

Annual Report (2015/16)

(2072/2073)



**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

Financial information plays an important role in mitigating the risk of money laundering (ML) and terrorist financing (TF). It is a key to successful analysis, tracing of ML/TF and other financial crimes, which is beneficial to all stakeholders engaged in combating ML/TF.

Financial Information Unit, Nepal (FIU - Nepal) is the central authority for the collection, analysis and dissemination of financial information from all Reporting Entities (RE) as provided in the Asset (Money) Laundering Prevention Act, 2064. Receiving accurate, reliable, and relevant information on time is a prime concern of FIU-Nepal. Therefore, it has installed UNODC developed goAML an automated information receiving software with an expectation that it will increase the efficiency of overall FIU functions as well as disseminations to the Law Enforcement Agencies (LEA).

Becoming a member of Egmont group has opened the access to wide range of financial information from more than 151 countries worldwide. FIU-Nepal has completed Memorandum of Understanding (MoU) with twelve counterpart FIUs for exchange of information through *EGMONT SECURE WEB*. It is one of the important accomplishments of being a member of Egmont Group of Financial Intelligence Units.

Combating money laundering and terrorist financing are cross-border and global issues. They demand cooperation among jurisdictions. We are successful in enhancing international cooperation and show our commitment in international forum like FATF, APG, Egmont, etc. As a result of our commitment, the FATF has released Nepal from ICRG watch list.

Nepal has established legal and institutional foundation to comply with AML/CFT standards. However, the next round of mutual evaluation, scheduled to be held in 2019-2020, will be based on effective implementation and showing our effectiveness is a challenge. All concerned agencies and stakeholders should act as early as possible to convert such challenges into opportunity.

In order to be proactive, National Coordination Committee (NCC) has formed a Self-Assessment Committee to assess the different dimension of Nepal's ML/TF regime. We will only be able to overcome the effectiveness assessment when our outcomes become visible. Nepal's AML/CFT system can achieve the desired results, when all the stakeholders focus on continuous improvement and development of sound legal and regulatory framework and implement them efficiently. Finally, I hope all stakeholders act together to overcome 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 a greatest hinderance to human civilization, which distorts world peace and security, law and order, cause adverse impacts on the entire world. 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 serious concerns on establishing a sound AML/CFT system as common global problems.

1.2 Nepal

As AML/CFT has become very important agenda globally, Nepal cannot remain aloof from it. Nepal has been making substantial progress towards its goal of strengthening AML/ CFT system by preparing and implementing legal, institutional and preventive measures. The Government of Nepal has recognized AML/CFT system as a strategic tool to control financial crimes and establish a sound financial system.

Nepal is one of the active participants of global AML/CFT regime in the international forum. It is evident from its membership to the UNO, SAARC, APG, Egmont Group of FIUs and BIMSTEC and strong commitment to implement FATF standards. Ratification of major international conventions; enactments of instrumental statutes; implementation of National AML/CFT Strategy; establishment and designation of major institutional infrastructures in a short period of time are significant works to develop 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 accomplishments are leading Nepal to focus on its core operational activities and take strategic steps towards effectiveness of ML/TF regime. However, there are lots of 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 and public at large for the benefit of the economy as a whole.

1.3 Efforts of Nepal to Combat ML/TF

1.3.1 Policy Measures

AML/CFT policy framework of Nepal begins from the AML/CFT National strategy to the numbers of statutes and regulatory/supervisory guidelines and conclusion of the first 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.
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National Strategy consisted 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 appraisal.

1.3.2 Legal Measures

Nepalese AML/CFT legal regime has been framed by the parliamentary enactments particularly in The Assets (Money) Laundering Prevention Act, 2008. Other laws relating to criminalization of predicate offences, Regulation/Supervision, MLA, Extradition, Confiscation (Seizing and Freezing) of Criminal Proceeds and Instrumentalities, etc. are integral to this system. The table below presents the laws, international conventions, regulatory directives and supervisory manuals that have been enacted/implemented:

Box 2: Legal Instruments against ML/TF

S.N.	Instruments
1.	AML/CFT Act, 2064 (2008) <ul style="list-style-type: none"> • 1st amendment in 2011 • Two Gazette Notifications for expansion of predicate offence of money laundering (now included in the Annex of ALPA by second amendment) Comprehensive second amendment of the Act in 2014
2.	AML Rules, 2073 (2016) by replacing AML Rules, 2066 (2009)
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
1.	UN Convention against Corruption, 2003	10Dec 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 Apr 1979.
8.	Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, 1971		11 Jan 1979
9.	SAARC Regional Convention on Suppression of Terrorism, 1987 and its Additional Protocol, 2004	4 Nov 1987	22 Aug 1988
10.	BIMSTEC: Sub Group Meeting on Combating the Financing of Terrorism		8 Feb 2004

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 proactive in 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. It has also been actively participating in APG and FATF meeting and seminars.

1.4.1 Nepal in APG

Having obtained membership of APG in 2002, Nepal has expressed its commitment to comply with international AML/CFT standards. Accordingly, Nepal is active in forums of APG.

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 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 monitoring in 2014 and now making preparation for the exist from regular monitoring. Technical assistance provided by the IMF & APG for the development of such AML/CFT system 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 10 international organizations along with 39 representatives from the private sector. The program was also a successful event from the perspectives of Nepal's commitment towards AML/CFT regime.

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. The FATF Revised 40 Standards called INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM AND PROLIFERATION, 2012 and ASSESMENT METHODOLOGY 2013 make base for the overall AML/CFT system and its asesment. Addition of assessment of the evaluation of effectiveness has appeared as a new procedure and a tough challenge not only to Nepal but also to all jurisdiction.

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), Department of Money Laundering Investigation, different regulators, 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, both organizations have provided trainings and technical assistance for capacity building to Nepal. International Monetary Fund has substantially supported Nepal in developing National AML/CFT strategy, legal, supervisory and FIU capacity building frameworks. The World Bank has assisted Nepal in conducting National ML/TF Risk Assessment, and the NRA report has already been approved by NCC.

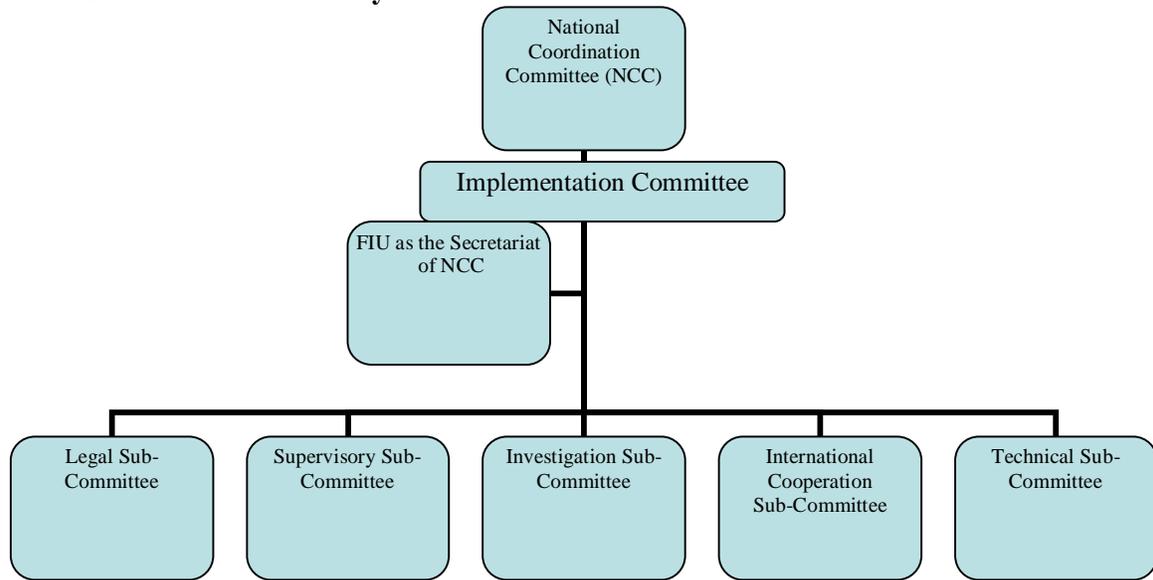
1.4.5 Egmont Group of FIUs

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 exchanging information among the members. It has already received/made several requests to its counterparts.

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.

1.5.1 Coordination at Policy Level

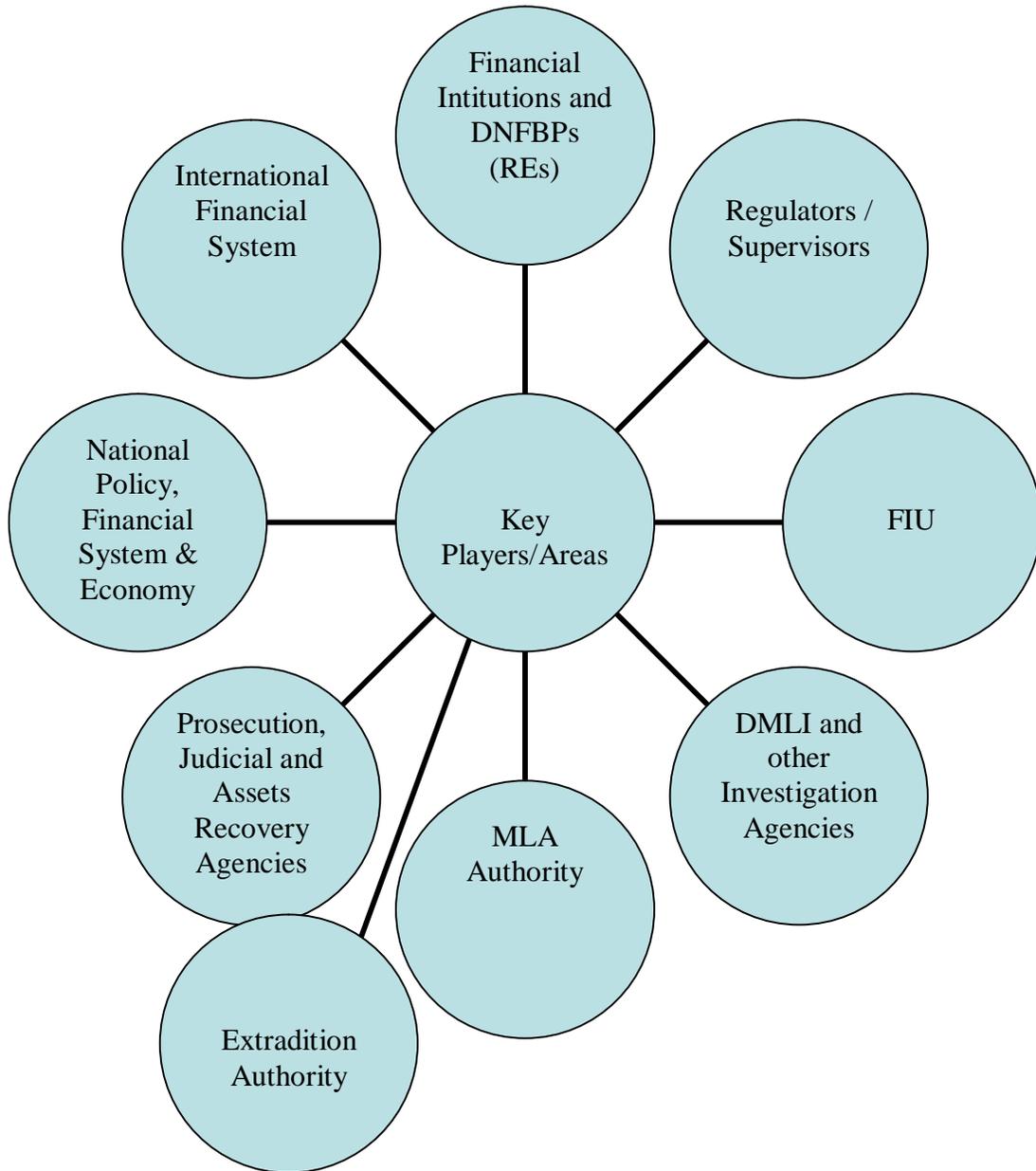


All the above committees have been formulated as stated in the National Strategy, 2011-2016. Now, Nepal is reviewing the progress of national strategy and also planning to prepare another strategic planning.

1.5.2 Operational Measures

Money Laundering and Terrorist Financing is a multi-agencies' task, it 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	• 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	• Regulator/s
10.	Customer due diligence	• Regulator/s
11.	Record keeping	• Regulator/s
12.	Politically exposed persons	• Regulator/s
13.	Correspondent banking	• Regulator/s
14.	Money or value transfer services	• Regulator/s
15.	New technologies	• Regulator/s
16.	Wire transfers	• Regulator/s
17.	Reliance on third parties	• Regulator/s
18.	Internal controls and foreign branches and subsidiaries	• Regulator/s
19.	Higher-risk countries	• Regulator/s
20.	Reporting of suspicious transactions	• Regulator/s
21.	Tipping-off and confidentiality	• Regulator/s
22.	DNFBPs: Customer due diligence	• Regulator/s
23.	DNFBPs: Other measures	• 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 focusing on technical as well as effectiveness compliance. 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. 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 2019-2020 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 for effectiveness and visible implementation and outcomes. All respective agencies need to have serious concerns early so that scattered efforts can trickle down into a consolidated national achievement.

For the purpose of Mutual Evaluation to be held in 2019-2020, NCC has formed a Self-Assessment Committee (SAC) under the coordination of Secretary of Ministry of Law, Justice and Parliamentary Affairs to self assess Nepal's position, recommend necessary reforms and prepare for the coming up mutual evaluation. The SAC has formed 16 sectoral sub-committees, developed assessment parameters and templates and trained the related officials. Self assessment is expected to be completed by the end of this year.

Chapter 2: FIU-Nepal

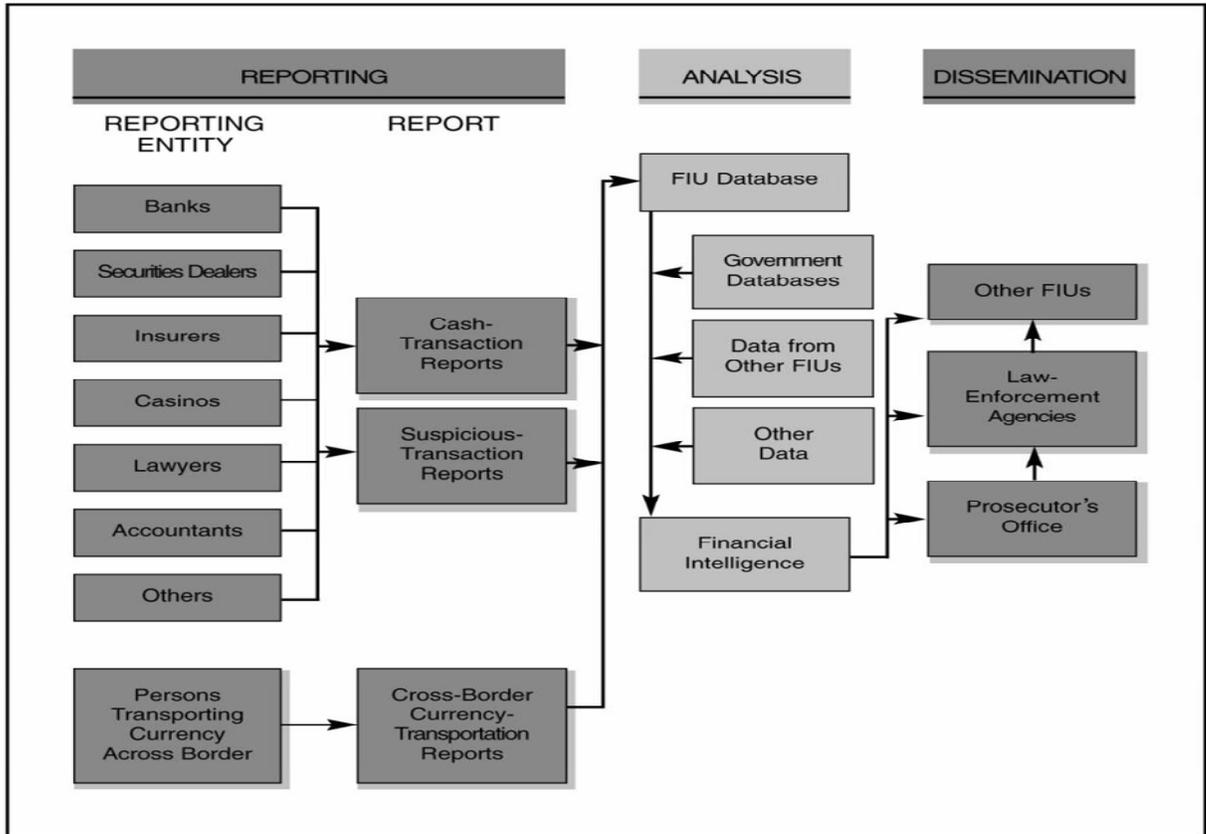
2.1 Introduction

Financial Information Unit of Nepal (FIU-Nepal), a functionally autonomous unit hosted 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.

FIU-Nepal serves as a central national agency responsible for receiving, analyzing and disseminating information concerning suspected proceeds of crime, 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 setting up the foundation of 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 normal process of FIU function is best presented in the following Flow Chart.

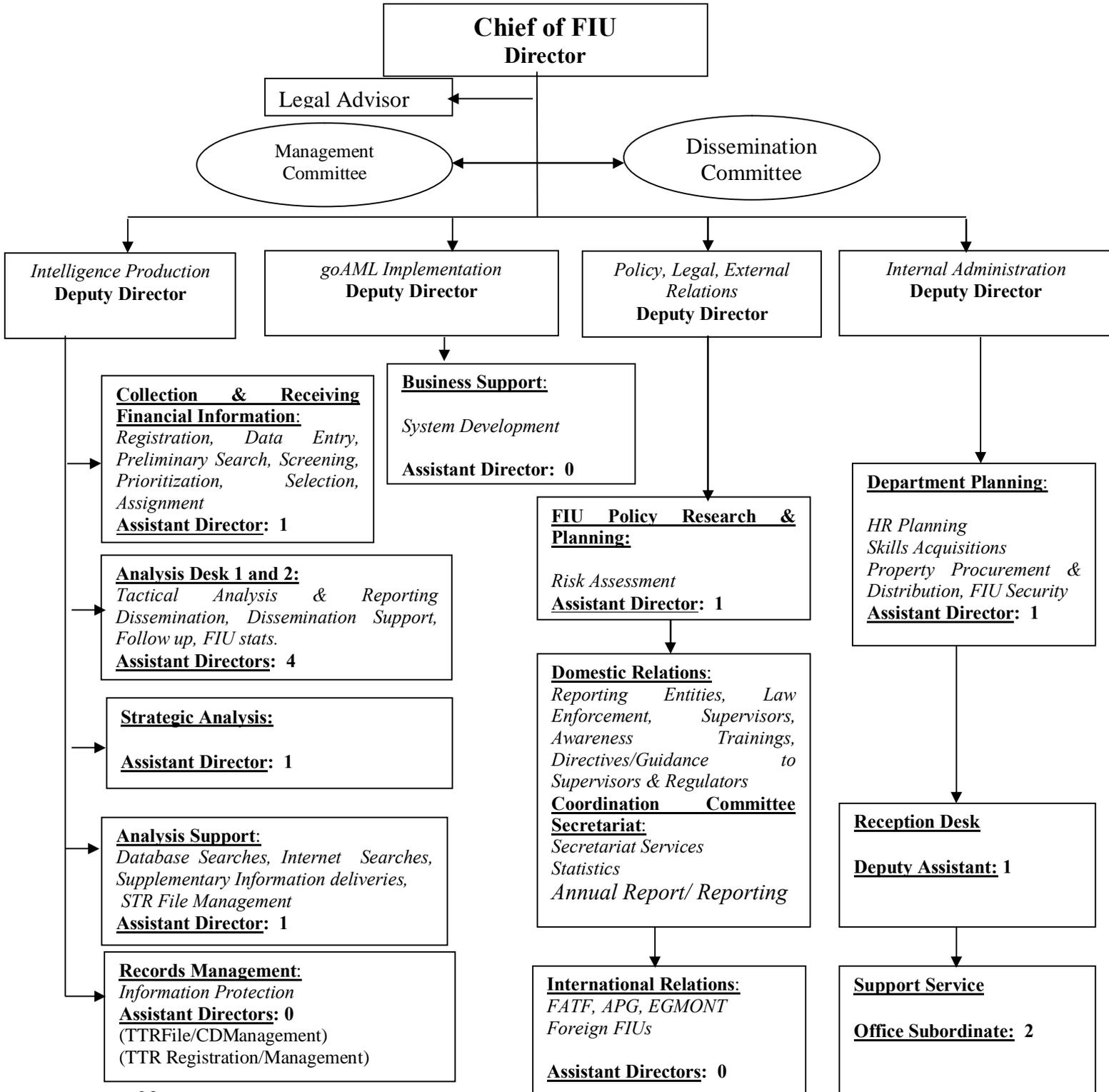
Typical FIU Information and Functional Flow



2.2 Structure of FIU-Nepal

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	2073	Current
Director	1	1	1	1	1	1	1	0
Deputy Director	3	3	4	4	4	3	5	0
Assistant Director	12	14	14	15	17	11	10	7
Assistant	2	2	3	2	2	1	1	1
Service	2	2	2	2	2	2	2	0
Total	20	22	24	24	26	18	19	7

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, and securities business persons, and DNFBPs like dealers in precious stones and metals, casinos, independent accountants and legal professional, notary public, trust and company service providers, etc. Other stakeholders that report to FIU include

some designated government agencies such as the Office of the Company Registrar, Land Revenue Offices and Department of Customs;

2.4 Threshold Transaction Reports (TTRs)

Threshold Transaction Reports consist of currency transaction of certain threshold limit designated by guidelines issued by FIU-Nepal, 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 the transaction. 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	Exchanging casino chip worth three hundred thousand rupees or more amounts in a day by any person to casino,

		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 decreasing. It may be a result of self-awareness programs conducted for REs about their legal responsibilities and increasing non-cash transactions. Following Box gives the numbers of TTRs received and its trends.

Box 12: The Numbers of TTRs Received from Reporting Entities

S.N	Reporting Institutions	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
1.	BFI's	30,88,646	33,78,588	34,81,299	36,14,456	31,65,139	31,65,091
2.	Govt. Agencies	10,517	1075	1,137	1,341	846	299
3.	Insurance companies	-	13884	14,798	14,077	21,261	41,614
4	Securities companies	-	14619	15,921	15,896	9,075	22,944
5.	Others	-	-	5,791	3,353	1,218	1069
	Total	30,99,163	34,08,166	35,18,946	36,49,123	31,97,539	32,31,017

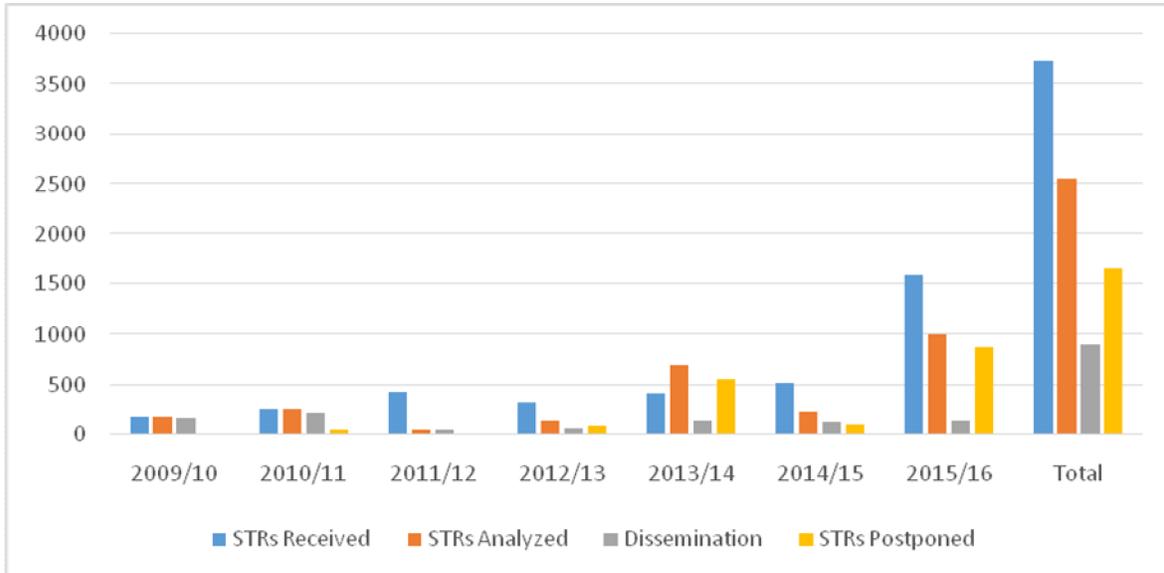
2.5 Suspicious Transaction Reports (STRs)

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	2011/12	2012/13	2013/14	2014/15	2015/16	Total
STRs Received	437	333	425	517	1588	3733
STRs Analyzed	53	144	696	228	1001	2555
Dissemination	46	66	140	133	138	903
STRs Postponed	7	78	556	95	868	1657

STRs on graph



The above statistics shows that number of STRs appear to be increasing each year. Out of the analyzed STR, in 2015/16, 138 have been disseminated to different LEAs whereas 868 have been postponed for the time being due to lack of strong grounds and possibility of use in future analysis.

2.6 Analysis

Receiving, analysing and disseminating financial intelligence are the core functions of FIU. FIU Nepal 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, however, FIU-Nepal has already acquired and installed goAML software and is in the process of using fully automated system for conducting analysis.

2.7 Dissemination

An STR converted into intelligence is disseminated to one or more investigating agencies that range from DMLI, CIAA, Nepal Police, DRI to foreign FIUs and other competent authorities as per their mandate and nature of the case. Domestic disseminations in this regard are as follows.

Box 14: Dissemination (2015/16)*

Agencies	Numbers
DMLI	27
CIB/Nepal Police	29
DRI	80
CIAA	1
Regulator/Supervisor	1
Total	138

* Up to 15th July 2016

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-Jun. to mid-Jul. 2012	FIU	NRB	IT based goAML software 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 networking equipments.
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 financing.	Ongoing from mid- May 2013	FIU	NRB	Regular Task.

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	Membership has been awarded in June 2015.
4.5.2	Prepare a standard template for memorandum 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 memorandum of understanding for the exchange of information.	Ongoing	FIU	NRB, NCC	Ongoing.
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	Ongoing.

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 plans to strengthen FIU by enhancing its 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 will be completed by 2016.

2.10 Building Partnership

Financial Information Unit of Nepal is a national central agency with pivotal role in AML/CFT system. FIU-Nepal, as the secretariat of NCC, has responsibility of supporting NCC for preparation of new policy and improvement of existing framework. It has direct connection with REs, LEAs and Regulators. It plays a role of a 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 as well. So, effective supervision of REs by the regulators to produce qualitative STRs and proper investigation and prosecution by LEAs' on its products will greatly assists 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 to FIU. 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 thus enhancing the entire system.

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. Thus, cooperation among stakeholders and interagency relationship would ensure a smooth, confidential and encouraging environment, which is the fundamental objective of FIU-Nepal. Considering these roles, FIU represents in wide range of activities and also play active 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. It 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 this purpose, it has completed Memorandum of Understanding (MoU) with 12 counterparts. Memorandum of Understanding with New Zealand and Cambodia are to be finalized soon.

Box 16: 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			
2015/16

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, 2016 has been already completed, which 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 had been formed by Implementation Committee to conduct NRA.

Chapter 3: Opportunities and Challenges

3.1 Overview

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

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 system by devising sound legal and institutional frameworks. 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 need collective and coordinated efforts.

Furthermore, Nepal should pay attention towards its mutual evaluation scheduled to be held in 2019-2020. Since it will be focused on effective implementation it demands not only implementation and outputs but also visible outcomes. Hence, to achieve this outcome, all concerned agencies should concentrate on their core business considering the benefits of AML/CFT system. The third mutual evaluation will be a great opportunity to prove Nepal that it is very sensitive towards the implementation of AML/CFT norms into reality.

3.2 Challenges

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. 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. Other challenges to stakeholders are described in following points:

1. To create intensive awareness among REs, FIU, LEAs, and public at large.
2. To maintain inter-agency coordination and cooperation in policy and operational levels.
3. To enhance skills and capacity of FIU officials and other related stakeholders
4. To make goAML system fully operational.

3.3 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. However, it is the foremost need of FIU-Nepal to make development of analytical skills compatible to the highly automated system, goAML.