ANNUAL REPORT

2022/23



FINANCIAL INTELLIGENCE UNIT
(FIU-Nepal)

NEPAL RASTRA BANK

Financial Intelligence Unit (FIU-Nepal)

ANNUAL REPORT

2022/23

Financial Intelligence Unit (FIU-Nepal)

Nepal Rastra Bank
Baluwatar, Kathmandu
Nepal

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ABBREVIATIONS / ACRONYMS

ADB	Asian Development Bank
ALPA	Asset (Money) Laundering Prevention Act, 2008
ALPR	Asset (Money) Laundering Prevention Regulation, 2016
ALPR-TFS	Asset (Money) Laundering Prevention (Freezing of Properties and Funds of Designated Person, Group and Organization) Regulation, 2013
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 *A class: Commercial Banks* *B class: Development Banks* *C class: Finance Companies* *D class: Microfinance Institutions*
BFIRD	Banks and Financial Institutions Regulation Department
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BNIs	Bearer Negotiable Instruments
BTC	Banking Training Center
CDD	Customer Due Diligence
CFT/CTF	Combating the Financing of Terrorism
CIAA	Commission for the Investigation of Abuse of Authority
CIT	Citizen Investment Trust
CPF	Counter Proliferation Financing
DMLI	Department of Money Laundering Investigation
DMPC	Department for Management of Proceeds of Crime
DNFBPs	Designated Non-Financial Businesses and Professions
DOLMA	Department of Land Management and Archive
DRI	Department of Revenue Investigation
ECDD	Enhanced Customer Due Diligence
EGMONT	The Egmont Group of Financial Intelligence Units
ESW	Egmont Secure Web
FATF	Financial Action Task Force
FIU-Nepal	Financial Intelligence Unit of Nepal
FIUs	Financial Intelligence Units

FSRB	FATF-Style Regional Body
GoN	Government of Nepal
HoFIU	Head of FIU
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
KYC	Know Your Customer
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
NBI	National Banking Institute
NC	Non-Compliant
NCC	National Coordination Committee
NIA	Nepal Insurance Authority
NPO	Non Profit Organizations
NPR	Nepalese Rupees
NRA	National ML/TF Risk Assessment
NRB	Nepal Rastra Bank
OECD	Organization for Economic Co-operation and Development
PC	Partially Compliant
PEPs	Politically Exposed Persons
PF	Proliferation Financing
PSP	Payment Service Provider

PSO	Payment System Operator
RECs	Recommendations
REs	Reporting Entities
SAARC	South Asian Association for Regional Cooperation
SAR	Suspicious Activity Report
SEACEN	The South East Asian Central Banks Research and Training Centre
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
VAT	Value Added Tax
WB	World Bank
XML	Extensible Markup Language

DIRECTOR'S MESSAGE



Dirgha Bahadur Rawal
Chief / Director, FIU-Nepal

It gives me an immese pleasure to present the 12th Annual Report of the FIU-Nepal for Fiscal Year 2022/23. This report outlines FIU-Nepal's major activities and initiatives to fortify the AML/CFT Regime of Nepal. It also depicts FIU-Nepal's coordination with domestic and international stakeholders.

In accordance with Nepal's legal system and international standards, FIU-Nepal is consistently serving as the national agency that basically involves in receiving and analyzing of suspicious transaction/activity reports, and disseminating financial intelligence and other information pertinent to money laundering, terrorism financing or proliferation financing to the Law Enforcement Agencies (LEAs) or Investigative Agencies for further investigation. Relevant financial intelligence is shared to regulators/ supervisors and other competent agencies, if necessary. FIU-Nepal has been performing its core functions as mandated by the Assets (Money) Laundering Prevention Acts (2008), Assets (Money) Laundering Prevention Rules (2016) and FIU-Nepal's Bylaws (2020).

Fiscal Year 2022/23 has been a crucial year for Nepal as it underwent 1.5 years long process of APG Third Round Mutual Evaluation (ME). FIU-Nepal worked as the primary contact point of Nepal during ME process. In addition to its regular work as the secretariat of National Co-ordination Committee (NCC), FIU-Nepal has contributed in ME process with its active participation and presence in Mutual Evaluation Committee (MEC), Mutual Evaluation Support Team, Mutual Evaluation Logistics Team and liaison officers' team. FIU-Nepal maintained constant communication with APG secretariat and all relevant Nepalese agencies to organize pre-onsite visit, onsite visit, Face to Face meetings, virtual meetings and APG Plenary session. FIU-Nepal rigorously engaged itself during entire ME process by arranging several interaction/awareness programs and meetings with REs, competent authorities and relevant agencies.

Integration of Reporting Entities (REs) and Law Enforcement Agencies (LEAs) in the goAML system is one of the key functions of the FIU-Nepal. In the fiscal year 2022/23, apart from banks and financial institutions, all Life insurance companies, all non-life insurance companies, all remittance companies, all stock brokers, all merchant bankers as well as few Payment System Operators (PSOs), Payment Service Providers (PSPs), Infrastructure Bank and major LEAs have been integrated into the goAML system. Similarly, upgrading Cooperatives and Designated Non-Financial Business and Professions (DNFBP) into full-fledged goAML (Production environment) is ongoing this fiscal year.

I would like to express my sincere gratitude to National Coordination Committee (NCC), other AML-CFT related committees, Nepal Rastra Bank (NRB), regulators, supervisors, investigative authorities, reporting entities and all stakeholders for their continuous support and cooperation. I am also deeply grateful to the international communities, especially Egmont Group of FIUs, Asia Pacific Group on Money Laundering (APG), Financial Action Task Force (FATF) and our counterpart FIUs for their valuable guidance and assistance to FIU-Nepal.

The FIU-Nepal's Policy & Planning division put forth a lot of work to prepare this annual report. I would like to thank Deputy Directors Mr. Keshav Prasad Rimal, Mr. Sworup Shrestha and Mr. Bishnu Prasad Guragain for their unwavering efforts in coordination. Additionally, my sincere appreciation goes to Assistant Directors Mr. Sameer Kumar Singh, Mr. Amish Sharma, and Mr. Kamal Paudel for their enthusiastic work in putting this report together. Lastly, I would like to extend my gratitude to all of the FIU-Nepal employees who have been working incredibly hard.

Employees of FIU-Nepal



Director and Deputy-Directors of FIU-Nepal



FIU-NEPAL: TIMELINE

1989 — FATF Established

1990 — FATF Forty Recommendation

2002 — Nepal became member of APG

2003 — DNFBPs included besides FIs as REs

2005 — First Mutual Evaluation of Nepal

2008
- Enactment of 'Asset (Money) Laundering Prevention Act (ALPA), 2008'
- FIU-Nepal Established

2010 — Second Mutual Evaluation of Nepal (Published on 2011)

2011 — First AML-CFT National Strategy (2011-16)

2015 — FIU became member of 'EGMONT Group of FIUs'

2016
- National Risk Assessment on ML/TF, 2016
- Asset (Money) Laundering Prevention Rules, 2016

2018 — goAML Service Level Agreement (SLA) with UNODC

2019 — Second AML-CFT National Strategy (2019-24)

2020
- Second National Risk Assessment, 2020
- Implementation of goAML Software System in Commercial Banks

2021 — Implementation of goAML Software System in Development Banks and Finance Companies

2022
- APG Third Round Mutual Evaluation of Nepal, 2022-23 (ongoing)
- Implementation of goAML Software System in Life Insurance Companies, major Non-Life Insurance Companies and Remittance Companies as well as LEAs for dissemination
- Other REs also integrated in goAML 'Message Board' System to replace Paper/CD/Email based manual reporting

2023
- APG Third Round Mutual Evaluation of Nepal, 2022-23 (Published on September, 2023)
- Integration of other FIs and DNFBPs in goAML system

FIU-Nepal in Figures

goAML Integration: Sector-wise (As Of July 16, 2023)*



In addition to above list, as of October 17, 2023, cooperatives, casinos, Dealers in Precious Metals or Stones (DPMS), Microfinance Institutions, Money Changers, Real Estate Companies, Reinsurance Companies, Stock Dealer, Stock Exchange, Supervisory Body, additional Remittance Companies, Stock Brokers, Payment Service Providers (PSPs), Payment System Operators (PSOs) are also integrated in goAML system. ***As of October 17, 2023, total of 1330 REs, LEAs and supervisory authorities are integrated in goAML system.***

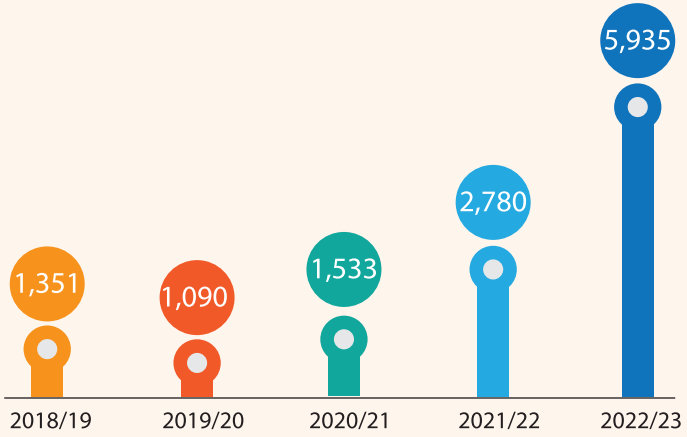
goAML Integration: Province-wise (As Of July 16, 2023)



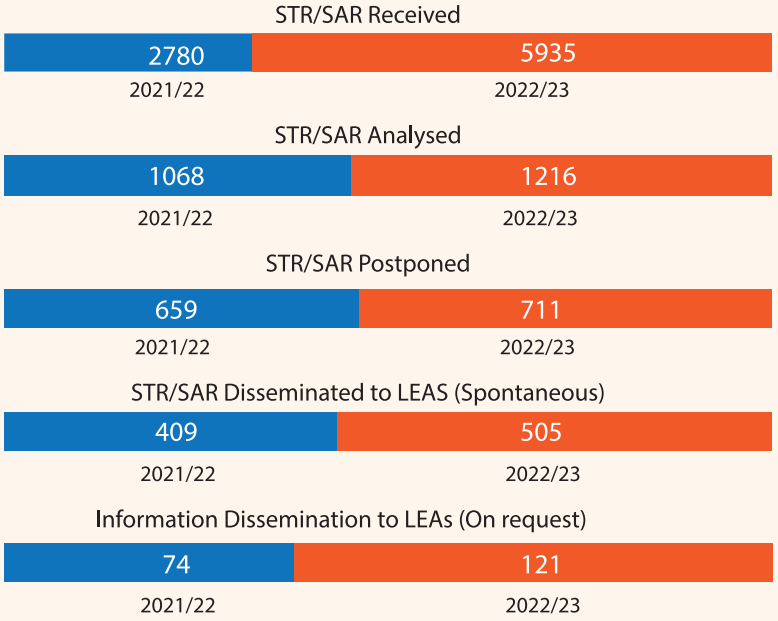
Numbers of TTRs Received



Numbers of STR/SARs Received



Status of Analysis of STRs/SARs



Predicate-offence wise STR/SAR Dissemination



Receipts of STR/SAR (via goAML system) based on Predicate Offence: 2022/23



3,266
Money laundering



1,664
Tax evasion / Smuggling / Tax Crimes



725
Money, banking, finance, foreign exchange, negotiable instruments insurance, cooperatives related



420
Use of casinos and gaming activities



401
Fraud



165
Firm, partnership, company, association related



85
Transportation, education, health, medicine, foreign employment related



34
Corruption and Bribery



26
Forgery



10
Smuggling



20
Real estate and property related



17
Citizenship, immigration and passport



14
Counterfeiting of coin and currency



11
Insider trading/market maniputation in Securities and commodities



8
Participation in organised crime and racketeering



10
Trafficking in human beings and migrant smuggling



6
Counterfeiting and piracy of products / IPR breaches



4
Communication, broadcasting, advertising related



3
Election related



2
Black marketing, consumer protection, competition, supply



2
Kidnapping, illegal restraint, hostage taking



1
Illicit trafficking in stolen and other goods



1
Murder and grievious bodily injury



1
Illicit Trafficking in Narcotic Drugs and Psychotropic substances

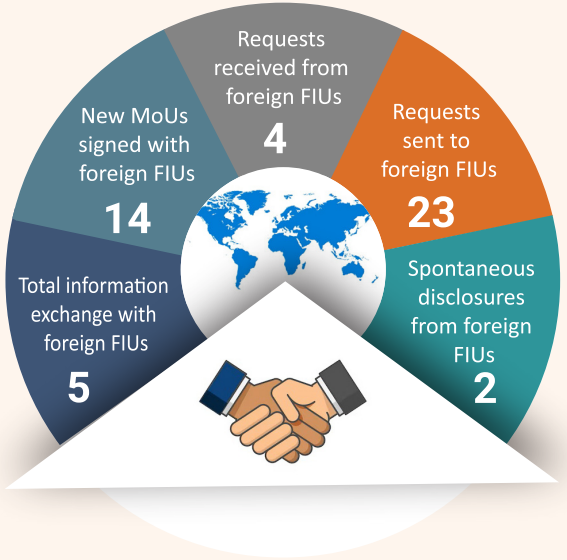


1
Robbery or theft



4
Other

International Cooperation



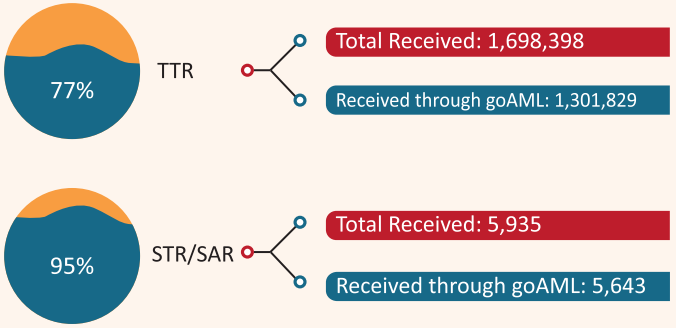
Major Events/Activities



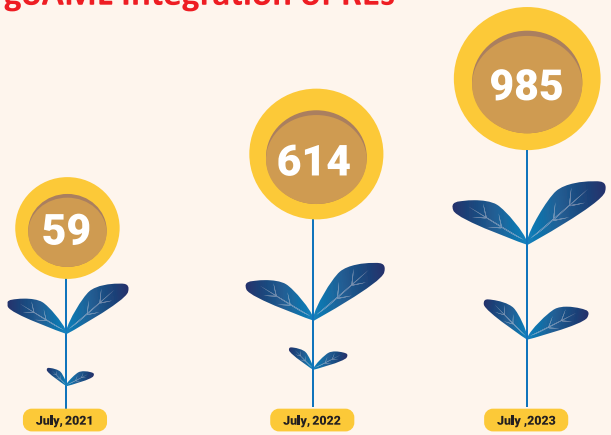
Feedback from FIU-Nepal on STR/SAR/TTR to REs



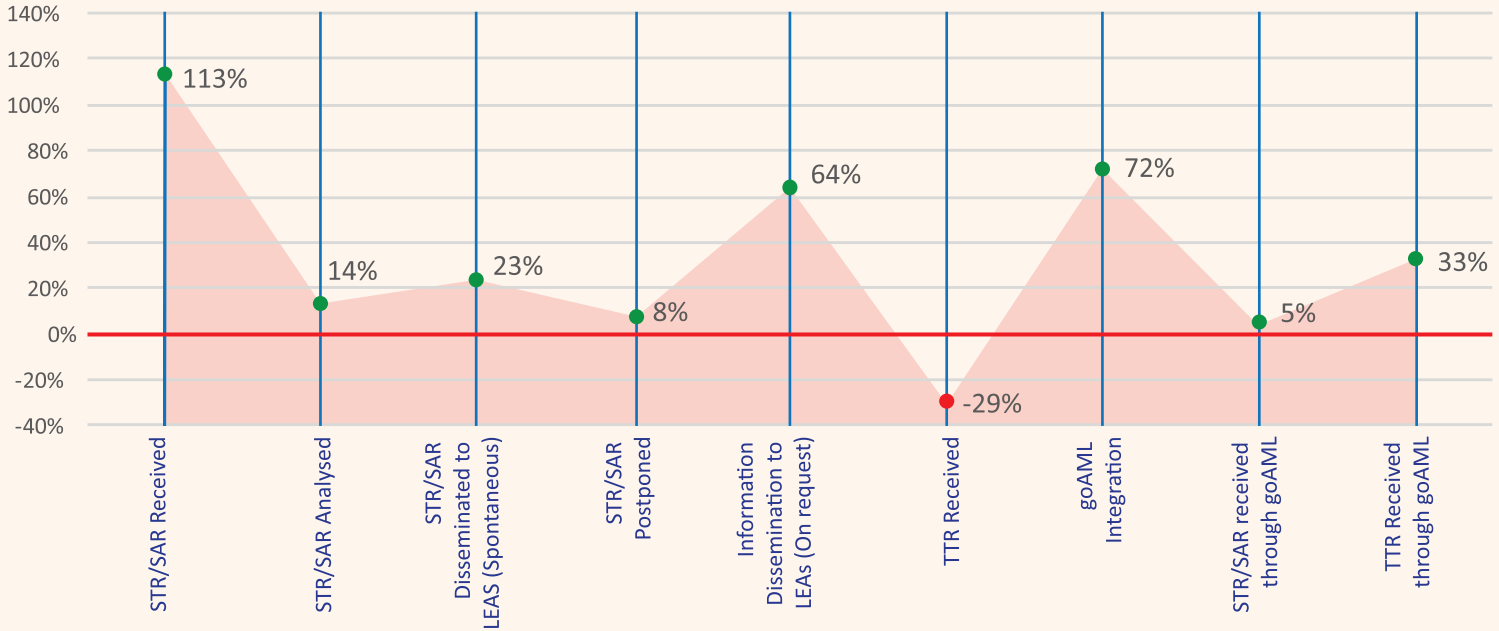
Reporting in goAML System



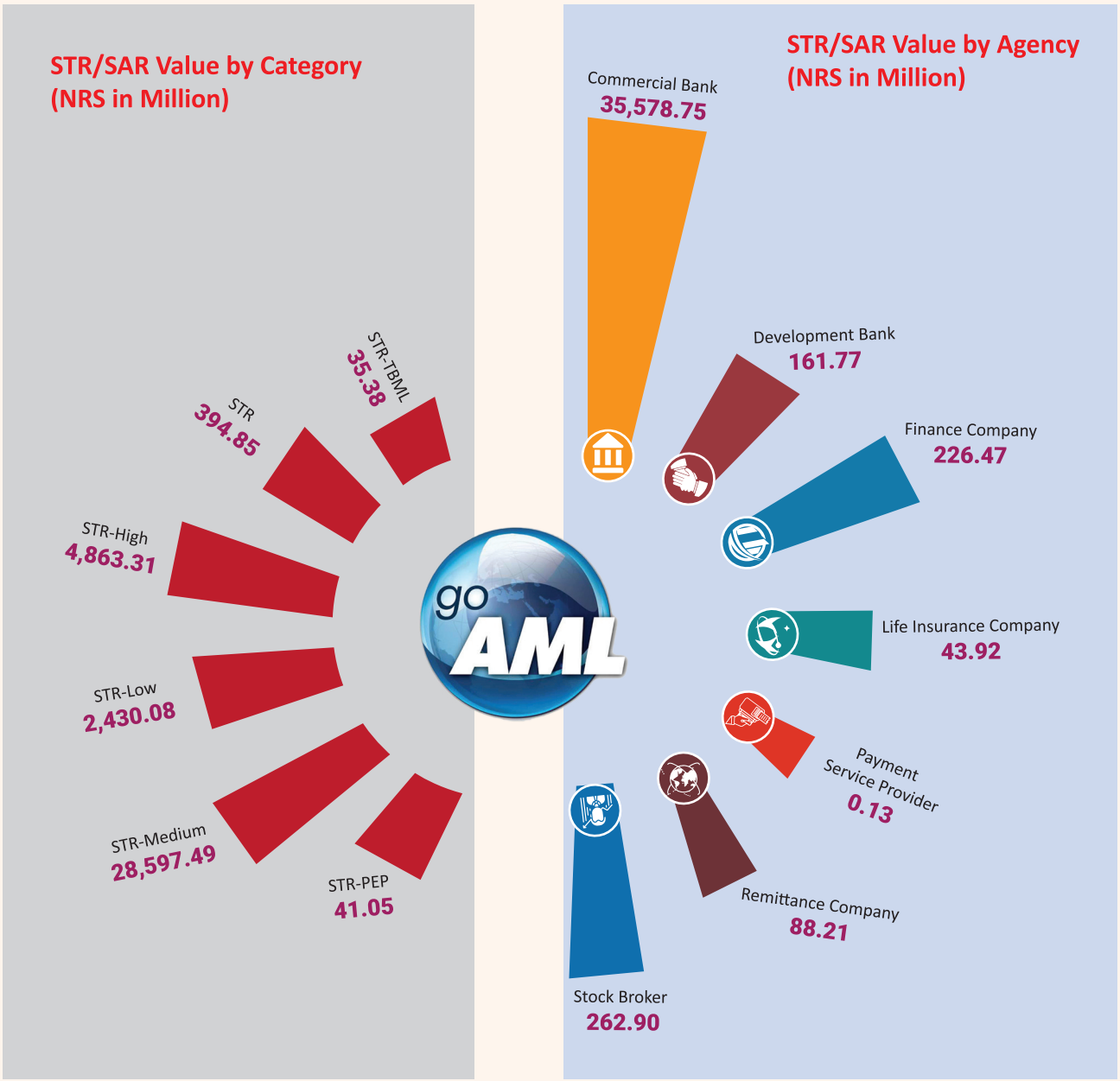
goAML Integration of REs



Major Achievements



goAML Reporting



01 CHAPTER

AML/CFT REGIME OF NEPAL

1.1 Background

Money Laundering (ML), Terrorism Financing (TF) and Proliferation Financing (PF) have become serious concerns across the globe and constitute significant threats to integrity of the financial system, economic development, and ultimately to the human civilization. These are organized crimes that undermine global financial system, weaken law and order, governance, and disrupt peace and harmony in global community.

Money laundering and terrorism financing activity in one country can have adverse impacts in different countries and even globally. Criminals usually target the countries with liberal laws and weak AML/CFT regulatory regime which may lead to increment in informal and illegal economic activities; illicit proceeds of crimes get easily penetrated into financial sectors as legitimate income; production of destructive arms and ammunition for terrorist attack may increase. It distorts peace and security, threatens financial stability and eventually harms the socio-economic well-being of entire world. Therefore, effective and robust AML/CFT system is essential to fight against menace of money laundering and terrorism financing.

Nepal joined hands with international community to detect and prevent such crimes with enactment of Asset (Money) Laundering Prevention Act (ALPA) 2008 and establishment of FIU-Nepal in 2008. For effective implementation of AML/CFT system, Nepal is highly inclined towards digitization and focusing on strengthening legal, institutional and administrative capacity by co-operating with international institutions and law enforcement agencies.

1.2 Overview of Nepal's Commitments

AML/CFT as a global major agenda has dragged attention of entire global community including all the developed, developing and underdeveloped countries. Nepal also has made remarkable progress towards its goal of enhancing AML/CFT system by implementing legal, preventive and institutional measures in place. Nepal's presence is visible in regional and global platform to control financial crimes and build resilient financial system. It is evident from its membership to the UN, IMF, World Bank, SAARC, APG, Egmont Group of FIUs, BIMSTEC etc. Nepal is active participant of regional and global communities. Third round of Mutual Evaluation of Nepal has been completed and it depicts significant reforms in Nepal's AML/CFT regime.

However, there exist areas for improvement particularly in legal and operational capacity building of Nepal. Engagement and co-operation among all the stakeholders of the economy and international communities play vital role to strengthen Nepal's AMT/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.

It is composed of 39 members, two regional organizations and nine FATF-Style regional bodies. In total, more than 200 countries and jurisdictions have committed to implement the FATF's Standards as a co-ordinated global response to preventing organised crime, corruption and terrorism.



The FATF has developed series of recommendations that are recognized as global standards against money laundering and financing of terrorism. It conducts mutual evaluation to assess implementation of its recommendations which provides an in-depth description and analysis of each country's AML/CFT regime for preventing criminal abuse of financial system. The countries who repeatedly fail to implement FATF standards are categorized under High Risk Jurisdiction externally referred as "the grey and black lists". In addition, it raises awareness, promotes effective implementation of global standards and adoption of preventive measures as well as maintains co-ordination among regional organizations and FATF-Style regional bodies to form strong global alliance for combating ML and TF. Nepal is not a member of FATF itself directly; it has a connection with FATF through APG (the FATF Style Regional Body also called FSRB).

The nine FATF-Style Regional Bodies (FSRBs) are autonomous regional organizations that help the Financial Action Task Force (FATF) implement its global AML/CFT policy, which revolves around its 40 Recommendations, in over 200 affiliated countries. The FATF-style regional bodies are:

1. **Asia/Pacific Group on Money Laundering (APG) based in Sydney, Australia**;
2. Caribbean Financial Action Task Force (CFATF) based in Port of Spain, Trinidad and Tobago;
3. Eurasian Group (EAG) based in Moscow, Russia;
4. Eastern & Southern Africa Anti-Money Laundering Group (ESAAMLG) based in Dar es Salaam, Tanzania;
5. Central Africa Anti-Money Laundering Group (GABAC) based in Libreville, Gabon;
6. Latin America Anti-Money Laundering Group (GAFILAT) based in Buenos Aires, Argentina;
7. West Africa Money Laundering Group (GIABA) based in Dakar, Senegal;
8. Middle East and North Africa Financial Action Task Force (MENAFATF) based in Manama, Bahrain;
9. Council of Europe Anti-Money Laundering Group (MONEYVAL) based in Strasbourg, France (Council of Europe).



FATF and its nine regional bodies constitute a global network to combat money laundering, the financing of terrorism and the financing of proliferation of weapons of mass destruction. The FATF's 40 recommendations are the principal standards to combat these crimes.

Source: FATF

The international standards against money laundering and the financing of terrorism/ proliferation are incorporated in the 40 FATF Recommendations.

a) FATF's 40 Recommendations

The FATF Recommendations provide a comprehensive and robust framework of laws, regulations and operational measures to detect and disrupt illicit financial flows that foster crime and terrorism, and punish those responsible for illegal activities. The set of FATF Recommendations serves as international standard which countries should implement to meet the shared objective of tackling money laundering, terrorist financing and the financing of proliferation.

The FATF's 40 recommendations are categorized in seven categories and it cover the following areas:

Number	
	A – AML/CFT POLICIES AND COORDINATION
1	Assessing risks & applying a risk-based approach *
2	National cooperation and coordination
	B – MONEY LAUNDERING AND CONFISCATION
3	Money laundering offence *
4	Confiscation and provisional measures *
	C – TERRORIST FINANCING AND FINANCING OF PROLIFERATION
5	Terrorist financing offence *
6	Targeted financial sanctions related to terrorism & terrorist financing *
7	Targeted financial sanctions related to proliferation *
8	Non-profit organisations *
	D – PREVENTIVE MEASURES
9	Financial institution secrecy laws
	Customer due diligence and record keeping
10	Customer due diligence *
11	Record keeping
	Additional measures for specific customers and activities
12	Politically exposed persons *
13	Correspondent banking *
14	Money or value transfer services *
15	New technologies
16	Wire transfers *
	Reliance, Controls and Financial Groups
17	Reliance on third parties *
18	Internal controls and foreign branches and subsidiaries *
19	Higher-risk countries *
	Reporting of suspicious transactions
20	Reporting of suspicious transactions *
21	Tipping-off and confidentiality
	Designated non-financial Businesses and Professions (DNFBPs)
22	DNFBPs: Customer due diligence *
23	DNFBPs: Other measures *
	E – TRANSPARENCY AND BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND ARRANGEMENTS
24	Transparency and beneficial ownership of legal persons *
25	Transparency and beneficial ownership of legal arrangements *
	F – POWERS AND RESPONSIBILITIES OF COMPETENT AUTHORITIES AND OTHER INSTITUTIONAL MEASURES
	Regulation and Supervision
26	Regulation and supervision of financial institutions *
27	Powers of supervisors
28	Regulation and supervision of DNFBPs
	Operational and Law Enforcement
29	Financial intelligence units *
30	Responsibilities of law enforcement and investigative authorities *
31	Powers of law enforcement and investigative authorities
32	Cash couriers *
	General Requirements
33	Statistics
34	Guidance and feedback
	Sanctions
35	Sanctions
	G – INTERNATIONAL COOPERATION
36	International instruments
37	Mutual legal assistance
38	Mutual legal assistance: freezing and confiscation *
39	Extradition
40	Other forms of international cooperation *

* *Recommendations marked with an asterisk have interpretive notes, which should be read in conjunction with the Recommendation.*

Source: FATF

b) Immediate Outcomes (IOs)

FATF has identified 11 Immediate Outcomes (IOs) that an effective AML/CFT framework should achieve to protect the financial system from abuse. During its mutual evaluations, the FATF assesses the effectiveness of a country's efforts based on 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/ FSRB 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. 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. It was established in 1995 and funded by Government of Australia.The APG has grown considerably since 1997 and is one of the Financial Action Task Force-Style Regional Bodies (FSRBs). It 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 assists its members to establish national coordination mechanisms to better utilize resources to combat money laundering and terrorist financing.

The APG has five primary functions:

a. **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) program;

b. **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;

c. **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;

d. **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

e. **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.

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 completed two years' tenure as a regional representative of South Asian Region for the meetings of the Governance Committee of the APG in year 2019 and 2020.

C. Egmont Group of FIUs

The Egmont Group is a united body of 170 Financial Intelligence Units (FIUs). It is global network of FIUs that aims to improve communication, information sharing, and coordination amongst its FIU members. The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering, terrorist financing and associated predicate offences. It is the operational arm of the international AML/CFT apparatus and has become the cornerstone of international efforts to counter ML and TF.



FIU-Nepal got membership of Egmont Group on June 10, 2015. As a member of the Egmont Group, the FIU-Nepal is able to send/receive information to/from FIUs of member jurisdictions via Egmont Secure Web (ESW), secure email network.

Intelligence shared between jurisdictions is crucial for the analysis of STRs and development of intelligence for dissemination. Timely responses and quality intelligence are essential for the jurisdiction to develop the intelligence. The information exchange from Egmont can 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 (MLA) to the concerned jurisdiction. In order to guide LEAs and Regulators for process of information exchange via Egmont Group, FIU-Nepal has issued 'Guidelines for Information Exchange with foreign FIUs'.

FIU-Nepal participated in 29th Egmont Group Plenary held in Abu Dhabi, UAE, on July 3 to 7, 2023. This event included over 500 delegates from member FIUs and 13 international organizations, working together towards strategic decisions that will improve global collaboration and effectiveness in fighting money laundering and terrorist financing (ML/TF).

D. The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) is a committee of banking supervisory authorities established in 1974 by the central bank governors of the group of 10 countries. It sets the global standards for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions. Additionally, the committee has eight observers including central banks, supervisory groups, international organizations and other bodies. It expanded its membership in 2009 and again in 2014. BCBS aims to enhance understanding of key supervisory issues and frame guidelines and standards in different areas such as capital adequacy, the core principles for effective banking supervision, cross-border banking supervision etc. It also 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.

BCBS 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. The Major Highlights of BCBS Principle 29 are

1. Duties, responsibilities and powers of the supervisor are established by related laws or regulations.
2. The supervisor ensures that banks have adequate policies and processes that prevent abuse of banks for criminal activities. It includes prevention and detection of criminal activities, reporting of such suspected activities and sharing relevant information to the appropriate authorities (financial intelligence unit or other designated authorities).
3. The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staffs. Such policies and processes need to be integrated into the bank's overall risk management to mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions.
4. The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities.
5. The supervisor determines that banks have:
   a) requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls
   b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services are reported
   c) adequate screening of policies and processes to ensure high ethical and professional standards when hiring staffs and ongoing training program for their staffs, including on CDD and methods to monitor and detect criminal and suspicious activities.
6. The supervisor ensures banks have and follow clear policies and processes for staffs to report any problems related to abuse of the banks' financial services through utilization of adequate management information systems for timely and appropriate information on such activities.
7. The supervisor directly or indirectly cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities .

Basel committee has issued guidelines on 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 number 29 of BCBS provides essential criteria on prevention on Abuse of Financial Services.

E. International Monetary Fund (IMF) and World Bank (WB)

Nepal is a member country to the IMF and WB, obtained membership on September 6, 1961. 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 using the NRA modules developed by the World Bank.

F. Wolfsberg Group

The Wolfsberg Group is a non-governmental association of thirteen global banks which aims to develop frameworks and guidance for the management of financial crime risks. Its purpose is to develop financial industry standards and best practices related to anti-money laundering counter terrorism financing, know your customer and sanctions compliance. The Wolfsberg Group's AML, KYC, and CTF standards provide detailed guidance on best practices for risk management and regulatory compliance. The standards cover a wide range of topics, including how to conduct due diligence on customers, how to identify and report suspicious transactions, and how to implement effective internal controls to prevent money laundering and terrorist financing. It promotes a high level of professionalism and integrity in the banking sector. The Group came together in 2000; Wolfsberg Anti-Money Laundering (AML) Principles for Private Banking

were subsequently published in October 2000, revised in May 2002 and again most recently in June 2012.

G. International Organization of Securities Commissions (IOSCO)

The IOSCO is the international forum of world's securities regulators and global standard setter for the securities sector. It develops, implements and promotes adherence to internationally recognized standards for securities regulation. IOSCO was established in 1983. Its membership regulates more than 95% of the world's securities markets in more than 130 jurisdictions. They are the overarching core principles that guide IOSCO in the development and implementation of internationally recognized and consistent standards of regulation, oversight and enforcement. IOSCO has set out 38 Principles of securities regulation which are based upon three objectives of securities regulation as under.

- Protecting Investors;
- Ensuring that markets are fair, Efficient and Transparent;
- Reducing Systemic Risk

H. The International Association of Insurance Supervisors (IAIS)

The IAIS is the global standard-setting body, established in 1994, responsible for developing and assisting in the implementation of principles, standards and guidance as well as supporting material for the supervision of the insurance sector. It is voluntary membership organization of insurance supervisors from more than 200 jurisdictions, constituting 97% of the global insurance premiums.

It also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets; and address emerging risks and challenges. The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally.

I. Asian Development Bank (ADB)

The Asian Development Bank is a regional development bank established on 19 December 1966. It envisions a prosperous, inclusive, resilient, and sustainable Asia and the Pacific with its rigorous efforts to eradicate extreme poverty in the region. ADB assists its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development. ADB maximizes the development impact of its assistance by facilitating policy dialogues, providing advisory services, and mobilizing financial resources through co-financing operations that tap official, commercial, and export credit sources.

ADB has partnered with UNODC and working on its goAML suspicious transaction reporting system that has been adopted by more than 60 countries to reduce Trade Based money laundering (TBML). ADB's Trade and Supply Chain Finance Program (TSCFP) is coordinating with banks, regulators, and others to improve the quality of data in suspicious transaction reporting. FIU-Nepal has also taken support of ADB-TSCFP to develop new reporting type STR-TBML in goAML. ADB has also supported to conduct training (both virtual and physical) to banks, law enforcement agencies and FIU-Nepal regarding TBML.

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 2-6** 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.

ALPA and ALPR have provisions for dedicated statutory high-level policy committee viz., National Coordination Committee (NCC), with, Secretary of Office of the Prime Ministers and Council of Ministers as coordinator and Implementation Committee, with, Deputy Governor of Nepal Rastra Bank as coordinator.

List of major committees/mechanisms are:

Statutory Committees as per ALPA and ALPR	Committees/ Mechanisms as per 'National Strategy and Action plan (2019-2024)'
• National Coordination Committee (NCC) • Implementation Committee	• National Review Council • Regulators Coordination Mechanism • Investigation Coordination Mechanism • Counter Terrorism Mechanism

i. National Coordination Committee (NCC)

ALPA (2008) has provision on formation of NCC in order to coordinate interrelated entities and advise the Government of Nepal in regard to the prevention of money laundering and terrorist financing:

Formation of the NCC:

(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 Intelligence Unit - Secretary

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 formed under Rule 47(1) of Assets (Money) Laundering Prevention Rule, 2016 to carry out or facilitate to carry out national risk assessment and play

supportive role to the functions of National Coordination Committee. This committee comprises the representatives from different legal, regulatory, enforcement and other competent and relevant authorities of AML/CFT.

(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) Joint Attorney, Office of Attorney General - Member

(u) Executive Director, Bank Supervision Department - Member

(v) Executive Director, Nepal Insurance Authority - Member

(w) Executive Director, Securities Board of Nepal - Member

(x) Chief, Central Investigation Bureau - Member

(y) Chief, Financial Intelligence Unit - Member

(z) Under Secretary, Ministry of Finance - Member Secretary

B. Policy Measures

i. National Risk Assessment

The FATF recommendations require each country to identify, assess and understand ML and TF risks it faces in order to mitigate them and effectively dismantle terrorist networks. National Risk Assessment (NRA) serves as foundation for setting AML/CFT policy priorities and resource allocation. The risk-based approach, which is central to the FATF Recommendations, enables countries to priorities their resources and allocate them efficiently. FATF has developed guidance that assists the countries to conduct National Risk Assessment. Nepal's National Risk Assessment was conducted in 2016 and 2020. The overall banking sector vulnerability to ML is rated as medium-high whereas, the quality of the general AML control is medium. National Risk Assessment Report, 2020 on ML/TF of Nepal has identified the following national 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.

Sector-wise vulnerabilities as per NRA, 2020 is shown in table below: -

S.N.	Institutions	Vulnerability	Quality of AML/CFT control
1.	BFIs	Medium high	Medium
2.	Co-operatives	Medium high	Medium low
3.	Securities	Medium	Medium
4.	Insurance	Medium	Medium low
5.	Other Financial Institutions	• Remittance Services – Medium-High • Foreign Exchange - Medium-High • Hundi- High	NA
6.	DNFBPs	Casino- Medium-High Precious Stones- Medium-High Real Estate- High Accountants- Medium	NA
7.	NPOs	Medium	NA

National Vulnerability- Medium High

Rating Scale- 1. Low 2. Medium Low 3. Medium 4. Medium High 5. High

ii. National Strategy and Action Plan

The Government of Nepal (GoN) implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016. It was focused on legislative and institutional development.

In order to strengthen AML/CFT policy framework, the Government of Nepal came up with the second National Strategy and Action plan (2019-2024) which aims to develop a sound legal, institutional, supervisory and operational framework. It has emphasized on application of risk based approach in all sectors and operational capacity building. Major highlights of the strategies are: -

a. Concept

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

b. 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.

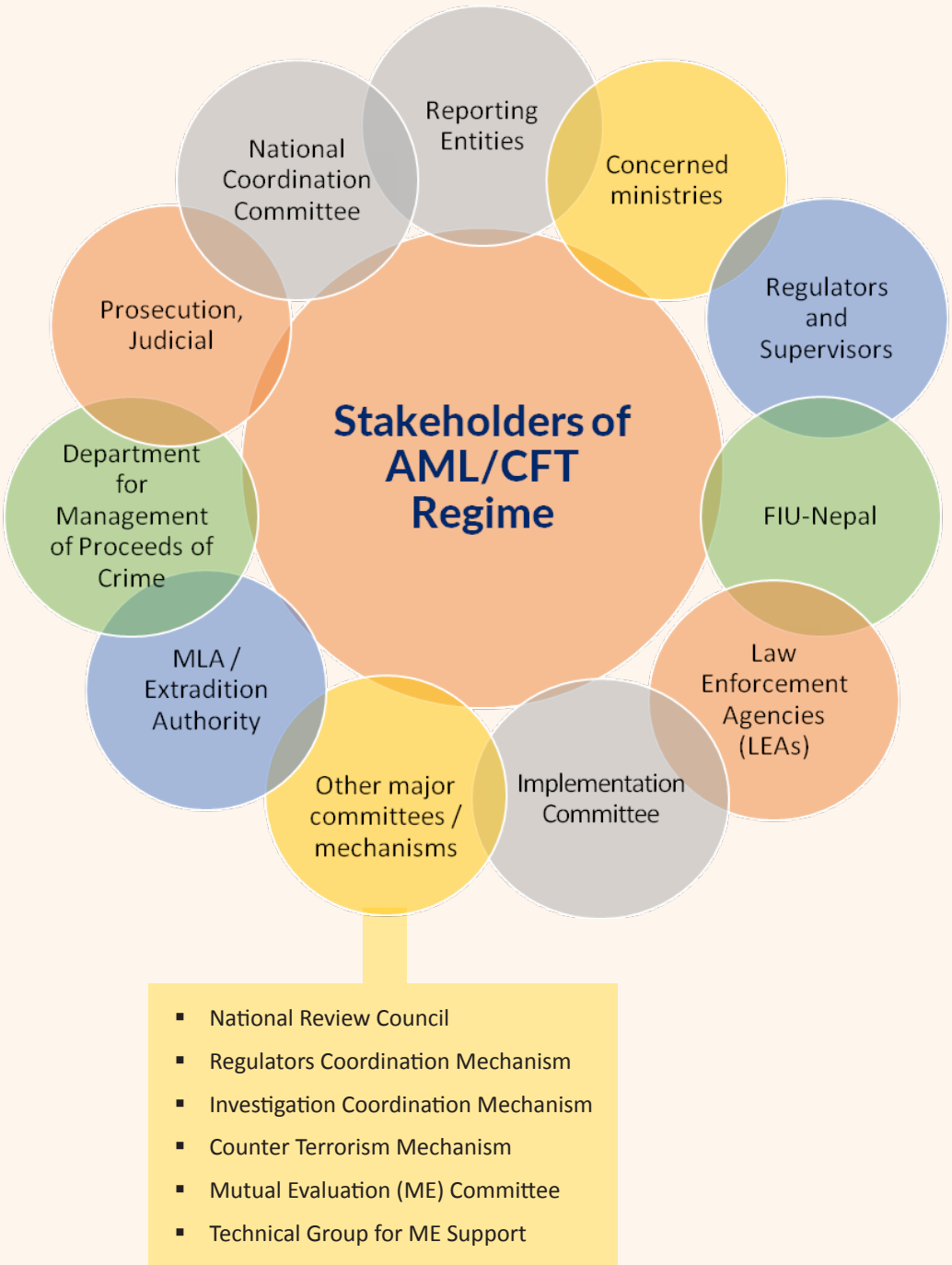
c. Objective and Strategy

1.	**Objective No. 1: To adopt risk based system by risk assessment of money laundering and terrorism financing.** **Strategies:** ▪ 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.	**Objective No. 2: To strengthen legal and organizational framework relating to international norms.** **Strategies:** ▪ To strengthen organizational capacity. ▪ To improve legal framework.
3.	**Objective No. 3: To collect and manage information relating to beneficial ownership.** **Strategies:** ▪ 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.	**Objective No. 4: To implement curative and regulative techniques on compact manner for security of financial system and economy.** **Strategies:** ▪ 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.	**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.** **Strategies:** ▪ 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.
6.	**Objective No. 6: To provide functional autonomy and improve analytical capacity of Financial Intelligence Unit.** **Strategies:** ▪ To provide managerial autonomy by making financial information unit rich on means and resources. ▪ To make provision for FIU-Nepal to take service of various subject experts. ▪ To increase capacity of FIU-Nepal on collection and analysis of information.
7.	**Objective No. 7: To intensively increase the capacity for investigation and prosecution of financial crime.** **Strategies:** ▪ 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 Bearer negotiable instruments (BNIs).
8.	**Objective No. 8: To undergo management of seizing, freezing and confiscation of proceeds of crime.** **Strategies:** ▪ 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 .
9.	**Objective No. 9: To expand international cooperation mechanism of mutual legal assistance, extradition and other international support for crime control.** **Strategies:** ▪ 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.
10.	**Objective No. 10: To centralize entire efforts to make system a success by implementing strategy and action plan.** **Strategies:** ▪ 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 2020/21.

C. Institutional Measures

ML and TF is organized crime with involvement of multiple parties/agencies from different parts of the world. It possesses growing threats to the human civilization. Hence, participation and co-operation of all stakeholders is essential to tackle with ML and TF effectively. The diagram presented below depicts the stakeholders in AML/CFT regime of Nepal.

Figure 1.1: Stakeholders in AML/CFT regime

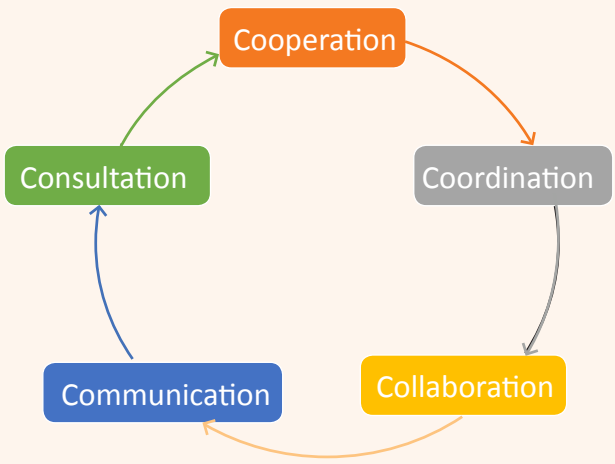


For complete list of AML/CFT stakeholders of Nepal, please refer to Annex 1.

02 CHAPTER

ENTITIES AND COMPETENT AUTHORITIES

A Country's well-being relies on how prudential its financial system is. Many competent authorities around the globe work actively to check on any vulnerabilities and safeguard the global financial system from possible threats. The integrated effort and participative management of all the components of AML/CFT /CPF system help to achieve prudential global financial system.



In context of Nepal, there are various entities, regulators, supervisors, investigators and prosecutors that are functional to combat ML/TF/PF.

2.1 FIU-NEPAL

Financial Intelligence Unit (FIU) is established within Nepal Rastra Bank as per the provision of ALPA, 2008.

FIU-Nepal is one of the key components of AML-CFT regime of Nepal. It is the national agency responsible for receiving, processing, analyzing and dissemination of financial intelligence on possible ML/TF activities to the suitable law enforcement/ investigative agencies.

It is a centralized, autonomous, independent, administrative authority with pivotal role to play in AML/CFT/CPF regime of Nepal. It is the secretariat of National Coordination Committee (NCC), which is an inter-agency body to recommend Government of Nepal on AML/CFT/CPF policy matters. It functions as a buffer between the stakeholders of AML/CFT/CPF system. It is operating in a harmonious relationship with different stakeholders to implement AML/CFT/CPF policies as per its legal mandate.

FIU-NEPAL is an administrative type of FIU. Its main function is to create an intelligence after receiving information (TTR/STR/SAR and other) from reporting entities.

*(**Note:** Explained in more details in chapter 3 & 4 of this report)*

2.2 Reporting Entities

ALPA, 2008 defines "Reporting Entity" (RE) as Financial Institutions and Designated Non-Financial Businesses and Professions (DNFBPs'). REs are those which are legally obliged to report TTRs, STRs and SARs to FIU-Nepal in a specified format as defined by regulators in consultation with FIU-Nepal.

ALPA, Section-6 requires the REs to maintain clear identity of a person while establishing any kind of business relationship or transacting the amount more than the limit at one or several transactions as prescribed by Rastra Bank. REs must keep a separate record of documents and transactions of each customer.

ALPA, Section-7 states the major responsibilities of the REs as following:

(a) To maintain records of amount transacted beyond the limit prescribed by Rastra Bank at a single or in a series of transactions by a person,

(b) To investigate and inquire any transactions which seem to be doubtful or transacted with the motive of assets laundering or so laundered or there are reasonable grounds for getting into suspicion,

(c) To inform the Financial Intelligence Unit about the transactions made under Clause (a) within 15 days of event and immediately for the transactions made under clause (b).

The ALPA states various provisions to the REs for Identification of Politically Exposed Person, Identification of Beneficial Ownership, Risk Assessment and Management, Enhanced CDD, Simplified CDD, CDD of Existing Customers, Timing of Identification, Ongoing Monitoring, Identification and Verification by Third Party, New Technology and non-Face to Face Customer or Transactions, Obligations Regarding Wire Transfers, Provision on Cross-border Correspondent Banking, Special Monitoring of Certain Transactions, Transactions not to be carried out, Responsibilities of the REs to develop and implement AML/CFT Policy and Procedures, Compliance with Obligations by Foreign Subsidiaries and Branches, Record Keeping and Obligation to Report Suspicious Transactions.

Further, FIU-Nepal has published various documents such as SAR/STR Guidelines, TTR guidelines, AML/CFT Directives for REs issued by their regulators, Information booklet on Predicate Offence, Sanction List, notices, etc., which are beneficial for the REs as well as other stakeholders in its website.

2.3 Regulator/Supervisors of REs in Nepal

Recommendations 26, 27 and 28 of "The FATF Recommendations" recognizes the power of regulators/Supervisors of both of Financial Institutions and Designated non-financial businesses and professions. Regulator/Supervisors shall be responsible for formulating necessary legal or regulatory measures to effectively implement the FATF Recommendations. The Regulator/Supervisors should have adequate powers to supervise or monitor, and ensure compliance by, respective institutions with requirements to combat money laundering and terrorist financing, including the authority to conduct inspections.

As per Section 2 of the Asset (Money) Laundering Prevention Act, 2008 (ALPA) of Nepal, Regulators & Supervisors are defined as " any institution established for the regulation and supervision of reporting entity under prevailing laws. It shall also denote the Regulator designated by the Government of Nepal pursuant to subsection (2) of the section 7T." subsection (2) of the section 7T mandates Nepal Government to designate an agency or regulator to work as regulator for such reporting entity upon the advice of National Coordination Committee (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. Further, Section 7V has stated the provision for Regulatory Actions and Sanctions against REs.

The Reporting Entities are licensed and regulated by different Regulators & Supervisors. Below is the list of different reporting entities and their respective Regulators & Supervisors as per Annexure 2 of National Strategy and Action Plan relating to ML/TF (2019-24), and the official website of the regulators:

Regulators & Supervisors	Reporting Entities
Nepal Rastra Bank (NRB)	A, B, C, D Class BFIs
	Nepal Infrastructure Bank Limited
	National Co-operatives Bank Limited
	Money Remitter
	Money Changer
	Payment System Operators (PSOs)
	Payment Service Providers (PSPs)
	Employee Provident Fund
	Citizen Investment Trust
	Hire Purchase loan providing companies
	Postal Saving Bank
	Other entities licensed by Nepal Rastra Bank.
Securities Board of Nepal (SEBON)	Stock exchange
	Stockbroker
	Securities Dealer and Market Marker
	Merchant Bankers
	Portfolio manager
	Mutual Funds
	Share Market (OTC Market and other related)
	Depository Participant
	CDS and Clearing Entity
	Listed Securities Company
	Commodity Exchange
	Commodity Trading Business
	Commodity Clearance and Settlement House

Regulators & Supervisors	Reporting Entities
Nepal Insurance Authority	Life Insurance Company
	Non-Life Insurance Company
	Re-Insurance Company
	Micro Insurance Companies *(Micro Life Insurance & Micro Non-Life Insurance Business)* under Micro Insurance
▪ Department of Co-operatives ▪ Province Governments ▪ Local Governments	Co-operatives
Inland Revenue Department (IRD)	Approved Retirement Funds & Dealers in Precious Stones & Metals
Ministry of Culture, Tourism & Civil Aviation	Casinos or internet casinos
Department of Land Management and Archive (DOLMA)	Real Estate Business/Agents

Regulators & Supervisors	Reporting Entities
Nepal Notary Public Council	Notary Public*
Institute of Chartered Accountants of Nepal	Registered Auditors and Accountant/Chartered Accountants Firm*
Office of the Company Registrar (OCR)	Company & Trust Service Providers
Nepal Bar Council	Law Practitioners*

*As per ALPA, 2008, Section 2 (n) (4), Notaries, auditors, accounting or other similar professionals are entitled to report when they carry out, prepare for, or engage in, transactions for a client or party concerning the following activity:

(a) buying and selling of real estate,

(b) managing of client money, securities or other assets,

(c) management of bank, savings and securities accounts,

(d) organization of contributions and investment for the incorporation or operation of legal persons,

(e) creation, incorporation, registration, operation or management of legal persons or legal arrangements, or

(f) buying or selling of business entities.

The brief introduction of the regulators and supervisors in context of AML/CFT regime in Nepal are:

2.3.1 Regulators of Financial Institutions (FIs)

I. Nepal Rastra Bank (NRB)

Banks and Financial Institutions Act, 2063 (2006), section 4, authorize Nepal Rastra Bank as the sole issuer of license to carry on the financial transaction by BFI's. It grants the approval for the incorporation of bank or financial institution. Section 35, authorize Nepal Rastra Bank to suspend and revoke the license of bank or financial institution (REs) if any licensed institution does not act as per the Nepal Rastra Bank Act, 2058 (2002) or the rules or by-laws framed thereunder or fails to comply with the orders or directives issued by the Rastra Bank or fails. NRB not only regulates the bank and financial institutions regarding 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, Money Remitters, Hire Purchase Companies and Co-operative Bank are carried out by its Non-Bank Financial Institutions Supervision Department. Further, PSOs and PSPs are supervised by its Payment Systems Department. NRB has issued AML/CFT directives on AML/CFT based on Act and Regulation.

The fourth NRB Strategic Plan (2022-2026) has made the following provision under strategy 2 of Strategic Pillar 5 "Governance, Organizational Development and Talent Management".

Strategy 2: Strengthening institutional effectiveness of specialized functions						
S.N.	Actions	Objectively Verifiable Indicators (OVI)	Means of Verifications (MoV)	Start Date	End Date	Responsible Department/s
1	Establish dedicated institutional set up for AML/CFT supervision	Dedicated set up established	Dedicated institutional set up in operation	2022	2023	CPRMD (L), HRMD

In adherence with above provision, Corporate Planning and Risk Management Department has published a notice regarding the establishment

and operation of separate AML/CFT Supervision unit. The unit is named as "Money Laundering Prevention Supervision Division".

II. Securities Board of Nepal (SEBON)

SEBON is 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 by issuing the necessary laws and regulation. It regulates and supervises the AML/CFT regime within securities sectors viz. Securities Brokers, Securities Market, Merchant Bankers, etc. It has issued AML/CFT directive to its licensed entities in FY 2017/18.

III. Nepal Insurance Authority (NIA)

Nepal Insurance Authority *(Formerly known as Insurance Board)* is the Insurance Regulatory Authority of Nepal, under the Ministry of Finance, Government of Nepal. It is constituted to systematize, regularize, develop and regulate the insurance sector within the country under Insurance Act, 1992. 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 life insurance companies, non-life insurance companies, re-insurance companies and micro insurance companies. It has issued AML/CFT directive to its licensed entities in FY 2018/19.

IV. Department of Cooperatives / Province Governments / Local Governments

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. Department, as a federal agency, has a leading role to play in terms of providing co-operative agency, necessary regulatory service, promotional intervention and training or educational services. However, the establishment, operation, regulation and supervision of Co-operative is a function shared by three levels of Government– federal, provincial, and local. The cooperative established under the province and local level authority are monitored and regulated by the Provincial and local level governments respectively. Furthermore, the department regulates and supervises the all cooperatives under it. Department of cooperatives has issued AML/CFT directive to co-operatives.

V. Inland Revenue Department (IRD)

The department drafts tax policies and laws, implements laws and policies related to Value Added tax, Income tax, Excise, and other tax. 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 different taxes. It regulates and supervises Approved Retirement Funds & Dealers in Precious Stones & Metals.

2.3.2 Regulators of Designated Non-Financial Business and Profession (DNFBPs)

I. 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, Hotel, Lodge, Restaurant, trek agencies and other Hospitality-Oriented Business.

II. 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 collect revenue from land taxes and

fees and to develop robust and efficient land information system to automate land records and procedures.

III. Nepal Notary Public Council

Nepal Notary Public Council was established according to section 5(1) of the Notary Public Act, 2006. 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.

IV. 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 play the role of regulatory body 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.

V. 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 Service Providers. To get legal authority anyone must register the company in The Office of the Company Registrar of Nepal.

VI. 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.

2.4 Investigation Agencies / Law enforcement agencies (LEAs)

Investigation agency are those agencies, which are empowered to investigate and prosecute the cases while law enforcement agencies are the agencies authorized by law or by a government agency to engage in or supervise the prevention, detection, investigation, or prosecution of any violation of criminal law. Although the Investigation agency and law enforcement agencies are different in terms of their operational jurisdiction. However, they are used synonymously in context of Nepal. The below enlisted agencies of Nepal indulge in either of the role of investigation or law enforcement. The Annexure 3 of National Strategy and Action Plan relating to ML/TF (2019-24), Investigating Authorities are as shown below:

SN	Name of the Investigative agencies	Scope of Investigation	Act that governs the Investigative role of agency
1	Commission for the Investigation of the Abuse of Authority (CIAA)	CIAA is a distinctive anti-corruption agency, which plays the role of an ombudsman, investigator, and prosecutor as well. It deals with the corruption issues at national level. It also focuses on detection and punishment of corruption acts on one hand and social, cultural, and institutional reform on the other. CIAA embraces Preventive, Promotional and Punitive (3Ps) measures to combat corruption.	Commission for the Investigation of Abuse of Authority Act, 2048 (1991). Constitution of Nepal 2072-part 21 article 238 and article 239 has empowered CIAA to investigate any public office and their associates who are indulged in the abuse of authority by way of corruption.

SN	Name of the Investigative agencies	Scope of Investigation	Act that governs the Investigative role of agency
2	Department of Money Laundering Investigation (DMLI)	It is the sole agency to conduct investigations into ML and TF cases. ALPA 2008 has provided DMLI the power to search and seize, freeze assets, and put restrain on the transaction of the asset subject to investigation.	the Section 11 of ALPA, 2008
3	Nepal Police(NP)	NP are responsible for the investigation of most predicate crimes in Nepal. 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 Act,2012 (2055)
4	Department of Revenue Investigation (DRI)	DRI has jurisdiction for investigation, interrogation and prosecution of tax revenue & non-tax revenue leakages, investigation and control of economic crimes and it's the mandate as per the provisions of FERA which includes the control and investigation of foreign exchange abuses.	Revenue Leakage (Investigation and Control), Act 1995 Foreign Exchange (Regulation) Act, 1962
5	Department of Forests & Soil Conservation	It focuses on programs that provide support for the development of community forest, water & soil conservation. Its overall goal is sustainable management of Forest & Natural Resources.	Forest Act, 2049 (1993)
6	Department of National Parks and Wildlife Conservation	It focuses on programs that provide support for the development of local community while managing the conservation activity. Its overall goal is to conserve wildlife and outstanding landscapes of ecological importance for the well-being of the people.	National Parks and Wildlife Conservation Act, 2029 (1973)
7	Department of Foreign Employment	It is a sole organization responsible for monitoring the foreign employment, under the Ministry of Labor, Employment & Social Security. It is the dedicated department to make this sector more secure, managed, and decent and to protect right of migrant workers	Foreign Employment Act ,2008
8	Narcotics Control Bureau	It acts as a nodal unit to liaise with Drug Offences Monitoring Desk of South Asian Association for Regional Cooperation and other International Drug Law Enforcement Agencies. It has nine satellite stations spread across the country mainly at major border checkpoints, including one in the Tribhuvan International Airport, Kathmandu. It is under administrative control of Ministry of Home Affairs, and it functions under operational command of Nepal Police.	Narcotic Drug Control Act (NDC Act) 1976

SN	Name of the Investigative agencies	Scope of Investigation	Act that governs the Investigative role of agency
9	Inland Revenue Department (IRD)	It is responsible for the enforcement of Tax Laws and administration of the different taxes. It carries out Tax Administration, Tax Policy, Taxpayer 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.	Income tax Act, 2058 (2002) The Value-Added Tax Act, 1996 (2052)
10	Department of Customs	The main objective of Department of Customs in Nepal is to make customs administration more transparent, well managed and accountable as well as to facilitate the international trade and make it secured.	Customs Act, 2064 (2007) Customs Rules, 2065 (2007)

However, there are other competent authorities, that are not LEAs intrinsically, but responsible for some investigation activities. These authorities include:

- **Armed Police Force (APF):** It functions as a semi-military wing and occupies a sort of dual role as both military and law enforcement. Its role is to maintain Law and Order, Counterterrorism, Border Security, Hostage Rescue, Vital Installation Security, VIP Security, Riot Control & Industrial Security.
- **Department of Foreign Employment (DoFE)** It is a sole organization responsible for monitoring the foreign employment.
- **Department of Environment:** This Department is responsible for time and proper check of the negative environmental/ climate hazards. It investigates, prepare report about any adverse climate change.
- **Department of Commerce, Supplies and Consumer Protection:** It regulates, monitor the firm involved in import and export business. It provides the approval for doing import export business. It regulates Anti-dumping, Countervailing in international trade. It does the market surveillance and punishes the business if found delivering the products adverse to health.
- **Nepal Army**: The Nepal Army is established for the protection and Defense of the independence, sovereignty, territorial integrity, and national unity of the state of Nepal. It does several investigations as defined by **Army Act, 2063 (2006).**
- **SEBON**: SEBON is a regulatory body of different entities in the securities market. The Insider trading and market manipulation are investigated by SEBON (Section-103 of Securities Act,2007, and Securities and Commodities Exchange Market Related Laws: Special Publication 2019).

2.5 Ministry of Law, Justice, and Parliamentary Affairs (MOLJPA)

The Ministry of Law, Justice, and Parliamentary Affairs is the central agency of the Government of Nepal for drafting laws and making legal reforms in line with the spirit of the Rule of Law. The Government of Nepal has drafted "**Mutual Legal Assistance Act, 2014 (2070)**". This act facilitates the exchange of mutual legal assistance between Nepal and foreign states in matters of judicial proceedings The Government of Nepal (GoN) has designated MOLJPA as the Central Authority of MLA. **MOLJPA** is the competent authority for executing MLA matters pursuant to section 6 of the MLA Act. Section 3 of MLA imposes bilateral treaty and reciprocity

requirement for enforcement of judgment and providing of legal assistance. 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.

2.6 Department for Management of Proceeds of Crime (DMPC)

'Criminal Proceeds and Instruments of Offence (freezing, controlling and confiscation) Act 2013 (POCA)' contains procedural provisions relating to management and auction of property. The Government of Nepal (GoN) establishes the Department for Management of Proceeds of Crime to manage or auction the proceeds of crime or instrumentalities of offense. The department function is mentioned in Section 14 which manages or order to manage the frozen, seized or confiscated property or instrumentality made in the procedure of investigation and prosecution.

The department is empowered to exchange cooperation to foreign countries, manage and maintain properties, evaluate the values of properties, keep such properties in auction etc. The department is itself responsible to do all these things in Kathmandu valley. The district level management is constituted by District Administration Office (DAO) and a committee chaired by Chief District Officer (CDO), upon the coordination of the department, decides on auction as provided in Section 17-21 of the POCA.

2.7 Ministry of Home Affairs (MoHA)

Ministry of Home Affairs (MoHA) is responsible for maintaining the peace and security of the people in the country and protect the living of the people and their freedom. Organizations under the Ministry includes Department of National ID and Civil Registration, Department of Immigration, Department of Prison Management, National Disaster Risk Reduction Management Authority, 77 District Administration Offices, 77 Area Administration Offices and 7 Border Administration Offices, Nepal Police, Armed Police Force which have been operating from the center to the local level. Ministry of Home Affairs is the central authority for managing extradition. Extradition is the formal process of one state surrendering an individual to another state for prosecution or punishment for crimes committed in the requesting country's jurisdiction. The ministry has separate case management system in regard to extradition requests (request to Nepal and request by Nepal) and it has the system of prioritizing and managing cases on the basis of request and risks.

As per section 29E. of ALPA, 2008, Ministry of Home Affairs is responsible to publish targeted sanction list on its website. Such list includes terrorist persons, groups or organizations enlisted by Security Council of the United Nations with respect to freezing property or funds of the persons, groups or organizations involved in terrorist financing or of the persons, groups or organizations engaged in proliferation of weapons of mass destruction or making investment in such activities. Currently such list published by MoHA can be found in the URL: https://moha.gov.np/page/targeted-sanction-list.

2.8 Ministry of Foreign Affairs (MoFA)

MoFA plays vital roles in domestic as well as international coordination and formal communication for the purpose of MLA, extradition and sanctioning of individual. Under Rule 4(3)(a) of the ALPR-TFS, when the Government of Nepal, Council of Ministers decides to enlist a person, group or organization, MoHA forwards the proposal to the UN through the Ministry of Foreign Affairs (MoFA). All MLA requests for assistance is to be sent through diplomatic channels to the Ministry of Foreign Affairs which is then required to send the same to the Central Agency to make an assessment on it. Each extradition request is to be sent

through diplomatic channels to Ministry of Foreign Affairs which will then forward the same to the Ministry of Home Affairs. MoUs by each agency of AML/CFT regime of Nepal shall be notified or channelized through MoFA.

2.9 Prosecution/ Judicial

The National Criminal Procedure (Code) Act, 2017 advocate about the procedures on investigation, prosecution, filing, proceeding, hearing and adjudication of criminal cases and other procedures related thereto, and execution of judgments on such cases. According to section 22 (1) of ALPA 2008, DMLI submits the evidence to the concerned public prosecutor for a decision on whether 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.

Powers relating to justice in Nepal have been exercised by courts and other judicial bodies in accordance with the constitution of Nepal, other statutes, laws, regulations and the accepted principles of justice and established doctrine by the Supreme Court of Nepal. According to the Constitution of Nepal (2015), the courts constitute three levels (The Supreme Court, Appellate courts, District courts). There is one special court for a special case such as corruption under the Commission for the Investigation of Abuse of Authority (CIAA) and another case as per the decision of the Nepal government.

03 CHAPTER

FINANCIAL INTELLIGENCE UNIT

3.1 Introduction

Financial Intelligence Unit, Nepal (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 autonomous and independent unit. FIU-Nepal is functioning as an autonomous and operationally independent unit within the NRB structured as per the FIU bye-laws, 2020.

The main provisions of the bye-laws are:

- Autonomy and operational independence of the Unit
- Appointment of Unit Head by the Governor
- 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 formulated and implemented many internal policy documents to make rule-based organization culture. 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.

FIU-Nepal has also issued Code of conduct for its staffs. The Code of Conducts help 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 for the staffs of FIU-Nepal.

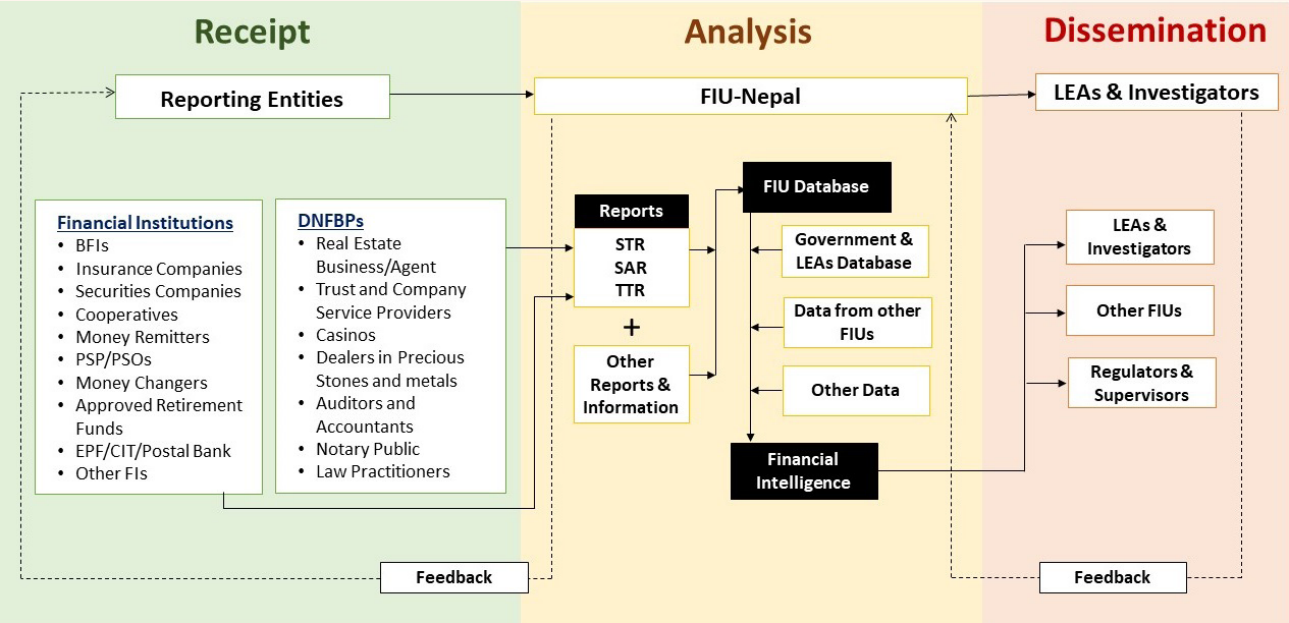
Both the Job Description and Code of conduct have added value in maintaining confidentiality and security of information along with developing organizational culture in FIU-Nepal. Furthermore, FIU-Nepal has Security manual and FIU manual to guide its activities. Also, complying with the Rule 45 (2) of ALPR, 2010, each FIU-Nepal staffs have signed and taken the oath in a format as prescribed in Schedule-16. 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 of FIU-Nepal 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 staff. It has the provision of FIU Security Officer who has responsibility for the development, implementation and maintenance of the FIU Security Policy and Procedures. It also has process document for detailed operational procedures.

The FIU-Nepal is also assigned to function as the secretariat of the National Coordination Committee (NCC). The Head of FIU (HoFIU) is the Secretary of the committee. Similarly, HoFIU is member of statutory and other committees/ mechanisms.

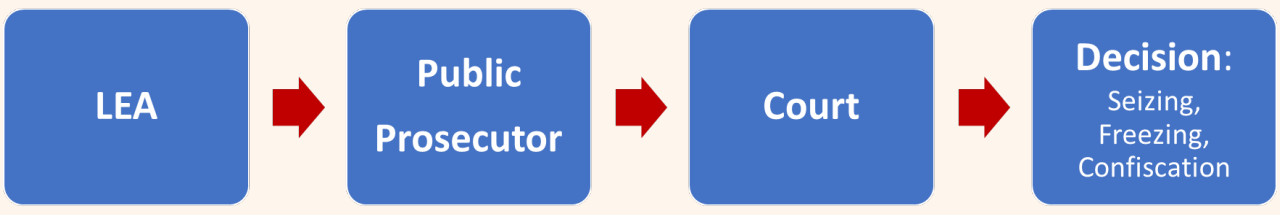
FIU-Nepal processes financial information related to suspicious transaction into intelligence by adding value in financial information. Generally, it works like a buffer between Reporting Entities (REs) and Law Enforcement Agencies (LEAs). This includes receiving SARs/STRs/TTRs from reporting entities,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



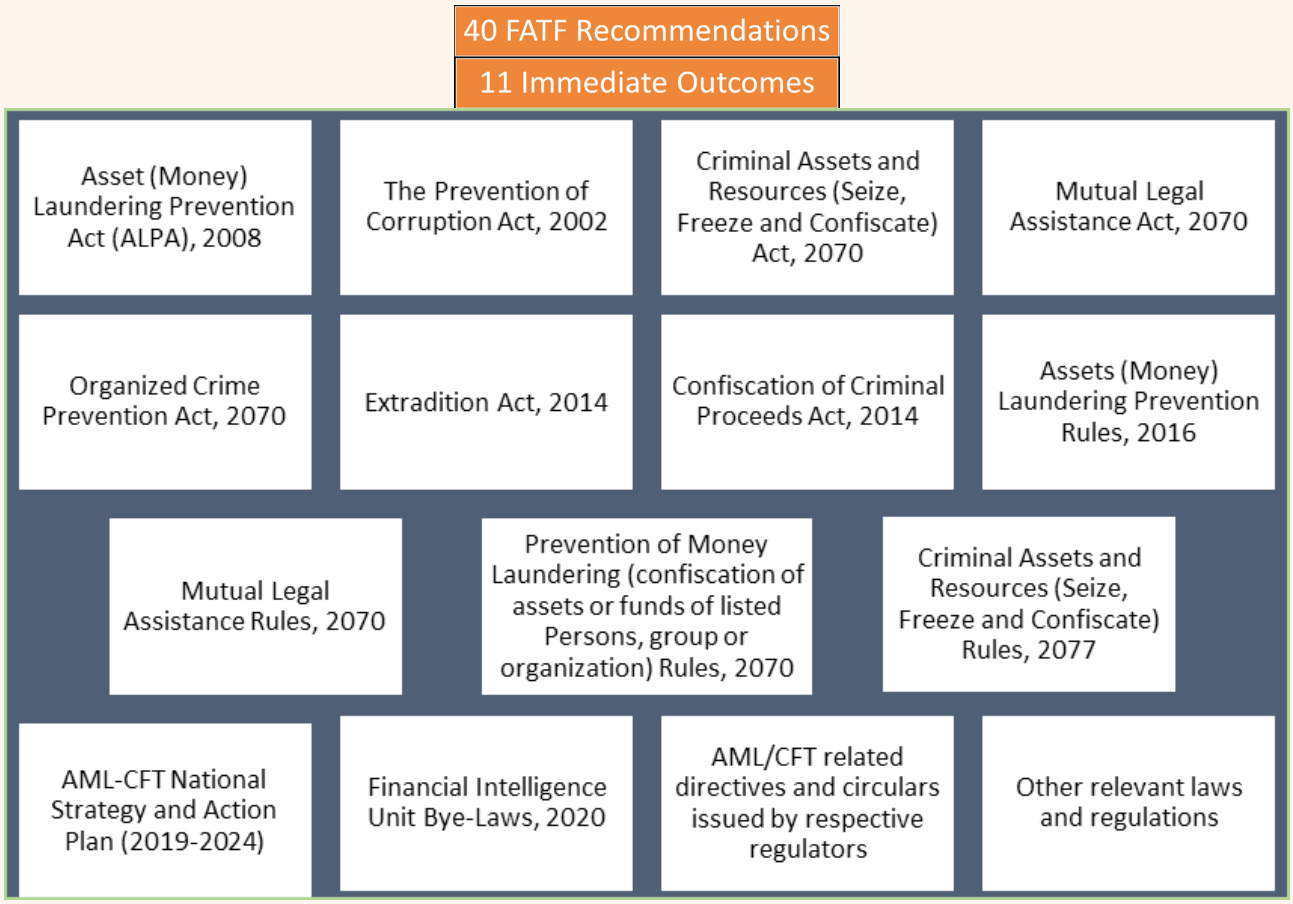
After dissemination of intelligence from FIU-Nepal to relevant LEAs, the general procedure follows as below:



3.2 Legal and Regulatory Framework

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

Figure 3.2: Supporting Legal Framework



3.3 Core Functions of FIU- Nepal

Section 10 of Assets (Money) Laundering Prevention Act, 2008 has given 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 of Money Laundering Investigation (DMLI) or other investigation agency, if it suspects money laundering, terrorist financing, or other offence in its analysis.
- To provide training on Money Laundering and Terrorist Financing (ML/TF) to its own staffs, regulator, reporting entity and relevant government agencies having liability to perform under this Act.
- To provide feedback and guidance in relation to, including, the detection of suspicious activity, suspicious transaction report or information to the reporting entity or concerned agency.
- To prepare and submit an annual report, on its activities including the money laundering and terrorist financing typologies, techniques, methods and trends of offences, to the Government of Nepal through Rastra Bank.
- To assist in supervision of REs in coordination with regulator as per necessity so as to know whether REs have developed mechanism to identify suspicious activity and reported or provide feedbacks on supervision report.
- To conclude understanding with foreign counterparts in order to exchange information upon reciprocity.

In addition to the functions, duties and powers mentioned in the Act, Rule 17 of Assets (Money) Laundering Prevention Rule, 2073 has provided with the following functions, duties and powers of the Financial Intelligence 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 Intelligence 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 Intelligence Unit of foreign country.
- To sign Memorandum of Understanding with the Financial Intelligence Unit of other country as necessary in relation to information sharing.
- To seek and give feedback from and to the Financial Intelligence Unit of foreign country regarding the use and achievement of the information received or disseminated.

What is FIU-Nepal?

- Receives STR/SAR and TTR reports from Reporting Entities (REs).
- Coordinates with all reporting entities, regulatory bodies, and law enforcement agencies.
- Disseminates intelligence related to money laundering, terrorist financing and proliferation financing.
- The Secretariat of the National Coordination Committee (NCC).
- Nepal's designated focal point for the prevention of money laundering and terrorist financing activities.
- A member of the Egmont Group, an international organization of FIUs.

What is not FIU-Nepal?

- It is not the primary originator of the information; it only analyses reports received from REs.
- It does not act as regulatory body or law enforcement agency.
- It does not possess the authority to freeze, release, or make recommendations regarding property or accounts.
- It is not an agency that collects and shares evidence necessary for legal proceedings. It only provides intelligence.
- The information or documents disseminated by the FIU-Nepal are not considered evidence; rather, it is only regarded as intelligence for further investigation.
- It does not serve as an authority for the seizing, freezing and confiscation of assets.
- It does not provide access to suspicious transactions to anyone.

What does FIU-Nepal do?

- Receives information regarding suspicious transactions and activities.
- Reviews and analyzes the collected information/reports.
- Has the authority to request information, documents, and details from any relevant agency or organization for analysis.
- Shares the findings to the investigating or regulatory agency after analysis for further investigation/action.
- Shares intelligence independently, as and when required.
- Conducts training, interaction, and awareness programs to ML/TF stakeholders.
- Others as mentioned on point 3.3 of this chapter (core functions of FIU-Nepal).

What FIU-Nepal does not do?

- Does not generate or produce information

or statements.

- Not involved in regulating, inspecting, or overseeing the activities of the reporting entities.
- Does not conduct investigations or legal proceedings of crime.
- Does not freeze or seize assets or accounts or recommend such actions.
- Exclusively share information on suspicious transactions and activities to relevant agencies.
- Does not furnish or share evidentiary materials.

3.4 Key Performance Indicators

There are various indicators which measures the performance 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 Indicator (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.

*(**Source**: Financial intelligence units: an overview -- Washington, D.C.: International Monetary Fund, Legal Dept., Monetary and Financial Systems Dept.: World Bank, Financial Market Integrity Div., 2004.)*

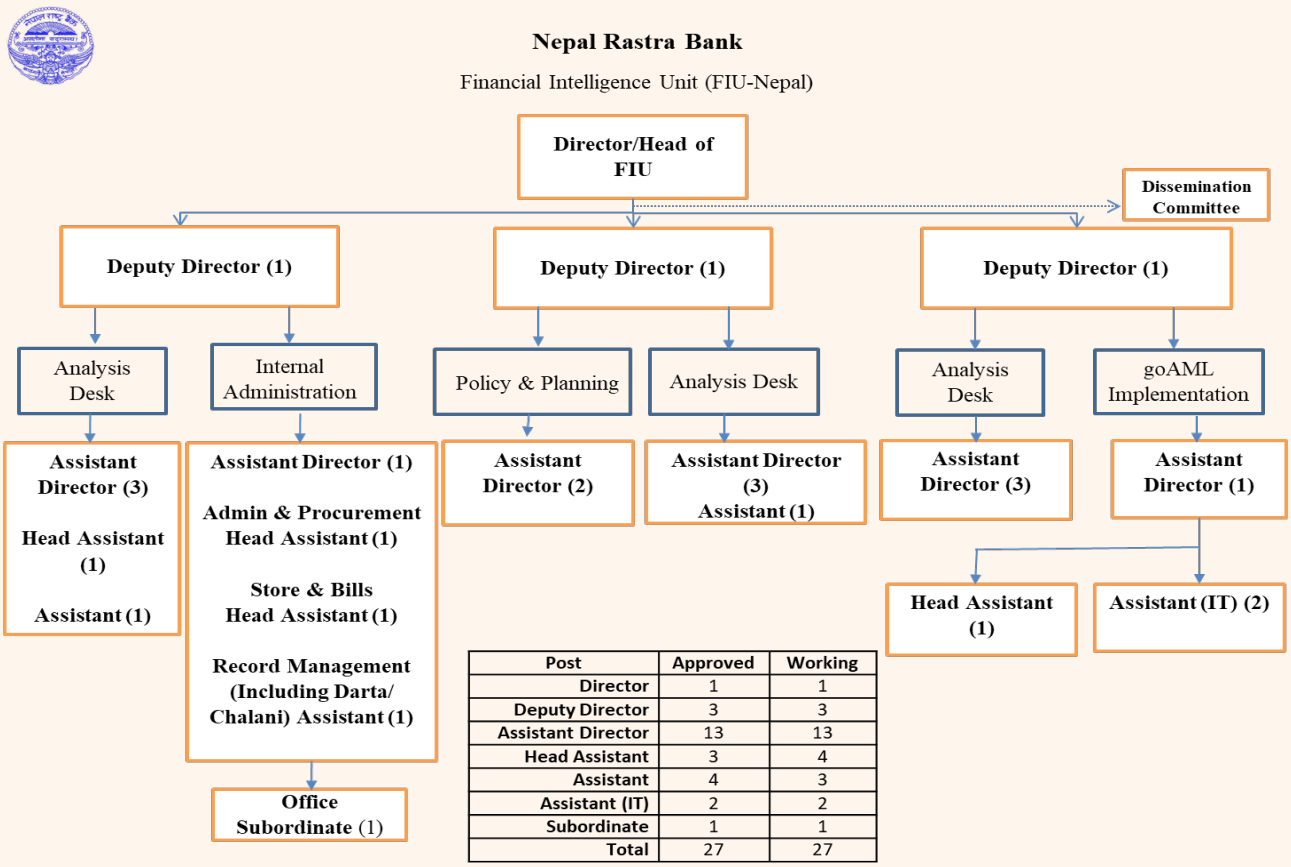
3.5 Organizational Structure

FIU-Nepal commenced its functions with few officials in 2008. Currently, FIU-Nepal is functioning with 27 staff members, including the Director (HoFIU). Eleven of the staffs are fulltime information analysts and other are involved as analyst as well as administration officers, goAML support team and policy and planning division.

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 desk carries out STR/SAR analysis.

The organizational structure is presented in Chart 3.3

Figure 3.3: Organizational structure of FIU-Nepal



Post	Approved	Working
Director	1	1
Deputy Director	3	3
Assistant Director	13	13
Head Assistant	3	4
Assistant	4	3
Assistant (IT)	2	2
Subordinate	1	1
Total	27	27

3.6 The goAML Software System

The goAML application is the Software Products developed by United Nations Office on Drugs and Crime (UNODC) in order to response to money laundering and terrorist financing, and Financial Intelligence Units bolstering their efforts in combatting financial crimes. The goAML application is part of the goPortfolio software products that are developed and actively maintained by the Software Products for Member States (SPMS). The goPortfolio is a set of innovative evidence-based models and software products that supports FIUs in the fight against Money laundering, terrorist financing and organized crime.

Nepal Rastra Bank, Financial Intelligence Unit (FIU) has signed Service Level Agreement (SLA) in 2018 AD to rollout goAML System in FIU Nepal core functions. In January 15, 2020, goAML application made lived for Commercial Banks and Development Banks in January 14, 2021. Other Reporting Entities are gradually incorporated then after. As of July 16, 2023; there are 978 Reporting entities have been

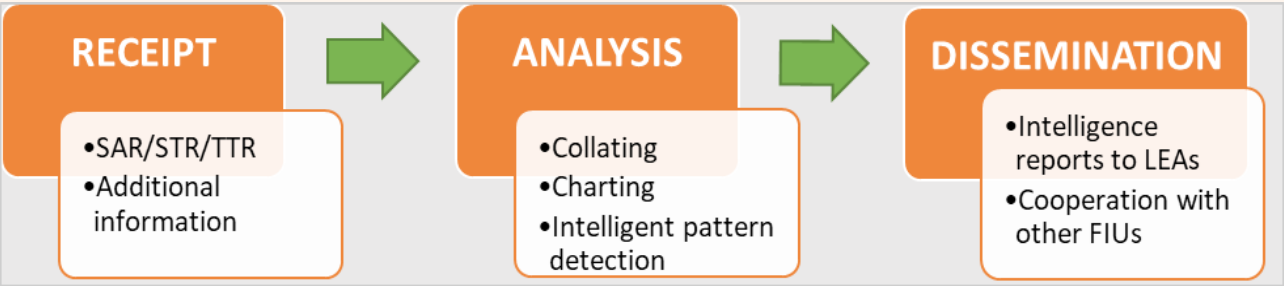
registered in goAML Production Environment.

Worldwide, Financial Intelligence Units (FIUs) play a leading role in the prevention of anti-money laundering and counter-terrorist financing (AML/CTF) activities. FIUs are responsible for receiving, processing, and analyzing reports made by financial institutions or other entities in accordance with the requirements of domestic AML/CTF laws and regulations. Such reports and other information gathered by FIUs often provide the basis for investigations into money laundering, terrorist financing, and other serious offences. As of today, more than 60 member states are users of goAML.

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. However, it is the foremost need of FIU-Nepal to make development of technical and analytical skills of FIU staffs to carry out analysis through goAML.

The goAML solution is executed in three steps: **Receipt, 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 3.4: Steps in goAML Software System



Source: UNODC

3.6.1 goAML Integration

goAML is a widely used software platform designed for the reporting STR/SAR/TTR and other financial intelligence-related activities to authorities such as financial intelligence units (FIUs). In Nepal, in goAML system, we have two distinct environments: The Test Environment and the Production Environment.

Test Environment:

- The Test Environment is a sandbox or simulation environment of the goAML for practice and testing purposes.
- It allows organizations, such as financial institutions, to familiarize themselves with the reporting process without the risk of submitting actual reports.
- Users can create and submit sample SARs, test data feeds, and perform various operations to ensure that their reporting procedures are correctly configured and compliant with regulatory requirements.
- Any data entered or reported in the Test Environment does not have legal or regulatory significance and is not forwarded to authorities.

Production Environment:

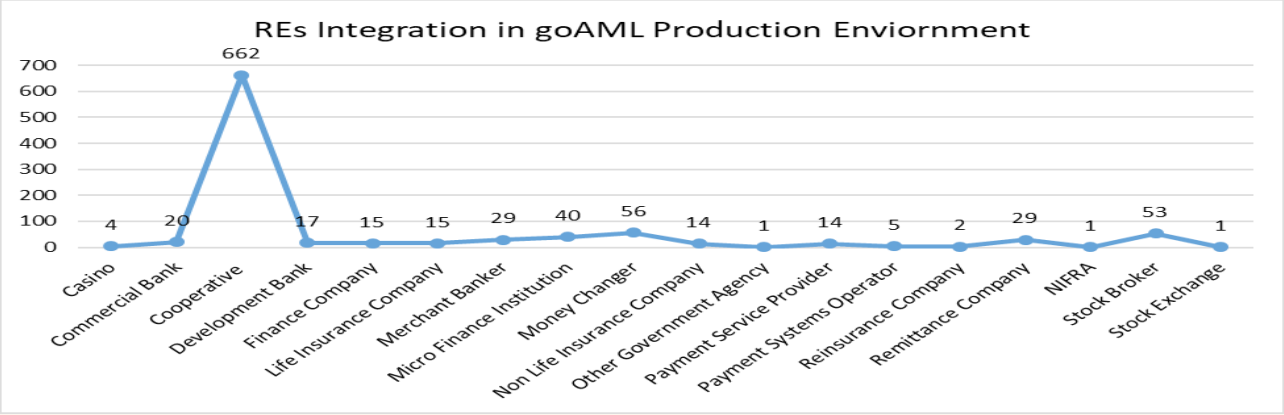
- The Production Environment is the live, real-world environment where actual reporting of TTR, STRs/SARs and other financial intelligence activities takes place.
- In this environment, organizations submit genuine TTR, STRs/SARs and financial

intelligence reports to FIUs.

- Reports submitted in the Production Environment are processed, reviewed, and potentially acted upon by relevant authorities as part of their efforts to combat money laundering, terrorism financing, and other financial crimes.
- Data submitted in the Production Environment carries legal and regulatory weight, and compliance with reporting requirements is essential to meet legal obligations and support the broader efforts to maintain financial system integrity.

Test Environment in goAML is a practice and testing environment where organizations can become proficient with the platform, while the Production Environment is the live environment for the actual reporting of financial intelligence information to authorities for regulatory and law enforcement purposes. It's critical for organizations to understand and differentiate between these environments to ensure accurate and compliant reporting.

Figure 3.5: goAML Integration in Production Environment (July 16, 2023)



3.6.2 Methods of reporting in goAML system

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

A. Web Report

B. XML Report

A. <u>Web Report</u>: 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.

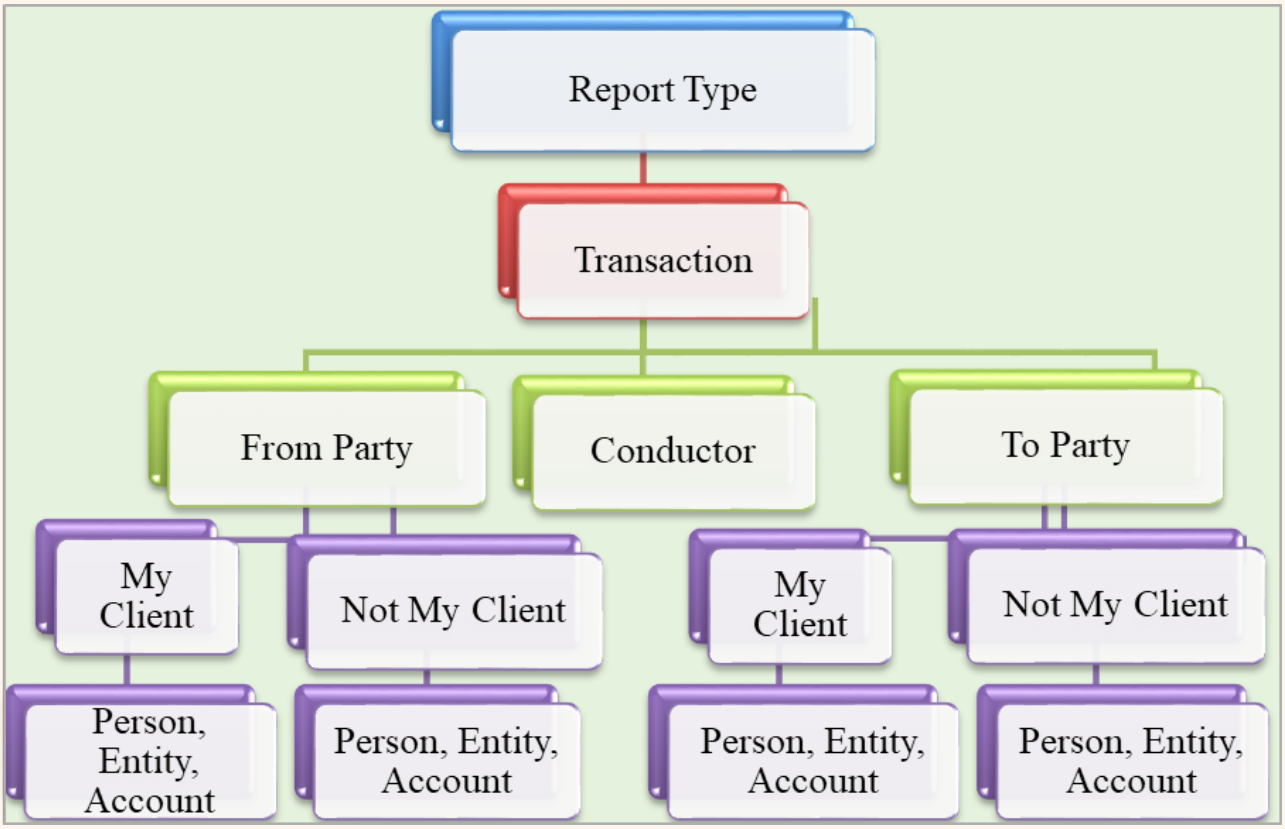
B. <u>XML Report:</u> XML is a file format used for structuring data. It contains both tags (defining structure) and text (the actual data). XML schemas describe the rules for specific types of XML documents, going beyond basic syntax.

XML files compatible with goAML can be created using middleware software, which takes data from organizations' core systems and generates XML files. These files are then validated using goAML's XML validator. Validated XMLs can be uploaded in bulk. This method is efficient for handling large volumes of reports compared to manual web-based entry.

goAML has two types of validation: schema-level (for XML structure) and business rule (for logical consistency). Once reports pass all validations, they are processed and stored in the goAML database

3.6.3 Report Structure

Figure 3.6: Report Structure in goAML



The goAML reporting structure encompasses three report types: Suspicious Activity Reports (SAR), Suspicious Transaction Reports (STR), and Threshold Transaction Reports (TTR). TTRs require the reporting of threshold transactions involving persons, accounts, or entities, while STRs demand the inclusion of suspicious transactions involving specific parties, with at least one such transaction mandatory. The system captures party information, distinguishing between 'from party' (source party) and 'to party' (destination party) in bi-party transactions, with details dependent on the flow of currency. Conductor details, always representing natural persons, are crucial for tracking suspects. The classification includes 'My Client' for parties with account information within the reporting entity's institution and 'Not My Client' for transactions involving individuals or accounts not affiliated with the reporting entity. Specifics regarding 'Persons,' 'Accounts,' and 'Entities' depend on transaction scenarios, with minimal information required for 'Not My Client' cases, as detailed in goAML's operational guideline issued by FIU-Nepal.

3.6.4 goAML Timeline in Nepal

In 2019, FIU-Nepal conducted training, seminars, workshops, and interaction programs for BFIs to facilitate the implementation of the goAML system. BFIs began reporting in the Test Environment, and a staged implementation plan was devised.

In 2020, "A" class banks started reporting SARs, STRs, and TTRs in the goAML Production Environment, while "B" and "C" class banks, financial institutions, and insurance companies reported in the Test Environment. FIU-Nepal issued guidance documents and held orientation programs.

In 2021, "B" and "C" class banks and financial institutions transitioned to reporting in the goAML Production Environment. Other sectors reported in the Test Environment, and guidance

Figure 3.7: goAML Timeline



documents and interaction programs were provided.

In 2022, Life Insurance Companies, Non-Life Insurance, and Remittance Companies started to join the goAML Production Environment. FIU-Nepal registered additional reporting entities for manual reporting through the goAML Message Board System. Various interaction programs were conducted, including with Law Enforcement Agencies, and video tutorials were released for goAML guidance.

In 2023, Integration in goAML System Production Environment of Securities Companies, DNFBPs and Cooperative have been focused. And the REs who were registered and reporting via goAML Message Board has been replaced by Web/XML reporting. The use of web/XML reporting in the goAML system offers several advantages over the message board option, making it a preferred choice for financial institutions and reporting entities. Here are some key reasons for the importance of web/XML reporting:

- **Structured Data**: Web/XML reporting allows for the submission of structured and standardized data. This structured format ensures consistency and uniformity in reporting, making it easier for authorities to process and analyze the information.
- **Efficiency**: Web/XML reporting is typically more efficient than the message board option. It enables reporting entities to automate the submission process by integrating their systems with goAML. This reduces manual data entry, minimizes errors, and saves time.
- **Data Validation**: The goAML system can perform real-time data validation and integrity checks when receiving web/XML reports. This helps reporting entities identify and rectify errors before submission, improving data accuracy.
- **Data Security**: Web/XML reporting provides

a secure and encrypted channel for transmitting sensitive financial information to the appropriate authorities. This enhances data security and confidentiality, which is crucial for compliance with data protection regulations.

- **Enhanced Traceability**: Web/XML reports can be tracked and monitored more effectively within the goAML system. This traceability allows reporting entities to keep records of their submissions and ensures that reports are received and processed by the relevant authorities.
- **Integration Capabilities**: Web/XML reporting can be seamlessly integrated with an organization's existing IT infrastructure, enabling automated reporting and reducing the administrative burden. This integration supports a more streamlined compliance process.
- **Data Analysis**: Structured data from web/XML reports is easier to analyze and query. Analysts can use advanced data analytics tools to identify patterns and trends related to financial transactions and suspicious activities more effectively.
- **Scalability**: Web/XML reporting is scalable and can accommodate a higher volume of reports as reporting requirements grow over time. This scalability ensures that the reporting system remains robust and responsive.

Web/XML reporting in the goAML system offers a range of benefits, including structured data, efficiency, data validation, security, traceability, integration capabilities and enhanced data analysis. These advantages make web/XML reporting a valuable choice for reporting entities looking to streamline their compliance processes and meet regulatory requirements effectively.

3.6.5 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-Nepal 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

3.7 Major Activities Performed in FY 2022/23 and Future Plan

As of FY 2079/80, A, B & C class banks, Insurance Companies (Life, Non-Life and Reinsurance) are fully on boarded in goAML System and reporting STRs, SARs via goAML Production Environment *(A class Banks since Mid-January, 2019; B & C class Banks since Mid Jan, 2020; Insurance Companies since April, 2022 and some Remittance Companies Since May,2022)*. Remaining Remittance Companies, Cooperatives, Securities Companies, PSO/PSPs and Other reporting entities namely Dealers of Precious Metals & Stones, Casinos, Real Estate Companies etc. have been gradually onboarding and reporting in goAML Production Environment. Investigating agencies (Nepal Police, DMLI, IRD and CIAA) are also integrated in goAML system. Total 978 *(515 in Asar, 2079)* Reporting Entities are registered in goAML (Production Environment) for reporting. Integration for remaining DNFBPs, Cooperatives, PSPs/PSOs, Microfinance companies and other

REs are incorporating as guided by AML/CFT National strategy and action plan 2076-81. Some collaborative efforts by FIU-Nepal and regulators/supervisors being made for the integration of remaining reporting entities.

Major activities/procurement that has been made on FY 2079/80 in order to operate goAML system efficiently are as follows: -

a. Disaster Recovery (DR) Site

On June 13, 2023, respected Governor of Nepal Rastra Bank visited the newly established Disaster Recovery (DR) site of FIU-Nepal.

The establishment of a Disaster Recovery (DR) site is a strategic imperative for organizations like FIU-Nepal, playing a pivotal role in ensuring business resilience and continuity. This site offers a range of critical benefits that safeguard an organization's operations during unforeseen disruptions. The anticipated benefits of DR site are as follows;

- **Business Continuity**: DR site ensure uninterrupted operations even in the face of unforeseen disasters or IT failures, safeguarding critical functions and services.
- **Data Protection**: It provides secure backups, preserving valuable data, and preventing data loss, which is crucial for regulatory compliance and customer trust.
- **Reduced Downtime**: DR site minimize downtime, enabling swift recovery, reducing financial losses, and maintaining productivity during crises.
- **Customer Confidence**: The ability to maintain services during disruptions enhances customer trust and reputation.
- **Risk Mitigation**: DR site mitigate the risk of severe financial and operational repercussions that can result from extended disruptions.

  In essence, the establishment of DR site is a strategic measure that fortifies an organization's resilience and ensures the continuity of essential functions, even in adverse circumstances.

  Business continuity is the most critical advantage of a DR site, which can even serve as an extension facility if loads extend beyond the primary facility's capacity. The main benefit of DR site is its Recovery Point Objective (RPO) and Recovery Time Objective (RTO) for FIU-Nepal System.

b. Security Information and Event Management (SIEM), WAF and other IT Securities.

FIU Nepal procured and implemented SIEM software to collect and aggregate log data generated throughout the entire FIU-IT infrastructure, from applications to network and security devices, such as firewalls and antivirus. SIEM helps FIU-Nepal to identify, categorize, and analyze incidents and security events. SIEM analytics delivers real-time alerts, dashboards, and reports to several critical business and management units. SIEMs has also helped anomaly detection (User and Entity Behavior Analytics) to the collected log data.

Additionally, FIU-Nepal has fortified its security infrastructure for goAML system with few key components. Firstly, a Web Application Firewall (WAF) acts as a critical defense by filtering and monitoring HTTP traffic, safeguarding web applications from various threats. Secondly, the deployment of an Extended Detection and Response (EDR) system has provided comprehensive endpoint security through real-time monitoring, data collection, and automated response capabilities, protecting endpoint devices and servers within the IT infrastructure. Lastly, the implementation of Active Directory (AD) has ensured robust network management, user authentication, and authorization in the Windows domain network, bolstering security through policy enforcement and information management while facilitating the deployment of related services.

c. Record Management System (RMS)

Recently FIU-Nepal has procured a web-based application designed to maintain historical records of STR/SAR reports received by FIU-Nepal before goAML Implementation. It is a client database-based system with features

such as data entry, data searching, Create, Read, Update and Delete (CRUD) operations, and data export in various formats. User management, role management, and audit logs are in place for efficient administration, while stringent security measures include a secure authentication mechanism and adherence to industry-standard security practices. The system employs an open-source database with unlimited expandability and is compatible with the Windows operating system, ensuring a robust and scalable solution for managing sensitive STR/SAR. By use of this RMS, analyst can look up the STR/SAR receipt earlier and link it during the process of analysis.

Other notable activities performed in the year are;

- goAML Operational Guidelines issued for Remittance Companies and Insurance Companies to report TTR/STR/SAR has been issued.
- Interaction programs conducted with BFIs, Life Insurance, Non-Life Insurance and Re-insurance companies, DNFBPs, Securities Companies etc. regarding goAML integration and STR/SAR/TTR reporting via goAML system, National Risk Assessment, general feedback by FIU-Nepal to REs, National strategy and action plans, strategic analysis report published by FIU-Nepal, emerging trends and typologies, domestic cooperation etc.
- Test Environment of goAML System has successfully upgraded from 4.9.3 to 5.2.0; which **allowed advanced features.**

3.8 Opportunities and Challenges to FIU-Nepal

Efforts on AML/CFT 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. Cooperation, coordination, collaboration and communication among domestic and international agencies is must for effective functioning of system.

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. Necessary institutions, including FIU-Nepal, has been established to strengthen the overall chain of AML/CFT regime of Nepal. FIU-Nepal has legal mandate to receive, analyze and disseminate financial intelligence and works as the focal point of this regime. Further, FIU-Nepal is continuously giving efforts for domestic as well as international cooperation to improve the speed and quality of information/intelligence sharing.

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 are such a challenges where all stakeholders and their collective and coordinated efforts need to be put together.

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 has been actively involved in the coordination of national AML/CFT policy formulation and implementation.

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 major REs and LEAs in goAML system.

Major challenges for worldwide FIUs are: -

- To be responsive to changes in the environments in which they operate for them to continue to effectively perform their core functions
- To adapt to work and develop analytical capacity in the context of changes in criminal behavior and crime methodology.
- To keep pace with technological advances, which present both opportunities and challenges for the AML/CFT system; for example, crypto-currencies, block chain technology, crowd funding, hyper fund etc.
- To maintain confidentiality of information, data privacy and data protection.
- To develop effective capabilities to identify transactions and activities which are indicative of corruption.
- To have operational level of co-ordination and co-operation with AML-CFT stakeholders.

Some major challenges that FIU-Nepal is facing are:-

- To have common understanding among all AML-CFT stakeholders.
- To receive and disseminate information as per risk categorization of predicate offence as identified by National Risk Assessment (NRA) 2020.
- To integrate all the REs especially DNFBPs and co-operatives into goAML system,
- To create intensive awareness among REs on STR/SAR and reporting system,
- To receive feedback from LEAs on disseminated SAR/STR.
- 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 co-ordinate and co-operate with relevant agencies for Mutual Evaluation Process and outcome
- 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.
- To coordinate with different agencies to develop action plans based on MER report's findings and recommended actions.

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 ongoing Mutual Evaluation of Nepal and functioning to meet the compliance requirement in line with the FATF Standards. Now, after the receipt of ME Report of Nepal, FIU-Nepal will co-ordinate with relevant stakeholders to prepare action plan as per key findings, priority actions and recommended action mentioned in MER Report. FIU- Nepal will continue to have active participation in AML-CFT related committee such as NCC, MEC, NRC, RCM, ICM, CTM etc. and continue its effort in domestic and international co-ordination and co-operation.

04 CHAPTER

RECEIPT, ANALYSIS AND DISSEMINATION

Core functions of FIU-Nepal includes receiving, analyzing and disseminating financial information and intelligence on suspected money laundering, terrorist financing, and proliferation financing activities to the relevant law enforcement/investigative agencies. Such financial information is received by FIU-Nepal in the form of TTR/STR/SAR and other additional data, analysts of FIU-Nepal analyses such information and FIU-Nepal disseminates such analyzed intelligence to relevant LEAs for further investigation. Major activities of FIU-Nepal can be broadly divided into: -

A. Receipt

B. Analysis

C. Dissemination

A. RECEIPT

4.1 Threshold Transaction Reports (TTRs)

TTR is a report that financial institutions and Designated Non-Financial Business and Professions (DNFBPs) are required to file to FIU-Nepal for deposit, withdrawal, exchange of currency, or other payment or transfer, by, though, or to the financial institution exceeding the defined threshold. 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 important for both the operational and strategic analysis. TTR's specific criteria are:

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

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

Table 4.1: Designated Threshold reporting limits in REs

S.N.	Sector	Threshold
1	Bank and financial institutions	Deposit or withdrawal of Rs. 1 million or more in cash in one transaction or in a series of transactions in one day in single account.

S.N.	Sector	Threshold
		Cross Border Electronic or other transfer of Rs. 1 million or more 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	Cash deposit or cash withdrawal of Rs. 1 million or more in one transaction or in a series of transactions by a member in one day. Electronic or other transfer/payment of Rs. 1 million or more in one transaction or in a series of transactions by a member in one day.
3	Insurance Company	Transaction 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	PSP/PSOs	Total Transaction of Rs 1 million or more by a member in one month (as per Nepali Calendar); in one transaction or in series of transactions.
5	Money Remitters	Inward remittance of Rs 1 million or more in the name of a customer in one transaction or in a series of transactions in one day.
6	Real Estate Business	Purchase or sale of real-estate property of Rs 10 million or more by a customer in one transaction or in a series of transactions in one day.
7	Securities Business	Purchase or sale of securities of Rs 1 million or more by a customer in one transaction or in a series of transactions in one day.
8	Money Changers	Exchange of foreign currency equivalent to USD 5,000 or more by a customer in one transaction or in a series of transactions in one day.
9	Casinos	Win or lose of more than Rs. 1 million by an individual in one transaction or in a series of transactions in one day.
10	Accountants, Auditors and Notary Public	Not Applicable
11	Dealers in precious gems, stones and metal	Transaction of precious gems, stones and metal (gold, silvers, platinum, etc.) of more than Rs. 1 million by a customer in one transaction or in a series of transactions in one day.
12	Trust or Company Service Providers (TCSPs)	Not Applicable

Sources: Directives issued by concerned regulators

4.1.1 Total Receipt of Threshold Transaction Reports (TTRs)

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 awareness regarding their reporting obligations. Following Table gives the numbers of TTRs and their trends for last seven years.

Table 4.2: Numbers 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)	2078/79 (2021/22)	2079/80 (2022/23)
1	BFIs@	4,564,413	4,452,585	5,181,200	2,256,163	1,292,625	13,84,728	11,75,021
2	Cooperatives	23,633	8,885	11,447	44,360	234,517	2,74,113	2,21,422
3	Insurance companies	58,508	89,966	124,789	139,015	155,344	195,305	154,365
4	Securities companies	60,961	34,783	33,912	32,846	306,643	532,343	131,711
5	Money Changer	-	-	-	-	-	-	11
6	CIT	-	-	-	-	-	9818	6,353
7	PSP/PSO	-	-	-	-	-	-	2,203
8	Remittance Companies	-	-	-	-	-	-	7,299
9	Others^	6,055	7,598	13,601	12,977	9,917	5407	13
	Total	**4,713,570**	**4,593,817**	**5,364,949**	**2,485,361**	**1,999,046**	**2,401,714**	**16,98,398**

^For FY 2079/80, Other category consists Land Registration Office (Malpot Karyalaya).

@Includes A, B, C & D class BFIs.

Total TTR for FY 2022/23 has been decreased as it is directly associated with business/economic cycle and activities. Further, Government of Nepal and Nepal Rastra Bank has promoting digitization initiatives in economy which reduced the cash transactions. Commercial banks alone comprise almost 90% of TTRs of BFIs and more than 69% of total TTRs received in the year. Accordingly, Development Banks and Finance companies also have considerable portion in TTR numbers and the Microfinance companies have started to report via Web/XML from Mid July 2021 (Shrawan 2080 BS), it is expected to bring up their reporting position in coming FY. Individual analysis made as follows;

i. BFIs (Bank and Financial Institutions):

- BFIs have shown a significant decrease in TTR receipts from 2073/74 to 2079/80.
- The decline is particularly noticeable from 2076/77 onwards, as BFIs have started to report through goAML software (digitization), the problem of double/ multiple counting of TTRs has been minimized that results the low number of TTRs.

ii. Cooperatives:

- Cooperatives have experienced substantial growth in TTR receipts over the years.
- There was a remarkable increase from 2076/77 to 2077/78, suggesting a positive trend.

iii. Insurance Companies:

- Insurance companies have shown consistent growth in TTR receipts.
- The sector has been performing well and maintaining a steady upward trajectory. However, the reporting being made via message board to be replaced from current FY.

iv. Securities Companies:

- Securities companies experienced significant fluctuations, with a substantial jump in TTR receipts from 2077/78 to 2078/79.
- However, there was a sharp decline in 2079/80, and which may be because of business volume/nature of industry and which may need further facilitation.

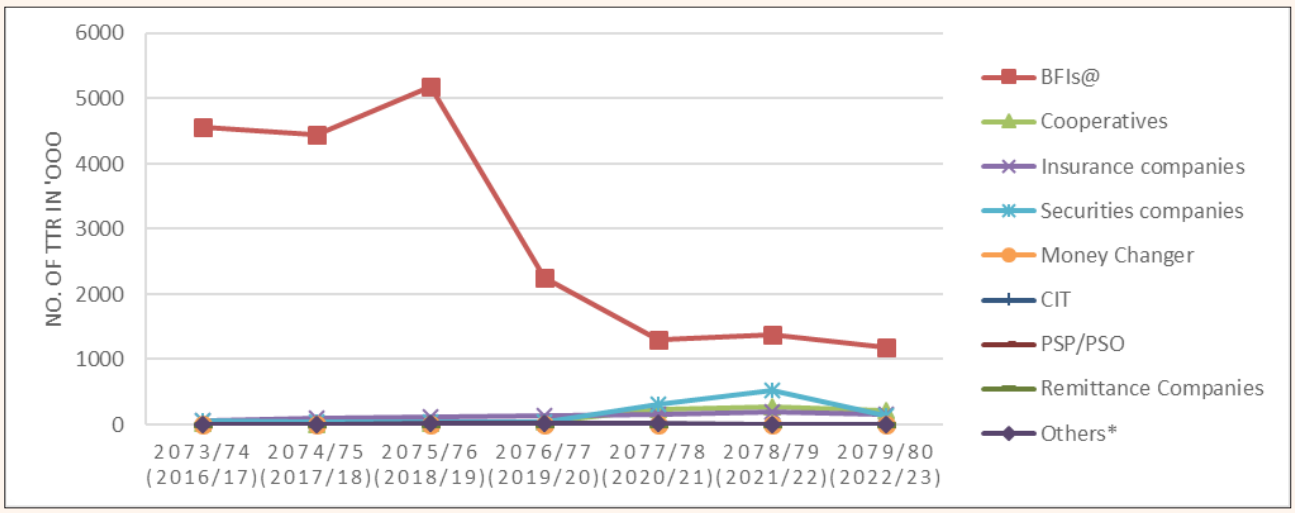
v. Money Changer, CIT, PSP/PSO, and Remittance Companies:

- In previous FYs, these sectors were reported under other category.
- Money Changer, CIT, PSP/PSO, and Remittance Companies have shown initial growth, and their future performance should be monitored and facilitated.

vi. Others:

- The "Others" category has experienced fluctuations in TTR receipts, with a decline in 2079/80 as PSP/PSO, and Remittance Companies started categorized separately.

Figure 4.1: Numbers of TTRs Received from REs from FY 2016/17 to FY 2022/23

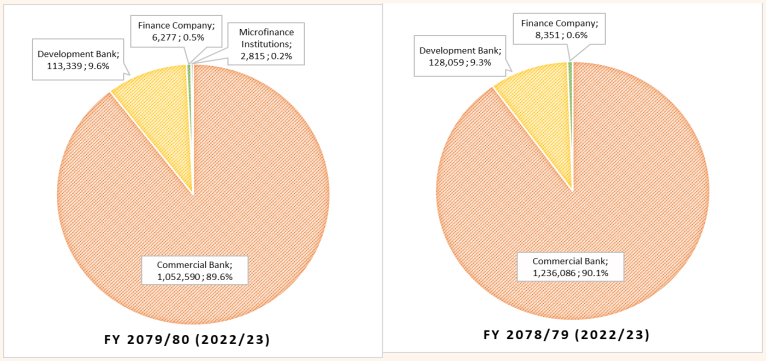


(Link of TTR Guidelines: https://www.nrb.org.np/fiu/threshold-transactions-reporting-guidelines/)

4.1.2 Receipt of Threshold Transaction Reports (TTRs) from BFIs

TTR data reveals a significant trend, with the majority of these receipts being attributed to Bank and Financial Institutions (BFIs) in Nepal. BFIs have historically held a dominant position in the financial sector, accounting for the lion's share of TTR receipts across the years. This dominance underscores the pivotal role played by BFIs in the country's economic landscape.

Figure 4.2: Numbers of TTRs Received from A, B & C class BFIs in FYs 2022/23 and FY 2021/22



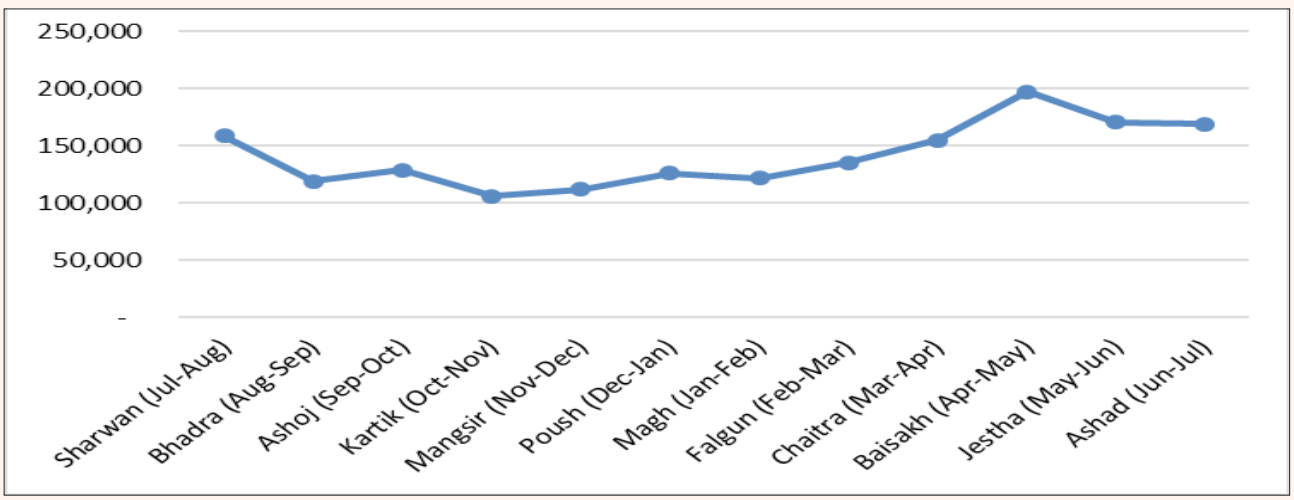
4.1.3 Monthly Receipt of (TTRs) from REs

Monthly TTR analysis is crucial because it helps financial institutions identify potentially suspicious or irregular transactions promptly. This proactive approach enhances fraud detection, regulatory compliance, and overall financial security by enabling timely intervention and investigation into potentially illicit activities. The graphs show the monthly trend of TTR receipts from all RE's in FY 2022/23.

Analyzing the TTR (Threshold Transaction Report) receipts for the specified months, a noticeable trend can be observed. The data shows a fluctuating pattern, with some months having higher TTR values, while others are comparatively lower. Baisakh (Apr-May) stands out as the month with the highest TTR, suggesting that it might be a period of increased financial transactions and economic activity. On the other hand, Kartik (Oct-Nov) has the lowest TTR, indicating a potential lull in financial activities during that period.

The months of Chaitra (Mar-Apr) and Jestha (May-Jun) also show higher TTR values, which could be attributed to tax deadlines or seasonal economic factors. This analysis can be used to identify potential trends in financial transactions.

Figure 4.3 Monthly receipt of TTR in FY 2079/80 (2022/23)

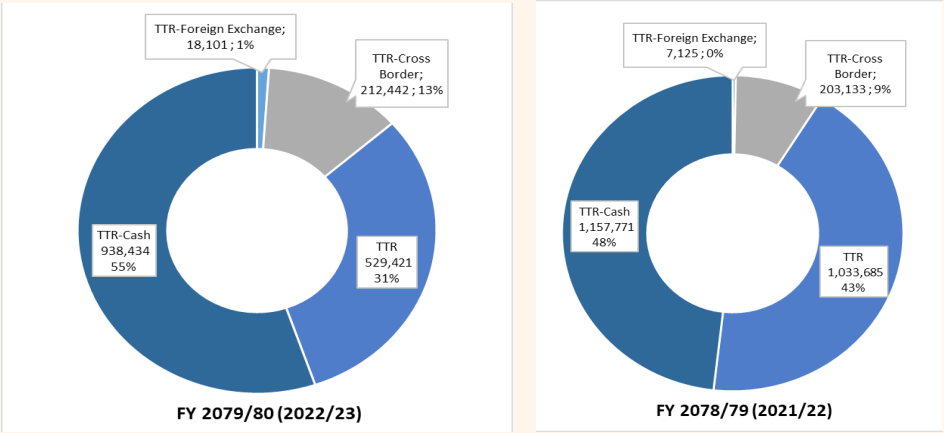


4.1.4 Receipt of Threshold Transaction Reports (TTRs) by Category

Unified Directive 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 as cross-border transactions and foreign currency exchange related transactions are only done by commercial banks. So, TTR reports of FY 2022/23 can be further classified as below:

In FY 2022/23, number of TTR-Cash receipt has been declined by about 19% than last year however the share of TTR-Cash on total TTR receipt for the year has increased by 7%. In contrast to the TTR-Cash, TTR Foreign Exchange receipt and share on total receipt for the year has been increased by 10,976 and 154% respectively. Similarly, receipt of TTR cross border and share on total receipt has also increased than last year. In case of TTR* (Other than BFIs), the receipt has significantly decreased along with its share on total receipt by 504,246 and 49% respectively.

Figure 4.4: Categorical TTR in FYs 2022/23 and FY 2021/22



**REs other than BFIs are not required to classify TTR, only submits 'TTR' category.*

4.2 Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (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 to 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, STR/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 STR/SAR helps 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. STR/SAR must be filed within three days by REs 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 knowledge on indicators of suspicious activities.

a. Suspicious Transaction Reports (STRs)

As per Section 7(S)(1) of ALPA 2008, Reporting Entity shall make a suspicious transaction report to the FIU-Nepal within three days as far as possible if they find following circumstances in relation to any customer, transaction or property.

a) If it suspects or has **reasonable grounds** to suspect that if the property is related to ML/TF or other offence, or

b) If it suspects or has **reasonable grounds** to suspect that the property is related or linked to, or is to be used for, terrorism, terrorist, terrorist acts or by terrorist organization or those who finance terrorism.

b. Suspicious Activity Reports (SARs)

As per Section 7(S)(2) of ALPA 2008, Reporting entity shall also submit the report of **attempted transactions** or activity to FIU as mentioned under sub-section (1).

Suspicious Activity (SA) arises from suspicion relating to general behavior of the person in question which creates the knowledge or belief that he or she may be involved in illegal activities out of which proceeds might be generated. Any suspicious attempted transaction also falls in this category.

STR include detailed information about transactions that are suspected violations

of law or appear to be suspicious/ doubtful or arouse suspicion. The goal of STR filing is to help FIU-Nepal to identify individuals, groups and organizations involved in predicate offences declared in ALPA, 2008. In many instances, STRs have been instrumental in enabling law enforcement to initiate or supplement major money laundering or terrorist financing investigations and other criminal cases.

Reporting entity has to appoint a managerial level staff as a "Compliance Officer" to deal with FIU-Nepal on matters relating to STRs/ SARs reporting and respond queries made by FIU-Nepal's analysts and other stakeholders as per ALPA, 2008. Most of REs, especially BFIs, are using various software which facilitates suspicious transaction/activity identification.

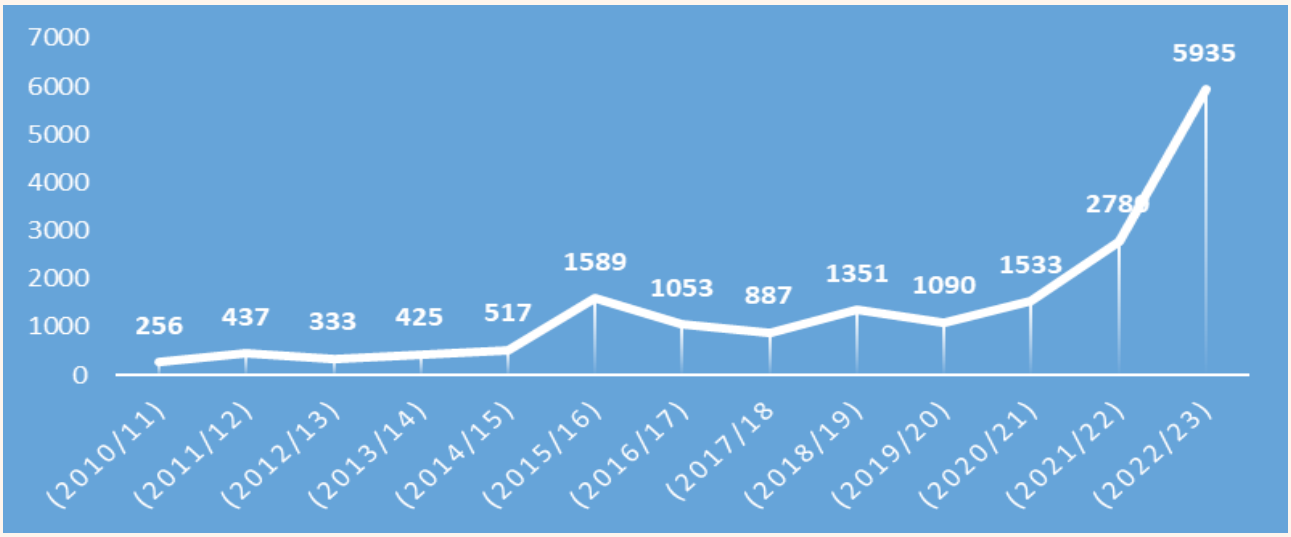
There are several red flags to detect suspicious transactions. In order to detect such suspicious transactions/activities and report STRs/SARs, guidelines have been prepared and issued by FIU-Nepal exercising the power conferred by Section 10 (1) (h) of Assets (Money) Laundering Prevention Act, 2008. The General Characteristics of Suspicious Financial Transactions/Activities are:

- Economically Irrational, huge, complex and unusual transactions
- Use of third party or Activities related to Identity Theft
- Transactions conducted in relatively large amount cash and/or conducted repeatedly and unnaturally
- Suspicious transactions involving employees and agents of REs
- Transactions conducted differently from that of usually and normally conducted by the relevant customer
- Client refuses to provide identification as requested

(Link of STR/SAR Guidelines: https://www.nrb.org.np/fiu/suspicious-transaction-reporting-suspicious-activity-reporting-str-sar-guidelines/)

4.2.1 Yearly Receipt of STRs/SARs

Figure 4.5: Yearly Receipt of STRs/SARs



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 2017/18 as FIU-Nepal advised REs through different programs to conduct preliminary analysis before submitting STRs/SARs. After goAML system lived in 2020/21, the number of STR has been increasing by two fold every year and reached 5935 in FY 2022/23.

Over the past four years, FIU-Nepal has witnessed a remarkable and significant increase in the number of Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs). From the year 2019/20 to 2022/23, these reports have surged from 1090 to 5935, marking a substantial uptick in reporting activity. This surge can be attributed to a combination of factors that have collectively contributed to a more robust and vigilant financial ecosystem. The implementation of the goAML system has played a pivotal role in streamlining and enhancing the reporting process, making it more accessible and efficient for our stakeholders. Additionally, the interaction programs conducted by FIU-Nepal has fostered a willingness among institutions to report suspicious activities promptly and consistently. Moreover, the increasing understanding of the importance of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) measures in safeguarding our financial system has spurred proactive reporting. Also, the dedicated team ensuring the effective and efficient operation of FIU-Nepal, which has undoubtedly contributed to this remarkable increase in reporting. The recent data mentioned above shows;

- **Increasing Trend**: There is a noticeable increasing trend in the number of STRs/SARs received by the FIU Nepal over the years. This indicates a growing awareness and vigilance within financial institutions and reporting entities regarding potentially suspicious activities.
- **Significant Spike in 2022/23**: The year 2022/23 saw a substantial spike in the number of reports received, with 5,935 reports. This might be attributed to various factors, including improved reporting mechanisms, increased regulatory scrutiny, or actual heightened suspicious activities as FIU Nepal has implemented goAML reporting system, effective outreach activities conducted by FIU Nepal.
- **Compliance and Effectiveness**: The data suggests that reporting entities in Nepal are becoming more compliant with AML and CTF regulations, as evidenced by the increasing number of reports. This could be seen as a positive sign of the effectiveness of regulatory measures and the commitment of financial institutions to combat financial crimes.
- **Transaction Monitoring Software procure by major REs**
- **Outreach and Training**: The significant increase might indicate that the outreach and training programs conducted by FIU-Nepal and regulators/supervisors. Similar initiatives in the future could further enhance the reporting ecosystem.
- **Increase in Supervision**: The increase in onsite/offsite supervision related to AML/CFT by respective supervisors has also made reporting to increase.
- **Data Quality**: It's essential to ensure the quality of the reports received, as an increasing number of reports doesn't necessarily correlate with the effectiveness of AML and CTF efforts. Authorities should focus on the accuracy and relevance of the reports to enhance their utility.

The analysis of the data on STRs/SARs received by FIU Nepal highlights the growing awareness and compliance with AML and CTF regulations in the country. The substantial increase in reports in recent years, particularly in 2022/23, should trigger a thorough analysis of these cases to identify potential financial crimes and strengthen the effectiveness of anti-money laundering and counter-terrorism financing measures in Nepal.

4.2.2 Numbers of STRs/SARs Receipt from different sectors of Reporting Entities

The Numbers of STRs/SARs Receipt from Reporting Entities for last seven years including FY 2022/23 presented below in table as it provides a concise overview of the quantity of Suspicious Transaction Reports (STRs) or Suspicious Activity Reports (SARs) received from financial institutions and reporting entities.

Table 4.4: Numbers of STRs/SARs Receipt 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)	2078/79 (2021/22)	2079/80 (2022/23)
1	Commercial Banks	949	660	910	924	1403	2380	5187
2	Development Banks	31	23	135	93	64	119	257
3	Finance Companies	0	3	8	1	12	19	44
4	Insurance Companies	4	2	31	4	3	9	19
5	Micro Finance	0	0	0	0	3	44	28
6	Remittance Companies	69	194	263	52	29	187	146
7	Securities Companies	0	2	3	14	18	8	46
8	Cooperatives	0	2	1	2	0	3	1
9	PSD/PSOs	-	-	-	-	-	-	202
10	Government agencies*	0	1	0	0	1	11	5
Total		**1053**	**887**	**1351**	**1090**	**1533**	**2780**	**5,935**

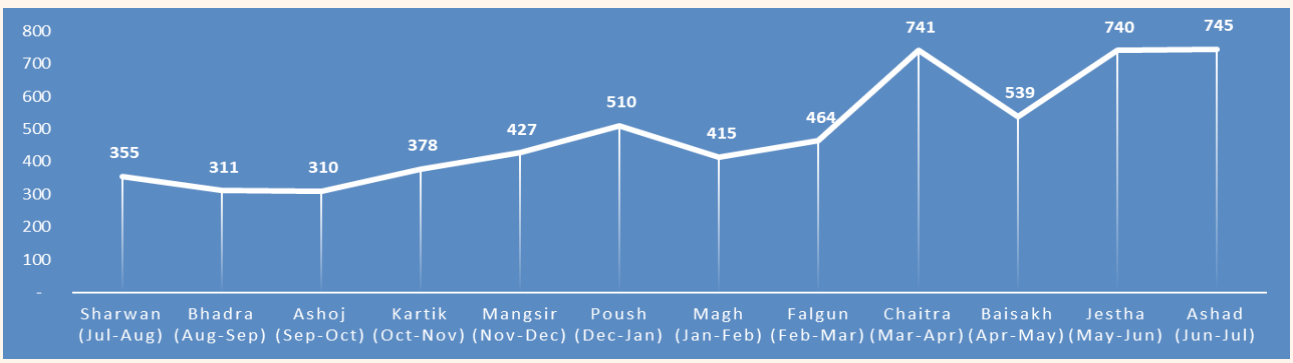
**Government agencies includes land revenue offices and other government agencies*

The table presents a noteworthy analysis of Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs) received from different reporting entities (REs) in spanning seven years. Commercial Banks consistently dominate in reporting, with a substantial spike in 2079/80, totaling 5,187 reports, over two third to the 87% percent, indicative of their significant role in detecting suspicious financial activities. Development Banks and Remittance Companies also show an increasing trend in reporting over the years, underlining their growing vigilance. On the other hand, Finance Companies, Insurance Companies, and Securities Companies contribute fewer reports, suggesting potentially lower levels of suspicious activities within these sectors. Notably, the emergence of PSD/PSOs in 2079/80, with 202 reports, underscores their efforts in detecting ML-TF activities. Overall, the data reflects a positive trend in reporting compliance and vigilance within the financial sector, with a substantial surge in the total number of reports in 2079/80, warranting a thorough analysis of these cases for effective AML and CTF measures and regulatory oversight.

4.2.3 Monthly Receipt of STRs/SARs for FY 2022/23

Monthly STRs/SARs received in FY 2022/23, shows an upward trend. Three highest number of STRs/SARs received in June-July (Year End) and followed by Mar-Apr and May-June.

Figure 4.6: Monthly receipt of STR and SAR in FY 2079/80 (2022/23)

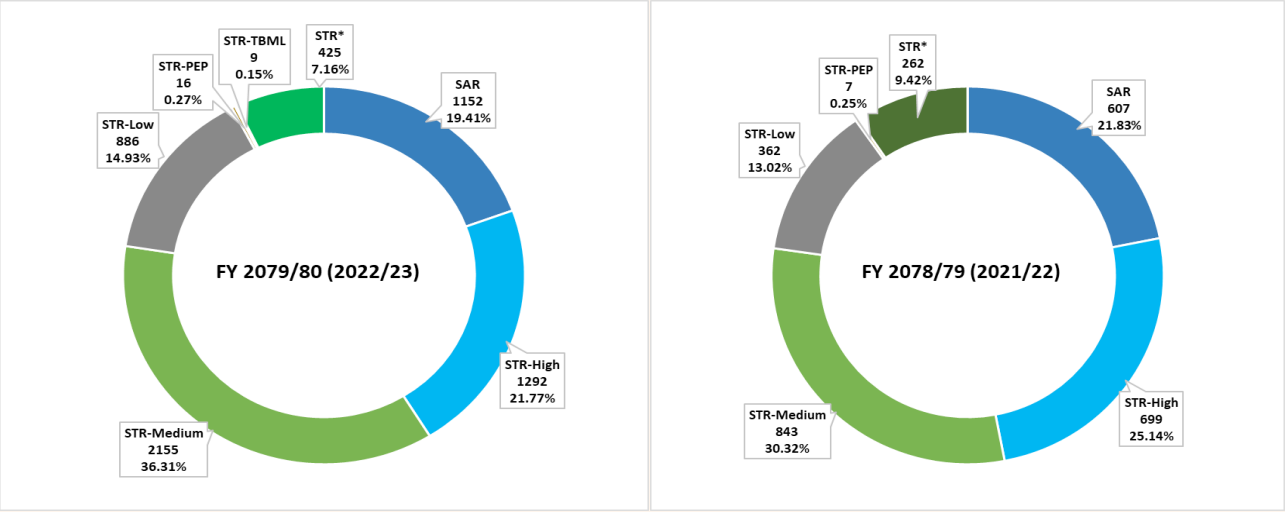


4.2.4 Receipts of STRs/SARs by Category for FY 2022/23 and FY 2021/22

In Unified Directives of Nepal Rastra Bank for A, B & C class BFIs, STR was further categorized into STR-PEP, STR-High, STR-Medium and STR-Low. From this year one additional STR category 'STR-TBML' is added to commercial banks in order to report suspicious transactions related to trade. As these BFIs are reporting via goAML System, they need to classify STRs accordingly. For other REs, such classification is not defined yet and report is accepted only as 'STR' category.

SAR is filed when there is attempted transaction or any suspicious activity. Total portion of SAR was 20% of total STRs/SARs. So, STRs/SARs reports of FY 2022/23 can be further classified as below and compared to last year as well.

Figure 4.7 Categorical STR in FY 2079/80 (2022/23) and FY 2078/79 (2021/22)

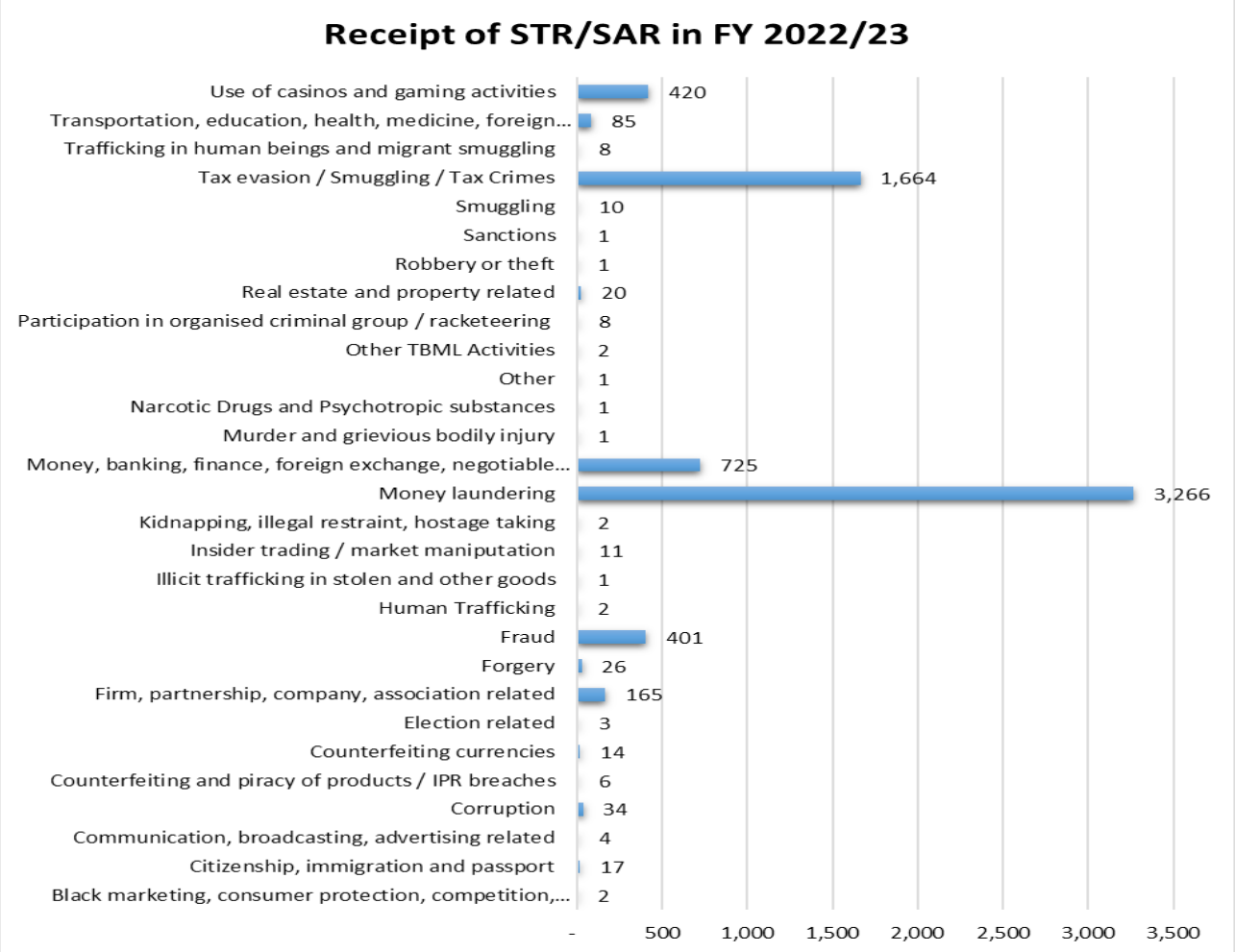


** STR of other REs Except BFIs (Other REs submit STR and SAR categories only)*

4.2.5 Receipts of STR/SAR (via goAML system) based on Predicate Offence in FY 2022/23

The analysis of STR/SAR (Suspicious Transaction Report/Suspicious Activity Report) receipts reveals a wide range of predicate offenses reported during the given period. Money laundering is the most frequently reported offense, with a substantial count of 3,266 reports. Tax evasion, smuggling, and tax crimes also feature prominently, with 1,664 reports, highlighting the significance of financial crimes in the region. Use of casinos and gaming activities, as well as fraud, are also significant concerns, with 420 and 401 reports, respectively. Additionally, firm, partnership, company, and association-related offenses constitute a notable category with 165 reports. Other offenses, such as corruption, communication-related crimes, and insider trading, are reported with varying frequencies, indicating a diverse range of suspicious activities that are being monitored and reported. Overall, these reports illustrate a significant effort to combat financial crimes and protect the integrity of financial systems. Among total 5935 STR/SARs reported to FIU-Nepal, 5643 reports were reported through goAML system. Since single STR/SAR may be linked with more than one predicate offences, total of such linked predicate offences reported through goAML system were 6901.

Figure 4.8: Receipts of STR/SAR (via goAML system) based on Predicate Offence



4.3 Reporting via goAML System

Table 4.5: Overall Reporting in goAML System

SN	FY 2079/80 (2022/23)	Total Received	Received through goAML	Received through goAML (%)	
				This FY	Last FY
1	TTR	1,698,398	1,301,829	76.65%	57.64%
2	STR/SAR	5,935	5,643	95.08%	90.61%

The table provides a comparison of the total number of Threshold Transaction Report (TTR) and Suspicious Transaction Reports/Suspicious Activity Reports (STR/SAR) received in the fiscal year 2079/80 (2022/23) and their distribution through the goAML reporting platform. Here's an analysis of the data:

4.3.1 TTR (Threshold to Transaction Report):

- In FY 2079/80, a total of 1,698,398 TTRs were received.
- Among these, 1,301,829 (approximately 76.65%) were received through the goAML software.
- Comparing this fiscal year to the previous one, there has been a significant increase in the percentage of TTRs received through goAML, rising from 57.64% to 76.65%.
- This indicates an increased adoption of the goAML platform for reporting TTRs, reflecting a growing trend toward digital reporting and a potentially more efficient reporting process.

4.3.2 STR/SAR (Suspicious Transaction Reports/Suspicious Activity Reports)

- In FY 2079/80, a total of 5,935 STR/SARs were received.
- Of these, 5,643 (approximately 95.08%) were received through the goAML platform.
- Comparing this fiscal year to the previous one, there has also been an increase in the percentage of STR/SARs received through goAML, rising from 90.61% to 95.08%.
- Similar to TTRs, this suggests an increasing reliance on goAML for reporting suspicious activities, indicating a more streamlined and effective reporting process for such cases.

The data reveals a positive trend in the adoption of the goAML reporting platform for both TTRs and STR/SARs. The higher percentages of reports received through goAML in the current fiscal year compared to the previous one indicates that more reporting entities are embracing digital reporting, potentially leading to more efficient, accurate, and timely reporting of financial transactions and suspicious activities. This shift toward digital reporting aligns with global trends in regulatory compliance and financial intelligence reporting.

4.3.3 Reporting Entities (REs) - wise Reporting 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. Similarly, Insurance companies have started reporting TTRs in goAML Production Environment from April 2022 and selected Remittance Companies started reporting TTRs from May, 2022. The total number of STRs/SARs, and TTRs reported in the goAML Production environment for FY 2078/79 were 2519 and 13,84,257 respectively while it was only 1278 and 1,132,721 respectively in previous FY 2077/78 as only 'A' class Banks were reporting and 'B' & 'C' class BFIs started to report in goAML System only since middle of that FY. Three tables below illustrate the monthly RE-wise number of STR/SARs, TTRs and overall reporting status in goAML system during FY 2079/80:

Table 4.6: RE-wise monthly STRs/SARs reported in goAML

Month / FY 2079/80 (2022/23)	BFIs			Insurance Company		Payment System		Remittance Company	Stock Broker	Total
	"A" Class	"B" Class	"C" Class	Life	Non-Life	PSP	PSO			
Shrawan (Jul-Aug)	297	7	4	2				9		319
Bhadra (Aug-Sep)	299	6	1					4		310
Ashoj (Sep-Oct)	289	14						7		310
Kartik (Oct-Nov)	348	6	1	2				2		359
Mangsir (Nov-Dec)	401	17	1					8		427
Poush (Dec-Jan)	461	27	4					17		509
Magh (Jan-Feb)	277	12	1	1			1	11		303
Falgun (Feb-Mar)	428	18	2	2			6	7		463
Chaitra (Mar-Apr)	678	33		3			1	12		727
Baisakh (Apr-May)	438	35	7	2	1			18		501
Jestha (May-Jun)	629	39	10	3			8	13		702
Ashad (Jun-Jul)	642	41	13	2		1	2	11	1	713
Total	**5,187**	**255**	**44**	**17**	**1**	**1**	**18**	**119**	**1**	**5,643**

Note: *Insurance companies' and Remittance companies' STR/SAR data reported via goAML is minimum since they started reporting in goAML system only at the end of Fiscal Year 2021/22. Please refer table 3.3 for total data.*

Table 4.7: RE-wise monthly TTRs reported in goAML

Note: *Cooperatives, Merchant Banker, Stock Broker, PSO/PSPs, Microfinance Institutions and Remittance companies are gradually onboarding in goAML system and those who already on boarded were reported via goAML message board. Further, FIU has facilitated to report by entire REs via web/*

Month / FY	BFIs			Insurance Company		PSP	Remittance Company	Stock Broker	Cooperative	Merchant Banker	Total
2079/80 (2022/23)	A Class	B Class	C Class	Life	Non-Life						
Sharwan (Jul-Aug)	101,410	9,895	581	10,293	171		90				**122,440**
Bhadra (Aug-Sep)	81,929	7,818	497	7,349	204		112				**97,909**
Ashoj (Sep-Oct)	79,524	9,692	479	4,981	176		98				**94,950**
Kartik (Oct-Nov)	81,712	7,886	478	7,434	175		90				**97,775**
Mangsir (Nov-Dec)	79,117	8,898	475	8,450	301		177				**97,418**
Poush (Dec-Jan)	85,211	10,412	643	9,524	539		387				**106,716**
Magh (Jan-Feb)	82,755	8,860	472	7,967	496		613	130			**101,293**
Falgun (Feb-Mar)	88,027	9,737	557	7,810	744	22	476	78			**107,451**
Chaitra (Mar-Apr)	96,032	11,297	545	10,187	1,462	41	295	21			**119,880**
Baisakh (Apr-May)	88,331	9,748	466	8,928	3,895	44	323	13			**111,748**
Jestha (May-Jun)	97,772	9,679	522	8,301	3,979	53	418	603	2		**121,329**
Ashad (Jun-Jul)	90,770	9,387	562	12,990	3,520	69	306	5,247		69	**122,920**
Total	**1,052,590**	**113,309**	**6,277**	**104,214**	**15,662**	**229**	**3,385**	**6,092**	**2**	**69**	**1,301,829**

XML through goAML system and expected to rise in reports in goAML from FY 2023/24. Please refer table 3.2 for total data.

B. 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 must be disseminated to the appropriate law enforcement agencies.

The reasonable suspicion may result from the following circumstances:

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

As a core function, FIU-Nepal regularly conducts operational analysis. Moreover, FIU-Nepal has initiated the practice of strategic analysis from FY 2020/21.

4.4 Operational Analysis

Operational analysis is related with analysis of STRs/SARs/TTRs received at FIU-Nepal. During analysis of STR/SAR, reported TTR are also considered. 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.

4.4.1 Status of Analysis of STRs/SARs

The bar graph illustrates the status of Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs), categorizing them into four key stages: total reports received, reports analyzed, reports disseminated, and reports postponed. This visual representation provides a quick overview of the progression of these reports within the AML/CFT process. It offers a clear snapshot of the reporting workflow's efficiency and progress.

The above graph/bar depicts that the numbers of STRs/SARs received, analyzed, disseminated and postponed in last seven years. In 2022/23, the total number of STRs/SARs received and analyzed were 5935 and 1216 respectively. Out of total analyzed STRs, 505 have been disseminated to different LEAs whereas 711 have been postponed for the time being due to lack of strong grounds and possibility of use in future. As number of STRs/SARs is increasing each year, FIU-Nepal has been emphasizing on Risk-based Approach to the analysis of reports. In order to minimize the gap between STR receipt and analyzed, FIU-Nepal has adopted implementation of risk based priority setting via goAML, automation for analysis and dissemination (via goAML system), change in existing modality of analysis/dissemination, strengthen analysis team via training programs, supply additional human and other resources required etc.

4.4.2 Monthly analysis Status of STRs/SARs for FY 2022/23

As like monthly receipt of STRs/SARs fluctuating upward trend; analyzed, dissemination and postponed somehow correlated with receipt.

Figure 4.9: Status of STRs/SARs

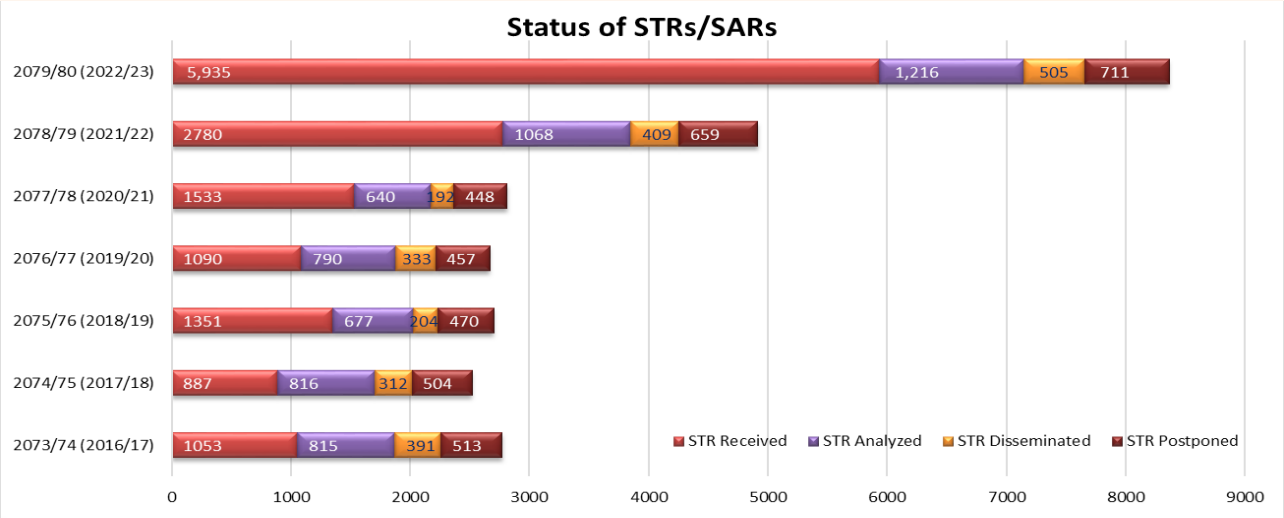
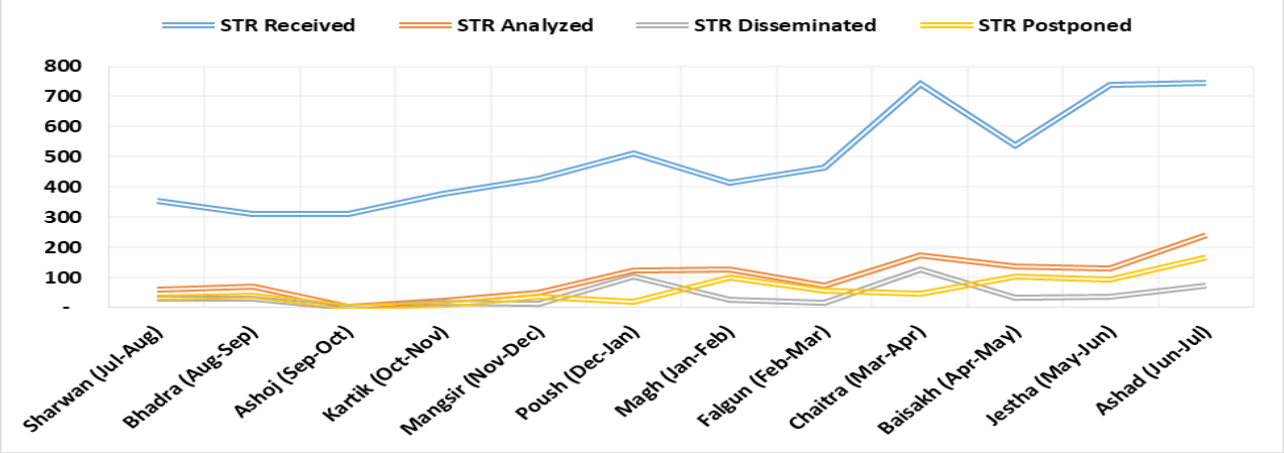


Figure 4.10 Monthly STR/SAR receipt, analyzed, disseminated and postponed in FY 2079/80 (2022/23)



4.4.3 Month-wise analysis status of goAML system

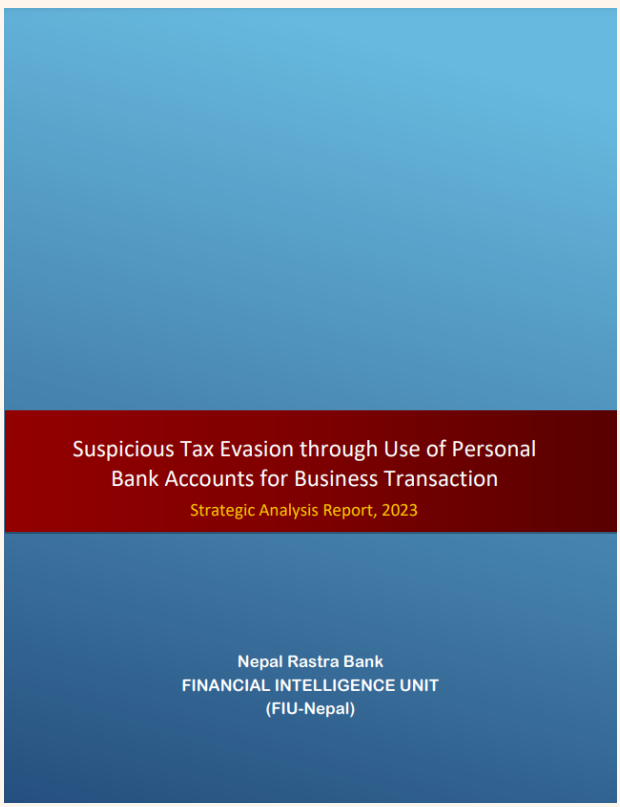
Monthly status of STR/SAR received, analyzed, disseminated and postponed are presented in table, below.

Table 4.8: Month-wise reporting status of goAML System

Month / FY 2079/80 (2022/23)	TTR Received	STR/SAR Received	STR/SAR Analyzed	STR/SAR Disseminated	STR/SAR Postponed
Shrawan (Jul-Aug)	122,440	319	43	29	14
Bhadra (Aug-Sep)	97,909	310	37	28	9
Ashoj (Sep-Oct)	94,950	310	4	1	3
Kartik (Oct-Nov)	97,775	359	20	14	6
Mangsir (Nov-Dec)	97,418	427	51	13	38
Poush (Dec-Jan)	106,716	509	120	105	15
Magh (Jan-Feb)	101,293	303	127	26	101
Falgun (Feb-Mar)	107,451	463	61	17	44
Chaitra (Mar-Apr)	119,880	727	139	100	39
Baisakh (Apr-May)	111,748	501	45	27	18
Jestha (May-Jun)	121,329	702	88	31	57
Ashad (Jun-Jul)	122,920	713	156	59	97
Total	**1,301,829**	**5,643**	**891**	**450**	**441**

4.5 Strategic analysis

Strategic analysis enables FIU-Nepal and its stakeholders to draw conclusions for the strategic prevention of money laundering and financing of terrorism and for setting operational and policy priorities. Strategic analysis conducted on 2021 and 2022 by FIU-Nepal was majorly focused on the patterns and trends of money laundering and related issues. The strategic analysis 2023 was conducted on the specific topic 'Suspicious Tax Evasion through Use of Personal Bank Accounts for Business Transaction'. Strategic analysis-2023 shows the risk of using personal bank accounts for business transactions to evade taxes is in increasing trend, evidenced by the rise in the number of STR/SARs reported to FIU-Nepal by BFIs in recent years. Key highlights of strategic analysis done in 2023 is mentioned in Annex 8 of this report.



C. 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. At some instances, FIU-Nepal also disseminates to regulators/supervisors if some breach of regulations is found and requires supervision on KYC/CDD and transaction monitoring process.

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:

- Most of the dissemination are made through goAML Software via in -built email system i.e., Message Board. goAML integration is ongoing at a rapid pace. Very few numbers of dissemination are done through paper based manual system.
- Record is kept of the date and time of dissemination, the person and entity to which it was made, and the means of delivery.
- In case of manual delivery, disseminations are made through secure packaging and through secure delivery mechanisms. For courier delivery or pickup dissemination, confirmation of identity of authorized recipient (and any courier) is necessary.
- When the FIU-Nepal 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.

4.6 Dissemination through goAML Software

Most of FIU-Nepal's disseminations to LEA is through goAML Software System by using its in-built email system called 'Message Board'. Different types of communication between FIU-Nepal and LEAs & Regulatory/Supervisory Authority can be differentiated by the Type of message in message board. There are five types of message-types in message board viz., LEA-Feedback, FIU-Nepal Dissemination, Domestic-Cooperation, International-Cooperation and Others.

Total 505 reports were disseminated to LEAs through goAML system for FY 2022/23 and 157 were done in FY 2021/22. FIU-Nepal is integrating LEAs, Regulators & Supervisors in goAML system in a rapid pace and plans to disseminate to these authorities only via goAML system in near future. 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-Nepal can respond upon request of such agencies as well. Domestic disseminations in this regard are as follows.

Table 4.9: Dissemination Status of SARs/STRs

S.N.	Agencies	2074/75 (2017/18)	2075/76 (2018/19)	2076/77 (2019/20)	2077/78 (2020/21)	2078/79 (2021/22)	2079/80 (2022/23)
1.	DMLI	44	27	39	26	61	40
2.	Nepal Police	78	36	119	98	210	318
3.	DRI	144	107	200	75	162	152
4.	IRD	51	42	26	3	16	32
5.	CIAA	8	2	15	2	13	5
6.	Dept. of Co-operatives	-	-	18	1	2	2
7	Nepal Insurance Authority (NIA)	-	-	-	-	2	1
8	SEBON	-	-	-	-	5	0
9	Social Welfare Council	-	-	-	-	3	16
10	NRB, BFIRD	-	-	-	-	11	4
11	NRB,BSD	-	-	-	-	29	10
12	NRB, FISD	-	-	-	-	9	
13	NRB Forex Dept. (FEMD)	-	-	-	-	2	
14	NRB, PSD	-	-	-	-	30	7
15	NRB, NBFISD	-	-	-	-	4	30
16.	Others	19	2	2	7	-	
Total Dissemination		**344**	**216**	**419**	**212**	**559**	**617**
Actual Dissemination* (Without counting multiple dissemination)		**312**	**207**	**333**	**192**	**409**	**505**

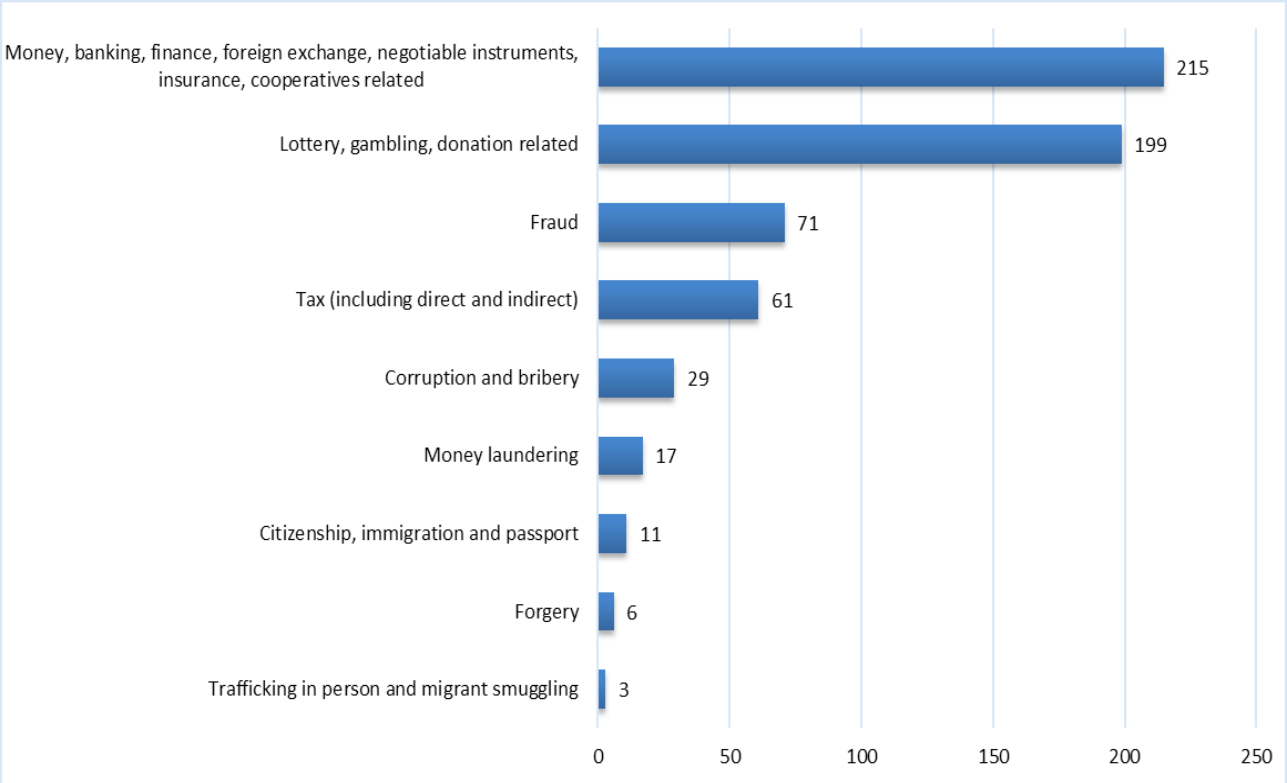
**One STR/SAR can be disseminated to more than one agency and single STR/SAR disseminated to multiple LEAs' have been included in concerned LEAs for the counting purpose. Total number of STR disseminated to LEAs is shown in last row of above table by eliminating such multiple counting.*

During the FY 2022/23, the number of STRs disseminated to Nepal Police is 318 followed by 152 to DRI, 40 to DMLI, 32 to IRD, 30 to NRB Non-Bank Financial Institution Supervision Department, 16 to SWC, 10 to Nepal Rastra Bank Bank Supervision Department, 7 to Nepal Rastra Bank Payment System Department, 5 to CIAA, 4 to Nepal Rastra Bank Bank and Financial Institution Regulation Department, 2 to Department of Co-operatives, 1 to Nepal Insurance Authority (NIA).

4.7 Dissemination of STR/SAR based on Predicate Offence in FY 2022/23

Based on the predicate offence, the largest number of STR dissemination falls under the category of Money, Banking, Finance, Foreign Exchange, Negotiable instrument (35%), Lottery, gambling, donation related (33%), Fraud (12%), Tax(including direct and indirect) (10%) etc. as shown in figure 3.13.

*Figure 4.11: Predicate-offence wise STR/SAR Dissemination**



**Same STR/SR may be disseminated to multiple LEAs with same predicate offence. Hence total of 617 dissemination shown in table 4.9 has linked to 612 predicate offences, shown in above figure 4.11.*

05 CHAPTER

DOMESTIC & INTERNATIONAL COOPERATION

5.1 Domestic Cooperation and Engagement

Integrating all concerned entities and agencies is a critical way to combat ML/TF/PF which involves overall functions in the AML/CFT Regime of Nepal, such as reporting of suspicious transactions/ activities, analysis, dissemination, investigation, prosecution, judicial functions and other relevant functions. FATF Recommendation-2; 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 coordination or other mechanism that is responsible for such policies. Countries should ensure that policy-makers, the Financial Intelligence Unit (FIU), Law Enforcement Authorities (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.

FIU-Nepal regularly holds meetings and programs 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 agencies and international FIUs. Investigating agencies, mostly DMLI and Nepal Police ask for information on intelligence report and information on banks details of the suspect from FIU-Nepal for investigation purpose. FIU-Nepal collects such information from REs and disseminates it to the investigating agencies through goAML, secured mail and hard copy.

FIU-Nepal is working to build up harmonious and functional 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-Nepal represents wide range of activities and additionally play policy 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.

5.1.1 National Coordination Committee (NCC)

- Major function of NCC is 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. Composition of the committee is:

Secretary, Office of the Prime Minister and Council of Ministers	Coordinator
Secretary, Ministry of Finance	Member
Secretary, Ministry of Law, Justice and Parliamentary Affairs	Member
Secretary, Ministry of Home	Member
Secretary, Ministry of Foreign Affairs	Member
Deputy Attorney General, Office of the Attorney General	Member
Secretary, Commission for the Investigation of Abuse of Authority	Member
Deputy Governor, Nepal Rastra Bank	Member
Inspector General of Police, Nepal Police	Member
Chief, Department of Money Laundering Investigation	Member
Chief, Financial Intelligence Unit	**Secretary**

NCC holds regular meetings and also invites high-level authorities and government agencies to discuss matters related with AML/CFT. In FY 2022/23, the meetings of NCC were held for 12 times and the major decisions are as follows:

Major Decisions of NCC in FY 2022/23

- To request NRB for necessary arrangements to uniformly use English name of FIU-Nepal as 'Financial Intelligence Unit' and short name as 'FIU-Nepal'
- To prepare name List (Roster) from all concerned agencies for carrying prompt action of ME process
- To finalize and submit AML/CFT Mutual Evaluation Technical and Effectiveness Response Report to APG Secretariat
- To conclude MoUs between FIU-Nepal & LEAs and Regulatory Authorities in coordination of OPMCM
- To direct all LEAs in writings from OPMCM regarding feedback to be provided to FIU-Nepal as per Rule 49 of ALP Rules, 2073
- To send responses on draft of Mutual Evaluation Report (MER) and questions/ queries sent by Assessment team with coordination with Mutual Evaluation Committee (MEC)
- To formulate *"Mutual Evaluation Logistics Management Committee"* for logistic management of pre-onsite visit, Onsite Visit and Face to Face (f2F) meetings
- To brief regarding ongoing preparation and progress regarding ongoing Mutual Evaluation process and to request all stakeholders for preparation of pre-onsite visit, onsite Visit and Face- to-Face (F2F) meetings of APG Third Round Mutual Evaluation of Nepal (2022-23)
- To request NRB, FIU-Nepal to host a Reception program in honor of APG Secretariat and Assessors Team during onsite visit
- To discuss regarding initial key findings and recommendations of MER
- To present following matters in the meeting of National Review Council:
  - Draft for amendment of AML/CFT related acts
  - Drafts of MER received from APG Secretariat
  - Regarding required activities and actions to be taken by concerned authorities as per report received from APG Secretariat regarding APG Third Round Mutual Evaluation of Nepal (2022-23)
  - Regarding the preparations to be made by the working group of ME to represent Nepal in the APG Annual (Plenary) Meeting, and to finalize representatives from the regulators, investigating authorities, FIU-Nepal and other relevant authorities directly involved in the mutual evaluation
- To request IMF for technical assistance on FIU Analysis, Targeted Financial Sanctions, ML/ TF Supervision and supervisory effectiveness through Ministry of Finance
- To assign FIU-Nepal to coordinate with ADB team and Nepal's agencies/entities for the Training program on 'Countering TBML' (May 11-12, 2023, Kathmandu)
- To explore possibilities of technical assistance from international agencies such as World Bank, IMF, ADB etc. in the field of AML/CFT
- To prepare for APG Plenary to be conducted on July 9-14, 2023 in Canada
- To discuss regarding preparation of national strategy to be adopted to improve AML/CFT regime of Nepal

5.1.2 Other committees for domestic co-operation

There are four committees as per AML/CFT National Strategy and Action Plans (2019-2024) which facilitates for domestic co-operation. Among these committees, FIU-Nepal is member of Regulatory Coordination Mechanism (RCM), Investigation Coordination Mechanism (ICM), and Counter Terrorism Mechanism (CTM) and regularly invited at National Review Council (NRC).

a) National Review Council (NRC)

- The main function of this committee is to implement national policy, strategy and laws and to determine national approach regarding the prevention of money laundering and financing of terrorist activities. Composition of the committee is:

Minister of Finance	Chairperson
Attorney General	Member
Chief Secretary	Member
Governor of Nepal Rastra Bank	Member
Secretary, Ministry of Finance	Member
Coordinator of National Coordination Committee (NCC)	**Member Secretary**

b) Regulatory Co-ordination Mechanism (RCM)

- The main function of this committee is to coordinate implementation of national policies, strategies and laws in the preventive and regulatory areas and ensuring preventive and controlling methods by determining the regulatory approach regarding prevention of money laundering and financing of terrorist activities on the basis of risk. Composition of the committee is :

• Governor, Nepal Rastra Bank	Coordinator
• Coordinator, Investigation Coordination Mechanism	Member
Chairperson, Securities Board of Nepal	Member
Chairperson, Nepal Insurance Authority	Member
Chief, Department of Cooperatives	Member
Chief, regulatory body of the Designated Non-Financial Business and Profession [DNFBPs] (may be invited as may be necessary)	Member
Joint Secretary, Ministry of Finance	Member
Chief, Financial Intelligence Unit	**Member**
Governor's Office, Nepal Rastra Bank	Secretariat

c) Investigation Coordination Mechanism (ICM)

- The main function of this committee is to coordinate the implementation of policy, strategy and laws in the areas of investigation, prosecution and adjudication and to ensure the control measures by determining the country's approach to financial crimes on the basis of risks. Composition of the committee is :

Deputy Attorney General, Office of the Attorney General	Coordinator
Joint Secretary, Commission for the Investigation and Abuse of Authority	Member
Joint Secretary, National Vigilance Centre	Member
Chief, Department for Management of Proceeds of Crimes	Member
Representative, Judgment Execution Directorate, Supreme Court	Member
Chief, Department of Money Laundering Investigation	Member
Chief, Financial Intelligence Unit	**Member**

Representative, other investigating authorities (as may be necessary)	Member
Office of the Attorney General	Secretariat

d) Counter Terrorism Mechanism (CTM)

- The main function of this committee is to determine the country's position against terrorism and ensure control measure and to coordinate and facilitate the implementation of the matters related to prevention of terrorism, financing of terrorist activities, resisting the financing of proliferation of weapons of mass destruction and targeted financial action of the United Nations Security Council or similar other lists. Composition of the committee is:

Secretary, Ministry of Home Affairs	Coordinator
Lieutenant General, Nepali Army	Member
Chief, Nepal Police	Member
Chief, Armed Police Force, Nepal	Member
Chief, National Investigation Department	Member
Joint Secretary, Office of the Prime Minister and Council of Ministers	Member
Joint Secretary, Ministry of Foreign Affairs	Member
Chief, Department of Money Laundering Investigation	Member
Chief, Financial Intelligence Unit	**Member**
Nepal Police	Secretariat

5.1.3 Cooperation with Reporting Entities

Reporting Entities are gatekeeper and information feeders in AML/CFT system whereas LEAs are end users of FIU intelligence. FIU-Nepal maintains regular engagements with Reporting Entities. The area 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. FIU-Nepal conducts several outreach programs regarding AML/CFT, goAML Integration, STR/SAR/TTR Reporting, Feedback & Domestic cooperation, National Risk Assessment (NRA), AML/CFT related National Strategy and Acton Plans (NSAP), Strategic Analysis, emerging Trends & Typologies etc.

Table 5.1: Feedback from FIU-Nepal on STR/ SAR/TTR to REs

Feedback on STR/SAR via Message board of goAML System *(During Analysis)*	1,112
Feedback on testing of STR/SAR for new REs for onboarding in goAML System *(During Testing)*	230
Phone call communication by Analyst to Compliance officers (approx.)	320
Meetings with Compliance officer of REs in special cases	6
Outreach program (Interaction sessions) with REs for general feedback	9

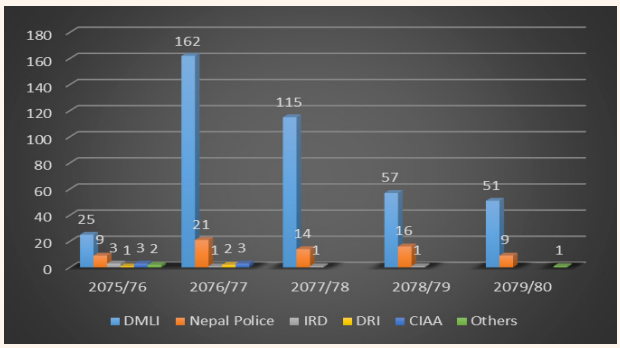
Note: *Please refer to Annex 9 for complete list of events/programs/activities of FIU-Nepal for FY 2022/23.*

5.1.4 Cooperation with Law Enforcement Agencies

FIU-Nepal has 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. Following table shows disseminations on request of LEAs, i.e. When LEA initiates and request FIU-Nepal for information/intelligence.

*Fig 5.1: Disseminations on request of LEAs**

**These data do not include STR/SAR dissemination from FIU-Nepal to LEAs.*



5.1.5 Cooperation with Regulators and Supervisors

Regulators and supervisors are responsible for inspection/supervision and 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 to FIU-Nepal 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-Nepal's concerns. These guidelines/directives are also uploaded on the website of FIU-Nepal for quick reference.

5.1.6 Memorandum of Understanding (MOUs) with domestic agencies

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, terrorist financing and the financing of proliferation of weapons of mass destruction, FIU-Nepal has signed Memorandum of Understanding (MoU) with major LEAs, Regulators and concerned agencies for domestic cooperation and exchange of information via secured goAML platform. FIU-Nepal continues its endeavor to sign MoU with other Law Enforcement Agencies.

Table 5.2: List of MoUs with domestic agencies

SN	Agency	Type of agency
1	Department of Customs	LEA
2	Department of Drug Administration	LEA
3	Department of Forest And Soil Conservation	LEA
4	Department of Immigration	LEA
5	Department of Money Laundering Investigation (DMLI)	LEA
6	Department of National Parks and Wildlife Conservation	LEA
7	Department of Revenue Investigation (DRI)	LEA
8	Nepal Police	LEA
9	Armed Police Force, Nepal	Government Agency
10	Department of Cooperatives	Regulator
11	Department of Land Management and Archive (DOLMA)	Regulator
12	Inland Revenue Department (IRD)	Regulator
13	Ministry Of Culture Tourism And Civil Aviation	Regulator
14	Nepal Rastra Bank	Regulator
15	Office of the Company Registrar	Regulator
16	Securities Board of Nepal (SEBON)	Regulator
17	The Institute of Chartered Accountants of Nepal (ICAN)	Regulator
18	National Information Technology Center (NITC)	Other

5.2 International Cooperation and Engagement

FATF Recommendation 40, "Other forms of international Cooperation" states that FIUs are required to provide a wide range of international cooperation. International cooperation by means of sharing of financial intelligence or related information between FIUs is essential for tackling money laundering, associated predicate offences and terrorist financing. It is a medium for combating illicit activities that have cross border networks and ensuring a stable AML/CFT regime. For this purpose, FIU-Nepal is member of Egmont group of FIUs since June 10, 2015. Its international cooperation is governed by the Egmont Group of FIUs Principles of Information Exchange and guided by the FIU Nepal Guidelines for Information Exchange, 2022.

Requests for information from other FIUs are received, acknowledged upon receipt, and responded to in a timely manner via the Egmont Secure Web (ESW), secure email network. Similarly, the request for information from competent authorities is sent, upon request or spontaneously, to respective FIUs in a timely manner via the ESW. In addition to exchange of information/intelligence, FIU-Nepal continually participates in other activities of Egmont Group such as Surveys of Egmont, reviewing & providing comments on Egmont questionnaires, governance papers & projects.

5.2.1 Co-operation and Exchange of Intelligence/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. Similarly, the request for information from competent authorities is sent, upon request or spontaneously, to respective FIUs in a timely manner via the ESW. FIU-Nepal has been proactively participating in the Information Exchange confidentially to combat money laundering and financing of terrorism, from its inception.

The statistical information regarding the number of cases in which requests were made by FIU-Nepal to other foreign FIUs and the number of cases where FIU-Nepal received requests from foreign FIUs, in the different fiscal years, has been stated in the table below:

Table 5.3: Information/Intelligence 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
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
2021/22	13	18*	9	0
2022/23	5	14	4	0

**One Information Request sent via email*

Further, it participated in various surveys of Egmont Group and other counterpart FIUs in the last fiscal year 2022/23. The statistical information regarding participation in International Surveys, in the fiscal year 2022/23, has been stated in the table below:

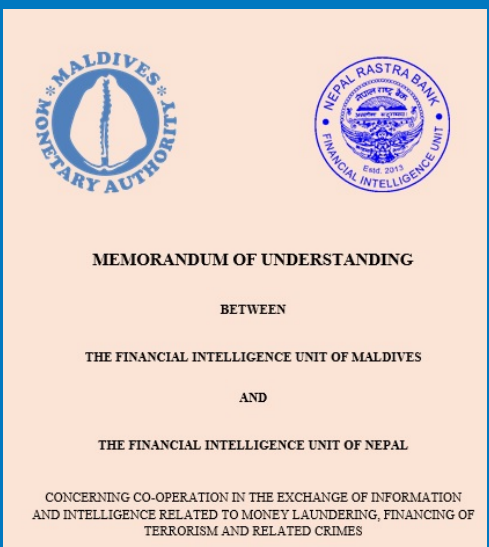
Table 5.4: Participation in International Surveys in FY 2022/23

S.N.	Survey Title	Surveyor
1	The Information Exchange Working Group Development Survey	Egmont Group of Financial Intelligence Units (FIUs)
2	Joint AUSTRAC and FinCEN project on FIU's Role in Combatting Sanctions Evasion	
3	Survey for MoU template to enable FIUs to engage in multilateral information exchange	
4	National Politically Exposed Persons (PEPs) list	Egmont Group of Financial Intelligence Units (FIUs) & World Bank
5	Survey on the Stolen Asset Recovery Initiative (StAR)	World Bank Group (WBG) and the United Nations Office on Drugs and Crime (UNODC)

5.2.2 MoUs with Foreign FIUs

FIU-Nepal, for enhancing cooperation and exchange information/intelligence relating to ML/TF/PF and related offences with competent authorities in other jurisdictions, continued signing Memorandum of Understanding (MoU) with various foreign FIUs. Being a member of the Egmont Group, FIU-Nepal is able & authorized to exchange information/intelligence with 170 member FIUs through Egmont Secure Web (ESW) without requiring to Conduct MoU. The objectives of MoU are to facilitate the parties to the MoU in exchange of information concerning financial transaction suspected of being related to ML, associated predicate offenses and TF; and to facilitate them to disseminate information to each other, which may ultimately result in investigations and prosecution of person suspected of ML, associated predicate offences and TF by the competent authorities in their respective jurisdictions.

FIU-Nepal has taken initiative to sign MoU with the other FIUs to facilitate cooperation and information/intelligence exchange as well as to strengthen its relationships with them. It has done MoU with 18 foreign counterparts. In the Fiscal Year 2022/23, FIU-Nepal has signed MoU with FIU-Maldives and UAE-FIU. It is in process of conducting MoU with other counterparts as well.


MEMORANDUM OF UNDERSTANDING

BETWEEN

THE FINANCIAL INTELLIGENCE UNIT OF MALDIVES

AND

THE FINANCIAL INTELLIGENCE UNIT OF NEPAL

CONCERNING CO-OPERATION IN THE EXCHANGE OF INFORMATION AND INTELLIGENCE RELATED TO MONEY LAUNDERING, FINANCING OF TERRORISM AND RELATED CRIMES

MoU between FIU-Nepal and FIU-Maldives

MoU between Financial Intelligence Unit of Maldives (FIU-Maldives) and Financial Intelligence Unit of Nepal (FIU-Nepal) was signed on January 3, 2023. Head of FIU-Maldives Mr. Ibrahim Ahmed Nasir and head of FIU-Nepal Mr. Dirgha Bahadur Rawal had signed on the MoU concerning co-operation in the exchange of information and intelligence related to money laundering, financing of terrorism and related crimes.



MoU between FIU-Nepal and UAE FIU

MoU between Financial Intelligence Unit of the United Arab Emirates (UAE FIU) and Financial Intelligence Unit of Nepal (FIU-Nepal) was signed on July 4, 2023. Head of FIU-Nepal Mr. Dirgha Bahadur Rawal and chief head of UAE FIU Mr. Ali Faisal Ba'alawi signed the MoU. Assistant Director Mr. Amish Sharma represented FIU-Nepal in the Egmont Plenary meetings. MoU was signed for cooperation in the exchange of financial intelligence related to money laundering, associated predicate offences and terrorist financing.

06 CHAPTER

CAPACITY BUILDING

The process of developing and strengthening the skills, instincts, abilities, processes and resources of FIU Nepal is continuing every year. 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 have increased; crypto and other illegal digital payment system have been emerged. 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, employees/ analysts of FIU-Nepal have participated in various national and international trainings, knowledge sharing programs, meetings, seminars both in national and international level. Most of the programs were in virtual platform during the year.

6.1 International Trainings

FIU-Nepal's employees have participated in training\workshop\seminar organized by International organizations viz. APG, ADB, FATF, SEACEN, Egmont etc. During fiscal year 2022/23, 17 staffs of FIU-Nepal have participated in 12 different programs. The details of various Training\Workshop\Seminar participated by employees of FIU-Nepal is presented in the table below: -

Table 6.1: International Trainings and Meetings

S. N.	Trainings and Meetings	Organizer	Venue
1	APG Annual General Meeting	APG	Kuala Lumpur, Malaysia
2	Leveraging Trade Data in AML/CFT	ADB	Singapore
3	Regulation and Supervision of Crypto Assets and Decentralized Finance	SEACEN CENTRE	Seoul, South Korea
4	3rd Ministerial Conference on Counter-Terrorism Financing "No Money for Terror"	Government of India	New Delhi, India
5	goAML Inter-regional Meeting	Pusat Pelaporan Dan Analysis Transaksi Keuangan Kepala	Jakarta, Indonesia
6	Egmont Working Group & Regional Meeting	Egmont	Dakar, Senegal
7	Central Banking Operation & Payment Systems Program	Reserve Bank of India	Pune, India
8	FATF Joint Experts' Meeting & FATF/UNODC Joint Workshop	FATF	New Delhi, India
9	Counter Narcotics Skills Development Programs	Embassy of US	New Delhi, India

S. N.	Trainings and Meetings	Organizer	Venue
10	Money Laundering Prevention Program	Government of India	New Delhi, India
11	APG Annual Meeting	APG	Vancouver, Canada
2	Egmont Plenary Meetings	Egmont	Abu Dhabi, UAE

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.

6.2 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.

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

Table 6.2: Domestic Trainings

S.N.	Trainings	Organizer	Participants
1	Risk Based Internal Audit	BTC, NRB	Assistant Director-1
2	Research Methodology & report Writing	BTC, NRB	Assistant-1
3	AML/CFT Regimes	BTC, NRB	Assistant Director-2 Assistant-1
4	Banking Operations	BTC, NRB	Assistant -1
5	Payment & settlement Systems in Nepalese Context	BTC, NRB	Assistant Director-1
6	Capacity Building on Asset Recovery and Money Laundering Investigation Techniques Program	DMLI	Assistant Director-2
7	Planning, Budgeting & Risk Management	BTC, NRB	Assistant Director-1
8	Central Banking Training	BTC, NRB	Assistant Director-1 Head Assistant-1
9	NRB Accounting System & NFRS	BTC, NRB	Assistant Director-1
10	Organization Behavior	BTC, NRB	Head Assistant-1
11	GL software	BTC, NRB	Assitant-1
12	Trade Based Money Laundering	Standard Chartered Bank	Assistant Director-1
13	Macroeconomic Modeling	BTC, NRB	Assistant Director-1
14	Macroeconomic Management	BTC, NRB	Assistant-2
15	Management Development Program	NBI	Assistant Director-1
16	Procurement in NRB	BTC, NRB	Head Assitant-2
17	Risk Related Seminar	BTC, NRB	Assistant Director-1
18	Regulation & Supervision of Microfinance Institutions	BTC, NRB	Head Assistant-1
19	Protocol Management	BTC, NRB	Assistant-1
20	Forex Management in Nepal	BTC, NRB	Head Assistant-1
21	Empirical Methods for Financial Market Research	BTC, NRB	Assistant Director-1
22	Banking Guidelines	BTC, NRB	Assistant Director-1 Head Assistant-1
23	Econometric Tools for Policy Evaluation	BTC, NRB	Assistant Director-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.

6.3 Knowledge Sharing within FIU-Nepal

FIU-Nepal organized four Knowledge Sharing Programs, one in each quarter, and one Orientation Program in the fiscal year 2022/23, among FIU Staffs. 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 as well as to build uniformity in official working process.

FIU-Nepal organized capacity building program through Orientation Program inviting national expert to deliver and share their experiences on AML/CFT on 18th March 2023 and planned to conduct Orientation Program in FY 2023/24 by inviting national/international export on international good practices, Trend and Typologies, Mutual Evaluation and other related topics.

6.4 List of Major Interaction Programs

Table 6.3: Major Interaction Programs organized by FIU-Nepal in FY 2022/23

S.N.	Programs
1	AML/CFT Interaction Program with DNFBPs
2	Interaction Program on Preparation of goAML Live Reporting with Insurance Companies
3	Interaction Program on Preparation of goAML Live Reporting with Regulators and reporting entities related securities sector
4	Interaction Program for effective implementation of goAML with Compliance Officer of 'A', 'B', 'C' Class BFIs reporting entities about problems, challenges and solution about goAML implementation
5	AML/CFT Interaction Program with Regulatory and Supervisory bodies
6	Interaction Program on Preparation of APG Third Round Mutual Evaluation with NRB Departments/Division/Unit

***Note**: Please refer to Annex 9 for complete list of events/programs/activities of FIU-Nepal for FY 2022/23.*

Table 6.4: Interaction Programs Planned to be organized by FIU-Nepal in 2023/24

S.N.	Programs
1	Interaction Program on AML/CFT and goAML Reporting with Cooperatives
2	Interaction Program on goAML Reporting with Remittance Companies
3	Interaction Program on AML/CFT and goAML Reporting with Regulators and reporting entities related securities sector
4	Interaction Program on AML/CFT, Mutual Evaluation and Interagency Cooperation/ Coordination/Feedback with Regulatory and Supervisory agencies.
5	Interaction Program on AML/CFT, Mutual Evaluation and Interagency Cooperation/ Coordination/Feedback with LEAs and other related agencies.
6	Interaction Program on AML/CFT, Mutual Evaluation and Reporting to FIU with AML Committee members of Commercial Bank.
7	Interaction Program on AML/CFT, Mutual Evaluation and Reporting to FIU with AML Committee members of B, C and D (Deposit Collection) class Financial Institutions.

Besides formal program, FIU-Nepal also conducts meeting with stakeholders and invited to meeting organized by stakeholders.

07 CHAPTER

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

7.1 Mutual Evaluation: Brief Overview

FATF/FSRB conducts mutual evaluations of its members' levels of implementation of the FATF Recommendations on an ongoing basis. These are peer reviews, where members from different countries assess another country. A mutual evaluation report provides an in-depth description and analysis of a country's system for preventing criminal abuse of the financial system as well as focused recommendations to the country to further strengthen its system. The Assessment of AML/CFT system is done on the basis of:

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

The mutual evaluation reports allow countries to determine how they should improve their national AML framework and how to do this via tailored recommendations provided by FATF. Mutual evaluations are useful to country authorities, regulators, the financial sector and the general public as they help determine the money laundering or terrorist financing risks of a jurisdiction. The FATF/FSRB follows a very structured methodology and predefined procedures to measure two distinct components that make up the overall assessment.

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

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

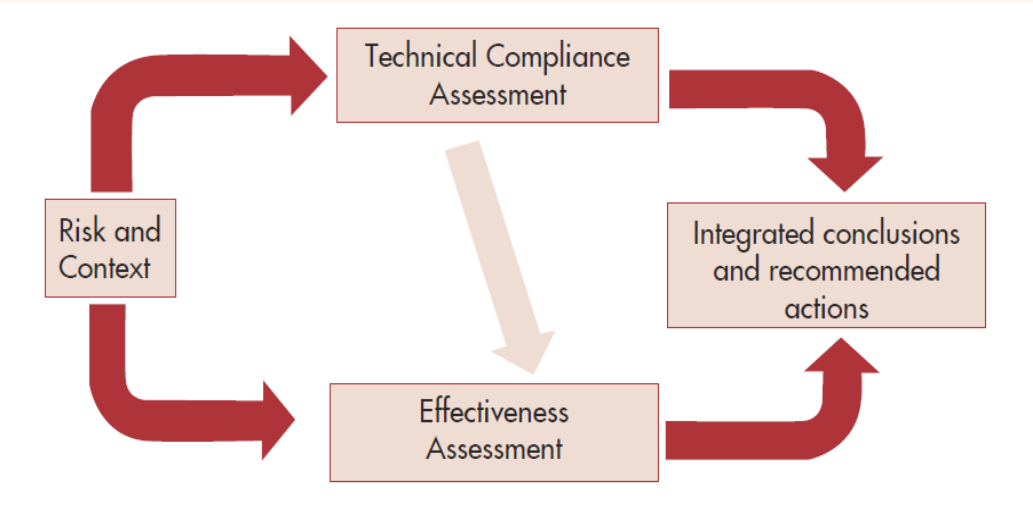
Figure 7.1: Relationship between Recommendations and Immediate Outcomes

Relationship between Recommendations and Immediate Outcomes

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

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

Figure 7.2: Mutual Evaluation Process



Source: APG

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

1) Risk and Context: The starting point for every assessment is the assessors' initial understanding of the country's risks and context, in the widest sense and the elements which contribute to them. The ML/TF risks are critically relevant to evaluating technical compliance with FATF Recommendation 1 and the risk-based elements of other Recommendations and to assess effectiveness. The make-up of and nature of financial/DNFBP sectors and economy along with the structural elements such as political commitment, rule of law, accountability, integrity, transparency and effective judicial systems are considered to understand the risk and context. Assessor considers the nature and extent of the ML/TF

risk factors to the country at the outset of the assessment and throughout the assessment process.

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

i) Materiality

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

ii) Structural Elements

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

iii) Other Contextual Factors

- Maturity and sophistication of Regulatory and Supervisory regime in the country.
- The level of corruption and the impact of measures to combat corruption or the level financial exclusion.

2) Technical Compliance Assessment: A desk-based technical compliance analysis assesses compliance by an APG member with the specific requirements of each of the 40 FATF recommendations- the relevant legal and institutional framework of the jurisdiction, and the powers and procedures of competent authorities. These recommendations represent the building blocks of an AML/CFT system. The technical compliance analysis is undertaken by an assessment team prior to an on-site visit of the member being evaluated. In case of requirement Pre-Onsite Visit is conducted by the Assessment Team to gauge the level of technical compliance.

3) Effectiveness Assessment: The main component of a mutual evaluation is effectiveness assessment. It assesses the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. An effectiveness assessment comprises of the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. Experts forming the assessment team use "11 Immediate Outcomes," including core issues for each outcome, in the 2013 methodology with an aim to achieve the High Level objective of "Protecting the Financial System and the Broader economy from ML/TF threats and Proliferation, Strengthening Financial System Integrity and contributing to safety and security".

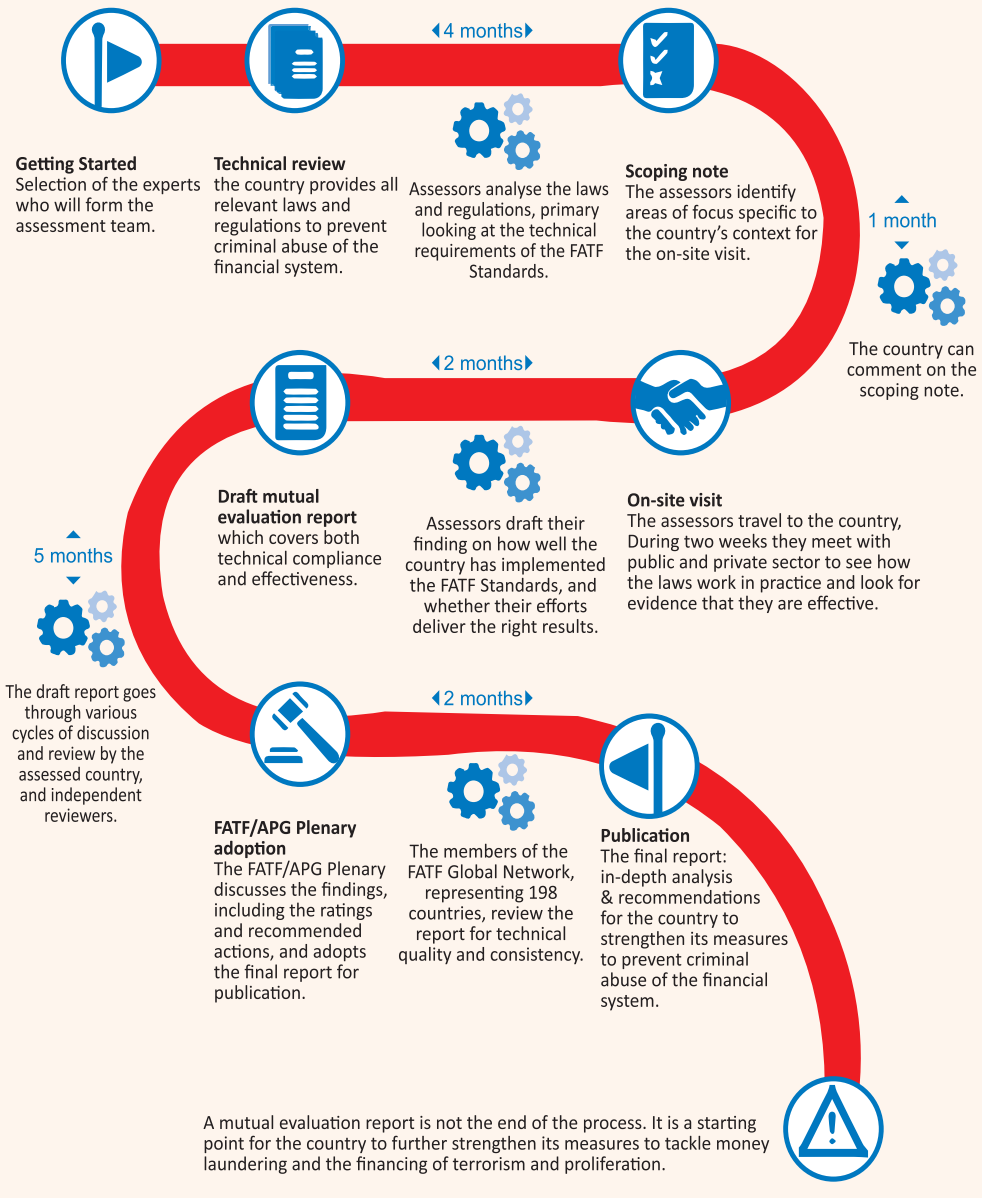
The effectiveness assessment is not just based on information exchanged with the assessment team; after the information is exchanged the team will visit the member under evaluation

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

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

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

Figure 7.3: Mutual Evaluation Process



Source: FATF

Table 7.1 Rating Scales for Technical Compliance and Effectiveness Assessment

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

Figure 7.4: Mutual Evaluation Process and Outcome

Source: fatfplatform.org

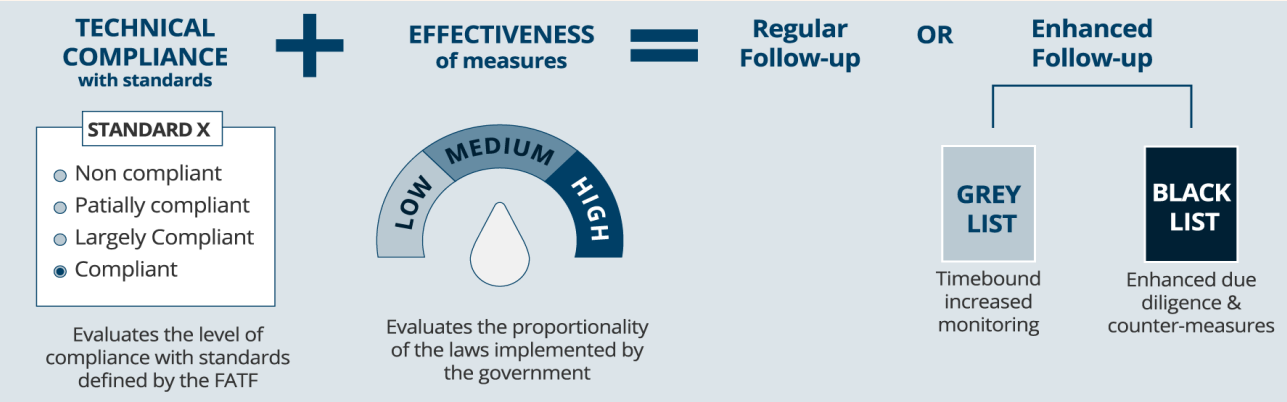


Figure 7.5: Ground for categorizing assessed jurisdiction in Follow-up (Monitoring)

Types	Grounds
Regular	
Enhanced	1. 8 or more NC/PC Recs. on TC, or 2. NC/PC on 1 or more out of R 3, 5, 10, 11, 20 Recs. on TC or 3. L or M on 7 or more IOs, or 4. L on 5 or more Ios
Enhanced [Expedited]	1. NC/PC on 10 or more out of Recs: R 3, 5, 10, 11, 20 and 1, 4, 6, 26, 29, 36, 37, 40, or 2. L or M on 9 or more Ios
International Cooperation Review Group/Monitoring	1. 20 or more NC/PC Recs, or 2. NC/PC on 3 or more of R 3, 5, 6, 10, 11, 20, or 3. L or M on 9 or more or 4. L on 6 or 5. Non-participation in FSRB or 6. Nomination by FSRB/FATF delegation

7.2 Nepal's Third Round Mutual Evaluation, 2023

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

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

- Adequate coordination and planning a clear channel of communication between APG secretariat and FIU-Nepal was established.
- At least nine months before the on-site visit, the timelines for the whole ME process was finalized in consultation with the Nepal. This included the dates for the ME on-site visit.
- All updates and information were provided in an electronic format and laws, regulations, guidelines and other relevant documents were made available in English and the Nepali language.
- Involvement of 57 Agencies (Ministries/ Departments/LEAs/Regulators/Committees) more than 100 face-to-face meetings, workshops and interactions. (Agencies Involved in ME Process is mentioned in Annex). Focal person from each of those 57 agencies were appointed for ME process.
- More than 30 programs (Virtual/physical) for preparation of ME
- Three virtual interaction programs were conducted with coordination with APG Secretariat
- Regular meeting of Mutual Evaluation Main Committee (MEC)
- Discussion of ME in all major AML-CFT committees such as National Co-ordination Committee (NCC), National Review Council, Regulators coordination committee, Investigation Coordination Committee, Counter Terrorism Mechanism, Mutual Evaluation Committee and Technical Group for Implementation.
- Nepal's Response on Technical Compliance Criteria's– 40 Recommendations, 251 Main Criteria (questions) & 425 Total Questions
- Nepal's Response on Effectiveness Compliance – 11 Immediate Outcomes, 55 Main questions & Total 138 Questions
- Nepal's response to additional set of questions total 137 questions and Technical Compliance and Effectiveness Assessment further questions received from the Assessment Team
- ME logistic team and liaison officers' team is formed to smoothly conduct ME related visits/meetings.

7.2.1 Mutual Evaluation (ME) Working Group

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

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

and Human Resource arrangements with identified tasks.

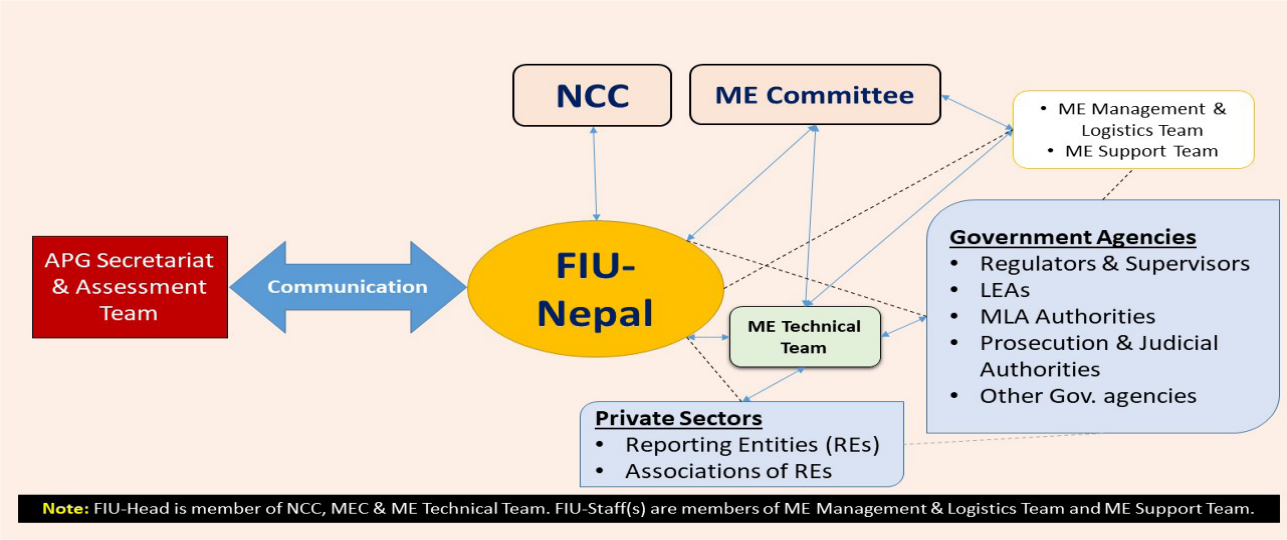
b) Strategic plan included legal, policy, operational and implementation plan for major or quick wins.

Other tasks done by ME Working Group are:

- Criteria-wise responses were asked from all relevant agencies and the write-ups were prepared for all 40 recommendations which included responses from all relevant agencies and their departments as well as for all immediate outcomes on all core issues along with examples of information that could support the conclusions on core issues, with Examples of specific factors supplemented by data, statistics, and case studies.
- For technical Compliance response for every criteria/sub-criterion, points were submitted which were provided by relevant agencies for all 40 recommendations. All the relevant Laws, Regulations, Directives, Guidelines, Procedures, were translated and provided to assessment team Uploaded via portal maintained at OPMCM.
- Pre-onsite meetings were scheduled with Regulators, Law Enforcement Authorities, Government Ministries, Departments and other competent authorities.
- Scoping Note with scoping of areas of higher risk and increase focus was discussed which also included vulnerability of Sectors and cross-cutting issues and received before Onsite which was a summarized view of AML/CFT system of Nepal
- After few rounds of discussions and exchange of draft Onsite Agenda the final onsite agenda was completed wherein the Head agency and participating agencies were decided.

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

Figure 7.5: FIU-Nepal in ME process



- All email communication between APG and Nepal is done through FIU-Nepal. FIU-Head has worked as the primary contact point for APG Secretariat. FIU-Nepal coordinated with all 57 agencies for the information exchange with APG.
- FIU-Head is the secretary of National Co-ordination Committee (NCC) co-ordination and co-operation between different agencies is discussed regarding ME.
- FIU-Head is the member of Mutual Evaluation Committee (MEC) and Technical group, on which decision is made regarding mutual evaluation process, such as finalization

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

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

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

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

a) Whole of the Government

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

b) Regulators & Supervisors

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

c) FIU-Nepal

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

d) Law Enforcement , Investigative and other relevant Agencies

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

e) Reporting entities

- Formulating AML/CFT Policy & Program their review and appraisal
- Risk Assessment & Internal Control
- Capacity Development
- Conducting CDD, ECDD, OCDD, Record Keeping, KYC mechanisms
- Adhering and materially following the laws, regulations, directives and International standards
- Fulfilling compliance obligations
- Conducting Screening (PEP, Sanctions)
- Monitoring of transactions for Detecting and reporting SARs, STRs, TTRs

7.2.4 Mutual Evaluation Assessment Team

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



Assessment team with Chief-Secretary and Governor of Nepal

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

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

7.2.5 Key Timeline of Mutual Evaluation of Nepal

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

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

- **Preparation of Technical Compliance Response**

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

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

- **Preparation of Effectiveness Response**

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

- **Pre-Onsite Visit**

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

- **Onsite Visit**

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

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

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



Onsite visit of Assessment team for Mutual Evaluation of Nepal

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

- **Face to Face meetings**

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



Face to Face Meeting: Mutual Evaluation of Nepal, 2023

7.2.6 Nepal's Mutual Evaluation Report (MER)

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

A. Nepal Government

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

B. ML-TF Risk Assessment

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

C. FIU-Nepal

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

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

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

D. LEAs and other Investigative Agencies

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

E. Regulators and Supervisors

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

casinos, as well as higher risk cooperatives, DPMS and real estate agents.

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

F. Terrorism Financing

- Nepal should identify, investigate and

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

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

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

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

H. International Co-operation

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

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

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

I. Training and Capacity Development

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

a) Technical Assessment Ratings of Nepal

Summary of Technical Assessment Rating

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

Detailed Technical Assessment Rating

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

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

b) Effectiveness Rating of Nepal

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

c) Conclusion

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

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

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

Furthermore, Nepal should pay attention towards the final report of recent MER. Since it focuses on effectiveness assessment, it demands not only implementation and outputs but also visible outcomes along with cooperation and coordination among AML/CFT stakeholders. Hence, to achieve this outcome, all concerned agencies should concentrate on their core business considering the benefits of AML/CFT system. Outcomes, recommendations and suggestion of the the third-round mutual evaluation is an opportunity to prove Nepal that it is very sensitive towards the implementation of AML/CFT norms into reality.

FREQUENTLY ASKED QUESTIONS (FAQS)

(Please note that these FAQs constitute brief guidance and are provided for information only)

A) General FAQs

1. What is Money Laundering?

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

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

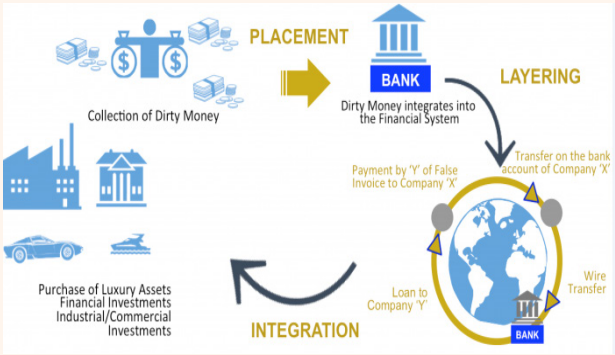
(i) the conversion or transfer, knowing that such property is the proceeds of crime

(ii) the concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime; and

(iii) the acquisition, possession or use of property, knowing, at the time of the receipt, that such property is the proceeds of crime.

2. How is Money Laundered?

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



Source: UNODC

a) In the initial - or placement - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.

b) After the funds have entered the financial system, the second – or layering – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do

not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

c) Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – integration – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

3. What is a Money Laundering offence?

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

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

4. What are Proceeds of Crime?

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

5. What is financing of Terrorism?

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

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

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

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

7. How are Corruption and Money Laundering linked?

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

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

8. Why controlling money laundering is necessary?

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

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

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

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

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

The application of KYC process by financial institutions and a high degree of transparency is crucial to fight money laundering and the financing of terrorism effectively. 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.

Section 7A of 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 suspicious about the veracity or adequacy of previously-obtained customer identification information
- There is suspicion of money laundering or terrorist financing
- At any time of transaction in relation to the high risked and politically exposed person
- In any other situations as prescribed by the regulator.

11. What is Money Mule?

A money mule (also known as a "*smurfer*") is an individual that is recruited, knowingly or unknowingly, to act on the behalf of criminals as part of a money laundering scheme. While historically they have been used to transfer physical amounts of cash between locations, in a modern financial context, they are generally used to open and manage bank accounts in order to facilitate the deposit, transfer and withdrawal of illegal funds.

Money mules may be recruited from a range of background, age and gender groups, although most tend to be younger men. When recruiting, criminals may approach potential mules with an offer of seemingly legitimate employment that masks the illegal nature of the work. Alternatively, they may be complicit in the criminal enterprise. Criminals looking for money mules often seek to take advantage of certain social trends or crises, such as the COVID-19 pandemic, that have resulted in a high number of unemployed people.

While criminals may specifically target vulnerable people or those with criminal backgrounds for money mule roles, they may equally seek to hire candidates without criminal backgrounds in order to better evade the scrutiny of authorities. Money mules may be paid directly for their participation in a money laundering scheme or may keep some amount of the illegal funds for themselves as a fee.

Once the money mule, or money mule account has been created, criminals can use it to begin transferring illegal money into the legitimate financial system. The laundering process may proceed in the following way:

- A money mule opens an account with a bank or financial services provider.
- Funds are deposited in the mule's account from a criminal source.
- The criminals instruct the mule how and where the money should be moved.
- Mules transfer the illegal funds to a third-

party account or withdraw them as cash.

- Money transferred from a mule account may then be converted into a virtual currency, such as Bitcoin, in order to prevent authorities tracing its origin.

(Source: https://complyadvantage.com/insights/money-mule-money-laundering/)

12. 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 center 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.

13. 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.

14. 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.

15. 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.

16. 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.

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

A STR/SAR 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.

18. Does FIU-Nepal 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/TTR should be reported to the FIU-Nepal electronically through goAML web reporting system by BFIs, Insurance companies, Remittance companies andd assigned REs where as other REs through 'Message Board' (In-built email platform) of goAML system.

19. 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 as per directive issued by concerned regulators.

20. 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.

21. 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, though, 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.

22. 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.

23. 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.

24. 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.

25. What is Financial Intelligence Unit, Nepal (FIU-Nepal)?

Financial Intelligence 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.

26. 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.

27. 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.

28. 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 rubbery,
- 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.

29. What is Mutual Evaluation?

Mutual Evaluation is a peer review process in which country 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).

30. 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 organizations 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

31. What are the differences of Information, Intelligence and Evidences?

Information refers to processed data that provides meaning and understanding, while **intelligence** is the result of analyzing and further processing information to generate evidence-based knowledge. Intelligence involves the ability to comprehend, understand patterns, and make informed decisions based on prior experiences. It incorporates context, corroboration, and value to provide guidance and resolve uncertainty. Intelligence is the collection of relevant aggregated information directed by an individual's experiences and understanding. For example, in AML/CFT, information could be transaction records, and intelligence would involve analyzing those records to detect suspicious patterns or behaviors, ultimately guiding decision-making and action. **Evidence**, on the other hand, is the culmination of a rigorous investigation, whether based on information or intelligence. It is legally admissible proof, meticulously collected and verified to support legal actions against financial criminals.

FIU-Nepal receives information from REs in the form of SAR/STR/TTR and additional information. After analysis, such information is converted into actionable intelligence by FIU-Nepal. Any dissemination from FIU-Nepal should be treated as intelligence, not evidence. It is responsibility of LEAs to convert intelligence to evidence.

32. What is Seizing, freezing, and confiscation?

Seizing, freezing, and confiscation are vital components of AML/CFT efforts, playing

essential roles in preventing and combating financial crimes. As per FATF glossary:

- **Seize** means to prohibit the transfer, conversion, disposition or movement of property on the basis of an action initiated by a competent authority or a court under a freezing mechanism. However, unlike a freezing action, a seizure is effected by a mechanism that allows the competent authority or court to take control of specified property. The seized property remains the property of the natural or legal person(s) that holds an interest in the specified property at the time of the seizure, although the competent authority or court will often take over possession, administration or management of the seized property.
- **Freeze** means to prohibit the transfer, conversion, disposition or movement of any property, equipment or other instrumentalities on the basis of, and for the duration of the validity of, an action initiated by a competent authority or a court under a freezing mechanism, or until a forfeiture or confiscation determination is made by a competent authority. As part of the implementation of a freeze, countries may decide to take control of the property, equipment, instrumentalities, or funds or other assets as a means to protect against flight.
- **Confiscation** includes forfeiture where applicable, means the permanent deprivation of funds or other assets by order of a competent authority or a court. Confiscation or forfeiture takes place through a judicial or administrative procedure that transfers the ownership of specified funds or other assets to be transferred to the State. In this case, the person(s) or entity(ies) that held an interest in the specified funds or other assets at the time of the confiscation or forfeiture loses all rights, in principle, to the confiscated or forfeited funds or other assets. Confiscation or forfeiture orders are usually linked to a criminal conviction or a court decision whereby the confiscated or forfeited property is determined to have been derived from or intended for use in a violation of the law.

B) goAML related FAQs

1) How to register in goAML System?

Reporting Entities (REs) can register themselves in the goAML system through a user-friendly web-based application or can contact the FIU-Nepal Nepal, which is responsible for administering the system. The FIU-Nepal has developed various guiding documents (e.g. videos, operation guidelines etc.) and in addition FIU-Nepal will provide guidance and procedures for registration, including the necessary documentation and compliance requirements.

As part of the registration process, REs need to submit institution's details, including its legal status, the nature of the business, and designated personnel responsible for AML/CFT compliance. The FIU will review the application and, upon approval, provide the necessary access credentials and instructions to access the production environment of goAML for reporting and compliance with AML/CFT regulations.

2) 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.

3) 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.

4) 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.

5) 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.

6) 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.

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

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

8) What attachments should be provided with STR?

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

9) What information to provide in 'Registration No.' field for Entity that do not have registration number e.g. Joint Venture Accounts, Upabhokta Samtiti etc.?

Provide 'Not Applicable' in such cases.

10) 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.

11) 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.

12) 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.

13) 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.

14) 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.

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

For Text fields - 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

16) 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.

17) 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.

18) 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.

19) 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.

20) 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.

21) 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.

22) Should SWIFT/TT be reported as TTR?

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

23) 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.

24) 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.

25) 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.

26) 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.

27) 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.

28) 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.

29) What will happen when STR/SAR/TTR is not reported?

As per ALPA, 2008, STR/SAR must be submitted as soon as possible, not exceeding three days and TTR must be submitted within 15 days of date of transaction. Non-submission of STR/SAR/TTR or failure to submit within prescribed time/format are subject to fine and penalties. Punishment ranges from written clarification or fine up to NPR. 5 crores, FIU-Nepal can impose fine up to NPR. 10 lakhs.

FAQs regarding reporting through 'Message Board'

30) Where can we find format of TTR or STR/SAR, that ought to be attached while reporting through Message Board of goAML?

Appropriate format of TTR and STR/SAR can be found in the annexure of AML/CFT directive issued by your concerned regulator. Some selected directives can also be found in official website of FIU-Nepal: https://www.nrb.org.np/departments/fiu/

***NOTE**: For updated directive, please always check official website of concerned regulator.*

31) In which file format we need to submit/attach STR/SAR and TTR report while submitting through goAML Message Board?

TTR must be submitted in excel format and STR/SAR must be submitted either in word or in pdf format. As specified by regulator.

32) Do we need to send CD also after submitting through goAML Message Board?

No.

33) Can we submit reports by usual mechanism through CDs?

No.

34) Do we need to send reports by web or XML medium from goAML (Production Environment)?

No, you need to send reports by Message Board only. However, if you have capabilities to submit XML or web reports you must first take approval from FIU-Nepal.

35) Do we need to send reports by web or XML medium from goAML (Test Environment) as well?

Yes. Message Board platform of goAML (Production Environment) is only for temporary use and it is solely aimed to replace currently used unsecured reporting mediums such as CD/Paper/Letter/Email. In the future, each reporting entities have to submit reports via 'web or XML' medium of goAML (Production environment). To prepare and practice for that, reporting entities are also requested to submit reports by web or XML medium of goAML (Test Environment), for now, as well.

Note: *For any further queries or confusions regarding goAML, please do contact the **'goAML Implementation Team'** of FIU-Nepal through **Email**: goaml@nrb.org.np & **Tel:** 01-5719641 (Ext. 418). Please do visit our website www.nrb.org.np/departments/fiu for latest documents, notices, goAML related video tutorials and other information.*

FIU-NEPAL: MONTHLY HIGHLIGHTS OF FY 2022/23

Shrawan *(July/August)*

- Meeting between FIU and Social Welfare Council (SWC) on 2079/04/23 regarding domestic cooperation.
- In-house Knowledge sharing program with FIU staffs regarding STR/SAR analysis on 2079/04/05.

Bhadra *(August/September)*

- Interaction program with Designated Non-Financial Business and Professions (DNFBPS) regarding AML/CFT in DNFBPs and goAML in DNFBPS on 15 September 2022.
- Meeting with Department of Customs regarding domestic cooperation and goAML reporting on August 17, 2022.
- Meeting with Department of Land Management and Achieve (DOLMA) regarding domestic cooperation and goAML reporting on August 18, 2022.
- Meeting with Monetary Management Department of Nepal Rastra Bank regarding domestic cooperation and goAML reporting on August 31, 2022.

Ashoj *(September/October)*

- Interaction Program on *"APG Third Round Mutual Evaluation Preparation"* was conducted at Hotel Yak and Yeti on September 27, 2022 with participants from Nepal Rastra Bank's various related departments viz., Bank Supervision Department, Financial Institutions Supervision Department, Banks and Financial Institutions Regulation Department, Monetary Management Department, Micro-Finance Institutions Supervision Department, Foreign Exchange Management Department, Banking Department, Payment Systems Department, Non-Bank Financial Institutions Supervision Department, Office of the Governor and Legal Division.
- Training/Discussion program on IO 1 & 3 was conducted with facilitation from HM Treasury, UK for preparation of ME on October 17, 19 & 20. Participants on the program were from FIU-Nepal, NRB, Insurance Board, SEBON and Department of Cooperatives. Email correspondence of the program and overall co-ordination of the program was done by FIU-Nepal and logistics management for the program was done by OPMCM and MOLJPA.
- Meeting with Banking Department, Nepal Rastra Bank regarding domestic cooperation and goAML reporting on September 22, 2022.
- Joint meeting with Nepal Police and DMLI regarding domestic cooperation on September 22, 2022.

Kartik *(October/November)*

- Interaction Program regarding Mutual Evaluation and Issues, Challenges and its solutions faced during effective implementation of goAML system for Commercial Banks was conducted held at Akama Hotel, Kathmandu (November 14, 2022).
- Knowledge Sharing Program regarding APG Third Round Mutual Evaluation of Nepal (2022-23) within FIU-Nepal employees (October 20, 2022).

Mangsir *(November/December)*

- Meeting regarding goAML system and challenges faced during its implementation process was conducted with Citizen Investment Trust (CIT) on Mangsir 1, 2079 at FIU-Nepal.
- Interaction Program regarding Mutual Evaluation and issues, challenges and faced during effective implementation of goAML system for "B" and "C" class banks and financial institution was conducted on Mangsir 12, 2079 at Yellow Pagoda Hotel, Kathmandu.

Poush *(December/January)*

- Meeting regarding goAML system and challenges faced during its implementation process was conducted with NCHL and IME Limited (Remittance Company) at FIU-Nepal.

Magh *(January/February)*

- Meeting with IMF regarding AML/CFT and other areas of FIU-Nepal on its first review mission and article IV consultation (February 16, 2023).

Falgun *(February/March)*

- Interaction program with Life Insurance, Non-Life Insurance and Re-insurance companies regarding STR/SAR/TTR reporting via goAML system, Ongoing Mutual Evaluation of Nepal and general AML/CFT related matters (at Akama Hotel, on March 15, 2023).

FIU-NEPAL: MONTHLY HIGHLIGHTS OF FY 2022/23

Chaitra *(March/April)*

- In-house Knowledge sharing program among FIU-staffs on 'US Banking crisis and its relevancy' (March 16, 2023).
- Knowledge sharing program on FIU roles, best practices, Trend and typologies and effectiveness of goAML analysis for FIU-staffs; Resource Person: Dr. Hari Kumar Nepal (Nepal Rastra Bank) (at Hotel Vista, Chandragiri on March 18, 2023).
- FIU-Nepal coordinated and participated four Pre Face-to-Face (F2F) virtual meetings with APG Mutual Evaluation Assessment Team, where different agencies of Nepal responded several questions regarding FATF recommendations and Immediate Outcomes (April 12, 17 and 18, 2023).

Baisakh *(April/May)*

- Two days training/Interaction/Workshop program was organized by Asian Development Bank (ADB) in partnership with FIU-Nepal on the topic 'Countering Trade Based Money Laundering (TBML)' on May 11-12, 2023 at Kathmandu Marriot Hotel.

Jestha *(May/June)*

- Interaction program with Regulator/Supervisors was organized by FIU-Nepal, in the presence of honorable Governor (as chief guest), National Coordination Committee (NCC) chair and Mutual Evaluation Committee (MEC) chair, on June 7, 2023 at Kathmandu Marriot Hotel. Participants were from Regulatory/Supervisory bodies of Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs). Representatives from major Law Enforcement Agencies (LEAs) and other government agencies were also present in the program.
- Interaction program was organized by FIU-Nepal with Reporting Entities of Securities sector in the presence of representatives from Securities Board of Nepal (SEBON) and Stock Broker Association of Nepal (May 26, 2023).

Asar *(June/July)*

- Interaction program with representatives of three major associations of Gold and Precious Metals named Federation of Nepal Gold and Silver Dealers' Association, Federation of Nepal Gold Silver Gem and Jewelry Association and Nepal Gold and Silver Art Business Association was organized on June 25, 2023 in the presence of representatives from Inland Revenue Department, Director Mr. Mitra Lal Adhikari.
- Knowledge sharing program for FIU-staffs was conducted on June 30, 2023. Assistant Directors Mr. Sameer Kumar Singh and Mr. Amish Sharma presented regarding ongoing Mutual Evaluation of Nepal. IT staffs of goAML Implementation team of FIU-Nepal presented regarding functionality and new features of goAML software. Staff meeting was also conducted on the same date.

ANNEXURES

Annex 1: Agencies Involved in Mutual Evaluation Process

(A) Lead agencies

- National Co-ordination Committee (NCC) members
- Mutual Evaluation Committee (MEC) Members
- Mutual Evaluation Working Group
- Commission for the Investigation of Abuse of Authority (CIAA)
- Financial Intelligence Unit Nepal (FIU-Nepal)
- Department of Money Laundering Investigation (DMLI)
- Nepal Rastra Bank (NRB)
- Nepal Police
- Department of Revenue Investigation (DRI)
- Inland Revenue Department (IRD)

(B) Regulators\Supervisors

- Nepal Rastra Bank including Bank Supervision Department, Banks and Financial Institutions Regulation Department, Payment Systems Department, Foreign Exchange management Department, Monetary Management Department, Non-Bank Financial Institutions Supervision Department, Banking Department, Financial Institutions Supervision Department, Micro-Finance Institutions Supervision Department,
- Security Exchange Board of Nepal (SEBON)
- Insurance Board (IB)
- Institute of Chartered Accountant of Nepal (ICAN)
- Office of the Company Registrar (OCR)
- Ministry of Culture, Tourism and Civil Aviation (MoCTCA)
- Nepal Bar Council (NBC)
- Inland Revenue Department (IRD)
- Department of Cooperatives (DeoC) including one province and one local regulator
- Department of Land Management and Archive (DoLMA)
- Nepal Notary Public Council (NNPC)
- Social Welfare Council (SWC) - For NPOs
- Ministry of Home Affairs (MoHA) - For Non Profit Organisations NPOs
- Ministry of Women, Children and Senior Citizens- For NPOs

(C) Intelligence and Similar Other Agencies

- National Investigation Department (NID)
- National Vigilance Centre
- Hello Sarkar

(D) Investigation and Related Agencies:

- Security Exchange Board of Nepal (SEBON)
- Insurance Board (IB)
- Nepali Army
- Judicial Council
- Election Commission (EC)
- Inland Revenue Department (IRD)
- Department of Forest and Soil Conservation (DoFSC)
- Department of National Park and Wild Life Conservation (DoNPWLC)
- Department of Environment
- Department of Foreign Employment (DoFE)
- Department of Customs (DoC)
- Department of Commerce, Supplies and Consumer Protection
- Department of Immigration
- Department of Drugs Administration (DDA)
- Armed Police Force (APF)

(E)Relevant Agencies for International Cooperation

- Ministry of Foreign Affairs (MoFA)
- Mutual Legal Assistance (MLA) Central Authority
- Extradition Central Authority

(F) Prosecution/Adjudication/Asset Recovery:

- Office of Attorney General including Special, High and District Attorney
- Judgement Execution Directorate (Supreme Court) including District Tahasildar
- Supreme Court (SC) including representatives

from Special Court

- Department for Management of Proceeds of Crime (DMPC)

(G) Oversight & Policy Agencies:

- Office of the Prime Minister and Council of Ministers
- Ministry of Defence
- Ministry of Home Affairs (MoHA)
- Ministry of Law, Justice and Parliamentary affairs (MoLJPA)
- Ministry of Finance (MoF)
- Ministry of Industries, Commerce and Supplies including Department of Industries
- Ministry of Federal Affairs and General Administration
- Ministry of Forest and Environment
- Ministry of Labour, Employment and Social Security
- Ministry of Health & Population
- Nepal Planning Commission
- Auditor General
- Office of Comptroller General
- Public Procurement Monitoring Office
- Public Accounts Committee- House of Representatives
- Investment Board of Nepal
- Department of Industries

Annex 2: Legal Instruments on AML/CFT

S.N.	Instruments
1.	FATF 40 Recommendations and 11 Immediate Outcomes
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

Annex 3: 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)

Annex 4: 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 *(For AML/CFT)* Citizen Investment Trust *(For AML/CFT)* Postal Saving Bank *(For AML/CFT)* Public Debt Securities Other authorities licensed by Nepal Rastra Bank	Nepal Rastra Bank
2.	Insurance Company	Nepal Insurance Authority
3.	Capital Market (including brokers) Merchant Banks Credit Rating Agency Listed Securities Companies CDS and Clearing Commodity Clearance and Settlement House Warehouse exchange	Securities Board of Nepal
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.	• Notary Public • *Auditor** • *Accountant** • Other Business **As per Section 2 (Dha) of Asset (Money) Laundering Prevention Act, 2064, organization who is working for others.*	• 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, Province Governments and Local Governments

Annex 5: Regulatory/Supervisory Instruments

S.N.	Directives	Issuing Authority
1.	AML/CFT Directives for A, B & C class BFIs	Nepal Rastra Bank (NRB)
2.	AML/CFT Directives for Microfinance FIs	
3.	AML/CFT Directives for Money changers and Remittance companies	
4.	AML/CFT Directives for PSP/PSOs	
5.	AML/CFT Directives for Infrastructure Development Bank	
6.	AML/CFT Directives for EPF, CIT and Postal Saving Banks	
7.	AML/CFT Directives for Insurance companies	Nepal Insurance Authority (NIA)
8.	AML/CFT Directives for Securities Companies	Securities Board of Nepal (SEBON)
9.	AML/CFT Directives for Cooperatives	Department of Cooperatives
10.	AML/CFT Directives for Approved Retirement Funds	Inland Revenue Department
11.	AML/CFT Directives for Dealers in precious stones and metals	

S.N.	Directives	Issuing Authority
12.	AML/CFT Directives for CASINOS	Ministry of Culture, Tourism and Civil Aviation
13.	AML/CFT Directives for Real Estate Business/Agents	Department of Land Management and Archive (DOLMA)
14.	AML/CFT Directives for Trust or Company Service Providers (TCSPs)	Office of Company Registrar
15.	AML/CFT Directives for Auditors and Accountants	The Institute of Chartered Accountants of Nepal (ICAN)
16.	Others	Issued by regulators mentioned in Annex 3

Annex 6: Responsibility of the Key Players (FATF Standards and Prevailing Nepalese Laws)

Rec.	FATF Recommendations 2012	Responsible Agency
1.	Assessing risks and applying a risk-based approach	Common: • Primarily the Policy Level, Financial Sector and LEAs
2.	National cooperation and coordination	Common: • Primarily the Policy Level, Financial Sector and LEAs
3.	Money laundering offence	Legal
4.	Confiscation and provisional measures	• DMLI • Nepal Police • DRI • CIAA • Customs • Court • Confiscated Assets Management Department
5.	Terrorist financing offence	• Legal
6.	Targeted financial sanctions related to terrorism and terrorist financing	• MOFA/MOHA • Regulator/s
7.	Targeted financial sanctions related to proliferation	• MOFA/MOHA • Regulator/s
8.	Non-profit organizations	• MOHA • SWC • Regulator/s
9.	Financial institution secrecy laws	• Regulator/s
10.	Customer due diligence	
11.	Record keeping	
12.	Politically exposed persons	
13.	Correspondent banking	
14.	Money or value transfer services	
15.	New technologies	
16.	Wire transfers	
17.	Reliance on third parties	
18.	Internal controls and foreign branches and subsidiaries	
19.	Higher-risk countries	
20.	Reporting of suspicious transactions	
21.	Tipping-off and confidentiality	
22.	DNFBPs: Customer due diligence	
23.	DNFBPs: Other measures	

Rec.	FATF Recommendations 2012	Responsible Agency
24.	Transparency and beneficial ownership of legal persons	• Legal Person Registrars ++ • Regulator/s
25.	Transparency and beneficial ownership of legal arrangements	
26.	Regulation and supervision of financial institutions	• Regulator/s
27.	Powers of supervisors	
28.	Regulation and supervision of DNFBPs	
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	• MOLJPA • Attorney General • Court
39.	Extradition	• MOHA • Court
40.	Other forms of international cooperation	• FIU • LEAs • Regulator/s

Annex 7: List of major documents available on the FIU-Nepal's official website

(Website Link: *https://www.nrb.org.np/departments/fiu/)*

goAML related

- goAML Member List
- goAML-Notice
- goAML related FAQs

Guidelines

- Suspicious Transaction Reporting & Suspicious Activity Reporting (STR/SAR) Guidelines
- Threshold Transactions Reporting (TTR) Guidelines

Laws & Legislations

- सम्पत्ति शुद्धीकरण (मनी लाउण्डरिङ्ग) निवारण ऐन, २०६४
- सम्पत्ति शुद्धीकरण (मनी लाउण्डरिङ्ग) निवारण नियमावली, २०७३
- सम्पत्ति शुद्धीकरण (मनी लाउन्डरिङ्ग) निवारण (सूचीकृत व्यक्ति, समूह वा संगठनको सम्पत्ति वा कोष रोक्का) नियमावली, २०७०
- वित्तीय जानकारी इकाई सम्बन्धी विनियमावली, २०७७

AML/CFT Directives Issued (From Respective Regulators)

- A, B & C class BFIs
- Microfinance FIs
- Money changers and Remittance companies
- PSP/PSOs
- Infrastructure Development Bank
- EPF, CIT and Postal Saving Banks
- Insurance companies
- Securities Companies
- Cooperatives
- Approved Retirement Funds
- Dealers in precious stones and metals
- CASINOS
- Real Estate Business/Agents
- Trust or Company Service Providers (TCSPs)
- Auditors and Accountants

Other Documents

- Mutual Evaluation Report of Nepal, 2023
- Strategic Analysis Report of FIU-Nepal, 2023
- सम्बद्ध कसुर: जानकारी पुस्तिका
- AML/CFT National Strategy and Action Plan (2076-081)
- National Risk Assessment Report on Money Laundering and Terrorist Financing, 2020 (Assessment Period: 2015-18)
- FIU-Nepal: Annual Report 2078/79 (2021/22)
- FIU-Nepal Newsletter (October, 2022) – Issue II
- Frequently Asked Questions (FAQs)
- Sanction List
- Useful Links

Annex 8: Strategic Analysis Report of FIU-Nepal, 2023: Key highlights

'Suspicious Tax Evasion through Use of Personal Bank Accounts for Business Transaction'

(For full report, please go to : https://www.nrb.org.np/fiu/strategic-analysis-report-of-fiu-nepal-2023/)

A. FINDINGS

- 37% of STR/SARs received *(between Jan, 2020 to Dec, 2022)* were related to the suspicious of tax evasion through use of personal bank accounts for business transactions. On an average, monthly 65 such STR/SARs are received by FIU-Nepal during this period.
- 48% of such business transactions are linked with proprietorship business, 33% with private limited companies and 19% of such firms' registration status is unknown. Nature of such involved businesses are trading, manufacturing, hotels & restaurants, travels, medical etc.
- Multiple personal accounts were found to be used for transaction for a single business. For such transactions, personal accounts of proprietor or shareholder is used in most of the cases. Other involved are: family members, employees etc.
- During the review period, FIU-Nepal has analysed 204 such cases and 113 were disseminated to LEAs (DRI and IRD) for further investigation.
- Based on disseminated cases, involved suspicious amount is approx. NPR. 12 billion (*annualized*).
- From above analysis, we can conclude that the risk of using personal accounts for business transactions to evade taxes is in increasing trend, evidenced by the rise in the number of STR/SARs reported to FIU-Nepal by BFIs in recent years.

B. RECOMMENDATIONS

All the stakeholders need to play an active role for harmonization in nature of business and type of account used for the related transactions. Based on the findings of the report, recommendations to REs, Regulators/Supervisors and LEAs in order to discourage suspicious tax evasion through use of personal bank accounts for business transactions are listed below:

a. Recommendations to Reporting Entities (REs)

- Customers need to be made aware on types of accounts and its purpose at the time of customer onboarding and on a regular basis.
- Business firms and companies need to be made aware regarding use of firm's or company's account while conducting business related transactions.
- REs should develop indicators/red flags that can detect the tax evasion through use of personal bank accounts for business transactions on their transaction monitoring process. In order to make the process effective REs can opt for transaction monitoring system.
- Transaction monitoring should also be done in the personal bank accounts of shareholders/proprietors, close family members and key employees in order to identify any linked transactions and possible linkage.

b. Recommendations to Regulators/ Supervisors

- Use of personal bank account for business related transactions should be discouraged through directives.
- Regulators should impose fines and penalties on use of personal savings account for business related transactions.
- Unorganized sectors (including real estate agents) should be licensed, regulated and supervised through amendments in the prevailing laws. Transactions of such sectors should be conducted via bank accounts of business rather than current practice of personal bank accounts.

c. Recommendations to Investigating Agencies

- Investigating agencies need to include the personal accounts of shareholders, promoters, proprietors, key staffs and their close associates while undergoing tax assessment or any other kind of investigation.
- Common business registry should be developed to strengthen the investigation process. Such registry should include the businesses registered in municipality, department of commerce, office of the company registrar and any other registering authorities.
- Given the risk categorization of the past two NRA report, tax evasion is a high risk predicate offense. Investigators should prioritize its investigation on suspicious tax evasion through use of personal bank accounts for business transaction.

C. RED FLAGS

Following 'Red flags' *(related to suspicious tax evasion through use of personal accounts for business transactions)* **may help REs to detect if a transaction is suspicious: -**

- Huge transaction in personal saving account.
- Structuring/smurfing, in which business related transactions are broken up into small amounts and transacted through personal accounts to avoid detection and questioning by BFIs. e.g. Company 'A' is not transacting much. However, evidence from Company B would suggest that Company A is active and conducting business through other channels.
- If unexplained transactions are repeatedly conducted between personal and business accounts.
- Sales turnover reflected in bank statement is reasonably different from that of audited report, indicating transactions from personal accounts.
- Customer consistently makes cash transactions that are significantly below the reporting threshold amount in an apparent attempt to avoid triggering the identification and reporting requirements.
- Personal account of shareholder/ signatory of the company receives fund transfer from company account in the name of borrowing.
- Customer/client is linked to adverse media news (national or international) regarding tax evasion or related issues.
- Any act or transaction is not found reasonable or is found to have been conducted with linked company/entity where the transaction has no justifiable purpose.
- Unusual and high transaction in the business person's other linked accounts, e.g. of other family members, close friends, relatives etc.

Disclaimer*: Above list is a summary of best practices to be adopted by the REs when dealing with the execution and/or review*

of client's transactions/activities and the assessment of suspicion. It is intended solely as an aid and requires constant updating. It requires frequent adaptation to changing circumstances and new methods of laundering money from time to time. It is not an exhaustive list of steps. These red flags cannot be evidence of complying with the requirements of the AML/CFT Act.

D. CASE EXAMPLES

1. Huge cash deposit of transaction of money transfer business in personal account of proprietor

While reviewing Updated KYC of Mr. ABC, Mr. ABC has declared his income source as family business. The estimated monthly and annual transactions declared by Mr. ABC is NPR. 10 million and NPR. 100 million respectively whereas he has declared the estimated annual income as NPR 1 million. As per Updated KYC, he has a family business named XYZ Pvt. Ltd. and purpose of account opening was declared as Business.



Upon monitoring his saving account, unusual transactions pattern with high frequency (both deposit and withdrawal) has been observed. Amount of approx. NPR 170 million has been deposited in account since 2019 till 2021. It was noted that 85% of the deposit i.e., approx. NPR 145 million was done through cash and 95% of the withdraw i.e., approx. NPR 160 million was done through transfer. Similarly, the amount has been deposited from 29 branches (i.e., major volume from the Branch nearby the business location) as well as the amount has been withdrawn from 2 branches (i.e., major volume withdrawn from the Branch nearby the business location).

On scrutinizing the KYC of XYZ Pvt. Ltd., the business is involved in Money transfer related business on which the Mr. ABC is a proprietor. Further reviewing the transaction pattern of Mr. ABC, amount was deposited through cash majority by account holder himself mentioning as business, remittance business, remittance collection etc. Similarly, while reviewing the withdrawal pattern, major amount was transferred to various remittance business i.e., amount was credited through cash from account holder as well as various conductor which has been debited in bulk through transfer or CIPS to various remittance related business or transferred to various individual person. Amount of approx. NPR 94 million was deposited mentioning remarks as business, remittance business, remittance collection etc. which is 55% of total deposit transaction. Major amount was credited and debited through transfer to/ from various remittance related business.

After observation of above analysis, it seems that the remittance transaction was routed through his individual saving account despite



of being his own remittance related business (XYZ Money Transfer) as source and nature of most of the deposit transaction was mentioned as business, remittance collection etc. and the ultimate beneficiary of saving account Mr. ABC seems to be XYZ Money Transfer.

The account has a suspicious nature of transaction and hence bank reported STR to FIU-Nepal. After thorough analysis and identifying more linkages with the conductors and business parties, FIU-Nepal disseminated the case to Department of Revenue Investigation for tax evasion investigation.

2. Transaction of trading business through personal account of spouse of proprietor

Mr. Ram is a Manager of Capital Trading Company. Mrs. Sita, wife of the client of the bank (Mr. Ram), is a Proprietor of this Trading Company, which deals with telecommunication business.

Huge turnover deviation can be seen in account, actual annual turnover exceeds estimated annual turnover by approx. 50 times, where estimated annual turnover is Rs. 5 million and actual annual turnover for last one year is approx. Rs.250 million. The transactions in his individual account are conducted by multiple parties related with telecommunication business. Hence, entire transactions in his account are related to telecommunication business.

Total of Rs. 450 million has been transferred to the account from the account of Capital Trading, in the period of one year. Business transaction of Capital Trading company is conducted through Mr. Ram's personal saving account. Business transaction of the Capital Trading Company is conducted through personal saving account of Spouse. It may be an attempt to evade corporate tax.

Business transaction of the company – "Capital Trading", owned by Mrs. Sita, wife of the client Mr. Ram, where Mr. Ram is involved as a manager, is conducted through his personal saving account. Since, business transaction is conducted through personal saving account of Spouse, it may be an attempt to evade corporate tax and hence FIU-Nepal disseminated this case to Inland Revenue Department for further investigation.

3. Income of unregistered transnational business routed through personal account



Customer has used saving account to receive the business-related inward fund from foreign jurisdiction. He has deposited NPR. 9 million (approx. USD 75,000) in saving account which was sent by third party of Country 'A' through Inward telex payment. After few days, he has transferred that fund to his current account and has done Telegraphic Transfer (TT) to import various medical items from country 'B' related to Covid-19 (i.e., Mask and Infrared Temperature Gun). Customer have been trying to get some short-term benefits by taking the advantages of lockdown for his business, which seems to be unregistered. Same was also published in several newspapers. Based on adverse news and unusual transactions in personal account, Bank submitted STR to FIU-Nepal. After analysis, FIU-Nepal found suspicion about personal saving account been used by customer to evade tax evasion and disseminated to Inland Revenue Department for further investigation.

4. High profile businessman using personal account to evade tax



Mr. PSD had been maintaining personal saving account in a bank for long time. Mr. PSD a high-profile businessman related to Steel and Cement Industry is associated with multiple companies. It has been observed that there are regular and large transaction in the personal account of Mr. PSD. Fund is seen transferred from various company accounts where Mr. PSD is the Director, Shareholder or Signatory. For last two years, transaction of NPR. 190 million seen in the personal saving account of Mr. PSD and it seems unusual for personal saving account.

As per the section 101 of companies Act, 2006, it is prohibited to sanction loans to the officers or shareholders of the company. Looking at the bank statement of Mr. PSD, NPR. 26 million has been credited in his personal account (multiple transactions) from those company accounts and the reason is mentioned as 'Borrowings'.

Thus, Interrelated and structured transactions including cash transactions seen in this account is suspected to be business related transactions conducted through personal accounts for tax evasion purpose and also against the provision of company act, hence the case is disseminated to Department of Revenue Investigation for further investigation.

Annex 9: Major Events/Activities of FIU-Nepal in FY 2022/23

Events & Programs: goAML Integration, Guidance & Feedback

1. Interaction program with Designated Non-Financial Business and Professions (DNFBPS) regarding AML/CFT and goAML reporting on 15 September 2022



2. Interaction Program regarding Mutual Evaluation and Issues, Challenges and its solutions and effective implementation of goAML system for Commercial Banks was conducted held at Akama Hotel, Kathmandu (November 14, 2022)



3. Interaction Program regarding Mutual Evaluation and issues, challenges and faced during effective implementation of goAML system for "B" and "C" class banks and financial institution was conducted on Mangsir 12, 2079 at Yellow Pagoda Hotel, Kathmandu



4. Interaction program with Life Insurance, Non-Life Insurance and Re-insurance companies regarding STR/SAR/TTR reporting via goAML system, Ongoing Mutual Evaluation of Nepal and general AML/CFT related matters (at Akama Hotel, on March 15, 2023)



5. Interaction program was organized by FIU-Nepal with Reporting Entities of Securities sector in the presence of representatives from Securities Board of Nepal (SEBON) and Stock Broker Association of Nepal (May 26, 2023)



6. Inauguration of Disaster Recovery Site (DR-Site) for goAML System (June, 2023)



7. Interaction/meeting regarding goAML system and challenges faced during its implementation process was conducted with Citizen Investment Trust (CIT) on Mangsir 1, 2079 at FIU-Nepal

8. Interaction/meeting regarding goAML system and challenges faced during its implementation process was conducted with NCHL and IME Limited (Remittance Company) at FIU-Nepal. (January, 2023)

9. Interaction program with representatives of three major associations of Gold and Precious Metals named Federation of Nepal Gold and Silver Dealers' Association, Federation of Nepal Gold Silver Gem and Jewelry Association and Nepal Gold and Silver Art Business Association was organized on June 25, 2023 in the presence of representatives from Inland Revenue Department, Director Mr. Mitra Lal Adhikari

Events & Programs: Domestic Cooperation

1. Interaction program with Regulator/Supervisors was organized by FIU-Nepal, in the presence of honorable Governor (as chief guest), National Coordination Committee (NCC) chair and Mutual Evaluation Committee (MEC) chair, on June 7, 2023 at Kathmandu Marriot Hotel. Participants were from Regulatory/Supervisory bodies of Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs). Representatives from major Law Enforcement Agencies (LEAs) and other government agencies were also present in the program.



2. Meeting between FIU and Social Welfare Council (SWC) on 2079/04/23 regarding domestic cooperation

3. Meeting with Department of Customs regarding domestic cooperation and goAML reporting on August 17, 2022

4. Meeting with Department of Land Management and Achieve (DOLMA) regarding domestic cooperation and goAML reporting on August 18, 2022

5. Meeting with Monetary Management Department of Nepal Rastra Bank regarding domestic cooperation and goAML reporting on August 31, 2022

6. Meeting with Banking Department, Nepal Rastra Bank regarding domestic cooperation and goAML reporting on September 22, 2022

7. Joint meeting with Nepal Police and DMLI regarding domestic cooperation on September 22, 2022

Events & Programs: International Cooperation

1. *Training/Discussion program on IO 1 & 3 was conducted with facilitation from HM Treasury, UK for preparation of ME on October 17, 19 & 20. Participants on the program were from FIU-Nepal, NRB, Insurance Board, SEBON and Department of Cooperatives. Email correspondence of the program and overall co-ordination of the program was done by FIU-Nepal and logistics management for the program was done by OPMCM and MOLJPA*

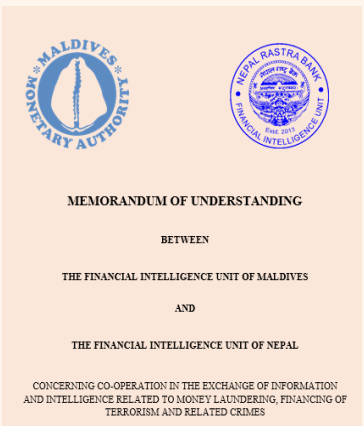


Events & Programs: International Cooperation

2. *Two days training/Interaction/Workshop program was organized by Asian Development Bank (ADB) in partnership with FIU-Nepal on the topic 'Countering Trade Based Money Laundering (TBML)' on May 11-12, 2023 at Kathmandu Marriot Hotel*



3. *MoU signed between FIU-Nepal and FIU-Maldives for information exchange and cooperation. (January, 2023)*



MEMORANDUM OF UNDERSTANDING

BETWEEN

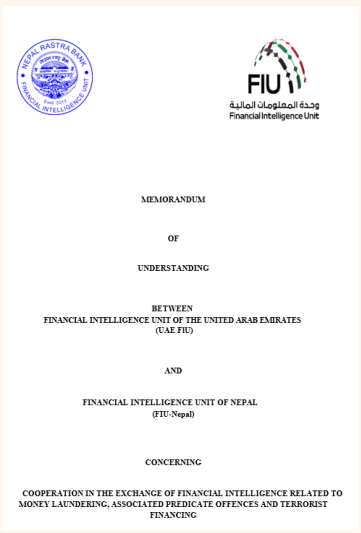
THE FINANCIAL INTELLIGENCE UNIT OF MALDIVES

AND

THE FINANCIAL INTELLIGENCE UNIT OF NEPAL

CONCERNING CO-OPERATION IN THE EXCHANGE OF INFORMATION AND INTELLIGENCE RELATED TO MONEY LAUNDERING, FINANCING OF TERRORISM AND RELATED CRIMES

5. *MoU signed between FIU-Nepal and UAE FIU for information exchange and cooperation. (July, 2023)*



MEMORANDUM

OF

UNDERSTANDING

BETWEEN
FINANCIAL INTELLIGENCE UNIT OF THE UNITED ARAB EMIRATES
(UAE FIU)

AND

FINANCIAL INTELLIGENCE UNIT OF NEPAL
(FIU-Nepal)

CONCERNING

COOPERATION IN THE EXCHANGE OF FINANCIAL INTELLIGENCE RELATED TO MONEY LAUNDERING, ASSOCIATED PREDICATE OFFENCES AND TERRORIST FINANCING

4. *FIU-head, along with Governor of NRB and Secretary of Government of Nepal, participated in 3rd Ministerial Conference on Counter-Terrorism Financing "No Money for Terror", organized by Government of India*



6. *Deputy Directors of FIU-Nepal participated in APG Annual General Meeting, conducted at Kuala Lumpur, Malaysia (July, 2022)*

7. *FIU staffs participated training on Leveraging Trade Data in AML/CFT, organized by ADB at Singapore (September, 2022)*

Events & Programs: International Cooperation

8. *FIU employee participated on goAML Inter regional meeting, organized by Pusat Pelaporan Dan Analysis Transaksi Keuangan Kepala at Jakarta, Indonesia.*



9. *FIU employee participated on Central Banking Operation & Payment Systems Program, organized by Reserve Bank of India at Pune, India.*



10. *FIU-head participated on Egmont Working Group & Regional Meeting organized by Egmont Group on Dakar, Senegal.*



11. *FIU employee participated on FATF Joint Experts' Meeting & FATF/UNODC Joint Workshop, organized by FATF at New Delhi, India.*



12. *FIU-staffs participated training on Counter Narcotics Skills Development Programs, organized by Embassy of US, at New Delhi, India.*



13. *FIU-staff participated on specialized training program for Nepal officers on AML/CFT, organized by National Academy of Customs, Indirect Taxes & Narcotics, India, at New Delhi, India.*



Events & Programs: International Cooperation

14. FIU-head and Deputy Director of FIU-Nepal, along with Nepali delegates led by Governor of NRB, participated on APG Annual Meeting organized by APGML on Vancouver, Canada.





15. FIU-staff participated on Egmont Plenary meetings organized by Egmont Group at Abu Dhabi, UAE.



Events & Programs: Mutual Evaluation related

1. *Interaction Program on "APG Third Round Mutual Evaluation Preparation" was conducted at Hotel Yak and Yeti on September 27, 2022 with participants from Nepal Rastra Bank's various related departments*



2. *Meeting with IMF delegation regarding AML/CFT and other areas of FIU-Nepal on its first review mission and article IV consultation (February 16, 2023)*

3. *FIU-Nepal coordinated and participated four Pre Face-to-Face (F2F) virtual meetings with APG Mutual Evaluation Assessment Team, where different agencies of Nepal responded several questions regarding FATF recommendations and Immediate Outcomes (April 12, 17 and 18, 2023)*

Events & Programs: Capacity Enhancement

1. *In-house Knowledge sharing program with FIU staffs regarding STR/SAR analysis on 2079/04/05*
2. *Knowledge Sharing Program regarding APG Third Round Mutual Evaluation of Nepal (2022-23) within FIU-Nepal employees (October 20, 2022)*
3. *In-house Knowledge sharing program among FIU-staffs on 'US Banking crisis and its relevancy' (March 16, 2023)*
4. *Knowledge sharing program on FIU roles, best practices, Trend and typologies and effectiveness of goAML analysis for FIU-staffs; Resource Person: Dr. Hari Kumar Nepal (Nepal Rastra Bank) (March 18, 2023)*
5. *Knowledge sharing program for FIU-staffs was conducted on June 30, 2023. Assistant Directors Mr. Sameer Kumar Singh and Mr. Amish Sharma presented regarding ongoing Mutual Evaluation of Nepal. IT staffs of goAML Implementation team of FIU-Nepal presented regarding functionality and new features of goAML software. Staff meeting was also conducted on the same date*

Events & Programs: Resource persons from FIU-Nepal for Programs organized by Provincial Offices of NRB

1. Interaction Program on 'AML/CFT' organized by NRB, Birgunj



Events & Programs: Resource persons from FIU-Nepal for Programs organized by Provincial Offices of NRB

2. Interaction Program on 'AML/CFT' organized by NRB, Nepalgunj




3. Interaction Program on 'AML/CFT' organized by NRB, Siddharthanagar







4. Interaction Program on 'AML/CFT' organized by NRB, Janakpur



5. Interaction Program on 'AML/CFT' organized by NRB, Pokhara

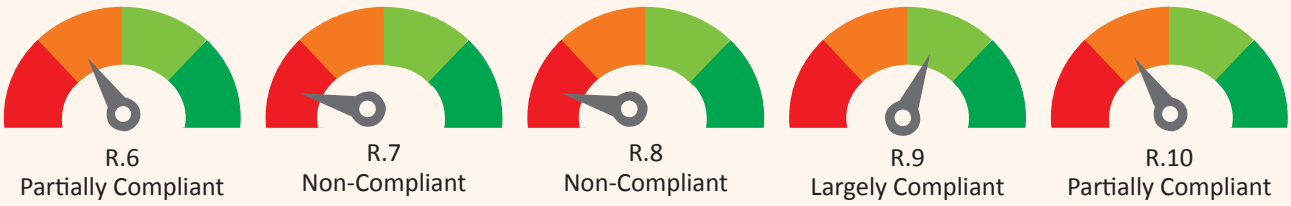



Annex 10 : Ratings of Nepal's Third Round Mutual Evaluation (2022-23)

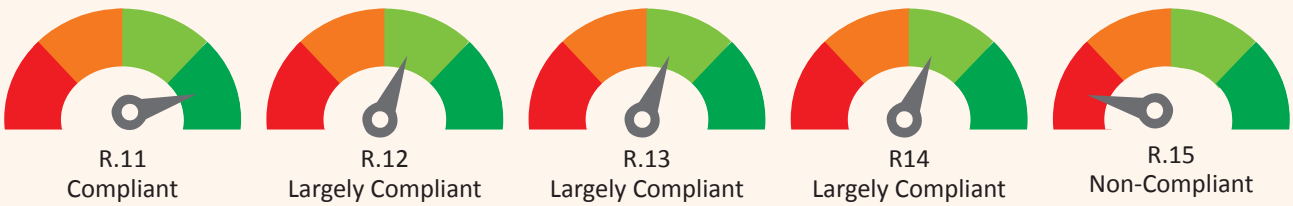
1. TECHNICAL COMPLIANCE RATINGS



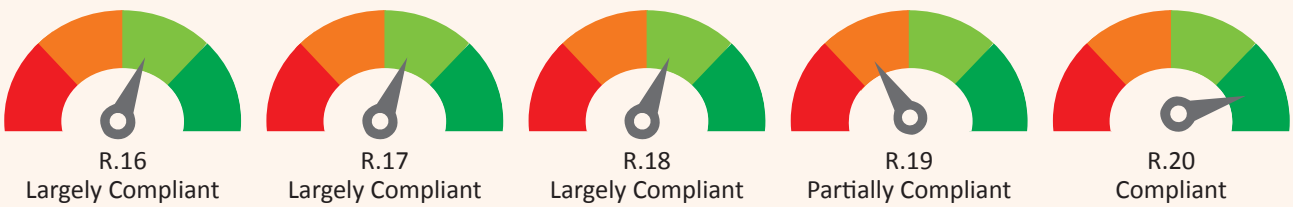
R.1 Partially Compliant | R.2 Partially Compliant | R.3 Largely Compliant | R.4 Largely Compliant | R.5 Largely Compliant



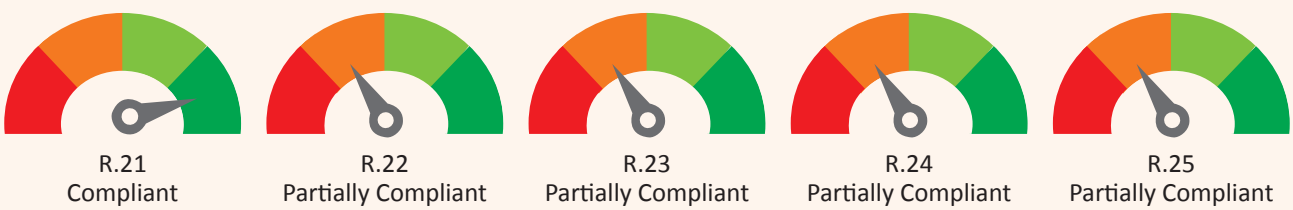
R.6 Partially Compliant | R.7 Non-Compliant | R.8 Non-Compliant | R.9 Largely Compliant | R.10 Partially Compliant



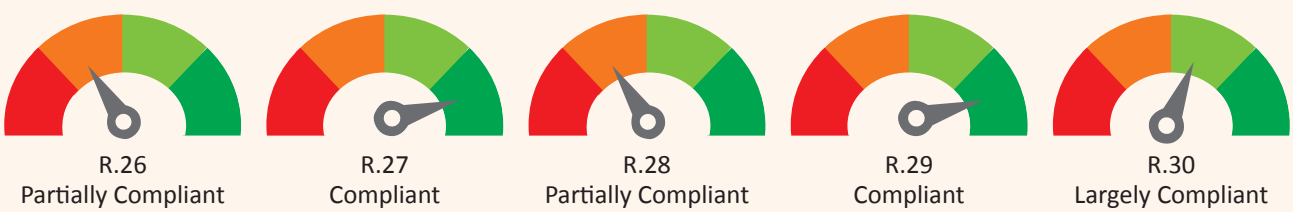
R.11 Compliant | R.12 Largely Compliant | R.13 Largely Compliant | R14 Largely Compliant | R.15 Non-Compliant



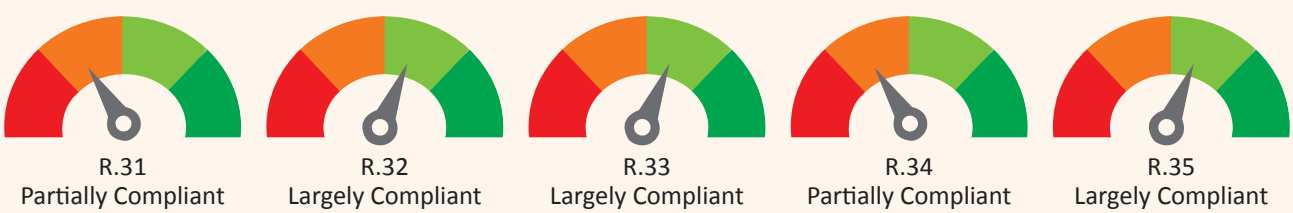
R.16 Largely Compliant | R.17 Largely Compliant | R.18 Largely Compliant | R.19 Partially Compliant | R.20 Compliant



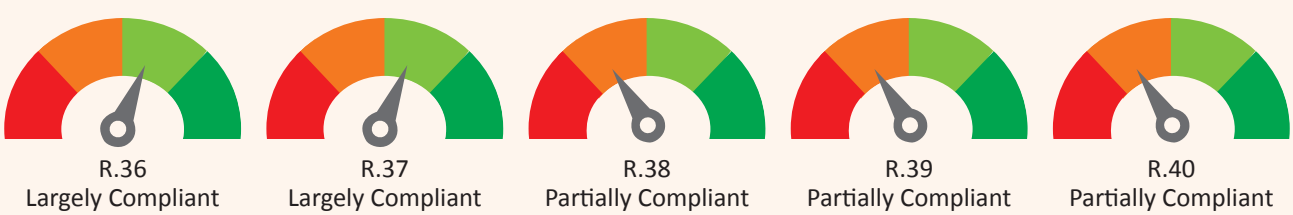
R.21 Compliant | R.22 Partially Compliant | R.23 Partially Compliant | R.24 Partially Compliant | R.25 Partially Compliant



R.26 Partially Compliant | R.27 Compliant | R.28 Partially Compliant | R.29 Compliant | R.30 Largely Compliant



R.31 Partially Compliant | R.32 Largely Compliant | R.33 Largely Compliant | R.34 Partially Compliant | R.35 Largely Compliant



R.36 Largely Compliant | R.37 Largely Compliant | R.38 Partially Compliant | R.39 Partially Compliant | R.40 Partially Compliant

2. EFFECTIVENESS COMPLIANCE RATINGS



IO.1
Moderate



IO.2
Moderate



IO.3
Low



IO.4
Low



IO.5
Low



IO.6
Moderate



IO.7
Moderate



IO.8
Low



IO.9
Low



IO.10
Low



IO.11
Low

ANNUAL REPORT 2022/23

FIU-Nepal

FINANCIAL INTELLIGENCE UNIT
(FIU-Nepal)

Nepal Rastra Bank

Central Office

Baluwatar, Kathmandu

Tel: 01-5719641 (Ext. 841, 842)

Email: fiupolicy@nrb.org.np

Website: www.nrb.org.np/departments/fiu