

## Blacklisting in the rearview mirror

- In its latest three-day plenary review, the Financial Action Task Force (FATF) has expectedly retained Pakistan in 'grey list' – officially known as 'Jurisdictions under Increased Monitoring', while acknowledging the notable progress made by the country since Feb'20, in a noticeably tamed statement.
- Pakistan is now largely compliant on 21 out of 27 items of the action plan (vs. 14 in Feb'20 and mere 5 in Oct'19), with compliance to the remaining 6 to be assessed at the next plenary meeting (21-26th Feb'21)
- The overall positive tone of the statement focusing on notable progress while refraining from blanket warnings (prominent in Oct'19 & Feb'20 statements) clearly signifies that the risk of blacklisting is largely over, in our view. However, graduation from the grey list in Feb'21 appears unlikely, as the country has to complete both an action plan (by Feb'21) and an on-site assessment (likely by Jun'21).
- From the market's perspective, while the FATF's decision was widely expected, positive sentiments are bolstered by: i) formal acknowledgment of progress made so far and ii) the risk of blacklisting largely in the rearview mirror.

**FATF retains Pakistan on 'grey list', acknowledges progress:** In its latest Oct'20 plenary review, the Financial Action Task Force (FATF) has expectedly retained Pakistan in its 'grey list' – officially known as 'Jurisdictions under Increased Monitoring', while acknowledging the significant progress made by the country since Feb'20. Pakistan is now largely compliant on 21 out of 27 items of the action plan (vs. 14 in Feb'20 and mere 5 in Oct'19). It needs to show compliance on the remaining 6 counts by Feb'21 to complete the FATF action plan. The remaining six action items are mostly related to the implementation of the amended regulations. Key areas that Pakistan needs to show progress on include:

- *Demonstrating that law enforcement agencies are identifying and investigating the widest range of Terrorist Financing (TF) activity and that TF investigations and prosecutions target designated persons and entities, and those acting on behalf or at the direction of the designated persons or entities.*
- *Demonstrating that TF prosecutions result in effective, proportionate, and dissuasive sanctions.*
- *Demonstrating effective implementation of targeted financial sanctions against all 1267 and 1373 designated terrorists and those acting for or on their behalf, preventing the raising and moving of funds including in relation to NPOs, identifying and freezing assets (movable and immovable), and prohibiting access to funds and financial services.*
- *Demonstrating enforcement against TFS violations, including in relation to NPOs, of administrative and criminal penalties and provincial and federal authorities cooperating on enforcement cases*

**Blacklisting off the table?:** The overall tone of the statement was encouraging, with the global body recognizing notable progress made so far. Importantly, unlike past statements for this round of consultations, Friday's announcement does not explicitly mention any adverse action in case of insufficient progress. The absence of any warnings in the statement together with ~78% (21/27) compliance with the action plan suggests that the risk of blacklisting is largely over for the country, in our view. That said, the compliance on remaining counts mostly related to the implementation of regulations/laws would still be a daunting task for the authorities going forward. Moreover, the graduation from the 'grey list' is a long process – around two and a half years considering cross country experiences. The exit from

Umer Farooq  
umer.farooq@akdsecurities.net  
111-253-111 Ext: 602

FATF action plan progress

Plenary	Largely Addressed	Partially-Addressed	In-compl-ete	No Consen-sus	Action Items
Jan'19	1	1	25	-	27
Jun'19	2	12	12	1	
Oct'19	5	17	5	-	
Feb'20	14	11	2	-	
Oct'20	21	6	-	-	

Source: News Reports & AKD Research



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the grey list not only requires the completion of the action plan but the country passing an on-site assessment as well. So, Pakistan's exit from the grey list in Feb'21 appears unlikely, in our view, as it has to first complete the action plan (in some cases near to full compliance with the action plan triggers on-site assessment) and then an on-site assessment. However, completion of the action plan by Feb'21 could pave the way for an exit from the grey list in Jun'21.

**Investment perspective:** While the FATF's decision of keeping Pakistan in the grey list was widely expected, the market should positively react to i) formal acknowledgment of the progress made so far and ii) the risk of blacklisting largely over, in our view. Major forces driving investor sentiment are: 1) bullish sentiment surrounding consumer cyclicals (Cements, Autos, Edible Oils) as an improving external situation and PkR stability eases cost pressures for import reliant sectors, and 2) earnings outperformance for the latest reported period (4QFY21/3QCY20) for Banks and Fertilizers, where resumption of payouts for Banks was a notable catalyst. In the near term, ongoing result season will continue to consume the majority of the investors' attention – particularly after positive earnings surprises. NBP, PSO, FFBL, MCB and PAEL are major names slated to announce earnings this week. Although largely discounted by the market so far, domestic political noise in the wake of demonstrations by the opposition parties under the banner of the Pakistan Democratic Movement (PDM) and rising COVID-19 caseload are two key risks, which could keep market performance in check going forward.

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**AKD Securities Limited**  
602, Continental Trade Centre,  
Clifton Block 8, Karachi, Pakistan.  
research@akdsecurities.net