

THIRD MUTUAL EVALUATION OF NEPAL

7.1 Mutual Evaluation (ME): Brief Overview

FATF/FSRB conducts mutual evaluation (ME) of its members' levels of implementation of the FATF Recommendations on an ongoing basis. These are peer reviews, where members from different countries assess another country. A MER provides an in-depth description and analysis of a country's system for preventing criminal abuse of the financial system. It also provides focused recommendations to the country to strengthen its system based on such analysis. The assessment of AML/CFT system is done based on:

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

The MER allows country to determine how they should improve their national AML framework and how to do this via tailored recommendations provided by FATF. Mutual evaluations are useful to country authorities, regulators, the financial sector and the general public as they help determine the ML/TF risks of a jurisdiction. The FATF/FSRB follows a very structured methodology and predefined procedures to measure two

distinct components that make up the overall assessment given in below points:

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

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

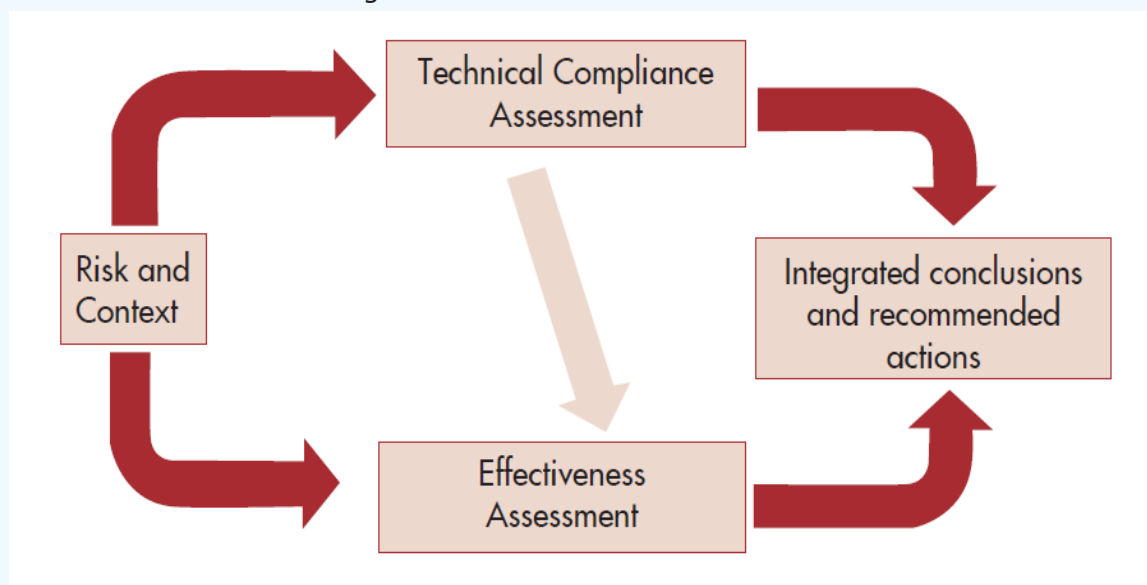
Relationship between Recommendations and IOs

EFFECTIVENESS	TOPIC	RELATED RECs
IO 1	Risk and policy coordination	R. 1, 2, 33, 34
IO 2	International cooperation	R. 36-40
IO 3	Supervision	R. 14, 26-28, 34, 35
IO 4	Preventive measures	R. 9-23
IO 5	Transparency of legal persons and arrangements	R. 24, 25
IO 6	Financial intelligence	R. 29-32

IO 7	Money laundering investigations and prosecutions	R. 3, 30, 31
IO 8	Confiscation	R. 1, 4, 32
IO 9	Terrorist financing investigations and prosecutions	R. 5, 30, 31, 39
IO 10	Terrorist financing targeted financial sanctions and non-profit organizations	R. 1, 4, 6, 8
IO 11	Proliferation financing targeted financial sanctions and domestic coordination	R. 7

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

Figure 19 : Mutual Evaluation Process



Source: APG

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

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

transparency and effective judicial systems are considered to understand the risk and context. Assessor considers the nature and extent of the ML/TF risk factors to the country at the outset of the assessment and throughout the assessment process. One of the major documents for APG for assessing risk and context is NRA report and sectoral risk assessment reports prepared by the country.

b) Technical Compliance (TC) Assessment: A desk-based TC analysis assesses compliance by an APG member with the specific requirements of each of the 40 FATF recommendations- the relevant legal and institutional framework of the jurisdiction, and the powers and procedures of competent authorities. These recommendations represent the building blocks of an AML/

CFT system. The TC analysis is undertaken by an assessment team prior to an on-site visit of the member being evaluated. In case of requirement Pre-Onsite Visit is conducted by the Assessment Team to gauge the level of TC.

- c) **Effectiveness Assessment:** The main component of a ME is effectiveness assessment. It assesses the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. An effectiveness assessment comprises of the extent to which an APG member achieves a defined set of outcomes that are central to a proper functioning and effective AML/CFT system with expected results based on the ML and TF risk profile of that jurisdiction. Experts forming the assessment team use “11 IOs,” including core issues for each

outcome, in the 2013 methodology with an aim to achieve the High Level objective of “Protecting the Financial System and the Broader economy from ML/TF threats and Proliferation, Strengthening Financial System Integrity and contributing to safety and security”.

Integrated Conclusions and Recommended

Actions: It is the final step of ME where the key findings with recommended actions are presented. On the basis of a), b) and c) as mentioned above, the detailed analysis of the level of compliance with the technical criteria and the final conclusion are presented by the assessor team. A MER is not the end of the process. It is a starting point for the country to further strengthen its measures to tackle ML/TF/PF. Mutual Evaluation Report is not the end of the process. It is a starting point for the country to further strengthen its measures to tackle ML/TF/PF.

Rating Scales for Technical Compliance and Effectiveness Assessment

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

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

Types	Grounds
Regular	
Enhanced	<ol style="list-style-type: none"> 8 or more NC/PC Recs. on TC, or NC/PC on 1 or more out of R 3, 5, 10, 11, 20 Recs. on TC or L or M on 7 or more IOs, or L on 5 or more los

Types	Grounds
Enhanced [Expedited]	<ol style="list-style-type: none"> 1. NC/PC on 10 or more out of Recs: R 3, 5, 10, 11, 20 and 1, 4, 6, 26, 29, 36, 37, 40, or 2. L or M on 9 or more IOs
International Cooperation Review Group/ Monitoring	<ol style="list-style-type: none"> 1. 20 or more NC/PC Recs, or 2. NC/PC on 3 or more of R 3, 5, 6, 10, 11, 20, or 3. L or M on 9 or more or 4. L on 6 or 5. Non-participation in FSRB or 6. Nomination by FSRB/FATF delegation

Recs.: Recommendations; TC: Technical Compliance; IOs: Immediate Outcomes

7.2 Nepal's Mutual Evaluation Report (MER)

Nepal underwent its first and second APG Mutual Evaluation in 2005 and 2010, with the report adopted in 2011. Nepal engaged in ICRG process with FATF through since 2009. Nepal has improved its AML/CFT regime for facilitating international cooperation in line with the FATF principles. As a result, Nepal was relieved from the 'Improving Global AML/CFT Compliance List' of FATF/ICRG from June 2014. APG conducted third round of Mutual Evaluation (ME) and published Mutual Evaluation Report (MER) on September 2023.

APG Annual Meeting held at Vancouver, Canada in 2023 adopted the Nepal's MER and APG published the report on it's official website on September 2023. Nepal amended various AML-CFT related laws April 2024 based on the MER comments, and requested for re-ratings on Technical Compliance on 19 Recommendations after such amendments. APG secretariat had agreed to upgrade some of Nepal's request and agreed to upgrade nine recommendations which is mentioned in Nepal's Follow Up Report (FUR) 2024 prepared by APG. Nepal's Follow Up Report (FUR) 2024 was discussed in Mutual Evaluation Committee (MEC) Annual Meeting in 2024. Delegates from Nepal's team answered queries raised by MEC Member during the MEC meeting. Mutual Evaluation Co-Chairs adopted Nepal's

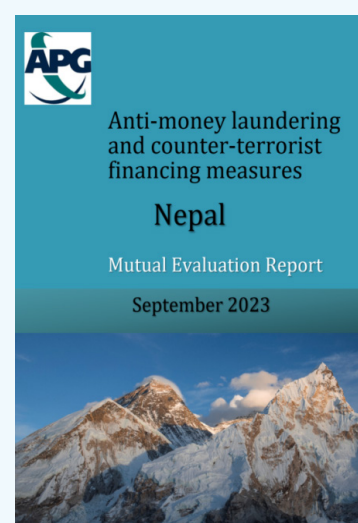
Follow-Up Report (FUR) prepared by APG Secretariat at 2024 APG Annual Meetings.

As per MER of Nepal, APG and the assessment team has following key findings and recommended actions that Nepal

government and different AML-CFT stakeholders need to do:

(a) Nepal Government

- Nepal should pass the *Amendments to Some Laws relating to AML and Business Promotion Bill*, which aims give ML investigation authority to the predicate crime investigation agency. When passed, Nepal should expedite implementation and significantly enhance the capacity of impacted competent authorities to undertake their new/modified functions.
- Nepal should ensure all future high-level confiscation policies support a whole of government approach to deprive individuals of their ill-gotten gains while also improving individual agencies' confiscation results. Recovery from offences generating significant proceeds of



crime, and crimes consistent with Nepal's risk profile (corruption, tax evasion, human trafficking, and other higher risk crimes and movement of proceeds abroad) should be a clear and explicit focus.

- Expedite national identification roll-out to ensure robustness of documents used in the CDD process and provide access to the national identity card or other similar government database for verification purposes.

(b) ML-TF Risk Assessment

- Update and enhance all competent authorities' understanding of ML/TF risk including through conducting a comprehensive assessment of Nepal's ML/TF risk. Particularly around ML typologies for all higher risk predicate crimes including human trafficking and sexual exploitation, and in all vulnerable FI/DNFBP sectors on legal persons, PEPs, cross-border issues (including TBML), virtual assets/ virtual assets service providers (VASPs), the impact of the informal economy, and emerging risks.
- Nepal should adequately assess its TF risk (in line with the RA in IO.1) and use this enhanced understanding to improve its mechanisms to identify potential TF cases and integrate CFT into its counter-terrorism strategies, activities, coordination and cooperation mechanisms.
- Nepal should assess NPO's TF risks in accordance with Recommendation 8, and based on this review implement measures and provide appropriate TF-related outreach and targeted monitoring to at-risk NPOs.
- Ensure the National Strategy and Action Plan gives more focus on AML/CFT supervision priorities and LEA operational priorities set appropriately to address Nepal's ML/TF risks.

- Promote and develop awareness the Nepal's ML/TF risks including in relation to all high risk predicate crimes through ongoing outreach and engagement with FIs and DNFBPs.
- Sector and cross-sector vulnerability analysis should be undertaken to increase understanding of risks including with cash transactions, foreign currency transactions, legal persons and arrangements, Hundi, casinos, real estate, precious metals or stones and cross-border activities.
- Require and support all FIs and DNFBPs to enhance their understanding on ML/TF risks (including by conducting institutional risk assessments) and to take mitigating measures consistent with risk understanding.

(c) FIU-Nepal

- The FIU-Nepal's goAML division should be given priority for available human resources to expedite full adoption and operation of goAML.
- The FIU should enhance FIs reporting with a focus on enhancing the quality and quantity of STRs/SARs reporting through additional outreach and guidance, targeting Nepal's higher ML/TF risks (particularly corruption) and FI sectors.
- The FIU should enhance its analysis capability with a focus actionable financial intelligence for corruption, tax evasion and other high risks predicate crimes
- The FIU should strengthen and regularly build upon strategic intelligence analysis to further support LEAs target Nepal's high and emerging ML/TF risks; and FIs and DNFBPs identifying and report ML/TF and other criminal offending.
- All declarations under Nepal's cash declaration system should be shared with the FIU in a timely manner as and when it occurs and not on a bulk-forwarding basis.

- Increase quality and quantity of FIU reporting. This should include supporting and encouraging FIs and DNFBPs to adopt automated AML/CFT systems for the identification of suspicious transactions and the submission of electronic reports to the FIU, taking into consideration their specific circumstances and ML/TF risks.
- Nepal should enhance FIU reporting by DNFBPs. This should prioritise casinos and higher risk DPMS and real estate agents.

(d) *LEAs and other Investigative Agencies*

- All LEAs should prioritise and increase the identification of ML in their cases, particularly high risk predicates related to corruption, tax evasion, human trafficking, narcotics, smuggling (particularly cash and precious metals) and environmental crime.
- Nepal should prioritise and increase complex ML cases of all higher-risk predicates, such as corruption, tax evasion, human trafficking, narcotics smuggling crime, environmental crime and cases involving legal persons. This should include providing further ML investigation training and additional specialised human and institutional resources to DMLI.
- DMLI, Nepal Police, DRI and CIAA should increase their use of financial intelligence to develop and investigate ML/TF and trace proceeds in predicate crime offending particularly across the high risk predicates of corruption, tax, human trafficking and ML.
- All other LEAs and investigative authorities should be prioritised by Nepal to build their human and institutional capacity through development of adequate policies and standard operating procedures (SOPs) to develop and use financial intelligence in their predicate crime investigations.
- LEAs should provide regular feedback to the FIU on its analytical products to enable

the FIU to further increase quality of disseminations.

- All LEAs and Investigative Authorities should place a greater emphasis on the seizing/freezing and confiscation of proceeds of all crimes, including property of corresponding value.
- All relevant competent authorities should adopt adequate institutional-level policies to prioritise confiscation, and operational-level procedures/SOPs to support confiscation-related activities.
- All relevant competent authorities should record comprehensive statistics on their freezing/seizing and confiscation actions to ensure the full value chain of confiscation-related actions in predicate crime cases is captured accurately to better assess asset confiscation efforts.

(e) *Regulators and Supervisors*

- Nepal should address legal/technical deficiencies relating to market entry and fit and proper requirements and actively prevent criminals and their associates from ownership or management of FIs or DNFBPs. This should prioritise higher risk sectors such as commercial and development banks and casinos, as well as higher risk cooperatives, DPMS and real estate agents.
- Core principle AML/CFT supervisors should strengthen mechanisms for international cooperation on AML/CFT matters and increase their use with regional partners with close economic and financial sector connections
- NRB's new AML/CFT Supervision Division should be appropriately resourced to deliver supervision across all NRB supervised FI sectors. NRB should continue to embed and refine its risk-based supervision framework for commercial banks. This framework

should also be leveraged to develop risk-based supervision across all NRB supervised sectors, with the frequency and intensity of offsite and onsite supervision determined on the basis of risk.

- Nepal should significantly improve the implementation of all preventative measures and address technical compliance (TC) gaps. This can be achieved by conducting various activities, including sanctioning where appropriate. The goal is to ensure that all FIs and DNFBPs enhance their application of risk-based Customer Due Diligence (CDD) and specific measures, with a focus on Politically Exposed Persons (PEPs) and Beneficial Owners (BOs). Additionally, they should apply mitigating measures that match their risks, enhance FIU and regulatory reporting, and implement internal controls."
- For cooperatives, Nepal should increase AML/CFT supervisory resource and develop and expedite risk-based supervision.
- Risk-based supervision should be implemented for the DNFBP sectors. This should prioritise casinos and higher risk DPMS and real estate agents.
- All supervisors should apply proportionate and dissuasive sanctions for AML/CFT non-compliance. Casinos should also be sanctioned for engaging in illegal foreign currency or money value transfer service (MVTs) transactions in violation of the FERA. Real estate agents operating illegally should be identified and sanctioned when necessary.
- For the MVTs sector, Nepal should continue to promote and incentivise remittance through formal channels, while identifying and applying proportionate and dissuasive sanctions to illegal MVTs providers/hundi.
- NIA and SEBON should further develop

risk-based AML/CFT supervision, leveraging prudential supervision using data collected offsite from mandatory reporting and STRs/ TTRs. IRD should implement risk-based AML/CFT supervision for pension funds.

- Nepal should significantly enhance risk-based AML/CFT supervision of cooperatives, casinos, DPMS, and real estate agents.
- Nepal should determine the extent to which lawyers, notaries, chartered accountants, registered auditors and other similar professionals engage in DNFBP activities and develop understanding of the associated risks and increase supervision.
- Enhance FIs and large DNFBPs use of AML/CFT independent audits to promote effective compliance with AML/CFT obligations focusing on higher risk issues and areas of lower compliance such as enhanced measures for legal persons and arrangements, PEPs and Targeted Financial Sanctions (TFS).
- Supervisors should conduct regular monitoring activities of FIs and DNFBPs to ensure compliance of TFS-PF obligations. Where non-compliance is identified, sanctions should be applied.
- Nepal should remedy gaps in the VASP prohibition and apply proportionate and dissuasive sanctions to illegal VASPs.
- Nepal's supervisors should conduct regular monitoring activities of FIs and DNFBPs to ensure compliance of TFS-TF obligations. Where non-compliance is identified, sanctions should be applied.

(f) **Terrorism Financing**

- Nepal should identify, investigate and prosecute TF cases in line with its TF offence set out in the ALPA
- Nepal should build the TF-related capacity of LEAs and prosecutors including by

implementing on-going TF specific training and developing comprehensive TF policies, procedures, guidelines, and SOPs to assist in identifying, investigating, prosecuting TF cases.

- Nepal should ensure proportionate and dissuasive sanctions are applied in TF convictions, and the court's judgments are enforced.
- Nepal should implement TFS-TF UNSCR 1267 and 1988 immediately.
- Nepal should operationalize the new TFS Committee to improve domestic cooperation and coordination in the implementation of TFS-TF.
- Nepal should provide clear direction and outreach programs to the private sector regarding TFS-TF.
- Nepal should establish a legal framework to implement TFS-PF immediately through setting up procedures, measures, compliance and sanction mechanisms that give effect to TFS obligations.
- Nepal should consider its sanctions evasion risk and ensure it has the capability to identify, deprive and prevent the raising, moving and use of funds for the financing of proliferation through participating in capacity building and training programs for competent authorities.
- Nepal should increase outreach and support to ensure all FIs and DNFBPs are conducting adequate TFS-PF screening.

(g) *The Department for Management of Proceeds of Crime (DMPC)*

- The DMPC should receive significantly greater human and institutional resources to enable it to fully carry out its mandate of asset management and enforcement of confiscation orders and recovery of assets by the Government of Nepal.

- LEAs and investigative authorities and OAG should enhance their cooperation and coordination with DMPC for effective asset management, enforcement of confiscation orders and recovery of assets by the Government of Nepal.
- DOC should effectively implement Nepal's cash declaration system and should receive additional human and/or institutional resources to enable DOC effectively identify non-compliance.

(h) *International Co-operation*

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

- To significantly increase their ability to provide and seek extradition, Nepal should in line with its risk and context consider either removing the treaty requirement in the Extradition Act or enter into more treaties with other jurisdictions.
 - Nepal should enhance international cooperation on BO including coordinating and consolidating information on legal persons and arrangements with jurisdictions that have similar shared risks.
- (i) Training and Capacity Development**
- Nepal should provide targeted proceeds of crime confiscation training to DMPC, LEAs and investigative authorities and OAG.
 - Nepal should prioritise further training of all LEAs and the development of enhanced policies/procedures and SOPs to assist all LEAs to identify ML; cooperate between investigative agencies to prioritise ML investigations; and coordinate during investigations to efficiently refer cases to the DMLI.
 - Nepal should prioritise further ML training to OAG and provide additional human and institutional resources to increase OAG's Special Attorney Office's focus and capacity to prosecute complex ML cases involving high-risk predicates, including corruption cases and cases involving legal persons.
 - To support efficient judicial processes and the appropriate application of proportionate and dissuasive ML sanctions, Nepal should provide specialised ML training to judges.

Summary of Technical Compliance and Effectiveness Assessment in MER 2023

Technical Compliance Ratings

SN	Ratings of Recommendations	MER, 2023	First-FUR*, 2024
1	Compliant	5	5
2	Largely Compliant	16	23
3	Partially Compliant	16	11
4	Non-Compliant	3	1
Total Recommendations		40	40

*FUR: Follow-Up Report

Effectiveness Assessment Ratings

SN	Ratings of Immediate Outcomes (IOs)	MER, 2023
1	High level of effectiveness	0
2	Substantial level of effectiveness	0
3	Moderate Level of effectiveness	4
4	Low level of effectiveness	7
Total IOs		11

Detailed Technical Assessment Rating

Recommendations	Rating	FUR 2024
R.1 - Assessing risk & applying risk-based approach	PC	----
R.2 - National cooperation and coordination	PC	Upgraded to LC
R.3 - Money laundering offence	LC	----
R.4 - Confiscation & provisional measures	LC	----
R.5 - Terrorist financing offence	LC	----
R.6 - Targeted financial sanctions – terrorism & terrorist financing	PC	----
R.7 - Targeted financial sanctions – proliferation	NC	Upgraded to PC
R.8 - Non-profit organizations	NC	----
R.9 - Financial institution secrecy laws	LC	----
R.10 - Customer due diligence	PC	Upgraded to LC
R.11 - Record keeping	C	----
R.12 - Politically exposed persons	LC	----
R.13 - Correspondent banking	LC	----
R.14 - Money or value transfer services	LC	----
R.15 - New technologies	NC	Upgraded to PC
R.16 - Wire transfers	LC	----
R.17 - Reliance on third parties	LC	
R.18 - Internal controls and foreign branches and subsidiaries	LC	----
R.19 - Higher-risk countries	PC	Upgraded to LC
R.20 - Reporting of suspicious transactions	C	----
R.21 - Tipping-off and confidentiality	C	----
R.22 - DNFBPs: Customer due diligence	PC	Upgraded to LC
R.23 - DNFBPs: Other measures	PC	Upgraded to LC
R.24 - Transparency & BO of legal persons	PC	----
R.25 - Transparency & BO of legal arrangements	PC	----
R.26 - Regulation and supervision of financial institutions	PC	----
R.27 - Powers of supervision	C	----
R.28 - Regulation and supervision of DNFBPs	PC	----
R.29 - Financial intelligence units	C	----
R.30 - Responsibilities of law enforcement and investigative authorities	LC	----
R.31 - Powers of law enforcement and investigative authorities	PC	Upgraded to LC

Recommendations	Rating	FUR 2024
R.32 - Cash couriers	LC	----
R.33 - Statistics	LC	----
R.34 - Guidance and feedback	PC	----
R.35 - Sanctions	LC	----
R.36 - International instruments	LC	----
R.37 - Mutual legal assistance	LC	----
R.38 - Mutual legal assistance: freezing and confiscation	PC	Upgraded to LC
R.39 - Extradition	PC	----
R.40 - Other forms of international cooperation	PC	----

Note: Compliant (C); Largely compliant (LC); Partially compliant (PC); Non-Compliant (NC)

Effectiveness Rating of Nepal

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

"Black and grey" lists by FATF (As of 21 February 2025)

- **High-Risk Jurisdictions subject to a Call for Action (referred as 'Black List')**
 - o Democratic Republic of Korea
 - o Iran
 - o Myanmar
- **Jurisdictions under Increased Monitoring (referred as "Grey List")**

o Algeria	o Monaco
o Angola	o Mozambique
o Bulgaria	o Namibia
o Burkina Faso	o Nepal
o Cameroon	o Nigeria
o Côte d'Ivoire	o South Africa

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|------------------------------------|---------------|
| o Croatia | o South Sudan |
| o Democratic Republic of the Congo | o Syria |
| o Haiti | o Tanzania |
| o Kenya | o Venezuela |
| o Lao PDR | o Vietnam |
| o Lebanon | o Yemen |
| o Mali | |

NEPAL

In February 2025, Nepal made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime. Since the adoption of its MER in August 2023, Nepal has made progress on some of the MER's recommended actions including streamlining MLA requests and increasing the capabilities of the FIU. Nepal will continue to work with the FATF to implement its FATF action plan by:

- (1) Improving its understanding of key ML/TF risks;
- (2) Improving risk-based supervision of commercial banks, higher risk cooperatives, casinos, DPMS and real estate sector;
- (3) Demonstrating identification and sanctioning of materially significant illegal MVTS/hundi providers, without hindering financial inclusion;
- (4) Increasing capacity and coordination of competent authorities to conduct ML investigations;
- (5) Demonstrating an increase in ML investigations and prosecutions;
- (6) Demonstrating measures to identify, trace, restrain, seize and, where applicable, confiscate proceeds and instrumentalities of crime in line with the risk profile;
- (7) Addressing technical compliance deficiencies in its targeted financial sanctions regime for TF and PF.

(Source: FATF)

7.3 Way Forward

As Nepal's observation period ends on October 2024, way forward for Nepal are as follows:

- With respect to upgrading the ratings in technical compliance (TC), Nepal have to sufficiently address the underlying key deficiencies mentioned in the MER and show significant progress on the legal, institutional or operational frameworks since the onsite visit (i.e. after 16 Dec 2022) such as law amendments, issuance of new rules, bye-laws, directives, manuals, procedures etc.
- With respect to effectiveness assessment, Nepal has to show positive and tangible progress, post onsite visit (i.e. after 16 Dec 2022), in recommended action highlighted in MER mentioning summarize efforts since the MER onsite visit, supported with charts, tables, statistics, case studies, success stories etc.

- The progress of Nepal as per above point has to be mentioned in Post Observation Period Report (POPR) to the Joint group on quarterly basis. First POPR of Nepal was submitted to the Joint Group on 06 November 2024. The rating scale on the POPR by the Joint group (comprising of FATF and APG members) based on POPR and additional information provided by Nepal will be on four categories Addressed, Largely Addressed, Partly Addressed and Not Addressed. If joint group is not satisfied with Nepal's progress it will give action plan to Nepal and Nepal will have to submit the progress quarterly on that Action plan.
- Prepare AML-CFT Rules, directives, guidelines and other delegated legislations as per amended AML-CFT related acts and rules
- Discuss and communicate with Joint Group regarding Nepal's POPR and progress with additional information
- Implement 10 Priority Actions (PA) and 77 Recommended Actions (RAs) mentioned in Nepal's MER 2023.
- Expedite implementation of AML-CFT related National Strategy and Action Plan (2024-25- 2029-30)
- Prepare NRA and Sectoral Risk Assessment
- Seek technical assistance from development partners as IMF, ADB, WB etc. as per requirement for implementation of 10 Priority Actions (PA) and 77 Key Recommended Actions (RAs) stated in Nepal's MER 2023.
- Focal persons of 57 related agencies of Nepal were appointed for ME process. (Ministries/Departments/LEAs/Regulators/Committees) (Agencies Involved in ME Process is mentioned in Annex).
- Virtual/physical interaction session for preparation of ME is done with stakeholders
- Virtual interaction programs were conducted with coordination with APG Secretariat
- Regular meeting of Mutual Evaluation Main Committee of Nepal
- Discussion of ME in all major AML-CFT committees such as National Co-ordination Committee (NCC), National Review Council, Regulators coordination committee, Investigation Coordination Committee, Counter Terrorism Mechanism, Mutual Evaluation Committee and Technical Group for Implementation.
- Nepal's Response on Technical Compliance Criteria's— 40 Recommendations, 251 Main Criteria (questions) & 425 Total Questions. This response included responses from all relevant agencies and their departments as well as for all immediate outcomes on all core issues along with examples of information that could support the conclusions on core issues, with Examples of specific factors supplemented by data, statistics, and case studies.
- Nepal's Response on Effectiveness Compliance – 11 IOs, 55 Main questions & Total 138 Questions
- Scoping Note and Onsite Agenda was discussed with the Assessment Team wherein the Head agency and participating agencies were decided.
- ME logistic team and liaison officers' team is formed to smoothly conduct ME related visits/meetings.

7.4 Nepal's Third Mutual Evaluation 2023: Key Activities

Key actions taken or activities performed by Nepal on MER 2023 are highlighted in following points:

- Laws, regulations, guidelines and other relevant documents related with AML/CFT are translated in English.

- Nepal's MER is discussed in 2023 APG Annual Meeting, Vancouver, Canada and Follow Up Report was discussed in 2024 APG Annual Meeting, Abu Dhabi, UAE

7.5 Role of FIU-Nepal in Onsite Meetings and Overall Mutual Evaluation (ME) Process

- All email communication between APG and Nepal is done through FIU-Nepal. FIU-Head has worked as the primary contact point for APG Secretariat. FIU-Nepal coordinated with all 57 agencies for the information exchange with APG.
- FIU-Head is the secretary of National Co-ordination Committee (NCC) co-ordination and co-operation between different agencies is discussed regarding ME.
- FIU-Head facilitated onsite entry and exit meeting as Master of ceremonies (Emcee) of the program.
- FIU-Head is the member of Mutual Evaluation Committee and Technical group, on which decision is made regarding ME process, such as finalization onsite agenda, participants in the meeting (lead agency and supporting agency), etc.
- FIU-Head facilitated onsite entry and exit meetings of all three onsite visits by the Assessment Team
- FIU-Nepal conducted and participated in all sessions/meetings (except meetings with private sectors) and also supported other leading agencies by adding significant responses.
- FIU-Nepal facilitated onsite visit of Head of the Assessment Team Mr. Shannon Rutherford and assessor Mr. Ayesh Ariyasinge visited FIU-Nepal on December 14, 2022.
- One Assistant Director from FIU-Nepal is deputed as a FIU-Nepal's representative in Mutual Evaluation Support Team at OPMCM for ongoing Report/Response writing regarding queries made by APG Secretariat and coordinating with relevant domestic agencies of Nepal as per requirement.
- Three employees from FIU-Nepal were a members of Mutual Evaluation Logistics Team.
- Two employees from FIU-Nepal worked as liaison officers during onsite visit for assessors and APG secretariats. The liaison officers facilitated airport transfer and hotel transfers of the assessment team.
- FIU-Nepal represented in APG Annual Meeting Vancouver, Canada. During APG plenary, Nepal was able to defend all ratings and was able to upgrade rating of Rec. 14 from PC to LC.

7.6 Key Timeline of Mutual Evaluation of Nepal

S.N.	Task	Date (AD)	Date (BS)
1	TC Response to APG	5 July 2022	2079/03/21
2	EC Response to APG	21 July 2022	2079/04/05
3	Pre- onsite visit (11 meetings)	12-14 October 2022	2079/06/26-28
4	ME on-site visit (102 meetings)	5-16 December, 2022	2079/07/08 - 2079/09/01
5	1 st draft of MER from APG to Nepal	6 February 2023	2079/10/23
6	Reviewers review (FATF, Canada, Singapore)	21 April 2023	8 Baisakh 2080
7	Face to Face Visit (12 meetings)	26-28, April 2023	13-15 Baisakh 2080
8	Circulation of final report to countries/ organizations	26 May 2023	12 Jestha 2080

S.N.	Task	Date (AD)	Date (BS)
9	2023 APG Annual Meeting discussion of Nepal MER, Vancoever, Canada	9-14 July, 2023	Ashadh-Shrawan 2080
10	Report publication	08 September, 2023	22 Bhadra 2080
11	Follow up Report (FUR) Discussion, Abu Dhabi, UAE	22-27 September, 2024	Asoj 2081

7.7 Consequences of low compliance in Mutual Evaluation (ME)

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

- Harder situation for banks to conduct international transactions
- Increase in cost of funds or delay or limitation
- Loss of credit lines or correspondent relationships
- Decrease in receiving assistance, loan and other facilities from international organizations and countries
- Restrictions on inward remittance, aid, capital and other flows
- Inability of institutions to expand overseas
- Withdrawal of foreign banks
- Loss of investor confidence
- Reputational problem to Nepal and its financial system
- Difficulty for Nepalese nationals to open account abroad