

Learning from FATF Blacklisting of Iran: Analysis of Socioeconomic Threats and Opportunities for Pakistan



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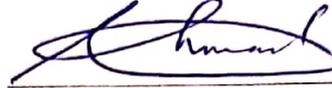
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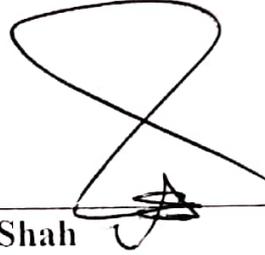
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ABSTRACT

FATF has arisen as an influential global policy making body against money laundering, terror financing and proliferation of weapons. FATF as an inter-governmental task force enforces its standards with the collaboration of its members. Iran is facing the counter measures imposed by the FATF for the non-compliance of the FATF demands and Pakistan is going through strict observation by the FATF for being on grey list. The counter measures taken by FATF isolates the targeted state from the international financial system and it has impact the ordinary life of the people in socioeconomic terms. The isolation of any sort for any state in this high time of interdependency and globalization diverse impacts. This study has analyzed the socioeconomic spectrum of Iran since its inclusion on FATF blacklist. Pakistan can learn from the case of Iran which due to many reasons delayed the fulfillment of FATF recommendations and ended with call for counter measures against it. Pakistan, as was mentioned by the foreign minister of Pakistan, is confronting the threat of losing ten (10) billion dollars annually if it fails to ensure the exit from the FATF watch list. This study has been carried out employing the qualitative research method of ‘Case Study’ and ‘Document Analysis’ as a data collection technique.

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ABBREVIATIONS

FATF	Financial Action Task Force
AML	Anti-Money Laundering
CFT	Counter the Financing of terrorism
NPOs	Non Profit Organizations
BFI	Beneficiary Financial Institution
BNI	Bearer-Negotiable Instrument
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Business or Profession
WBG	World Bank Group
IMF	International Monetary Fund
FIs	Financial Institutions
HRJ	High Risk Jurisdictions
NYT	New York Times

CHAPTER 1

INTRODUCTION

1.1 Background:

This study pursues what Iran can learn from FATF's blacklisting, and what threats and opportunities Pakistan confronts being on FATF grey list. Financial Action Task Force (FATF) is an international standard-setting organization to deal with the money laundering and fighting the financing of terrorism (AML/CFT) (FATF, 2019). This 39-member Financial Action Task Force has become an influential non-state actor in the contemporary international relations. The role being played by FATF as an international policy making and enforcement body is very significant. FATF has introduced norms that are known as

the international standards for fighting against the illegal transfer of money, which is used for terror activities and for the purpose of buying weapons of mass destruction (FATF, 2019).

Iran is an important sovereign member of the international political world. FATF has called Iran's financial dealings as a threat to the international financial system because Iran lacks regime against money laundering (AML) and combatting the financing of terrorism (CFT) arrangements (Mostatabi, Valerie Lincy and Mana, 2019). Iran has been included on the FATF's "blacklist" since 2008 (iranwatch, 2019). FATF in its official statement issued on June 2019, had urged its members to take measures to introduce improved relevant reporting mechanisms or systematic reporting of financial transactions and to have increased external audit necessities for financial groups working with or in Iran (FATF, 2019). FATF has continued a persistent check on Iran. Iran has been proclaimed as a high risk jurisdiction/blacklist by the FATF for non-

compliance of its recommendations on anti-money laundering and counter terror financing; and Pakistan is struggling for being on Financial Action Task Force's (FATF) grey list since June 2018.

FATF has become an influential global policy making entity and it is a forum of 39 important states of the world which are bound to follow the counter measures proposed by FATF against the non-cooperating states. Due to this FATF's blacklisting Iran is facing the consequences of being restricted from the international financial system. The disintegration of a state from the international financial system results in a heavy socioeconomic loss. Because the international financial system networks the state to international financial institutions, international financial agreements, banking and investment and trade financing. In the contemporary world of enhanced interdependency, the whole socioeconomic phenomenon of a state is reliant on the international financial connectivity of a state and the finance serves as the blood for all the socioeconomic activities carried by state.

FATF punishes the non-cooperative state(s) by striking on their economic wellbeing. The whole phenomenon of the socioeconomic well-being is about having present and future financial security. Present financial security is also a social phenomenon having control over their day-to-day finance ability of individual persons and their families, and communities to reliably meet their simple needs of financing food, housing, utilities, health care, transportation, education, child care, clothing, and paid taxes. The consequences occurred because of FATF blacklisting needs an intensive investigation.

FATF as an inter-governmental organization seeks to ensure that the international financial system should not be used for terror financing, money laundering and proliferation of weapons of mass destruction. It enhances cooperation among the

members and coordinates the essential political will to produce the needful governing reforms at national and international level to meet its objectives. As a policy making body FATF within a year since its creation by the G-7 countries had designed its forty recommendations. The intention was to recommend a complete plan of action observed by the member states to combat against money laundering. After the incidence of 9/11 in 2001 in USA, another vulnerability and miss use of international financial system was surfaced. Thus the initiation of standards to counter the terrorist financing became another important objective of FATF. Further eight recommendations were produced in 2001 to fight the terror financing. FATF is in constant action of devising the recommendations in the light of its investigation and identifications of vulnerabilities of international financial system and the techniques used to in international financial system by the different state and non-state actors; and the counter techniques recommended by the FATF. In February 2012, the FATF accomplished a detailed appraisal of its existent standards and then published the revised FATF Recommendations. The Iranwatch.org, a website published by Wisconsin Project on Nuclear Arms Control specifies that Iran was included on the FATF's "blacklist" since 2008. Iran has been through several socioeconomic setbacks due to the FATF restrictions and monitoring. The nomination of Iran again as a high risk jurisdiction/blacklist on February 21, 2020 has brought Iran under strict International sanctions. Pakistan was put on its grey list by the FATF in June 2018. Financial Action Task Force (FATF) is an international standard setting organization to deal with the money laundering and fighting the financing of terrorism (AML/CFT) (FATF, 2019). This 39-member Financial Action Task Force has become an influential non-state actor in the contemporary international relations. The role being played by FATF as an international policy making and enforcement body is very significant. FATF has

introduced sort of norms that are known as the international values for fighting against the illegal transfer of money, which is used for terror activities and for the purpose of buying weapons of mass destruction (FATF, 2019).

Iran is an important sovereign member of the international political world. FATF has called Iran's financial dealings as a threat to the international financial system because Iran lacks broad anti-money laundering (AML) and combatting the financing of terrorism (CFT) arrangements (Mostatabi, Valerie Lincy and Mana, 2019). Iran has been included on the FATF's "blacklist" since 2008 (iranwatch, 2019) and FATF in its official statement issued on June, 2019, had urged its members to take measures to introduce improved relevant reporting mechanisms or systematic reporting of financial transactions and to have increased external audit necessities for financial groups working with or in Iran (FATF, 2019). FATF has continued a persistent check on Iran, as Iran once again has been given a dead line till February 2020 to make necessary arrangements in the light of FATF recommendations. If Iran fails to make complete arrangements in the light of the recommendations stated in FATF's Palermo and Terrorist Financing Conventions, FATF will impose further counter-measures against Iran. As counter measures FATF members will impose sort of financial restriction against Iran (FATF, 2019).

Among the various recommendations of FATF, recommendation 19 of the FATF is basically regarding the 'due diligence measures' that are supposed to be taken by the FATF member states and their associated in dealing with the non-cooperating countries. During the years of 2012-2015, states of the world jointly had introduced counter measures against Iran and as result Iran's economy had badly shriveled. About 50% of Iran's crude oil exports had fell, furthermore, Iran's capacity to utilize its \$120 billion held abroad was limited (Katzman, November 15, 2019). The imposition of FATF

restrictions on Iran is isolating Iran in its international relations. The international isolation for any nation in this age of socio-economic interdependency is a complete can be a complete. Iran is a historical and resource rich country of the world. The real strength of Iran is its enormous oil reserves. Being an oil producing country, Iran has strong politico-economic relations with some major powers like China and Russian Federation. But the political world is always based on the real practices. Every state seeks it's on interest and can change its position with regard to its relations with other states. In real politics no state stays as a permanent friend or foe. Iran's foreign minister, Mohammad Javad Zarif had clearly stated the situation that if why Iran needs to ensure the implementation of the FATF's recommendations; because it's political allies like Iran and Russia would not be able to continue their cordial relations with Iran if it fails to comply (Chazan, 2018). China and Russia are the key members of FATF. Both countries are also the major powers of the world and thus, own more international responsibility in the international arena. Iran would be completely isolated if Iran and Russia discontinue their cordial relations with Iran in compliance with the FATF counter measures against Iran.

The deteriorating economy of Iran has intensely impact the society of Iran. The ordinary masses of Iran are participating in frequent protests across the country because of the ongoing vulnerable economic conditions. People are blaming government for its involvement in systematic corruption and most important thing is demand of the people for enhanced socio-economic and political freedom, and popular frustration over lack of political and social freedoms (World Report, 2019). Iran is going through a difficult political situation which is so much fatal in sense that it took human lives since Islamic Revolution. The Iranian government is using enormous power to crush the political

protests in different cities of Iran (Farnaz Fassihi and Rick Gladstone news correspondents, NYT, 2019).

It is apparent that the deteriorated socio-economic situation in Iran has occurred due to the long standing economic and financial restrictions on Iran, imposed by various international organizations such as FATF. Thus an in-depth study is the need of the time to investigate and to understand the phenomenon of the socio-economic consequence of being on the blacklist of FATF. Pakistan was put on its grey list by the FATF in June 2018. Pakistan is going through a phenomenon of enhanced socioeconomic threats and opportunities for being on the FATF grey list. This can impact Pakistan's present and future financial security. Pakistan has been driving its socioeconomic stability with the help of International financial Institutions. In terms of opportunities, FATF aims to work with its member states to help them to improve the domestic and foreign policy and governance mechanism of the states. Pakistan can improve its domestic policy and governance structure in the light of FATF recommendations and this would have a definite positive impact on its foreign policy as well. In this connection the core objectives would be as follows.

1.2 Problem Statement

Pakistan is going through a phenomenon of enhanced socioeconomic threats and opportunities for being on the FATF's grey list. This can impact Pakistan's present and future financial security. Pakistan has been driving its socioeconomic stability with the help of International financial Institutions. In terms of opportunities, FATF aims to work with its member states to help them to improve the domestic and foreign policy and governance mechanism of the states. Pakistan can improve its domestic policy and governance structure in the light of FATF recommendations and this would have a

definite positive impact on its foreign policy as well. Iran has been included on the FATF's "blacklist" since 2008 (iranwatch, 2019), therefore it makes Iran a good case study to analyze the impact of blacklisting over the years on Iran. The consequences of being blacklist are dire and many folds. But the most observable consequences are in socio-economic terms. The existence of a state in this high time of interdependency and globalization is subject to its socio-economic connectivity with the world. FATF holds enormous power to obstruct the Political, economic and financial connectivity of any state in the pursuit of its recommendations which further consequence socioeconomic threats and opportunities.

1.3 Objectives of the Study

This study will seek the following key objectives.

1. To understand the role of FATF as a policymaking and enforcement entity in the world arena.
2. To identify the socioeconomic consequences of FATF blacklisting on Iran.
3. To analyze the socioeconomic threats and opportunities for Pakistan being on FATF grey list.

1.4 Research Questions

- What is the role of FATF in the contemporary system of international relations and what has been the impact of FATF blacklisting on Iran?
- What socioeconomic threats and opportunities Pakistan could have in the wake of FATF checks and recommendations?

1.5 The Relevance and the Significance of the Study

This study is significant in a sense that it debates the phenomenon of interdependency in the contemporary world. The emergence of various international organizations at the

international political arena has challenged the sovereign dominance of the states. This study unfolds the patterns of interaction among the state and non-state actors. The state actor in the context of this study is Iran and the non-state actor is FATF. The findings of the study would help the students of Public Policy to understand the role of FATF in policy making and enforcement, and the impact it causes on the socio economic sector of Iran. Likewise, this study would also help the students of International Relations and Governance to understand the phenomenon internationalism, interdependency and foreign policy. Global issues are being handled with the help of international institutions. The concept of supra national organizations is becoming a key characteristics of the modern international system. This study will also give an insight to the foreign policy of Iran and the conflict and cooperation arising out of it. This study would significantly analyze the ongoing socio-economic situation in Iran and draw comparisons for Pakistan. The previous and ongoing social and economic conditions of Iran would clarify the students regarding the importance of phenomenon of interdependency in this modern world and the role of policy in this whole phenomenon.

CHAPTER 2

LITERATURE REVIEW

This first part of literature review is meant to understand the structure of FATF, objectives it seeks being a multi-functional organization and the way it functions to formulate and implement its policies. It is pertinent to understand the existence of FATF before discussing that how its regulations could consequence the social and economic realm of Iran. The relations between the FATF regime and its impact on the socio economic condition of a state are very much debatable issue.

The world system has been enormously transformed. Several regional and global, Intergovernmental and non-governmental bodies have emerged at the world arena. These entities/organizations are of various categories. Some organizations are uni-functional and some are multifunctional entities. FATF along with the IMF and OECD is basically a multifunctional organization. It got its significance since its member countries have increased to 39. The members of the FATF are comprised of the members from G7 and G20. Signifying its existence, G20 leaders at the time of 2008 global financial crisis deemed FATF as an important player to introduce new financial regimes to regulate the international finance (Nance, 2018). The FATF has become an influential entity in spite of the reality that it is simply a task force which is being run and financed by its member countries and its restrictions are temporary in nature (IDSA, 2018).

The effectiveness of any international entity depends on the number of member countries associated with it. The mandate of the FATF has been expended, which can be understood in terms of following headings.

2.1 How the socioeconomic progress of Iran has been impeded for being on FATF blacklist?

Literature reviewed in this section is meant to analyze that if how the socio-economic progress of Iran has been impeded since FATF's reservations on Iran. The international financial system remained vulnerable to money laundering and for the financing of terror activities. In order to work to counter such vulnerabilities of the international system , FATF not only identified such states with financial systems that have strategic shortages but also offers assistance to deal with those short comings that can make international financial system weak (FATF Public Statement , 2012).

States of the world are actually demanding Iran to follow the FATF regimes against money laundering and terror financing which would enable Iran to enter the global economy (Returning to FATF blacklist will entail economic costs for Iran, 2018). Iran has been actually cornered by FATF's blacklisting. The unilateral sanctions of USA on Iran are also a contributing factor, but FATF's blacklisting has restricted Iran from having relations even with its core friends at the International arena. FATF is a wide inter-governmental organization. Iran in a sense gets isolated from almost 39 states at a time. FATF member states are bound to obey the FATF policy against Iran. Among the members of FATF are some core trading partners of Iran, the top import origins are China (\$18.4B), South Korea (\$4.02B), Germany (\$3.22B), Turkey (\$3.15B) and India (\$2.58B) (OEC-Iran, 2019).

Iran has been characterized as a high-risk country in the international financial matters and is one of only two countries on the FATF 'call for action' list (or blacklist), besides with the DPRK (Iran and the FATF: more effort needed, 2018). Ever since the FATF has formulated and enforced its new regime in 2008, Iran has remained at the blacklist of FATF. Meanwhile Iran has been making its efforts to get out of the FATF by taking

measures to counter the money laundering and the terror r terror financing (Iran and the FATF: more effort needed, 2018). FATF urge its member states to ensure the implementation of countermeasures against the non-cooperating country. These countermeasures are comprised of; 1. Applying due diligence, 2. to abstain from establishment of businesses, branches or representative offices of financial institutions, 3. Limiting business relationships or financial dealings with the identified country or persons in that country, and 4. Demanding financial institutions to review and amend, or even terminate, correspondent relationships with financial institutions in the country concerned (Iran and the FATF: more effort needed, 2018).

2.2 Economy and the social development

It is necessary to understand the nexus of the economy and social development. The phenomenon is although apparent that economic progress has a direct relation with the phenomenon of social development. Reverse in economy will directly impact the social progress of a society. Iran is going through a challenging situation because of an ongoing agitation in the society. The system of rule in Iran is theocratic. The authoritarian regimes enjoy acceptance for their rule from the masses, till the economic situation within the country remains stable. But the agitation starts when the society confronts the economic stress. The real phenomenon is like larger wealth, technological progression and the policies enable people to live better, to devour more, to have healthy food and live healthy. (C.H. Filgueira, F. Filgueira, 2001). This idea of social development is very much related to the idea of economic and material development of human society (C.H. Filgueira, F. Filgueira, 2001). Iran is already under strict sanctions from USA. FATF's sanctions would completely cut off Iran from the International banking transactions. The primary impact of FATF's blacklisting of Iran would be that the Iranian financial

institutions would be cut off from the international banking. This would obstruct the whole system of Iran's financial correspondence with regard to its oil exports and for its own imports, and as a result the whole economic chain would be interrupted (Mousavi, 2018). FATF works in collaboration with Organization for Economic Cooperation and Development, which is basically an intergovernmental economic organization with 36 member countries, strives to enhance economic advancement and world trade – recurring to the blacklist of FATF would suffer the credit index of Iran. Iran currently is on sixth in terms of its credit standard to a decline in the country's credit index. Currently, Iran's credit index stands at six, and since its agreement and ratification of the treaty JCPOA, it had risen to five (Mousavi, 2018). FATF's continued counter measure will result in the total isolation of Iran from the states of the world in general and from its core friends in particular. The impact of this isolation would be on the economy of Iran which would further the social issues. The whole situation of financial isolation will further the economic challenges; economic challenges would boost negative social issues. People will face unemployment, poverty and thus a whole vicious cycle will prevail.

2.3 Research Gap

The FATF's grey and blacklist which are termed by the FATF as 'high risk jurisdiction' subject to call for action and jurisdictions under increased monitoring' is not a perpetual condition. States put in to these categories can be whitelisted soon after they fulfill the FATF standards. FATF ensures the categorization of states time to time into its monitoring checklist. As since February 21, 2020, FATF had nineteen states into its grey list including Albania, the Bahamas, Barbados, Botswana, Cambodia, Ghana, Iceland, Jamaica, Mauritius, Mongolia, Myanmar, Nicaragua, Pakistan, Panama, Syria, Uganda,

Yemen and Zimbabwe. Iran and North Korea so far on FATF blacklist. North Korea and Iran both were put on increased monitoring checklist. Both countries were failed to show progress on FATF recommendations and were declared as high risk jurisdictions or blacklist. The report issued by the Asia Pacific Group in 2019 had shown its satisfaction with the progress being made by Korea. North Korea although is although, is already in state of self-isolation but further possibilities of relations with its core allies like Russia and China would also shun because of FATF conditions. Korea has its issues with regard to Money laundering, it has issues with proliferation of weapons. Many states of the world which are currently FATF members were removed from the FATF grey list after meeting the FATF standards. Srilanka was on the grey FATF grey list since October 2016. The purpose of monitoring by the FATF is make the states to cooperate and improve their actions against money laundering, Terror financing and proliferation of weapons. The non-cooperative states are put in blacklist and the FATF members are required to take counter measures against the non-cooperating state.

The role of FATF as a global policy making and enforcement body is crucial in the contemporary world. The present world is a world of enhanced interdependency. FATF as a non-state actor is playing an important role in the system of international relations. FATF's reservations regarding the financial conduct of state is challenging the sovereignty of states. Iran's financial links are shrinking due to the FATF reservations since 2008. Much has concluded discussing the impact of US neutral sanctions on Iran and its impact on the economy of Iran. But the impact of FATF's blacklisting consequences on the socio-economic dimension of Iran has not yet been analyzed. Iran beside many other states of the Middle East is going through a social agitation. The theocratic society of Iran has been stimulated mainly due to the economic factors. It is apparent that the social agitation occurs mainly because of the economic conditions.

FATF counter measures on Iran is the real factor which has refreshed the recharged the socio-economic and political unrest all over the country. US sanctions on Iran are to some extent unilateral but FATF's is a watchdog comprised of 39 members. FATF's countermeasures against Iran would be a collective action from 39 states of the world at a time. This includes some of the core friends of Iran which might have resisted the US sanctions on Iran but such core friends of Iran, being the core members of FATF, would not be able forgo the call by their own task force. The collective policies adopted by such entities like FATF are influencing the socio-economic conditions of the states. The existence of international organizations like FATF is not given that much significance in political realism. But the role being played by such non state-actors is in an evolutionary manner. This phenomenon of the consequence of FATF's countermeasures on the socio-economic situation in Iran and Pakistan has not been analyzed, and this study is meant to fill this gap. This study would conclude with the recommendations for Pakistan based on the learning derived from the analysis of situation of Iran with regard to its interaction with FATF.

CHAPTER 3

METHODOLOGY

This study would be carried out in the light of qualitative research method. The tool that would be employed for the analysis and interpretation of both primary and secondary data would be document analysis.

3.1 Theoretical Framework

The above objectives would be studied in the light of theory of Complex Interdependency. Complex Interdependency is a contemporary theory to understand the various socioeconomic situations of the globalized world. The ideas and concepts of Complex Interdependence stress on the complex interactions the different state and non-state actors have to go into being a part of the system of international relations. FATF is an influential non state actor of the system of international relations today. All member and non-member states are equally influenced by FATF recommendations and polices. The socioeconomic condition of all the states depends on their international financial link or interlink. Any non-compliance with the FATF recommendations cost the state's financial condition which further on its socioeconomic situation.

3.2 Document Analysis

This study would be exploratory in nature and would be carried out employing the method of 'Case Study'. The secondary data produced in shape of documents would be analyzed specifying such data into different spans of time. The method of tabular comparison of pre and post situation of socioeconomic indicators of Iran since 2008, dividing the whole era of 12 years into three periods; each whole period comprising four years would enable to carry an impact analysis.

The document analysis on currency rate, GDP, Employment ratio, International trade, Politics, Education and Poverty produced by the official sources of Iran and by independent international agencies would help us to find the impact of FATF reservations on Iran.

This document analysis method will help to find the impact of blacklisting by FATF on the socioeconomics of Iran. The various documents mentioned here under would help test the hypothesis ‘the FATF counter measures against non-cooperating states/ blacklist could be a socioeconomic threat or opportunity for the targeted states like Iran and Pakistan. The threat in a sense that the targeted state could be restricted from the international financial system, and opportunity in a sense that such states can improve their whole governance mechanism by following the FATF standards.

The FATF reservations could be converted into an enhanced opportunity by Pakistan. Likewise Iran though has shown great progress and some political issues are hindering in its comprehensive fulfilment of FATF demands. FATF not only identify the internal institutional weaknesses of a country but also extend help to improve their internal governance and make institutions more effective and efficient through recommendations. This study would conclude with the recommendations for Pakistan based on the learning derived from the analysis of situation of Iran with regard to its interaction with FATF.

Document analysis is an organized way to observe and analyze all sorts of documents. These documents could be printed and electronic (computer-based and Internet-transmitted (Bowen G. , Researchgate, 2009). These documents could be in shape of Policy statements, announcements, legal papers, the laws passed by the Parliament, commentaries, newspaper and magazine articles, research reports, archives and so on (Margaret Zeegers, Deirdre Barron, 2015).

FATF has an organized system of official publications. Most of its documents are declassified on its data base and are open to every individual linked through the internet. Likewise, the video recordings and the policy statements issued and maintained by official representatives (diplomats) of Iran at different national and international forums is also on record.

3.3 Selection of Documents

FATF's publication section maintains an openly accessed updated window of publications. Different types of documents are maintained which would be taken into consideration for analysis. These documents could be categorized into the following headings.

3.3.1 FATF's Document on Recommendations

Understanding the content of the FATF's recommendations is very much important to understand the nature of the FATF's mandate. The content of the recommendations will further enable the objectives and the jurisdiction of the FATF.

3.3.2 FATF'S Public Statements on Iran

After its planned assessment meetings FATF gives its public statement with regard to the agenda and outcomes of the assessment meetings. It gives complete details of the decision made and actions consented for non-compliance. Iran was included in 2008 at the watch list of FATF. Different follow-ups were taken with regard to performance of Iran. These statements are issued in an official capacity and become the primary source with regard to Iran's actions with response to FATF recommendations.

3.3.3 Document on the Constitution of Iran

An analysis of the document of the constitution of Iran will enable to take an insight to the strategy Iran has set to deal with the international responsibilities. The constitution

of any state serves as a comprehensive guiding principle with regard dealing with its circumstances at the national and international domain. An insight into the foreign policy principles of Iran could be analyzed from its documented constitution.

3.3.4 Document on the legislation bills passed by the Iranian legislative bodies(s)

Iran had passed its bill on anti-money laundering to ease foreign trade. An analysis of the document will enable us to understand the arrangements carried on by Iran in the light of FATF anti money laundering recommendations. The impact analysis on Iran's international trade could also be drawn from the analysis of this particular document.

3.3.5 News Paper Articles on the consequence of FATF blacklisting on the society and economy of Iran since 2008 till the end of December 2019.

The newspaper articles published in the renowned newspapers of Iran and their comparison with the articles published in internationally reputed newspapers would enable to understand the impact of blacklisting on the social and economic sector of Iran. This comparison will highlight the real impact that has been caused since the FATF's blacklisting of Iran.

3.4 Criteria of Document Analysis

The following four criteria are taken into consideration to undertake this document analysis.

1. Authenticity

All documents will be taken from official online sources. The official sources of FATF and Iran. Both are the entities which keep de classified data base of all its correspondences. Accesses to these sites are easy and verifiable.

2. Credibility

Credibility is basically about whether the documents are free from errors and omissions. Both Iran and FATF are linked with the world as responsible entities.

Both FATF maintain an organized system of publication. Professionals are making their efforts to communicate the real situation. The check on the credibility of the documents is being monitored and maintained through a hierarchy of professionals.

3. Representativeness

The different types of documents planned and discussed in the above section would be taken from reliable official sources. These types of documents are declassified and uploaded with the consent and purpose of official sources and legal representatives of both Iran and FATF.

4. Meanings

The above documents are of different nature and meaningful. The documents mentioned above are required to follow different objectives pertinent to the main study. The meaning of the above documents is same in sense they enlighten us with the true situation in way of cause and effect.

CHAPTER 4

FINANCIAL ACTION TASK FORCE

4.1 Introduction

Since one of the objective of this study is to understand the role of FATF as a policymaking and enforcement entity in the world arena. It is apparent to understand the organizational structure of FATF and the mode of implementation of its policies on states. The questions like what the whole phenomenon FATF recommendations and mechanism is about? And how it acts and influence the states of the world/ is answered in this chapter.

The Financial Action Task Force (FATF) serves like a watchdog in the system of international relations. This modern inter-governmental body cliques international principles with an aim to prevent the illegal use of the international financial system. In way of a policy-making body, the FATF functions to consolidate the required political understanding and consensus to ensure the making of legislative and regulatory reforms worldwide.

The FATF helps the states of the world by providing certain recommendations (FATF Recommendations) to have control on organized crime, corruption and terrorism. More than two hundred defacto and dejure states of the world directly or indirectly make their efforts to abide by the FATF recommendations.

The core service that FATF renders for its members and other states in the international system is to provide techniques and technical help to investigate and check the money laundering and terror financing means and methods. FATF ensures the implementation

of its policy by monitoring the performance of the Countries in its three plenary sessions in a year. FATF holds the countries accountable for effectiveness and implementation.

4.2 History of the FATF

FATF was mainly established by the G7 (Group seven) countries in a summit held in Paris in 1989 (FATF, 2019). Since the advent of new means of communication and transportation money laundering became a big concern for the states of the world in general and for G7 countries in particular. With the enhancement of the Banking system the vulnerability of such system for money laundering also enhanced. The laundered money was used by different interest groups for terror and criminal activities by the illegal groups and in some of the cases by the state actors as well. Thus a task force was convened to ensure a persistent check on financial system and the member countries of G7 and the governments and president of the European Commission. Thus Financial Action Task Force has become an influential 39 member modern international policy agency with an active functioning and response.

Structure of FATF

4.3 The structure of FATF could be classified into following associated bodies.

- a) The Plenary;
- b) The President, assisted by a Vice-President;
- c) The Steering Group; and
- d) The Secretariat

4.4 The Plenary

Plenary is a prime decision making body of FATF and it consists of the members from different authorities and organizations. The mandate of the plenary is to,

- 1) Govern the mode in which it perform its matters;
- 2) Arranges the human resource for the post of president, Vice-President and the Steering Group;
- 3) Commends the action plan and sets the financial issues for the FATF;

4.5 Mandate of the Financial Action Task Force

- 1) Approves principles, regulation and reports produced by the FATF;
- 2) Resolves the membership issues, FSRB (FATF Style Regional Bodies) positions, observer states for the FATF is also decided by the Plenary.
- 3) Decides on any other matter governing the finance and affairs of the FATF.

4.6 Participation at Plenary Meetings

All sort of members have a right and are entitled to participate all arranged meetings i.e. plenary and the need based meetings of the other associated groups. Plenary is presided by the president and all members All Members, Associate Members and observers are entitled to attend the open sessions of Plenary Meetings. All Members and Associate Members are entitled to attend closed Plenary

4.7 Sessions.

It is the mandate of the president to extend temporary participation invitations to the leaders of the FATF nonmember countries. During the special sessions of the plenary the president can also call the other leadership from the forum of IMF and the leadership of the other institutions.

4.8 Meetings

FATF plenary sessions are called thrice in a year in the month of February, June and October, The meeting are presided by the president. Need based meeting are also convened to discuss the emergent issues at different time and space.

4.9 Working and other Subgroups

In order to assist the FATF in certain circumstances the plenary can establish working subgroups on need basis. These working groups work under the direction of plenary and report to the plenary. The global institutions like the IMF, World Bank and other regional organizations and sub groups are linked with the FATF as members and associates.

4.10 The Higher ARCHY

4.10.1 The President

The president of the FATF is chosen from the members of the plenary for a period of a year. The tenure of the President starts from the 1st of July each year and sustains till the end of June. Two important duties are rendered by the President, 1. Summons and places the gatherings of the Plenary. 2. The President administers the activities of the FATF Secretariat. 3. The President serves as chief spokesman for the FATF and look after external and internal matters of FATF. 4. Metaphorically the president serves like the eye and the ear of the FATF. 5. The core decisions are made by the president in strict compliance with the FATF. The FATF President ensures the proper correspondence and communicate to the ministers regarding the key activities and actions of the FATF in an annual report. The FATF President acts in complete neutrality

and restrains from any personal attachment to any other entity or an organization and do not work in the interest of any particular nationality.

4.10.2 Vice-President

The vice president of the FATF is also designated by the plenary for a period of a year chosen from the member countries. The Vice-President is meant to support the President in performing the day to day activities.

4.10.3 Steering Group

The FATF Steering Group is an advisory body and is chaired by the President. The composition of the Steering Group is decided by the Plenary at the proposal of the President in a manner that ensures maximum effectiveness in taking forward the FATF's work while having regard to balanced representation in terms of geographic regions. The composition of the Steering Group is reviewed on an annual basis.

4.10.4 Main Responsibilities

It is the mandate of the president to call at least three Steering Group meetings during the year at different time and place. Observing and controlling the development of the FATF's ongoing work; Endorsing cooperation across the working groups; dissemination of secured information to all the associates actual information course to all Affiliates; and Taking forward, in consultation with the Plenary, any other work necessary for the FATF to fulfil its mandate.

4.11 Financial Action Task Force Mandate (2012-2020)

4.11.1 Secretariat Composition and Appointment

An Executive Secretary governs affairs of the FATF Secretariat. The Executive Secretary is appointed by both the president and the members of the plenary. The Executive Secretary and the Staff act in accordance with the instruction of the president.

Likewise it is the responsibility of the president to provide directions to the Executive Secretary.

Functions of the Secretariat:

- Coordinating the activities of FATF and its axillary groups;
- Enabling coordination among the Members, Associate Members and observers;
- Ascertaining effective and efficient announcements to Members and others;
- Management of resources ranging from Finance, material and others;
- Retaining the official records and on line correspondence; and
- Rendering the functions assigned by the president and by plenary

4.12 FATF Recommendations

The Financial Action Task Force was mandated by the member states to investigate the techniques used by the state and non-state actors worldwide. FATF managed to prepare its key recommendations in the year 1990. The purpose of these recommendations was to set a clear plan of action in fight against the money laundering.

The first eight recommendations were put forward by FATF in 2001 to control the terror financing. With the evolution of digitalized financial systems more techniques of money laundering techniques were exhausted by both state and non-state actors. Perceiving the situation FATF revised its standards again in 2003. With further amendments made by FAF, Nine more special recommendations were forward in 2004.

Since the situations in the world system change persistently, therefor in the year 2012, the FATF thoroughly reviewed its standards and published the amended Recommendations. The revision is aimed to update the FATF standards. The provision

of updated standards serve as a tool to integrate the national and international financial system.

4.13 Standards on Anti Money Laundering & Counter Financing Terrorism (FATF, FATF 19, Recommendations)

4.13.1 Evaluating the hazards and applying a risk-based approach (FATF, 2019)

The FATF encourages the countries to locate, evaluate, and should realize the money laundering and dangers of terrorist financing. The solid action should be taken by entitling an authority at the national level. A comprehensive mechanism is required to organize actions and to evaluate the risks, utilize the resources. The formulation of regimes of the country should properly addresses the identified risks. In situation of lower risks the state should take itself basic solutions to the situation in accordance with the FATF recommendations. The financial institutions at national and transnational level should be fully indulged to have a complete check on the financial matters.

4.13.2 Cooperation and coordination at the National Level (FATF, FATF 19, Recommendations)

Nations should have nationwide AML/CFT arrangements, proficient by method of the threats distinguished, which must be frequently looked into, and need to assign a power or have a coordination or other component that is responsible for such approaches. Nations should ensure that arrangement producers, the monetary mind unit (FIU), law authorization specialists, managers and other applicable prepared specialists, at the policymaking and operational levels, have top notch components in area which empower them to collaborate, and, where suitable, facilitate and substitute insights locally with one another concerning the turn of events and usage of protection strategies and exercises to battle illegal tax avoidance, psychological militant financing and the

financing of multiplication of weapons of mass annihilation. This must comprise of participation and coordination between important specialists to guarantee the similarity of AML/CFT necessities with the provision of data safety.

B. LAUNDERING OF MONEY AND SEIZURE

4.13.3 Money laundering offence (FATF, FATF 19, Recommendations)

States should take legal measures to denounce laundering of money by criminalizing it. The Vienna Convention, Palermo Convention provides a comprehensive basis to the countries of the world regarding providing the law at the national level.

4.13.4 Seizure and Conditional processes (FATF, FATF 19, Recommendations)

The international conventions and the conferences worldwide, the Palermo Convention, and the Terrorist Financing Convention and the legal procedures which extend powers to the authorities of the state to take actions to confiscate and freeze the properties and other possessions. In the light of law following actions can be taken; (a) seizure of the property laundered, (b) the tools and technology used for the laundering of money (c) the institutions involved to proceed the property he financing of terrorism, terrorist acts or terrorist organizations, or (d) possessions of consistent worth. Procedures must contain the ability to:

(a) Detect, trace and estimate possessions which are liable to seizure; (b) taking timely measures such as stagnating and taking possession otherwise the delay could change the ground situation, (c) ensuring measures that would avoid the situation which can affect the country's ability to take action in order to recover and take possession of the property that is legally liable for confiscation and seizure; (d) ensuring suitable inspective measures. In th light of these comprehensive procedures states of the world should ensure appropriate timely actions. Transactions that are taken place contrary to

the procedures set by FATF and the state law should be followed in the light of strict principles.

C. FINANCING TERRORIST AND PROLIFERATION FINANCING

4.13.5 Terrorist financing (FATF, FATF 19, Recommendations)

In the light of FATF recommendations states are required to legally outlaw the financing of the terrorism. The international convention on terrorist financing provides legal guide and principles in this regard. Financing of terrorism and organizations and such individuals who are involved in terror activities is deemed as an act of heinous criminality. States should ensure to include such acts as an act of money laundering.

4.13.6 Imposition of sanctions related to financing terrorism and terrorist (FATF, FATF 19, Recommendations)

In the light of this recommendation states of the world should impose specific financial limitations through introducing domestic laws should be in accordance with the United Nations Security Council resolutions. These UN Security Council resolutions very clearly provide the guidelines regarding the avoidance and denouncing terrorism and terrorist financing. These resolutions demand the states to stop the finances being used without lapsing the time.

4.13.7 Targeted financial sanctions related to proliferation (FATF, FATF 19, Recommendations)

States are directed in the light of resolutions provided under United Nations Security Council regarding the avoidance and distraction of separation of weapons of mass damage and its supporting. The UN Security Council declarations demand the states of the world to confiscate and freeze the finances being used in this connection. States should designate the authority to take solid actions.

4.13.8 National Organizations seeking no profit

States should review and make up-to-date laws that can be used to regulate the various organizations which are formed for welfare purposes. Most of the NGOs are used in a disguise to finance the terror activities. Following situations could occur: (1) Terrorist groups in under the cover of NGOs get a legal position, (2) NGOs are used by certain terrorist groups to assist their financial movements. (3) By deceiving the authorities terror groups organize the hidden activities and manage their finances on the name of charity.

D. DEFENSIVE PROCEDURES (FATF, FATF 19, Recommendations)

4.13.9. Financial institution secrecy laws

It is the duty of states to ensure that the banking secrecy do not obstruct the imposition of the FATF Recommendations.

CLIENT DUE ATTENTIVENESS AND MAINTAINING RECORD

4.13.10. The due attentiveness about the client (FATF, FATF 19, Recommendations)

The financial institutions working at the state level should ensure to abstain from keeping the fake and unknown accounts. The customer due diligence (CDD) should be applied by the Financial institutions. The rule to enforce the principle of CDD, the arrangement should be made an integral part of the domestic law. Since every state each country may determine how it imposes specific CDD obligations, either through law or enforceable means. The arrangements in the light of CDD should be as under. (1) Finding the client and confirming client's individuality through authentic, unbiased sources like the documents and information. (2) Recognizing the valuable account holder, and coherent procedures to prove the distinctiveness of the expedient owner, the national banks should such that the financial institution is satisfied that it knows

who the beneficial owner is. For legal persons and arrangements this should include financial institutions understanding the ownership and control structure of the customer.

(c) Understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship. (d) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

4.13.11. Maintain records (FATF, FATF 19, Recommendations)

This FATF recommendation suggests that the national banks should maintain the records of all transactions which could be necessary for a span of five years. All sort of records that are national and international are required to be kept to address the emergent issues both at the national and international level. The financial institutions should manage the record gathered through the processes of CDD. These records should be comprised of files of the accounts, passports, driving licenses and other business communication, comprising the outcomes of any investigation carried on in order to find the details of huge transactions, their purpose, and aims and sources. The banks working at the national level should be bound by the law to keep the necessary details of the transactions carried out and other details gathered through CDD.

ADDED PROCEDURES FOR PARTICULAR CLIENTELES AND ACTIONS

4.13.12. Politically visible individuals (FATF, FATF 19, Recommendations)

Banks are needed to make clear, the identity of the individuals who are basically politically identified persons. These individuals could be political and apolitical but own the financial institutions. Besides the customer due diligence measures, having

suitable risk-management arrangements to control and to see if the client or the bank owner is politically identified person. (2) Getting the approval of the senior authorities for the continuation of the working relationship. (3) To undertake concrete arrangements to determine the basis of money saved or transacted or received as funds. (4) Managing a checking mechanism of the occupational affiliations of the clients. In a situation of identified transactions with high level of risks, appropriate counter arrangements should be employed.

4.13. The interlinked Banks (FATF, FATF 19, Recommendations)

The Banks which are linked nationally and internationally are in a close correspondence are needed to undertake CDD, customer due diligence. (a) Getting and maintaining the proper record of the banks and other institutions dealing with the nature of financial circumstances. (b) Analyzing the AML/CFT measures taken by the corresponding banks; (c) obtain approval from senior management before establishing new correspondent relationships; (d) comprehension of the relevant responsibilities of all the institutions; (e) before making any transaction the bank should make ensure that the corresponding bank has made all the arrangements with regard to the CDD.

4.13.14. The facility with regard to currency or value transaction (FATF, FATF 19, Recommendations)

Domestically the states are required to verify with regard to the people involved should provide the registration and proper licensing about the currency or value transfer services (MVTs). This procedure should be carried in compliance with the FATF recommendations. The people involved as agents with the process of currency transfers and the value transfers should be regularize by the domestic laws.

4.13.15. Amended technologies (FATF, FATF 19, Recommendations)

The institution dealing with the financial affairs in a state must perform to make clear identification and evaluate the laundering of the currencies. The arrangements should be; (a) the development of new financial schemes and new business practices, including new delivery mechanisms, and (b) technological innovations should be introduced for the new and already existing items. With regard to the banks, pre analysis of involved risks in launching the new schemes and the products is eminent. Doing appropriate arrangements to reduce the scale of risks involved during the process is important.

4.13.16. The transfers made through Wire (FATF, FATF 19, Recommendations)

The states should make it clear that the banks working within the country should have the information about the person of entity initiating the transaction, and also the details of the receiving entity. The records of the transfers made through wire and the messages involved during the process of the transfers. It is the prime duty of the states to regulate the process of the transfers made through wires.

DEPENDENCE AND CONTROLS OF THE FINANCIAL GROUPS

4.13.17. The dependence on the third parties (FATF, FATF 19, Recommendations)

The states can allow their banks to depend on the third parties for the performance of the CDD under the rules and articles of the FATF recommendations. With regard to the third party situation, it is pertinent to observe the CDD measures. Following is the criteria which has to be followed. (1) A Bank which is depending on a third party for its transactional activities should be abide by the procedures of CDD clearly mentioned in the FATF recommendation. (2) The banks should make it possible to provide the details and the identification of the entities involved in the making of transactions as per CDD procedures. (3) The Banks should observe, monitor the monitory activities of the third party and the entities involved in the process. (4) While shaping, the

involvement of third party in a state, some important steps should be taken. (i) That group applies CDD and record-keeping requirements, in strict observance with Recommendations 10, 11 and 12, and should proceed against the money laundering and terrorist financing, in accordance with Recommendation 18. (ii) The effective implementation of the CDD and the supervision of all AML/CFT.

4.13.18. Domestic regulation and the state of external branches and subsidiaries (FATF, FATF 19, Recommendations)

The Banks are required to make the enforcement of such programs which can discourage the money laundering and terror financing. The groups linked with the financing should impose the group wide programs against the money laundering and financing of the terrorism. The Banks are needed to make it sure that the foreign associate branches impose AML/CFT in accordance with the FATF recommendations.

4.13.19. Risky States (FATF, FATF 19, Recommendations)

Banks are needed to enact the due diligence procedures to all commercial connections and transactions made or performed in connection with the Banks, legal individuals etc, whenever are called or identified by the FATF. The implementation of due diligence measures should in relational way of risk and effectiveness. States should be able to enforce the recommendations of the FATF in a situation demanded or requested by the FATF. States should be in a position to put on countermeasures by their own without the call of the FATF in a required situation.

REPORTAGE OF DOUBTFUL DEALINGS

4.13.20. Reporting of the ambiguous dealings (FATF, FATF 19, Recommendations)

In situation when a Bank doubts or has rational reasons to be doubtful that the transaction carried on is meant for a criminal objectives or is related to the terror

financing. The domestic law should ensure to make the timely report of such transaction to the concern agencies.

4.13.21. Warning and secrecy (FATF, FATF 19, Recommendations)

Banks and their higher authorities and even the working staff should have a professional background of: (1) in case of compulsory disclosure of the information in a situation of suspicion, the bank staff and the concern authorities should be given due protection in the light of law from any offense and criminal and civil liability for breach of any official responsibility of keeping secrecy. (b) Forbidden by the tool of law from revealing any information or any suspicious transaction report (STR) is carried under law. The article 18 of the FATF recommendations.

THE BUSINESSES AND OCCUPATIONS DETERMINED AS NON-MONETARY

4.13.22. "Designated Non-Financial Business and Professions"(DNFBP): customer due diligence (FATF, FATF 19, Recommendations)

The FATF Recommendations 10, 11, 12, 15, and 17, regarding the customer due diligence and record-keeping requirements clearly mention about non-financial businesses and professions (DNFBPs) pertaining situations like:

(1) In case of Casinos – clients involve in commercial dealings identical to or above the valid chosen limit (2) Agents related to real estate, in situation when such agents are found guilty of making transactions for their clients who could be involved in buying and selling of real estate. (3) People who are engaged with a business of precious metals and valuable stones if are involve in a monetary transaction with a customer identified by the FATF limits. (4) People related to other professions like Notaries, lawyers and other free-lance the banks should take care of following situations. While making land transactions; handling the amounts, securities or other possessions of the

customers; managing the accounts of the other banks and their balances; while managing the activities of the companies.

4.13.23. "Designated Non-Financial Business and Professions"(DNFBP) (FATF, FATF 19, Recommendations)

The limits defined in article 18 to 21 shall be relate to all different businesses and other occupations. (1) People related to various professions like, Lawyers, notaries, other independent legal professionals and accountants should be required to report distrustful dealings when, on behalf of or for a client, they of Recommendation 22. Countries are strongly encouraged to extend the reporting to other specialized accountants with other auditors etc (2) Traders dealing in valuable metals and expensive stones are obligatory to report any mistrustful businesses involve with the heavy cash transactions above the prescribed limits. (3) Entities providing the services as a Trust and company should report the doubtful transactions carried out by a client of other entity.

**E. CLEARNESS AND ADVANTAGEOUS POSSESSIONS OF
LAWFUL INDIVIDUALS AND PROVISIONS**

4.13.24. Clearness and advantageous rights of legal persons (FATF, FATF 19, Recommendations)

States should undertake such arrangements to avoid the illegal use of powers of the legal authorities for the purpose of money laundering and financing the terror activities. States of the world should make appropriate measures to provide effective and efficient information regarding the possessions and the powers of the legal persons that can be used distrustfully. States should ruminare actions to enable the contact to advantageous possessions and regulate data by monetary organizations in accordance with the Recommendations 10 and 22.

4.13.25. Clearness and advantageous possession of lawful provisions (FATF, FATF 19, Recommendations)

States should ensure appropriate arrangements to avoid the unlawful use of the legal procedures for the purpose of money laundering or financing the terror activities. In particular such countries, should ensure the provision of the timely information, suitable, correct and well-timed details on the settlor, guardian and recipients, such information should be accessible by the legal authorities in the time of need and action. States should maintain an accessible data by the other legal concern authorities to enable admittance to helpful possession in accordance with the FATF Recommendations 10 and 22.

F. POWERS AND TASKS OF CAPABLE AUTHORITIES, AND OTHER FORMAL ACTIONS AND PARAMETER AND REGULATION

4.13.26. Parameter and direction of monetary institutions (FATF, FATF 19, Recommendations)

States have a duty to certify that monetary establishments are liable to suitable directives and management and the implementation of the FATF Recommendations. The legal authorities and the supervisors supervising financial matters are required to undertake the necessary authorized supervisory actions to stop criminals or their acquaintances from having an account, or from having an ownership of a property an important or regulatory attention, or having a possession of managerial duties, in a financial organization.

4.13.27. The authority of superintendents (FATF, FATF 19, Recommendations)

Superintendents ought to have suitable authority to oversee or observe, and safeguard action by, monetary societies with necessities to fight money laundering and terrorist financing, with additional powers to monitor. They ought to given the authority to force

creation of any evidence from monetary organizations that is applicable to watching such submission, and to execute endorsements, in relation with Recommendation 35, for miscarriage to fulfil with such necessities. Superintendents should have authority to impose a range of punitive and economic limitations including the additional powers to making restrictions on licensing.

4.13.28. Parameters and regulation of DNFBPs (FATF, FATF 19, Recommendations)

Nominated non-financial businesses and professions must be liable to monitoring and directorial actions as follows as set out below.

(1) Casinos should be liable to an inclusive supervisory and managerial rules that confirms that they have efficiently executed the essential AML/CFT procedures. Clubs should be registered. The Capable establishments should take the essential lawful or supervisory actions to avoid convicts or their acquaintances from keeping, or presence the advantageous owner of, a significant or controlling interest, holding an organizational task in, or being a worker of, a casino; and proficient authorities should ensure that Casinos are not used for AML/CFT.

OPERATIVE AND LAW IMPLEMENTATION

4.13.29. with regard to financial intelligence units (FATF, FATF 19, Recommendations)

Countries of the world must establish a financial intelligence unit (FIU) that could works as a countrywide Centre for the reception and examination of:

(1) Doubtful operation intelligences; and (2) other evidence pertinent to money laundering, allied established crimes and terrorist funding, and for the distribution of the consequences of that examination. The FIU should have the capacity to get extra

data from reporting bodies, and should have admission on a timely basis to the monetary, directorial information.

4.13.30. Duties of law implementation and exploratory specialists (FATF, FATF 19, Recommendations)

States should guarantee that nominated law implementation establishments have accountability for money laundering and terrorist financing inquiries within the structure of state level AML/CFT policies.

In such cases which are directly related to chief structural crimes, these nominated law enforcement establishments should grow an active equivalent monetary examination when chasing money laundering, related established violations and terrorist funding. This must contain circumstances where the related established crime follows beyond their jurisdictions. States should guarantee that experts have duty for actively classifying, outlining and originating arrangements to halt and take hold of property that may developed, subject to seizure, or is alleged of being used for crime. States make practice, when essential, of enduring or temporary multi-disciplinary groups dedicated in monetary or quality inquiries.

4.13.31. The power of law implementation and examining foundations (FATF, FATF 19, Recommendations)

Once principal inspections of money laundering, correlated damages and terrorist financing, proficient authorities should be capable to get admittance to all essential documents and material for use in those inquiries, and in activities and related actions. This must contain authorities to use obligatory actions for the making of accounts seized by monetary organizations, DNFBPs and other consistent or legal entities, for the exploration of individuals and locations, for captivating watcher declarations, and for the capture and procurement of indication.

Analytical methods comprise: secret procedures, intersecting communications, gain access to computer systems and clever circulation. In addition, states must have actual instruments in place to recognize, in a sensible way, whether ordinary or lawful individuals hold or regulate financial records. The devices to guarantee that proficient establishments have a procedure to recognize possessions without former notices to the possessor.

4.13.32. Cash carriers (FATF, FATF 19, Recommendations)

States must have procedures in dwelling to sense the bodily trance-border delivery of cash together with the affirmation of provisions and revelation system. States must protect their proficient establishments have the lawful power to stop or detain money or carrier open devices that are supposed to be connected to extremist backing, money laundering or ground violations, or that are deceptively attributed or unveiled. States must confirm that operative, comparable and hindering endorsements are existing to contract with individuals making incorrect statements or revelations. In a situation when the cash or carrier open tools are connected to terror funding, money laundering or established crimes, states should also assume actions, counting governmental ones related with Recommendation 4, which clearly states the procedure to take the possession of dubious cash and or devices being used for the false objectives.

OVER-ALL NECESSITIES (FATF, FATF 19, Recommendations)

4.13.33. Data

States must uphold whole data on materials pertinent to the usefulness and competence of their AML/CFT methods. This data on the STRs traditional and distributed; on money laundering and terror funding inquiries, examinations and persuasions; on possessions freezing, detained and seized; and on joint legal support or other international demands for collaboration.

4.13.34. Direction and response (FATF, FATF 19, Recommendations)

The proficient powers that be, superintendents and SRBs must create procedures, and deliver response, that will support monetary organizations and chosen non-monetary companies and occupations in relating countrywide procedures to fight money laundering and terror financing and specifically tracking and reporting doubtful transactions.

PROHIBITIONS

4.13.35. Prohibitions (FATF, FATF 19, Recommendations)

Nations must induce a variety of active, balanced and discouraging prohibitions to discourage the illegal, domestic or managerial, obtainable to contract with usual or lawful individuals narrated in the Recommendations 6, and 8 to 23, in situation of failure to abide by the AML/CFT necessities. Prohibitions should not only be imposed on entities but also on the office bearers.

G. GLOBAL COLLABORATION

4.13.36. Worldwide mechanisms (FATF, FATF 19, Recommendations)

Under this FATF recommendations states are directed to ensure instant measures to be abide by the United Nations Convention against Corruption, 2003; and the Terrorist Financing Convention, 1999. The other important conventions like Vienna Convention, 1988 and the Palermo Convention, 2000. Other bilateral and multilateral regional agreements should also be given equal amount of respect and acceptance. Council of Europe Convention on Cybercrime, 2001; the Inter-American Convention against Terrorism, 2002; and the Council of Europe Convention on Laundering are good precedence in international arena.

4.13.37. Joint lawful support (FATF, FATF 19, Recommendations)

States ought to quickly, usefully and successfully deliver the broadest conceivable variety of shared legal support with regard to money laundering, related established crimes and terrorist funding inquiries, hearings, and related measures. States must have an acceptable legal foundation for in case of support and should have appropriate arrangements to increase the collaboration. The established order accountable for joint lawful support like a dominant Power, must be delivered with satisfactory monetary, man power and practical possessions. States must have in place procedures to safeguard that the staff of such establishments uphold high specialized values, including standards that could provide the legal assistance.

4.13.38. Joint legal support: deactivating and seizure (FATF, FATF 19, Recommendations)

States must guarantee to impose the power to proceeds quick action in reply to requirements by other international states to recognize, halt, grab hold of property laundered; profits from money laundering, and the instruments used for the illegal access of money. This power must comprise of actuality able to answer the requests made by the other states and entities. States must have actual devices for handling such possessions, written documents or belongings of conforming value, and preparations for organizing the exchange of values involved.

4.13. 39. Repatriation (FATF, 2019)

States must helpfully and efficiently perform repatriation requests with regard to money laundering and terror financing, refraining unnecessary interruptions. States must also undertake all potential actions to confirm that they abstain from offering protection to such persons involved in terror financing and supporting such terror entities.

States must:

(1) Guarantee that money laundering and financing of the terror are bounced to the country of their origin.

(2) States should warrant that they have strong and well-organized procedures for the suitable implementation of repatriation requirements as well as arranging where suitable. To see the development of requirements a case supervision arrangement must be continued.

(3) Avoid unnecessary limitations and restrictions on the conduct of the actions on requests.

(4) States should certify that they possess a suitable legal structure for repatriation. All the states should one or the other repatriate its own citizens, or, in a situation when a state's domestic law does not allow extradition, then the country at the request of other states for the extradition should submit the case without any obstruction to the related authorities at the state level., to its competent authorities for the purpose of prosecution of the offences set forth in the request. The state institutions should conduct their investigation and properly trial the case. States of the world should cooperate in the procedural matters and ease the barriers involved so that countries concerned should cooperate with each other.

4.13.40. Added procedures of transnational assistance (FATF, 2019)

States must make sure that their competent the system can quickly, usefully and efficiently deliver the broadest assortment of international collaboration with regard to money laundering, related establish violations and financing of the terror. States must do so both impulsively and upon demand, and a legal framework should be there to extend cooperation. States should empower their respective institutions to make timely decisions and actions against money laundering and financing of terror. The state authorities in compliance with the international agreements and treaties should establish the Memorandum of Understanding (MOU). The modes operandi of the state

institutions should be clear and effective. The mandated authorities should follow a guideline produced in a legal way. The Competent authorities must follow a clear process of ordering, timely action and information received during the correspondence should be protected.

CHAPTER 5

FATF AND IRAN

5.1 Background:

FATF in its first Public Statement issued on 25 February 2009 notified its members and desired all authorities to impose necessary legal arrangements to safeguard their financial zones from being used for money laundering and funding the terror activities and risks proceeding from Iran (FATF, FATF, 2009). This public statement by FATF was a call to Iran to take measures to ensure the formulation and implementation of laws to counter the funding of terrorism, Money laundering and against proliferation of weapons. FATF also offered Iran assistance to meet its deficiencies with regard to s its AML/CFT through the FATF Secretariat.

FATF again in its public statement on February 19, 2016 issued the statement of its deep concern with regard to Iran's failure to meet recommendations and efforts to avoid the vulnerabilities against terror financing and continued threats posed to the uprightness of the system of international financing (FATF, FATF, 2016). With FATF's policy of extended inspection and examination of Iran's progress since the call of 2009 on its associates to take active responsive-measures to their own financial and economic zones and systems from being used for money laundering and financing of terrorism (ML/FT) by the systems of Iran. FATF maintains to impulse the system to guard against correspondent systems by ensuring responsive-measures and to reduce the danger posed by the Iranian monetary organizations. In response to the ongoing terror financing hazard from Iran, FATF members or jurisdictions must cogitate the measures already taken and further precautions and reinforce the prevailing measures.

The real problem with Iran is that it has not sign up the international covenants, has not reliable AML/CFT regulations even after its determined plan of action had pass on. Iran's relations with the militants which are actually termed by the west as terrorist groups like, the Hamas and Lebanese Hezbollah and their leaders. These legal short comings of Iran are even FATF extended opportunity again and again to deal with its key problems (tole, 2020).

Once again in February 2020, the FATF resolute that the regime in Iran had failed to achieve its program. It could not ratify the Palermo Conventions (The resolution passed by the General Assembly of 15 November 2000, to ensure joint struggle to fight transnational organized crime) and the vulnerabilities of terror financing. In this public statement of FATF it was decided that the Iranian regime will continue as blacklisted up to the point of time it makes it implements anti-terrorism financing principles as per FATF recommendations. It was demanded that the Iranian regime should announce monetary terrorism a crime and should eliminate the relaxations given to the entities and groups deemed as terrorists by the international forums like UNSC. The FATF further demands the Iranian regime to make efforts to identify and obstruct the money

5.2 IRAN'S response to FATF

FATF in its report published in 2008 had mentioned Iran for the first time as a high risk and non-cooperative state with regard to FATF recommendations. It was the era when FATF had introduced a new one-to-one care system, and Iran remained constantly on FATF black list (News Centre, 2018). Meanwhile Iran showed positive response to FATF directions but the phenomenon of the terror financing originating from Iran remained an unsettled issue. During 2016 the Iranian regime approved to make arrangements in connection with the FATF demands. Iran's objective was to avoid the

FATF blacklist so that its economy should not be detreated. The direct impact of FATF blacklisting was to be in way of its disconnection from the world economy. The important event for Iran was the signing of the Joint Comprehensive Plan of Action (JCPOA). This was an opportunity for Iran to strengthen its economic opportunities through negotiations with other nations of the world. At the same time, President Hassan Rouhani's government introduced modifications in Iran's banking division (MEO, 2020). The purpose was to ease the procedures for foreign investment so that the economy could develop through foreign investment.

In the year 2016, in order to address the shortcomings of AML/CFT, FATF provided a plan of action with the consent of Iran. The consensus was develop between FATF and Iran that it would follow the Action Plan, and in return the FATF would deferred the call for countermeasures for one year. But by the end of given time period Iran could not fulfill the FATF recommendations.

5.3 The FATF's Demands from IRAN

- Iran was supposed to outlaw terror financing along with the removal of exemptions
- Iran was liable to impose restrictions on identified assets of terrorists
- To make sure the implementation of customer due diligence regime
- Establishing an autonomous Financial Intelligence Unit
- Regulating the money or value transfer providers serving without license
- Making Implementation of the Palermo and convention against terror financing
- Keeping complete verified evidence about wire transfers
- Imposition of penalties with regard to Money laundering violations

- Regulations with regard to the seizure of property of consistent worth

In public statement issued by FATF on June 2018, the FATF voiced its dissatisfaction with Iran for not being able to implement the recommended action plan for the terrorist groups.

5.4 The impact of FATF blacklisting on IRAN

The impact of FATF blacklisting on Iran is manifold. Iran was for the first time was nominated in FATF annual report of 2008 as a non-cooperative state along with North Korea. Since then Iran has confronted the consequences at many fronts.

5.4.1 Impact on financial exchanges

The direct impact of FATF blacklisting on Iran is in way of financial exchanges. Iran's correspondence with the international financial institutions and banks have become under scrutiny and pressure to obstruct Iran's direct or indirect involvement in laundering of money and financing the terror activities. As the Wall Street Journal reports: "The currency value of Rial is anticipated to fall in relation to the external currencies as a result of blacklisting by Financial Action Task Force (FATF). The Rials downfall against dollar has reached to 16000 Tomans to one dollar in the currency market of Iran (MEO, 2020).

5.4.2 Foreign Investment

Iran's economy is collapsing due to disruption of the foreign investment. The entry of foreign currency into the state is reducing and interrupted, which will certainly increase many difficulties in the domestic and foreign exchange market for the economy of Iran (MEO, 2020).

5.4.3 Foreign Trade

The overseas companies abstain from establishing trade relations with Iran. The risk factor of losing trade earnings with the Iranian government. It is apparent that these concerns will end into increase of further downturn in the economy.

It should be noted that the extent to which banks and financial institutions around the world will follow the FATF recommendations is by no means comparable to the era and years before the Iranian regime was blacklisted by the FATF (MEO, 2020).

5.4.4 Iran's financial relations with the core countries

Till the formal blacklisting of Iran by FATF, States like Turkey, Russia, China and the United Arab Emirates were maintain their contacts with Iranian and were not following the FATF recommendations completely. But since the blacklisting the situation for Iran is totally different. Iran is already facing the US sanctions (MEO, 2020). These sanctions also prohibits the Iranian financial institutions from having monetary relations with other banks. But this unilateral act by the USA was not obstructing the trade relations with friends and key strategic partners like India, China, Iraq, Russia, Iraq, and Turkey. The Iranian government's strategy since it came under observation of FATF was conducting the trade through money orders or indirectly using the proxies. Since the blacklisting this option will also be closed. There would be a total closure of such transaction through the banks for Iran. Even the individual accounts of the businessmen and those individuals involved in transactions with the Iranian regime would be under surveillance, investigated and blocked.

5.4.5 Impact on foreign policy of Iran

The present Iranian regime of Iran is theocratic. It has overtly or covertly established and proxy forces. Some of such force have been already declared terrorist by the US. Contrary to this many countries were having cordial relations with Iran. The

appeasement policies of many states were contrary to the policy of US and its associates. With FATF's blacklisting of Iran even the cordial states or the states with policies of relaxations to Iran, being members of FATF will abstain from offering relaxations in relations with Iran. Compliance with the FATF recommendations as core members of FATF like China, Russia UAE would be unavoidable. Their collaboration with the Iranian banks and with regard to other monetary organizations will be obstructed. The public sector companies would be restrained from working with Iran and their accounts. Thus it would impact the foreign policy of Iran and other friendly states (MEO, 2020).

5.5 Domestic Political Issues of IRAN

Iran is a theocratic state. The power is shared by the theocratic representatives and the presidential democrats. The office of Supreme leader have refuse the support to such decisions proposed by the president and his cabinet, which were in the light of FATF recommendations and demands. Iranian regime under the president ship of Hassan Ruhani has not been able to pass the domestic law against the terror financing and money laundering, due to current division in Iran's institutions (Rasanah, 2020). The hardliners reject the idea of Iran's accession to the FATF. The guardian council of Iran ejected the regulations passed by the parliament of Iran and hence the issue remained suspended. The deputy foreign minister of Iran, the focal person on foreign economy of Iran expressed his concern that if the regulations in the light of FATF are not approved, the banking sector of Iran would totally collapse, which has been already suffered due to the US sanctions (Rasanah, 2020).

5.6 Conclusion

The theocratic regime of Iran values its international political interests even at the cost of its national economy. Contrary to this Pakistan is democratic republic and had to negotiate its pure political wellbeing of its citizens.

The regulations in the light of FATF would shun the chances of financial and logistic support of the Iranian proxies in the region. Iran's reentry into FATF blacklist would not only have economic impact on Iran but it would cause the social impact as well. Iran which is already under the US sanctions would get into further restrictions as the ordinary people will not be able to maintain their financial circumstances through banks. Pakistan though being on the FATF grey list had arranged its finances from the IMF. At this high time of globalization the ordinary Iranians would not bear to be isolated from International community. The cultural relations of the ordinary people of Iran with other nations would effect. The Iranian students and scholars seeking education abroad would be financially effected. The businessmen would not be able to process their bills and cash smoothly. This could interrupt their business deals all over the world. The Iranian exports and imports would not be possible without link to the international financial network. The domestic Iranian masses have shown their rage by staging protests which sometimes turn violent and effected the law and order situation with in the country. Iran cannot play down the importance of FATF. The social frustration from FATF's blacklisting is being observed in the common society of Iran. People are resisting to the failure of the regime to fulfill the FATF recommendations. The core friends of Iran like China and Russia and other European friends which had not considered the US sanctions would no more be able to maintain their cordial economic and social relations with Iran, due to FATF blacklisting of Iran. The social and economic and cultural relations between the non-state actors and the private

companies of Iran and other states would also be effected. This has pushed Iran towards complete Isolation from the world in all aspects. The sources of generating income for Iran are being shut. The income from oil sales and exports of other items and foreign remittances from abroad will come to zero level and as a result the regime will be compelled to increase the taxes and charges on the government services in Iran. Iran went through violent protests against the regime for the increase of oil prices at the domestic level. The tug of war between the higher political institutions of Iran had ended in the blacklisting of Iran by FATF.

The regulations in the light of FATF recommendations are the only way forward for Iran. Iran has to prioritize its international political economic interests on its meagre political interests. Pakistan though being on the grey list should deem the opportunity to avoid the politicizing the implementation of FATF recommendations. Iran's failure in anti-money laundering and counter terror financing legislation is because of differences in its top political institutions. The expediency council of Iran is the real obstrucuter in this regard. It had put down the legislation passed by the parliament.

Pakistan has fully comply with twenty one recommendations out of twenty seven. Pakistan has shown progress with reference to remaining six recommendations which Pakistan has to fulfill by February 2021.

Pakistan has to develop its enforcement mechanism of laws with reference to money laundering, anti-terror financing. But the political parties are politicizing and lobbying at the domestic legislative bodies which has impact on progress of Pakistan. Pakistan should learn from the mistakes of Iran and avoid political lingering and lobbying so that it could fulfill the recommendations within the given period of time. Pakistan has to

grow at all fronts. The FATF clearance would enable Pakistan to attract international investors and enhance political integrity and good governance.

CHAPTER 6

FATF AND PAKISTAN: SOCIOECONOMIC THREATS AND OPPORTUNITIES

6.1 Background:

Pakistan as of February, 2020 is on FATF's grey list. FATF's engagement with Pakistan started since 2008, when FATF categorized Pakistan into the list of non-cooperative states in its report. Pakistan also remained on the FATF watch list from 2012-2015 and was formally put in FATF's grey list in June 2018. Pakistan has been provided 27 action points to make strategies on money laundering and terror financing by the FATF. In FATF terms, Grey list is basically a cautioning to the FATF members and a warning to the state that its constant failure to abide by the FATF demands could consequent in Black list (Singh, 2020). Pakistan by October 2019 was reported to have act in accordance with just 5 notified targets out of 27 (SINGH, 2019).

6.1.1 Implications of FATF grey list

FATF's grey list is sort of formal warning by the FATF to the country targeted as 'Non Cooperative Country'. The grey listing cost the targeted country at many fronts. But the salient consequences are;

- Access to international financial institutions like, IMF, World Bank, ADB could be interrupted.
- Grey listed states confront the technical problems in attainment of loans from international financial institutions like IMF, World Bank, ADB etc.
- International trade, both imports and exports get effected due to financial restrictions by the major FATF members and other countries.
- Worldwide exclusions on socioeconomic and political fronts (Singh, 2020).

Pakistan might lose billions (10 billion) of dollars in future if it fails to escape the "grey list" (Chaudhury, 2019). The basic problem with Pakistan is that it is deemed by FATF as a state whose national laws are meagre to tackle the issue of money laundering and terror financing. Pakistan was evaluated in 2017 for its money laundering (ML) and Terror Financing (TF) standards by National Risk Assessment (NRA) and was rated as a medium national risk-rating for money laundering and financing of terror issue (Ibtisam Butt, 2019).

Pakistan is confronted with money laundering and terror financing vulnerabilities. Whole country has remained targeted to terrorist attacks during the era of assessment by FATF. Various terrorist groups including the blacklisted groups by the United Nations were identified for having bases in Pakistan. These terror organization were having managing funds to meet the financial need from within the country. This was done in the disguise of so many nonprofit organizations with in the country. Finances were transferred by using different formal and informal sources like (mainly hawala/hundi) networks (Ibtisam Butt, 2019). The complicated geographic settings and the leaky borders rise the openness to terror financing through the smuggling of money (Ibtisam Butt, 2019).

6.2 Compliance made by Pakistan and the level of effectiveness

Pakistan stayed in the grey list of the Financial Action Task Force (FATF) owing to deficiency of preparation and procedures against money laundering and financing of terrorism (Ibtisam Butt, 2019). In the light of mutually carried evaluation of the World Bank and the Asia Pacific Group in 2009, Pakistan had managed to carry out a wide-ranging of statutory and managerial restructurings to device anti money laundering and

some counter financing of terrorism necessities. The important modifications were made to the;

- Anti-Money Laundering Act 2010;
- Antiterrorism Act 1997;
- Sector-specific AML/CFT rules;
- Formation of an advanced National Committee on AML/CFT;
- General Committee on AML/CFT;
- National Strategy on AML/CFT.

Pakistan has successfully formulated many consolidated mechanism which would contribute in a right manner for nursing the monetary operation system, this system is very near to significant criteria to trail down and halt the Money Laundering and terrorist financing (Ibtisam Butt, 2019).

6.3 Socioeconomic threats of being on FATF grey list for Pakistan

As in the socioeconomic, the prefix socio- speak of the study of the behaviors of people, the way people make their communiqué and their family structure and the suffix economy refers to the matter of people's income and finances (Vocabulary, 2020). Since people are highly globalized and highly connected through different means. The people's income and finances are the core of shaping the social patterns in a society. FATF's counter measures effect primarily the financial pattern of a state which as a consequent effect the ordinary society. Pakistan is already going through an economic loss and it could increase due to Pakistan's stay in the grey list for a long period of time. FATF's Grey list is sort of a warning for the state to perform the improvements in the structure to counter terror financing and money laundering. Grey list is a pre step of blacklisting of a state. Strict conditions are put on the state so it could be compel to

comply with the FATF recommendations. Following threats could be calculated for Pakistan's economy;

1) **Decrease in foreign investments**

Foreign investment is a key factor for the economic prosperity of a country. Pakistan's economy is always reliant on the foreign investments. Investors prefer to invest in such countries which are safe and are known as responsible states on different forums. FATF has aroused as an influential organization in the system of international relations. Pakistan's presence on FATF grey list will discourage the foreign investors from investing in Pakistan. Pakistan although is working to come out of the FATF grey list and the conditions imposed on Pakistan for being in the grey list are that much severe. But it creates trust deficit among the public and private investors. An uncertain situation prevails among the investors and it results at the withdrawal of foreign investment particularly by the individual groups and companies from the local market of the country.

2) **Restrictions on access to international financial system**

The domestic and international banks are functioning on one link due to advancement in information and communication technologies. Bank to bank connectivity has ease the affairs of conducting foreign trade and business. But due to call for due diligence by the FATF on its members against the grey listed or blacklisted state, states would isolate the alleged country from their banking system. Thus, state's socio economic phenomenon will be interrupted. The circulation of foreign currencies within the state and from the state to the other countries would be interrupted. The social phenomenon of the state's diaspora, from education to employment and trade would not be smooth. The international banking system will get cautious of the states relisted or blacklisted.

3) **International Reputational Failure**

Since the FATF endeavors to seek some common objective of the international community ranging from money laundering, counter terror financing and against the proliferations of weapons. Pakistan has suffered a lot due to international terrorism. In spite of its contributions and sacrifices in global war against terrorism, because of the prospects of error financing mechanism in Pakistan, FATF grey list Pakistan and it effected Pakistan's reputation at the international level. Since it is not for the first time Pakistan has been put on the grey list by FATF, but since June 2018 Pakistan is confronting criticism for not being able to make counter measures against the terror financing money laundering and corruption. The international reputational crises for a state results in diplomatic failure for the country. Pakistan struggled a lot at the diplomatic front to get the support regarding its key issues. The trust deficit isolates the country even from the cordial circles at the diplomatic level. Pakistan could not lobby even at the OIC level to bring the Kashmir issue on the forum. FATF's warning also states the status of regulations and the credibility of the administration in the country at the international level, and ends in distrust for foreign investment. The reputational failure cost the country at many fronts.

4) **Disruption of ties with International financial institutions**

Pakistan most of the times go for international monetary institutions for monetary help to meet its budgetary deficits and to finance the developmental projects. In situation of FATF's grey listing of Pakistan could disrupt Pakistan's smooth receive funds from IMF, World Bank, Asian Development Bank etc. Most of the members of FATF are directly influential on the forums of such international financial institutions. Pakistan could be refused by such financial institutions for its vulnerability with regard to FATF recommendations.

5) **Pressure on the Domestic Politics**

Pakistan is a democratic society with multiple political parties doing their politics exploiting the foreign policy issues and exploiting the domestic religious issues. Pakistan is under international criticism for not being able to take actions against the extremist groups and their leadership involved in trans-border terror activities. Pakistan's economy is already in crises and the ordinary masses are going through huge inflation situation. Extermination of foreign investment has enhanced build up the economic pressure on the country and the regime has raised the taxes government services. This situation prevails agitation among the ordinary people. Thus the FATF's pressure tactic has further enhanced pressure on the domestic politics.

6.4 Socioeconomic opportunities for Pakistan

FATF is a modern organization with wide membership of the states from all over the world. FATF not only identifies the state vulnerabilities but extends help so that the technical deficiencies could be resolved. Pakistan's engagement with FATF could be an opportunity in different ways as follows.

1) **Improvement in regulations**

Since the FATF grey listing Pakistan has improved the regulations concerning the demands from FATF. An approximately 24 of the 27 apprehensions listed by the FATF has been fulfilled, it is considered as a huge development since it was greylist.

2) **Avoiding the FATF blacklist**

Pakistan can permanently come out of the FATF surveillance by implementing the FATF demand, this will shun the chances in future for Pakistan into the blacklist of FATF. Political lobbying by India to black list Pakistan would also be halted by Pakistan agreement to FATF recommendations.

3) **Improving International relations and reputation**

Pakistan's relations with the other countries would improve with adherence to the FATF recommendations. FATF which is a forum of 39 states of the world would extend Pakistan with core International relations. The G7 countries which are the core members of the FATF would extend Pakistan economic and political opportunities. Pakistan would be able to establish its international relations without barriers and legal interruptions which could be levied in case of FATF conditions. Pakistan would be able to build its international reputation by improving its response to money laundering, corruption and in particular against terror financing. Pakistan has suffered a bad reputation since worldly known terror entities established their networks in Pakistan. With regulatory actions against terror financing, Pakistan would restore its reputation internationally.

4) **Opportunity to overcome the economic challenges**

Pakistan has gone through huge economic challenges over the decades. FATF grey list had cause an economic loss of billions of dollars per annum. This loss could be further increased if Pakistan continue to stay in grey list or fall its position down to the FATF blacklist. Contrary to this Pakistan can turn this existing situation to improve its economic situation. Pakistan can improve its economic situation by making the necessary arrangements in according with the FATF recommendations. Pakistan would be allowed to trade in the European markets, which is restricted due to Pakistan's reputation at the international level and due to Pakistan's critical positions on other international forums. FATF's recommendations would serve as principles guidelines to make necessary arrangement to fair its economic relations with the world economic forums.

5) **Improvement and development of domestic laws and administration**

Pakistan has made several acts and laws to legally fight the issues at the state level.

Anti-Money Laundering Act (2010), National Accountability Ordinance (1999), Control of Narcotics Substances Act (1997), Anti-Terrorism Act (1997), SBP AML/CFT Regulations for Banks & DFIs, SECP Anti-Money Laundering/CFT Regulations-2015, NACTA Guidelines on UNSCR 137 and Anti-Money Laundering Ordinance(2007) (AMLO) (Ibtisam Butt, 2019) are the most established laws and acts developed over the years. Pakistan has also formed financial monitoring entity like the financial monitoring unit (FMU) to retain chasing the doubtful dealings and trace the source and targets of the transactions. FMU mechanism in association with Federal Investigation Agency (FIA) and provincial police counter terrorism department (Ibtisam Butt, 2019).

6) **Banking sector reforms**

Pakistan has introduced improvements in its banking system. Both public and private sector banks in Pakistan have remain vulnerable to being used for money laundering of huge amounts of money. There was no check on the fake accounts and the sources of the funds being deposited and withdraw. Since the FAFT conditions the necessary reforms in the banking sector has been introduced. The growth of the economy and enhancement in the living standard of ordinary masses could not be achieved without a well-performing and efficient financial sector (HUSAIN, 2005). The system of check on the financial transactions has improved through regulations. Maximum Banks and bigger exchange corporations take a satisfactory indulgent of their AML/CFT duties and take internal ML/TF hazard calculations, which fortify a sensible considerate of customer ML risk but not TF risk. These entities apply recordkeeping requirements and

have hazard-based CDD strategies/processes, a substantial shortage is their deficiency of active identification of advantageous possessors (Rasanah, 2020).

7) **Relaxing the international criticism**

Pakistan can take the FATF warning as an opportunity to make necessary arrangements needed to escape the international pressure and the reasons on the basis of which Pakistan remains in the watch list of different entities. India has repeatedly used the FATF's reservations to put force on Pakistan in intentional arena (WIRE, 2020). The states having cordial relations with India have also followed the Indian stance against Pakistan. Pakistan with the help of FATF could come out the situation once for all by mitigating the FATF concerns.

6.5 Conclusion

By comparing and analyzing the engagement of FATF and Pakistan and emerging threats and opportunities from this situation we can say that FATF's concerns at one end if are threat, it is also an opportunity as well to strengthen its overall posture as a nation state. FATF not only identifies the legislative or regulatory and administrative deficiencies of a country but it also extends help to work with the state to correct the weaknesses and to improve the stature of the state to meet the common objectives. It gives a state an opportunity to realize its weaknesses which could be harmful for the international community and for the state itself. The phenomenon of international relations in the contemporary era is so complex. No state could leave in isolation. Pakistan in order to remain an integral part of contemporary international system need to make compliance with the demands of such international organizations and other entities. This is a high time of interdependency and Pakistan could enjoy the status of a responsible state with the fulfilment of FATF recommendations. FATF warning is an

opportunity in a sense that Pakistan can timely mitigate its deficiencies and can improve its regulations according to FATF recommendations before going falling into the list FATF 'high risk jurisdictions or blacklist.

CHAPTER 7

CONCLUSION

Iran is a historical and a modern important state of the Middle East. It is surrounded by Pakistan, Afghanistan, Turkmenistan on the Eastern and North Eastern side while Azerbaijan, Turkey Iraq are on its Northwestern and western side. It also shores the Caspian Sea in its North and the Persian Gulf on its southern border. Oil is the backbone of the Iranian economy. Iran since the Islamic revolution has gone through many international challenges. Its war with Iraq which lasted for a period of eight years was a major challenge in the history. Iran also remained under persistent unilateral and multilateral sanctions for its nuclear program. The 2015 JCPoA/Iran Nuclear Deal was a positive development for Iran, which lasted effectively till the US withdrawal from it due to regime change in US. It was a huge setback for Iran followed by the FATF greylist 2016 and presently stays in blacklist of FATF. The USA not only withdrew from JCPA/Iran Nuclear Deal, it also imposed sanctions on Iran's economy. Iran's only hope were the countries which were having trade relations with Iran like China, Russia, India and many other countries from Europe. But with the FATF blacklist even the close friends being the core members of FATF were forced to shun their relations with Iran. These close trade partners asked Iran to make necessary arrangements as per FATF recommendations so that the trade relations could not be interrupted with Iran. Since the FATF blacklist of Iran even the last hope of relations with these countries has ended. The most significant effect of FATF conditions on Iran is in terms of its economy and social. The socioeconomic position is deemed to be a multi-directional display, but there is no certain scale to degree it (Safizadeh, 2015). Other than the domestic indicators like education, occupation and Income, Iran's international socialization and foreign trade situation also suffered in the post 2008, the year when the Iran's name had

appeared on its grey list and till present time period when Iran has been totally blacklisted.

This is high time of interdependency among the states of the world. No state can live by its own. States in the contemporary era are working together to secure their common interests. States earn responsibilities in the society of states. States have form a mechanism by establishing supranational organizations like FATF. States have to follow the decisions made or imposed, otherwise such targeted states can confront severe socioeconomic consequences as is happening with regard to Iran.

7.1 Key finding with regard to Iran

The nation's economic growth in the year 2019 declined to minus nine per cent (Mahessar, 2020).

After the ratification of Joint Comprehensive Plan of Action with the participation of China, Europe, Russia and the United States, Germany and Iran, Iran had got opportunity to enhance its oil production and supply up to the scale of two million barrels per day. But this scale fell down to 300,000-500,000 barrels per day when the trump regime announced its extraction from the (JCPoA), imposed sanctions on Iran's energy, shipping and financial sectors, restricted foreign investment and the export of Oil (Mahessar, 2020).

The rest of limited opportunity of limited oil trade, education, occupation and Income have been impacted due to FATF call for action against Iran.

Both US and FATF sanctions has hit hard the economy of Iranian, and due to poor economic situation as a backlash has triggered social turbulence in the country.

The phenomenon of interdependency is an integral part of the today's system of international relations and state are no more out of this pressure, Iran is a clear precedent in this regard.

Since the categorization of Iran by FATF as a 'high risk jurisdiction' the process of dealing with the foreign banks has become more difficult due to harder inquiry of transactions. FATF's conditions would cost Iran high value of borrowing, further has separate Iran from the system of international financial (Mahessar, 2020).

Iran has managed its local market by scaling the production and local consumption. The industrial sector particularly automobiles, metals and plastics sectors (Bonato, 2008) are compensating the employment opportunities and reducing the unemployment pressure.

The international blockade of Iran has created the domestic unrest against the Iranian regime. The ordinary masses are frequently remonstrating over the high inflation, high joblessness and decreasing economic productivity (Bonato, 2008).

Iran has compelled to suspend the grants to the people in way of government subsidies had to increase the oil prices on domestic consumption. This government action has been responded by the ordinary people of Iran in way of uprising against the regime causing a political unrest. Now violent protests have become very a common practice regular especially during 2018-19 (World Report, 2019).

7.2 Threats and Opportunities of Pakistan's engagement with FATF

Pakistan since its appearance on the grey list of FATF has affected the lives of the ordinary people in many patterns. Every segment of the Pakistan society, even the humanitarian organizations are fronting difficulties in getting listed with the

government in receipt of external funds (Editorial, 2019). Pakistan's stay in the grey list of FATF will cost yearly loss of 10 billion dollars (Chaudhury, 2019).

Pakistan's name for the first time had appeared on FATF's plenary session in February 2008. Pakistan at that time had initiated its preliminary regulations against money laundering. But the deficiencies in the financial sector, with regard to monetary institutions was pointed by the FATF.

Pakistan in June 2010 initiated working with FATF and Asia Pacific Group, to mitigate the FATF concerns. But Pakistan due to its domestic political situation and because of some interest groups lost the pace of collaboration and could not progress further.

In February 2012, FATF issued public statement listing Pakistan amongst nations who have inadequacies with regard to AML/CFT and in case of such regulations no further improvement in such laws was made.

FATF's additional concern is that Pakistan did not have suitable regulation to identify terror financing, as well as lacks mechanism to seize terrorist possessions. Pakistan with the help of its key international political supporters like China, Turkey and Malaysia have managed to escape the black list. But even the close friends cannot avoid the international pressure to take counter measures against Pakistan.

Pakistan should learn from the case of Iran if how it has been trap for not fulfilling the FATF recommendations. Domestic consensus among the political shareholders is essential for the timely legislation as per FATF demands. Otherwise, like Iran the political Polly thinking had constraint the fulfillment of FATF demands and ended in FATF list of 'high risk jurisdiction'.

The phenomenon of interdependency and institutional liberalism is the core of today's international relations. States are sovereign but it has to live with the other actors of the

international relations system. FATF decisions matter in international relations. More and more states becoming part of FATF by agreeing to its recommendations. These recommendations are for common good of the states. Pakistan can avoid the political game of its competitors like India by fulfilling the FATF action plan.

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