Frequently Asked Questions (FAQs)

1. What is Money Laundering?

Money laundering (ML) is the process of making illegally obtained money ("proceeds of crime") appear to come from a legitimate source, typically through stages of placement, layering and integration. It is a process to clean "dirty money" in order to disguise its criminal origin.

It may encompass:

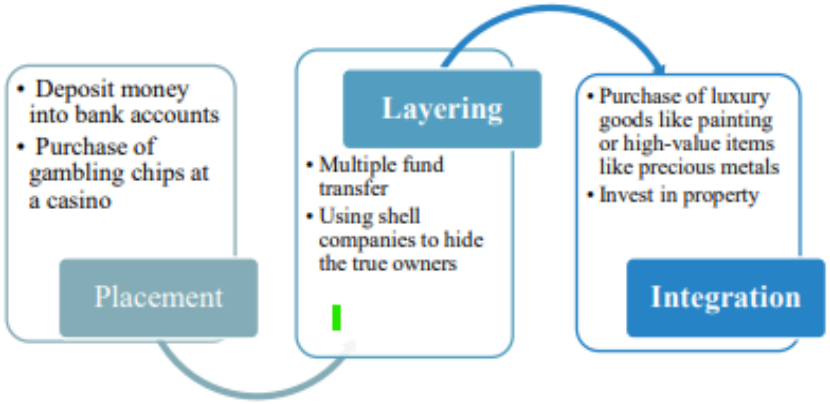
(i) the conversion or transfer, knowing that such property is the proceeds of crime

(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. What are the stages of Money Laundering?

Money laundering is universally understood as a three-stage cycle: Placement, Layering, and Integration.



(a) Placement (Inserting "Dirty" Money into the System)

This is the initial entry point where illegal physical cash or illicit proceeds are introduced into formal financial institutions or the legitimate economy. Because large cash deposits trigger regulatory alarms, this is typically the most vulnerable stage for money launderers to get caught.

Examples: Deposit money into bank accounts, Purchase of gambling chips at Casino, etc.

(b) Layering (Concealing the Trail)

Once the money is inside the financial system, the goal shifts to hiding its origin. Laundering networks create complex layers of financial transactions to distance the funds from the underlying predicate crime and baffle audit trails.
Examples: Multiple fund transfer; Using shell companies to hide the true owners; Asset Conversions, Loan Backing, etc.

(c) Integration (Re-entering the Economy as "Clean" Money)

In the final phase, funds are reintroduced into the legitimate economy. By this point, tracing the money back to the original crime is extremely difficult, allowing the perpetrator to use the wealth freely without raising suspicion from law enforcement authorities.

Examples: Real Estate Investments, Business Operations, Luxury Purchasing, Dividends & Salaries, etc.

3. What is terrorist financing?

Terrorist financing (TF) is the process of raising, moving and using monty to support terrorist acts, individuals, organizations, etc. Unlike Money Laundering (ML), TF may involve funds from both legitimate and illegal source.

The internationally accepted definition of TF is found in the International Convention for the Suppression of the Financing of Terrorism (1999). That Convention defines the offence as: “Any person who by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out” certain specified terrorist acts or offences" Financial Action Task Force (FATF) incorporates this concept in its standards and requires reporting of “transactions suspected of being related to terrorism” in addition to those suspected of being related to money laundering.

4. What is proliferation financing?

Proliferation financing (PF) is the act of providing funds or financial services to pay for the development, production, or acquisition of nuclear, chemical, or biological weapons (Weapons 7 of Mass Destruction- WMDs). Just as terrorists need money to operate, countries or groups trying to build dangerous weapons need money to buy the materials and technology. UN Security Council Resolution 1540 requires all UN member states to prohibit support for non-state actors seeking WMDs, including financial support.

5. What are the predicate offences of money laundering?

Predicate offences are the underlying crimes, such as drug trafficking, corruption, and tax evasion, that generate the "dirty money". These usually include financial crimes or crimes that are mainly motivated by financial gains. International standards require countries to apply ML offences to the "widest range of predicate offences" including all serious crimes.

FATF has identified 21 designated categories forming the list of Predicate Crimes in money laundering, guiding global AML frameworks, while the European Union's (EU) 6th AML Directive adds cybercrime as an additional Predicate Offence.

The FATF, the global standard-setter for Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT), defines a predicate offence as any criminal act whose proceeds are subject to money laundering.

In Nepal, under the Asset (Money) Laundering Prevention Act (ALPA), 2008 (and its subsequent amendments), a predicate offence is defined as any act committed inside or outside Nepal that generates illegal property or assets.

Under Section 3 and Section 4 of the Act, money laundering occurs when anyone owns, uses, hides, converts, or acquires assets derived directly or indirectly from predicate offences.

6. 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 predicate offence or the value of any such property.

As per FATF, the "top four" predicate offences are often cited as being fraud, corruption, drug trafficking and tax crimes.

7. What is Targeted Financial Sanctions (TFS)?

Targeted Financial Sanctions are restrictive measures directed at specific individuals or entities to prevent the flow of funds for illegal purposes. They are a critical component of the AML/CFT/CPF regime. TFS relies on sanction list or "blacklist" enlisted by the United Nations Security Council or similar domestic list (published by the Ministry of Home Affairs in case of Nepal). Instead of punishing an entire country, these sanctions target specific persons, groups, or organizations. When an entity is placed on these lists, the country must freeze their funds and assets without delay. It is also not allowed to provide any financial services or make funds available, directly or indirectly, to or for the benefit of the sanctioned party.

8. What is Financial Action Task Force (FATF)?

The Financial Action Task Force (FATF) is an inter-governmental body established by the G-7 Countries in Paris in 1989. The main purpose is the development and promotion of policies, both at national and international levels, to combat money laundering, terrorist financing and financing of proliferation of weapons of mass destruction. FATF first issued 40 recommendations in 1990 and has revised it several times to accommodate changing ML/TF risks. FATF (supported by FSRBs) as a global financial watchdog, also monitors the compliance & effectiveness of AML/CFT regimes of international financial system.

9. What is Asia/ Pacific Group on Money Laundering (APG)?

APG is an FAFT Style Regional Monitoring Body established in 1997. The main purpose is to monitor compliance of the Asia Pacific Region with the FATF Recommendations. APG comprises of 42 member countries.

10. What are the laws and regulations relating to combating money laundering/terrorist financing in Nepal?

The laws and regulations relating to combating money laundering/terrorist financing in Nepal are as follow:

(a) Asset (Money) Laundering Prevention Act, 2008 (ALPA)
(b) Asset (Money) Laundering Prevention Rules, 2024
(c) Proceeds and Instrumentalities of Crime (Freezing, Seizing and Confiscation) Act, 2014
(d) Mutual Legal Assistance Act, 2014
(e) Extradition Act, 2014
(f) Organized Crime Prevention Act, 2014

11. What are the predicate offences of money laundering in Nepal?

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

- 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 Related,
- Offence of terrorist financing or association with terrorist organization,
- Human Smuggling,
- Hundi,
- Virtual Currency,
- Undue transaction,
- Match fixing and
- Unauthorized Casino Operation.

12. Who is a reporting entity (RE)?

Reporting entities are those institutions that are legally required to monitor transaction activities and report suspicious transactions and other information relating to ML, TF, PF, and associated predicate offences to FIU. RE are usually financial institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs).

13. What are preventive measures of AML/CFT/CPF?

Preventive measures for AML/CFT/CPF (Anti-Money Laundering, Countering the Financing of Terrorism, and Counter-Proliferation Financing) are a standardized set of safeguards that FIs and DNFBPs must implement to protect the global financial system from illicit flows.

- Risk Assessment & Internal Controls
- Customer Due Diligence (CDD)
- Beneficial Ownership (BO) Verification
- Transaction Monitoring
- Sanctions Screening
- Suspicious Transaction Reporting
- Record Keeping

14. Who are responsible for implementing the preventive measures of AML/CFT/CPF?

FIs, DNFBPs, government regulatory bodies, and law enforcement agencies share the joint responsibility for preventing money laundering. This collective defense framework is known globally as the Anti-Money Laundering (AML) ecosystem, where each entity plays distinct role in monitoring, reporting, and blocking illicit financial flows.

Financial Institutions

- Commercial Banks: Monitor daily cash transactions.
- Securities Firms
- Payment Service Providers and Operators
- Money Transfer Operators and Money Changers
- Financial Cooperatives

Designated Non-Financial Businesses and Professions (DNFBPs)

- Real Estate Agents: Screen high-value property buyers.
- Precious Metal Dealers: Report large cash purchases.
- Casinos and Gaming: Monitor betting chip velocity.
- Lawyers and Accountants: Block fake corporate setups

15. What is Know Your Customer (KYC)?

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 misused, intentionally or unintentionally, by criminal elements for money laundering activities.

Documents collected from the client at the start of the 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

16. Who are Politically Exposed Persons (PEPs)?

A politically exposed person (PEP) is someone entrusted with the public position like the Prime minister and ministers, judges, politicians, senior bureaucrats, senior security officers, senior executives of public entities, who present a higher risk for bribery, corruption, or money laundering due to their position and influence.

According to global standards set by the FATF, PEPs are divided into distinct categories: Foreign PEPs, Domestic PEPs, International Organization PEPs, PEPs by Association (Relatives and Close Associates).

17. Who is a beneficial owner (BO)?

Beneficial ownership refers to the natural persons who ultimately own or control a customer or legal entity/arrangement. Often complex structures or shell companies are used to hide illicit funds. The information about the BO ensures transparency and helps financial institutions understand who they are dealing with. Beneficial owners must always be an individual (human being), not another company or entity. And the information should be about the person with the ultimate control, which includes direct ownership, indirect ownership through chains of entities. If no one meets the ownership criteria, the individual(s) exercising ultimate effective control, such as senior managers or trustees, are identified as beneficial owners.

18. What is the role of Financial Intelligence Unit (FIU) in AML/CFT?

Financial Intelligence Unit (FIU) is the central national agency responsible for receiving, analyzing and disseminating financial intelligence to combat ML, TF, and PF. It serves as the bridge between the private sector and the law enforcement sector. It ensures that law enforcement agencies are not overwhelmed by raw data and builds trust with the private sector to encourage reporting after the assessment of the suspicion.

In Nepal Financial Intelligence Unit (FIU-Nepal) 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 operationally independent unit. Basically, FIU-Nepal receives TTR, STR/ SARs from REs and these reports are analyzed, processed and disseminated to relevant law enforcement/investigative agencies, regulators/ supervisors and foreign FIUs in the form of financial intelligence.

19. What is a Suspicious Transaction Report (STR), Suspicious Activity Reporting (SAR) and Threshold Transaction Reporting (TTR)?

A Suspicious Transaction Report (STR) is a report filed when there are reasonable grounds to suspect that the transaction is related to a money laundering, terrorist financing or any other criminal offence. A suspicious transaction can include both completed and attempted transactions.

Under FATF Recommendation 20, financial institutions and designated businesses must file a Suspicious Transaction Report (STR)—often called a Suspicious Activity Report (SAR)—

promptly with their national FIU whenever there are reasonable grounds to suspect funds stem from criminal activity or terrorist financing.

TTR filing involves of large cash deposits, currency exchanges above a threshold amount by FIs and DNFBPs to FIU-Nepal.

20. How do REs submit STR/SAR to FIU-Nepal?

REs submit STR/SARs using web or XML report format of goAML software. ALPA (2008) mandates REs to report any suspicious financial transactions or activities to FIU-Nepal in the format specified by FIU-Nepal.

STR/SARs should include detailed information about transactions that appear to be suspicious or have reasonable ground of suspicion in related to ML/TF or other offense.

21. What is 'Tipping Off'?

Tipping off refers to the act of alerting or informing a customer or third party that a STR/SAR has been filed about them with the Financial Intelligence Unit (FIU) or relevant authorities. This disclosure can compromise ongoing investigations by giving the individual or entity an opportunity to alter their behavior, hide evidence, or move illicit funds.

22. What is Money Mule?

A money mule is an individual that is recruited, knowingly or unknowingly, to transfer or move illegally acquired money on the behalf of criminals as part of a money laundering scheme. Money mules can be used to launder money obtained from illegal activities such as fraud, cybercrime, drug trafficking, or other organized crime. They are often unaware that they are participating in illegal activities, as they may be recruited under false pretenses
Criminals recruit money mules through various methods, such as online job postings, social media, or even direct contact. They may be promised easy money, work-from-home opportunities, or other incentives.

23. What is National Risk Assessment (NRA)?

National risk assessment (NRA) is a fundamental strategic exercise conducted by a country to identify, understand, and assess its exposure to money laundering and terrorist financing risks. It serves as the solid foundation for implementing the risk-based approach, which is central to FATF recommendations. The NRA evaluates risks mainly based on three key elements determined by international standards (such as the World Bank methodology): Threats (scale of proceeds of crime), Vulnerabilities (weaknesses in systems/sectors), and Consequences (Impact of the risk events).

24. What is Mutual Evaluation?

Mutual Evaluation is the process of identifying inadequacies and strategic deficiencies of a country's AML/CFT system or regime. Mutual evaluation involves assessment of a country on technical compliance with the FATF Recommendations and effectiveness in implementing

them to mitigate ML/TF risks. It intends to hold all countries in FATF global Network to same standards and to develop action plan in cooperation with relevant countries authorities. Mutual Evaluations include development of in-depth country reports analyzing the implementation and effectiveness of measures to combat Money Laundering, Terrorism financing and proliferation financing.

The reports are peer reviews where qualified experts from different countries assess another country. Experts from different members should qualify for FATF/FSRB assessor training. Mutual evaluations provide focused recommendations to further strengthen countries' AML/CFT/CPF system.

25. When was mutual evaluation of Nepal carried on?

The first Mutual Evaluation of Nepal was carried out in year 2005 against 40+9 Recommendations (40 original and nine terrorist financing related special recommendations). The Second Mutual Evaluation took place in Year 2010 and Nepal was placed in "Jurisdiction under increased monitoring list (Grey List) ". Nepal implemented first AML/CFT National Strategy and Action Plan (2011-16) and exited the grey list in 2014. The Third Mutual Evaluation was carried out in 2022 based on the revised FATF Standards and additional provisions to measure the effectiveness. The Mutual Evaluation Report was adopted in July 2023 and published in September 2023.

26. 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. Negative listed jurisdictions may face following consequences:

- Increase in cost and processing time in cross-border transactions
- Loss of investor confidence resulting in diminished foreign investment
- Loss of credit lines or correspondent relationships due to de-risking
- Impact in assistance, loan and other facilities from international organizations and foreign countries
- Inability of institutions to expand overseas
- Negative economic impact

27. What is the FATF Grey List?

The FATF Grey List is a list maintained by the FATF, the global watchdog for AML and CFT. When FATF places a country on the grey list, it means the jurisdiction has strategic deficiencies in its legal and operational frameworks to combat money laundering, terrorist financing, and proliferation financing.

Unlike the Black List (High-Risk Jurisdictions subject to a call for action, such as North Korea or Iran), grey-listed countries are not subject to direct international sanctions. Instead, they commit to working closely with FATF to resolve these deficiencies within an agreed timeframe under an action plan.

28. What is the process of FATF Grey Listing?

The FATF grey-listing process—officially termed placing a country under "Jurisdictions Under Increased Monitoring"—is a structured, multi-step peer review mechanism. It identifies nations with strategic deficiencies in their AML/CFT/CPF regimes that have made a high-level political commitment to resolve those gaps.

The step-by-step process operates as follows:

1. Mutual Evaluation Report (MER)
   The process begins with an in-depth peer review of a country's financial system. FATF or an FATF-Style Regional Body (FSRB) assesses the nation's technical compliance with the 40 FATF Recommendations and the overall effectiveness of its enforcement.
2. Referral to the ICRG
   If the Mutual Evaluation Report reveals significant weaknesses, the country is referred to the International Co-operation Review Group (ICRG). A referral typically triggers if a country fails a specific threshold of core recommendations.
3. The Observation Period
   Once referred, the country enters a one-year observation period. During this window, the nation is given time to address the technical deficiencies identified in its evaluation report without being publicly listed.
4. Development of an Action Plan
   If the country fails to make sufficient progress during the observation year, the FATF works directly with the government to draft a tailored, time-bound Action Plan. To move forward, the country must provide a high-level political commitment (usually from a minister or head of state) promising to implement the legal, regulatory, and operational changes required.
5. Public Statement
   Once the action plan is active and political commitment is secured, the Financial Action Task Force (FATF) officially adds the country to the Grey List during one of its plenary sessions. Plenaries occur three times a year (February, June, and October).
6. Ongoing Monitoring and Reporting
   While grey-listed, the country must submit regular progress updates (typically every four months) to its assigned ICRG regional review group. The FATF publicly updates the status of the country's deficiencies at every plenary. On average, countries spend two to three years fulfilling their action items.
7. Verification and Exit
   Once the country completes all items on its action plan, the FATF sends an expert team for an on-site assessment. The team verifies that the legal and institutional reforms are actively working and sustainable. If the on-site verification succeeds, the FATF formally votes to remove the country from the grey list at the next plenary.

29. What is the FATF Black Listing?

The FATF Black List represents the highest level of warning issued by the Financial Action Task Force. While the Grey List includes countries actively working with the FATF to address identified gaps, the Black List comprises nations deemed to have severe strategic

deficiencies in their legal and financial frameworks to combat anti-money laundering (AML), countering the financing of terrorism (CFT), and proliferation financing. These countries either refuse to cooperate or have shown a persistent failure to make progress on an agreed action plan.

30. What is International Cooperation in AML/CFT/CPF?

International cooperation in AML/CFT/CPF is the joint effort of cross-border governments, law enforcement, and financial intelligence units to share information, freeze illicit assets, and prosecute crimes related to money laundering (AML), terrorist financing (CFT), and the proliferation of weapons of mass destruction (CPF).

- Information Sharing: Financial Intelligence Units (FIUs) exchange suspicious transaction reports and financial data across borders, heavily supported by global networks like the Egmont Group.
- Diplomatic Channels
- LEAs to LEAs (Interpol, Europol, etc.)
- Mutual Legal Assistance (MLA)
- Global Partnerships: Joint operational guidance and handbooks from organizations like the FATF, INTERPOL, and the United Nations Office on Drugs and Crime (UNODC) help unify multi-agency responses worldwide.
- Extradition: Nations facilitate the transfer of fugitives accused of financial crimes back to the requesting country to face trial.
- Asset Recovery and Freezing: Governments collaborate to trace, freeze, seize, and confiscate criminal proceeds or funds tied to weapons proliferation and targeted financial sanctions.

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