

INFORMATION BOOKLET

On Anti-Money Laundering,
Countering Terrorist Financing &
Proliferation Financing
(AML/CFT/CPF)



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Disclaimer

The primary aim of this Information Booklet is to enhance stakeholder understanding of AML/CFT/CPF frameworks. The content has been mainly curated from various sources and streamlined to provide a fundamental overview. Please note that the information presented here is not exhaustive; readers are encouraged to consult original source documents for comprehensive details. Furthermore, this Booklet should not be construed as professional or legal advice, and while every effort has been made to ensure veracity of the information presented in the document, perfect accuracy is not guaranteed.

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Foreword

Money laundering, terrorist financing and proliferation financing do not only fuel crime but also undermine financial integrity and stability. As Nepal aspires to become a prosperous nation, our commitment to combating these illicit activities must be unwavering.

This Information Booklet serves as a guide to understanding the basics of Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Financing, both in the general context and in the context of Nepal. It attempts to explain the concepts related to various areas of AML/CFT in simple language.

This publication comes at a critical time. With the evolution of global standards set by the Financial Action Task Force (FATF) and Nepal's ongoing efforts to address the strategic deficiencies identified in the recent mutual evaluation, it is imperative that all stakeholders possess a clear understanding of the AML/CFT related matters.

I would like to thank Deputy Director Mr. Sachin Raj Piya and other colleagues at the Policy Division: Mr. Samir Kumar Singh, Mr. Kamal Paudel and Ms. Sharada Adhikari for their effort in drafting this document. I also acknowledge other colleagues at FIU-Nepal for their valuable inputs. Fighting financial crime and protecting the financial system is a shared responsibility. I hope this booklet serves as a valuable source in increasing the awareness and literacy among the relevant stakeholders about this very important topic.

Bashu Dev Bhattarai
Head/ Director

I. Introduction

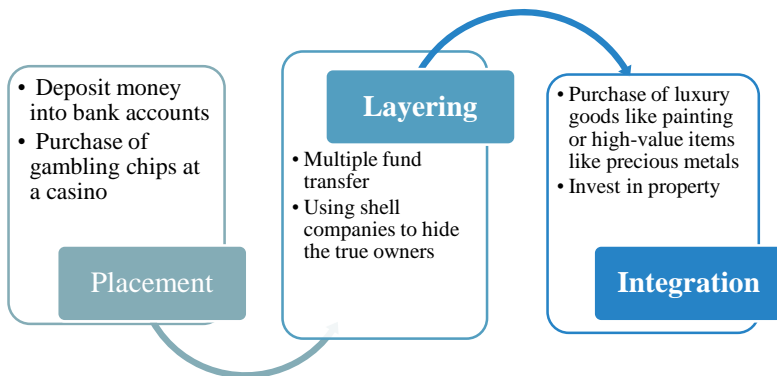
Money Laundering and terrorist financing threaten the integrity and stability of the financial system and the wider economy. They can undermine financial institutions, distort markets, and create channels through which organized crime and terrorism are sustained. The criminal and terrorist activities can weaken law and order, governance, and disrupt peace and harmony within the global community. Effective Anti-money laundering and countering of terrorist financing (AML/CFT) frameworks are therefore essential to protect financial integrity and stability, as well as, support broader economic and security objectives.

International bodies such as the Financial Action Task Force (FATF), the United Nations (UN), the International Monetary Fund (IMF) and the Basel Committee on Banking Supervision (BCBS) have developed common standards and definitions that are now widely used in national legislation and supervision.

What is money laundering?

In simple terms, 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.

The money laundering process with few examples are illustrated below:



A widely cited legal definition is contained in the United Nations conventions on drugs and transnational organized crime. The United Nations Convention against Transnational Organized Crime (Palermo Convention, 2000), Article 6 requires States to criminalize, at a minimum, the following conduct when committed intentionally.

“The conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of the property or of helping any person who is involved in the commission of the predicate offence to evade the legal consequences of his or her action; and, 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.”

The same article further covers the money laundering as the

- ***The acquisition, possession or use of property, knowing at the time of receipt that it is the proceeds of crime; and***

- *Participation in, association with, conspiracy to commit, attempt to commit, aiding, abetting, facilitating, or counselling any of the offences.*

Predicate offence

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.

Initially, under the Vienna Convention, the predicate offence was limited to drug trafficking. The standard has expanded to include almost all profit-generating crimes. Predicate offences are also not limited by geography. Offences committed outside a country's jurisdiction can still serve as predicate offence for money laundering within that country.

In many modern legal frameworks, it may not be needed to prove the specific details of the predicate offence, such as the exact date of the drug sale, but must prove beyond a reasonable doubt that the property is derived from some criminal activity.

It is also important to understand that while money laundering is specifically related to the act of laundering the proceeds of crime to make it appear from legitimate source, the anti-money laundering frameworks put in place by countries also aim to combat or discourage the predicate crimes themselves.

What is Terrorist Financing?

The internationally accepted definition of terrorist financing (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”

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.

Unlike money laundering, which concerns proceeds of crime, terrorist financing may involve funds from both legitimate and illegitimate sources; the defining element is the intention or knowledge that the funds are to be used to support terrorist acts or organizations.

Targeted Financial Sanction (TFS) is used as an important tool for countering terrorist financing. International standards require countries to freeze the funds of specific people or entities known to be involved in terrorism. This is aimed at limiting funding to terrorist groups and terrorism-related activities.

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

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.

TFS is also used as a crucial tool used to stop proliferation financing. International standards also require countries to freeze the funds of specific people or entities known to be involved in proliferation. The goal is to cut off the money supply so that these actors cannot buy the materials or technology that they need to build WMDs. UNSCRs like 1718 and 2231 impose specific financial restrictions related to proliferation.

II. Key AML/CFT Terms and Concepts

The FATF recommendations

These Recommendations are the internationally endorsed global standards against ML, TF, and PF, which are set by the FATF. The currently implemented version is the FATF Recommendations adopted by the FATF plenary in February 2012, which was most recently updated in October, 2025. The Recommendations serve as a comprehensive framework of measures that countries should implement to protect the integrity of the international financial system.

A – AML/CFT POLICIES AND COORDINATION		
1	-	Assessing risks & applying a risk-based approach *
2	R.31	National cooperation and coordination *
B – MONEY LAUNDERING AND CONFISCATION		
3	R.1 & R.2	Money laundering offence *
4	R.3	Confiscation and provisional measures *
C – TERRORIST FINANCING AND FINANCING OF PROLIFERATION		
5	SRII	Terrorist financing offence *
6	SRIII	Targeted financial sanctions related to terrorism and terrorist financing *
7		Targeted financial sanctions related to proliferation *
8	SRVIII	Non-profit organisations *
D – PREVENTIVE MEASURES		
9	R.4	Financial institution secrecy laws <i>Customer due diligence and record keeping</i>
10	R.5	Customer due diligence *
11	R.10	Record keeping <i>Additional measures for specific customers and activities</i>
12	R.6	Politically exposed persons *
13	R.7	Correspondent banking *
14	SRVI	Money or value transfer services *
15	R.8	New technologies *
16	SRVII	Payment transparency * <i>Reliance, Controls and Financial Groups</i>
17	R.9	Reliance on third parties *
18	R.15 & R.22	Internal controls and foreign branches and subsidiaries *
19	R.21	Higher-risk countries * <i>Reporting of suspicious transactions</i>
20	R.13 & SRIV	Reporting of suspicious transactions *
21	R.14	Tipping-off and confidentiality <i>Designated non-financial Businesses and Professions (DNFBPs)</i>
22	R.12	DNFBPs: Customer due diligence *
23	R.16	DNFBPs: Other measures *

E – TRANSPARENCY AND BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND ARRANGEMENTS		
24	R.33	Transparency and beneficial ownership of legal persons *
25	R.34	Transparency and beneficial ownership of legal arrangements *
F – POWERS AND RESPONSIBILITIES OF COMPETENT AUTHORITIES AND OTHER INSTITUTIONAL MEASURES		
<i>Regulation and Supervision</i>		
26	R.23	Regulation and supervision of financial institutions *
27	R.29	Powers of supervisors
28	R.24	Regulation and supervision of DNFBPs *
<i>Operational and Law Enforcement</i>		
29	R.26	Financial intelligence units *
30	R.27	Responsibilities of law enforcement and investigative authorities *
31	R.28	Powers of law enforcement and investigative authorities
32	SRIX	Cash couriers *
<i>General Requirements</i>		
33	R.32	Statistics
34	R.25	Guidance and feedback
<i>Sanctions</i>		
35	R.17	Sanctions
G – INTERNATIONAL COOPERATION		
36	R.35 & SRI	International instruments
37	R.36 & SRV	Mutual legal assistance
38	R.38	Mutual legal assistance: freezing and confiscation *
39	R.39	Extradition
40	R.40	Other forms of international cooperation *

Source: FATF Recommendations, 2012 (Last updated in October 2025)

Immediate Outcomes (IOs)

FATF has identified 11 IOs that an effective AML/CFT framework should achieve to protect the financial system from abuse. During the mutual evaluation, the FATF assesses the effectiveness of a country's efforts based on these 11 IOs. The extent to which a country has fulfilled the technical requirements of each of the FATF Recommendations remains important. However, technical compliance with FATF standards is not enough. Each country must enforce these measures to effectively deliver the results. During the 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:

S. No	Immediate Outcome
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 (Designated Non-Financial Businesses and Professions) 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: Competent authorities for money laundering and terrorist financing investigations appropriately use financial intelligence and all other relevant information.
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 Non-profit Organization (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.
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Risk-based Approach

The risk based approach (RBA) is about prioritization or channeling resources toward the biggest risks. FATF considers the risk based approach essential for moving away from the rigid "one-size-fits-all" toward the system that prioritizes resources effectively. The standards require that AML/CFT measures be commensurate with the risks identified. The goal is to ensure that resources are not wasted on low risk areas but are instead concentrated where the threat is most acute.

RBA should be applied in the systemic/national-level or institutional-level.

At the national level,

- Countries conduct national risk assessments (NRAs) to understand the threats and vulnerabilities related to ML/TF. The predicate offences posing highest threat and sectors- such as banking, cooperatives, casinos- most likely to be used by criminals are identified.
- Authorities use these assessments to develop national strategies, policies, and action plans tailored to their specific risks, ensuring resources are used efficiently. Regulatory bodies issue stricter regulations for higher risk sectors and more supervisory resources are channeled toward these sectors.

At the institutional level,

- Financial institutions like banks and insurance companies use the national risk assessment and their own internal data to perform their own risk assessments. The risks are evaluated through factors like customer-type (PEPs, higher transactions), products/services (cash incentive), geographic locations (high risk countries), and delivery channels (online, new technology).
- Financial institutions categorize customers into high, medium, low risks based on the assessment. For example, a local teacher with annual transaction of Rs.200 thousand is usually low risk and a trader with high cash transaction could be high risk. These institutions then implement proportionate controls, meaning higher-risk customers receive more scrutiny than lower-risk ones, rather than applying identical measures to all.

Financial Institutions and DNFBPs

Financial institutions are the businesses that manage money. They are considered the first line of defense because criminals almost always need to move their cash through the banking system to make it look legal. In AML/CFT framework, financial institutions include institutions such as banks, insurance companies, security brokers, money remitters and exchangers, deposit taking institutions, credit-providing institutions such as cooperatives, payment service providers etc.

Because financial institutions handle massive volume of financial transactions, they are the most obvious targets of money launderers. If criminals can get dirty money into a bank account

without being noticed, they can easily move it to other accounts and to many places around the world.

DNFBPs stands for Designated Non-Financial Businesses and Professions. As banks became better at catching criminals, money launderers started looking for other ways to hide their money (a phenomenon known as the "displacement effect"). They began buying expensive assets or using professionals to hide their identities. DNFBPs are the businesses that facilitate these activities.

- *Casinos*: Criminals use them to turn dirty cash into chips and then cash them out as 'winnings'.
- *Real estate agents*: Used to launder money by buying expensive property, often with cash.
- *Dealers in Precious Metals and Stones*; Precious metals like gold and diamond are high-value and easy to transport across borders.
- *Lawyers, Notaries, and Accountants*: These professionals can be used to set up complex legal structures like trusts that hide who actually owns the dirty money.
- *Trust and Company Service Providers*: People who help create companies or act as directors for others, which can obscure the real owner's identity.

Both financial institutions and DNFBPs are required to conduct customer due diligence and report suspicious transactions to the FIU.

Customer Due Diligence

Customer due diligence (CDD) is the process that financial institutions and DNFBPs use to verify who their clients/customers are and to make sure their money is clean. CDD checks a customer's identification and financial background to ensure they aren't a threat to the financial system. The CDD process mainly involves:

Who are you?

- The financial institutions ask for official ID such as citizenship certificate and other personal details.
- This prevents criminals from opening accounts under fake names or stolen IDs.

Who really owns the money?

- The financial institutions ask for source of income for higher amount.
- If a company opens an account, the bank will seek information to find the "beneficial owner"-the actual human being who ultimately owns or controls the funds.
- Criminals often hide behind complex company structures or use "puppets" to move dirty money. CDD peels back these layers to find the real person in charge.

Is this normal?

- The financial institution needs to watch the transaction patterns.
- FIs need to monitor that the transactions align with the customer profile and history. If activity is unusual, further assessment or suspicious transaction reporting may be needed.

How risk are you?

- Not all customers are treated the same. Politically Exposed Persons (like politicians and high-ranking officials) or individuals/entities from high risk countries get checked more strictly. This is called Enhanced Customer Due Diligence (ECDD).
- Some people have more opportunities or power to be involved in corruption or other predicate crimes, so they require closer supervision.

Beneficial Ownership (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.

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.

The senior public position holders within the country are called domestic PEPs, whereas the senior officials in the foreign government are called foreign PEPs. PEPs also include senior members of the international bodies like the UN and World Bank. The PEP status extends to their family members and close associates, acknowledging increased potential for misuse of power or funds.

Financial institutions are required to conduct enhanced due diligence as part of the know your customer (KYC) checks. Being

a PEP is a risk indicator, not proof of wrongdoing. The aim is to mitigate potential risks, not restrict access to services.

Enhanced Due Diligence (EDD)

Enhanced due diligence involves increased scrutiny for high-risk customers, such as PEPs, customers from the risky countries or clients with opaque ownership, going beyond standard checks, focusing on understanding the source of funds and transaction purpose.

The EDD should include deeper verification by conducting more extensive identity checks. It should also involve finding out the source of funds through verification of relevant documents and understanding the purpose of the fund. EDD often requires approval of higher-level management to establish or continue relationship with the high-risk customers. The EDD may also lead to assessment of the suspicion and consequently filing of suspicious transaction report.

Travel rule

The travel rule requires financial institutions and more recently the virtual asset service providers (VASPs) to pass on specific customer information to the next institution in the payment chain when transferring funds. In simple terms, the information must "travel" with the money. The travel rule ensures that key details about the originator (sender) and beneficiary (receiver) are attached to a financial transfer from start to finish.

The transparency in such information prevents criminals from moving funds anonymously. It ensures that the receiving institution knows exactly who they are dealing with before

accepting the funds, helping to fill "intelligence gaps" that could otherwise be exploited by money launderers. While originally applied to traditional banking wire transfers, the scope of the travel rule has expanded significantly with technology to be applied to VASPs and stable coin issuers. Without the travel rule implemented, criminals could move illicit funds through complex networks like decentralized finance or stable coins without leaving a trail.

Suspicious transaction reporting

Financial institutions and DNFBPs act as the "eyes and ears" of the financial world. When they see a customer do something that doesn't make sense or looks illegal, they must file a report, called suspicious transaction report (STR) to the Financial Intelligence Unit confidentially. In the Nepalese context, these institutions must file STR immediately after the assessment of the suspicion. The details of STR are kept confidentially and the unauthorized disclosure could result in punishment.

The financial institutions and DNFBPs are also called reporting entities (REs) as they are legally required to report suspicious transactions. Concerned staff at the REs have the responsibility to look for unusual behavior and spot the red flag. In many institutions, this is done through the help of technology. After identifying the red flag, if the staff thinks the transaction or activity looks like money laundering or criminal activity while assessing the context and customer profile, they can file a STR to the FIU.

The REs don't have to prove a crime has happened, they just need a 'reasonable ground' to suspect it. In some countries, the law says

you must report if you have a 'founded suspicion' (some facts), while others just require a general suspicion.

The FIU collects and analyzes these reports with other relevant information to find patterns of crime and subsequent dissemination to the respective law enforcement agencies.

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.

The TFS-TF is focused on cutting off the supply of funds to terrorists and terrorist organizations. Whereas, TFS-PF specifically targets the financing of weapons of mass destruction (WMD).

The obligations of REs with respect to TFS include:

- Screening: Regularly check customer names and transactions against the UNSC Consolidated list and the domestic list.

- Immediate Action: If the match is confirmed, the institution (REs) must freeze the assets "without delay"- typically defined at most 24 hours- without prior notice to the individual.
- Reporting: Notify the relevant national authorities immediately about the frozen assets or any attempted transactions by sanctioned parties.

TFS obligations is not limited to the REs. As per ALPA (2008), Section 29 F, all natural persons, legal entities and the agencies are required to comply with TFS requirements and report to the Office of the Prime Minister and the Council of Ministers of any frozen assets without delay.

The weblink for targeted sanction list and freezing orders are as below:

<https://www.moha.gov.np/page/targeted-sanction-list>

<https://www.moha.gov.np/page/freezing-orders>

Mutual Legal Assistance (MLA)

Mutual legal assistance is a formal process where countries agree to help each other in investigating, prosecuting, and gathering evidence for criminal cases. Since criminals often operate across borders, police and prosecutors in one country cannot simply go into another country to gather evidence or arrest someone. They need the official permission and help of that other country. MLA provides the legal bridge for this cooperation.

If Country A needs evidence located in another country B, it sends a formal written request to a designated authority in the country B. If Country B accepts the request, it uses its own laws and the law enforcement powers to do the work for Country A. This could

include taking statements or evidence from people, executing search warrants and freezing assets, and identifying or tracing proceeds of crime. Country B can refuse to help in certain situations such as when it would hurt the sovereignty, security, or essential interests of Country B.

MLA is the primary tool for fighting transnational crime like money laundering, corruption, and organized crime. It ensures that criminals cannot hide evidence or assets simply by moving them across a border. It transforms a local investigation into a global one.

Trade-based Money Laundering (TBML)

The FATF defines Trade-based money laundering as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins."

Unlike trade related predicate offenses such as drug trafficking, the primary aim of TBML is the movement of money or value which is disguised as trade in legitimate goods. This could be done by falsely representing the price, quantity and quality of the good, or the falsification of invoices or supporting shipment documents.

Common Techniques			
Over and underpricing of goods and services	Over-and Under-shipment of Goods and Services	Multiple invoicing of goods and services	Falsely described goods and services

TBML uses the massive volume of international trade to hide "dirty" money by making it look like payment for ordinary goods.

III. Evolution of Global AML/CFT Framework

Before 1980s, there was no coordinated global framework for AML. Efforts were largely domestic and focused on the initial recognition of financial crimes.

The United States enacted the Banking Secrecy Act, 1970, which is often cited as a foundational legislative effort codified to combat financial crimes. This act laid the groundwork for future reporting requirements but was primarily a domestic tool. In fact, the concept of money laundering existed- often tracing back to organized crime eras like the 1930s- but international legal cooperation was virtually non-existent.

The Decade of 1980s:

The 1980s marked the beginning of international cooperation, driven primarily by the need to combat drug trafficking and protect the banking sector's reputation.

- *Vienna Convention (1988)*: A pivotal moment was the adoption of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention). The convention defined money laundering largely in the context of drug offences and required countries to criminalize the laundering of drug proceeds.
- *1988 Basel Declaration*: The Basel Committee on Banking Supervision (BCBS) issued a "Declaration of Principles" in December, 1988 to prevent the criminal use of the banking system. This step was crucial in recognizing that public confidence in banks could be undermined by association with criminals, encouraging banks to identify customers and discourage illegitimate transactions

- *Establishment of the FATF:* The Group of Seven (G7) summit held in Paris, France in July, 1989 established the financial action task force (FATF) with the objective of examining and developing measures to combat money laundering.

The Decade of 1990s:

The decade of 1990s saw the formalization of global standards and the expansion of AML obligations beyond the banking sector.

- *1990 FATF Recommendations:* The FATF issued its original forty recommendations, initially focusing on financial institutions like banks.
- *Formation of the Egmont Group:* The first FIUs were established in the early 1990s (for example, FINCEN of US in 1990) as the national center for receiving reports from the financial institutions with respect to money laundering. The pioneering FIUs formed a network, called the Egmont Group, in 1995 at the Egmont Palace in Brussels, Belgium to fight money laundering.
- *1996 FATF Revisions:* A significant evolution occurred with the 1996 revisions, which established suspicious transaction reporting (STR) as the international standard (moving beyond just reporting large currency transactions). These revisions also extended AML obligations to non-bank financial institutions and exchange bureaus.
- *1999 Convention on Terrorism Financing:* The International Convention for the Suppression of the Financing of Terrorism (1999) defined the offence of

terrorist financing, requiring states to report transactions suspected of stemming from criminal activity intended for terrorist acts.

- *"Gatekeeper" Initiative (1999)*: The G-8 Ministerial Conference in Moscow introduced the "Gatekeeper" initiative, proposing that professionals like lawyers, accountants, and auditors who can either block or facilitate the entry of organized crime money into the financial system should also have AML responsibilities.

The Decade of 2000s

In the 2000s, the global AML/CFT framework expanded rapidly to include Combating the Financing of Terrorism (CFT) and widened the definition of money laundering predicate offences.

- *2000 Palermo Convention*: The UN Convention Against Transnational Organized Crime (Palermo Convention) required countries to criminalize the laundering of proceeds from "all serious crimes," significantly broadening the scope beyond the 1980s drug-focus.
- *2001 Post-9/11 Response*: In October 2001, the FATF adopted nine Special Recommendations on Terrorist Financing, mandating that countries ensure reporting of transactions suspected of being related to terrorism, not just money laundering.
- *2001 Egmont Group Principles*: The Egmont Group adopted Principles for Information Exchange, standardizing how national Financial Intelligence Units (FIUs) share data internationally to support money laundering cases.

- *2003 FATF Revisions:* These revisions fully implemented the 'Gatekeeper' initiative, extending AML/CFT requirements to Designated Non-Financial Businesses and Professions (DNFBPs), such as casinos, real estate agents, lawyers, dealers in precious metals and stones (DPMS), and trust/company service providers.
- *2004 IMF Involvement:* The International Monetary Fund (IMF) Executive Board agreed to make AML/CFT assessments and technical assistance a regular part of its work.

The Period thereafter (2010s to Present):

The modern era focuses on the effectiveness of AML/CFT regimes, managing risks from new technologies, and reinforcing high-level political commitment.

- *2012 FATF Revised Recommendations:* FATF officially adopted binding standards and recommendations to combat the financing of WMD proliferation in 2012, incorporating it into its core mandate. The 2012 revision also formally adopted the risk-based approach (RBA) as a central component of its international standards in February 2012.
- *2012 Basel Core Principles:* The BCBS updated its core principles which reinforced that banks must have strict customer due diligence (CDD) policies to prevent criminal use of the banking system.
- *2018 Expansion of Recommendation 15 (New Technologies):* In October 2018, the FATF updated the standards to require countries to assess money

laundering/terrorist financing risks associated with virtual assets. This mandated the regulation, licensing, and supervision of VASPs and the application of preventive measures, such as the "Travel Rule" (sharing originator and beneficiary information for transfers).

- *2020 Amendment related to Proliferation Financing Risk:* In 2020, Recommendation 1 and its Interpretive Note were amended to require countries and the private sector to identify, assess, and understand their proliferation financing risks and take appropriate mitigating action.
- *2022 Amendment related to Beneficial Ownership of Legal Persons:* Amended in March 2022 to significantly strengthen transparency requirements. It now requires countries to ensure that a public authority or body holds beneficial ownership information in a registry or an equivalent effective mechanism.

IV. National AML/CFT System of Nepal

Background

Nepal's formal engagement with the AML/CFT framework began when it joined the APG in 2002. The APG conducted Nepal's first mutual evaluation in 2005 to assess its initial compliance status. A major milestone was the enactment of ALPA in 2008. The Act established the legal basis for the AML regime. The Financial Intelligence Unit and Department of Money Laundering Investigation were established as special agencies under ALPA to combat ML, TF, and the predicate offences. Since then, Nepal's AML/CFT regime has been evaluated two times through mutual

evaluation in 2010 and 2022. Likewise, Nepal has carried out its self-assessment of the risks and vulnerabilities in its regime by carrying out national risks assessments in 2016 and 2020. Nepal has also implemented coordinated effort to strengthen its AML/CFT regime and bolster its fight against financial crimes through national strategies and action plans.

Asset (Money) Laundering Prevention Act, 2008

ALPA serves as the foundational legal framework for Nepal's AML/CFT regime. It was enacted in 2008 and has been amended several times to address weaknesses or gaps in the legal provisions. With the enactment and operation of this act, Nepal demonstrates its commitment to promoting transparency, strengthening governance, and aligning its anti-money laundering framework with international standards.

Key provisions include:

- Definition and Scope of money laundering offense, terrorist financing offence in accordance with the UN conventions,
- Detailed provisions relating to customer identification and transactions, including customer due diligence, beneficiary ownership, PEPs, enhanced due diligence, and monitoring,
- Obligations of the Reporting Entities, including record keeping, suspicious transaction reporting, and risk assessments,
- Functions, Duties and powers of the Regulatory agencies, including the authority to impose sanctions for non-compliance,

- Formation of the high-level oversight bodies, the Directive Committee and the Coordination Committee headed by a Minister and a Secretary respectively,
- Establishment of the Financial Intelligence Unit as the national, operationally independent agency responsible for receiving, analyzing, and disseminating financial intelligence,
- Establishment of the Department of Money Laundering Investigation (DMLI) and the functions, duties and powers of the Department,
- Provisions relating to investigation and prosecution
- Provisions relating to declaration of currency and bearer negotiable instruments,
- Special provisions relating to freezing of property and funds,
- Provisions relating to punishment for money laundering and terrorist financing,
- Provisions related to Targeted Financial Sanctions (TFS)

Asset (Money) Laundering Prevention Rules, 2024

The Asset (Money) Laundering Prevention Rules, 2024 have been framed to operationalize and effectively implement the provisions of the Asset (Money) Laundering Prevention Act by establishing clear procedures, responsibilities, and compliance requirements for reporting entities and relevant authorities. These Rules aim to strengthen Nepal's framework for preventing money laundering, terrorist financing, and proliferation financing by promoting transparency, risk-based supervision, timely reporting of

suspicious transactions, and effective coordination among stakeholders, in line with national priorities and international standards.

Major provisions of ALPR, 2024 that replaced ALPR, 2016 include:

- Detailed provisions regarding customer identification and transactions, including the list of documents required for starting new relationship,
- Additional provisions regarding regulation and supervision, including risk-based supervision,
- Governance and organizational structure of FIU,
- Provisions relating to complaints, inquiries, and investigations,
- Additional provisions related to enlisting, freezing and releasing,
- Detailed provisions relating to identification of beneficial ownership of legal persons and arrangements,
- Provisions related to compliance Auditors,
- Provisions relating to International Cooperation.

Reporting Entities (REs) & Regulatory agencies

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.

They include financial institutions like commercial banks, cooperatives, and insurance companies, as well as, designated non-financial businesses and professions (DNFBPs) like casinos real estate agents and DPMS.

REs operate under the supervision of various regulatory agencies, which have the power to issue directives and sanction REs for non-compliance.

The list of RE (sector-wise) operating in Nepal and the respective (designated) regulators are as follows:

Regulators & Supervisors	Reporting Entities(Financial Institutions)
Nepal Rastra Bank (NRB)	Class A, B, C, and D Banks
	Cooperative Bank
	Remittance companies and Money Changers
	PSOs and PSPs
	EPF, CIT, SSF
	Public Debt and Stocks
	Hire Purchase Loan Providers
	Other entities licensed by NRB
Securities Board of Nepal (SEBON)	Securities Brokers and Commodity Trading Brokers
	OTC Market
	Merchant Bankers
	Investment Management Professionals
	Investment Companies

	Other entities licensed by SEBON
Nepal Insurance Authority (NIA)	Life Insurance Company
	Non-Life Insurance Company
	Re-Insurance Company
	Insurance Brokers
	Other entities licensed by NIA
Department of Cooperatives/ National Cooperatives Regulatory Authority (NCRA)	Cooperatives regulated by Federal Level
	Cooperatives regulated by Province Level
	Cooperatives regulated by Local Level
	Central Cooperative Associations carrying out financial transactions with cooperative organizations
Inland Revenue Department (IRD)	Approved Retirement Funds
Regulators & Supervisors	Reporting Entities (DNFBPs)
Department of Tourism	Casinos Business
Department of Land Management and Archive (DOLMA)	Real Estate Business/Agents
Inland Revenue Department (IRD)	Dealers in Precious Metal & Stones (DPMS)
Nepal Notary Public Council	Notary Public
Institute of Chartered Accountants of Nepal (ICAN)	Registered Auditors and Accountant/Chartered Accountants' Firm

Office of the Company Registrar (OCR)	Company & Trust Service Providers
Nepal Bar Council	Law Practitioners
Department of Transport Management	Automobile Sales Businesses

Law Enforcement Agencies (LEAs)

Law enforcement agencies are government bodies that are legally empowered to investigate crimes. They are also known as investigative agencies.

In AML/CFT framework, they are the primary recipients of financial intelligence disseminated by the FIUs. Upon receiving intelligence, their role is to conduct detailed investigations, gather evidence, and, if the evidence is sufficient, initiate prosecution against individuals or entities involved in money laundering and terrorist financing. They also collaborate closely with the domestic agencies and international partners to trace the movement of proceeds of crime.

The list of LEAs in Nepal are as follows:

LEAs/ Investigative agencies
Judicial Council
Commission for the Investigation of Abuse of Authority
Department of Revenue Investigation
Department of Money Laundering Investigation
Nepal Police
Nepal Army

Department of Forests & Soil Conservation, and relevant government agencies
Department of National Parks and Wildlife Conservation
Department of Drug Administration
Department of Foreign Employment
Department of Customs
Security Board of Nepal
Narcotics Control Bureau

The domestic stakeholders:



National Strategy and Action Plan (NSAP)

Nepal's National Strategy and Action Plan for AML/CFT is a comprehensive framework implemented to build a robust system against financial crimes and ML/TF risks. Nepal is currently in the implementation phase of the third NSAP (2024/25-2028/29). Previously, it implemented the first AML/CFT NSAP (2011-2016) and the second AML/CFT NSAP (2019-2024).

The third NSAP 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 third NSAP are -

Mission

- To reduce the risk of financial crime for the protection and stability of the financial system and the economy.

Goals

- To ensure parallel investigation and prosecution of predicate offences and money laundering offences in high-risk offences;
- To maintain the transparency and stability of the economic and financial system by adopting a risk-based preventive and supervisory system to discourage financial crime, and
- To adopt an effective information system to discourage financing in terrorism, terrorist activities, and proliferation of weapons of mass destruction.

Objective, Strategy and Activities

Objective No.1: Adopt a risk-based work approach to the investigation and prosecution of serious and high-risk financial crimes.

- Strategy 1.1 To make procedural arrangements for identifying elements of money laundering related crimes while investigating predicate offences and exchanging of the information related to the investigation.
- Strategy 1.2 To make strong institutional arrangements for investigation of money laundering related offenses along with investigation of high-risk predicate offenses.
- Strategy 1.3 To formulate and implement guidelines related to freezing, seizing, confiscation and recovery of proceeds of crime.

Objective No. 2: To adopt risk-based system in the area of supervision and ensure the effective implementation of preventative measures financial crime by adopting a risk-based preventive and supervisory system.

- Strategy 2.1 To institutionalize the rigorous measures of institutional governance and transparency of the reporting entities based on risk.
- Strategy 2.2 To develop a risk-based regulatory, supervisory and prompt corrective action system by prioritizing reporting entities which hold systematically importance in area of banking, remittance, securities, cooperatives, real estate, casino, and precious metals and stones.

Objective No.3: To broaden the scope of Financial Intelligence analysis

- Strategy 3.1 To expand the scope of suspicious transaction reporting and provide quality analysis of information and data to related agencies.
- Strategy 3.2 To enhance the analytical capability of the FIU in accordance with the risk.

Objective No.4: To build a strong implementation structure and effectively implement it to prevent financing of terrorism and proliferation financing.

- Strategy 4.1 Make effective reporting, regulation and supervision to prevent financing of terrorism and proliferation financing.
- Strategy 4.2 To make effective investigation and prosecution of offences related to terrorism and proliferation financing.
- Strategy 4.3 Ensure policy arrangement and its implementation to prevent financing of terrorism and proliferation financing in the national security system and procurement.

Objective No. 5: Based on the principle of Whole of the Government Approach, make systemic improvement on the issues identified by MER and other related study report in the areas of AML/CFT and CPF.

- Strategy 5.1 To improve legal and policy measures.
- Strategy 5.2 To establish a registry of Beneficial Owner.
- Strategy 5.3 To update risk assessment regularly.
- Strategy 5.4 To conduct specialized capacity building programs for the control of complex and emerging financial crimes related to money laundering, terrorism and proliferation financing.

- Strategy 5.5 To formulate and implement institutional and sectoral action plans.
- Strategy 5.6 Enhance the capacity of reporting entities in public-private partnership in order to further strengthen system for prevention of money laundering and financing of terrorism and proliferation financing.
- Strategy 5.7 Adopt robust information and evaluation mechanism to enhance performance effectiveness.

There are total 105 activities under five broad objective and respective strategies of the NSAP.

Coordination mechanisms/Committees

Combating ML/TF/PF, which involves all aspects of Nepal's AML/CFT regime, including suspicious transactions or activities reporting, analysis, dissemination, investigation, prosecution, judicial other functions. It requires coordination and collaboration among all relevant entities and agencies.

According to FATF Recommendation No. 2, "National Cooperation and Coordination," nations should establish national AML/CFT/CPF policies based on the identified risks with regular review of such risk, and should assign responsibility for these policies to a mechanism or authority. Countries should assure that supervisors, FIU, LEAs and other concerned authorities have mechanisms in place, at both the policymaking and operational levels. Such mechanism should allow them to collaborate, coordinate, and exchange information with one another regarding the formulation and implementation of policies and activities to combat ML/TF/PF.

Cooperation and coordination among these domestic authorities is essential for the effective compliance with AML/CFT/CPF regulations. FIU-Nepal holds regular meetings and programs with REs, LEAs, Supervisors/Regulators and representatives of other concerned agencies to discuss AML/CFT/CPF issues. FIU-Nepal receives information requests from LEAs in some cases to which FIU-Nepal responds by gathering information from both domestic REs/Agencies and foreign FIUs. Investigating agencies ask FIU-Nepal for financial intelligence for the purpose of their investigations. FIU-Nepal gathers information from REs and disseminate them to such investigating agencies after thorough analysis.

FIU-Nepal maintains strong relationships with all stakeholders effectively combat ML/TF/PF. Consequently, fostering cooperation among stakeholders and ensuring smooth, confidential, and motivating inter-agency relationships has always been a fundamental priority for FIU-Nepal. The organization engages in a wide range of activities and plays a policy role in various committees. Additionally, it has established a dedicated division for domestic cooperation and coordination to ensure seamless relationships with Reporting Entities (REs), LEAs, Regulators/Supervisors, and other relevant agencies and committees.

Committees as per ALPA (2008)

There are two committees as per ALPA (2008): Directive Committee and Coordination Committee.

i. Directive Committee

Directive Committee is formed under ALPA to oversee and review the effectiveness of activities related to AML/CFT. This is the apex committee in AML/CFT regime of Nepal. Composition of the Committee is:

Minister of Finance, Government of Nepal (GoN)	Chairperson
Minister of Law, Justice and Parliamentary Affairs, GoN	Member
Attorney General	Member
Chief Secretary, GoN	Member
Governor, Nepal Rastra Bank	Member
Coordinator, Coordination Committee	Member
Secretary, Ministry of Law, Justice and Parliamentary Affairs, GoN	Member
Secretary, Ministry of Finance, GoN	Member-Secretary

Functions, duties and power of the Committee as per ALPA (2008) are as follows:

- To review the national strategy and programs related to AML/CFT received from Coordination Committee and recommend it to Government of Nepal for approval.
- To implement national strategy and programs related to AML/CFT and review the progress of implementation.

- To determine tasks to be performed by the federal, provincial and local government in relation to AML/CFT and coordinate these tasks by creating necessary mechanism.
- To provide necessary directives to the concerned authorities for the implementation or enforcement of the provisions of the Act.
- To approve the National Risk Assessment Report received from Coordination Committee.
- To prepare annual report and submit it to Government of Nepal.

ii. Coordination Committee (CC)

The Coordination Committee (CC) was formed to maintain operational coordination among the concerned authorities in order to enhance effectiveness of AML/CFT related tasks. Composition of the Committee is:

Secretary (Legal), Office of the Prime Minister and Council of Ministers, GoN	Coordinator
Secretary, Ministry of Finance, GoN	Member
Secretary, Ministry of Law, Justice and Parliamentary Affairs, GoN	Member
Secretary, Ministry of Home, GoN	Member
Secretary, Ministry of Foreign Affairs, GoN	Member
Secretary, Ministry of Land Management, Cooperatives and Poverty Alleviation, GoN	Member

Secretary, Commission for the Investigation of Abuse of Authority (CIAA)	Member
Deputy Attorney General, Office of the Attorney General (OAG)	Member
Deputy Governor, Nepal Rastra Bank	Member
Inspector General of Police, Nepal Police	Member
Chief, Department of Money Laundering Investigation (DMLI)	Member
Head, Financial Intelligence Unit (FIU-Nepal)	Member-Secretary

As per ALPA (2008), CC shall have following functions, duties and power:

- To draft AML/CFT related national policy and programs and submit it to Directive Committee.
- To carry out sectoral and NRA, and submit the integrated risk thereof to Directive Committee.
- To make relevant agencies draft and implement action plans and guidelines on the basis of risk assessment, and monitor whether such action plans are effectively implemented or not.
- To furnish necessary suggestions or instructions to maintain functional coordination between related bodies.
- To implement or cause to implement the decision made by the Directive Committee.

- To issue necessary guidelines regarding the security, confidentiality and use of details or intelligence to be maintained in accordance with this Act.
- to conduct necessary studies, investigations, or make recommendations to relevant agencies for the prevention of financial crimes, and
- To carry out other functions related to coordination.

CC holds regular meetings and also invites high-level authorities and government agencies to discuss matters related with AML/CFT.

Other Mechanisms and Committees for Domestic Cooperation

There are additional three mechanisms and one committee mandated by AML/CFT National Strategy and Action Plans (2024/025-2028/029) to strengthen coordination mechanism and one committee as per ALPR (2024) to facilitate domestic cooperation.

i. Regulatory Coordination 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 to combat ML/TF/PF 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
Joint Secretary, Ministry of Finance, GoN	Member
Registrar, Department of Cooperatives	Member
Chief, Regulatory authority of the Designated Non-Financial Business and Profession [DNFBPs] (may be invited as per requirement)	Member
Head, Financial Intelligence Unit (FIU-Nepal)	Member

NRB acts as the secretariat of the Regulatory Co-ordination Mechanism (RCM).

ii. 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 as follows:

Deputy Attorney General, Office of the Attorney General (OAG)	Coordinator
Additional Inspector General (AIG) of Police, Nepal Police	Member

Chief, Department of Money Laundering Investigation	Member
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Joint Secretary, Commission for the Investigation and Abuse of Authority	Member
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Director General, Department for Management of Proceeds of Crimes	Member
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Director General, Judgment Execution Directorate, Supreme Court	Member
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Chief, Office of the Special Public Prosecutor	Member
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Representative, other investigating authorities (as per requirement)	Member
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Head, Financial Intelligence Unit (FIU-Nepal)	Member
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OAG acts as the secretariat of the Investigation Coordination Mechanism (ICM).

iii. Counter Terrorism Mechanism

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 sanction of the United Nations Security Council or similar other lists.

Composition of the committee is as follows:

Secretary, Ministry of Home Affairs, GoN	Coordinator
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Lieutenant General, Nepali Army	Member
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Inspector General (IG) of Police, Nepal Police	Member
Inspector General (IG) of Armed Police, Armed Police Force, Nepal	Member
Chief Investigation Director, National Investigation Department	Member
Joint Secretary, Office of the Prime Minister and Council of Ministers, GoN (AML related)	Member
Joint Secretary, Ministry of Foreign Affairs, GoN	Member
Chief, Department of Money Laundering Investigation (DMLI)	Member
Head, Financial Intelligence Unit (FIU-Nepal)	Member

Ministry of Home Affairs acts as the secretariat of the Counter Terrorism Mechanism.

iv. Task Coordination Committee

The main function of this committee is to coordinate among concerned agencies and facilitate the implementation of the prevailing legal provisions, strategies and action Plans and submit the progress report to CC.

Composition of the committee is as follows:

Joint Secretary, Office of the Prime Minister and Council of Ministers, GoN (AML related)	Coordinator
Under Secretary, Ministry of Law, Justice and Parliamentary Affairs, GoN	Member
Under Secretary, Ministry of Finance, GoN	Member

Director, Department of Money Laundering Investigation (DMLI)	Member
Director, Department for Management of Proceeds of Crimes	Member
Deputy Attorney, Office of the Attorney General (Secretariat of the Investigation Coordination Mechanism)	Member
Superintendent of Police (SP), Nepal Police	Member
Deputy Director, Financial Intelligence Unit (FIU-Nepal)	Member
Under Secretary (AML related), Office of the Prime Minister and Council of Ministers, GoN	Member

Committee as per ALPR (2024)

(i) Technical Committee

ALPR (2024) has provision of Technical Committee to bring efficiency in the investigation related work by maintaining coordination between the agencies investigating money laundering related offences. Composition of the committee is as follows:

Chief of the Department of Money Laundering (DMLI)	Coordinator
Joint Secretary, Commission for the Investigation of Abuse of Authority	Member

Deputy Attorney General, Office of the Attorney General (OAG)	Member
Director General, Inland Revenue Department	Member
Director General, Department of Revenue Investigation	Member
Director General, Department of Customs	Member
Director General, Department for Management of Proceeds of Crime	Member
Head, Financial Intelligence Unit (FIU-Nepal)	Member
Deputy Inspector General of Police, Nepal Police	Member
Director, Department of Money Laundering Investigation (DMLI)	Member Secretary

The ALPR 2024 has outlined following functions, duties and power of the committee:

- i. To discuss and make suggestions based on the needs of the investigating agency, ensuring consistency and effectiveness in the investigation of money laundering-related offenses.
- ii. To make suggestions to the investigating agency regarding the use of special investigation techniques.
- iii. To study and do research on the emerging trends, typologies and practices related to financial crimes, and

via OPMCM, submit the findings to Coordination Committee for policy feedback.

- iv. To study and investigate possible methods of identification, search, freezing or seizing of the proceeds of crime,
- v. To assist and facilitate investigating agencies to issue and implement procedures, standards and guidelines for effective investigation of crimes.

V. Financial Intelligence Unit

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 critical link 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.

Core Functions

FIUs around the world have three core functions:

- i. Receipt:* It acts as the central reception point for Suspicious Transaction Reports (STRs) and other required reports (e.g., cash transaction reports, threshold transaction reports, cross-border cash reports) from financial institutions and other designated non-financial businesses.

- ii. Analysis:** It processes and analyze these reports to detect links to possible criminal activity and develop actionable financial intelligence. FIU may use information from other sources during analysis.
- iii. Dissemination:** It transmits the results of its analysis (intelligence reports) to competent authorities—for further investigation if the criminal activity is suspected.

Types of FIUs

FIU Type	Features
Administrative Type	<ul style="list-style-type: none"> • Usually placed within the Central Bank or Ministry of Finance. • It focuses purely on intelligence processing. • Doesn't have investigative or prosecutorial powers.
Law Enforcement Type	<ul style="list-style-type: none"> • Established within a general or special police agency • Treats financial intelligence as a part of criminal investigation from the start
Judicial Type	<ul style="list-style-type: none"> • Located within the Prosecutor's office • Particularly common in countries with "Civil law" systems where prosecutors supervise investigations.
Hybrid Type	<ul style="list-style-type: none"> • It's an FIU that has mixed roles of the above mentioned types. • A hybrid FIU might be an administrative body that also

	possesses some police powers.
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Major features of FIUs:

- *Operational Independence:* While often housed within a larger body like the central bank or ministry of finance, an FIU must operate with sufficient autonomy to perform its functions without undue influence.
- *International Cooperation:* FIUs are a part of global network (facilitated by the Egmont Group) that exchange financial information across borders to fight transnational crime.
- *Data Security and Confidentiality:* Because FIUs handle sensitive financial data, they operate under strict security protocols. Information received is kept confidential, and in many jurisdictions cannot be used as direct evidence in courts without FIU's consent; rather, it serves as intelligence to guide investigations.
- *Technological Infrastructure;* Modern FIUs rely heavily on IT infrastructure and advanced technology to handle the increasing volume of reports.

FIU Analysis:

Tactical Analysis	Operational Analysis	Strategic Analysis
<ul style="list-style-type: none">• Analysts match incoming reports with existing databases.• Additional information from STR-filing REs, government databases, and other information are analysed.	<ul style="list-style-type: none">• Builds customer profiles from gathered data• Links the subject to criminal proceeds and criminal networks	<ul style="list-style-type: none">• Focus on non-specific individual cases but examines aggregate data• Aims to identify broad trends, emerging typologies, and policy gaps on emerging ML/TF threat

FIU-Nepal

FIU-Nepal was established in April, 2008 under ALPA as the national agency responsible for receiving, analyzing and disseminating financial intelligence. It's an operationally independent public agency operating with Nepal Rastra Bank's budgetary support.

Functions of FIU Nepal

The core functions of FIU are receipt of STRs and other relevant information; analysis of those information and development of intelligence; and, dissemination of financial intelligence to competent authorities.

Besides the core functions, FIU-Nepal carries out following functions:

- Serves as the contact point of Nepal's AML/CFT Regime
- Carries out exchange of information with foreign FIUs through the Egmont Group's platform
- Serves as the secretariat of the Coordination Committee
- Provides guidance and feedback to Reporting Entities
- Conducts interaction, outreach and awareness programs with relevant agencies and institutions

The functions, duties, and powers of FIU-Nepal as per Section 10 of ALPA (2008) are:

- To receive Threshold Transaction Reports (TTRs), Suspicious Transaction Reports (STRs) as per the Act,
- To receive reports on cross-border currency and bearer negotiable instruments, as well as other information, documents and reports as per the Act,
- To analyze information and reports received as per the Act,
- To disseminate intelligence reports to the investigative authority and other relevant authorities spontaneously or on request,
- To make necessary provision for training of REs, competent authorities and own staff,
- To provide necessary guidance and feedback to the REs and other competent authorities regarding identification and reporting of suspicious transactions,
- To submit annual report and strategic analysis report to the government of Nepal through Nepal Rastra Bank,
- To assist regulatory agencies in the supervision of REs or provide feedback after studying the inspection reports,
- FIU-Nepal may exchange information with other FIUs or may enter into Memorandum of Understanding (MoU),

- FIU-Nepal can fine up to Rs.10 million to REs and officials/ employees of REs that do not report suspicious transactions, threshold transactions or breach the

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 LEA.
- 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.
- 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 provide access to suspicious transactions to anyone.

confidentiality terms in pursuant to the Act.

The goAML System

The goAML application, which is fully integrated software solution developed by UNODC, is one of the strategic responses to financial crime, including money-laundering and terrorist financing. 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.

FIU-Nepal signed Service Level Agreement (SLA) in 2018 AD to rollout goAML System in its core functions. Initially, goAML was made live for Commercial Banks and Development Banks on 15th Jan, 2020 and 14th Jan, 2021 respectively. Other institutions have been gradually integrated into the system.

VI. AML/CFT International Stakeholders

There are a large number of international stakeholders in the AML/CFT system. These bodies act as standard setters, facilitators, and support providers.

The international stakeholders include:

Financial Action Task Force (FATF)

The FATF, established in 1989 by the G-7 countries, is an inter-governmental body that sets global standards for combating money laundering (ML), terrorist financing (TF), and proliferation financing (PF), developing policies and recommendations that countries implement to protect the financial system from illicit use.

The FATF consists of 40 members, including 38 jurisdictions and two regional organizations: the European Commission and the Gulf Cooperation Council. Its reach extends to over 200 jurisdictions through nine FATF-Style Regional Bodies (FSRBs) such as MONEYVAL and the Asia/Pacific Group (APG). It's

headquartered in Paris, France and is administratively hosted at the OECD.

Main Functions:

- *Setting Global Standards:* The FATF has issued the 40 recommendations, which provide a comprehensive framework of legal, regulatory, and operational measures for countries to implement.
- *Monitoring Compliance:* FATF and the FSRBs conduct peer reviews called the mutual evaluations to assess how effectively countries are implementing standards.
- *Identifying risky jurisdictions:* The FATF maintains two public lists to pressure countries into fixing strategic deficiencies. High-Risk Jurisdictions (Blacklist) includes countries that are subject to call for action. Jurisdictions under Increased Monitoring (Grey List) are countries that are working actively with the FATF to address deficiencies.
- *Researching emerging threats:* The FATF conducts extensive research to analyze the "typologies" (methods, trends, and patterns) of financial crime. These researches help jurisdictions understand their specific risk profile and adapt their defenses accordingly.
- *Providing guidance:* Beyond setting the 40 recommendations, the FATF issues the practical guidance to help the governments and the private sector implement these standards effectively. Lately, it has issued guidance on applying risk-based approach and balancing compliance with financial inclusion.

The Nine FATF-Style Regional Bodies (FSRBs) are autonomous regional organizations that help the 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.

Asia/Pacific Group on Money Laundering (APG)

APG, a FSRB, was officially established in 1997 through the agreement among 13 countries in the Asia-Pacific region. It's an inter-governmental body consisting of 42 member jurisdictions at present. The APG is focused on ensuring that its members effectively implement the international standards against money laundering, terrorist financing and proliferation financing. It is the largest in terms of membership numbers and geographical size. The APG is mainly funded by the member countries, with extra help from the Australian government.

The APG has five primary functions:

- a. *Mutual evaluation (ME)*: The APG assesses the levels of compliance by its member jurisdictions with the global AML/CFT standards through a ME (peer review) program;
- b. *Technical assistance and training*: The APG Secretariat coordinates 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 LEAs 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 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 the year 2019 and 2020.

The Egmont Group

The Egmont Group is a global network of FIUs comprising 181 members. The group, established in 1995 by the pioneering FIUs that were established in the early 1990s, 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 ML/TF, and associated predicate offences. It aims to facilitate the rapid exchange of financial intelligence across borders, a process that typically occurs faster through the FIU network than through other government information-sharing channels. The Egmont Group Secretariat was established in 2017 and is based in Canada.

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).

The key functions of the group are:

- *Information exchange:* It offers a secure platform (ESW) for FIUs to share financial intelligence and operational data, crucial for tracking illicit funds.
- *Capacity building:* The Egmont Centre of FIU Excellence and Leadership carries out activities that include mentoring, coaching, staff exchanges, specialized training courses and other support mechanisms.
- *International Cooperation:* The Egmont group has several working groups and regional working groups that foster collaboration among the FIUs and with the international bodies like the FATF.
- *Promoting FIU development:* The group encourages the establishment and operational independence of FIUs globally.

The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) is primary global standard setter for the prudential regulation of banks and provides a forum regulator cooperation on banking supervision matters. The BCBS was established in 1974 by the central bank governors of the group of 10 (G10) countries. The Basel Core Principles consist of set of 29 principles, which stands as the guideline for achieving prudent financial system. The principle no. 29 is more relevant and has direct implication on AML/CFT. It focuses on preventing banks from being used for Abuse of Financial Services. Basel committee has also issued Guidelines on sound management of risks related to ML/TF. The Guidelines focuses on integrating ML/TF risk management into overall bank

risk frameworks, emphasizing a Risk-based Approach (RBA) aligned with FATF standards. Key aspects include robust risk assessments, strong customer due diligence, effective controls, and continuous review. The Committee's Secretariat is located at the Bank for International Settlements (BIS).

United Nations (UN)

The United Nations (UN) plays a significant role in promoting AML/CFT through various entities, resolutions, and conventions. The UN's approach to AML/CFT focuses on establishing international legal frameworks, providing technical assistance, and coordinating global action to address these issues. Key UN bodies and initiatives involved in AML/CFT efforts include:

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UNODC is a global leader in the fight against illicit drugs and international crime, in addition to being responsible for implementing the United Nations lead program on terrorism. UNODC has 20 field offices covering over 150 countries. By working directly with Governments and non-governmental organizations, UNODC field staff develop and implement drug control and crime prevention programs tailored to countries' particular needs. UNODC has been helping make the world safer from drugs, organized crime, corruption and terrorism. The mandates of UNODC include the areas related to transnational organized crime, criminal justice, countering corruption, drug control and terrorism. As strategic responses to financial crime including money-laundering and terrorist financing, UNODC has developed integrated software solution for use by FIUs. The software is goAML, which was

developed in partnership with UNODC as a tool against Money Laundering and Terrorism Financing.

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(iii) **UN Conventions and International Frameworks:**

• United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) - The Vienna Convention

• International Convention for the Suppression of the Financing of Terrorism (1999).

• United Nations Convention Against Transnational Organized Crime (UNTOC)- the Palermo Convention (2000)

• United Nations Convention Against Corruption (UNCAC) (2003)

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International Monetary Fund (IMF)

The IMF's role in Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) involves integrating financial integrity into its core functions (surveillance, lending, capacity building) to ensure macroeconomic stability, assessing member countries' compliance with international standards, providing technical assistance to fix vulnerabilities, and participating in global policy dialogue with organizations like the FATF. They help countries build robust frameworks to fight illicit financial flows, which harm economies by distorting markets and undermining governance.

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Nepal obtained membership of IMF on September 6, 1961. IMF has 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). 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 has prioritized implementation of following in national strategy:

- 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

The World Bank

The World Bank plays a crucial role in Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) by providing technical assistance, capacity building, and diagnostics to help client countries strengthen their financial sector integrity, develop risk assessment tools, and implement international standards, working with partners like the FATF, IMF, and UN to reduce financial crime risks and promote economic development. The WB has been supporting Nepal in AML/CFT issues, including the National Risk Assessment (NRA). The World Bank has provided tools, training, and guidance to help Nepal conduct its NRA.

The Wolfsberg Group

The Wolfsberg Group is a consortium of major global banks that creates voluntary guidelines and frameworks for combatting financial crimes. The association of 12 banks aims to develop financial industry standards and best practices related to anti-money laundering, counter terrorism financing, Know your customer and sanctions compliance. Its working groups bring together expert practitioners and cover a wide range of financial-crime related topics to issue new publications, or update older ones as needed. The Wolfsberg Group's AML, KYC, and CFT 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, and has been revised several times afterwards.

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 has set out 38 Principles of securities regulation, which are based upon three

objectives of securities regulation i.e. protecting investors; ensuring that markets are fair, efficient and transparent; and reducing systemic risk. IOSCO Principle 31 mainly concerns with the AML/CFT. As the global standard setter for securities markets, IOSCO ensures that its members—who regulate over 95% of the world's securities market—have robust, consistent, and effective mechanisms to prevent illicit financial activities. The IOSCO was established in 1974 and its headquarters is located in Madrid, Spain.

The International Association of Insurance Supervisors (IAIS)

IAIS is 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 also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets. The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators. The IAIS ensures that insurance supervision aligns with the FATF Recommendations. IAIS has issued 25 Insurance Core Principles (ICP). ICP 22 relates to AML/CFT. The IAIS was established in 1994 and is headquartered in Basel, Switzerland. It has memberships from more than 200 jurisdictions.

Asian Development Bank (ADB)

The ADB envisions a prosperous, inclusive, resilient, and sustainable Asia and the Pacific with its rigorous efforts to eradicate extreme poverty in the region. The ADB supports

AML/CFT by building TA programs, training officials, and collaborating with international bodies to help developing member countries strengthen their legal frameworks, institutional capacity, and enforcement of AML/CFT laws.

ADB has partnered with UNODC and has been working on its goAML suspicious transaction reporting system 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 STR. FIU-Nepal has created a new reporting type, STR-TBML within the goAML system, with the help of ADB-TSCFP. ADB has also supported to conduct training (both virtual and physical) to banks, LEAs and FIU-Nepal regarding TBML.

International Criminal Police Organization (Interpol)

Interpol is a global inter-governmental organization that facilitates cooperation and coordination between police forces across its member countries to combat transnational crime. It has 196 member countries and is headquartered in Lyon, France. In each country, an INTERPOL National Central Bureau (NCB) provides the central point of contact for the General Secretariat and other NCBS. Interpol was formed in 1923 in Vienna, Austria and its mission is to assist LEAs across its member states in addressing international crimes, including money laundering, terrorism, human trafficking, cybercrime, drug trafficking, and corruption.

Asset Recovery Inter-Agency Network for Asia and the Pacific (ARIN-AP)

ARIN-AP is a regional organization dedicated to promoting cooperation and information sharing among law enforcement and other relevant agencies to facilitate asset recovery in cases involving transnational crime, corruption, and money laundering across Asia and the Pacific. Nepal became member of ARIN-AP in 2013. ARIN-AP aims to strengthen regional capabilities to identify, confiscate, and recover illicit assets by providing a collaborative platform for member countries. The Korean Supreme Prosecutor's Office takes the role of the secretariat of ARIN-AP.

VII: NRA and Mutual Evaluation

National Risk Assessment

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).

The NRA also acts as a cornerstone for decision-making, allowing authorities to systematically allocate resources to sectors identified as "high-risk", where the threat is most acute. The findings of an NRA shape national policies, guide the outreach and awareness programs for reporting entities, and assist regulatory agencies in ensuring their controls are consistent with the actual risk levels of the jurisdiction.

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:

Threats Assessment:

Threat Level	Offences
Major threats:	Corruption (bribery), tax (revenue) evasion, financial crimes such as banking offence and hundi.
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.

Low threats:	Counterfeiting and piracy of products, kidnapping, illegal restraint and hostage taking, international terrorism, trafficking in stolen goods and insider trading.
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Sector-wise vulnerabilities as per NRA, 2020 is shown in table below: -

Sector-wise vulnerabilities as per NRB, 2020

S.N.	Institutions	Vulnerability
1.	Banking	Medium high
2.	Co-operatives	Medium high
3.	Securities	Medium
4.	Insurance	Medium
5.	Other Financial Institutions	<ul style="list-style-type: none"> • Money Changer – Low • Remittance Company - Medium high • Foreign Exchange Bureau - Medium high • Hundi - High
6.	DNFBPs	Casino - Medium high Precious Stones - Medium high Real Estate - High

		Accountants - Medium
7.	NPOs	Medium

Mutual Evaluation

Mutual Evaluation is a process of identifying inadequacies and strategic deficiencies of a country's AML/CFT system or regime. 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 are 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.

A mutual evaluation is a strictly confidential process. The assessment team, assessed country, secretariat, reviewers, and countries making comments should ensure the confidentiality of all information gained and all comments made.

Starting point of every assessment is assessors' initial understanding of country's risk and context in the broadest sense and the elements contributing to them.

This includes;

- The nature and extent of the money laundering and terrorist financing risks.
- The country's circumstances which affect the materiality of factors that impact different recommendations.
- Structural elements which underpin the AML/CFT/CPF system.
- Other contextual factors that could influence how AML/CFT/CPF measures are implemented and how effective they are.

During the ME, assessors determine a country's ML/TF risks, materiality, structural elements and contextual factors to understand the environment in which a country's AML/CFT/CPF regime operates. These factors influence issues assessors consider to be material or higher-risk and helps assessors determine where to focus their attention. ML/TF risk and materiality, structural elements and context factors are important to assess the country's AML/CFT/CPF regime.

The Stages

The main stages of the mutual evaluation process are Country Training, Selection of Assessors, Technical Compliance, Risk and Scoping Exercise, Information and Preliminary Review on Effectiveness, On-site Visit, Report Drafting, Face-to-Face Meeting, Plenary Discussion, Follow-up, Post-Plenary Quality and Consistency, Key Recommended Actions Roadmaps and International Co-operation Review Group Handover.

Main components of ME process

Technical compliance: The assessed country is required provide information on the laws, regulations and other legal instruments to combat ML, TF and PF.

The technical compliance component assesses whether a country has implemented the necessary laws, regulations and other required measures and whether the supporting AML/CFT/CPF institutional framework is in place. The FATF assesses for technical compliance against all 40 FATF Recommendations.

These 40 recommendations can be classified in seven categories.

- i. AML/CFT policies and coordination- R.1 & R.2
- ii. Money Laundering and Confiscation- R.3 & R.4
- iii. TF and PF- R.5 to R.8
- iv. Preventive Measures- R.9 to R.23
- v. Transparency and Beneficial Ownership of Legal persons and Legal Arrangements- R.24 & R.25
- vi. Powers and Responsibilities of competent authorities and other institutional measures- R.26 to R.35
- vii. International Cooperation- R.36 to R.40

There's a five-category rating scale for the assessment of a country's compliance with the FATF Recommendations:

- *Compliant (C):* There are no shortcomings in a country's compliance with the Recommendation.

- *Largely Compliant (LC)*: There are only minor shortcomings with a country's compliance with the Recommendation.
- *Partially Compliant (PC)*: There are moderate shortcomings in the country's compliance with the Recommendation.
- *Non-Compliant (NC)*: There are major shortcomings in the country's compliance with the Recommendation.
- *Non-Applicable (N/A)*: A requirement does not apply due to a country's structural, legal or institutional features.

The level of compliance with each of the Recommendation's criteria is considered along with other important factors to arrive at a final rating. Such factors, among others, refer to the relative importance of the criteria in the country's context, the significance of an identified deficiency given the country's risk profile and other structural and contextual information, and the cascading effect an identified deficiency can have on other Recommendations.

Effectiveness: The assessment team conducts an on-site visit to assess the effectiveness of the country's AML/CFT/CPF system. During the on-site visit, the evaluated country is required to provide evidence to the assessment team demonstrating that its measures are working and delivering the right results.

The effectiveness component assesses whether the AML/CFT systems are working and the extent to which the country is achieving the defined set of outcomes expected of a well-

performing AML/CFT/CPF regime. The FATF uses 11 Immediate Outcomes to assess effectiveness.

The each and every immediate outcome assesses specific subjects such as:

- *Immediate outcome 1-* Assesses country's Risk policy and coordination
- *Immediate outcome 2-* Assesses country's international cooperation
- *Immediate outcome 3-* Assesses country's Supervisory Measures
- *Immediate outcome 4-* Assesses country's Preventive Measures
- *Immediate outcome 5-* Assesses creation and management of Legal person and Arrangements.
- *Immediate outcome 6-* Assesses use of financial intelligence
- *Immediate outcome 7-* Assesses Money laundering investigation and prosecution aspects.
- *Immediate outcome 8-* Assesses the confiscation regime of the proceeds of crime.
- *Immediate outcome 9-* Assesses the Terrorist financing investigation and prosecution aspects
- *Immediate outcome 10-* Assesses the Terrorist financing preventive measures and financial Sanction measures

- *Immediate outcome II*- Assesses the proliferation financing sanction measures.

There's a four-category rating scale for measuring a country's effectiveness for each of the 11 IOs.

- *High Level of Effectiveness (HE)*: The Immediate Outcome is achieved to a very large extent. Minor improvements are needed.
- *Substantial Level of Effectiveness (SE)*: The Immediate Outcome is achieved to a large extent. Moderate improvements are needed.
- *Moderate Level of Effectiveness (ME)*: The Immediate Outcome is achieved to some extent. Major improvements are needed.
- *Low Level of Effectiveness (LE)*: The Immediate Outcome is not achieved or achieved to a negligible extent. Fundamental improvements are needed.

Key Recommended Actions:

One of the main objectives of the mutual evaluation process is to help countries improve their AML/CFT/CPF system. Assessors

recommend measures the country should take to improve its AML/CFT/CPF system, including effectiveness and technical compliance.

Assessors determine whether the recommended actions are key for improving effectiveness or technical compliance. These Key Recommended Actions (KRA) are noted separately from other recommendations.

There are usually at most 2-3 (two to three) KRAs per Immediate Outcome, including any KRA that concerns a related Recommendation under an Immediate Outcome. These actions are country-specific and can span the entire AML/CFT/CPF regime. They can include recommendations to enact new laws, provide new powers to existing institutions, or concentrate efforts in particular areas. In exceptionally appropriate cases, assessors may also set out a limited number of KRAs as contextual factors.

This KRA roadmap is developed with close collaboration with the assessed country for the duration of ME process and after the Mutual Evaluation Report is adopted, the KRA roadmap is provided to the country advising expectations for follow-up.

Nepal's Mutual Evaluation

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 list of "Jurisdiction under increased monitoring list" as a result First AML/CFT National Strategy and Action Plan (2011-16) was issued and implemented and the Act was amended in Year 2014 and 2016 and Nepal was able to exit from the Grey List in 2014.

The Third Mutual Evaluation was carried out based on the revised FATF Standards and additional provisions to measure the effectiveness in Year 2022. The Mutual Evaluation Report was adopted in July 2023 and published in September 2023.

Based on the findings from the mutual evaluation carried by APG in 2022-23, Nepal entered the FATF's ICRG process in October 2023. After a one-year observation period and the assessment of Nepal's progress, Nepal was added to the list of "Jurisdictions under Increased Monitoring" by FATF in February, 2025 citing strategic deficiencies in the country's AML/CFT regime. Nepal has agreed to an action plan to address the deficiencies pointed out by the mutual evaluation report (MER). Nepal has also implemented the third National Strategy and Action Plan AML/CFT (2024/25 to 2028/29) for coordinated and collaborative efforts of all the relevant agencies, which is imperative to exit from the "Jurisdictions under increased monitoring" list and strengthen the overall AML/CFT regime.

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