

Financial Information Unit
ANNUAL REPORT
2017/2018 (2074/075)



Financial Information Unit
Nepal Rastra Bank

Baluwatar, Kathmandu
Nepal

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ACRONYMS/ABBREVIATIONS

ALPA	Asset (Money) Laundering Prevention Act
AML	Anti Money Laundering
AMLO	Anti Money Laundering Office of Thailand
APG	Asia Pacific Group on Money Laundering
AUSTRAC	Australian Transaction Reports and Analysis Centre
BFI s	Bank and Financial Institutions
BFIRD	Banks and Financial Institutions Regulation Department
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BSD	Bank Supervision Department
C	Compliant
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFT	Combating Financing of Terrorism
CIAA	Commission for the Investigation of Abuse of Authority
CNI	Confederation of Nepalese Industries
DBSD	Development Bank Supervision Department
DMLI	Department of Money Laundering Investigation
DNFBPs	Designated Non-Financial Businesses and Professions
DRI	Department of Revenue Investigation
ECDD	Enhanced Customer Due Diligence
EGMONT	The Egmont Group of Financial Intelligence Units
FATF	Financial Action Task Force
FCSD	Finance Company Supervision Department
FIU-Nepal	Financial Information Unit of Nepal
FIUs	Financial Intelligence Units
FM	Finance Ministry
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GoN	Government of Nepal
GSD	General Service Department

ICRG	International Cooperation Review Group of FATF
IMF	International Monetary Fund
IT	Information Technology
IRD	Inland Revenue Department
LC	Largely Compliant
LEA	Law Enforcement Agencies
MER	Mutual Evaluation Report
MFPSD	Micro-Finance Promotion and Supervision Department
ML	Money Laundering
MLA	Mutual Legal Assistance
MOFA	Ministry of Foreign Affairs
MOHA	Ministry of Home Affairs
MoLJPA	Ministry of Law, Justice and Parliamentary Affairs
MOU	Memorandum of Understanding
NA	Not Applicable
NC	Non-Compliant
NCC	National Coordination Committee
NPOs	Non Profit Organizations
NRA	National Risk Assessment
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
OEMs	Other Enforceable Means
PC	Partially Compliant
PEPs	Politically Exposed Persons
PF	Proliferation Financing
RE	Reporting Entities
Recs	Recommendations
RN	Recommendation Number
RRG	Regional Review Group
SAARC	South Asian Association for Regional Cooperation
SEBON	Securities Board of Nepal

SIP	Strategic Implementation Planning
STR	Suspicious Transaction Report
SWC	Social Welfare Council
TF	Terrorism Financing
TTRs	Threshold Transaction Reports
UNO	United Nations Organization
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution
USA	United States of America
VIP	Very Important Person
WB	World Bank

DIRECTOR'S MESSAGE

I am very happy to present the annual report for the fiscal year 2017/18 prepared by the FIU-Nepal. This report highlights the progress, typologies and statistical information including Suspicious Transaction Reports (STRs) and Threshold Transaction Reports (TTRs) received during the period.



During the past decade, the global AML landscape has changed tremendously with the use of banking technology. The use of artificial intelligence and machine learning are some of the new control measures introduced and are being used in these days as the preventive measures. While financial institutions have ridden the highs and plunged to the lows of the economic cycles, AML as a regulatory focus has steadily increased in its importance. As a result, “AML”, “CFT” and “KYC” are now the buzzwords in financial institutions’ daily operations. Strong AML/CFT controls are at the heart of financial institutions. The recent cases have shown that contraventions of these controls can result in fines and deferred prosecution agreements running into billions of dollars, or sanctions becoming license threatening.

To this end, Banks and Financial Institutions (BFIs) and Reporting Entities (REs) look ultimately to 40 recommendations of FATF for guidance and to ensure market integrity. The risk-based approach is central to the effective implementation of the FATF recommendations, means that banks identify, assess, and understand the ML/TF risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk. This flexibility allows for a more efficient use of resources, as banks, countries and competent authorities can decide on the most effective way to mitigate the ML/TF risks they have identified. It enables them to focus their resources and take enhanced measures in situations where the risks are higher, apply simplified measures where the risks are lower and exempt low risk activities. The implementation of the risk-based approach will avoid the consequences of inappropriate de-risking behavior as well.

The year 2017/18 has been quite encouraging for the FIU-Nepal and saw progress in the quality of the STRs’ being received, processed and disseminated to Law Enforcement Agencies (LEAs) as compared to 2016/17. The continued guidance, typologies and presentations by the FIU-Nepal, in conjunction with an enhanced understanding of the obligations to report is attributed to the increase in the quality of reporting to the FIU. Entities lacking to report are required to enforce for the reporting by the respective regulators and government authorities as well and to comply with the financial sector supervisor’s guidelines and directives. The top reporting sector for 2017/18 remained banking sector. The criminality most commonly reported in STRs during 2017/18 was tax evasion. Whilst the reporting of STRs relating to terrorist financing is relatively very low in Nepal. Reporting Entities must continue to focus on preventing the movement of funds by conducting the proper KYC and CDD mechanism and report any transaction or activity found suspicious.

FIU-Nepal has initiated strategic analysis, and implementation of goAML in the first stage to commercial banks in Nepal and I hope the year 2018/19 will show a remarkable progress

on these two important aspects. I take this opportunity to thank NRB, all the stakeholders/regulators/supervisors, NCC and reporting entities for their support and cooperation. I am also grateful to the international communities for their support to FIU-Nepal. I look forward to working more closely with our stakeholders and international partners in achieving our vision of protecting Nepal from AML/CFT and to be prepared for the upcoming mutual evaluation in 2020/21. At the end, I would like to thank all the FIU-Nepal staffs for their hard work and effort to make success our target and fulfill our objectives set out during this year.

For now, I wish you much pleasure reading this latest annual report.

Ramu Paudel
Director/Chief, FIU-Nepal

CHAPTER 1

NEPAL'S AML/CFT REGIME

1.1 Introduction

Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF), are the highest threats to economic development, integrity of the financial system and ultimately for the human civilization, which distort world peace, security, law and order, causing adverse impacts on the entire financial and criminal justice systems. The crime promotes informal financial transactions, production of weapons of mass destruction for terrorist attack; destroy tax regimes; impair transparency and rule of law. Such types of activities finally weaken all developmental activities and financial stability. Therefore, entire global community has depicted their serious concerns on establishing a sound AML/CFT set up to fight against such types of common global problems. The effort is on protecting the ethics, integrity and stability of the financial system, cutting off the resources available to terrorists, and making it more difficult for those engaged in crime to profit from their criminal activities.

1.2 Overview of Nepal's Commitments

As AML/CFT has become very important agenda of both developed and underdeveloped countries, Nepal cannot remain detached from this global AML/CFT Regime. Nepal has been making substantial progress towards its goal of strengthening AML/CFT system by implementing legal, institutional and preventive measures in place. The Government of Nepal has internalized AML/CFT system as a strategic tool to control financial crimes and establish a sound economic and financial system.

Nepal is an active participant of global AML/CFT regime. It is evident from its membership to the UN, SAARC, APG, Egmont Group of FIUs and BIMSTEC. Ratification of major international conventions; enactments of instrumental statutes; implementation of National AML/CFT strategy; and establishment and designation of major institutional infrastructures in a short period of time are the basic foundation for functional operation of the AML/CFT regime. As a result, Nepal has been acquitted from the *Improving Global AML/CFT Compliance List* of FATF/ICRG from June 2014.

These achievements are the result of the collective efforts of respective domestic agencies including the stakeholders and private sectors of this regime and support from international communities. Now, these platforms are expected to support Nepal to focus or focusing on its core operational activities and take strategic steps towards effectiveness of ML/TF regime. However, there are lots of responsibilities and tasks to be performed, particularly in legal and operational sectors. Though, Nepal stands at a historic turning point in AML/CFT policy, some gaps still exist in understanding the scope and value of AML/CFT measures. Our major duties are to present highlights of major achievements and to create awareness to stakeholders which can also be beneficial to the public at large.

1.3 Efforts of Nepal to Combat ML/TF

1.3.1 Policy Measures

AML/CFT policy framework of Nepal begins with the AML/CFT National strategy to the numbers of statutes and regulatory/supervisory guidelines and preparation of the National Risk Assessment. The GoN had implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016 with the different objectives. The new National Strategy is due as the five-year Strategy has already passed. National Strategy of 2011-2016 consisted of time based action plans and confined the dedicated agencies to materialize such actions. Majority of action plans that have substantial agenda have already been materialized as traced out from its time based assessment. Another National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism for the five year is in the process finalization after the assessment of National Risk in 2016 and Self-Evaluation in 2018.

1.3.2 Legal Measures

Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly in The Assets (Money) Laundering Prevention Act, 2008. Other laws relating to criminalization of predicate offences, regulation/supervision, MLA, extradition, confiscation (seizing and freezing) of criminal proceeds and instrumentalities, etc. are integral to this system. The **Annex 1-5** presents the laws, international conventions, regulatory directives, name of the regulator and supervisory manuals that have been enacted and implemented. Along with these legal instruments NRB has formulated and implemented off-site and on-site Supervisory Manuals so as to ensure the compliance of AML/CFT laws.

A. Policies and Risk Assessment

- National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011 – 2016 (new strategic plan is in drafting phase)
- National Risk Assessment in 2016 and Self-Evaluation 2018

B. UN Conventions

- Ratification of UN Convention against Drugs and Psychotropic Substances
- Ratification of UN Convention against Corruption 2003 in 2011
- Ratification of UN International Convention for the Suppression of the Financing of Terrorism 1999 in 2011
- Ratification of UN Convention against Transnational Organized Crime 2000 in 2011

C. Parliamentary Statutes

- Laws related with Predicate offences and financial sectors
- 1st amendment in 2011 to Assets Laundering Prevention Act 2008 (ALPA),
- Comprehensive 2nd amendment in 2013 to ALPA as an ordinance
- Replacement of ordinance, 2013 as Act in 2014

-
- Mutual Legal Assistance Act 2014 as the replacement of Ordinance, 2012
 - Extradition Act, 2014 as the replacement of Ordinance, 2012
 - Organized Crimes Prevention Act, 2014 as the replacement of Ordinance 2013
 - Confiscation of Criminal Proceeds Act, 2014 as the replacement of Ordinance 2013

1.4 International Cooperation

Nepal is well ahead and self-conscious about AML/CFT regime. It is indicated by Nepal's membership to major international organizations, ratification and accession of prime AML/CFT (as provided under **Annex 2**) related conventions, and implementation of the UN Security Council Resolutions 1267 and 1373, engagement with APG and FATF in consultation process for developing global policies on AML/CFT.

1.4.1 Nepal in APG

As an associate member of the FATF or so-called FATF-Style Regional Body (FSRB), the APG is based in Sydney of Australia has its jurisdiction in Asia and the Pacific. In addition to transmitting information regarding anti-money laundering, this entity assists the member countries through mutual cooperation and human resource development. Likewise, the APG helps implement the FATF standards to counter money laundering and the financing of terrorism and proliferation. It also presents recommendations after reviewing the AML/CFT implementation status of the member countries.

With a vision of pro-actively contributing to a reduction in the economic and social impacts of serious crime in the Asia/Pacific region and a mission to combat money laundering and terrorist financing in the Asia/Pacific region through effective participation in the FATF's standard-setting process, and full and effective implementation of those standards in APG member jurisdictions, the APG carries out the following functions:

- Provide a strong, cohesive and autonomous regional body for APG members and observers.
- Actively participate in, and co-operate with, the global AML/CFT network.
- Assess APG members' compliance with the global AML/CFT standards.
- Carry out education, research and analysis activities to enhance understanding of the money laundering and terrorist financing environments and the effectiveness of AML/CFT efforts.
- Provide assistance to APG members to implement the global AML/CFT standards through implementation planning and the provision of guidance.
- Provide coordination, advisory services and information-sharing for technical assistance and training.

Nepal obtained membership of APG in 2002 and has expressed its commitment to fully comply with international AML/CFT standards. Accordingly, Nepal is quite active in APG and its forums. Nepal had represented and served as a member of *APG Steering Committee* representing South

Asian Countries for the year 2012/13. The Nepal underwent its first APG Mutual Evaluation in 2005 and its second in September 2010, with the report adopted in July 2011, next mutual evaluation is scheduled in FY 2020-21.

Nepal has continued to participate in all kinds of plenary, trainings and meeting being organized by APG. Nepal had showed its interest and commitment during the APG Plenary in Colombo, Sri Lanka in 2017 and Nepal hosted 21st Annual Meeting of the APG at Kathmandu in July 2018 successfully.

1.4.2 Financial Action Task Force (FATF)

The FATF is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF has developed a series of recommendations that are recognized as the international standard for combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. They form the basis for a co-ordinate response to these threats to the integrity of the financial system and help ensure a level playing field. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, 2003 and most recently in 2012 (which is updated in October 2018) to ensure that they remain up to date and relevant, and they are intended to be of universal application.

The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Starting with its own members, the FATF monitors countries’ progress in implementing the FATF Recommendations; reviews money laundering and terrorist financing techniques and counter-measures; and, promotes the adoption and implementation of the FATF Recommendations globally.

The FATF’s forty recommendations cover the following areas:

- AML/CFT Policies and Coordination (1, 2)
- Money Laundering and Confiscation (3, 4)
- Terrorist Financing and Financing of Proliferation (5-8)
- Preventive Measures (9-23)
- Transparency and Beneficial Ownership of Legal Persons and Arrangements (24, 25)
- Powers and Responsibilities of Competent Authorities and Other Institutional Measures (26-35)
- International Cooperation (36-40)

Although, Nepal is not a member to FATF directly, it has a relation with FATF through APG (the FATF Style Regional Body also called FSRB). Nepal was also engaged with FATF through ICRG

process since 2009. Nepal has proved its commitments by complying international standards through enactment and amendment of relevant legislations, establishment and designation of institutions like Financial Information Unit (FIU), Department of Money Laundering Investigation and other Regulatory Institutions for various sectors and Investigating Agencies for others.

1.4.3 International Monetary Fund and World Bank

Nepal is a member country to the World Bank and International Monetary Fund. Both the organizations have mandate for certain AML/CFT matters basically in accordance to Article IV under Articles of Agreement of the International Monetary Fund. In addition to this, these global organizations have provided trainings and technical assistance for capacity buildings for the member countries. Both agencies have supported Nepal with providing the tools for transparency and preparing on how to 'going after dirty money'.

IMF's Technical Assistance (TA) is funded by AML/CFT Topical Trust Fund (TTF) IMF has substantially supported Nepal in developing National AML/CFT strategy, legal, supervisory and FIU capacity building frameworks, which was continued till April, 2016. IMF's assistance is aimed at implementing priority of national strategy under TTF:

- Legal –Improvements in AML/CFT laws (three Missions and intense interactions with all stakeholders)
- Supervisory –Development of Directives, Guidelines and skill and capacity building of supervisors (2 Missions and intense interactions with al stakeholders)
- FIU –Development of Operational Manual and Skill and capacity building (Two Missions and interactions)

The World Bank has technically assisted Nepal in conducting National ML/TF Risk Assessment.

1.4.4 The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (Basel Committee) was formed in 1974 by the central bank governors of the Group of 10 countries. Individual countries are represented by their central bank, or by the relevant authority with formal responsibility for prudential supervision of banking where that authority is not the central bank. The committee has no formal international supervisory authority or force of law. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practices on a wide range of bank supervisory issues. These standards and guidelines are adopted with the expectation that the appropriate authorities within each country will take all necessary steps to implement them through detailed measures, statutory, regulatory or otherwise, that best suit that country's national system.

Basel committee has issued guideline regarding sound management of risks related to money laundering and financing of terrorism regarding assessment, understanding, management and mitigation of risks, customer acceptance policy, customer and beneficial owner identification, verification and risk profiling, ongoing monitoring, management of information and reporting of suspicious transactions and asset freezing.

1.4.5 Egmont Group of FIUs

The Egmont Group is a united body of 159 Financial Intelligence Units (FIUs). The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF). This is especially relevant as FIUs are uniquely positioned to cooperate and support national and international efforts to counter terrorist financing and are the trusted gateway for sharing financial information domestically and internationally in accordance with global Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) standards.

The goal of the Egmont Group is to provide a forum for FIUs from around the world to improve cooperation in the fight against money laundering and financing of terrorism and to foster the implementation of domestic programs in this field.

FIU-Nepal became member of Egmont Group on June 10, 2015, as a member of the Egmont Group, FIU-Nepal is able to send requests for information to other member jurisdictions by the Egmont Secure Web (ESW) secure email network and also receive requests from other Egmont Group members.

When a request for information is received by the FIU, it is acknowledged upon receipt, and responded to in a timely manner, dependent on the nature and detail of the information requested. FIU-Nepal provides full cooperation to the requesting jurisdiction. The most frequently identified predicate offences within the received Egmont requests are money laundering, fraud and tax evasion.

Intelligence shared between jurisdictions is crucial for the analysis of STRs and for the development of intelligence for dissemination. Timely responses and quality intelligence are essential for the jurisdiction to develop the intelligence. The information included in these requests may be used for intelligence purposes only and may only be forwarded to law enforcement with the express consent of the disseminating FIU. If the information is required for evidential purposes, law enforcement must request the information by way of submitting a mutual legal assistance request to the appropriate jurisdiction.

Table 1.1: Information Exchange with EGMONT Group

Fiscal year	Number of Countries	
	Information received	Information Provided
2017/2018	13	12
2016/2017	11	13

1.5 Institutional Measures

Institutional framework for Nepalese AML/CFT regime includes policy and operational sectors. The specialty lies on the formulation of a dedicated statutory high level policy committee like National Coordination Committee (NCC), headed by Secretary of the Ministry of Finance and Implementation committee headed by deputy governor of Nepal Rastra Bank.

1.5.1 Coordination at Policy Level

There is a provision of an Anti-Money Laundering National Coordination Committee (NCC) (called Coordination Committees in short) in the Asset (Money) Laundering Prevention Act, 2008 in order to coordinate the high-level authorities and institutions relating to money laundering and advice the Government of Nepal with regard to the prevention of money laundering:

Formation of the Coordination Committee:

(a) Secretary, Ministry of Finance	Coordinator
(b) Secretary, Ministry of Law and Justice	Member
(c) Secretary, Ministry of Home Affairs	Member
(d) Secretary, Ministry of Foreign Affairs	Member
(e) Secretary, Office of the Prime Minister and Council of Ministers	Member
(f) Secretary, Commission for the Investigation of Abuse of Authority (CIAA)	Member
(g) Deputy Attorney General, Office of the Attorney General	Member
(h) Deputy Governor, Nepal Rastra Bank	Member
(i) Inspector General of Police, Nepal Police	Member
(j) Chief, Department of Money Laundering Investigation (DMLI)	Member
(k) Chief, Financial Information Unit	Member Secretary

The Coordination Committee may, for the purpose of the ALPA carry out the following functions, duties and power:

- a) To prepare policy for prevention of offences of ML/TF and submit the policy to the Government of Nepal,
- b) To coordinate in AML/CFT risk assessment and instruct the related agency for the management and mitigation of such risks,
- c) To implement or cause to implement the decision of the Government of Nepal taken for prevention of offences of ML/TF,
- d) To recommend to the Government of Nepal, as per necessity, to implement the standards and policies developed for prevention of offences of ML/TF by international organization of which Nepal is a member,
- e) To instruct concerned agencies for prevention of offences of ML/TF and to monitor whether or not the instructions are complied with,
- f) To discuss the annual reports submitted by the concerned agency, Regulator and FIU and make due coordination,
- g) To perform or cause to perform other tasks in relation to prevention of offences of ML/TF, as prescribed by the Government of Nepal. Other matters as deemed necessary by the committee.

Implementation Committee is headed by the Deputy Governor of Nepal Rastra Bank. This committee comprises the representatives from different legal, regulatory, enforcement and

other competent and relevant authorities of AML/CFT. This committee is responsible for conducting National Risk Assessment and extend the cooperation to the NCC. This committee coordinates operational and implementation activities and assesses the effectiveness of different stakeholders involved in AML/CFT regime. Other sub-committees include legal, supervisory, investigation, international cooperation, technical and are concentrated on their core sectoral business.

Box 1.1: Major Decisions of NCC

- Organize “APG Typologies and Capacity Building Workshop” in Kathmandu.
- Revise and update “Asset (Money) Laundering Prevention Act, 2008” and formulate faulty and illegal Assets lien, control and forfeiture Act.
- Constitution of Self-Assessment Committee to assess the AML/CFT regime of Nepal before third Mutual Evaluation.
- Recommend Nepal Government to appoint regulators for different sectors.
- Develop capacity and manage internal resources for self-evaluation and mutual evaluation.
- Develop human resource working at Ministry of Finance, Department of Money Laundering Investigation(DMLI), FIU-Nepal, Central Investigation Bureau (CIB), Nepal Police, and reporting entities on new methodology for upcoming mutual evaluation on 2020.
- Manage data, documents and formulate policies and act necessary for mutual evaluation.
- Study maximum threshold of cash transaction limit.
- Appraise status of AML-CFT as per AML\CFT National strategy of Nepal and action plan and focus on its implementation.
- Compile and collect data of all reporting entities and law enforcement agencies related with AML-CFT and its preventive measures.
- Update acts\policies\guidelines related with company, foreign investment, tax revenue, bank regulation and supervision manual, AML-CFT regulation, beneficial owner and also focus on its implementation.
- Discuss National Risk Assessment (NRA) submitted by FIU-Nepal.
- Incorporate issues related with AML-CFT in national plan of Nepal which is developed by National Planning Commission (NPC).
- Assess regulation, inspection and supervision of FATF recommendations’ implementation in Nepal.
- Enforce Prompt Corrective Action for better enforcement of AML-CFT regulations.
- Instruct regulator, LEA and reporting entity for discussing national and international

practice\improvement related with AML-CFT on their board meetings.

- Formulate necessary acts and policies necessary for technical compliance.
- Expedite analysis and closure of strategically important and priority issues related with AML-CFT in order to control crime and money laundering.
- Apply as an observer of Asset Recovery Inter-Agency Network- Asia Pacific (ARIN-AP) for asset tracing, freezing and confiscation in all aspects of tackling the proceeds of crime.

Likewise, the Implementation committee has been provided with the obligation to carry out or cause to carry out national risk assessment and extend cooperation to the functions of National Coordination Committee, under Rule 47(1) of Assets (Money) Laundering Prevention Rule, 2073 (2016).

1.5.2 Operational Measures

Money Laundering and Terrorist Financing is a multi-agencies' task and requires active participation of all stakeholders to materialize its objectives. Agencies stated below in the diagram form the structure of functional AML/CFT system in Nepal.

Key Players and Stakeholders in the AML/CFT System

Figure 1.1: Stakeholders in AML/CFT Regime



1.5.3 Key Players with Assigned Responsibility

Based on the current domestic legal regime of Nepal and revised FATF Recommendations/standards, table presented in Annex 3-5 defines the domestic agencies that are responsible to carry out the core obligations in Nepalese AML/CFT system. Each agency are provided with the responsibility to meet the standards that are provided by the FATF. National Coordination Committee in Nepal is the highest authority to advice the government with any kind of laws and policies required for AML/CFT regime. Likewise, Department of Money Laundering Investigations is institutionalized to investigate the ML offences whereas, the reporting entities are obliged to follow the preventive measures which are under part 4 of the recommendations.

1.5.4 Mutual Evaluation

In accordance with APG membership rules, on joining the APG, members commit to a mutual peer review system to determine the levels of compliance with the international AML/CFT standards. These peer reviews are referred to as “mutual evaluations”. A mutual evaluation involves a team of experts drawn together from APG member jurisdictions (specially trained and qualified in the FATF’s assessment methodology). The team consists of legal experts, financial and regulatory experts; and law enforcement experts (including FIU experts).

Nepal was evaluated for the first time in 2005 based on FATF 40 plus 9 standards. Nepal was rated Non-Compliant (NC) on 34 recommendation, Partially Compliant (PC) on 8 recommendations, Largely Compliant (LC) on 4 Recommendations and 3 recommendations were Non-Applicable (NA) out of 49 recommendations. Out of the 16 core/key recommendations Nepal was NC or PC on 15 Recommendations and LC on one recommendation. When the first mutual evaluation was carried out Nepal had not promulgated Assets (Money) Laundering Prevention Act hence, money laundering offence was not criminalized. The Act was later enacted in 2008.

Nepal was evaluated for the second time in 2010 again based on old FATF 40 plus 9 standards. The report was adopted in July 2011 where Nepal was rated NC or PC on 43 recommendations, LC on 3 recommendations, NA on 2 recommendation and compliant on one recommendation. Out of the 16 core/key recommendations Nepal was NC or PC on 15 Recommendations and LC on one recommendation. The legal framework by this time was in place but the organizational structure was not development. Hence, Department of Money Laundering Investigation was institutionalized later in 2011. However, Nepal’s progress after the evaluation was so substantial that it had technically (legal and institutional) resulted LC in 10 Core/Key Recs. These achievements have also assisted Nepal to come out from the APG Expedited/Enhanced as well as from regular monitoring in 2014. Technical assistance provided by the APG for the development of such AML/CFT system in Nepal is remarkable.

1.5.5 Next Mutual Evaluation of Nepal

Nepal’s third mutual evaluation is scheduled to be held in 2020-21 under new methodology revised in 2013. Unlike last evaluation of Nepal in 2010, which was primarily based on technical (legal and institutional) aspects, the third evaluation will be assessed in effectiveness for visible implementation and outcomes in addition to technical outputs and laws. All respective agencies

need to have serious concerns early so that scattered efforts can trickle down into a consolidated national achievement. Revised methodology covers following areas:

- **Technical compliance-** A desk-based technical compliance analysis assesses compliance by an APG member with the specific requirements of each of the 40 FATF recommendations - the relevant legal and institutional framework of the jurisdiction, and the powers and procedures of competent authorities. These recommendations represent the building blocks of an AML/CFT system. The technical compliance analysis is undertaken by an assessment team prior to an on-site visit of the member being evaluated.
- **Effectiveness Analysis-** It assesses the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. The effectiveness analysis is based on information exchanged with the assessment team. After the information is exchanged the team will visit the member under evaluation (usually for two weeks, sometimes longer) and interview government and private sector officials to gain a comprehensive understanding of how the AML/CFT system is working.

Table 1.2 Rating on Technical (Legal and Institutional) Compliance

Compliant (C)	There are no shortcomings.
Largely compliant (LC)	There are only minor shortcomings.
Partially compliant (PC)	There are moderate shortcomings.
Non-compliant (NC)	There are major shortcomings.
Not applicable (NA)	A requirement does not apply, due to the structural, legal or institutional features of a country.

Consequences of Low Compliance:

If Nepal acquires 10 or more than 10 PC or NC in Core and Key recommendations is subject to FATF review and may be put in the global Negative List as non-cooperative country and faces: -

- Harder situation for banks to conduct international transactions
- Increase in cost of funds or delay or limitation
- Loss of credit lines or correspondent relationships
- Decrease in receiving assistance, loan and other facilities from international org. and countries
- Restrictions on inward remittance, aid, capital and other flows
- Inability of institutions to expand overseas
- Withdrawal of foreign banks
- Loss of investor confidence
- Reputational problem to Nepal and its financial system
- Freezing of overseas assets
- Complete isolation from international financial markets

CHAPTER 2

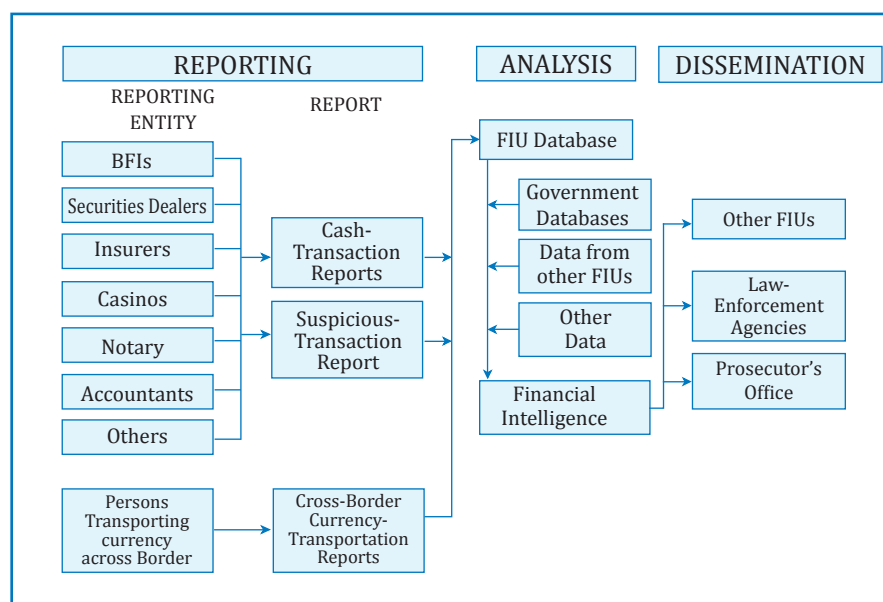
FINANCIAL INFORMATION UNIT, NEPAL

2.1 Introduction

Financial Information Unit of Nepal (FIU-Nepal), a functionally autonomous unit with its office within the premises of Nepal Rastra Bank, the central bank of Nepal, was established on 21 April 2008 as an administrative FIU under Section 9 and 10 of Asset (Money) Laundering Prevention Act (ALPA), 2008. Furthermore, second amendment of ALPA has improved legal provisions regarding FIU and made them compatible with international standards. FIU-Nepal serves as a central national agency responsible for receiving, analyzing and disseminating information concerning suspected proceeds of crime, which is potential for money laundering and/or terrorism financing and financing of proliferation. In addition, FIU-Nepal performs as the Secretariat of NCC and has played instrumental roles in founding and shaping up the AML/CFT system in Nepal.

As globally accepted FIU-Nepal is concentrated on converting financial information into intelligence by adding value in financial information. Generally, it works like a buffer between Reporting Entities (REs) and Law Enforcement Agencies (LEAs). This includes receiving financial transaction reports from reporting entities, analyzing those reports and disseminating intelligence product to LEAs. FIU-Nepal was conceptualized considering the fact that LEAs' need regular technical support on financial matters and REs are normally reluctant to report to LEAs their transaction as a whole. The normal process of FIU function is best presented in the following Flow Chart.

Figure 2.1: Typical FIU Information and Functional Flow



Source: FIU-Nepal

2.2 Core Function of FIU-Nepal

FIUs are generally conceived to perform the following three basic functions:

- To act as a centralized repository of reports of suspicious transactions and other disclosures. The premise is that centralized information ensures greater efficiency in the gathering, processing and analysis of information.
- To analyze the reports received in order to determine which constitute evidence of potential criminal activity. In addition to these reports, FIUs also rely on information contained in their own databases, information from government databases and other public sources, additional information from reporting entities and information that is held by other FIUs;
- To disseminate the resulting intelligence as part of a country's efforts at anti-money laundering and combating the financing of terrorism. In order to be effective, this information sharing function of a FIU requires that it should be mandated to share information with domestic regulatory and judicial authorities as well as with international authorities involved in the detection, prevention and prosecution of money laundering and terrorist financing.

The FIU-Nepal has been provided with the following power, function and duties under Section 10 of Assets (Money) Laundering Prevention Act, 2008. FIU, in addition to other functions, responsibilities and powers mentioned anywhere in the Act, shall have following functions, responsibilities and powers:-

- To receive Threshold Transaction Report (TTR).
- To receive and analyze Suspicious Transaction Reports (STR).
- To receive the report of currency and Foreign Bill of Exchange.
- To disseminate, spontaneously and upon request, analysis and related information to the Department or other investigation agency, if it suspects money laundering, terrorist financing, or other offence in its analysis.
- To provide training on Money Laundering and Terrorist Financing (ML/TF) to its own staffs, regulator, reporting entity and relevant government agencies having liability to perform under this Act.
- To provide feedback and guidance in relation to, including, the detection of suspicious activity, suspicious transaction report or information to the reporting entity or concerned agency.
- To prepare and submit an annual report, on its activities including the money laundering and terrorist financing typologies, techniques, methods and trends of offences, to the Government of Nepal through Rastra Bank.
- To assist in supervision of reporting entities in coordination with regulator as per necessity so as to know whether reporting entities has developed mechanism to identify suspicious activity and reported or provide feedbacks on supervision report.
- To conclude understanding with foreign counterparts in order to exchange information upon reciprocity.

In addition to the functions, duties and powers mentioned in the Act, Rule 17 of Assets (Money) Laundering Prevention Rule, 2073 has provided with the following functions, duties and powers of the Financial Information Unit:

- To disseminate information or analysis to the competent agency or authority that exercises the power to initiate action against any act or offence.
- To install and operate necessary electronic information network for receipt and analysis of information as well as the work performance of the Financial Information Unit.
- To act as a focal point for the prevention of money laundering and financing of terrorism.
- To provide the information as equal to the request of the counterpart if any foreign body requests for any information directly or through its counterpart.
- To act by adopting the principles formulated by Egmont Group as general principles while sharing information with Financial Information Unit of foreign country.
- To sign Memorandum of Understanding with the Financial Information Unit of other country as necessary in relation to information sharing.
- To seek and give feedback from and to the Financial Information Unit of foreign country regarding the use and achievement of the information received or disseminated.

2.3 Structure of FIU-Nepal

FIU-Nepal commenced its functions with few officials in 2008. The chart in **Annex 6** shows the organizational structure. There are altogether 16 staffs and 2 support staffs.

Table 2.1: Structure of FIU-Nepal

S.N.	Designation	Staff Requirement	Currently Working	Shortfall\Excess
1.	Director	1	1	-
2.	Dy. Director	3	4	1*
3.	Asst. Director	15	10	(5)
4.	Head Assistant	1	1	-
5.	Assistant	2	0	(2)
6.	Deputy Assistant	1	1	-
7.	Office Assistant	1	1	-
Total		24	18	(6)

*Deputed from IT Department to facilitate for the implementation of go-AML Software

Source: FIU-Nepal

Despite of the shortfall of staffs in the recent years FIU-Nepal has been accomplishing its functions as required by the law. Given the number of reported STRs' unless FIU-Nepal advance to automation, completion of the job manually under the current human resource is near to impossible. Following table shows training details of FIU staffs

Table 2.2: Training Details of Staffs

S.N.	Training\Workshop Detail	Place	Date	Number of Participant
1	APG Typologies Workshop	Korea	13-16 November 2017	Assistant Director-1
2	Countering the Financing of Terrorism and the proliferation of weapons of mass destruction through effective asset freezing.	Srilanka	12-14 December 2017	Deputy Director-1
3	APG Assessor Training	Hongkong	8-12 January 2018	Deputy Director-1
4	FATF February 2018 Plenary and Working Group Meeting	Paris, France	18-23 February 2018	Assistant Director-1
5	Anti-Money Laundering and Combating the Financing of Terrorism	Kualalumpur Malaysia	26 Februray to March 02, 2018	Assistant Director-1
6	Mutual Legal Assistance (MLA)	Kathmandu	March 1-21 2018	Deputy Director-1 Assistant Director-1
7	Training on AML CFT recent issues through external expert	Kathmandu	March 7-8, 2018	All FIU Staffs
8	2018 Egmont Group Meetings	Buenos Aires, Argentina	March 12-15 2018	Deputy Director-1
9	Anti-Money Laundering and Financial Crimes	Kathmandu	18-20 April 2018	Deputy Director-1
10	UNODC Workshop on Financial Investigations and Links with Money Laundering	Kathmandu	May 14-16 2018	Deputy Director-1 Assistant Director-2
11	International AML\CFT Standards-Enhancing Entity Transparency	Singapore	June 7-8, 2018	Assistant Director-1

Source: FIU Nepal

2.4 Threshold Transaction Reports (TTRs)

TTR is a report that financial institutions and Designated Non-Financial Business and Professions (DNFBPs) are required to file to FIU for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution which involves a transaction more than 1 million Nepalese rupees. Threshold Transaction Reports (TTRs) are very important to develop the data bank of customers'/clients profile for future use in case such transactions happen to be connected with money laundering and terrorist financing offences.

TTRs also help to form a link chart during the analysis of a STR and help the investigator to find the criminal elements involved in the transactions and convert the financial information into financial intelligence by adding value in it. TTR is very important for both the operational and strategic analysis. TTR specific criteria:

- Reporting entities are required to file threshold transaction reports to FIU within fifteen days from the date of transaction.
- The threshold amount may be reached by a single transaction or by a series of transactions in cash into a single account or by a single customer over a period of one working day. It may be considered to be an aggregate transaction in cash exceeding the prescribed threshold.
- Cash does not include negotiable instrument, nor does it include a transfer of funds by means of bank cheque, bank draft, electronic funds transfer, wire transfer or other written order that does not involve the physical transfer of cash. These methods of transferring funds do not fall within threshold reporting obligation.
- Reporting entities should make its customer declare the source of funds in case the transaction exceeds the prescribed threshold.

Currently, the designated thresholds for different Reporting Entities (RES) are as follows.

Table 2.3: Designated Threshold across Industries/Agencies

S.N.	Industry	Threshold
1.	Bank and Financial Institutions	<ul style="list-style-type: none"> • Deposit or withdrawal of Rs 1 million or more into or out of the same account in one transaction or in a series of transactions in one day. • Inward or outward remittance of Rs 1 million or more into or out of the same account in one transaction or in a series of transactions in one day or inward or outward remittance of Rs 1 million or more by a customer (in case of non account-holder customer) in one transaction or in a series of transactions in one day. • Exchange of foreign currency equivalent to Rs 5,00,000/- or more by a customer in one transaction or in a series of transactions in one day.
2.	Insurance Company	<ul style="list-style-type: none"> • Purchase of life insurance policy with an annual premium of Rs 1,00,000/- or more, irrespective of whether paid once or multiple times in a year. • Purchase of non-life insurance policy with an annual premium of Rs 3,00,000/- or more, irrespective of whether paid once or multiple times in a year.
3.	Money Remitters	Inward remittance of Rs 1 million or more in the name of a customer in one transaction or in a series of transactions in one day.
4.	Real Estate Business	Purchase or sale of real-estate property of Rs 10 million or more by a customer in one transaction or in a series of transactions in one day.

S.N.	Industry	Threshold
5.	Securities Business	Purchase or sale of securities of Rs 1 million or more by a customer in one transaction or in a series of transactions in one day.
6.	Money Changers	Exchange of foreign currency equivalent to Rs 5,00,000/- or more by a customer in one transaction or in a series of transactions in one day.
7.	Casinos	Purchase or sale of casino chips of Rs 2,00,000/- or more by a customer in one transaction or in a series of transactions in one day.
8.	Accountants, Auditors and Notary Public	Purchase or sale of property or management of fund equivalent to Rs 1 million or more on behalf of a client in one transaction or in a series of transactions in one day.
9.	Dealers in precious gems, stones and metal (gold, silvers, platinum, etc.).	Purchase or sale of precious gems, stones and metal (gold, silvers, platinum, etc.) of Rs 1 million or more by a customer in one transaction or in a series of transactions in one day.

Source: FIU-Nepal

The trend of reporting TTRs is growing up. It is a result of self-awareness programs conducted for reporting entities about their legal responsibilities and compliance modalities as well as from increasing supervisory activities. However, TTR for this fiscal year has decreased as Nepal Government through its notice has made it mandatory to transact in negotiable instruments for the amount above NRS 1 million. Following table gives the numbers of TTRs and their trends for last few years.

Table 2.4: The Numbers of TTRs Received from Reporting Entities

S. N.	Reporting Institutions	2067/68 (2010/11)	2068/69 (2011/12)	2069/70 (2012/13)	2070/71 (2013/14)	2071/72 (2014/15)	2072/73 (2015/16)	2073/74 (2016/17)	2074/75 (2017/18)
1.	BFI's	28,07,860	30,88,646	33,78,588	34,81,299	36,14,456	31,65,139	45,64,413	44,52,585
2.	Govt. Agencies	3,741	10,517	1,075	1,137	1,341	846	24,475*	9,596*
3.	Insurance companies	-	-	13,884	14,798	14,077	21,261	58,508	89,966
4.	Securities companies	-	-	14,619	15,921	15,896	9,075	60,961	34,783
5.	Others	-	-	-	5,791**	3,353**	1,218**	5,213**	6,887**
	Total	28,11,601	30,99,163	34,08,166	35,18,946	36,49,123	31,97,539	47,13,570	45,93,817

Source: FIU-Nepal

* Including Reports from Cooperatives.

** Including Reports from Money Remitters and Changers

2.5 Suspicious Transaction Reports (STRs)

STRs include detailed information about transactions that are or appear to be suspicious. The goal of STRs filings is to help the FIU-Nepal identify individuals, groups and organizations involved in fraud, terrorist financing, money laundering, and other crimes. The purpose of a STR is to report known or suspected violations of law or suspicious activity observed by financial institutions subject to the provision related Asset (Money) Laundering Prevention Act, 2008. In many instances, STRs have been instrumental in enabling law enforcement to initiate or supplement major money laundering or terrorist financing investigations and other criminal cases. Information provided in STR forms also presents FIU with a method of identifying emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions. FIU requires an STR to be filed by a financial institution when the financial institution suspects insider abuse by an employee; violations of law or more that involve potential money laundering or violations of existing AML/CFT law; or when a financial institution knows that a customer is operating as an unlicensed money services business. Each STR must be filed within 3 days of the initial determination for the necessity of filing the report as per Section 7S of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008.

The report can start with any employee of a financial service, however a reporting institution has to appoint a managerial level staff as an compliance officer to deal with FIU on matters relating to STRs as per Section 7P of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008. They are generally trained to be alert for suspicious activity, such as people trying to wire money out of the country without identification, or someone with no job who starts depositing large amounts of cash into an account. Employees are trained to communicate their suspicion up their chain of command where further decisions are made about whether to file a report or not. Many different types of finance-related industries are required to file STRs. These include:

- Depository institutions (for example, banks and credit unions) securities and futures dealers (for example, stock brokers and mutual fund brokers)
- Money services businesses (for example, check cashing services, currency exchange bureaus, and money order providers)
- Casinos and card clubs
- Dealers in precious metals and gems (for example, jewelry dealers)
- Insurance companies
- Mortgage companies and brokers

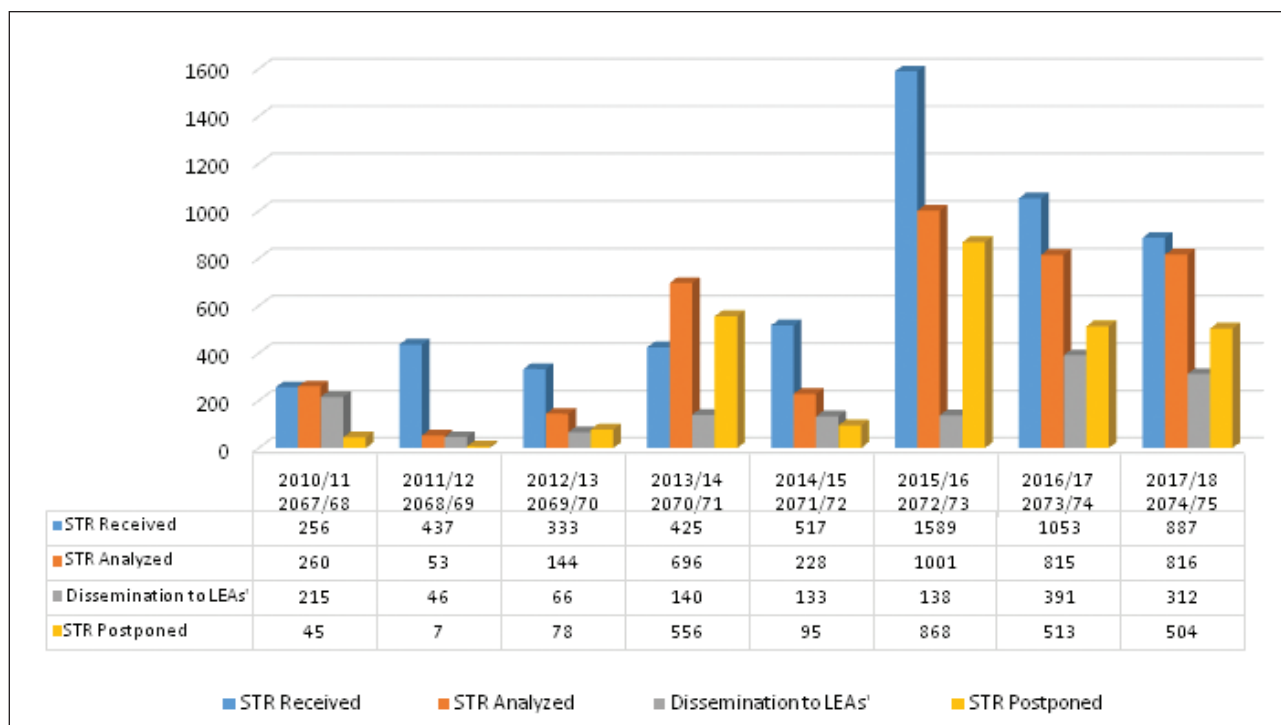
There are different indicators to detect suspicious transactions. In order to make the detection and filing of STRs expedient for the purpose of preventing money laundering and controlling terrorist financing, these guidelines have been made and issued exercising the power conferred by Section 10 (1) (h) of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008.

General Characteristics of Suspicious Financial Transactions

- Transactions having unclear economical and business target.

- Transactions conducted in relatively large amount cash and/or conducted repeatedly and unnaturally.
- Transactions conducted differently from that of usually and normally conducted by the relevant customer.
- Huge, complex and usual transaction.

Chart 1.1: Status of STRs



Source: FIU-Nepal

The above statistics show that number of STRs appear to be decreased from last two years, this is mainly due to the submission of quality STRs' from the reporting entities. FIU-Nepal had also instructed through different programs to cut down unwanted\insignificant STRs'. This year out of the analyzed STRs', 312 have been disseminated to different LEAs whereas 504 have been postponed for the time being due to lack of strong grounds and possibility of use in future .

2.6 Analysis

Receiving reports, analyzing such reports and disseminating such analyzed reports after converting it on to financial intelligence are the core functions of FIU. It does analysis of submitted STR from reporting entities and ask for additional information to explore whether the activity/conduct extends to other institutions and/or involves other parties domestically or abroad, and to reach a conclusion as to whether the case meets the FIUs threshold/standard for dissemination to DMLI and other relevant agencies. When the analysis that has been conducted results in a reasonable suspicion that, money laundering, terrorism financing or predicate offence/offences has taken, or is taking place, the information must be disseminated to the appropriate law enforcement agencies.

The reasonable suspicion may result from the following circumstances:

- When the subject is unable to show the legitimate source of the fund involved.
- When analysis reveals reasonable ground to believe the subject has meaningful relation with criminals or designated terrorist individuals or organizations.
- When analysis reveals globally identified typology in AML/CFT.
- When abnormally unusual and complicated transaction is revealed through analysis.

FIU conducts both operational and strategic analysis. *Operational analysis* is concentrated on identifying specific targets (e.g. person, asset, criminal networks and associations) and to follow the trail of particular financial activities or transactions so as to determine the links between the targets and possible proceeds of crime (ML/TF or predicate offences). *Strategic analysis* is conducted for identifying trends and practices of ML/TF and other financial crimes. In case of strategic analysis, the analyst formulates a hypothesis and makes attempt to establish the hypothesis. All these analyses had been carried out manually for the last five years but recently FIU-Nepal has already acquired and installed goAML software and in the process of going live for the automated system for receiving reports and conducting analysis on those reports.

2.7 Dissemination

As specified in the ALPA, the FIU is authorized to disseminate information about suspected money laundering or terrorism financing to the DMLI and other relevant agencies. The dissemination should be made to a person designated by that agency. Dissemination involves the disclosure of sensitive personal, financial and law enforcement information, and measures need to be applied to ensure that the information is properly protected, that disclosures are documented, and that dissemination is made to the appropriate authorized recipient.

In order to minimize the risk of disclosure to unauthorized recipients, the FIU has adopted a policy that there will be No Informal Disseminations and No Oral Disseminations. All disseminations will be in writing, and will be approved by the Chief of FIU and following measures are taken to maintain secrecy:

- Only written disseminations is made, with a record kept of the date and time of dissemination, the person and entity to which it was made, and the means of delivery, i.e. courier, fax, e-mail, pickup, etc.
- Disseminations will be made with secure packaging and through secure delivery mechanisms. For courier delivery or pickup dissemination, confirm identity of authorized recipient (and any courier).
- When the FIU receives additional material information in regard to an already disclosed case, a case update will be prepared, and a follow-on dissemination may be made to the recipient of the earlier dissemination.

An STR converted into intelligence by adding value is disseminated to one or more investigating agencies like, DMLI, CIAA, Nepal Police, DRI, IRD, foreign FIUs and other competent authorities as per their mandate and nature of the case. Dissemination is often spontaneous and FIU can respond upon request of such agencies as well. Domestic disseminations in this regard are as follows.

Table 2.5: Dissemination Status for Last Five Years

S.N.	Agencies	2013-14 2070-71	2014-15 2071-72	2015-16 2072-73	2016-17 2073-74	2017-18 2074-75
1.	DMLI	93	38	27	39	44
2.	CIB/Nepal Police	36	41	29	124	78
3.	DRI	24	56	80	174	144
4.	IRD	-	-	-	8	51
5.	CIAA	2	2	1	9	8
6.	Others	1	-	1	37	19
Total		156	137	138	391	344*

Source: FIU-Nepal

*Note: A single STR disseminated to two different LEAs' have been included in only both section for the counting purpose. Total number of STR disseminated to LEA is 312.

2.8 NRB Strategic Planning 2017-2021

A. Review of NRB Strategic Plan 2012-16

Since FIU-Nepal has been established within Nepal Rastra Bank, the Bank's five-year strategy 2012-2016 had plan to strengthen FIU by enhancing analytical skill, set up of the automated system and capacity building of its employees. FIU is able to achieve targets of the strategic plan and has purchased goAML Software for FIU which will go live soon.

Major plans in Strategic Plan of 2012-16 were

- a. Strengthen Financial Intelligence Unit and its mechanism for cooperation with other agencies
 - Establish IT network for online collection, processing and analysis of data
 - Strengthen the analytical capabilities of FIU on STR (Suspicious Transactions Reporting)
 - Develop a mechanism for getting prompt cooperation from law enforcement agencies, regulators and other related agencies
 - Develop international cooperation mechanism on anti-money laundering
 - FIU to work as Secretariat to the NCC
- b. Comply with the international standards for AML/CFT
 - Review AML/CFT legal framework
 - Develop AML/CFT compliance framework
 - Develop Strategic Implementation Plan (SIP) to comply with the recommendations of APG Mutual Evaluation Report
 - Implement AML/CFT National Strategy

B. Strategic Plan 2017-2021:

Primary focus of strategic plan 2017-21 is on addressing economic and financial issues currently faced by NRB and the Nepalese economy in maintaining macro-economic stability. The main objective of the Third Strategic Plan is to facilitate the attainment of macroeconomic and financial stability and enhance NRB's credibility. The focus of the Third Strategic Plan will be centered on restructuring of the NRB in accordance with federal structure, constructing earthquake devastated buildings, modernizing ICT system, adopting technological advancements, upgrading payment system, strengthening good governance and institutional capabilities and maintaining good relations with national as well as international entities. Major areas related to FIU in NRB strategic plan 2017-21 are as follows:

- a. Revise AML\CFT Provisions
- b. Developing comprehensive supervision framework based on AML/CFT standards
 - Review National Risk assessment (NRA) framework
 - Formulate AML/CFT National Strategy
 - Develop AML/CFT compliance framework
- c. Strengthening relationship with relevant international organizations
 - Increase international cooperation to combat for AML/CFT issue
 - Strengthen coordination framework with relevant stakeholders (law enforcement agencies, regulators and other related agencies)
- d. Implement goAML software

2.9 Building Partnership

FIU-Nepal is a national central agency with pivotal role in AML/CFT system. As FIU-Nepal is the secretariat of NCC, it has responsibility of providing feedback to NCC for preparation of new policy and improvement of existing policy. As well, it has direct connection with Reporting Entities (REs), LEAs and regulators and functions as buffer between REs and LEAs. Therefore, it is operating in a harmonious relationship with different stakeholders to implement ML/TF regime efficiently and effectively. However, its performance is depended on the functional efficiency of other stakeholders. So, effective supervision of REs to produce qualitative STRs and investigation and prosecution on its products will greatly assists FIU to enhance its functional capacity.

2.10 Domestic Cooperation

REs are the foundation of AML/CFT system and are the main information feeders and LEAs are end users of FIU products. On the other hand, regulators and supervisors are broadly responsible for examining the implementation of AML/CFT regime by the REs. It is expected that regulators and supervisors should be proactive for a sound and functional AML/CFT system within REs, which, consequently, results in high quality reporting thus, enhancing the entire system to utilize the time and resources efficiently. Similarly, FIU as the Secretariat of NCC has other active roles in national policy and support on such activities.

These responsibilities emanate a challenge to FIU for having a harmonious and functional relations with all stakeholders to accomplish its basic obligation of combating money laundering, terrorist financing and proliferation financing. That's why, cooperation among stakeholders and interagency relationship would ensure a smooth, confidential and encouraging environment has been always fundamental objective of FIU-Nepal. Considering these roles, FIU represents in wide range of activities and also play advisory role in different committees. It has also established a dedicated division for domestic cooperation and coordination to enhance smooth relationship with REs and LEAs as well as becoming a bridge between RE, LEA and NCC. As AML/CFT is special function, employees of FIU have been deputed as an expert for preliminary AML/CFT supervision conducted by Nepal Rastra Bank.

2.11 International Cooperation

Section 10 of Asset (Money) Laundering Prevention Act, 2008 mandates FIU-Nepal to request any relevant information or cooperation needed to carry out its duties with a foreign counterpart that performs similar functions, or it may spontaneously or upon request, share its information or otherwise cooperate with such foreign counterpart. Sharing arrangements with domestic or Foreign Regulators regarding the regulation and supervision of reporting entities operating under the same group and helps in the exchange of relevant supervisory information. For the purpose of exchanging information and enhancing international cooperation, FIU-Nepal has completed Memorandum of Understanding (MoU) with following counterparts. We are in direct consultation with the FIU of Timor-Leste for the completion of Memorandum of Understanding.

Table 2.6: MOU signed with International FIU

S.N.	FIU and Country
1	Financial Intelligence Unit, Central Bank of Bangladesh
2	The Financial Intelligence Unit, Central Bank of Sri Lanka
3	The Anti Money Laundering Office (AMLO), Thailand
4	Financial Intelligence Unit, Bank of Negara, Malaysia
5	The Financial Intelligence Unit, Bank of Mongolia
6	The Anti Money Laundering Division Investigation Bureau, Ministry of Justice, Chinese Taipei, Republic of China (Taiwan)
7	Korean Financial Intelligence Unit, Financial Services Commission, Republic of Korea
8	The Financial Intelligence Unit- India
9	Japan Financial Information Center
10	The Financial Intelligence Unit, the Republic of the Union of Myanmar.
11	Anti-Money Laundering Monitoring and Analysis Centre, People's Bank of China, China
12	The Suspicious Transaction Reporting Office, Singapore
13	New Zealand Police Financial Intelligence Unit
14	Cambodia Financial Intelligence Unit

Source: FIU-Nepal

2.12 National ML/TF Risk Assessment (NRA)

As per the revised FATF recommendations, every country has to conduct a National Risk Assessment (NRA) of the threats and vulnerabilities in its AML/CFT regime that would inform the design of a policy framework and its implementation strategy including the resource prioritization. Nepal's Asset Laundering Prevention Act 2064 has taken National ML/TF Risk Assessment as a regular business. National Risk Assessment was one of the ten objectives of Nepal's National AML/CFT Strategy and Action Plan 2011-2016. A committee under the coordination of the FIU Head with representatives from DMLI and Nepal Police had been formed by Implementation Committee to conduct NRA. Two national workshops were concluded with Technical Assistance of World Bank. The first was conducted from 8 to 10, July 2013 with the participation of 21 public sector agencies including regulatory organizations, ministries, departments and offices of the Government of Nepal. Three working groups namely Vulnerability and Threat (Policy and Proceeds of Crime Group); Financial; and DNFPS (Non-financial) had been formed and these groups worked to conduct assessment. Second subsequent workshop was conducted from 9 to 11, July 2014 to make discussion in the preliminary draft report and refine the assessment.

The committee presented the report to the NCC and subsequently NCC had adopted the report on 10 August 2016. The NCC on 12 December 2016 also decided to provide the report to the concerned agencies and offices on "Need-to-know-basis" Furthermore, IMF has been assisting Nepal Rastra Bank to develop tools for AML/CFT risk based supervision for banking sector and assisting FIU for strengthening its function. Additionally, AUSTRAC assisted Securities Board and Insurance Board of Nepal to strengthen their AML/CFT measures.

CHAPTER 3

OVERVIEW OF STAKEHOLDERS

3.1 Reporting Entities

As per Asset (Money) Laundering Prevention Act, 2008 “Reporting Entity” (RE) means financial institution and designated non-financial business and profession. REs can be classified into two broad headings:

a) **Financial Sector:**

- Bank and Financial Institutions
- Money Remitter
- Money Changer
- Securities Companies
- Insurance Companies
- Cooperatives

b) **Designated Non Financial Business and Profession (DNFBPs’):**

- Real Estate Agents
- Company Registrar’s Office
- Land Registration Office
- Vehicle Registration Office
- Casinos
- Dealers in precious stones and metals
- Auditors and Accountants
- Trust and Company Service Providers

REs are legally obliged to report TTRs and STRs to FIU in a specified format. RE shall accurately identify the customer and verify such identification when carrying out the following acts:

- Establishing business relationship
- Opening an account
- Carrying out occasional transactions above a threshold limit as prescribed by NRB
- Carrying out wire transfers by electronic means
- There is suspicious about the veracity or adequacy of previously-obtained customer identification information
- There is suspicion of money laundering or terrorist financing
- At any time of transaction in relation to the high risked and politically exposed person

-
- In any other situations as prescribed by the regulator.

Section 10A of Asset (Money) Laundering Prevention Act, 2008 specifies reporting entity and the “Office of the Government” shall provide the report of amount for threshold transaction carried out by a person at a time or several transactions within a period of time as prescribed by the Rastra Bank within fifteen days of such transactions. Apart from entities mentioned above “Office of the Government” includes including those decided from NCC:

- Custom Department and its offices
- Inland Revenue Department and its Offices
- Immigration Department and its offices
- Transport Management Department and its offices
- Post Service Department and its offices
- Cooperative Department and its offices
- Commerce Department and its offices
- Industry Department and its offices
- Education Department and its offices
- Metropolitan, Sub-Metropolitan and Municipality Offices
- Foreign Employment Department

3.2 Law Enforcement Agencies:

There are different LEAs’ actively investigating and prosecuting the predicate offence as well as money laundering cases. FIU-Nepal disseminates its intelligence report mainly to the following agencies:

a) Department of Money Laundering Investigation (DMLI):

The Government of Nepal established Department of Money Laundering Investigation on 15 July, 2011 as per the then Section 11 of ALPA, 2008. DMLI is functional as a principal entity to conduct investigation and prevent the commission of money laundering (ML) and the financing of terrorism and proliferation in Nepal. The first class officer (Joint Secretary) of the Government of Nepal heads the department. The department functions as an investigatory and prosecutorial authority as to ML/TF. It has all powers that an investigation authority exercises under existing laws of Nepal. Second amendment of Assets Money Laundering Prevention Act, 2008 has provided department power to search and seize, freeze assets and put restrains on the transaction of the asset subject to investigation.

b) Nepal Police:

Nepal Police is responsible for maintaining law and order and prevention of crime according to the constitution of Nepal and is under the authority of the Ministry of Home Affairs. Nepal police has four departments viz. Administrative Department, Operations Department, Crime Investigation Department and Human Resource Management Department. Crime Investigation department is further divided into Central Investigation Bureau, Narcotics Control Bureau

and Nepal Police Canine Operation Division. The Central Investigation Bureau mainly looks at the cases of financial fraud special cases which falls under the predicate offence under ALPA mentioned in Annex of this report.

c) Commission on the Abuse of Authority (CIAA)

CIAA is an apex constitutional body to curb corruption and its tentacles in the country. The constitution of Nepal has empowered CIAA to investigate and probe cases against the persons holding any public office and their associates who are indulged in the abuse of authority by way of corruption. CIAA is a distinctive anti-corruption agency in South-Asia, which plays the role of an ombudsman, investigator and prosecutor as well. It aims to crack down the corruption issues at national level with system-based approach. It also focuses on detection and punishment of corrupt acts on the one hand and social, cultural and institutional reform on the other. While performing its duties and responsibilities, CIAA embraces Preventive, Promotional and Punitive (3Ps) measures to combat corruption. CIAA basically is a law enforcing agency, guided by the principle of rule of law, human rights, fairness and impartiality contributing impunity and promoting good governance are the sole priority areas of CIAA.

d) Department of Revenue Investigation (DRI):

DRI has been entrusted to discharge the functions and responsibilities under the important Acts of Nepal. The Revenue Leakage (Investigation and Control) Act-1995, Foreign Exchange Regulation Act (FERA) -1963. Furthermore, the DRI has, under the Revenue Leakage (Investigation and Control) Act, the authority to invite and mobilize any officials from any organizations/institutions as an expert and specialist as and when needed. Along with its initially assigned functions of controlling and investigating tax revenue leakages, this department is given the responsibility of controlling and investigating of non-tax revenue leakages from F/Y 2008/2009 as well. In a similar vein, the mandate of this department includes the control and investigation of foreign exchange abuses as per the provisions of FERA. Overall, controlling and investigation of revenue leakages, investigation and control of economic crimes and investigation are the clear mandate of DRI given by the Government of Nepal.

e) Inland Revenue Department (IRD):

IRD is currently responsible for the enforcement of Tax Laws and administration of the following taxes: Income Tax, Value Added Tax, Excise Duty, Health Tax, Education Service Fee and duties like Entertainment fee (Film Development Fee). IRD carries out Tax Administration, Tax Policy, Tax Payer Services, Registration, Revenue Collection, Tax audit, Tax Enforcement and investigation, Review & Appeal, Tax Refund, Advance Ruling, Tax Treaty and International Taxation, Excises and Liquor Administration and Monitoring of non-tax.

f) Regulators and Supervisors:

Assets (Money) Laundering Prevention Act, 2008 under its Section 7T has provided the obligation to regulate, supervise and monitor the reporting entities under the same Act to Regulator mandated for the regulation and supervision of such entity pursuant to prevailing laws. It has also mandated Nepal Government to designate an agency or regulator to work as

regulator for such reporting entity upon the advice of NCC if there is no regulator mandated for such entities. The Act has also under Section 7U provided regulators and supervisors with their functions, responsibilities and powers. There are different regulators and supervisors that are working in AML/CFT regime in Nepal:

- **Nepal Rastra Bank (NRB):** NRB is the central bank of Nepal, established in 1956 under the Nepal Rastra Bank Act 1955 is the monetary, regulatory and supervisory authority of banks and financial institutions. The new Nepal Rastra Bank Act 2002 which replaces the erstwhile act has ensured operational autonomy and independence to the Bank. NRB not only regulate the bank and financial institutions with regard to AML/CFT directives but also supervises them to enforce those policies and directives. AML/CFT supervision of banks and financial institutions are carried out through supervision department of NRB Likewise, supervision of Money Changers and Money Remitters are supervised by Foreign Exchange Management Department. NRB has already issued AML/CFT directives on AML/CFT based on Act and Regulation.
- **Securities Board of Nepal (SEBON):** SEBON was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets. It has been regulating the market under the Securities Act, 2006. There are two departments namely Regulation and Management Department, and Supervision and Research Department in SEBON.
- **Insurance Board (IB):** IB is the Insurance Regulatory Authority of Nepal, the line ministry of the Ministry of Finance, Government of Nepal. IB is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992. IB looks after all the insurance related activities in the Federal Democratic Republic of Nepal. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal. Furthermore, It regulates and supervises the AML/CFT regime within insurance sectors namely life insurance companies and non-life insurance companies. IB recently issued AML/CFT directive to its licensed entities.
- **Cooperative Department:** Pursuing its 'Regulation for co-operativeness' mission, the department complements the self-regulating processes of co-operatives in line with the principles of co-operation. As co-operative development is a function shared between the three levels of Government – federal, provincial and local – the Department, as a federal agency, has a leading role to play in terms of providing co-operative agencies of provincial and local governments with the necessary regulatory, promotional and training or educational services.

CHAPTER 4

CAPACITY BUILDING

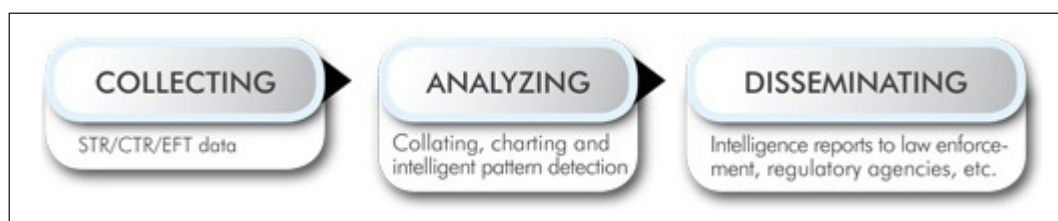
4.1 Introduction

Capacity of the agencies entrusted with AML/CFT responsibilities is the most essential to achieve the objective of AML/CFT measures effectively. Strong organizational capacity and individual's skills are must for the effective implementation of AML/CFT regime. Competency should be enhanced with due consideration of dynamism of the worldwide phenomenon of AML/CFT. Every day sophisticated ML/TF trends and instruments appear in the world unraveling the new threats and vulnerabilities, therefore, the skills of human resources engaged in this regime should be enhanced concurrently. To attain the maximum degree of effectiveness, all agencies involved—from the reporting entities to the judiciary authorities—need to increase their own effectiveness and to cooperate with each other to form a well-functioning whole. It follows that each component of the system needs to be assessed in terms of its efforts to achieve what is expected of it, even if it is only one part of the total system.

FIU-Nepal has made several strategic and operational efforts to enhance its capacity. It has conducted numbers of training programs as well as coordinated with international organizations and foreign agencies for their supports for training and workshops. Its capacity building programs have also benefitted the stakeholders in the field.

4.2 Automation of FIU-Nepal

FIU-Nepal has now installed goAML software developed by United Nations Office on Drugs and Crime (UNODC). It will help for online receipt of reports and analyze such reports in an automated form. As per the experiences of other counterparts, goAML will not only gear up the capacity of FIU, particularly in its core function like receiving and analyzing information, but also will assist for qualitative investigation. However, it is the foremost need of FIU-Nepal to make development of analytical skills compatible to the highly automated system, goAML. FIU-Nepal has installed goAML software developed by United Nations Office on Drugs and Crime (UNODC). It will help for online receipt of reports and analyze such reports in an automated form. The goAML solution is executed in three steps: collection, analysis (rule-based analysis, risk-score and profiling) and dissemination (escalate to law enforcement and seek feedback). It provides a facility for the rapid exchange of information between the FIU, financial institutions law enforcement and judicial authorities, while ensuring confidentiality of the data collected.



Source: UNODC

Features of goAML

There are 14 key features of goAML which are mentioned in figure below:

Figure 4.1- Features of goAML



Source: UNODC

Box: 4.1: Introduction to goAML

In order to automate the business process of Financial Information Unit (FIU), Nepal Rastra Bank Board on 12 December 2012 (2069/09/02 BS) decided to procure and implement goAML software, which is the product of United Nations Office on Drugs and Crime (UNODC). Shortly after that on 19 December 2012 (2069/09/09 BS), in the convenorship of FIU Chief a five-member “goAML Software Procurement and Implementation Committee” was formed to expedite the process. On 14 April, 2014 (2071/01/01 BS), Nepal Rastra Bank and UNODC signed the Financial Assistance (FA) and Service level Agreement (SLA) for the implementation of goAML Software in FIU-Nepal. Since there are numerous groups of reporting entities, stage-wise implementation plan has been devised for the effective and successful implementation of goAML system. In the first stage it is planned to implement and go Live for Commercial Banks group. Once it is successful

then on the next stage for Development Banks group and then next stage for Finance companies group, and so on.

A four-member “goAML Software Implementation Team” was formed on 14 August 2014 (2071/04/29 BS) comprising 2 technical staffs from Information Technology (IT) Department and 2 from FIU. In consultation with UNODC, the goAML Implementation Team has developed an implementation plan that comprised of the list of tasks/action items to be performed, list of team(s) responsible for completing those tasks/action items and estimated completion time. This Implementation process was divided in to three phases, each phase consisting of list of tasks/ action items.

The objective of the first phase was to install the pre-production system and train the FIU Team. This phase constituted installation of goAML and Training to provide overview of functional and technical aspects of goAML, its components, and other relevant issues. These tasks were further divided into sub tasks. This phase was started on 20 August 2014 (2071/05/04 BS) and was completed on 26 August 2014 (2071/05/10 BS) with the combined effort of goAML Implementation Team and team form Enterprise Application Center, Vienna (EAC-VN). The major tasks completed during this phase were training and installations of web application, analytical Database and goAML client. Trainings of the subject matters namely XML Schema, Customizing the reference tables, Security setup for users and roles, Workflow and Standard Operating Procedure (SOP), Templates setup, Translation of website and applications, Custom numbering and Setting up reporting entities and stake holders were also held during this phase.

Second phase is meant for the preparation for production system. In this phase NRB along with its Reporting Entities (REs) and its stake holders (Law enforcement agencies and other relevant organizations) are required to ensure readiness for production system. This involved procurement and installation of Hardware and Software components for technical infrastructure, customization of goAML web and client applications, communication about the goAML system to REs as well as stake holders. This phase took more time to complete its tasks due to various reasons, major two among them are 1) unpredicted losses caused by devastating earthquake, which forced NRB and Banks to reinstate its existing system rather than focusing on new ones and 2) rigid procurement law and by-law due to which NRB has to execute tender notices 4 times in 5 years - starting from 30 March 2013 (2069/12/17 BS) to 2 December 2016 (2073/08/17 BS) - to procure major hardware components required for the goAML Implementation. Some of the hardware components (Network Component) were delivered to FIU at the end of Asar 2074 only.

The major tasks of the second phase that have been completed are - Translation of website and applications, Preparation of the reference tables, Registration of the reporting entities, Communicating to each reporting entity their Unique ID, Setup of roles and users, Preparation of workflows and SOP, Filling the reference tables in accordance with the schema and local needs, Testing XML data files with reporting entities and support as required and Registration of reporting persons and authorizing them accordingly. During this phase XML schema, goAML XML Reporting Instruction Specification, XML sample files with different scenarios, Lookup Table, Reference Table, goAML Web Reporting Guide, goAML Web User Guide, etc. were prepared and distributed to REs (Commercial Banks). Similarly various other documents related to goAML client were also prepared such as goAML Admin Guide, Work Flows for STR and Cases, etc.

The third phase completed with the combined effort of FIU goAML Implementation Team and EAC-VN Team. A resource person from the EAC-VN visited FIU-Nepal from 1-11 May 2018. This phase included tasks related with installation of goAML system on the Production Environment, Production Servers installations in GIDC -Datacenter, updating the goAML software on the Test Environment, Training to both IT and business team about the features of goAML Application, and preparing the system for go Live along with various meetings with the stakeholders. Completion of this phase means that the goAML system is ready for go Live. We hope that the goAML will pave the way for FIU-Nepal towards the expedition of automation. We hope that the goAML will pave the way for FIU-Nepal towards the expedition of automation. FIU-Nepal has successfully installed goAML infrastructure at DC and DR Site.

Source: FIU-Nepal

4.3 FIU-Nepal with REs

Since its establishment in 2008, FIU-Nepal has made incredible efforts to enhance RE's capacity towards preventing and addressing risk of money laundering and terrorism financing. It has been assisting for capacity building of REs either through interaction/training programs or with discussing and counseling with an individual institution about its system, problems and prospects at FIU. It has found individual discussions comparatively more critical and result oriented. FIU-Nepal has also provided guidance and resource persons for AML/CFT training programs organized by them. FIU-Nepal has conducted following training and development program in FY 2074-75, under the annual program of FIU Nepal.

Table 4.1- Training and Development Program Participated/ Conducted by FIU-Nepal

S.N.	Training Detail	Place	Date	Participant Detail
1.	Anti Money Laundering and Financial Crime Workshop	Kathmandu	2075.01.05 to 07	Judge, Lawyer and other staff of Court.
2.	Implementation of IT Software System (goAML)	Kathmandu	2075.01.24	Commercial Bank COO Compliance Officer / goAML IT Official, UNODC and goAML Mission representative
3.	Workshop on Anti Money Laundering and Terrorist Financing for LEA .	Kathmandu	2074.04.32	Department of Money Laundering Investigation (DMLI), Nepal Police, Commission on the Abuse of Authority, Revenue Investigation Department, Securities Board of Nepal (SEBON), Insurance Board (IB) and Cooperative Department.
4.	Workshop on Anti Money Laundering and Terrorist Financing	Kathmandu	2074.04.32	Bank Supervision Department, Bank and Financial Institution Regulation Department, and Compliance Officer of Commercial banks

S.N.	Training Detail	Place	Date	Participant Detail
5.	Overview of Anti Money Laundering and Terrorist Financing	Kathmandu	2074.05.20	CEO's of Development Banks.
6.	Workshop on Anti Money Laundering and Terrorist Financing	Kathmandu	2074.08.19	Bank and Financial Institution Regulation Department, Reporting Officer of Class "B", "C" and "D" Compliance officer and respective supervision departments.
7.	Workshop on Anti Money Laundering and Terrorist Financing	Kathmandu	2074.08.28	CEO of Life and Non Life Insurance Companies.
8.	Seminar on AML CFT issues	Kathmandu	2074.09.28 to 29	Top Management of NRB with NRB branch head including external expert.
9.	Workshop on Anti Money Laundering and Terrorist Financing	Kathmandu	2074.10.26	Securities Board Nepal and Broker Company
10.	Workshop on Anti Money Laundering and Terrorist Financing	Kathmandu	2074.11.15	Foreign Exchange Management Department and CEO of Money Transfer Company

4.4 FIU with Regulators

The functional AML/CFT system cannot be imagined in the absence of contributions from regulators. Majority of FATF standards prescribe the importance and role of regulators. A sound and functional AML/CFT system depends on the REs' compliance of AML/CFT measures, which on the other hand is determined by the level of regulation and supervisions by the regulatory agencies. Hence, FIU-Nepal has always been working together with the regulators and supervisors for developing regulatory/supervisory instruments to conduct AML/CFT inspections and develop trainings programs. FIU Nepal has been organizing at least one interaction program in each quarter among the stakeholders including regulators for the domestic cooperation.

4.5 FIU with Other Agencies

Apart from the said activities, FIU-Nepal has assisted other agencies in developing their AML/CFT instruments and has provided resource persons for AML/CFT training and capacity building programs, as well as preparing policies and guidelines. These agencies include National Judicial Academy, NRB, Revenue Administration Training Centre, Investigation Authorities like CIAA, DMLI, Nepal Police, Nepal Banker's Association, National Banking Training Institute, Nepal Bar Association, FNCCI, CNI etc.

4.6 International Technical Assistance and Training

International organizations viz. APG, Egmont, IMF, World Bank and other foreign government and their agencies from Australia, India, USA and others have focused on enhancing capacity building of Nepal's AML/CFT regime. They had provided technical assistance and training to Nepalese agencies engaged in combating money laundering and terrorism financing and proliferation financing on a regular basis. Nepal, with technical assistance of IMF, had formulated its first National AML/CFT Strategy and Action Plan, developed legal, FIU and supervisory frameworks and manuals. The IMF mission visited Nepal several times for those objectives and capacity building. The World Bank had provided technical assistance for the preparation Nepal's first National Risk Assessment. Financial Information Unit-Nepal had coordinated with other international organizations for their support to different sectors of Nepal.

4.7 Key Performance Indicators (KPI) of FIU.

- STRs received is total and breakdown by
 - Type of entity making the report (financial institution, designated nonfinancial businesses and professions);
 - STRs analyzed, disseminated, and sent for investigation or prosecution;
 - Content, region of origin, amount of currency, possible crimes involved, complexity, etc.;
 - STRs actually analyzed, used, disseminated, stored, or discarded;
 - STRs resulting in prosecution or convictions for money laundering, financing terrorism, or an underlying predicate offense.
- Assessments of the quality of STRs.
- Reports filed on (i) domestic or foreign currency transactions above a certain threshold; (ii) cross-border transportation of currency and bearer negotiable instruments; or (iii) international wire transfers (if applicable).
- Types and frequency of additional information requested.
- Amount of information available for competent authorities in each FIU
- Disclosure in terms of the number of
 - STRs and TTRS used and linked to the information reported;
 - Reporting institutions involved;
 - Persons or possible suspects identified; and
 - Types of databases queried.
- Time taken to disclose relevant information to competent authorities after it is received from reporting institutions.
- Requests for assistance made or received by the FIU, including whether the request was granted or refused.
- Time taken to respond to each request for assistance made to the FIU.
- Spontaneous referrals made by the FIU to foreign authorities.

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- Frequency and scope of guidance issued to reporting institutions (general and individual guidance) (if applicable).
 - Response times of reporting institutions to requests for additional information.
 - Frequency and scope of strategic analysis provided to other competent authorities and policymakers.
 - Feedback received from law-enforcement agencies, the judiciary, or other authorities.

These data need to be appropriately correlated. For example, a large number of STRs received should not be taken as an indication of FIU “success” without observing whether the reports come from a wide variety of sectors or only one (i.e., banking) and whether the reports contain useful information. Similarly, a low number of cases forwarded by the FIU for further investigation or prosecution does not necessarily indicate that the FIU is in effective if each case already encompasses the analysis of many STRs or if the value added by the FIU often leads to successful prosecutions.

CHAPTER 5

OPPORTUNITIES AND CHALLENGES

5.1 Overview

AML/CFT system has established itself as a primary means to safeguard the financial system, control financial crimes and spread out a message that nobody can permanently enjoy the proceeds of crime. It is a leading issue in the financial world that any kind of offence generating money cannot go free without detection and prosecution is inevitable without any geographical matters. However, the task of controlling money laundering and terrorist financing is possible with sincere involvement of multi-agencies within the territory of a country and it equally demands the international cooperation.

Nepal's progress towards improving the AML/CFT framework is significant in a short period of time. Nepal has provided an exemplary achievement to build a foundation for implementation of AML/CFT system by devising sound legal and institutional frameworks, organizing gradual capacity building programs, and creating awareness to stakeholders as well as to the general public. The accomplishment also counts on the development of smooth coordination in policy as well as operational levels. There is always room for improvement, hence, assurance of effective implementation and continuous improvement of AML/CFT system still has remained a foremost challenge. Dynamic and complex nature and trends of ML/TF is such a challenge where all stakeholders and their collective and coordinated efforts need to be put together.

Furthermore, Nepal should pay attention towards its mutual evaluation scheduled to be held in 2020-21. Since it will be focused on effective implementation it demands not only implementation and outputs but also visible outcomes. Hence, to achieve this outcome, all concerned agencies should concentrate on their core business considering the benefits of AML/CFT system and 3rd mutual evaluation as the most important agenda. Our sincere efforts in this regime could recover the proceeds of crimes and establish a sound financial system with the mitigated risk of ML/TF. In addition, such integrated improvements in overall sectors will ultimately help us to avoid from falling under Enhanced Follow up or other ICRG processes. For this, timely planning and strategic movement among the stakeholders may be a panacea.

5.2 Challenges

FIU-Nepal, one of the core agencies in the AML/CFT system in the country, works as buffer between REs, LEAs, and other stakeholders. It has made efforts to take REs into confidence and become proactive to make LEAs use its intelligence to prosecute ML/TF offenders. So, it demands a critical balance to maintain among the stakeholders. Similarly, relation with regulators is very important to motivate REs to comply with AML/CFT rules and regulations. FIU-Nepal has also its focus on national AML/CFT policy formulation and implementation. In this context, following few points appear as the major challenges that FIU-Nepal is facing:

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- To make Information Technology (goAML) system fully operational,
 - To create intensive awareness among REs on STR and reporting system,
 - To maintain inter-agency coordination and cooperation in policy and operational levels,
 - To enhance skills and capacity of FIU officials and other related stakeholders regarding goAML software and AML\CFT recent issues,
 - To assist in national policy formation and implementation.
 - Preparing for upcoming Mutual Evaluation Process

5.3 Expectation

It is expected that with the achievement of Egmont membership, FIU-Nepal can expand and systematise international cooperation in the reciprocal exchange of information and increase the effectiveness of FIUs by offering training and promoting personnel exchanges to improve the expertise and capabilities of personnel employed by FIUs in combating money laundering, terrorist financing and proliferation financing. Furthermore, it is hoped that the membership will help Nepal to recover its stolen assets from money launderers and to prevent terrorism in South Asian territory and stopping the terrorists' activities directed through this region. The FIU-Nepal will put increased focus on its core functions of receiving, analysis and dissemination of financial information, it will make all possible efforts to maintain coordination, cooperation and concentrated trainings and workshops for achieving its objectives and assisting supervisors, LEAs, prosecutors and judicial authorities for other strategic contribution to the ML/TF system. It is the foremost need of FIU-Nepal to make development of analytical skills compatible to the highly automated system, goAML. Ultimately, it is expected to strengthen the AML/CFT regime and its effectiveness in the country.

Annex 1: Legal Instruments against ML/TF

S.N.	Instruments
1.	<ul style="list-style-type: none">• FATF revised 40 recommendations- updated in October 2018• FATF assessment methodology 2013
2.	Assets (Money) Laundering Prevention Act, 2064 (2008) <ul style="list-style-type: none">• 1st amendment in 2068 (2011)• Two Gazette Notifications for expansion of predicate offence of money laundering (now included in the list after second amendment)• Comprehensive 2nd amendment in 2070 (2013)
3.	Assets (Money) Laundering Prevention Rules, 2073 (2016)
4.	Unified Directives No 19, Issued by NRB, Regulation Dept.
5.	Mutual Legal Assistance Act, 2014
6.	Extradition Act, 2014
7.	Organized Crimes Prevention Act, 2014
8.	Confiscation of Criminal Proceeds Act 2014
9.	UNSCRs Rules, 2013
10.	Mutual Legal Assistance Rules, 2014

Source: FIU-Nepal, NRB

Annex 2: Ratified/Acceded International Conventions

S.N.	Instruments	Date of Signature	Date of Ratification / Accession
1.	UN Convention against Corruption, 2003	10 Dec 2003	29 Mar 2011
2.	UN Convention against Transnational Organized Crime, 2000	12 Dec 2002	23 Dec 2011
3.	UN Convention against Terrorist Financing, 1999		24 June 2011
4.	United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988		24 July 1991
5.	Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, 1973		9 Mar 1990
6.	International Convention against the Taking of Hostages, 1979		9 Mar 1990.
7.	Convention on Offences and Certain Other Acts Committed on Board Aircraft, 1963		15 April 1979.
8.	Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, 1971		11 January 1979
9.	SAARC Regional Convention on Suppression of Terrorism, 1987 and its Additional Protocol, 2004	4 November 1987	22 August 1988
10.	BIMSTEC: Sub Group Meeting on Combating the Financing of Terrorism		8 February 2004 (Full Member of BIMSTEC)

Source: FIU-Nepal, NRB

Annex 3: List of Regulators for AML\CFT Prevention

S.N.	Institutions	Name of Regulator
1.	Bank and Financial Institutions	Nepal Rastra Bank
2.	Insurance Company	Insurance Board
3.	Capital Market (including brokers)	SEBON
4.	Non Bank Financial Institutions (Employee Provident Fund, Citizen Investment Trust, Postal Bank)	Nepal Rastra Bank
5.	Approved Retirement Fund	Inland Revenue Department
6.	Casinos and Internet Casino Business	Ministry of Culture, Tourism and Civil Aviation
7.	Real Estate Business	Department of Land Management and Archive
8.	Precious metals, ornaments and object business	Inland Revenue Department
9.	<ul style="list-style-type: none"> • Notary Public • Auditor • Accountant • Other Business as per Section 2 (dha) of Asset (Money) Laundering Prevention Act, 2064. Organisation who is working for others. 	<ul style="list-style-type: none"> • Notary Public Council • Institute of Chartered Accountants of Nepal (ICAN) • Licencing Authority
10.	Company and Trust	Company Registrar Office
11.	Law Practitioners	Nepal Bar Council

Annex 4: Regulatory/Supervisory Instruments

S.N.	Directives	Issuing Authority
1.	NRB Unified Directives to Bank and Financial Institutions, 2075	NRB, Regulation Department
2.	Directives to Money Remitters	NRB, Foreign Exchange Management Department
3.	Directives to Money Changers	NRB, Foreign Exchange Management Department
4.	Directives to Securities Sector	SEBON
5.	Directives to Insurance Sector	Insurance Board in 2012
6.	Directives to all agencies for freezing the property and funds of Designated as terrorist, terrorist organizations and groups by UN Security Council Resolutions, 2012, (replaced by the Act now)	Replaced by the 2nd amendment of ALPA
7.	FIU Suspicious Transaction Reporting Guidelines	
8.	FIU Threshold Transaction Reporting Guidelines	
9.	NRB/FIU Operational Manual	
10.	FIU Security Manual	
11.	DMLI Investigation Manual	

Source: FIU-Nepal, NRB

Annex 5: Responsibility of the Key Players (FATF Standards and Prevailing Nepalese Laws)

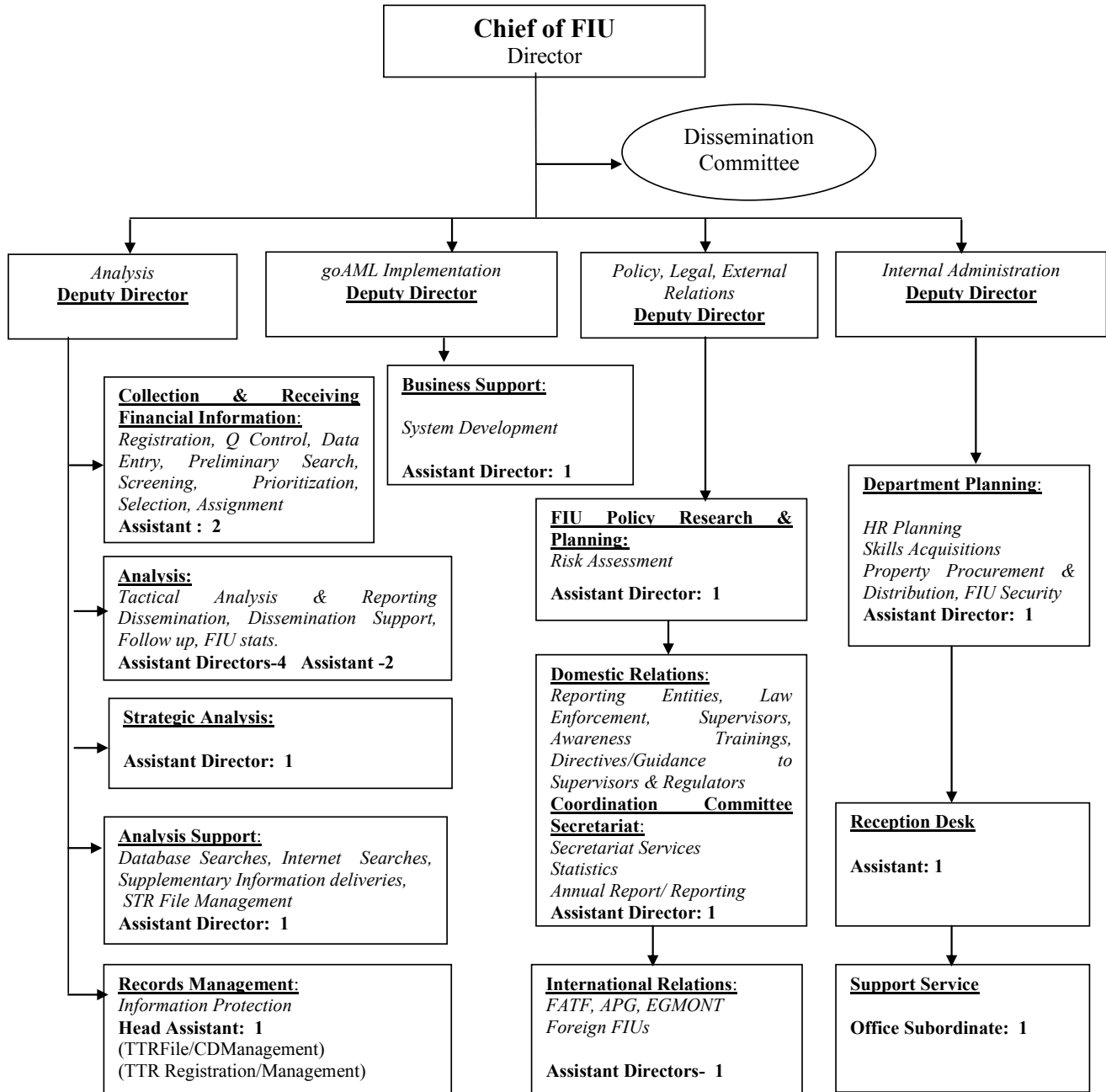
Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
1.	Assessing risks and applying a risk-based approach	Common: <ul style="list-style-type: none"> • Primarily the Policy Level, Financial Sector and LEAs
2.	National cooperation and coordination	Common: <ul style="list-style-type: none"> • Primarily the Policy Level, Financial Sector and LEAs
3.	Money laundering offence	Legal
4.	Confiscation and provisional measures	<ul style="list-style-type: none"> • DMLI • Nepal Police • DRI • CIAA • Customs • Court • Confiscated Assets Management Department
5.	Terrorist financing offence	<ul style="list-style-type: none"> • Legal
6.	Targeted financial sanctions related to terrorism and terrorist financing	<ul style="list-style-type: none"> • MOFA/MOHA • Regulator/s
7.	Targeted financial sanctions related to proliferation	<ul style="list-style-type: none"> • MOFA/MOHA • Regulator/s
8.	Non-profit organizations	<ul style="list-style-type: none"> • MOHA • SWC • Regulator/s
9.	Financial institution secrecy laws	<ul style="list-style-type: none"> • Regulator/s
10.	Customer due diligence	<ul style="list-style-type: none"> • Regulator/s
11.	Record keeping	<ul style="list-style-type: none"> • Regulator/s
12.	Politically exposed persons	<ul style="list-style-type: none"> • Regulator/s
13.	Correspondent banking	<ul style="list-style-type: none"> • Regulator/s
14.	Money or value transfer services	<ul style="list-style-type: none"> • Regulator/s
15.	New technologies	<ul style="list-style-type: none"> • Regulator/s
16.	Wire transfers	<ul style="list-style-type: none"> • Regulator/s
17.	Reliance on third parties	<ul style="list-style-type: none"> • Regulator/s
18.	Internal controls and foreign branches and subsidiaries	<ul style="list-style-type: none"> • Regulator/s

Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
19.	Higher-risk countries	• Regulator/s
20.	Reporting of suspicious transactions	• Regulator/s
21.	Tipping-off and confidentiality	• Regulator/s
22.	DNFBPs: Customer due diligence	• Regulator/s
23.	DNFBPs: Other measures	• Regulator/s
24.	Transparency and beneficial ownership of legal persons	• Legal Person Registrars ++ • Regulator/s
25.	Transparency and beneficial ownership of legal arrangements	• Legal Person Registrars ++ • Regulator/s
26.	Regulation and supervision of financial institutions	• Regulator/s
27.	Powers of supervisors	• Regulator/s
28.	Regulation and supervision of DNFBPs	• Regulator/s
29.	Financial intelligence units	• FIU
30.	Responsibilities of law enforcement and investigative authorities	• DMLI • Nepal Police • DRI • CIAA
31.	Powers of law enforcement and investigative authorities	• DMLI • Nepal Police • DRI • CIAA
32.	Cash couriers	• Customs • Regulator/s • FIU
33.	Statistics	Common
34.	Guidance and feedback	• Regulator/s • FIU • LEAs • Res
35.	Sanctions	• Court • Confiscated Assets Management Department
36.	International instruments	• MOFA • MOLJ

Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
37.	Mutual legal assistance	<ul style="list-style-type: none"> • MOLJ • Attorney General • Court
38.	Mutual legal assistance: freezing and confiscation	<ul style="list-style-type: none"> • MOLJ • Attorney General • Court
39.	Extradition	<ul style="list-style-type: none"> • MOHA • Court
40.	Other forms of international cooperation	<ul style="list-style-type: none"> • FIU • LEAs • Regulator/s

Source: FIU-Nepal, NRB

Annex 6: Organization Chart of FIU-Nepal



Source: FIU-Nepal

FREQUENTLY ASKED QUESTIONS (FAQ)

PLEASE NOTE THAT THESE Q&As CONSTITUTE BRIEF GUIDANCE AND ARE PROVIDED FOR INFORMATION ONLY

1. What is Money Laundering?

Criminal activities, such as drug trafficking, smuggling, human trafficking, corruption and others, tend to generate large amounts of profits for the individuals or groups carrying out the criminal act. However, by using funds from such illicit sources, criminals risk drawing the authorities' attention to the underlying criminal activity and exposing themselves to criminal prosecution. In order to benefit freely from the proceeds of their crime, they must therefore conceal the illicit origin of these funds.

Briefly described, "money laundering" is the process by which proceeds from a criminal activity are disguised to conceal their illicit origin. It may encompass

- (i) the conversion or transfer, knowing that such property is the proceeds of crime
- (ii) the concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime; and
- (iii) the acquisition, possession or use of property, knowing, at the time of the receipt, that such property is the proceeds of crime.

2. How is Money Laundered?

- a) In the initial - or **placement** - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.
- b) After the funds have entered the financial system, the second - or **layering** - stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.
- c) Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage - **integration** - in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

3. What is a Money Laundering offence?

Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of an offence of money laundering. As per ALPA 2008 involvement in following offence are regarded as money laundering offence:

- Converting and transferring property by any means knowing or having reasonable grounds to believe that it is proceeds of crime for the purpose of concealing or disguising the illicit origin of property, or assisting any person involved in the offence for evading legal consequences of offender.
- Concealing or disguising or changing the true nature, source, location, disposition, movement or ownership of property or rights with respect to such property knowing or having reasonable grounds to believe that it is proceeds of crimes.
- Acquiring, using, possessing property knowing or having reasonable grounds to believe that it is the proceeds of crime.

4. What are Proceeds of Crime?

“Proceeds of crime” means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property.

5. What is Financing of Terrorism?

Terrorist financing involves the solicitation, collection or provision of funds with the intention that they may be used to support terrorist acts or organizations. Funds may stem from both legal and illicit sources. The primary goal of individuals or entities involved in the financing of terrorism is therefore not necessarily to conceal the sources of the money but to conceal both the financing and the nature of the financed activity.

6. How are Efforts to Combat Money Laundering and Financing of Terrorism linked?

Money laundering is the process of concealing the illicit origin of proceeds of crimes. Terrorist financing is the collection or the provision of funds for terrorist purposes. In the case of money laundering, the funds are always of illicit origin, whereas in the case of terrorist financing, funds can stem from both legal and illicit sources. The primary goal of individuals or entities involved in the financing of terrorism is therefore not necessarily to conceal the sources of the money but to conceal both the funding activity and the nature of the funded activity.

Similar methods are used for both money laundering and the financing of terrorism. In both cases, the actor makes an illegitimate use of the financial sector. The techniques used to launder money and to finance terrorist activities/terrorism are very similar and in many instances identical. An effective anti-money laundering/counter financing of terrorism framework must therefore address both risk issues: it must prevent, detect and punish illegal funds entering the

financial system and the funding of terrorist individuals, organizations and/or activities. Also, AML and CFT strategies converge; they aim at attacking the criminal or terrorist organization through its financial activities and use the financial trail to identify the various components of the criminal or terrorist network. This implies to put in place mechanisms to read all financial transactions, and to detect suspicious financial transfers.

7. How are Corruption and Money Laundering linked?

Anti-corruption and anti-money laundering work are linked in numerous ways and especially in recommendations that promote, in general, transparency, integrity and accountability. The essential connections are: Money laundering (ML) schemes make it possible to conceal the unlawful origin of assets. Corruption is a source of ML as it generates large amounts of proceeds to be laundered. Corruption may also enable the commission of a ML offense and hinder its detection, since it can obstruct the effective implementation of a country's judicial, law enforcement and legislative frameworks.

When countries establish corruption as a predicate offence to a money laundering charge, money laundering arising as a corrupt activity can be more effectively addressed. When authorities are empowered to investigate and prosecute corruption-related money laundering they can trace, seize and confiscate property that is the proceeds of corruption and engage in related international cooperation. When corruption is a predicate offence for money laundering, AML preventive measures can also be more effectively leveraged to combat corruption.

8. Why controlling of money laundering is necessary?

Since money laundering is a financial crime, it does not serve the interest of any economic actor. In addition to saving the areas affected by it, controlling money laundering is necessary for the following reasons:

- Bring the suspect under the purview of legal action by inquiring, investigating and prosecuting him/her after identifying the suspicious transactions
- Criminalize money laundering and the financing of terrorism and proliferation
- Imprison and penalize the criminals involved in money laundering after bringing them into legal action
- Confiscate the properties earned and used in money laundering and the financing of terrorism and proliferation
- Initiate, promote and continue exchange of cooperation at national, regional and international level for control of money laundering
- Create an environment where the criminals in the days to come shall not be in a position to launder through illegal activities, and
- Expedite healthy development of national, regional and international economies.

9. Why Know Your Customer (KYC) and Customer Due Diligence (CDD) necessary?

Many of the methods applied by criminals to launder money or finance terrorism involve the

use of the financial system to transfer funds. Financial institutions, in particular banks, are most vulnerable to abuse for that purpose. In order to protect themselves, it is essential that financial institutions have adequate control and procedures in place that enable them to know the person with whom they are dealing. Adequate KYC and due diligence on new and existing customers is a key part of these controls.

KYC is the process of verifying the identity of clients and assessing potential risks of illegal intentions for the business relationship. The objectives of KYC guidelines is to prevent banks and other institutions from being used, intentionally or unintentionally, by criminal elements for money laundering activities. Documents collected from the client at the start of business relationship enable banks and other institutions (including online portals) to better understand their customers, their financial dealings and manage their risks prudently. The key components of KYC are as follows:

- Customer Acceptance Policy (CAP)
- Customer Identification Procedures (CIP)
- Monitoring of Transactions
- Risk Management

CDD policies are the cornerstones of an effective AML/CFT program. Put simply, they are the act of performing background checks on the customer to ensure that they are properly risk assessed before being on boarded. CDD means taking steps to identify customers and checking they are who they say they are. The application of strict Customer Due Diligence (CDD) by financial institutions and a high degree of transparency is crucial to fight money laundering and the financing of terrorism effectively. CDD must be applied upon establishment of a business relationship or in preparation of a specific cash transactions in excess of a certain amount. CDD must also be applied whenever financial institutions suspect money laundering or terrorist financing activities. The basic steps of CDD measures are the appropriate identification of a customer and/or beneficial owner, the verification of the identity of the customer or beneficial owner, as well as the collection of information on the customer's purpose and nature of the business relationship.

10. What is beneficial ownership?

Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. Beneficial ownership information may be present in a company profile that can be availed from a company register in case of need.

11. What influence does money laundering have on economic development?

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes. Differences in national anti-money laundering systems will be exploited by launderers,

who tend to move their networks to countries and financial systems with weak or ineffective countermeasures. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.

12. What is the connection of money laundering with society at large?

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

13. What is a STR?

Suspicious transaction refers to any transaction (including attempted or proposed), regardless of the amount that appears unusual, has no clear economic purpose, appears illegal, does not commensurate with the customer's profile or business activities, involves proceeds from an unlawful activity and indicates that the customer is involved in money laundering or terrorism financing activities.

General Characteristics of Suspicious Financial Transactions

- Transactions having unclear economical and business target.
- Transactions conducted in relatively large amount cash and/or conducted repeatedly and unnaturally.
- Transactions conducted differently from that of usually and normally conducted by the relevant customer.
- Huge, complex and usual transaction.

A STR is a Suspicious Transaction Report or disclosure. A person must make a required report (within three days of the suspicion) if you know or suspect or have reasonable grounds for knowing or suspecting that another person is engaged in money laundering or that certain property is or is derived from the proceeds of criminal conduct or terrorist financing. The STR has to be reported even when the customer only attempts to establish a relation with the reporting entity. Many different types of finance-related industries are required to file STRs. These include:

- Depository institutions (for example, banks and credit unions)
- Securities and futures dealers (for example, stock brokers and mutual fund brokers)
- Money services businesses (for example, check cashing services, currency exchange)

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- bureaus, and money order providers)
 - Casinos and card clubs
 - Dealers in precious metals and gems (for example jewellery dealers)
 - Insurance companies
 - Mortgage companies and brokers

14. Which law should I disclose STR under?

The legal basis for the reporting of suspicion in respect of money laundering is set out in Assets (Money) Laundering Prevention Act, 2008. The legal basis for the reporting of suspicion in respect of terrorist financing is also the same.

15. When should I submit a STR ?

A person acting in the capacity of a financial services business or a non-financial services business is required to submit a STR to FIU as soon as that person knows or suspects (or has reasonable grounds for knowing or suspecting) that another person is engaged in money laundering or terrorist financing or that certain property is or is derived from the proceeds of criminal conduct or terrorist financing.

Further to that the information or other matter on which the knowledge or suspicion is based, or which gives the reasonable grounds for that knowledge or suspicion, came to them in the course of the business and makes the STR as soon as practicable after the information or other matter comes to them.

16. How do I submit a STR to the FIU?

A STR must be submitted at the FIU under a prescribed form under Unified Directive No.19 along with the necessary documents.

17. Does FIU-Nepal have the automated system for the reporting of STR?

The FIU Nepal is going to introduce the automated system called goAML to the reporting entities in the near future. For this purpose, the online reporting system will be first introduced among the 'A' class banks only. They have already been provided with the instruction to develop the mechanism that is compatible with the goAML software to report online.

18. What should I include in a STR?

The quality of a STR is only as good as the content therefore you should include, 'who, what, where, when, why and how'. Include as much information as you can which has led to your suspicion; including all supporting documentation and the analysis required under Unified Directive No. 19.

19. What is Suspicious Activity Report (SAR)?

SAR is a tool for monitoring suspicious activities that would not ordinarily be flagged under other reports (such as the currency transaction report). SAR can cover almost any activity that is

out of the ordinary. An activity may be included in the SAR if the activity gives rise to a suspicion that the account holder is attempting to hide something or make an illegal transaction. SAR is filed by the financial institution that observes the suspicious activity in the account.

20. What is Threshold Transaction Reporting (TTR)?

A Threshold Transaction Report (TTR) is a report that financial institutions and designated nonfinancial business and professions (DNFBPs) are required to file to FIU for each deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution which involves a transaction more than 1 million Nepalese rupees. The threshold amount may be reached by a single transaction or by a series of transactions in cash into a single account or by a single customer over a period of one working day. It may be considered to be an aggregate transaction in cash exceeding the prescribed threshold.

21. What do I do if I am requested to provide additional information from the FIU?

Reporting Entities who receive a request for additional information from the FIU should respond as instructed by the Act, Rule and Directives.

22. Can I terminate the business relationship?

Whether or not to terminate a business relationship is a commercial decision for the Reporting Entities. Where a RE makes a decision to terminate a business relationship after it has made a STR and is concerned that in doing so it may prejudice an investigation or contravene the tipping off rules, it should consult with the FIU accordingly. The decision to terminate a relationship, however, remains with the Reporting Entities.

23. What is ‘Tipping Off’?

The Assets (Money) Laundering Prevention Act, 2008 provides that it is an offence if a person knows, or suspects, that an internal suspicion report to a FIU Nepal has been or will be made or if any information or other matter concerning the internal suspicion report or STR has been or will be communicated to FIU and s/he discloses to any other person information or any other matter about, or relating to, that knowledge or suspicion unless it is for a purpose set out in those laws.

24. What is Financial Information Unit (FIU) Nepal?

FIU-Nepal is Nepal’s financial intelligence unit. It is a central, national agency responsible for receiving, processing, analyzing and disseminating financial information and intelligence on suspected money laundering and terrorist financing activities to the Investigation Department, other relevant law enforcement agencies and foreign FIUs. The FIU was established on 21 April, 2008 under the section 9 of the Assets (Money) Laundering Prevention Act, 2008 with the Nepal Rastra Bank (the central bank) as an independent unit.

The FIU is also assigned to function as the secretariat of the Coordination Committee constituted as a standing committee under the coordination of secretary of Ministry of Finance including

secretaries from Ministry of Home, Law, Justice and Parliamentary Affairs, Foreign Affairs and Deputy Governor from Nepal Rastra Bank as members. The chief of FIU is the Secretary of the committee.

The legislation, in regards to AML/CFT, mandates the FIU to:

- Receive and collect reports on suspicious and prescribed threshold financial transactions and other information relevant to money laundering and terrorist activities financing from government agencies, financial institutions and non-financial institutions;
- Analyze and assess the information received from reporting agencies;
- Provide suspicious and other relevant information to the investigation department and others relevant;
- Direct the banks, financial institutions and non financial institutions regarding the reporting;
- Ensure compliance by reporting entities with their obligations under the act, rules and regulations;
- Inspect transactions and records of bank, financial institution and non financial institution;
- Manage training and awareness programs;
- Penalise bank, financial institution and non financial institution in the failure of reporting compliance;
- Develop information exchange mechanism with other fius or related international institution by entering into memorandum of understanding or membership.

25. What is Predicate Offence?

As per Asset (Money) Laundering Prevention Act, 2008 any offence under the prevailing laws are classified as predicate offence.

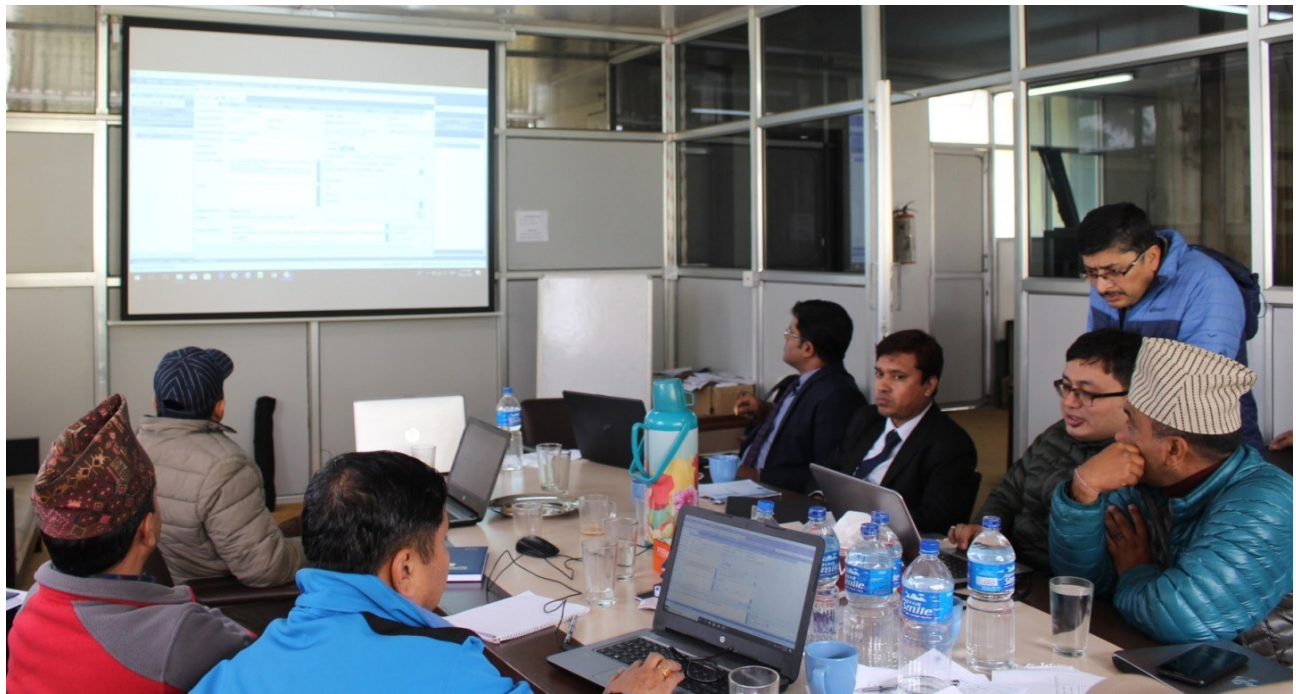
- Participation in an organized criminal group and racketeering,
- Disruptive (terrorist) act and terrorism,
- Trafficking in human being and migrant smuggling in any form,
- Any kinds of sexual exploitation including the children,
- Illicit trafficking in narcotic drugs and psychotropic substances,
- Illicit trafficking in arms and ammunition,
- Illicit trafficking in stolen and other goods,
- Corruption and bribery,
- Fraud,
- Forgery,
- Counterfeiting of coin and currency,
- Counterfeiting and piracy of products, or imitation, illegal copy or theft of products,

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- Environmental crime,
 - Murder, grievous bodily injury,
 - Kidnapping, illegal restraint or hostage-taking,
 - Theft or robbery,
 - Smuggling (including custom, excise and revenue),
 - Tax (including direct and indirect),
 - Extortion,
 - Piracy,
 - Insider Dealing and Market Manipulation in securities and commodities ,
 - Ancient monument conservation,
 - Forest, National park and wild animals,
 - Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives,
 - Black marketing, consumer protection, competition, supply
 - Election,
 - Communication, broadcasting, advertising,
 - Transportation, education, health, medicine, foreign employment,
 - Firm, partnership, company, association,
 - Real estate and property,
 - Lottery, gambling, donation,
 - Citizenship, immigration and passport.
 - Offence of terrorist financing or association with terrorist organization.

FIU-Nepal Photos



Pic- FIU-Nepal Team with Bangladesh Financial Intelligence Unit (BFIU) Trainers



Pic- GoAML Training Participation



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