

**Annual Report (2016/17)**  
**(2073/2074)**



**Financial Information Unit**  
**Nepal Rastra Bank**  
**Baluwatar, Kathmandu**  
**Nepal**

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## Acronyms/Abbreviations

ALPA	:	Asset (Money) Laundering Prevention Act
AML	:	Anti Money Laundering
AMLO	:	Anti Money Laundering Office of Thailand
APG	:	Asia Pacific Group on Money Laundering
AUSTRAC	:	Australian Transaction Reports and Analysis Centre
BFI	:	Bank and Financial Institutions
BFIRD	:	Banks and Financial Institutions Regulation Department
BIMSTEC	:	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BSD	:	Bank Supervision Department
C	:	Compliant
CDD	:	Customer Due Diligence
CEO	:	Chief Executive Officer
CFT	:	Combating Financing of Terrorism
CIAA	:	Commission for the Investigation of Abuse of Authority
CNI	:	Confederation of Nepalese Industry
DBSD	:	Development Bank Supervision Department
DMLI	:	Department of Money Laundering Investigation
DNFBPs	:	Designated Non Financial Business and Professions
DRI	:	Department of Revenue Investigation
ECDD	:	Enhanced Customer Due Diligence
EGMONT	:	The Egmont Group of Financial Intelligence Units
FATF	:	Financial Action Task Force
FCSD	:	Finance Company Supervision Department
FIU-Nepal	:	Financial Information Unit of Nepal
FIUs	:	Financial Intelligence Units
FM	:	Finance Ministry
FNCCI	:	Federation of Nepalese Chamber of Commerce and Industry
GoN	:	Government of Nepal
GSD	:	General Service Department
ICRG	:	International Cooperation Review Group of FATF
IMF	:	International Monetary Fund
IT	:	Information Technology
IRD	:	Inland Revenue Department
LC	:	Largely Compliant
LEA	:	Law Enforcement Agencies
MER	:	Mutual Evaluation Report
MFPSD	:	Micro-Finance Promotion and Supervision Department
ML	:	Money Laundering
MLA	:	Mutual Legal Assistance
MOFA	:	Ministry of Foreign Affairs
MOHA	:	Ministry of Home Affairs
MoLJPA	:	Ministry of Law, Justice and Parliamentary Affairs

MOU	:	Memorandum of Understanding
NA	:	Not Applicable
NC	:	Non-Compliant
NCC	:	National Coordination Committee
NPOs	:	Non Profit Organizations
NRA	:	National Risk Assessment
NRB	:	Nepal Rastra Bank
NRs	:	Nepalese Rupees
OEMs	:	Other Enforceable Means
PC	:	Partially Compliant
PEPs	:	Politically Exposed Persons
PF	:	Proliferation Financing
R	:	Recommendation
RE	:	Reporting Entities
Recs	:	Recommendations
RN	:	Recommendation Number
RRG	:	Regional Review Group
SAARC	:	South Asian Association for Regional Cooperation
SEBON	:	Securities Board of Nepal
SIP	:	Strategic Implementation Planning
STR	:	Suspicious Transaction Report
SWC	:	Social Welfare Council
TF	:	Terrorism Financing
TTRs	:	Threshold Transaction Reports
UNO	:	United Nations Organization
UNODC	:	United Nations Office on Drugs and Crime
UNSCR	:	United Nations Security Council Resolution
USA	:	United States of America
VIP	:	Very Important Person
WB	:	World Bank

## Director's Message

I am pleased to present the annual report for the fiscal year 2016/17 (2073/74), prepared by the FIU-Nepal. This report highlights the activities of the FIU Nepal during the year and it includes the progress, typologies and statistical information. The headline statistical information being the reported number of Suspicious Transaction Reports (STRs) and Threshold Transaction Reports (TTRs) received during the period. The FIU-Nepal's reporting regime has come a long way and, in this long journey several success stories have been achieved. The FIU has been continuously and proactively working in identifying risk areas of AML/CFT and targeting those to meet standards for ensuring that country should remain to be safe and secure.

The year 2016/17 has been quite encouraging for the FIU and saw a record increase in the number of the STRs' being received, processed and disseminated to LEAs' as compared to 2015/16. Likewise, the number of TTR received has also been increased from the previous year. The continued guidance, typologies and presentations by the FIU, in conjunction with an enhanced understanding of the obligations to report is attributed to the increase in the reporting to the FIU, ultimately increasing the dissemination. Entities lacking to report are required to enforce for the reporting by the respective regulators and to comply with the financial sector supervisor's guidelines and directives.

FIU-Nepal has been conducting strategic analysis, including identifying and evaluating the STR information. We hope it plays a pivotal role in identifying trends associated to money laundering, criminal conduct and terrorist financing. Likewise, strategic analysis also identifies the threats and vulnerabilities that could undermine the integrity and stability of the financial sector within Nepal.

The top reporting sector for 2016/17 remained banking sector. The criminality most commonly reported in STRs during 2016/17 was tax evasion followed by misuse of payment products. This has been a common phenomenon from the last three years. Moreover, there has been a marked increase in STRs related to charities received in the name of Christianity, Muslim and other religious activities.

A main goal of the FATF's 40 Standards is to prevent financial systems from being used for money laundering and terrorist financing purposes. Whilst the reporting of STRs relating to terrorist financing is low in Nepal. Reporting Entities must continue to focus on preventing the movement of funds and identify terrorist financing and disrupt sources of revenue for terrorist organizations. None of the Reporting Entities has ever reported attempted transactions and activity to the FIU as per the obligation under the Act. I would encourage the reporting of attempts if there is sufficient information which may identify the person(s) undertaking these acts

Now-a-days cyber related crimes are growing. It is therefore a major and growing threat to the financial sector in Nepal. FIU-Nepal would try to give Guidance on cyber related crime in the coming years.

Further, I hope, the AML/CFT compliance of Nepal will be more effective and move forward to better result oriented achievement in the coming days. Likewise, I take this opportunity to thank all the stakeholders, NCC and reporting entities for their support and cooperation to fight against AML/CFT. I look forward to working more closely with our stakeholders in achieving our vision of protecting Nepal from AML/CFT and to be prepared for the upcoming mutual evaluation in 2019/20.

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

**Ramu Paudel**  
**Chief, FIU-Nepal**

## **Chapter 1**

### **Nepal's AML/CFT Regime**

#### **1.1 Introduction**

Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF), are the greatest threat to human civilization, which distort world peace, security, law and order, causing adverse impacts on the entire financial and criminal justice systems. Such crimes 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.

#### **1.2 Nepal**

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

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

#### **1.3 Efforts of Nepal to Combat ML/TF**

##### **1.3.1 Policy Measures**

AML/CFT policy framework of Nepal begins with the AML/CFT National strategy to the numbers of statutes and regulatory/supervisory guidelines and preparation of the National Risk Assessment. The GoN had implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011ó2016

with the different objectives. The new National Strategy is due as the 5 year Strategy has already passed. Strategy of 2011-2016 consisted of time based action plans and confined the dedicated agencies to materialize such actions. Majority of action plans that have substantial agenda have already been materialized as traced out from its time based assessment.

The on-going Self-Assessment of AML/CFT regime in Nepal would bring out the drawbacks and the areas to be rectified and the data obtained though Self-Assessment would be helpful to make the new strategy for the coming few years in Nepal.

### **1.3.2 Legal Measures**

Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly in The Assets (Money) Laundering Prevention Act, 2008. Other laws relating to criminalization of predicate offences, Regulation/Supervision, MLA, Extradition, Confiscation (Seizing and Freezing) of Criminal Proceeds and Instrumentalities, etc. are integral to this system. The **Annex 1-3** presents the laws, international conventions, regulatory directives and supervisory manuals that have been enacted and implemented. Along with these legal instrument NRB has implemented 20 off-site and on-site Supervisory Manuals in 2014 so as to ensure the compliance of AML/CFT laws.

### **1.4 International Cooperation**

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

#### **1.4.1 Nepal in APG**

Having obtained membership of APG in 2002, Nepal 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 was evaluated for the second time in 2010 based on old FATF 40 plus 9 standards. The report was adopted in July 2011 where Nepal was rated NC or PC on 44 Recommendations out of 49, which included 15 of the 16 Core/Key FATF Recs. as NC/PC. 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 has continued to participate in all kinds of plenary, trainings and meeting being organized by APG. Nepal has also showed its interest and commitment during the APG Plenary in Colombo, Sri Lank in 2017 to organize a APG Plenary in Kathmandu in 2018.

#### **1.4.2 FATF**

Financial Action Task Force (FATF) is a global standard setting body on AML/CFT and an inter-governmental organization for monitoring AML/CFT compliance. It has revised, updated and combined its earlier 40 + 9 AML/CFT Standards into 40 Standards called ***INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION, 2012. Its ASSESSMENT METHODOLOGY 2013*** has expanded the scope of evaluation to the assessment of the evaluation of effectiveness of the overall system of a jurisdiction. The Methodology has recommended for the assessment of technical compliance as well as assessment of effectiveness of a jurisdiction. Evaluation of effectiveness is a new process and is a tough challenge not only to Nepal but also to the entire world.

Although, Nepal is not a member to FATF directly, it has a relation with FATF through APG (the FATF style regional body also called FSRB). Nepal was also engaged with FATF through ICRG process since 2009. Nepal has proved its commitments by complying international standards through enactment and amendment of relevant legislations, establishment and designation of institutions like Financial Information Unit (FIU), Department of Money Laundering Investigation and other Regulatory Institutions for various sectors and Investigating Agencies for others.

#### **1.4.3 IMF/World Bank**

Nepal is a member country to the World Bank and International Monetary Fund. Both the organizations have mandate for certain AML/CFT matters basically in accordance to Article IV under Articles of Agreement of the International Monetary Fund. In addition to this, these global organizations have provided trainings and technical assistance for capacity buildings for the member countries. Both agencies have supported Nepal with providing the tools for transparency and preparing on how to going after dirty money. IMF has substantially supported Nepal in developing National AML/CFT strategy, legal, supervisory and FIU capacity building frameworks, which is still going on up to April, 2016. The World Bank has technically assisted Nepal in conducting National ML/TF Risk Assessment, and the NRA working team has already submitted NRA report to risk committee headed by FIU Chief and it is in the final stage.

#### **1.4.4 Egmont Group of FIUs**

In 1995, a group of FIUs decided to establish an informal group for the stimulation of international cooperation. Now, it is known as the Egmont Group of Financial Intelligence Units and these FIUs meet regularly to find ways to cooperate, especially in the areas of information exchange, training and the sharing of expertise. Egmont provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and the financing of terrorism of which the FIU-Nepal is a member.

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.

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.

In 2016/17, the FIU received several Egmont requests for information. These were received from jurisdictions including the USA, Cayman Islands, Taiwan, Turkey India, Samoa, Japan, Bangladesh Republic of Philippines, Latvia and Kazakhstan.

Similarly, in 2016/17, the FIU sent several Egmont requests for information to different jurisdictions, including Latvia, Panama, Bulgaria, Portugal, Belarus, British Virgin Island, Macedonia, Uzbekistan, Austria, Serbia, UK, USA and in one of the case the request was sent to all the ESW Users.

When a request for information is received by the FIU, it is acknowledged upon receipt, and responded to in a timely manner, dependent on the nature and detail of the information requested. 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.

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 .

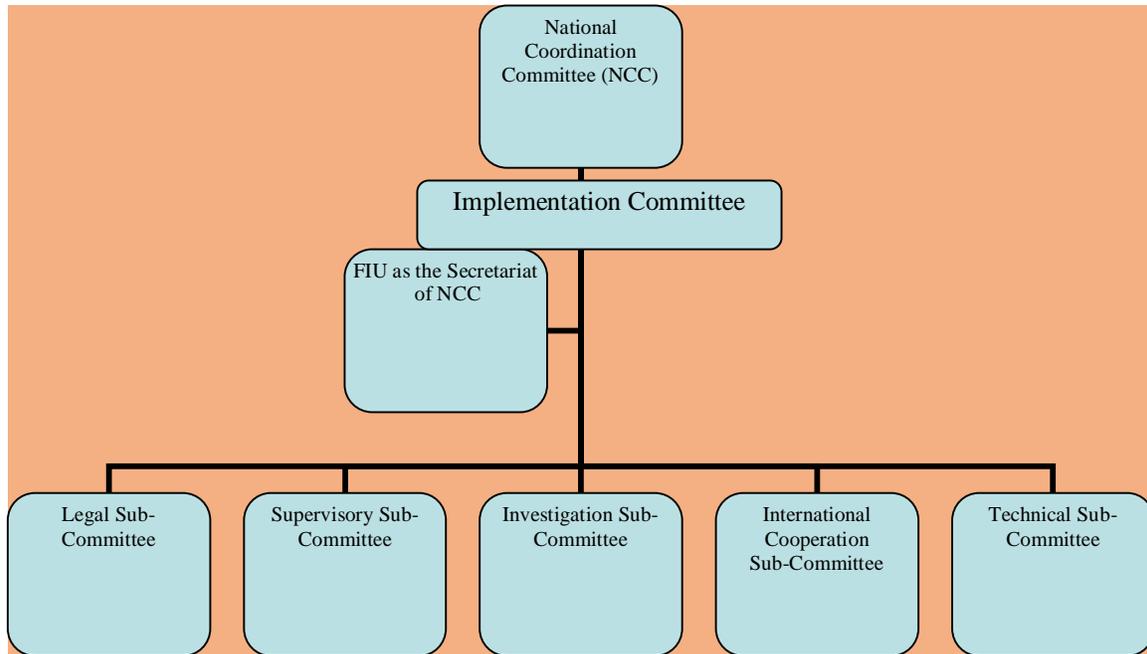
The information included in these requests may be used for intelligence purposes only and may only be forwarded to law enforcement with the express consent of the disseminating FIU. If the information is required for evidential purposes, law enforcement must request the information by way of submitting 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 the Ministry of Finance and other committees as constituted under National Strategy and by the decision of NCC.

### 1.5.1 Coordination at Policy Level

**Figure 1.1: Hierarchy of Mechanism**



Source: FIU-Nepal, NRB

National Coordination Committee is the policy making body of Nepal's AML/CFT regime, which is responsible for mostly policies and coordination among the different stakeholders. Implementation Committee headed by Deputy Governor and several other committees and sub-committees including operational agencies work to support NCC for national achievement. Since, the AML/CFT regime is an area that cannot be dealt ignoring multi-agencies' roles and responsibilities, that's why it has many stakeholders from different sectors and agencies.

Secretary of Ministry of Finance heads the NCC; other members are secretaries from Ministry of Law and Justice, Ministry of Home Affairs, Ministry of Foreign Affairs, Office of Prime Minister and Council of Ministers, and Commission for the Investigation of Abuse of Authority. Other members include Deputy Attorney General from Office of Attorney General, Deputy Governor of Nepal Rastra Bank, Inspector General from Nepal Police, Chief of Department of Money Laundering Investigation. The head of Financial Information Unit takes the responsibility of the secretary of the committee. National Coordination Committee is quite proactive in developing AML/CFT policy, legal frameworks, and institutional frameworks, as well as facilitating coordination functions between the agencies.

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 monitoring and implementation of AML/CFT policies formulated by

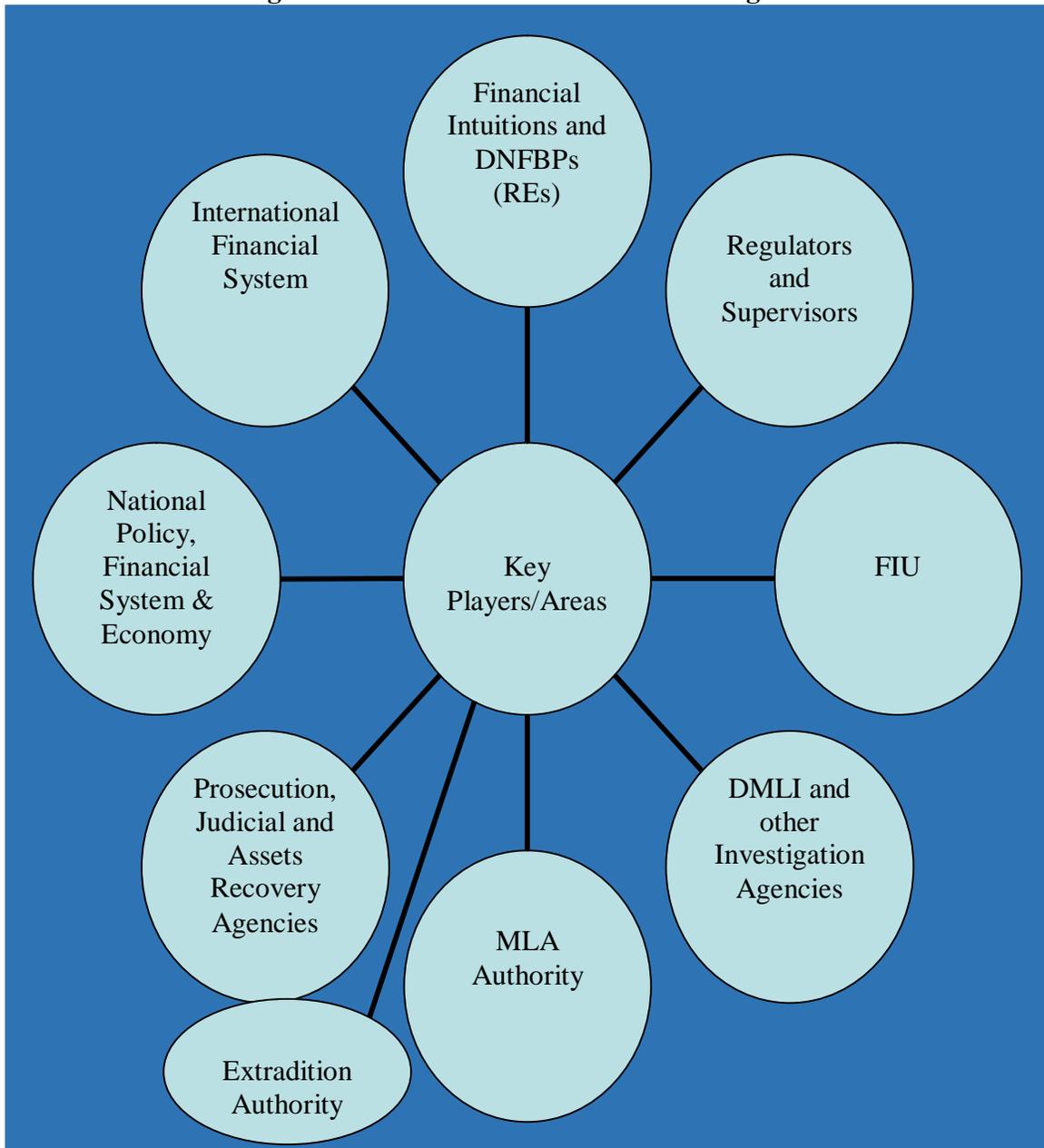
NCC and monitoring the progress of National Strategy, 2011-2016. This committee coordinates operational and implementation activities and assesses the effectiveness of different stakeholders involved in AML/CFT regime. Other sub-committees include legal, supervisory, investigation, international cooperation, technical and are concentrated on their core sectoral business.

***1.5.2 Operational Measures***

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

**Key Players and Stakeholders in the AML/CFT System**

**Figure 1.2: Stakeholder in AML/CFT Regime**



**1.5.3 Key Players with Assigned Responsibility**

Based on the current domestic legal regime of Nepal and revised FATF Recommendations/standards, table presented in Annex 4 defines the domestic agencies that are responsible to carry out the core obligations in Nepalese AML/CFT system. Each agencies are provided with the responsibility to meet the standards that are provided by

the FATF. National Coordination Committee in Nepal is the highest authority to advise the government with the any kind of laws and policies required for AML/CFT regime. Likewise, Department of Money Laundering Investigations is institutionalized to investigate the ML offences whereas, the reporting entities are obliged to follow the preventive measures which are under part 4 of the recommendations.

#### ***1.5.4 Next Mutual Evaluation of Nepal***

Nepal's third mutual evaluation is scheduled to be held in 2020-021 under new methodology. 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.

## **Chapter 2**

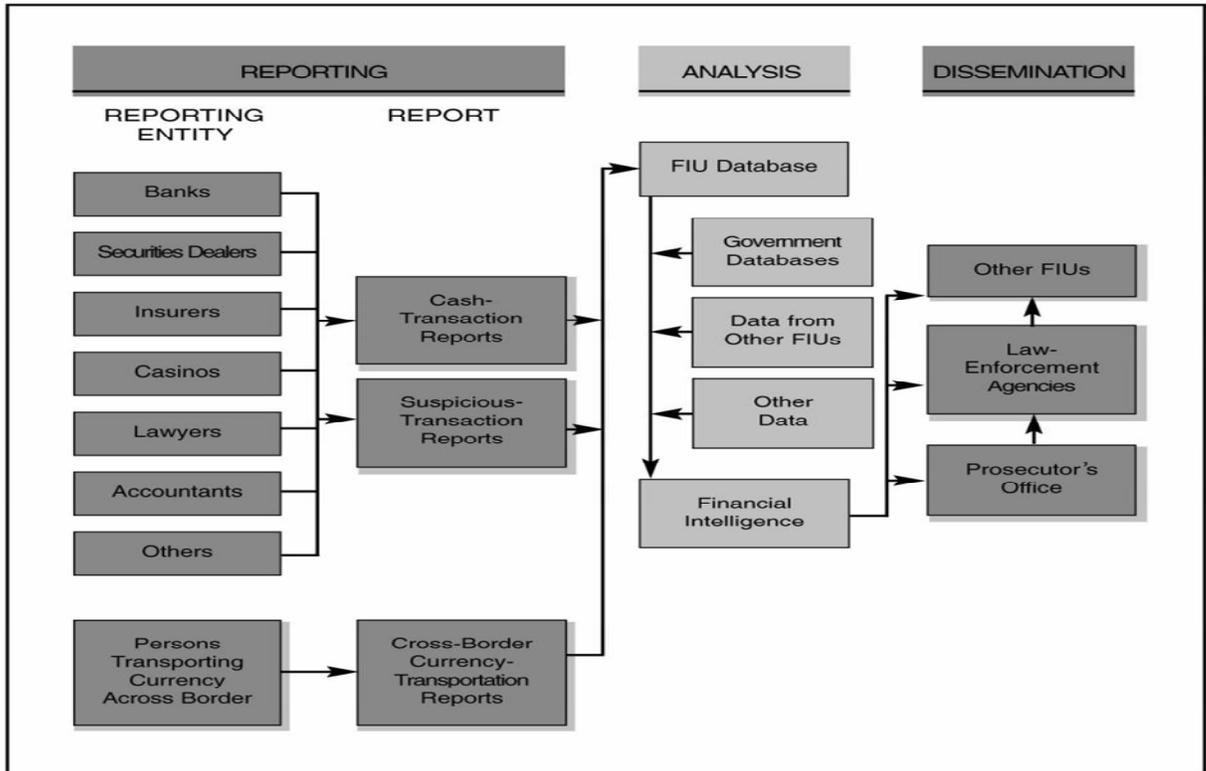
### **FIU-Nepal**

#### **2.1 Introduction**

Financial Information Unit of Nepal (FIU-Nepal), a functionally autonomous unit with its office within the premises of Nepal Rastra Bank, the central bank of Nepal, was established on 21 April 2008 as an administrative FIU under ss. 9 and 10 of Asset (Money) Laundering Prevention Act (ALPA), 2008. Furthermore, second amendment of ALPA has improved legal provisions regarding FIU and made them compatible with international standards. Financial Information Unit-Nepal serves 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 in and shaping up the AML/CFT system in Nepal.

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

**Figure 2.1: Typical FIU Information and Functional Flow**



Source: FIU-Nepal

## 2.2 Structure of FIU-Nepal

Financial Information Unit-Nepal commenced its functions with few officials in 2008. The chart in **Annex 5** shows the current workforce. It is expected that about 25-30 employees will be needed in the future to function smoothly.

## 2.3 Reporting Entities

Reporting entities, legally obliged to report TTRs and STRs to FIU in a specified format, consist of all banks and financial institutions, money changers and remitters, cooperatives, insurance companies, securities business persons, designated government agencies such as the Office of the Company Registrar and Land Revenue Offices; and DNFBPs like dealers in precious stones and metals, casinos, independent accountants and legal professional, notary public, trust and company service providers, etc.

## 2.4 Threshold Transaction Reports (TTRs)

Threshold Transaction Reports consist of currency transaction of certain threshold limit designated by Nepal Rastra Bank. So it is also called as Cash Transaction Report (CTR). Such transactions are to be reported to FIU within 15 days of event. Currently, the designated thresholds for different REs are as follows.

**Table 2.1: Designated Threshold across Industries/Agencies**

S.N.	Industry	Threshold
1	Banks/ Financial Institutions and cooperatives	One million rupees in cash in a day by a customer, either in a single transaction or in multiple transactions.
2	Insurance Company	One hundred thousand rupees annual premium for life insurance and three hundred thousand rupees annual premium for non-life insurance policies.
3	Money Remitters	One million rupees in a day, either in a single or multiple transactions.
4	Land Revenue Office	Purchase/sale of land and house worth ten million rupees or more.
5	Money Changers	Five hundred thousand rupees or more in a day, either in a single or multiple transactions.
6	Casinos	Gaming of two hundred thousand rupees or more in a day, either in a single gaming or in multiple gaming. Exchanging casino chip worth three hundred thousand rupees or more amounts in a day by any person to casino cheque, either in a transaction or multiple transactions.
7	Dealers in precious stones and metals.	Sale or purchase of precious stones or metals worth one million rupees or more in a day.

Source: FIU-Nepal

The trend of reporting TTRs is growing up. It is a result of self-awareness programs conducted for REs about their legal responsibilities and compliance modalities as well as from increasing supervisory activities. Following Box gives the numbers of TTRs and their trends.

**Table 2.2: The Numbers of TTRs Received from Reporting Entities**

S.N	Reporting Institutions	2066/67 2009/10	2067/68 2010/11	2068/69 2011/12	2069/70 2012/13	2070/71 2013/14	2071/72 2014/15	2072/73 2015/16	2073/74 2016/17
1.	BFI's	8,42,358	28,07,860	30,88,646	33,78,588	34,81,299	36,14,456	31,65,139	45,64,413
2.	Govt. Agencies	-	3,741	10,517	1,075	1,137	1,341	846	24,475*
3.	Insurance companies	-	-	-	13,884	14,798	14,077	21,261	58,508
4	Securities companies	-	-	-	14,619	15,921	15,896	9,075	60,961
5.	Others	-	-	-	-	5,791	3,353	1,218	5,213**
	<b>Total</b>	<b>8,42,358</b>	<b>28,11,601</b>	<b>30,99,163</b>	<b>34,08,166</b>	<b>35,18,946</b>	<b>36,49,123</b>	<b>31,97,539</b>	<b>47,13,570</b>

\* Including Reports from Cooperatives.

\*\* Including Reports from Money Remitters and Changers

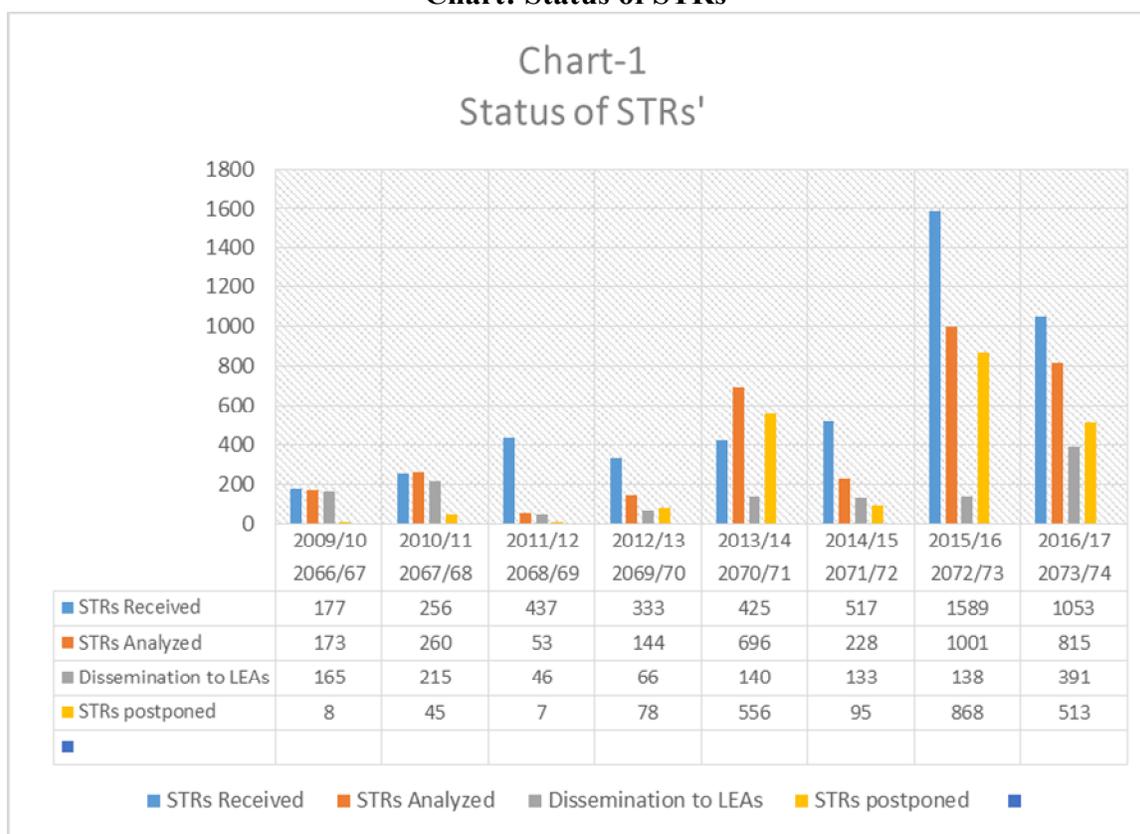
Source: FIU-Nepal

The above table shows that TTRs from banks and financial institutions are increasing in a steady trend over the period. However, there was nominal decrease in TTRs from insurance, securities and other reporting entities in the year 2015/16. But the TTRs from those sectors have increased tremendously in 2016/17. Number of TTRs from government agencies has also witnessed a nominal increase compared to previous year. In 2014/15 TTRs from almost all sectors are lesser than those were in previous year. It is presumed that the low volume of TTRs is due to lesser transactions in both financial and economic sectors after the great earthquake of April 25, 2015 till the reporting period. As the transactions have increased the reports have also been increased in 2016/17.

### 2.5 Suspicious Transaction Reports (STRs)

All designated REs are legally obliged for reporting STRs to FIU within three days of suspicion. Such suspicious transactions include those transactions or attempted transactions under the suspicion of REs or REs have reasonable grounds to suspect that the money/asset is generated from or related to ML/TF or other offences or illegal activities. It may also include the transactions that are large, complex, unusual, legally or economically impossible, or discordant. Once REs report STR, FIU makes its best efforts to add value on such information so as to see the possibility of converting it into financial intelligence. Following Box and Graph show the trends of STRs and their analysis from its beginning.

**Chart: Status of STRs'**



Source: FIU-Nepal

The above statistics show that numbers of STRs appear to be decreased this year, this is mainly due to the submission of quality STRs' from the reporting entities. the FIU's had also instructed through different programs to curve down the unwanted STRs'. Out of the analyzed STR, 391 have been disseminated to different LEAs whereas 513 have been postponed for the time being due to lack of strong grounds and possibility of use in future analysis.

## 2.6 Analysis

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

## 2.7 Dissemination

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

**Table 2.3: Dissemination (2016/17) i.e. 2073/2074**

Agencies	Numbers
DMLI	39
CIB/Nepal Police	124
DRI	174
IRD	8
CIAA	9
Regulator/Supervisor	37
<b>Total</b>	<b>391</b>

Source: FIU-Nepal

## 2.8 NRB Strategic Planning 2012-2016

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. All the major activities of the plan have been concluded within the given timeline. Due to some procurement process, the tender for the purchase of required hardware for goAML could not be completed on time, but now the procurement process has been speeding up and FIU target to implement the goAML to go on live by the end of mid July 2018.

## 2.9 Building Partnership

Financial Information Unit of 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 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 further whetted by the functional efficiency of other stakeholders. So, effective supervision of REs to produce qualitative STRs and investigation and prosecution on its products will greatly assists FIU to enhance its functional capacity.

## 2.10 Domestic Cooperation

Reporting Entities are the foundation of AML/CFT system and are the main information feeders and LEAs are end users of FIU products. On the other hand, regulators and supervisors are broadly responsible for examining the implementation of AML/CFT regime by the REs. It is expected that regulators and supervisors should be proactive for a

sound and functional AML/CFT system within REs, which, consequently, results in higher and high quality reporting enhancing the entire system to utilize the time and resources efficiently. Similarly, FIU as the Secretariat of NCC has other active roles in national policy and support on such activities.

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

### 2.11 International Cooperation

Section 10 of Asset (Money) Laundering Prevention Act, 2008 mandates FIU-Nepal to exchange information with foreign counterparts on suspected ML, TF, PF and related offences spontaneously or upon request. For the purpose of exchanging information and enhancing international cooperation, it has completed Memorandum of Understanding (MoU) with 14 counterparts. We are in direct consultation with the FIU of Timor-Leste for the completion of Memorandum of Understanding.

**Table 2.4: Information exchanges with foreign counterpart FIUs**

Fiscal Year	Foreign Counterpart	Nepal's Dissemination			Dissemination to Nepal		
		Spont's	Upon Request	Remarks	Spont's	Upon Request	Remarks
2009/10	USA		1				
2010/11	India		3				
2011/12	India		4				
2012/13	Mauritius	1					
	India		2				
2013/14	Australia	1					
2014/15	Malaysia	1		Request			
2015/16	-	-	-	-	-	-	-
2016/17	-	-	-	-	-	-	-

Source: FIU-Nepal

**2.12 National ML/TF Risk Assessment (NRA)**

Asset Laundering Prevention Act has taken National ML/TF Risk Assessment as a regular business. National Risk Assessment is one of the ten objectives of Nepal's National AML/CFT Strategy and Action Plan 2011-2016. A Committee under the coordination of the FIU Head with representatives from DMLI and Nepal Police has been formed by Implementation Committee to conduct NRA. Two national workshops were concluded with Technical Assistance of World Bank. The first was conducted from 8 to 10, July 2013 with the participation of 21 public sector agencies including regulatory organizations, ministries, departments and offices of the Government of Nepal. Three working groups namely Vulnerability and Threat (Policy and Proceeds of Crime Group); Financial; and DNFPS (Non-financial) had been formed and these groups worked to conduct assessment. Second subsequent workshop was conducted from 9 to 11, July 2014 to make discussion in the preliminary draft report and refine the assessment. Working Groups have been giving final tuning of the draft NRA in order to submit it to NRA Committee for the finalization of report.

Furthermore, IMF has been assisting Nepal Rastra Bank to develop tools for AML/CFT risk based supervision for banking sector and assisting FIU for strengthening its function. Additionally, AUSTRAC assisted Securities Board and Insurance Board of Nepal to strengthen their AML/CFT measures.

## Chapter 3 Capacity Building

### 3.1 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 recourses engaged in this regime should be enhanced concurrently.

Financial Information Unit-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. Furthermore, Financial Information Unit-Nepal is achieving its best possible result under its limited financial and human resources and is seriously considering for developing a specialized capacity building programs in order to discharge its duties.

### 3.2 Automation of FIU-Nepal

Financial Information Unit-Nepal has now installed goAML software developed by United Nations Office on Drugs and Crime (UNODC). It will help for online receipt of reports and analyze such reports in an automated form. As per the experiences of other counterparts, goAML will not only gear up the capacity of FIU, particularly in its core function like receiving and analyzing information, but also will assist for qualitative investigation. However, it is the foremost need of FIU-Nepal to make development of analytical skills compatible to the highly automated system, goAML.

#### **Box: 3.1: Introduction to goAML**

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

A four-member "goAML Software Implementation Team" was formed on 14 August 2014 (2071/04/29 BS) comprising 2 technical staffs from Information

Technology (IT) Department and 2 from FIU. In consultation with UNODC, the goAML Implementation Team has developed an implementation plan that comprised of the list of tasks/action items to be performed, list of team(s) responsible for completing those tasks/action items and estimated completion time. This Implementation process was divided 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 (2071/05/04 BS) and was completed on 26 August 2014 (2071/05/10 BS) with the combined effort of goAML Implementation Team and team 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 notices 4 times in 5 years - starting from 30 March 2013 (2069/12/17 BS) to 2 December 2016 (2073/08/17 BS) - to procure major hardware components required for the goAML Implementation. Some of the hardware components (Network Component) were delivered to FIU at the end of Asar 2074 only.

The major tasks of the second phase that have been completed are - Translation of website and applications, Preparation of the reference tables, Registration of the reporting entities, Communicating to each reporting entity their Unique ID, Setup of roles and users, Preparation of workflows and SOP, Filling the reference tables in accordance with the schema and local needs, Testing XML data files with reporting entities and support as required and Registration of reporting persons and authorizing them accordingly. During this phase XML schema, goAML XML Reporting Instruction Specification, XML sample files with different scenarios, Lookup Table, Reference Table, goAML Web Reporting Guide, goAML Web User Guide, etc. were prepared and distributed to REs (Commercial Banks). Similarly various other documents related to goAML client were also prepared such as goAML Admin Guide, Work Flows for STR and Cases, etc. Still there are few minor tasks of this phase are remaining but are expected to complete soon before starting of Phase three (which will start only after onsite visit by EAC-VN Team). So, FIU has declared its production readiness to UNODC and are planning for the production visit.

The third phase has to be completed with the combined effort of FIU goAML Implementation Team and EAC-VN Team. This phase includes tasks related production installations, Training to both IT and business team, and prepare system for go Live. Completion of this phase declares 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.

*Source: FIU-Nepal*

### **3.3 FIU with REs**

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

### **3.4 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.

### **3.5 FIU with Other Agencies**

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

### **3.6 International Technical Assistance and Training**

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

## Chapter 4 Opportunities and Challenges

### 4.1 Overview

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

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

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

### 4.2 Challenges

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

1. To make Information Technology (goAML) system fully operational,
2. To create intensive awareness among REs on STR and reporting system,

3. To maintain inter-agency coordination and cooperation in policy and operational levels,
4. To enhance skills and capacity of FIU officials and other related stakeholders
5. To assist in national policy formation and implementation.

### **4.3 Expectation**

It is expected that with the achievement of Egmont membership, FIU-Nepal will have effective international cooperation and coordination in combating money laundering, terrorist financing and proliferation financing. Furthermore, it is hoped that the membership will help Nepal to recover its stolen assets from money launderers and to prevent terrorism in South Asian territory and to stop the terrorists' activities directing through this region. The FIU-Nepal will put increased focus on its core functions of receiving, analysis and dissemination of financial information, It will make all possible efforts to maintain coordination, cooperation and concentrated trainings and workshops for achieving its objectives and assisting supervisors, LEAs, prosecutors and judicial authorities for other strategic contribution to the ML/TF system. It is the foremost need of FIU-Nepal to make development of analytical skills compatible to the highly automated system, goAML.

**Annex 1: Legal Instruments against ML/TF**

S.N.	Instruments
1.	Assets (Money) Laundering Prevention Act, 2064 (2008) <ul style="list-style-type: none"> <li>• 1<sup>st</sup> amendment in 2068 (2011)</li> <li>• Two Gazette Notifications for expansion of predicate offence of money laundering (now included in the list after second amendment)</li> <li>• Comprehensive 2nd amendment in 2070 (2013)</li> </ul>
2.	Assets (Money) Laundering Prevention Rules, 2073 (2016)
3.	Mutual Legal Assistance Act, 2014
4.	Extradition Act, 2014
5.	Organized Crimes Prevention Act, 2014
6.	Confiscation of Criminal Proceeds Act 2014
7.	UNSCRs Rules, 2013
8.	Mutual Legal Assistance Rules, 2014

*Source: FIU-Nepal, NRB*

**Annex 2: Ratified/Acceded International Conventions**

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

*Source: FIU-Nepal, NRB*

**Annex 3: Regulatory/Supervisory Instruments**

S.N.	Directives	Issuing Authority
1.	NRB Directives to Bank and Financial Institutions, 2017	NRB, Regulation Department
2.	Directives to Money Remitters	NRB, Foreign Exchange Management Department
3.	Directives to Money Changers	NRB, Foreign Exchange Management Department
4.	Directives to Securities Sector	SEBON
5.	Directives to Insurance Sector	Insurance Board in 2012
6.	Directives to all agencies for freezing the property and funds of Designated as terrorist, terrorist organizations and groups by UN Security Council Resolutions, 2012, (replaced by the Act now)	Replaced by the 2nd amendment of ALPA
7.	FIU Suspicious Transaction Reporting Guidelines	
8.	FIU Threshold Transaction Reporting Guidelines	
9.	NRB/FIU Operational Manual	
10.	FIU Security Manual	
11.	DMLI Investigation Manual	

*Source: FIU-Nepal, NRB*

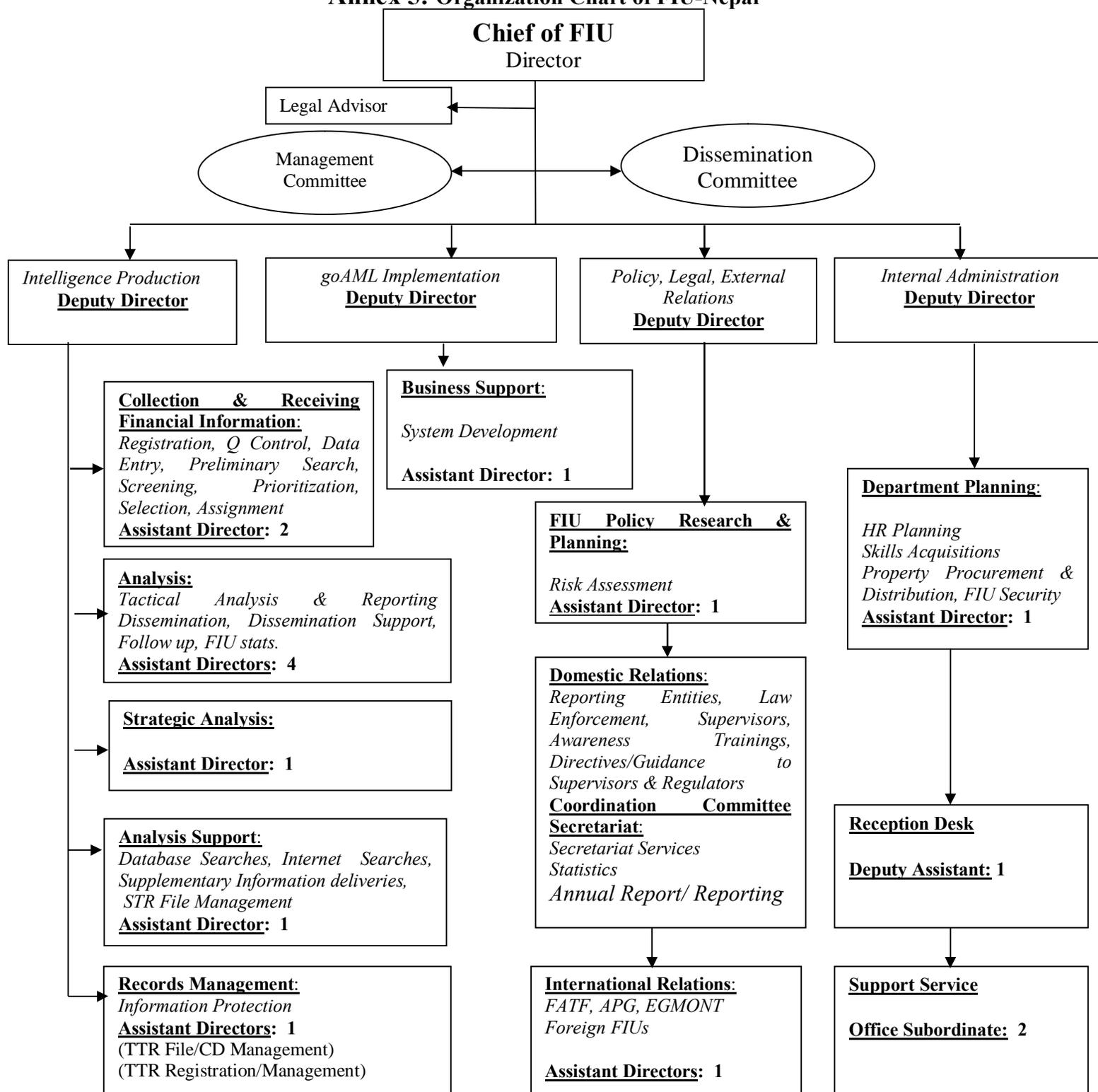
**Annex 4: Responsibility of the Key Players (FATF Standards and Prevailing Nepalese Laws)**

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

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

*Source: FIU-Nepal, NRB*

**Annex 5: Organization Chart of FIU-Nepal**



Source: FIU-Nepal

## **FREQUENTLY ASKED QUESTIONS (FAQ)-STRs'**

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

### **1. What is a STR?**

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

### **2. Which law should I disclose 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.

### **3. When should I submit a STR ?**

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

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

### **4. How do I submit a STR to the FIU?**

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

### **5. Does FIU have the automatic system for the reporting of STR?**

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

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

**6. 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.

**7. 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.

**8. 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.

**9. 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.

## STR TYPOLOGIES

### Typology 1

Mr./Mrs. A had opened a saving account in the commercial bank. S/He had mentioned the occupation as student studying in Nepal and declared his estimated annual income NRS. 0.7 million and approximately 35 transactions in a year. However, looking at his/her two years past transactions, it has been found that his/her accumulated actual transactions are more than NRS 10 million in a year.

Upon further analysis there are high ATM withdrawal transactions mostly from India. the customer has also frequently transferring funds from the account via e-banking to his/her relatives account.

Analysis identified that Mr./Mrs. A has been operating account to misuse foreign currency and the STR analysis recommends to continue the enquiries upon his/her transaction. Enquiries are ongoing.

**Indicators of STR:** Cash deposits, abnormal behavior, failure to provide due diligence and mismatch of transactions and KYC information.

### Typology 2

Mr./Mrs. A has been maintaining saving account in one of the commercial bank. The product of saving account being used by him/her was "Staff Salary Saving Account". As per the information given to bank s/he is also associated with ABC Company Pvt. Ltd. As per the information provided in the KYC form his/her total annual income was NRS 0.5 million and total amount of transactions in a year was NRS 5 millions.

However, while reviewing his/her account turnover, his/her accumulated actual transaction was more than 94 million in a year. It was also found that besides salary transfers and other regular transactions, frequent and high volume of cash transactions in his Staff Salary Saving Account was made.

**Indicators of STR:** Large and Complex cash transaction, tax evasion, mismatch of transactions and KYC information and misuse of identity.