

Annual Report (2014/15)



**Financial Information Unit
Nepal Rastra Bank
Baluwatar, Kathmandu
Nepal**

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Acronyms/Abbreviations

ALPA	:	Asset (Money) Laundering Prevention Act
AML	:	Anti Money Laundering
AMLO	:	Anti Money Laundering Office of Thailand
APG	:	Asia Pacific Group on Money Laundering
AUSTRAC	:	Australian Transaction Reports and Analysis Centre
BFI	:	Bank and Financial Institutions
BFIRD	:	Banks and Financial Institutions Regulation Department
BIMSTEC	:	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BSD	:	Bank Supervision Department
C	:	Compliant
CDD	:	Customer Due Diligence
CEO	:	Chief Executive Officer
CFT	:	Combating Financing of Terrorism
CIAA	:	Commission for the Investigation of Abuse of Authority
CNI	:	Confederation of Nepalese Industry
DBSD	:	Development Bank Supervision Department
DMLI	:	Department of Money Laundering Investigation
DNFBPs	:	Designated Non Financial Business and Professions
DRI	:	Department of Revenue Investigation
ECDD	:	Enhanced Customer Due Diligence
EGMONT	:	The Egmont Group of Financial Intelligence Units
FATF	:	Financial Action Task Force
FCSD	:	Finance Company Supervision Department
FIU-Nepal	:	Financial Information Unit of Nepal
FIUs	:	Financial Intelligence Units
FM	:	Finance Ministry
FNCCI	:	Federation of Nepalese Chamber of Commerce and Industry
GoN	:	Government of Nepal
GSD	:	General Service Department
ICRG	:	International Cooperation Review Group of FATF
IMF	:	International Monetary Fund
IT	:	Information Technology
LC	:	Largely Compliant
LEA	:	Law Enforcement Agencies
MER	:	Mutual Evaluation Report
MFPSD	:	Micro-Finance Promotion and Supervision Department
ML	:	Money Laundering
MLA	:	Mutual Legal Assistance
MOFA	:	Ministry of Foreign Affairs
MOHA	:	Ministry of Home Affairs
MoLJPA	:	Ministry of Law, Justice and Parliamentary Affairs
MOU	:	Memorandum of Understanding

NA	:	Not Applicable
NC	:	Non-Compliant
NCC	:	National Coordination Committee
NPOs	:	Non Profit Organizations
NRA	:	National Risk Assessment
NRB	:	Nepal Rastra Bank
NRs	:	Nepalese Rupees
OEMs	:	Other Enforceable Means
PC	:	Partially Compliant
PEPs	:	Politically Exposed Persons
PF	:	Proliferation Financing
R	:	Recommendation
RE	:	Reporting Entities
Recs	:	Recommendations
RN	:	Recommendation Number
RRG	:	Regional Review Group
SAARC	:	South Asian Association for Regional Cooperation
SEBON	:	Securities Board of Nepal
SIP	:	Strategic Implementation Planning
STR	:	Suspicious Transaction Report
SWC	:	Social Welfare Council
TF	:	Terrorism Financing
TTRs	:	Threshold Transaction Reports
UNO	:	United Nations Organization
UNODC	:	United Nations Office on Drugs and Crime
UNSCR	:	United Nations Security Council Resolution
USA	:	United States of America
VIP	:	Very Important Person
WB	:	World Bank

Director's Message

In the globalized world of 21st century, information is knowledge and knowledge is power. Financial Information Unit (FIU)-Nepal, is the central depository of financial information of the country. Financial information is a key to successful tracing of money laundering (ML), terrorism financing (TF), proliferation financing (PF) and other financial crimes. For the purpose of collecting and sharing information to fight against ML/TF, it has concluded MoU with eleven counterpart FIUs of the world. With the help of our counterpart FIUs, FIU-Nepal has been successful to become 151st member of Egmont group of FIUs in June 2015. Now, FIU-Nepal has access to the Egmont Secured Web (ESW) to exchange information among the members.

Nepal has made significant progress in legal, institutional, and preventive measures. It has also made efforts to enhance international cooperation to fight against such crimes. As a result, Nepal has come out of ICRG watch list. With the legal, institutional and preventive measures in place, Nepal has given global community a sense that we are with them to fight against ML/TF.

Giving due regard to the notion of superiority of information, FIU-Nepal has installed UNODC developed goAML IT system. The goAML software, installed in FIU-Nepal, will increase the efficiency in receiving of information, analyzing and converting such information into financial intelligence and disseminating them to Law Enforcement Agencies (LEA).

Nepal is a bit ahead in technical (legal and institutional) compliance of AML/CFT. However, we are not free from hurdle. Next round of mutual evaluation based on the revised FATF standards 2012 and effective implementation would be a big challenge for Nepal. The scheduled date of mutual evaluation, in the year 2019-2020, is not so far. All concerned agencies and stakeholders should act as early as possible to convert such challenges into opportunity.

Nepal will only be able to overcome the test of effectiveness when our outcomes become visible in the mutual evaluation. It is possible only when we increase our efficiency and enhance competencies. For which, we are in need of operationalizing our action plans, prioritizing them and allocating sufficient resources to transcribe our strategies into reality. Nepal's AML/CFT regime can achieve the desired results only when all the stakeholders focus on developing sound legal and regulatory frameworks, effective analysis and investigation, prosecution and adjudication with apparent results. Finally, I hope the concerned agencies will realize these challenges in the days to come.

Rishikesh Bhatta
Head, FIU-Nepal

Chapter 1

Nepal's AML/CFT Regime

1.1 Introduction

Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF), as some of the greatest woes to human civilization, distort world peace and security, law and order causing adverse impacts on the entire financial and criminal justice systems. Such crimes promote production of weapons of mass destruction and terrorism; destroy tax regimes; impair transparency and rule of law and, finally weaken all developmental activities and financial stability. So, the entire global community has depicted their serious concerns on establishing a sound AML/CFT set up as common global issue.

1.2 Nepal

AML/CFT has become very critical agenda of both developed and underdeveloped countries of the world. Nepal cannot remain aloof from such global problems. Hence, Nepal has been making substantial progress towards its goal of strengthening AML/ CFT system by implementing legal, institutional and preventive measures in place. The Government of Nepal has internalized AML/CFT system as a strategic tool to control financial crimes and establish a sound financial system.

Nepal is an active participant of global AML/CFT regime. It is evident from its membership to the UNO, SAARC, APG, Egmont Group of FIUs and BIMSTEC. Ratification of major international conventions; enactments of instrumental statutes; implementation of National AML/CFT Strategy; and establishment and designation of major institutional infrastructures in a short period of time are the basic foundation for functional operation of the AML/CFT regime. As a result, Nepal has been acquitted from the *Improving Global AML/CFT Compliance List* of FATF/ICRG from June 2014.

These achievements are the result of the collective efforts of respective domestic agencies as well as the supports of international communities. Now these platforms are expected to support Nepal focus on its core operational activities and take strategic steps towards effectiveness of ML/TF regime. However, there are lots of responsibilities and tasks to be performed, particularly in legal and operational sectors. Though Nepal stands at a historic turning point in AML/CFT policy, some gaps still exist in understanding the scope and value of AML/CFT measures. Our major duties are to present highlights of major achievements and to create awareness to stakeholders which can also be beneficial to the public at large.

1.3 Efforts of Nepal to Combat ML/TF

1.3.1 Policy Measures

AML/CFT policy framework of Nepal begins with the AML/CFT National strategy to the numbers of statutes and regulatory/supervisory guidelines and preparation of the National Risk Assessment. The GoN has implemented a comprehensive National Strategy and Action Plan for Combating Money Laundering and Financing of Terrorism 2011–2016 with the following objectives:

Box 1: Objectives of National AML/CFT Strategy 2011-2016

S.N.	Objectives
1.	Ensure effective coordination of efforts to combat money laundering and the financing of terrorism.
2.	Develop a sound legal framework for combating money laundering and the financing of terrorism and establish effective arrangements for prosecution and adjudication of these crimes.
3.	Implement comprehensive and effective preventive measures in the financial sector and implement a sound and capable supervisory system to protect the sector from money laundering and the financing of terrorism.
4.	Enhance the capacity and effectiveness of the Financial Information Unit.
5.	Enhance the capacity of the agencies charged with investigating money laundering and the financing of terrorism and predicate crimes, and enhance the effectiveness of investigations.
6.	Develop the necessary mechanisms for international assistance and cooperation.
7.	Conduct assessment of the risks of money laundering and the financing of terrorism.
8.	Adopt coordinated measures to rectify the deficiencies identified through national and international reviews of the current national regime to combat money laundering and the financing of terrorism.
9.	Enhance awareness of the need to combat money laundering and the financing of terrorism.
10.	Take action to ensure the effective implementation of the National Strategy and Action Plan.

Strategy consists of time based action plans and confines the dedicated agencies to materialize such actions. Majority of action plans that have substantial agenda have already been materialized as traced out from its mid-term assessment.

1.3.2 Legal Measures

Nepalese AML/CFT legal regime stands on the foundation of parliamentary enactments and other delegated legislations. The Assets (Money) Laundering Prevention Act, 2008 is the foundation. However, other laws relating to criminalization of predicate offences, Regulation/Supervision of regulatory agencies, enactment of laws on Mutual Legal Assistance, Extradition, Confiscation (Seizing and Freezing) of Criminal Proceeds and Instrumentalities and Organized Crime Prevention are part of the AML/CFT system of Nepal to make it more efficient and effective. The table below presents the laws, international conventions, regulatory directives and supervisory manuals that have been enacted / implemented for AML/CFT in Nepal:

Box 2: Legal Instruments against ML/TF

S.N.	Instruments
1.	AML/CFT Act, 2064 (2008) <ul style="list-style-type: none"> • 1st amendment 2011 • Two Gazette Notifications for expansion of predicate offence of money laundering (now included in the list of second amendment) • Comprehensive 2nd amendment 2013 as an Ordinance Replacement of Ordinance 2013 as Act in 2014
2.	AML Rules, 2066 (2009), revision is under the process of amendment.
3.	Mutual Legal Assistance Act, 2014 as the replacement of Ordinance 2012
4.	Extradition Act, 2014 as the replacement of Ordinance, 2012
5.	Organized Crimes Prevention Act, 2014 as the replacement of Ordinance 2013
6.	Confiscation of Criminal Proceeds Act 2014 as the replacement of Ordinance 2013
7.	UNSCRs Rules, 2013
8.	MLA Rules, 2013

Box 3: Ratified/Acceded International Conventions

S.N.	Instruments	Date of Signature	Date of Ratification / Accession
1.	UN Convention against Corruption, 2003	10 Dec 2003	29 Mar 2011
2.	UN Convention against Transnational Organized Crime, 2000	12 Dec 2002	23 Dec 2011
3.	UN Convention against Terrorist Financing, 1999		24 June 2011

4.	United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988		24 July 1991
5.	Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents, 1973		9 Mar 1990
6.	International Convention against the Taking of Hostages, 1979		9 Mar 1990.
7.	Convention on Offences and Certain Other Acts Committed on Board Aircraft, 1963		15 April 1979.
8.	Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, 1971		11 January 1979
9.	SAARC Regional Convention on Suppression of Terrorism, 1987 and its Additional Protocol, 2004	4 November 1987	22 August 1988
10.	BIMSTEC: Sub Group Meeting on Combating the Financing of Terrorism		8 February 2004 (Full Member of BIMSTEC)

Box 4: Regulatory/Supervisory Instruments

S.N.	Directives	Replacement Date
1.	NRB/FIU Directives to Bank and Financial Institutions, 2009 (1), 2010 (2)	Replaced by NRB in 2012 and 2013
2.	Directives to Money Remitters, 2009 (1), 2010 (2)	Replaced by NRB in 2012
3.	Directives to Money Changers, 2009 (1), 2010 (2)	Replaced by NRB in 2012
4.	Directives to Securities Sector, 2010	Replaced by SEBoN in 2012
5.	Directives to Insurance Sector, 2010	Replaced by Insurance Board in 2012
6.	Directives to Legal Professionals, 2010	Replaced by the 2nd amendment of ALPA with empowerment of concerned Regulator

7.	Directives to Auditors, 2010	Replaced by the 2nd amendment of ALPA with empowerment of concerned Regulator
8.	Directives to Gold and Precious Metal Business Persons, 2010	Replaced by the 2nd amendment of ALPA with empowerment of concerned Regulator
9.	Directives to Casinos, 2009 (1) and 2010 (2)	Replaced by the 2nd amendment of ALPA with empowerment of concerned Regulator
10.	Directives to Cooperatives, 2010	Replaced by the 2nd amendment of ALPA with empowerment of concerned Regulator
11.	Directives to all agencies for freezing the property and funds of Designated as terrorist, terrorist organizations and groups by UN Security Council Resolutions, 2012, (replaced by the Act now)	Replaced by the 2nd amendment of ALPA
12.	FIU Suspicious Transaction Reporting Guidelines, 2014	
13.	FIU Threshold Transaction Reporting Guidelines, 2014	
14.	NRB/FIU Operational Manual, 2014	
15.	FIU Security Manual, 2014	
16.	DMLI Investigation Manual, 2012	

Similarly, NRB has implemented following 20 off-site and on-site Supervisory Manuals in 2014 so as to ensure the compliance of AML/CFT laws.

Box 5: Supervisory Manual

- | |
|---|
| <ol style="list-style-type: none"> 1. Off-site supervision Instruments 2. New Account Opening for General, PEPs and VIP Customer 3. Compliance Function 4. Corporate governance and management of the ML/TF risk 5. Cross border correspondent banking 6. Record keeping and retention 7. |
|---|

	Risk rating (Customer/Service/Product/Geographic location/Delivery Channel)
8.	Suspicious transaction reporting
9.	Introduced Business and Third Party CDD
10.	Money/Funds/Wire Transfer
11.	Staff Training
12.	Account monitoring
13.	Account monitoring for establishing beneficial owners
14.	Threshold/Cash transaction
15.	Enhanced customer due diligence (ECDD)
16.	Internal Auditors/External Auditors
17.	Know Your Employees Guidelines
18.	Electronic and internet banking
19.	Information technology
20.	Purchase/Sale of negotiable (monetary) instruments

1.4 International Cooperation

Nepal is well ahead and self-conscious about AML/CFT regime. It is indicated by Nepal's membership to major international organizations, ratification/accession of prime AML/CFT related conventions, and implementation of the UN Security Council Resolutions 1267 and 1373, engagement with APG and FATF in consultation process for developing global policies on AML/CFT.

1.4.1 Nepal in APG

Having obtained membership of APG in 2002, Nepal has expressed its commitment to fully comply with international AML/CFT standards. Accordingly, Nepal is quite active in APG and its forums. Deputy Governor of Nepal Rastra Bank, Mr. Maha Prasad Adhikari, served as a member of *APG Steering Committee* representing South Asian Countries for the year 2012/13.

Nepal was evaluated for the second time in 2010 based on old FATF 40 plus 9 standards. The report was adopted in July 2011 where Nepal was rated NC or PC on 44 Recommendations out of 49, which included 15 of the 16 Core/Key FATF Recs. as NC/PC. However, Nepal's progress after the evaluation was so substantial that it had technically (legal and institutional) resulted LC in 10 Core/Key Recs. These achievements have also assisted Nepal to come out from the APG Expedited/Enhanced as well as from regular monitoring in 2014. Technical assistance provided by the APG for the development of such AML/CFT system in Nepal is remarkable.

1.4.2 Nepal hosted APG Typology Workshop 2015

Nepal has successfully hosted the 2015 APG Typologies and Capacity Building Workshop as well as APG Egmont Seminar (15-20 November 2015). There were approximately 230 delegates from 38 jurisdictions and ten international organizations along with 39 representatives from the private sector. The program was a grand success

both from the perspectives of Nepal's commitment towards AML/CFT regime and organization during a critical period of time.

The workshop was divided into 3 Break Out sessions. Break Out Session 1 was focused on *Assessing Regional Developments with TF Location*, Breakout Session 2 on *Securing Financial Intelligence Unit* and Breakout Session 3 was concentrated on *Wildlife Crime Financial Flows*. The Break Out Session 1 focused on TF threats and vulnerabilities on New payment systems, including use of social media and the internet and crowd funding, Virtual currencies, Prepaid cards, Money value transfer services – remitters, Cash smuggling, Transfer of value through trade and commodities, Charities – unregistered; scam charities, funds transfer, Telephone and internet scams, people smuggling to facilitate Foreign Terrorist Fighters, Counterfeit currency, etc. Similarly, Break Out Session 2 held discussion on the Security of FIU Information as a continual risk management process. Break Out Session 3 focused on Wildlife Crime Financial Flows, seizures, investigations, domestic and international cooperation.

1.4.3 FATF

Financial Action Task Force (FATF) is a global standard setter on AML/CFT and an inter-governmental organization for monitoring AML/CFT compliance. It has revised, updated and combined its earlier 40 + 9 AML/CFT Standards into 40 Standards called INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION, 2012. Its ASSESSMENT METHODOLOGY 2013 has expanded the scope of evaluation to the assessment of the evaluation of effectiveness of the overall system of a jurisdiction. The Methodology has recommended for the assessment of technical compliance as well as assessment of effectiveness of a jurisdiction. Evaluation of effectiveness is a new process and is a tough challenge not only to Nepal but also to the entire world.

Although, Nepal is not a member to FATF directly, it has a relation with FATF through APG (the FATF style regional body also called FSRB). Nepal was also engaged with FATF through ICRG process since 2009. Nepal has proved its commitments by complying international standards through enactment and amendment of relevant legislations, establishment or designation of institutions like Financial Information Unit (FIU), and Department of Money Laundering Investigation. Also, it has designated different Regulators for various sectors and other investigating agencies.

1.4.4 IMF/World Bank

Nepal is a member country to the World Bank and International Monetary Fund. Both the organizations have mandate for certain AML/CFT matters basically in accordance to Article IV under Articles of Agreement of the International Monetary Fund. In addition to this, these global organizations have provided trainings and technical assistance for capacity buildings for the member countries. Both agencies support with the tools for transparency and prepare us for 'going after dirty money'. IMF has substantially supported Nepal in developing National AML/CFT strategy, legal, supervisory and FIU capacity building frameworks, which is still going on up to April, 2016. The World Bank has technically assisted Nepal in conducting National ML/TF Risk Assessment, and the

NRA working team has already submitted NRA report to risk committee headed by FIU Chief and it is in the final stage.

1.4.5 Egmont Group of FIUs

This Group is an international association of FIUs of the world. FIU-Nepal has become 151st member of Egmont group of FIUs in June 2015. Now, FIU-Nepal has access to Egmont Secured Web (ESW) for the purpose of information exchange among the members.

1.5 Institutional Measures

Institutional framework for Nepalese AML/CFT regime includes policy and operational sectors. The specialty lies on the formulation of a dedicated statutory high level policy committee like National Coordination Committee (NCC), headed by Secretary of the Ministry of Finance and other committees as constituted under National Strategy and by the decision of NCC.

1.5.1 Coordination at Policy Level



National Coordination Committee is the policy making body of Nepal's AML/CFT regime, which is responsible for mostly policies and coordination among the different stakeholders. Implementation Committee headed by Deputy Governor and several other committees and sub-committees including operational agencies work to support NCC for national achievement. Since, the AML/CFT regime is an area that cannot be dealt ignoring multi-agencies' roles and responsibilities, that's why it has many stakeholders from different sectors.

Secretary of Ministry of Finance heads the NCC; other members are secretaries from Ministry of Law and Justice, Ministry of Home Affairs, Ministry of Foreign Affairs, Office of Prime Minister and Council of Ministers, and Commission for the Investigation of Abuse of Authority. Other members include Deputy Attorney General from Office of Attorney General, Deputy Governor of Nepal Rastra Bank, Inspector General from Nepal

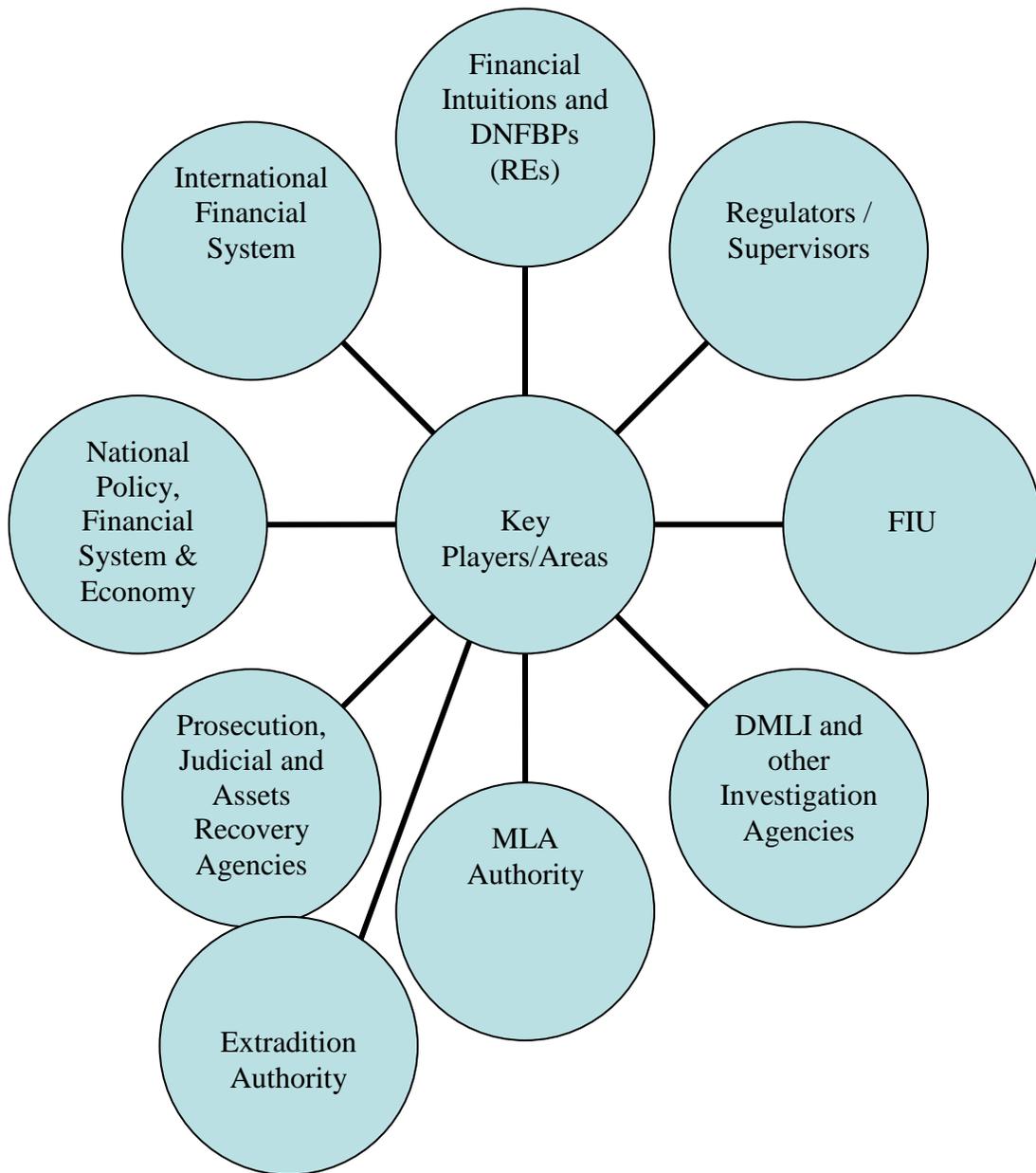
Police, Chief of Department of Money Laundering Investigation. The head of Financial Information Unit takes the responsibility of the secretary of the committee. National Coordination Committee is quite proactive in developing AML/CFT policy, legal frameworks, and institutional frameworks, as well as facilitating coordination functions between the agencies.

Implementation Committee is headed by the Deputy Governor of Nepal Rastra Bank. This committee comprises the representatives from different legal, regulatory, enforcement and other competent and relevant authorities of AML/CFT. This committee is responsible for monitoring implementation of AML/CFT policies formulated by NCC and monitoring the progress of National Strategy, 2068-2073. This committee coordinates operational and implementation activities and assesses the effectiveness of different stakeholders involved in AML/CFT regime. Other sub-committees include legal, supervisory, investigation, international cooperation, technical and are concentrated on their core sectoral business.

1.5.2 Operational Measures

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

Key Players and Stakeholders in the AML/CFT System



1.5.3 Key Players with Assigned Responsibility

Based on the current domestic legal regime of Nepal and revised FATF Recommendations/standards, following table presents core responsibilities of domestic agencies in Nepalese AML/CFT system:

Box 6: Responsibility of the Key Players as per FATF Standards and Prevailing Nepalese Laws

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

Rec.	FATF Recommendations 2012	Responsible Agency
24.	Transparency and beneficial ownership of legal persons	<ul style="list-style-type: none"> • Legal Person Registrars ++ • Regulator/s
25.	Transparency and beneficial ownership of legal arrangements	<ul style="list-style-type: none"> • Legal Person Registrars ++ • Regulator/s
26.	Regulation and supervision of financial institutions	<ul style="list-style-type: none"> • Regulator/s
27.	Powers of supervisors	<ul style="list-style-type: none"> • Regulator/s
28.	Regulation and supervision of DNFBPs	<ul style="list-style-type: none"> • Regulator/s
29.	Financial intelligence units	<ul style="list-style-type: none"> • FIU
30.	Responsibilities of law enforcement and investigative authorities	<ul style="list-style-type: none"> • DMLI • Nepal Police • DRI • CIAA
31.	Powers of law enforcement and investigative authorities	<ul style="list-style-type: none"> • DMLI • Nepal Police • DRI • CIAA
32.	Cash couriers	<ul style="list-style-type: none"> • Customs • Regulator/s • FIU
33.	Statistics	Common
34.	Guidance and feedback	<ul style="list-style-type: none"> • Regulator/s • FIU • LEAs • Res
35.	Sanctions	<ul style="list-style-type: none"> • Court • Confiscated Assets Management Department
36.	International instruments	<ul style="list-style-type: none"> • MOFA • MOLJ
37.	Mutual legal assistance	<ul style="list-style-type: none"> • MOLJ • Attorney General • Court
38.	Mutual legal assistance: freezing and confiscation	<ul style="list-style-type: none"> • MOLJ • Attorney General • Court
39.	Extradition	<ul style="list-style-type: none"> • MOHA • Court

Rec.	FATF Recommendations 2012	Responsible Agency
40.	Other forms of international cooperation	<ul style="list-style-type: none"> • FIU • LEAs • Regulator/s

1.5.4 New Assessment Methodology 2013

Upcoming assessment of a jurisdiction will be conducted on the basis of the new Methodology 2013 with focus on both technical compliance and effectiveness. However, assessment of technical compliance is similar to the previous methodology; but new criteria have been developed for the assessment of effectiveness. Following table shows how individual standard/criteria are evaluated in the assessment.

Box 7: Rating on Technical (Legal and Institutional) Compliance

Compliant (C)	There are no shortcomings.
Largely compliant (LC)	There are only minor shortcomings.
Partially compliant (PC)	There are moderate shortcomings.
Non-compliant (NC)	There are major shortcomings.
Not applicable (NA)	A requirement does not apply, due to the structural, legal or institutional features of a country.

Box 8: Criteria for Effectiveness Compliance

High-Level Objective: Financial systems and the broader economy are protected from the threats of money laundering, the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.	
Intermediate Outcomes	Immediate Outcomes
Policy, coordination and cooperation mitigate the money laundering and financing of terrorism risks	<ol style="list-style-type: none"> 1. Money laundering and terrorist financing risks are understood, and actions will be coordinated domestically to combat money laundering and the financing of terrorism as well as proliferation. 2. International cooperation will be enhanced and it will deliver appropriate information, financial intelligence and evidence, and facilitates action against criminals and their property.
Proceeds of crime and funds in support of terrorism are prevented from entering the financial and other sectors or are detected and reported by these Sectors.	<ol style="list-style-type: none"> 3. Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks. 4. Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks and report suspicious transactions. 5. Legal persons with illicit intention are prevented from misuse for money laundering and terrorist financing. Information on their beneficial ownership is available to competent authorities without impediments. 6. Financial intelligence and all other relevant information

<p>Money laundering threats are detected and disrupted, and criminals are sanctioned and deprived of illicit proceeds. Terrorist financing threats are detected and disrupted, terrorists are deprived of resources. Those who finance terrorism are sanctioned, thereby contributing to the prevention of terrorist acts.</p>	<p>are appropriately used by competent authorities for investigations of money laundering and terrorist financing.</p> <ol style="list-style-type: none"> 7. Money laundering offences and activities are investigated and offenders are prosecuted and subject. Effective, appropriate and dissuasive sanctions will be in place. 8. Proceeds and instrumentalities of crime are confiscated. 9. Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate, and dissuasive sanctions. 10. Terrorists, terrorist organizations, and terrorist financiers are prevented from raising, moving, and using funds, and from abusing the NPO sector. 11. 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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Box 9: Rating on Effectiveness

High level of effectiveness	The Immediate Outcomes are achieved to a very large extent. Minor improvements are needed.
Substantial level of effectiveness	The Immediate Outcomes are achieved to a large extent. Moderate improvements are needed.
Moderate level of effectiveness	The Immediate Outcomes are achieved to some extent. Major improvements are needed
Low level of effectiveness	The Immediate Outcomes are not achieved or achieved to a negligible amount. Fundamental improvements are needed.

1.5.5 Next Mutual Evaluation of Nepal

Nepal's third mutual evaluation is scheduled to be held in 2019-020 under new methodology. Unlike last evaluation of Nepal in 2010, which was primarily based on technical (legal and institutional) aspects, the third evaluation will be assessed in effectiveness for visible implementation and outcomes in addition to technical outputs and laws. All respective agencies need to have serious concerns early so that scattered efforts can trickle down into a consolidated national achievement.

Chapter 2

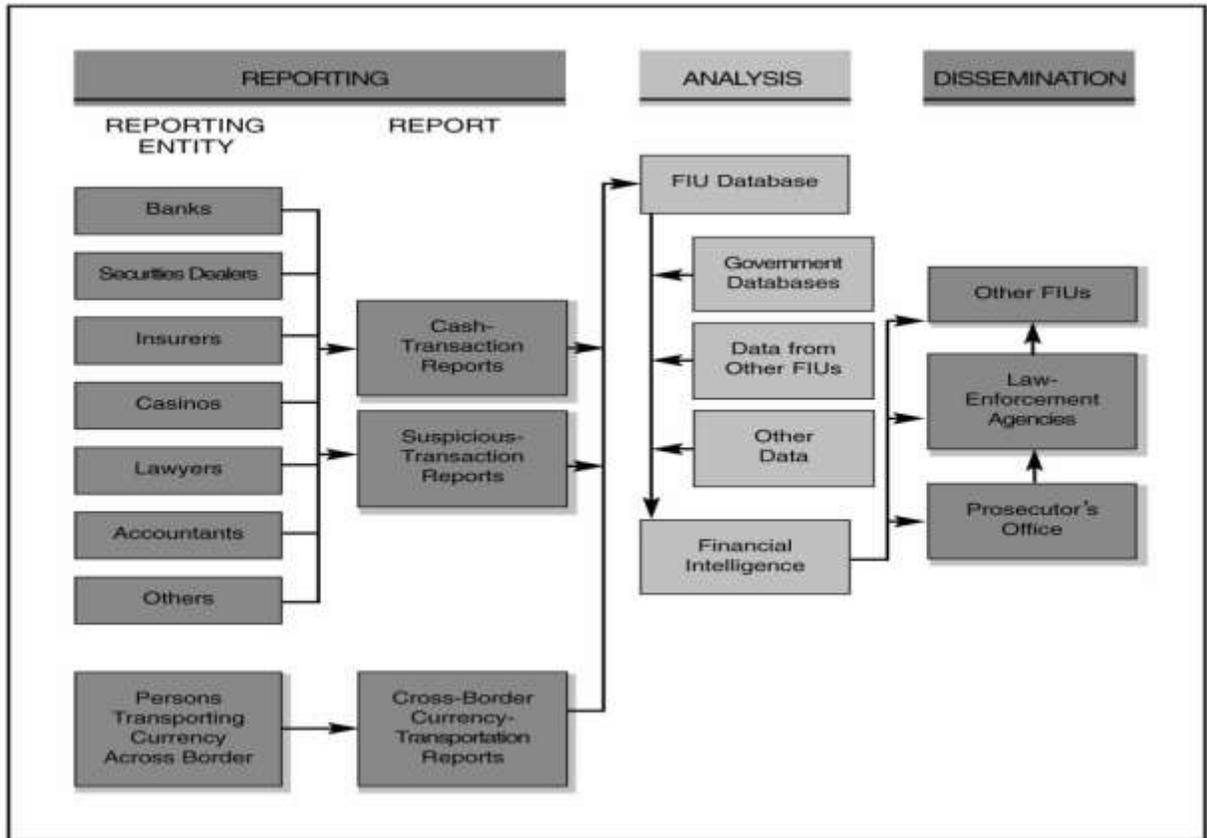
FIU-Nepal

2.1 Introduction

Financial Information Unit of Nepal (FIU-Nepal), a functionally autonomous unit with its office within the premises of Nepal Rastra Bank, the central bank of Nepal, was established on 21 April 2008 as an administrative FIU under ss. 9 and 10 of Asset (Money) Laundering Prevention Act (ALPA), 2008. Furthermore, second amendment of ALPA has improved legal provisions regarding FIU and made them compatible with international standards. Financial Information Unit-Nepal serves a central national agency responsible for receiving, analyzing and disseminating information concerning suspected proceeds of crime, which is potential for money laundering and/or terrorism financing and financing of proliferation. In addition, FIU-Nepal performs as the Secretariat of NCC and has played instrumental roles in founding in and shaping up the AML/CFT system in Nepal.

As globally accepted Nepal's FIU is concentrated on converting financial information into intelligence by adding value in financial information. Generally, It works like a buffer between Reporting Entities (REs) and Law Enforcement Agencies (LEAs). This includes receiving financial transaction reports from reporting entities, analyzing those reports and disseminating intelligence product to LEAs. The FIU was conceptualized considering the fact that LEAs' need regular technical support on financial matters and REs are normally reluctant to report to LEAs their transaction as a whole. The normal process of FIU function is best presented in the following Flow Chart.

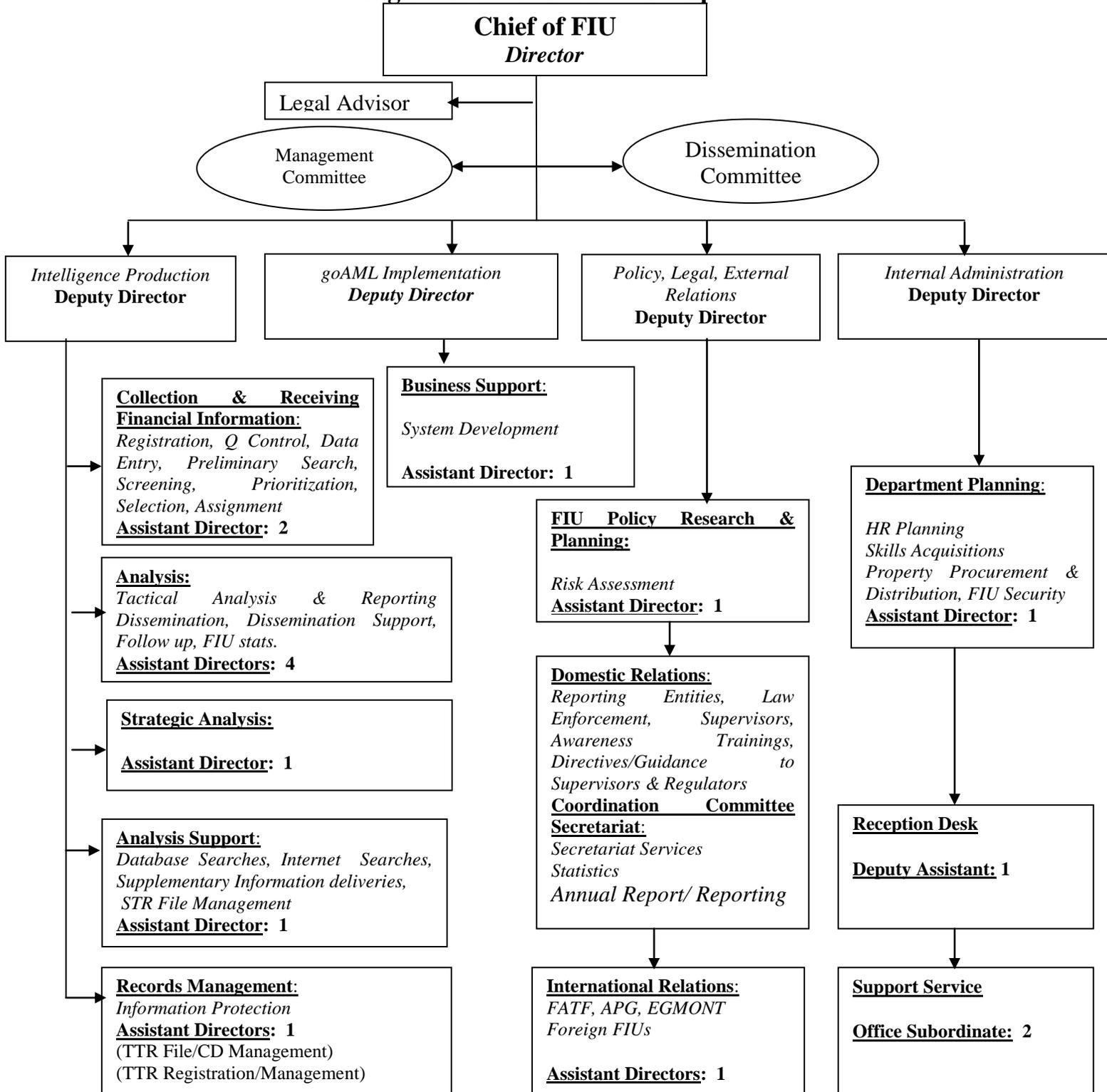
Typical FIU Information and Functional Flow



2.2 Structure of FIU-Nepal

Financial Information Unit-Nepal that commenced its functions with few officials in 2008, the following organization chart shows the current workforce. It is expected that about 25-30 employees will be needed in the future to function smoothly.

Organization Chart of FIU-Nepal



Box10: Staff of FIU-Nepal

Approved numbers						Existing	Shortfall
Designation	2068	2069	2070	2071	2072	2072	Current
Director	1	1	1	1	1	1	0
Deputy Director	3	3	4	4	4	3	1
Assistant Director	12	14	14	15	17	11	6
Assistant	2	2	3	2	2	1	1
Service	2	2	2	2	2	2	0
Total	20	22	24	24	26	18	8

2.3 Reporting Entities

Reporting entities, legally obliged to report TTRs and STRs to FIU in a specified format, consist of all banks and financial institutions, money changers and remitters, cooperatives, insurance companies, securities business persons, designated government agencies such as the Office of the Company Registrar and Land Revenue Offices; and DNFBPs like dealers in precious stones and metals, casinos, independent accountants and legal professional, notary public, trust and company service providers, etc..

2.4 Threshold Transaction Reports (TTRs)

Threshold Transaction Reports consist of currency transaction of certain threshold limit designated by Nepal Rastra Bank. So it is also called as Cash Transaction Report (CTR). Such transactions are to be reported to FIU within 15 days of event. Currently, the designated thresholds for different REs are as follows.

Box 11: Designated Threshold across Industries/Agencies

S.N.	Industry	Threshold
1	Banks/ Financial Institutions and cooperatives	One million rupees in cash in a day by a customer, either in a single transaction or in multiple transactions.
2	Insurance Company	One hundred thousand rupees annual premium for life insurance and three hundred thousand rupees annual premium for non-life insurance policies.
3	Money Remitters	One million rupees in a day, either in a single or multiple transactions.
4	Land Revenue Office	Purchase/sale of land and house worth ten million rupees or more.
5	Money Changers	Five hundred thousand rupees or more in a day, either in a single or multiple transactions.
6	Casinos	Gaming of two hundred thousand rupees or more in a day, either in a single gaming or in multiple gaming. Exchanging casino chip worth three hundred thousand rupees or more amounts in a day by any person to casino cheque, either in a transaction or multiple transactions.
7	Dealers in precious stones and metals.	Sale or purchase of precious stones or metals worth one million rupees or more in a day.

The trend of reporting TTRs is growing up. It is a result of self-awareness programs conducted for REs about their legal responsibilities and compliance modalities as well as from increasing supervisory activities. Following Box gives the numbers of TTRs and their trends.

Box 12: The Numbers of TTRs Received from Reporting Entities

S. N	Reporting Institutions	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
1.	BFIs	8,42,358	28,07,860	30,88,646	33,78,588	34,81,299	36,14,456	31,65,139
2.	Govt. Agencies	-	3,741	10,517	1075	1,137	1,341	846
3.	Insurance companies	-	-	-	13884	14,798	14,077	21,261
4.	Securities companies	-	-	-	14619	15,921	15,896	9,075
5.	Others	-	-	-	-	5,791	3,353	1,218
	Total	8,42,358	28,11,601	30,99,163	34,08,166	35,18,946	36,49,123	31,97,539

The above table shows that TTRs from banks and financial institutions are increasing in a steady trend over the period. However, there is nominal decrease in TTRs from insurance, securities and other reporting entities in the year 2013/14. Number of TTRs from government agencies has also witnessed a nominal increase compared to previous year. Conversely, significant decrease in TTRs from Government agencies, especially from the Land Revenue Offices, in the year 2011/12, was witnessed across the country due to the hike of the reporting threshold as well as a slowdown trend in the real-estate business. In 2014/15 TTRs from almost all sectors are lesser than those were in previous year. It is presumed that the low volume of TTRs is due to lesser transactions in both financial and economic sectors after the great earthquake of April 25, 2015 till the reporting period.

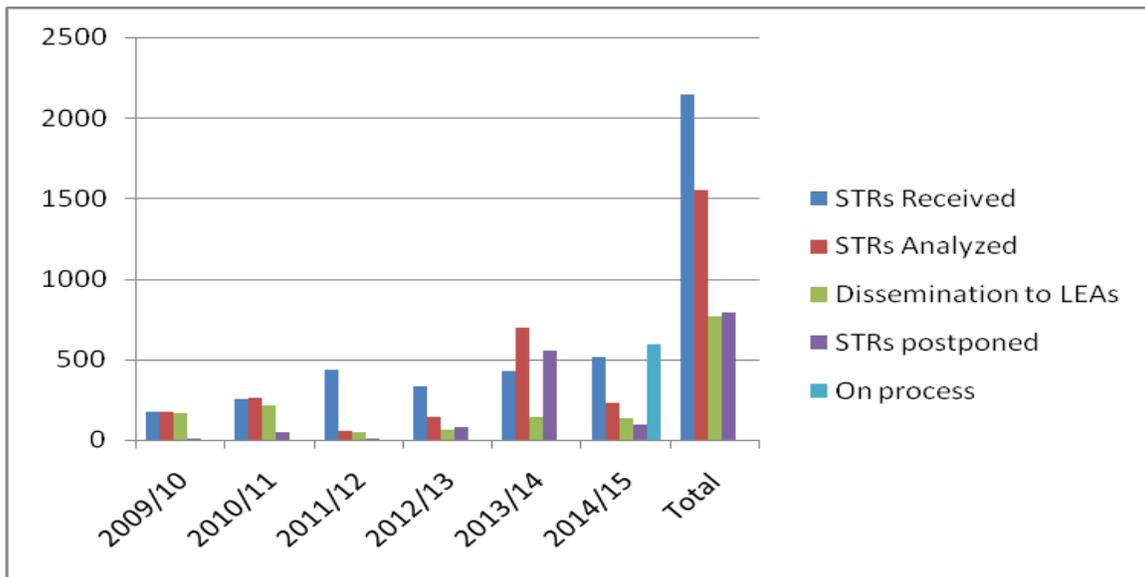
2.5 Suspicious Transaction Reports (STRs)

All designated REs are legally obliged for reporting STRs to FIU within three days of suspicion. Such suspicious transactions include those transactions or attempted transactions under the suspicion of REs or REs have reasonable grounds to suspect that the money/asset is generated from or related to ML/TF or other offences or illegal activities. It may also include the transactions that are large, complex, unusual, legally or economically impossible, or discordant. Once REs report STR, FIU makes its best efforts to add value on such information so as to see the possibility of converting it into financial intelligence. Following Box and Graph show the trends of STRs and their analysis from its beginning.

Box 13: STR Statistics

Category	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
STRs Received	177	256	437	333	425	517	2145
STRs Analyzed	173	260	53	144	696	228	1554
Dissemination	165	215	46	66	140	133	765
STRs postponed	8	45	7	78	556	95	789
In process						591	

STRs on graph



The above statistics show that numbers of STRs appear to be increasing each year. Out of the analyzed STR, 140 have been disseminated to different LEAs whereas 556 have been postponed for the time being due to lack of strong grounds and possibility of use in future analysis.

2.6 Analysis

Receiving, analysis and dissemination of financial intelligence are the core functions of FIU. FIU conducts both operational and strategic analysis. Operational analysis is concentrated on identifying specific targets (e.g. person, asset, criminal networks and associations) and to follow the trail of particular financial activities or transactions so as to determine the links between the targets and possible proceeds of crime (ML/TF or predicate offences). Strategic analysis is conducted for identifying trends and practices of ML/TF and other financial crimes. In case of strategic analysis, the analyst formulates a hypothesis and makes attempt to establish the hypothesis. All these analysis had been carried out manually for the last five years but recently FIU-Nepal has already acquired and installed goAML software and in the process of fully automated system for conducting analysis.

2.7 Dissemination

An STR converted into intelligence by adding value is disseminated to one or more investigating agencies that range like, DMLI, CIAA, Nepal Police, DRI, foreign FIUs and other competent authorities as per their mandate and nature of the case. Dissemination is often spontaneous and FIU can respond upon request of such agencies. Domestic disseminations in this regard are as follows.

Box 14: Dissemination (2014/15)*

Agencies	Numbers
DMLI	38
CIB/Nepal Police	41
DRI	56
CIAA	2
Regulator/Supervisor	1

* Up to 4th February 2015

2.8 National AML/CFT Strategy

Objective no. 4 of the National AML/CFT Strategy and Action Plan mainly focuses on the development of a functional and effective FIU. Core action items that relate to legal and operational aspects have already been materialized and status on those action items is given below.

Box 15: Action Plan contained in National AML/CFT Strategy and Action Plan 2011-2016

Objective 4 of National AML/CFT Strategy deals subject matters relating to FIU-Nepal.

OBJECTIVE 4: Enhance the capacity and effectiveness of the Financial Information Unit					
No.	Activity	Timeline	Primary Agency	Supporting Agency	Current Status
4.1 Enhance the effectiveness of the internal functioning of the Financial Information Unit.					
4.1.1	Review the existing legal provisions to identify deficiencies in its mandate, and submit them to the Legal Subcommittee for reform.	Mid-Jan. to mid-Feb.2012	FIU	NRB	Completed
4.1.2	Make arrangements for allocation of necessary staff and resources, appropriate	Mid-May to mid-June 2012	NRB	NCC, GoN	Completed and an ongoing Task.

	organizational structure, operational independence and governance, effective operational procedures; and, secure the new premises.				
4.1.3	Prepare procedures for effective accomplishment of the functions of the Financial Information Unit.	Mid-Aug.to mid-Sept.2012	FIU	NRB	Completed.
4.2 Enhance the operational capability of the Financial Information Unit.					
4.2.1	Identify the types of information to collect and develop mechanisms by which reporting entities will submit such information to the Financial Information Unit.	Mid-June to mid-July 2012	FIU	NRB	IT system goAML has been installed.
4.2.2	Develop a plan related to information technology needs, identify the appropriate technology, and arrange the necessary resources for that acquisition	Mid-Nov.to mid-Dec.2012	FIU	NRB	Process of procurement of necessary hardware started.
4.2.3	Make arrangements for electronic transmissions of reports from reporting entities to the Financial Information Unit.	Mid-Nov.to mid-Dec.2013	FIU	NRB	Schema has been developed and distributed to selected Commercial Banks.
4.2.4	Annually publish information about trends and typologies of money laundering and terrorism	Ongoing from mid- May 2013	FIU	NRB	Regular Task.

	financing.				
4.3 Adopt measures for prevention of money laundering and terrorism financing.					
4.3.1	Issue updated Directives and guidelines to the reporting entities.	In accordance with Supervision Schedule	FIU	NRB	Completed and an ongoing Task.
4.3.2	Make arrangements for relevant agencies to provide regular feedback to the Financial Information Unit and for the Financial Information Unit to provide feedback and guidance to agencies and reporting entities.	At least once a year; ongoing	FIU, NCC, NRB	NRB, MOF, NCC IC, Regulators	Being done each year.
4.3.3	Training for reporting entities and other agencies on preventive measures, detection of suspicious transactions, identification of risks, customer due diligence, and other issues pertaining to money laundering and terrorism financing.	At least once a year; ongoing	FIU	As above	Being done each year.
4.4. Make effective arrangements for undertaking responsibility as Secretariat of the National Coordination Committee (NCC).					
4.4.1	Prepare the necessary procedures for the Financial Information Unit's functions as the Secretariat of the Coordination Committee.	Mid-Nov.to mid-Dec.2011	FIU	NCC	Completed.
4.4.2	Provide necessary resources for the Secretariat.	Mid-Nov.to mid-Dec.2011	FIU	NCC, NRB	Being done.

4.5 Obtain membership of the Egmont Group of FIUs and establish relationships with other Financial Intelligence Units					
4.5.1	Develop a plan for seeking membership of the Egmont Group of FIUs and prepare detailed procedures and application.	Mid-March to mid-April 2012	FIU	NRB, NCC	Membersh ip has been awarded in June 2015.
4.5.2	Prepare a standard template for memoranda of understanding on exchange of information between the Financial Information Unit and Financial Intelligence Units of different countries (in the event that such may be required) and identify the main potential counterparts.	Mid-Aug.to mid-Sept.2012	FIU	NRB, NCC	Ongoing Task.
4.5.3	Negotiate, as needed, with Financial Intelligence Units of other countries for conclusion (if needed) of memoranda of understanding for the exchange of information.	Ongoing	FIU	NRB, NCC	Going on.
4.6	Make arrangements for necessary training to enhance the professional expertise and capacity of staff of the Financial Information Unit.	Ongoing	NRB	GoN and other related	Going on.

2.9 NRB Strategic Planning 2012-2016

Since FIU-Nepal has been established within Nepal Rastra Bank, the Bank's five-year strategy 2012-2016 has plans to strengthen FIU by enhancing analytical skill, set up of the automated system and capacity building of its employees. All the major activities of the plan have been concluded within the given timeline. Rest of the activities would have been completed by 2016.

2.10 Building Partnership

Financial Information Unit of Nepal is a national central agency with pivotal role in AML/CFT system. As FIU-Nepal is the secretariat of NCC, it has responsibility of providing feedback to NCC for preparation of new policy and improvement of existing policy. As well, it has direct connection with REs, LEAs and Regulators and functions as buffer between REs and LEAs. Therefore, it is operating in a harmonious relationship with different stakeholders to implement ML/TF regime efficiently and effectively. However, its performance is further whetted by the functional efficiency of other stakeholders. So, effective supervision of REs to produce qualitative STRs and investigation and prosecution on its products will greatly assist FIU to enhance its functional capacity.

2.10.1 Domestic Cooperation

Reporting Entities are the foundation of AML/CFT system and are the main information feeders and LEAs are end users of FIU products. On the other hand, regulators and supervisors are broadly responsible for examining the implementation of AML/CFT regime by the REs. It is expected that regulators and supervisors should be proactive for a sound and functional AML/CFT system within REs, which, consequently, results in higher and high quality reporting enhancing the entire system to utilize the time and resources efficiently. Similarly, FIU as the Secretariat of NCC has other active roles in national policy and support on such activities.

These responsibilities require FIU to establish harmonious and functional relations with all stakeholders to accomplish its basic obligation of combating money laundering, terrorist financing and proliferation financing. That's why, cooperation among stakeholders and interagency relationship would ensure a smooth, confidential and encouraging environment has been always fundamental objective of FIU-Nepal. Considering these roles, FIU represents in wide range of activities and also play advisory role in different committees. It has also established a dedicated division for domestic cooperation and coordination to enhance smooth relationship with REs and LEAs as well as becoming a bridge between RE, LEA and NCC. As AML/CFT is special function, employees of FIU have been deputed as an expert for preliminary AML/CFT supervision conducted by Nepal Rastra Bank. It also provides its employees as resource person for training and development of supervisory, LEA, RE and other agencies.

2.10.2 International Cooperation

Section 10 of Asset (Money) Laundering Prevention Act, 2008 mandates FIU-Nepal to exchange information with foreign counterparts on suspected ML, TF, PF and related offences spontaneously or upon request. For the purpose of exchanging information and enhancing international cooperation, it has completed Memorandum of Understanding (MoU) with 11 counterparts. Memorandum of Understanding with New Zealand is waiting for the final signature after the completion of necessary procedures.

Box 16: Memorandum of Understanding (MoU) with Foreign Counterparts

S.N.	FIU and Country	Date of MoU
1	Financial Intelligence Unit, Central Bank of Bangladesh	21 October 2008
2	The Financial Intelligence Unit, Central Bank of Sri Lanka	9 July 2009
3	The Anti Money Laundering Office (AMLO), Thailand	12 July 2010
4	Financial Intelligence Unit, Bank of Negara, Malaysia	13 July 2010
5	The Financial Intelligence Unit, Bank of Mongolia	13 July 2010
6	The Anti Money Laundering Division Investigation Bureau, Ministry of Justice, Chinese Taipei, Republic of China (Taiwan)	28 March 2011
7	Korean Financial Intelligence Unit, Financial Services Commission, Republic of Korea	11 May 2011
8	The Financial Intelligence Unit- India	17 November 2011
9	Japan Financial Information Center	27 November 2013
10	The Financial Intelligence Unit, the Republic of the Union of Myanmar.	17 July 2014
11	Anti-Money Laundering Monitoring and Analysis Centre, People's Bank of China, China	23 December 2014

Box 17: Information exchanges with foreign counterpart FIUs

Fiscal Year	Foreign Counterpart	Nepal's Dissemination			Dissemination to Nepal		
		Spont's	Upon Request	Remarks	Spont's	Upon Request	Remarks
2009/10	USA		1				
2010/11	India		3				
2011/12	India		4				
2012/13	Mauritius	1					
	India		2				
2013/14	Australia	1					
2014/15	Malaysia	1		Request			

2.11 National ML/TF Risk Assessment (NRA)

Asset Laundering Prevention Act has taken National ML/TF Risk Assessment as a regular business. National Risk Assessment is one of the ten objectives of Nepal's National AML/CFT Strategy and Action Plan 2011-2016. A Committee under the coordination of the FIU Head with representatives from DMLI and Nepal Police has been formed by Implementation Committee to conduct NRA. Two national workshops were concluded with Technical Assistance of World Bank. The first was conducted from 8 to 10, July 2013 with the participation of 21 public sector agencies including regulatory organizations, ministries, departments and offices of the Government of Nepal. Three working groups namely Vulnerability and Threat (Policy and Proceeds of Crime Group); Financial; and DNFPS (Non-financial) had been formed and these groups worked to conduct assessment. Second subsequent workshop was conducted from 9 to 11, July 2014

to make discussion in the preliminary draft report and refine the assessment. Working Groups have been giving final tuning of the draft NRA in order to submit it to NRA Committee for the finalization of report.

Furthermore, IMF has been assisting Nepal Rastra Bank to develop tools for AML/CFT risk based supervision for banking sector and assisting FIU for strengthening its function. Additionally, AUSTRAC assisted Securities Board and Insurance Board of Nepal to strengthen their AML/CFT measures.

Chapter 3 Capacity Building

3.1 Introduction

Capacity of the agencies entrusted with AML/CFT responsibilities is the most essential to achieve the objective of AML/CFT measures effectively. Strong organizational capacity and individual's skills are must for the effective implementation of AML/CFT regime. Competency should be enhanced with due consideration of dynamism of the worldwide phenomenon of AML/CFT. Every day sophisticated ML/TF trends and instruments appear in the world unraveling the new threats and vulnerabilities, therefore, the skills of human recourses engaged in this regime should be enhanced concurrently.

Financial Information Unit-Nepal has made several strategic and operational efforts to enhance its capacity. It has conducted numbers of training programs as well as coordinated with international organizations and foreign agencies for their supports for training and workshops. Its capacity building programs have also benefitted the stakeholders in the field. Furthermore, Financial Information Unit-Nepal is achieving its best possible result under its limited financial and human resources and is seriously considering for developing a specialized capacity building programs in order to discharge its duties.

3.2 Automation of FIU-Nepal

Financial Information Unit-Nepal has now installed goAML software developed by United Nations Office on Drugs and Crime (UNODC). It will help for online receipt of reports and analyze such reports in an automated form. As per the experiences of other counterparts goAML has not only geared up the capacity of FIU, particularly in its core function like receiving and analyzing information, but also has assisted for qualitative investigation. We hope that the goAML will pave the way for FIU-Nepal towards the expedition of automation.

3.3 Workshops and Trainings

Financial Information Unit-Nepal has organized capacity building programs for its staffs and also engaged in the capacity building activities of other agencies. In this regards, following table presents the efforts it made for skill and capacity development:

Box 18: Capacity building workshops/seminars attended by FIU officials

S. N.	Program	Date	No. of Participants	Organizer	Place
1.	2014 APG Assessor Training Workshop	August 18-22, 2014	1	KoFIU	Seoul, Korea
2.	Money Laundering Primary Course	September 8-26, 2014	1	Government of India	New Delhi, India
3.	FATF/APG Joint Experts' Meeting on Typologies & APG Technical Seminars	November 23-29, 2014	2	FATF/APG	Bangkok, Thailand
4.	Legal Aspects of International Financial Institution	December 8-12, 2014	1	IMF	Singapore
5.	FATF Plenary & Working Group Meetings	February 22-27, 2015	1	FATF	Paris, France
7.	BIMSTEC Meeting	May 26-29, 2015	1	Government of Bhutan	Thimphu, Bhutan
8.	The 23 rd Egmont Group Plenary	June 7-12, 2015	2	FATF/Egmont Group/Barbadian FIU	Bridgetown, Barbados
9.	18 th APG Annual Meeting	July 13-17, 2015	1	APG	Auckland, New Zealand

3.4 FIU with REs

Since its establishment in 2008, FIU-Nepal has made incredible efforts to enhance RE's capacity towards preventing and addressing risk of money laundering and terrorism financing. It has been assisting for capacity building of REs either through interaction/training programs or with discussing and counseling with an individual institution about its system, problems and prospects at FIU. It has found individual discussions comparatively more critical and result oriented.

Box 19: Seminar, Interaction Programs and AML/CFT Training to Reporting Institutions 2014/15

S.N.	Target Audience	Date	Venue	Number of Participants
1.	National Risk Assessment (NRA) seminar with non-financial (DNFBPs) sector group	September 23-24, 2014	Kavrepalanchowk	20
2.	National Risk Assessment (NRA) seminar with policy sector group	October 12-13, 2014	Kavrepalanchowk	21
3.	National Risk Assessment (NRA) seminar with non-financial (DNFBPs) sector group	October 15-16, 2014	Kavrepalanchowk	21
4.	Interaction program with Chief Executive Officers of Commercial Banks on Implementation of goAML	October 17, 2014	Kathmandu	50
5.	National Risk Assessment Consultation with Private Sector	January 13, 2015	Kathmandu	70
6.	AML/CFT Training to Compliance Officers of Bank and Financial Institutions	April 12, 2015	Dhangadi	54

FIU-Nepal has provided guidance and resource persons for AML/CFT training programs organized by them.

3.5 FIU with Regulators

The functional AML/CFT system cannot be imagined in the absence of contributions from regulators. Majority of FATF standards prescribe the importance and role of regulators. A sound and functional AML/CFT system depends on the REs' compliance of AML/CFT measures, which on the other hand is determined by the level of regulation and supervisions by the regulatory agencies. Hence, FIU-Nepal has always been working together with the regulators and supervisors for developing regulatory/supervisory instruments to conduct AML/CFT inspections and develop trainings programs.

3.6 FIU with Other Agencies

Apart from the said activities, FIU-Nepal has assisted other agencies in developing their AML/CFT instruments and has provided resource persons for AML/CFT training and capacity building programs, as well as preparing policies and guidelines. These agencies include National Judicial Academy, NRB, Revenue Administration Training Centre, Investigation Authorities like CIAA, DMLI, Nepal Police, Nepal Banker's Association, National Banking Training Institute, Nepal Bar Association, FNCCL, CNI etc.

3.7 International Technical Assistance and Training

International organizations viz. APG, Egmont, IMF, World Bank and other foreign government and their agencies from Australia, India, USA and others have focused on enhance capacity of Nepal's AML/CFT regime. They have been providing technical assistance and training to Nepalese agencies engaged in combating money laundering and terrorism financing and proliferation financing on a regular basis. Nepal, with technical assistance of IMF, has formulated its National AML/CFT Strategy and Action Plan, developed legal, FIU and supervisory frameworks and manuals. The IMF mission usually visits Nepal three times a year for those objectives and capacity building. The World Bank has provided technical assistance for the preparation National Risk Assessment. Financial Information Unit-Nepal had coordinated with other international organizations for their support to different sectors of Nepal.

Chapter 4

Opportunities and Challenges

4.1 Overall Challenges and Opportunities

AML/CFT system has established itself as a primary means of safeguarding the financial system, control financial crimes and spread out a message that nobody can enjoy the proceeds of crime forever. It is a leading issue in the financial world that any kind of offence generating money cannot go free without detection and prosecution is inevitable in all jurisdiction all over the world. However, the task of controlling money laundering and terrorist financing is possible with a sincere involvement of multi-agencies within a country and it equally demands the international cooperation.

Nepal's progress towards improving the AML/CFT framework is significant in a short period of time. Nepal has provided an exemplary achievement to build a foundation for implementation of AML/CFT regime by devising sound legal and institutional frameworks, organizing gradual capacity building programs, and creating awareness to stakeholders as well as to the general public. The accomplishment also counts on the development of smooth coordination in policy as well as operational levels. There is always room for improvement, hence, assurance of effective implementation and continuous improvement of AML/CFT system still has remained a foremost challenge. Dynamic and complex nature and trends of ML/TF is such a challenge where all stakeholders collectively in a coordinated manner put their effort continuously to create awareness and capacity development.

Furthermore, Nepal should pay attention towards its mutual evaluation scheduled to be held in 2019-020. Since, it will be focused on effective implementation, it demands visible outcomes. Hence, to achieve this outcome, all concerned agencies should concentrate on their core business considering the benefits of AML/CFT system and 3rd mutual evaluation as the most important agenda. Our sincere efforts in this regime could recover the proceeds of crimes and establish a sound financial system with the mitigated and low level of risk from ML/TF. In addition, such integrated improvements in overall sectors will ultimately help us to avoid from falling under Enhanced Follow up or other ICRG processes. For this, timely planning and strategic movement among the stakeholders may be a panacea.

4.2 FIU-Nepal

Financial Information Unit-Nepal, one of the core agencies in the AML/CFT system in the country, works as buffer between REs, LEAs, and other stakeholders. It has made efforts to take REs into confidence and become proactive to make LEAs use its intelligence to prosecute ML/TF offenders. So, it demands a critical balance to maintain among the stakeholders. Similarly, relation with regulators is very important to motivate REs to comply with AML/CFT rules and regulations. Financial Information Unit-Nepal has also its focus on national AML/CFT policy formulation and implementation. In this context, following few points appear as the major challenges that FIU-Nepal is facing:

1. To make Information Technology (goAML) system fully operational,
2. To create intensive awareness among REs on STR and reporting system,

3. To maintain inter-agency coordination and cooperation in policy and operational levels,
4. To enhance skills and capacity of FIU officials and other related stakeholders
5. To assist in national policy formation and implementation.

4.3 Annual Programs

Financial Information Unit -Nepal develops an annual plan with prescribed time line each year. The annual programs of capacity building for its officials and related stakeholders for the year 2014/15 were as given below:

Box 20: Annual Programs

S.N.	Programs	Duration
1.	Workshop for Regulators on AML/CFT: Problems and Solutions	1 Day
2.	APG Typology Workshop at Kathmandu	6 Days
3.	3 Capacity Building Program to FIU by IMF	5 Days
4.	3 Capacity Building Program to NRB supervisors by IMF	5 Days
5.	Trainings to REs	1 Day
6.	Interaction with Compliance and IT of the Banks on the use of goAML system	1 Day
7.	Discussion with Individual RE	Half day for more than 30
8.	Providing resource person to requesting agencies	As requested

4.4 Expectation

It is expected that with the achievement of Egmont membership, FIU-Nepal will have high level of international cooperation and coordination in combating money laundering, terrorist financing and proliferation financing. Furthermore, it is hoped that the membership will help Nepal recover its stolen assets from money launderers and to prevent terrorism in the world, especially in South Asia to stop the terrorists' activities directing through this region. The FIU-Nepal will put increased focus on its core functions of receiving, analysis and dissemination of financial information. It will make all possible efforts to maintain coordination, cooperation and concentrated trainings and workshops for achieving its objectives and assisting supervisors, LEAs, prosecutors and judicial authorities for other strategic contribution to the ML/TF regime.