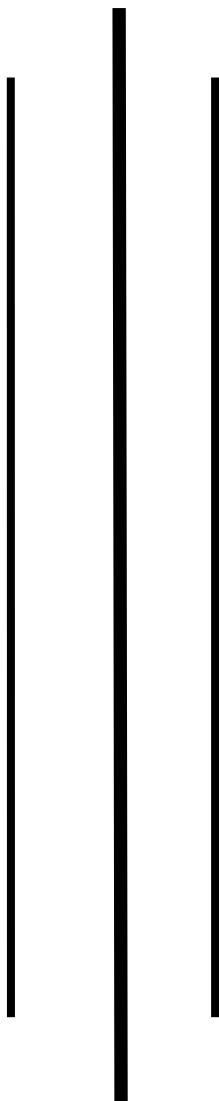


Guidelines for Detecting Suspicious Transactions



**NEPAL RASTRA BANK
CENTRAL OFFICE
FINANCIAL INFORMATION UNIT (FIU)
Nepal
Effective from 15th January 2014 (2070-10-01)**

Guidelines for Detecting Suspicious Transactions

Suspicious Transactions Reports (STRs) include detailed information about transactions that are or appear to be suspicious. The goal of STRs filings is to help the Financial Information Unit (FIU) of Nepal identify individuals, groups and organizations involved in fraud, terrorist financing, money laundering, and other crimes.

The purpose of a STR is to report known or suspected violations of law or suspicious activity observed by financial institutions subject to the provision related Asset (Money) Laundering Prevention Act, 2008. In many instances, STRs have been instrumental in enabling law enforcement to initiate or supplement major money laundering or terrorist financing investigations and other criminal cases. Information provided in STR forms also presents FIU with a method of identifying emerging trends and patterns associated with financial crimes. The information about those trends and patterns is vital to law enforcement agencies and provides valuable feedback to financial institutions.

FIU requires an STR to be filed by a financial institution when the financial institution suspects insider abuse by an employee; violations of law or more that involve potential money laundering or violations of existing AML/CFT law; or when a financial institution knows that a customer is operating as an unlicensed money services business.

Each STR must be filed within 3 days of the initial determination for the necessity of filing the report as per Section 7S of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008.

The report can start with any employee of a financial service, however a reporting institution has to appoint a managerial level staff as an compliance office to deal with FIU on matters relating to STRs as per Section 7P of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008. They are generally trained to be alert for suspicious activity, such as people trying to wire money out of the country without identification, or someone with no job who starts depositing large amounts of cash into an account. Employees are trained to communicate their suspicion up their chain of command where further decisions are made about whether to file a report or not.

Many different types of finance-related industries are required to file STRs. These include:

- depository institutions (for example, banks and credit unions)

- securities and futures dealers (for example, stock brokers and mutual fund brokers)
- money services businesses (for example, check cashing services, currency exchange bureaus, and money order providers)
- casinos and card clubs
- dealers in precious metals and gems (for example, jewelry dealers)
- insurance companies
- mortgage companies and brokers

There are different indicators to detect suspicious transactions. In order to make the detection and filing of STRs expedient for the purpose of preventing money laundering and controlling terrorist financing, this guidelines have been made and issued exercising the power conferred by Section 10 (1) (h) of Assets (Money) Laundering Prevention (Second Amendment) Act, 2008.

Detection of Suspicious Transactions using two kinds of information

1. Individual Account's History
 - a. Threshold based detection
 - b. Situation/activity based detection
2. Transaction information from other accounts in peer group

General Characteristics of Suspicious Financial Transactions

1. Transactions having unclear economical and business target.
2. Transactions conducted in relatively large amount cash and/or conducted repeatedly and unnaturally.
3. Transactions conducted differently from that of usually and normally conducted by the relevant customer.
4. Huge, complex and usual transaction.

Elements of Suspicious Transactions

1. Transaction deviating from:
 - a. the profile;
 - b. the characteristics; or

- c. the usual transaction pattern of the relevant customer.
2. Transaction reasonably suspected to have been conducted with the purpose of evading the reporting that must be conducted by the relevant reporting entity.
3. Financial transaction conducted using fund alleged to be attributable to predicate offences.

Indicators of Suspicious Transactions

1. Cash

- 1) Cash transactions conducted in an unusual amount from that of usually conducted by the relevant customer.
- 2) Transactions conducted in a relatively small amount but with high frequency (structuring).
- 3) Transactions conducted by using several different individual names for the interest of a particular person (smurfing).
- 4) The purchase of several insurance products in cash in a short period of time or at the same time with premium payment entirely in a large amount and followed by policy surrender prior to due date.
- 5) The purchase of securities by cash, transfer, or checks under other person's name.

2. Economically irrational transactions

- 1) Transactions having no conformity with the initial purpose of account opening.
- 2) Transactions having no relationship with the business of the relevant customer.
- 3) Transaction amount and frequency are different from that of normally conducted by the customer

3. Fund transfers

- 1) Fund transfers to and from high-risk offshore financial centers without any clear business purposes.
- 2) Receipts of fund transfers in several phases and once accumulated the funds are subsequently transferred entirely to other account.
- 3) Receipts and transfers of funds at the same or approximately the same amount and conducted in a relatively short period (pass-by).

- 4) Receipts/payments of funds made by using more than one (1) account, either in the same name or a different one.
- 5) Fund transfers using the account of reporting entities' employee in an unusual amount.
- 6) If multiple inward or outward remittance transaction is conducted with the person from the country or region where terrorist organizations operate.

4. *Behaviors of the Customer*

- 1) Unreasonable behaviors of the relevant customer when conducting a transaction (nervous, rushed, unconfident, etc.).
- 2) Unusual curiosity about internal system, control and reporting.
- 3) Customer/prospective customer gives false information with respect to his/her identity, sources of income or businesses.
- 4) Customer/prospective customer uses identification document, that is unreliable or alleged as fake such as different signature or photo.
- 5) Customer/prospective customer is unwilling or refusing to provide information/documents requested by the officials of the relevant reporting entity without any clear reasons.
- 6) Customer or his/her legal representative tries to persuade the officials of the relevant reporting entity in one way or another not to report his/her transaction as a Suspicious Financial Transaction.
- 7) Customer opens account for a short period.
- 8) Customer is unwilling to provide right information or immediately terminating business relationship or closing his/her account at the time the officials of the relevant reporting entity request information with respect to his/her transaction.
- 9) If anyone, for no apparent reason, often comes for transaction at pick hour or only in crowd.
- 10) If anyone tries to maintain close relation unnecessarily or unnaturally with the employees.
- 11) If anyone automatically unnecessarily clarifies or tries to clarify legality of amount or transaction.

12) If customer-conducting transaction looks confused, nervous, hurried, or wants to remain reserved at the time of transaction.

5. *Miscellaneous grounds for suspicion*

- 1) If it is evident that any one is earning wealth (including cash) by evading tax, custom duty, land revenue, electricity bill, and water bill, phone bill and any other revenue or government fees.
- 2) If anyone lives unusual lifestyle compared to his/her economic strength, profession/business.
- 3) If unreasonable economic growth or economic strength is evident.
- 4) If no information about the source of income is disclosed or stated or information about the source of income is not satisfactory.
- 5) If any act or transaction is not found reasonable or is found to have been conducted with irrelevant party or where the transaction has no justifiable purpose.
- 6) If it is evident that repeated transactions below threshold amount fixed by the FIU for reporting purpose take place.
- 7) If any transaction is related to any person being investigated against or wanted by Police, CIAA, Tax, Revenue Investigation or any other crime investigating agencies in relation to any crime.
- 8) If reporting institution suspects any transaction relating to the customer against whom the regulatory authorities including Nepal Rastra Bank, Insurance Board, Securities Board, Stock Exchange, Company Registrar, Registrar of Cooperative, Bar Council, Institute of Chartered Accountant of Nepal, etc., have initiated proceedings.
- 9) If there is suspicion on the transaction due to the fact that the customer is blacklisted by Credit Information Bureau or the reporting institution itself has placed the concerned customer in a high-risk customer category.
- 10) The transaction of the customer, where it is known or is evident that any investigation or proceeding has been or is being taken by competent law enforcement or regulatory institution of foreign state.

- 11) If it is evident that the asset is earned from any offence against or abuse of children, women or destitute or any other individual.
- 12) If it is evident that the asset is earned from extortion, coercive donation collection or from any forcible means to compel one to pay amount or asset.
- 13) If it is evident that the asset is earned from offence of smuggling, illegal profession, trade and business, theft, bribery, robbery, piracy, illegal production, misuse or illegal transportation of goods.
- 14) If it is evident that the asset is earned from the offence relating to arms and ammunition under the prevailing law.
- 15) If it is evident that the asset is earned from the offences under the prevailing foreign exchange regulation laws.
- 16) If it is evident that the asset is earned from the offence of murder, theft, fraud, forgery of documents, counterfeiting, trafficking of human beings, abduction and hostage taking under the relevant prevailing laws.
- 17) If it is evident that the asset is earned from the offences under the prevailing narcotics control laws.
- 18) If it is evident that the asset is earned from the offences under the prevailing national park and wildlife conservation laws
- 19) If it is evident that the asset is earned from the offences under the prevailing human trafficking and transportation control laws.
- 20) If it is evident that the asset is earned from the offences under the prevailing cooperatives laws.
- 21) If it is evident that the asset is earned from the offences under the prevailing forestry laws.
- 22) If it is evident that the asset is earned from the offences under the prevailing corruption control laws.
- 23) If it is evident that the asset is earned from the offences under the prevailing bank and financial institution laws.
- 24) If it is evident that the asset is earned from the offences under the prevailing banking offense and punishment laws.

- 25) If it is evident that the asset is earned from the offences under the prevailing ancient monuments conservation laws.
- 26) If it is evident that the asset is earned from the offences under the prevailing consumer protection, black market control and competition laws.
- 27) If it is evident that the asset is earned from the offences under the prevailing company, commerce, supply, transport business laws.
- 28) If it is evident that the asset is earned from the offences under the prevailing education, health, drugs, and environment laws.
- 29) If it is evident that the asset is earned from the offences under the prevailing foreign employment laws.
- 30) If it is evident that the asset is earned from the offences under the prevailing lottery, gambling and charity laws.
- 31) If it is evident that the asset is earned from the offences under the prevailing insider trading, fake transaction, securities and insurance laws.
- 32) If it is evident that the asset is earned from the offences under the prevailing negotiable instrument laws.
- 33) If it is evident that the asset is earned from the offences under the prevailing election laws.
- 34) If it is evident that the asset is earned from the offences under the prevailing intellectual and industrial property laws.
- 35) If it is evident that the asset is earned from the offences under the prevailing communication, transmission, and advertisement laws.
- 36) If it is evident that the asset is earned from the offences under the prevailing land, house and property laws.
- 37) If it is found that the asset is earned by the offences under the prevailing immigration, citizenship and passport laws.
- 38) If it is found that the asset is earned by the offences under the prevailing non-governmental organization laws.
- 39) Transaction of individual or organization declared to be involved in terrorist or criminal activities by the Government of Nepal or individual or organization listed as terrorist or criminal by United Nation through various resolution or

transaction of those directly or indirectly assisting terrorism, terrorist activities, terrorist organization, organized crime, drug offences and any other offences.

- 40) If transaction seems to be reported based on the news or commentary published in national or international news media about any individual or organization.
- 41) If it is evident that the transaction is related to any person who is involved in suspicious transaction, likely to promote money laundering, terrorist or any other criminal activities or the transaction that appears to be unnatural or suspicious in any manner.
- 42) If same address or telephone number/mobile number is provided for different unrelated customers.
- 43) If such transaction comes under suspicion on the basis of the ground provided by regulator or concerned authority
- 44) If it is found suspicious on the basis of any other reason or assisting or advising above mentioned activities.
- 45) If any customer shows unnecessary interest in suspicious transaction or makes unnecessary and unnatural queries about the internal management of such transaction.
- 46) If there is cross transaction between customers who are not related with each other or any individual transmits or receives amount from unrelated person or business institution's account.
- 47) If unnaturally huge amount is transferred to the name or account of any foreign citizen, tourist, student, visitor, worker or a person recently migrated to Nepal from the country or region where terrorist organizations operate
- 48) If there is suspicion that any transaction is aiding criminal activities or receiving amount from such activities.
- 49) If cash is handled unnatural binding or packaging during transaction.
- 50) If with no apparent reason there are multiple transactions with the people living in the country where AML/CFT regime is poor.
- 51) If unrelated third party is unnaturally, unnecessarily involved or is more active in transaction.
- 52) If anyone tries to complete transaction by paying more without any reason.

- 53) If person sending money cannot provide even general information about the recipient of money.
 - 54) If there is unnatural inflow or outflow in the name of the firm, company, organization or person involved in such organizations which are not regulated or where no system of economic inspection is developed.
 - 55) If there is repeated transfer of money to and from the name of foreign individual or the individual living outside Nepal.
 - 56) If anyone transfers or receives amount differently from the way of his professional objective or transfers or receives from different place.
 - 57) If there are multiple claims for the amount received from one person.
 - 58) If anyone repeatedly receives multiple amount from different places.
 - 59) If anyone uses different channels to transfer the amount ignoring the usual way.
 - 60) If anyone denies providing identity of the transferor though there are sufficient grounds for him to know such identity.
 - 61) If anyone attempts to transfer or receive amount in a suspicious manner.
 - 62) If a small capital holder tries to transfer or receive unreasonably huge amount.
6. Any other transaction the reporting institution finds the grounds for suspicious transaction reporting as per the prevailing law.