted based on reciprocity. The 2024-25 budget speech of the Nepalese government prioritizes the negotiation and conclusion of extradition treaties based on reciprocity. It shall improve the scope of R.39.
- The auditors have been designated as REs solely for reporting suspicious transactions. ALPA also added the accountants who provide taxation, financial, business consultancies or advisory services in the organisation of contributions for the creation, operation or management of companies (c.22.1(d)(iv) to constitute REs. Equity funds, hire purchase loan providers, investment companies, vehicle selling companies and venture capitals are additional inclusions as REs.

## **Pakistan**

- DNFBPs, legal persons and legal arrangements were assessed for the first time in NRA 2023. A detailed assessment of TF threats and TF sources and channels was also carried out by assessing a total of 87 terrorist organisations.
- In 2023, the financial monitoring unit (FMU) conducted a strategic analysis on hawala/hundi, NPOs, branchless banking sector, frequent foreign remittances -UAE, Afghan nationals/refugees/migrants in Pakistan and proscribed individuals linked with extremist or organised crime. It issued a guidance document on ML/TF risks for hawala/hundi. The overall risk of TF abuse in Pakistan's NPO sector was rated 'High' in NRA 2023. To facilitate prompt STR filing, the FMU devised “Typologies and Red Flags for Financing and Facilitation of Foreign Terrorist Fighters and Returnees in Southeast Asia” for REs. It issued NRA guidelines for REs on suspicious transactions to improve the STR reporting regime to align with the results of NRA 2023. It introduced a new type of STR, “STR-T” which delves into all elements of the TBML.
- The AML (Forfeited Properties Management) rules, 2021 were developed including elements like establishing a central asset recovery office for asset recovery and



managing forfeited properties and disclosing information on properties to other stakeholders for expeditious confiscation and forfeiture of properties.

- The United Nations Office on Drugs and Crime (UNODC) in partnership with the Prosecution Department of Sindh launched a general software-based Case Management and Monitoring System (CMMS) in 2021 under the framework of Pakistan's Action to Counter Terrorism (PACT) to aid in solving complex cases, tracking court proceedings and monitoring the quality of prosecutions. The Prosecution Department was provided equipments like computers and laptops by the UNODC through the National Counter Terrorism Authority (NACTA) to enhance operational efficiency and effectively prosecute and adjudicate cases of terrorism.
- The year 2023 witnessed the processing of 102 international cooperation requests. The FMU signed MOUs with counterpart FIUs of Japan, Indonesia and South Africa which marks a total of 18 MOUs.

### **Sri Lanka**

- The 2<sup>nd</sup> National AML/CFT Policy (2023-2028) was developed based on NRA (2021-2022) results. The overall ML/TF risk level was assessed as medium.
- Tax crimes are not yet considered unlawful under PMLA. However, in 2017, the Inland Revenue Act was amended to introduce tax evasion as an offence with strong and dissuasive penalties.
- The regulations on the Prevention of Terrorism (Proscription of Extremist Organisations) 2019 prescribe imprisonment of not exceeding 20 years for persons contravening regulation 3 of the law.
- All international and national-level foreign-funded NGOs must re-register under the National Secretariat for NGOs. NGOs not registered or registered with other institutions like the District Secretariat, or the Divisional Secretariat must be monitored and reported. A circular issued by the FIU in 2019 asserted the conduct of enhanced CDD measures while entering a relationship with an NGO/NPO or charity to ensure that their accounts are used for lawful intentions and transactions that align with the stated objectives and purposes.
- Concerning R.10, the CDD Rules 2008 for the insurance sector was replaced by the Insurers CDD Rules (2019). These rules included the requirements of appropriate risk management systems for identifying beneficial owners and senior management

approval for the continuity of business relations. As per FIU circular 02/2023, the real estate sector should adhere to CDD measures under the Designated Non-Finance Business (DNFB) CDD Rules (2018) and FTRA (section 2). As per the FIU circular 04/2022, the service of authenticating the details for customer identification would be carried out through the Department of Immigration and Emigration.

- To bring unregistered or unlicensed MVTS providers under the formal system, the MVTS Providers Rules (2024) have been issued under the Payment and Settlement Systems Act (2005) and the regulatory and supervisory authority is the Central Bank of Sri Lanka (CBSL).
- Guidelines were issued by the FIU for financial institutions recommending them to install a strong closed-circuit television (CCTV) system that is completely functional on both the interior and exterior of the business premises where the conduct of CDD takes place as part of internal controls, policies and procedures for efficient ML/TF risk control and mitigation. The guideline was amended wherein the information captured in the CCTV system should be maintained for a minimum of 90 days from earlier 180 days (R.11). Guidelines on STR reporting by DNFBPs were published by FIU in 2019. The STR should be carried out through the goAML system. AML/CFT guidelines were issued for attorneys-at-law and notaries (2023), accountants and TCSPs (2020). As per a 2024 FIU circular, the REs must submit cash and EFT transaction details to the FIU if they exceed Rupees 1 million through the goAML system from the earlier limit of Rs.5,00,000.
- The Anti-Corruption Act (2023) authorised the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) to disclose relevant information to any investigation with any local law enforcement or other Government authority. The FIU signed an MOU with the CIABOC to exchange information on investigations and prosecutions of money laundering, bribery, corruption and other related offences. Presently, the FIU entered into MOUs with 45 foreign counterparts for sharing information for intelligence purposes.

Secondly, a comparative analysis of the AML/CFT regime of the nations has been made for certain important points that surfaced while conducting an in-depth analysis of the legislations.

*Key Findings on Comparative Analysis on AML/CFT Legislations in SAFA member countries*

**National Risk Assessment** - Pakistan conducted the highest NRAs and underwent the first assessment of DNFBPs, legal persons and legal arrangements in NRA 2023. It depicts that it has kept the risk assessments up-to-date. Bangladesh and Sri Lanka underwent two NRAs albeit Bangladesh must update its previous NRA of 2015. Recent NRAs were conducted in Sri Lanka (2021-22) and Maldives (2022). Nepal's latest MER was published in 2023 and the first NRA was conducted in 2020. Hence, its NRA is expected to be updated later. Afghanistan, India and Maldives must publish their NRA reports at the earliest to showcase their strong commitment towards assessing ML/TF threats and vulnerabilities.

**National policies/strategies** – Nepal developed the most recent national strategy followed by Sri Lanka. Maldives is the sole country to have an action plan (2020-2024) for preventing and countering 'violent extremism'. Bangladesh updated the previous National AML/CFT strategy (2015-2017) into the latest strategy for 2019-2021. Pakistan should update its strategy for 2018 while Afghanistan and India must develop national AML/CFT policies for compliance with R.2 (c.2.1).

**STR filing** - Bangladesh, Nepal and Pakistan emphasize immediate or prompt reporting without specifying a precise timeframe. Sri Lanka requires reporting within 2 working days. Afghanistan and Maldives require reporting within 3 days of forming suspicion while India allows up to 7 days for reporting. Each country has a designated FIU to which STRs must be furnished and specific legislation/guidelines governing STR reporting. Overall, all 7 South-Asian countries emphasize the importance of prompt reporting of suspicious transactions for curbing ML/TF, though the specific timeframes and procedural details vary.

**Regulatory provisions for DNFBPs** – The inclusion of DNFBPs in Nepal and Sri Lanka is completely in line with R.22. Casinos are included in 3 countries viz., India, Nepal and Sri Lanka while lawyers, notaries and other legal professionals are not yet covered by India. Afghanistan considers rahnamai mamelaat (transaction guide) as a DNFBP. India is the sole

country to bring virtual digital asset service providers into the DNFBP framework. On the contrary, Nepal sought to prohibit virtual asset service providers. It amended the National Penal Code 2017 and criminalised virtual currency in 2024. Only two nations have specifically mentioned auditors as DNFBP: Maldives (auditors and tax advisors) and Nepal (registered auditors).

The general provisions of R.22 are outlined in the respective country-specific laws but no explicit requirements of R.15 and R.17 are mentioned in the PML-FTA of the Maldives and that of R.12 and R.15 in AMLA 2020 of Pakistan. The requirements of R.22 are supported by AML/CFT guidelines in India, Nepal, Pakistan and Sri Lanka. The sectoral guidelines in these countries have not comprehensively covered the requirements of R.22 and lack uniformity to a certain extent. For example - The guidelines for accountants in India cover the requirements of R.10, 11, and 12 but not R.15 and 17, VDASP guidelines include R.15 but not R.12 requirements while real estate guidelines cover R.10,11,12,17 but not R.15. In Pakistan, R.15 obligations are not applicable for lawyers. R.15 requirements have not been legally incorporated sufficiently. For Bangladesh, despite guidelines on DNFBPs being found to be published on the website of Bangladesh Bank under the regulations and guidelines section, details of the provisions under it could not be traced due to its non-accessibility.

Concerning R.23, the general provisions apply to DNFBPs under country-specific laws. However, the existence of separate STR and AML/CFT directives differs country-wise. Separate STR guidelines for REs exist in Afghanistan, Bangladesh, Nepal and Pakistan; and Sri Lanka has STR guidelines issued specifically for all DNFBPs. Auditors have been designated as RE for the sole purpose of reporting STR. The obligation for auditors to report suspicious transactions is explicitly mentioned in FIU guidelines of Sri Lanka. Auditors of Pakistan are not required to detect or seek illegal activities as per the International Standard on Auditing (ISAs). Although the practising firm should consider its obligations to report activities to the regulators like Federal Investigation Agency (FIA), FBR etc, no reporting obligation to FMU exists as audit and assurance services are not specified services. AML/CFT directives or guidelines have been issued in India, Nepal, Pakistan and Sri Lanka. Sri Lanka is the sole country to issue AML/CFT directives for all the DNFBPs. Red flags have been stated in all jurisdictions barring Maldives. Sector-specific indicators for some DNFBPs have been highlighted in Afghanistan, Nepal, Pakistan and Sri Lanka. Specific red flags for the accounting sector have been issued by Afghanistan, India, Nepal, Pakistan and Sri Lanka; with Sri Lanka listing them comparatively in a comprehensive manner along with case studies. Details about

red flags for accountants are unknown in India due to their confidentiality and accessibility only by the members in practice.

Concerning R.28, the assignment of self-regulatory bodies (SRBs) for DNFBPs is overall done largely in the six jurisdictions barring Maldives. The assignment of AML/CFT supervision differs too. For instance, in Nepal, Pakistan and Maldives the SRBs/competent authorities have considerable powers to supervise or monitor DNFBPs in AML/CFT compliance. In India, the FIU has asserted such a role in the case of accountants. The FIUs in Bangladesh and Sri Lanka undertake AML/CFT supervision. Afghanistan has no monitoring or supervision mechanisms for DNFBPs. Regarding sanctions, they are similar to a large extent in the case of administrative sanctions while monetary penalties differ from country to country.

***Beneficial ownership of legal persons*** - The incorporation of BO requirements for legal persons is explicitly mentioned in India, Maldives, Nepal, Pakistan and Sri Lanka. Nevertheless, in Afghanistan, although reporting entities must maintain information on the identity of beneficial owners, there is no specific mention of the extension of BO requirements for legal persons. While in Bangladesh, the absence of requirements of registration for certain companies, supervision and oversight by the RJSC makes it difficult to collect BO information.

***International cooperation*** - The level of international cooperation is considerably better in India, Sri Lanka, Nepal and Pakistan as compared to Afghanistan and Maldives. The global affiliations of the various accounting bodies of the SAFA nations are highlighted. Their extensive network underscores the region's commitment to maintaining high standards of accounting and financial reporting. By leveraging these established relationships, countries can enhance AML/CFT efforts.

### **Executive summary of best practices in the AML/CFT compliance regime**

The highlighted best practices demonstrate the effectiveness of various strategies and measures implemented by SAFA member nations in AML/CFT compliance. The practices for one country could serve as a model to adopt and replicate in other countries tailored to their risk environment. By adapting and learning these practices, member countries can enhance their AML/CFT frameworks and improve their ability to combat ML/TF. A brief account of the best practices are presented below:

#### *Key findings*

##### **Afghanistan**

- As per CFT (2014), the Afghanistan National Security Council or the office of the Attorney General should issue relevant regulations concerning target financial sanctions concerning proliferation financing (PF).
- As per AML-PC (2015), the supervisory authority should develop and implement financial, fit and proper tests while approving those who own, control, and participate directly or indirectly in establishing, managing or operating the business of REs including their beneficial owners.
- In 2023, finTRACA received feedback on 25 cases that were disseminated to LEAs.
- An online hawala portal was launched for MSPCOs. MSPCOs must report LCTRs to FinTRACA. FinTRACA successfully converted MSPCO suspicious transaction reporting from manual to electronic in the central zone of the country. The country has a surveillance tool called 'FinTRACA Watch-List' to implement EDD measures and identify high-risk subjects with irregularities and potential ML risks. The list of high-risk subjects is regularly released by FinTRACA to REs.
- The FinTRACA organised capacity-building programs for effective AML/CFT compliance.

##### **Bangladesh**

- To counter money laundering, the budget 2024-25 proposed a 15% tax on black money to integrate undisclosed income into the mainstream economy and enhance the flow of money into the banking system.
- The BFIU published TBML guidelines that highlighted the issue of over-invoicing, under-invoicing and multiple invoicing through appropriate illustrations, typologies, case studies and TBML alerts. Training sessions were conducted on TBML prevention in 2024 by the Association of Anti-Money Laundering Compliance Officers of Banks in Bangladesh (AACOBB). Guidelines for Non-Bank Financial Institutions (NBFIs) were issued to address the ML/TF issues. The BFIU issued guidance notes for the prevention of TF and proliferation of weapons of mass destruction.
- The Digital Security Act (DSA) 2018 was substituted by the Cyber Security Act (CSA) 2023 to assure cyber security and detect, prevent, suppress, or prosecute crimes committed through digital or electronic means. Cyberterrorism currently qualifies as an offence with a maximum of 14 years imprisonment or a fine of BDT 10 million (\$90,900).

## **India**

- The NGO Darpan portal maintained by NITI Aayog enables NGOs/voluntary organisations (VOs) to enrol centrally and obtain an NGO Darpan Unique ID. Foreign contributions cannot be transferred to another person or organisation until they are registered to accept such contributions. NGOs must furnish details of movable and immovable assets created using foreign contributions on an annual basis. A guidance note for NPOs and donors to combat the financing of terrorism was published on the website of NGO Darpan in 2023. It also highlighted the red flags of the sector.
- Virtual Asset Service Providers (VASPs), chartered accountants, company secretaries, cost and work accountants and trusts and company service providers are brought under the ambit of PMLA. AML/CFT Guidelines for VASPs and professionals with certificates of practice from the ICAI, ICSI and ICMAI were issued by the FIU.
- As per the master circulars issued by the IRDAI and the SEBI, the internal audit function should be independent, adequately resourced and aligned with the size of the business and operations, organization structure, number of clients and other such factors.

- FPAC (FIU-India Initiative for Partnership in AML/CFT) was launched in 2022 in PPP (public-private partnership) mode to enhance collaboration between FIU-IND and other stakeholders in the AML/CFT arena by facilitating information exchange on best practices, emerging trends or technologies, and discussions on the filing, collection and dissemination of financial intelligence.
- The Alliance of Reporting Entities in India for AML/CFT (ARIFAC) is a first-of-its-kind, private-private partnership among REs across several sectors like banks, non-banking financial companies, payment aggregators, prepaid payment instrument providers, National Payments Corporation of India (NPCI) and VASPs. Its objective is to provide an information-sharing platform for FIU-IND.
- The Strategic Analysis Lab (SAL) established as part of the FINNET2.0 project in 2021 conducted more than 35 studies such as CTR, STR, CBWTR, and CCR trend analysis; research analysis and typology reports like risks associated with online gaming and gambling in India, cybercrime and its data analysis and the study of virtual digital assets.
- FIU-IND Personal Hearing Policy was established to streamline the adjudicatory functions of the Director, FIU-IND under PMLA. FIU-IND initiated project FINNET (Financial Intelligence Network) to adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes. FINNET2.0 was established by incorporating artificial intelligence and machine learning tools to check ML/TF crimes. A unified communication cell (UCC) has also been established to enhance support to FINNET 2.0 users. Learning Management System (LMS) - 'Prajnavardhanam', an FIU Learning Hub was established in 2021.

## Maldives

- The current National Action Plan on Preventing and Countering Violent Extremism 2020-2024 aims to operationalise the 2017 National Strategy on Preventing and Countering Violent Extremism (P/CVE). It is the only SAFA member nation to establish a policy on violent extremism.
- PML-FTA (2014) delves into adequate monitoring of NPOs by the Ministry of Home Affairs. The ministry shall prescribe rules for preventing their misuse for TF. The act includes auditors and tax advisors as DNFBPs besides independent accountants.



- In 2022, the Ministry of Economic Development and Trade announced that all documents issued by the Ministry to Registered Businesses would be issued electronically instead of the previously used manual system of maintaining information on BO and control of legal persons.
- The regulation on cross-border cash declaration amended in 2021 prescribed a threshold as 10,000 US\$ or its equivalent in Maldivian Rufiyaa or foreign currency.
- MMA signed various MoUs in recent years with its foreign counterparts: Japan Financial Intelligence Center, Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia. In 2024, the CMDA and the Securities and Exchange Commission of Sri Lanka signed an MoU. FIU-MMA launched a non-comprehensive PEP database to aid REs in the maintenance of their own exhaustive PEP list. It issued guidance on implementing preventive measures against proliferation and proliferation financing in 2017.
- Maldives uses a border control system - the Personal Identification Secure Comparison and Evaluation System (PISCES) to provide traveller screening and screening list capability.

## Nepal

- The amended ALPA (2024) incorporated various measures and practices to strengthen the AML/CFT framework. It provides that the institutional risk assessment must be revised and translated into plans, policies or procedures at least annually and presented to the regulator. Employees from various LEAs, regulatory bodies or other relevant entities can be deployed at the FIU.
- The country criminalised hundi, human smuggling, piracy, terrorist activities, foreign terrorist fighters and virtual currency.
- Nepal-FIU shall approve an independent auditor for AML/CFT. The AML/CFT Audit shall be conducted for Banks and Financial Institutions (BFIs), brokers, casinos, cooperatives, insurance companies, merchant banks, real estate businesses and other specified companies. The auditors are designated as REs for the sole purpose of reporting suspicious transactions. It added the accountants who provide taxation, financial, business consultancies or advisory services in the organisation of contributions for the creation, operation or management of companies (c.22.1(d)(iv) to

constitute REs. Equity funds, hire purchase loan providers, investment companies, vehicle selling companies and venture capitals are additional inclusions as REs.

- The Tourism Act has incorporated the licensing, regulation, and supervision of casinos with criminal offences.
- The Land Revenue Act shall deal with the licensing, regulation and supervision of real estate with criminal offences, involving a certain sector whose transactions exceed a specified sum or cover more than a specified area.
- The NRB Act was amended to include the issuance of standards and directives for regulation, monitoring and supervision of financial cooperatives. The NRB introduced the AML/CFT directives for hire purchase companies in 2024.
- The sharing of BO information has been extended to legal persons. In case of non-declaration or false declaration of information, there shall be civil confiscation of properties and a levy of fines.

## **Pakistan**

- In 2023, the FMU conducted a strategic analysis and issued a guidance document on ML/TF risks for hawala/hundi, frequent foreign remittances, branchless banking sector, NPOs and proscribed individuals linked with extremist or organised crime.
- AML (Forfeited Properties Management) rules, 2021 were developed including elements like establishing a central asset recovery office and disclosing information on properties to other stakeholders for expeditious confiscation and forfeiture of properties.
- A detailed assessment of TF threats was carried out in the 2023 NRA. A total of 87 terrorist organisations were assessed.
- The FMU issued NRA guidelines for REs on suspicious transactions to improve the STR reporting regime to align NRA 2023 results. A new type of STR was introduced, “STR-T” which delves into all elements of TBML.
- The requirements of R.23 are supported by the AML/CFT guide for accountants developed by the ICAP in 2018. The guide stated the red flags to be considered by the practising firms and provided details of the red flags by categorising them into country or geographic risk, client risk, product, service or delivery method risk and other risk factors. STR forms are attached along with filing guidance notes and red flag indicators.

- The year 2023 witnessed the processing of 102 international cooperation requests. The FMU signed MOUs with counterpart FIUs of Japan, Indonesia and South Africa which marks a total of 18 MOUs.
- Risk-based supervision was conducted for accountants, DPMS and real estate; and commenced for lawyers.

### **Sri Lanka**

- The country developed the 2nd National AML/CFT Policy (2023-2028) based on the results of the 2021-22 National Risk Assessment (NRA) thus, updating the previous policy of 2015-2020.
- In 2017, the Inland Revenue Act was amended to introduce tax evasion as an offence with strong and dissuasive penalties.
- All international and national-level foreign-funded NGOs must re-register under the National Secretariat for NGOs. NGOs not registered, or registered with other institutions like the District Secretariat or the Divisional Secretariat must be monitored and reported. Enhanced CDD measures must be conducted while entering into a relationship with an NGO/NPO or charity.
- Sri Lanka is the sole country among the seven to issue AML/CFT directives for all the DNFBPs. Concerning auditors, service providers must be aware that an auditor has an obligation under the FTRA to submit an STR in case of suspicion of ML/TF transaction (s) during performing the audit.
- The comprehensive disclosure of cash and EFT transactions and STR have now been upgraded to an online reporting system.
- The FIU issued guidelines for financial institutions recommending them to install a strong CCTV system in business premises. CDD is part of internal controls, policies and procedures for efficient ML/TF risk control and mitigation.
- The new Anti-Corruption Act (2023) authorised the CIABOC to disclose relevant information to any investigation by any local law enforcement or other government authority. FIU signed an MOU with the CIABOC and entered into MOUs with 45 foreign counterparts to share intelligence information.

### **Executive Summary of role and responsibilities of Accountants**

This section of the study in Chapter 4 provides a comprehensive analysis of the role of accountants in ML/TF risks within the AML/CFT framework. It highlights their essential roles, the skills required, training requirements etc. It also provides valuable insights regarding the existing gaps in professional development. A key finding is the consensus among respondents on the critical importance of accountants being well-versed in global standards, particularly the FATF recommendations, and staying updated with evolving AML/CFT laws and compliance policies. Knowledge of client due diligence (KYC/CDD) procedures is also recognized as crucial, demonstrating the significant roles these processes play in mitigating ML/TF risks. The skills necessary for AML/CFT were examined, with the ability to critically analyze financial statements and evaluate internal control systems being identified as the most important skills for accountants in this domain. Professional skepticism, critical thinking, and sound judgment are also recognized as vital skills. The exploratory factor analysis further consolidated these findings by identifying two key skill clusters ‘forensic investigation and analytical competencies’, and ‘advanced digital and expert testimony competencies’, emphasizing the multidisciplinary nature of the profession, where both traditional financial skills and modern technical expertise are essential.

In terms of experience, the analysis revealed that more experienced professionals placed greater value on professional skepticism and sound judgment, while less experienced accountants rated technical skills higher. This unfolds a growing awareness of digital fraud risks among newer professionals where younger accountants are more attuned to the technological aspects of AML/CFT compliance. The methods used by accountants to detect suspicious activities were also explored, with manual reviews and customer due diligence emerging as the most employed approaches. However, the study also highlights the growing role of technology, with transaction monitoring systems becoming increasingly important.

Concerning reporting suspicious activities, the study found that standardized reporting forms provided by regulatory bodies are the most used format, followed by internal reporting

protocols. The low adoption of automated reporting systems suggests that there are barriers to fully integrating technology into the reporting process, which can be related to limited access or a lack of training. Additional insights from respondents indicated that some organizations rely on informal or ad hoc methods for reporting, highlighting inconsistencies in how suspicious transactions are reported across different sectors. Training for AML/CFT also emerged as a critical area for improvement, with a significant portion of respondents indicating that they had not received formal training in this area. Self-study was noted as a common method for acquiring knowledge. It indicates that the accountants devote considerable time and effort to update themselves on the latest AML/CFT practices. This unveils the need for more formal, comprehensive training opportunities to ensure that all professionals are adequately equipped to handle the complexities of AML/CFT compliance.

Successful AML initiatives led or participated in by accountants were also examined, with regulatory compliance being the most common area of involvement. While policy implementation and training programs were also emphasized, there appears to be a gap in cross-departmental projects and investigative initiatives. Best practices for improving collaboration between accountants and other professionals were also identified, with shared platforms, joint training sessions, and clear communication channels being the most frequently employed methods.

Therefore, enhanced training and increased awareness of AML/CFT responsibilities were the most strongly supported recommendations for continuous professional development in AML/CFT regime. The findings of the chapter point to the indispensable role of accountants in managing financial crimes. It also emphasizes the need for improved training, greater collaboration, and better utilization of technology to create a more effective and resilient AML/CFT framework.

## Chapter 1- Introduction

### 1.1 Introduction

The core of money laundering (ML) lies with the illicit origin of the assets and the intention to hide its illegal identity by disguising the link between the crime and the assets using increasingly sophisticated means (Stresses, 2000). These are unlawful and complex crimes, intelligently engineered through manipulation, and are very difficult to detect (Rahman 2014; Adilah et.al, 2023). The magnitude of laundered money is very difficult to assess due to its hidden nature and lack of precise data. It is alleged that even multi-national companies also earn illegal profits from illicit activities. As per the United Nations Office on Drugs and Crime, ML may account for 2%–5% of the global Gross Domestic Product yearly ([www.unodc.org](http://www.unodc.org)). Globalization and liberalisation, coupled with technological advancement that has led to market' conjugation, have made detecting ML more challenging for law enforcement agencies, regulatory bodies, and governments. ML has been a cause of major concern for governments of all countries across the globe and has been declared an international threat (Valvi, 2023). If the issue remains unchecked, it may result in the growth of organized crimes in the nation and undermine the public faith in the financial system. ML offences pose a significant threat to individuals, corporate entities, national economies, societies and the world at large (International Monetary Fund Factsheet, 2017).

Sanusi et al. (2016) document that the major causes of the increasing number of ML operations in Malaysia are uncertainties in the current legislation and a lack of understanding of the relevant legal institutions in the fight against ML. A well-planned and meticulously designed approach is required to unearth the cases and the extent of ML. Coordination and collaboration are essential when it comes to defending the integrity and the reputation of the global financial system from the hazards of ML and terrorist funding activities. Establishing strong working partnerships between all law enforcement agencies, regulators and the private sector is essential to achieve these goals. A Plethora of research has been conducted addressing the issue of ML. However, they are based on documentary research of policy documents, statutes, case law, and literature in various geo-political jurisdictions (Rose 2020; Pavlidis, 2023; Valvi, 2023; Ochnio,

2024). There is a complete dearth of studies concerning the identification of factors signalling ML activities and professional attributes required amongst the auditors to effectively combat ML activities. Further, most of the studies emphasized the role of bankers in combating ML. However, there are several media reports that ML cases involved bankers. Whereas auditors are independent third parties, who are often hired by various parties to render non-scientific testimony in a court of law (Tiwari and Debnath, 2017). Further, the adoption or convergence with the international financial reporting standards has brought uniformity in preparing and presenting financial statements. Hence, non-adherence to prescribed standards indicates a compromise with disclosure and transparency requirements, which could indicate involvement in ML activities. Independent auditors' perspective is crucial as they are well-equipped to combat financial crimes.

### **1.2 A brief overview of the global AML/ CFT landscape**

The Financial Action Task Force (FATF), established in 1989, is an independent inter-governmental body. It recommends global anti-money laundering (AML) and counter-terrorist financing (CFT) standards. The comprehensive and consistent framework given in the form of 40 recommendations by FATF is revised frequently, keeping in view the changing global socio-economic milieu. Table 1.1 presents the broad head of these forty recommendations.

<b>Table 1.1 FATF RECOMMENDATIONS</b>	
R.1	Assessing risks & applying a risk-based approach
R.2	National cooperation and coordination
R.3	Money laundering offence
R.4	Confiscation and provisional measures
R.5	Terrorist financing offence
R.6	Targeted financial sanctions related to terrorism and terrorist financing
R.7	Targeted financial sanctions related to proliferation
R.8	Non-profit organisations
R.9	Financial institution secrecy laws
R.10	Customer due diligence
R.11	Record keeping
R.12	Politically exposed persons
R.13	Correspondent banking
R.14	Money or value transfer services
R.15	New technologies
R.16	Wire transfers
R.17	Reliance on third parties
R.18	Internal controls and foreign branches and subsidiaries
R.19	Higher-risk countries
R.20	Reporting of suspicious transactions
R.21	Tipping-off and confidentiality
R.22	DNFBPs: Customer due diligence
R.23	DNFBPs: Other measures
R.24	Transparency and beneficial ownership of legal persons
R.25	Transparency and beneficial ownership of legal arrangements
R.26	Regulation and supervision of financial institutions
R.27	Powers of supervisors
R.28	Regulation and supervision of DNFBPs
R.29	Financial intelligence units
R.30	Responsibilities of law enforcement and investigative authorities
R.31	Powers of law enforcement and investigative authorities
R.32	Cash couriers
R.33	Statistics
R.34	Guidance and feedback
R.35	Sanctions
R.36	International instruments
R.37	Mutual legal assistance
R.38	Mutual legal assistance: freezing and confiscation
R.39	Extradition
R.40	Other forms of international cooperation

The forty recommendations serve as global standards and should be adhered to by the governments of various countries across the globe while implementing their respective AML/CFT guidelines. The FATF recommendations provide a broad base for framing country-specific AML/CFT guidelines. The failure to follow these recommendations will amount to a declaration of non-compliance by the FATF (2012-2023).



A collaborative approach is adopted amongst the international stakeholders to identify national-level vulnerabilities to ensure the protection of the global financial system (FATF, 2012-2023). Table 1.2 contains the seven broad heads under which the forty FATF recommendations are categorized:

<b>Table 1.2: Broad categories of the FATF recommendations</b>	
A.	AML/CFT policies and coordination
B.	ML and confiscation
C.	Terrorist financing and financing of proliferation
D.	Preventive measures
E.	Transparency and beneficial ownership of legal persons and arrangements
F.	Powers and responsibilities of competent authorities and other institutional measures
G.	International cooperation
Source: Compiled from “FATF (2012-2023), International Standards on Combating money laundering and the Financing of Terrorism & Proliferation”	

### **1.3 Country-wise details of the latest Mutual Evaluation Reports (MERs) /Follow-up Reports (FURs)**

The FATF mutual evaluation reports are in-depth reports of countries that analyse the execution and effectiveness of measures to fight money laundering (ML) and terrorist financing (TF). The reports are peer reviews where nations evaluate one another and provide recommendations to improve their AML/CFT systems. The evaluation comprises ratings for technical compliance (compliance with the laws, regulations and other legal instruments to combat ML/TF) and effectiveness (evidence that the AML/CFT measures are working and producing the expected outcomes). On the contrary, the FUR examines a country’s progress in meeting the technical compliance criteria of the FATF recommendations being re-rated. Re-ratings are awarded only for those recommendations where sufficient improvement have been made. The FUR showcases a country’s commitment towards addressing the deficiencies highlighted in the MER and enhancing its AML/CFT regulatory framework. Table 1.3 highlights the details of the latest MER/FUR country-wise.

<b>Table 1.3. Country-wise details of the latest MER &amp; FUR</b>		
Country	Latest MER	Latest FUR
Afghanistan	2011	None
Bangladesh	2016	3 <sup>rd</sup> FUR-2020
India	2010	8 <sup>th</sup> FUR-2013
Maldives	2011	None
Nepal	2023	None
Pakistan	2019	4 <sup>th</sup> FUR-2022
Sri Lanka	2015	6 <sup>th</sup> FUR-2021

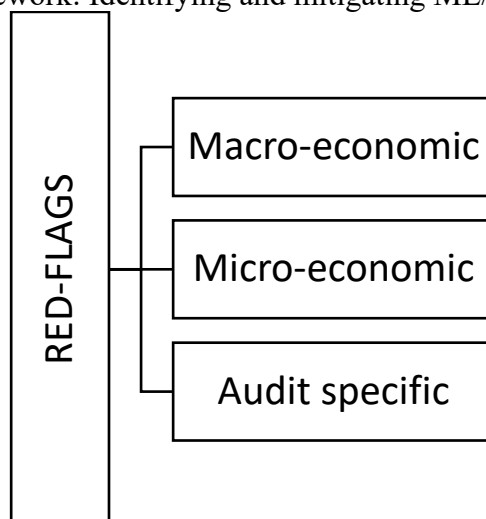
It is evident from Table 1.3 that Nepal has the most recent MER in 2023 and has not had any follow-up reports yet. This indicates that Nepal's AML/CFT framework has been recently evaluated, and follow-up reports may be expected in the future. The FIU newsletter (issue III, April 2024) highlighted the amendments undertaken under the various acts to further strengthen the AML/CFT compliance regime after the MER 2023. This shows Nepal's sincere commitment towards building a robust AML/CFT framework. On the contrary, Afghanistan and Maldives have no follow-ups after 2011. Although an in-depth analysis of the AML/CFT legislation shows the conduct of various enactments of laws and amendments, subsequent mutual evaluations and follow-ups would highlight the real status of their compliance with the global standards. Pakistan has relatively recent mutual evaluations and follow-up reports, showing active engagement with the FATF recommendations.

India had the oldest MER in 2010 out of the seven nations. It has had eight follow-up reports, with the last one in 2013. This shows that although it has been actively working on its AML/CFT compliance, there have been no recent mutual evaluations. However, as per a press release by the Press Information Bureau of India, India has achieved an outstanding outcome in the Mutual Evaluation conducted during 2023-24 by the FATF. The MER of India was adopted in the FATF plenary held in Singapore in June 2024 and it placed India in the 'regular follow-up' category, a distinction shared by only four other G20 countries (pib.gov.in). The details of the updated status of AML/CFT compliance are awaited as the final report is yet to be published.

#### **1.4 RED-FLAGS: ML/FT risks identification**

Based on the extant literature and FATF recommendations, the red flags that may signal ML/FT are identified. They are broadly divided into Macro-economic, Micro-economic, and Audit related indicators (Figure-1.1). The measuring constructs for each variable are presented in Table 1.4, 1.5 and 1.6 along with details of the inclusion criterion.

Figure-1.1: Conceptual framework: Identifying and mitigating ML/FT Risk



Source: Compiled by author

Table 1.4: MACRO-ECONOMIC RED FLAGS and ML/FT risks		
Constructs	Details of inclusion criterion	Source
Absence of measures to assess ML/FT risk and the prevalent <i>risk</i> scoping mechanism in the country		Valvi, 2023; FATF (2024)
Non-availability of material information pertaining to the makeup of the economy and financial sector (for instance, lack of information about the volume of domestic and cross-border trade, extent of the cash-based economy, the size of the informal sector and/or shadow economy etc.)	For instance, Trade misinvoicing results in loss of tax revenue to the government (Global Financial Integrity, 2019)	Araujo (2010); FATF (2024)
Missing <i>structural elements</i> (ex., political instability and lack of institutional accountability; absence of integrity and transparency; absence of a capable, independent and efficient judicial system, etc.)	evolutionary game theory suggests that the effectiveness of the fight against money laundering depends on the combination of elements like the appropriate anti-money laundering legislation and the internal readiness of banks and employees to fight this battle.	
Absence of <i>contextual factors</i> (lack of transparency, maturity and sophistication of the criminal justice; ineffective regulatory, supervisory and administrative regime in the country; high level of corruption and inadequate measures to combat corruption etc.)		
Lack of convergent rules for the return of corrupt assets		FATF (2024); Ochnio, 2024
Lack of collaborative approach among the nations	The lack of multilateral approach instead of national or bilateral efforts among the nations is another big hurdle	FATF (2024); Pavlidis, 2023)

Absence of legal protection for employees, officers and directors of financial institutions for tipping off and reporting suspicious transactions		FATF (2024);
Absence of designated supervisors for regulating and monitoring financial institutions' compliance with the AML/CFT requirements		FATF (2024);
Lack of provisions for ensuring transparency and full disclosure about different types of legal persons created in the country (including beneficial ownership etc.)		FATF (2024);
Absence of designated authority for monitoring financial institutions' compliance with the AML/CFT requirements		FATF (2024);
Source: Compiled by author		

<b>Table 1.5 MICRO-ECONOMIC RED FLAGS and ML/FT risks (Individual or organisational)</b>		
Constructs	Details of inclusion criterion	Source
Living beyond means by promoters/ owners	possession of disproportionate assets such as acquisition of real estate, precious metals or precious stones etc. may also signal involvement in ML activity	ACFE, 2024
Political ties of promoters/ owners		FATF (2024);
Disproportionate assets owned by promoters/ owners or related parties		FATF (2024);
Criminal record of promoters/ owners		FATF (2024);
Tax-related offences by promoters/ owners	One of the notable ML predicate offences	Mniwasa (2019)
Engaged in financial transactions pertaining to 'Casinos' above the designated threshold		FATF (2024);
A large amount of cash transactions		FATF (2024)
Lawyers, notaries, other independent legal professionals and accountants carry out transactions for their clients concerning real estate, investments, financial securities, and major business operations such as buying or selling business entities	Their expertise might be misutilised by potential fraudsters to execute, and their engagement in these transactions may increase the ML/TF risks	Financial Intelligence Unit Sri Lanka (2020); FATF (2024);
The existence of complex and unusual large banking transactions		FATF (2024)
Weakness in the internal policies, procedures and controls	Weak ICS increases the plausibility of ML activities	
Absence of independent audit function		

Close ties of organization with bankers	Laundered money is required to pass through one or more banks to pass the test of legitimacy. Sometimes, bankers are invariably used by perpetrators in the highly complex and professional ML industry because of their expertise, knowledge, and respectable social status	He (2006); Rose (2020); FATF (2024);
Development of new products, new business practices, or adoption of new technology by the organization		FATF (2024);
Business terms with high-risk countries		
Lack of adequate protection to whistle-blowers		
Availing money or value transfer services, money or currency changing services and virtual asset services from persons without a license or registration	red flag indicators in crypto transactions (Global Financial Integrity, 2023)	
Source: Compiled by author		

**Table 1.6: AUDIT RELATED ML/FT RED FLAGS**

Constructs	Details of inclusion criterion	Source
<i>Insufficiency</i> of traditional audit methods	Auditors must be well versed with different forensic accounting skills to effectively detect and report suspicious transactions	Tiwari and Debnath, 2017; Chetry et al., 2024
Provision of non-audit services to audit clients	FATF (2024) mentions that when independent legal professionals and accountants are engaged in facilitating transactions, ML activities are very difficult to detect. Hence, the provision of non-audit services to clients can also be a red flag for ML activities. Accordingly, the Institute of Chartered Accountants of India (ICAI) has issued directives to its members to report in case they render certain categories of financial transactions on behalf of their clients which are tagged as 'red flag indicators'.	Ministry of Finance (2023)
Evidence of non-adoption risk-based approach by the previous auditor	As per FATF recommendations audit programmes should pay attention to high-risk accounts and should include comprehensive transaction testing.	FATF (2012-2023)
Source: Compiled by author		

A detailed account of AML/CFT legislation in SAFA Member Countries is presented in Chapter 2.

## Chapter 2 Comprehensive Study and Comparative Analysis on AML/CFT Legislations in SAFA Member Countries

Country: Afghanistan

Latest MER 2011

**Table 2.1: Deficiencies in AML/CFT compliance and significant legislative/regulatory changes in the AML/CFT regime of Afghanistan**

Recommendation (FATF, 2024) & Existing rating as per latest MER 2011	Deficiencies concerning corresponding recommendation	Significant legislative/regulatory changes in the AML/CFT regime of the country post-MER 2011
R.1- (not assessed as it was included in post-MER 2011)	N/A	<ul style="list-style-type: none"> <li>The Anti-Money Laundering and Proceeds of Crime Law (AML-PC) was enacted in 2014 and later amended in 2015 (Yosufzai, 2017). The law incorporated risk assessment in Article 11. The article states that the reporting entities must assess ML and TF risks, keep the risk assessments up-to-date and conduct simplified due diligence measures where the ML/TF risk is lower.</li> <li>The first National Risk Assessment (NRA) was initiated with the help of technical support from the World Bank. The ML/TF risk assessment was undertaken by Da Afghan Bank (DAB). The Financial Transactions and Reports Analysis Centre of Afghanistan (FinTRACA) coordinated implementing of the NRA action plan based on the approved strategic plan (2017-2020). NRA working groups underscored different elements including threat, vulnerability, banking sector, designated non-finance business and professions (DNFBPs), financial inclusion and other financial institutions (<a href="http://www.fintraca.gov.af">www.fintraca.gov.af</a>).</li> <li>In 2023, FinTRACA significantly emphasised the DNFBP sector. A comprehensive statistical survey was conducted to assess the DNFBPs, particularly in the Balkh and Kabul provinces, and it is intended to cover other major cities as well. The survey has enabled gathering insights for future strategies to cover the sector and enhance its effectiveness (Annual Report FinTRACA, 2023).</li> </ul>
R.2 -NC	The MER underscored the absence of effective mechanisms that aided domestic cooperation and coordination among the concerned authorities concerning the development and implementation of policies and activities to combat ML/TF.	Article 33 of the AML-PC (2015) established the composition of the National Coordination Commission. The Commission is responsible for facilitating efficient mechanisms for domestic cooperation and coordination among competent authorities regarding the establishment, development, and implementation of policies and activities for combating ML/TF/PF.
R.3-PC	<ul style="list-style-type: none"> <li>The money laundering offence had a narrow scope. The designated</li> </ul>	<p>As per the AML-PC (2015),</p> <ul style="list-style-type: none"> <li>Money laundering was criminalised in Article 4. As per Article 3 (1)(m), all crimes can be considered predicate</li> </ul>

	<p>offences that should be predicate offences to money laundering were not criminalised.</p> <ul style="list-style-type: none"> <li>• The financial penalties for money laundering were not dissuasive.</li> </ul>	<p>offences for money laundering. The law does not distinguish between predicate offences committed within and outside Afghanistan (<a href="http://www.unodc.org">www.unodc.org</a>).</p> <ul style="list-style-type: none"> <li>• Article 52 prescribed penalties in the form of imprisonment for a minimum of 2 years and a maximum of 10 years or a cash fine of AFN 500,000 to AFN 5,000,000 or both for the persons committing ML offences.</li> </ul>
R.4-NC	<ul style="list-style-type: none"> <li>• There were no provisional and confiscation measures</li> <li>• Confiscation measures did not apply to instrumentalities used or to be used on the commission of all the predicates to money laundering and terrorist financing.</li> <li>• It was not clarified if confiscation applied to income and other benefits that were derived indirectly from the ML proceeds.</li> <li>• The rights of bona fide third parties were only ensured in case of confiscation.</li> </ul>	<ul style="list-style-type: none"> <li>• The provisional and confiscation measures are included under respective articles 38 and 39 of AML-PC.</li> <li>• Confiscation measures extend to instrumentalities used or intended to be used for committing ML/TF or predicate offences.</li> <li>• Confiscation can be applied to funds or properties derived directly or indirectly from the proceeds including income and other benefits.</li> <li>• The rights of bona fide parties apply to the provisional measures too.</li> </ul>
R.5-PC	<ul style="list-style-type: none"> <li>• The Law on Countering the Financing of Terrorism-Legislative Decree (CFT LD) lacked Parliamentary approval.</li> <li>• The collection of funds or their provision to terrorist organizations and terrorist individuals was not criminalized.</li> <li>• The organization, direction and motivation of individual terrorists and the contribution to the commission of the terrorist financing offence by an individual were not criminalized.</li> <li>• Funds must be linked to a specific terrorist act to be prosecuted.</li> </ul>	<p>The CFT law was passed by the parliament on 04 June 2014 and approved on 25 June 2014 (<a href="http://www.aba.org.af">www.aba.org.af</a>). The law addressed the deficiencies.</p> <ul style="list-style-type: none"> <li>• Article 4 deals with the financing of terrorism offence. The collection of funds or property and their provision to terrorist organisations and terrorist individuals; the organisation, direction and motivation of terrorists have been criminalised.</li> <li>• An offence is considered to be committed even if the funds cannot be linked to a specific terrorist act.</li> <li>• Sanctions applicable to legal persons under Article 21 shall not preclude any other parallel criminal, civil or administrative proceedings concerning a corporate entity for the offence of financing of terrorism.</li> </ul>

	<ul style="list-style-type: none"> <li>The clarity regarding the availability or possibility of parallel sanctions was absent.</li> </ul>	
R.6-NC	<ul style="list-style-type: none"> <li>The MER recommended providing clarity on the freezing mechanism and its meaning under United Nations Security Council Resolution (UNSCR) 1267 to be used effectively to freeze without delay.</li> </ul>	Under the CFT (2014), the freezing mechanism was clarified under Article 11 (Freezing of Funds or Property under UNSCR 1267). The office of the Attorney General shall, without delay and prior notice, freeze the Funds or Property of any person, entity or organization designated under it.
R.7 -not assessed as it was included post-MER 2011)	N/A	As per Article 11 of the CFT (2014), the Afghanistan National Security Council or the office of the Attorney General shall issue relevant regulations concerning target financial sanctions and proliferation financing.
R.8-NC	<ul style="list-style-type: none"> <li>The sanctions available were limited.</li> <li>The MER recommended the requirement for non-profit organisations (NPOs) to keep records of domestic and international transactions for at least 5 years and verification of the usage of funds for the stated purposes and objectives.</li> </ul>	<ul style="list-style-type: none"> <li>Regarding sanctions, Article 22 of CFT (2014) prescribes penalties for non-profit organisations in the form of a minimum fine of AFN 50000 and not exceeding AFN 500000, a temporary ban for not more than 6 months and dissolution of the organisation.</li> <li>The CFT law addressed the recommendation of the MER for record-keeping under Article 27.</li> </ul>
R.9-PC	<ul style="list-style-type: none"> <li>The disclosure of information covered by secrecy or confidentiality requirements was subject to restrictive conditions that inhibited access to relevant information.</li> </ul>	<ul style="list-style-type: none"> <li>Overriding of secrecy was inserted in Article 8 of the AML-PC (2015). It stated that the disclosure of confidential information imposed by law can be overridden for facilitating the compliance of the law.</li> </ul>
R.10-NC	<ul style="list-style-type: none"> <li>Elementary weaknesses existed in identifying natural persons for proper implementation of customer due diligence measures. There were no provisions to verify the identity of legal persons.</li> <li>There was no obligation to perform enhanced due diligence for higher-risk customers, business</li> </ul>	<p>Under AML-PC (2015),</p> <ul style="list-style-type: none"> <li>Article 12 deals with identifying and verifying customers. A natural person's identity should be verified by an original latest national identity card or passport or other documents as prescribed. Article 12 (3) also asserts the verification of legal persons.</li> <li>Article 14 states that enhanced due diligence measures must be applied by reporting entities to business relations and transactions with higher-risk persons or financial institutions or countries.</li> <li>Reporting entities have to take reasonable measures to identify and verify beneficial owners, understand the ownership and control structure of the customer in case of</li> </ul>



	<p>relationships or transactions.</p> <ul style="list-style-type: none"> <li>• There was no requirement to determine a beneficial owner, ownership and control structure of the corporate customer, and obtain information on the purpose and intended nature of the business relationship.</li> <li>• The provision regarding the performance of ongoing due diligence measures was absent.</li> </ul>	<p>legal persons and arrangements, and understand and obtain information on the purpose and intended nature of business relationships.</p> <ul style="list-style-type: none"> <li>• Article 12 asserts that ongoing due diligence must be conducted on the business relationships throughout the course of the relationships.</li> </ul>
R.11-PC	<p>A competent authority could not request that records be maintained for more than 5 years, in specific cases and upon proper authority and the requirement to keep records of business correspondence was absent.</p>	<p>According to Article 16 of AML-PC (2015), records obtained through CDD measures, account files and business correspondence should be kept by reporting entities for at least 5 years or more even after the termination of the business relationship or performance of an occasional transaction.</p>
R.12-NC	<p>There was no provision to determine if a potential customer or a beneficial owner is a politically exposed person (PEP), to obtain senior management approval to continue the business relationship and to take reasonable measures to establish the source of wealth or funds of beneficial owners identified as PEPs.</p>	<p>Article 15 of the AML-PC (2015) addressed the deficiencies. There must be appropriate risk management systems to determine if a customer or the beneficial owner is a PEP. The approval of senior management is required for continuing business relationships and reasonable measures must be taken to establish the source of funds or properties.</p>
R.13-NC	<p>The provisions of gathering information about a respondent institution to understand the respondent's business, and determining the institution's reputation and supervision quality did not exist. The approval of senior management was not required for establishing new correspondent relationships. There was an absence of documentation obligation on the respective AML/CFT</p>	<p>Article 21 of the AML-PC (2015) addressed the deficiencies regarding corresponding banking. Before entering correspondent banking relationships, reporting entities must gather sufficient information about the respondent institution, understand its business, evaluate its reputation and quality of supervision, get senior management approval before establishing new correspondent relationships, and document the respective AML/CFT responsibilities of each institution.</p>

	responsibilities of each institution.	
R.14, 20-NC; R.29-PC	<ul style="list-style-type: none"> <li>The money or value transfer services sector had limited compliance with AML/CFT and there was inadequate monitoring of money service providers (MSPs).</li> </ul>	<ul style="list-style-type: none"> <li>Based on Article 24 of the AML-PC (2015) and the Money Service Provider Companies (MSPCOs) Regulation, FinTRACA can implement enforcement measures such as issuing written warning letters, notices, and revoking or suspending licenses.</li> <li>An online hawala reporting portal was launched by FinTRACA for MSPCOs in 2023 to facilitate easy and timely reporting of hawala and transparency in the financial sector of Afghanistan.</li> <li>MSPCOs are required to report large cash transactions (LCTRs) to FinTRACA in compliance with Article 17 (AML-PC 2015) and Article 52 (MSPCOs Regulation). The threshold for reporting LCTRs (Hawala &amp; exchange) is AFN 500,000 or its equivalent in other currencies.</li> <li>From 1-30 December 2023, FinTRACA successfully converted MSPCO suspicious transaction reporting from manual to electronic in the central zone of the country. The staff members of all MSPCOs in the central zone received training for the implementation of the process. FinTRACA intended to extend the process in the regional zones in 2024 (Annual Report FinTRACA, 2023).</li> </ul>
R.15-NC	There was no provision for financial institutions to have policies or measures to curb the misuse of technological development in ML/TF schemes.	Article 22 of the AML/CFT Responsibilities and Preventive Measures Regulation (2016) and Article 11 of the AML-PC (2015) require financial institutions to assess ML/TF risks that may arise with new products or technologies.
R.16-PC	<ul style="list-style-type: none"> <li>The provision to verify originator information for transactions above US\$/EUR 1,000 and below AFN 1 million (about US\$22,000) was absent.</li> <li>There was no clarity on the domestic wire transfer rules about the condition under which a sole account number or a unique identifier can be sent.</li> <li>It was not required to adopt risk-based procedures for transfers that were not accompanied by full originator information.</li> </ul>	<ul style="list-style-type: none"> <li>Article 6 of the AML-PC (2015) provides general guidelines for wire transfers. It also asserts that DAB will regulate electronic fund transfers and settlements between financial institutions by issuing procedures for the same.</li> <li>As per the AML/CFT responsibilities and preventative measures (2016), cross-border wire transfers equal to or more than AFN 1,000,000, financial institutions must obtain necessary supporting documents in addition to information obtained as per paragraph (1) of Article 18. Transfers below AFN 50,000 must produce the originator's name, account number or unique transaction number.</li> <li>The domestic wire transfer rules have been clarified in the AML/CFT responsibilities and preventative measures. In case of no existence of account number, the ordering institution can include only the originator's account number or a unique identifier.</li> <li>Financial institutions must adopt risk-based procedures to determine whether to execute, reject or suspend a wire transfer that lacks full originator or beneficiary information and consider reporting to FinTRACA.</li> </ul>

R.17-NC	No rules governing reliance on third parties to perform elements of the customer due diligence (CDD) process existed.	Article 12 of AML-PC states the reliance on third parties by reporting organisations for conducting CDD as required by relevant laws and this law. The AML/CFT responsibilities and preventative measures (2016) deal with the reliance on third parties by financial institutions under Article 16.
R.18. Internal controls -PC, Foreign branches & subsidiaries – NC	The MER recommended the provision requiring foreign branches and subsidiaries to apply consistent CDD measures at the group level, considering customer activity with different branches and majority-owned subsidiaries worldwide.	Under Article 19 (internal AML programs at reporting entities and foreign branches and subsidiaries) of the AML-PC (2015), reporting entities will ensure that the policies and controls are applied on a group level including its foreign branches and majority-owned subsidiaries.
R.19-NC	The MER recommended providing for the possibility to apply counter-measures in cases where a country continues not to apply or insufficiently apply the FATF Recommendations. The requirement for special attention to business relationships and transactions was not extended to countries that do not or insufficiently apply the FATF recommendations.	Article 14 (special monitoring of transactions and measures for high-risk countries) of the AML-PC (2015) addressed the deficiencies. The countermeasures should be applied by the reporting entities to all business relations and transactions from countries that do not or insufficiently apply FATF recommendations.
R.20-NC	Reporting in terms of ML was low, STR filed in TF cases was none and banks were the sole entities to file STRs.	<ul style="list-style-type: none"> <li>• The recent annual reports of FinTRACA saw an increase in STR reporting. As per its annual report (2022), 1 STR was received from non-bank financial institutions (NBFI) and STR reporting had a 21.14% increase compared to 2021. As per the annual report (2021), 12 STRs were received from the non-banking sector out of 743 and STR reporting increased by 8% from 2020.</li> <li>• Additionally, Suspicious Transaction Reporting Guidelines were published by the FinTRACA in August 2016. The guidelines apply to all the reporting entities under Article 5 of AML-PC (2015). Besides STR, these delve into various aspects such as record-keeping, training, tipping-off, penalties; and common suspicious transaction indicators for various sectors like banks, NPOs, life insurance, money service businesses (including currency exchange and money remittance) and other businesses involved in electronic funds transfer, investment, cash couriers, trusts and company service providers, accountants, lawyers and real estate agents (STR guideline, 2016).</li> </ul>
R.21-PC	The changes are pertinent to the recommendation.	The provision on exemption from liability for bona fide parties for reporting suspicious transactions stipulated under Article 42

		of the AML-LD has been amended to be inserted under Article 45 of the AML-PC (2015).
R.22-NC	There were no CDD and record-keeping requirements for company service providers.	The general provisions under the AML-PC (2015) as required in R.10 apply to DNFBPs including company service providers regarding CDD and reliance on third parties (article 12), record keeping (article 16), politically exposed persons (article 15), and new technologies (article 11).
R.23-NC	The changes are pertinent to the recommendation.	<ul style="list-style-type: none"> <li>• The general provisions of AML-PC (2015) concerning reporting suspicious transactions (article 18), internal AML programs (article 19), special monitoring of transactions and measures for high-risk countries (article 14) apply to DNFBPs. The confidentiality provisions do not apply to attorneys, notaries and other independent legal professions as per Article 20.</li> <li>• The FinTRACA published the guidelines for reporting suspicious transactions in August 2016. The guidelines highlighted common indicators of suspicious transactions for trusts and company service providers, accountants, lawyers and real estate agents (STR guideline, 2016).</li> </ul>
R.26-NC	No provision existed for obtaining information and ensuring the fit and proper criteria of beneficial owners of financial institutions.	According to Article 22 (Power of supervisory authority) of AML-PC (2015), the appropriate supervisory authority shall develop and implement financial and fit-and-proper tests while approving those who own, control, and participate directly or indirectly in establishing, managing, or operating the business of reporting entities, including their beneficial owners. Additionally, the Electronic Money Institutions (EMIs) Regulation was issued by the Non-Banking Supervision Department of DAB in December 2020. As per the regulation, a legal entity except a commercial bank or depository microfinance institution that accepts banknotes, coins, or other means of payment in exchange for e-money, and aids in the transfer of e-money for making payments is an EMI. Some obligations include conducting due diligence measures, periodic internal audit reviews, KYC policies and procedures, training programs and reporting (EMIR, 2020).
R.29-PC, R.33-NC	The FinTRACA did not publish periodic reports that included statistics, typologies, trends and information regarding its activities. There were no comprehensive statistics in relevant areas including domestic investigations, prosecutions, convictions, and international cooperation.	The FinTRACA publishes annual reports, statistics regarding the receipt of STRs and LCTRs, cash and BNI, dissemination, domestic requests and enforcements like written warnings, revocation or suspension of business licenses and fines on its website and annual reports (Annual report 2023, FinTRACA). As per its annual report (2021), in terms of international cooperation, FinTRACA exchanged 25 analytical reports with foreign counterparts FIUs. These requests included 14 outbound requests, and 11 requests were responded. A total of 69 subjects were included both in inbound and outbound international requests.
R.30-PC	The MER pinpointed the absence of coordination	FinTRACA coordinated the 7th meeting of the High-Level Coordination Commission (HLCC) on 21 September 2023 to

	among different competent law enforcement agencies (LEAs).	coordinate the efforts of the LEAs and other relevant government agencies for curbing financial crimes, including money laundering and the financing of terrorism, and supervise the application of the AML/CFT regime in the country ( <a href="mailto:mail.fintraca.gov.af">mail.fintraca.gov.af</a> ).
R.32-NC	<ul style="list-style-type: none"> <li>• The MER recommended defining “bearer negotiable instruments” as - monetary instruments in bearer form such as travellers' cheques; negotiable instruments (including cheques, promissory notes and money orders) that are either in bearer form, endorsed without restriction or made out to a fictitious payee, or in a form that title can pass upon delivery; and incomplete instruments (including cheques, promissory notes and money orders) signed, but with the payee’s name omitted.</li> <li>• It recommended ensuring that Customs had the authority to collect and request information from the carrier of currency or bearer negotiable instruments (BNIs) on the origin of the currency or BNIs and their intended use in cases of ML/TF suspicion, to restrain cash or BNIs for a reasonable time to ascertain if ML/TF evidence may be found in cases of ML/TF suspicion or false declaration.</li> <li>• There was no legal provision for monitoring or sanctioning false cross-border currency declarations.</li> </ul>	<ul style="list-style-type: none"> <li>• Article 3 of AML-PC (2015) defined “bearer negotiable instruments” to include <i>monetary instruments in bearer form, writing representing a promise to pay money, (including bills of exchange, promissory notes, travellers’ cheques or certificates of deposit) which may be payable to the bearer that is in bearer form, endorsed without restriction, made without restriction, made to a fictitious payee or otherwise in such form that title passes upon delivery; incomplete instruments signed but with payee’s name omitted.</i></li> <li>• Article 7 of AML-PC granted authority to the Customs Department and considered the recommendations by the MER regarding collecting and requesting information and restraining cash or BNIs for a reasonable time in case of false declaration.</li> <li>• A false cross-border currency declaration shall be subject to the confiscation of the entire amount or the difference between the real amount or the amount declared under Article 52 of AML-PC. As per Article 8 of the Regulation Governing the Reporting and Control of Physical Transfers of Currency, BNIs, Gold, Other Precious Metals or Precious Stones, the false declaration shall attract a fine of 15% of the amount transported and 30% of the amount transported in case of recurrence of the action (Regulation, 2016).</li> <li>• The aforementioned regulation applies to the transfers for both inbound and outbound persons (Article 5) and through the international airports and land borders of the country (Article 3) (Regulation, 2016) and not just one specific airport. Cash and BNI control started in all international airports of the country (<a href="http://www.fintraca.gov.af">www.fintraca.gov.af</a>).</li> <li>• The regulation requires the declaration of BNIs. The threshold for declaration has been lowered. The declaration form must be submitted to the Customs officer for holding value of currency, BNIs, gold, precious metals or stones exceeding US\$10,000 or its equivalent in other currencies (Article 5) (Regulation, 2016).</li> <li>• The Customs Department reported statistics regarding cash, BNIs, gold and seizures to the FinTRACA. The FinTRACA website published cash and BNI inbound and outbound reports from 2017 to 2021 wherein 2021 comprised 1382 forms with a value equivalent to US\$ 24,938,143, and cash and gold seizure from 2016 to 2019 (<a href="http://www.fintraca.gov.af">www.fintraca.gov.af</a>).</li> <li>• Sanctions are applicable as per paragraph 4) of article 51 of AML-PC (2015). They include imprisonment of 1 year or fine equivalent to the amount seized or both.</li> </ul>

	<ul style="list-style-type: none"> <li>• There was no cross-border currency declaration for inbound passengers. For outbound passengers, it was implemented only at the Kabul International Airport excluding the VIP section.</li> <li>• In practice, customs did not require the declaration of BNIs. The currency declaration threshold prescribed by the AML LD exceeded the US\$/EUR 15,000 threshold.</li> <li>• There were no comprehensive records or statistics of currency declarations and seizures maintained by the Customs.</li> <li>• Sanctions were inadequate.</li> </ul>	
R.34-NC	There was no effective feedback from FinTRACA or other competent bodies, and the assessment team received no examples that demonstrated the provision of feedback.	As per its annual report (2023), FinTRACA received feedback on 25 cases that were disseminated to law enforcement agencies. The feedback revealed that the majority of the cases were still in detection, investigation, or judicial transfer processes, and only a few have been archived.
R.37-NC	The changes are pertinent to the recommendation.	Earlier, Article 51 of AML LD dealt with mutual legal assistance (MLA). Presently, Article 56 of AML-PC (2015) deals with MLA. The scope of the purposes of requests for MLA has been widened further to include identifying or tracing the proceeds of crime, funds or property, instrumentalities or other things for evidentiary or confiscation; confiscation of proceeds of crime and other funds or property, including non-conviction based confiscations; executing freezing, seizing and other provisional measures; executive investigative measures, including special investigative techniques, undercover operations and controlled deliveries.
R.39-NC	The changes are pertinent to the recommendation.	The Law on Extradition of the Accused, Convicted Individual and Legal Cooperation (2013) was issued by Afghanistan as per official gazette no.1103 on 14 April 2013 to regulate matters of extradition and legal cooperation on cases between Afghanistan and other countries.
R.40-NC	There were no comprehensive statistics maintained by FinTRACA on	Article 68 of AML-PC (2015) deals with other Forms of International Cooperation. As per the annual report 2021, FinTRACA exchanged 25 analytical reports with foreign

the number of requests made or received.	counterparts FIUs. These requests included 14 outbound requests, and 11 requests responded. A total number of 69 subjects were included both in inbound and outbound international requests.
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**Country: Bangladesh**  
**Latest MER 2016 & FURs 2019 and 2020**

**Table 2.2 Deficiencies in AML/CFT compliance and significant legislative/regulatory changes in the AML/CFT regime of Bangladesh**

Recommendations & existing ratings	Deficiencies concerning corresponding recommendation(s)	Significant legislative/regulatory changes in the AML/CFT regime of the country post MER/FUR
R.1-PC, R.2-LC (MER 2016)	The previous National AML/CFT strategy for 2015-2017 had 36 and 31 action plans in respective partial implementation and ongoing implementation phases towards the end of 2017. Only some of the action plans could be implemented in 2018. While preparing for FUR 2019, the AML/CFT strategy for 2019-21 was at the final stage of development.	<p>The unfinished action plans have been incorporated into the National Strategy for Preventing Money Laundering and Combating Financing of Terrorism of 2019-2021 (uncaccoalition.org).</p> <ul style="list-style-type: none"> <li>The current strategy prioritizes inhibiting the proceeds of crime from getting integrated into the financial system (mofa.gov.bd).</li> <li>It highlights 137 action plans under 11 strategies. The key areas covered are preventing the unauthorized movement of funds and trade-based money laundering, establishing an effective judiciary system, modernizing border control procedures, ensuring systematic management and implementation of freezing and confiscation of proceeds of crime, advocating transparency in the ownership of legal persons and arrangements, ensuring corporate governance and strict AML/CFT compliance in reporting organizations.</li> </ul>
R.3, 5-LC (MER 2016)	As per the MER, the Evidence Act (1872) allowed for the inference of the intent and knowledge necessary to prove the commission of criminal offences from objective factual circumstances as required under c.3.8 and c.5.5.	The Evidence Act has been amended and is known as the Evidence (Amendment) Act 2022 (EAA, 2022). The amendment act shall set out the objective factual circumstances to infer the intent and knowledge required to prove the commission of criminal offences under c.3.8 and c.5.5 (currently c.5.6) (FATF, 2024).
R.15-PC (FUR 2020) R.31-LC (MER 2016)	The changes are pertinent to the recommendations.	The Evidence (Amendment) Act 2022 allows for digital and forensic evidence. The act allows digital records and digital signatures to be admissible in the court. This includes records from devices such as CCTV (Closed Circuit Television), drones, cell phones and other digital devices. The provisions for admissibility of forensic evidence like DNA and blood; finger, iris and palm impressions; and other bodily materials are included (EAA, 2022).
R.1-PC,11-C; 10,17-LC (MER 2016), R.15-PC	The changes are pertinent to the recommendations.	The Bangladesh Financial Intelligence Unit (BFIU) issued Electronic Know Your Customer (e-KYC) guidelines for financial institutions in December 2019. It delves into electronic customer onboarding; identification, verification,

(FUR 2020)		creation of KYC profiles and risk profiling of customers through digital means. It has also included provisions for risk assessment, record-keeping, and reliance on third parties. Sample e-KYC output for both simplified and regular measures, and customer risk grading form have been attached (E-KYC guidelines, 2019).
R.3,10,32-LC; R.1-PC, R.20-C (MER 2016)	<ul style="list-style-type: none"> <li>The amount of black money in the country stood at Tk10.03 lakh crore which was 33.33% of the annual GDP at market value according to the President of the Bangladesh Economic Association (BEA) in FY2020-21 (<a href="http://www.dhakatribune.com">www.dhakatribune.com</a>).</li> <li>A majority of the laundered money is the result of trade mis-invoicing. An amount of \$3.6 billion was laundered through the country for the period 2009-2018 as per the Global Financial Integrity Report 2020-21. There was an increase in illicit capital flows to offshore accounts. Tax revenue losses comprising losses from offshore tax evasion and corporate abuse were 2.2% of FY2020 revenue according to the State of the Tax Justice Report 2020 (Bangladesh Development Update 2024).</li> </ul>	<ul style="list-style-type: none"> <li>To counter money laundering, the budget for fiscal year 2024-25 has proposed a 15% tax on black money. The step has been taken to integrate undisclosed income into the mainstream economy and enhance the flow of money into the banking system (<a href="http://www.dhakatribune.com">www.dhakatribune.com</a>).</li> <li>The BFIU published Trade-Based Money Laundering (TBML) guidelines (2019). <ul style="list-style-type: none"> <li>The guidelines highlighted the issue of over-invoicing, under-invoicing and multiple invoicing through appropriate illustrations, typologies, case studies and TBML alerts.</li> <li>It asserted the application of a risk-based approach, assessment of customers, development of screening and transaction monitoring mechanisms by banks, training on TBML and reporting suspicious transactions.</li> </ul> </li> </ul>
R.10-LC, R.20-C (MER 2016); R.18-C, R.26-LC (FUR 2019)	The changes are pertinent to the recommendations.	<p>In 2023, the BFIU released guidelines for Non-Bank Financial Institutions (NBFIs) to address the issues of money laundering and terrorism funding. These guidelines require NBFIs to develop separate regulations.</p> <ul style="list-style-type: none"> <li>Every NBFIs must set up a central compliance unit comprising top officials and appoint a chief anti-money laundering (AML) compliance officer. (c.18.1)</li> <li>Every non-bank branch must appoint a branch anti-money laundering compliance officer (BAMLCO) who shall schedule quarterly meetings with other branch officials and monitor suspicious transactions. If a suspicious transaction is settled in any NBFIs branch, it must be notified to the BFIU by the BAMLCO (R.20).</li> <li>NBFIs are now prohibited from opening anonymous accounts (c.10.1) and must collect detailed information about each client (<a href="http://www.dhakatribune.com">www.dhakatribune.com</a>).</li> </ul>
R.2,4,37,38-LC; R.30-C (MER 2016)	<ul style="list-style-type: none"> <li>The MER highlighted the absence of a provision that enables authorities to take measures to prevent actions that</li> </ul>	<p>The government approved a strategy to freeze or confiscate unreported offshore assets of Bangladeshi nationals in 2022.</p> <ul style="list-style-type: none"> <li>As a part of the legal framework and strategic process for laundered asset recovery, joint investigations would be</li> </ul>



	<p>impede their ability to freeze, seize, and recover properties subject to confiscation.</p> <ul style="list-style-type: none"> <li>Nobody availed the provision of the government to legalize unreported movable offshore assets if repatriated, subject to a 7% tax payment.</li> </ul>	<p>conducted by the government to recover the assets from countries where they have been siphoned off.</p> <ul style="list-style-type: none"> <li>A letter of rogatory would be sent by the government through BFIU to the countries to inhibit the transfer of laundered money to another country, in case of a delayed court order for asset seizure.</li> </ul> <p>The framework would curb money launderer's ability to influence investigation, resulting in a prompt investigation. However, inter-agency coordination and cooperation are sought for the fulfilment of the objectives (<a href="http://www.tbsnews.net">www.tbsnews.net</a>).</p>
<p>R.15-PC (FUR 2020); R.35-PC; R.5,31-LC (MER 2016)</p>	<p>The changes are pertinent to the recommendation in light of the changing technological landscape and evolving cyber-enabled frauds.</p>	<p>The Digital Security Act (DSA) 2018 was substituted by the Cyber Security Act (CSA) 2023 to assure cyber security and detect, prevent, suppress, or prosecute crimes committed through digital or electronic means.</p> <ul style="list-style-type: none"> <li>The National Cyber Security Agency established under section 3 replaced the Digital Security Agency. It monitors online communication and counters cybercrimes. (CSA,2023)</li> <li>Authorities can conduct raids, searches, or arrests on the suspicion of a crime being committed or is imminent or on the omission of evidence, as outlined in section 42 (CSA), akin to section 43(DSA). Nevertheless, arresting without a warrant is not feasible. (<a href="http://advox.globalvoices.org">advox.globalvoices.org</a>).</li> <li>Cyberterrorism currently qualifies as an offence and is subject to a maximum sentence of 14 years in prison or a fine of BDT 10 million (\$90,900) (CSA,2023).</li> <li>Penalties of fines and imprisonment are levied for illegal access to a computer, CII, digital device or computer system; damaging a computer or computer system, changing computer source code, digital/ electronic forgery and fraud, publishing aggressive, frightening, or defamatory information and collecting or using identity information without permission (<a href="http://www.dataguidance.com">www.dataguidance.com</a>).</li> <li>The CSA imposed fines and removed imprisonment in case of spreading defamation in contrast to the prescription of both fines and imprisonment by the DSA (<a href="http://www.dhakatribune.com">www.dhakatribune.com</a>).</li> </ul>
<p>R.12 – LC (MER 2016)</p>	<p>The MER highlighted the lack of requirement for insurance companies to determine if the beneficiary or the beneficial owner of the beneficiary is a PEP (Politically Exposed Person)</p>	<p>This deficiency has been addressed by the latest instructions to insurance companies issued by the BFIU on 18 April 2022 (BFIU Circular no.27).</p>

**Country: India**  
**Latest MER 2010 & FUR 2013**

**Table 2.3: Deficiencies in AML/CFT compliance and Significant legislative/ regulatory changes in the AML/CFT regime of India**

Recommendation & existing rating	Deficiencies concerning corresponding recommendation	Significant legislative/ regulatory changes in the AML/CFT regime of the country post MER/FUR
R.4-LC (FUR 2013)	The changes are pertinent to the recommendation	Concerning R.4, the Prevention of Money Laundering (Restoration of Confiscated Property) Rules were published in 2016 and amended in 2019.
R.5-LC (FUR 2013)	<ul style="list-style-type: none"> <li>• The recommendation lacked effectiveness. The number of persons accused of terrorist financing and the number of cases under investigation increased (respectively 470 and 143 in total from 2006 to 31 March 2013) while the number of persons convicted was low, namely 5 in total over the same period with no new convictions since April 2011.</li> <li>• The other changes are relevant to the recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>• Since its inception, the National Investigation Agency (NIA) has registered 103 cases of terror financing, of which 786 accused have been arrested. Charge sheets have been filed in 92 cases against 865 accused persons. Conviction has been secured in 16 cases, whereby 97 accused persons have been convicted. The conviction rate in terror financing cases investigated by the NIA is 94.11% (www.news18.com).</li> <li>• The Unlawful Activities (Prevention) Amendment Bill, (2019) provides special mechanisms to deal with terrorist activities, delves into the designation of terrorist organisations, approval of seizure of property, and investigation by the NIA, insertion of the International Convention for Suppression of Acts of Nuclear Terrorism (2005) in the schedule of treaties.</li> </ul>
R.8-LC (FUR 2013)	There was no clarity on the percentage of registered NPOs.	<ul style="list-style-type: none"> <li>• The NGO DARPAN portal maintained by NITI Aayog enables NGOs/voluntary organisations (VOs) to enrol centrally and obtain an NGO Darpan Unique ID that is mandatory for all entities seeking registration under the Foreign Contribution Regulation Act (FCRA), Prevention of Money Laundering (Maintenance of Records) Amendment Rules, Income Tax Act and for seeking government grants. To strengthen the services of the portal, govt decided to make PAN number mandatory for VOs/NGOs. 2,40,429 NGOs are enrolled and 89 VOs/NGOs are blacklisted as of 11 Aug 2024 in the portal (ngodarpan.gov.in). Such initiative acts as a catalyst for the registration of NPOs.</li> <li>• Furthermore, guidance notes for NPOs and donors to combat the financing of terrorism (2023) were published in the NGO DARPAN website.</li> <li>• As per the FCRA Amendment Act 2020, foreign contributions could not be transferred to another person or organisation until they were registered to accept such contributions.</li> <li>• The Ministry of Home Affairs amended the FCRA 2010 in 2023. As per the changes, NGOs must furnish details of movable and immovable assets created using</li> </ul>

		<p>foreign contributions on an annual basis. A new form 'FC-4' was introduced to list the value of movable assets at the beginning and end of the year and land and building details acquired from foreign contributions (<a href="http://www.firstpost.com">www.firstpost.com</a>).</p> <ul style="list-style-type: none"> <li>The definition of "non-profit organization" has been expanded. It shall include any entity or organization constituted for religious or charitable purposes referred to in Section 2(15) of the Income-tax Act, 1961; or registered as a trust or a society under the Societies Registration Act, 1860 or any similar state legislation; or a company registered under Section 8 of the Companies Act, 2013. If the client is an NPO, reporting entities must also register the client's information on the NITI Aayog's DARPAN portal (<a href="http://www.india-briefing.com">www.india-briefing.com</a>).</li> </ul>
R.12-LC (FUR 2013)	The changes are pertinent to the recommendation.	The MLPR, 2023 introduced a new clause defining a PEP in line with the recommendations of the FATF. PEP is defined as "individuals entrusted with prominent public functions by a foreign country, including the heads of States or Governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials" ( <a href="http://www.india-briefing.com">www.india-briefing.com</a> ).
R.15-LC (MER 2011)	<ul style="list-style-type: none"> <li>The IRDA Master Circular provided no specific guidance on technological developments. The provisions on such developments and non-face-to-face business were inadequate. The due diligence measures for non-face-to-face customers were the same as those for face-to-face customers, barring documentation requirements to be completed within 15 days of issuance of the policy where the premium per person per annum exceeded INR 1,00, 000 (USD 2,000).</li> <li>The other changes are pertinent to the recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>Master Guidelines on AML/CFT were issued by the IRDA on 1 August 2022. <ul style="list-style-type: none"> <li>It asserted insurers to pay special attention to ML threats arising from the development of new products or business practices, new delivery procedures, and the use of new or developing technologies for new and pre-existing products.</li> <li>Special attention must be given to the non-face-to-face business relationships. Their verification shall be based on the risk profile of the product and the customer. Measures such as verifying customer details through on-site visits must be taken to manage specific increased risks in such relationships.</li> <li>Virtual Asset Service Providers (VASPs) have been brought under the ambit of the Prevention of Money Laundering Act (PMLA). AML/CFT Guidelines for VASPs were issued by the FIU in March 2023. As per these guidelines, registration with the FIU-IND is a prerequisite for compliance with reporting obligations under PMLA. The registration has to be done via. FINNET 2.0 (VASP Guidelines, 2023).</li> <li>The Bharatiya Sakshya Adhinayam with effect from 1 July 2024 replaces the Indian Evidence Act (1872). It provides for electronic oral evidence i.e., to permit witnesses, accused persons and victims to testify through electronic means.</li> </ul> </li> </ul>

R.18.Internal controls -LC (MER 2011)	<ul style="list-style-type: none"> <li>The role of the principal officer in the banking sector (except for asset management companies) was defined merely in terms of STR and other reporting and was not extended to overall compliance.</li> <li>There was no explicit requirement for the audit function in the securities and insurance sector to be adequately resourced.</li> </ul>	<ul style="list-style-type: none"> <li>Master Circular on KYC norms/AML/CFT obligations of banks under PMLA 2002 issued by the RBI in July 2014 extended the roles and responsibilities of the principal officer to ensure overall compliance with the referred guidelines. (<a href="http://www.rbi.org.in">www.rbi.org.in</a>).</li> <li>As per master guidelines on AML/CFT by IRDAI in 2022 and the SEBI in 2024, the internal audit function should be independent, adequately resourced and aligned with the size of the business and operations, organization structure, number of clients and other such factors.</li> </ul>
R.22, 23: (MER 2011-NC) & FUR 2013-not equivalent to LC, R.28-NC (FUR 2013), R.34-LC (MER 2011)	Lawyers and accountants were not included under DNFBPs. Hence the designation of additional DNFBPs by the central government was only partially addressed.	<ul style="list-style-type: none"> <li>On 3 May 2023, the government made further revisions to the PMLA, 2002. It brought practicing-chartered accountants (CAs), company secretaries (CS), and cost and works accountants (CWAs) under the ambit of PMLA. The lawyers and legal professionals have not yet been covered (<a href="http://icmai.in">icmai.in</a>). The FIU also issued AML/CFT guidelines for professionals with certificates of practice from the ICAI, Institute of Company Secretaries of India (ICSI) and Institute of Cost Accountants of India (ICMAI) (AML/CFT Guidelines, 2023).</li> <li>In 2023, the Trust and Company Service Providers have also been brought under the ambit of PMLA. Their registration with the FIU is a pre-requisite for compliance with reporting obligations under PMLA. The registration will be done via. FINNET 2.0 (TCSP,2023).</li> </ul>
R.24-PC (FUR 2013)	The changes are pertinent to the recommendation.	Earlier provisions 89 and 90 which dealt with beneficial ownership and beneficial interest in companies were included in the Companies Bill of 2012. The bill was passed and gave birth to the Companies Act 2013. Under this act, section 89(4) stipulates central government to make rules to provide for the manner of holding and disclosing beneficial ownership and beneficial interests. Section 90 deals with the register of significant beneficial owners in a company.
R.29-LC (MER 2011), R.20-LC (FUR 2013)	The recommendation lacked effectiveness. No information on typologies and trends in ML/TF cases including strategic reporting was published by the FIU-IND.	<ul style="list-style-type: none"> <li>FIU-IND provided information on numerous operational and strategic analyses and key ML/TF trends, typologies and developments during 2012-2023. For example: It participated in the meeting of the FATF-Egmont Joint Typology Project on ML/ TF through Trade in Diamonds in 2013 and contributed to the collection plan of the typology, including sanitized STRs on diamond-related transactions. It suggested policy changes for enabling effective AML/CFT systems concerning pre-paid instruments (PPIs). Specific typologies and loopholes were flagged to the concerned organizations for a safer PPI ecosystem.</li> </ul>

		<p>According to the latest FIU-IND annual report (2022-23), the Strategic Analysis Lab (SAL) established as part of the FINNET2.0 project in 2021 conducted more than 35 studies such as CTR, STR, CBWTR, CCR trend analysis; research analysis and typology reports like risks associated with online gaming and gambling in India, cybercrime and its data analysis and the study of virtual digital assets.</p> <ul style="list-style-type: none"> <li>• In the 3<sup>rd</sup> Alliance of Reporting Entities in India for AML/CFT (ARIFAC) meeting on 24 July 2024, the joint director of FIU updated that FIU-IND is in the process of providing guidance for filing defensive STRs (arifac.com).</li> </ul>
R.37,38-LC (MER 2011)	The MER recommended India to highly prioritise providing timely mutual legal assistance (MLA).	The Ministry of Home Affairs issued revised comprehensive guidelines for Mutual Legal Assistance (MLA) in Criminal Matters in December 2019. The guidelines considered court concerns for prompt and timely responses concerning the service of documents on persons residing abroad. Thus, the revised guidelines have provided for the service of documents on authorities of foreign countries preferably within 10 days of receipt of request for offences committed against women and children (MLA, 2019).
R.5,35-LC (FUR 2013), R.3-LC (MER 2011)	The changes are relevant to the recommendations.	<p>The Bhartiya Nyaya Sanhita which came into force on 1 July 2024, replaced the Indian Penal Code (IPC) 1860.</p> <ul style="list-style-type: none"> <li>• The act adds terrorism and organised crime (including cybercrime) as offences.</li> <li>• Damage to the monetary stability of India by the production, smuggling or circulation of counterfeit Indian currency has been added to the provision.</li> <li>• The penalties for attempting or committing terrorism include death or life imprisonment, and a fine if it results in a person's death, or imprisonment between 5 years and life, and a fine.</li> <li>• The penalties for attempting or committing organised crime include death or life imprisonment and a fine of INR 10 lakh if it results in a person's death or a prison term between 5 years and life, and a fine of at least INR 5 lakh (Gaur et.al., 2023).</li> </ul>
R.4-LC (FUR 2013), R.15,31-LC (MER 2011)	The changes are relevant to the recommendations.	<p>The Bhartiya Nagarik Suraksha Sanhita with effect from 1 July 2024 replaced the CrPC (Criminal Procedure Code) 1973.</p> <ul style="list-style-type: none"> <li>• It allows trials, inquiries and proceedings in electronic mode. The investigation, inquiry or trial may include the production of electronic communication that comprises digital evidence.</li> <li>• The act provides for the seizure of both movable and immovable properties.</li> </ul>

- The act does not provide a time limit up to which property can be attached. It provides a show cause notice of 14 days to be given to the accused. On the contrary, the attachment of property is provisional for up to 180 days under the PMLA (2002). A notice period of at least 30 days is given to show reasons why the attachment order should not be made. During the attachment, there is no denial of enjoyment of immovable property (Gaur et.al., 2023).

**Country: Maldives**  
**Latest MER 2011**

**Table: 2.4 Deficiencies in AML/CFT compliance and significant legislative/regulatory changes in the AML/CFT regime of Maldives**

Recommendation & existing rating as per MER 2011	Deficiencies concerning corresponding recommendation	Significant legislative/regulatory changes in the AML/CFT regime of the country post-MER 2011
R.1 (not assessed as it was included post MER 2011)	N/A	The first National Risk Assessment (NRA) of the Maldives on Anti Money Laundering and Countering the Financing of Terrorism was completed in the last quarter of 2022 using the World Bank NRA Tool and methodology (MMA annual report, 2022).
R.2-PC	The changes are pertinent to having national policies on countering terrorism.	<ul style="list-style-type: none"> <li>• National Strategy on Preventing and Countering Violent Extremism (P/CVE) 2017 primarily focused on denying and deterring acts of terrorism or preventing, resisting and countering the spread of violent extremism. The National Counter Terrorism Centre (NCTC) is the coordinating body of national efforts against terrorism and violent extremism (NSPCVE, 2017).</li> <li>• The current National Action Plan on Preventing and Countering Violent Extremism 2020-2024 lays out the ways of preventing violent extremism over the five years. It aims to operationalise the P/CVE strategy to address the pull and push factors that led people to violent extremism. One of its principles includes collaboration among individuals, communities and institutions through a ‘whole of government’, ‘whole of society’ approach to ensure effectiveness, inclusion and coordination (nctc.gov.mv).</li> </ul>
R.3-NC	Money laundering was only criminalized under the Drugs Act. Its definition did not extend to the conversion of criminal property, concealment or disguise of the true nature, location, disposition, movement, or rights with respect to property.	Money laundering (section 53) was criminalised under the Prevention of Money Laundering and Financing of Terrorism Act (PML-FTA) (Law no.10/2014). The ML definition extended to the concealment or disguise of the true nature, source, location, transferee, movement or ownership rights for property, by any person who knows or has reasonable grounds to suspect that such property is the proceeds of crime.
R.4-NC	<ul style="list-style-type: none"> <li>• As per the Export-Import Act 1979 (section 14 (a)) confiscation covered the</li> </ul>	<ul style="list-style-type: none"> <li>• The PML-FTA (2014) expanded the scope of confiscation by covering not just the proceeds of crime but also the instrumentalities, and property derived directly or indirectly</li> </ul>

	<p>proceeds but not the instrumentalities. It had not covered the property derived directly or indirectly from the proceeds.</p> <ul style="list-style-type: none"> <li>The other changes are pertinent to the recommendation.</li> </ul>	<p>from proceeds of crime including income and other benefits derived from the same.</p> <ul style="list-style-type: none"> <li>The Regulation on Management of Confiscated Funds and Properties related to money laundering and financing of terrorism (2020) covers detailed aspects of managing confiscated funds and properties, third-party rights and record keeping.</li> </ul>
R.5-NC	<p>The MER recommended to criminalize the offence of terrorist financing (TF), collection of funds for TF, the use in full or in part of funds for TF, financing of individual terrorists and terrorist organizations and the attempt to commit a TF offence. It was recommended to make it not necessary to prove the actual use of funds or link to a specific terrorist act and make TF offence a predicate offence for money laundering.</p>	<p>The deficiencies have been addressed. Terrorist financing (section 54) is criminalised in PML-FTA (2014). The financing of terrorism implies an act by any person who directly or indirectly, wilfully, provides or collects funds, or attempts to do so; to use the fund in full or in part to carry out a terrorist act, by an individual terrorist, or by a terrorist organization. The offence is considered to be committed irrespective of any link to a specific terrorist act or whether the funds have been used to commit such an act. Terrorist financing is a predicate offence for money laundering under section 7 of the act.</p>
R.6-NC	<ul style="list-style-type: none"> <li>There were no laws and procedures in place to freeze terrorist funds or other assets of persons under S/RES/1373(2001).</li> <li>There were no effective and publicly-known procedures for the timely unfreezing of funds or assets affected by a freezing mechanism upon verification that they were not designated persons.</li> </ul>	<ul style="list-style-type: none"> <li>Article 52 of the PML-FTA provides for freezing procedures. If the Ministry of Foreign Affairs receives information on designated terrorists or terrorist organisations from a foreign jurisdiction under UNSCR 1373, it shall provide the list of such information to the FIU at the earliest. Reporting entities holding funds or property of persons on the list shall immediately freeze the funds on receiving such instruction from the FIU.</li> <li>A person whose inclusion in the list designated by the UNSCR was an error can request the FIU to unfreeze the funds or properties and remove the name from the list within 29 days following the freeze instruction.</li> </ul>
R.8-NC	<p>The changes are pertinent to the recommendation.</p>	<p>Section 23 of the PML-FTA delves into adequate monitoring of non-profit organisations that receive or transfer money, by the Ministry of Home Affairs. The ministry shall prescribe rules for ensuring that non-profit organizations are not misused for the financing of terrorism.</p>
R.9-PC	<p>Rigid secrecy laws inhibited law enforcement agencies from accessing information for investigations.</p>	<p>As per section 44 of the PML-FTA, there shall be no criminal, civil, disciplinary or administrative proceedings for breach of banking or professional secrecy against reporting entities or their directors, officers or employees providing reports or information as per the</p>

		provisions of the Act. On information request, section 48 of this act asserts that bank secrecy or professional privilege will not be invoked as a ground for non-compliance with the obligations under the Act.
R.10-NC	<ul style="list-style-type: none"> <li>• There were no legal measures to prevent the opening of accounts under fictitious names.</li> <li>• The sectors other than banks and securities sectors were outside the purview of undertaking customer due diligence (CDD) measures. The norms for securities sector were specified only in other enforceable means and not in laws or regulations.</li> <li>• There was no explicit mention of timing of verifying the identity of customers and beneficial owners for financial institutions except those in the securities sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Section 16 of the PML-FTA mandates financial institutions not to keep anonymous accounts or accounts in fictitious names.</li> <li>• In 2015, regulations on the prevention of money laundering and financing of terrorism were issued for money transfer and money changing businesses, life insurance and family takaful insurance businesses to bring them under the purview of undertaking AML/CFT measures which includes CDD measures as well. The regulations on securities sector were published in 2016.</li> <li>• The timing of verification of identity of customer and beneficial owner has also been mentioned in the 2015 regulations other than securities sector. In the cases of life insurance and family takaful insurance businesses, verification will be done by each licensee before establishing a business relationship. Money transfer and money changing businesses will verify the identity before carrying out a transaction. Banks shall carry out verification process before or during the course of establishing a business relationship and before conducting a single transaction.</li> </ul>
R.11-NC	<ul style="list-style-type: none"> <li>• Sectors except banks and securities sectors were outside the purview of record keeping requirements.</li> <li>• There was no provision for financial institutions to maintain all necessary records on transactions for at least 5 years or longer after the completion of the transaction. There existed no legal obligations for financial institutions to provide for maintenance of records of identification data, account files and business correspondence for at least 5 years after the termination of an</li> </ul>	<ul style="list-style-type: none"> <li>• The 2015 regulations on prevention of money laundering and financing of terrorism include record keeping provisions for banks (section 16), life insurance businesses (section 16); and money transfer and money changing businesses (section 15).</li> <li>• As per section 20 of the PML-FTA, documents regarding business transactions, account files and other business correspondence must be maintained for at least 5 years after the termination of the business relationship. According to the respective 2015 regulations for banks, life insurance and money transfer and money changing businesses; the records must be kept for 5 years following a single transaction or termination of business relationship.</li> </ul>



	account or business relationship.	
R.12-NC, R.34-PC	There existed no obligations for financial institutions to determine whether a potential customer or the beneficial owner is a politically exposed person (PEP), obtain senior management approval for establishing and continuing business relationships with a PEP; and take reasonable measures to establish the source of wealth/ funds of customers and beneficial owners identified as PEPs.	Under section 16 of the PML-FTA, reporting entities shall determine if a customer or a beneficial owner is a politically exposed person, obtain approval from senior management before establishing a business relationship with the customer and take all reasonable measures to identify the source of wealth, affluence, prosperity and funds. PEP Guidance paper (AML/CFT Compliance General Guidelines for Reporting Entities on Politically Exposed Persons) was published in 2020 by FIU-MMA that assist reporting entities in addressing various challenges that they face concerning PEPs.
R.13-NC	<ul style="list-style-type: none"> <li>The MER highlighted the absence of laws and regulations that deal with cross-border correspondent banking relationship. There were no provisions to obtain senior management approval and document the respective obligations of each institution.</li> <li>Payable-through accounts were not used or likely to be used in the Maldivian financial systems as stated by the Maldivian authorities and private sector representatives during the on-site visit.</li> </ul>	<ul style="list-style-type: none"> <li>Section 16(k) of the PML-FTA deals with cross-border correspondent banking relationships and includes the provisions to obtain approval from senior management before establishing a correspondent banking relationship; and document the respective responsibilities and obligations of the foreign and domestic financial institution in respect of anti-money laundering and financing of terrorism.</li> <li>Since the MER, the PML-FTA has included provisions on payable-through accounts. Section 77(m) states that payable-through account implies correspondent accounts used directly by a third party to transact business on their own behalf. Section 16(k) stipulates ensuring that the foreign financial institution has verified its customer's identity, implemented mechanisms for on-going monitoring with respect to its customers, and is capable of providing relevant identifying information on request.</li> </ul>
R.14-NC	<ul style="list-style-type: none"> <li>Money or value transfer (MVT) service operators had no AML/CFT obligations.</li> <li>No sanctions were available for non-compliance of MVT service operators with AML/CFT requirements</li> </ul>	<ul style="list-style-type: none"> <li>Presently, section 77(o) defines money or value transfer service under the PML-FTA. Sec18(a) asserts the verification of customers. The customer information shall be included in the message or form accompanying the transfer. If there is no account number, a unique reference number shall be given for the transfer (CDD measures). The monitoring and supervision of MVT services is done by the MMA.</li> <li>Presently, administrative sanctions are available for non-compliance. According to the Regulation on Prevention of Money Laundering and Financing of Terrorism for Money</li> </ul>

	due to the absence of regulations.	Transfer Businesses and Money Changing Businesses (2015), non-compliance of obligations would attract administrative penalties in form of the issuing a notice in writing to comply within a specified period or imposing fine between 10,000 Maldivian Rufiyaa and 500,000 Maldivian Rufiyaa. Non-compliance within the period specified would attract fine between 10,000 Maldivian Rufiyaa and 100,000 Maldivian Rufiyaa daily until compliance is achieved.
R.16-NC	No requirements existed for financial institutions to implement provisions relating to wire transfers.	<ul style="list-style-type: none"> <li>• Presently the PML-FTA does not have specific definition on wire transfer. Nevertheless, section 77 (k) defines 'Batch transfer' as a number of individual wire transfers sent to the same financial institution but may or may not be ultimately intended for different persons.</li> <li>• The regulations on Prevention of Money Laundering and Financing of Terrorism for Money Transfer Businesses and Money Changing Businesses and banks (2015) include definition of wire transfer. These regulations further mandate the submission of a weekly report to the FIU which includes transactions conducted by means of wire transfers.</li> </ul>
R.18. Internal control-NC, foreign branches and subsidiaries-N/A	<ul style="list-style-type: none"> <li>• Regarding internal controls, there were no obligations on financial institutions other than banks and securities sector licensees.</li> <li>• The other change pertains to foreign branches and subsidiaries.</li> </ul>	<ul style="list-style-type: none"> <li>• Presently, section 21 of the PML-FTA delves into internal controls, policies and procedures for ML/TF prevention. As per the 2015 regulations on ML/TF prevention for money transfer businesses and money changing businesses, insurance and family takaful business, these businesses are obligated to have internal controls and programs under section 24.</li> <li>• Since the MER, the PML-FTA under section 22 included the compliance of obligations by foreign subsidiaries and branches.</li> </ul>
R.20,23-NC	The scope of reporting suspicious transactions was limited to banks. No reporting requirements existed for financial institutions other than banks. STR requirements did not extend to DNFBPs.	Currently, section 39 of the PML-FTA deals with suspicious transaction reporting for all reporting entities as soon as possible and not later than 3 days; except lawyers, notaries, accountants, auditors, tax advisors and other independent legal professionals. Reporting obligations have been extended to certain DNFBPs such as dealers in precious metals and stones and dealers in real estate. Specific regulations providing for STR include regulations on preventing money laundering and financing of terrorism for money transfer businesses and money changing businesses, life insurance and family takaful insurance businesses, banks and securities institutions.
R.21-PC	The legal framework of protection for STR and prohibition against tipping off only applied to banks (under the 2010 Banking Act).	The scope has been extended besides banks. Section 43 of the PML-FTA deals with the prohibition against tipping off by a reporting entity, its director, officer and employee. Specific regulations on the recommendation exist in the regulations on ML/TF prevention for money transfer and money-changing businesses, life insurance businesses and securities institutions.

R.22-NC	No AML/CFT requirements existed for DNFBPs in the Maldives.	Since the MER, section 77(c) of the PML-FTA has defined DNFBPs and section 23 has prohibited the operation of DNFBPs without prior registration by the respective competent authority.												
R.24-NC	<ul style="list-style-type: none"> <li>The measures concerning beneficial ownership and control of legal persons did not ensure adequate transparency. Records held by the Ministry of Economic Development (MED) did not include adequate, accurate and current information about beneficial ownership.</li> <li>Records were held manually by the MED, particularly for company accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Section 26 of the PML-FTA stipulated legal persons established in the Maldives to maintain adequate, accurate and current information on their beneficial ownership and control structure.</li> <li>On 31 October 2022, the Ministry of Economic Development and Trade announced that all documents issued by the ministry to Registered Businesses would be issued electronically only (trade.gov.mv).</li> </ul>												
R.28-NC	No AML/CFT regulation or supervision of DNFBPs existed as they were not subject to AML/CFT requirements.	<ul style="list-style-type: none"> <li>The AML/CFT compliance of reporting entities with the requirements established in part two of PML-FTA (such as customer identification, special identification for DNFBPs, transaction monitoring, record-keeping, internal programs, disclosure of information of legal persons and STR reporting) is supervised by the competent authorities responsible for their regulation or supervision. The FIU is responsible for receiving, analysing and disseminating information concerning ML/TF activities and crime proceeds. DNFBPs should not operate without prior registration by the respective competent authority (PML-FTA, 2014). Regulatory/supervisory authorities have been found to exist for the following DNFBPs:</li> </ul> <table border="1" data-bbox="711 1451 1565 1823"> <thead> <tr> <th>DNFBP</th> <th>Regulatory/supervisory authority</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td>Real Estate</td> <td>Ministry of Housing, Land, and Urban Development</td> <td>corporatemaldives.com</td> </tr> <tr> <td>Lawyers and notaries</td> <td>The Bar Council of the Maldives</td> <td>maldivesbarcouncil.org</td> </tr> <tr> <td>Accountants</td> <td>The Institute of Chartered Accountants of the Maldives</td> <td></td> </tr> </tbody> </table> <p>Sanctions are issued by regulatory/supervisory authorities in the form of written warnings, orders to comply with specific instructions, barring employment within the sector, revocation of license and fine between 10,000 Maldivian Rufiyaa and 500,000 Maldivian Rufiyaa. The FIU too shall inform the relevant</p>	DNFBP	Regulatory/supervisory authority	Source	Real Estate	Ministry of Housing, Land, and Urban Development	corporatemaldives.com	Lawyers and notaries	The Bar Council of the Maldives	maldivesbarcouncil.org	Accountants	The Institute of Chartered Accountants of the Maldives	
DNFBP	Regulatory/supervisory authority	Source												
Real Estate	Ministry of Housing, Land, and Urban Development	corporatemaldives.com												
Lawyers and notaries	The Bar Council of the Maldives	maldivesbarcouncil.org												
Accountants	The Institute of Chartered Accountants of the Maldives													

		supervisory authority in case of non-compliance with the act by the reporting entities (PML-FTA, 2014).
R.29-NC	<ul style="list-style-type: none"> <li>The FIU did not have specific authority to analyse and disseminate STRs. It did not have sufficient and timely direct or indirect access to financial, administrative and law enforcement information.</li> <li>No format of reporting was provided by FIU.</li> <li>The information held by it was not securely protected.</li> <li>It did not release periodic reports.</li> <li>It did not have sufficient operational independence and autonomy to ensure that it was free from undue influence or interference. The MER recommended applying for Egmont membership once comprehensive AML/CFT legislation was passed and the FIU was formally established.</li> </ul>	<ul style="list-style-type: none"> <li>Chapter 7 -FIU (Sections 27 to 38) of the PML-FTA (2014) provides clear authority to the FIU to access and review information, and analyse and disseminate STRs. Reporting entities are obliged to provide information on request by FIU within the specified time.</li> <li>The FIU should prescribe the manner and forms for reporting and inform reporting entities of its requirements.</li> <li>Section 34 mandates the FIU to comply with rules on the protection of privacy, confidentiality and computerized databases. It must establish and maintain a database.</li> <li>Section 35 stipulates the FIU to prepare and publish an annual report for its activities. However, the latest FIU annual report available is for the year 2020.</li> <li>The FIU-Maldives Monetary Authority (FIU-MMA) became an operationally independent unit mandated and formally established under the Prevention of Money Laundering and Financing of Terrorism Act (law no.10/2014) within the Maldives Monetary Authority (MMA). As a step towards obtaining Egmont membership, co-sponsors from the Egmont group to the Maldives conducted their final on-site assessment with the FIU during the last quarter of 2023 (MMA annual report, 2023).</li> </ul>
R.32-NC	The MER recommended the prescribed threshold for cross-border cash declaration not to exceed US\$/EUR 15,000.	The Regulation on Cross-Border Cash Declaration (2015) was amended in 2021 to address the deficiency. As per the amended regulation, the prescribed threshold is 10,000 US\$ or its equivalent in Maldivian Rufiyaa or foreign currency.
R.34-PC	No guidelines were issued to financial institutions other than banks and MVT service operators. The MER recommended issuing guidelines to money changers and money remitters to include all aspects of CDD, STR	The guidelines for consumer finance institutions and money remittance institutions were issued in 2016 which included aspects of CDD, STR reporting and other preventive measures.

	reporting, and other preventative measures.	
R.37, 39-NC	The MER recommended bringing the provision of the widest range of MLA and ensuring it was not subject to unreasonable, disproportionate or unduly restrictive conditions. No legal provision on extradition existed.	Section 65 of the PML-FTA provides for the widest possible range of cooperation to the competent authorities of other countries for mutual legal assistance and extradition in connection with ML/TF criminal investigations and judicial proceedings. The provisions shall not affect the obligations under any laws of the Maldives, treaties, multilateral or bilateral, that govern mutual legal assistance and extradition matters. Section 73 relates to MLA and sections 67,70, 71 cover aspects of extradition.
R.40-PC	<ul style="list-style-type: none"> <li>As per the MER, the Maldives Monetary Authority (MMA) might only cooperate with its foreign counterparts on banking sector issues. The MMA signed only one MoU.</li> <li>The Capital Market Development Authority (CMDA) had no MoUs with its foreign counterparts.</li> </ul>	<ul style="list-style-type: none"> <li>MMA signed various MoUs in recent years with its foreign counterparts. In 2023, an MoU was signed between the FIU-MMA and the Japan Financial Intelligence Center to strengthen cross-border cooperation for effectively curbing financial crime. Between 2020 and 2022, MoUs were signed with Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia.</li> <li>On 21 July 2024, the CMDA and the Securities and Exchange Commission of Sri Lanka signed an MoU to foster collaboration on the discovery of and take action against insider dealing, market manipulation and other irregular and fraudulent practices in securities dealings concerning companies listed on the Colombo Stock Exchange (CSE) (cmda.gov.mv).</li> </ul>

**Country: Nepal**  
**Latest MER 2023**

**Table: 2.5 Deficiencies in AML/CFT compliance and significant Legislative/Regulatory changes in the AML/CFT Regime of Nepal**

Recommendations & existing ratings as per MER 2023	Deficiencies concerning corresponding recommendation(s)	Significant legislative/regulatory changes in the AML/CFT regime of the country post-MER 2023
R.1-PC	<ul style="list-style-type: none"> <li>Regarding c.1.3, the MER noted no explicit mention of exact intervals at which risk assessments were conducted and whether updates were linked to changing ML/TF risks in Nepal.</li> <li>There was no explicit inclusion of proliferation financing (PF) under the Asset (Money) Laundering Prevention Act (ALPA).</li> <li>The second National Risk Assessment identified hundi as a high threat. A significant share of Nepal's GDP (about 26%) was derived from incoming remittances,</li> </ul>	<ul style="list-style-type: none"> <li>The Asset (Money) Laundering Prevention Act (ALPA), 2008 has been amended in 2024. As per the amended ALPA, <ul style="list-style-type: none"> <li>Section 7P states that the institutional risk assessment must be revised and translated into plans, policies or procedures at least annually and presented to the regulator.</li> <li>Section 35 mandates that government and reporting entities should conduct risk assessments on an annual basis and implement risk-based plans, policies, and actions.</li> <li>The inclusion of proliferation financing (PF) under Chapter 6B, section 7T(2a) and section 7S(1) aligns with the 2022 FATF methodology (PF risk assessment and mitigation). Section</li> </ul> </li> </ul>

	a major part of which was believed to be channelled through hundi. The funds were transferred overseas in illicit ways to evade restrictions of currency transfer, for tax evasion and also as a part of trade-based money laundering. However, it was not criminalised.	<p>7S(1) includes preventive measures for PF. As per section 7ST(2a), the regulators shall apply regulatory measures on PF.</p> <ul style="list-style-type: none"> <li>The country criminalised hundi under section 125A of the National Penal (Code) Act 2017 (FIU-Nepal Newsletter, 2024).</li> </ul>								
R.2-PC	Despite having confidentiality obligations in Nepal, there was no clarity regarding the existence of specific data protection/ privacy obligations as required in c.2.5. The other changes are pertinent to the recommendation.	ALPA has been amended to incorporate the maintenance of confidentiality of customer information under section 7R. As per Chapter 3B, the Coordination Committee will oversee the execution of the National Risk Assessment (NRA). The earlier National Coordination Committee has been converted into the Coordination Committee. A Directive Committee under the chairmanship of the finance minister, has been set up whose mandate includes directives, policies and reviews at the national level. The National AML/CFT report should be presented in the parliament annually according to section 44H (FIU-Nepal Newsletter, 2024).								
R.3-LC	<ul style="list-style-type: none"> <li>The limitation of c.3.2 was the failure to criminalise human smuggling, piracy and terrorism.</li> <li>Under c.3.9, the penalty for money laundering was a prison term of two to ten years under section 30 (1) of ALPA.</li> </ul>	<ul style="list-style-type: none"> <li>The limitation has been addressed largely by criminalising the following offences:</li> </ul> <table border="1"> <thead> <tr> <th>Offence</th> <th>Act</th> </tr> </thead> <tbody> <tr> <td>Human smuggling</td> <td>Human Trafficking and Smuggling (Control) Act (2007)</td> </tr> <tr> <td>Piracy</td> <td>Ship Registration Act (1971)</td> </tr> <tr> <td>Terrorist activities</td> <td>National Penal Code (Chapter 7A) 2017</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>The imprisonment for money laundering has been increased to up to fifteen years as per section 30 (chapter 7) of the amended ALPA (FIU-Nepal Newsletter, 2024).</li> </ul>	Offence	Act	Human smuggling	Human Trafficking and Smuggling (Control) Act (2007)	Piracy	Ship Registration Act (1971)	Terrorist activities	National Penal Code (Chapter 7A) 2017
Offence	Act									
Human smuggling	Human Trafficking and Smuggling (Control) Act (2007)									
Piracy	Ship Registration Act (1971)									
Terrorist activities	National Penal Code (Chapter 7A) 2017									
R.4-LC	The change is pertinent to the updated c.4.13(b) - 'compensating the victims of crime by using confiscated properties' under R.4.	Payment of loss and compensation to the victim shall be required according to sections 34A and 34B of ALPA (amended 2024) (FIU-Nepal Newsletter, 2024).								
R.5-LC	<ul style="list-style-type: none"> <li>The imprisonment term for terrorist financing has been revised.</li> <li>As per c.5.2<sup>bis</sup> (presently c.5.3 under 2022 methodology), a provision particularly in section 4 of the ALPA, that criminalises the financing of foreign terrorist fighters was absent.</li> </ul>	<p>As per ALPA (amended 2024),</p> <ul style="list-style-type: none"> <li>The term of imprisonment for terrorist financing under Chapter 7 (section 30) has been increased to '7 to 20 years' from between '3 to 20 years.'</li> <li>Nepal has criminalised foreign terrorist fighters under section 4.</li> <li>According to sub-section (5) of section 4, the limit on the financing of terrorists has been extended (FIU-Nepal Newsletter, 2024).</li> </ul>								
R.6-PC, R.7-NC	As per the MER, no specific measures protected the rights of bona fide third	As per ALPA (amended 2024), the rights of bona fide third parties along with compensation measures have								

	parties acting in good faith while fulfilling their duties under R.6 and R.7.	been clarified under section 30A (FIU-Nepal Newsletter, 2024).
R.8-NC	There was no clarity on the authorities that would regulate and supervise the non-profit organisations (NPOs).	The Ministry of Home Affairs (MoHA) and the Social Welfare Council (SWC) shall conduct the regulation and supervision of non-profit organisations (FIU-Nepal Newsletter, 2024).
R.10-PC	<ul style="list-style-type: none"> <li>Under c.10.14, the identification and verification of customers by FIs was limited in the case of the establishment of a business relationship and not for carrying out transactions for occasional customers. Secondly, there was no explicit mention of the period for verifying customers.</li> <li>The ALPA, ALPR or other directives have no explicit provisions to implement the requirements of c.10.20 except for general obligations to prevent tipping off under section 44A of ALPA.</li> </ul>	<ul style="list-style-type: none"> <li>Section 7H of ALPA (amended 2024) has provided clarification concerning customer identification and verification. Presently, both shall be done for conducting transactions for occasional customers. Furthermore, the customers must be identified and verified by the reporting institutions within three days of establishing a business relationship or conducting the transaction.</li> <li>As required by c.10.20, section 7R of ALPA (amended 2024) has provided clarification on the reporting of suspicious transaction reports (STRs) in situations where there is a risk of tipping off (FIU-Nepal Newsletter, 2024).</li> </ul>
R.13-LC	A minor shortcoming was identified in c.13.2 which was partly met due to no definition of 'payable through accounts.'	The definition of 'payable through accounts' has been inserted under section 7N of ALPA (amended 2024) (FIU-Nepal Newsletter, 2024). It increases the scope of the recommendation to improve its rating from largely compliant to compliant.
R.15-NC	<ul style="list-style-type: none"> <li>C.15.3(b) addressed the limited prohibition on dealing with virtual assets (VAs) based on the prevailing laws.</li> <li>The Information Technology and Cyber Security Bill 2024 is pertinent to the recommendation in light of the changing technological landscape and evolving cybercrimes.</li> </ul>	<ul style="list-style-type: none"> <li>The National Penal Code (2017) has been amended to incorporate section 262A in chapter 22: "Offences related to currency". It defines and criminalises virtual currency, stipulates the provisions that prohibit using virtual currency and also prescribes fines and imprisonment of up to five years for contravention of the law (FIU-Nepal Newsletter, 2024).</li> <li>The Ministry of Communication and Information Technology released the draft Information Technology and Cyber Security Bill on 10 March 2024 to regulate the activities of information technology and cyber security. <ul style="list-style-type: none"> <li>The bill incorporates provisions such as the requirement of approval from the Department of Information Technology (DOIT) for organizations providing IT services and securing a license from the DOIT to operate data centres or cloud services.</li> <li>It exempts service providers from criminal liability for actions that are performed solely as cloud and data centre service providers.</li> <li>The government authorities are permitted to utilize licensed data centres and cloud service providers to</li> </ul> </li> </ul>

		operate their information systems unless otherwise stated ( <a href="http://www.pradhanlaw.com">www.pradhanlaw.com</a> ).
R.18-LC, R.23-PC, R.29-C	The changes are pertinent to the recommendations.	According to sections 35E, 35F and 35G of ALPA (amended 2024), the Nepal-FIU shall approve an independent auditor for AML/CFT. The AML/CFT Audit shall be conducted for Banks and Financial Institutions (BFIs), brokers, casinos, cooperatives, insurance companies, merchant banks, real estate businesses and other specified companies (FIU-Nepal Newsletter, 2024).
R.20-C	The change is relevant to STR filing under c.20.1	ALPA amended the filing of STR immediately in section 7S from the earlier provision of no later than three days (FIU-Nepal Newsletter, 2024).
R.22-PC	<ul style="list-style-type: none"> <li>The casino sector included only administrative sanctions on contravening AML/CFT directives issued by the Ministry of Culture, Tourism and Civil Aviation (MoCTCA). The supervision of casinos for AML/CFT compliance by the MoCTCA had not begun.</li> <li>The real estate sector is highly unorganised and unregulated. There are no active measures to prevent criminal ownership or control. No provision for sanctions exists in the AML/CFT directives issued by the Department of Land Management and Archive (DoLMA).</li> </ul>	<ul style="list-style-type: none"> <li>The Tourism Act (1978) has incorporated the licensing, regulation, and supervision of casinos with criminal offences. The amendment shall help to address the casino sector's medium-high vulnerability.</li> <li>The Land Revenue Act (1978) shall deal with the licensing, regulation and supervision of real estate with criminal offences, involving a certain sector whose transactions exceed a specified sum or cover more than a specified area. The details about these thresholds will be specified in the Nepal Gazette (FIU-Nepal Newsletter, 2024).</li> </ul>
R.24-PC, R.4-LC	There was no requirement to keep beneficial ownership (BO) information for legal persons. In the case of companies, clarity regarding the inquiry of BO information to shareholders was absent.	The sharing of beneficial ownership (BO) information has been extended to legal persons. The companies are required to disclose BO information to registration-related bodies such as the Office of the Company Registrar (OCR). In case of non-declaration or false declaration of information, there shall be civil confiscation of properties and a levy of fines. These are under sections 35A, 35B and 35C of ALPA (amended 2024) (FIU-Nepal Newsletter, 2024). The amendment shall enable service providers like accountants too to access such information.
R.26, 10- PC; R.20 – C	<ul style="list-style-type: none"> <li>As per the MER, there must be greater oversight of cooperatives in AML/ CFT compliance. The Department of Cooperatives (DeoC) solely inspects cooperatives engaged in transactions or owning assets over NRP100 million. Additionally, there is no coordination of the DeoC with the Nepal Rashtra Bank (NRB). It</li> </ul>	<ul style="list-style-type: none"> <li>Section 5 (Functions, Duties and Powers of NRB) of the NRB Act was amended to include the issuance of standards and directives for regulation, monitoring and supervision of financial cooperatives. However, such oversight would be at the request of the DeoC and for the cooperatives with share capital or annual transactions exceeding NRP 500 million. The NRB Act also prescribes fines (section 99) and punishment under a new</li> </ul>



	<p>recommended the transfer of supervision of cooperatives with significant importance and posing higher risks to NRB. The risk-based supervision for cooperative banks conducted by the NRB is either in its inception stage or not yet started.</p> <ul style="list-style-type: none"> <li>The MER underlined the absence of AML/CFT directives for the hire purchase companies.</li> </ul>	<p>section 100A in addition to the existing penalties in the Cooperatives Act.</p> <ul style="list-style-type: none"> <li>The AML/CFT directives for the hire purchase companies were introduced by the NRB on 3 June 2024. It specified aspects such as CDD, Enhanced CDD, reporting threshold transactions and suspicious transactions via. goAML software (FIU-Nepal Newsletter, 2024).</li> </ul>
R.29-C, R.2-PC	The changes are pertinent to the recommendations.	According to Chapter 4 of ALPA (amended 2024), employees from various law enforcement agencies (LEAs), regulatory bodies or other relevant entities can be deployed at the FIU (FIU-Nepal Newsletter, 2024).
R.31-PC	<ul style="list-style-type: none"> <li>C.31.2 highlighted the major issue of having limited powers concerning the usage of special investigative techniques for investigating offences of money laundering or terrorist financing.</li> <li>Under c.31.4, all law enforcement agencies (LEAs) did not possess statutory rights that granted them the authority to request information maintained by the FIU.</li> </ul>	<ul style="list-style-type: none"> <li>ALPA (amended 2024) has added special investigation techniques under section 19 to be followed by the investigating authority for investigating cases related to ML/TF/PF. The procedures shall include controlled delivery, undercover operations, accessing computer systems or other electronic devices, interception of telecommunications etc. among others.</li> <li>The deficiency in c.31.4 has been addressed by adding the provision for requesting information by all LEAs in Chapter 4 of the amended ALPA.</li> <li>As per the amended ALPA, all LEAs that investigate predicate offences shall be able to investigate money laundering. Earlier, the Department of Money Laundering Investigation (DMLI) was the sole authority to conduct ML investigations (FIU-Nepal Newsletter, 2024).</li> </ul>
R.35-LC	<ul style="list-style-type: none"> <li>The fine imposed by the FIU regarding Suspicious Transaction Report (STR) reporting needs revision under c.35.1</li> <li>The directors and senior management could only be prosecuted for criminal offences under section 30(9) and no administrative sanctions were imposed on them as per section 7V(1) of ALPA.</li> </ul>	<ul style="list-style-type: none"> <li>As per Chapter 4, section 10(7) of ALPA (amended 2024), the FIU shall be able to impose a fine of up to NPR 10 million from NPR 1 million.</li> <li>Under sections 7V(4A) and (5) of the amended ALPA, sanctions have been added which shall be applied to the concerned officials in addition to the Board of Directors by the regulators, as recommended under c.35.2 (FIU-Nepal Newsletter, 2024).</li> </ul>
R.36-LC	As per c.36.2, although Nepal has ratified all the treaties, there are minor issues with the criminalization of particular offenses.	Human smuggling is criminalised under the Human Trafficking and Smuggling (Control) Act (2007) (FIU-Nepal Newsletter, 2024). In this regard, the amendment is a great step towards fully implementing the Palermo Convention.

R.37-LC	In c.37.1, the enforcement of foreign court verdicts only based on treaties and not reciprocity limited Nepal's ability to provide expeditious assistance under section 3(2) of the Mutual Legal Assistance (MLA) Act in relation to a foreign court ruling.	As per amendment in section 3 under the MLA Act, the execution of foreign judicial verdict shall be conducted on the basis of reciprocity (FIU-Nepal Newsletter, 2024).
R.39-PC	In line with c.39.1, Nepal can execute an extradition request of money laundering or terrorist financing only by an extradition treaty. Currently, it has only one treaty with India.	The 2024-25 budget speech of the Nepalese government prioritizes the negotiation and conclusion of extradition treaties based on reciprocity (FIU-Nepal Newsletter, 2024). It shall improve the scope of the recommendation.
R.20-C, R.22,23-PC	The change is pertinent to the recommendations.	The auditors have been designated as reporting entities for the sole purpose of reporting suspicious transactions (FIU-Nepal Newsletter, 2024). Further, ALPA added the accountants who provide taxation, financial, business consultancies or advisory services in the organisation of contributions for the creation, operation or management of companies (c.22.1(d)(iv) to constitute reporting entities.
Inclusion of new reporting entities		Equity funds, hire purchase loan providers, investment companies, vehicle selling companies and venture capitals are additional inclusions as reporting entities (FIU-Nepal Newsletter, 2024).

### Country: Pakistan

#### Latest MER 2019 & FURs 2020, 2021 and 2022.

**Table 2.6: Deficiencies in AML/CFT compliance and significant legislative/regulatory changes in the AML/CFT regime of Pakistan**

Recommendation & existing rating	Deficiencies concerning corresponding recommendation	Significant legislative/regulatory changes in the AML/CFT regime of the country post MER/FUR										
R.1-LC (FUR Feb 2021)	As per the FUR, there was a lack of assessment of the risks of DNFBPs and legal persons. The other changes are pertinent to the recommendation.	<p>Designated Non-Financial Businesses and Professions (DNFBPs) were assessed in the National Risk Assessment (NRA)2023.</p> <p>Vulnerability assessment of DNFBP sector</p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Risk Rating as per NRA 2023</th> </tr> </thead> <tbody> <tr> <td>Real estate</td> <td>Very high</td> </tr> <tr> <td>DPMS (Dealers in Precious Metals &amp; Stones)</td> <td>High</td> </tr> <tr> <td>Lawyers, TCSPs &amp; Notaries</td> <td>Low</td> </tr> <tr> <td>Accountants</td> <td>Low</td> </tr> </tbody> </table> <p>Source: NRA (2023)</p> <p>A detailed analysis was conducted to assess the inherent vulnerability associated with Legal Persons and Legal Arrangements.</p> <p>Vulnerability Assessment of Legal Persons</p>	Sector	Risk Rating as per NRA 2023	Real estate	Very high	DPMS (Dealers in Precious Metals & Stones)	High	Lawyers, TCSPs & Notaries	Low	Accountants	Low
Sector	Risk Rating as per NRA 2023											
Real estate	Very high											
DPMS (Dealers in Precious Metals & Stones)	High											
Lawyers, TCSPs & Notaries	Low											
Accountants	Low											

		<table border="1"> <tr> <td>Sector</td> <td>Risk Rating as per NRA 2023</td> </tr> <tr> <td>Private limited companies</td> <td>Very high</td> </tr> <tr> <td>Public companies</td> <td>Low</td> </tr> <tr> <td>Companies limited by guarantee</td> <td>Low</td> </tr> <tr> <td>Foreign companies</td> <td>Very high</td> </tr> <tr> <td>LLPs</td> <td>Medium</td> </tr> <tr> <td>Cooperatives</td> <td>Low</td> </tr> </table> <p>Source: NRA (2023)</p> <p>Vulnerability assessment of legal arrangements</p> <table border="1"> <tr> <td>Sector</td> <td>Risk Rating as per NRA 2023</td> </tr> <tr> <td>Trusts</td> <td>Medium</td> </tr> <tr> <td>Waqfs</td> <td>Medium</td> </tr> </table> <p>Source: NRA (2023)</p> <p>A detailed assessment of TF threats and TF sources and channels was carried out during the NRA 2023 by assessing a total of 87 terrorist organisations. A total of 4 terrorist organisations were considered as ‘very high’ risk, 8 as ‘high’ risk, 7 as ‘medium’ risk and the remaining 68 as ‘low’ risk.</p>	Sector	Risk Rating as per NRA 2023	Private limited companies	Very high	Public companies	Low	Companies limited by guarantee	Low	Foreign companies	Very high	LLPs	Medium	Cooperatives	Low	Sector	Risk Rating as per NRA 2023	Trusts	Medium	Waqfs	Medium
Sector	Risk Rating as per NRA 2023																					
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LLPs	Medium																					
Cooperatives	Low																					
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Waqfs	Medium																					
R.2-LC (MER 2019)	As per c.2.1, the National Strategy for Anti-Money Laundering and Combatting the Financing of Terrorism (2018) lacked a targeted framework to mitigate the ‘high risk’ category of hawala/hundi.	In 2023, the financial monitoring unit (FMU) conducted a strategic analysis and issued a guidance document on ML/TF risks associated with hawala/hundi.																				
R.4-LC (MER 2019)	The changes are pertinent to the recommendation.	The latest FATF assessment methodology comprises 13 criteria under R.4. They include elements regarding general principles, investigative and provisional measures, confiscation; asset recovery, management, return and disposal. Regarding these, the Anti-Money Laundering (Forfeited Properties Management) rules, (2021) were developed including elements like: <ul style="list-style-type: none"> <li>• Establishment of a central asset recovery office by each investigating or prosecuting agency to ensure asset recovery and manage forfeited properties</li> <li>• Disclosure of information on properties to other stakeholders for expeditious confiscation and forfeiture of properties (AML, 2021).</li> </ul>																				
R.5-LC (MER 2019)	The MER recommended that there must be a proscription of individuals or organisations to apply certain parts of the TF offence.	A detailed assessment of TF threats was carried out in the 2023 NRA process. Out of the total of 87 terrorist organisations that were assessed, 78 were proscribed terrorist organisations and the rest were non-proscribed and UN-listed entities. 41 terrorist organisations were active in Pakistan with varying degrees of operations and the																				

		remaining were either dismantled, merged into other organisations or inactive for a long period (NRA, 2023).
R.8-LC (FUR Oct 2020)	The changes are pertinent to the recommendation.	In 2023, the FMU conducted a strategic analysis of ML/TF risks associated with NPOs. The reporting entities are advised to exercise strict scrutiny while dealing with accounts or transactions of Non-Profit Organizations (NPO) as the overall risk of terrorist financing abuse to Pakistan's NPO sector is rated 'High' in NRA 2023.
R.15-PC (MER 2019)	The changes are pertinent to the recommendation.	Since the MER, in relation to c.15.1, the FMU conducted a strategic analysis on ML/TF risks associated with the Branchless Banking sector in 2023.
R.20-C (FUR Oct 2020)	The latest guidelines are pertinent to the recommendation.	<ul style="list-style-type: none"> <li>• To facilitate prompt STR filing, the FMU via circular no.1, (2022), devised “Typologies and Red Flags for Financing and Facilitation of Foreign Terrorist Fighters and Returnees in Southeast Asia” for reporting entities.</li> <li>• The FMU issued National Risk Assessment guidelines for reporting entities on suspicious transactions to improve the STR reporting regime to align with the results of NRA 2023.</li> <li>• A new type of STR was introduced by FMU in 2023 named “STR-T” which delves into all elements of the Trade Based Money Laundering (TBML). (<a href="http://www.fmu.gov.pk">www.fmu.gov.pk</a>).</li> </ul>
R.29-C (FUR Feb 2020)	As per c.29.4(b), FIU must conduct strategic analysis to identify ML/TF trends or patterns. In regard to it, the recent strategic analysis was conducted by the FMU in 2023.	<ul style="list-style-type: none"> <li>• The FMU conducted six strategic analyses in 2023. Five of them were conducted on ML/TF risks in regard to hundi, frequent foreign remittances -UAE, Afghan nationals/refugees/migrants in Pakistan, branchless banking sector and NPOs; while the sixth one was on proscribed individuals linked with extremist or organised crime.</li> </ul>
R.39-LC (MER 2019)	There was a dearth of a case management system as required under c.39.1.	Although there isn't an exclusive case management system for extradition, the United Nations Office on Drugs and Crime (UNODC) in partnership with the Prosecution Department of Sindh launched a general software-based Case Management and Monitoring System (CMMS) on 3rd September 2021 under the framework of Pakistan's Action to Counter Terrorism (PACT). The CMMS assists in solving complex cases, tracking court proceedings and monitoring the quality of prosecutions across the Sindh province of Pakistan. The Prosecution Department was provided equipments like computers and laptops by the UNODC through the National Counter Terrorism Authority (NACTA) to enhance operational efficiency, and effectively prosecute and adjudicate cases of terrorism ( <a href="http://www.unodc.org">www.unodc.org</a> ).
R.40-LC (FUR Oct 2020)	The FUR called attention to the limited MOUs or ability to cooperate with foreign counterparts.	The year 2023 witnessed the processing of 102 international cooperation requests. The FMU signed MOUs with counterpart FIUs of Japan, Indonesia and South Africa which marks a total of 18 MOUs.

**Country: Sri Lanka**  
**Latest MER 2015 & FURs 2016, 2018, 2019, 2020 and 2021**

**Table 2.7: Deficiencies in AML/CFT compliance and significant legislative/regulatory changes in the AML/CFT regime of Sri Lanka**

Recommendation & existing ratings	Deficiencies concerning corresponding recommendation(s)	Significant legislative/regulatory changes in the AML/CFT regime of the country post MER/FUR
R.2-LC (FUR 2016)	The earlier National AML/CFT Policy 2015-2020 has been updated.	The country developed the 2 <sup>nd</sup> National AML/CFT Policy (2023-2028) based on the results of the 2021-22 National Risk Assessment (NRA). The overall risk level of money laundering and terrorist financing was assessed as medium.
R.3-LC (MER 2015)	Under c.3.2, tax offences are not considered 'unlawful activities' in the Prevention of Money Laundering Act (PMLA).	Tax crimes are not yet considered unlawful under PMLA. However, in 2017, the Inland Revenue Act was amended to introduce tax evasion as an offence with strong and dissuasive penalties (NRA, 2021-22).
R.5-C (MER 2015)	The changes are pertinent to the recommendation.	The regulations on the Prevention of Terrorism (Proscription of Extremist Organisations) were published on May 3, 2019. The rules prescribe a penalty of a prison term not exceeding twenty years for the persons contravening regulation 3 of the law.
R.8-PC (MER 2015) R.10-LC (FUR 2016)	<ul style="list-style-type: none"> <li>• The MER mentioned that registration of non-government organisations (NGOs) was not compulsory although they are regulated by the NGO Secretariat.</li> <li>• There were no requirements for undertaking enhanced due diligence measures concerning the NGO/NPOs.</li> </ul>	<ul style="list-style-type: none"> <li>• All international and national-level foreign-funded NGOs must re-register under the National Secretariat for NGOs. The guideline further calls for monitoring and reporting any NGO not registered, or registered with other institutions like the District Secretariat or the Divisional Secretariat.</li> <li>• Circular no.1/19 issued by the FIU on 23 May 2019 asserted the conduct of enhanced CDD measures while entering into a relationship with an NGO, NPO or charity to ensure that their accounts are used for lawful intentions and transactions align with the stated objectives and purposes.</li> </ul>
R.10-LC (FUR 2016)	The FUR mentioned the compliance of Customer Due Diligence Rules (CDD) 2008 for the insurance sector to a large extent. However, those rules were repealed. The other changes are pertinent to the recommendation.	<ul style="list-style-type: none"> <li>• The CDD Rules 2008 for the insurance sector was replaced by the Insurers (Customer Due Diligence) Rules No. 1 of 2019 issued by the FIU under section 2 of the Financial Transactions Reporting Act (FTRA) no. 6 of 2006.</li> <li>• As per circular 02/2023, issued by the FIU, the real estate sector is required to adhere to the CDD measures under the Designated Non-Finance Business (DNFB) CDD Rules no.1 of 2018 and FTRA (section 2).</li> <li>• As per the FIU circular 04/2022, the service of authenticating the details for customer identification would be carried out through the Department of Immigration and Emigration as required by the CDD rules for financial institutions (2016).</li> </ul>

R.12-LC (FUR 2016)	The FUR highlighted that the requirements of appropriate risk management systems were not applicable for identifying beneficial owners in the case of the insurance industry. Senior management approval was not mandatory for the continuity of business relations.	The Insurers CDD Rules of 2019 addressed these deficiencies.
R.14-LC (FUR 2020)	<ul style="list-style-type: none"> <li>• C.14.2 highlighted the absence of appropriate mechanisms for identifying illegal money or value transfer service (MVTS) providers or sanctioning them, given the substantial risk posed by the informal MVTS sector.</li> <li>• The MVTS providers were previously regulated by the Central Bank of Sri Lanka (CBSL) or other relevant authorities. Nonetheless, some other organisations offering comparable services operated outside the formal system, causing disruption in the money transfer system and exempting them from the AML/CFT regulatory framework.</li> </ul>	<p>With a view to bringing unregistered or unlicensed MVTS providers under the formal system, the Money or Value Transfer Service (MVTS) Providers Rules no.1 of 2024 has been issued under the Payment and Settlement Systems Act no.28 of 2005.</p> <ul style="list-style-type: none"> <li>• The Central Bank of Sri Lanka (CBSL) is the current regulatory and supervisory authority of MVTS providers, who are required to be registered and monitored w.e.f. June 3, 2024. The Certificate of Registration shall be issued by the CBSL.</li> <li>• Registered MVTS providers shall act under: <ul style="list-style-type: none"> <li>i. Convention on the Suppression of Terrorist Financing Act (CSTFA) no. 25 of 2005</li> <li>ii. Prevention of Money Laundering Act (PMLA) no. 5 of 2006</li> <li>iii. FTRA (2006)</li> </ul> </li> <li>• If a registered MVTS provider is associated with unsafe or unsound business practices, the CBSL shall direct it to suspend its business and take corrective actions. The failure to implement corrective actions may lead to the cancellation of registration.</li> </ul>
R.18-LC (FUR 2016), R.11-LC (MER 2015)	The changes are pertinent to the recommendations.	<p>Guidelines no.02/2021 were issued by the FIU for financial institutions recommending them to install a strong closed-circuit television (CCTV) system that is completely functional on both the interior and exterior of the business premises. Business premises imply head offices, branches, areas of ATMs, cash deposit or cash recycling machines; or any place where the conduct of customer due diligence (CDD) takes place. Such measures should be adopted as part of internal controls, policies and procedures for efficient ML/TF risk control and mitigation.</p> <ul style="list-style-type: none"> <li>• The FIU issued circular no.01/2022 to amend the above guideline. Presently, the information captured in the CCTV system should be maintained for a minimum of 90 days in contrast to the earlier 180 days. (R.11)</li> </ul>
R.20-C (MER 2015), R.23-C (FUR 2018)	Although the FTRA outlines general requisites for STR reporting, internal controls, tipping off and confidentiality; and Designated Non-Finance Business (DNFB) CDD rules,	<ul style="list-style-type: none"> <li>• The FIU issued a circular in 2023 for the real estate agents about reporting suspicious transactions and non-disclosure of information to the party involved in STR or third-party.</li> </ul>

	no.1 of 2018 addresses the criteria, yet there were no distinct DNFBP guidelines on STR.	<ul style="list-style-type: none"> <li>The guidelines on Designated Non-Finance Businesses on Suspicious Transaction Reporting no.1 of 2019 mandated DNFBPs to report STRs to the FIU and have outlined the timing and content of reporting, document submission, and penalties for tipping off and failing to submit STR.</li> <li>The STR should be carried out through the goAML system.</li> </ul>
R.1,22-LC, R.23-C (FUR 2018), R.20-C (MER 2015)	Despite the general Designated Non-Finance Business (CDD) rules no.1 of 2018, detailed AML/CFT guidelines for each DNFBP sector aid better comprehension of the CDD rules and serve as a counsel to each DNFBP.	<p>Detailed guidelines have been issued for the following DNFBPs:</p> <ul style="list-style-type: none"> <li>Guidelines on Anti-Money Laundering and Countering the Financing of Terrorism Compliance Obligations for Attorneys-at-Law and Notaries, No. 02 of 2023.</li> <li>Guidelines on Anti-Money Laundering and Countering the Financing of Terrorism Compliance Obligations for Accountants and Trusts or Company Service Providers, No. 02 of 2020.</li> <li>These guidelines asserted risk assessment and application of a risk-based approach, appointment of a compliance officer, suspicious transaction reporting, record keeping, compliance with the United Nations Security Council Resolutions and penalties.</li> </ul>
R.29-LC (FUR 2018)	The comprehensive disclosure of cash and EFT transactions has been upgraded to an online reporting system at <a href="http://GoAML.Home(cbsl.lk)">GoAML Home (cbsl.lk)</a> and there has been an increase in the transaction limit.	As per a circular issued on 1 <sup>st</sup> April 2024 by the FIU, the reporting institutions are required to submit cash and EFT transaction details to the FIU if they exceed Rupees 1 million (or equivalent foreign currency) as per section 6 of the FTRA through the goAML system. Earlier the transaction limit was Rs.5,00,000 (or equivalent foreign currency).
R.40-PC (MER 2015)	<ul style="list-style-type: none"> <li>The MER pinpointed the absence of international cooperation between the Commission to Investigate Allegations of Bribery or Corruption with its foreign counterparts.</li> <li>Under c.40.3, the number of MOUs between the Sri Lankan FIU and its foreign counterparts has increased since the MER and FUR 2021.</li> </ul>	<ul style="list-style-type: none"> <li>The new Anti-Corruption Act, No. 9 of 2023 has authorised the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) to disclose relevant information to any investigation with any local law enforcement or other Government authority. By means of this, the Sri Lankan FIU signed an MOU with the CIABOC to exchange information on investigations and prosecutions of money laundering, bribery, corruption and other related offences.</li> <li>The FIU signed MOU with the Financial Intelligence National Center of the Kingdom of Bahrain (FINC-Bahrain) to exchange financial intelligence related to ML and associated predicate offences and TF. With the signing of this MOU, the Sri Lankan FIU has entered into MOUs with 45 foreign counterparts for the sharing of information for intelligence purposes.</li> </ul>

## 2. Comparative Analysis of AML/CFT legislation in SAFA member Countries

The discussion in this section pertains to the regulatory changes that surfaced while conducting the in-depth analysis of the AML/CFT regime among the SAFA nations. The following section highlights the comparative analysis of certain important points:

### i. National risk assessment (R.1)

**Table 2.8: The conduct of National Risk Assessment (NRA) country-wise**

Country	National Risk Assessment (NRA)	Source
Afghanistan	The first NRA was initiated with the help of technical support from the World Bank. DAB undertook the ML/TF risk assessment. The FinTRACA coordinated the implementing of the NRA action plan based on the approved strategic plan (2017-2020). NRA working groups underscored different elements including threat, vulnerability, banking sector, DNFBPs, financial inclusion, and other financial institutions	www.fintraca.gov.in
Bangladesh	Two NRAs have been conducted so far: First NRA in 2011 and Second NRA in 2015	MER (2016)
India	None. NRA details might be fetched in the subsequent mutual evaluation report, which shall be published after FATF's quality and consistency review.	www.fatf-gafi.org
Maldives	First NRA -2022 The Maldives' first National Risk Assessment (NRA) on Anti Money Laundering and Countering the Financing of Terrorism was completed in the last quarter of 2022 using the World Bank NRA Tool and methodology.	MMA annual report (2022)
Nepal	Second NRA – 2020	MER (2023)
Pakistan	First NRA -2017; Second NRA- 2019; and Third NRA – 2023	MER (2019) NRA (2023)
Sri Lanka	First NRA – 2014; Second NRA – 2021-22	MER (2015) NRA (2021-22)

It is evident from the above table that Pakistan has conducted the highest NRAs so far. Pakistan underwent the assessment of DNFBPs, legal persons and legal arrangements for the first time in the NRA 2023. The country depicts that it has kept the risk assessments up to date (c.1.3). Bangladesh and Sri Lanka also underwent two NRAs. However, Bangladesh must update its previous NRA of 2015. The recent NRAs have been conducted in Sri Lanka (2021-22) and Maldives (2022). Nepal's latest MER was published in 2023, and the first NRA was conducted in 2020. Hence, its NRA is expected to be updated later. Afghanistan, India and Maldives must, therefore, publish their NRA reports at the earliest to showcase their strong commitment towards assessing ML/TF threats and vulnerabilities.

### ii. National policies/strategies (R.2)

**Table 2.9: Latest national AML/CFT policies/strategies country-wise**

Country	Latest National AML/CFT policies/strategies	Source
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Afghanistan	None	
Bangladesh	The National Strategy for Preventing Money Laundering and Combating Financing of Terrorism (2019-21)	National Strategy for Preventing Money Laundering and Combating Financing of Terrorism (2019-21)
India	None	
Maldives	The National Action Plan on Preventing and Countering Violent Extremism (2020-2024)	NCTC Newsletter (2020)
Nepal	The third AML/CFT National Strategy and Action Plan 2024-2029	AML/CFT National Strategy and Action Plan (2024-2029)
Pakistan	National Strategy for Anti-Money Laundering and Countering the Financing of Terrorism (2018)	MER (2019)
Sri Lanka	The National AML/CFT Policy 2023-2028	National AML/CFT Policy (2023-2028)

As per the above table, Nepal has developed the most recent national strategy followed by Sri Lanka. Maldives is the sole country to have an action plan for preventing and countering ‘*violent extremism*’ for the period 2020-2024. Bangladesh has also incorporated the unfinished action plans of the previous National AML/CFT strategy for 2015-2017 into the latest strategy for 2019-2021. Pakistan should update its strategy for 2018 while Afghanistan and India must develop national AML/CFT policies for compliance with R.2 (c.2.1).

### iii. STR Filing

<b>Table 2.10: STR Filing</b>	
<b>Country</b>	<b>General Provision</b>
Afghanistan	A reporting entity that suspects the linking of funds to terrorists or their intended use in terrorism, terrorist acts or by terrorist organisations must report transactions to the FinTRACA <i>as soon as possible but not later than three days</i> after the formation of suspicion (AML-PC, 2015).
Bangladesh	Under section 25(1)(d) of the MLPA (2012), the reporting entities should report suspicious transactions to the BFIU <i>immediately on their own accord</i> (STR Guidance, 2019).
India	Suspicious transactions shall be furnished <i>promptly and not later than seven working days</i> on being satisfied that the transaction is suspicious as per rule 8(2) of PMLR, 2005.
Maldives	Reporting Entities that suspecting funds or property to be the proceeds of crime, or related to ML/TF should submit a STR to the FIU, <i>as soon as practicable and not later than three working days</i> after forming such suspicion or grounds for suspicion (PML-FTA, 2014).
Nepal	ALPA amended the filing of STR <i>immediately</i> in section 7S from the earlier provision of no later than three days (FIU-Nepal Newsletter, 2024).
Pakistan	The AMLA 2020 requires STRs to be submitted to the FMU <i>promptly</i> after forming suspicion, regardless of the internal processes and procedures of reporting entities (STR Guideline, 2020).
Sri Lanka	According to section 7 of the FTRA (2006), an institution suspecting transactions to be related to the commission of any unlawful activity or other criminal offence must report <i>as soon as practicable but not later than two working days</i> of forming such suspicion to the FIU.

From the above table, we can firstly infer the timeliness of reporting suspicious transactions. Bangladesh, Nepal and Pakistan emphasize immediate or prompt reporting without specifying a precise timeframe. Sri Lanka requires reporting within two working days. Afghanistan and

Maldives require reporting within three days of forming suspicion while India allows up to seven days for reporting. Secondly, each country has a designated FIU to which STRs must be furnished. Thirdly, each country has specific legislation/ guidelines governing the reporting of suspicious transactions. Overall, all the seven South-Asian countries emphasize the importance of prompt reporting of suspicious transactions for curbing ML/TF, though the specific timeframes and procedural details vary.

*iv. The regulatory provisions for DNFBPs (R.22,23,28)*

**Table 2.11: Inclusion of DNFBPs country-wise**

<b>Afghanistan</b>	<b>Bangladesh</b>	<b>India</b>	<b>Maldives</b>
<p>DNFBPs included as per Article 5 of AML-PC (2015):</p> <ul style="list-style-type: none"> <li>• Dealers in bullion, precious metals and precious stones</li> <li>• Lawyer, rahnamai mamelaat (transaction guide), other independent legal professional</li> <li>• Accountant</li> <li>• Real estate agents</li> <li>• Trusts and company service providers</li> <li>• Any other entities prescribed by DAB.</li> </ul>	<ul style="list-style-type: none"> <li>• Real estate developer</li> <li>• Dealer in precious metals or stones</li> <li>• Trust and company service provider</li> <li>• Lawyer, notary, and other legal professionals</li> <li>• Accountant (www.bb.org.bd).</li> </ul>	<ul style="list-style-type: none"> <li>• Casinos</li> <li>• Inspector General of Registration</li> <li>• Real estate agents</li> <li>• Dealers in precious metals and stones</li> <li>• Virtual digital asset service providers (VDASPs)</li> <li>• Trusts and company service providers</li> <li>• Professionals with certificates of practice from ICAI, ICSI and ICMAI (FIU-IND Annual Report, 2022-23).</li> </ul>	<p>DNFBPs included as per section 77(c) of PML-FTA (2014):</p> <ul style="list-style-type: none"> <li>• Dealers in real estate</li> <li>• Dealers in high-value goods, such as dealers in precious metals and dealers in precious stones,</li> <li>• Lawyers, notaries and other independent legal professionals</li> <li>• Independent accountants, auditors and tax advisers,</li> <li>• Trusts and company service providers</li> <li>• Such other businesses and professions as may be designated by the Governor</li> </ul>
<b>Nepal</b>	<b>Pakistan</b>		<b>Sri Lanka</b>
<ul style="list-style-type: none"> <li>• Casinos</li> <li>• Real estate agents</li> <li>• Dealers in precious metals or stones</li> <li>• Lawyers</li> <li>• Notaries</li> <li>• Chartered accountants</li> <li>• Registered Auditors</li> <li>• Trusts and company service providers (MER, 2023)</li> </ul>	<p>DNFBPs included under section 2 (xii) of AMLA (2020):</p> <ul style="list-style-type: none"> <li>• Real estate agents, including builders and real estate developers</li> <li>• Dealers in precious metals and precious stones, including jewellers and gem dealers</li> <li>• Lawyers, Notaries, Accountants and other legal professionals</li> <li>• Trust and company service providers</li> <li>• other DNFBPs as notified by the Federal Government (AMLA, 2020)</li> </ul>		<ul style="list-style-type: none"> <li>• Casinos</li> <li>• Real estate agents</li> <li>• Dealers in precious metals and stones</li> <li>• Lawyers, Notaries, and other independent legal professionals</li> <li>• Accountants</li> <li>• Trust or company service providers (MER, 2015).</li> </ul>

From the above table, it is observed that the inclusion of DNFBPs in Nepal and Sri Lanka is completely in line with the FATF recommendation 22. Casinos are included only in three countries viz., India, Nepal and Sri Lanka while lawyers, notaries and other legal professionals are not yet covered by India. Afghanistan considers rahnamai mamelaat (transaction guide) as a DNFBP. India is the sole country to bring virtual digital asset service providers into the DNFBP framework. On the contrary, Nepal sought to prohibit virtual asset service providers as per MER 2023. It amended the National Penal Code 2017 and criminalised virtual currency in 2024. Only two nations have specifically mentioned auditors as DNFBP: Maldives (auditors and tax advisors) and Nepal (registered auditors).

### R.22

**Table 2.12: Provisions for DNFBPs concerning R.22**

<b>Country</b>	<b>Provisions</b>
Afghanistan	The general provisions under the AML-PC (2015) as required in R.10 apply to DNFBPs including company service providers regarding CDD and reliance on third parties (article 12), record keeping (article 16), PEPs (article 15), and new technologies (article 11). The requirements of R.11 are also covered by the STR guideline published by FinTRACA (STR guideline, 2016). No specific guidelines have been found for DNFBPs.
Bangladesh	As per the MER, the requirements of CDD, record-keeping, PEPs, new technologies and reliance on third parties apply to DNFBPs as per the Money Laundering Prevention Rules (MLPR), 2013 (MER,2016). The MLPR 2013 has been amended into MLPR 2019. Although guidelines on DNFBPs were found to be published on the website of Bangladesh Bank under the regulations and guidelines section, details of the provisions under it could not be traced due to its non-accessibility ( <a href="http://www.bb.org.bd">www.bb.org.bd</a> ).
India	The general provisions regarding R.22 under PMLA apply to the DNFBPs. These requirements are supported by AML/CFT directives issued for casinos by Sikkim under the Sikkim Casino Games (Control and Tax) Act, 2002 and by Goa as “The Goa Anti Money Laundering and Financing of Terrorism Guidelines” (FUR, 2013). Guidelines for real estate agents delve into the aspects of CDD, record-keeping, PEP and reliance on third parties (AML/CFT Guidelines, 2022). The guidance for DPMS includes the elements of CDD and PEPs but not in a comprehensive manner (DPMS guidance, 2023). The AML/CFT guidelines issued for accountants include CDD, PEP and record-keeping requirements (AML/CFT Guidelines, 2023) while guidelines for VDASPs cover CDD, PEP, record-keeping and technological requirements (VDASP Guidelines, 2023).
Maldives	The general provisions of identification of customers by reporting entities (section 16), record-keeping (section 20), and PEP (section 16(j)) apply to DNFBPs under the PML-FTA (PML-FTA, 2014). No explicit requirements associated with new technologies or permission for third-party reliance have been mentioned. No specific guidelines have been found for DNFBPs. The AML/CFT Guideline for Accountants and Auditors prepared by FIU is at the draft stage (Annual Report, 2023).
Nepal	The general provisions of ALPA (2008) regarding R.22 apply to DNFBPs. However, certain deficiencies exist. It remains uncertain whether CDD measures are to be undertaken by real estate agents for both buyers and sellers. AML/CFT directives do not pertain to cash transactions by retailers of precious metals and stones at a threshold of USD/EUR 15,000 or more. Nonetheless, the scope is somewhat diminished due to the country’s ban on cash transactions exceeding NPR 1 million (USD 7,500) except when the use of cash is reasonably required (MER, 2023).
Pakistan	All DNFBPs are subject to the AMLA’s basic CDD (section 7A), record-keeping (section 7C) and reliance on third parties (section 7B) provisions (AMLA, 2020). The detailed requirements of CDD, record-keeping, PEP and third-party reliance are addressed in enforceable sectoral regulations, except for

	lawyers. The sectoral regulations also outline the obligation of DNFBPs associated with new technologies. Nevertheless, regulations 5 of FBR, 7 of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) do not specify the usage of new and pre-existing technology to apply to both new and pre-existing products as prescribed in c.15.1. R.15 requirements do not apply to lawyers (FUR, 2021).
Sri Lanka	The requirements of R.22 are prescribed in FTRA 2006 as well as the DNFBP CDD Rules 2018 and are supported by AML/CFT guidelines by the FIU for attorneys at law and notaries (2023), accountants and TCSPs (2020); casinos, gambling houses, dealers in real estate, precious metals, precious and semi-precious stones (2018) (fiusrilanka.gov.lk). However, the sectoral guidelines have not explicitly mentioned the requirements of R.15.

From the above table, it has been observed that the general provisions of R.22 are outlined in the respective country-specific laws. However, no explicit requirements of R.15 and R.17 have been mentioned in the PML-FTA of the Maldives and that of R.12 and R.15 in AMLA 2020 of Pakistan. The requirements of R.22 are supported by AML/CFT guidelines in India, Nepal, Pakistan and Sri Lanka. The sectoral guidelines in these countries have not comprehensively covered the requirements of R.22 and lack uniformity to a certain extent. For example - The guidelines for accountants in India cover the requirements of R.10, 11, and 12 but not R.15 and 17, VDASP guidelines include R.15 but not R.12 requirements while real estate guidelines cover R.10,11,12,17 but not R.15. In Pakistan, R.15 obligations are not applicable for lawyers. Regulations 5 of FBR, 7 of ICAP and ICMAP do not specify the usage of new and pre-existing technology to apply to both new and pre-existing products as prescribed in c.15.1 and in Sri Lanka, the sectoral guidelines have not explicitly mentioned the requirements of R.15. It can also be inferred that requirements of R.15 have not been legally incorporated sufficiently. For Bangladesh, despite guidelines on DNFBPs being found to be published on the website of Bangladesh Bank under the regulations and guidelines section, details of the provisions under it could not be traced due to its non-accessibility.

### R.23

**Table 2.13: Provisions for DNFBPs concerning R.23**

Country	Provisions
Afghanistan	The general provisions of AML-PC (2015) concerning reporting suspicious transactions (article 18), internal AML programs (article 19), special monitoring of transactions and measures for high-risk countries (article 14) apply to DNFBPs. The confidentiality provisions do not apply to attorneys, notaries and other independent legal professions as per Article 20. Concerning STR, guidelines published by the FinTRACA highlighted examples of common indicators of suspicious transactions, each for trusts and company service providers, accountants, lawyers and real estate agents (STR guideline, 2016).
Bangladesh	The MLPR 2013 (presently MLPR 2019) provisions for STR reporting, internal controls, higher-risk countries, tipping off, and confidentiality apply to DNFBPs (MER 2016). STR guidance notes were issued in 2019 for reporting entities, listing red flags indicating suspicious transactions or activities. However, no industry-specific red flags exist for DNFBPs (STR guidance, 2019). Although guidelines on DNFBPs were found to be published on the website of Bangladesh Bank under the regulations and

	guidelines section, details of the provisions under it could not be traced due to its non-accessibility ( <a href="http://www.bb.org.bd">www.bb.org.bd</a> ).
India	The general provisions of R.23 apply to the list of DNFBPs under Table 2.3 under the PMLA and PMLR. Specific guidance on reporting was issued for dealers in precious metals and precious stones and AML/CFT guidelines were issued for accountants and VDASPs. These guidance/guidelines delve into the elements of compliance with internal policies, procedures and controls, EDD for high-risk jurisdictions/ persons/ entities, prohibition on tipping off and STR. In the case of STR, the format of reporting transactions is prescribed by the FIU-IND (AML/CFT Guidelines, 2023). As per the reporting formats introduced and updated w.e.f. 18 June 2024 under the project FINNET 2.0, such formats have been issued for casinos, real estate, dealers in precious metals and stones and VDASPs (Reporting format, 2024). The FIU-IND issued red flag indicators for the CA reporting entities. However, the indicators are confidential and are accessible only through an SSP login by the members in practice (Red Flag Indicators, 2023).
Maldives	The general PML-FTA provisions under section 19 (special monitoring of transactions for jurisdictions not applying international ML/TF standards), section 21 (internal controls, policies and procedures for ML/TF prevention), section 37 (confidentiality), section 39 (suspicious transaction reporting) and section 43 (prohibition against tipping off) apply to DNFBPs. However, STR obligations apply to all reporting entities except lawyers, notaries, accountants, auditors, tax advisors and other independent legal professionals. Thus, reporting obligations have been extended only to dealers in precious metals and stones and dealers in real estate after the MER (PML-FTA, 2014). No specific guidelines have been issued for DNFBPs. The AML/CFT Guideline for Accountants and Auditors prepared by FIU is at the draft stage (Annual Report, 2023).
Nepal	DNFBPs should comply with the same requirements for internal controls, higher-risk countries, tipping off and confidentiality and STR/SAR as the financial institutions according to ALPA. These requirements are supported by the AML/CFT directives for casinos, real estate agents, DPMS and chartered accountants or registered auditors (for STR reporting); casinos, DPMS and chartered accountants or registered auditors (for internal controls, tipping off and confidentiality) (MER, 2023). STR/SAR guidelines issued in 2021 have covered the aspects of STR/SAR filing and tipping-off provisions. They highlighted red flags: general indicators for TCSPs, accountants and lawyers and sector-specific indicators for casinos, dealers in precious gems, stones and metal and real estate (STR/SAR guidelines, 2021). Auditors have also been designated as reporting entities for the sole purpose of reporting suspicious transactions (FIU-Nepal Newsletter, 2024).
Pakistan	Section 7(1) of the amended AMLA requires all DNFBPs to report STRs to the FMU promptly. Section 7G of the AMLA 2020 stipulates that DNFBPs should implement compliance management arrangements, including internal training and the appointment of a compliance officer. The compliance of R.19 is ensured by the Counter-measures for High-Risk Jurisdictions Rules (2020) and obligations regarding tipping-off are provided under section 12 of AMLA (FUR Oct, 2020). The requirements of R.18,19 and 20 are also stated in the regulations issued by the Federal Board of Revenue (FBR) for DNFBPs in 2020. However, those regulations apply only to accountants, jewellers and dealers in precious metals and stones, and real estate agents (FBR Regulations, 2020). Comprehensive STR guidelines issued by FMU in 2020 cover STR filing, and tipping off and confidentiality requirements (STR guidelines, 2020). The requirements of R.23 are supported by the AML/CFT guide for accountants developed by the Institute of Chartered Accountants of Pakistan (ICAP) in 2018. The guide has stated the red flags to be considered by the practising firms and further provided details of the red flags by categorising them into country or geographic risk, client risk, product, service or delivery method risk and other risk factors. Appendix C has attached the STR forms along with filing guidance notes and red flag indicators. Regarding auditors, they are not required to detect or seek non-compliance and illegal activities as per the ISAs (International Standard on Auditing) applicable in the country. The practising firm should consider its obligations to report activities to the relevant regulators like FIA (Federal Investigation Agency), FBR etc. However, no reporting obligation to

	FMU arises as the audit and assurance services are not specified services (AML/CFT Guide for Accountants, 2018).
Sri Lanka	The general provisions of FTRA 2006 concerning STR filing, internal controls, tipping-off and confidentiality apply to DNFBPs (MER, 2015) and the DNFBP (CDD) Rules, No. 1 2018 addressed the deficiencies in imposing obligations to DNFBPs on internal controls and foreign branches, and higher-risk countries (FUR, 2018). These requirements are supported by AML/CFT guidelines by the FIU for attorneys at law and notaries (2023), accountants and TCSPs (2020); casinos, gambling houses, dealers in real estate, precious metals, precious and semi-precious stones (2018) (fiusrilanka.gov.lk). In the guidelines for DNFBPs on STR, appendix I has stated the general indicators of suspicion, red flag indicators for casinos and gambling houses, real estate agents and gem and jewellery dealers and STR format in appendix II (STR guidelines, 2019). The guidelines for accountants have stated the red flags by categorising them into client and client behaviour; product, service or delivery method risk and country/geographic risk (annexure IV), case studies as examples of ML/TF through accountants (annexure V) and STR format in annexure VI. Concerning auditors, service providers must be aware that an auditor has an obligation under the FTRA to submit an STR in case of suspicion of ML/TF transaction (s) during the course of performing the audit as per the FIU guidelines (Guidelines, 2020).

The above table showcases the applicability of R.23 for DNFBPs in the seven jurisdictions. The general provisions apply to DNFBPs under country-specific laws. However, the existence of separate STR and AML/CFT directives differs country-wise. Separate STR guidelines for reporting entities exist in Afghanistan, Bangladesh, Nepal and Pakistan; and Sri Lanka has STR guidelines issued specifically for all DNFBPs. Auditors have also been designated as reporting entities for the sole purpose of reporting suspicious transactions. The obligation for auditors to report suspicious transactions is explicitly mentioned in FIU guidelines of Sri Lanka. Auditors of Pakistan are not required to detect or seek illegal activities as per the ISAs. Although the practising firm should consider its obligations to report activities to the regulators like FIA, FBR etc, no reporting obligation to FMU exists as audit and assurance services are not specified services.

AML/CFT directives or guidelines have been issued in India, Nepal, Pakistan and Sri Lanka. Sri Lanka is the sole country to issue AML/CFT directives for all the DNFBPs. Red flags have been stated in all jurisdictions barring Maldives. Sector-specific indicators for some DNFBPs have been highlighted in Afghanistan, Nepal, Pakistan and Sri Lanka. Specific red flags for the accounting sector have been issued by Afghanistan, India, Nepal, Pakistan and Sri Lanka; with Sri Lanka listing them comparatively in a comprehensive manner along with case studies as examples of ML/TF through accountants. Details about red flags for accountants are unknown for India due to its confidentiality and accessibility only by the members in practice.

## R.28

Table 2.14: Provisions for DNFBPs concerning R.28

Country	Provisions		
Afghanistan	The regulatory authorities of the DNFBPs in the country are as below:		
	DNFBP	Regulatory authority	Source
	Dealers in bullion, precious metals and precious stones	Primarily regulated by the Minerals Law (2005) which subjects trading in minerals to authorisation by the Ministry of Mines	MER, 2011
	Lawyer	Afghanistan Independent Bar Association (AIBA)	MER, 2011
	Accountant	Certified Professional Accountants of Afghanistan (CPA Afghanistan)	cpa.mof.gov.af
	Real estate agent	As per the MER, the Ministry of Justice was considering introducing a department responsible for registering and overseeing real estate agents (MER, 2011). It appears that there is no recent information confirming the establishment of the new department. This might still be in the planning or proposal stage	
	TCSPs	The MER asserted the probability of the existence of the simplest forms of company service providers like providing a registered office; business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement (MER, 2011). Nevertheless, it is uncertain whether a specific regulator exists.	
	<ul style="list-style-type: none"> <li>No explicit monitoring or supervising mechanism has been devised so far. The MER had suggested considering the ML/TF risks associated with the DNFBP sector to determine appropriate monitoring and compliance systems (MER, 2011). In 2023, the FinTRACA focused significantly on DNFBPs and conducted a comprehensive statistical survey in the country's Kabul and Balkh provinces to assess the sector and it is intended to cover other major cities. The survey provides valuable insight for future strategies to cover the sector and enhance its effectiveness (Annual Report, FinTRACA, 2023).</li> <li>The general provisions for penalties under AML-PC (2015) – Articles 50 to 54 and CFT (2014) – Articles 20 to 25 are applicable. However, no specific sanctions for DNFBPs exist.</li> </ul>		
Bangladesh	The regulatory authorities of the DNFBPs in the country are as below:		
	DNFBP	Regulatory Authority	
	Real estate developer	Rajdhani Unnayan Kartripakkha (RAJUK) i.e., the Capital Development Authority; Chattogram Development Authority (CDA), Khulna Development Authority (KDA), Sylhet Development Authority (SDA) - Ministry of Housing and Public Works; and all respective Local Government Authorities, National Housing Authority	
	Dealer in precious metals or stones	Local Administration, Local Government Authorities	
TCSPs	Ministry of Law, Justice and Parliamentary Affairs, Registrar of Joint Stock Companies and Firms		

Lawyer, notary, and other legal professionals	Ministry of Law, Justice and Parliamentary Affairs, Bangladesh Bar Council, Tax Bar Association
Accountants	The Institute of Chartered Accountants of Bangladesh (ICAB), The Institute of Cost and Management Accountants of Bangladesh (ICMAB)

Source: MER, 2016

- The AML/CFT regulation and supervision of the sector is undertaken by the BFIU(MER2016).
- The risk-based supervision manual of 2018 was implemented and onsite or offsite monitoring of DNFBPs was conducted based on their risk rating. However, no requirements exist for taking into account the adverse findings by a regulatory or supervisory body (FUR, 2020).
- SRBs (Self-Regulatory Bodies) must notify the BFIU of non-compliance or suspicious activities/transactions under MLPR Rule 33 (FUR, 2020). Sanctions may be imposed by the Bangladesh Bank for non-compliance under MLPA (2012). The bank is also authorised to undertake the requisite measures for preventing and identifying transactions for the commission of offences under the Anti-Terrorism Act (ATA), 2013 (MER, 2016)

India

DNFBP	Regulator/SRBs or Supervisors
Casinos	The Home Department, Goa The Tourism Department, Sikkim (FUR, 2013)
Real estate agents	RERA (Real Estate Regulatory Authority) of each state and union territory ( <a href="http://www.legalserviceindia.com">www.legalserviceindia.com</a> )
Dealers in precious metals and stones	<ul style="list-style-type: none"> <li>• The Directorate General of Audit - Central Board of Indirect Taxes and Customs (CBIC), regulator under the aegis of the Department of Revenue, Ministry of Finance (MOF) Government of India is empowered to issue AML/CFT guidelines</li> <li>• The FIU under the Department of Revenue, MOF is responsible for receiving, processing, analysing and disseminating information on suspicious transactions to enforcement agencies and foreign FIUs. All dealers must register themselves with the Director, FIU-IND for cash transactions exceeding INR 10 lakhs (AML &amp; CFT Guidelines, 2023).</li> </ul>
VDASPs and TCSPs	These are required to register with FIU-IND in the FINNET 2.0 portal and such registration is a pre-requisite to comply with the reporting obligations of PMLA ( <a href="http://www.fiuindia.gov.in">www.fiuindia.gov.in</a> ).
Professionals with certificates of practice from ICAI, ICSI and ICMAI	ICAI, ICSI, and ICMAI are the SRBs. The guidelines issued by FIU-IND assert the role of these SRBs in performing supervisory, advisory and/ or monitoring functions and cast obligations on AML/CFT/CPF such as conducting on-site and off-site supervision (AML/CFT Guidelines, 2023).

Regarding sanctions, section 13 of the PMLA deals with the powers of the Director to make inquiries or impose fines against defaulting reporting entities. It includes administrative sanctions like written warnings and revoking or suspension of license. The monetary penalty on the reporting entity or its designated director on the Board or its employees is a minimum of INR 10,000 and may extend to INR 1,00,000 for each failure. However, no civil or criminal proceeding shall lie against the reporting entities, its directors and employees for furnishing information. If non-compliance with submitting required information/documents was wilful or significant, the FIU-IND may impose penalties and fines. ([fiuindia.gov.in](http://fiuindia.gov.in)).



Maldives	<ul style="list-style-type: none"> <li>The AML/CFT compliance of reporting entities is supervised by the competent authorities responsible for their regulation or supervision and the FIU is responsible for receiving, analysing and disseminating information concerning ML/TF activities and crime proceeds. DNFBPs should not operate without prior registration by the respective competent authority (PML-FTA, 2014). Regulatory/supervisory authorities have been found to exist for the following DNFBPs:</li> </ul> <table border="1" data-bbox="231 414 1556 604"> <thead> <tr> <th>DNFBP</th> <th>Regulatory/supervisory authority</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td>Real Estate</td> <td>Ministry of Housing, Land, and Urban Development</td> <td>corporatemaldives.com</td> </tr> <tr> <td>Lawyers and notaries</td> <td>The Bar Council of the Maldives</td> <td>maldivesbarcouncil.org</td> </tr> <tr> <td>Accountants</td> <td>The Institute of Chartered Accountants of the Maldives</td> <td>camaldives.org</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Regulatory/supervisory authorities issue sanctions in the form of written warnings, orders to comply with specific instructions, barring employment within the sector, revocation of license and fine between 10,000 Maldivian Rufiyaa and 500,000 Maldivian Rufiyaa. The FIU too shall inform the relevant supervisory authority in case of non-compliance with the act by the reporting entities (PML-FTA, 2014).</li> </ul>	DNFBP	Regulatory/supervisory authority	Source	Real Estate	Ministry of Housing, Land, and Urban Development	corporatemaldives.com	Lawyers and notaries	The Bar Council of the Maldives	maldivesbarcouncil.org	Accountants	The Institute of Chartered Accountants of the Maldives	camaldives.org				
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Lawyers and notaries	The Bar Council of the Maldives	maldivesbarcouncil.org															
Accountants	The Institute of Chartered Accountants of the Maldives	camaldives.org															
Nepal	<p>Regulation and supervision of DNFBPs in the relevant sector for compliance with AML/CFT regulations is the responsibility of the regulatory authorities formed under the prevailing laws (Sections 7T(1), 7T(3) of ALPA). This encompasses the oversight of Targeted Financial Sanctions (TFS) obligations under section 29J(3) of ALPA. The country has designated a regulatory body as the AML/CFT supervisor (section 7T(2) ALPA) as follows:</p> <table border="1" data-bbox="223 1041 1556 1388"> <thead> <tr> <th>DNFBP</th> <th>Regulatory body/ Supervisor for AML/CFT</th> </tr> </thead> <tbody> <tr> <td>Casinos</td> <td>Ministry of Culture, Tourism and Civil Aviation (MoCTCA)</td> </tr> <tr> <td>Real estate agents</td> <td>Department of Land Management and Archive (DoLMA)</td> </tr> <tr> <td>Dealers in precious metals or stones</td> <td>Inland Revenue Department (IRD)</td> </tr> <tr> <td>Lawyers</td> <td>Nepal Bar Council (NBC)</td> </tr> <tr> <td>Notaries</td> <td>Nepal Notary Public Council (NNPC)</td> </tr> <tr> <td>Chartered accountants Registered Auditors</td> <td>Institute of Chartered Accountants of Nepal (ICAN)</td> </tr> <tr> <td>TCSPs</td> <td>Office of the Company Registrar (OCR)</td> </tr> </tbody> </table> <p>Source: MER, 2023</p> <p>However, risk-based supervision has not yet commenced across these DNFBP sectors except real estate (MER, 2023). Regarding sanctions, DNFBP supervisors are authorized to issue administrative sanctions for non-compliance with AML/CFT requirements. This includes a written warning, imposing restrictions on a financial institution or its transactions, and suspending or revoking a permit, license or registration under ALPA (MER, 2023). As per the AML/CFT guidelines for accountants, ICAN mentions going through the regular disciplinary process and considering the punishments imposed by the ML/TF legislation (<a href="http://en.ican.org.np">en.ican.org.np</a>).</p>	DNFBP	Regulatory body/ Supervisor for AML/CFT	Casinos	Ministry of Culture, Tourism and Civil Aviation (MoCTCA)	Real estate agents	Department of Land Management and Archive (DoLMA)	Dealers in precious metals or stones	Inland Revenue Department (IRD)	Lawyers	Nepal Bar Council (NBC)	Notaries	Nepal Notary Public Council (NNPC)	Chartered accountants Registered Auditors	Institute of Chartered Accountants of Nepal (ICAN)	TCSPs	Office of the Company Registrar (OCR)
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TCSPs	Office of the Company Registrar (OCR)																
Pakistan	<p>The revised AMLA designates AML/CT supervisory authorities and SRBs (Self-Regulatory Bodies) for DNFBPs and offers them considerable powers and functions to monitor compliance besides powers for licensing and registration of REs and imposing conditions to conduct any activities to prevent ML/TF and predicate offences (AMLA, 2020).</p> <table border="1" data-bbox="223 1904 1556 1937"> <thead> <tr> <th>DNFBP</th> <th>AML/CFT Supervisory Authorities and SRBs</th> <th>Source</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> </tr> </tbody> </table>	DNFBP	AML/CFT Supervisory Authorities and SRBs	Source													
DNFBP	AML/CFT Supervisory Authorities and SRBs	Source															

Real estate agents, including builders and real estate developers	Federal Board of Revenue (FBR)	FUR, 2022
Dealers in precious metals and precious stones, including jewellers and gem dealers	Federal Board of Revenue (FBR)	
Lawyers, Notaries	<ul style="list-style-type: none"> <li>• Pakistan Bar Council (PBC), Provincial Bar Councils and Islamabad Bar Council -SRBs</li> <li>• Ministry of Law and Justice (MoLJ)-Oversight Body for SRBs</li> </ul>	
Accountants	ICAP, ICMAP and FBR for non-ICAP and non-ICMAP accountants	
TCSPs	According to Pakistan authorities, there is no TCSP sector in the country.	MER, 2019

- Risk-based supervision was conducted for accountants, DPMS and real estate; and commenced for lawyers. Certain details of such supervision can be set as an example for other nations:

A. Offsite supervision of lawyers is based on 3 categories of lawyers, to be covered in 2 phases:

Category	Lawyers	Phases
Category I	Lawyers registered as intermediaries under the Intermediaries Registration Regulations (2017) issued in pursuance of the Companies Act, 2017(section455)	Phase I (population determination survey) is completed for these two categories of lawyers
Category II	Lawyers providing services to AMCs (Asset Management Companies)	
Category III	Other lawyers	Phase II (offsite monitoring questionnaire) is ongoing for this category of lawyer

B. For ICAP/ICMAP-supervised accountants, the supervision comprised identifying and analysing ML/TF risk at the sector and reporting firm levels. Offsite monitoring was completed. ICAP and ICMAP, respectively, completed onsite inspections for 19 and 8 firms. Both supervisors conducted thematic inspections covering medium—and low-risk-rated firms (FUR, 2022).

- The revised AMLA empowers the regulatory authorities to impose monetary and administrative sanctions, on reporting entities along with their directors, senior management and officers for AML/CFT non-compliance. Such provisions are also applicable under the AML/CFT Sanction Rules (FUR, 2021).

Sri Lanka

The regulators or SRBs of DNFBPs in Sri Lanka are stated as below:

DNFBP	Regulator/SRB
Casinos	None
Real estate agents	None
Dealers in precious metals and stones	National Gem and Jewellery Authority
Lawyers	Supreme Court/Bar Association of Sri Lanka
Notaries	Registrar General's Department

Accountants	Various professional accounting bodies – Institute of Chartered Accountants of Sri Lanka (ICASL), Chartered Institute of Management Accountants (CIMA), Association of Chartered Certified Accountants (ACCA), Institute of Certified Management Accountants of Sri Lanka (ICMASL), Association of Accounting Technicians of Sri Lanka (AAT)
TCSPs	Registrar of Companies

Source: MER, 2015

- Despite significant advancements in risk-based regulation and supervision of certain DNFBP sectors, casinos are not included in the framework of AML/CFT supervision or market entry fit and proper controls. The real estate agents are neither licensed nor registered and are also not subject to market entry fit and proper controls (FUR, 2019). Presently, the FIU is responsible for the AML/CFT supervision of the listed DNFBPs in the above table (FUR, 2021).
- Sanctions are available under the FTRA (MER, 2015) and the Sri Lankan FIU has also enhanced its enforcement actions (FUR, 2019).

From the above table, it has been observed that the assignment of SRBs for DNFBPs is overall done to a great extent in the six jurisdictions barring Maldives. The assignment of AML/CFT supervision differs too. For instance, in Nepal, Pakistan and Maldives the SRBs/competent authorities have considerable powers to supervise or monitor DNFBPs in AML/CFT compliance. In India, the FIU has asserted such a role in the case of accountants. The FIUs in Bangladesh and Sri Lanka undertake AML/CFT supervision. Afghanistan has no monitoring or supervision mechanisms for DNFBPs. Regarding sanctions, they are similar to a large extent in the case of administrative sanctions while monetary penalties differ from country to country.

v. ***Beneficial ownership of legal persons (R.24)***

**Table 2.15: Provisions regarding beneficial ownership of legal persons**

Country	Provisions
Afghanistan	A supervisory authority may require reporting entities to establish and maintain a centralized database consisting of information from main offices, branches and majority-owned subsidiaries on a national basis on the identity of beneficial owners (Article 16) (AML-PC, 2015).
Bangladesh	The MLPA and MLPR mandate reporting entities to collect and maintain beneficial ownership (BO) information. LEAs and the BFIU are authorised to obtain CDD information on BO of a customer of a reporting entity. However, due to the absence of requirements of registration for certain companies, supervision and oversight by the Registrar of Joint Stock Companies and Firms (RJSC), the collection of BO information is envisaged to be challenging (MER, 2016).
India	Under the Companies Act (2013), section 89(4) stipulates central government to make rules to provide for the manner of holding and disclosing BO and beneficial interests. Section 90 deals with the register of significant beneficial owners in a company. The previous definition of “beneficial owner” included the ownership of or right to more than 25% of the company’s shares, capital, or profits. This threshold of 25% has been lowered to 10%. The amendments require reporting entities: banks, other financial institutions, and businesses operating in the real estate and jewellery industries to gather data on each person or organization that has a 10% ownership in their clients ( <a href="http://www.india-briefing.com">www.india-briefing.com</a> ).
Maldives	Section 26 of the PML-FTA stipulated legal persons established in the Maldives to maintain adequate, accurate and current information on their beneficial ownership and control structure (PML-FTA, 2014).

Nepal	The sharing of BO information has been extended to legal persons. The companies are required to disclose BO information to registration-related bodies such as the Office of the Company Registrar (OCR) (FIU-Nepal Newsletter, 2024).
Pakistan	Companies must hold a register of their ultimate beneficial owners, record and update changes promptly, and provide this information to the registrar. Limited Liability Partnerships (LLPs) must capture and update BO information, and cooperative societies must obtain and provide BO information to the registrar (FUR, 2021).
Sri Lanka	Proposed amendments to the Companies Act, No. 7 of 2007 incorporating BO requirements for legal persons have been drafted and reviewed by the Attorney General (AG). The AG's comments are reviewed by stakeholders including the Registrar of Companies and the FIU (FUR, 2021).

From the above table, it can be inferred that the incorporation of BO requirements for legal persons is explicitly mentioned in India, Maldives, Nepal, Pakistan and Sri Lanka. Nevertheless, in Afghanistan, although reporting entities must maintain information on the identity of beneficial owners, there is no specific mention of the extension of BO requirements for legal persons. While in Bangladesh, the absence of requirements of registration for certain companies, supervision and oversight by the RJSC makes it difficult to collect BO information.

**vi. International cooperation (R.29,40)**

The level of international cooperation is considerably better in India, Sri Lanka, Nepal and Pakistan as compared to Afghanistan and Maldives. The FIU of India signed 49 MoUs with its foreign counterparts since 2008 as per the latest FIU-IND annual report 2022-23. The Sri Lankan FIU has entered into MOUs with 45 foreign counterparts for the sharing of information for intelligence purposes as of June 2024. Nepal has signed MoUs with a total of 18 foreign counterparts. In 2022-23, the FIU of Nepal received 5 requests from foreign counterparts, sent 14 requests, witnessed 4 spontaneous disclosures made from foreign counterparts and signed MoUs with FIU-Maldives and UAE-FIU (FIU-Nepal Annual Report, 2022-23). Pakistan witnessed the processing of 102 international cooperation requests in 2023. The FMU signed MOUs with counterpart FIUs of Japan, Indonesia and South Africa which marked a total of 18 MOUs. As per MER 2011, the Maldives Monetary Authority (MMA) had signed only 1 MoU. The Capital Market Development Authority (CMDA) of Maldives had no MoUs with its foreign counterparts. Nevertheless, the MMA signed various MoUs in recent years with its foreign counterparts - Japan Financial Intelligence Center (2023); Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia (between 2020 and 2022). In 2024, the CMDA and the Securities and Exchange Commission of Sri Lanka signed an MoU to foster collaboration and initiate measures against insider trading, market manipulation and other irregular and fraudulent practices in securities dealings. As in the case of Afghanistan, no comprehensive statistics were maintained by

FinTRACA on the number of requests made or received as per MER 2011. Although it exchanged 25 analytical reports with foreign counterparts FIUs in 2021, it comparatively requires enhanced international cooperation as there was no information exchange between FinTRACA and counterpart FIUs in 2022 and 2023.

### ***Global affiliations in the accounting sector***

CPA Afghanistan is affiliated with and is a member of the Confederation of Asia and Pacific Accountants (CAPA), the International Federation of Accountants (IFAC), and the Edinburg Group ([cpa.mof.gov.af](http://cpa.mof.gov.af)). In Bangladesh, the ICAB's global network includes the Certified Practising Accountant (CPA) Australia, the Chartered Institute of Public Finance and Accountancy (CIPFA), IFAC, International Financial Reporting Standards (IFRS), the International Accounting Standards Board, CAPA and Institute of Chartered Accountants in England and Wales (ICAEW) ([www.icab.org.bd](http://www.icab.org.bd)). ICMAB is a member of IFAC, CAPA, and SAFA and has a strategic partnership with CIPFA and CIMA ([icmab.gov.bd](http://icmab.gov.bd)).

In India, ICAI has MoUs with ICAEW, Chartered Professional Accountants (CPA) of Canada and mutual recognition agreements (MREs) with the Institute of Certified Public Accountants (CPA) in Ireland, South African Institute of Chartered Accountants, CPA Australia and Malaysian Institute of Certified Public Accountants ([cag.icai.org](http://cag.icai.org)). It is a founder member of SAFA, CAPA and IFAC ([en.wikipedia.org](http://en.wikipedia.org)). ICSI is associated with Corporate Governance Institute -London, Australia, New Zealand, Southern Africa, Zimbabwe, Canada, Hong Kong, Malaysia and Singapore; Corporate Secretaries International Association Limited headquartered in Hong Kong, Chartered Institute for Securities and Investment (CISI), International Corporate Governance Network (ICGN), International Valuation Standards Council headquartered in London, Malaysian Association of Company Secretaries and benchmarking Company Secretary course by UK ENIC (The UK National Information Centre) ([www.icsi.edu](http://www.icsi.edu)). ICAMAI also has an MoU with CISI, UK and the Association of Chartered Certified Accountants (ACCA) ([icmai.in](http://icmai.in)).

The Institute of Chartered Accountants, Maldives have MoUs with Asian-Oceanian Standard Setters Group, CIMA, ACCA and ICASL ([camaldives.org](http://camaldives.org)). ICAN has MoUs with ACCA, Chartered Accountants Australia and New Zealand, ICAI, CIPFA, Association of International Certified Professional Accountants, ICASL; member pathway agreement (MPE) with CPA Australia and MRE with ICAEW ([en.ican.org.np](http://en.ican.org.np)). In Pakistan, ICAP is a member of IFAC, CAPA, SAFA and Chartered Accountants Worldwide (CAW) ([icap.org.pk](http://icap.org.pk)). ICMAP is affiliated

with IFAC, CAPA, SAFA, IFRS Foundation, ICGN and UN Women ([www.icmainternational.com](http://www.icmainternational.com)). In Sri Lanka, ICASL is a member of IFAC, CAPA, SAFA and CAW; and shares agreements with ICAEW and CPA Australia ([www.casrilanka.com](http://www.casrilanka.com)). ICMASL has an international membership of IFAC, CAPA and SAFA; and MoUs with Deakin University (Australia), ACCA UK, All India Management Association (AIMA) India, CPA Canada, CPA Australia, ICMAB, ICMAP and ICMAI ([www.cma-srilanka.org](http://www.cma-srilanka.org)).

It is observed that India comparatively has a higher global affiliation which can be attributed not only to the existence of its three SRBs each for chartered accountants, company secretaries and cost and management accountants but also their active role in collaboration efforts. Afghanistan and Maldives comparatively have lesser affiliations, likely due to the smaller size of their accounting professions and economic conditions and the non-existence of members in Afghanistan. Nonetheless, there exists an extensive network of global affiliations in the accounting sector across South Asia that underscores the region's commitment to maintaining high standards of accounting and financial reporting. These affiliations facilitate the adoption of international standards and best practices that are crucial for enhancing the AML/CFT regime. By leveraging these established relationships, countries can seize opportunities for further collaboration, address challenges in the critical AML/CFT arena and undertake successful initiatives to combat ML/TF.

**vii. Role of relevant regulatory bodies and institutions in AML/CFT**

The following are some of the regulatory bodies and institutions, and their AML/CFT role across SAFA member nations.

**Afghanistan**

<b>Table 2.16: Role of relevant regulatory bodies and institutions in AML/CFT in Afghanistan</b>	
<b>Regulatory body/ Institution</b>	<b>Role in combating ML/TF</b>
Da Afghanistan Bank (DAB)	<p>It <i>grants licenses and supervises</i> banks, foreign exchange dealers, financial service providers and securities in addition to offering a secure and reliable payment system. The various departments under DAB aid in the fulfilment of its objective.</p> <p>E.g. <i>The Risk Management and Compliance Department</i> strives towards an ML risk-free banking system through assessment, diagnosis and analysis of operational risks, investment risks, information technology risks, regulatory risks, liquidity risks, payment system risks and credit risks of DAB.</p>

	<ul style="list-style-type: none"> <li>• It prepares risk mitigation plans and implements sanctions lists and relevant procedures and checklists in terms of transactions executed by DAB to protect it from money launderers and terrorism financiers.</li> <li>• It assesses and supervises risky situations in DAB, particularly in vulnerable areas; and undertakes time-bound programmes and awareness programs on risk mitigation.</li> </ul> <p>Similarly, <i>the Banking Supervision Directorate General</i> conducts annual comprehensive AML/CFT supervision, and special and follow-up supervisions to assure compliance with applicable terms and conditions (dab.gov.af).</p>
FinTRACA	<ul style="list-style-type: none"> <li>• It <i>receives, analyses and disseminates financial intelligence</i> to the Attorney General’s Office, LEAs, other relevant government bodies and foreign counterparts to aid in combating ML/TF.</li> <li>• It <i>provides strategic intelligence</i> including statistics, trends and typologies to increase awareness of the general public, financial institutions, foreign counterparts and government officials of ML/ TF trends in the country (www.fintraca.gov.af).</li> <li>• It organises <i>capacity-building programs</i> for effective AML/CFT compliance. In 2023, numerous <i>training programs</i> were delivered on topics such as AML/CFT laws and regulations, filing STRs/ LCTRs, implementation of international sanctions lists, understanding the red flags and indicators of ML/TF, the importance of FinTRACA Watch-List, introducing the new Hawala Reporting Portal and electronic reporting of suspicious transactions with a total of 1344 participants (Annual Report FinTRACA, 2023).</li> </ul>

## Bangladesh

<b>Regulatory body/ Institution</b>	<b>Role in combating ML/TF</b>
Anti-Corruption Commission (ACC)	It conducts enquiry into corruption, investigates and files cases and also determines the process of approval by the commission regarding such inquiry, investigation and filing of cases. One of its eight wings includes the money laundering wing. As of 2023, it has 10 completed enquiries out of 148 ongoing enquiries (acc.org.bd).
Bangladesh Bank (BB)	It is responsible for licensing, prudential regulation and oversight of banks, money changers, remitters and financial institutions. It conducts AML/CFT supervision and oversees fit and proper testing for market entry and governance (MER, 2016).
BFIU	<ul style="list-style-type: none"> <li>• It receives and analyses suspicious reports from banks and financial institutions. E.g. It received 14,106 suspicious reports comprising 9,769 STRs and 4,337 SARs in 2022-23.</li> <li>• It signs MoUs to exchange financial intelligence, produces financial intelligence and disseminates it to relevant investigating agencies for further action. E.g. BFIU has received 1075 requests for financial information from different LEAs and others and disseminated 1,071 by 30 June 2023.</li> </ul>

	<ul style="list-style-type: none"> <li>• It issues appropriate AML/CFT directives and guidance notes from time to time and conducts onsite and off-site supervision of REs.</li> <li>• It conducts AML/CFT training and creates public awareness. E.g. In 2023, a training session on AML/CFT investigation was held at Sylhet.</li> <li>• It collectively works with international organizations like FATF, APG, World Bank, IMF, ADB and UNODC on AML/CFT concerns.</li> <li>• It conducts periodical meetings with various regulators, SRBs as well as relevant agencies like the ACC, Bangladesh Police etc (BFIU Annual Report, 2022).</li> </ul>
Bangladesh Securities and Exchange Commission (BSEC)	<ul style="list-style-type: none"> <li>• It houses the AML/CFT wing and actively coordinates with the ACC, BFIU, Bangladesh Police and CID by sending information as per their request.</li> <li>• It conducts <i>system check inspection</i> on capital market institutions like stock dealers and brokers, and merchant banks.</li> <li>• It conducts AML/CFT training workshops, conferences and seminars. A seminar on '<i>trade-based money laundering in Bangladesh</i>' was organized for all the BSEC Assistant Directors and other employees equivalent to ninth grade and above. <i>CAMLCO of Capital Market Related Institutions Conference</i> (2022) was organized at the Dhaka Stock Exchange. A certificate course training workshop was held for authorised representatives on ML prevention (BSEC Annual Report, 2021).</li> </ul>
Insurance Development and Regulatory Authority (IDRA)	It undertakes AML/CFT supervisory responsibilities for the insurance sector. It conducts fit and proper tests, risk-based supervision and trainings, as well as raises awareness, and provides feedback and guidance to REs (MER,2016).
Central Intelligence Cell of the National Board of Revenue	It conducts investigations of money laundering cases related to <i>taxes</i> under the Prevention of Money Laundering (Amendment) Act, 2015 ( <a href="http://www.newagebd.net">www.newagebd.net</a> ). It oversees the effective enforcement of tax laws and identifies entities or individuals involved in such activities by: <ul style="list-style-type: none"> <li>• Detecting deviations and unreported income by monitoring taxpayers' assets and bank transactions.</li> <li>• Ensuring coordination with financial institutions and law enforcement agencies to gather information and safeguard compliance.</li> <li>• Identifying tax evasion or non-compliance patterns by analysing financial data through the use of advanced data mining tools (<a href="http://nbr.gov.bd">nbr.gov.bd</a>).</li> </ul>
Bangladesh Customs	<ul style="list-style-type: none"> <li>• The Customs is responsible for assessing and collecting duties-taxes, issuing release orders for <i>imported</i> goods and combating <i>trade-based money laundering</i>. It also has to assess and collect duties-taxes, and allow goods to be <i>exported</i> from the exporting country, and permit goods to be released.</li> <li>• The TBML guidelines suggest the National Board of Revenue (especially the Valuations and Audit unit), Bangladesh Customs and Bangladesh Banks to work towards assessing the value of the imported/exported goods and services. The customs as well as banks should be vigilant of the abnormal increase in the number and value of the letter of credit of a particular company or firm through a mutual information-sharing mechanism (<a href="http://www.bb.org.bd">www.bb.org.bd</a>).</li> </ul>



## India

<b>Table 2.18: Role of relevant regulatory bodies and institutions in AML/CFT in India</b>	
<b>Regulatory body/ Institution</b>	<b>Role in combating ML/TF</b>
Central Vigilance Commission (CVC)	<ul style="list-style-type: none"> <li>• It is mandated to combat corruption and ensure integrity in administration and public services by exercising superintendence over the vigilance administrations of the various central government ministries, departments or organisations; making investigations into any complaint received against any official under its jurisdiction and rendering advice to the central government.</li> <li>• It exercises superintendence over the functioning of the Delhi Special Police Establishment (CBI) as it relates to the investigation of offences under the Prevention of Corruption Act (1988) and the Code of Criminal Procedure (1973). It reviews the progress of investigations conducted by the CBI and the progress of applications pending with competent authorities for sanction of prosecution under the Corruption Act (<a href="http://cvc.gov.in">cvc.gov.in</a>).</li> </ul>
FIU-IND	<ul style="list-style-type: none"> <li>• It receives CTRs, CBWTRs, STRs etc. from various REs and analyses such information to uncover transaction patterns suggesting suspicion of ML or related crimes.</li> <li>• It exchanges information with national intelligence/LEAs, national regulatory authorities and foreign FIUs, thereby, collaborating and strengthening the national, regional and global network to combat ML and related crimes.</li> <li>• It establishes and maintains a national database based on reports received from REs.</li> <li>• It identifies, monitors and publishes statistics on key strategic areas ML/TF trends, typologies and developments (<a href="http://fiuindia.gov.in">fiuindia.gov.in</a>).</li> </ul>
The Reserve Bank of India (RBI)	<ul style="list-style-type: none"> <li>• It is empowered to <i>impose penalties</i> under various statutes applicable to the banking and financial sector. E.g. The Enforcement Department imposes monetary penalties for violations under the Prevention of Money Laundering Act (PMLA-2002).</li> <li>• To inhibit money laundering through the banking system, it issued KYC, AML and CFT <i>guidelines</i>. RBI ensures that banks carry out KYC exercises for their customers to establish their identity and report suspicious transactions to the FIU-IND (<a href="http://rbi.org.in">rbi.org.in</a>).</li> <li>• It provides regular <i>training</i> on AML/CFT to its staff in different departments (MER,2010).</li> </ul>
The Securities and Exchange Board of India (SEBI)	<ul style="list-style-type: none"> <li>• It oversees AML/CFT compliance in the securities market to ensure investor protection, market stability and counter market manipulation. Different departments under it aid in the fulfilment of its objective. E.g. The Corporate Finance Investigation Department carries out investigations on suspected diversion/misappropriation of funds, fraudulent related party transactions etc.</li> <li>• It functions under the overall guidance of CVC and undertakes preventive, punitive and surveillance and detection activities. It oversees complaints received from various sources against its</li> </ul>

	employees and conducts impartial, professional and time-bound investigations ( <a href="http://www.sebi.gov.in">www.sebi.gov.in</a> ).
Insurance Regulatory and Development Authority of India (IRDAI)	<ul style="list-style-type: none"> <li>• The AML/CFT guidelines to the insurance sector accentuate the importance of the customer due diligence processes, reporting obligations and record-keeping requirements as required under the PMLA. IRDAI monitors compliance with the guidelines through on-site and off-site processes.</li> <li>• Insurers were advised to apply the AML/CFT requirements based on their risk assessment of each of the product's profiles. IRDAI issued e-KYC guidelines and has updated them from time to time. 53 insurers were notified in 2020 to undertake Aadhaar Authentication service under PMLA (2002). It also issued a circular on "Video-Based Identification Process" in 2020.</li> <li>• It is part of the Working Group for NRA on AML/CFT constituted by the Department of Revenue and the Core Working Group constituted by the Department of Economic Affairs (FATF Cell) for implementing revised FATF recommendations. Further, it is actively associated with the Eurasian Group on Combating ML/TF.</li> <li>• It reports the insurance sector's preparedness against the applicable FATF recommendations to the concerned ministry (<a href="http://irdai.gov.in">irdai.gov.in</a>).</li> </ul>

## Maldives

<b>Regulatory body/ Institution</b>	<b>Role in combating ML/TF</b>
Anti-Corruption Commission (ACC)	It investigates all allegations of corruption, complaints or suspicion of corruption. As of 2023, 365 cases were evaluated in preliminary investigation and there was a total of 358 concluded cases for the year. It conducts research on corruption prevention and submits recommendations for improvement to relevant authorities concerning actions to be taken and also conducts seminars, workshops and other programs on prevention and prohibition of corruption to further public awareness and publish them. In 2023, 10 researches were conducted and there were a total of 2508 participants in awareness sessions (ACC Annual Report, 2023) ( <a href="http://acc.gov.mv">acc.gov.mv</a> ).
Maldives Monetary Authority (MMA)	<ul style="list-style-type: none"> <li>• Banks and Other Financial Institutions Division under MMA regulates and supervises the banking sector to ensure that banks operate prudently, protect depositors and maintain the stability of the banking system. It issues licenses to banks and oversees compliance with the Maldives Banking Act (2010). It also regulates and supervises non-bank financial institutions other than insurance service providers, payment service providers and financial institutions and services regulated by the Capital Market Development Authority.</li> <li>• The Insurance Division regulates and supervises the insurance sector in the Maldives. It issues licenses to insurance companies, their agents as well as brokerage companies (<a href="http://www.mma.gov.mv">www.mma.gov.mv</a>).</li> </ul>
FIU-MMA	<ul style="list-style-type: none"> <li>• It became an operationally independent unit mandated and formally established under the Prevention of Money Laundering and Financing</li> </ul>

	<p>of Terrorism Act (law no.10/2014) within the Maldives Monetary Authority (MMA). As a step towards obtaining Egmont membership, co-sponsors from the Egmont group to the Maldives conducted their final on-site assessment with the FIU during the last quarter of 2023.</p> <ul style="list-style-type: none"> <li>• Recently, various MoUs were signed. In 2023, an MoU was signed between the FIU-MMA and the Japan Financial Intelligence Center to strengthen cross-border cooperation for effectively curbing financial crime. Between 2020 and 2022, MoUs were signed with Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia (MMA annual report, 2023).</li> <li>• The FIU-MMA issued guidance on implementing preventive measures against proliferation and proliferation financing in 2017 (FIU-MMA Annual Report, 2020).</li> </ul>
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## Nepal

<b>Regulatory body/ Institution</b>	<b>Role in combating ML/TF</b>
Commission for the Investigation of Abuse of Authority (CIAA)	It is responsible for anti-corruption as the role of ombudsman, investigator and prosecutor of corruption cases and reasonably using FIU financial intelligence dissemination in corruption-related offences. It uses financial information from sources like the National Vigilance Centre to initiate cases (MER, 2023).
Nepal Rashtra Bank (NRB)	<ul style="list-style-type: none"> <li>• The Bank Supervision Department undertakes AML Supervision that includes offsite surveillance, onsite monitoring and risk profiling of bank. The Internal Audit Department investigates reported occurrences of fraud, embezzlement, theft, waste, and misappropriations as and when required.</li> <li>• It issues AML/CFT directives. E.g. In June 2024, AML/CFT directives were issued for the hire-purchase companies.</li> <li>• Under AML/CFT Reporting Format, NRB has provided an offsite data collection form and a bank self-assessment questionnaire on AML/CFT program (<a href="http://www.nrb.org.np">www.nrb.org.np</a>).</li> </ul>
FIU-Nepal	<ul style="list-style-type: none"> <li>• It receives and analyses information relevant to ML/TF/PF from REs. Reports are received in the form of STR/SARs and other information.</li> <li>• It receives details of currency and bearer negotiable instruments.</li> <li>• It disseminates intelligence on suspicious activities to the LEAs for further investigation and to the regulatory/supervisory authorities for regulatory actions. It requests and sends financial information to and from foreign FIUs for intelligence purposes via. EGMONT Group's Secure Web.</li> <li>• It provides guidance and feedback to the REs on reporting through its goAML system.</li> <li>• It conducts training, awareness and other outreach programs for its staff and other stakeholders to enhance knowledge and capacity to combat ML/TF/PF.</li> </ul>

	<ul style="list-style-type: none"> <li>• It imposes fines on REs for failure to submit reports/information to FIU within the specified time or breach of confidentiality (<a href="http://www.nrb.org.np">www.nrb.org.np</a>).</li> </ul>
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## Pakistan

<b>Table 2.21: Role of relevant regulatory bodies and institutions in AML/CFT in Pakistan</b>	
<b>Regulatory body/ institution</b>	<b>Role in combating ML/TF</b>
Federal Board of Revenue (FBR)	FBR Customs provide a source of revenue in the form of taxes levied on the goods traded across the borders. It safeguards the domestic industry, discourages consumption of luxury goods and stimulates development in the under-developed areas. It investigates ML and has internal prosecution services that prosecute ML and predicate crimes under its jurisdiction. FBR Inland Revenue probes matters of inland tax evasion alongside ML investigation (MER, 2019).
Financial Monitoring Unit (FMU)	<ul style="list-style-type: none"> <li>• It receives STR/CTRs from REs and analyses them. Further, confidentiality must be maintained during the dissemination of information to concerned investigating/prosecuting agencies for enquiry or other action. It creates and maintains a database of STR/CTRs and other related information.</li> <li>• It cooperates with foreign FIUs and makes reciprocal arrangements to exchange ML/TF related information. It strives to represent the country at all national and international organisations and groupings of FIUs, and forums that address ML/TF and related offences.</li> <li>• It requests feedback from investigating/prosecuting agencies in the form of statistics or periodic reports.</li> <li>• It frames regulations in consultation with the AML/CFT regulatory authorities to ensure receipt of STR/CTRs from REs with the approval of the National Executive Committee (<a href="http://www.fmu.gov.pk">www.fmu.gov.pk</a>).</li> </ul>
National Accountability Bureau (NAB)	Its role is to eradicate corruption, corrupt practices, abuse of power, wilful defaults, and recovery of proceeds of crime. It is primarily governed by the National Accountability Ordinance (1999). It investigates ML and has an internal prosecution service that prosecutes ML and predicates crimes under its jurisdiction (MER, 2019).
National Counter Terrorism Authority	Its primary role is TF policy formation and cooperation and coordination through the National Task Force on CFT and the TF Sub-committee of Task Force (MER,2019).
Securities and Exchange Commission of Pakistan	It is responsible for prudential and AML/CFT regulation and supervision of commodity brokers, securities brokers, non-bank financing companies, insurers, takaful operators and modarabas. It is the registrar of legal persons except for cooperatives (MER,2019).
State Bank of Pakistan	It undertakes prudential and AML/CFT regulation and supervision of banks, development financial institutions, microfinance banks and exchange companies (MER,2019). It presently adopts a risk-based supervisory approach. The Banking Supervision Department-1, Banking Supervision Department-2 and Banking Supervision Department-3 undertake supervisory

	activities through supervisory teams encompassing off-site supervision, on-site assessments and enforcement actions. The intensity of supervisory activities is commensurate with the risk profile of supervised institutions(www.sbp.org).
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## Sri Lanka

<b>Table 2.22: Role of relevant regulatory bodies and institutions in AML/CFT in Sri Lanka</b>	
<b>Regulatory body/ institution</b>	<b>Role in combating ML/TF</b>
Central Bank of Sri Lanka (CBSL)	It is responsible for undertaking much of the financial supervision and it houses the FIU. The Risk Management and Compliance Department monitors CBSL compliance with existing AML/CFT laws and conducts KYC/CDD reviews of foreign counterparties of CBSL in line with its AML/ CFT policy and global best practices (www.cbsl.gov.lk).
Commission to Investigate Allegations of Bribery or Corruption (CIABOC)	<ul style="list-style-type: none"> <li>• It conducts investigation and prosecution of acts of bribery or corruption.</li> <li>• It undertakes prevention and education programmes conducted by CIABOC officers. E.g. CIABOC and the Ministry of Education commenced long-term and short-term projects to educate upcoming generations. Short term projects include: October being declared as the anti-corruption month in all schools, creative competitions, introducing regulations to curb corruption in the school administration. Long-term projects include introducing anti-corruption measures to school syllabus, establishing integrity clubs in all schools etc. CIABOC has also commenced gathering opinions and suggestions to formulate the “National Anti-Corruption Action Plan (2025-2029)” to combat bribery and corruption in the country (ciaboc.gov.lk).</li> </ul>
FIU	<ul style="list-style-type: none"> <li>• It reviews and amends the relevant AML/CFT acts, rules and regulations aligned with present market developments and global best practices and coordinates the issuance of the same.</li> <li>• It addresses AML/CFT deficiencies identified in Mutual Evaluations and implements the National AML/CFT Policy and conducts ML/TF related legal tasks.</li> <li>• It disseminates financial intelligence to appropriate supervisory authorities and LEAs by conducting strategic and operational analysis.</li> <li>• It enhances risk-based AML/CFT supervision in financial institutions and DNFBPs to combat ML/TF and conducts LankaFIN operations and implementation of goAML, AML/CFT Reporting and Analysis system.</li> <li>• It implements provisions of the Targeted Financial Sanctions in UNSCRs and conducts awareness programmes for stakeholders including FIs, DNFBPs, LEAs and supervisory authorities.</li> <li>• It issues the FIU publications including the FIU Annual Report (www.cbsl.gov.lk).</li> </ul>
Securities and Exchange Commission of Sri Lanka	It regulates the activities of the capital market in Sri Lanka and also provides directions, conducts inspections and cancels licences of the sector. It approves global, regional and country funds to invest in the shares of companies listed on the Colombo Stock Exchange. Approvals are granted subject to compliance

	with Exchange Control Regulations, Prevention of Money Laundering Act (2006), Financial Transactions Reporting Act (2006) and the laws concerning securities (SEC Annual Report, 2023).
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To further strengthen their role in combating ML/TF, the study recommends leveraging professional accounting expertise by bringing professional accountants into mainstream operations with regulatory bodies and institutions. Professional accountants can bring specialised expertise in financial analysis and risk assessment, thereby, ensuring compliance and enabling regulatory authorities to better identify and mitigate ML/TF risks. They can specifically assist in:

- Tracking illicit transactions and identifying suspicious activities.
- Identifying and pinpointing issues related to International Accounting Standards and International Standards on Auditing to reduce the risk of financial misreporting and fraud.
- Evaluating the overall quality of financial reporting and disclosures.

Thus, the integrity and stability of the global financial system depend heavily on the role that pertinent regulatory bodies and institutions play in combating ML/TF. These organisations including FIUs, anti-corruption commissions, central banks and other regulatory bodies are tasked with creating and developing all-encompassing frameworks to detect, prevent and prosecute financial crimes. They maintain adherence to international standards by enforcing stringent regulations, conducting thorough investigations and fostering international collaboration, thereby mitigating ML/TF risks.

## Chapter 3: Best Practices in AML/CFT Compliance Regime

### 3. Best Practices in AML/CFT Compliance Regime

#### 3.1 Afghanistan

**Table 3.1: Best Practices in AML/CFT Compliance Regime of Afghanistan**

SL.No.	Best Practice	Category
I.	As per Article 11 of the CFT law (2014), the Afghanistan National Security Council or the office of the Attorney General should issue relevant regulations concerning target financial sanctions concerning proliferation financing (PF).	R.7
II.	Article 22 of the CFT law (2014) prescribes penalties for NPOs in the form of a minimum fine of AFN 50000 and not exceeding AFN 500000, a temporary ban for not more than 6 months and dissolution of the organisation.	R.8
III.	According to Article 22 (Power of Supervisory authority) of AML-PC (2015), the appropriate supervisory authority should develop and implement financial, fit and proper tests while approving those who own, control, and participate directly or indirectly in establishing, managing or operating the business of REs including their beneficial owners.	R.26
IV.	In 2023, FinTRACA received feedback on 25 cases that were disseminated to the law enforcement agencies: Supreme Court, NTEC-MOI, CID-MOI, General Directorate of Combating Terrorism – MOI, Directorate General of Intel and Countering Crimes -MOI and Non-Banking Supervision Department -DAB. The feedback revealed that most cases were still in detection, investigation, or judicial transfer processes, and only a few had been archived. On the contrary, one of the major challenges of FIU-Nepal is receiving feedback from LEAs on disseminated suspicious activity reports (SARs) or suspicious transaction reports (STRs). As such, this is one of the best practices in Afghanistan.	R.29, 30
V.	Money Service Provider Companies (MSPCOs) are required to report large cash transactions (LCTRs) to FinTRACA in compliance with Article 17 (AML-PC 2015) and Article 52 (MSPCOs Regulation). The threshold for reporting LCTRs (Hawala & exchange) is AFN 500,000 or its equivalent in other currencies. From 1-30 December 2023, FinTRACA <i>successfully converted MSPCO suspicious transaction reporting from manual to electronic in the central zone of the country</i> . The staff members of all MSPCOs in the central zone received training for the implementation of the process. FinTRACA intended to extend the process in the regional zones in 2024 (Annual Report FinTRACA, 2023).	R.14,15, 20,29
VI.	FinTRACA coordinated the 7th meeting of the High-Level Coordination Commission (HLCC) on 21 September 2023 to coordinate the efforts of the law enforcement agencies (LEAs) and other relevant government agencies for curbing financial crimes, including money laundering and the financing of terrorism, and supervise the application of the AML/CFT regime in the country ( <a href="mailto:mail.fintraca.gov.af">mail.fintraca.gov.af</a> ).	R.30
VII.	The FinTRACA publishes annual reports, statistics regarding the receipt of STRs and LCTRs, cash and BNI, dissemination, domestic requests and enforcements such as written warnings, revocation or suspension of business licenses and fines on its website and annual reports.	R.20,29,33
VIII.	The FinTRACA launched a new online reporting portal on 23 September 2023. It was designed to enable the collection of electronic exchange and hawala transactions simultaneously across different interfaces and enable companies to submit their hawala LCTRs, such as exchanges, to FinTRACA. Three languages have been established for the portal to ensure access across Afghanistan using computers, cell phones, and other smart devices. This development helps relevant government authorities and the MSP or Foreign exchange Dealer (FXD) sector carry out extensive transaction analysis in compliance with AML/CFT rules and prevent ML/TF risks (Annual Report FinTRACA, 2023).	R.15,20,29

IX.	The country has a surveillance tool called 'FinTRACA Watch-List'. The tool facilitates REs to implement enhanced due diligence (EDD) measures and identify high-risk subjects with irregularities and potential risks for money laundering and other predicate offences. The database was set up under legal powers designated to FinTRACA per Articles 32 and 24 of the AML-PC (2015). The list of high-risk subjects is regularly released by FinTRACA to REs (Annual Report FinTRACA, 2023).	R.10,29
X.	The FinTRACA organises capacity-building programs for effective AML/CFT compliance. In 2023, numerous training programs were delivered on topics such as AML/CFT laws and regulations, filing STRs/ LCTRs, implementation of international sanctions lists, understanding the red flags and indicators of ML/TF, the importance of FinTRACA Watch-List, introducing the new Hawala Reporting Portal and electronic reporting of suspicious transactions with a total of 1344 participants (Annual Report FinTRACA, 2023).	R.3,5,20,29

### 3.2 Bangladesh

**Table 3.2: Best Practices in AML/CFT Compliance Regime of Bangladesh**

SL.No.	Best Practice	Category
I.	To counter money laundering, the budget for fiscal year 2024-25 has proposed a 15% tax on black money. The step has been taken to integrate undisclosed income into the mainstream economy and enhance the flow of money into the banking system.	R.3
II.	BFIU published TBML guidelines, updated in 2021.	R.1,3,10,20,32
III.	In 2023, the BFIU released guidelines for Non-Bank Financial Institutions (NBFIs) to address the issues of money laundering and terrorism funding. These guidelines require NBFIs to develop separate regulations.	R.10,18,20,26
IV.	DSA 2018 was substituted by the CSA 2023 to assure cyber security and detect, prevent, suppress, or prosecute crimes committed through digital or electronic means. Cyberterrorism currently qualifies as an offence and is subject to a maximum sentence of 14 years in prison or a fine of BDT 10 million (\$90,900).	R.5,15,35
V.	Two training sessions have also been conducted on the prevention of TBML in 2024 by the Association of Anti-Money Laundering Compliance Officers of Banks in Bangladesh (AACOBB). The sessions introduced trade products, TBML trends and typologies, preventive measures, controls and best practices; and solving case studies.	R.3,32
VI.	The BFIU issued guidance notes for the prevention of terrorist financing and proliferation of weapons of mass destruction.	R.5,6,7

### 3.3 India

**Table 3.3: Best Practices in AML/CFT Compliance Regime of India**

SL.No.	Best Practice	Category
I.	The NGO Darpan portal maintained by NITI Aayog enables NGOs/voluntary organisations (VOs) to enrol centrally and obtain an NGO Darpan Unique ID that is mandatory for all entities seeking registration under the Foreign Contribution Regulation Act (FCRA), Prevention of Money Laundering (Maintenance of Records) Amendment Rules, Income Tax Act and for seeking government grants. To strengthen the services of the portal, govt decided to make PAN number mandatory for VOs/NGOs. 2,40,429 NGOs are enrolled and 89 VOs/NGOs are blacklisted as of 11 Aug 2024 in the portal. Such initiative acts as a catalyst for the registration of NPOs.	R.8
II.	Foreign contributions cannot be transferred to another person or organisation until they are registered to accept such contributions. NGOs must furnish details of movable and	R.8



	immovable assets created using foreign contributions on an annual basis. A new form 'FC-4' was introduced to list the value of movable assets at the beginning and end of the year and land and building details acquired from foreign contributions.	
III.	A guidance note for NPOs and donors to combat the financing of terrorism was published on the website of NGO Darpan in 2023 (Guidance Note, 2023).	R.8
IV.	Virtual Asset Service Providers (VASPs) have been brought under the ambit of the Prevention of Money Laundering Act (PMLA). AML/CFT Guidelines for VASPs were issued by the FIU in March 2023. As per these guidelines, registration with the FIU-IND is a prerequisite for compliance with reporting obligations under PMLA. The registration has to be done via. FINNET 2.0.	R.15
V.	As per the master circulars issued by the IRDAI and the SEBI, the internal audit function should be independent, adequately resourced and aligned with the size of the business and operations, organization structure, number of clients and other such factors.	R.18
VI.	<ul style="list-style-type: none"> <li>The scope of DNFBPs has been widened by bringing CAs, CS, CWS and TCSPs under the ambit of PMLA 2002.</li> <li>The FIU issued AML/CFT guidelines for professionals with certificates of practice from the ICAI, ICSI and ICMAI. The registration of the TCSPs with the FIU is a prerequisite for compliance with reporting obligations under PMLA. The registration will be done via. FINNET 2.0.</li> </ul>	R.22,23,34
VII.	FPAC (FIU-India Initiative for Partnership in AML/CFT) was launched in 2022 in PPP (public-private partnership) mode. It aims to enhance collaboration between FIU-IND and other stakeholders in the AML/CFT arena by facilitating information exchange on best practices, emerging trends or technologies, and discussions on the filing, collection and dissemination of financial intelligence. The group's convenor is the FIU-IND, permanent invitees are the Reserve Bank of India (RBI) and 66 REs, and special invitees are 5 entities/statutory bodies (FPAC, 2022).	R.2,15, 20,29
VIII.	<p>The Alliance of Reporting Entities in India for AML/CFT (ARIFAC) is a first-of-its-kind, private-private partnership among REs across several sectors such as banks, non-banking financial companies, payment aggregators, prepaid payment instrument providers, National Payments Corporation of India (NPCI) and virtual digital asset service providers. At its inaugural conference on 4 August 2023, 80 REs joined as members and its membership was expected to expand further. Its objectives are:</p> <ul style="list-style-type: none"> <li>To provide an information-sharing platform by FIU-IND, wherein Res can share strategic and tactical information, regulatory matters, other emerging issues etc.</li> <li>To develop knowledge products in the form of best practices papers, typology reports etc.</li> <li>To undertake training programmes for REs and personnel working in the AML/CFT domain at levels other than that of Principal Officers.</li> <li>To create awareness and standardization in certifications in the AML/CFT arena (ARIFAC, 2023).</li> </ul>	R.2, 29
IX.	<ul style="list-style-type: none"> <li>In the 3<sup>rd</sup> ARIFAC meeting on 24 July 2024, the joint director of FIU updated that FIU-IND is in the process of guiding the filing of defensive STRs.</li> <li>According to the latest FIU-IND annual report (2022-23), the Strategic Analysis Lab (SAL) established as part of the FINNET2.0 project in 2021 conducted more than 35 studies such as CTR, STR, CBWTR, CCR trend analysis; research analysis and typology reports like risks associated with online gaming and gambling in India, cybercrime and its data analysis and the study of virtual digital assets.</li> </ul>	R.20,15,29
X.	FIU-IND Personal Hearing Policy was established to further streamline the adjudicatory functions of the Director, FIU-IND under Section 13 of the PMLA. A reporting entity that	R.29

	was issued a show cause notice may request a personal hearing before Director. The decision to grant a personal hearing remains under the sole discretion of the Director. Personal hearings may be conducted in person or through video conferencing. This policy acts as a guide to promote accountability, consistency and transparency.	
XI.	<ul style="list-style-type: none"> <li>• FIU-IND initiated project FINNET (Financial Intelligence Network) in 2007 to adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes. FINNET2.0 was established by incorporating artificial intelligence and machine learning tools to check ML/TF crimes. It comprises 3 systems – <ol style="list-style-type: none"> <li>1. FINGATE (collection and pre-processing system) -The portal 2.0 includes reporting formats such as CTR for NBFC, CBWTR for casinos, banks; STR for banks, brokerage, exchange houses, NBFC, payment aggregators and so on.</li> <li>2. FINCORE (processing and analysis system) - It generates summaries and shares STRs with law enforcement agencies based on risk profiles for effective investigations.</li> <li>3. FINNEX (dissemination system) – This portal has been upgraded to FINNEX2.0 for law enforcement agencies using state-of-the-art technologies with enhanced functionalities.</li> </ol> </li> <li>• A unified communication cell (UCC) has also been established to enhance support to FINNET 2.0 users.</li> <li>• Learning Management System (LMS) - ‘Prajnavardhanam’, an FIU Learning Hub was established in 2021. There are multiple e-courses hosted on the LMS platform and regular online as well as offline sessions are conducted with various stakeholders on FINNET 2.0 functionalities.</li> </ul>	R.29,15

### 3.4 Maldives

**Table 3.4: Best Practices in AML/CFT Compliance Regime of Maldives**

SL.No.	Best Practice	Category
I.	The current National Action Plan on Preventing and Countering Violent Extremism 2020-2024 lays out the ways of preventing violent extremism over the five years. It aims to operationalise the 2017 National Strategy on Preventing and Countering Violent Extremism (P/CVE) strategy to address the pull and push factors that led people to violent extremism. One of its principles includes collaboration among individuals, communities and institutions through a ‘whole of government’, ‘whole of society’ approach to ensure effectiveness, inclusion and coordination. It is the sole country out of the seven, to establish a policy on violent extremism and hence, it is one of the best practices.	R.2
II.	Section 23 of the PML-FTA delves into adequate monitoring of NPOs that receive or transfer money, by the Ministry of Home Affairs. The ministry shall prescribe rules for ensuring that non-profit organizations are not misused for the financing of terrorism.	R.8
III.	On 31 October 2022, the Ministry of Economic Development and Trade announced that all documents issued by the ministry to Registered Businesses would be issued electronically only instead of the previously used manual system of maintaining information on beneficial ownership and control of legal persons.	R.24,15
IV.	The 2015 regulation on cross-border cash declaration was amended in 2021 to address the deficiency. As per the amended regulation, the prescribed threshold is 10,000 US\$ or its equivalent in Maldivian Rufiyaa or foreign currency	R.32

V.	<ul style="list-style-type: none"> <li>MMA signed various MoUs in recent years with its foreign counterparts. In 2023, an MoU was signed between the FIU-MMA and the Japan Financial Intelligence Center to strengthen cross-border cooperation for effectively curbing financial crime. Between 2020 and 2022, MoUs were signed with Australian FIU (AUSTRAC), the Financial Intelligence Centre of Bhutan, FIU-Nepal, FIU-Philippines and FIU-Slovenia.</li> <li>On 21 July 2024, the CMDA and the Securities and Exchange Commission of Sri Lanka signed an MoU to foster collaboration on the discovery of and take action against insider dealing, market manipulation and other irregular and fraudulent practices in securities dealings concerning companies listed on the Colombo Stock Exchange (CSE)</li> </ul>	R.40
VI.	Maldives uses the Personal Identification Secure Comparison and Evaluation System (PISCES) to provide traveller screening and screening list capability. The PISCES is a border control system that enhances a country's border security capabilities. The Maldives installed it at its main international airport and the Male seaport. The Maldivian Police Service (MPS) interrogated Maldivian citizens flying to Turkey to slow down the number of Maldivians travelling to Iraq and Syria to join terrorist organisations (Country Reports on Terrorism, 2016).	R.5,6,10
VII.	The FIU-MMA issued guidance on implementing preventive measures against proliferation and proliferation financing in 2017. It covers the definitions of proliferation and proliferation financing and ways of targeting them, the existence of such offences in the country, examples of barriers in identifying such financing, risks relevant to formulating a proliferation-focused risk assessment (geographical/customer/products and service risks), EDD measures, freezing of funds, sanctions and examples of red flag indicators (PF Guidance, 2017).	R.5,6
VIII.	Besides establishing a guidance paper on PEP, the FIU-MMA launched a non-comprehensive PEP database to aid REs in the maintenance of their own exhaustive PEP list (FIU-MMA Annual Report, 2020).	R.12
IX.	Section 77(c) under the PML-FTA includes auditors and tax advisors as DNFBPs besides independent accountants (PML-FTA, 2014).	R.22

### 3.5 Nepal

**Table 3.5: Best Practices in AML/CFT Compliance Regime of Nepal**

SL.No.	Best Practice	Category
I.	<ul style="list-style-type: none"> <li>As per section 7P of ALPA, the institutional risk assessment must be revised and translated into plans, policies or procedures at least annually and presented to the regulator.</li> <li>Section 35 of ALPA mandates that government and REs should conduct risk assessments on an annual basis and implement risk-based plans, policies, and actions.</li> </ul>	R1
II.	The National AML/CFT report should be presented in the parliament annually according to section 44H of ALPA.	R.2
III.	The country criminalised hundi under section 125A of the National Penal Code, human smuggling under the Human Trafficking and Smuggling (Control) Act, piracy under the Ship Registration Act and terrorist activities under the National Penal Code (Chapter 7A).	R.3
IV.	Nepal has criminalised foreign terrorist fighters under section 4 of ALPA.	R.5
V.	<ul style="list-style-type: none"> <li>Nepal has criminalised virtual currency under section 262A of the National Penal Code 2017 (Chapter 22).</li> <li>The Ministry of Communication and Information Technology released the draft Information Technology and Cyber Security Bill on 10 March 2024 to regulate the activities of information technology and cyber security.</li> </ul>	R.15

VI.	According to sections 35E, 35F and 35G of ALPA, the Nepal-FIU shall approve an independent auditor for AML/CFT. The AML/CFT Audit shall be conducted for Banks and Financial Institutions (BFIs), brokers, casinos, cooperatives, insurance companies, merchant banks, real estate businesses and other specified companies.	R.18,23,29
VII.	<ul style="list-style-type: none"> <li>The Tourism Act has incorporated the licensing, regulation, and supervision of casinos with criminal offences. The amendment shall help to address the casino sector's medium-high vulnerability.</li> <li>The Land Revenue Act shall deal with the licensing, regulation and supervision of real estate with criminal offences, involving a certain sector whose transactions exceed a specified sum or cover more than a specified area.</li> <li>The country considers registered auditors as a DNFBP besides accountants (MER, 2023).</li> </ul>	R.22
VIII.	<ul style="list-style-type: none"> <li>Section 5 (Functions, Duties and Powers of NRB) of the NRB Act was amended to include the issuance of standards and directives for regulation, monitoring and supervision of financial cooperatives. However, such oversight would be at the request of the DeoC and for the cooperatives with share capital or annual transactions exceeding NRP 500 million. The NRB Act also prescribes fines (section 99) and punishment under a new section 100A in addition to the existing penalties in the Cooperatives Act.</li> <li>The NRB introduced the AML/CFT directives for hire purchase companies on 3 June 2024. They specified aspects such as CDD, Enhanced CDD, reporting threshold transactions, and suspicious transactions via goAML software.</li> </ul>	R.10,20,26
IX.	According to Chapter 4 of the ALPA, employees from various law enforcement agencies (LEAs), regulatory bodies or other relevant entities can be deployed at the FIU.	R.2,29
X.	The auditors have been designated as REs for the sole purpose of reporting suspicious transactions. Further, it has added the accountants who provide taxation, financial, business consultancies or advisory services in the organisation of contributions for the creation, operation or management of companies (c.22.1(d)(iv) to constitute REs.	R.20,22,23
XI.	Equity funds, hire purchase loan providers, investment companies, vehicle selling companies and venture capitals are additional inclusions as REs.	Inclusion of REs
XII.	The sharing of beneficial ownership (BO) information has been extended to legal persons. The companies are required to disclose BO information to registration-related bodies such as the Office of the Company Registrar (OCR). In case of non-declaration or false declaration of information, there shall be civil confiscation of properties and a levy of fines. These are under sections 35A, 35B and 35C of ALPA (amended 2024) (FIU-Nepal Newsletter, 2024). The amendment shall enable service providers like accountants too to access such information.	R.22,24-PC, R,4-LC

### 3.6 Pakistan

**Table 3.6: Best Practices in AML/CFT Compliance Regime of Pakistan**

SL.No.	Best Practice	Category
I.	In 2023, the financial monitoring unit (FMU) conducted a strategic analysis and issued a guidance document on ML/TF risks associated with hawala/hundi.	R.2
II.	Anti-Money Laundering (Forfeited Properties Management) rules, 2021 were developed including elements like: <ul style="list-style-type: none"> <li>Establishment of a central asset recovery office by each investigating or prosecuting agency to ensure asset recovery and manage forfeited properties</li> <li>Disclosure of information on properties to other stakeholders for expeditious confiscation and forfeiture of properties.</li> </ul>	R.4
III.	A detailed assessment of TF threats was carried out in the 2023 NRA process. Out of the total of 87 terrorist organisations that were assessed, 78 were proscribed terrorist	R.5

	organisations and the rest were non-proscribed and UN-listed entities. 41 terrorist organisations were active in Pakistan with varying degrees of operations and the remaining were either dismantled, merged into other organisations or inactive for a long period.												
IV.	<ul style="list-style-type: none"> <li>To facilitate prompt STR filing, the FMU via circular no.1 of 2022, devised “Typologies and Red Flags for Financing and Facilitation of Foreign Terrorist Fighters and Returnees in Southeast Asia” for REs. Nepal which has criminalised foreign terrorist fighters can adopt this approach.</li> <li>The FMU issued National Risk Assessment guidelines for REs on suspicious transactions to improve the STR reporting regime to align with the results of NRA 2023.</li> <li>A new type of STR was introduced by FMU in 2023 named “STR-T” which delves into all elements of the Trade Based Money Laundering (TBML).</li> </ul>	R.20											
V.	The requirements of R.23 are supported by the AML/CFT guide for accountants developed by the ICAP in 2018. The guide has stated the red flags to be considered by the practising firms and further provided details of the red flags by categorising them into country or geographic risk, client risk, product, service or delivery method risk and other risk factors. Appendix C has attached the STR forms along with filing guidance notes and red flag indicators (AML/CFT Guide for Accountants, 2018). As the guide has been prepared by the accountant body itself, it showcases the country’s commitment towards strengthening the role of accountants in AML/CFT systems and hence one of the best practices.	R.23											
VI.	The FMU conducted six strategic analyses in 2023. Five of them were conducted on ML/TF risks in regards to hundi, frequent foreign remittances -UAE, Afghan nationals/refugees/migrants in Pakistan, branchless banking sector and NPOs; while the sixth one was on proscribed individuals linked with extremist or organised crime. In 2023, the FMU provided 877 reports to requesting stakeholders concerning 54,354 parties, including individuals, entities and accounts.	R.8,3,29											
VII.	The year 2023 witnessed the processing of 102 international cooperation requests. The FMU signed MOUs with counterpart FIUs of Japan, Indonesia and South Africa which marks a total of 18 MOUs.	R.40											
VIII.	<ul style="list-style-type: none"> <li>Risk-based supervision was conducted for accountants, DPMS and real estate; and commenced for lawyers. Certain details of such supervision can be set as an example for other nations:</li> </ul> <p>A. Offsite supervision of lawyers is based on 3 categories of lawyers, to be covered in 2 phases:</p> <table border="1" data-bbox="204 1601 1348 1975"> <thead> <tr> <th>Category</th> <th>Lawyers</th> <th>Phases</th> </tr> </thead> <tbody> <tr> <td>Category I</td> <td>Lawyers registered as intermediaries under the Intermediaries Registration Regulations (2017) issued in pursuance of the Companies Act, 2017(section455)</td> <td rowspan="2">Phase I (population determination survey) is completed for these two categories of lawyers</td> </tr> <tr> <td>Category II</td> <td>Lawyers providing services to AMCs (Asset Management Companies)</td> </tr> <tr> <td>Category III</td> <td>Other lawyers</td> <td>Phase II (offsite monitoring questionnaire) is ongoing for this category of lawyer</td> </tr> </tbody> </table>	Category	Lawyers	Phases	Category I	Lawyers registered as intermediaries under the Intermediaries Registration Regulations (2017) issued in pursuance of the Companies Act, 2017(section455)	Phase I (population determination survey) is completed for these two categories of lawyers	Category II	Lawyers providing services to AMCs (Asset Management Companies)	Category III	Other lawyers	Phase II (offsite monitoring questionnaire) is ongoing for this category of lawyer	R.28
Category	Lawyers	Phases											
Category I	Lawyers registered as intermediaries under the Intermediaries Registration Regulations (2017) issued in pursuance of the Companies Act, 2017(section455)	Phase I (population determination survey) is completed for these two categories of lawyers											
Category II	Lawyers providing services to AMCs (Asset Management Companies)												
Category III	Other lawyers	Phase II (offsite monitoring questionnaire) is ongoing for this category of lawyer											

B. For ICAP/ICMAP-supervised accountants, the supervision comprised identifying and analysing ML/TF risk at the sector and reporting firm levels. Offsite monitoring was completed. ICAP and ICMAP, respectively, completed onsite inspections for 19 and 8 firms. Both supervisors conducted thematic inspections covering medium—and low-risk-rated firms (FUR, 2022).

### 3.7 Sri Lanka

**Table 3.7: Best Practices in AML/CFT Compliance Regime of Sri Lanka**

SL.No.	Best Practice	Category
I.	The country developed the 2 <sup>nd</sup> National AML/CFT Policy (2023-2028) based on the results of the 2021-22 National Risk Assessment (NRA) thus, updating the previous policy of 2015-2020. The overall risk level of money laundering and terrorist financing was assessed as medium.	R.2
II.	In 2017, the Inland Revenue Act was amended to introduce tax evasion as an offence with strong and dissuasive penalties.	R.3
III.	<ul style="list-style-type: none"> <li>All international and national-level foreign-funded NGOs must re-register under the National Secretariat for NGOs. The guideline further calls for monitoring and reporting any NGO not registered, or registered with other institutions like the District Secretariat or the Divisional Secretariat.</li> <li>A circular issued by the FIU on 23 May 2019 asserted the conduct of enhanced CDD measures while entering into a relationship with an NGO, NPO or charity to ensure that their accounts are used for lawful intentions and transactions align with the stated objectives and purposes.</li> </ul>	R.8,10
IV.	Sri Lanka is the sole country among the seven to issue AML/CFT directives for all the DNFBPs - law and notaries (2023), accountants and TCSPs (2020); casinos, gambling houses, dealers in real estate, precious metals, precious and semi-precious stones (2018) ( <a href="http://fiusrilanka.gov.lk">fiusrilanka.gov.lk</a> ).	R.23
V.	<ul style="list-style-type: none"> <li>The guidelines for accountants have stated the red flags by categorising them into client and client behaviour; product, service or delivery method risk and country/geographic risk (annexure IV), case studies as examples of ML/TF through accountants (annexure V) and STR format in annexure VI (Guidelines, 2020). Out of the specific red flags for the accounting sector issued by Afghanistan, India, Nepal, Pakistan and Sri Lanka; the country listing them comparatively in a comprehensive manner along with case studies as examples of ML/TF through accountants is Sri Lanka.</li> <li>Concerning auditors, service providers must be aware that an auditor has an obligation under the FTRA to submit an STR in case of suspicion of ML/TF transaction (s) during the course of performing the audit (Guidelines, 2020).</li> </ul>	R.20,23
VI.	The comprehensive disclosure of cash and EFT transactions and STR have now been upgraded to an online reporting system. Reporting institutions are required to submit cash and EFT transaction details to the FIU if they exceed Rupees 1 million (or equivalent foreign currency) under section 6 of the FTRA as well as STR (as per section 7 of the FTRA) through the goAML system at <a href="http://GoAML Home (cbsl.lk)">GoAML Home (cbsl.lk)</a> .	R.20,29
VII.	The FIU issued guideline no.02/2021 for financial institutions recommending them to install a strong closed-circuit television (CCTV) system that is completely functional on both the interior and exterior of the business premises. Business premises imply head offices, branches, areas of ATMs, cash deposit or cash recycling machines; or any place where the conduct of customer due diligence (CDD) takes place. Such measures should be adopted as	R.18

	part of internal controls, policies and procedures for efficient ML/TF risk control and mitigation.	
VIII.	The FIU collected a total of Rs.17 million administrative penalties from September 2023-April 2024 (Rs.14 million from 27 September-31 December 2023 and Rs.3 million from 1 January -30 April 2024) for compliance lapses to the FTRA provisions and CDD rules.	R.35
IX.	<ul style="list-style-type: none"> <li>• The new Anti-Corruption Act, No. 9 of 2023 has authorised the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) to disclose relevant information to any investigation with any local law enforcement or other Government authority. Through this, the Sri Lankan FIU signed an MOU with the CIABOC to exchange information on investigations and prosecutions of money laundering, bribery, corruption and other related offences.</li> <li>• The FIU signed an MOU with the Financial Intelligence National Center of the Kingdom of Bahrain (FINC-Bahrain) to exchange financial intelligence related to ML and associated predicate offences and TF. With the signing of this MOU, the Sri Lankan FIU has entered into MOUs with 45 foreign counterparts for the sharing of information for intelligence purposes.</li> </ul>	R.40

## Chapter 4: Role and responsibilities of Accountants in identifying and mitigating ML and TF risks

### 4.1 Introduction

The prevention of ML/TF risks is paramount for financial institutions, governments and regulatory bodies in an ever-growing interconnected global economy. As gatekeepers of financial integrity, accountants are at the vanguard of this battle, ensuring that financial transactions are transparent and compliant with regulatory standards. In day-to-day operations, professional accountants serve as AML front liners by reporting suspicious activities based on their professional judgment (Ravenda et al., 2019).

The wide array of services offered by accountants to their diverse range of clients is often vulnerable to being used as a conduit for ML/TF. The table 4.1 highlights some of such services:

<b>Table 4.1: Vulnerable Accounting Services Acting as a Conduit to ML/TF</b>
<i>Financial &amp; tax advice</i> – used by criminals to obscure assets and avoid future liabilities
<i>Formation of company/trust</i> – utilized to disguise links between crime proceeds and perpetrators, and conceal beneficial ownership
<i>Buying/selling of properties</i> – to mask illegal transfer of funds
<i>Facilitating financial transactions on behalf of criminals</i> e.g. Cash deposits/withdrawals, stock purchase/sale, sending/receiving international fund transfers etc.
Maintenance of <i>incomplete client records</i> . Further, preparing, auditing, and reviewing financial statements that are prone to misuse by criminals without proper regulatory oversight.
<i>Usage of nominee shareholders by criminals</i> to obscure the true ownership of assets
Accountants may be used to <i>legitimize falsified accounts</i> to conceal criminal funds e.g. facilitating tax evasion

*Source: Compiled from “FATF (2019), Risk-based Approach for the Accounting Profession”*

Given the dynamism of financial crimes and the growing complexity of ML/TF schemes, it is crucial to comprehend the role of accountants in this context. Accountants implement the most suitable mitigation measures by identifying, assessing and comprehending ML/TF risks to which they are exposed. They must be aware that ML/TF is a real and severe issue to avoid inadvertently aiding in or encouraging it (FATF, 2019). As such, preventive measures including CDD, reporting suspicious activities, record-keeping, identification and risk management of PEPs and beneficial owners, prohibition against tipping off and reliance on third parties should be undertaken.



## 4.2 Purpose

The present chapter in the study aimed to explore accountants' roles and responsibilities in identifying and mitigating ML/TF risks by understanding the required skills, reporting procedures, successful initiatives, best practices, and valuable recommendations to bolster the AML/CFT regime in the region.

## 4.3 Methodology

The objective was to gain valuable insights and primarily integrate the perspectives of CAs, CMAs, and CSs through primary data. The data collection employed a structured questionnaire, developed following a comprehensive review of the existing literature. The questionnaire was refined through its subsequent circulation for feedback and review from the SAFA committee on AML, ensuring the content was relevant and methodologically sound. The finalised questionnaire was administered via. online platform (Google form) with a formal request to SAFA for its dissemination to the member nations. This approach facilitated broader participation across diverse professional backgrounds and cross-country representation.

### 4.3.1 Questionnaire structure

The questionnaire encompassed two primary sections. The first section pertained to the respondent's demographic profile comprising questions on name, gender, age, profession, highest educational qualification, experience, present designation and country of practice.

The second section, comprising 11 questions sought to understand AML/CFT perspectives and practices with both open-ended and close-ended questions.

- Questions 1 and 2 were designed using a seven-point Likert scale. The first question assessed respondents' perceptions regarding seven statements about the role of accountants in managing ML/TF risks, and the second question pertained to skills for enhancing accountants' effectiveness in AML/CFT. For Question 1, the scale was constructed with 1 representing 'strongly disagree' and 7 representing 'strongly agree.' However, for Question 2, the scale was designed with 1 indicating 'extremely important' and 7 indicating 'not at all important.' To ensure consistency in the analysis of Question 2, reverse coding was applied, whereby higher scores correspond to greater importance. This adjustment allows for easier interpretation of the data and ensures that the analysis aligns with the intended meaning of the responses.

- Questions 3,4,6,8,9 and 11 presented multiple response options, allowing respondents to select more than one option where applicable. The questions pertained to the methods for detecting suspicious activities, ML/TF reporting, AML/CFT training, suggestions to improve accountants' role in AML/CFT, successful AML initiatives and best practices for improving collaboration between accountants and other professionals for mitigating ML/TF risk.
- Questions 5,7 and 10 were open-ended to glean qualitative insights focusing on standard formats or methods used for reporting suspicious transactions, specifics of training programs and AML initiatives led by the professionals.

#### **4.3.2 Sampling and sample size**

A total of 104 responses were obtained through Google form from the six SAFA member countries: Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka. No responses were received from Afghanistan due to the lack of representative members in the country.

To ensure a high response rate and maintain ethical integrity, the survey included a detailed statement/questions outlining the research objective, assurance of confidentiality of individual information and declaration of the academic nature of the study. The status of responses was regularly updated to the SAFA Secretariat. Accordingly, periodic reminder emails were sent to sustain participant interest and improve response rates.

Normality test was conducted using the Kolmogorov-Smirnov and Shapiro-Wilk tests which revealed  $p$ -values below 0.01 for both the role of accountants in managing ML and TF risks and requisite skills. It unfolded a significant deviation from normal distribution and confirmed the non-normality of the data. Consequently, non-parametric tests were employed to appropriately analyse the dataset.

The reliability of the various elements in the questionnaire was observed by testing key reliability statistics Cronbach's alpha for measuring internal consistency between elements. The result revealed  $\alpha = 0.917$ , indicating a high level of reliability. This result revealed that the items within the questionnaire consistently measured the intended constructs, thereby supporting the robustness of the instrument used for data collection.

The methodology employed in the study ensured a rigorous and comprehensive approach to derive meaningful insights into the role of accountants in AML/CFT. The structured and varied nature of the questionnaire enabled detailed analysis of both quantitative and qualitative data.

## 4.4 Analysis and outcomes

### 4.4.1 Demographic description

Table 4.2 corresponds to the demographic characteristics of the respondents incorporating their profession, gender, age, experience, highest educational qualification and country. Among the 104 respondents, a predominant majority were CAs (69.2%), followed by CMA (12.5%) and CS (2.9%). The CAs were a majority likely due to their critical role within organisations that highly emphasize compliance and financial oversight, making them comparatively directly involved in AML/CFT activities. Additionally, strong networks and associations might have been more effective in distributing the survey. Other professionals (15.4%) ensured a broad spectrum of insights across diverse disciplines including semi-qualified CA, registered auditors, regulator, lecturer, banker with CA qualification and risk analyst. The gender distribution was skewed notably, with males constituting 84.6% of the respondents. The mean age of the respondents was 44.6 years with a standard deviation of 12.6 years which indicated the predominance of mid-career professionals. The mean professional experience was 19.4 years with a standard deviation of 12.1 years, signifying a wide range of expertise among the participants. Thus, the study provided insights from both experienced professionals and newer entrants, allowing for the study of diverse perspectives. The education level of the respondents was high, with 51% holding a Master's degree, 38.5% a Bachelor's degree, 9.6% other qualification and 1% a Doctoral degree. The high academic achievement reflected the expertise of the respondents in providing informed insights into AML/CFT.

The country-wise demographics revealed a higher response from India (27.9%), Sri Lanka (26.9%) and Nepal (23.1%). These three jurisdictions constituted a substantial portion of the sample. Pakistan showed a good response rate of 16.3% followed by Bangladesh (4.8%) while Maldives had the lowest number of respondents (1%). A low response rate from the Maldives was likely because of its dispersed geography and challenges of affordable mobile connectivity and reaching a broader population ([www.ifc.org](http://www.ifc.org)). The low response rate from Bangladesh could be attributed to the recent political instability and prolonged internet service disruptions during the phase of data collection.

The diverse demographic profile of the respondents enhanced the study's ability to better comprehend the accountants' role in mitigating ML/TF across varying educational, professional and geographic contexts.

<b>Table 4.2: Descriptive statistics</b>				
<b>Variable</b>	<b>Particulars</b>	<b>N = 104 (100%)</b>	<b>Mean</b>	<b>SD</b>
<b>Respondent Group</b>	CA	72(69.2%)	-	-
	CMA	13(12.5%)	-	-
	CS	3(2.9%)	-	-
	Other	16(15.4%)	-	-
<b>Gender</b>	Male	88 (84.6%)	-	-
	Female	16 (15.4%)	-	-
<b>Age (in years)</b>	-	-	44.6	12.6
<b>Experience</b>	-	-	19.4	12.1
<b>Highest Educational Qualification</b>	Bachelor	40(38.5%)	-	-
	Masters	53(51%)	-	-
	Doctoral	1(1%)	-	-
	Other	10(9.6%)	-	-
<b>Countries</b>	India	29(27.9%)	-	-
	Sri Lanka	28(26.9%)	-	-
	Nepal	24(23.1%)	-	-
	Pakistan	17(16.3%)	-	-
	Bangladesh	5(4.8%)	-	-
	Maldives	1(1.0%)	-	-
Source: Author's computation				

#### 4.4.2 Role of accountants in managing ML/TF risks

Accountants play a vital role in handling ML/TF due to their position as gatekeepers of financial systems. The nature of their role and involvement in financial processes directly influences their effectiveness in dealing with ML/TF. Table 4.3 presents a summary of accountants' role in ML/TF risk management. The responses regarding the same were gleaned by posing seven statements on a scale of 1 to 7, 1 being 'strongly disagree' and 7 being 'strongly agree'.

<b>Table 4.3: Accountants' role in ML/TF risk management</b>		
<b>Statements</b>	<b>Mean</b>	<b>SD</b>
<b>Statement I:</b> Accountants should avoid activities that classify them as 'reporting entities' to minimize legal liability.	4.27	2.226
<b>Statement II:</b> Not using a risk-based approach (e.g., failing to use a risk assessment checklist) increases ML/TF risk.	5.20	1.982
<b>Statement III:</b> Accountants must be knowledgeable about Financial Action Task Force (FATF) recommendations.	5.75	1.569
<b>Statement IV:</b> Familiarity with International Conventions and Resolutions (e.g., the Vienna, Palermo, Merida, and Terrorist Financing Conventions) is essential for accountants.	5.12	1.697
<b>Statement V:</b> Accountants should be well-versed in AML compliance laws and stay updated with current AML/CFT policies.	5.68	1.609
<b>Statement VI:</b> Having AML certification and specializing in anti-money laundering is crucial for accountants.	5.08	1.676
<b>Statement VII:</b> Accountants must implement KYC (Client Due Diligence) procedures to mitigate ML/TF risks.	5.59	1.605

Source: Author's computation

Table 4.3 revealed that Statement III, which highlights the need for accountants to be knowledgeable about FATF recommendations, received the highest mean score ( $\bar{x} = 5.75$ ,  $SD=1.569$ ). This reflects a strong consensus on the importance of being well-informed about global AML/CFT standards. This finding aligns with the study by Omar et.al., (2015) which highlighted the Malaysian accountants' awareness of FATF recommendations, particularly in areas such as customer record-keeping, STR reporting, customer due diligence and identifying beneficial owners. The second most important role of accountants, as perceived by respondents, was Statement V, which emphasizes the importance of accountants being well-versed in AML compliance laws and staying updated with current AML/CFT policies ( $\bar{x} = 5.68$ ,  $SD=1.609$ ). This reinforces the critical role of accountants in ensuring adherence to legal requirements and regulatory updates. Further, Statement VII, which stresses the importance of implementing KYC (Client Due Diligence) procedures to mitigate ML/TF risks, holds the third most important role as identified by the respondents ( $\bar{x} = 5.59$ ,  $SD = 1.605$ ). This result indicates the significant role of due diligence in preventing financial crime.

On the other hand, the least emphasized roles of accountants were reflected in Statement I and Statement VI. Statement I, with a mean of 4.27, suggests that avoiding activities that classify accountants as 'reporting entities' to minimize legal liability is not a very popular option amongst accountants. Additionally, Statement VI, which underscores the importance of having AML certification and specialization in anti-money laundering ( $\bar{x} = 5.08$ ,  $SD = 1.676$ ),

indicated that while this role is considered important, it is relatively less emphasized compared to roles such as adherence to FATF recommendations or AML compliance. The results unveiled a consensus among respondents on the crucial role of accountants in managing ML/TF risk, particularly concerning the knowledge of FATF recommendations, AML laws, staying updated with AML/CFT policies and implementing KYC/CDD procedures.

Further, a Mann-Whitney U test was conducted to examine the differences in the level of agreement between male and female respondents on the role of accountants in managing ML/TF risks.

Statements	Gender	Mean Rank	Z value	P value
<b>Statement I:</b> Accountants should avoid activities that classify them as 'reporting entities' to minimize legal liability.	Male	54.18	-1.353	0.176
	Female	43.25		
<b>Statement II:</b> Not using a risk-based approach (e.g., failing to use a risk assessment checklist) increases ML/TF risk.	Male	52.75	-0.205	0.838
	Female	51.13		
<b>Statement III:</b> Accountants must be knowledgeable about Financial Action Task Force (FATF) recommendations.	Male	53.59	-0.913	0.361
	Female	46.50		
<b>Statement IV:</b> Familiarity with International Conventions and Resolutions (e.g., the Vienna, Palermo, Merida, and Terrorist Financing Conventions) is essential for accountants.	Male	54.42	-1.56	0.119
	Female	41.94		
<b>Statement V:</b> Accountants should be well-versed in AML compliance laws and stay updated with current AML/CFT policies.	Male	53.02	-0.43	0.667
	Female	49.66		
<b>Statement VI:</b> Having AML certification and specialising in anti-money laundering is crucial for accountants.	Male	53.82	-1.067	0.286
	Female	45.25		
<b>Statement VII:</b> Accountants must implement KYC (Client Due Diligence) procedures to mitigate ML/TF risks.	Male	53.44	-0.775	0.439
	Female	47.34		

Source: Author's computation

The results in Table 4.4 reveal no statistically significant gender differences in perceptions of accountants' roles in managing ML/TF risks across all seven statements (p-values > 0.05). For example, Statement I, concerning accountants avoiding classification as 'reporting entities,' and Statement III, on the importance of FATF knowledge, both show no significant difference between male and female responses (p = 0.176 and p = 0.361, respectively). This lack of significant differences suggests a consensus among male and female accountants regarding the

importance of these seven statements indicative of accountants' roles in ML/TF risk management.

Further, the Kruskal Wallis test was conducted to explore the differences in ratings of accountants' role in ML/TF risk management across diverse professional groups. Table 4.5 highlights the test results.

<b>Table 4.5: Differences in ML/TF risk management ratings using the Kruskal-Wallis's test across Professions</b>		
<b>Statements</b>	<b>Chi-Square (<math>\chi^2</math>)</b>	<b>P value</b>
<b>Statement I:</b> Accountants should avoid activities that classify them as 'reporting entities' to minimize legal liability.	1.023	.796
<b>Statement II:</b> Not using a risk-based approach (e.g., failing to use a risk assessment checklist) increases ML/TF risk.	8.150	<b>.043</b>
<b>Statement III:</b> Accountants must be knowledgeable about Financial Action Task Force (FATF) recommendations.	7.270	.064
<b>Statement IV:</b> Familiarity with International Conventions and Resolutions (e.g., the Vienna, Palermo, Merida, and Terrorist Financing Conventions) is essential for accountants.	3.791	.285
<b>Statement V:</b> Accountants should be well-versed in AML compliance laws and stay updated with current AML/CFT policies.	3.302	.347
<b>Statement VI:</b> Having AML certification and specializing in anti-money laundering is crucial for accountants.	2.640	.451
<b>Statement VII:</b> Accountants must implement KYC (Client Due Diligence) procedures to mitigate ML/TF risks.	6.824	.078

Source: Author's computation

Table 4.5 mirrored the results of the Kruskal Wallis test, examining differences in perceptions of accountants' roles in managing ML/TF risks across professions. The result shows a significant difference in perceptions for statement II ( $p < 0.05$ ), which pertains to the increased ML/TF risk from not using a risk-based approach, such as a risk assessment checklist. This advocated that opinion varies across professional groups as to how they perceive the importance of risk-based approaches in mitigating ML/TF risks. The difference in perceptions regarding statement II may stem from varying levels of expertise, responsibilities, and training among professional groups. Professionals more involved in compliance or risk management, such as auditors or senior officers, are likely to emphasize the importance of risk assessment frameworks due to their direct exposure to regulatory pressures and specialized training. In contrast, those in operational roles or with less AML/CFT focus may not prioritize these

frameworks as highly, leading to the observed variation in perceptions. For example, the AML/CFT guidelines of Sri Lanka also attached a sample checklist for ML/TF risk assessment by accountants under Annexure II (AML/CFT Guidelines, 2020). These findings imply that while professionals may hold differing views on the use of risk-based approaches, there is general agreement across professional groups on most other aspects of accountants' roles in managing ML/TF risks.

#### **4.4.3 Skills for enhancing accountants' effectiveness in AML/CFT**

The effective implementation of AML/CFT programs requires accountants to possess a robust set of skills and knowledge specific to the sector. Dusabe (2016) emphasizes that individuals working in the AML sector must have the necessary expertise to comply with regulatory requirements, as a lack of foundational knowledge and limited resources can hinder the success of such programs (Subbotina, 2009). Therefore, it is important to identify the key skills for accountants to deal with AML/CFT. For evaluating the critical skills that aid in the AML/CFT effectiveness of accountants, respondents were asked to rate twenty skills that were identified from extant literature as crucial for AML/CFT.

Table 4.6 presents an analysis of key skills perceived as essential for general accountants working in the AML and CFT domains. The table outlines the mean values, standard deviations, and rankings of various skills that provide insights into the competencies which are considered most crucial for enhancing accountants' effectiveness in these fields.



**Table 4.6: Key Skills for Accountants in AML/CFT**

Skills	Mean	SD	Rank
Ability to trace Trade misinvoicing	5.54	1.683	9
Analytical, Logical, and Critical thinking skills	5.82	1.739	4
Unstructured Problem-solving skills	5.40	1.610	12
Ability to critically analyze financial statements	6.02	1.757	1
Skills to evaluate the effectiveness of internal control systems	5.97	1.721	2
Professional scepticism and sound judgment	5.91	1.719	3
Fraud investigation skills	5.66	1.580	6
Business / Assets valuation skills	5.34	1.605	13
Assets tracing skills	5.45	1.551	10
Loss quantification skills	5.21	1.629	15
Court testifying expertise	4.62	1.490	17
Evidence-gathering and compilation skills	5.41	1.676	11
Advanced computer skills	5.63	1.631	7
Text analysis skills	5.32	1.603	14
Proficiency in programming languages	4.32	1.742	20
Ethical Hacking	4.42	1.711	19
Recovery of digital data	4.59	1.687	18
Digit analysis skill	5.06	1.513	16
Interpersonal skills	5.79	1.581	5
Interview and Interrogative skills	5.58	1.525	8

Source: Author's computation

The results in table 4.6 reveal that the “ability to critically analyze financial statements” is the most important skill for accountants ( $\bar{x} = 6.02$ ,  $SD=1.76$ ). This finding accentuates the crucial role accountants play in AML/CFT, where identifying irregularities in financial statements is key to detecting money laundering and terrorism financing (ML/TF) risks. Scrutiny of complex financial data makes this skill indispensable. Further, ranked second by the respondents is the “ability to evaluate the effectiveness of internal control systems” ( $\bar{x} = 5.97$ ,  $SD = 1.72$ ). Effective internal controls enable organizations to prevent, detect, and respond to suspicious activities, and the accountants in the AML/CFT domain must be proficient in assessing these systems for weaknesses. In addition, “professional skepticism and sound judgment” ( $\bar{x} = 5.91$ ,  $SD = 1.72$ ) emerged as another critical skill. This highlights the necessity for accountants to maintain a questioning mindset, particularly in high-stakes environments. Professional skepticism is essential for identifying red flags in transactions that may initially appear legitimate but could be linked to illicit activities. Furthermore, the respondents also recognized the importance of “analytical, logical, and critical thinking” ( $\bar{x} = 5.82$ ,  $SD = 1.74$ ). This emphasizes the cognitive abilities required in the AML/CFT domain. The high ranking of this

skill implies that critical thinking is crucial for navigating the complexity of financial crimes and detecting subtle patterns of fraudulent behavior.

In contrast, “proficiency in programming languages” ( $\bar{x} = 4.32$ ,  $SD = 1.74$ ) and “ethical hacking” ( $\bar{x} = 4.42$ ,  $SD = 1.71$ ) are ranked among the lowest skills. One probable reason for this is that accountants in the AML/CFT domain may not be directly involved in technical tasks such as programming or ethical hacking. These responsibilities are often handled by IT specialists. While technical skills are valuable, they may not be seen as critical for accountants who focus primarily on financial analysis and regulatory compliance. The finding reveals the respondents prioritized traditional financial analysis, internal control evaluation, and critical thinking over technical proficiencies like programming in the AML/CFT domain.

Further, exploratory factor analysis was employed to identify key factors and the percentage of variance accounted by the factors was analysed. This approach helps to identify clusters of related skills, providing further insights into the key competencies required for accountants in the AML/CFT domain. Before conducting the factor analysis, there are preliminary tests performed to determine the factorability of the data. The Kaiser-Meyer-Olkin (KMO) would have to be above 0.60, while Bartlett’s test of sphericity must be significant. For this study, the KMO was 0.933, while Bartlett’s test of sphericity was significant ( $sig = 0.000$ ). This result indicates good factorability of the data set (Pallant, 2007). The factor analysis reveals that 2 factors explained 78.13% of the total variance. Table 4.7 shows the result of the factor analysis using the principal component extraction method with varimax rotation converging in 25 iterations. The following factors were extracted:

<b>Skills</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Percentage of variance (%)</b>
Ability to trace Trade misinvoicing	0.795		63.536
Analytical, Logical, and Critical thinking skills	0.916		
Unstructured Problem-solving skills	0.841		
Ability to critically analyse financial statements	0.928		
Skills to evaluate the effectiveness of internal control systems	0.951		
Professional scepticism and sound judgment	0.959		
Fraud investigation skills	0.865		
Business / Assets valuation skills	0.775		
Assets tracing skills	0.768		
Loss quantification skills	0.751		
Evidence-gathering and compilation skills	0.796		
Advanced computer skills	0.815		
Text analysis skills	0.813		
Interpersonal skills	0.827		
Interview and Interrogative skills	0.768		
Court testifying expertise		0.707	14.567
Proficiency in programming languages		0.919	
Ethical Hacking		0.914	
Recovery of digital data		0.919	
Digit analysis skill		0.656	

Source: Author's computation

The skills identified under these two factors can be broadly clubbed under the following heads:

- i. *Forensic Investigation and Analytical Competencies*: This factor accounted for 63.536% of the total variance which represents a broad set of analytical and investigative skills critical to the field. Skills like high analytical thinking and critical problem-solving are crucial for identifying potentially fraudulent activities or irregularities. High professional scepticism is crucial for minimising the risk of overlooking suspicious activities and during key processes viz., KYC, EDD, risk profiling and screening. Further, professional judgment is vital for customer risk assessment to collect evidence and report ML activities (Zolkafilil et al., 2023). Evaluating financial statements and internal control systems; asset valuation and tracing and loss quantification are skills that directly enhance the AML/CFT effectiveness. Additionally, interpersonal skills are vital for accountants to maintain composure and decisiveness while handling ML/TF cases thereby, allowing them to navigate the challenges and make informed decisions even under pressure. Such skills e.g. emotional intelligence aid accountants in communicating with people, posing the right

questions and making sound decisions according to Lopukhova and Erina, (2018). These findings insinuate that accountants' effectiveness in AML heavily relies on their ability to analyse complex financial data and exercise professional judgment.

- ii. *Advanced Digital and Expert Testimony Competencies*: The second most important factor accounted for 14.567% of the total variance which highlights the technical competencies necessary for forensic accounting and digital investigations. This factor reveals the growing need for accountants to possess advanced digital and forensic capabilities to combat sophisticated ML schemes involving digital platforms and technologies. Enhanced risk identification, communication and monitoring of suspicious activities are potential benefits of the increased use of digital platforms based on AI including machine learning and natural language processing (FATF, 2021).

The result of factor analysis emphasizes the dual importance of both analytical skills and technical expertise in the AML field, highlighting the necessity for a multidisciplinary skill set for professionals in this sector to efficiently and effectively combat ML/TF risks.

Further, the Jonckheere-Terpstra Test was conducted to determine whether the skill ratings for enhancing accountants' effectiveness in AML/CFT varied with the level of experience of respondents. Table 4.8 highlights the test findings.

<b>Table 4.8: Jonckheere-Terpstra Test findings on skill ratings based on professional experience</b>		
<b>Skills</b>	<b>Std. J-T Statistic</b>	<b>P value</b>
Ability to trace Trade misinvoicing	0.958	0.338
Analytical, Logical, and Critical thinking skills	0.996	0.319
Unstructured Problem-solving skills	1.043	0.297
Ability to critically analyse financial statements	0.01	0.992
Skills to evaluate the effectiveness of internal control systems	0.294	0.769
Professional scepticism and sound judgment	2.528	<b>0.011</b>
Fraud investigation skills	1.296	0.195
Business / Assets valuation skills	-0.006	0.995
Assets tracing skills	1.392	0.164
Loss quantification skills	1.355	0.176
Court testifying expertise	-0.21	0.834
Evidence-gathering and compilation skills	0.579	0.562
Advanced computer skills	1.348	0.178
Text analysis skills	0.308	0.758
Proficiency in programming languages	-0.261	0.794
Ethical Hacking	-2.199	<b>0.028</b>
Recovery of digital data	-1.745	0.081
Digit analysis skill	-0.808	0.419
Interpersonal skills	-0.11	0.913
Interview and Interrogative skills	0.575	0.565

Source: Author's computation

The Jonckheere-Terpstra Test results in Table 4.8 explore the relationship between professional experience and the perceived importance of various skills for accountants in ML/TF. Significant differences in perceptions across experience levels are noted for two specific skills; professional skepticism and sound judgment ( $p = 0.011$ ) and ethical hacking ( $p = 0.028$ ). The skill of 'professional skepticism and sound judgment' is particularly valued more as professional experience increases, signifying that experienced accountants place higher importance on these qualities due to their exposure to complex decision-making and fraud detection. Further, the significant result of 'ethical hacking' draws attention to its perceived importance among those with less experience, potentially reflecting a growing awareness of the need for technical skills in younger or less experienced professionals, who may be more attuned to digital fraud risks. For the remaining skills, no significant differences were observed, revealing that these are perceived consistently across various levels of professional experience. Skills such as the ability to trace trade misinvoicing, analytical and critical thinking, and fraud investigation skills etc do not show significant variation, unfolding broad consensus on their importance regardless of experience.

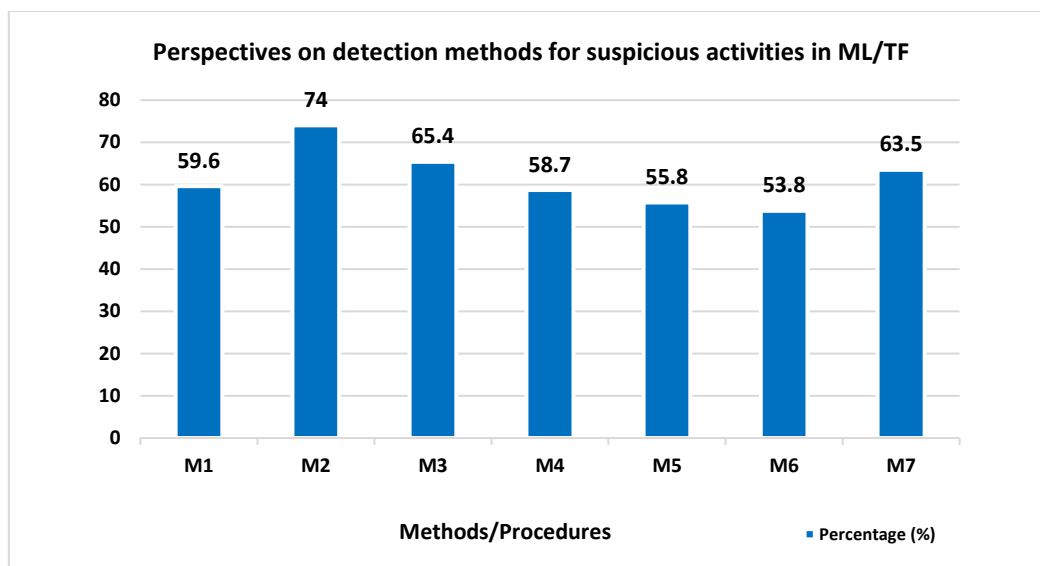
#### 4.4.4 Methods for uncovering suspicious activities in ML/TF

Effective detection of suspicious activities is crucial for accountants working in the AML/CFT system. Various methods, ranging from manual reviews to automated transaction monitoring, are used to identify potential risks. The following analysis in Table 4.9 explores the perspectives of respondents on the most commonly used techniques for detecting suspicious activities. Further, Figure 4.1 depicts its visual representation. In the study, respondents were provided eight options, allowing for the selection of multiple methods if applicable. Seven specific methods for detection were prescribed alongside an “others” option to capture additional approaches.

<b>Table 4.9: Detection methods for suspicious activities in ML/TF</b>		
<b>Methods/Procedures (M)</b>	<b>N</b>	<b>Percentage (%)</b>
<b>M1. Transaction Monitoring Systems:</b> Automated tools and software that analyse transactions for unusual patterns.	62	59.6
<b>M2. Manual Reviews:</b> Periodic reviews of transactions and account activities by staff.	77	74
<b>M3. Customer Due Diligence:</b> Verifying the identity and assessing the risk of customers.	68	65.4
<b>M4. Enhanced Due Diligence:</b> Additional scrutiny for high-risk customers and transactions.	61	58.7
<b>M5. Suspicious Activity Reports (SARs)/Suspicious Transaction Reports (STRs):</b> Filing reports with authorities when suspicious activities are identified.	58	55.8
<b>M6. Use of Red Flags:</b> Following specific indicators or red flags for suspicious behaviour.	56	53.8
<b>M7. Internal Whistleblowing Mechanisms:</b> Encouraging employees to report suspicious activities internally.	66	63.5

Note: The total percentage is more than 100 because of multiple responses.

Source: Author's computation



**Figure 4.1: Perspectives on detection methods for suspicious activities in ML/TF**

Source: Author's design

Table 4.9 presents the findings on the perspectives of respondents regarding methods for detecting suspicious activities related to ML/TF. The most frequently utilized detection method, with 74% of respondents indicating its utility, is 'Manual Reviews', which involves periodic examination of transactions and account activities by staff. This high percentage advocates a strong reliance on human oversight for identifying suspicious activities. Further, the second most commonly cited method is 'Customer Due Diligence (CDD)', reported by 65.4% of respondents. This method involves verifying the identity and assessing the risk level of customers, reflecting the importance of KYC (Know Your Customer) procedures in the detection process. Colladon and Remondi, (2017) also found that CDD is a vital method that emphasises the social network metrics in assessing risk profiles of customers to combat ML. Further, the 'Internal Whistleblowing Mechanisms' is also considered an important method in AML/CFT (63.5%). Encouraging employees to report suspicious activities internally is the third most commonly preferred method, weighing the role of organizational culture in detecting ML/TF activities. In this context, a respondent cited:

*“Whistleblower protection policy should be there in the organisation for protecting if someone directly reports to investigation agency”.*

Further, the 'Transaction Monitoring Systems', which use automated tools to analyse transactions for unusual patterns, are employed by 59.6% of respondents. The reliance on technology accentuates the growing role of automated systems in augmenting manual processes to improve the detection of suspicious activities. This result is attuned with the findings of Helmy et.al., (2014) which accents systems viz., rule-based monitoring, behaviour

detection monitoring, cluster-based monitoring and cycle detection monitoring to enhance transaction monitoring capabilities in AML/CFT. Similarly, Sobreira et al., (2019) also highlighted various country-specific automated detection methods, including database forensic analysis, Bayesian networks, and machine learning approaches. These findings unfold the importance of integrating technology to improve the effectiveness of suspicious transaction detection frameworks.

In contrast, the two least utilized methods are ‘Use of Red Flags’ (53.8%) and ‘Suspicious Activity Reports (SARs)/Suspicious Transaction Reports (STRs)’ (55.8%). The lowest use of ‘Use of Red Flags’ could be attributed to the varying rate of issuance and comprehensiveness of red flags among countries. Presently, specific red flags for the accounting sector have been issued by Afghanistan, India, Nepal, Pakistan and Sri Lanka; with merely Sri Lanka listing them comparatively in a comprehensive manner alongside case studies as examples of ML/TF through accountants. Comprehensive training on recognising red flags and effective implementation is essential to foster its usage in the AML/CFT arena. These current results recommend a strong preference for manual and procedural approaches, with technology playing a supplementary role in the detection of suspicious activities.

In addition to the preidentified detection methods for ML/TF, respondents were invited to provide additional insights through the "others" option. This allowed the revealing of alternative approaches not captured in the structured options. The comments are categorized into the following themes.

#### **a. Legal Compliance and Client Identification**

Respondents highlighted the importance of both recognizing “*blacklisted citizens*” and leveraging “*industry data, local VIP contacts, and sales agents’ knowledge*” to identify suspicious activities. This shows that a thorough understanding of the accountant’s client’s background, combined with legal compliance, plays a crucial role in detecting ML/TF risks.

#### **b. Use of External Data, Technology, and Whistleblower Protection**

Respondents mentioned using “*Specified Financial Transactions (SFT) reports generated on the Income Tax Portal*” and “*negative news*” as resources for detecting suspicious activities. Negative news could be ascribed to the importance of media reports for detecting potential ML/TF risks. Additionally, the call for a “*Whistleblower protection policy*” underlines the importance of fostering an environment where employees can report suspicious activities



without fear of retaliation. The reliance on technology and external data, combined with internal safeguards, is seen as essential for effective risk mitigation.

A combination of legal compliance, better access to information, the use of technology, and internal safeguards such as whistleblower protection is crucial to improving the effectiveness of the AML/CFT framework.

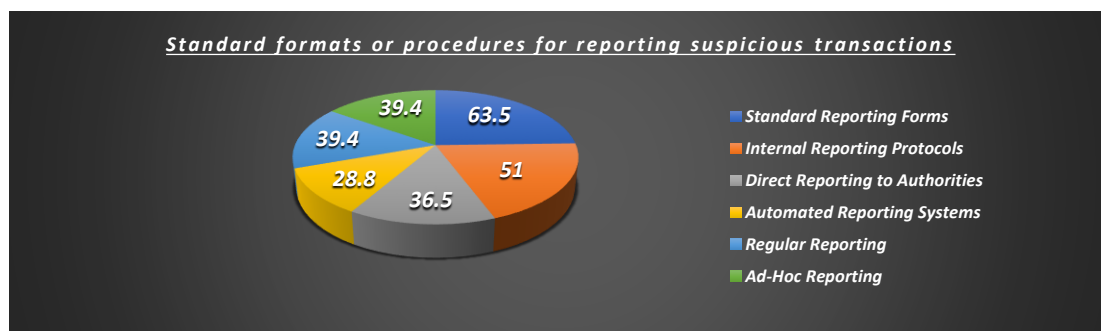
#### 4.4.5 Reporting ML/TF risks

The critical AML/CFT arena engenders the accurate and timely reporting of ML/TF risks. Diverse procedures like direct reporting to authorities or automated reporting systems are used for reporting suspicious transactions. Reporting suspicious transactions facilitates diligent oversight and discretion in deciding what to report (Hall, 1995). The survey specified six reporting procedures along with an ‘others’ option wherein multiple options could be opted by respondents as applicable. Table 4.10 illustrates the utilization of the reporting procedures by accountants and Figure 4.2 presents a pictorial representation of the distribution of these methods among accountants thereby, emphasizing the importance of multifaceted ML/TF reporting procedures.

<b>Formats/Procedures (P)</b>	<b>N</b>	<b>Percentage (%)</b>
<b>P1. Standard Reporting Forms:</b> Using standardized forms provided by regulatory bodies.	66	<b>63.5</b>
<b>P2. Internal Reporting Protocols:</b> Following internal procedures and formats for documenting and reporting.	53	51
<b>P3. Direct Reporting to Authorities:</b> Submitting reports directly to regulatory or law enforcement agencies.	38	36.5
<b>P4. Automated Reporting Systems:</b> Utilizing software that integrates with reporting requirements.	30	<b>28.8</b>
<b>P5. Regular Reporting:</b> Reporting on a scheduled basis, such as quarterly or annually.	41	39.4
<b>P6. Ad-Hoc Reporting:</b> Reporting as incidents arise without a set schedule	41	39.4

Note: The total percentage is more than 100 because of multiple responses.

Source: Author's computation



**Figure 4.2: Standard formats or procedures for reporting suspicious transactions**  
Source: Author's design

Table 4.10 presents an insightful overview of the diverse suspicious transaction reporting formats or procedures used by respondents to combat ML/TF risks. The highest utilised reporting format is the 'Standard reporting forms' provided by the regulatory bodies with 63.5% of respondents indicating its usage, signifying high priority among the professionals for standardized documentation and regulatory compliance. For instance, Sri Lanka has a prescribed format of STR attached under Schedule V of the 2017 Suspicious Transactions (Format) Regulations in Appendix II (STR Regulations, 2017). REs of Bangladesh have the option for manual submission of STR/SAR as per the BFIU-prescribed format of the reporting forms (STR guidance (2019)). The second most frequently used reporting format is 'Internal reporting protocols', reported by 51% of the respondents. The study by Naheem, (2023) found that the Dubai Financial Services Authority imposes a stringent AML/CFT policy with special emphasis on financial institutions' internal reporting mechanisms and their capacity to cooperate with the authorities.

Two of the procedures, viz., 'Regular reporting' and 'Ad-hoc reporting' earned equal responses, indicating 39.4% usage thus, pinpointing their complementary roles. While regular reporting promotes systematic monitoring and ongoing vigilance, ad-hoc reporting allows the flexibility to address emergent and unforeseen risks as they arise. Both procedures emphasise the crucial role of balancing structured routine assessments with the ability to manage dynamism in the AML/CFT system, thereby, facilitating comprehensive risk management. Further, the least employed reporting procedure is the 'Automated reporting system' with 28.8% of respondents reflecting its usage. Its low usage could be attributed to limited access to technology or training, complexity and a preference for manual methods. Despite the gradual adoption of systems like goAML (e.g. its implementation by Pakistan in 2019 and the discontinuation of manual STR reporting since 1 January 2020), the aforementioned factors contribute to its low adoption rate, thus, signifying a potential area for improvement.

In addition to the specified formats for reporting suspicious transactions, respondents were invited to provide additional insights through the "others" option. This enabled bringing out additional ML/TF risk reporting procedures. The comments are categorized into the following themes.

**a. Alternative reporting procedure**

A respondent outlined the usage of AIF (Additional Information File without Transaction(s)) for reporting. As AIF is initiated when the FIU requires more specifics while examining STR/SAR (GoAML report, 2024), it enhances accountants' ability to furnish more accurate and detailed reporting, thereby improving the effectiveness of AML/CFT compliance and risk management.

**b. Formal investigation, verification and guidelines-based reporting**

The theme encompasses reporting *“based on whistle-blower reports or where incidents are already identified and the entities have been either commissioned by their Board of Directors or regulators or law enforcement agencies to undergo the formal investigation and based on that carrying out the verification/ review and presenting the findings in the form of a formal report. In the case of financial institutions, assessing the effectiveness of the AML/CFT program is based on the guidelines or directions issued by the Central Bank”*. Such procedures aid accountants in ML/TF risk reporting by ensuring rigorous review and verification of incidents, guided by formal investigations as well as Central Bank guidelines.

These additional insights provided by professionals outline the necessity for adaptive and comprehensive procedures of ML/TF risk reporting. The AIF facilitates detailed and accurate reporting while the use of formal investigation, verification and guidelines-based reporting aids rigorous verification and review, thus strengthening the effectiveness of accountants in AML/CFT efforts.

The study further encompassed an optional open-ended question regarding additional details of the standard formats or procedures used by respondents for reporting suspicious transactions. Several key themes have emerged from the responses: reporting to the top management and regulatory agencies, mandated reporting, enterprise risk management procedures, informal communication network, absence of standardisation and incident-driven reporting. These may serve as guidelines for bringing efficiency to the role of accountants in combating ML/TF risks.

### **I. Reporting to the top management and regulatory agencies**

Several respondents emphasize the importance of governance structures in reporting suspicious transactions. For instance, one respondent notes that *"Generally the same is done through written representations to the people charged with governance or the Board of Directors,"* accentuating the role of senior management in overseeing these processes. Another comment adds that *"Management reporting to the Regulator"* is a key step when suspicious activity is identified. This theme stresses the hierarchical nature of the reporting process, where higher-level authorities are informed when red flags surface, ensuring that accountability is maintained at the governance level.

Thus, the respondents emphasise the importance of reporting to the top management and regulatory agencies as crucial for combating ML/TF. By ensuring that suspicious transactions are reported to senior management and regulatory agencies, and maintaining accountability at the governance level, accountants play a vital role in fortifying the AML/CFT framework and enhancing financial oversight in organisations.

### **II. Mandated reporting**

A significant number of respondents indicate that reporting suspicious transactions is often governed by external legal and regulatory frameworks. For example, one comment states, *"As per required by law and regulatory body"*, which highlights the mandatory nature of reporting under legal obligations. The use of specific formats issued by regulators is also mentioned: *"Using the Format issued by the Regulator and same is incorporated to Internally Developed ERP"*. These comments reflect that organizations follow prescribed legal procedures to ensure compliance with AML and CFT regulations. Such reporting aids the accountants in reinforcing structured formats and maintaining AML/CFT compliance.

### **III. Enterprise Risk Management Procedures**

Several respondents provide insights into internal risk management processes used to report suspicious activities. For instance, one comment mentions,

*"All STR/SAR incidents are reported internally on the SAR tool", followed by an internal review involving the Money Laundering Reporting Officer (MLRO) or Deputy MLRO.*

This suggests that accountants play a crucial role in ML/TF risk management by utilising robust internal frameworks that allow for comprehensive monitoring and reporting. Additionally, *"Risk Registers as prescribed by Enterprise Risk Management Manual"* are used as part of internal risk management practices, which align with enterprise-level risk monitoring frameworks.

### **IV. Informal communication network**

Despite the formal procedures noted above, there are several instances where respondents indicate the use of ad hoc or informal reporting mechanisms. For example, one comment highlights, *"Informal discussions are carried out and gather hints to report"*, while another respondent mentions that no separate formats are used: *"No separate format used"*. These comments suggest that, in some cases, organizations may rely on less formalized approaches to identify suspicious activities. This can be an effective way to supplement (not substitute) the formal structure for bringing efficiency in the reporting of ML/TF risks by accountants.

### **V. Absence of standardization**

A recurring theme in several responses is the absence of standardized procedures or formats for reporting suspicious transactions. For instance, one comment candidly states, *"There are no standard formats which exist for the accountants to report ML/CFT"*, while another similarly mentions, *"No such standard formats or procedures used"*. This highlights a gap in the establishment of uniform reporting protocols, especially for accountants and other non-banking sectors, which could lead to inconsistencies in the reporting process.

### **VI. Incident-driven reporting**

Several respondents view reporting as often driven by specific incidents rather than a standardized routine. For example, *"Reporting to authorities as and when suspicious and significant unusual transaction comes to notice"* underscores the reactive nature of the process, while another comment mentions, *"Emails"* as a method of communication when suspicious

transactions arise and another highlights the use of "*Risk Registers*". These responses suggest that incident-driven reporting may be the norm in certain organizations, where the detection of anomalies triggers the reporting process.

The analysis of these responses reveals a diverse range of practices in reporting suspicious transactions, pinpointing valuable insights for accountants' role in ML/TF risk management. Reporting to top management and regulatory agencies, and maintaining accountability at the governance level must be emphasised for enhancing financial oversight in organisations. Prescribed legal procedures aid the accountants in reinforcing structured formats and maintaining AML/CFT compliance. The utilisation of robust internal frameworks allows for comprehensive monitoring and reporting. The informal communication network is an effective way to supplement (not substitute) the formal structure for bringing efficiency to ML/TF risk reporting. Nonetheless, the gaps in the establishment of uniform reporting protocols, especially for accountants and other non-banking sectors require to be plugged in. Further, incident-driven reporting by accountants via emails and risk registers are also regarded as a quick and effective mode of STR reporting.

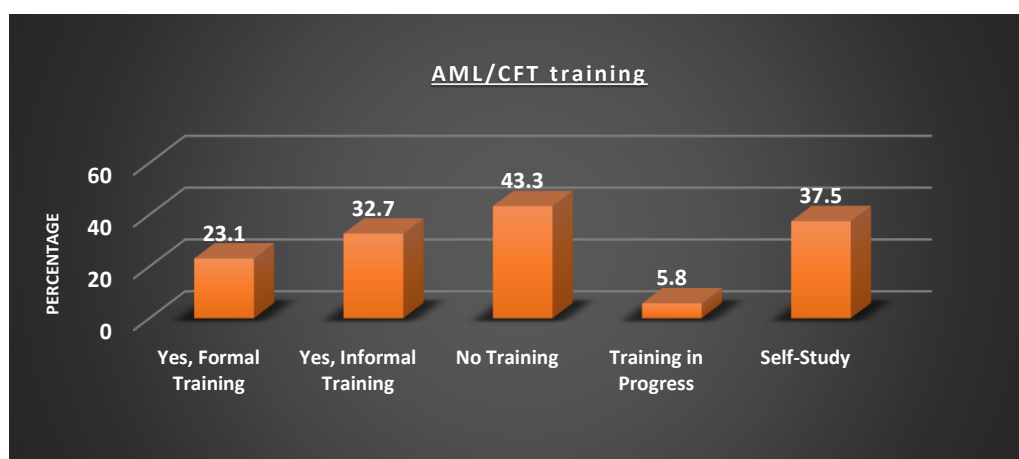
#### **4.4.6 AML/CFT training**

Explicit training is vital for handling evolving AML/CFT compliance challenges, including knowledge risks that may undermine AML/CFT efforts. The training should encompass not only the essential knowledge for compliance but also the ability to manage risks that could endanger the AML/CFT system's effectiveness (Borgia and La Torre, 2022). To comprehend the varied ways in which accountants receive AML/CFT training, respondents were requested to select multiple options that best describe their training experiences alongside an 'others' option to understand additional training modes if undertaken. The question aims to capture the scope of AML/CFT training, stressing the numerous pathways through which professionals enhance their knowledge and skills in this critical arena. The data presented in Table 4.11 reveals the varied approaches to AML/CFT training among respondents besides showcasing a visual distribution of the training modes among respondents in Figure 4.3.

<b>Mode of AML/CFT training</b>	<b>N</b>	<b>Percentage (%)</b>
<b>Yes, Formal Training:</b> Completed a structured training program with specific duration and topics.	24	23.1
<b>Yes, Informal Training:</b> Received training through workshops, seminars, or on-the-job learning.	34	32.7
<b>No Training:</b> Have not received any AML/CFT training.	45	<b>43.3</b>
<b>Training in Progress:</b> Currently undergoing training with ongoing sessions.	6	<b>5.8</b>
<b>Self-Study:</b> Engaged in self-study or online courses related to AML/CFT.	39	37.5

Note: The total percentage is more than 100 because of multiple responses.

Source: Author's computation



**Figure 4.3: Distribution of AML/CFT training modes among respondents**

Source: Author's design

Table 4.11 reveals significant insights into the prevalence of AML/CFT training modes among respondents. Notably, 43.3% of respondents specified they had not received any training. It reflects a prominent gap that emphasizes the pressing need for mandatory training programs to ensure all professionals are equipped with the necessary skills and knowledge. More AML/CFT training courses must be conducted by outlining the responsibilities of accountants as one of the DNFBPs (Omar et. al., 2015). Following this, the second highest response rate is for 'self-study', at 37.5%, suggesting the proactive efforts of the professionals to independently augment their understanding of AML/CFT.

The least reported training mode is ‘training in progress’, at 5.8%, indicating that ongoing training initiatives are relatively infrequent. The SRB of accountants should organize and facilitate more AML/CFT training programs for its members through ongoing employee training programs or by encouraging participation in relevant courses offered by the SRB (Omar et.al., 2015). This recommendation underlines the necessity for continuous professional development to bridge the gap in AML/CFT competencies and ensure accountants are well-equipped to address evolving ML/TF risks. Meanwhile, formal training chosen by 23.1% of respondents, ranks as the second least utilized mode of training and reflects those who have completed structured training programs with specific durations and topics. These findings underline the critical need for more structured and comprehensive training opportunities to bolster the efficacy of AML/CFT systems.

The study further incorporated an optional open-ended question to provide additional details about the training programs, topics undertaken and training duration. The insights from respondents are categorised into several key themes: types of training, content of training, and training duration and frequency. These may assist as guidelines for bringing efficacy to accountants’ role in AML/CFT.

#### ➤ **Types of Training**

**Formal training programs:** Examples include “*training conducted by the SAFA AML CFT committee and NRB of Nepal*”, a “*five-day Account and Financial Management System Training*” and “*basic training and workshop from the Securities and Exchange Commission of Pakistan*”. Further, “*annual training sessions are provided to update on the relevant AML/CFT regulations and organizations' internal AML/CFT policies, procedures, systems and controls*”. These structured programs provide a comprehensive and standardized foundation, ensuring that accountants are well-informed to handle complex AML/CFT cases.

**Informal and on-the-job training:** Examples include “*on-the-job exposure especially dealing with lending institutes for export bill processing*” and experiences from “*working as a Compliance and Risk Officer for a large department in a private bank*”. Such training augments practical skills and real-world application, crucial for instantaneous and active responses to AML/CFT scenarios.

**Online and self-study:** Examples include a “*1-day online training about AML/CFT*”, “*online session by the Regulatory Authority*” and “*e-learning and online courses to adhere to AML*”.



*laws and regulations and create awareness of the responsibilities and roles in preventing Money Laundering*". These modes offer flexibility and accessibility, letting professionals boost their AML/CFT competencies at their own pace and convenience. A relevant comment concerning e-learning modules from a respondent is cited below:

*"It is effective if the respective regulators and FATF arrange to make available e-learning modules. Such should be made available in a non-technical manner (easy to understand). This may include videos, tick-tock presentations, case studies and role-playing. Such can be used to educate staff members of other entities. FATF's policy of releasing their training modules ONLY to government institutions on request has to be revisited. The ML/TF can be managed only by educating the general mass"*.

### ➤ **Content of training**

**Comprehensive coverage of AML/CFT topics:** Topics cited by respondents include *"money laundering cases, layering", "AML-CFT regimes", "blacklisted customers", "reporting about fraud and illegal transactions", "initial briefing"*, the role of compliance officers, Association of Certified Anti-Money Laundering Specialists (ACAMS) *topics on CDD, enhanced CDD, transaction monitoring, STR submission and red flag indicators*. The wide-ranging content ensures that accountants are well-versed in various facets of AML/CFT, equipping them to identify and mitigate financial crimes efficaciously. A relevant response in this context is quoted below:

*"Training should cover all important matters for practising CAs which they can use in daily work so that they can avoid any wrong activity"*.

**Case studies and practical application:** The call for a training program designed for the study of the case of a particular organization and understanding how it is financially performing aligns training with practical scenarios. This approach lets accountants apply theoretical knowledge to real-world situations, enhancing the relevance and impact of their training.

**Regular and specialised certification courses:** Examples include annual certificate courses in CDD and being a Certified Banking Compliance Professional. Such certifications establish a commitment to continuous education and ensure that accountants possess advanced AML/CFT knowledge and skills.

➤ **Training duration and frequency**

**Short-term courses:** Examples include “1-day online training about AML/CFT”, “3 days training” and “five-day Account and Financial Management System Training”. Such courses facilitate quick and focused learning experiences, ideal for covering specific AML/CFT topics in a short period.

**Regular and Periodic Training:** In this regard, a respondent cited “Workshops/training sessions arranged by the regulator on a periodic basis”. Training regularly keeps accountants posted on current AML/CFT developments, ensuring ongoing proficiency and compliance.

These insights emphasize a robust, multifaceted training framework that significantly develops the proficiency and effectiveness of accountants in AML/CFT efforts.

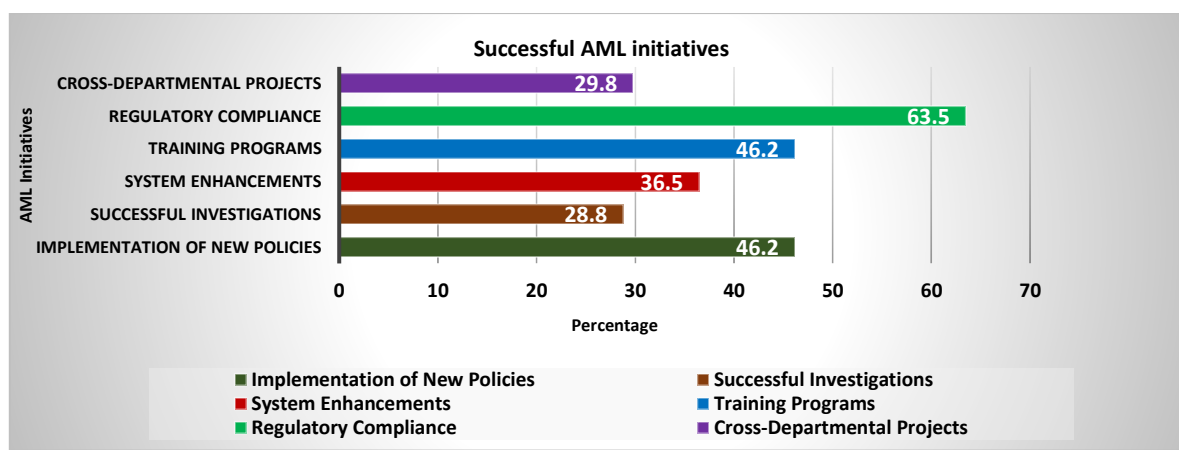
#### 4.4.7 Successful AML initiatives led or participated by accountants

To comprehend the breadth and impact of accountants' AML/CFT efforts, it is crucial to know the range of successful AML initiatives led or participated by them. Respondents were invited to select multiple options from six specific initiatives ranging from policy implementation to cross-departmental projects thus, determining their level of involvement alongside an ‘others’ option to capture additional insights. Table 4.12 summarises the level of engagement of respondents in each AML initiative and Figure 4.4 provides a graphical representation of those initiatives among respondents.

<b>Successful AML initiatives</b>	<b>N</b>	<b>Percentage (%)</b>
<b>A1. Implementation of New Policies:</b> Developing and implementing new AML policies and procedures.	48	46.2
<b>A2. Successful Investigations:</b> Leading investigations that resulted in identifying and mitigating ML/TF risks.	30	<b>28.8</b>
<b>A3. System Enhancements:</b> Upgrading or improving AML monitoring systems.	38	36.5
<b>A4. Training Programs:</b> Developing and delivering training programs that improved AML/CFT practices.	48	46.2
<b>A5. Regulatory Compliance:</b> Ensuring compliance with new or updated AML/CFT regulations.	66	<b>63.5</b>
<b>A6. Cross-Departmental Projects:</b> Working on initiatives that involved multiple departments or external partners.	31	29.8

Note: The total percentage is more than 100 because of multiple responses.

Source: Author’s computation



**Figure 4.4: Successful AML initiatives led or participated by accountants**  
Source: Author's design

Table 4.12 showcases diverse successful AML initiatives led or participated in by accountants, weighing the critical role they play in combating ML/TF. The highest initiative undertaken by 63.5% of respondents is “Regulatory compliance”, placing a significant emphasis on adhering to AML/CFT rules, staying abreast of regulatory changes and upholding legal compliance for effective ML/TF risk management. The finding is parallel to the study by Chaabo, (2021) that insinuated the many-sided benefits of a robust AML regulatory and compliance system in Lebanese banks viz., detecting and thwarting frauds, cultivating awareness of suspicious transactions, enhancing the organisation’s reputation, increasing resource allocation to combat ML and facilitating a robust internal management system for better communication and operational efficiency. Secondly, both ‘Implementation of new policies’ and ‘Training programs’ received a response rate of 46.2%, signifying the two-fold focus on establishing robust AML policies and enhancing accountants’ knowledge through comprehensive training.

The lowest utilised AML initiatives are “Successful initiatives” and “cross-departmental projects” garnering response rates of 28.8% and 29.8% respectively. This reflects potential gaps in collaborative and investigative efforts. Implementing targeted investigative training and fostering stronger inter-departmental cooperation and coordination could enhance these areas, ensuring a more comprehensive approach to AML/CFT efforts.

In addition to the preidentified AML initiatives, respondents were provided with the “others” option to share additional insights. The responses yielded certain themes, which are delineated below.

### **A. Quality of leadership in entities**

A respondent cited: *"The AML procedures are not activated in each audit assignment. We make an assessment of the involvement of executive and non-executive leadership in the state of the entity."* The comment showcases the importance of evaluating the engagement in both executive and non-executive leadership in AML procedures. Ensuring active leadership is paramount to accountants for efficient and effective implementation and oversight of AML initiatives in organisations.

### **B. Accountants' engagement for combating ML/FT risks**

Active engagement in compliance officers' associations, executive committees and subcommittees accentuates the collaborative approach required to spread consciousness and best practices in AML/CFT systems. In this regard, a respondent *"has helped in disseminating knowledge on ML/TF matters at industry level via Compliance officers' association in all banks in the country. Have served in the executive committee for more than 10 years, served in subcommittees such as Training, Publications, Social etc."*

These insights reflect the pivotal roles of leadership, active participation and industry-wide cooperation and collaboration that aid accountants in significantly strengthening the AML/CFT regime of a country.

Further, an optional open-ended question was incorporated into the study to gain additional insights into certain examples and outcomes of AML initiatives led by accountants. Several emergent themes from the responses have been demarcated below that may act as guidelines supporting accountants in ML/TF risk management.

#### **a. Development and implementation of AML/CFT Policies**

Accountants formulate the AML-CFT Policy, develop the STR Reporting framework and guidelines, and implement the Automated Transaction Monitoring System and reporting through goAML software in the production environment. The four most relevant responses in this regard are quoted below:

*"Development, implementation and execution of new AML/CFT policies, which were more comprehensive, detailed and provided clear guidelines to employees that lead to a better understanding of the AML/CFT regulations and internal systems".*

*“Implementation, execution and monitoring of new AML/CFT systems, improving the overall time to perform the AML/CFT procedures.”*

*“Implementation of new policies that all payments and receipts should be made via banking channel and minimise the use of cash for payment to any vendor or supplier and keep track of all the receipts so that these can be produced in any authority in case of any inquiry”.*

*“Blacklist any suppliers who refuse to sign off on the company code/rules”.*

Such initiatives exude the efficacy of accountants in AML/CFT systems, enable tracing of suspicious transactions and illicit ML/TF activities, and promote accountability and transparency.

#### **b. Training and diffusion of knowledge**

In this regard, examples cited by respondents include - *“webinars by ICAP”, “comprehensive AML/CFT training, with examples, to provide clear instructions to employees engaged in providing AML/CFT services that resulted in enhanced understanding of the requirements of the law”*. Further respondents *“Conducted sessions with practising members and educated them”*, and educated relatives about using official channels of the government while engaging in money transfers to and from abroad. Regular training and diffusion of knowledge are fundamental in arming accountants and stakeholders with the essential skills to combat ML/TF thereby, strengthening the AML/CFT regulatory compliance.

#### **c. Leadership and investigation**

Two relevant responses in this regard have been quoted below:

*“Provided the leadership in developing a fully-fledged CDD process to the organization”.*

*“As a team lead, more recently I have carried out the investigation of the misappropriation of funds of National Highway Authority for Hyderabad-Sukkur Motorway (M-6) which was commissioned by the State Bank of Pakistan which broadened our team's understanding relating to AML/CFT regime in Pakistan (laws and regulations), along with guidelines and reporting requirements by FMU”.*

These insights reflect the crucial role of accountants in conducting CDD and investigation to assess client risk profiles and detect illicit ML/TF activities. It is the accountants who leverage their expertise to identify suspicious activities and ensure adherence to AML/CFT regulations.

#### d. Cross-departmental collaboration and industry-level engagement

*“Extensive discussions with senior bank officers’ teams regarding AML issues and compliance especially regarding export bills” and engaging in “public hearings and social audits approach”* aid accountants in collaborating across departments or management levels and engaging with industry stakeholders through public hearings or social audits henceforth, sharing and understanding perspectives, aligning strategies and undertaking a cohesive approach that enhances the AML/CFT regime. A response reflecting industry-level engagement is quoted as below:

*“Actively contributed to developing a format to be used at the industry level for Risk Profiling of customers in relation to ML/TF Risk as high, medium and low. For the development of this format, customer information is gathered covering areas such as the industry, occupation, anticipated transaction volumes, whether the customer is a PEP, high net worth customer, organisation structure (ultimate beneficial owner, cash insensitive business, the channel usage (over the counter or use of alternate channels)”*.

The stated themes collectively assert the multifaceted role of accountants in leading successful AML initiatives. By developing policies, providing training, conducting investigations, collaborating across departments, ensuring regulatory compliance and raising awareness, accountants significantly enhance the effectiveness of the AML/CFT regime.

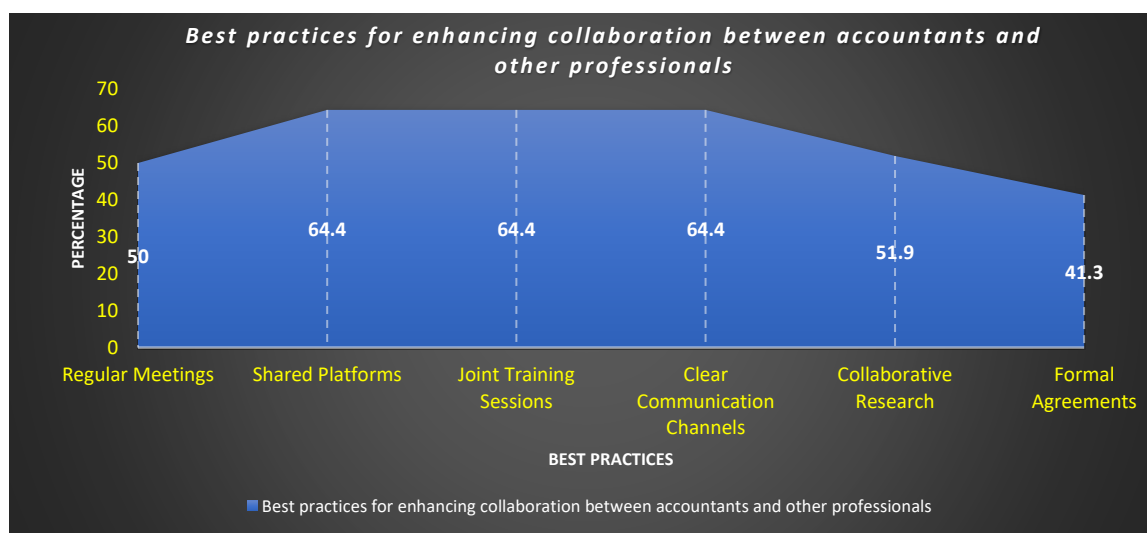
#### **4.4.8 Best practices for improving collaboration between accountants and other professionals in the fight against ML/TF**

To address ML/TF risks, countries should develop and refine best practices for inhibiting ML/TF abuse (FATF, 2023). The study invited respondents to recommend best practices for fostering collaboration among accountants and other professionals in the fight against ML/TF. Six predetermined best practices were incorporated wherein multiple options could be selected by respondents. Table 4.13 showcases the best practices employed by respondents and Figure 4.5 presents the visual distribution of those practices among respondents.

<b>Best Practices (P)</b>	<b>N</b>	<b>Percentage (%)</b>
<b>P1. Regular Meetings:</b> Scheduling regular meetings to discuss AML/CFT issues and updates.	52	50
<b>P2. Shared Platforms:</b> Using shared databases or communication platforms for information exchange.	67	64.4
<b>P3. Joint Training Sessions:</b> Conducting joint training sessions with law enforcement and regulatory bodies.	67	64.4
<b>P4. Clear Communication Channels:</b> Establishing clear and open communication channels for reporting and feedback.	67	64.4
<b>P5. Collaborative Research:</b> Engaging in collaborative research and analysis of AML/CFT trends and issues.	54	51.9
<b>P6. Formal Agreements:</b> Creating formal agreements or MOUs to outline roles and responsibilities.	43	41.3

Note: The total percentage is more than 100 because of multiple responses.

Source: Author's computation



**Figure 4.5: Best practices for improving collaboration between accountants and other professionals in the fight against ML/TF**

Source: Author's design

Table 4.13 reveals several best practices for improving collaboration between accountants and other professionals to combat ML/TF. The most frequently utilised practices, each reported by 64.4% of respondents include 'Shared Platforms', 'Joint Training Sessions', and 'Clear Communication Channels'. Their high adoption rate underlines the crucial roles of efficient information exchange, regular conduct of joint training sessions, establishing clear and open communication lines and engaging in MoUs or formal agreements to foster collaboration. As per Durner and Cotter, (2018), the efficacy of collaboration can be measured by the growth of agreements viz., MoUs and MLA treaties among countries.

On the contrary, ‘Formal agreements’ are revealed to be the least utilised practice, employed by 41.3% of respondents. The low response rate could be attributed to a preference for flexible or informal arrangements over formal agreements that could be bureaucratically demanding in nature. The result is attuned to the study by Durner and Cotter, (2018) which revealed that although formal means of coordination involving agreements and treaties are constructive, informal lines of communication often act as a boon for administering time-sensitive matters.

The above findings overall insinuate the crucial role of shared platforms, joint training, clear communication channels and collaborative research in fostering collaboration among accountants and professionals combating ML/TF risks.

#### 4.4.9 Suggestions for improving accountants’ role in AML/CFT efforts

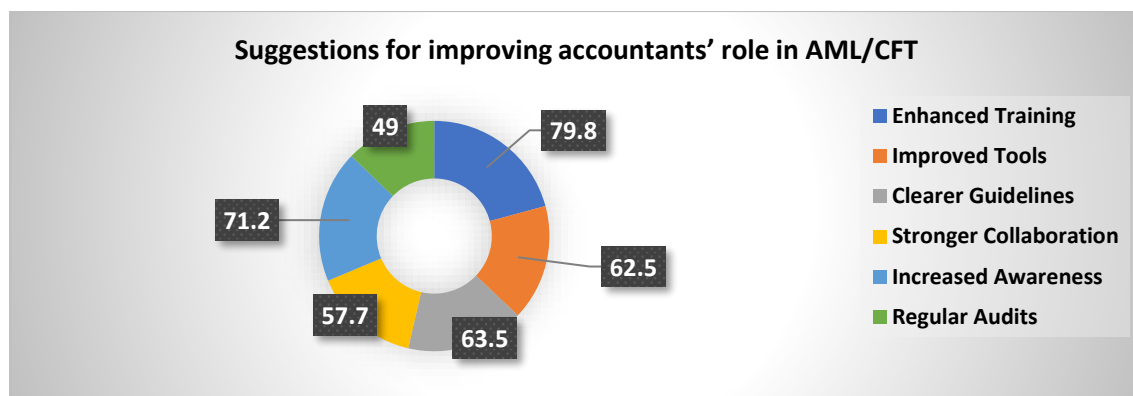
As front liners in the AML/CFT system, accountants play a pivotal role in impeding financial crimes. This necessitates continuous improvement and adaptation to changing risks and regulatory requirements. To effectively contribute to AML/CFT efforts, it is crucial to explore various strategies to bolster the capabilities and impact of accountants in the AML/CFT framework. The survey invited respondents to select multiple options from six specific suggestions alongside an ‘others’ option aimed at enhancing accountants’ role in AML/CFT. Table 4.14 reflects the respondents’ preferences for suggestions for improving accountants’ role and Figure 4.6 depicts a visual representation of those suggestions among respondents.

<b>Table 4.14: Suggestions for improving accountants’ role in AML/CFT efforts</b>		
<b>Suggestions (S)</b>	<b>N</b>	<b>Percentage (%)</b>
<b>S1. Enhanced Training:</b> Providing more comprehensive and regular training for accountants.	83	<b>79.8</b>
<b>S2. Improved Tools:</b> Implementing advanced software and tools for detecting suspicious activities.	65	62.5
<b>S3. Clearer Guidelines:</b> Establishing more detailed and clear guidelines for accountants.	66	63.5
<b>S4. Stronger Collaboration:</b> Encouraging better communication and collaboration with law enforcement and regulators.	60	57.7
<b>S5. Increased Awareness:</b> Raising awareness about AML/CFT responsibilities and risks.	74	71.2
<b>S6. Regular Audits:</b> Conducting frequent internal audits to ensure compliance and effectiveness.	51	<b>49</b>

Note: The total percentage is more than 100 because of multiple responses.

Source: Author’s computation





**Figure 4.6: Suggestions for improving accountants' role in AML/CFT**

Source: Author's design

The data in table 4.14 reveals the most significant preference for 'Enhanced training', with 79.8% of respondents advocating for it. More AML/CFT training courses must be conducted by outlining the responsibilities of accountants as one of the DNFbps. The SRB of accountants should organize and facilitate more AML/CFT training programs for its members through ongoing employee training programs or by encouraging participation in relevant courses offered by the SRB (Omar et. al., 2015). Increased Awareness follows closely with a response rate of 71.2%, indicating the need for raising awareness about AML/CFT responsibilities and risks among accountants. The second most significant preference is given to 'Increased awareness' for AML/CFT responsibilities and risks, indicating a 71.2% response rate. The study by Omar et.al., (2015) highlighted the Malaysian accountants' awareness of FATF recommendations, particularly in areas such as customer record-keeping, STR reporting, customer due diligence and identifying beneficial owners. To raise awareness of AML/CFT responsibilities among accountants, the government should conduct more AML/CFT campaigns and form an organisation requiring the registration of accountants as DNFbps irrespective of their membership with the SRBs (Omar et.al., 2015). Further, the least preferred suggestion is to conduct 'Regular audits' with a 49% response rate. This addresses the potential gap in ensuring regulatory adherence and ongoing vigilance to detect ML/TF activities. Nevertheless, internal audit remains crucial for enhancing accountants' role in AML/CFT efforts. A study by Akinteye et al., (2023) asserted that internal audit is fundamental in improving AML/CFT controls in Nigeria, advocating for greater participation and involvement of internal auditors in formulating and executing these controls. It accentuates the auditors' requirement to hold comprehensive knowledge of ML/TF schemes and ICT tools, besides actively cooperating with the FIU and AML/CFT Departments for intelligence sharing on best practices or evolving standards.

The overall findings and suggestions of this chapter reflect a comprehensive and multifaceted approach to strengthening the role of accountants in the AML/CFT compliance regime combining skills, detection and reporting procedures for suspicious transactions, training and awareness, successful AML initiatives and best practices for creating an active, effective and a resilient AML/CFT framework in the region.

## Chapter 5: Case Studies illustrating successful AML/CFT initiatives by Accountants

In the ever-evolving landscape of financial crime, the role of accountants in AML/CFT has become immensely crucial. The given case studies highlight the proactive measures accountants took to strengthen AML/CFT compliance. Ideas and themes have been drawn from a diverse range of sources, including Sri Lankan case studies from AML/CFT guidelines for accountants, Consultative Committee of Accountancy Bodies (CCAB) case studies, case Studies from ICPAC's Compliance Committee and Economic Crime and Forensic Accounting Committee and online news articles of the member nations. These case studies provide valuable insights into effective strategies for combating ML/TF.

### *5.1 Case study: Uncovering Terrorist Financing: Role of Vigilant Accounting Practices*

This case study illustrates how an accounting firm detected and reported suspicious client transactions, later revealing connections to terrorist financing (TF).

A client 'X' of an accounting firm 'KA' had frequently requested to wire money to and from various bank accounts and also make cash deposits in different financial institutions. Nevertheless, no logical justification was provided for the frequent transactions made. The Compliance Officer of KA identified X as suspicious and reported the suspicious nature of transactions to the FIU.

Later it was revealed that A had connections with a terrorist group and had assisted TF activities using KA (AML/CFT Guidelines, 2020).

#### *Red flags identified by KA*

- The client frequently requested to wire money to and from various bank accounts and make cash deposits in different financial institutions without any rationale.
- The client avoided answering questions about cash deposits in different financial institutions.
- Unusual transaction sizes and frequencies

#### *The course of actions taken by KA*

- A dedicated compliance officer was appointed to oversee AML/CFT measures
- An interaction was made with the client to discuss the purpose and the nature of frequent transactions

- An inquiry was made into the client's reluctance to provide a reasonable explanation for the transactions
- Based on the red flags and lack of satisfactory explanations, the transactions were identified as suspicious
- The suspicious nature of transactions was reported to the FIU

#### *Outcome*

It was revealed that A had connections with a terrorist group and assisted TF activities using A. The timely identification and reporting by the accounting firm KA played a pivotal role in uncovering and disrupting the TF network.

#### *Impact and Lessons Learned*

- The client faced legal consequences, and the accounting firm strengthened its AML/CFT measures.
- The case underscored the importance of vigilance and thorough due diligence in preventing financial crimes.
- The FIU's role was crucial in analysing and acting upon the reported suspicious activities.

### *5.2 Case study: Unveiling Illicit Wealth: The Role of Customer Due Diligence in Detecting Drug Trafficking Links*

This case study illustrates how Firm X handled a potentially suspicious transaction involving client Y.

Accounting firm 'Firm X' was contacted by client 'Y' who indicated that he wanted to purchase several properties. Y owned a car sale business (AML/CFT Guidelines, 2020). He wanted investment and tax planning advice on the best utilisation of the property purchase. Firm X carried out customer due diligence and inquired to understand the source of funds for the property purchase. Despite the earnings from Y's legitimate business activities, funds to purchase the properties were provided in cash and the given cash quantity was substantial. The car sale business did not match his apparent level of wealth.

Y stated that half of the funds for purchasing properties were received from an inheritance. On inquiring about the probate documentation from Y's solicitor, the solicitor was unable to provide a copy of the probate documents but confirmed the inheritance money was received from an overseas relative. However, even after several researches, no information existed on the deceased individual relating to the inheritance ([www.ccab.org.uk](http://www.ccab.org.uk)).

Firm X declined Y's offer, identified its activities as suspicious and filed an STR to the FIU.

After a thorough investigation, Y was found to have links with a drug trafficking business.

*Red flags identified by X*

- Substantial cash payments for property purchase - Despite the earnings from Y's legitimate business activities, funds to purchase the properties were provided in cash and the given cash quantity was substantial.
- Discrepancy between the car sale business earnings and Y's apparent wealth - The car sale business did not match his apparent level of wealth.
- The inability of the solicitor to provide a copy of the probate documents.
- Lack of information on the deceased individual relating to the inheritance.

*The course of actions taken by Firm X*

- Customer due diligence was conducted and an inquiry was made to understand the source of funds for the property purchase
- The solicitor was inquired to verify the legitimacy of the inheritance
- Research was conducted to verify the identity of the overseas relative
- Y's offer was declined due to the identification of his activities as suspicious and filed an STR to the FIU.

*Outcome*

After a thorough investigation, Y was found to have connections with a drug trafficking business.

*Lessons Learned*

- The importance of thorough customer due diligence.
- The need for verifying the legitimacy of large cash transactions.
- The role of accountants in identifying and reporting suspicious activities to the FIU.

*5.3 Case study: Thwarting a Stock Broking Scam- Accountants' Role in Uncovering Fraud*

The ABC Stock Broking, a reputed investment company, faced a significant threat when Mr. Z, attempted to defraud investors of nearly \$836.5 million. Nevertheless, due to the proactive measures taken by the chartered accountant (CA), the scam was successfully prevented.

### *Key Players*

- Mr Z - The mastermind behind the attempted scam
- CA who prevented the scam
- Mr X and Mrs Y, parents of Z involved in the scam

### *Role of the Accountant in Preventing the ABC Stock Broking Scam*

- Internal controls - The CA implemented measures to check the robustness of internal controls to monitor and verify financial transactions which included regular audits and inspection of accounts, which helped in the early detection of discrepancies.
- Advanced technologies - He leveraged advanced technologies like data analytics and forensic accounting tools to detect anomalies and potential fraud. Automated systems flagged suspicious transactions for further investigation.
- Whistleblower policy - A safe, secure and anonymous environment was established wherein employees can voice suspicious ML/TF activities without hesitation or fear.
- Investigation - On further *inquiry about Mr Z's financial activities*, they were found to be managed through a dematerialised account (demat account) and transactions across 12 personal bank accounts. Once returns became irregular, investors claimed that Mr Z made extravagant promises of returns—ranging from 8% monthly to an astonishing 120% annually (<https://assamtribune.com>). Furthermore, the branch offices expanded rapidly over several cities in the country.
- Reporting - The CA identified Mr. Z's activities as suspicious and reported such transactions to the FIU.

### *Red flags identified in the case*

- Irregular returns to the investors and increased investor complaints
- Unrealistic promises of high returns of 8% monthly to an astonishing 120% annually
- Rapid expansion of branch offices in other cities of the country

### *Outcome*

The attempted scam was detected early and appropriate actions were taken to prevent any financial loss to investors. The authorities were alerted and Mr. Z, along

with his parents, were investigated and arrested before they could execute their fraudulent scheme.

*Here are also some of the unethical actions to be avoided by the accountant that could lead to defrauding investors in this case:*

- *Manipulating financial records* to present a healthy financial status of the entity including falsifying income statements or balance sheets to attract more investors.
- *Creating multiple fake accounts* to divert funds and show non-existent transactions which could aid in ML and make fraudulent activities less detectable.
- *Aiding in ML through complex financial transactions, making the illicit funds appear legitimate* by routing money through various accounts and investments.
- *Assisting in evading taxes* by manipulating the entity's income/expenses to increase its apparent profitability as well as reduce its tax liabilities.

Such actions demonstrate how financial expertise could be misused for fraudulent purposes.

#### *Lessons learned*

- The importance of a robust internal control system
- The utilization of advanced technologies
- The significance of whistleblower policies
- Proactive monitoring and reporting
- Awareness and timely recognition of red flags
- The overall impact of fraud on various stakeholders

#### *5.4 Case study: Unmasking an Export Trade Fraud*

'XY Group', one of the largest conglomerates in the country approached an accounting firm 'Z & Associates' for tax planning and asset investment advice. XY group dealt in export trade. It exported goods using Letters of Credit (LOC) from 'Bank PQ'.

On conducting thorough due diligence on its client, it was established that there was a continuous movement of funds from one company to another. On asking XY Group, it confirmed 17 companies to be owned by the group. On investigating Bank PQ on its client, it was known that XY Group exported goods using 93 LOC from PQ Bank's local branch during the period 2021-2024. However, the proceeds from these exports were not repatriated to the

home country within the stipulated time. The goods were primarily shipped to companies in the UAE, Saudi Arabia and other countries like Germany, the Netherlands, the UK and Turkey ([www.thedailystar.net](http://www.thedailystar.net)).

The accounting firm 'Z & Associates' challenged the purpose of the numerous LOCs, the relationship between the companies and the business rationale behind the transactions. It was not satisfied with the explanations given and hence, filed an STR and considered declining the client's offer.

Later, the investigation revealed that the funds were diverted for personal gain and overseas asset acquisition and allegedly laundering approximately about \$83 million under the guise of export trade.

#### *Red flags identified by the accounting firm*

- The continuous movement of funds from one company to another.
- The unusual number of LOCs indicated an attempt to obscure the true nature of transactions and inhibit detection by spreading transactions across multiple LOCs.
- The failure to repatriate export proceeds within the required timeframe indicated that the funds were diverted for other purposes.
- Involvement of companies in multiple jurisdictions like UAE, Saudi Arabia, Germany, the Netherlands, the UK and Turkey raised suspicions about the legitimacy of the transactions.

#### *The courses of action taken by the firm*

- Conducted CDD and thorough investigation into the client's transactions at Bank PQ.
- Challenged the purpose of the numerous LOCs, the relationship between the companies and the business rationale behind the transactions.
- The firm monitored the transactions over time. Continuous monitoring provided more insights into the patterns and anomalies in the transactions.
- The staff had specific training on identifying and reporting suspicious activities
- Identified the client's activities as suspicious and filed an STR with the FIU



### *Outcome*

The investigation revealed that the funds were diverted for personal gain and overseas asset acquisition and allegedly laundering approximately about \$83 million under the guise of export trade.

### *Lessons learned*

- The necessity of conducting thorough due diligence and understanding the client's business and transaction patterns. This helps in identifying red flags early.
- Filing STRs is crucial in alerting authorities to potential ML activities. It also protects the firm from potential legal repercussions.
- Continuous monitoring of transactions and client activities is essential to detect ongoing suspicious behaviour. It helps in maintaining an up-to-date risk profile of the client.
- Awareness of high-risk jurisdictions stated by FATF and their updated list issued from time to time

### *5.5 Case study: Exposing Trade-Based Money Laundering: Auditors' Role in Detecting Fraud*

A case was lodged against two companies in a country after unearthing a massive money laundering worth \$561.18 million following a thorough investigation by the auditors. The transfer of money was declared a 'trade-based money laundering'. The companies caused a mammoth financial loss to the national exchequer worth \$90 million allegedly through under-invoicing. The money laundering and under-invoicing were committed in the name of solar panels. Auditors reviewed the records of 705 Goods Declarations (GDs) of the companies and identified discrepancies in the declared values. The findings were documented in a report and forwarded to the relevant authorities, including the Caretaker, Prime Minister (<https://arynews.tv>).

### *Red flags identified by auditors*

- Involvement in high-value transactions without a clear business rationale
- Discrepancies in invoices i.e., significant differences in the value of goods declared (solar panels) and market value
- A significant mismatch in the nature of the business as the companies claimed to deal in solar panels but the executed transactions did not match typical business operations, thereby, giving rise to suspicious activities

*Courses of action taken by auditors*

- Detailed examination of records i.e., reviewed the records of 705 GDs of the companies and identified discrepancies in the declared values
- Cross-verification of the business activities claimed by the companies and actual transactions
- Tracing the flow of money and identification of patterns indicative of money laundering
- Documenting and reporting - Documentation of the findings in a report and forwarding it to the relevant competent authorities including the Caretaker, Prime Minister

*Outcome*

A first information report (FIR) was lodged against the owners of the two companies thus initiating legal proceedings under the country's AML regulations.

*Lessons learned*

- The case underscores the critical role of thorough and detailed auditing in uncovering complex ML schemes
- It highlights the necessity to conduct due diligence in the industrial sector like solar panels, which can be exploited for TBML
- It emphasises the need for better collaboration and information sharing among financial institutions, auditors and regulators to detect and prevent ML/TF

*5.6 Case study: A tax fraud case: The Hidden Cost of Fake Companies*

A massive tax fraud worth \$1.07 billion was uncovered in a country. The fraud was committed by a fake company 'AR & Sons'. The company existed merely on paper and was registered with a benami individual Mr. X. The documents of 'AR & Sons' indicated the existence of their aluminium and copper business albeit the given addresses do not conform to the indicated business operations (<https://arynews.tv>).

*Red flags identified by accountants*

- The existence of the company was only on paper without any physical presence.
- The registration of the company was under a fictitious or proxy name.
- The company's claim of dealing in aluminium and copper did not conform to the addresses mentioned because the multiple addresses did not

correspond to commercial premises. This resulted in a significant mismatch in the nature of business activities claimed.

- The beneficial owner could not be established.
- The sources of the huge amount of funds could not be traced.

#### *The courses of action taken by accountants*

- Undertaking CDD measures – inquiry of the company’s name, occupation and address.
- Inquiry of the beneficial owner(s) of the company and sources of funds
- Cross-verification of the business activities claimed by the companies and actual transactions
- Tracing the flow of money and identification of patterns indicative of tax fraud
- Identification of the company’s activities as suspicious and reporting them to the FIU

#### *Outcome*

An FIR was lodged against the owners of the two companies thus initiating legal proceedings. It was revealed that the fake company was utilised for various unlawful activities. A delay in the registration of the FIR could result in the accused fleeing abroad.

#### *Lessons learned*

- CDD is crucial for identifying and verifying the legitimacy of companies including their physical presence and business activities
- The establishment of true beneficial ownership of a company. The use of proxy names or benami individuals can obscure the real owners thus facilitating fraudulent and illegal activities.
- Cross-verification of business activities helps in early recognition of red flags
- Timely reporting of suspicious activities to the relevant authorities

## Chapter 6: Latest AML/CFT practices and techniques

### 6.1 Introduction

The ever-growing interconnected global economy has precipitated the rapid evolution in the landscape of financial crimes. Subsequently, accountants must stand as forerunners in AML/CFT practices to ensure regulatory compliance, detect anomalies and alleviate ML/TF risks. Accordingly, there is a need for explicit training to effectively combat evolving AML/CFT compliance challenges, including knowledge risks that may undermine AML/CFT efforts. The training should encompass not only about the essential knowledge for compliance but also the ability to manage risks that could endanger the AML/CFT system's effectiveness (Borgia and La Torre, 2022). Robust training materials are essential to arm accountants with the latest AML/CFT practices and techniques. The training resources act as an educational approach and leveraging these resources can strengthen accountants' aptitudes to detect and prevent ML/TF activities. Integrating the latest AML/CFT practices shall safeguard financial systems against evolving threats and crimes, thereby, building effective regulatory compliance and risk management in the AML/CFT arena. The present study can be used as a base for educating the accountants about latest AML/CFT practices and techniques. A brief account of each of the chapters in this regard is highlighted below:

Chapter -1 of the study presents a brief overview of the global AML/ CFT landscape along with the red flags for ML/FT risk identification. The chapter is informative and presents invaluable insights about prevailing benchmarks for ML/TF risk identification.

Chapter 2 provides a comprehensive and comparative analysis of AML/CFT Legislation in SAFA Member Countries. The country-specific summary is of utmost importance for the professionals working in the field to effectively combat the ML/TF risks as 'ignorance of the law is no excuse'.

Chapter 3 presents a summary of existing best practices in AML/CFT compliance regimes in SAFA member nations which can be examined and replicated by the accountants in their respective countries by analysing the feasibility of the same.

Chapter 4 serves as important guidance regarding the role and responsibilities of accountants in identifying and mitigating ML and TF risks effectively and efficiently as it relates to the opinions and experiences of the accountants working in SAFA member nations. It also

summarises the responses regarding the effectiveness of various skills and techniques along with the training requirements

Chapter 5 highlights a few case studies illustrating successful AML/CFT initiatives by accountants which may serve as guidelines by giving practical exposure and hand on training to accountants.

## 6.2 Training materials for accountants

A wide array of sources can serve as training materials to educate accountants about the current AML/CFT practices and techniques. Some of the key resources are outlined as follows:

- a) *FATF recommendations and guidance paper* – The FATF recommendations offer a comprehensive framework for accountants to combat ML/TF by offering guidance on crucial aspects like assessing risks and applying a risk-based approach, CDD, STR reporting and DNFBP regulation and supervision. Further, the explicit recommendations for accountants pertain to R.23 and R.28. These guidelines can serve as a training resource by aiding accountants to enhance their capabilities in detecting suspicious activities and preventing ML/TF risks. Secondly, the FATF has an explicit guidance paper for undertaking a risk-based approach by the accounting profession. The guidance delineates the policies and procedures for applying a risk-based approach while accentuating the critical roles of implementing CDD measures and identifying and verifying beneficial ownership requirements.
- b) *Country-specific AML/CFT laws, regulations and guidelines* – These can serve as critical training resources for accountants as they design AML/CFT frameworks tailored to the national-level regulatory requirements and extent of ML/TF threats and vulnerabilities. Adherence to local rules and guidelines enables accountants to usher their capabilities in detecting and mitigating ML/TF activities within their jurisdictions. The country-wise laws, regulations and guidelines have been incorporated in Chapter 2.
- c) *ML/TF case studies through accountants* – These illustrate both real-world and hypothetical scenarios of financial crimes and depict the step-by-step procedures followed by accountants that culminated in the identification of red flags, detection of suspicious transactions/activities and finally filing STRs with the competent authorities.

The study has incorporated case studies under Chapter 5 which can serve as a valuable resource in understanding the practical application of AML/CFT laws and regulations. Further, Sri Lankan case studies from AML/CFT guidelines for accountants, Sri Lankan case studies from AML/CFT guidelines for accountants, Consultative Committee of Accountancy Bodies (CCAB) case studies, case Studies from ICPAC's Compliance Committee and Economic Crime and Forensic Accounting Committee(CCAB) case studies, case Studies from ICPAC's Compliance Committee and Economic Crime and Forensic Accounting Committee can also serve as training guides for accountants.

- d) *AML initiatives and best practices* – The AML initiatives inserted in Chapter 4 under Section 4.4.7 can act as a facilitator to understand the impact of AML/CFT efforts or measures undertaken by accountants. Further, best practices inserted in Chapter 3 provide an overview of country-specific AML/CFT practices which can serve as model approaches for other countries and be replicated as per local ML/TF risk levels and regulatory compliance requirements. Further, best practices under Section 4.4.8 in Chapter 4 have also covered the perspectives of professionals regarding the significance of both specified and additional AML practices, henceforth, enabling a better understanding and implementation of effective measures for AML/CFT compliance.
- e) *Country-specific training materials* - The website of SAFA hosts a quick link to the ICAI digital learning hub which hosts several e-learning modules through certification courses, study materials, webinars and so on. E.g. Under the ‘SAFA/MRA/MOU’ section in ‘product type’, there are numerous learning materials for non-ICAI members on topics such as blockchain technology and understanding its role for accountants, forensic accounting and fraud detection, comprehending the effect of RPA (Robotic Process Automation) on the CA profession etc. Among the SAFA member nations, an explicit section for ‘training materials’ exists on the website of the FIU of Sri Lanka <https://fiusrilanka.gov.lk/training.html>. For instance, the latest AML/CFT compliance obligations for accountants have covered a wide range of ML/TF elements starting with the case studies of ML/TF using accountants, DNFBPs, the role of accountants under the FTRA (2006), AML/CFT requirements to protect institutions from ML/TF risks and penalties for non-compliance (AML/CFT Guidelines, 2020). The outreach and awareness sessions under the ‘AML supervision’ section at the ICAP website can also serve as training guides to accountants.

Overall, resources viz., *FATF recommendations and guidance paper, Country-specific AML/CFT laws, regulations and guidelines, ML/TF case studies through accountants, AML initiatives and best practices* and country-specific training materials should be leveraged to build an efficient, effective and resilient AML/CFT compliance regime in the region.

### MCQs

1. Which organisation established in 1989 recommends global AML/CFT standards?
  - A. World Bank
  - B. Anti-Corruption Commission
  - C. Financial Action Task Force
  - D. United Nations Office on Drugs and Crime

Answer: C

2. Which FATF recommendation focuses on “Customer due diligence”?
  - A. R.7
  - B. R.8
  - C. R.9
  - D. R.10

Answer: D

3. What does FATF recommendation 20 deal with?
  - A. Money laundering offence
  - B. Reporting suspicious transactions
  - C. Designated non-finance businesses and professions
  - D. Politically exposed persons

Answer: B

4. Match the following FATF recommendations with their descriptions.

Column A	Column B
I. R.1	a. Record-keeping
II. R.3	b. Financial intelligence units
III. R.11	c. DNFBPs: Customer due diligence
IV. R.22	d. Money laundering offence
V. R.29	e. Assessing risks & applying a risk-based approach
	f. Terrorist financing offence

- A. I-a, II-b, III-c, IV-d, V-e
- B. I-e, II-d, III-f, IV-c, V-b
- C. I-e, II-d, III-d, IV-c, V-f
- D. I-e, II-d, III-d, IV-c, V-b

Answer: D

5. A client 'X' of an accounting firm had frequently requested to wire money to and from various bank accounts and also make cash deposits in different financial institutions. Nonetheless, no logical justification was provided for the frequent transactions made. The Compliance Officer of the firm identified X as suspicious and reported the suspicious nature of transactions to the FIU. Later it was revealed that X had connections with a terrorist group and had assisted terrorist financing activities using the firm.
- Identify which of the following is not a red flag?

- A. The client frequently requested to wire money to and from various bank accounts and make cash deposits in different financial institutions without any rationale.
- B. The client avoided answering questions about cash deposits in different financial institutions.
- C. The suspicious nature of transactions was reported to the FIU.
- D. Unusual transaction sizes and frequencies.

Answer: C

6. Which of the following is/are AML/CFT suspicious indicator(s)/red flag(s) for accountants?
- A. Client executes transactions which are not consistent with her usual profile.
  - B. Client is remitting funds to countries which have been recognized as having significant level of corruption, drug trafficking or terrorism.
  - C. Client maintains and submits incomplete account records to the accountants in order to finalize the accounts.
  - D. All of the above

Answer: D

7. Answer the following statements with 'True' or 'False'.
- A. Accountants should use a risk-based approach (e.g. a risk assessment checklist) while dealing with clients.
  - B. KYC (Customer Due Diligence) procedures must not be implemented by accountants to mitigate ML/TF risks.
  - C. FATF recommendation 40 deals with national cooperation.
  - D. Regulation and supervision of Designated non-finance businesses or professions (DNFBPs) are covered by R.28.



Answer: True-A, D; False: B, C

8. Which of the following are best practices for improving collaboration between accountants and other professionals (e.g., law enforcement, regulators) in the fight against ML/TF?
- A. Scheduling regular meetings to discuss AML/CFT issues and updates.
  - B. Using shared databases or communication platforms for information exchange.
  - C. Conducting joint training sessions with law enforcement and regulatory bodies.
  - D. Creating formal agreements or memorandums of understanding (MOUs) to outline roles and responsibilities.
  - E. All of the above

Answer: E

9. What do you mean by Enhanced Due Diligence?
- A. Automated tools and software that analyze transactions for unusual patterns.
  - B. Periodic reviews of transactions and account activities by staff.
  - C. Additional scrutiny for high-risk customers and transactions.
  - D. Following specific indicators/red flags for suspicious behavior.
  - E. None of the above.

Answer: C

10. Which entity is responsible for investigating all allegations of corruption, complaints or suspicion of corruption and related offences?
- A. Anti-Corruption Commission
  - B. Financial Intelligence Unit
  - C. Central Bank of a country
  - D. None of the above

Answer: A

11. .... is a specialised government agency responsible for receiving, analysing and disseminating financial information with respect to suspicious transactions/activities to combat ML/TF and predicate crimes. Which organisation is it?
- A. Anti-Corruption Commission
  - B. Financial Intelligence Unit
  - C. Central Bank of a country
  - D. None of the above

Answer: B

12. Which of the following is not considered Designated Non-Finance Businesses or Profession (DNFBP)?

- A. Trust and company service providers
- B. Real estate agents
- C. Accountants
- D. Dealers in precious metals and stones
- E. Banks

Answer: E

13. Which of the following is not a method of reporting ML/TF risks?

- A. Automated Reporting Systems: Utilizing software that integrates with reporting requirements.
- B. Customer Due Diligence: Verifying the identity and assessing the risk of customers.
- C. Ad-Hoc Reporting: Reporting as incidents arise without a set schedule.
- D. Standard Reporting Forms: Using standardized forms provided by regulatory bodies.

Answer: B

14. What do you mean by Customer due diligence in AML/CFT arena?

- A. The act of reporting suspicious activities of the customer to the FIU.
- B. The act of identifying, verifying and assessing the risk profile of customer.
- C. The act of carrying out additional scrutiny for high-risk customers and transactions.
- D. The act of conducting AML/CFT training programmes for the customers.

Answer: B

15. Which of the following is not the function of the FIU?

- A. It provides strategic intelligence including statistics, trends and typologies to increase awareness of the general public, financial institutions, foreign counterparts and government officials of ML/ TF trends in a country.
- B. It organises capacity-building programs for effective AML/CFT compliance.
- C. It is responsible for licensing, prudential regulation and oversight of banks and other financial institutions.
- D. It signs MoUs to exchange financial intelligence, produces financial intelligence and disseminates it to relevant investigating agencies for further action.

Answer: C

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*Questionnaire*  
**Strengthening the role of accountants in Anti-Money Laundering (AML)/ Countering  
 Financing of Terrorism (CFT)**

<b>Name:</b>	<b>Age (in completed years):</b>
<b>Gender</b> <input type="checkbox"/> Male <input type="checkbox"/> Female <input type="checkbox"/> Other	<b>Highest Educational Qualification</b> <input checked="" type="checkbox"/> Bachelors <input checked="" type="checkbox"/> Masters <input type="checkbox"/> Doctoral <input type="checkbox"/> Others
<b>Profession</b> <input checked="" type="checkbox"/> Chartered Accountant <input type="checkbox"/> Cost and Management Accountant <input type="checkbox"/> Company Secretary <input type="checkbox"/> Other, please specify:	<b>Experience (in completed years):</b> <b>Present Designation:</b> <b>Country</b> <input type="checkbox"/> Afghanistan <input type="checkbox"/> Bangladesh <input type="checkbox"/> India <input type="checkbox"/> Maldives <input type="checkbox"/> Nepal <input type="checkbox"/> Pakistan <input type="checkbox"/> Sri Lanka

**1. Please indicate your level of agreement with the following statements about the role of accountants in managing money laundering (ML) and terrorism financing (TF) risks. Use a scale from 1 to 7, where 1 = Strongly Disagree, 2 = Disagree, 3 = Somewhat Disagree, 4 = Neutral, 5 = Somewhat Agree, 6 = Agree, 7 = Strongly Agree.**

Statements	1	2	3	4	5	6	7
Accountants should avoid activities that classify them as 'reporting entities' to minimize legal liability.							
Not using a risk-based approach (e.g., failing to use a risk assessment checklist) increases ML/TF risk.							
Accountants must be knowledgeable about Financial Action Task Force (FATF) recommendations.							
Familiarity with International Conventions and Resolutions (e.g., the Vienna, Palermo, Merida, and Terrorist Financing Conventions) is essential for accountants.							
Accountants should be well-versed in AML compliance laws and stay updated with current AML/CFT policies.							
Having AML certification and specializing in anti-money laundering is crucial for accountants.							
Accountants must implement KYC (Client Due Diligence) procedures to mitigate ML/TF risks.							

**2. How critical are the following skills for enhancing accountants' effectiveness in AML/CFT? Rate each skill from 1 to 7, where 1 = Extremely Important, 2 = Important, 3 = Somewhat Important, 4 = Neutral, 5 = Somewhat Less Important, 6 = Less Important, 7 = Not at All Important.**

Skills to combat ML/FT risks	1	2	3	4	5	6	7
Ability to trace Trade misinvoicing							
Analytical, Logical, and Critical thinking skills							
Unstructured Problem-solving skills							
Ability to critically analyze financial statements							
Skills to evaluate the effectiveness of internal control systems							
Professional scepticism and sound judgment							
Fraud investigation skills							



Business / Assets valuation skills									
Assets tracing skills									
Loss quantification skills									
Court testifying expertise									
Evidence-gathering and compilation skills									
Advanced computer skills									
Text analysis skills									
Proficiency in programming languages									
Ethical Hacking									
Recovery of digital data									
Digit analysis skill									
Interpersonal skills									
Interview and Interrogative skills									

**3. Describe any specific methods or procedures you use to detect suspicious activities related to ML/TF. (Select multiple options if applicable)**

- Transaction Monitoring Systems:** Automated tools and software that analyze transactions for unusual patterns.
- Manual Reviews:** Periodic reviews of transactions and account activities by staff.
- Customer Due Diligence (CDD):** Verifying the identity and assessing the risk of customers.
- Enhanced Due Diligence (EDD):** Additional scrutiny for high-risk customers and transactions.
- Suspicious Activity Reports (SARs):** Filing reports with authorities when suspicious activities are identified.
- Use of Red Flags:** Following specific indicators or red flags for suspicious behavior.
- Internal Whistleblowing Mechanisms:** Encouraging employees to report suspicious activities internally.
- Others,** please input details here:

**4. How do you report ML/TF risks? Please specify if you use any standard formats or procedures for reporting suspicious transactions. (Select multiple options if applicable)**

- Standard Reporting Forms:** Using standardized forms provided by regulatory bodies.
- Internal Reporting Protocols:** Following internal procedures and formats for documenting and reporting.
- Direct Reporting to Authorities:** Submitting reports directly to regulatory or law enforcement agencies.
- Automated Reporting Systems:** Utilizing software that integrates with reporting requirements.

- Regular Reporting:** Reporting on a scheduled basis, such as quarterly or annually.
- Ad-Hoc Reporting:** Reporting as incidents arise without a set schedule.
- Others,** please input details here:

**5. Please provide additional details of the standard formats or procedures that you use for reporting suspicious transactions.**

**6. Have you received any AML/CFT training? (Select multiple options if applicable)**

- Yes, Formal Training:** Completed a structured training program with specific duration and topics.
- Yes, Informal Training:** Received training through workshops, seminars, or on-the-job learning.
- No Training:** Have not received any AML/CFT training.
- Training in Progress:** Currently undergoing training with ongoing sessions.
- Self-Study:** Engaged in self-study or online courses related to AML/CFT.
- Others:**

**7. Please provide details about the training program, including the topics covered and duration.**

**8. What suggestions do you have for improving the role of accountants in AML/CFT efforts? (Select multiple options if applicable)**

- Enhanced Training:** Providing more comprehensive and regular training for accountants.
- Improved Tools:** Implementing advanced software and tools for detecting suspicious activities.
- Clearer Guidelines:** Establishing more detailed and clear guidelines for accountants.
- Stronger Collaboration:** Encouraging better communication and collaboration with law enforcement and regulators.
- Increased Awareness:** Raising awareness about AML/CFT responsibilities and risks.
- Regular Audits:** Conducting frequent internal audits to ensure compliance and effectiveness.
- Others:

**9. What are the successful AML initiatives you have led or participated in? (Select multiple options if applicable)**

- Implementation of New Policies:** Developing and implementing new AML policies and procedures.
- Successful Investigations:** Leading investigations that resulted in identifying and mitigating ML/TF risks.
- System Enhancements:** Upgrading or improving AML monitoring systems.
- Training Programs:** Developing and delivering training programs that improved AML/CFT practices.
- Regulatory Compliance:** Ensuring compliance with new or updated AML/CFT regulations.
- Cross-Departmental Projects:** Working on initiatives that involved multiple departments or external partners.
- Others:

**10. Provide some examples and the outcomes of the AML initiatives that you have led or participated.**

**11. What best practices would you recommend for improving collaboration between accountants and other professionals (e.g., law enforcement, regulators) in the fight against ML/TF? (Select multiple options if applicable)**

- Regular Meetings:** Scheduling regular meetings to discuss AML/CFT issues and updates.
- Shared Platforms:** Using shared databases or communication platforms for information exchange.
- Joint Training Sessions:** Conducting joint training sessions with law enforcement and regulatory bodies.
- Clear Communication Channels:** Establishing clear and open communication channels for reporting and feedback.
- Collaborative Research:** Engaging in collaborative research and analysis of AML/CFT trends and issues.
- Formal Agreements:** Creating formal agreements or memorandums of understanding (MOUs) to outline roles and responsibilities.
- Others: