

APG THIRD-ROUND MUTUAL EVALUATION OF NEPAL (2022-23)

7.1 Mutual Evaluation: Brief Overview

FATF/FSRB 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. The Assessment of AML/CFT system is done on the basis of:

- FATF revised standards 2012
- FATF methodology 2013
- APG third round ME procedures 2021

The mutual evaluation reports allow countries to determine how they should improve their national AML framework and how to do this via tailored recommendations provided by FATF. Mutual evaluations are useful to country authorities, regulators, the financial sector and the general public as they help determine the money laundering or terrorist financing risks of a jurisdiction. The FATF/FSRB follows a

very structured methodology and predefined procedures to measure two distinct components that make up the overall assessment.

- The first of these is technical compliance with the 40 recommendations created by FATF – an assessment of the legal, regulatory and institutional regime of the nation and the powers of the relevant authorities.
- Secondly, operational effectiveness is measured, which is how well a country delivers on a set of defined outcomes considered by FATF to be essential to achieve a robust AML framework. Effectiveness is measured during the onsite visits that are part of an evaluation, where the country provides concrete evidence that its measures are working and delivering the right outcomes.

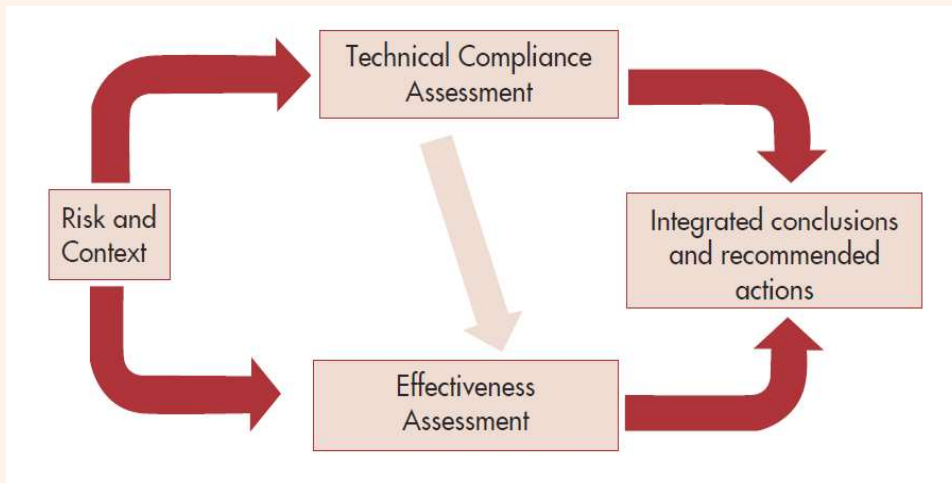
As Nepal is member of APG, one of the FSRBs, ME of Nepal is conducted by APG. During Mutual Evaluation process, it does not only look at what laws and institutions are in place to foster an effective AML framework, but also at how effective these measures are and what results and consequences they are having. Typically, countries respond to mutual evaluation observations by taking additional policy measures.

Figure 7.1: Relationship between Recommendations and Immediate Outcomes

Relationship between Recommendations and Immediate Outcomes		
EFFECTIVENESS	TOPIC	RELATED RECs
IO 1	Risk and policy coordination	R. 1, 2, 33, 34
IO 2	International cooperation	R. 36-40
IO 3	Supervision	R. 14, 26-28, 34, 35
IO 4	Preventive measures	R. 9-23
IO 5	Transparency of legal persons and arrangements	R. 24, 25
IO 6	Financial intelligence	R. 29-32
IO 7	Money laundering investigations and prosecutions	R. 3, 30, 31
IO 8	Confiscation	R. 1, 4, 32
IO 9	Terrorist financing investigations and prosecutions	R. 5, 30, 31, 39
IO 10	Terrorist financing targeted financial sanctions and non-profit organizations	R. 1, 4, 6, 8
IO 11	Proliferation financing targeted financial sanctions and domestic coordination	R. 7

The Mutual Evaluation framework/s is presented in the following figure:

Figure 7.2: 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.

1) 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.

One of the major documents for APG for assessing risk and context is national risk assessment report and sectoral risk assessment reports prepared by the country. Risk level and types of proceeds-generating crime in the country, cross-border flow of criminal or illicit assets and country's own assessment is taken as an initial basis for understanding the Risk. The relative importance of different parts of the financial sector and different Non-Financial Business and profession are also taken into consideration. In order to reach a general understanding of the context in which the country's AML/CFT system operates the contextual factors, including the risks, issues of materiality, structural elements, and other contextual factors are considered.

i) Materiality

- The relative importance of different types of financial products or institutions;
- The amount of business which is domestic or cross-border;
- The extent to which the economy is cash-based; and
- Estimates of the size of the informal sector and/or shadow economy.
- The size of population, level of development, geographical factors, trading or cultural links, relative importance of different sectors and issues are also considered.

ii) Structural Elements

- Political Stability, High level commitment to address AML/CFT issues,
- Stable Institutions with accountability, integrity and Transparency
- Rule of law and capable independent and efficient Judicial System.

iii) Other Contextual Factors

- Maturity and sophistication of Regulatory

and Supervisory regime in the country.

- The level of corruption and the impact of measures to combat corruption or the level financial exclusion.

2) 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. In case of requirement Pre-Onsite Visit is conducted by the Assessment Team to gauge the level of technical compliance.

3) Effectiveness Assessment: The main component of a mutual evaluation is effectiveness assessment. 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. An effectiveness assessment comprises of 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. Experts forming the assessment team use “11 Immediate Outcomes,” including core issues for each outcome, in the 2013 methodology with an aim to achieve the High Level objective of “Protecting the Financial System and the Broader economy from ML/TF threats and Proliferation, Strengthening Financial System Integrity and contributing to safety and security”.

The effectiveness assessment is not just based on information exchanged with the assessment team; after the information is exchanged the team will visit the member under evaluation

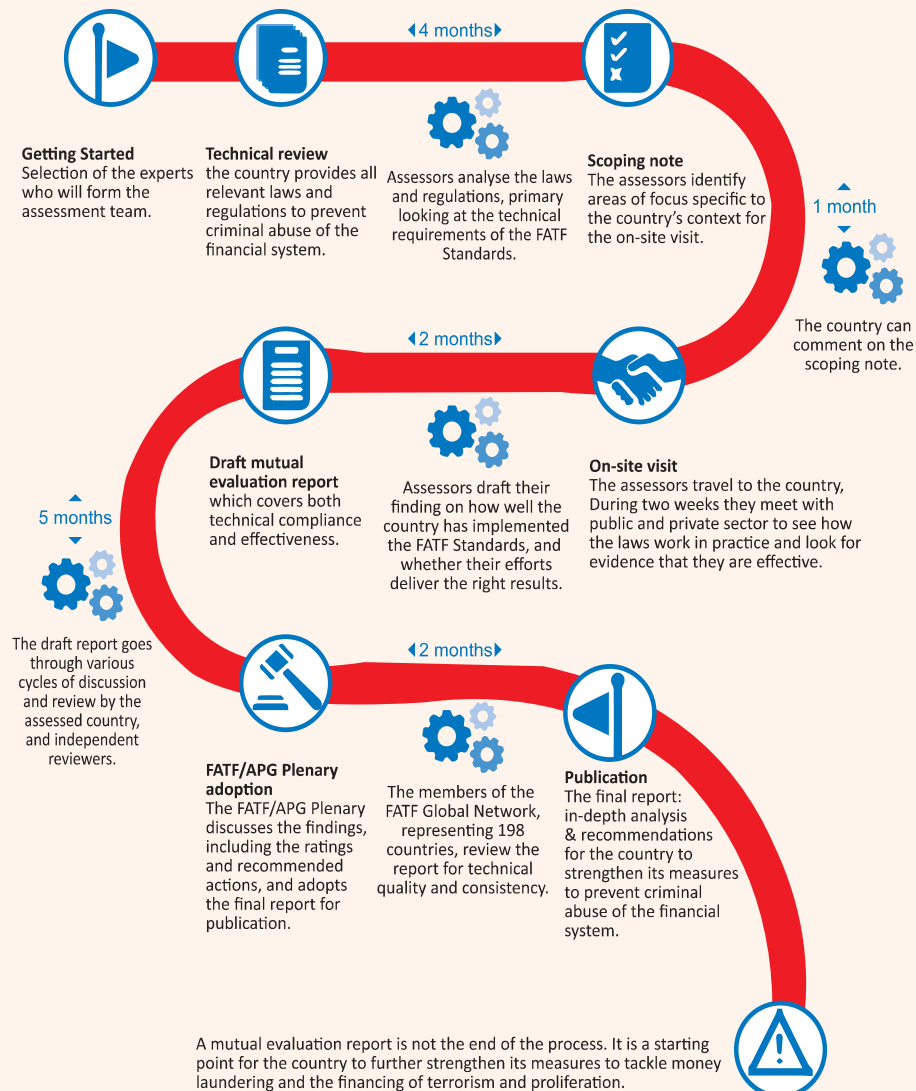
(usually for two weeks, sometimes longer) and interview government and private sector officials to gain a comprehensive understanding of how the AML/CFT system is working. It’s about gauging how things are done in practice in line with Risk and Context. It focuses on results achieved and is measured using the IO referenced in the FATF Methodology. Private sector participation is central to gaining this understanding.

4) 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. 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.

The ME process generally takes 18 months’ cycle, as shown in the graph below:

Figure 7.3: Mutual Evaluation Process



Source: FATF

Table 7.1 Rating Scales for Technical Compliance and Effectiveness Assessment

Compliance/Achievement Ratings			
Technical-40	Shortcomings	Effectiveness - 11	Extent of achievement/Improvements needed
Compliant (C)	No	High level of effectiveness (H)	Very large/minor
Largely compliant (LC)	Minor	Substantial level of effectiveness (S)	Large/moderate
Partially compliant (PC)	Moderate	Moderate level of effectiveness (M)	Some/major
Non-Compliant (NC)	Major	Low level of effectiveness (L)	No/fundamental
Not applicable (NA)	–	–	–

Figure 7.4: Mutual Evaluation Process and Outcome

Source: fatfplatform.org

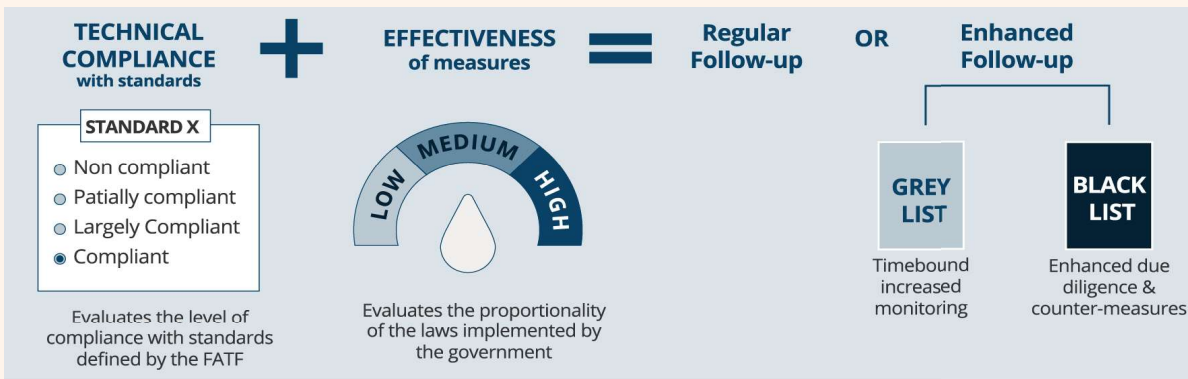


Figure 7.5: Ground for categorizing assessed jurisdiction in Follow-up (Monitoring)

Types	Grounds
Regular	
Enhanced	<ol style="list-style-type: none"> 8 or more NC/PC Recs. on TC, or NC/PC on 1 or more out of R 3, 5, 10, 11, 20 Recs. on TC or L or M on 7 or more IOs, or L on 5 or more los
Enhanced [Expedited]	<ol 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 los
International Cooperation Review Group/Monitoring	<ol 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 or M on 9 or more or L on 6 or Non-participation in FSRB or Nomination by FSRB/FATF delegation

7.2 Nepal's Third Round Mutual Evaluation, 2023

Nepal underwent its first APG Mutual Evaluation in 2005 and second in 2010, with the report adopted in 2011. Nepal was engaged with FATF through ICRG process since 2009. In line with the FATF principles, Nepal has improved its AML/CFT regime for facilitating international cooperation. As a result, Nepal has been relieved from the 'Improving Global AML/CFT Compliance List' of FATF/ICRG from June 2014.

Year 2022/23 was of seminal importance for AML/CFT Regime of Nepal and for FIU-Nepal in particular as Third round of Mutual Evaluation was conducted by APG and the Mutual Evaluation Report was published in September 2023. Nepal's preparation for ME are highlighted in following points:

- Adequate coordination and planning a clear channel of communication between APG secretariat and FIU-Nepal was established.
- At least nine months before the on-site visit, the timelines for the whole ME process was finalized in consultation with the Nepal. This included the dates for the ME on-site visit.
- All updates and information were provided in an electronic format and laws, regulations, guidelines and other relevant documents were made available in English and the Nepali language.
- Involvement of 57 Agencies (Ministries/ Departments/LEAs/Regulators/Committees) more than 100 face-to-face meetings, workshops and interactions. (Agencies Involved in ME Process is mentioned in Annex). Focal person from each of those 57 agencies were appointed for ME process.
- More than 30 programs (Virtual/physical) for preparation of ME
- Three virtual interaction programs were conducted with coordination with APG Secretariat
- Regular meeting of Mutual Evaluation Main Committee (MEC)

- Discussion of ME in all major AML-CFT committees such as National Co-ordination Committee (NCC), National Review Council, Regulators coordination committee, Investigation Coordination Committee, Counter Terrorism Mechanism, Mutual Evaluation Committee and Technical Group for Implementation.
- Nepal's Response on Technical Compliance Criteria's- 40 Recommendations, 251 Main Criteria (questions) & 425 Total Questions
- Nepal's Response on Effectiveness Compliance - 11 Immediate Outcomes, 55 Main questions & Total 138 Questions
- Nepal's response to additional set of questions total 137 questions and Technical Compliance and Effectiveness Assessment further questions received from the Assessment Team
- ME logistic team and liaison officers' team is formed to smoothly conduct ME related visits/meetings.

7.2.1 Mutual Evaluation (ME) Working Group

ME working group comprising of NRB, MOF, FIU-Nepal, MOLIPA and OPMCM was formed for coordination in providing inputs for the report, provisions in relevant laws, regulations, directives, Manuals, procedures as well as working documents, records, reports, data, collation of statistics, and comments as per requirement. Master to-do-list was prepared, Regular and Strategic action plans were developed by the Mutual evaluation committee as preparation for Pre-onsite, Onsite and Face to Face meeting. Relevant Agencies were identified for;

- a) Regular planning that contained identification and selection of government Agencies as well as Private Sector Entities from different Sectors to participate in meetings and contribute to the questions put forward by Assessment team. Logistics and meeting arrangement, budgetary allocation,

and Human Resource arrangements with identified tasks.

- b) Strategic plan included legal, policy, operational and implementation plan for major or quick wins.

Other tasks done by ME Working Group are:

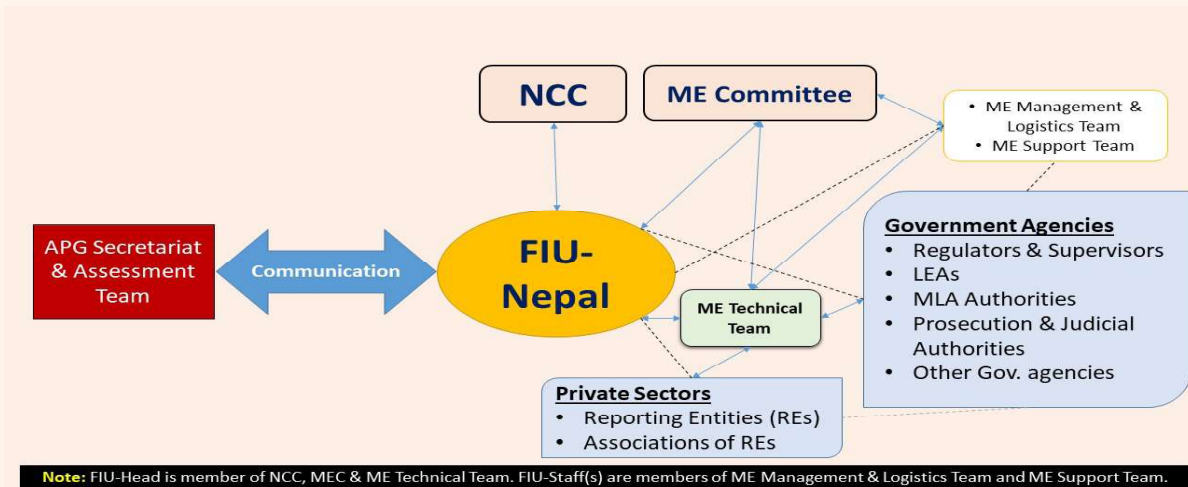
- Criteria-wise responses were asked from all relevant agencies and the write-ups were prepared for all 40 recommendations which included responses from all relevant agencies and their departments as well as for all immediate outcomes on all core issues along with examples of information that could support the conclusions on core issues, with Examples of specific factors supplemented by data, statistics, and case studies.
- For technical Compliance response for every criteria/sub-criterion, points were submitted which were provided by relevant agencies

for all 40 recommendations. All the relevant Laws, Regulations, Directives, Guidelines, Procedures, were translated and provided to assessment team Uploaded via portal maintained at OPMCM.

- Pre-onsite meetings were scheduled with Regulators, Law Enforcement Authorities, Government Ministries, Departments and other competent authorities.
- Scoping Note with scoping of areas of higher risk and increase focus was discussed which also included vulnerability of Sectors and cross-cutting issues and received before Onsite which was a summarized view of AML/CFT system of Nepal
- After few rounds of discussions and exchange of draft Onsite Agenda the final onsite agenda was completed wherein the Head agency and participating agencies were decided.

7.2.2 Role of FIU-Nepal in Onsite Meetings and Overall ME Process

Figure 7.5: FIU-Nepal in ME process



- All email communication between APG and Nepal is done through FIU-Nepal. FIU-Head has worked as the primary contact point for APG Secretariat. FIU-Nepal coordinated with all 57 agencies for the information exchange with APG.
- FIU-Head is the secretary of National Co-

ordination Committee (NCC) co-ordination and co-operation between different agencies is discussed regarding ME.

- FIU-Head is the member of Mutual Evaluation Committee (MEC) and Technical group, on which decision is made regarding mutual evaluation process, such as finalization

onsite agenda, participants in the meeting (lead agency and supporting agency), etc.

- FIU-Head facilitated onsite entry and exit meetings of all three onsite visits by the Assessment Team
- FIU-Nepal conducted and participated in all sessions/meetings (except meetings with private sectors) and also supported other leading agencies by adding significant responses.
- FIU-Nepal facilitated onsite visit of Head of the Assessment Team Mr. Shannon Rutherford and assessor Mr. Ayesh Ariyasinghe visited FIU-Nepal on December 14, 2022.
- One Assistant Director from FIU-Nepal is deputed as a FIU-Nepal's representative in Mutual Evaluation (ME) Technical Team/working group at OPMCM for ongoing Report/Response writing regarding queries made by APG Secretariat and coordinating with relevant domestic agencies of Nepal as per requirement.
- Three employees from FIU-Nepal were a members of Mutual Evaluation Logistics Team.
- Two employees from FIU-Nepal worked as liaison officers during onsite visit for assessors and APG secretariats. The liaison officers facilitated airport transfer and hotel transfers of the assessment team.
- FIU-Nepal represented in APG Annual Meeting Vancouver, Canada. During APG plenary, Nepal was able to defend all ratings and was able to upgrade rating of Rec. 14 from PC to LC.

7.2.3 Functions and Responsibilities of Stakeholders in AML/CFT Regime of Nepal:

The major functions or responsibilities in AML/CFT regime of Nepal are presented below:

a) Whole of the Government

- Formulation/amendment of Policies, Laws, regulations
- Establishing, empowering Institutions
- Capacity building
- Enabling domestic and international cooperation
- Harmonizing the policy and operational coordination
- Strengthening the AML/CFT regime and Integrity of the system
- Consolidating Investigation, prosecution and adjudication and asset recovery function of the country
- Adopting best practice approach in alignment with international standards for strong and effective AML/CFT framework

b) Regulators & Supervisors

- Fit-and-proper test during licensing of REs.
- Establishing departments and allocating resources for effective regulation and supervision
- Designing compliance obligations, issuing directives, providing necessary support to reporting entities
- Licensing and Implementing fit & proper checks
- Conduct sectoral risk assessment
- Risk profiling of Reporting entities
- Conducting risk based AML/CFT supervision
- Ensuring the integrity of the sectors
- Ensuring the system in the sector is functioning effectively and producing outcomes (not only outputs)
- Regulatory Capacity building including use of advanced technology and reporting standards
- Imposing administrative sanctions including cash penalty to de-licensing

c) FIU-Nepal

- Functioning as a National Center for receiving SAR/ STR/TTRs, Analyzing them and disseminating intelligence to LEAs and other competent authorities
- Receiving and providing International cooperation from and to Egmont members related to financial crime investigation
- Conducting Outreach and awareness programs to reporting entities and their integration in FIU’s reporting system.
- Organizing and providing capacity building programs
- Functioning as contact point, Communication center to FATF & FSRBs including APG.

d) Law Enforcement , Investigative and other relevant Agencies

- Jurisdiction: Predicate offences (LEAS) and ML/ TF (DMLI)
- Adoption of two pronged investigations (predicate & financial)
- Use of Financial Investigation tools
- Following money trail (source & destination)
- Honor the rights of Bonafide third parties
- Use of special powers like undercover, arrest waiver, monitoring order, control delivery
- Domestic & international cooperation & coordination (Counterpart, FIU, MLA)
- Prosecution & Adjunction
- Assets Recovery

e) Reporting entities

- Formulating AML/CFT Policy & Program their review and appraisal
- Risk Assessment & Internal Control
- Capacity Development

- Conducting CDD, ECDD, OCDD, Record Keeping, KYC mechanisms
- Adhering and materially following the laws, regulations, directives and International standards
- Fulfilling compliance obligations
- Conducting Screening (PEP, Sanctions)
- Monitoring of transactions for Detecting and reporting SARs, STRs, TTRs

7.2.4 Mutual Evaluation Assessment Team

- Mr. Shaun Mark, Australian Federal Police, Australia (law enforcement/FIU assessor).
- Mr. Md Khairul Anam, Bangladesh Financial Intelligence Unit, Bangladesh Bank (financial assessor).
- Ms. Ran Sun, People’s Bank of China, China (financial/FIU assessor).
- Ms. Jayneeta Prasad, Office of the Director of Public Prosecutions Fiji (legal assessor).
- Ms. Suhanna Omar, Bank Negara, Malaysia, (financial assessor).
- Mr. Robert Milnes, Department of Internal Affairs New Zealand (financial assessor).
- Ms. Minerva Sobreviga-Retanal, National Bureau of Investigation, Philippines (legal/ law enforcement assessor).
- Mr. Ayesh Ariyasinghe, Sri Lanka FIU, Sri Lanka (FIU/law enforcement assessor).
- The assessment process was supported by Mr. Shannon Rutherford, Ms. Joëlle Woods and Ms. Kirsty Struthers of the APG Secretariat, with additional support from other Secretariat members.
- The report was reviewed by Mr Matthew Shannon, Finance Canada; Mr. Kenneth Wong, Attorney-General’s Chambers Singapore; and the FATF Secretariat.



Assessment team with Chief-Secretary and Governor of Nepal

Three Onsite Visits were done by the Assessment Team whereby onsite meeting was held with different agencies

- Pre Onsite visit took place between 12-14 October 2022 – Total 11 Meetings
- Onsite Visit was held between 5-16 December 2022– Total 102 Meetings
- Face to Face Meeting (F2F) Meeting- was held between 26-28 April 2023– Total 12 Meetings

7.2.5 Key Timeline of Mutual Evaluation of Nepal

S.N.	Task	Date (AD)	Date (BS)
1	TC Response to APG	5 July 2022	2079/03/21
2	EC Response to APG	21 July 2022	2079/04/05
3	1 st draft TC Report from APG	9 September 2022	2079/05/24
4	1st draft TC Response to APG	1 October 2022	2079/06/15
5	Pre- onsite visit	12-14 October 2022	2079/06/26-28
6	2nd draft TC Report from APG	7 November 2022	2079/07/21
7	2nd draft TC Response to APG	28 November 2022	2079/08/28
8	ME on-site visit	5-16 December, 2022	2079/08/19-2079/09/01
9	Response to on-site visit questionnaire	21 December 2022	2079/09/06
10	1 st draft of MER from APG	6 February 2023	2079/10/23
11	Nepal to provide comments on 1 st draft MER	6 March 2023	22 Falgun 2079
12	2 nd draft of MER to Nepal and response from Nepal	31 March 2023- 21 April 2023	17 Chait 2079- 8 Baisakh 2080
13	Reviewers review (FATF, Canada, Singapore)	21 April 2023	8 Baisakh 2080
14	Face to Face Visit	26-28, April 2023	13-15 Baisakh 2080
15	3 rd draft report from APG	5 May 2023	22 Baisakh 2080

S.N.	Task	Date (AD)	Date (BS)
16	3 rd draft response from Nepal	12 May 2023	29 Baisakh 2080
17	Circulation of final report to countries/ organizations	26 May 2023	12 Jestha 2080
18	Preparation of Key Issue Document	June 2023	
19	Pre-plenary discussion in Canada	July 2023	
20	Plenary discussion and finalization in Canada	9-14 July, 2023	Ashadh-Shrawan 2080
21	Report publication	08 September, 2023	22 Bhadra 2080

- **Preparation of Technical Compliance Response**

5th of July 2022 was the date to submit the technical compliance to APG which was completed by the working team at OPMCM with support from relevant agencies and their departments. The draft report to Technical Compliance questionnaire was prepared consulting all the relevant laws, regulations, directives, guidelines and the updates of Ministries, departments, Regulators and Competent authorities. Inputs from all relevant agencies were sought for the TC response. More than 100 meetings were conducted in preparation of TC draft response concluding as more than 700-page document. The draft response was reviewed by all contributing agencies before forwarding it to APG.

The working team with support from relevant authorities supported APG in the completion of Scoping Note.

- **Preparation of Effectiveness Response**

Data and Statistics from all the relevant agencies for 5 or more years were prime focus for the preparation of Effectiveness response as required by each of the 11 immediate outcomes. Major agencies provided all the relevant statistics, updates for the period along with case studies.

- **Pre-Onsite Visit**

To seek further clarifications and better understanding of the Laws, Regulations,

Directives, 3-day Hybrid pre-onsite visit was conducted as scheduled on 12-14 October 2022 wherein 4 members of Assessment team were physically present and rest of the assessors joined virtually. The meetings with relevant Ministries, departments, Regulators, Law enforcement and competent authorities took place to clarify the provisions mostly focused on Investigation, MLA, TFS TF/ PF, Legal persons and arrangements and other important issues. Every day the set of questions were provided by the assessment team through APG secretariat which were answered by authorities/agencies.

- **Onsite Visit**

The assessment team (10 members) were physically present for 11 days' Onsite visit held between 5- 16 December 2022 and 1 assessor was virtually present throughout. 105 meetings were scheduled among which 102 were conducted.

The prime focus on onsite visit was the Risk and Context and Effectiveness assessment of each of the 11 immediate outcomes. After meeting with relevant government agencies and competent authorities the assessment team met with private sector representatives from financial sector as well as DNFBPs. The Onsite meetings were arranged at Office of Prime minister and Council of Ministers.

After concluding the day's meeting set of questions seeking details and clarifications from assessors were provided by APG which were to be responded by relevant agencies.



Onsite visit of Assessment team for Mutual Evaluation of Nepal

The response was provided to APG for all set of questions received every day of the Onsite visit.

- **Face to Face meetings**

Face to Face meetings were convened at

same venue for 3 days 26 to 28 April 2023 to complete the discussions of MER draft report. Forum was created for the assessors as well as competent authorities to provide and seek clarifications on the draft write up, TC annex and possible ratings on immediate outcomes.



Face to Face Meeting: Mutual Evaluation of Nepal, 2023

7.2.6 Nepal's Mutual Evaluation Report (MER)

Nepal's mutual evaluation report was published on APG website on September 2023. As per mutual evaluation report of Nepal, APG and the assessment team has following key findings and recommended actions that Nepal government and different AML-CFT stakeholders need to do:

A. Nepal Government

- Nepal should pass the *Amendments to Some Laws relating to AML and Business Promotion Bill*, which aims give ML investigation authority to the predicate crime investigation agency. When passed, Nepal should expedite implementation and significantly enhance the capacity of impacted competent authorities to undertake their new/modified functions.
- Nepal should ensure all future high-level confiscation policies support a whole of government approach to deprive individuals of their ill-gotten gains while also improving individual agencies' confiscation results. Recovery from offences generating significant proceeds of crime, and crimes consistent with Nepal's risk profile (corruption, tax evasion, human trafficking, and other higher risk crimes and movement of proceeds abroad) should be a clear and explicit focus.
- Expedite national identification roll-out to ensure robustness of documents used in the CDD process and provide access to the national ID or other similar government database for verification purposes.

B. ML-TF Risk Assessment

- Update and enhance all competent authorities' understanding of ML/TF risk including through conducting a comprehensive assessment of Nepal's ML/TF risk. Particularly around ML typologies for all higher risk predicate crimes including human trafficking and sexual exploitation, and in all vulnerable FI/DNFBP sectors on legal persons, PEPs, cross-border issues (including

trade-based money laundering), VA/VASPs, the impact of the informal economy, and emerging risks.

- Nepal should adequately assess its TF risk (in line with the RA in IO.1) and use this enhanced understanding to improve its mechanisms to identify potential TF cases and integrate CTF into its counter-terrorism strategies, activities, coordination and cooperation mechanisms.
- Nepal should assess NPO's TF risks in accordance with Recommendation 8 and based on this review implement measures and provide appropriate TF-related outreach and targeted monitoring to at-risk NPOs.
- Ensure the National Strategy and Action Plan gives more focus on AML/CFT supervision priorities and LEA operational priorities set appropriately to address Nepal's ML/TF risks.
- Promote and develop awareness the Nepal's ML/TF risks including in relation to all high risk predicate crimes through ongoing outreach and engagement with FIs and DNFBPs.
- Sector and cross-sector vulnerability analysis should be undertaken to increase understanding of risks including with cash transactions, foreign currency transactions, legal persons and arrangements, Hundi, casinos, real estate, precious metals or stones and cross-border activities.
- Require and support all FIs and DNFBPs to enhance their understanding on ML/TF risks (including by conducting institutional risk assessments) and to take mitigating measures consistent with risk understanding.

C. FIU-Nepal

- The FIU's goAML division should be given priority for available human resources to expedite full adoption and operation of goAML.
- The FIU should enhance FIs reporting with a

focus on enhancing the quality and quantity of STRs/SARs reporting through additional outreach and guidance, targeting Nepal's higher ML/TF risks (particularly corruption) and FI sectors.

- The FIU should enhance its analysis capability with a focus actionable financial intelligence for corruption, tax evasion and other high risks predicate crimes
- The FIU should strengthen and regularly build upon strategic intelligence analysis to further support LEAs target Nepal's high and emerging ML/TF risks; and FIs and DNFbps identifying and report ML/TF and other criminal offending.
- All declarations under Nepal's cash declaration system should be shared with the FIU in a timely manner as and when it occurs and not on a bulk forwarding basis.
- Increase quality and quantity of FIU reporting. This should include supporting and encouraging FIs and DNFbps to adopt automated AML/CFT systems for the identification of suspicious transactions and the submission of electronic reports to the FIU, taking into consideration their specific circumstances and ML/TF risks.
- Nepal should enhance FIU reporting by DNFbps. This should prioritise casinos and higher risk DPMS and real estate agents.

D. LEAs and other Investigative Agencies

- All LEAs should prioritise and increase the identification of ML in their cases, particularly high risk predicates related to corruption, tax evasion, human trafficking, narcotics, smuggling (particularly cash and precious metals) and environmental crime.
- Nepal should prioritise and increase complex ML cases of all higher-risk predicates, such as corruption, tax evasion, human trafficking, narcotics smuggling crime, environmental crime and cases involving legal persons. This should include providing further ML investigation training and additional

specialised human and institutional resources to DMLI.

- DMLI, NP, DRI and CIAA should increase their use of financial intelligence to develop and investigate ML/TF and trace proceeds in predicate crime offending particularly across the high risk predicates of corruption, tax, human trafficking and ML.
- All other LEAs and investigative authorities should be prioritised by Nepal to build their human and institutional capacity through development of adequate policies/procedures/SOPs to develop and use financial intelligence in their predicate crime investigations.
- LEAs should provide regular feedback to the FIU on its analytical products to enable the FIU to further increase quality of disseminations.
- All LEAs and Investigative Authorities should place a greater emphasis on the seizing/freezing and confiscation of proceeds of all crimes, including property of corresponding value.
- All relevant competent authorities should adopt adequate institutional-level policies to prioritise confiscation, and operational-level procedures/SOPs to support confiscation-related activities.
- All relevant competent authorities should record comprehensive statistics on their freezing/seizing and confiscation actions to ensure the full value chain of confiscation-related actions in predicate crime cases is captured accurately to better assess asset confiscation efforts.

E. Regulators and Supervisors

- Nepal should address legal/technical deficiencies relating to market entry and fit and proper requirements and actively prevent criminals and their associates from ownership or management of FIs or DNFbps. This should prioritise higher risk sectors such as commercial and development banks and

- casinos, as well as higher risk cooperatives, DPMS and real estate agents.
- Core principle AML/CFT supervisors should strengthen mechanisms for international cooperation on AML/CFT matters and increase their use with regional partners with close economic and financial sector connections
 - NRB's new AML/CFT Supervision Division should be appropriately resourced to deliver supervision across all NRB supervised FI sectors. NRB should continue to embed and refine its risk-based supervision framework for commercial banks. This framework should also be leveraged to develop risk-based supervision across all NRB supervised sectors, with the frequency and intensity of offsite and onsite supervision determined on the basis of risk.
 - Nepal should significantly enhance implementation of all preventative measures (and address TC gaps) by conducting a range of activities (including sanctioning where appropriate) to ensure all FIs and DNFBPs enhance their application of risk-based CDD and enhanced or specific measures (focused first on PEPs and BOs), apply mitigating measures commensurate with their risks, enhance FIU and regulatory reporting, and apply internal controls.
 - For cooperatives, Nepal should increase AML/CFT supervisory resource and develop and expedite risk-based supervision.
 - Risk-based supervision should be implemented for the DNFBP sectors. This should prioritise casinos and higher risk DPMS and real estate agents.
 - All supervisors should apply proportionate and dissuasive sanctions for AML/CFT non-compliance. Casinos should also be sanctioned for engaging in illegal foreign currency or MVTs transactions in violation of the FERA. Real estate agents operating illegally should be identified and sanctioned when necessary.
 - For the MVTs sector, Nepal should continue to promote and incentivise remittance through formal channels, while identifying and applying proportionate and dissuasive sanctions to illegal MVTs providers/hundi.
 - NIA and SEBON should further develop risk-based AML/CFT supervision, leveraging prudential supervision and data collected offsite from mandatory reporting and STRs/TTRs. IRD should implement risk-based AML/CFT supervision for pension funds.
 - Nepal should significantly enhance risk-based AML/CFT supervision of cooperatives, casinos, DPMS, and real estate agents.
 - For lawyers, notaries, chartered accountants, registered auditors, TCSPs and other similar professionals, Nepal should determine the extent to which lawyers, notaries, chartered accountants, registered auditors and other similar professionals engage in DNFBP activities and develop understanding of the associated risks and increase supervision.
 - Enhance FIs and large DNFBPs use of AML/CFT independent audits to promote effective compliance with AML/CFT obligations focusing on higher risk issues and areas of lower compliance such as enhanced measures for legal persons and arrangements, PEPs and TFS.
 - Supervisors should conduct regular monitoring activities of FIs and DNFBPs to ensure compliance of TFS-PF obligations. Where non-compliance is identified, sanctions should be applied.
 - Nepal should remedy gaps in the VASP prohibition and apply proportionate and dissuasive sanctions to illegal VASPs.
 - Nepal's supervisors should conduct regular monitoring activities of FIs and DNFBPs to ensure compliance of TFS-TF obligations. Where non-compliance is identified, sanctions should be applied.

F. Terrorism Financing

- Nepal should identify, investigate and

prosecute TF cases in line with its TF offence set out in the ALPA

- Nepal should build the TF-related capacity of LEAs and prosecutors including by implementing on-going TF specific training and developing comprehensive TF policies, procedures, guidelines, and SOPs to assist in identifying, investigating, prosecuting TF cases.
- Nepal should ensure proportionate and dissuasive sanctions are applied in TF convictions, and the court’s judgments are enforced.
- Nepal should implement TFS-TF UNSCR 1267 and 1988 without delay.
- Nepal should operationalize the new TFS Committee to improve domestic cooperation and coordination in the implementation of TFS-TF.
- Nepal should provide clear direction and outreach programs to the private sector regarding TFS-TF.
- Nepal should establish a legal framework to implement TFS-PF without delay through setting up procedures, measures, compliance and sanction mechanisms that give effect to targeted financial sanctions obligations.
- Nepal should consider its sanctions evasion risk and ensure it has the capability to identify, deprive and prevent the raising, moving and use of funds for the financing of proliferation through participating in capacity building and training programs for competent authorities.
- Nepal should increase outreach and support to ensure all FIs and DNFBPs are conducting adequate TFS-PF screening.

G. The Department for Management of Proceeds of Crime (DMPC)

- The DMPC should receive significantly greater human and institutional resources to enable it to fully carry out its mandate of asset management and enforcement of confiscation orders and recovery of assets by the Government of Nepal.

- LEAs and Investigative Authorities and OAG should enhance their cooperation and coordination with DMPC for effective asset management, enforcement of confiscation orders and recovery of assets by the Government of Nepal.
- DOC should effectively implement Nepal’s cash declaration system and should receive additional human and/or institutional resources to enable DOC to effectively identify non-compliance.

H. International Co-operation

- Nepal should streamline its MLA response coordination mechanisms; and establish policies, procedures and SOPs that support LEAs and Investigative Authorities to prioritise the use of MLA and other forms of international cooperation in ML/TF and high risk predicate crime cases.
- DMLI, DRI, CIAA and other investigative authorities should continue to establish and strengthen their individual mechanisms for international cooperation with important regional counterparts and other jurisdictions who share risks and a criminal nexus.
- Nepal should enhance LEAs and other Investigative Authorities’ use of MLA in applicable ML, TF and higher-risk predicate crime investigations including by implementation of policies, procedures and SOPs, and providing training.
- Nepal should streamline and enhance its MLA response coordination mechanisms to ensure incoming requests are prioritised and expeditiously transmitted to the operational level.
- Nepal should implement policies and procedures including a vetting process to ensure appropriateness and completeness of information in outgoing MLA to improve execution by requested jurisdictions.
- To significantly increase their ability to provide and seek extradition, Nepal should in line with its risk and context consider

either removing the treaty requirement in the Extradition Act or enter into more treaties with other jurisdictions.

- Nepal should enhance international cooperation on BO including coordinating and consolidating information on legal persons and arrangements with jurisdictions that have similar shared risks.

I. Training and Capacity Development

- Nepal should provide targeted proceeds of crime confiscation training to DPMC, LEAs and Investigative Authorities and OAG.
- Nepal should prioritise further training of all LEAs and the development of enhanced policies/procedures and SOPs to assist all LEAs to identify ML; cooperate between investigative agencies to prioritise ML investigations; and coordinate during investigations to efficiently refer cases to the DMLI.
- Nepal should prioritise further ML training to OAG and provide additional human and institutional resources to increase OAG's Special Attorney Office's focus and capacity to prosecute more complex ML cases of all high risk predicates, particularly corruption cases and cases involving legal persons.
- To support efficient judicial processes and the appropriate application of proportionate and dissuasive ML sanctions, Nepal should provide specialised ML training to judges.

a) Technical Assessment Ratings of Nepal

Summary of Technical Assessment Rating

SN	Rating	Recommendations
1	Compliant	5
2	Largely Compliant	16
3	Partially Compliant	16
4	Non-Compliant	3
5	Not Applicable	0
	TOTAL	40

Detailed Technical Assessment Rating

Recommendations	Rating
R.1 - Assessing risk & applying risk-based approach	Partially Compliant
R.2 - National cooperation and coordination	Partially Compliant
R.3 - Money laundering offence	Largely Compliant
R.4 - Confiscation & provisional measures	Largely Compliant
R.5 - Terrorist financing offence	Largely Compliant
R.6 - Targeted financial sanctions – terrorism & terrorist financing	Partially Compliant
R.7 - Targeted financial sanctions – proliferation	Non-Compliant
R.8 - Non-profit organizations	Non-Compliant
R.9 - Financial institution secrecy laws	Largely Compliant
R.10 - Customer due diligence	Partially Compliant
R.11 - Record keeping	Compliant
R.12 - Politically exposed persons	Largely Compliant
R.13 - Correspondent banking	Largely Compliant
R.14 - Money or value transfer services	Largely Compliant
R.15 - New technologies	Non-Compliant
R.16 - Wire transfers	Largely Compliant
R.17 - Reliance on third parties	Largely Compliant
R.18 - Internal controls and foreign branches and subsidiaries	Largely Compliant
R.19 - Higher-risk countries	Partially Compliant
R.20 - Reporting of suspicious transactions	Compliant

Recommendations	Rating
R.21 - Tipping-off and confidentiality	Compliant
R.22 - DNFBPs: Customer due diligence	Partially Compliant
R.23 - DNFBPs: Other measures	Partially Compliant
R.24 - Transparency & BO of legal persons	Partially Compliant
R.25 - Transparency & BO of legal arrangements	Partially Compliant
R.26 - Regulation and supervision of financial institutions	Partially Compliant
R.27 - Powers of supervision	Compliant
R.28 - Regulation and supervision of DNFBPs	Partially Compliant
R.29 - Financial intelligence units	Compliant
R.30 - Responsibilities of law enforcement and investigative authorities	Largely Compliant
R.31 - Powers of law enforcement and investigative authorities	Partially Compliant
R.32 - Cash couriers	Largely Compliant
R.33 - Statistics	Largely Compliant
R.34 - Guidance and feedback	Partially Compliant
R.35 - Sanctions	Largely Compliant
R.36 - International instruments	Largely Compliant
R.37 - Mutual legal assistance	Largely Compliant
R.38 - Mutual legal assistance: freezing and confiscation	Partially Compliant
R.39 - Extradition	Partially Compliant
R.40 - Other forms of international cooperation	Partially Compliant

b) Effectiveness Rating of Nepal

Immediate Outcome	Rating
IO.1 Risk, Policy and Coordination	Moderate
IO.2 International Cooperation	Moderate
IO.3 Supervision	Low
IO.4 Preventative Measures	Low
IO.5 Legal persons and Arrangements	Low
IO.6 Financial Intelligence	Moderate
IO.7 ML Investigation & Prosecution	Moderate
IO.8 Confiscation	Low
IO.9 TF Investigation & Prosecution	Low
IO.10 TF Preventative Measures & Financial Sanctions	Low
IO.11 PF Financial Sanctions	Low

c) Conclusion

The 3rd Round APG Mutual Evaluation Report (MER) for Nepal was adopted in APG Annual Meeting at Vancouver, Canada in July 2023. The MER provides a snapshot of Nepal’s system as at the date of the onsite visit in December 2022. After completing the post adoption review process final Nepal MER is available in APG website. The highlighting features of the Mutual Evaluation Report Adopted by Nepal are Priority Actions, Key Findings and Recommended Actions which requires country to work upon what matters the most and is highly actionable.

As per MER along with TC annex the ratings are not so encouraging. However, some bright spots were identified as Five of 40 FATF recommendations were rated Compliant and 16 as Largely Compliant which can be taken as reasonable progress to strengthen implementation of AML/CFT measures. In case of Effectiveness compliance, the rating is moderate or low if not underwhelming. Currently relevant agencies of Nepal are coordinating and preparing action plan as per Priority Actions,

Key Findings and Recommended Actions mentioned in Nepal's MER report 2023.

Furthermore, Nepal should pay attention towards the final report of recent MER. Since it focuses 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. Outcomes, recommendations and suggestion of the the third-round mutual evaluation is an opportunity to prove Nepal that it is very sensitive towards the implementation of AML/CFT norms into reality.