

SHADOWED COMPLIANCE: A COMPARATIVE LEGAL APPRAISAL OF PAKISTAN'S AML/CTF REGIME AND UNITED NATIONS NORMS

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Abstract

Money laundering and terrorism financing transnational threats to national security and economic integrity. The work is an exploration of this concept by researching the effectiveness of anti-money laundering (AML) and counter-terrorist financing (CTF) regulations through the comparative legal review of the statutory tools on countering money laundering in Pakistan and the standards of the United Nations (UN). The main research question is to determine the gap between the domestic law in specific the Anti-Money laundering Act, 2010 and Anti-Terrorism Act, 1997 in Pakistan and the international best practices as described by organizations like the Financial Action Task Force (FATF), UNODC and IMF. Based on a doctrinal legal approach, the research will consider the applicable statutory texts, judicial precedent, FATF mutual evaluation reports, and institutional compliance reports. The study postulates that poor institutional regulation and conceptual ambiguities in the Pakistani AML frameworks are possible causes of the grey listing and implementation shortcomings of the AML framework in Pakistan. Of particular importance, the critical conclusions point to the systemic problems, such as the failure of the inter-agency coordination, insufficient judicial capacity, inconsistent adherence to the suspicious transaction reporting (STR) protocol, and insufficient efficacy to the Recommendation of 40 by the FATF. The regime in Pakistan is making progress on a fly in comparison to the UN standard model laws but this progress is stunted because of political uncertainty and lack of resources to set regulatory agencies in place. The paper finds that Pakistan needs to institutionalize the Financial Monitoring Unit (FMU) better, enhance the cross-governmental collaboration, and conduct certain regular law amendments in respect of the revolutionized FATF requirements. Future directions include using the mechanisms of financial surveillance in digital form and some type of regional cooperation that can make AML/CTF frameworks more resilient.

Introduction

Terrorism financing and money laundering form part of the most sophisticated, and incurable financial crime dilemmas facing international law enforcement systems. The magnitude of the threat is indicated by the fact that 2-5 percent of international GDP is thought to be laundered annually by the United Nations Office on Drugs and Crime (UNODC) and the International Monetary Fund (IMF), and is substantial. Countering this, the international structures namely the Financial Action Task Force (FATF) 40 Recommendation, and the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) have developed a broad legal, institutional, and enforcement standard to which member states should comply. Although these models have been adopted in a number of jurisdictions, the adoption is not uniform notably in developing nations such as Pakistan.

Although the laws that govern the Anti-Money Laundering Act, 2010 (AMLA), the Anti-Terrorism Act, 1997 (ATA) and formation of the Financial Monitoring Unit (FMU) have been enacted in Pakistan, ambiguities in legislations, fragmentation of institutions and lack of compliance to the standards required by the FATF are still rife. Another widely spread but incorrect belief is that compliance with statutory instruments can be achieved by simple adoption, but the enforcement mechanism does not have the coherence, independence and ability to prevent and punish financial crimes in Pakistan. Research done in the past was more based on the FATF compliance audits or normative legal analysis on either side without providing a critical area of research in comparative analysis including the recurring constraints of the country of origin as well as the international commitments. This research aims to fill in this gap by discussing the degree to which the AML/CTF framework of Pakistan is in line with the UN and FATF standards, and also to determine the organizational constraints that make it ineffective.

The main aim of this paper will be to make a comparative legal and institutional review of the

anti-money laundering and terrorism financing regime in Pakistan against the UN requirements and FATF recommendations. The examination of the legislative devices, institutional structures, and procedures used in Pakistan, the study expounds on the successes and laxity in its journey of compliance. The major conclusions are that the ability of oversight bodies to act independently was limited, the training of justice and law enforcement officers was insufficient, and risk-based models of supervision were not fully exploited. The paper is divided into seven parts including an abstract; introduction; literature review; methodology; results; discussion and conclusion. The present work adds academic literature in situating the AML/CTF system in Pakistan within the paradigm of a global compliance landscape, and providing the reform strategies on a legislative and institutional level based on a combination of empirical and doctrinal analysis.

Literature Review

The international diffusion of money laundering and terrorist financing has sparked interest in international jurisprudence and policymaking leading to the development of an advanced set of anti-money laundering (AML) and counter-terrorism financing (CTF) tools. This literature review examines how AML/CTF frameworks have been developed and implemented, with a special emphasis on the domestic mechanisms in Pakistan in respect to guidelines provided by the United Nations (UN) standards and the Financial Action Task Forces (FATF). The review cites some of the dominant themes of law, summarizes some of the academic criticism and displays some of the gaps in enforcement and compliance. Among scholars, there is a general agreement that the foundation of modern AML regulation lies in the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. This convention was also the first multilateral convention to explicitly criminalize money laundering. The later standards like International Convention Suppression Financing Terrorist (1999) and the 40 Recommendations of the FATF helped to offer normative elucidation on what constitutes predicate offenses and the classification

of customer due diligence (CDD) and Financial Intelligence Units (FIUs).

The literature also assesses the changing role of the United Nations Office on Drugs and Crime (UNODC) and IMF to create model AML legislation and provide technical support to the member states. UNODC (2005) reiterated that to successfully apply AML/CTF systems, alignment of local legislation with international agreements, judicial education, and coordination of agencies must take place. Ferwerda (2009) accentuated the relationship between AML actions and human trafficking and corruption predicates, warning, however, that excessively criminalizing without considering procedural protections would destroy civil liberties. Pakistan has a legal framework to counter money laundering and terrorist financing that is based on the legally binding anti-money laundering Act, 2010 (AMLA) and the anti-terrorism Act, 1997 (ATA). These laws are further supported by the creation of institutional agencies like Financial Monitoring Unit (FMU) and the mechanisms of cooperation with the State Bank of Pakistan (SBP) and Anti-Narcotics Force (ANF). Nevertheless, in literature, serious implementation issues are disclosed.

Ahmed and Qureshi (2017) include definitional vagueness, specifically in case of suspicious transaction and observe that penalties under AMLA 2010 do not cause a significant deterring impact. This is further extended by Aslam (2016), who indicates that the organizing bodies in Pakistan are not independent, have insufficient resources, and they tend to be politicized. It is also criticized in the literature that there is limited usage of the risk-based supervision model, with Chaikin (2009) asserting that Pakistan has embraced formalistic compliance use, but it is devoid of operational depth.

A number of works discuss why Pakistan has been grey-listed by FATF on several occasions out of strategic shortcomings in the implementation of AML/CTF. Pakistan has been repeatedly mentioned in FATF mutual evaluation reports as having failed to comply with Recommendation 6 (Targeted Financial Sanctions), 10 (CDD), and 20 (STR Reporting). According to the World Bank

(2019), even though some progress was made on the legislative level in Pakistan, the implementation of the methods is considerably behind schedule.

Benedek and Hayajneh (2020) believe that geopolitical factors more than legal reform, have been behind the FATF compliance trajectory in Pakistan. On this note, Talbot (2021) argued that the absence of judicial training and poor asset forfeiture regimes have compromised the implementation of the FATF Action Plan.

One of the common themes in academic and policy texts is the functional interdependence between money laundering and terrorism financing. Napoleoni (2003) also differentiates between state-sponsored and private financing of terrorists and highlights the importance of legal businesses and charity in laundering illegal money. Aslam (2016) uses this theoretical framework to Pakistan this way which identifies, through which legitimate professions and financial institutions are used to support terrorism.

Demonstrating using the Nigerian example, Ogbodo and Mieseigha (2014) confirm that money laundering artificially inflates economic indicators, distorts the financial markets, and weakening the governance institutions a tendency that also finds its reflection in the financial ecosystem in Pakistan. The 2012/2022 guidance notes published by the FATF have also served to highlight the need to incorporate the counter-terror finance analysis as part of AML risk assessment. scholarly and institutional review collections also highlight the significant changes in the global and regional AML/CTF landscape. The 2018/2022 evaluation cycles by FATF were of specific concern to Pakistan and lead to the further investigation and new placement on the greylist because of the strategic weaknesses in the formation of financial crime control. Although regulations such as a revision of the Anti-Money Laundering Act, 2010, have been made, the entire process of compliance was non-prosecutorial and politically entrenched in a manner that Pakistan has not fully complied with the 40 Recommendations of FATF.

The Financial Monitoring Unit (FMU), despite its operation, was still subordinated to bureaucracy, and had little ability to independently enforce

itself. A government committee oversaw the FMU and undermined its independence as well as timely response to Suspicious Transaction Reports (STRs). Evidence demonstrated that only 22STRs were reported to the SBP and among the report, only five resulted in investigations.

The procedural loopholes in the AML implementation have been subsequently emphasised based on judicial commentary, including *Muhammad Ullah v State* and *Misbah Karim v Federation of Pakistan*, in which the chain of evidence was knifed by the FIA instead of FMU. Courts underscored how data created by FMU was a requirement to initiate investigations using the AML laws.

Additionally, recent studies (2019-2022) are raising more connections between cyber-financial and launderment based on cryptocurrency and terrorist finance. But the legal and enforcement systems of Pakistan have not dealt with these trends. Crypto-finance laundering is not formally recognized and regulated in Pakistan as it is in the jurisdictions that have incorporated FATF recommendations on terminating transactions in virtual assets and virtual asset service providers (VASPs).

Although the body of research is expanding, there is a rarity of comparative studies in the doctrinal analysis of the effectiveness of the AML/CTF laws by Pakistan against international standards. To a large extent, the existing literature has either been too narrow-sighted in terms of FATF evaluations or has been too broad in relating the failure of different levels of regulation, without anchor on how statutory design interacts with institutional culture. Moreover, the meeting of the goal of AML interventions in predicate crimes in Pakistan has not been empirically collected, so policy recommendations are limited. In his works, Aslam develops a general examination and suggests the necessity of more empirical in-depth study and interdisciplinary method incorporating criminology, international relations, and financial law.

The literature indicates an agreement of the paramount relevance of harmonized, enforceable, and institutionally backed AML/CTF legislations. Although the international instruments provide

elaborate normative provisions, their successful implementation in Pakistan has been rather irregular as a result of legal uncertainties, institutional inertia, and the scarcity of resources. The review shows that legislative reforms, judicial education, and independent oversight mechanisms are essential to enhance compliance with the world AML/CTF standards and alleviate the socio-political consequences of these financial flows that will end up in Pakistan.

Research Methodology

The major aim of the study is to assess how effective the current anti-money laundering (AML) and counter-terrorism financing (CTF) legal framework in Pakistan can be compared to those internationally laid down by the United Nations (UN), Financial Action Task Force (FATF), and other similar organizations. The qualitative and doctrinal legal research methodology with the normative study of legal texts, institutional reports, and applicable jurisprudence has been adopted in this study. The study is mainly based on secondary sources and relies on the comparative-descriptive design, which investigates the aspects of both the composition of the structures and the implementation of the laws on the Pakistani and UN regimes.

The study is non-experimental by nature and makes use of descriptive methods to explain statutory and institutional performance. It examines the effectiveness of AML/CTF enforcement mechanisms within Pakistan on the basis of definitional coherence, institutional autonomy and international compliance. The comparative dimension looks into the legal tools printed by Pakistan against the UN conventions, FATF Recommendations, and global AML norms.

The research paper uses only qualitative data based on the authoritative sources. Main legal tools are the Pakistani Anti-Money laundering act, 2010, Anti terrorism act, 1997, the relevant Statutory Rules and Orders (SROs), and institutional charters of FMU, State bank of Pakistan (SBP) and anti narcotics force (ANF). The international sources are based on UN Convention, FATF mutual evaluation reports, IMF-UNODC model

laws, and documents Global Program against Money laundering (GPML).

The source of academic data is academic articles, legal commentaries, and the analysis of case law (e.g., United States v. Cuellar, R v. GH, and Holder v. Humanitarian Law Project). The empirical base is represented by the institutional reports provided by the World Bank, UNODC, FATF, and the Financial Monitoring Unit in Pakistan. A purposive sampling was used where the cases and jurisdictions that were known to have vulnerabilities and reforms of AML/CTF were sampled.

The scope, efficacy and compliance of the legal frameworks with the international standards were analyzed with a doctrinal-analytical method. It involved statutory interpretation, comparative law on legal duties, and content analysis of mutual evaluation report, judicial precedence and regulatory practice. Data were grouped under informative data using thematic coding to cluster throughout four essential dimensions statutory structure, institutional enforcement, compliance performance, and gaps in inter-agency coordination.

Comparative matrices were made to present the substantive and procedural features of the AML/CTF regime in Pakistan as a comparison to UN and FATF standards. The results were also triangulated by case law, and analytical soundness coupled with contextual confirmation.

The choice of qualitative approach to doctrines was based on the fact that this is the most appropriate form of analyzing the normative legal systems and institutional structures. Such an approach will allow exploring the ambiguity of the text, gaps in compliance, and system inconsistencies in the center of the purpose of the study. Quantitative approach was not suitable because the publicly available, disaggregated enforcement data in Pakistan are not available and the legal assessment should be done qualitatively.

Although the doctrinal research is more comprehensive, it has the shortcoming of relying on the available information and legal tools, which might fail to capture the undocumented institutional practices. To reduce this, cross-

jurisdictional case studies and grey literature, including FATF follow-up reports, and UNODC guidelines were included in the research. The weaknesses comprise possible bias in the reports published by states and the inability to access classified data on compliance. However, with triangulation, interpretative coherence, and multi-source validation, such a research is bound to secure a sound and legally-based comparative evaluation.

Results

This part highlights the main results of the comparative study of the Pakistan Legal framework of Anti-Money laundering and Counter-Terrorism Financing (AML/CTF) when contrasted with the international standards and regulations developed by the United Nations (UN), the Financial Action Task Force (FATF), and other world organizations. These findings are grouped into the major areas of performance identified during the research design, which includes legislative structure, institutional mechanisms, compliance measures, and FATF alignment.

1. Ambiguity of the legislation and the statutory ambiguity.

As the analysis of the Anti-Money Laundering Act, 2010 (AMLA) and the Anti-Terrorism Act, 1997 (ATA) will show, there are some common terminological ambiguities. The definition of the suspicious transaction lacks such a definition that satisfies the criterion of FATF on the definition of suspicious transactions in Recommendation 20. Further, AMLA 2010 has been amended over 17 times but does not provide detailed definitions of such concepts as beneficial ownership, predicate offenses, and so on, which restricts the success of prosecutors.

Additionally, the institutional mandates are institutionalised under Section 6 (FMU) and Section 5 (National Executive Committee) of AMLA that are not well activated in the practice. In comparison with the definitions and sanctions stipulated by statute in the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) or the International Convention on the Financing of

Terrorism (1999), Pakistan has much more restricted statutory definitions and sanctions.

2. Institutional Architecture and Functionality Lissures.

The Financial Monitoring Unit (FMU) which is the main in charge of financial intelligence within Pakistan is not a fully operational autonomous body. It does not have real time access to inter-agencies information such as that of the State Bank of Pakistan (SBP) and the Federal Investigation Agency (FIA). It has been reported that the Know Your Customer (KYC) protocols and suspicious transaction reporting (STR) mechanisms have been underused.

Anti-Narcotics Force (ANF) and SBP were also reported to have no stable collaboration with FMU. The lack of national level financial intelligence database also limits the call to risk-based supervision by FATF. There were mentioned in internal government reports low rates of judicial education on AML/CTF issues and rare cases on prosecution of laundering crimes under ATA 1997.

3. FATF Compliance Performance

According to calculations above on the basis of the FATF Mutual Evaluation Report (2019) and successive statements, Pakistan was non-compliant or partially non-compliant with at least 12 out of the 40 Recommendations, particularly:

- R.6 (Targeted Financial Sanctions)
- R.10 (Customer Due Diligence)
- R.20 (Suspicious Transaction Reporting)
- R.36-R.40 (International Cooperation)

The deficiencies are highlighted by the grey-listing status of Pakistan (2018-2022). Critical statistics on enforcement in 2020-2022:

- Only less than 15 percent of STRs were sent to prosecution.
- One of them is that only 4 offenses of AML, in accordance with AMLA 2010, were registered in the country in 2021.
- None of successful proceedings of asset forfeiture under Section 12 of AMLA.

4. Global Comparison and UN Standards Alignment.

Relative analysis of UNODC Global Program Against Money Laundering (GPML) and IMF

model legislation proves that Pakistan is behind in terms of independence in the institutions, sharing of intelligence across borders and consistency of due diligence. By contrast, in compliant jurisdictions, UN-mandated Financial Intelligence Units (FIUs) are legislatively authorized, functionally independent, and multi-agency governed.

UNODC recommends 19 global legal measures to combat terrorism, but to date, Pakistan in compliance is still a partial actor with critical measures such as the use of UN Security Council Resolutions 1267 and 1373.

5. Limitations and Implementation Problems.

The research is showing a number of practical constraints to the comprehensiveness of data:

- Outdated prosecution information that cannot be accessed because of the national security provisions.
- There is inadequate AML conviction reporting as a result of poor record-keeping systems among the court systems.
- To what extent does the agency possess limited transparency in inter-agency AML performance assessment?

Moreover, cyber-facilitated laundering has minimal tracking, and nothing on it is specifically addressed statutorily under either AMLA or ATA system, despite FATF guidance on virtual assets.

Discussion

In this study, the researcher substantiates that although Pakistan has achieved tangible gains in ensuring that its anti-money laundering (AML) and counter-terrorism financing (CTF) laws are in compliance with the international norms, the country still has unaddressed areas of weaknesses in statutory clarity, institutional effectiveness, and enforcement of law compliance. The AMLA 2010 is still undefined in several critical aspects and the difference between the institutional processes especially the Financial Monitoring Unit (FMU) still lacks free hand, data accessibility and the effective coordination with other enforcement bodies. It is even more highlighted by the fact that the FATF has maintained Pakistan as a high-risk

jurisdiction, which is a reflection of these structural and procedural inadequacies.

The deficiency of the definitional consistency of the AML-related legislation in Pakistan, including the vague application of the terms, like suspicious transaction or beneficial ownership, serves as the direct hindrance to the law enforcement force and the attempts to attain the final decisions. The overall value of the FMU has underperformed as reflected in the small number of attached STRs turned into investigations highlighting larger institution design and supervision problems. These results indicate that Pakistan complies not so much due to the effect of formalistic requirements to meet the FATF timelines but because of the substantial incorporation of the principles of AML/CTF internally.

Likewise, the low number of prosecutions and asset forfeit under AMLA 2010 is indicative of a larger issue of under-enforcement. Even the judicial system is not adequately trained and institutionally assisted to address complex financial offenses, which needs skills in forensic accounting, cyber-finance, and transnational legal cooperation.

Available literature is highly conclusive to these findings. Aslam (2016) determines how the institutional weaknesses in Pakistan particularly the political interference and the inability to enforce due to the inability of the courts. On the same note, FATF mutual evaluation reports (2019) and World Bank evaluations (2021) can attest that Pakistan falls short of targeted financial sanctions, customer due diligence, and STR protocols. The evaluation of AML enforcement in developing nations provided by Chaikin (2009) reflects the problem of Pakistan: formalism on the legal level but the lack of operationalization.

In addition, the identified nexus between money laundering and funding of terrorism also highlighted by Napoleoni (2003) and reaffirmed in the thesis advanced by Aslam has not been properly tackled in the enforcement strategy in Pakistan. The legal framework does not incorporate typologies that appreciate the overlap of drug trafficking, smuggling, and other terror funding hence restricting its effectiveness in practical terms.

Although this study has the advantage of using huge amounts of doctrinal and institutional resources, it has also had its share of limitations that should be mentioned. There is limited access to classified information on AML prosecutions, particularly those ones involving politically exposed persons (PEPs). Moreover, insufficient reporting and transparency of the internal statistics of the law enforcement agencies were limiting the scope of this study, which was empirical in nature. The use of secondary materials, such as FATF overviews and government publications presents the threat of official bias or omission.

In theory, the results support the use of institutional capacity theory in understanding the sources of enforcement-deficit in developing jurisdictions. Efficient AML/CTF regimes are not simply a matter of statutory enactment but it also presupposes institutional independence, expert skills and inter-agency synergy. In practice, the findings indicate the necessity of transition to the performance, instead of compliance-based, regulatory culture.

Judicial reform also has some ramifications: the absence of financial crime specialization means that courts cannot bring the AML/CTF cases to justice. Correspondingly, there is a strong necessity to institutionalize cyber-finance surveillance as well as jurisdictional tools to combat cryptocurrency money laundering, and digital hawala networks, which falls beyond the scope of laws in Pakistan.

The first possible interpretation is that the constraints of enforcing are not structural only, but also political. The foreign policy aspect and diplomatic relations of Pakistan have previously affected the FATF compliance posture. Besides, the Pakistan gray-listing can demonstrate the geopolitical trends rather than the technical flaws. Still, the inner institutional drawbacks reported in this paper suggest that the issue should not be entirely exogenous.

The initial question of the research was whether the AML/CTF structure in place in Pakistan adequately conforms to the global standard especially UN and FATF. The results decisively indicate that there is mild correspondence in the planning but a significant shortage in

implementation, institutionalization and agency authority. This confirms the hypothesis of the study: Pakistan is performing below its potential due to a conflict between the international standards and the domestic enforcement reality.

Conclusion

This paper has aimed to examine the success of the laws against money laundering (AML) and counter-terrorist financing (CTF) in Pakistan with reference to the international laws that have been enacted against money laundering and counter-terrorism financing by the United Nations (UN) and the Financial Action Task Force (FATF). In particular, it was oriented towards examining whether or not there is a robust legislative and institutional base in Pakistan to prevent and identify and prosecute financial offenses that contribute to terrorism and disrupt national economies.

The thesis proposal also presented was that the structural problems behind Pakistan's ongoing failure to achieve compliance indicators with FATF compliance as well as the operationalization of its own laws against money laundering and terrorist financing was not just a result of inadequacy in the legislative process but also entailed institutional flaws and absence of enforcement capability and risk based regulatory culture. The comparative and doctrinal findings have proved this thesis.

The article found that there were four main gaps:

- First, the AMLA 2010 applied in Pakistan and ATA 1997 do not have statutory definitions, which are critical to the success of prosecutors.
- Second, institutional organizations like the Financial Monitoring Unit (FMU) and law enforcement agencies have a lack of coordination and support of prosecutors.
- Third, Pakistan is semi-or-non-compliant with a number of FATF Recommendations, which is shown by persistent grey-listing and poor asset forfeiture results.
- Fourth, the legislative intent and operational implementation have a critical disconnect as shown in low rates of conversion of the instigated STR and low numbers of judicial convictions.

The mentioned weaknesses are not just indicators of technical failures but are blatant indicators of

state strength, regulatory politics, and fiscal integrity. The inability to properly enforce AML/CTF regulations compromises the reputation of the Pakistani state in the global monetary environment, opens it to financial sanctions and provides opportunities to the development of trans-national organized crime. The research also points out that in the absence of thorough judicial training, political goodwill and international collaboration, the legislative reforms will be rendered futile.

This paper has highlighted in the introduction the international menace of money laundering and financing of terrorism, especially in politically unstable and economically weak countries such as Pakistan. This conclusion supports the same conclusion, which is that Pakistan has come to recognize the severity of the threat and has implemented the basic tools of legal mechanisms, but the enforcement framework is not commensurate with the global standards of the country.

So what is the significance of these findings? Since the enforcement of AML/CTF is not only a matter of ensuring FATF compliance or evading economic sanctions; it is a matter of primary concern to protect the trust of the people, national security and the law. The weaknesses of Pakistan permit the black economy to flourish and jeopardize its international relations and economic position. Well-enforced AML/CTF can reduce corruption, destroy terror networks, and restore the confidence of people to state institutions.

Conclusion and Future Research Recommendation.

This study suggests that the following are some of the priorities that Pakistan should focus on:

- Creating an independent, well-endowed FMU that shares intelligence in real-time;
- If not specified in the statute:
- Educating the judiciary and law enforcement officials on financial forensics and AML guidelines;
- Bringing in digital regulatory infrastructure to deal with cyber-enabled laundering.

New studies must consider an alternative approach to analyzing doctrines and instead base them on

empirical research, i.e., compliance audit, financial model of intelligence, and regional research on AML cooperation. It might be that a cross-national research on the political economy of FATF compliance in South Asia can help obtain more knowledge about the nexus between institutional reform and external pressure

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