



## Introduction

Exchange Policy Department of State Bank of Pakistan ["SBP"] has issued Framework for **Managing Risks of Trade Based Money Laundering and Terrorist Financing** vide Circular No. 4 dated **14 October 2019**.

## Objective

The objective of this framework is to **reinforce** trade related Anti Money Laundering and Combating Financing Terrorism ["AML/CFT"] regime and preserve foreign exchange.

## Applicability and effective dates

Applicable on **all banks** authorized by SBP to deal in foreign exchange.

Particulars	Effective Date
Assessment of customers	Latest by 30 April 2020
Develop trade related risk profile	Latest by 30 April 2020
Report of Internal Audit department	Latest by 31 December 2020

## AML/CFT policies

Authorized Dealers ("ADs") shall emphasize on the **overall trade related risks** in their AML/CFT policy and relevant trade business guidelines, policies and procedures in respect of following:

- **screening** of customers;
- **identification and monitoring** transactions with **related party**;
- complete **risk profiling** of customers and **self** risk profiling;
- **price verification of underlying contracts related imports and exports of goods/services**;
- **screening of goods** traded as per relevant Trade Policy;
- identification of **dual use and end users** of goods like import/export licensing requirement;
- focus on **counterparties**; and
- good **screening** from **UNSC Resolutions**.

## Board and Senior Management Oversight

Make policies and procedures in respect of areas of risk associated with trade transactions:

- Development and implementation of **Customer Risk Profiling Framework** and **Transaction Monitoring** System for managing ML/TF risks;
- Implementation of **technology** based solutions;
- **Periodical review** of ADs distinct risk profile;
- Review of reports related to the adequacy of **internal controls** to mitigate ML/TF risks;
- **Development and implementation of price verification policy including level of acceptable price variance; and**
- **Training** officers regularly to enhance their ability to deal with ML/TF risks.

## Risk Profiling

Adopt **risk based approach** while conducting Know Your Customer/Customer Due Diligence ["**KYC/CDD**"] of trade related customers. To capture information about **trading activities** of customers and incorporate it in Customer's Risk Profile which may include:

- **Goods/services** customer trades in and **prices**;
- Customer's **key buyers and suppliers**;
- **Annual volume** of trade transactions;
- **Trade cycle** of customer;
- **Jurisdictions/** countries of business;
- Modes of **transportation** for goods;
- Person(s) authorized to **sign** on behalf of customer;
- **Legal structure** of the customer;
- **Ultimate beneficial owner of the customer/transactions along with his/her stakes in the trade transactions directly or indirectly; and**
- **Conduct** of customer's personal PKR/FCY account.

## Over dues and default history

Verify customer in respect of **over dues and default history**.

### Comments :

**Price verification will be a challenging task, therefore a central data bank (on a country wide basis) should be maintained.**



### Proprietary risk profile

At the time of accepting **proprietorship** concern, assessment to be carried out specially in case **of risks associated with proprietorship** which is **higher** due to inherent risks generally associated with such form of business.

Formulate **procedure based on the risk assessment, relating to trading activities of the client** to assign risk rating/ category in addition to the general risk profile of the customer maintained under AML/CFT instructions issued by SBP from time to time.

To **integrate Customer Risk Profiling System with Core Banking Systems/transaction Monitoring Systems.**

Periodically **review trade portfolios and risk profiles of customers** and the timeline should not go beyond three years in any case.

To develop criteria in respect of trade transactions of clients with **high risks** to be escalated to the higher management for taking appropriate decision about the fate of transactions.

### ADs Own Risk Profile

Develop their **distinct trade-related risk profile** which shall inter alia include:

- Weighted average **risk rating** of their trade portfolios.
- Trade transactions with **jurisdictions** within a year.
- Trade transactions with industries, sectors and segments of economy during a year.
- **Sanctions compliance** regime of AD.
- **No. of red flags raised and escalated to the higher management during a year.**
- **No. of Suspicious Transaction Report (STR) reported to FMU during a year.**
- **No. of trade related customers subjected to enhanced due diligence (EED) during a year.**
- **Branches' average audit rating authorized to deal in foreign exchange/foreign trade.**
- Risks associated with **various trade related products** offered by the AD

**Risk profile of ADs shall be escalated annually by risk management committee of Board of Directors to review.**

### Price related Due Diligence

**Define policies and procedures for price verification and suspicious transaction reporting mechanism and verify the prices of underlying contracts from reliable sources. Carry out assessment of prices of underlying contracts on post transaction basis which has to be concluded within 30 days of post transaction basis.**

Require exporter to submit a copy of underlying **sale contract** along with Advance Payment Voucher.

Develop detailed scenarios of other trade related red flag indicators.

### Form "I", Form "E" related Due Diligence

ADs shall ensure compliance of the following instructions while approving Form "I" or Form "E":

- Full **details of goods** being imported/exported are declared.
- Declaration of **unit of measurement** which conceals actual quantity to be declared shall be avoided in line with relevant Custom Valuation Rulings (if available).
- The **brand/trade name/trademark** of a product shall be accompanied by the **generic name** of such product.
- **H.S. Code** of each product is declared on Form "I" or Form "E"
- The above guidelines to be followed while making declaration on Advance Payment Voucher (Appendix V-14).The particulars of Form "I" or Form "E" to be corroborated with that of Goods Declaration Form.

### High Risk Transactions and Enhanced Due Diligence

Ensure that **high risk transactions** are subject to **EED**. Following transactions may have higher ML/TF risks and may be considered for EDD:

- **Opening of Account**
- **Advance Payments**
- Import/Export of **Services**
- Import/Export of **Free of Cost Goods**
- Trade transactions with **related party**
- Import of goods that are **exempt from import duties**
- Export of goods on which **export rebates** are allowed
- Trade transaction of **sole proprietorship** or **partnership**



- Trade transactions with **high-risk jurisdictions**
- Outward remittance from **personal FCY account** of the importer

**To develop criteria in respect of transaction falling in high risk category. Such transactions to be escalated to higher management decision.**

In case of recurring non-performance after transaction is allowed, higher management may subject customer to **enhance continuous monitoring (ECM)**.

**In case of persistent non-performance, in such case, it may evaluate transaction for filing of STR with Financial Monitoring Unit.** If senior management does not find sufficient grounds for filing of an STR, it may consider subjecting customer to ECM.

## Management Information System (MIS)

To develop a **list of goods** along with the details of their unit prices which are:

- Exempted from **import related duties**
- Subject to over **25% import related duties**
- Subject to **export related rebate**

Such details to be disseminated to price verification function for their reference. A **database be developed a database of the unit prices of goods along with their H.S. Codes.**

## MIS and Regulatory Reporting

Develop **comprehensive MIS of the trade transactions at their head/principle office** so that data extraction becomes easy and requirement of regulator with respect to requisition of data/MIS are met in a timely manner. Also, to ensure accurate reporting of trade related data, in their **monthly foreign exchange returns to SBP.**

## Transaction Monitoring

**Incorporate a comprehensive set of trade related ML/TF risks scenarios/red flags, in their transaction monitoring system and ensure that alerts generated are analyzed by the AML analyst. Keep complete record of transactions rejected on the basis of ML/TF concerns associated with it.**

## Suspicious Transaction Reporting

**Report STRs to FMU** not later than **seven working days** after forming suspicion about a customer or a transaction.

## Technology Based Solutions

Adopt **technology-based solutions to mitigate ML/TF risks associated** with trade transactions with specific focus on the following:

- **System based detection** of Invoices, Goods Declaration, Transport Documents.
- Sanctions **screening of individuals** and entities.
- **Screening of vessels**, shipping company and voyage checks.
- **Verification of prices of goods.**
- Maintenance of **non-performance and overdue status of import payments** and export receipts respectively.

## Staffing

Ensure availability of **adequate staff** at **centralized trade processing units** and branches and trade related business targets shall not be assigned to the staff working at centralized trade processing units.

## Training

Allocate adequate resources to create awareness of the ML/TF risks associated with trade transactions and shall regularly carry out the **training** need assessment of the staff working in the trade function.

## Collaboration with Stakeholders

Collaborate with relevant departments to develop an understanding of their internal work and raise awareness of their staff working in trade function.

## Internal Audit

Periodically review (**at least once in two years**) the robustness of bank's system and controls with respect to compliance with the provisions of this framework by Internal Audit Department of ADs.





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