



Nepal Rastra Bank



Financial Information Unit
ANNUAL REPORT
2020/21

**Financial Information Unit of Nepal
(FIU-Nepal)**

ANNUAL REPORT

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Nepal Rastra Bank**
Baluwatar, Kathmandu
Nepal



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ACRONYMS

ACAMS	Association for Certified Anti-Money Laundering Specialist
ALPA	Asset (Money) Laundering Prevention Act
AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
BAFIA	Bank and Financial Institution Act
BCBS	Basel Committee on Banking Supervision
BFIs	Bank and Financial Institutions
BFIRD	Banks and Financial Institutions Regulation Department
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CIAA	Commission for the Investigation of Abuse of Authority
DMLI	Department of Money Laundering Investigation
DNFBPs	Designated Non-Financial Businesses and Professions
DOLMA	Department of Land Management and Archive
DRI	Department of Revenue Investigation
ECDD	Enhanced Customer Due Diligence
ECOFEL	Egmont Centre for FIU Excellence and Leadership
EGMONT	The Egmont Group of Financial Intelligence Units
ESW	Egmont Secure Web
FATF	Financial Action Task Force
FIU-Nepal	Financial Information Unit of Nepal
FIUs	Financial Intelligence Units
GoN	Government of Nepal
GC	Governance Committee
ICAN	Institute of Chartered Accountants of Nepal
ICRG	International Cooperation Review Group of FATF
IMF	International Monetary Fund
IB	Insurance Board
ICT	Information and Communications Technology
IOs	Immediate Outcomes
IRD	Inland Revenue Department
IT	Information Technology
KPI	Key Performance Indicator
LC	Largely Compliant
LEAs	Law Enforcement Agencies
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MoF	Ministry of Finance

MoU	Memorandum of Understanding
NA	Not Applicable
NC	Non Compliant
NCC	National Coordination Committee
NPO	Non Profit Organizations
NRA	National ML/TF Risk Assessment
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
OECD	Organization for Economic Co-operation and Development
PC	Partially Compliant
PEPs	Politically Exposed Persons
PF	Proliferation Financing
Recs	Recommendations
REs	Reporting Entities
SAARC	South Asian Association for Regional Cooperation
SAR	Suspicious Activity Report
SEBON	Securities Board of Nepal
SIP	Strategic Implementation Planning
SPMS	Software Products for Member States
STR	Suspicious Transaction Report
SWC	Social Welfare Council
TA	Technical Assistance
TF	Terrorism Financing
TTRs	Threshold Transaction Reports
UN	United Nations
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution
VIP	Very Important Person
WB	World Bank
XML	Extensible Markup Language

DIRECTOR'S MESSAGE

It gives me a pleasure to present the 10th Annual Report of the FIU-Nepal for FY 2020/21. This fiscal year as well, we had to face the challenges posed by Covid-19 pandemic. The office followed “work from home” modality, at times, run with limited staffs during the lockdown period. Despite these limitations FIU-Nepal was able to accomplish majority of the set targets.

FIU-Nepal is committed to perform its functions as mandated by the Assets (Money) Laundering Prevention Acts (2008), Rules (2016) and Bylaws (2020). Accordingly, our activities and efforts are directed towards incorporating Reporting Entities and Law Enforcement Agencies in the goAML system. This fiscal year, ‘B’ & ‘C’ Class banks and financial institutions were integrated. Integration of A, B & C Class bank in the goAML system was a major breakthrough for us. Integration process of REs from Cooperatives, Insurance companies and Securities sectors are underway. Moreover, some of the REs from DNFBPs especially accountancy professionals are also in process of integration. I would like to thank all concerned for making this a success.



COVID-19 pandemic has not only hit the economic performance of the countries but also has changed dimensions of the financial crime. Globally, it is observed that criminals are exploiting the upheaval generated by the crisis and adapting their new modus operandi. This has added more risks and challenges in addition to the rapid change in the global AML-CFT landscape and tremendous use of banking technology. To overcome this, FIU-Nepal and other actors of the system; REs, Supervisors, Regulators, LEAs are working in close coordination and cooperation while delivering their work continuously.

I would like to express my special gratitude and thanks to NRB, all the stakeholders / regulators/ supervisors, NCC and reporting entities for their continuous support and cooperation. Further, I would request all the stakeholders involved in the third round of APG Mutual Evaluation of Nepal for their enthusiastic effort and continuous support. I am also grateful to the international community for their support to FIU-Nepal. I look forward to working more closely with our stakeholders and international partners in achieving our vision of protecting Nepal from financial crime and to be prepared for the upcoming mutual evaluation.

The final outcome of the annual report has been published with the rigorous efforts made by the Policy Unit of FIU-Nepal. My special thanks go to Deputy Director Mr. Medani Prasad Pokhrel, Assistant Director Ms. Pratibha Thapa and Assistant Director Ms. Swechha Ghimire for their effort to prepare this report. Also I would like to thank Deputy Director Ms. Asmita Gorkhali, Deputy Director Mr. Sworup Shrestha and Assistant Director Mr. Amish Sharma for providing valuable inputs while preparing this report. Finally, I am extremely grateful to all the staffs of FIU-Nepal who have worked hard to achieve our set target even in this difficult time.

With this, I present the annual report 2020-21 with optimism that it will be beneficial to all the stakeholders. Further, with our continuous effort and team work we can improve our performance to strengthen our AML/CFT regime.

Dirgha Bahadur Rawal
Director/Head
Financial Information Unit
Nepal



1.1 Background

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

1.2 Overview of Nepal's Commitments

As AML/CFT has become crucial agenda of all developed, developing and underdeveloped countries, no country can isolate itself from the global AML/CFT regime. Nepal is also making substantial progress towards its goal of strengthening AML/CFT system by implementing legal, institutional and preventive measures in place. 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 community; on realization of common agenda, including AML/CFT. It is evident from its membership to the UN, SAARC, APG, Egmont Group of FIUs and BIMSTEC. Ratification of major international conventions; enactments of instrumental statutes; implementation of National AML/CFT Strategy; and establishment and designation of major institutional infrastructures in a short period of time are the basic foundation for functional operation of the AML/CFT regime. As a result, Nepal has been relieved from the '*Improving Global AML/CFT Compliance List*' of FATF/ICRG from June 2014.

These achievements are the results of the collective efforts of stakeholders and private sectors and support from international communities. These sectors are expected to support Nepal to focus on its core operational activities and take strategic step towards enhancing of AML/CFT regime in the future discourse as well. However, there are lots of responsibilities and tasks to be performed, particularly in legal and operational sectors. Over the past decade, Nepal has made great strides in strengthening internationally accepted control measures designed to combat money laundering worldwide. Though Nepal has improved the country's AML/CFT measures which have helped to take its place on the international financial arena, some gaps still exist in understanding the scope and value of AML/CFT measures.

1.3 Efforts of Nepal to Combat ML/TF

1.3.1 Adoption of International Standards and Cooperation

A. Financial Action Task Force (FATF)

The FATF, global money laundering and terrorist financing watchdog, an inter-governmental body established in 1989, sets international standards that aims to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in those areas.

The FATF has developed a series of recommendations that are recognized as the international standards for combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. They form the basis for the coordinated response to promote the integrity of the financial system and help ensure a level playing field. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, 2003 and most recently in 2012 (which was updated in June 2019) to ensure that they remain up to date, relevant and universally applicable.

Although, Nepal is not a member to FATF directly, it has a relation with FATF through APG (the FATF Style Regional Body also called FSRB). Nepal was also engaged with FATF through ICRG process since 2009. Nepal has proved its commitments by complying international standards through enactment and amendment of relevant legislations, establishment and designation of institutions like FIU- Nepal and Regulators for various sectors and their Investigating Agencies. In line with the FATF principles, Nepal has improved its AML/CFT regime for facilitating international cooperation.

Starting with its own members, the FATF monitors countries’ progress in implementing the FATF Recommendations; reviews money laundering and terrorist financing techniques and counter-measures; and, promotes the adoption and implementation of the FATF Recommendations globally. The international standards against money laundering and the financing of terrorism/proliferation are incorporated in the 40 FATF Recommendations.

a) FATF’s Forty Recommendations

The FATF’s forty recommendations are categorized in seven categories and it cover the following areas:

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

b) Immediate Outcomes:

FATF has identified 11 Immediate Outcomes (IOs), as stated in FATF Methodology that an effective AML/CFT framework should achieve. During its mutual evaluations, the FATF assesses the effectiveness of a country’s efforts against each of these 11 immediate outcomes. The extent

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

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

Source: APG

B. Egmont Group of FIUs

The Egmont Group is a united body of 167 Financial Intelligence Units (FIUs). The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat

money laundering and terrorist financing. It is the trusted gateway for sharing financial information domestically and internationally in accordance with global AML/CFT standards. This is especially relevant as FIUs are uniquely positioned to cooperate and support national and international efforts to counter terrorist financing and combating of money laundering

FIU-Nepal became the member of Egmont Group on June 10, 2015. The Egmont Group recognizes sharing of financial intelligence is of paramount importance and has become the cornerstone of the international efforts to counter ML/TF. As an international financial intelligence forum, the Egmont Group both facilitates and prompts this amongst its member FIUs. As a member of the Egmont Group, the FIU is able to send requests for information to other member jurisdictions by the Egmont Secure Web (ESW), secure email network, and also receive requests from other Egmont Group members.

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

C. Asia/Pacific Group on Money Laundering (APG)

APG is an inter-governmental organization, consisting of 41 member jurisdictions, focused on ensuring that its members effectively implement the international standards against money laundering, terrorist financing and proliferation financing related to weapons of mass destruction. The APG has grown considerably since 1997 and is part of a global network of similar bodies, referred to as Financial Action Task Force-Style Regional Bodies (FSRBs) and is the largest in terms of membership numbers and geographical size. APG was officially established as an autonomous regional anti-money laundering body by unanimous agreement among 13 original founding members.

The APG has five primary functions:

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

and universities in the Asia-Pacific to better inform the general public and specialists about global issues relating to money laundering, terrorist financing and proliferation financing.

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

Nepal obtained membership of APG in 2002 and has expressed its commitment to fully comply with international AML/CFT standards. Nepal served as a member of *APG Steering Committee* representing South Asian Countries for the year 2012/13. Nepal underwent its first APG Mutual Evaluation in 2005 and second in 2010, with the report adopted in 2011. Third round of Mutual Evaluation is scheduled for 2021-23. The stakeholders of AML/CFT regime are preparing for the third round of mutual evaluation of Nepal. Nepal completed two years tenure as a regional representative of South Asian Region for the meetings of the Governance Committee (GC) of the APG.

D. The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) sets the global standards for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. It was formed in 1974 by the central bank governors of the group of 10 countries. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions. Individual countries are represented by their central bank, or by the relevant authority with formal responsibility for prudential supervision of banking where that authority is not the central bank. The committee has no formal international supervisory authority or force of law. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practices on a wide range of bank supervisory issues. These standards and guidelines are adopted with the expectation that the appropriate authorities within each country will take all necessary steps to implement them through detailed measures, statutory, regulatory or otherwise, that best suit that country's national system.

Basel committee has issued guideline regarding sound management of risks related to money laundering and financing of terrorism regarding assessment, understanding, management and mitigation of risks, customer acceptance policy, customer and beneficial owner identification, verification and risk profiling, ongoing monitoring, management of information and reporting of suspicious transactions and asset freezing. The Principle no 29 of BCBS provides guideline on prevention on Abuse of Financial Services.

Principle 29: Abuse of financial services

The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.

AML/CFT regulation should follow a proportionate or “risk-based approach” – consistent with the standards of the Financial Action Task Force (FATF) – requiring financial institutions to adopt enhanced CDD measures for transactions or products that present higher AML/CFT risks and permitting them to use simplified CDD measures where risks are lower.

Subject to a jurisdiction’s assessment of its money laundering and terrorist financing risks, financial inclusion products and services may present lower risk if they are subject to appropriate restrictions such as: (i) low-value limits, whether for account balances, individual transactions, or total value of transactions in a given period; (ii) geographic restrictions (eg no or limited international transactions); or (iii) restrictions on the customer who may be offered and use the products and services (eg only individuals). Among RoP Survey respondents, the most common means of establishing “lower risk” was the imposition of low-value thresholds. Where risks are proven to be low, the regulator should have the option of permitting the application of simplified CDD measures, and should do so where appropriate.

Regulation that requires documentation to verify identity creates potential barriers to access to financial services and products. It is therefore important to consider the purpose and design of the verification measures. Acceptance of non-standard identification documentation is particularly important in jurisdictions that lack a national identity document or other widespread means of identity verification. For services that involve remote account opening via mobile phone or agent, explicit permissibility of non-face-to-face CDD (by agents or mobile device) is essential.

Appropriate employment by banks and nonbank financial institutions of simplified CDD is especially important as overly-strict CDD rules can prevent unserved and underserved customers from accessing formal financial services and products and potentially increase the risk of money laundering and terrorist financing by shifting transactions to the informal economy.

E. International Monetary Fund and World Bank

Nepal is a member country to the World Bank and International Monetary Fund. Both organizations have mandate for certain AML/CFT matters basically in accordance with Article IV under Articles of Agreement of the International Monetary Fund. In addition to this, these global organizations have been providing trainings and technical assistance for capacity building for the member countries.

IMF’s Technical Assistance (TA) is funded by AML/CFT Topical Trust Fund (TTF). Topical trust funds support global IMF technical assistance on specialized thematic areas and complement the work of the IMF’s regional technical assistance centres and other IMF technical assistance. The IMF’s AML/CFT technical assistance aims to improve AML/CFT regimes worldwide and to provide concrete support to the IMF’s membership. IMF’s assistance is aimed at implementing priority of national strategy under TTF:

- Legal –Improvements in AML/CFT laws
- Supervisory –Development of Directives, Guidelines and skill and capacity building of supervisors
- FIU –Development of Operational Manual and Skill and capacity building

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

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

Also, the World Bank has been cooperating and supporting Nepal in conducting AML/CFT National Risk Assessment. National Risk Assessment 2020 was conducted with the technical assistance from the World Bank and by using the NRA modules developed by the World Bank.

F. Wolfsberg Group

The Wolfsberg Group, a non-governmental organization of 13 global (commercial) banks founded in 2000, aims to develop frameworks and guidance for the management of financial crime risks. It also publishes Financial Industry Standards Policy for Prevention of Money Laundering and Combating Financing of Terrorism.

1.3.2 National Initiatives

A. Legal Measures

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

B. Policy Measures

National Strategy and Action Plan

AML/CFT policy framework of Nepal begins with the formulation and implementation of AML/CFT national strategy and preparation of the National Risk Assessment. The GoN had implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016.

On 2013, revised and integrated criteria for prevention of money laundering and terrorism financing,

known as FATF Recommendations was issued on 2012 by Financial Action Task Force and new methodology was issued. Similarly, the National Risk Assessment 2016 and Self-Assessment 2018 had identified new risk areas on money laundering and terrorism financing in Nepal. In these grounds much internal homework had to be done and there was a need to accelerate the functioning of the entire AML/CFT system. The Government of Nepal prepared the second National Strategy and Action plan (2019-2024).

Concept

To maintain stability by protecting financial system and overall economy from the risk of financial crime.

Target

- To make monitoring and supervision of money laundering and terrorism financing risk based.
- To ensure effecting analysis, investigation, examination and prosecution of financial crime.
- To coordinate and cooperate at national and international area for crime control and financial system promotion.

Objective and Strategy

1.	<p>Objective No. 1: To adopt risk based system by risk assessment of money laundering and terrorism financing.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To regularly update risk assessment. ▪ To frame policy and program based on result obtained from risk assessment and implement and caused to implement thereof. ▪ To make risk-based investigation system effective. ▪ To allocate and manage resources based on risk based system.
2.	<p>Objective No. 2: To strengthen legal and organizational framework relating to international norms.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To strengthen organizational capacity. ▪ To improve legal framework.
3.	<p>Objective No. 3: To collect and manage information relating to beneficial ownership.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To gather information relating to beneficial ownership through multiple approach. ▪ To make provision for special monitoring of beneficial ownership related system. ▪ To develop mechanism to have access to the information on beneficial ownership.
4.	<p>Objective No. 4: To implement curative and regulative techniques on compact manner for security of financial system and economy.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To ensure adoption of risk-based approach by reporting entities. ▪ To make risk-based regulation and supervision system effective. ▪ To adopt techniques for promotion of virtue of financial system.
5.	<p>Objective No. 5: To restrain, suppress and alleviate financial investment in terrorism, terrorism activities and manufacturing and expansion of arms and ammunition of mass destruction.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To increase micro surveillance / collect information relating to terrorism financing. ▪ To undergo micro surveillance on manufacturing and transportation of mass destructive weapon. ▪ To increase defense ability against terrorism activities and make controlling action effective.

<p>6.</p> <p>Objective No. 6: To provide functional autonomy and improve analytical capacity of Financial Information Unit.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To provide managerial autonomy by making financial information unit rich on means and resources. ▪ To make provision for FIU to take service of various subject experts. ▪ To increase capacity of FIU on collection and analysis of information.
<p>7.</p> <p>Objective No. 7: To intensively increase the capacity for investigation and prosecution of financial crime.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To develop scientific investigation procedure by increasing capacity of the human resources involved in investigation. ▪ To make investigation and prosecution function effective by increasing coordination between concerned authorities. ▪ To expand methods for declaration of Cash and BNIs (Promissory Note).
<p>8.</p> <p>Objective No. 8: To undergo management of seizing, freezing and confiscation of proceeds of crime.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To effectively implement legal provisions on seizing, freezing and confiscation of proceeds of crime. ▪ To manage archives of seizing, freezing and confiscation of proceeds of crime .
<p>9.</p> <p>Objective No. 9: To expand international cooperation mechanism of mutual legal assistance, extradition and other international support for crime control.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To expand cooperation and support with the foreign nation and international organization for crime control. ▪ To effectively mobilize international cooperation mechanism on risk basis. ▪ To forward process of Mutual Legal Assistance related treaty/agreement.
<p>10.</p> <p>Objective No. 10: To centralize entire efforts to make system a success by implementing strategy and action plan.</p> <p>Strategies:</p> <ul style="list-style-type: none"> ▪ To organize promotional programs. ▪ To strengthen coordination system and mechanism at implementation level. ▪ To mainstream the strategy and action plan. ▪ To prepare for AML/CFT mutual evaluation 2020/2021.

National Risk Assessment and Self-Assessment

As per the revised FATF recommendations, every country has to conduct National Risk Assessment (NRA) to identify threats and vulnerabilities in its AML/CFT system that would inform the design of a policy framework and its implementation strategy including the resource prioritization. Moreover, the Self -Evaluation report (2018) has assessed the country's AML/CFT system based on the 40 recommendations. The gaps on country's AML/CFT system are explored and recommendations are made. Moreover, rating is done against each criterion of the FATF recommendations.

One major objective of National Strategy and Action Plan relating to money laundering and terrorism financing (2019-2024) is to conduct the National Risk Assessment (NRA). Accordingly, National Risk Assessment was conducted in 2020. The overall banking sector vulnerability to ML is rated as medium-high whereas, the quality of the general AML control is medium. The report of National Risk Assessment Report, 2020 on ML/TF has identified the following threats:

- a) **Major threats:** Corruption (bribery), tax (revenue) evasion, financial crimes such as banking offence and hundi.
- b) **Threats of concerns:** Drug trafficking, organized crime, extortion, arms-related offence, domestic terrorism, fraud, counterfeiting of currency, environment related crime, robbery (theft), smuggling (including black marketing) and forgery.
- c) **Low threats:** counterfeiting and piracy of products, kidnapping, illegal restraint and hostage taking, international terrorism, trafficking in stolen goods and insider trading.

C. Institutional Measures

Institutional framework for Nepalese AML/CFT regime includes policy and operational sectors. The specialty lies on the formulation of a dedicated statutory high-level policy committee like National Coordination Committee (NCC), headed by Secretary of Office of the Prime Ministers and Council of Ministers and Implementation Committee headed by Deputy Governor of Nepal Rastra Bank.

i. National Coordination Committee (NCC)

There is a provision of an National Coordination Committee (NCC) in ALPA, 2008 in order to coordinate the high-level authorities and institutions relating to money laundering and advice the Government of Nepal with regard to the prevention of money laundering:

Formation of the Coordination Committee:

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

The committee has a provision to call up to five persons (experts and other members) as invitees. As per ALPA, 2008 Section 8 A, the National Coordination Committee shall have following functions, duties and power:

- a) To prepare policy for prevention of offences of ML/TF and submit the policy to the Government of Nepal,
 - a1) to coordinate in AML/CFT risk assessment and instruct the related agency for the management and mitigation of such risks,
- b) To implement or cause to implement the decision of the Government of Nepal taken for prevention of offences of ML/TF,
- c) To recommend to the Government of Nepal, as per necessity, to implement the standards and policies developed for prevention of offences of ML/TF by international organization of which Nepal is a member,

- d) To instruct concerned agencies for prevention of offences of ML/TF and to monitor whether or not the instructions are complied with,
- e) To discuss the annual reports submitted by the concerned agency, Regulator and FIU and make due coordination,
- f) To perform or cause to perform other tasks in relation to prevention of offences of ML/TF, as prescribed by the Government of Nepal.

ii. Implementation Committee

Implementation Committee is headed by the Deputy Governor of Nepal Rastra Bank. This committee comprises the representatives from different legal, regulatory, enforcement and other competent and relevant authorities of AML/CFT. The Implementation committee, consisting of the following, has been provided with the obligation to carry out or cause to carry out national risk assessment and extend cooperation to the functions of National Coordination Committee, under Rule 47(1) of Assets (Money) Laundering Prevention Rule, 2016:

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

iii. Operational Measures

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

Figure 1.1: Stakeholders in AML/CFT regime



Source: FIU-Nepal

1.4 NRB Strategic Plan

1.4.1 Review of NRB Strategic Plan 2012-16

Since FIU-Nepal has been established within Nepal Rastra Bank, the Bank's five-year strategy 2012-2016 had planned to strengthen FIU-Nepal by enhancing analytical skill, set up of the automated system and capacity building of its employees. FIU-Nepal had achieved targets set in the strategic plan 2012-16.

AML/CFT issues in the Strategic Plan of 2012-16 were as follows:

- i. Strengthen Financial Information Unit and its mechanism for cooperation with other agencies
 - Establish IT network for online receiving, processing and analysis of data
 - Strengthen the analytical capabilities of FIU on STR (Suspicious Transactions Reporting)
 - Develop a mechanism for getting prompt cooperation from law enforcement agencies, regulators and other related agencies
 - Develop international cooperation mechanism on anti-money laundering
 - FIU as Secretariat to the NCC
- ii. Comply with the international standards for AML/CFT

- Conduct study on AML/CFT National Risk Assessment (NRA).
- Review AML/CFT legal framework
- Develop AML/CFT compliance framework
- Develop Strategic Implementation Plan (SIP) to comply with the recommendations of APG Mutual Evaluation Report
- Implement AML/CFT National Strategy

1.4.2 NRB Strategic Plan 2017-2021:

Third Strategic Plan of NRB (2017-21) has focused on addressing economic and financial issues currently faced by NRB and the Nepalese economy in maintaining macro-economic stability. It has also given the priority on restructuring of the NRB in accordance with federal structure, constructing earthquake devastated buildings, modernizing ICT system, adopting technological advancements, upgrading payment system, strengthening good governance and institutional capabilities and maintaining good relations with national as well as international entities. Major areas related to FIU in NRB strategic plan 2017-21 are as follows:

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

1.5 Mutual Evaluation and Nepal

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

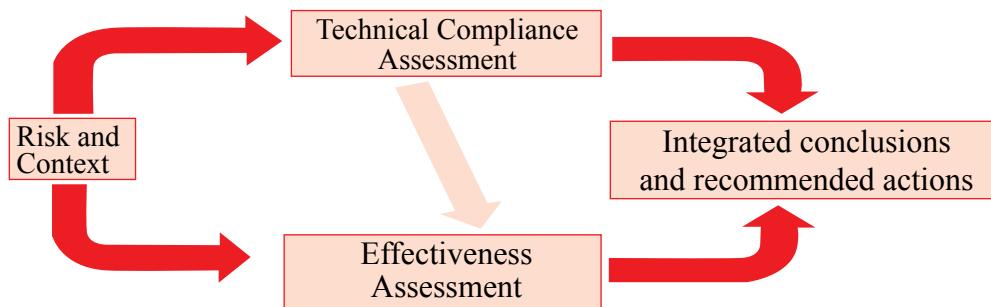
FATF conducts mutual evaluations of its members’ levels of implementation of the FATF Recommendations on an ongoing basis. These are peer reviews, where members from different countries assess another country. A mutual evaluation report provides an in-depth description and

analysis of a country's system for preventing criminal abuse of the financial system as well as focused recommendations to the country to further strengthen its system. The Assessment of AML/CFT system is done on the basis of:

- FATF revised standards 2012
- FATF methodology 2013
- APG 3rd round ME procedures 2021
- Mutual evaluation questionnaire

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

Figure 1.2: 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.

- a) Risk and Context: The starting point for every assessment is the assessors' initial understanding of the country's risks and context, in the widest sense and the elements which contribute to them. The ML/TF risks are critically relevant to evaluating technical compliance with FATF Recommendation 1 and the risk-based elements of other Recommendations and to assess effectiveness. The make-up of and nature of financial/DNFBP sectors and economy along with the structural elements such as political commitment, rule of law, accountability, integrity, transparency and effective judicial systems are considered to understand the risk and context. Assessor considers the nature and extent of the ML/TF risk factors to the country at the outset of the assessment and throughout the assessment process.
- b) Technical Compliance Assessment: A desk-based technical compliance analysis assesses compliance by an APG member with the specific requirements of each of the 40 FATF recommendations- the relevant legal and institutional framework of the jurisdiction, and the powers and procedures of competent authorities. These recommendations represent the building blocks of an AML/CFT system. The technical compliance analysis is undertaken by an assessment team prior to an on-site visit of the member being evaluated.
- c) Effectiveness Assessment: The main component of a mutual evaluation is effectiveness 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. The effectiveness analysis is not only based on information exchanged with the assessment team but also on the on-site visit. The team will visit the member under evaluation (usually for two weeks, sometimes longer) and interview

government and private sector officials to gain a comprehensive understanding of how the AML/CFT system is working. Effectiveness assessment is done based on the FATF's 11 Immediate Outcomes (IOs).

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

Table 1.1 Rating Scales

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

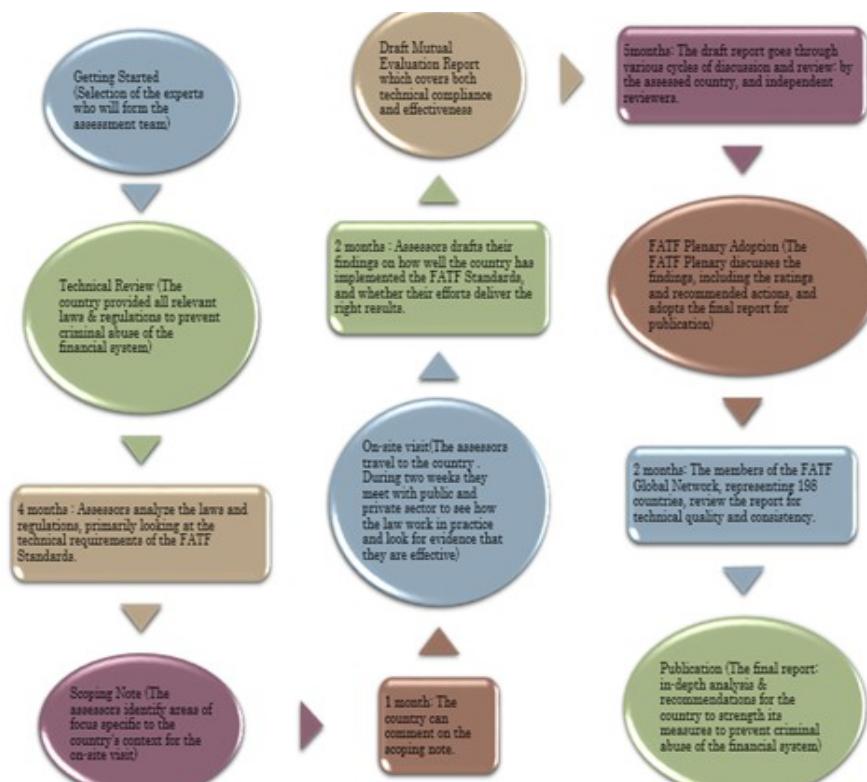
A complete mutual evaluation takes up to 18 months. The stages in this process are as follows:

- Assessor training: The FATF organizes regular training to train experienced national experts in the FATF Recommendations and FATF Assessment Methodology. FATF does not restrict itself to assessors from FATF countries, all countries that are part of the Global Network of FATF and FATF-style regional bodies and FATF observer organizations can provide experts for assessments.
- Country training: The FATF organizes training for representatives of the assessed country so that they know what they will need to provide and demonstrate during the process.
- Selection of assessors: The FATF selects the members of the assessment team from the pool of trained assessors. The composition of the team depends on the required expertise for an assessment, including language and legal background. Assessors are appointed by the President, assessed countries do not have a say in the selection.
- Technical compliance: The country provides information about its laws and regulations to the assessors. The assessors analyze this information, checking if all the required laws and regulations, as required by the FATF Recommendations, are in place. This analysis takes approximately 4 months, sometimes longer if translations or additional documents are required. Following the analysis, assessors produce a draft report, with technical compliance ratings for all 40 Recommendations.
- Scoping: In preparation for the effectiveness assessment and the on-site visit, assessors undertake a preliminary scoping exercise to determine the areas of focus of the on-site visit. Elements that are factored in are the type of threats, vulnerabilities and risks, the type of economy, the size type of financial and other sectors, political stability and commitment, the rule of law, and the level of

maturity of the country's system to combat money laundering and the financing of terrorism and proliferation.

- On-site visit: The on-site visit provides the best opportunity to clarify issues relating to the member's AML/CFT system. Assessors focus on areas where higher ML and TF risks are identified. They request and meet with all relevant agencies during the on-site. The team works on understanding of risk, to complement the write-ups of the member's national risk assessment(s).
- Report drafting: Immediately following the on-site visit, the assessors finalize the mutual evaluation report with the findings of the effectiveness and technical compliance assessment. The assessed country is given the opportunity to comment on the draft report, and have a face-to-face meeting with the assessors. The report is also reviewed by independent reviewers. But ultimately, the assessors are the only ones who decide on the text of the report and the final proposed ratings for effectiveness and technical compliance.
- Plenary discussion: The assessors present the draft report to the FATF Plenary at one of the three meetings it holds every year. The Plenary will discuss the assessors' findings and proposed ratings. Consensus among members (except for the assessed country, which has no vote) is required to overrule any of the draft findings and ratings by the assessors.
- Final quality review: Following plenary approval, all countries within the FATF Global Network will review the report for technical quality and consistency before it is published on the website, which is usually two months after plenary approval.
- Follow-up: After adoption, the countries are required to address the shortcomings identified in the report. All countries are subject to post-assessment monitoring. This can include anything from regular reporting of improvements for countries that are already largely compliant and demonstratively committed to addressing the remaining few shortcomings, to issuing a public warning against a country that makes insufficient progress to address key deficiencies.

Figure 1.3. Mutual Evaluation Process



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

Nepal was evaluated for the second time in 2010 again based on FATF previous 40 plus 9 standards. The report was adopted in July 2011 where Nepal was rated NC or PC on 43 recommendations, LC on 3 recommendations, NA on 2 recommendations and compliant on one recommendation. Out of the 16 core/key recommendations Nepal was NC or PC on 15 Recommendations and LC on one recommendation. However, Nepal's progress after the evaluation was so substantial that it had technically (legal and institutional) resulted LC in 10 Core/Key recommendations. Department of Money Laundering Investigation was institutionalized later in 2011. These achievements have also assisted Nepal to come out from the APG Expedited/Enhanced as well as from regular monitoring in 2014. Technical assistance provided by the APG for the development of such AML/CFT system in Nepal is remarkable.

Nepal's third mutual evaluation is scheduled for 2021-23 under new methodology revised in 2013. Unlike last evaluation of Nepal in 2010, which was primarily based on technical (legal and institutional) aspects, the third evaluation will also 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.

1.6 Building Partnership

FIU-Nepal is a national central agency with pivotal role to play in AML/CFT regime. FIU-Nepal is the secretariat of NCC, which is an inter-agency body to recommend Government of Nepal on AML/CFT policy matters. It works as a bridge between Reporting Entities (REs), LEAs and regulators as well. It is operating in a harmonious relationship with different stakeholders to implement AML/CFT policies as per its legal mandate. However, its performance depends on the functional efficiency of other stakeholders of the entire system. Thus, effective supervision of REs to produce qualitative STRs and investigation and prosecution on its products play a vital role to enhance FIU's functional capacity.

ENTITIES AND COMPETENT AUTHORITIES

FIU Nepal works with various stakeholders. It receives information from Reporting Entities and disseminates intelligence to the competent authorities. In Nepal, such entities and competent authorities are as following:

2.1 Reporting Entities

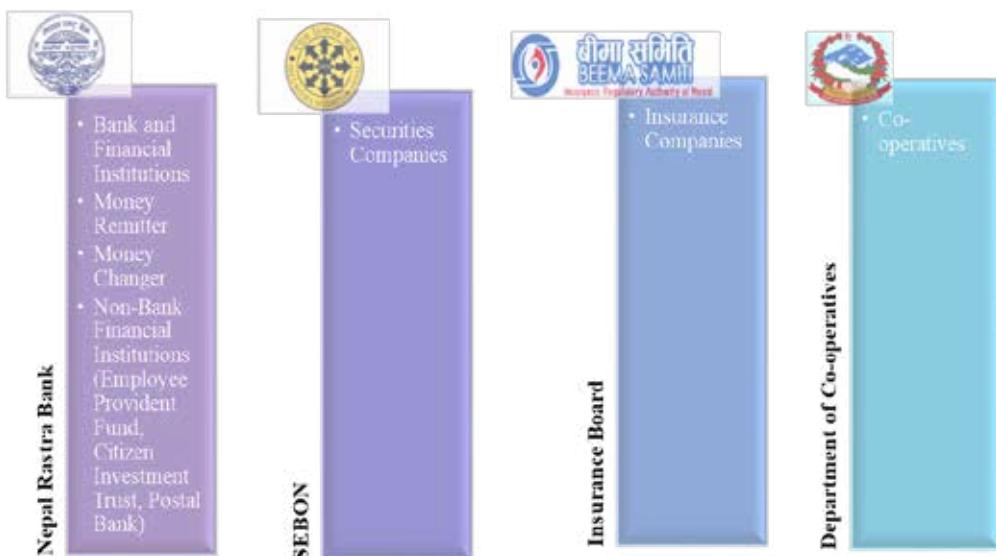
Asset (Money) Laundering Prevention Act, 2008 has defined “Reporting Entity” (RE) as “the Financial Institution and Designated Non-Financial Business and Profession (DNFBPs)”. Further, Annexure 2 of National Strategy and Action Plan relating to ML/TF (2019-24) has included following entities as the REs and their regulators.

A. Financial Institutions

Bank and Financial Institutions, Money Remitter, Money Changer and Non-Bank Financial Institutions (Employee Provident Fund, Citizen Investment Trust, Postal Bank) regulated by NRB, the Central Bank of Nepal; Securities Companies regulated by SEBON; Insurance Companies regulated by Insurance Board and Co-operatives regulated by Department of Co-operatives are the REs under category of Financial Institutions.

B. Designated Non-Financial Business and Profession (DNFBPs)

The Casinos or Internet Casino Business regulated by the Ministry of Culture, Tourism & Civil aviation; the Dealers in Precious Stones & Metals regulated by IRD; the Real Estate Business/Agents regulated by Department of Land Management and Archive; Notary Public regulated by the Notary



Public Council; Auditors and Accountants regulated by ICAN; Trust and Company Service Providers regulated by Company Registrar's Office and Law Practitioners regulated by Nepal Bar Council are the REs under category of Designated Non-Financial Business and Profession (DNFBPs).



REs are legally obliged to report TTRs and STRs to FIU-Nepal in a specified format as defined by regulators in consultation with FIU-Nepal. ALPA requires REs to identify and verify the identity of the customer and the beneficial owner when carrying out the following acts:

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

Asset (Money) Laundering Prevention Act, 2008 Section 10A states that if a person transacts more than the threshold, prescribed by the Nepal Rastra Bank, at a time or several transactions within a period of time, the reporting entity and "*The Government Body*" shall provide the report to the Financial Information Unit within fifteen days of such transaction. "*The Government Body*" means the Office of Land Revenue, Office of the Company Registrar and other offices as prescribed by the Government of Nepal.

2.2 Regulators and Supervisors

Section 7T of ALPA, 2008 states that Regulation and Supervision will be done by the regulators and supervisors established in accordance with the prevailing law in relation to whether the reporting entity has taken action or not. It has also mandated Nepal Government to designate an agency or regulator to work as regulator for such reporting entity upon the advice of NCC if there is no regulator mandated for such entities. Further, Section 7U of the Act has provisioned regarding the functions, responsibilities and powers of regulators and supervisors. The following regulators and supervisors that are working in AML/CFT regime in Nepal:

- a) **Nepal Rastra Bank (NRB):** NRB is the central bank of Nepal, established in 1956 under the Nepal Rastra Bank Act 1955 as the monetary, regulatory and supervisory authority of banks and financial institutions. The new Nepal Rastra Bank Act 2002 replacing the erstwhile act has ensured operational autonomy and independence to the Bank. NRB not only regulate the bank and financial institutions with regard to AML/CFT directives but also supervises them to enforce those policies and directives. AML/CFT supervision of banks and financial institutions are carried out through its Bank & Financial Institution Supervision Departments. Likewise, supervision of Money Changers and Money Remitters are supervised by its Foreign Exchange Management Department. NRB has already issued AML/CFT directives on AML/CFT based on Act and Regulation.
- b) **Securities Board of Nepal (SEBON):** SEBON was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets. It has been regulating the market under the Securities Act, 2006. It has the power to regulate and manage the activities of the securities markets for protecting the interests of the investors in the securities market. There are two departments namely Regulation & Management Department, and Supervision & Research Department in SEBON. It has issued AML/CFT directive to its licensed entities in FY 2017/18.
- c) **Insurance Board (IB):** IB is the Insurance Regulatory Authority of Nepal, the line ministry of the Ministry of Finance, Government of Nepal. IB is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992. IB looks after all the insurance related activities in the Federal Democratic Republic of Nepal. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal. Furthermore, it regulates and supervises the AML/CFT regime within insurance sectors namely life insurance companies and non-life insurance companies. It has issued AML/CFT directive to its licensed entities in FY 2018/19.
- d) **Department of Cooperatives:** The Department of Cooperatives was established in 1953. Pursuing its 'Regulation for co-cooperativeness' mission, it complements the self-regulating processes of co-operatives in line with the principles of co-operation. As co-operative development is a function shared between the three levels of Government – federal, provincial and local – the Department, as a federal agency, has a leading role to play in terms of providing co-operative agencies of provincial and local governments with the necessary regulatory, promotional and training or educational services. It has issued AML/CFT directive to its licensed entities in FY 2019/20.
- e) **Ministry of Culture, Tourism and Civil Aviation:** The Ministry of Culture, Tourism and Civil Aviation is the governmental body established in 1978 for promoting tourism, culture and private sector involvement in Nepal. It also serves as the Nepalese aviation regulatory body. It is the regulator of the Casinos and Internet Casino Businesses in Nepal. It has four divisions viz. Tourism Division, Administrative & Planning Division, Civil Aviation Division and Culture Division. It has issued the directives on AML/CFT for Casino Business in FY 2019/20.

- f) Department of Land Management and Archive:** Department of Land Management and Archive (DOLMA) under the Ministry of Land Management, Cooperatives and Poverty Alleviation is the only Department of Government of Nepal, which undertakes Land Reform, Land Administration and Management functions through its nations wide distributed district land revenue offices. It is the regulator of Real Estate Businesses in Nepal. It has the objective to collects revenue from land taxes and fees and develops robust and efficient land information system to automate land records and procedures.
- g) Nepal Notary Public Council:** Nepal Notary Public Council was established according to section 5(1) of the Notary Public Act, 20006. It is the regulator of Notary Public in Nepal. Its major functions are to distribute certificate to Notary Public and to monitor whether the works performed by the Notary Public is according to the Act or Code of Conduct framed by it.
- h) The Institute of Chartered Accountants of Nepal (ICAN):** The Institute of Chartered Accountants of Nepal (ICAN) was established under a special act, The Nepal Chartered Accountants Act, 1997. It is an autonomous body and is fully authorized by the Act to regulate accountancy profession in Nepal. It is the regulator of Auditors and Accountants. It has the objective to play the role of regulatory body in order to encourage the members to carry on accounting profession being within the limit of the code of conduct laid down so as to make accounting profession transparent.
- i) Office of the Company Registrar:** The Office of the Company Registrar under the Ministry of Industry, Commerce & Supplies, Government of Nepal was established in 1993. It is the regulator of Company and Trust. To get legal authority anyone must register the company in The Office of the Company Registrar of Nepal.
- j) Nepal Bar Council:** Nepal Bar Council is an independent legal institution established by the Nepal Bar Council Act, 1993. Nepal Bar Council is the regulator of the Law Practitioners. The main objectives of the Council are to promote, protect and regulate the activities of the law practitioners in a more professional manner. It discharges its duties and responsibilities in accordance with this Act and the rules and regulations framed there under in areas of internal Management, Financial Administration, Rules of Employees, code of Conduct for Lawyers, Curriculum for examination and conducting the examinations for law practice etc.

2.3 Law Enforcement Agencies (LEAs)

There are different LEAs' actively investigating and prosecuting the money laundering and terrorist financing cases. FIU-Nepal disseminates its intelligence report mainly to the following agencies as per their scope and jurisdiction.

a) Department of Money Laundering Investigation (DMLI):

DMLI was established on 15 July, 2011 as per the Section 11 of ALPA, 2008. DMLI is functional as a principal entity to conduct investigation on ML/TF/PF cases in Nepal. The first-class officer (Joint Secretary) of the Government of Nepal heads the department. The department functions as an investigatory and prosecutorial authority for ML/TF cases. It has all powers that an investigation authority exercises under existing laws of Nepal. ALPA 2008 has provided DMLI the power to search and seize, freeze assets and put restraints on the transaction of the asset subject to investigation.

b) Nepal Police:

Nepal Police is primarily responsible for maintaining law and order, prevention of crime and crime investigation within the jurisdiction determined by the Constitution of Nepal. Nepal Police has



four departments viz. Administrative Department, Operations Department, Crime Investigation Department and Human Resource Management Department. Crime Investigation department is further divided into Special Bureau, Central Investigation Bureau, Narcotics Control Bureau and Nepal Police Canine Operation Division. Among various division/bureau of Nepal Police, Special Bureau investigates Terrorist Financing cases. The Central Investigation Bureau mainly investigates the cases of financial fraud which falls under the predicate offence under ALPA. It investigates complex and profound nature crimes, as well as public concern cases. Narcotics Control Bureau investigates the cases related to drugs and Cyber Bureau investigates cases related to cybercrimes.

c) Commission for the Investigation of the Abuse of Authority (CIAA):

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

d) Department of Revenue Investigation (DRI):

DRI has jurisdiction for investigation, interrogation and prosecution on revenue leakage and abuse of foreign exchange according to the Revenue Leakage (Investigation and Control), Act 1995, Revenue Leakage (Investigation and Control) Regulation 2013, Foreign Exchange (Regulation) Act, 1962 and Foreign Exchange(Regulation) Rule 1963. Furthermore, according to the Revenue Leakage (Investigation and Control) Act, DRI has the authority to invite and mobilize any officials from any organizations/institutions as an expert and specialist as and when needed. DRI is given the responsibility of controlling and investigating of non-tax revenue leakages from FY 2008/2009, along with its initially assigned functions of controlling and investigating tax revenue leakages. The mandate given by the Government of Nepal to DRI includes controlling and investigation of revenue leakages, investigation and control of economic crimes and investigation given by the Government of Nepal and it's the mandate as per the provisions of FERA includes the control and investigation of foreign exchange abuses.

e) Inland Revenue Department (IRD):

The role of IRD is tax revenue mobilization through internal revenue sources. It is currently responsible

for the enforcement of Tax Laws and administration of the following taxes: Income Tax, Value Added Tax, Excise Duty, Health Tax, Education Service Fee and duties like Entertainment fee (Film Development Fee). It carries out Tax Administration, Tax Policy, Tax Payer Services, Registration, Revenue Collection, Tax audit, Tax Enforcement and Investigation, Review & Appeal, Tax Refund, Advance Ruling, Tax Treaty and International Taxation, Excises and Liquor Administration and Monitoring of non-tax. It has issued AML/CFT directive to its licensed entities in FY 2020/21.

2.4 MLA Authority

The Mutual Legal Assistance Act, 2014 deals with the process and requirements of providing and obtaining legal assistance between Nepal and any other foreign country on certain legal matters. Section 5 of the MLA outlines the scope of legal assistance that the Government of Nepal can seek from any foreign country or the foreign country can seek such assistance from the Government of Nepal. The Government to Government agreement on Mutual Legal Assistance in Matters relating to Predicate Offences of Money Laundering and Terrorist Financing has been drafted by Ministry of Law, Justice and Parliamentary Affairs and it is in the process of final approval. Section 3 of the Act imposes bilateral treaty and reciprocity requirement for enforcement of judgment and providing of legal assistance.

2.5 Prosecution/ Judicial

According to section 22 (1) of ALPA 2008, DMLI submits the dossier or evidence to the concerned public prosecutor for a decision on whether or not to file the case after concluding the investigation on AML/CFT cases. Further, section 22 (2) states that if there is a decision from the concerned public prosecutor to file a case, the department files a case before the court designated by the Government of Nepal by publishing a notice in the Nepal Gazette. The corruption related cases are investigated by CIAA itself where the case is prosecuted by Special Government Attorney and the case is filed in Special Court. The decision can be appealed in Supreme Court of Nepal. For the cases related to revenue leakages and tax evasion, the custom officer and tax officer have delegated authority to recover its penalty and retribution. The appeal can be made to Revenue Tribunal.

3.1 Introduction

Financial Information Unit (FIU) Nepal is a national agency responsible for receiving, processing, analyzing and disseminating financial information and intelligence on suspected money laundering and terrorist financing activities to the relevant law enforcement/investigative agencies and foreign FIUs. It was established on 21 April, 2008 under the section 9 of the Assets (Money) Laundering Prevention Act, 2008 within the Nepal Rastra Bank (the central bank) as an independent unit. As envisioned in AML/CFT National Strategy and Action Plan (2019-2024), FIU-Nepal is functioning as an autonomous and operationally independent unit within the NRB structured as per the FIU Bylaws, 2020.

The main provisions of the Bylaws are:

- Autonomy and operational independence of the Unit
- Appointment of Unit Head by the Governor for minimum two years
- Placement and transfer of staffs in consultation with Unit head
- Training and capacity development of staffs
- Provision of Budget Center; Unit has the authority to spend budget for approved programs
- Provision of accountability; Head to the Governor and FIU staffs to the Head
- Provision of Confidentiality and Code of Conduct of staffs

FIU-Nepal is continuously endeavoring to achieve the organizational excellence. It has prepared many internal policies to make organization culture rule based. FIU-Nepal has developed and implemented Job Description of its staffs. The essential job requirements, job duties and job responsibilities of each level of staffs are clearly specified based on the functions and duties of FIU-Nepal. It helps the unit to understand the expectation of the role, essential duties to be performed and required competencies credentials and experiences required to its staffs. It also served as an essential tool for managing staffs and supporting greater employee accountability.

In line with the FATF Recommendation and the provision FIU Bylaws, 2020, FIU-Nepal has issued *Code of Conduct* for its staffs. The code of conduct can be the catalyst to protect information by having rules in place governing the security and confidentiality of information and by ensuring that staffs have the necessary security clearance levels and understanding of their responsibilities. The code of conduct has clearly set out the rules outlining the norms and the responsibilities that the staffs of FIU-Nepal to be followed.

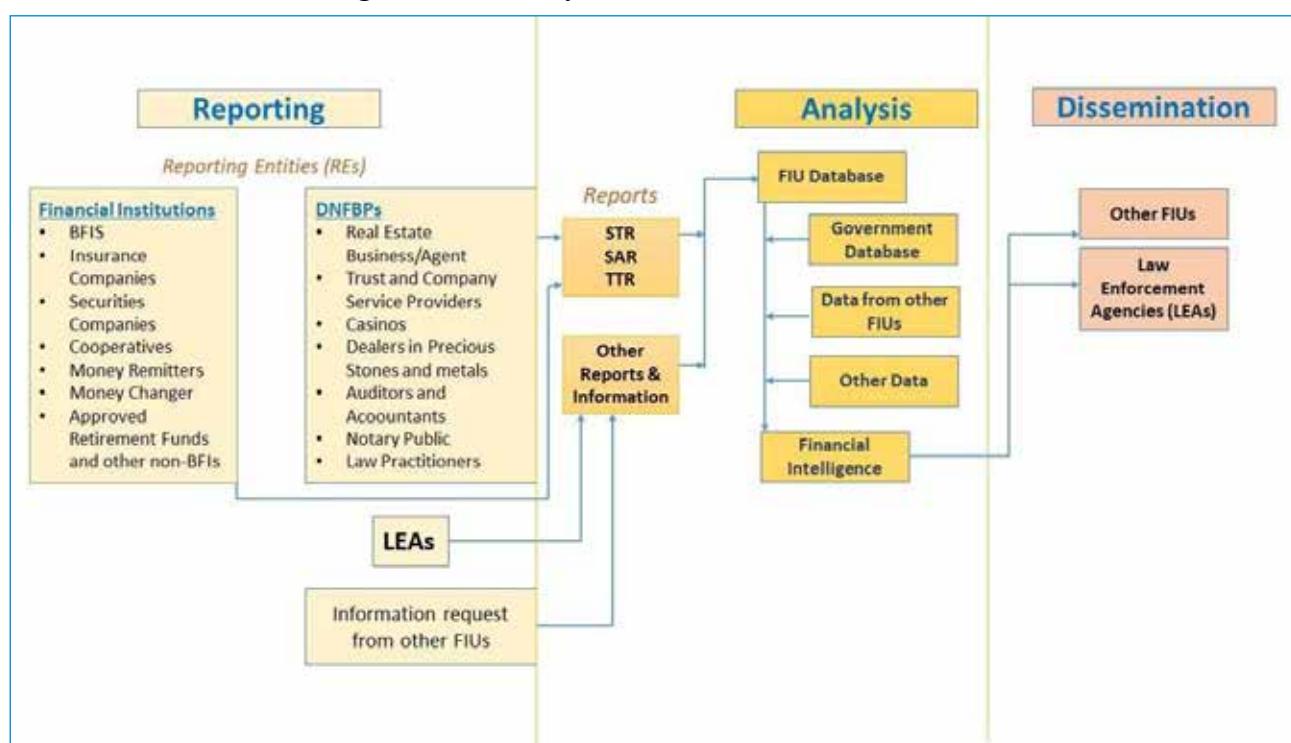
Both the Job Description and Code of Conduct have added value in maintaining confidentiality and security of information along with developing organizational culture in FIU-Nepal. Also, complying with the Rule 45 (2) of ALPR, 2010, each FIU staffs have signed and taken the oath in a format as prescribed in Schedule-16 of the rules. The Operational Manual of FIU has served as the guidelines to its staffs to perform their regular duties. It has explained the detail procedure from receiving and analysis to the dissemination of the analyzed report. It covers the confidential issues including procedure of handling, storage and record keeping of manual STR and their analysis process. The Security Manual sets out the security measures to be followed in the course of its operations. It also addresses physical and personnel security of the FIU and its staffs. It has the provision of FIU Security Officer who has responsibility for the development, implementation and maintenance of the FIU Security Policy and Procedures.

The FIU-Nepal is also assigned to function as the secretariat of the National Coordination Committee (NCC) constituted as a standing committee under the chairmanship of secretary of Office of Prime Minister and Council of Ministers, including secretaries of Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Home Affairs, Ministry of Foreign Affairs, Commission for the Investigation of Abuse of Authority (CIAA), Deputy Attorney General of Office of Attorney General, Deputy Governor of Nepal Rastra Bank and Inspector General of Police (IGP) of Nepal Police as members. The Head of FIU is the Secretary of the committee.

FIU-Nepal processes financial information related to suspicious transaction into intelligence by adding value in financial information. Generally, it works like a buffer between Reporting Entities (REs) and Law Enforcement Agencies (LEAs). This includes receiving SARs/STRs/TTRs from reporting entities, analyzing those reports and disseminating information to LEAs for further analysis.

The core functions of FIU-Nepal are best presented in the following Flow Chart.

Figure 3.1: FIU Information and Functional Flow



Source: FIU-Nepal

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

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

3.2 Legal and Regulatory Framework

FIU-Nepal was established under the section 9 of the Assets (Money) Laundering Prevention Act, 2008. Nepal's AML/CFT legal framework comprises following acts and rules. These suites of laws provide for legal and institutional framework to combat ML and associated predicate offences.

Figure 3.2: Legal and Regulatory Framework



3.3 Core Functions of FIU- Nepal

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

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

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

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

3.4 Key Performance Indicators

There are various indicators which measures the success of FIU. These indicators and obtained data need to be appropriately correlated. For example, merely a large number of STRs/SARs received

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

Performance of FIU-Nepal is measured on following Key Performance Indicators (KPIs):

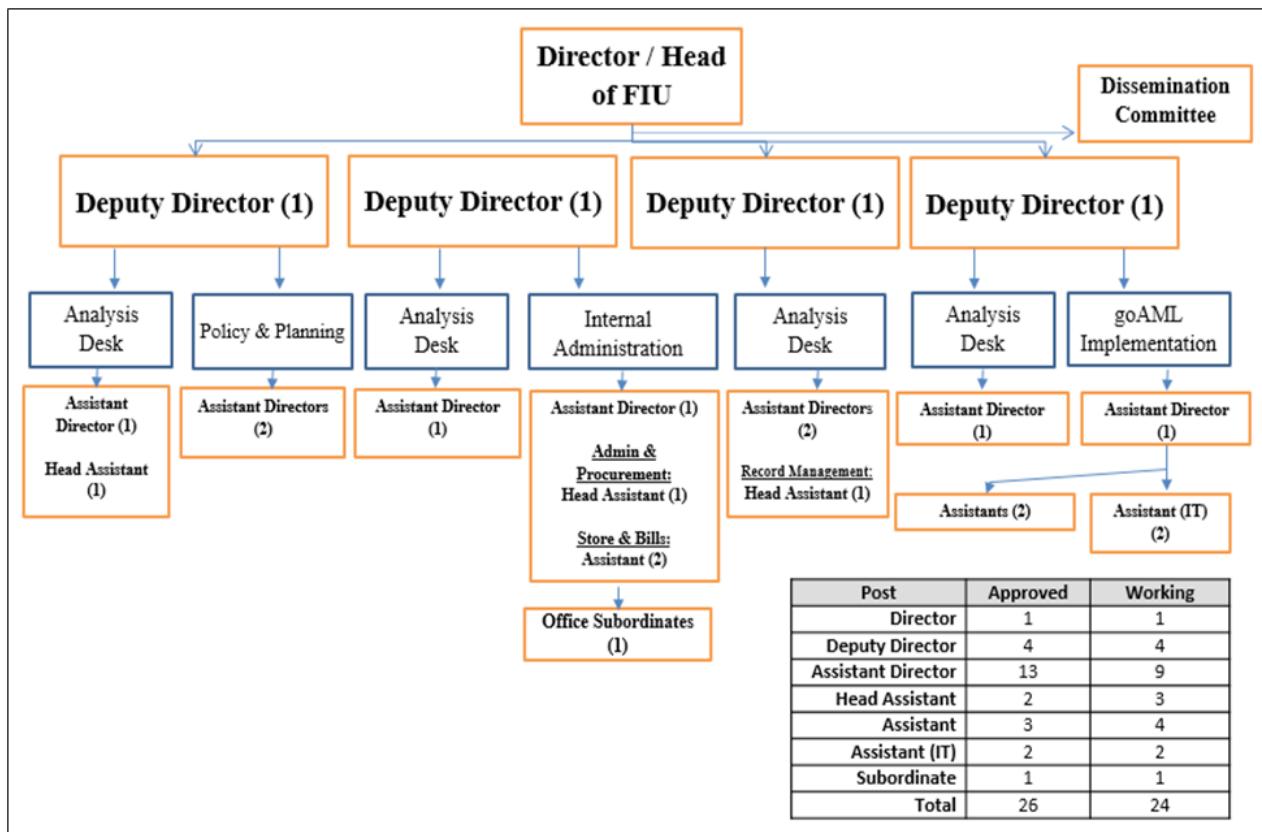
- STR/SARs received in total and breakdown by:
 - Type of entity (financial institution, designated nonfinancial businesses and professions);
 - STR/SARs analyzed, disseminated, and sent for investigation or prosecution;
 - Content, region of origin, amount of currency, possible crimes involved, complexity, etc.;
 - STR/SARs actually analyzed, used, disseminated, stored, or discarded;
 - STR/SARs resulting in prosecution or convictions for money laundering, financing terrorism, or an underlying predicate offense.
- Assessments of the quality of STR/SARs.
- Types and frequency of additional information requested with LEAs and with foreign FIUs
- Amount of information available for competent authorities in each FIU
- Disclosure in terms of the number of
 - STR/SARs and TTRs used and linked to the information reported;
 - REs involved;
 - Persons or possible suspects identified; and
 - Types of databases queried.
- Time taken to disclose relevant information to competent authorities after it is received from REs.
- Requests for assistance made or received by the FIU-Nepal from foreign FIUs, including whether the request was granted or refused.
- Time taken to respond to each request for assistance made to the foreign FIUs.
- Frequency and scope of guidance issued to REs (general and individual guidance) (if applicable).
- Response times of REs to requests for additional information.
- Frequency and scope of strategic analysis and its relevancy to other competent authorities and policymakers.
- Feedback received from law-enforcement agencies, regulator, judiciary, or other authorities and other AML/CFT Stakeholders.

3.5 Organizational Structure

FIU-Nepal commenced its functions with few officials in 2008. Currently, FIU-Nepal is functioning with 24 staff members, including the Director, (Head of FIU). Seven of the staffs are fulltime information analysts and other are involved as analyst as well as administration officers, goAML support team and policy experts.

The organizational structure is presented in Chart 3.1.

Figure 3.3: Organizational structure of FIU-Nepal



Source: FIU-Nepal

As an independent unit of NRB, FIU-Nepal has been accomplishing its functions as required by the law. The head of the FIU is appointed by the Governor and is responsible to carry out functions defined by the ALPA 2008 and Rule 2073. The senior deputy director works as the coordinator for the Dissemination committee. The committee comprised by all the deputy directors determines whether the analyzed STR/SAR report to be disseminated or postponed. The analysis desks carry out STR/SAR analysis.

3.6 Threshold Transaction Reports (TTRs)

TTR is a report that financial institutions and Designated Non-Financial Business and Professions (DNFBPs) are required to file the FIU-Nepal for deposit, withdrawal, exchange of currency, or other payment or transfer, by, though, or to the financial institution exceeding the defined thresholds. TTRs are crucial to develop the data bank of customer/clients' profile for future use in case such transactions happen to be connected with money laundering and terrorist financing offences. TTRs also help to form a link chart during the analysis of a STR/SAR and help analyst to find the criminal elements involved in the transactions and convert the financial information into financial intelligence by adding value in it. TTR is an essential item for both the operational and strategic analysis. TTR's specific criteria are:

- Reporting entities are required to file TTRs to FIU-Nepal within fifteen days from the date of transaction.
- The threshold amount may be reached by a single transaction or by a series of transactions in

cash into a single account or by a single customer over a period of one working day. It may be considered to be an aggregate transaction in cash exceeding the prescribed threshold within a single day.

- Cash does not include negotiable instrument, nor does it include a transfer of funds by means of bank cheque, bank draft, electronic funds transfer, wire transfer or other written order that does not involve the physical transfer of cash. These methods of transferring funds do not fall within threshold reporting obligation.
- Reporting entities should make its customer declare the source of funds in case the transaction exceeds the prescribed threshold.

The designated thresholds for different Reporting Entities (REs) are as follows.

Table 3.1: Designated Threshold across various sectors

S.N.	Industry	Threshold
1.	Bank and Financial Institutions	<ul style="list-style-type: none"> • Deposit or withdrawal of more than Rs. 1 million in one transaction or in a series of transactions in one day in single account. • Cross Border Electronic or other transfer of more than Rs. 1 million by a customer in single or in a series of transactions in one day. • Exchange of foreign currency equivalent to Rs 5,00,000/- or more by a customer in one transaction or in a series of transactions in one day.
2.	Cooperatives	<ul style="list-style-type: none"> • Cash deposit or withdrawal of more than Rs. 1 million in one transaction or in a series of transactions by a member in one day • Electronic or other transfer or payment of more than Rs. 1 million to the member or other person in single or in a series of transactions in one day (Cross-Border Transactions).
3.	Insurance Company	<ul style="list-style-type: none"> • Purchase of life insurance policy with an annual premium of Rs 1,00,000/- or more, irrespective of whether paid once or multiple times in a year. • Purchase of non-life insurance policy with an annual premium of Rs 3,00,000/- or more, irrespective of whether paid once or multiple times in a year.
4.	Money Remitters	<ul style="list-style-type: none"> • Inward remittance of Rs 1 million or more in the name of a customer in one transaction or in a series of transactions in one day.
5.	Real Estate Business	<ul style="list-style-type: none"> • Purchase or sale of real-estate property of Rs 10 million or more by a customer in one transaction or in a series of transactions in one day.
6.	Securities Business	<ul style="list-style-type: none"> • Purchase or sale of securities of Rs 1 million or more by a customer in one transaction or in a series of transactions in one day.
7.	Money Changers	<ul style="list-style-type: none"> • Exchange of foreign currency equivalent to Rs 5,00,000/- or more by a customer in one transaction or in a series of transactions in one day.

8.	Casinos	<ul style="list-style-type: none"> • Win or lose of more than Rs. 1 million by an individual in one transaction or in a series of transactions in one day.
9.	Accountants, Auditors and Notary Public	<ul style="list-style-type: none"> • Purchase or sale of property or management of fund equivalent to Rs 1 million or more on behalf of a client in one transaction or in a series of transactions in one day.
10.	Dealers in precious gems, stones and metal (gold, silvers, platinum, etc.).	<ul style="list-style-type: none"> • Purchase or sale of precious gems, stones and metal (gold, silvers, platinum, etc.) of Rs 1 million or more by a customer in one transaction or in a series of transactions in one day.

Source: Directives issued by various regulators

FIU-Nepal has updated and issued TTR Guidelines, 2020 exercising the power conferred by ALPA, 2008 that clarifies the obligation to report threshold transactions. Since the BFIs have started to report through goAML software, the problem of double/multiple counting of TTRs has been minimized that results the low number of TTRs in 2019/20 and 2020/21. But entity wise reporting of TTR is skewed in nature. Majority of TTRs are received from the BFIs. It indicates the need to increase the coverage of REs as well as the awareness regarding their reporting obligations. Following table gives the numbers of TTRs and their trends for last five years.

Table 3.2: Number of TTRs Received from Reporting Entities

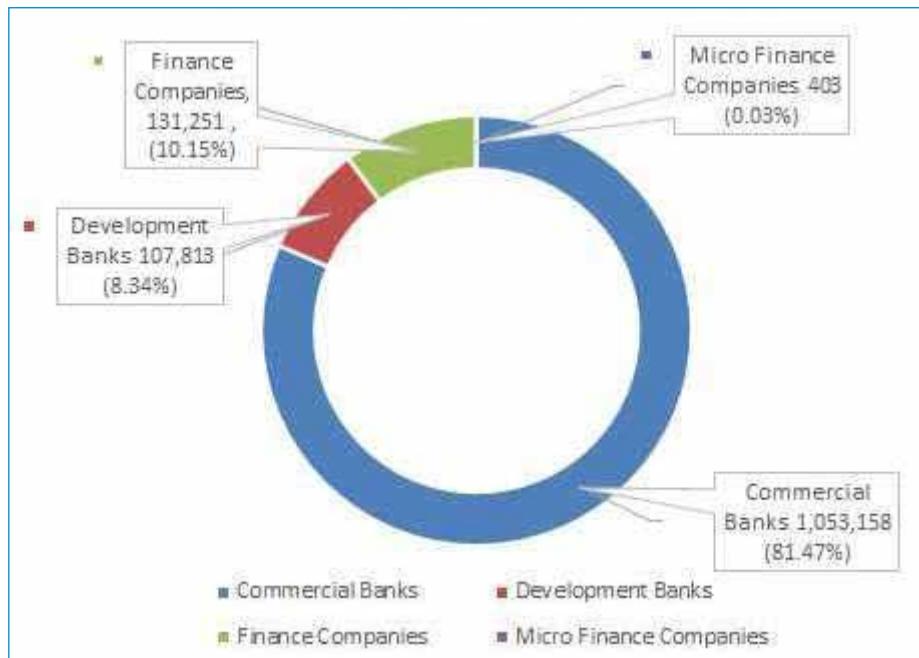
S.N.	Reporting Institutions	2073/74 (2016/17)	2074/75 (2017/18)	2075/76 (2018/19)	2076/77 (2019/20)	2077/78 (2020/21)
1	BFIs	4,564,413	4,452,585	5,181,200	2,211,803	1,292,625
2	Cooperatives	23,633	8,885	11,447	44,360	234,517
4	Insurance companies	58,508	89,966	124,789	139,015	155,344
5	Securities companies	60,961	34,783	33,912	32,846	306,643
6	Others	6,055	7,598	13,601	12,977	9,917
Total		4,713,570	4,593,817	5,364,949	2,441,001	1,999,046

Source: FIU-Nepal

* Since the BFIs have started to report through goAML software, the problem of multiple counting of TTRs has decreased that results lower number of TTRs in 2019/20 and 2020/21.

Commercial banks alone comprises almost 82% of TTRs of BFIs and more than 50% of total TTRs received in FY 2021/22. Accordingly, Development Banks and Finance companies also have considerable portion in TTR number but the Microfinance companies are still way behind within this industry.

Figure 3.4: Numbers of TTRs Received from BFIs



Source: FIU-Nepal

Monthly TTR received in FY 2020/21 shows the upward trend but the imposition of lockdown from Mid April caused to plunge the number of TTR received in May.

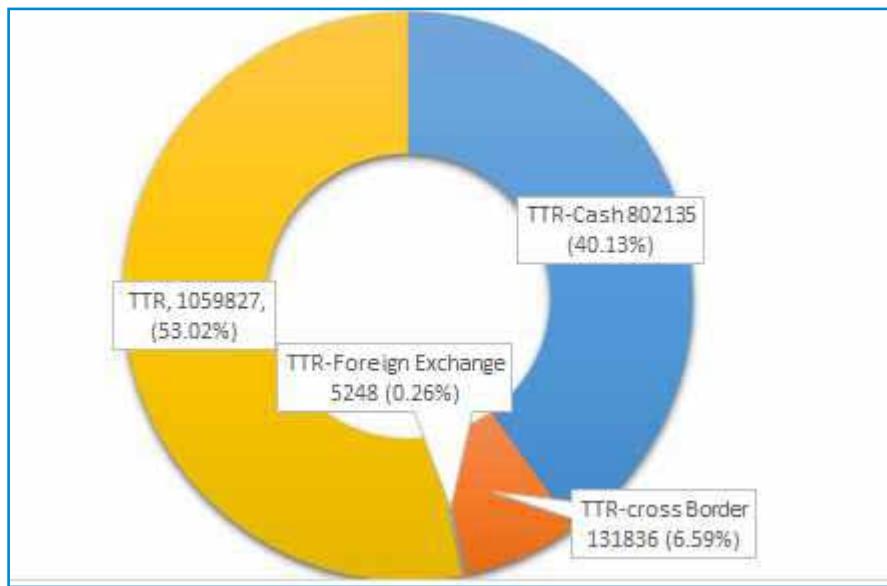
Figure 3.5: Monthly receipt of TTR in FY 2077/78 (2020/21)



Source: FIU-Nepal

Unified Directive, 2020 issued by Nepal Rastra Bank for A, B & C class BFIs has categorized TTR into TTR-Cash, TTR-Cross Border, TTR-Foreign Exchange. As BFIs are reporting via goAML System, one of these categories must be selected while reporting. For other REs, category is not defined yet. TTR reports of FY 2020/21 can be further classified as below:

Figure 3.6: Category of TTR in FY 2077/78 (2020/21)



Source: FIU-Nepal

Note: REs other than BFIs are not required to classify TTR as above

3.7 Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs)

SARs/STRs include detailed information about activities/transactions that are or appear to be suspicious. The purpose of STRs/SARs is to report known or suspected violations of law or suspicious activity observed by REs subject to the provision related ALPA, 2008. It helps FIU-Nepal to identify individuals, groups and organizations involved in fraud, terrorist financing, money laundering, and other crimes. In many instances, STRs/SARs have been instrumental in enabling law enforcement to initiate or supplement major money laundering or terrorist financing investigations and other criminal cases. Information provided in STRs/SARs help identifying emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions. Each STRs/SARs must be filed within three days of the initial determination for the necessity of filing the report as per ALPA, 2008. FIU-Nepal has updated STR/SAR Guidelines on July, 2021 clarifying the obligation to report suspicious transactions under the ALPA, 2008 and ALPR, 2016 and providing information on indicators of suspicious activities.

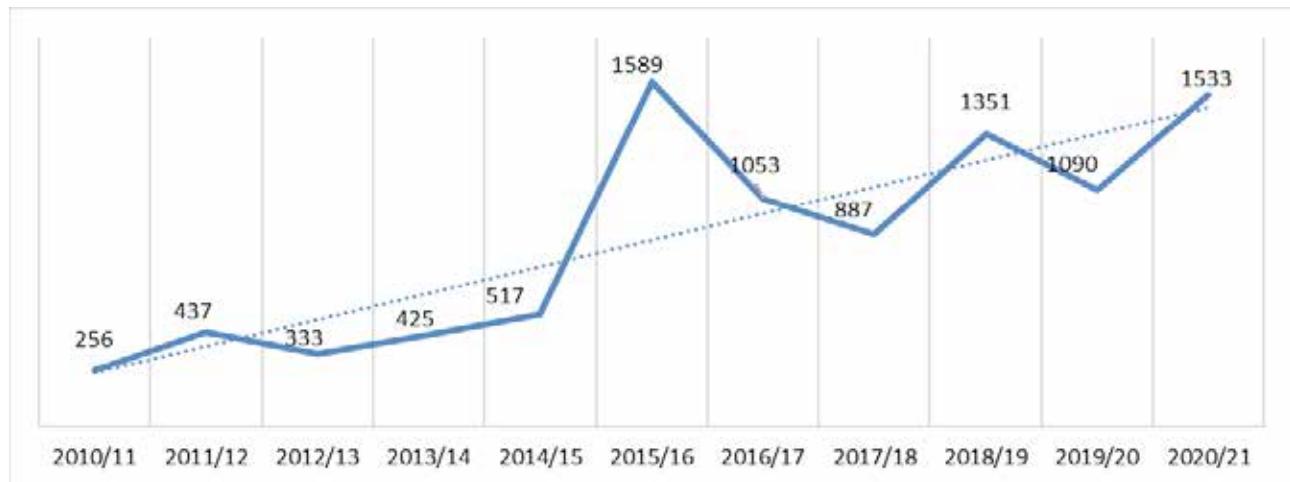
The reporting can start with any employee of REs; however, a reporting entity has to appoint a managerial level staff as a compliance officer to deal with FIU on matters relating to STRs/SARs as per ALPA, 2008. They are generally trained to be alert for suspicious transactions/activities and report to FIU-Nepal. REs especially BFIs are using various software which facilitates suspicious transactions/activities identification.

There are several red flags to detect suspicious transactions. In order to detect file the STRs/SARs, guidelines have been prepared and issued by FIU-Nepal exercising the power conferred by Section 10 (1) (h) of ALPA, 2008. The general characteristics of Suspicious Financial Transactions/Activities are:

- Transactions having unclear economical and business target.

- Transactions conducted in relatively large amount cash and/or conducted repeatedly and unnaturally.
- Transactions conducted differently from that of usually and normally conducted by the relevant customer.
- Huge, complex and usual transaction.
- Client refuses to provide identification as requested.
- Activities related to Identity Theft.

Figure 3.7: Yearly Receipt of STRs/SARs



Source: FIU-Nepal

The number of STRs/SARs received increased sharply in 2015/16 resulted by the increased cross border IC withdrawals through ATM in India. However, the number falls significantly in 2016/17 and 2017/18 as FIU-Nepal advised REs through different programs to conduct preliminary analysis before submitting STRs/SARs. In 2020/21, the number of STRs/SARs further increased to 1533.

Table 3.3: Number of STRs/SARs Received from Reporting Entities

S.N.	Reporting Institutions (REs)	2073/74 (2016/17)	2074/75 (2017/18)	2075/76 (2018/19)	2076/77 (2019/20)	2077/78 (2020/21)
1	Commercial Banks	949	660	910	924	1403
2	Development Banks	31	23	135	93	64
3	Finance Companies	0	3	8	1	12
4	Insurance Companies	4	2	31	4	3
5	Micro Finance	0	0	0	0	3
6	Remittance Companies	69	194	263	52	29
7	Securities Companies	0	2	3	14	18
8	Cooperative	0	2	1	2	0
9	Government agencies	0	1	0	0	1
Total		1053	887	1351	1090	1533

Source: FIU-Nepal

The share of STRs/SARs reported by commercial banks ranges over two third to the 90 percent in last five years. However, the number of reporting from other entities is rather fluctuating. Some institutions such as Cooperatives, Insurance companies etc. have quite low number of reporting in comparison to their size in overall financial system. DNFBPs have not initiated reporting of STRs/SARs yet.

Figure 3.8: Status of STRs/SARs



Source: FIU-Nepal

The above graph depicts that the numbers of STRs/SARs received, analyzed, disseminated and postponed in last five years. In 2020/21, the total number of STRs/SARs received and analyzed were 1533 and 640 respectively. Out of total analyzed STRs, 192 have been disseminated to different LEAs whereas 448 have been postponed for the time being due to lack of strong grounds with possibility of use in future.

Monthly STRs/SARs received in FY 2020/21 shows the upward trend but the number of STRs/SARs received plummets in May due to imposition of lockdown which rise again in the month of July.

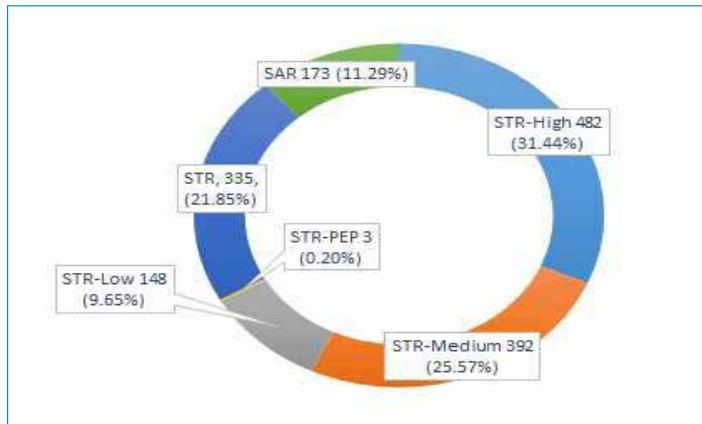
Figure 3.9: Monthly receipt of STR and SAR in FY 2077/78 (2020/21)



Source: FIU-Nepal

Unified Directive, 2020 of Nepal Rastra Bank for A, B & C class BFIs has categorized STR into STR-PEP, STR-High, STR-Medium and STR-Low. As these BFIs are reporting via goAML System, they need to self-rate STR accordingly and file report. For other REs, category is not defined yet. SAR is filed when there is attempted transaction or any suspicious activity. Total number of SAR was 11% of total STRs/SARs.

Figure 3.10: Category of STR in FY 2077/78 (2020/21)



Source: FIU-Nepal

Note: Except BFIs other REs are submitting STR without classification.

3.8 Analysis

Receiving, analyzing and disseminating the STRs/SARs are the core functions of FIU-Nepal. It analyzes STRs/SARs and can ask for additional information to explore whether the activity/conduct extends to other institutions and/or involves other parties domestically or abroad, and to reach a conclusion as to whether the case meets the FIUs threshold/standard for dissemination to LEAs. When the analysis of STRs/SARs results a reasonable suspicion that, money laundering, terrorist financing or predicate offence/offences has taken, or is taking place, the information are disseminated to the appropriate law enforcement agencies.

The reasonable suspicion may result from the following circumstances:

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

As a core function, FIU-Nepal regularly conducts operational analysis. Moreover, FIU-Nepal has initiated the practice of strategic analysis from this fiscal year.

- a) **Operational analysis** is related with analysis of STRs/SARs/TTRs received at FIU-Nepal. It is concentrated on identifying specific targets (e.g. person, assets, criminal networks and associations) and to follow the trail of particular financial activities or transactions so as to determine the links between the targets and possible proceeds of crime (ML/TF or predicate offences). For operational analysis, FIU-Nepal has implemented goAML software in “A”, “B” and “C” class BFIs. It is also in implementation phase to other reporting entities.
- b) **Strategic analysis** is conducted to enable FIU-Nepal and its stakeholders to understand the patterns and trends of money laundering and related issues. The strategic analysis has also enabled FIU-Nepal to draw conclusions for the strategic prevention of money laundering and financing of terrorism and for setting operational priorities. Moreover, it helps to determine money laundering and



terrorist financing related threats and vulnerabilities. Furthermore, it helps to make policies and goals for FIU, or more broadly for other entities within the AML/CFT regime. FIU-Nepal has published its first strategic analysis report 2021 in its website.

3.9 Dissemination

As specified in the ALPA 2008, FIU-Nepal disseminates information on suspected money laundering or terrorism financing to LEAs as per their scope and jurisdiction. Dissemination involves the disclosure of sensitive personal, financial and law enforcement information, and measures need to be applied to ensure that the information is properly protected, that disclosures are documented, and that dissemination is made to the appropriate authorized recipient.

In order to minimize the risk of disclosure to unauthorized recipients, the FIU-Nepal has adopted ‘No Informal Disseminations and No Oral Disseminations’ policy. All disseminations are in written form, and approved by the Head of FIU-Nepal. To maintain secrecy following measures are taken:

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

STRs/SARs converted into intelligence by adding value, are disseminated to one or more LEAs like, DMLI, Nepal Police, DRI, IRD, CIAA and other competent authorities. Dissemination is often spontaneous and FIU can respond upon request of such agencies as well. Domestic disseminations in this regard are as follows.

Table 3.4: Dissemination of SARs/STRs

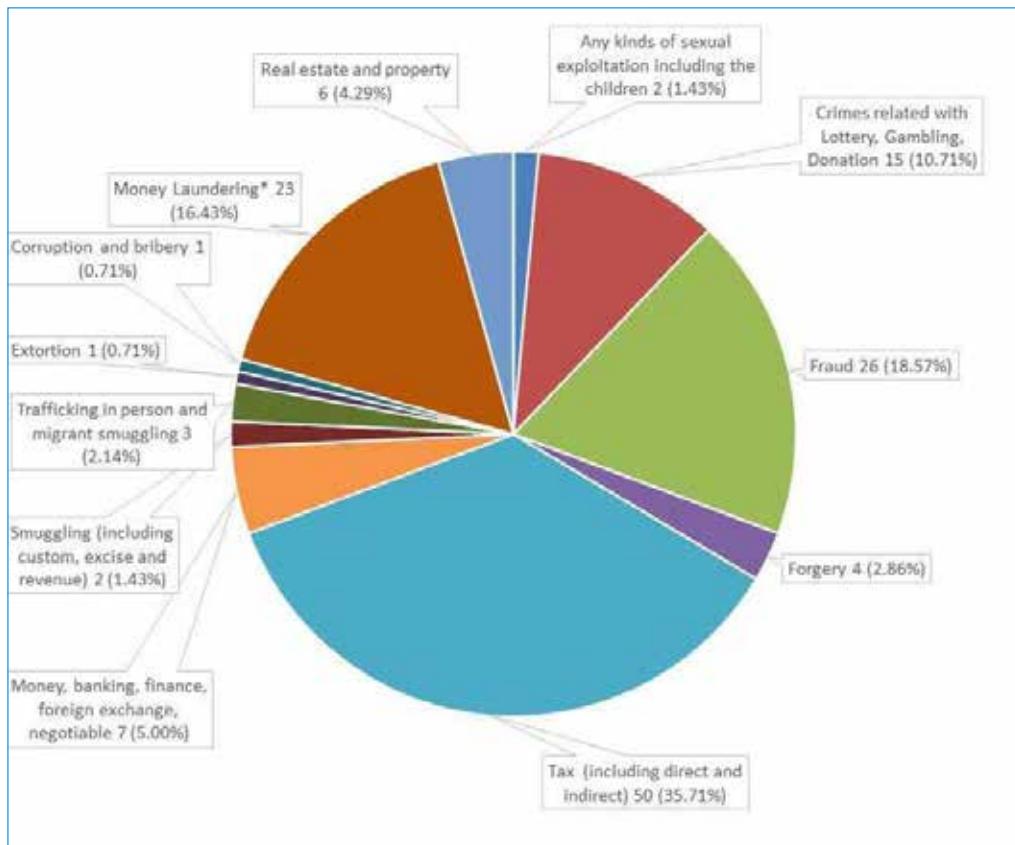
S.N.	Agencies	2073/74 (2016/17)	2074/75 (2017/18)	2075/76 (2018/19)	2076/77 (2019/20)	2077/78 (2020/21)
1.	DMLI	39	44	27	39	26
2.	Nepal Police	124	78	36	119	98
3.	DRI	174	144	107	200	75
4.	IRD	8	51	42	26	3
5.	CIAA	9	8	2	15	2
6.	Dept. of Co-operatives	-	-	-	18	1
7.	Others	37	19	2	2	7
	Total	391*	344*	216*	419*	212*

Source: FIU-Nepal

***Note:** One STR/SAR can be disseminated to more than one agency and single STR/SAR disseminated to two different LEAs' have been included in both sections for the counting purpose. Total number of STR disseminated to LEA is 312 for 2017/18, 207 for 2018/19, 333 for 2019/20 & 212 for 2020/21 eliminating such multiple counting.

During the FY 2020/21, the number of STRs disseminated to Nepal Police is 98 followed by 75 to DRI, 26 to DMLI, 3 to IRD, 2 to CIAA, 1 to Department of Co-operatives and 7 to Other agencies. Based on the predicate offence, the largest number of STR dissemination falls under the category of tax evasion (36%), Fraud (19%), Crimes related with Lottery, Gambling, donation (11%) etc. as shown in figure 3.11 .

Figure 3.11: Predicate-offence wise STR/SAR Dissemination



Source: FIU-Nepal

3.10 The goAML Software System

FIU-Nepal has installed goAML software developed by United Nations Office on Drugs and Crime (UNODC). The goAML application is the UNODC Software Products for Member States' response to money laundering and terrorist financing, and is available to Financial Intelligence Units of Member States to support their work. As of Jul-2021, 56 countries have already deployed goAML. In the first phase, it's fully functional product version is being implemented in A, B & C class Banks and Financial Institutions. Other REs such as insurance companies, securities companies, remittance companies etc. have also been integrated into goAML test environment. After a satisfactory reporting under test environment, they will be shifted into goAML production environment to submit their regulatory reports. Other Financial institutions and DNFBPs will also be gradually integrated to use goAML in the near future.



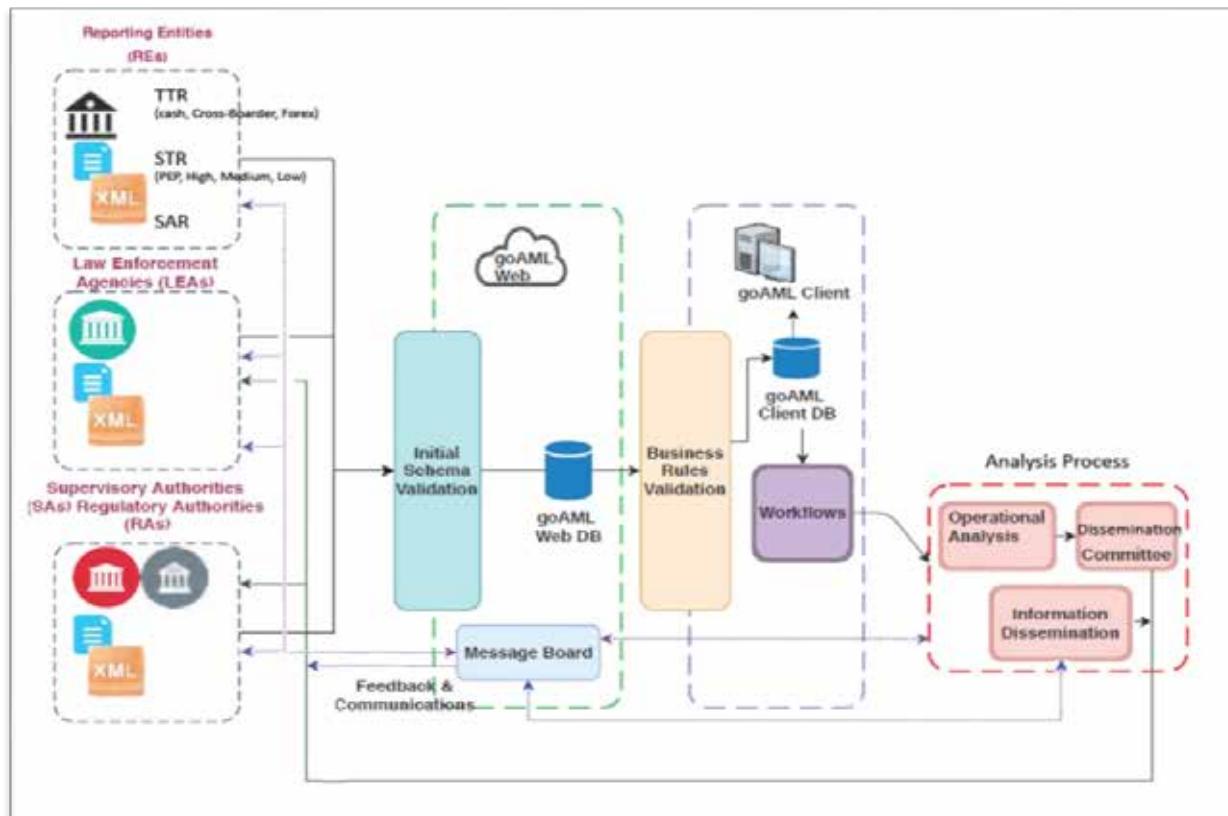
Figure 3.12: goAML implementing countries as of July, 2021



Source: UNODC

goAML helps online receipt of SARs, STRs and TTRs from the REs and analyze such reports in an automated form. As per the experiences of other counterparts, goAML not only gears up the capacity of FIU, particularly in its core function like receiving and analyzing information, but also assists for qualitative analysis. It requires strengthening the technical and analytical skills of FIU staffs.

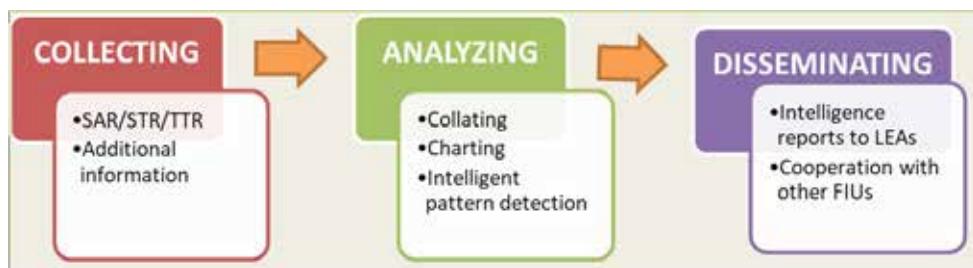
Figure 3.13: Architecture of the goAML Software System



Source: FIU-Nepal

The goAML solution is executed in three steps: **Collection**, **Analysis** (rule-based analysis, risk-score and profiling) and **Dissemination** (escalate to law enforcement and seek feedback). It provides a facility for the rapid exchange of information between the FIU-Nepal, financial institutions law enforcement and judicial authorities, while ensuring confidentiality of the data collected.

Figure 3.14: Steps in goAML Software System



Source: UNODC

3.10.1 Inherent Risk and shortcomings in paper based/manual reporting procedure

- Risk of leaking, manipulating or tipping off information while exchanging hard copy document in various levels and by various personnel involved in the communication channel – sender, dispatch personnel, carrier, primary receiver etc.
- Risk of loss, damage or theft while handling the documents in physical form.
- Procedure and channel for communicating AML/CFT information should be secured and reliable as recommended by FATF. Since leaking, manipulating or tipping off information is generally considered serious crimes as per AML/CFT regulations
- Difficult to manage records and keep statistics of various types of reports received from REs and domestic cooperation between FIU and LEAs leading to mismatch in statistical data.
- Time consuming and receipt/non-receipt of the correspondence needs to be confirmed via phone call in many cases.

3.10.2 Advantages of using goAML

- goAML uses secured electronic channel for communication and the information is transferred in encrypted form so the chances of leaking and manipulating information is minimal.
- goAML can be used both for receiving reports from REs and disseminating information to LEAs while maintaining the confidentiality and integrity of the information
- The information can be directly sent and received by the end parties without the involvement of third parties like messenger and carriers.
- Communication through goAML is simple, easy and fast (similar to sending email/filling web form)
- No need to purchase or install new software at REs/LEAs end (software is already procured and installed by FIU-Nepal) although REs may require middleware for generating XML reports
- REs/LEAs just require internet connectivity for reaching the goAML server/website
- LEA can provide feedback on the disseminated information to FIU-Nepal along with Asset Confiscation and detailed conviction information (including number of persons convicted)

- International co-operation to be made in co-ordination of FIU e.g. EGMONT group, APG, etc., can be done efficiently
- Statistics of various types of reports submitted by REs and dissemination, feedback, domestic and international co-operation can be maintained and obtained easily.

3.10.3 Major challenges faced during implementation of goAML

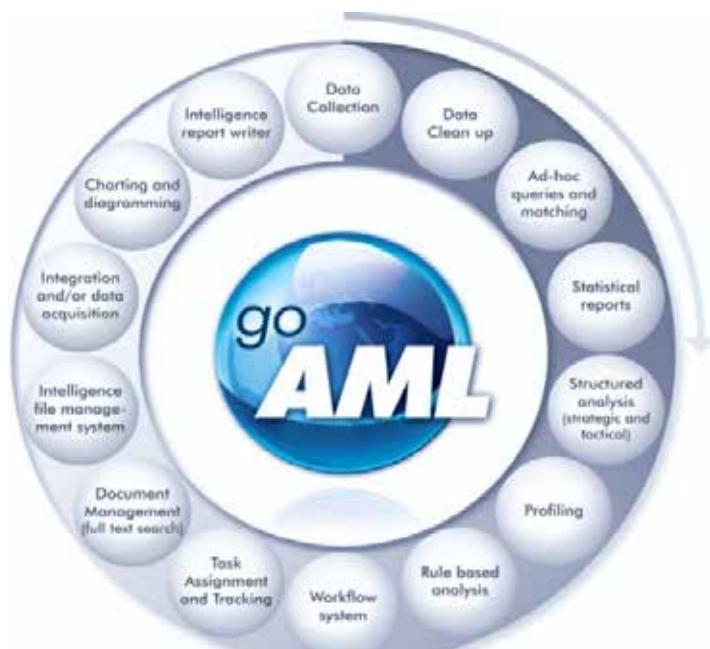
The major challenges faced during the implementation of goAML are:

- Customizing goAML to match the data fields and reporting requirement for different type of REs
- Lack of necessary data with the REs (lack of updated KYC related documents)
- Lack of digitized data with the REs (documents stored as scanned copy)
- Lack of necessary data fields in enterprise application of REs as per data requirement in goAML
- Challenges in updating KYC related documents of clients and digitizing data
- Challenges in developing middleware for generating XML files as per goAML schema
- Challenges in mapping available data from enterprise application of REs to goAML XML file format
- Lack of comprehensive goAML related training to FIU staffs
- Frequent issues faced in goAML system hardware and software due to power failure, physical migration of hardware to various locations etc. causing unprecedented downtime of goAML system

3.10.4 Features of goAML

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

Figure 3.15: Features of goAML



Source: UNODC

- 1. Data Collection:** This component of the goAML solution allows reporting entities to submit regulatory reports and other information offline (i.e., through XML data exchange such as email attachment, CD, HD, etc.), online (through direct upload of XML data messages), or by filing and submitting online forms through the FIU's secure website. Of particular note is that this feature allows for the reporting of multi-party transactions, which is useful for organizations that deal in high-value goods and often report single-sided transactions, despite there being several parties to the transaction.
- 2. Data Evaluation and Clean Up:** This feature of goAML occurs in a ‘staging area’ outside the main system environment and automatically reviews the data it receives to verify it is both accurate and complete. If the system determines that the submitted data is complete and accurate, is it pushed through to the main database. If not, it is sent back for correction to the entity that reported it.
- 3. Ad Hoc Queries and Matching:** With the goAML solution, users can make ad hoc queries, allowing them to find information on a range of criteria (such as name, address, country, account number, full text search, etc.). Upon submitting a query, goAML presents a list of entities that match the search and—where they exist—links them. In terms of matching, goAML has an importer that inputs external data in any format on people, entities and accounts and matches that information against the FIU’s database. This process can be either scheduled or be scheduled as a regular task.
- 4. Statistical Reporting on Information/Reports Received and Processed:** Statistical reports can be auto-generated and ad hoc statistics obtained from the system by goAML. This capability helps complete reports on any of the activity that happens in the solution. Compliance-related reports can be prepared that include the types, numbers and values of reports collected by an FIU, and can also identify the organization that completed the report by name, address and type. FIUs are also able to report on and analyze their own activities as needed. This functionality helps FIUs identify financial institutions that have missed their deadline for submitting reports or that have failed to report their side of a transaction that has been reported by another institution.
- 5. Structured Analysis at Both Tactical and Strategic Levels:** With this feature, in-depth analysis can be performed on information contained in reports and any data stored in the database. Trends and patterns of an individual’s financial transactions, account activity and movement of money can be analyzed. Using information in the database, tactical and more general strategic analysis can be performed on specific targets. Options for strategic analysis includes analysis pivoting on occupation and business type, account activity, signatories, primary account holder, top players, time lines, etc.
- 6. Profiling Tool:** The goAML platform stores profiling data, with profiling scheduled to run only before any new data is distributed, ensuring that the new data is compared with the saved profile data before it influences it so that exception reporting is more accurate. To help identify profile trends, profile data is appended to structured tables along with a date time stamp. Profiling in goAML works based on occupation and business type, persons, entities, geographical area, etc.
- 7. Rules-Based Analysis:** This feature offers fully customizable rules-based analysis, including rules that have dynamic risk scores. Data is continuously monitored to determine whether any reported transactions fall into certain patterns, and analysts are alerted if a pattern changes or an exception is detected.
- 8. Workflow Management System:** The workflow management system moves work items through a series of sequenced steps to help FIUs effectively manage information. This includes receiving and processing reports, analysis function, and management of feedback and dissemination processes.
- 9. Task Assignment and Tracking:** The goAML solution offers the ability for managers to assign, reassign or remove tasks, within either ad hoc or predetermined timeframes. Tasks can be monitored to ensure progress is being made and that appropriate actions are being completed. When a task is due or overdue, the system sends an alert to staff.
- 10. Document Management with Full Text Search Capability:** Document management in goAML lets documents be captured via e-transfer or scanning and optical recognition, then be filed based on a range of characteristics. Documents can be retrieved through text search functionality.

- 11. Intelligence File Development and Management System:** After an analyst has gathered the initial information and determined that a report, further analysis or escalation is warranted, this component creates and then manages an intelligence file. Any analytical work that follows is completed within this file. After analysis is finished and the case is to be escalated, a case file is generated for sharing with end user agencies.
- 12. Data Acquisition/Integration from External Sources:** This component is responsible for collecting and storing external data in a predefined format. Data can be accessed, queried and retrieved from external databases electronically, so long as such databases exist and there are rules in place regarding the sharing of information. If it's not possible to allow electronic access to data, the solution can use preformatted templates to create requests for transmission to external agencies via mail, fax or email.
- 13. Integrated Charting and Diagramming:** With goAML, users can create visualizations, including of transactional link analysis, automated link analysis using addresses, phone number, company board membership, etc. Charts can be built manually for individual cases by using the available diagram options and icons.
- 14. Intelligence Report Writer:** Representing the final stage in goAML's analytical process, the intelligence report writer acts as a template and process for FIUs to complete and disseminate their final intelligence packages to their end user agencies. Supplementary information such as charts and documents can be attached to the report as needed.

(Source: UNODC)

3.10.5 goPortfolio

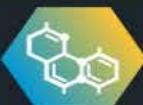
goPortfolio is a set of innovative evidence-based models and software products developed by the UNODC for Member States to help strengthen their capacity to fight organized crime. The Software Products for Member States (SPMS) section is part of the United Nations Office on Drugs and Crime's Enterprise Application Centre in Vienna (EAC-VN). SPMS develops innovative evidence-based models and software products for Member States within the thematic areas of UNODC substantive mandates: countering corruption, illicit drugs control, and transnational organized crime.

Upon request and in close collaboration with United Nations Secretariat substantive units and user communities, UNODC SPMS develops sustainable and affordable IT solutions, and makes these solutions available to key government institutions of Member States for use in their jurisdictions under the umbrella of the digital transformation agenda of the Secretary-General. Institutions include:

- legal affairs,
- trade and development,
- environment,
- human settlements,
- human rights,
- protection and assistance of refugees, and humanitarian assistance

(Source: UNODC)

Figure 3.16: goPortfolio Products & Models

goBlockchain	goWatchlist	goAML	goINTEL	goATR
 <p>goBlockchain: helps mitigate the risks of virtual currency (VC) or crypto currency (CC) transactions; identifies concepts and mechanisms to understand VC/CC transactional activity, including (Illicit) transactions in the Dark/Deep Web.</p>	 <p>goWatchList: innovative tool compiling and consolidating public and private watch lists.</p>	 <p>goAML: system using analytics to help Financial Intelligence Units combat crime, money laundering and terrorist financing.</p>	 <p>goINTEL: strategic intelligence system for the identification, prevention, and investigation of criminal and terrorist activities.</p>	 <p>goATR: asset recovery system that makes asset forfeiting and recovery investigations simpler by organizing information and streamlining cases.</p>
goCASE	goTRACE	NDS	I2ES	ICE Drugs
 <p>goCASE: case management system used by law enforcement and regulatory agencies to capture, store, and retrieve information.</p>	 <p>goTRACE: system that anonymously matches intelligence data stored in databases of different law enforcement agencies.</p>	 <p>NDS: national drug system that prevents controlled drugs from being illegally distributed, ensuring compliance with UN drug control standards.</p>	 <p>I2ES: international import and export authorization system that improves compliance with international drug control treaties.</p>	 <p>ICE Drugs: international collaborative exercise to help drug testing labs evaluate the efficiency of their labs and test procedures.</p>
PEN Online	EWA	ICE SECDOC	goPRS	goIDM
 <p>PEN Online: pre-export notification system between Member States on shipments of chemicals used to manufacture illegal substances.</p>	 <p>EWA: early warning advisory that gives labs access to information on new psychoactive substances, including trends, composition, and legislation.</p>	 <p>ICE SECDOC: online proficiency testing in security document examination, including digital images, direct result submission, and confidential feedback.</p>	 <p>goPRS: public procurement review software that improves the monitoring and review of procurement, regulatory, and oversight authorities.</p>	 <p>goIDM: an infrastructure and data centre that assists Member States to make informed decisions regarding IT infrastructure requirements.</p>

Source: UNODC (<https://unite.un.org/goportfolio>)

3.10.6 Methods of reporting in goAML system

REs can submit reports in goAML system in the following ways:

- A. Web Report
- B. XML Report

A. **Web Report:** SAR/STR/TTR reports in goAML system can be submitted by typing manually in web form. There are mandatory and non-mandatory fields in goAML. The mandatory fields which are marked by asterisk sign (*) should be filled. The non-mandatory fields or optional fields can be leave as blank. Certain fields which are not marked as mandatory in goAML can also be provided as

per operational guideline issued by FIU-Nepal. While filling in the web form, there are other different types of cascading web forms that should be saved one after another before submitting. If there are errors in the form (shown with red color), that should be revisited and corrected accordingly.

B. XML Report: An XML file is an extensible markup language file, and it is used to structure data for storage and transport. In an XML file, there are both tags and text. The tags provide the structure to the data. The text in the file that you wish to store is surrounded by these tags, which adhere to specific syntax guidelines. At its core, an XML file is a standard text file that utilizes customized tags, to describe the structure of the document and how it should be stored and transported.

An XML schema is a description of a type of XML document, typically expressed in terms of constraints on the structure and content of documents of that type, above and beyond the basic syntactical constraints imposed by XML itself.

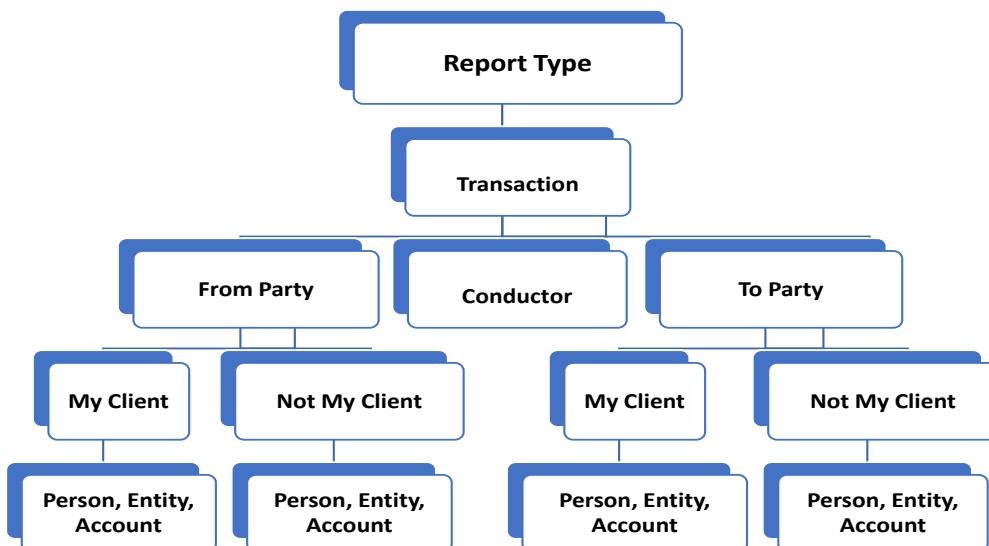
The XML file suitable with goAML can be generated through **middleware software**. Middleware software takes input as raw data from core system of REs (*such as Core Banking System (CBS) of BFIs, or similar software in insurance, securities and other*) and generate XML file as output. It validates the XML file through goAML XML validator. This option is also available in goAML website. All the validated XML files can be zipped and upload in bulk through XML upload.

XML reporting is appropriate in case of large number of reports than web based reporting. Individual transaction should type manually one by one and save to report threshold transaction in web based reporting, which is quite time consuming process. Once the XML file is generated which includes all the transactions of specific report and submitted in our system and it is easy process.

There are two types of validation in goAML which are initial schema level validation and business rule or logical validation. The initial schema level validation validates the report file based on available XML schema in goAML system and business rule or logical validation validates report based on available XML rejection rule in goAML system. After the pass of all business rules the report status is processed and saved in goAML database system.

3.10.7 Report Structure

Figure 3.17: Report Structure in goAML



- a. **Report Type:** The report types in goAML are Suspicious Activity Report (SAR), Suspicious Transaction Report (STR) and Threshold Transaction Report (TTR).
- b. **Transaction:** Threshold transaction of person or account or entity should be reported while reporting TTR and suspicious transaction of specific party should be reported during STR reporting. At least one of the suspicious transactions should be provided while reporting STR.
- c. **From Party:** Multi party and Bi-Party transaction features of goAML software system enable us to capture the information of party type. Bi-party means two party. Currently, Bi-party transaction feature is enabled in our system. REs should provide Bi-party transaction information while reporting. The two party type are '**from party**' and '**to party**'. '**from party**' is also called source party. The party type information depends upon the flow of currency. For example, if a person deposit cash in his account, so the '**from party**' is person and REs should provide the person information in '**from party**' node. The following cases are explained in goAML operational manual issued by FIU-Nepal among others.
- d. **Conductor:** Conductor is always natural person. A person who carries transaction on behalf of others or self. The Information regarding natural person should be provided while reporting and it plays vital role while tracking the suspect person.
- e. **To party:** Another party type is '**to party**' and also called destination party. For example, if a person deposits cash in his/her account then '**to party**' is account, so account information should be provided in '**to party**' node. The different cases are explained in goAML operational manual issued by FIU-Nepal.
- f. **My Client:** From the point of view of REs, the party (Individual, entity) whose account information presented in their institutions are categorized as '**my client**'. REs should provide detail information of my client inside '**my client**' node.
- g. **Not My Client:** If transaction was carried out by individual person or account in banks and financial institutions or other REs. The information regarding person or account or entity is not available with them so they can categorize such information as not my client. The minimum information of not my client should be provided under '**not my client**' node.
- h. **Person:** Depending upon the transaction scenario, if a person who involves in transaction or whose account information is available with REs, they should provide detail information of person while reporting in goAML software system. If the person is not my client, then minimum information can be provided.
- i. **Account:** Depending upon the transaction scenario, if the account information of natural person or entity is available with REs, they should provide detail information of the account while reporting in goAML. If account is not my client, then minimum information can be provided.
- j. **Entity:** Depending upon the transaction scenario, if account information of the organization or entity is available with REs, they should provide detail information of the account while reporting in goAML software system. If account is not my client, the minimum information can be provided.

3.10.8 Report Status

While reporting in goAML the report should pass different stages of validation process. If the report is submitted through web or uploaded through XML upload section by passing minimum criteria, then report status is '**uploaded**'. After that initial XML schema level validation process is running.

If the report is validated and passed all required criteria, the next status of report is ‘**validated and scheduled for loading**’ and it is temporary. If report is failed to validate, the status of report is ‘**failed validation**’ and the process ends.

After completion of validation process, the report is transferred from web to client and the status is “**transferred from web**”. Another business or logical validation process starts to validate the transferred report. If the report passed all the logical criteria which defined in goAML client system, the next status of report is ‘**processed**’. The report is finally saved in our database. If the report failed to validate all the logical criteria, the report is rejected automatically from system or manually by goAML team and report status is ‘**rejected**’. The rejected report returns back to web and REs can see the rejected reason. The report can be edited and resubmitted by fulfilling the report criteria. The report status is shown different in different stage.

3.10.9 Reporting statistics of the BFIs in goAML

Commercial Banks have been submitting SARs, STRs and TTRs in goAML Production Environment since Mid January 2019 and ‘B’ & ‘C’ class BFIs have been submitting same since Mid January 2020. The total number of STRs, SARs, and TTRs reported in the goAML Production environment for FY 2020/21 were 1278, 173 and 1,132,721 respectively compared to 350, 18 and 319,113 respectively in previous FY. The table below illustrates the number of reporting of A, B & C class BFIs in goAML system during this period:

Table 3.5: Status of STRs/ SARs reported in goAML

Month / F.Y.	STR/SAR					
	Commercial Banks		Dev. Banks	Finance Companies	Total	
	2076/77 (2019/20)	2077/78 (2020/21)	2077/78 (2020/21)	2077/78 (2020/21)	2076/77 (2019/20)	2077/78 (2020/21)
Shrawan (Jul/Aug)	0	136	0	0	-	136
Bhadra (Aug/Sep)	0	56	0	0	-	56
Ashwin (Sep/Oct)	0	81	0	0	-	81
Kartik (Oct/Nov)	0	86	0	0	-	86
Mangsir (Nov/Dec)	0	93	0	0	-	93
Poush (Dec/Jan)	0	156	2	0	-	158
Magh (Jan/Feb)	30	145	4	1	30	150
Falgun (Feb/Mar)	60	146	4	1	60	151
Chaitra (Mar/Apr)	46	215	10	0	46	225
Baisakh (Apr/May)	19	120	14	4	19	138
Jestha (May/Jun)	38	19	1	0	38	20
Ashar (Jun/Jul)	175	150	7	0	175	157
TOTAL	368	1403	42	6	368	1451

Source: FIU-Nepal

Table 3.6: Status of TTRs reported in goAML

FY 2077/78	Shrawan (Jul/ Aug)	Bhadra (Aug/ Sep)	Ashwin (Sep/ Oct)	Kartik (Oct/ Nov)	Mangsir (Nov/ Dec)	Poush (Dec/ Jan)	Magh (Jan/ Feb)	Falgun (Feb/ Mar)	Chaitra (Mar/ Apr)	Baisakh (Apr/ May)	Jestha (May/ Jun)	Ashar (Jun/ Jul)	Total
TTR Received	85,942	55,314	58,149	108,495	102,313	111,616	111,292	108,649	134,722	118,185	47,474	90,557	1,132,708
STR/SAR Received	125	52	82	77	105	148	150	155	234	125	63	108	1,424
STR/SAR Analyzed	19	4	9	8	12	18	32	17	31	14	1	27	192
STR/SAR Postponed	7	1	3	-	2	7	-	5	16	8	-	3	52
STR/SAR Disseminated	12	3	6	8	10	11	32	12	15	6	1	24	140

Source: FIU-Nepal

The table below illustrates the number of TTR received, STR/SAR received, analyzed, postponed and disseminated from A, B & C class BFIs via goAML during FY 2020/21:

Table 3.7: Month-wise reporting statistics via goAML

Month / F.Y.	TTR					
	Commercial Banks		Dev. Banks	Finance Companies	Total	
	2076/77 (2019/20)	2077/78 (2020/21)	2077/78 (2020/21)	2077/78 (2020/21)	2076/77 (2019/20)	2077/78 (2020/21)
Shrawan (Jul/Aug)	0	85117	25	11	0	85153
Bhadra (Aug/Sep)	0	54365	4	1	0	54370
Ashwin (Sep/Oct)	0	56233	3325	195	0	59753
Kartik (Oct/Nov)	0	106169	2294	166	0	108629
Mangsir (Nov/Dec)	0	99032	3003	278	0	102313
Poush (Dec/Jan)	0	103202	7736	682	0	111620
Magh (Jan/Feb)	59513	99527	10609	1156	59513	111292
Falgun (Feb/Mar)	80458	96736	10744	1169	80458	108649
Chaitra (Mar/Apr)	38147	118122	14092	1937	38147	134151
Baisakh (Apr/May)	38401	107616	9658	1297	38401	118571
Jestha (May/Jun)	36649	45014	1996	241	36649	47251
Ashar (Jun/Jul)	65945	82025	8060	887	65945	90972
TOTAL	319113	1053158	71543	8020	319113	1132721

Source: FIU-Nepal

3.10.10 Ongoing Activities and Future Plan

Currently, A, B & C class banks and financial institutions are reporting STRs, SARs and TTRs in goAML Production Environment. Insurance companies, Securities companies (Brokers, Merchant Banks etc.), Remittance companies, Cooperatives have been reporting in goAML Test Environment. Also, CIT, EPF, PSPs/PSOs, Microfinance companies and other REs will also be gradually incorporated in goAML as guided by AML/CFT National strategy and action plan 2076-81. But, first and second wave of Covid-19 pandemic has elongated the course of goAML implementation in REs.

Table 3.8: goAML Reporting status

SN	FY 2077/78 (2020/21)	Total Received	Received through goAML	Received through goAML (%)
1	TTR	1,999,056	1,132,721	57 %
2	STR/SAR	1,533	1,451	95 %

Source: FIU-Nepal

Before beginning to report in the goAML Production Environment, it is crucial for both FIU-Nepal and the REs to ensure that the data in submitted reports are complete, consistent and correctly structured. In the absence of this, the goAML database clutters with garbage data which may mislead the analysis process and render the goAML system unreliable. For this, initially reporting is made in goAML Test Environment, where the REs can submit test reports to validate and improve their reports and seek feedback from FIU-Nepal.

Table 3.9: REs' statistics in goAML

SN	Reporting Entity Type	Test Environment	Production Environment
1	Commercial Banks	27	27
2	Development Banks	19	19
3	Finance Companies	18	18
4	Insurance Companies (Life and Non-Life)	40	0
5	Security (Stock Brokers, Stock Exchange, Merchant Bankers)	84	0
6	Remittance Companies	16	0
	TOTAL	204	64

Source: FIU-Nepal

FIU-Nepal is also co-coordinating with the regulators of REs like Insurance, Securities and Remittance companies and working on customizing goAML to match their reporting requirements. Guidance and supports are being provided to the new REs in coordination with their regulators for incorporating them in goAML in near future. FIU-Nepal is also looking forward to incorporate LEAs in goAML for the purpose of dissemination and domestic cooperation.

Major goAML related events and programs conducted in FY 2020/21 are listed below:

- Orientation Program for Insurance Companies for goAML reporting and reporting requirements (2077, Ashoj)
- Interaction Program with LEAs on 14 December, 2020

- Interaction between Customs Department and FIU-Nepal on 15 December, 2020
- Interaction program with Remittance Companies on 20 December, 2020 for goAML software implementation
- Interaction program with Finance Companies on 28 December, 2020 for goAML software implementation
- Interaction program with Development Banks on 31 December, 2020 relating to goAML
- Interaction program with DNFBPs on 11 January, 2021
- Interaction program with DRI and DMLI on goAML software implementation on Law Enforcement Agencies on 28 January, 2021
- Interaction program with Compliance Officers of “A”, “B” and “C” class banks and financial institution on goAML implementation on 12 April, 2021 at Zoom

DOMESTIC & INTERNATIONAL COOPERATION

04
CHAPTER

4. Cooperation among Domestic & International Authorities: A Strategic Alliance



Information sharing among domestic and international authorities is key to facilitate investigations related to money laundering, terrorist financing and proliferation financing. Therefore, for protecting the national and international financial system from illicit proceeds from money laundering, terrorist financing and proliferation financing or other related criminal activities, a country's AML/CFT/CPF regime requires cooperation amongst domestic & international authorities as and when required, mutually as stated by FATF recommendations number two and forty.

The FIU-Nepal plays a vital role in the exchange of information/intelligence related to AML/CFT with domestic & international counterparts. Such exchange through requests or spontaneous disseminations with foreign FIUs is done through the EGMONT Secure Web (ESW). In domestic context, it is done through the use of secure email as well as through a duly sealed letters (hard copy).

4.1 Domestic Cooperation and Engagement

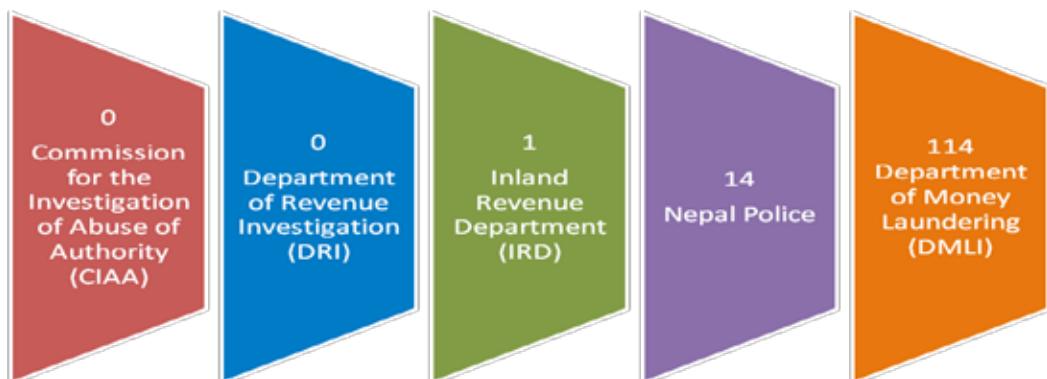
FATF Recommendation two; National Cooperation and Coordination, states that countries should have national AML/CFT/CPF policies, informed by the risks identified, which should be regularly reviewed, and should designate an authority or have a coordination or other mechanism that is responsible for such policies. Countries should ensure that policy-makers, the Financial Intelligence Unit(FIU), Law EnforcementAuthorities(LEAs), supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective mechanisms in place which enable them to cooperate, and, where appropriate, coordinate and exchange information domestically with each other concerning the development and implementation of policies and activities to combat money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. This should include cooperation and coordination between relevant authorities to ensure the compatibility of AML/CFT/CPF requirements with Data Protection and Privacy rules and other similar provisions (e.g. data security/localization).

FIU-Nepal regularly holds meetings with the representatives of the LEAs to discuss various issues of

common interest. LEAs regularly ask for information which FIU-Nepal provides after collecting it from domestic and international agencies.

Breakdown of agency wise Domestic cooperation by FIU-Nepal for the FY2020/21:

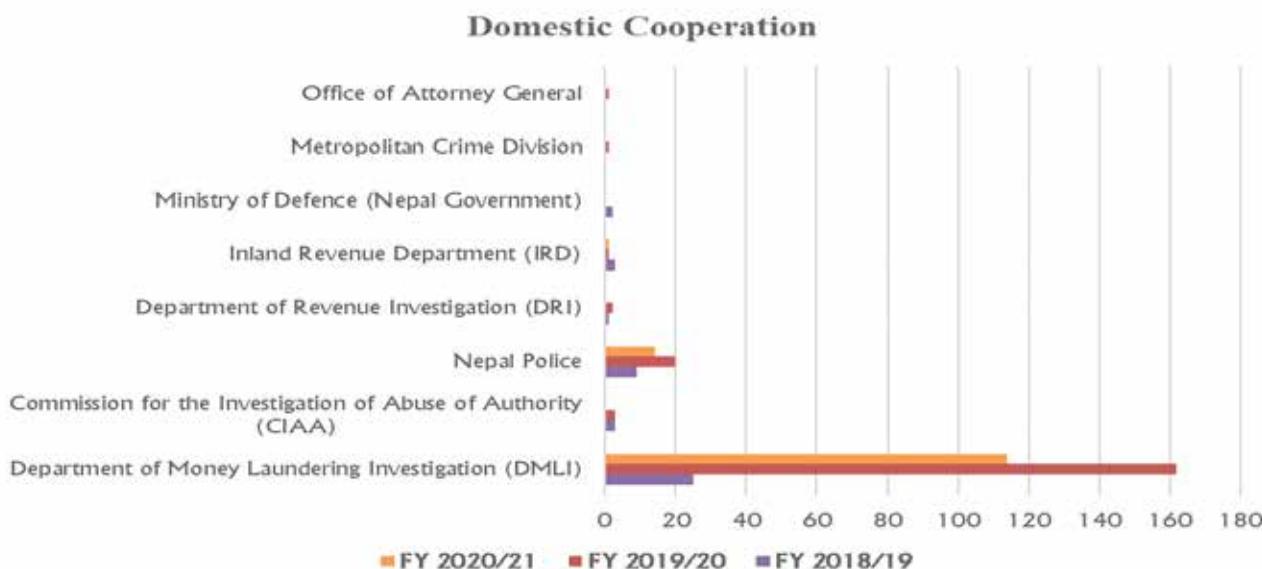
Figure 4.1: Domestic cooperation for the FY2020/21



Source: FIU-Nepal

*Note: These data do not include the STR disseminated to LEAs.

Figure 4.2: Domestic cooperation for the FY2020/21

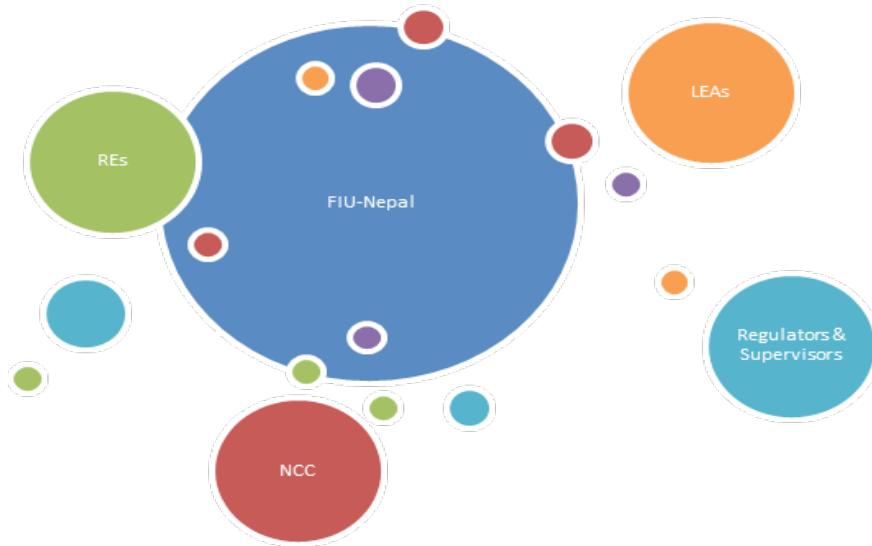


Source: FIU-Nepal

*Note: These data do not include the STR disseminated to LEAs.

Domestic Cooperation Stakeholders

FIU is working to build up harmonious and purposeful relations with all stakeholders to accomplish its basic function of combating money laundering, terrorist financing and proliferation financing. Therefore, cooperation among stakeholders and interagency relationship ensuring smooth, confidential and inspiring surroundings has been always a basic priority of FIU-Nepal. FIU represents wide range of activities and additionally play advisory role in distinctive committees. It has also established a dedicated division for domestic cooperation and coordination to ensure a smooth relationship with REs and LEAs.



4.1.1 Cooperation with Reporting Entities

Reporting Entities are gatekeeper and information feeders in AML/CFT system whereas LEAs are end users of FIU products. FIU-Nepal maintains regular engagements with Reporting Entities. The areas of engagement primarily covers enhancing the awareness of REs about their reporting obligations and cooperate them in building their capabilities to ensure better compliance in the AML/CFT issues.

4.1.2 Cooperation with Law Enforcement Agencies

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

4.1.3 Cooperation with Regulators and Supervisors

Regulators and supervisors are broadly responsible for examining the implementation of AML/CFT policies and procedures 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 high quality reporting thus, enhancing the entire system to utilize the time and resources efficiently. FIU-Nepal gives feedback on the guidelines issued by the regulators, for adherence to AML/CFT norms, address FIU's concerns. These guidelines/directives are also uploaded on the website of FIU-Nepal for quick reference.

4.1.4 National Coordination Committee (NCC)

In order to coordinate the high-level authorities and institutions relating to money laundering and advice the Government of Nepal with regard to the prevention of money laundering, the National Coordination Committee has been formulated. FIU-Nepal as the Secretariat of NCC holds regular meetings with high-level authorities and government agencies to discuss matters related with AML/CFT. Similarly, FIU has other active roles in national policy and support on such activities. In FY 2020/21, the meetings of NCC were held for three times. The major decisions of NCC in FY 2020/21 are as follows:

Major Decisions of NCC

- Report the National Review Council about the progress and effectiveness of the implementation of the AML/CFT National Strategy and Action Plan (2019-24) and preparation of third round of Mutual Evaluation of Nepal.
- The Technical Assistance Group formed in the chairmanship of the Joint Secretary of the Office of the Prime Minister and Council of Ministers, responsible for technical assistance for the effective implementation of the Action Plan, to be provided with additional functions, responsibilities, rights & duties along with the responsibility of monitoring as stated.
- Direct the entities involved in write up of technical compliance and effectiveness assessment to complete within the stipulated time frame.
- Request the Ministry of Law, Justice and Parliamentary Affairs to complete the translation of laws and related policies into English.
- Request the Office of the Prime Minister and Council of Ministers to finalize the electronic AML / CFT National Reporting System.
- Suggest all the responsible entities for the implementation of the Supplementary Action Plans of the National Strategy and Action Plan (2019-24).
- Direct the technical assistance group to prepare the implementation status of the National Strategy and Action Plan (2019-24) regularly.
- Request the concerned bodies to retain the experienced manpower till the completion of Mutual Evaluation.
- Request to regularize the meetings of all the mechanisms formed under National Strategy and Action Plan (2019-24).
- Conduct meetings of NCC virtually when physical meeting is not possible due to Covid-19.

Memorandum of Understanding (MOUs)

FIU-Nepal has entered into Memorandum of Understanding (MoUs) with partner agencies in order to provide a structural framework for enhanced cooperation and understanding. To enhance the pace of the on-going fight against Money Laundering and Terrorist Financing, FIU-Nepal has signed Memorandum of Understanding (MoU) with the Nepal Police- Central Investigation Bureau and Department of Money Laundering Investigation (DMLI). During the FY2020/21 and with Department of Customs as on 23 November 2020. With this, FIU-Nepal continues its endeavor to sign MoU with other Law Enforcement Agencies.



MoU signing ceremony with the Department of Customs.

4.2 International Cooperation and Engagement

FIU-Nepal is committed with its strategy to foster strong relationship with the FIUs of other countries. Section 10 of Asset (Money) Laundering Prevention Act, 2008 mandates FIU-Nepal to request any relevant information or cooperation needed to carry out its duties with a foreign counterpart that performs similar functions, or it may spontaneously or upon request, share its information or otherwise cooperate with such foreign counterpart. The sharing of financial intelligence or related information between authorities continues to be a vital element in tackling ML, TF & PT. The timely responses to requests together with reliable, accurate and updated information is crucial for all jurisdictions combating ML, TF & PT. FIU-Nepal also continued to actively participate and contribute in the activities of various regional and international bodies dealing with issues related to AML/CFT.

4.2.1 Asia/Pacific Group on Money Laundering (APG)

APG is an autonomous and collaborative international organization having 41 members at present. Nepal is a member of the APG since 2002 and has continued to participate in plenary, trainings and meetings being organized by APG. Nepal had showed its interest and commitment during the APG Plenary in Colombo, Sri Lanka in 2017 and Nepal hosted 21st Annual Meeting of the APG at Kathmandu in July 2018. Nepal has recently completed its role of Regional representative of South Asia in the APG Governance Committee (GC). As a regional representative of South Asia, FIU-Nepal participated in the meetings of GC of APG from 2019-2021.

4.2.2 Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) is an inter-governmental body that sets international standards and promotes Combating Money Laundering and Financing of Terrorism and Proliferation. These standards, also known as FATF recommendations seek to address new and emerging threats, clarify and strengthen many of the existing obligations, while maintaining the necessary stability and rigor. They are the basis of Mutual Evaluation, which assesses a country's AML/CFT systems for preventing criminal abuse of the financial system. FIU-Nepal has actively participated in the activities of the Financial Action Task Force (FATF).

4.2.3 Egmont Group of FIUs

The Egmont group is a global network of 167 Financial Intelligence Units. The goal of the Egmont group is to provide a platform for FIUs around the world. This group meets regularly to promote international cooperation and free exchange of information among all FIUs. The request for information from other FIUs is received, acknowledged upon receipt, and responded to in a timely manner via the Egmont Secure Web (ESW) secure email network.

The FIU-Nepal provides full cooperation to the requesting jurisdiction. The most frequently identified predicate offences within the received Egmont requests are money laundering, fraud and tax evasion. In addition to exchange of information, FIU-Nepal continually participate in other activities of Egmont Group such as Surveys of Egmont, reviewing & providing comments on Egmont questionnaires, governance papers & projects.

4.2.4 Memorandum of Understanding with Foreign FIUs

As the FIU-Nepal is the member of Egmont Group of FIUs, it does not require conducting Memorandum of Understanding (MoU) with other the members of Egmont Group of FIUs for exchange of information. It can exchange information on the basis of reciprocity. However, in order to enhance the level of co-operation and to provide a structured framework for better understanding, it continued signing MoU with various foreign FIUs. It has done MoU with 16 foreign counterparts including MoU with Financial Intelligence Department (FID), Bhutan on 2020.

4.2.5 Co-operation and Exchange of Information with Foreign FIUs

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

Table 4.1 Information Exchange with Foreign FIUs

Year/ Action Taken	Requests received from foreign FIUs	Requests sent to foreign FIUs	Spontaneous disclosures from foreign FIUs	Spontaneous disclosures made to foreign FIUs
2009/10	-	1	-	-
2010/11	-	3	-	-
2011/12	-	4	-	-
2012/13	-	2	-	1
2013/14	-	-	1	1
2014/15	-	-	1	1
2015/16	10	3	-	-
2016/17	11	12	-	1
2017/18	12	11	1	1
2018/19	20	16	13	5
2019/20	4	24	10	1
2020/21	5	17	4	0

Source: FIU-Nepal

From the inception of FIU-Nepal, it has been proactively participating in the Information Exchange confidently to combat money laundering and financing of terrorism. It used to exchange the information with foreign counterparts through MoUs before its membership in Egmont Group of FIUs on June 10, 2015. The frequency of information exchange has been increasing thereafter.

Information Exchange for the FY 2020/21 has been stated in detail in table below:

Table 4.2 Information Exchange with Foreign FIUs in FY 2020/21 (Quarterly)

Mode	Type of request	Quarter I			Quarter II			Quarter III			Quarter IV			Total
		Jul/Aug	Aug/Sep	Sep/Oct	Oct/Nov	Nov/Dec	Dec/Jan	Jan/Feb	Feb/Mar	Mar/Apr	Apr/May	May/Jun	Jun/Jul	
ESW	Requests received from foreign FIUs	-	1	-	-	-	-	2	-	-	1	1	-	5
	Requests sent to foreign FIUs	6	-	-	-	-	2	3	2	1	-	-	2	16
	Spontaneous disclosures from foreign FIUs	-	-	-	-	-	1	1	-	-	1	1	-	4
	Spontaneous disclosures made to foreign FIUs	-	-	-	-	-	-	-	-	-	-	-	-	-
Total information exchange from ESW		6	1	-	-	-	3	6	2	1	2	2	2	25
Email	Information Request sent via email	1	-	-	-	-	-	-	-	-	-	-	-	1
Grand Total		7	1	-	-	-	3	6	2	1	2	2	2	26

Source: FIU-Nepal

CAPACITY BUILDING

05
CHAPTER

Every day sophisticated ML/TF trends and instruments appear in the world unraveling the new threats and vulnerabilities. With the Covid-19 pandemic spreading in alarming rate, money launders and criminals are attacking the economic system using new tools and methods. E-wallet, e-banking, mobile banking systems are being abused; number of online fraud cases has increased. In reciprocation, FIU-Nepal has given utmost priority to enhance the capacity and skills of human resources/analysts who are engaged in detecting such criminal elements through STRs/SARs analysis. FIU-Nepal has made several strategic and operational efforts to enhance its capacity. Excelling the skills of workforce; knowledge building on red flags, trends and typologies of ML/TF and predicate offences are emphasized. For which, Staffs/Analysts of FIU-Nepal have participated in various national and international trainings, knowledge sharing programs, attended meetings, seminars both in national and international. Most of the programs were in virtual platform during the year.

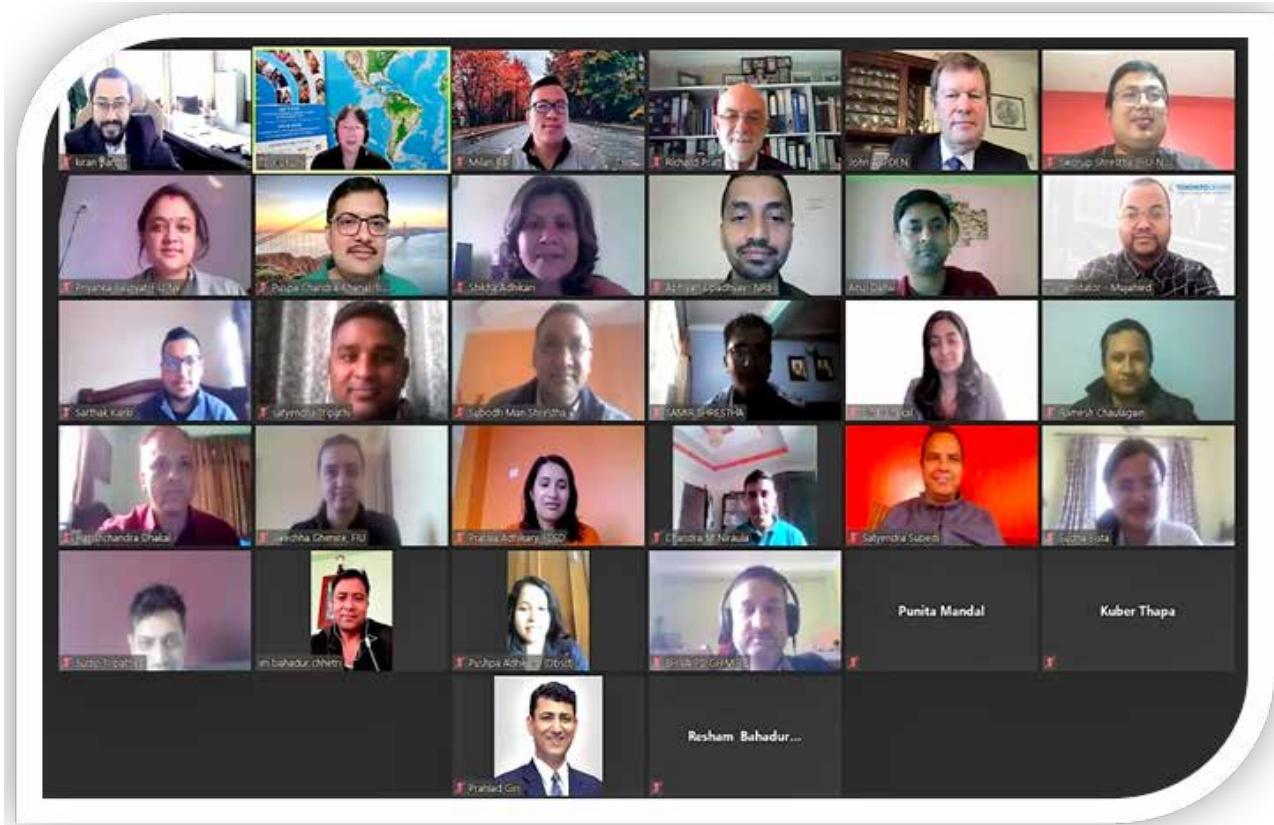
5.1 International Trainings

FIU-Nepal's officers and assistants have participated in training\workshop\seminar organized by International organizations viz. Toronto Centre, APG, and Egmont Group. During fiscal year 2020/21, 10 staffs of FIU-Nepal have participated in 11 different programs. The details of various Training\Workshop\Seminar participated by officers of FIU-Nepal is presented in the table below.

Table 5.1: International Trainings and Meetings

Trainings	Organizer	Medium
AML/CFT Supervision of Financial Institutions: A Risk Based Approach	Toronto Centre	Virtual
Toronto Centre Diagnostic Virtual Visit	Toronto Centre	Virtual
APG Typologies Workshop	APG	Virtual
Assessor Training	APG	Virtual
Technical Assistance and Training Working Groups Meeting	Egmont Group	Virtual
Policy and Procedure Working Group Meeting	Egmont Group	Virtual
Information Exchange Working Group Meeting	Egmont Group	Virtual
IT Session	Egmont Group	Virtual
Working Group Meetings	Egmont Group	Virtual
Operational Training Sessions	Egmont Group	Virtual
Heads of FIU Meetings	Egmont Group	Virtual

International experts' knowledge, their impactful presentation, illustration of best practices, highlights on underlying international standards during trainings and meetings have enhanced the capacity, skills and knowledge of the participants.



Staffs of FIU-Nepal participating in “AML/CFT Supervision: A Risk Based Approach” organized by Toronto Centre.

5.2 Domestic Trainings

Nepal Rastra Bank, Bankers' Training Centre, organizes various training programs for the central bank staffs. Officers and Non-officers of FIU-Nepal participated in BTC's training programs which are structured to capacitate staffs on core banking functions. Alongside, FIU-Nepal has also organized training program where UNODC expert Mr. Zayeem Khan delivered training session on the implementation of the goAML software on 30 November, 2020. Since FIU-Nepal is using goAML software for the receipt and analysis of STR/SAR, the training updated the knowledge of Analysts for the efficient use of the software.

The domestic training programs attended by the FIU-Nepal officials and assistants mainly includes the AML/CFT international standards, Risk based Supervision, NFRS, Management Development and Central Banking trainings. The detailed lists of domestic trainings are listed below in the table.

Table 5.2: Domestic Trainings

Trainings	Organizer	Participants
AML/CFT/FATF Recommendation & goAML	BTC, NRB	Assistant Director-1 Head Assistant-2 Assistant-1
goAML Training Program with expert from UNODC	FIU	All staffs
Planning, Budgeting and Risk Management, Business Continuity Plan/Three lines of Defense	BTC, NRB	Assistant Director-1
Risk Based Supervision and Basel Core Principle	BTC, NRB	Assistant Director-1
Nepal Financing Reporting Standards (NFRS)	BTC, NRB	Assistant Director-1

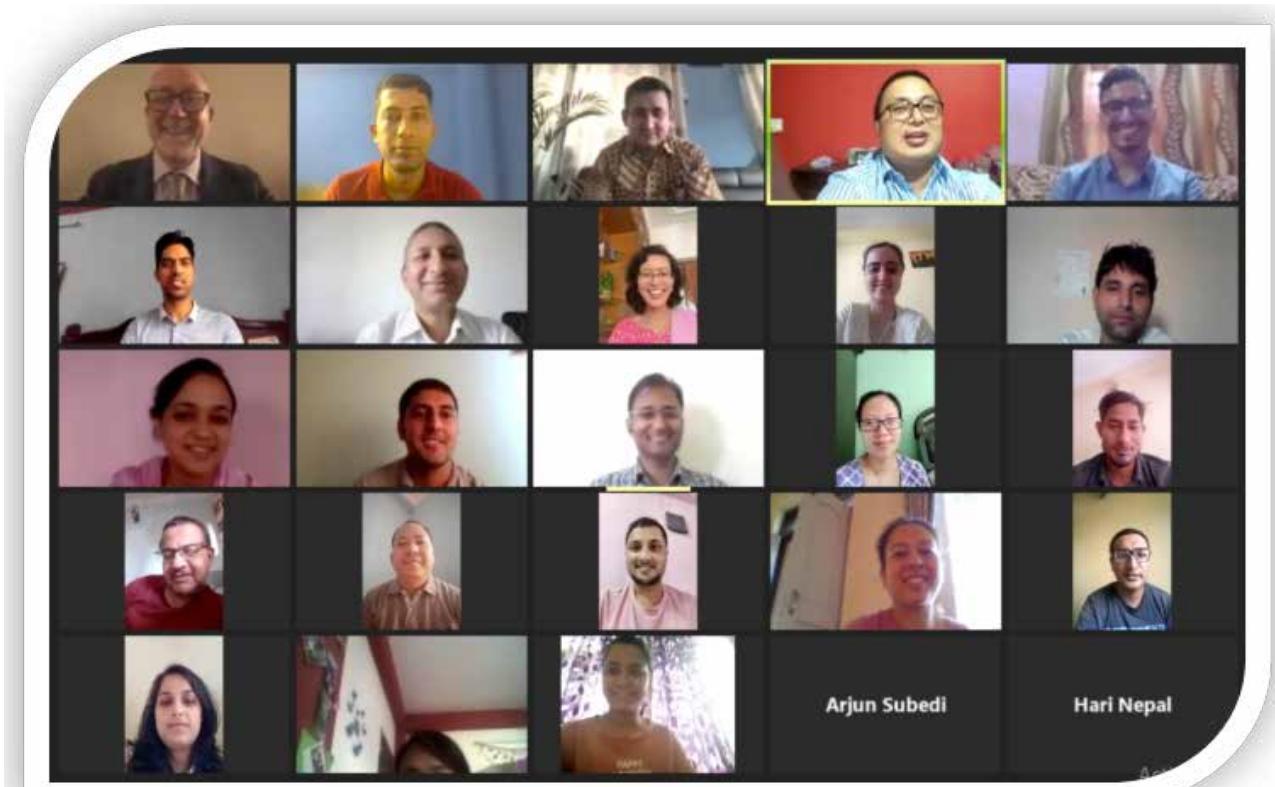
Macroeconomic Management	BTC, NRB	Assistant Director-1
Management Development Program	BTC, NRB	Assistant Director-1
Organization Behavior	BTC, NRB	Assistant-1
Central Banking Training	BTC, NRB	Assistant Director-1
Procurement/Inventory Management Training	BTC, NRB	Head Assistant-1

In addition, FIU-Nepal has been providing training sessions to the Reporting Entities for goAML implementation and others. It has also been assisting for capacity building of REs either through interaction/training programs, discussion and counseling with an individual institution and providing feedbacks/ handling their queries.

5.3 Knowledge Sharing Programs within FIU

FIU-Nepal organized five in-house Knowledge Sharing Programs in the fiscal year 2020/21. The Knowledge Sharing Programs were on different avenues of AML/CFT for sharing observations, experiences, ideas and best practices. It helps to enrich the skills and knowledge of the human resource of FIU-Nepal.

In addition to these, FIU-Nepal encourages staffs to use e-learning platform like ECOFEL and ACAMS. During work from home period each staffs took two courses on ACAMS platform and the knowledge gained was shared among staffs through group presentations.



FIU-Nepal during Knowledge Sharing Program with Mr. David Mackey.

FIU-Nepal organizes in-house capacity building program through knowledge program inviting international experts to deliver and share their experiences. On 9th July 2021, AML Expert Mr. David Mackey presented on the topic “*Financial Intelligence Units: Roles, Functions, Methods and Practices*” and Mr. Hari Nepal presented on “*Mutual Evaluation*” at the Knowledge Sharing Program organized on online platform.

OPPORTUNITIES AND CHALLENGES

06
CHAPTER

6.1 Overview

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

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

Furthermore, Nepal should pay attention towards its mutual evaluation to be held in 2021-23. Since it will be focused on effectiveness assessment, it demands not only implementation and outputs but also visible outcomes along with cooperation and coordination among AML/CFT stakeholders. Hence, to achieve this outcome, all concerned agencies should concentrate on their core business considering the benefits of AML/CFT system and the third mutual evaluation as the most important agenda. The third mutual evaluation will be an opportunity to prove Nepal that it is very sensitive towards the implementation of AML/CFT norms into reality. In addition, such integrated improvements in overall sectors will ultimately help us to avoid from falling under Enhanced Follow up or other ICRG processes. For this, timely planning and strategic movement among the stakeholders may be a panacea.

6.2 Challenges

FIU-Nepal, one of the core agencies of AML/CFT system of 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 among the stakeholders. Similarly, relation with regulators is very important to motivate REs to comply with AML/CFT rules and regulations. FIU-Nepal also focuses on national AML/CFT policy formulation and implementation. Some major challenges that FIU-Nepal is facing are:

- To integrate all the REs and LEAs into goAML system,

- To create intensive awareness among REs on STR and reporting system,
- To enhance skills and capacity of FIU-Nepal officials and other related stakeholders regarding goAML software and AML/CFT emerging issues,
- To enhance analytical skills and capacity building of analysts,
- To prepare for upcoming Mutual Evaluation Process,
- To access government database and other data sources for necessary information for STRs/SARs analysis.
- To increase STRs/SARs reporting from DNFBPs.
- To maintain inter-agency coordination and cooperation in policy and operational levels,
- To assist in national policy formation and implementation.

6.3 Covid-19 impact on ML/TF

The 2019 novel corona virus (COVID-19) was declared a global pandemic on 11 March, 2020 by the WHO. Along with the human fatalities, globally it attracted serious problems through increased criminal opportunities arising from the misappropriation of financial support payments, online banking fraud and misuse of online technologies among other. The majority of illicit activity associated with COVID-19 relates to proceeds generating offences such as financial fraud and exploitation scams for example, criminals attempting to profit from the pandemic through fundraising for fraudulent charities.

Covid-19 impacted the AML/CFT system of Nepal. Due to remote work or work-from-home modality, STR reporting, its timely analysis and dissemination were delayed. Few interaction sessions through online platform was organized which limited the feedback procedures. Capacity building and training sessions were limited and conducted through online platform. In Supervision area AML/CFT onsite inspections were postponed or substituted by desk-based inspections. Similar delayed practices were also faced by the investigators, prosecutors and adjudicators during the pandemic period.

FATF has highlighted other potential ML/TF risks emerging from the COVID-19 pandemic as follows:

- Criminals finding ways to bypass CDD measures by exploiting temporary challenges in internal controls caused by remote working situations, in order to conceal and launder funds;
- Increased misuse of online financial services and virtual assets to move and conceal illicit funds;
- Exploiting economic stimulus measures and insolvency schemes as a means for natural and legal persons to conceal and launder illicit proceeds;
- As individuals move money out of the banking system due to financial instability, this may lead to an increased use of the unregulated financial sector, creating additional opportunities for criminals to launder illicit funds;
- Misuse and misappropriation of domestic and international financial aid and emergency funding by avoiding standard procurement procedures, resulting in increased corruption and consequent ML risks;
- Criminals and terrorists exploiting COVID-19 and the associated economic downturn to move into new cash-intensive and high-liquidity lines of business in developing countries, both for the laundering of proceeds as well as to fund their operations, as well as fraudulently claiming to be charities to raise funds online.

6.4 Way Ahead

FIU-Nepal has put increased focus on its core functions; receiving, analysis and dissemination of financial information (STRs/TTRs) and make all possible efforts to boost coordination and cooperation for achieving its objectives and assisting supervisors, LEAs, prosecutors and judicial authorities for their contribution to overall ML/TF system. FIU-Nepal is continuously working to develop analytical skills compatible with goAML and integrate REs and LEAs in goAML system.

FIU-Nepal can expand and systematize international cooperation in the reciprocal exchange of information and increase the effectiveness by offering trainings and promoting personnel exchanges. It helps to improve the expertise and capabilities of the staffs of FIU-Nepal in operational and strategic analysis. Furthermore, it is hoped that the membership of Nepal with international agencies like APG, Egmont etc. will help Nepal in exchange of information, technical support and improving AML/CFT regime.

FIU-Nepal will further improve feedback mechanism and increase coordination with LEAs for the effective use of disseminated intelligence report. FIU-Nepal is preparing for the upcoming Mutual Evaluation and functioning to meet the compliance requirement in line with the FATF Standards.

FIU-Nepal: Highlights of FY 2020/21

Shrawan

- FIU-Nepal a separate budget center.

Asoj

- Orientation Program for Insurance Companies for goAML reporting and reporting requirements.

Kartik

- Process initiated, co-ordinating GIDC regarding DR site placement at Hetauda.
- Drafting of documents for Insurance, Securities and Remittance goAML reporting

Mangshir

- FIU-Nepal staffs participated in the goAML virtual Training Program by UNODC on 30 November, 2020.
- Organized Interaction Program with Securities Companies on goAML Implementation on 8 December, 2020.
- Organized Interaction Program with LEAs on 14 December, 2020.
- Organized Interaction between Customs Department and FIU-Nepal on 15 December, 2020.

Poush

- Interaction program with Remittance Companies on 20 December, 2020 for goAML software implementation.
- Interaction program with Finance Companies on 28 December, 2020 for goAML software implementation.
- Interaction program with Development Banks on 31 December, 2020 relating to goAML.
- Organized interaction program with DNFBPs on 11 January, 2021.
- Annual Report published in hard copy.

Magh

- MOU signed between FIU and Customs Department on 2077/10/8.
- Interaction program with DRI and DMLI on goAML software implementation on Law Enforcement Agencies on 2077/10/15.

Falgun

- Strategic Analysis Report of FIU-Nepal published in the website.

Chaitra

- Organized interaction program with regulators on 2077/12/17 at Yak and Yeti.
- Organized interaction program with Compliance Officers of “A”, “B” and “C” class banks and financial institution on goAML implementation on 2077/12/30 at Zoom.
- Notice published for Electronic Bids for the Supply, Delivery and Installation of IT Equipment

Baishak

- Electronic Bids for the Supply, Delivery and Installation of IT Equipment was opened.

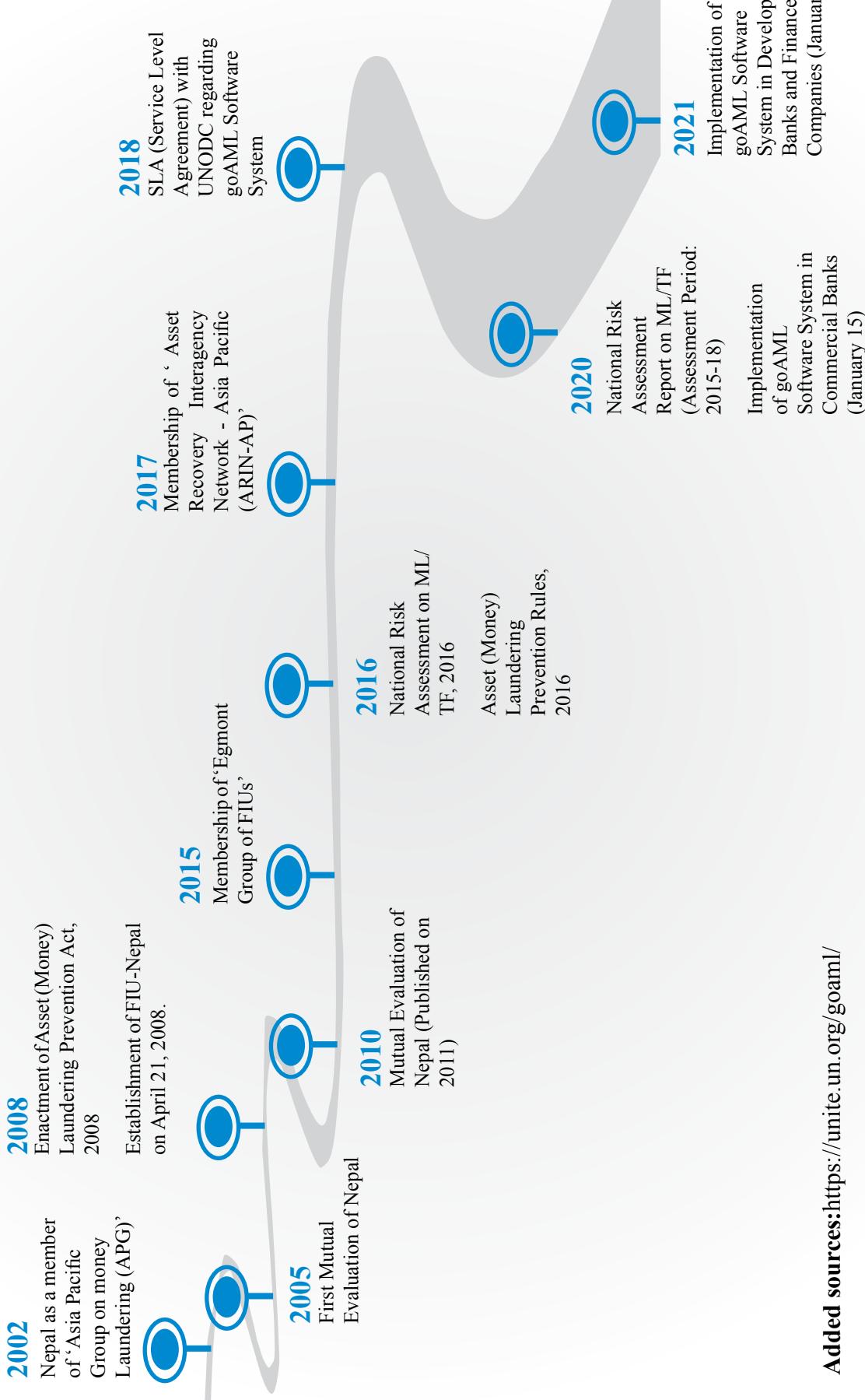
Jestha

- Organized Knowledge Sharing Program on 6 June, 2021 with two Deputy Governor as special guests.

Asar

- Evaluation completed for the bids for the Supply, Delivery and Installation of IT Equipment.
- Organized Knowledge Sharing Program on 2078/03/25 with international expert, Mr. David Mackey.
- Prepared and signed ‘Information Security Guidelines’ of FIU-Nepal.
- Organized Knowledge Sharing Program on 2078/03/29 where presentations were made by staffs of unit on different types of thinking methods.
- Book closed for the fiscal year 2077/78.

FIU-Nepal: Timeline



FIU-Nepal: Gallery



FIU-Nepal: Staffs



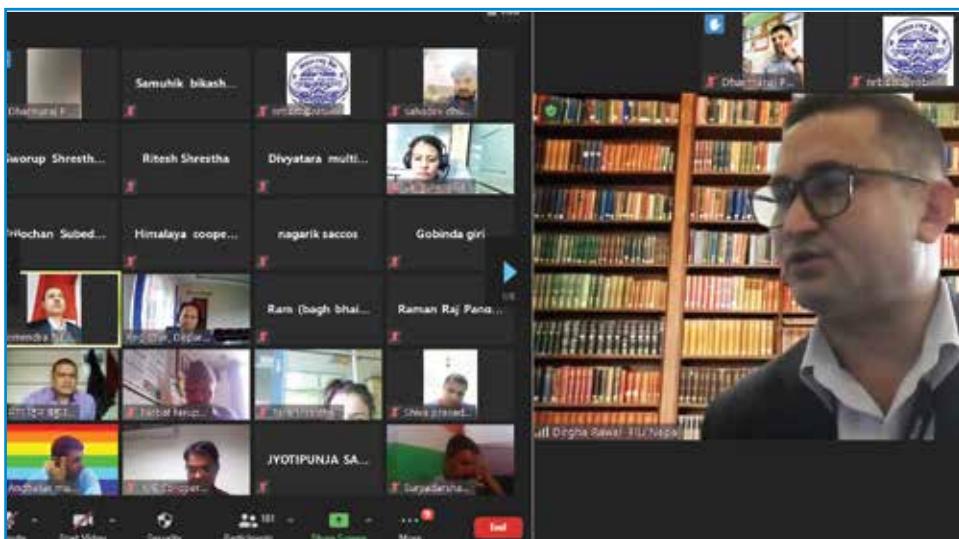
Interaction
program at NRB,
Bhairahawa



Interaction program with regulators



Interaction program with Nepal Police



Virtual interaction program with Cooperatives



Interaction program
with Insurance
companies



Knowledge
sharing program
of FIU-Nepal



Interaction program
at NRB, Pokhara

FREQUENTLY ASKED QUESTIONS (FAQ)

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

1. What is Money Laundering?

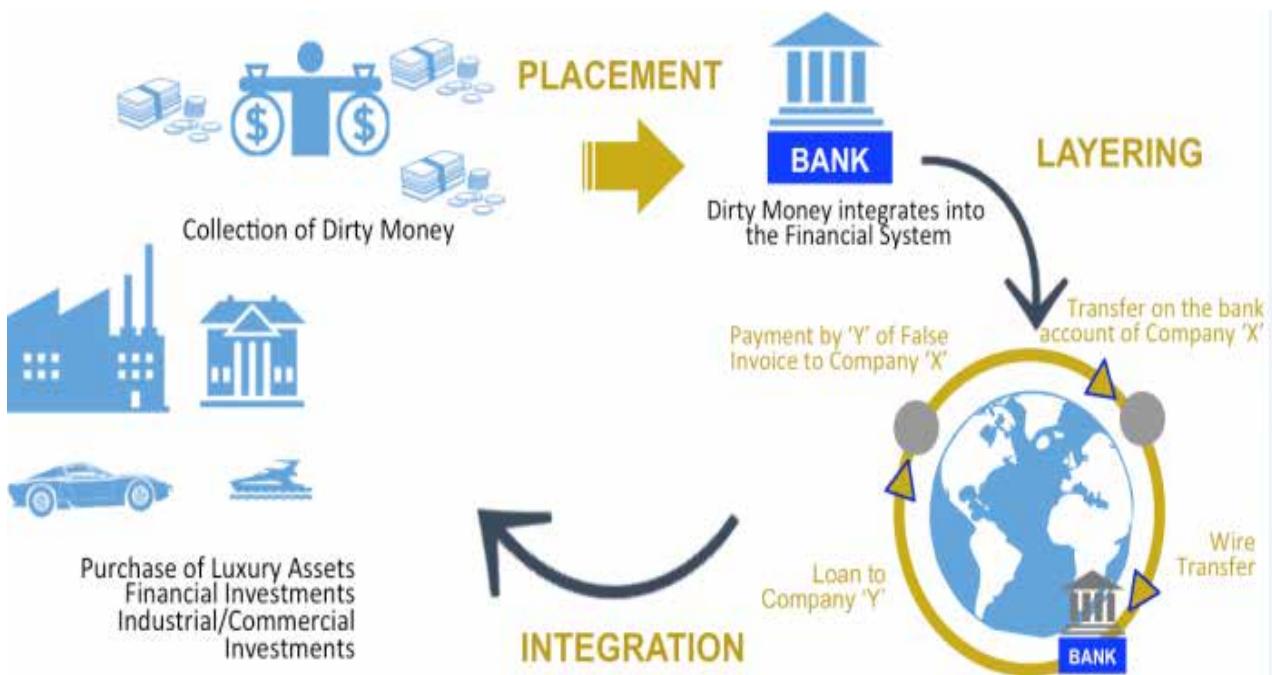
Criminal activities, such as drug trafficking, smuggling, human trafficking, corruption and others, tend to generate large amounts of profits for the individuals or groups carrying out the criminal act. However, by using funds from such illicit sources, criminals risk drawing the authorities' attention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

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

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

2. How is Money Laundered?

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



- a) In the initial - or placement - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash

into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.

- b) After the funds have entered the financial system, the second – or layering – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.
- c) Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – integration – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

3. What is a Money Laundering offence?

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

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

4. What are Proceeds of Crime?

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

5. What is financing of Terrorism?

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

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

Money laundering is the process of concealing the illicit origin of proceeds of crimes. Terrorist

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

Similar methods are used for both money laundering and the financing of terrorism. In both cases, the actor makes an illegitimate use of the financial sector. The techniques used to launder money and to finance terrorist activities/terrorism are very similar and, in many instances, identical. An effective anti-money laundering/counter financing of terrorism framework must therefore address both risk issues: it must prevent, detect and punish illegal funds entering the financial system and the funding of terrorist individuals, organizations and/or activities. Also, AML and CFT strategies converge; they aim at attacking the criminal or terrorist organization through its financial activities, and use the financial trail to identify the various components of the criminal or terrorist network. This implies to put in place mechanisms to read all financial transactions, and to detect suspicious financial transfers.

7. How are Corruption and Money Laundering linked?

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

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

8. Why controlling money laundering is necessary?

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

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

- Expedite healthy development of national, regional and international economies.

9. Why Know Your Customer (KYC) is necessary?

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

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

The application of KYC process by financial institutions and a high degree of transparency is crucial to fight money laundering and the financing of terrorism effectively. CDD must be applied upon establishment of a business relationship or in preparation of specific cash transactions in excess of a certain amount. The basic steps of KYC measures are the appropriate identification of a customer and/or beneficial owner, the verification of the identity of the customer or beneficial owner, as well as the collection of information on the customer's purpose and nature of the business relationship.

Many of the methods applied by criminals to launder money or finance terrorism involve the use of the financial system to transfer funds. Financial institutions, in particular banks, are most vulnerable to abuse for that purpose. In order to protect them, it is essential that financial institutions have adequate control and procedures in place that enable them to know the person with whom they are dealing. Adequate KYC and due diligence on new and existing customers is a key part of these controls. Hence, KYC is necessary in today's banking sector.

10. What is beneficial ownership?

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

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

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes. Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective counter measures. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organized crime. Fighting money laundering and terrorist financing is therefore a part of creating a business-friendly environment which is a precondition for lasting economic development.

12. What is the connection with society at large?

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

13. What is a STR/SAR?

Suspicious transaction refers to any transaction (including attempted or proposed), regardless of the amount that appears unusual, has no clear economic purpose, appears illegal, does not commensurate with the customer's profile or business activities, involves proceeds from an unlawful activity and indicates that the customer is involved in money laundering or terrorism financing activities. When REs suspect that the customer is involved in ML/TF activities, they should submit a report to FIU-Nepal. Such report is known as Suspicious Transaction Report (STR). The STR has to be reported even when the customer only attempts to establish a relation with the reporting entity. An attempted or proposed transaction reporting is known as Suspicious Activity Report (SAR).

General Characteristics of Suspicious Financial Transaction are:

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

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

14. Which law should I disclose STR/SAR under?

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

15. When should I submit a STR/SAR?

REs are required to submit a STR/SAR to FIU-Nepal within three days of the initial determination that person knows or suspects (or has reasonable grounds for knowing or suspecting) that another person is engaged in money laundering or terrorist financing or that certain property is or is derived from the proceeds of criminal conduct or terrorist financing. Further to that the information or other matter on which the knowledge or suspicion is based, or which gives the reasonable grounds for that knowledge or suspicion, came to them in the course of the business and makes the STR as soon as practicable after the information or other matter comes to them.

16. How do I submit a STR/SAR to FIU-Nepal?

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

17. Does FIU have the automatic system for the reporting STR/SAR?

The FIU-Nepal has introduced the automated system called goAML to the reporting entities. STR/SAR should be reported to the FIU-Nepal electronically through goAML web reporting system by BFIs, Insurance sector, Securities dealers (Brokers), Cooperatives with transactions above specified threshold, Retirement fund and assigned REs where as other REs through signed paper reports.

18. What should I include in a STR/SAR ?

Suspicious Transactions Reports (STRs) include detailed information about transactions that are suspected violations of law or appear to be suspicious or arouse suspicion or has reasonable grounds to suspect that if the property is related to ML/TF or other offence. An activity may be included in the Suspicious Transactions Reports (SARs) if the activity gives rise to a suspicion that the account holder is attempting to hide something or make an illegal transaction.

The quality of a STR/SAR is only as good as the content, therefore, it should include, ‘who, what, where, when, why, how and which predicate offence’. It should also include all supporting documents and the analysis required under Unified Directive No. 19 for BFIs and other directives issued by different regulators.

19. Is a single red flag or indicator sufficient to report suspicious transactions/activities ?

A transaction may have certain ‘red flags’ or indicators of STR/SAR. It is important that the presence of multiple indicators should act as a warning sign in order to add intelligence to the report. Further, REs should take reasonable measures that enable them to establish that there are grounds to suspect that the transaction or attempted transaction is related to the commission of a ML/TF or other predicate offence.

20. What is Threshold Transactions Reporting (TTR)?

A Threshold Transaction Report (TTR) is a report that financial institutions and designated non financial business and professions (DNFBPs) are required to file to FIU for deposit, withdrawal, exchange of currency, or other payment or transfer, by, through, or to the financial institution which involves a transaction more than One Million Nepalese Rupees for BFIs and for other entities as presented in Table 3.2. The threshold amount may be reached by a single transaction or by a series of transactions in cash into a single account or by a single customer over a period of one working day. It may be considered to be an aggregate transaction in cash exceeding the prescribed threshold.

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

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

22. Can I terminate the business relationship?

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

23. What is ‘Tipping Off’?

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

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

Financial Information Unit (FIU)-Nepal is a national agency responsible for receiving, processing, analyzing and disseminating financial information and intelligence on suspected money laundering and terrorist financing activities to the relevant law enforcement/investigative agencies and foreign FIUs. It was established on 21 April, 2008 under the section 9 of the Assets (Money) Laundering Prevention Act, 2008 within the Nepal Rastra Bank (the central bank) as an independent unit. The FIU-Nepal is also assigned to function as the secretariat of the National Coordination Committee under the coordination of Secretary of Office of the Prime Minister and Council of Ministers. The Head of FIU is the Secretary of the committee.

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

- receive and collect reports on suspicious and prescribed threshold financial transactions and other information relevant to money laundering and terrorist activities financing from government agencies, financial institutions and non-financial institutions;
- analyze and assess the information received from reporting entities and inspect transactions and records of bank, financial institution and non-financial institution;
- provide suspicious and other relevant information to the Investigation Department and others relevant;
- guide the banks, financial institutions and non-financial institutions regarding the reporting;
- ensure compliance by reporting entities with their obligations under the Act, rules and regulations;
- manage training and awareness programs;
- impose fine bank, financial institution and non-financial institution in the failure of reporting compliance;
- develop information exchange mechanism with other FIUs or related international institution by entering into Memorandum of Understanding or membership.

25. What will FIU-Nepal do with the information received by it?

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

26. How do FIUs exchange information with each other?

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

27. What is Predicate Offence?

As per Asset (Money) Laundering Prevention Act, 2008 following offences are classified as predicate offence.

- Participation in an organized criminal group and racketeering,
- Disruptive (terrorist) act and terrorism,
- Trafficking in person and migrant smuggling ,
- Any kinds of sexual exploitation including sexual exploitation of children,
- Illicit trafficking of narcotic drugs and psychotropic substances,
- Illicit transportation of arms and ammunition,
- Illicit transportation of stolen and other goods,
- Corruption and bribery,
- Fraud,
- Forgery,
- Counterfeiting of coin and currency,
- Counterfeiting of goods and plagiarism or piracy of products,
- Environmental related,
- Murder, grievous bodily injury,
- Kidnapping, illegal restraint or hostage-taking,
- Theft or robbery,
- Smuggling (including custom, VAT and tax) related,
- Tax (including direct and indirect) related,
- Extortion,
- Piracy,
- Insider Dealing and Market Manipulation in securities and commodities related,
- Ancient monument conservation related,
- Forest, National park and wild animals related crime,
- Money, banking, finance, foreign exchange, negotiable instruments, insurance, cooperatives related,
- Black marketing, consumer protection, competition, supply related,
- Election related,
- Communication, broadcasting, advertising related,
- Transportation, education, health, medicine, foreign employment related,

- Firm, partnership, company, association related,
- Real estate and property related,
- Lottery, gambling, donation related,
- Citizenship, immigration and passport.
- Offence of terrorist financing or association with terrorist organization.

28. What is Mutual Evaluation?

Mutual Evaluation is a peer review process in which countries are assessed to determine the levels of compliance with the international AML/CFT standards. It has two aspects: technical compliance and effectiveness compliance.

- a) 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.
- b) Effectiveness Assessment: The main component of a mutual evaluation is effectiveness. It assesses the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. The effectiveness analysis is not only based on information exchanged with the assessment team but also after the exchange of information, the team will visit the member under evaluation (usually for two weeks, sometimes longer) and interview government and private sector officials to gain a comprehensive understanding of how the AML/CFT system is working. Effectiveness assessment is done based on the FATF's 11 Immediate Outcomes (IOs).

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

Country with low compliance in mutual evaluation is subject to FATF review and may be put in the global Negative List as non-cooperative country and faces: -

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

goAML Related FAQS

1) Do Reporting Entities (REs) need to pay fee or any charges to FIU-Nepal for membership of goAML software?

No. REs do not need to pay any fee or charges to FIU-Nepal for goAML membership or for reporting purpose. Membership of goAML software to all REs (*BFIs, Insurance companies, Securities companies, Cooperatives, Remittance companies etc.*) is absolute free.



2) How should TTR be reported?

TTR can be reported either in XML format or manually through Web. XML files can be uploaded individually or as a zip file comprising of multiple TTRs. Zip upload is recommended for large volume of TTRs.

3) In which format should TTR be reported?

One XML file should be submitted for each TTR Category as specified in directive. i.e. One XML file should contain TTR related to only one person or account comprising of all the transactions in that particular day in which TTR was generated. Different XML file should be submitted for different TTRs.

4) Should we submit separate TTR for debit threshold, credit threshold, cross border transfer threshold and foreign currency exchange thresholds if TTR was triggered by two or more instances?

For cash transaction threshold, single TTR should be submitted comprising of all debit and/or credit transactions for that day. For cases where two or more threshold categories (Cash, Cross Border and Foreign Currency Exchange) are triggered at same day separate TTR should be submitted for each TTR Category.

5) How should STR be reported?

STR can be reported either in XML format or through Web reporting in goAML. If large number of suspicious transaction has to be reported, XML format is recommended. Information to be provided with STR is mentioned in Operational guideline designated to reporting entities. While reporting STR as XML file, related attachments and the XML should be zipped together and uploaded as single zip file.

6) What information should be provided in Reason Fields of STR?

It has been specified in Operational guideline designated to reporting entities.

7) What attachments should be provided with STR?

It has been specified in Operational guideline designated to reporting entities.

8) What information to provide in ‘Registration No.’ field for Entity that do not have registration number e.g. Joint Venture Accounts, Upabhokta Samiti etc.?

Provide ‘Not Applicable’ in such cases.

9) What information to provide in ‘PAN/VAT Number’ field for Entity that do not require PAN/VAT to be registered?

Provide ‘Not Applicable’ in such cases.

10) Should Entity details be provided for My Client > Account > Entity though it is not Mandatory?

‘My Client > Account > Entity’ is not mandatory only if the account is individual or joint account. In case the account belongs to an Entity, Entity details should be provided along with Director(s) and Signatory details.

11) Should Director(s) and Signatory details be provided for My Client > Entity though it is not mandatory?

Yes, Director(s) and Signatory details should be provided for all cases where REs need to collect such information. It is Non-Mandatory only for cases when such information isn’t required to be collected as per existing regulations.

12) If the Director or Signatory of an Entity having account in the BFI is involved in a Transaction, should they be reported as ‘My Client’ – Person or ‘Not My Client’ - Person?

Individual or Joint Account holders in the BFI should always be reported as ‘My Client’ - Person.

In cases where the Director or Signatory has separate individual or joint account in the BFI, then in such cases also it is required to be reported as ‘My Client’ - Person.

In other cases, it is recommended to report the Director and Signatory of an Entity having account in the BFI as ‘My Client’ -Person.

13) Should L/C transactions be reported as TTR?

Regular Trading related L/C transactions needn’t be reported as TTR but suspicious L/C related transactions should be reported as STR.

14) What information should be provided for Mandatory fields that are not available or not relevant in the context?

For Textfields - Provide ‘Not Available’ for information that could be available but not currently in the system. Provide ‘Not Applicable’ for the information that isn’t relevant to the specific case.

For Date fields -Provide 01/01/1900

For Number fields - Provide 0

15) Should Non-Mandatory information be provided? What information should be provided in Non-Mandatory fields?

Mandatory fields are meant to capture only minimum information applicable to most of the cases. Depending upon different cases, additional information is required and it is recommended that any information available with the banks be provided in relevant fields whether Mandatory or Non-Mandatory.

If Non-Mandatory/Optional information is unknown, such fields may be omitted in XML or left blank instead of providing ‘Unknown’, ‘Not Available’, ‘-’ etc. Same should be considered while submitting reports manually through Web.

16) What information should be provided in ‘Citizenship No.’ field,’ ID number’ field, ‘Passport’ node and ‘Identification’ node for Nepalese ID?

- ✓ In case of Nepalese Citizenship – Citizenship number should be provided in ‘Citizenship No.’ field and ‘ID number’ in respective field. Other Citizenship details should be provided in ‘Identification’ node as follows:
- ✓ In case of any other form of Identification that have Citizenship number e.g. Driving License – Provide Citizenship number in ‘Citizenship No.’ field, Driving License number (ID number) in ‘ID number’ field and Driving License details (ID details) in ‘Identification’ node.
- ✓ In case of Nepalese Passport – Citizenship number should be provided in ‘Citizenship No.’ field, Passport number should be provided in ‘ID number’ field. The Passport number and Country should also be provided in ‘Passport’ node and other Passport details should be provided in ‘Identification’ node.

In case of any other form of Identification that do not have Citizenship number – Provide ‘Not Applicable’ in ‘Citizenship No.’ field, corresponding ID number in ‘ID number’ field and other available ID details in ‘Identification’ node.

17) What additional details should be provided in Identification node for Nepalese Citizenship?

For Nepalese Citizenship, Citizenship number should be provided in ‘Citizenship No.’ and ‘ID number’ field and Citizenship details should be provided in ‘Identification’ node. Information that should be provided in ‘Identification’ node is Citizenship Number, Issuing Authority (Name and Address E.g. District Administration Office, Jhapa), Issue Date and Issue Country.

18) What information should be provided in ‘Citizenship No.’ field,’ ID number’ field, ‘Passport’ node and ‘Identification’ node for Indians and Foreigners?

- ✓ Citizenship Number is a mandatory field as per goAML schema so in case of Foreigners and Indians having Passport– Passport number should be provided in ‘Citizenship No.’ field and ‘ID number’ field. The Passport number and Country should also be provided in ‘Passport’ node and other Passport details should be provided in ‘Identification’ node.
- ✓ In case of Indian Citizenship – Citizenship number should be provided in ‘Citizenship No.’ field and ‘ID number’ field. Other Citizenship details should be provided in ‘Identification’ node.

- ✓ In case of Indian with any other form of Identification that have Citizenship number – Provide Citizenship number in ‘Citizenship No.’ field, ID number in ‘ID number’ field and ID details in ‘Identification’ node.
- ✓ In case of Indian with any other form of Identification that do not have Citizenship number – Provide ‘Not Applicable’ in Citizenship No. field and ID number in ‘ID number’ field and other available ID details in ‘Identification’ node.
- ✓ Any other relevant Information regarding ID can be provided in Comments field of Identification in all situations.

19) How to provide Citizenship number if it exceeds 25 characters?

If Citizenship number exceeds 25 characters (as per limit in goAML), first 25 characters should be provided in Citizenship No. field. The complete Citizenship number should be provided in Id Number field and other details in Identification node.

20) What information should be provided in Identification details if there's no sufficient information?

Mandatory information required for ID is ID Type, Number, issued by (Issuing Authority) and Issue Country. Provide other information if available like Issue Date and Expiry Date. If mandatory information is not present in the ID provide ‘Not Applicable’ in such fields.

21) Should SWIFT/TT be reported as TTR?

Yes, SWIFT/TT should be reported as per existing regulations.

22) Can we register/report through multiple users for same organization?

No, only one user (Compliance Officer or Authorized Personnel) per Reporting Entity is responsible for reporting in goAML. Hence, the registration email should be generic and information update request can be sent through goAML in case of personnel change.

23) Can we use abbreviations/short forms for common terms?

Abbreviations/short forms should be avoided as far as possible while providing information like Person Name, Entity Name, address, occupation, business etc. but if abbreviations/short forms are present in legal documents like Citizenship, Registration Certificate etc., then such information should be provided exactly as per legal documents.

24) How long will Drafted Reports be available for editing prior to submission?

Currently, FIU-Nepal has set it as ‘15 days’ which can be changed as per requirement.

25) How long will be Processed/Failed Validation reports be available for preview on the Web?

Currently, FIU-Nepal has set it as ‘15 days’ which can be changed as per requirement.

26) What does the different status of submitted report mean and do we need to take any action?

- ✓ In General, **status** is *Transferred from Web, Processed, Rejected and Failed Validation*.
- ✓ If there are some errors in the structure of XML file, then the status for such file can be seen as *Failed Validation* and REs can click on *Failed Validation* link to know more about the validation errors.
- ✓ If the XML file is validated the status changes to *Transferred from Web* and further upon approval from the screening officer of FIU or based on XML validation and rejection rules, the status will be change to *Processed*. The REs do not need to take any actions if the status is *Processed*.
- ✓ In case if ‘*Transferred from Web*’ status is seen for longer period of time (>1 day), the REs should check their message board or email for any notification or rejection message regarding the report.
- ✓ If there are some logical mistakes or missing information in validated XML files, then the screening officer (manually) or goAML rejection rules (automatically) may reject the report with proper reason which appears as *Rejected*.
- ✓ REs should correct the mistakes in reports with *Failed Validation, Rejected* and *Transferred from Web* status and resubmit those files.

27) How to validate bulk of XML files?

The ‘XML Report Validator’ in the Web Interface and an offline XML Validator Tool can be used to validate one XML file at a time. It is not necessary to validate every XML file prior to submission if the REs have solved the common validation issues and they are assured that no such validation errors exists in the reports. As the reports being submitted by REs get error free with time, it is advised that the REs validate the samples from the bulk uploads. Nevertheless, there might be some third party tools that may be available for validating bulk of XML files against the provided XML Schema.

For any further queries or confusions regarding goAML, please do contact the ‘**goAML Implementation Team**’ members of FIU-Nepal or through the Email provided below:

- goaml@nrb.org.np – For general queries regarding goAML
- goamlsupport@nrb.org.np – For Technical support related with goAML Web Application
- **goAML Tel:** 01-4410201 (Ext. 418/415)

Please do visit our website www.nrb.org.np/departments/fiu for latest documents, notices and information.

Annex 1: Legal Instruments on AML/CFT

S.N.	Instruments
1.	FATF 40 Recommendations
2.	Assets (Money) Laundering Prevention Act, 2064 (2008)
3.	Assets (Money) Laundering Prevention Rules, 2073 (2016)
4.	Prevention of Corruption Act, 2002
5.	Mutual Legal Assistance Act, 2014
6.	Extradition Act, 2014
7.	Organized Crimes Prevention Act, 2014
8.	Confiscation of Criminal Proceeds Act 2014
9.	Mutual Legal Assistance Rules, 2014
10.	Confiscation of Criminal Proceeds Rules, 2021

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 Nov 1987	22 August 1988
10.	BIMSTEC: Sub Group Meeting on Combating the Financing of Terrorism		8 February 2004 (Full Member of BIMSTEC)

Source: FIU-Nepal, NRB

Annex 3: List of Regulators

S.N.	Institutions	Name of Regulator
1.	Bank and Financial Institutions under BAFIA Money remittance / transferring agencies Money Changers Payment service providers Employee Provident Fund Citizen Investment Trust Postal Saving Bank Public Debt Securities Other authorities licensed by Nepal Rastra Bank	Nepal Rastra Bank
2.	Insurance Company	Beema Samiti
3.	Capital Market (including brokers) Merchant Banks Credit Rating Agency Listed Securities Companies CDS and Clearing Commodity Clearance and Settlement House Warehouse exchange	SEBON
4.	Approved Retirement Fund Precious metals, ornaments and object business	Inland Revenue Department
5.	Casino and Internet Casino Business	Ministry of Culture, Tourism and Civil Aviation
6.	Real Estate Business	Department of Land Management and Archive
7.	<ul style="list-style-type: none"> • Notary Public • Auditor • Accountant • Other Business <p>As per Section 2 (dha) of Asset (Money) Laundering Prevention Act, 2064. Organization who is working for others.</p>	<ul style="list-style-type: none"> • Notary Public Council • The Institute of Chartered Accountants of Nepal (ICAN) • Licensing Authority
8.	Company and Trust Service Provider	Office of the Company Registrar
9.	Law Practitioners	Nepal Bar Council
10.	Co-operatives	Department of Co-operatives

Source: FIU-Nepal

Annex 4: Regulatory/Supervisory Instruments

S.N.	Directives	Issuing Authority
1.	NRB Unified Directives to Bank and Financial Institutions, 2077 (2018)	NRB, Regulation Department
2.	Directives to Money Remitters	NRB, Foreign Exchange Management Department
3.	Directives to Money Changers	NRB, Foreign Exchange Management Department
4.	Directives to Securities Sector	SEBON
5.	Directives to Insurance Sector	Beema Samiti
6.	Directives of Cooperatives	Department of Cooperatives
7.	Suspicious Transaction Reporting Guidelines	FIU- Nepal
8.	Threshold Transaction Reporting Guidelines	FIU- Nepal
9.	Others	Issued by regulators mentioned in Annex 3

Source: FIU-Nepal, NRB

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

Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
1.	Assessing risks and applying a risk-based approach	Common: • 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"> • DMLI • Nepal Police • DRI • CIAA • Customs • Court • Confiscated Assets Management Department
5.	Terrorist financing offence	<ul style="list-style-type: none"> • Legal
6.	Targeted financial sanctions related to terrorism and terrorist financing	<ul style="list-style-type: none"> • MOFA/MOHA • Regulator/s
7.	Targeted financial sanctions related to proliferation	<ul style="list-style-type: none"> • MOFA/MOHA • Regulator/s
8.	Non-profit organizations	<ul style="list-style-type: none"> • MOHA • SWC • Regulator/s
9.	Financial institution secrecy laws	<ul style="list-style-type: none"> • Regulator/s
10.	Customer due diligence	<ul style="list-style-type: none"> • Regulator/s
11.	Record keeping	<ul style="list-style-type: none"> • Regulator/s
12.	Politically exposed persons	<ul style="list-style-type: none"> • Regulator/s
13.	Correspondent banking	<ul style="list-style-type: none"> • Regulator/s
14.	Money or value transfer services	<ul style="list-style-type: none"> • Regulator/s
15.	New technologies	<ul style="list-style-type: none"> • Regulator/s
16.	Wire transfers	<ul style="list-style-type: none"> • Regulator/s
17.	Reliance on third parties	<ul style="list-style-type: none"> • Regulator/s
18.	Internal controls and foreign branches and subsidiaries	<ul style="list-style-type: none"> • Regulator/s
19.	Higher-risk countries	<ul style="list-style-type: none"> • Regulator/s
20.	Reporting of suspicious transactions	<ul style="list-style-type: none"> • Regulator/s
21.	Tipping-off and confidentiality	<ul style="list-style-type: none"> • Regulator/s
22.	DNFBPs: Customer due diligence	<ul style="list-style-type: none"> • Regulator/s

Rec.	FATF Recommendations 2012 (updated on 2018)	Responsible Agency
23.	DNFBPs: Other measures	• Regulator/s
24.	Transparency and beneficial ownership of legal persons	• Legal Person Registrars ++ • Regulator/s
25.	Transparency and beneficial ownership of legal arrangements	• Legal Person Registrars ++ • Regulator/s
26.	Regulation and supervision of financial institutions	• Regulator/s
27.	Powers of supervisors	• Regulator/s
28.	Regulation and supervision of DNFBPs	• Regulator/s
29.	Financial intelligence units	• FIU
30.	Responsibilities of law enforcement and investigative authorities	• DMLI • Nepal Police • DRI • CIAA
31.	Powers of law enforcement and investigative authorities	• DMLI • Nepal Police • DRI • CIAA
32.	Cash couriers	• Customs • Regulator/s • FIU
33.	Statistics	Common
34.	Guidance and feedback	• Regulator/s • FIU • LEAs • Res
35.	Sanctions	• Court • Confiscated Assets Management Department
36.	International instruments	• MOFA • MOLJ
37.	Mutual legal assistance	• MOLJ • Attorney General • Court
38.	Mutual legal assistance: freezing and confiscation	• MOLJ • Attorney General • Court
39.	Extradition	• MOHA • Court
40.	Other forms of international cooperation	• FIU • LEAs • Regulator/s

Source: FIU-Nepal, NRB

Annex 6 : List of major documents available on the website

- Suspicious Transaction Reporting & Suspicious Activity Reporting (STR/SAR) Guidelines, 2020 (Updated July, 2021)
- Threshold Transactions Reporting (TTR) Guidelines, 2020
- Annual Report 2076/77 (2019/20)
- Asset (Money) Laundering Prevention Act, 2008
- Asset (Money) Laundering Prevention Rules, 2016
- Financial Information Unit Bylaws, 2020
- Prevention of Money Laundering (confiscation of assets or funds of listed Persons, group or organization) Rules, 2070
- Directives Issued by SEBON
- Directives Issued by Beema Samiti
- Directives Issued by Department of Cooperatives
- Directives issued by Nepal Rastra Bank for Non-Bank Financial Institutions
- FATF Recommendations 2012
- FATF Methodology 2013
- Procedures for the FATF Fourth Round of AML/CFT Mutual Evaluations
- APG Third Round Mutual Evaluation Procedures 2019
- Mutual Evaluation Report of Nepal, 2011
- Strategic Analysis Report of FIU-Nepal
- AML/CFT National Strategy and Action Plan (2076-081)
- National Risk Assessment Report on Money Laundering and Terrorist Financing, 2020 (Assessment Period: 2015-18)

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