

FATF: What to expect?

Insight—Economy

Exit from “grey list” very likely...

- Since its designation in the Financial Action Task Force (FATF) “grey list” of countries in 2018, Pakistan has made considerable progress on the recommended action items.
- Between February to September 2020, Pakistan’s legislative bodies gave ascent to 14 different laws and regulations in order to comply with the FATF action plans.
- According to an FATF statement in Oct’20, Pakistan had made “significant progress” on 21 out of 27 action items. Further, the FATF had strongly urged Pakistan to swiftly complete its full action plan by February, 2021, then.
- The outstanding items mainly relate to strategic deficiencies identified by the FATF, including demonstration of law enforcement agencies identifying, investigating, prosecuting and sanctioning Terrorist Financing (TF), along with financial sanctions against designated terrorists and non-profit organizations related to TF.
- In addition, we would like to point out that the Anti-Terrorism Court (ATC) has also been active of late, adjudicating multiple convictions in relation to terror financing in Pakistan.
- Meanwhile, Government representatives including from the Ministry of Finance, continue to reiterate that “substantial progress” has been made on the remaining action items.
- Nevertheless, we flag Commercial Banks to be the biggest beneficiaries of any positive developments on the FATF front due to its association with the international financial system.
- An exit from the grey list would also increase Pakistan’s global reputation including that with foreign investors. It is also likely to improve Pakistan’s access to multilateral financing.
- Upcoming FATF virtual meeting is scheduled to take place during February 22-25, 2021.

Dates	Event
2012 - 2015	Pakistan placed in grey list
Jun'18	Pakistan put on grey list again
Oct'19	Put on grey list till Feb'20
Feb'20	FATF grants extension
Oct'20	Put on grey list till Feb'21

Source: FATF and TSL Research

S.no FATF Related Legislation Passed February to September 2020

1	Foreign Exchange Regulations (Amendment) Act, 2020
2	Anti-Money Laundering (Amendment) Act, 2020
3	NACTA (Amendment) Act, 2020
4	Anti-Terrorism (Amendment) Act, 2020
5	Mutual Legal Assistance (Criminal Matters) Act, 2020
6	UN Security Council (Amendment) Act, 2020
7	Anti-Terrorism (Second Amendment) Act, 2020
8	Companies (Amendment) Bill, 2020
9	Limited Liability Partnership (Amendment) Act, 2020
10	Islamabad Capital Territory Trust Act, 2020
11	Control of Narcotics Substance (Amendment) Act, 2020
12	Anti-Terrorism (Third Amendment) Act, 2020
13	Anti-Money Laundering (Second Amendment) Act, 2020
14	Islamabad Capital Territory Waqf Procedure Act, 2020

Source: Research Society of International Law

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To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: <https://jamapunji.pk/>

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	JPB	Justified Price to Book