

Financial Information Unit **ANNUAL REPORT**

2018/2019 (2075/076)



Financial Information Unit
Nepal Rastra Bank

Baluwatar, Kathmandu
Nepal

Financial Information Unit of Nepal
(FIU-Nepal)

ANNUAL REPORT

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TABLE OF CONTENTS

DIRECTOR'S MESSAGE

CHAPTER ONE

NEPAL'S AML/CFT REGIME

1.1 Introduction.....	1
1.2 Overview of Nepal's Commitments	1
1.3 Efforts of Nepal to Combat ML/TF.....	2
1.3.1 Policy Measures.....	2
1.3.2 Legal Measures	2
1.4 International Cooperation.....	2
1.4.1 Financial Action Task Force (FATF).....	2
1.4.2 Nepal in Asia/Pacific Group on Money Laundering (APG)	4
1.4.3 International Monetary Fund and World Bank.....	5
1.4.4 The Basel Committee on Banking Supervision.....	6
1.4.5 Egmont Group of FIUs.....	7
1.5 Institutional Measures	7
1.5.1 Coordination at Policy Level.....	7
1.5.2 Operational Measures	9
1.5.3 Key Players with Assigned Responsibility	10

CHAPTER TWO

OVERVIEW OF STAKEHOLDERS

2.1 Reporting Entities	11
2.2 Law Enforcement Agencies.....	12
2.3 Regulators and Supervisors	13
2.4 MLA Authority.....	15
2.5 Prosecution/Judicial	15

CHAPTER THREE

FINANCIAL INFORMATION UNIT, NEPAL

3.1 Introduction.....	16
3.2 Core Functions of FIU-Nepal.....	17
3.3 Key Performance Indicators of FIU-Nepal	18
3.4 Structure of FIU-Nepal.....	19
3.5 Threshold Transaction Reports (TTRs)	20
3.6 Suspicious Transaction Reports (STRs).....	21

3.7 Analysis.....	23
3.8 Dissemination.....	24
3.9 NRB Strategic Plan.....	25
3.10 Building Partnership	26
3.11 Mutual Evaluation of Nepal.....	26
3.12 National Risk Assessment and Self Assessment	27

CHAPTER FOUR DOMESTIC AND INTERNATIONAL COOPERATION

4.1 Domestic Cooperation	28
4.1.1 Cooperation with Reporting Entities.....	29
4.1.2 Cooperation with Law Enforcement Agencies	29
4.1.3 Cooperation with Regulators and Supervisors	29
4.1.4 National Coordination Committee.....	29
4.1.5 Memorandum of Understanding (MOUs).....	30
4.2 International Cooperation	30
4.2.1 Asia/Pacific Group on Money Laundering (APG).....	30
4.2.2 Financial Action Task Force (FATF).....	30
4.2.3 Egmont Group of FIUs.....	30
4.2.4 Memorandum of Understanding with Foreign FIUs	31
4.2.5 Cooperation and Exchange of Information with Foreign FIUs	32

CHAPTER FIVE CAPACITY BUILDING

5.1 Introduction	33
5.2 Automation of FIU-Nepal.....	33
5.3 FIU with Reporting Entities.....	37
5.4 FIU with Regulators.....	38
5.5 FIU with LEAs and Other Agencies.....	38
5.6 Domestic Trainings, Seminars and Workshops.....	38
5.7 International Trainings	40

CHAPTER SIX OPPORTUNITIES AND CHALLENGES

6.1 Overview.....	42
6.2 Challenges.....	42
6.3 Way Ahead.....	43

LIST OF TABLES

Table 3.1: Structure of FIU-Nepal.....	19
Table 3.2: Designated Threshold Across Industries/Agencies.....	20
Table 3.3: Numbers of TTRs Received from Reporting Entities.....	21
Table 3.4: Dissemination Status of STRs.....	25
Table 4.1: Domestic Cooperation.....	28
Table 4.2: MOU Signed with Foreign FIUs.....	31
Table 4.3: Information Exchange with Foreign FIUs.....	32
Table 5.1: Status of TTRs/STRs reported in goAML	36
Table 5.2: Trainings/Workshops/Interaction Programs Organized by FIU-Nepal.....	38
Table 5.3: Trainings/Workshops/Seminars Participated by FIU-Nepal (Domestic).....	39
Table 5.4: Trainings/Workshops/Seminars Participated by FIU-Nepal (International).....	40

LIST OF CHARTS AND BOXES

Chart 3.1 : Trend Analysis of STRs'	22
Chart 3.2 : Status of STRs'	23
Box 4.1 : Major Decisions of NCC	29
Box 5.1 : Introduction to goAML.....	34

LIST OF FIGURES

Figure 1.1: Stakeholders in AML/CFT Regime.....	10
Figure 3.1: Typical FIU Information and Functional Flow.....	16
Figure 5.1: Features of goAML.....	34

LIST OF ANNEXS

Annex 1: Legal Instruments Against ML/TF	45
Annex 2: Ratified/Acceded International Conventions	46
Annex 3: List of Regulators for AML\CFT Prevention	47
Annex 4: Regulatory/Supervisory Instruments	48
Annex 5: Responsibility of the Key Players (FATF Standards and Prevailing Nepalese Laws)....	49
Annex 6: Nepal's Dissemination and Request to Nepal for FY 2015/16 to 2018/19	51
Annex 7: Organization Chart of FIU-Nepal	55

Frequently Asked Questions (FAQs)

FIU-Nepal Photos

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
BAFIA	Bank and Financial Institution Act
BFI	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
CBS	Central Bureau of Statistics of Nepal
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
FERA	Foreign Exchange Regulation Act
FIU-Nepal	Financial Information Unit of Nepal
FIUs	Financial Intelligence Units
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
IOs	Immediate Outcomes
IRD	Inland Revenue Department

IT	Information Technology
LEA	Law Enforcement Agencies
MER	Mutual Evaluation Report
MFPSD	Micro-Finance Promotion and Supervision Department
ML	Money Laundering
MLA	Mutual Legal Assistance
MoF	Ministry of Finance
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
NCC	National Coordination Committee
NPO	Non Profit Organizations
NRA	National ML/TF Risk Assessment
NRB	Nepal Rastra Bank
PF	Proliferation Financing
Recs	Recommendations
REs	Reporting Entities
SAARC	South Asian Association for Regional Cooperation
SEBON	Securities Board of Nepal
SIP	Strategic Implementation Planning
STR	Suspicious Transaction Report
SWC	Social Welfare Council
TA	Technical Assistance
TF	Terrorist 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
WB	World Bank
XML	Extensible Markup Language

DIRECTOR'S MESSAGE

I am pleased to present this annual report of FIU-Nepal for the fiscal year 2018/19. This year has been another significant year for 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.



Financial crime is a serious global threat. Successful prevention and combating of money laundering and terrorist financing require necessary resources at the FIU-Nepal and awareness among all stakeholders. Further, in addition to domestic inter-agency cooperation, international cooperation is also critical for the successful investigation of financial crimes. FIU-Nepal is playing crucial role for ensuring the transfer of financial intelligence relating to AML-CFT to the domestic law enforcement agencies and coordinate the exchange of information with foreign FIUs via EGMONT group of FIUs.

During the past decade, the global AML landscape has changed tremendously with the use of Fintech. 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. Strong AML/CFT controls are the backbone of financial institutions. The recent cases have shown that contraventions of these controls can result in fines and sanctions becoming license threatening.

During the year, the number of STR reported increased compared to that of previous year. The year 2018/19 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 2017/18. The continued guidance, typologies and presentations by 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-Nepal. Entities lacking to report are required to enforce for the STR 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 2018/19 remained banking sector. The criminality most commonly reported in STRs during 2018/19 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.

It is without doubt that considerable efforts put forth by FATF and APG have contributed greatly towards improving AML-CFT regime across the world. The FATF's recommendations are the backbone of AML/CFT standard across the world, whereas mutual evaluation procedure is considered one of the most successful mechanisms that promote international compliance of recommendations. Compliance with FATF Standards helps maintain our country's reputation and the reputation of our businesses, including financial institutions, on the world stage. Globally, a country's rating on compliance with FATF Standards on AML/CFT is often considered as a key measure of the robustness of the country's AML/CFT regime. The APG's next mutual evaluation

for Nepal is taking place in 2020/21 under the revised standards of FATF methodology. This time assessment will not just be on Technical Compliance but in Effectiveness Analysis as well, so Nepal has an immense challenge to face. In this regard, all the stakeholders of AML-CFT regime need to work proactively for the successful completion of the upcoming mutual evaluation.

FIU-Nepal has initiated strategic analysis, and implementing goAML in the first stage to commercial banks and I hope the year 2019/20 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 community for their support to FIU-Nepal. I look forward to work 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 with effective implementation of National Strategy 2019-24 and other important tasks assigned to relevant agencies. At the end, I would like to thank all the FIU-Nepal staffs for their hard work and effort to fulfill the objectives set out during this year. Despite serious challenges, notably the shortages of staff, the staffs of FIU-Nepal have continued to work with dedication 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

NEPAL'S AML/CFT REGIME

1.1 Introduction

Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF), are the biggest 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 global AML/CFT Regime. Nepal is 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 on its core operational activities and take strategic step towards effectiveness of AML/CFT regime. However, there are lots of responsibilities and tasks to be performed, particularly in legal and operational sectors. Over the past decade, Nepal has made huge strides in strengthening international agreed controls

designed to combat money laundering worldwide. Though Nepal improved the country's AML/CFT measures which helped to take its place on the international financial stage, some gaps still exist in understanding the scope and value of AML/CFT measures.

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 successfully implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016. On the basis of Nepal's Self Evaluation Report 2018 and National Risk Assessment 2016, AML/CFT National Strategy and Action Plan (2019-2024) has been prepared for Combating Money Laundering and Financing of Terrorism and now entered in the implementation process.

1.3.2 Legal Measures

Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly in ALPA, 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 and other regulators have formulated and implemented off-site and on-site supervisory manuals so as to ensure the compliance of AML/CFT laws. The major policies and risk assessment related to AML/CFT of Nepal are:

- AML-CFT National Strategy and Action Plan (2019-2024)
- National Risk Assessment in 2016 and Self-Evaluation Report 2018 (both are now in process to update)

The legal instruments of Nepal for AML/CFT and ratified /acceded international conventions are presented in **Annex 1** and **2**.

1.4 International Cooperation

As per the FATF Recommendation, Recommendation No. 36-40 is associated with the international cooperation. As per FATF Recommendation No. 40, countries should ensure that their competent authorities can rapidly, constructively and effectively provide the widest range of international cooperation in relation to money laundering, associated predicate offences and terrorist financing. In this regard, Nepal has improved its AML/CFT regime for facilitating international cooperation. 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 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 those areas.

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 was updated in June 2019) to ensure that they remain up to date and relevant, and they are intended to be of universal application.

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 international standards against money laundering and the financing of terrorism/proliferation are contained in the Forty Recommendations of FATF.

a) FATF’s Forty Recommendations

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 FIU- Nepal, DMLI and other Regulatory Institutions for various sectors and Investigating Agencies for others. As a result, Nepal has been acquitted from the *Improving Global AML/CFT Compliance List* of FATF/ICRG from June 2014.

b) Immediate outcomes:

The main objective of implementing AML/CFT measures is to protect the financial systems and to protect economy from the threats of money laundering and the financing of terrorism and proliferation thereby strengthening financial sector integrity and contributing to safety and security. To achieve this objective, FATF has identified 11 Immediate Outcomes (IOs) which are stated in FATF Methodology that an effective AML/CFT framework should achieve. During its mutual evaluations, the FATF will assess the effectiveness of a country’s efforts against each of these 11 immediate outcomes. The extent to which a country implements the technical requirements of

each of the FATF Recommendations remains important; they are after all the building blocks for an effective framework to protect the financial system. But, adopting compliant laws and regulations is not sufficient. Each country must enforce these measures, and ensure that the operational, law enforcement and legal components of an AML/CFT system work together effectively to deliver results: the 11 immediate outcomes. During an assessment, the FATF will look for evidence that demonstrates how well all these components are working together in the context of the risks that the country is exposed to. The IOs are summarized in figure below:

1. Risk, Policy and Coordination	Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.
2. International Cooperation	International Cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.
3. Supervision	Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.
4. Preventive Measures	Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.
5. Legal persons and arrangements	Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.
6. Financial intelligence	Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.
7. Money laundering investigation and prosecution	Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.
8. Confiscation	Proceeds and instrumentalities of crime are confiscated.
9. Terrorist financing investigation and prosecution	Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.
10. Terrorist financing preventive measures and financial sanctions	Terrorist, terrorist organizations and terrorist financiers are prevented from raising, moving and using funds and from abusing the NPO sector.
11. Proliferation financial sanctions	Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

Source: APG

1.4.2 Nepal in Asia/Pacific Group on Money Laundering (APG)

APG is an inter-governmental organization, consisting of 41 member jurisdictions, focused on ensuring that its members effectively implement the international standards against money laundering, terrorist financing and proliferation financing related to weapons of mass destruction.

The APG has grown considerably since 1997 and is part of a global network of similar bodies, referred to as Financial Action Task Force-Style Regional Bodies (FSRBs) and is the largest in terms of membership numbers and geographical size. APG was officially established as an autonomous regional anti-money laundering body by unanimous agreement among 13 original founding members.

The APG has five primary functions:

- **Mutual evaluations:** The APG assesses the levels of compliance by its member jurisdictions with the global AML/CFT standards through a mutual evaluation (peer review) programme;
- **Technical assistance and training:** The APG Secretariat coordinates bi-lateral and donor-agency technical assistance and training in the Asia/Pacific region for its member jurisdictions in order to improve compliance with the global standards;
- **Typologies research:** Research and analysis into money laundering and terrorist financing methods and trends is a key function of the APG to assist policy and law makers as well as law enforcement agencies and the general public to identify and respond to new and emerging trends, methods, risks and vulnerabilities;
- **Global engagement:** The APG contributes to international AML/CFT policy development and actively engages with the global network of FSRBs. The APG also participates in a number of FATF working groups and in its plenary meetings; and
- **Private sector engagement:** Private sector engagement is critical to the APG's overall objectives. The APG actively engages with financial and non-financial institutions, NPOs, training centers and universities in the Asia-Pacific to better inform the general public and specialists about global issues relating to money laundering, terrorist financing and proliferation financing.

The APG also has a large number of observers (both jurisdictions and supporting organizations) that participate in its programs and activities. Some of the key international organizations that support the APG include the International Monetary Fund, World Bank, OECD, United Nations Office on Drugs and Crime, the UN's Counter Terrorism Executive Directorate, Asian Development Bank, Commonwealth Secretariat, INTERPOL and the Egmont Group of Financial Intelligence Units. The APG also assists its members to establish national coordination mechanisms to better utilize resources to combat money laundering and terrorist financing.

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. 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 2020-21.

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 building for the member countries. 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. FIU-Nepal had coordinated with other international organizations for their support to different sectors of Nepal.

IMF's Technical Assistance (TA) is funded by AML/CFT Topical Trust Fund (TTF). The IMF's AML/CFT technical assistance aims to improve AML/CFT regimes worldwide and to provide concrete support to the IMF's membership. 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 all stakeholders)
- FIU –Development of Operational Manual and Skill and capacity building (Two Missions and interactions)

IMF has substantially supported Nepal in developing National AML/CFT strategy, legal, supervisory and FIU capacity building frameworks. TA missions received by Nepal from IMF regarding AML-CFT are as follows:-

- a) Technical Assistance on Strengthening the AML/CFT Legal, Supervisory, and FIU Framework (October, 2016)
- b) Technical Assistance on Building an Effective Financial Intelligence Unit in Nepal Rastra Bank (July, 2012)
- c) Technical Assistance on Measures to Combat Money Laundering and the Financing of Terrorism: Strengthening the AML/CFT Supervisory Regime of the Nepal Rastra Bank (October 2012)
- d) Technical Assistance Report on Developing a National AML/CFT Strategy (June, 2011)

Also, the World Bank has technically assisted Nepal in conducting National ML/TF Risk Assessment 2016 which is Nepal's first AML/CFT National 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 recommend 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 164 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. 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 AML/CFT standards.

FIU-Nepal became the member of Egmont Group on June 10, 2015. 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. The Egmont Group recognizes sharing of financial intelligence is of paramount importance and has become the cornerstone of the international efforts to counter ML/TF. Financial Intelligence Units (FIUs) around the world are obliged by international AML/CFT standards to exchange information and engage in international cooperation. As an international financial intelligence forum, the Egmont Group both facilitates and prompts this amongst its member FIUs. As a member of the Egmont Group, the FIU 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.

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.

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 Office of the Prime Ministers and Council of Ministers and Implementation Committee headed by deputy governor of Nepal Rastra Bank.

1.5.1 Coordination at Policy Level

a) National Coordination Committee (NCC)

There is a provision of an Anti-Money Laundering National Coordination Committee (NCC) (called Coordination Committees in short) in ALPA, 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, Office of the Prime Minister and Council of Ministers	Coordinator
(b) Secretary, Ministry of Finance	Member
(c) Secretary, Ministry of Law, Justice and Parliamentary Affairs	Member
(d) Secretary, Ministry of Home Affairs	Member
(e) Secretary, Ministry of Foreign Affairs	Member
(f) Secretary, Commission for the Investigation of Abuse of Authority (CIAA)	Member
(g) Deputy Attorney General, Office of 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	Secretary

The committee has provision to call up to five persons (experts and other members) as invitees. As per ALPA, 2008 Section 8 A, the National Coordination Committee shall have 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,
 - a1) to coordinate in AML/CFT risk assessment and instruct the related agency for the management and mitigation of such risks,
- b) To implement or cause to implement the decision of the Government of Nepal taken for prevention of offences of ML/TF,
- c) 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,
- d) To instruct concerned agencies for prevention of offences of ML/TF and to monitor whether or not the instructions are complied with,
- e) To discuss the annual reports submitted by the concerned agency, Regulator and FIU and make due coordination,
- f) To perform or cause to perform other tasks in relation to prevention of offences of ML/TF, as prescribed by the Government of Nepal.

b) Implementation 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 extending 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, and technical committee and are concentrated on their core sectoral business. The Implementation committee, consisting of the following, has been provided with the obligation to carry out or cause to carry out national risk assessment and extend cooperation to

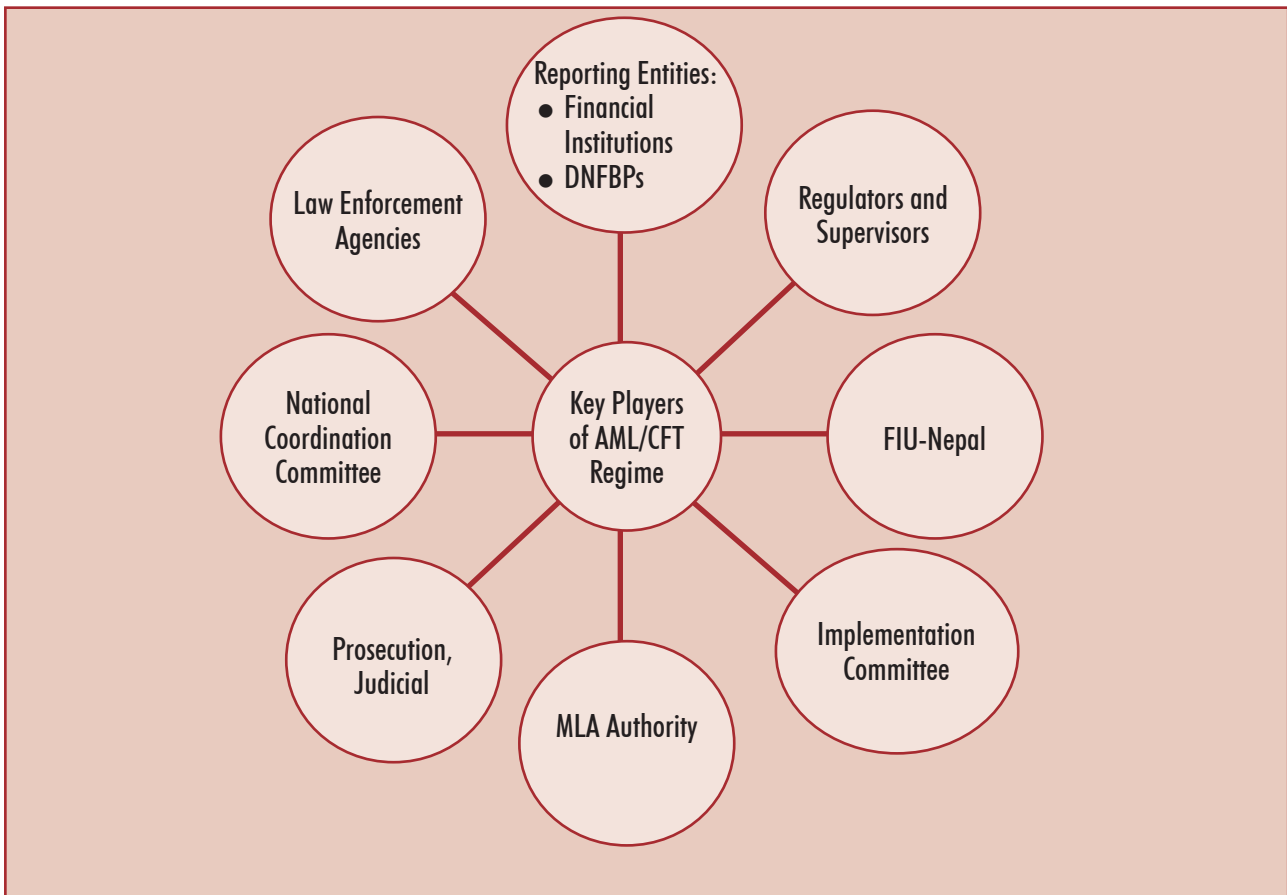
the functions of National Coordination Committee, under Rule 47(1) of Assets (Money) Laundering Prevention Rule, 2016:

(a) Deputy Governor, Rastra Bank	-Coordinator
(b) Chief, Department of Crime Investigation, Nepal Police Headquarters	-Member
(c) Additional Inspector General, Armed Police Force	-Member
(d) Joint Secretary, Office of the Prime Minister and Council of Ministers	-Member
(e) Joint Secretary, Ministry of Finance	-Member
(f) Joint Secretary, Ministry of Law, Justice and Parliamentary Affairs	-Member
(g) Joint Secretary, Ministry of Home Affairs	-Member
(h) Joint Secretary, Ministry of Foreign Affairs	-Member
(i) Joint Secretary, Ministry of Forest and Soil Conservation	-Member
(j) Joint Secretary, Commission for the Investigation of Abuse of Authority	-Member
(k) Chief, Department of Money Laundering Investigation	-Member
(l) Director General, Inland Revenue Department	-Member
(m) Director General, Department of Revenue Investigation	-Member
(n) Director General, Department of Customs	-Member
(o) Director General, Department of Immigration	-Member
(p) Director General, Department of Industry	-Member
(q) Registrar, Office of Company Registrar	-Member
(r) Registrar, Department of Cooperatives	-Member
(s) Deputy Chief, Department of Money Laundering Investigation	-Member
(t) Deputy Attorney General, Office of Attorney General	-Member
(u) Executive Director, Bank Supervision Department	-Member
(v) Executive Director, Insurance Board	-Member
(w) Executive Director, Securities Board of Nepal	-Member
(x) Chief, Central Investigation Bureau	-Member
(y) Chief, Financial Information Unit	-Member
(z) Under Secretary, Ministry of Finance	-Member Secretary

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.

Figure 1.1: Stakeholders in AML/CFT Regime



Source: FIU-Nepal

1.5.3 Key Players with Assigned Responsibility

Based on the current domestic legal regime of Nepal and revised FATF Recommendations, 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 is provided with the responsibility to meet the standards that are provided by FATF, ALPA and other Regulators. National Coordination Committee is the highest authority to advise the government with any kind of laws and policies required for AML/CFT regime. Likewise, DMLI is institutionalized to investigate the ML offences whereas; the reporting entities are obliged to follow the preventive measures which are under part D (9-23) of the FATF recommendations. The overview of major stakeholders is presented in **Chapter Two**.

OVERVIEW OF STAKEHOLDERS

2.1 Reporting Entities

As per Asset (Money) Laundering Prevention Act, 2008 "Reporting Entity" (RE) means Financial Institution and Designated Non-Financial Business and Profession (DNFBPs'). REs and their regulators are presented as follows:

S.N.	Institutions	Name of Regulators
a) Financial Institutions		
1.	Bank and Financial Institutions	Nepal Rastra Bank
2.	Money Remitter	Nepal Rastra Bank
3.	Money Changer	Nepal Rastra Bank
4.	Securities Companies	SEBON
5.	Insurance Companies	Insurance Board
6.	Co-operatives	Department of Co-operatives
7.	Approved Retirement Fund	Inland Revenue Department
8.	Non Bank Financial Institutions (Employee Provident Fund, Citizen Investment Trust, Postal Bank)	Nepal Rastra Bank
b) Designated Non-Financial Businesses and Professions (DNFBPs')		
1.	Real Estate Business/Agents	Department of Land Management and Archive
2.	Trust and Company Service Providers	Company Registrar's Office
3.	Casinos or Internet Casino Business	Ministry of Culture, Tourism and Civil Aviation
4.	Dealers in precious stones and metals	Inland Revenue Department
5.	Auditors and Accountants	Institute of Chartered Accountants of Nepal (ICAN)
6.	Notary Public	Notary Public Council
7.	Law Practitioners	Nepal Bar Council

REs are legally obliged to report TTRs and STRs to FIU-Nepal in a specified format as defined by regulators in consultation with FIU-Nepal. REs 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. "Office of the Government" means the Office of Land Revenue, Office of the Company Registrar and other offices as prescribed by the Government of Nepal.

2.2 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 as per their scope and jurisdiction:

a) Department of Money Laundering Investigation (DMLI):

The Government of Nepal established DMLI 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. ALPA 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 Special Bureau, Central Investigation Bureau, Narcotics Control Bureau and Nepal Police Canine Operation Division. Among various division/bureau of Nepal Police, Special Bureau investigates Terrorist Financing cases. The Central Investigation Bureau mainly investigates the cases of financial fraud special cases which falls under the predicate offence under ALPA mentioned in **FAQ No. 27** of this report. It investigates complex and profound nature crimes, as well as public concern cases. Narcotics Control Bureau investigates the cases related to drugs and Cyber Bureau investigates cases related to cyber crimes.

c) **Commission for the Investigation of 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 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 FY 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.

2.3 Regulators and Supervisors

ALPA, 2008 under Section 7T has provided the obligation to regulate, supervise and monitor the REs. 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. Different regulators and supervisors that are working in AML/CFT regime in Nepal are:

- a) **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.

- b) **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.
- c) **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.
- d) **Department of Cooperatives:** Pursuing its 'Regulation for co-cooperativeness' 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.
- e) **Ministry of Culture, Tourism and Civil Aviation:** The Ministry of Culture, Tourism and Civil Aviation is the governmental body for promoting tourism, culture and private sector involvement in Nepal. It also serves as the Nepalese aviation regulatory body. It is the regulator of the Casinos and Internet Casino Businesses in Nepal. It has recently issued the directives on AML/CFT for Casino Business.
- f) **Department of Land Management and Archive:** The Ministry of Land Management and Archive is the regulator of Real Estate Businesses in Nepal. It has the objective to collect revenue from land taxes and fees and develops robust and efficient land information system to automate land records and procedures.
- g) **Notary Public Council:** Nepal Notary Public Council is the regulator of Notary Public in Nepal. To distribute certificate to Notary Public and to monitor whether the works performed by the Notary Public is according to this Act or Code of Conduct framed by the Council are the functions of Notary Public Council.
- h) **The Institute of Chartered Accountants of Nepal (ICAN):** It is an autonomous body and is fully authorized by the Act to regulate accountancy profession in Nepal. ICAN is the regulator of Auditor and Accountant. It has the objective to play the role of regulatory body in order to encourage the members to carry on accounting profession being within the limit of the code of conduct laid down so as to make accounting profession transparent.

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- i) **Office of the Company Registrar:** The office of the Company Registrar is the regulator of Company and Trust. To get legal authority anyone must register the company in Company Register office of Nepal.
 - j) **Nepal Bar Council:** Nepal Bar Council is the regulator of the Law Practitioners. The main objectives of the Council are to promote, protect and regulate the activities of the law practitioners in a more professional manner. It discharges its duties and responsibilities in accordance with this Act and the rules and regulations framed there under in areas of internal Management, Financial Administration, Rules of Employees, code of Conduct for Lawyers, Curriculum for examination and conducting the examinations for law practice etc.

2.4 MLA Authority

The Mutual Legal Assistance Act, 2014 deals with the process and requirements of providing and obtaining legal assistance between Nepal and any other foreign country on certain legal matters. Section 5 of the MULA outlines the scope of legal assistance that the government of Nepal can seek from any foreign country or the foreign country can seek such assistance from the government of Nepal. The Government to Government agreement on Mutual Legal Assistance in Matters relating to Predicate Offences of Money Laundering and Terrorist Financing has been drafted by Ministry of Law, Justice and Parliamentary Affairs and it is in the process of final approval.

2.5 Prosecution/ Judicial

Under Section 22 (1) of ALPA 2008, the investigation on AML/CFT case is done by DMLI or After completion of the investigation process by DMLI, Investigating officer submit a dossier of evidence including his/her advice to the government attorney for the latter to decide whether to file the case or not. After receiving advice from concerned government attorney, the case if filed before the court as prescribed by the Government of Nepal.

The corruption related cases are investigated by CIAA itself where the case is prosecuted by Special Government Attorney and the case is filed in Special Court. The decision can be appealed in Supreme Court of Nepal. For the cases related to revenue leakages and evaded tax, the custom officer and tax officer have delegated authority to recover its penalty and retribution. And the appeal can be made to Revenue Tribunal.

FINANCIAL INFORMATION UNIT, NEPAL

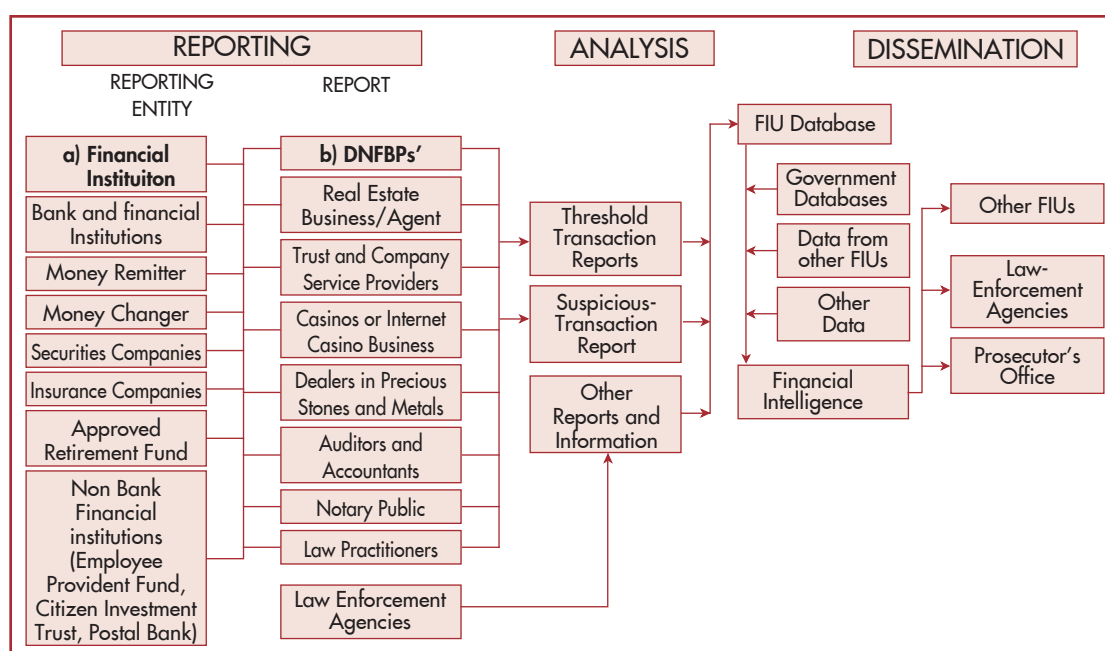
3.1 Introduction

Financial Information Unit of Nepal (FIU-Nepal), a functionally autonomous unit with its office within the premise 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. 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.

FIU-Nepal is concentrated on converting financial information related to suspicious transaction 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 TTRs\STRs from reporting entities, analyzing those reports and disseminating information to LEAs for further analysis.

The normal process of FIU function is best presented in the following Flow Chart.

Figure 3.1: Typical FIU Information and Functional Flow



Source: 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; and
- 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.

3.2 Core Functions of FIU- Nepal

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 TTRs
- To receive and analyze STRs
- 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 REs in coordination with regulator as per necessity so as to know whether REs have 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.

3.3 Key Performance Indicators of FIU-Nepal

There are various indicators which can contribute towards success of FIU. Those indicators and obtained 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 ineffective if each case already encompasses the analysis of many STRs or if the value added by the FIU often leads to successful prosecutions.

Success of FIU-Nepal is dependent on following Key Performance Indicators (KPI):

- STRs received in 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.
- Types and frequency of additional information requested with LEAs and with foreign FIUs
- 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;
 - REs 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 REs.
- Requests for assistance made or received by the FIU-Nepal from foreign FIUs, including whether the request was granted or refused.
- Time taken to respond to each request for assistance made to the foreign FIUs.
- Frequency and scope of guidance issued to REs (general and individual guidance) (if applicable).
- Response times of REs to requests for additional information.
- Frequency and scope of strategic analysis and its relevancy to other competent authorities and policymakers.
- Feedback received from law-enforcement agencies, regulator, judiciary, or other authorities and other AML/CFT Stakeholders.

3.4 Structure of FIU-Nepal

FIU-Nepal commenced its functions with few officials in 2008. The chart in **Annex 7** shows the organizational structure. There are altogether 23 staffs and 1 support staffs.

Table 3.1: Structure of FIU-Nepal

S.N.	Designation	Staff Requirement	Currently Working	Shortfall\Excess
1.	Director	1	1	-
2.	Dy. Director	4	3	(1)
3.	Dy. Director (IT)*	1	1	-
4.	Asst. Director	18	10	(8)
5.	Head Assistant	5	1	(4)
6.	Assistant	3	5	2
7.	Assistant (IT)*	2	2	-
8.	Deputy Assistant	1	-	(1)
9.	Subordinate Staff	2	1	(1)
	Total	37	24	(13)

*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. With the given number of reported STRs' unless FIU-Nepal advance to automation, completion of the job manually under the current human resource is difficult.

3.5 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-Nepal for deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution. The TTR limit for various BFIs and sectors are presented in Table 3.2. 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 analyst 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's specific criteria are:

- Reporting entities are required to file TTRs to FIU-Nepal 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 within a single day.
- 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 3.2: Designated Threshold across Industries/Agencies

S.N.	Industry	Threshold
1.	Bank and Financial Institutions	<ul style="list-style-type: none"> • Deposit or withdrawal of more than Rs. 1 million in one transaction or in a series of transactions in one day in single account. • Cross Border Electronic or other transfer of more than Rs. 1 million by a customer in single 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	Win or lose of more than Rs. 1 million by an individual 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: Different Regulators

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. Following table gives the numbers of TTRs and their trends for last five years.

Table 3.3: Numbers of TTRs Received from Reporting Entities

S.N.	Reporting Institutions	2071/72 (2014/15)	2072/73 (2015/16)	2073/74 (2016/17)	2074/75 (2017/18)	2075/76 (2018/19)
1.	BFI's	36,14,456	31,65,139	45,64,413	44,52,585	51,81,200
2.	Govt. Agencies	1,341	846	24,475*	9,596*	12,237
3.	Insurance companies	14,077	21,261	58,508	89,966	1,24,789
4.	Securities companies	15,896	9,075	60,961	34,783	33,912
5.	Others	3,353**	1,218**	5,213**	6,887**	12,811
	Total	36,49,123	31,97,539	47,13,570	45,93,817	53,64,949

Source: FIU-Nepal

*Including Reports from Cooperatives.

**Including Reports from Money Remitters and Changers

3.6 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 REs subject to the provision related ALPA, 2008. In many instances, STRs have been instrumental in enabling law enforcement to initiate or supplement major money laundering or terrorist financing investigations

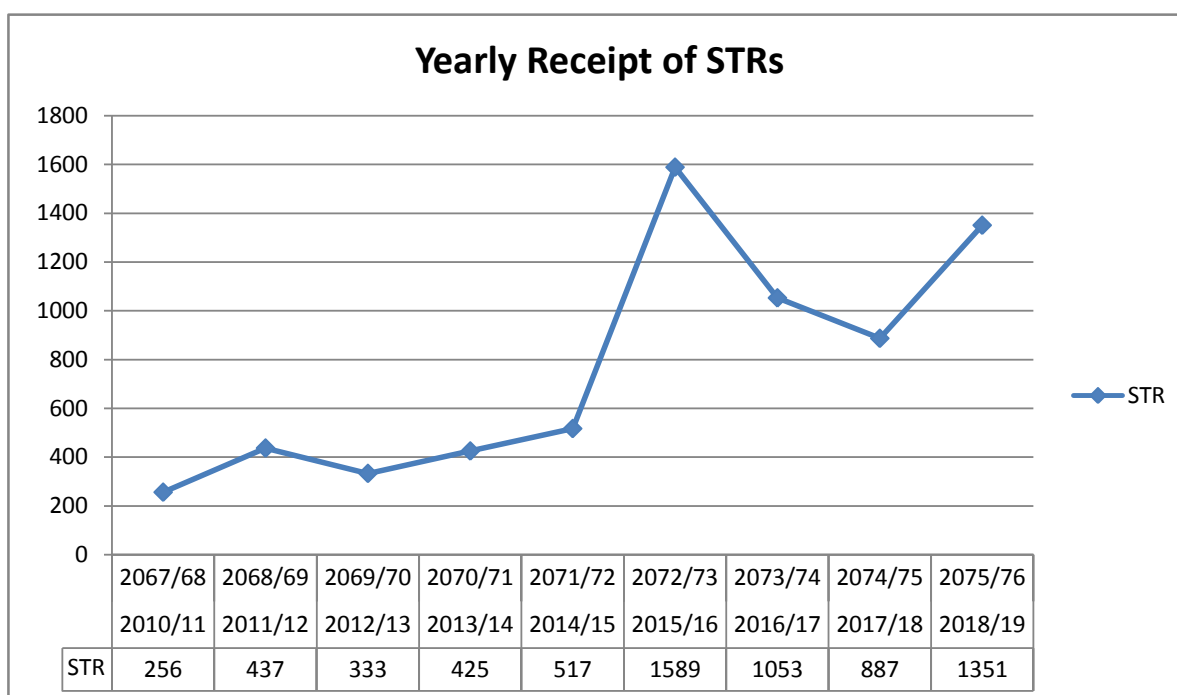
and other criminal cases. Information provided in STR forms also help FIU-Nepal for identifying emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions. Each STR must be filed within three days of the initial determination for the necessity of filing the report as per ALPA, 2008.

The report can start with any employee of REs; however, a reporting entity has to appoint a managerial level staff as a compliance officer to deal with FIU on matters relating to STRs as per ALPA, 2008. They are generally trained to be alert for suspicious activity and report it to FIU-Nepal or to any other LEAs. Nowadays, REs especially BFs are using various software which facilitates suspicious activity identification. STR is filed by REs as defined in **Chapter two (2.1)**.

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, STR and TTR guidelines have been made and issued exercising the power conferred by Section 10 (1) (h) of Assets (Money) Laundering Prevention Act, 2008. The General Characteristics of Suspicious Financial Transactions are:

- 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.

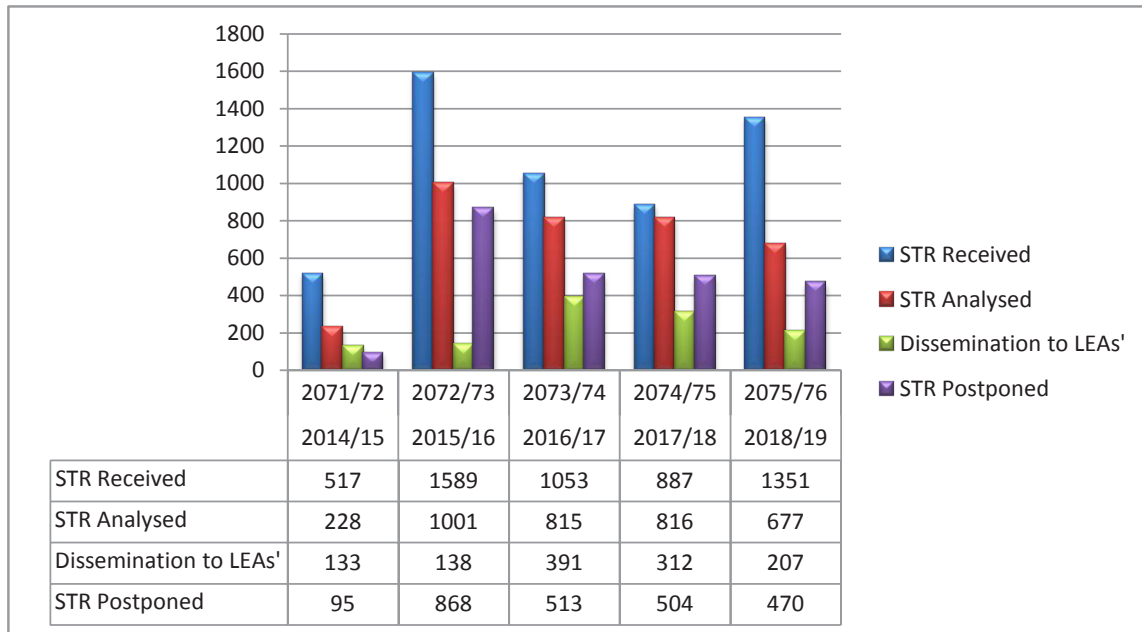
Chart 3.1: Trend Analysis of STRs'



Source: FIU-Nepal

The above chart shows the trend analysis of yearly receipt of STRs. The number of STRs increased in 2015/16 as the number of cross border IC withdrawals through ATM in India increased drastically. Now, it is gradually increasing along with the submission of quality STRs' from the reporting entities. FIU-Nepal had also instructed through different programs to cut down unwanted\insignificant STRs'. In 2018/19, the number of STRs received increased as FIU-Nepal conducted various programs targeting REs for the awareness, cooperation and submission of quality STRs.

Chart 3.2: Status of STRs'



The above statistics show that the numbers of STRs decreased in 2016/17, 2017/18 and increased in 2018/19. This year out of the analyzed STRs', 207 have been disseminated to different LEAs whereas 470 have been postponed for the time being due to lack of strong grounds and possibility of use in future. Furthermore, the STRs analyzed in one FY may contain the STR received in previous FY.

3.7 Analysis

Receiving reports, analyzing such reports and disseminating such analyzed reports after converting it to financial intelligence are the core functions of FIU-Nepal. It does analysis of submitted STR from reporting entities and asks 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 LEAs (as mentioned in Chapter Two- 2.2). When the analysis that has been conducted results in a reasonable suspicion that, money laundering, terrorist 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-Nepal regularly conducts operational analysis and just started doing strategic analysis.

- a) Operational analysis** is related with analysis of STRs/TTRs received at FIU-Nepal. It is concentrated on identifying specific targets (e.g. person, assets, 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). For operational analysis, FIU-Nepal has installed goAML software and it is in the implementation phase. Currently, FIU-Nepal analyses the received STR on manual basis.
- b) Strategic analysis** is conducted for identifying trends and practices of ML/TF and other financial crimes. It helps to determine money laundering and terrorist financing related threats and vulnerabilities. Furthermore, it helps to make policies and goals for FIU, or more broadly for other entities within the AML/CFT regime. FIU-Nepal has just started doing Strategic Analysis.

3.8 Dissemination

As specified in the ALPA 2008, FIU-Nepal is authorized to disseminate information about suspected money laundering or terrorism financing to LEAs as per their scope and jurisdiction. 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-Nepal 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-Nepal 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 LEAs like, DMLI, CIAA, Nepal Police, DRI, IRD 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 3.4: Dissemination Status of STRs

S.N.	Agencies	2071/72 (2014/15)	2072/73 (2015/16)	2073/74 (2016/17)	2074/75 (2017/18)	2075/76 (2018/19)
1.	DMLI	38	27	39	44	27
2.	CIB/Nepal Police	41	29	124	78	36
3.	DRI	56	80	174	144	107
4.	IRD	-	-	8	51	42
5.	CIAA	2	1	9	8	2
6.	Others	-	1	37	19	2
	Total	137	138	391	344	216*

Source: FIU-Nepal

*Note: One STR can be disseminated to more than one agency and single STR disseminated to two different LEAs' have been included in only both sections for the counting purpose. Total number of STR disseminated to LEA is 312 for 2017/18 & 207 for 2018/19.

3.9 NRB Strategic Plan

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 Information 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
 - Conduct study on AML/CFT National Risk Assessment (NRA).
 - 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. NRB 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

3.10 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 dependent 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 assist FIU to enhance its functional capacity.

3.11 Mutual Evaluation of Nepal

The FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations, providing an in-depth description and analysis of each country's system for preventing criminal abuse of the financial system. The details regarding Mutual Evaluation, its processes and consequences of low compliance are presented in **Annex (28-29)**.

Nepal was evaluated for the first time in 2005 based on FATF 40 plus 9 standards. Nepal was rated Non-Compliant (NC) on 34 recommendations, 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. 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.

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.

3.12 National Risk Assessment and Self Assessment

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. National Risk Assessment was one of the ten objectives of Nepal's National AML/CFT Strategy and Action Plan 2011-2016.

Nepal has taken necessary steps for minimizing risk learned during evaluation of money laundering and terrorism financing. In addition to this the Self Evaluation report (2018) has reflected macro and micro condition in the overall legal, institutional and implementation sector. Currently, both NRA and Self Assessment are under revision process.

The report of National Risk Evaluation, 2016 has identified the following risk areas:

- a) **High risk areas:** Corruption, tax evasion, human trafficking and transportation (including human trafficking on foreign employment) and smuggling and black marketing.
- b) **Moderate risk areas:** Transportation of narcotic drug, organized crime, forceful collection of donation, cheating, banking crime, money abuse, environmental crime, hostage and abduction, theft – burglary, illicit transportation of precious goods, counterfeit, forgery and insider trading.
- c) **Minimum risk areas:** Illicit trading of arms and ammunitions and terrorism.

DOMESTIC AND INTERNATIONAL COOPERATION

4.1 Domestic Cooperation

FATF recommendation-2 requires that the countries should ensure that policy-makers, the financial intelligence unit (FIU), law enforcement agencies, supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective mechanisms in place which enable them to cooperate, and, where appropriate, coordinate domestically with each other concerning the development and implementation of policies and activities to combat money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. FIU-Nepal holds regular meetings with the LEAs to discuss matters of common interest. If LEAs require the financial information regarding the nationals/institutions, they may ask to FIU-Nepal. FIU-Nepal collects the information from Bank and Financial Institutions and provides it to the LEAs. Also, FIU-Nepal receives the feedback from the LEAs. The data showing domestic cooperation for FY 2018/19 with LEAs is presented in Table 4.1:

Table 4.1: Domestic Cooperation

S.N.	LEAs	Total
1	Department of Money Laundering Investigation (DMLI)	25
2	Commission for the Investigation of Abuse of Authority (CIAA)	3
3	Nepal Police	9
4	Department of Revenue Investigation (DRI)	1
5	Inland Revenue Department (IRD)	3
6	Ministry of Defence (Nepal Government)	2
Total		43

Source: FIU-Nepal

*Note: This data does not include the STR disseminated to LEAs.

FIU has a challenge for having 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-Nepal 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 REs, LEAs and NCC.

4.1.1 Cooperation with Reporting Entities

Reporting Entities are the foundation of AML/CFT system and are the main information feeders and LEAs are end users of FIU products. FIU-Nepal maintains regular engagements with Reporting Entities. FIU-Nepal continued its focus to increase the awareness of REs about their reporting obligations, to cooperate with REs in building their capabilities to ensure better compliance in the AML/CFT issues.

4.1.2 Cooperation with Law Enforcement Agencies

FIU-Nepal has also developed close relationship with law enforcement agencies for strengthening AML/CFT regulations. FIU-Nepal holds regular meetings with these agencies to discuss matters of common interest. If LEAs require the information regarding the foreign nationals/institutions, they may ask to foreign FIUs through FIU-Nepal. FIU-Nepal sends the request to foreign FIU/FIUs by the Egmont Secure Web (ESW) and forwards the obtained information to LEAs. Also, FIU-Nepal receives the feedback from the LEAs.

4.1.3 Cooperation with Regulators and Supervisors

Regulators and supervisors are broadly responsible for examining the implementation of AML/CFT regime by 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. FIU-Nepal gives feedback on the guidelines issued by the regulators, for adherence to KYC, AML/CFT norms, address FIU's concerns. These guidelines/directives are also uploaded on the website of FIU-Nepal for quick reference.

4.1.4 National Coordination Committee (NCC)

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, the NCC has been formulated. The duties and composition of NCC is mentioned in **Chapter One (1.5.-a)**. FIU-Nepal as the Secretariat of NCC holds regular meetings with high-level authorities and government agencies to discuss matters related with AML/CFT. Similarly, FIU has other active roles in national policy and support on such activities. In FY 2018/19, the meetings of NCC were held for seven times. The major decisions of NCC in FY 2018/19 are as follows:

Box 4.1: Major Decisions of NCC

- Organize "APG's 21st Annual Meeting and Technical Assistance Forum" in Kathmandu.
- Revise and update "Asset (Money) Laundering Prevention Act, 2008" and change of Coordinator of National Coordination Committee from Secretary, Ministry of Finance to Secretary, Office of the Prime Minister and Council of Ministers.
- Formulation, drafting and approval of AML/CFT National Strategy and Action Plan (2019-24).
- Recommend the additional regulators of Financial Institutions and DNFBPs for issuing the AML/CFT directives.
- Organize the workshop on "Nepal's APG Mutual Evaluation Preparation" with the joint collaboration of FIU-Nepal and DMLI.
- Develop capacity and manage internal resources for National Risk Assessment, Self-Evaluation and Mutual Evaluation.

- Update acts\policies\guidelines related with company, foreign investment, bank regulation and supervision manual related to AML/CFT, beneficial owner, AML-CFT regulation and also focus on its implementation.
- Capacity Development of human resources 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 2020/21.
- Manage data, documents and formulate policies and act necessary for mutual evaluation.

4.1.5 Memorandum of Understanding (MOUs)

FIU-Nepal has entered into Memorandum of Understanding (MoUs) with partner agencies in order to provide a structural framework for enhanced cooperation and understanding. To enhance the pace of the on-going fight against Money Laundering and Terrorist Financing, FIU-Nepal has signed MoU with the Nepal Police- Central Investigation Bureau and Department of Money Laundering Investigation (DMLI). With this, FIU-Nepal continues its endeavor to sign MoU with other Law Enforcement Agencies.

4.2 International Cooperation

FIU-Nepal continued with its strategy to foster strong relationship with the FIUs of other countries. During the year, the level of exchange of information with foreign FIUs continued to be high. 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. FIU-Nepal also continued to actively participate and contribute in the activities of various regional and international bodies dealing with issues related to AML/CFT.

4.2.1 Asia/Pacific Group on Money Laundering (APG)

Nepal obtained membership of APG in 2002 and 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 successfully hosted 21st Annual Meeting of the APG at Kathmandu in July 2018.

4.2.2 Financial Action Task Force (FATF)

The revised International Standards on Combating Money Laundering and Financing of Terrorism and Proliferation issued by FATF seek to address new and emerging threats, clarify and strengthen many of the existing obligations, while maintaining the necessary stability and rigor in the Recommendations. FIU-Nepal has actively participated in the activities of the Financial Action Task Force (FATF). An officer from FIU-Nepal attended the training on FATF Standards in August, 2018 at Busan, South Korea.

4.2.3 Egmont Group of FIUs

The Egmont Group of FIUs aims to provide a forum for FIUs to improve understanding and awareness of issues and opportunities for enhancement of their capacities to develop intelligence to combat money laundering and terrorist financing. The Egmont Group promotes international cooperation and free exchange of information among all FIUs. Through the other Egmont Group

by the Egmont Secure Web (ESW) secure email network, 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. The FIU 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.

During the year, FIU-Nepal participated in the Egmont Group Plenary meeting held on Sydney, Australia in September, 2018. Also, officer from FIU-Nepal participated in Egmont Group Meeting held on Jakarta, Indonesia in January, 2019.

4.2.4 Memorandum of Understanding with Foreign FIUs

With a view to formalizing the nature and scope of mutual cooperation, FIU-Nepal initiated MoUs with several countries. Hence, for the purpose of exchanging information and enhancing international cooperation, FIU-Nepal has completed Memorandum of Understanding (MoU) with following counterparts:

Table 4.2: MOU Signed with Foreign FIUs

S.N.	FIU and Country	Year of Signing
1	Financial Intelligence Unit, Central Bank of Bangladesh	October 2008
2	Financial Intelligence Unit, Central Bank of Sri Lanka	July 2009
3	The Anti-Money Laundering Office (AMLO), The Kingdom of Thailand	July 2010
4	Financial Intelligence Unit, Bank Negara, Malaysia	July 2010
5	The Financial Information Unit, The Bank of Mongolia	July 2010
6	The Anti Money Laundering Division, Investigation Bureau, Ministry of Justice, Republic of China	March 2011
7	Korea Financial Intelligence Unit, Financial Services Commission, Republic of Korea	May 2011
8	Financial Intelligence Unit, India	November 2011
9	The Japan Financial Intelligence Center of the National Public Safety Commission of Japan	November 2013
10	Financial Intelligence Unit, The Republic of the Union of Myanmar.	July 2014
11	Anti-Money Laundering Monitoring and Analysis Centre, China	December 2014
12	The Suspicious Transaction Reporting Office, Singapore	September 2016
13	New Zealand Police Financial Intelligence Unit	July 2017
14	Cambodia Financial Intelligence Unit	July 2017

Source: FIU-Nepal

FIU-Nepal does not require MoU with foreign FIUs for exchange of information, and can exchange information on the basis of reciprocity. However, in order to enhance the level of co-operation and to provide a structured framework for better understanding, FIU-Nepal continued signing MoU with various foreign FIUs. Currently, FIU-Nepal is in consultation with FIU-Timor-Leste, FIU-Pakistan and FIU Bhutan for signing of MOU.

4.2.5 Cooperation and Exchange of Information with Foreign FIUs

FIU-Nepal adheres to the Egmont principles on exchange of information. All requests for information are replied to, in time, including cases where no information could be found. The statistical information regarding the number of cases in which request were made by FIU-Nepal to other foreign FIUs and the number of cases where FIU-Nepal received requests from foreign FIUs is in table 4.3.

Table 4.3: Information Exchange with Foreign FIUs

Year (In AD) \ Status of Action Taken	Requests received from foreign FIUs	Requests sent to foreign FIUs	Spontaneous disclosures from foreign FIUs	Spontaneous disclosures made to foreign FIUs
2009/10	-	1	-	-
2010/11	-	3	-	-
2011/12	-	4	-	-
2012/13	-	2	-	1
2013/14	-	-	1	1
2014/15	-	-	1	1
2015/16	10	3	-	-
2016/17	11	12	-	1
2017/18	12	11	1	1
2018/19	20	16	13	5

Source: FIU-Nepal

Table 4.3 shows that after the establishment of FIU-Nepal, it has been proactively participating in the Information Exchange in order to combat money laundering and financing of terrorism. Before the membership in Egmont Group of FIUs, FIU-Nepal exchanged the information with foreign counterparts through MoUs. FIU-Nepal became the member of Egmont Group of FIUs on June 10, 2015 and frequency of information exchange has been increased thereafter. Compared to previous years, the frequency of information exchange has been increased in FY 2018/19. The detail of dissemination from Nepal and request to Nepal with respect to concerned country for FY 2015/16 to 2018/19 is presented in **Annex 6**.

CAPACITY BUILDING

5.1 Introduction

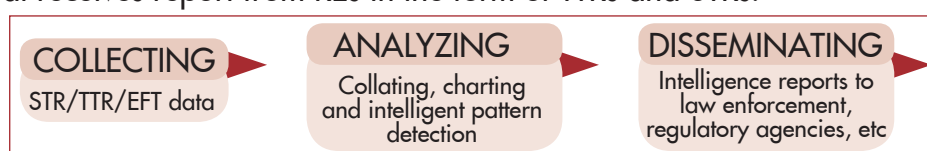
Capacity of the agencies entrusted with AML/CFT responsibilities is the most essential to achieve the objective of AML/CFT measures effectively. Strong organizational capacity and individual's skills are must for the effective implementation of AML/CFT regime. Competency should be enhanced with due consideration 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.

5.2 Automation of FIU-Nepal

FIU-Nepal is in the process of implementing goAML software developed by United Nations Office on Drugs and Crime (UNODC) in the Banks and Financial Institutions in the first phase. It will help for online receipt of STRs and TTRs from the REs 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 analysis. However, it is the foremost need of FIU -Nepal to make development of technical and analytical skills of FIU staffs to carry out analysis through goAML. 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-Nepal, financial institutions law enforcement and judicial authorities, while ensuring confidentiality of the data collected.

The FIU-Nepal receives report from REs in the form of TTRs and STRs.



Source: UNODC

a) Features of goAML

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

Figure 5.1- Features of goAML



Source: UNODC

Box: 5.1: Introduction to goAML

In order to automate the business process of FIU-Nepal, Nepal Rastra Bank Board on 12 December 2012 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, 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, Nepal Rastra Bank and UNODC signed the Service level Agreement (SLA) for the implementation of goAML Software in FIU-Nepal. Since there are numerous groups of reporting entities, phase-wise implementation plan has been devised for the effective and successful implementation of goAML system. In the first phase, it is planned to be implemented in Commercial Banks in FY 2019/20. Once it is successful, goAML will be subsequently implemented in Development Banks and Finance companies in the next phase. Gradually other

Reporting Entities would also be incorporated in goAML as per National AML-CFT Strategy.

A four-member “goAML Software Implementation Team” was formed on 14 August 2014 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 into 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 and was completed on 26 August 2014 with the combined effort of goAML Implementation Team and team from 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 and re-tender starting from 30 March 2013 to 2 December 2016 - 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 FY 2016/17 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

Data Centre Site in Singhadurbar, Kathmandu.

Currently, the Class A Banks are submitting TTRs and STRs on goAML Test Environment and have largely improved on the report quality since past year. As soon as they meet the data requirement and continue submitting reports correctly and consistently in the Test Environment, they will be migrated to the Production Environment. Similarly Class B and C BFI's have started registration and Test reporting in the goAML as provisioned in the directive and goAML Team would develop a plan to assist them for property reporting TTRs and STRs in goAML. Different interaction programs and meeting with the REs and concerned stakeholders were held during this period to emphasize on best reporting practices and the issues related with goAML and some interaction programs will be organized this year as well.

Source: FIU-Nepal

b) Major challenges faced during implementation of goAML:

- Lack of necessary data with the banks (lack of updated KYC related documents)
- Lack of digitized data with the banks (documents stored as scanned copy)
- Lack of necessary data fields in CBS as per data requirement in goAML
- Challenges in updating KYC related documents of clients and digitizing data
- Challenges in developing middleware for generating XML files as per goAML schema
- Challenges in mapping available data from CBS to goAML XML file format
- Lack of comprehensive goAML related training to FIU staffs
- Lack of dedicated team in FIU-Nepal for goAML implementation (high turnover of FIU staffs)
- Frequent issues faced in goAML system hardware and software due to power failure, physical migration of hardware etc causing unprecedented downtime of goAML system

c) Reporting statistics of the Class "A" Banks in goAML:

FIU-Nepal enforced the parallel submission of the manually reported STRs and TTRs in the goAML Test Environment in the FY 2018/19, there were total of 670 STRs and 307, 143 TTRs successfully reported in the goAML test environment by Class "A" Banks. The table below illustrates the reporting statistics of the Class "A" banks in FY 2018/19:

Table: 5.1- Status of TTRs\STRs reported in goAML

Month/Year	STR		TTR	
	Success	Failed	Success	Failed
FY 2018/19				
July, 2018	18	16	258	92
August, 2018	25	8	166	155
September, 2018	10	1	134	99
October, 2018	6	2	180	180
November, 2018	14	7	835	82

Month/Year	STR		TTR	
	Success	Failed	Success	Failed
December, 2018	45	8	4,743	159
January, 2019	69	4	19,140	1,692
February, 2019	64	10	30,563	1,434
March, 2019	138	14	42,023	2,069
April, 2019	80	4	47,698	2,806
May, 2019	81	7	57,753	2,824
June, 2019	75	5	77,194	2,908
Total	670	91	307,143	14,980

Source: FIU-Nepal

d) Ongoing Activities and Future Plan:

The live reporting date in goAML production environment is specified in the unified directive which has made it mandatory for the Class A banks to completely report the STRs and TTRs in the goAML production environment starting from the 3rd quarter of FY 2019/20 (January 15, 2020) and Class "B" and Class "C" financial institutions after the end of FY 2019/20.

Before beginning the reporting in the goAML production environment, it is crucial that both FIU-Nepal and the BFI's ensure the data quality of the submitted reports and the reports are complete, consistent and correctly structured. In the absence of this, the goAML database would be cluttered with garbage data which may mislead in analysis process and render the goAML system unstable and useless.

FIU-Nepal has provided necessary documents and guideline and has been instructing and providing necessary support to the BFI's continuously for preparing them to be ready for reporting in the specified date in the goAML production environment. It is expected that most of the Class "A" BFIs will be ready for live reporting in mentioned date upon observing the trend and improvements in the report quality they have been submitting in the test environment recently. Also regular support and instruction would be provided to the Class "B" and Class "C" financial institutions for preparing them to report in the production environment in the specified date.

5.3 FIU with Reporting Entities

The success of an FIU-Nepal depends largely on the ability of REs in effectively identifying and reporting transactions. 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 and to increase the quality of STR/TTR. 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-Nepal and answers their queries (feedback). 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.

5.4 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.

5.5 FIU with LEAs and 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.

5.6 Domestic Trainings, Seminars and Workshops

For raising awareness and capacity building of various stakeholders, FIU-Nepal organizes various trainings, seminars and workshops. FIU-Nepal has conducted following training and development program in FY 2018/19, under the annual program of FIU Nepal.

Table 5.2- Trainings\Workshops\Interaction Programs Organized by FIU-Nepal

S.N.	Training Detail	Place	Date	Participant Detail
1.	AML/CFT and effective implementation of goAML system for Finance companies.	Kathmandu	9 August, 2018	IT Officer and related officers
2.	AML/CFT and effective implementation of goAML system for A Class Commercial Banks.	Kathmandu	7 January, 2019	IT Officer and related officers
3.	Training on 'goAML Application Software'.	Kathmandu	4-7 February, 2019	Staffs from FIU-Nepal
4.	APG Technical Assistance and Mentorship Program for Combating Corruption	Kathmandu	18-22 February, 2019	FIU-Nepal, CIAA, Nepal Police
5.	Interaction program on 'AML/CFT and effective implementation of goAML system' for A, B and C Class Banks And Financial Institutions.	Kathmandu	3 March, 2019	CEO of BFIs
6.	Interaction program on AML/CFT.	Kathmandu	8 April, 2019	LEAs, REs and other Regulatory and Supervisory Agencies.

S.N.	Training Detail	Place	Date	Participant Detail
7.	AML/CFT and effective implementation of goAML system for B Class Banks	Kathmandu	30 May, 2019	Compliance and IT Officers of B Class Banks
8.	goAML Interaction Program for A Class Commercial Banks	Kathmandu	10 June, 2019	Compliance and IT Officers
9.	APG Technical Assistance (Mentorship) Program for the Government of Nepal for Fighting against Corruption	Kathmandu	24-28 June, 2019	FIU-Nepal, DMLI, CIAA, OAG, DRI, CIB and others
10.	Nepal's APG Mutual Evaluation Preparation Workshop- Facilitated by APG (Jointly organized with DMLI)	Kathmandu	4-5 July, 2019	NCC Member, government agencies, LEAs, Prosecutors, Regulators and Supervisors

Source: FIU Nepal

During the year, FIU-Nepal participated in 12 different Trainings\Workshops\Seminars which is presented in Table 5.3.

Table 5.3: Trainings\Workshops\Seminars Participated by FIU-Nepal (Domestic)

S.N.	Training\Workshop\ Seminar Details	Place	Date	Organizer	Number of Participant
1.	APG 21 st Plenary Meeting	Kathmandu	21-27 July, 2018	Government of Nepal	Deputy Director-3 Assistant Director-1
2.	Management Development Program	Kathmandu	19-24 August, 2018	NRB	Assistant Director-1
3.	AML/CFT: Supervisory Perspective	Kathmandu	17-18 September, 2018	NRB	Assistant Director-2
4.	Workshop on Countering the Financing of Terrorism and the Proliferation of Weapons of Mass Destruction (WMDs)	Kathmandu	25-26 October, 2018	Nepal Government and UNODC	Deputy Director-1 Assistant Director-1
5.	Training on Financial Crimes	Kathmandu	4-6 November, 2018	Embassy of the United States of America	Deputy Director-1 Assistant Director-5 Head Assisnant-1 Assistant (IT)-1
6.	Knowledge Partnership Program- Payment and Settlement Development System	Kathmandu	18 November, 2018	Bank of Korea	Director-1

S.N.	Training\Workshop\ Seminar Details	Place	Date	Organizer	Number of Participant
7.	10 th Meeting of BIMSTEC Sub-Group on Anti-Money Laundering and Combating the Financing of Terrorism	Kathmandu	19-20 November, 2018	MOHA	Director-1
8.	Biological Weapons Convention (BWC): Awareness Raising Workshop	Kathmandu	8-9 January, 2019	UNODC	Assistant Director-1
9.	Interaction Program on Work Plan, Budget and Risk Management	Birgunj	10-11 January, 2019	NRB	Assistant Director-1
10.	Interaction program on AML/CFT National Strategy and Action Plan (2019-24)	Kathmandu	17 January, 2019	MOFA	Director-1 Deputy Director-1 Assistant Director-1
11.	Program on 'Compliance and Treasury'	Kathmandu	12 May, 2019	Mashreq Bank	Assistant Director-1
12.	Behavioral Science for Middle Level Officers	Kathmandu	19-20 June, 2019	NRB	Deputy Director-1

Source: FIU-Nepal

5.7 International Trainings

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. The details of various Training\Workshop\Seminar participated by officers of FIU-Nepal is in Table 5.4.

Table 5.4: Trainings\Workshops\Seminars Participated By FIU-Nepal (International)

S.N.	Training\Workshop\ Seminar Details	Place	Date	Organizer	Number of Participant
1.	APG Assessor Training Workshop	Kuala Lumpur, Malaysia	13-17 August, 2018	APG	Director-1
2.	FATF Standards Training Course	Busan, South Korea	3-7 September, 2018	FATF	Assistant Director-1
3.	APG Regional pre-ME Workshop	Seoul, South Korea	3-5 September, 2018	Korea FIU	Deputy Director-1
4.	Workshop on Corruption and Financial Investigation	Bangkok, Thailand	24-26 September, 2018	UNODC	Assistant Director-1

S.N.	Training\Workshop \Seminar Details	Place	Date	Organizer	Number of Participant
5.	Egmont Group Plenary Meeting	Sydney, Australia	23-27 September, 2018	Egmont Group	Director-1 Assistant Director-1
6.	Egmont Group Meeting 2019	Jakarta, Indonesia	29-31 January, 2019	Egmont Group	Assistant Director-1
7.	APG Assessor Training	Auckland, New Zealand	11-15 March, 2019	APG	Deputy Director-2
8.	Machine Learning, Artificial Intelligence and Big Data- The Perspective of central banks	Frankfurt, Germany	3-5 April, 2019	Deutsche Bundesbank	Deputy Director(IT) -1

Source: FIU-Nepal

Various international trainings, workshop and seminars contributed for capacity building of FIU-Nepal's staffs. During the year, officers from FIU-Nepal participated in eight different international Trainings\Workshops\Seminars.

OPPORTUNITIES AND CHALLENGES

6.1 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 has made significant 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 effectiveness assessment, it demands not only implementation and outputs but also visible outcomes along with cooperation and coordination among AML/CFT stakeholders. 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.

6.2 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 also focuses

on national AML/CFT policy formulation and implementation. In this context, following few points appear as the major challenges that FIU-Nepal is facing:

- To make Information Technology (goAML) system fully operational in all REs,
- To create intensive awareness among REs on STR and reporting system,
- To maintain inter-agency coordination and cooperation in policy and operational levels,
- To exchange national and international help in prevention of financial crime and make coordination among all AML/CFT stakeholders effective,
- To bring informal areas into formal areas of economy, encourage electrical transaction and discourage cash transaction,
- To enhance skills and capacity of FIU-Nepal officials and other related stakeholders regarding goAML software and AML/CFT recent issues,
- To enhance skills and capacity of FIU officials for STR/TTR Analysis,
- To assist in national policy formation and implementation,
- To prepare for upcoming Mutual Evaluation Process.

6.3 Way Ahead

FIU-Nepal can expand and systematize international cooperation in the reciprocal exchange of information and increase the effectiveness by offering trainings and promoting personnel exchanges. It helps to improve the expertise and capabilities of the staffs of FIU-Nepal in combating money laundering, terrorist financing and proliferation financing. Furthermore, it is hoped that the membership of Nepal with international agencies like APG, Egmont etc will help Nepal in exchange of information, technical support and improving AML/CFT regime. FIU-Nepal will put increased focus on its core functions of receiving, analysing and disseminating the financial information (STRs/TTRs) and make all possible efforts to maintain coordination and cooperation for achieving its objectives and assisting supervisors, LEAs, prosecutors and judicial authorities for their contribution to overall ML/TF system. It is the foremost need of FIU-Nepal to make development of analytical skills compatible to goAML. Ultimately, the AML/CFT regime and its effectiveness should be strengthened in the country.

ANNEXES

Annex 1: Legal Instruments Against ML/TF

Annex 2: Ratified/Acceded International Conventions

Annex 3: List of Regulators for AML\CFT Prevention

Annex 4: Regulatory/Supervisory Instruments

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

Annex 6: Nepal's Dissemination and Request to Nepal for FY 2015/16 to 2018/19

Annex 7: Organization Chart of FIU-Nepal

Annex 1: Legal Instruments against ML/TF

S.N.	Instruments
1.	<ul style="list-style-type: none">• FATF revised 40 recommendations- updated in June 2019• FATF assessment methodology 2013
2.	Assets (Money) Laundering Prevention Act, 2064 (2008) <ul style="list-style-type: none">• 4th amendment in 3 March, 2019 (2075/11/19 BS)
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.	Corruption Act 2002 (last updated on January 21, 2010)
10.	UNSCRs Rules, 2013
11.	Mutual Legal Assistance Rules, 2014

Source: FIU-Nepal

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

Annex 3: List of Regulators for AML\CFT Prevention

S.N.	Institutions	Name of Regulator
1.	Bank and Financial Institutions under BAFIA Money remittance / transferring agencies Money Changers Payment service providers Employee Provident Fund Citizen Investment Trust Postal Saving Bank Public Debt Securities Other authorities licensed by Nepal Rastra Bank	Nepal Rastra Bank
2.	Insurance Company	Insurance Board
3.	Capital Market (including brokers) Merchant Banks Credit Rating Agency Listed Securities Companies CDS and Clearing Commodity Clearance and Settlement House Warehouse exchange	Securities Board of Nepal (SEBON)
4.	Approved Retirement Fund Precious metals, ornaments and object business	Inland Revenue Department
5.	Casino and Internet Casino Business	Ministry of Culture, Tourism and Civil Aviation
6.	Real Estate Business	Department of Land Management and Archive
7.	<ul style="list-style-type: none"> • Notary Public • Auditor • Accountant • Other Business As per Asset (Money) Laundering Prevention Act, 2008. Organization who is working for others.	<ul style="list-style-type: none"> • Notary Public Council • Institute of Chartered Accountants of Nepal (ICAN) • Licensing Authority
8.	Company and Trust Service Provider	Company Registrar Office
9.	Law Practitioners	Nepal Bar Council
10.	Co-operatives	Department of Co-operatives

Source: FIU-Nepal

Annex 4: Regulatory/Supervisory Instruments

S.N.	Directives	Issuing Authority
1.	NRB Unified Directives to Bank and Financial Institutions, 2075 (2018)	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	Beema Samiti
6.	Cooperatives	Department of Cooperatives
7.	Suspicious Transaction Reporting Guidelines	FIU- Nepal
8.	Threshold Transaction Reporting Guidelines	FIU- Nepal
9.	Others	Issued by regulators mentioned in Annex 3

Source: FIU-Nepal

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
19.	Higher-risk countries	<ul style="list-style-type: none"> • Regulator/s
20.	Reporting of suspicious transactions	<ul style="list-style-type: none"> • Regulator/s
21.	Tipping-off and confidentiality	<ul style="list-style-type: none"> • Regulator/s
22.	DNFBPs: Customer due diligence	<ul style="list-style-type: none"> • Regulator/s
23.	DNFBPs: Other measures	<ul style="list-style-type: none"> • Regulator/s

Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
24.	Transparency and beneficial ownership of legal persons	<ul style="list-style-type: none"> • Legal Person Registrars ++ • Regulator/s
25.	Transparency and beneficial ownership of legal arrangements	<ul style="list-style-type: none"> • Legal Person Registrars ++ • Regulator/s
26.	Regulation and supervision of financial institutions	<ul style="list-style-type: none"> • Regulator/s
27.	Powers of supervisors	<ul style="list-style-type: none"> • Regulator/s
28.	Regulation and supervision of DNFBPs	<ul style="list-style-type: none"> • Regulator/s
29.	Financial intelligence units	<ul style="list-style-type: none"> • FIU
30.	Responsibilities of law enforcement and investigative authorities	<ul style="list-style-type: none"> • DMLI • Nepal Police • DRI • CIAA
31.	Powers of law enforcement and investigative authorities	<ul style="list-style-type: none"> • DMLI • Nepal Police • DRI • CIAA
32.	Cash couriers	<ul style="list-style-type: none"> • Customs • Regulator/s • FIU
33.	Statistics	Common
34.	Guidance and feedback	<ul style="list-style-type: none"> • Regulator/s • FIU • LEAs • Res
35.	Sanctions	<ul style="list-style-type: none"> • Court • Confiscated Assets Management Department
36.	International instruments	<ul style="list-style-type: none"> • MOFA • MOJ
37.	Mutual legal assistance	<ul style="list-style-type: none"> • MOJ • Attorney General • Court
38.	Mutual legal assistance: freezing and confiscation	<ul style="list-style-type: none"> • MOJ • 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

Annex 6: Nepal's Dissemination and Request to Nepal for FY 2015/16 to 2018/19

Nepal's Dissemination for FY 2018/19 (Sent Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	France	1	0	1
2	Singapore	1	0	1
3	UAE	1	1	2
4	Japan	1	1	2
5	UAE	1	0	1
6	Ireland	1	1	2
7	Australia	1	1	2
8	United Kingdom	1	0	1
9	USA	1	0	1
10	Cyprus	1	0	1
11	British Virgin Island	1	0	1
12	Egypt	1	0	1
13	Belarus	1	0	1
14	United Kingdom	1	0	1
15	Mauritius	1	1	2
16	Bermuda	1	0	1
Total		16	5	21

Request to Nepal for FY 2018/19 (Received Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	New Zealand	3	0	3
2	UK FIU (Spontaneous)	0	4	4
3	Luxemberg	1	1	2
4	Germany	1	1	2
5	Ghana (Spontaneous)	0	2	2
6	Russia (Spontaneous)	0	1	1
7	CAYMEN Island	3	0	3
8	CYPRUS	1	0	1
9	UAE	2	1	3
10	Japan	2	0	2

S.N.	Country	Request		
		Reply	Spontaneous	Total
11	Guernsey	1	1	2
12	Syria (Spontaneous)	0	1	1
13	FinCen (USA)	1	1	2
14	Paraguay	1	0	1
15	Senegal	1	0	1
16	Taiwan	1	0	1
17	Netherland	1	0	1
18	Bangladesh	1	0	1
Total		20	13	33

* FIU-Nepal replied all information request

Nepal's Dissemination for FY 2017/18 (Sent Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	CAMLAMC, PBC, China	1	0	1
2	Japan ,JAFIC	1	0	1
3	Germany, FIU	1	0	1
4	USA-FinCEN	1	0	1
5	JFIU, Hongkong	2	0	2
6	UPWBNM, Malaysia	1	0	1
7	United Kingdom	1	0	1
8	Singapore	1	0	1
9	Singapore	1	0	1
10	UAE	1	0	1
11	Luxembourg	0	1	1
Total		11	1	12

Request to Nepal for FY 2017/18 (Received Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	Philippines, AMLC	1	0	1
2	Syrian Arab,CMLC	2	0	2
3	USA, FinCEN,FBI	1	0	1
4	Netherlands	1	0	1
5	Cyprus, MOKAS	1	0	1
6	Latvia, OPLPDCA	0	1	0

S.N.	Country	Request		
		Reply	Spontaneous	Total
7	Bangladesh, BFIU	2	0	2
8	Cayman Island	1	0	1
9	Netherland	2	0	2
10	Luxembourg	1	0	1
Total		12	1	13

* FIU-Nepal replied all information request in FY 2017/18 except Luxembourg

Nepal's Dissemination for FY 2016/17 (Sent Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	Latvia	1	0	1
2	Panama	1	0	1
3	Bulgaria	1	0	1
4	Portugal	1	0	1
5	Belarus	1	0	1
6	British Virgin Islands	1	0	1
7	Meedonia	1	0	1
8	Uzbekistan	1	0	1
9	Austria	1	0	1
10	Serbia	1	0	1
11	United Kingdom	1	0	1
12	United States of America	1	0	1
13	Egmont Group (All Members)	0	1	1
Total		12	1	13

Request to Nepal for FY 2016/17 (Received Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	United States of America	1	0	1
2	Cayman Island	1	0	1
3	Taiwan	1	0	1
4	Turkey	1	0	1
5	India	1	0	1
6	Samoa	1	0	1

S.N.	Country	Request		
		Reply	Spontaneous	Total
7	Japan	1	0	1
8	Bangladesh	1	0	1
9	Philippines	1	0	1
10	Latvia	1	0	1
11	Kazakhstan	1	0	1
Total		11	0	11

* FIU-Nepal replied all information request

Nepal's Dissemination/Reply for FY 2015/16 (Sent Information Request)

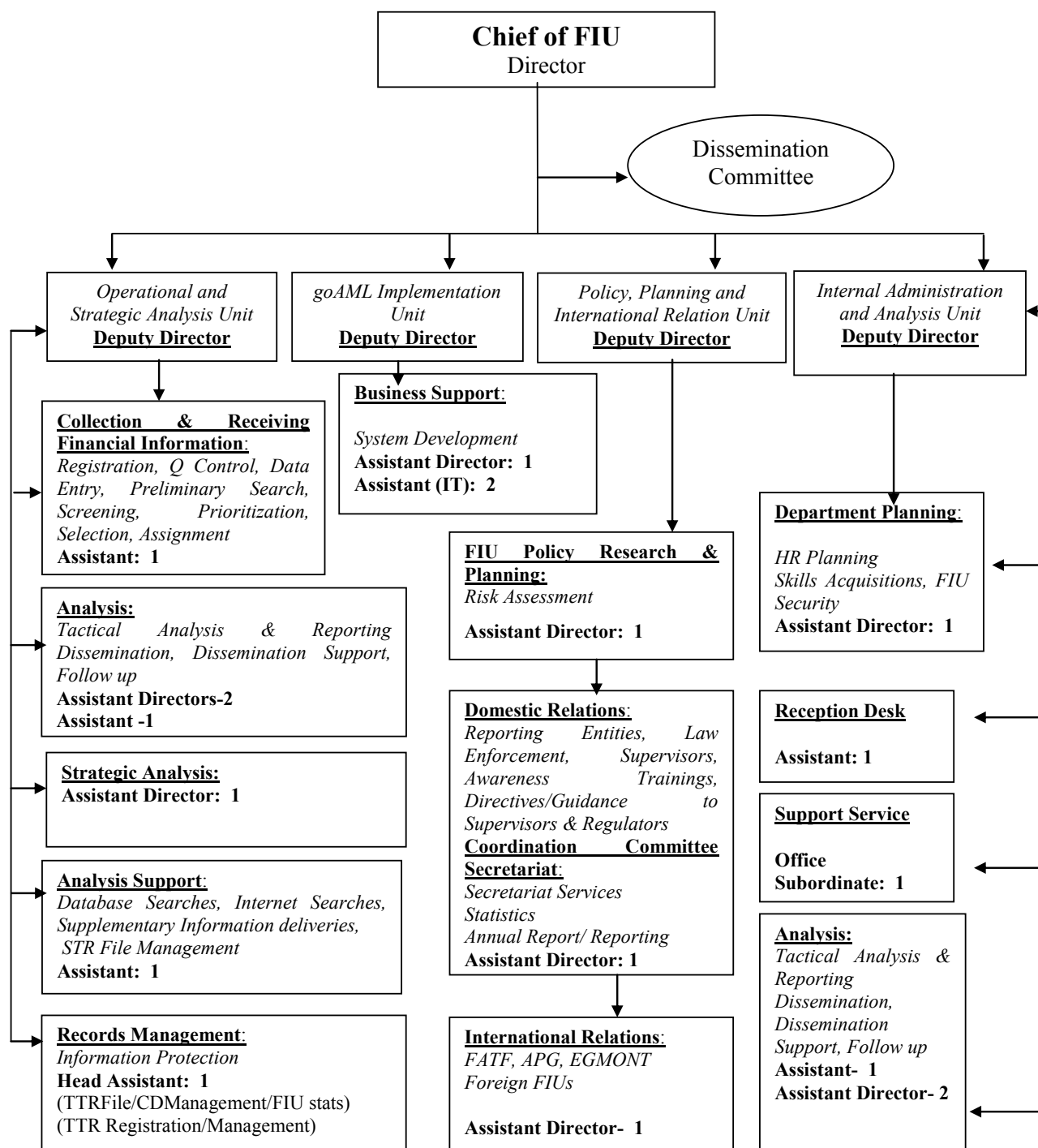
S.N.	Country	Request		
		Reply	Spontaneous	Total
1	USA	1	0	1
2	Taiwan	1	0	1
3	Cayman Islands	1	0	1
Total		3	0	3

Request to Nepal for FY 2015/16 (Received Information Request)

S.N.	Country	Request		
		Reply	Spontaneous	Total
1	USA	1	0	1
2	Taiwan	1	0	1
3	Cayman Islands	1	0	1
4	Turkey	1	0	1
5	India	1	0	1
6	Samoa	1	0	1
7	Kazakhstan	1	0	1
8	Japan	1	0	1
9	Bangladesh	1	0	1
10	Philippines	1	0	1
Total		10	0	10

* FIU-Nepal replied all information request

Annex 7: Organization Chart of FIU-Nepal



Source: FIU-Nepal

FREQUENTLY ASKED QUESTIONS (FAQs)

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

1. What is Money Laundering?

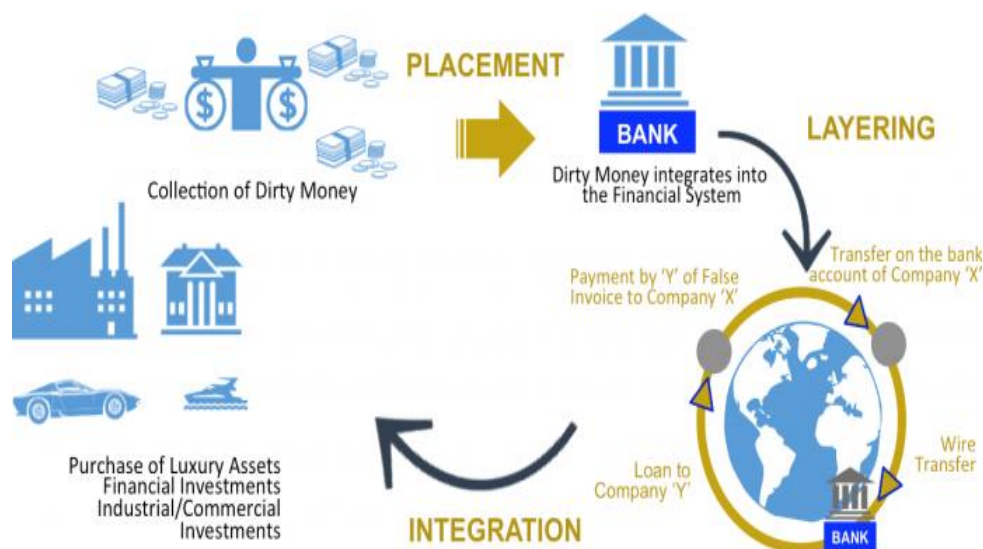
Criminal activities, such as drug trafficking, smuggling, human trafficking, corruption and others, tend to generate large amounts of profits for the individuals or groups carrying out the criminal act. However, by using funds from such illicit sources, criminals risk drawing the authorities' attention 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?

The process of money laundering can be best described by following figure:



Source: UNODC

- 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 channeled 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, involvements in following offences 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 offense 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 offense for money laundering, AML preventive measures can also be more effectively leveraged to combat corruption.

8. Why controlling 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) is necessary?

KYC is the process of verifying the identity of clients and assessing potential risks of illegal intentions for the business relationship. The objective 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

The application of KYC process by financial institutions and a high degree of transparency is crucial to fight money laundering and the financing of terrorism effectively. It must be applied upon establishment of a business relationship or in preparation of specific cash transactions in excess of a certain amount. The basic steps of KYC 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.

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 them, 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. Hence, KYC is necessary in today's banking sector.

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 bought from a company register.

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 centers, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes. Differences between 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 counter measures. 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 organized 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 with society at large?

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized 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 organizations 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. When REs Suspect that the customer is involved in ML/TF activities, REs are required to submit a report to FIU-Nepal which is known as Suspicious Transaction Report (STR).

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 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. Reporting Entities (as mentioned in **Chapter Two- 2.1**) file STRs to FIU-Nepal.

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?

REs are required to submit a STR to FIU-Nepal within three days of the initial determination 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 FIU-Nepal?

A STR must be submitted at the FIU-Nepal under a prescribed form under Unified Directive No.19 issued by NRB and other directives issued by different regulators (as mentioned in **Chapter Two-2.2**) along with the necessary documents.

17. Does FIU have the automatic system for the reporting 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 for BFs and other directives issued by different regulators.

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 Transactions Reporting (TTR)?

A Threshold Transaction Report (TTR) is a report that financial institutions and designated non financial business and professions (DNFBPs) are required to file to FIU for 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 for BFs and for other entities

as presented in **Table 3.2**. 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 engage 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, Nepal (FIU-Nepal)?

FIU-Nepal is Nepal's financial information 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 relevant law enforcement agencies. FIU-Nepal was established on 21 April, 2008 under the section 9 of the ALPA, 2008 with the Nepal Rastra Bank (the central bank) as an independent unit. The FIU-Nepal is also assigned to function as the secretariat of the National Coordination Committee under the coordination of Secretary of Office of the Prime Minister and Council of Ministers. The chief of FIU-Nepal 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;
- Fine 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 will FIU-Nepal do with the information received by it?

FIU-Nepal will process and analyze received financial information or STR and disseminate actionable intelligence in appropriate case to relevant Law Enforcement Agencies.

26. How do FIUs exchange information with each other?

FIUs exchange information with other FIUs on the basis of reciprocity or mutual agreement consistent with procedures understood by the requested and requesting party. An FIU requesting information should disclose to the FIU that will process the request at a minimum, the reason for the request, the purpose for which the information will be used and enough information to enable the receiving FIU to determine whether the request complies with its domestic law. FIU-Nepal sends request for information to other FIUs by the Egmont Secure Web (ESW) secure email network and also receives request from other Egmont Group members.

27. What is Predicate Offence?

As per Asset (Money) Laundering Prevention Act, 2008 following offences 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,
- 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.

28. What is Mutual Evaluation? What are its processes and results?

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). The basic objective of the mutual evaluation is to assess the legal and institutional compliance level and the extent to which the defined outcomes are achieved.

FATF conducts mutual evaluations of its members’ levels of implementation of the FATF Recommendations on an ongoing basis. These are peer reviews, where members from different countries assess another country. A mutual evaluation report provides an in-depth description and analysis of a country’s system for preventing criminal abuse of the financial system as well as focused recommendations to the country to further strengthen its system. Mutual evaluations are strict and a country is only deemed compliant if it can prove this to the other members. The FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations, providing an in-depth description and analysis of each country’s AML/CFT system. The Assessment of AML/CFT system is done on the basis of:

- FATF revised standards 2012
- FATF methodology 2013
- APG 3rd round ME procedures 2019
- Mutual evaluation questionnaire

The assessment framework/s is presented in the following figure:

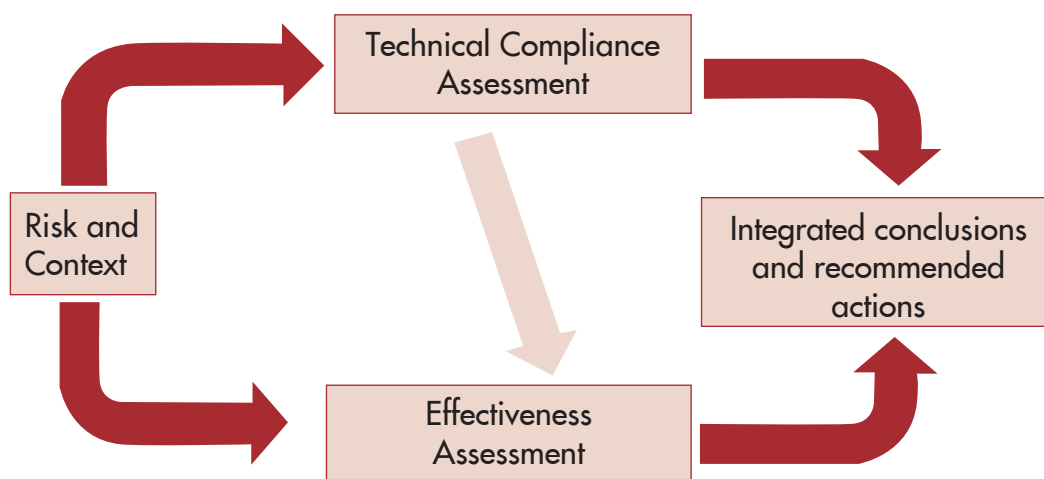


Fig: Mutual Evaluation Process

Source: APG

Mutual Evaluations have four basic components, Risk and Context, Technical Compliance Assessment, Effectiveness Assessment and Integrated Conclusions and Recommended Actions.

- a) **Risk and Context:** The starting point for every assessment is the assessors' initial understanding of the country's risks and context, in the widest sense and the elements which contribute to them. The ML/TF risks are critically relevant to evaluating technical compliance with FATF Recommendation 1 and the risk-based elements of other Recommendations and to assess effectiveness. The make-up of and nature of financial/DNFBP sectors and economy along with the structural elements such as political commitment, rule of law, accountability, integrity, transparency and effective judicial systems are considered to understand the risk and context. Assessor considers the nature and extent of the ML/TF risk factors to the country at the outset of the assessment and throughout the assessment process.
- b) **Technical Compliance Assessment:** 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.
- c) **Effectiveness Assessment:** The main component of a mutual evaluation is effectiveness. 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 not only based on information exchanged with the assessment team but also after the exchange of information, 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. Effectiveness assessment is done based on the FATF's 11 Immediate Outcomes (IOs).

d) **Integrated Conclusions and Recommended Actions:** It is the final step of mutual evaluation where the key findings with recommended actions are presented. On the basis of a), b) and c) as mentioned above, the detailed analysis of the level of compliance with the technical criteria and the final conclusion are presented by the assessor team. A mutual evaluation report is not the end of the process. It is a starting point for the country to further strengthen its measures to tackle money laundering and the financing of terrorism and proliferation.

Technical Assessment and Effectiveness Assessment network

IOs	Relates to Recommendations	Elements of Recommendations
1	1, 2, 34	
2	36, 37, 38, 39, 40	9, 24, 25, 32
3	14, 26, 27, 28, 34, 35	1, 40
4	9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23	1, 6, 9
5	24, 25	1, 10, 37, 40
6	29, 30, 31, 32	1, 2, 4, 8, 9, 34, 40
7	3, 30, 31	1, 2, 32, 37, 39, 40
8	1, 4, 32	30, 31, 37, 38, 40
9	5, 30, 31, 39	1, 2, 32, 37, 40
10	1, 4, 6, 8	14, 16, 30, 31, 32, 37, 38, 40
11	7	2

Rating Scales

Compliance/Achievement Ratings			
Technical-40	Shortcomings	Effectiveness - 11	Extent of achievement/Improvements needed
Compliant	No	High level of effectiveness	Very large/minor
Largely compliant	Minor	Substantial level of effectiveness	Large/moderate
Partially compliant	Moderate	Moderate level of effectiveness	Some/major
Non-Compliant	Major	Low level of effectiveness	No/fundamental
Not applicable			

A complete mutual evaluation takes up to 18 months. The stages in this process are as follows:

- **Assessor training:** The FATF organizes regular training to train experienced national experts in the FATF Recommendations and FATF Assessment Methodology. FATF does not restrict itself to assessors from FATF countries, all countries that are part of the Global Network of FATF and FATF-style regional bodies and FATF observer organizations can provide experts for assessments.
- **Country training:** The FATF organizes training for representatives of the assessed country so that they know what they will need to provide and demonstrate during the process.

-
- **Selection of assessors:** The FATF selects the members of the assessment team from the pool of trained assessors. The composition of the team depends on the required expertise for an assessment, including language and legal background. Assessors are appointed by the President, assessed countries do not have a say in the selection.
 - **Technical compliance:** The country provides information about its laws and regulations. The assessors analyze this information, checking if all the required laws and regulations, as required by the FATF Recommendations, are in place. This analysis takes approximately 4 months, sometimes longer if translations or additional documents are required. Following the analysis, assessors produce a draft report, with technical compliance ratings for all 40 Recommendations.
 - **Scoping:** In preparation for the effectiveness assessment and the on-site visit, assessors undertake a preliminary scoping exercise to determine the areas of focus of the on-site visit. Elements that are factored in are the type of threats, vulnerabilities and risks, the type of economy, the size type of financial and other sectors, political stability and commitment, the rule of law, and the level of maturity of the country's system to combat money laundering and the financing of terrorism and proliferation.
 - **On-site visit:** The assessors travel to the country for the on-site visit. Before, during and after the visit, the country needs to provide information on the effectiveness of its system in all eleven areas that are covered by the FATF Methodology (more information on an effective system to combat money laundering and terrorist financing). Prior to the on-site visit, the assessed country provided information on the effectiveness of their system to aid in the discussions.
 - **Report drafting:** Immediately following the on-site visit, the assessors finalize the mutual evaluation report with the findings of the effectiveness and technical compliance assessment. The assessed country is given the opportunity to comment on the draft report, and have a face-to-face meeting with the assessors. The report is also reviewed by independent reviewers. But ultimately, the assessors are the only ones who decide on the text of the report and the final proposed ratings for effectiveness and technical compliance.
 - **Plenary discussion:** The assessors present the draft report to the FATF Plenary at one of the three meetings it holds every year. The Plenary will discuss the assessors' findings and proposed ratings. Consensus among members (except for the assessed country, which has no vote) is required to overrule any of the draft findings and ratings by the assessors.
 - **Final quality review:** Following plenary approval, all countries within the FATF Global Network will review the report for technical quality and consistency before it is published on the website, which is usually two months after plenary approval.
 - **Follow-up:** After adoption, the countries are required to address the shortcomings identified in the report. All countries are subject to post-assessment monitoring. This can include anything from regular reporting of improvements for countries that are already largely compliant and demonstratively committed to addressing the remaining few shortcomings, to issuing a public warning against a country that makes insufficient progress to address key deficiencies.

The post assessment result can be best presented through the following table:

Types	Grounds
Regular	
Enhanced	<ul style="list-style-type: none"> • 8 or more Non-Compliant (NC) Partially Compliant (PC), or • NC/PC on 1 or more out of R 3, 5, 10, 11, 20, or • L or M on 7 or more los, or • L on 5 or more los
Enhanced [Ex-pedited]	<ul style="list-style-type: none"> • NC/PC on 10 or more out of Recs: R 3, 5, 10, 11, 20 and 1, 4, 6, 26, 29, 36, 37, 40, or • L or M on 9 or more IOs
Monitoring	<ul style="list-style-type: none"> • 20 or more NC/PC Recs, or • NC/PC on 3 or more of R 3, 5, 6, 10, 11, 20, or • L on 6 • Non-participation in FSRB • Nomination by FSRB/FATF delegation

29. What are the consequences of low compliance in mutual evaluation?

Country with low compliance in mutual evaluation 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

APG 21st Annual Meeting 2018, 21-27 July 2018 Kathmandu



Programs Organised by FIU-Nepal

a) Nepal's APG Mutual Evaluation Preparation Workshop



b) Interaction Program organised by FIU-Nepal for REs and LEAs



International Participation of FIU-Nepal Staffs





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