



Asia/Pacific Group
on Money Laundering

**Asia/Pacific Group on Money Laundering
APG**

Nepal

Mutual Evaluation

**ANTI-MONEY LAUNDERING AND COMBATING THE
FINANCING OF TERRORISM**

Executive Summary

As adopted by APG members

13 July 2005

TABLE OF CONTENTS

Executive Summary	3
Table 1 - Ratings of Compliance with FATF Recommendations	10
Table 2: Recommended Action Plan to Improve the AML/CFT System	18
Table 3: Authorities' Response to the Evaluation	29
List of abbreviations	30

Nepal

APG Mutual Evaluation Report

Executive Summary

Introduction

1. This Executive Summary is for the Nepal APG Mutual Evaluation Report which was prepared to assess Nepal's compliance with the anti-money laundering / combating the financing of terrorism (AML/CFT) international standards as set out in the *FATF 40 Recommendations for Anti-Money Laundering and 9 Special Recommendations Combating the Financing of Terrorism*. The Executive Summary was prepared by representatives of member jurisdictions of the Asia/Pacific Group on Money Laundering provides a summary of the AML/CFT measures in place in Nepal at the time of the APG onsite visit to Nepal in February 2005, the level of compliance with the FATF 40+9 Recommendations, and contains recommendations on how Nepal's AML/CFT system could be strengthened. The views expressed in this document have been agreed by the APG and Nepal.

Background

2. This report provides a summary of the AML/CFT measures in place in Nepal as at the date of the on-site visit or immediately thereafter (February 2005). It describes and analyses those measures, and provides recommendations on how certain aspects of the system could be strengthened (see Table 1).

3. Nepal is committed to passing and implementing comprehensive AML/CFT legislation as a matter of priority and authorities are currently focused on drafting the AML/CFT law in preparation for it being passed by way of Royal Ordinance.

4. Nepal has not undertaken a comprehensive threat assessment of money laundering or terrorist financing, although there is clear evidence available that it is subject to a range of very serious money laundering risks and vulnerabilities. Narcotics-trafficking, corruption, smuggling, tax evasion, fraud and human trafficking generate significant criminal proceeds. Environmental factors which increase Nepal's ML and FT vulnerabilities include under-developed AML/CFT measures in all sectors, a large-scale cash economy, large informal sector, an extremely porous border with India, the presence of unregulated casinos and the ongoing Maoist insurgency leading to the breakdown of the rule of law across Maoist-controlled areas (a majority of provinces in the country).

5. Nepal lacks specific AML/CFT legislation and regulation and has few AML/CFT prevention or detection measures in place in either the formal or informal sectors.

6. The ongoing Maoist insurgency is considered to constitute terrorist actions under Nepali law. Financing for Maoist groups and activities occurs through extortion and seizure of assets (especially bank assets) and through taxes on residents in occupied districts. Material support is also provided by Maoist groups based in India as well as financial support from groups based in Belgium and Germany. There are indications of

links between Maoist groups and hashish exports, particularly across the border into India.

7. Nepal is amongst the world's poorest and least developed countries but has a relatively diversified financial system considering its economic size. Nepal has been pursuing far reaching financial sector reforms since 2001. Supervision of the financial sector is divided between three main agencies, the Nepal Rastra Bank (NRB), the Securities Board (SEBO) and the Nepal Insurance Board (IB).

8. Designated non-financial business and professions (DNFBP) operating in Nepal include casinos, real estate agents, dealers in precious metals and stones, lawyers, notaries and accountants. There are no bodies responsible for AML/CFT oversight of DNFBPs.

9. The most common form of legal person in Nepal is a private or public limited company established under prevailing company law. Articles of association are submitted to the Company Registrar's office. Single or partnership firms may be created under Firm Registration Act and Partnership Act with unlimited liability. Cooperative Societies may be created under the Co-operative Act. Non-profit organisations (NPOs) may be created under Societies Registration Act and operate under other relevant laws according to their objectives (eg micro-finance institutions under Financial Intermediary Act by obtaining a license from the NRB).

10. Legal persons other than companies need to be registered under the relevant Government authorities by submitting their operating documents and bylaws. Legal persons registered in Nepal generally may not operate and transact outside of the country. There are no legal trusts in Nepal.

Legal Systems and Related Institutional Measures

11. Nepal is in the process of drafting AML/CFT legislation which is intended to criminalise money laundering on the basis of the Vienna and Palermo Conventions.

12. There are no current provisions that specifically criminalise money laundering although the Narcotics Control Act (NCA), the Leakage of Revenue (Investigation and Control) Act and the Terrorism and Destructive (Control and Punishment) Acts (TDA) Act provide for the confiscation and seizure of certain limited types of criminal proceeds or instrumentalities.

13. Nepal has not criminalised terrorist financing in terms of the Terrorist Financing Convention. Limited aspects of terrorist financing are criminalised through a provision of the Terrorist and Disruptive Act 2001 ("TDA") which only criminalises the financing of terrorism when undertaken through forcible means or through looting. Furthermore, unless the terrorist act happens in Nepal or is directed at a Nepalese target, the act is not considered terrorism under the TDA.

14. In the absence of consolidated AML/CFT legislation, powers to confiscate, freeze and seize the proceeds of crime are limited. The Narcotics Control Act provides the most comprehensive confiscation regime. The Traffic in Human Beings (Control) Act 1986, the TDA and the Leakage of Revenue Act also provide limited confiscation powers. These confiscation regimes do not apply to the indirect proceeds of crime and significant problems exist with the actual freezing and ultimate confiscation of proceeds.

15. The TDA provides authorities with powers to freeze accounts suspected of engaging in terrorist or destructive acts. The TDA provides for confiscation of property and equipment used in the commission of terrorist acts.

16. There is no legal authority or process to freeze terrorist funds or other assets of persons or organisations designated by United Nations Security Resolutions (UNSCRs) 1267 or 1373. Nepal has no laws or procedures to extend any freeze of terrorist assets to those wholly or jointly owned or controlled, directly or indirectly, by designated persons nor does it appear to have a legal basis to compel banks or other financial institutions to freeze assets.

17. Nepal has not established a Financial Intelligence Unit (FIU). However, the draft AML/CFT Ordinance provides for the creation of an FIU for the 'collection, process, analysis and exchange of required financial data and information and to provide information to the Department'.

18. There are no law enforcement agencies that are specifically dedicated to investigation of ML and FT offences and there is little experience across law enforcement and prosecution agencies on AML/CFT matters. There are legislative provisions dealing with predicate offences that provide powers to law enforcement agencies to seize, confiscate and forfeit the proceeds of specific predicate crimes, but none that deal specifically with ML or FT. There are no centrally maintained statistics kept on money laundering investigations, prosecutions, convictions, attachments and confiscations. The draft AML/CFT Ordinance, when passed and implemented, will address these problems to some extent.

Preventive Measures – Financial Institutions

19. There are a range of sources of proceeds of crime in Nepal and these present very significant money laundering and terrorist financing risks. There are currently no laws or regulations in Nepal which require compliance with the FATF Recommendations. Nepal's formal financial sector is at risk from money laundering, with high risks noted in the large informal sector. The alternative remittance system 'Hundi', while illegal, is widely used and currency smuggling is the most common form of money laundering in Nepal, which reflects the high risks from Nepal's extensive porous border with India.

20. Powers are available under the under the NRB Act to issue CDD and record keeping regulations, but these have not been promulgated. There are no current legal obligations specifying CDD requirements for financial institutions, exchange houses or money remitters. Although financial institutions customarily identify customers when opening accounts, making deposits or undertaking remittance, no detailed inquiries on personal information of customers are made. There are no existing requirements for enhanced CDD requirements with respect to PEPs and there are no CDD requirements with respect to correspondent banking or other similar businesses relationships. No intermediaries or third parties operate in Nepal in order to perform elements of the CDD process or introduce business on behalf of financial institutions.

21. Financial institution secrecy laws do not appear to inhibit the disclosure to and sharing of requisite information with the competent authorities, although compliance procedures remain unclear in the absence of specific AML/CFT requirements and implementing rules.

22. There are no laws or regulations requiring record keeping related to all transactions or customer information. There are other laws requiring financial institutions, stock brokers and insurance companies to maintain limited records. There is a clear need for specific AML/CFT measures to establish consistent record keeping requirements for all financial transactions and customer information across the financial sector, not limited to transactions exceeding a certain set amount.

23. There are no laws or regulations requiring financial institutions to pay special attention to unusual or suspicious transactions, to identify high risk accounts or to keep relevant records and findings or to report suspicious transactions to competent authorities.

24. The BFI Ordinance does, however, require financial institution to report to the NRB or to any other agency “connected with the task of controlling deflection of currency” any transaction of funds it learns or suspects are earned by illegal means. Implementation of this provision is very weak, although some corruption related STRs are being reported to the CIAA.

25. There are no laws or regulations requiring financial institutions to develop internal procedures or policies on AML/CFT, to appoint compliance officers or to ensure high standards when hiring employees.

26. While shell banks are legally banned in Nepal, there are no regulations that ban financial institutions in Nepal from maintaining correspondent banking relationships with shell banks. However all financial institutions require the NRB's permission for opening correspondent banking relationship with foreign banks.

27. In the absence of an AML/CFT law, there are no laws or regulations which apply criminal, civil or administrative sanctions to deal with persons or organisations that have failed to comply with national AML/CFT requirements.

28. Supervisory capacities are limited across Nepal's financial sector. The NRB is responsible for the prudential supervision and monitoring of financial institutions, although its supervisory capacity is limited and lacks specific AML/CFT supervisory criteria. SEBO lacks autonomy, enforcement powers and capacities to effectively supervise the securities sector. SEBO has not yet subscribed to the core supervisory principles of the International Organisation of Securities Commissions (IOSCO). The Nepal Insurance Board Supervisory function is relatively substantive compared to other financial sector regulators in Nepal, conducting annual on-site and off-site inspection of insurance companies. The Nepal Insurance Board follows the core supervisory principles of the International Association of Insurance Supervisors.

29. While there are “fit and proper” requirements for management of financial institutions, overall standards do not fully meet the requirements set out by the FATF Recommendations. There are no regulatory measures requiring the evaluation of principal shareholders and beneficial owners to prevent criminals from holding a significant or controlling interest in a financial institution.

30. Guidelines have not been issued by any competent authorities to assist regulated institutions and DNFBPs to implement and comply with AML/CFT requirements.

31. Nepal has not undertaken a comprehensive overview of its AML/CFT systems and in many cases supervisory staff are, unaware of the full scope of money laundering and terrorist financing risks facing Nepal. NRB's inspections of banks are conducted annually, however, no inspection criteria exist for AML/CFT compliance. SEBO has limited authority and weak capacity to supervise and inspect securities companies, with fundamentally limited powers of enforcement under current legislation. The Nepal Insurance Board conducts regular on-site and off-site inspection and has relatively strong capacity, but has not yet included AML/CFT compliance in its supervisory remit.

32. Nepal has a significant population of overseas workers remitting money to Nepal and demand is high for value transfer services. The NRB has licensed banks and 24 money transfer companies to operate remittance business in Nepal. Due to their relatively low costs and speed, the use of money transfer companies for inward remittance is relatively widespread when compared with banks. However, due to cultural factors, cost, speed and reliability (especially given the very poor security situation in much of the country) the use of the illegal Hundi system appears to be widespread.

33. There is no effective program to enforce laws that make Hundi illegal in Nepal. Enforcement actions for illegal remittance or illegal foreign exchange transactions are undertaken by the Revenue Investigation Department (RID) on referral from the NRB. However, the RID has very significant resource constraints and is seriously overloaded with cases. Neither the NRB nor the RID has undertaken proactive investigation against Hundi operators.

Preventive Measures – Designated Non-Financial Businesses and Professions

34. Overall, there are currently no existing AML/CFT obligations on DNFBPs operating in Nepal. The proposed draft AML Ordinance does not directly apply to DNFBPs, although it does state that "financial institutions and other entities" are to be subject to AML requirements, leaving open the possibility of imposing AML obligations on DNFBPs.

35. DNFBPs have not received explicit guidance on AML/CFT requirements or implementation or compliance. There are no CDD requirements on DNFBPs, nor are there any obligations to maintain records of customer identification or transaction data beyond those related to taxation. The online and land-based casinos operating in Nepal are not subject to AML/CFT regulation or oversight, except in terms of foreign exchange restrictions.

36. There are no obligations for DNFBPs, including casinos, to pay special attention to unusually large or complex transactions, nor to furnish such records to a competent authority. Similarly there are no obligations for DNFBPs to report to the FIU or any competent authority a suspicious transaction report.

Legal Persons and Arrangements & Non-Profit Organisations

37. Legal persons in Nepal are generally governed by the Company Act of 1997 and there are no restrictions in that Act that would inhibit investigators from lawfully obtaining necessary information in the course of a ML or TF investigation.

38. Legal arrangements such as trusts, does not exist under the laws of Nepal.

39. In relation to non-profit organisations (NPOs), the Social Welfare Council (SWC) indicates that 1,241 international NGOs (INGOs) and 17,000 local NGOs are registered and operating in Nepal. SWC estimates an additional 15,000 local NGOs operate in Nepal without being registered. At present while all international NGOs must register with the SWC, the Ministry of Home is the competent registration authority for domestic NGOs.

40. The SWC serves to co-ordinate the NPO sector in Nepal and conducts regular monitoring, supervision and evaluation of NGOs as well as information sharing and consultation with other countries regarding assistance. As part of its supervision function, the SWC consults with other government agencies regarding the funding sources of NGOs. NGOs are obliged to report annually on their operations and budget to the SWC. INGOs are obliged to channel their funds through a bank account and must undergo independent audit.

41. The SWC has formed a committee to consider AML/CFT risks in the NPO sector in Nepal and to consider necessary measures to be implemented in relation to CFT in particular.

42. The SWC has 166 staff, of whom 45 are professionals assigned for field level supervision. If the reportedly 15,000 unregistered NGOs are also brought under the supervision of the SWC, then this manpower would be insufficient.

National and International Co-operation

43. There are mechanisms established in Nepal to coordinate the development and implementation of AML/CFT policies and activities. A policy working group has been formed under the Ministry of Finance to develop and draft the AML/CFT legislation and to plan for its implementation.

44. There is no operational-level coordination mechanism for AML/CFT in Nepal. Operational coordination between enforcement and regulatory agencies is relatively weak, reflecting poor capacity across many enforcement agencies. Limited inter-agency cooperation occurs in the investigation and prosecution of the proceeds of crime and money laundering.

45. An interagency policy committee has been established under the Ministry of Foreign Affairs to consider Nepal's obligations under the UN Conventions and UNSCR resolutions and to consider becoming signatories to additional conventions.

46. Nepal has signed and ratified the Vienna Convention and the Palermo Convention. Nepal has yet to sign or ratify the United Nations Terrorism Convention. Nepal has not yet criminalised the offence of money laundering or terrorist financing. The majority of key elements of the Vienna Convention are codified through the Narcotics (Control) Act 1976, but many of these elements are poorly implemented. The Palermo Convention and the Terrorist Financing Convention are not codified in domestic law and largely remain unimplemented.

47. Nepal has yet to implement any of the relevant UNSCRs and the authorities do not distribute the 1267 lists to financial institutions.

48. Nepal is a signatory to the 2003 UN Convention on Corruption.

49. Nepal is committed to cooperating with its international counterparts, however there are currently few laws and very few established procedures that actively support mutual legal assistance in Nepal. There is no legislation providing for authorities to take action pursuant to a mutual legal request to seize and produce information and evidence requested by foreign counterparts, take evidence or statements from persons in Nepal, provide documentary evidence, serve judicial documents or identify and freeze assets. Likewise, there is no authority or procedures by which Nepal authorities may make mutual legal assistance requests to their foreign counterparts.

50. The Nepal Extradition Act 1988 controls extradition in Nepal and only provides for extradition of persons to countries with which it has an extradition treaty. Nepal only has an extradition treaty with India. Extradition can only occur for a crime specifically listed in the treaty and neither money laundering nor the financing of terrorism is an extraditable offence under the current treaty.

51. Nepal does not maintain records regarding extradition requests and in what percentage of cases they are granted and no statistics were provided to the APG Team regarding persons extradited under this Act.

52. There are limited legal gateways allowing for regulatory co-operation with foreign counterparts of NRB, SEBO or the Insurance Board. The NRB is able to cooperate with foreign counterparts in relation to bank supervision, however, NRB was unable to provide any examples or statistics of such international cooperation. Under Section 14 of the draft AML/CFT Ordinance the FIU will be authorised to share information with FIUs and other competent authorities in other countries.

TABLES

Table 1: Ratings of Compliance with FATF Recommendations

Table 2: Recommended Action Plan to improve the AML/CFT system

Table 3: Authorities' Response to the Evaluation (if necessary)

Table 1 - Ratings of Compliance with FATF Recommendations

The rating of compliance vis-à-vis the FATF Recommendations are made according to the four levels of compliance mentioned in the 2004 Methodology (Compliant, Largely Compliant, Partially Compliant, Non-Compliant (NC)), or, in exceptional cases, not applicable (na).

Forty Recommendations	Rating	Summary of factors underlying rating
Legal systems		
1. ML offence	Non-compliant	Nepal has not criminalised money laundering
2. ML offence – mental element and corporate liability	Non-compliant	Nepal has not criminalised money laundering
3. Confiscation and provisional measures	Partially compliant	There are only very limited powers for confiscation of property that has been laundered, and then only specifically in relation to narcotics, tax and revenue evasion, corruption and arms trafficking, while other serious offences are not covered. Effective implementation by enforcement agencies is lacking.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	Largely compliant	Financial institution secrecy laws do not appear to inhibit the disclosure to and sharing of requisite information with the competent authorities, although compliance procedures remain unclear.
5. Customer due diligence	Non-compliant	No anonymous or fictitious accounts are permitted. There are no legal requirements or guidelines specifically outlining CDD or KYC obligations on financial institutions in line with the international standards. Nepali-based joint venture banks which include a UK partner do conduct CDD as required by

		<p>home jurisdiction.</p> <p>Financial institutions are not required to perform enhanced due diligence for higher risk categories of customer, business relationship or transactions.</p>
6. Politically exposed persons	Non-compliant	There are no legal obligations or guidelines on applying enhanced due diligence on accounts linked to politically exposed persons
7. Correspondent banking	Non-compliant	There are no legal obligations or guidelines on CDD requirements regarding correspondent banking or other similar businesses relationships.
8. New technologies & non face-to-face business	Non-compliant	While internet banking services are currently very limited in Nepal, no relevant regulations or policies on risk management for non face-to-face transaction exist.
9. Third parties and introducers	Not-applicable	Not applicable in Nepal
10. Record keeping	Non-compliant	<p>There are no laws or regulations on record keeping requirements of all transactions or customer information.</p> <p>There are some provisions in other laws, requiring financial institutions to keep certain records. However, these records are not of information directly relevant to ML.</p> <p>Customarily, it has been up to each financial institution to keep records, and record keeping rules are not indicated in any guidelines.</p>
11. Unusual transactions	Non-compliant	There is no law, regulation or guideline in place requiring financial institutions to give special attention to unusual transactions that are of no apparent economic or visible lawful purpose, or to keep relevant records and findings so that it could be made available to assist competent authorities.
12. DNFBP – R.5, 6, 8-11	Non-compliant	<p>No laws or regulations requiring CDD or record-keeping by DNFBPs.</p> <p>No STR requirements imposed on unusual transactions or transactions with no apparent economic or visible lawful purpose.</p>
13. Suspicious transaction reporting	Non-compliant	No laws or regulations directly impose mandatory obligations on financial institutions or DNFBP to report suspicious transactions to competent authorities.
14. Protection & no	Non-	There are no provisions related to “safe

tipping-off	compliant	harbour” and “tipping-off” for financial institutions and DNFBPs providing STRs.
15. Internal controls, compliance & audit	Non-compliant	No regulations or guidelines require financial institutions to develop internal procedures or policies on AML/CFT. Financial institutions are not required to appoint compliance officers to ensure compliance with AML/CFT requirements. Financial institutions are not required to train employees in relation to AML/CFT.
16. DNFBP – R.13-15 & 21	Non-compliant	No regulations imposing obligations to pay special attention when conducting transactions or initiating business relationships with persons from, or in a country that is insufficiently complying with the FATF recommendations. No regulations or guidelines requiring DNFBPs to develop AML/CFT internal procedures or policies.
17. Sanctions	Non-compliant	No laws or regulations providing for criminal, civil, or administrative sanctions to deal with persons that failed to comply with national AML/CFT requirements. No effective, proportionate and dissuasive sanctions are available to deal with DNFBPs that fail to comply with AML/CFT requirements.
18. Shell banks	Largely Compliant	The establishment and operation of shell banks is legally banned in Nepal. However, there are no laws, regulations or guidelines that specifically ban financial institutions in Nepal from entering into, or maintaining correspondent banking relationships with shell banks.
19. Other forms of reporting	Non-compliant	There is a requirement to report the physical cross-border transportation of currency. Only cash, and not other monetary instruments, is subject to reporting and implementation of these requirements is lacking. No reporting system exists that requires financial institutions to report all currency transactions, including both domestic and international.
20. Other NFBP & secure transaction techniques	Non-compliant	Nepali authorities have not yet considered applying FATF Recommendations beyond the formal financial sector. Nepali authorities have not considered developing modern and secure techniques for money management that specifically address

		the risks of money laundering.
21. Special attention for higher risk countries	Non-compliant	There is no law, regulation or guideline in place requiring financial institutions to pay special attention when conducting transactions with, or initiating business relationships with customers in, or from a jurisdiction that does not, or insufficiently applies FATF recommendations.
22. Foreign branches & subsidiaries	Non-applicable	No foreign branches of domestic banks are allowed to operate in Nepal at this time.
23. Regulation, supervision and monitoring	Non-compliant	<p>Since an AML/CFT law is not yet enacted, a “designated authority” in charge of ensuring financial institutions’ implementation and compliance of AML/CFT requirements does not exist.</p> <p>Despite the independent legal framework, the supervisory capacity of the NRB is still weak due to the lack of supervisory tools, and established know-how.</p> <p>There are no regulatory measures that require the evaluation or checking of principal shareholders, beneficial owners, and senior management on the basis of “fit and proper” criteria to prevent criminals from holding a significant or controlling interest and holding a management function in a financial institution</p>
24. DNFBP – regulation, supervision and monitoring	Non-compliant	Casinos and other categories of DNFBPs are not subject to a comprehensive regulatory and supervisory regime that ensures that they have effectively implemented the necessary AML/CFT measures.
25. Guidelines & Feedback	Non-compliant	<p>No guidelines have been issued to assist financial institutions and DNFBPs, including casinos, on AML/CFT, especially on STR reporting.</p> <p>There are no guidelines to assist DNFBPs in applying national AML/CFT measures.</p>
Institutional and other measures		
26. The FIU	Non-compliant	There is no basis to assess the effectiveness of the FIU as it is not operational.
27. Law enforcement authorities	Non-compliant	Designated law enforcement for AML/CFT investigations are yet to be established.
28. Powers of competent authorities	Largely compliant	Law enforcement authorities have the necessary powers to conduct investigations and prosecutions, although there is no specific

		AML/CFT legislation or stand alone ML offence.
29. Supervisors	Partially compliant	<p>The BFI provides powers to monitor and supervise financial institutions.</p> <p>The NRB has the authority with regards to supervision and examination of banks and other financial institutions (micro-financing). Inspection of banks is conducted annually by the NRB, however due to a significant lack of capacity, on-site inspection of other financial institutions (micro-finance institutions etc) is not taking place.</p> <p>The Securities Board can conduct supervision and inspection on the function of securities companies. Yet, due to inadequate powers and a lack of expertise and capacity, ongoing inspection and supervision is not carried out effectively.</p> <p>The Insurance Board conducts on-site and off-site inspection every year and has substantial supervisory functions and powers.</p>
30. Resources, integrity and training	Partially compliant	<p>See R.29 above for comments</p> <p>It is unclear whether the proposed FIU will be an independent unit with reasonable resources as it is yet to be established and there is no basis to assess its operational independence and autonomy as well as its functional effectiveness in various aspects.</p> <p>There is no FIU or comparable agency established, and other law enforcement agencies lack clarity in relation to their areas of operation and suffer from under resourcing.</p> <p>There has been no training in specific AML/CFT issues</p>
31. National co-operation	Partially Compliant	<p>There is no national coordination of AML/CFT operations in Nepal</p> <p>Limited inter-agency cooperation occurs in the investigation and prosecution of the proceeds of crime and money laundering.</p> <p>Mechanisms are established in Nepal to pursue the development and implementation of policies and activities to combat ML and FT, however, not all relevant competent authorities have been included in the process.</p>
32. Statistics	Non-	Regular reviews of effectiveness of AML/CFT

	compliant	<p>systems are not undertaken.</p> <p>There is a lack of awareness of money laundering risks and a lack of comprehensive statistics on matters relevant to the effectiveness and efficiency of systems for combating money laundering and terrorist financing.</p> <p>There is no basis to assess the efficacy of the FIU as it is yet to commence operations and therefore there are no statistics on cash and suspicious transaction reports.</p> <p>There are no centrally maintained statistics kept on AML/CFT investigations, prosecutions, convictions, attachments and confiscations.</p> <p>Nepal does not maintain comprehensive statistics on matters relating to Mutual legal assistance or other international requests for co-operation</p> <p>Nepal does not maintain comprehensive statistics on matters relating to extradition</p>
33. Legal persons – beneficial owners	Largely compliant	Commercial & corporate laws do require transparency and control of legal persons. Competent authorities do have powers to access adequate information on beneficial ownership and control. The issue is one of how often such measures are used.
34. Legal arrangements – beneficial owners	Not applicable	No express trusts
International Co-operation		
35. Conventions	Partially compliant	<p>Nepal has implemented aspects of the Vienna Convention, but effectiveness remains an issue.</p> <p>Nepal has not fully implemented the Palermo convention.</p> <p>Nepal has not signed or implemented the Terrorist Financing Convention.</p>
36. Mutual legal assistance (MLA)	Non-compliant	<p>Nepal does not have legal arrangements to support the widest possible range of mutual legal assistance in AML/CFT investigations, prosecutions and related proceedings.</p> <p>There is an absence of clear processes for the execution of mutual legal assistance requests in a timely way and without undue delays.</p>
37. Dual criminality	Non-	Nepal only maintains an extradition treaty with

	compliant	India and has not policies for mutual legal assistance. Nepal does not have legal arrangements to support the widest possible range of mutual legal assistance in AML/CFT investigations, prosecutions and related proceedings.
38. MLA on confiscation and freezing	Non-compliant	There should be appropriate laws and procedures to provide an effective and timely response to mutual legal assistance requests by foreign countries related to the identification, freezing, seizure, or confiscation of:
39. Extradition	Non-compliant	Money laundering is not an offence for the purposes of extradition in Nepal
40. Other forms of co-operation	Non-compliant	Nepal competent authorities are unable to provide the widest range of international cooperation to their foreign counterparts
Eight Special Recommendations	Rating	Summary of factors underlying rating
SR.I Implement UN instruments	Non-compliant	Nepal has not fully implemented the Terrorist Financing Convention Nepal has not fully implemented UNSCRs 1267 and 1373
SR.II Criminalise terrorist financing	Non-compliant	Nepal has not criminalized the financing of terrorism consistent with Article 2 of the Terrorist Financing Convention. Terrorist financing is criminalised in a very limited way if such financing is done through forcible means or through looting.
SR.III Freeze and confiscate terrorist assets	Non-compliant	There are very limited powers in the TDA, which only criminalises violent financing of terrorism taking place within Nepal. Effective implementation is lacking
SR.IV Suspicious transaction reporting	Non-compliant	No laws or regulations imposing suspicious transaction reporting obligations to financial institutions, when the transaction is suspected of being connected with terrorist financing.
SR.V International co-operation	Non-compliant	Nepal does not have legal arrangements to support the widest possible range of mutual legal assistance in CFT investigations, prosecutions and related proceedings. There is an absence of clear processes for the execution of mutual legal assistance requests

		in a timely way and without undue delays in CFT matters.
SR VI AML requirements for money/value transfer services	Partially compliant	Money transfer companies are licensed and supervised by NRB. However, the extent of the regulations on those companies does not ensure that they are subject to the applicable FATF Recommendations. Money transfer companies pose a risk used as a means of money laundering.
SR VII Wire transfer rules	Partially-compliant	Due to the stringent regulation on financial exchange transactions, financial institutions have to attain and keep the originator information of wire transfers. It is unclear as to whether detailed examination is required regarding suspicious fund transfers without complete originator information. There are no laws or regulations indicating a set time period for money transfer companies to keep customer and transaction records.
SR.VIII Non-profit organisations	Partially compliant	NGOs need to register at the Social Welfare Council and be approved. They also need to register at the Ministry of Home Affairs. Especially, INGOs must get the approval in advance before launching any project in Nepal. INGO operating funds are required to be channelled through a bank account and must be declared. Verified upon registration. Yearly audit conducted by independent audit accountant. Supervisory capacity is, however, limited and there are an estimated 15,000 local NGOs operating in Nepal without being registered or supervised by SWC.

Table 2: Recommended Action Plan to Improve the AML/CFT System

AML/CFT System	Recommended Action (listed in order of priority)
1. General	
2. Legal System and Related Institutional Measures	
Criminalisation of Money Laundering (R.1 & 2)	<p>Nepal should revise the draft AML/CFT Ordinance to meet the revised FATF 40 Recommendations and Nine Special Recommendations and pass such a stand-alone Ordinance as soon as possible.</p> <p>Nepal should update key elements of the draft AML/CFT law in keeping with the broad recommendations at 2.1.2.</p>
Criminalisation of Terrorist Financing (SR.II)	<p>Nepal should immediately sign and ratify the Terrorist Financing Convention.</p> <p>Nepal should criminalize terrorist financing as part of the AML/CFT Ordinance and make terrorist financing a predicate offence for money laundering.</p> <p>Nepal should revise the TDA to expand the definition of terrorism to one consistent with the Terrorist Financing Convention.</p> <p>Nepal should consider adopting a criminal and civil forfeiture regime for terrorist financing in addition to effective, proportionate and dissuasive criminal and civil sanctions for the underlying offence.</p>
Confiscation, freezing and seizing of proceeds of crime (R.3)	<p>Nepal should establish an effective confiscation regime as part of the AML/CFT Ordinance.</p> <p>Nepal should consider passing a civil forfeiture law either as a standalone piece of legislation or as part of the AML ordinance.</p> <p>Nepal should update key elements of the draft AML/CFT law relating to freezing and confiscation in keeping with the broad recommendations at 2.3.2.</p>
Freezing of funds used for terrorist financing (SR.III)	<p>Nepal should take immediate steps to sign and ratify the Terrorism Financing Convention.</p> <p>Nepal should establish a legislative basis to freeze and seize terrorist assets as designated by the UN SCR1267 and 1373.</p> <p>Nepal should consider enacting a Mutual Assistance Act under which it may examine and give effect to, if appropriate, freeze orders issued by foreign jurisdictions.</p>
The Financial	It is recommended that in order to ensure that Nepal's FIU is an

<p>Intelligence Unit and its functions (R.26, 30 & 32)</p>	<p>efficient and effective national information centre, the authorities should ensure that:</p> <p>The FIU serves as a national centre for receiving, analysing, and disseminating disclosures of STR and other relevant information concerning suspected ML or FT activities. The FIU can be established either as an independent governmental authority or within an existing authority or authorities.</p> <p>The FIU provides financial institutions and other reporting parties with guidance regarding the manner of reporting, including the specification of reporting forms, and the procedures that should be followed when reporting.</p> <p>The FIU has access, directly or indirectly, on a timely basis to the financial, administrative and law enforcement information that it requires to properly undertake its functions, including the analysis of STR.</p> <p>The FIU is authorised to obtain from reporting parties additional information needed to properly undertake its functions.</p> <p>The FIU is authorised to disseminate financial information to domestic authorities for investigation or action when there are grounds to suspect ML or FT.</p> <p>The FIU has sufficient operational independence and autonomy to ensure that it is free from undue influence or interference.</p> <p>The FIU is able to securely protect information held by the FIU and disseminates such information only in accordance with the law.</p> <p>The FIU has a clear administrative structure with adequate resourcing both in terms of staff and technology.</p> <p>The FIU should be expressly authorised under the legislation to obtain additional information from the reporting parties and establish mechanisms to disseminate the information to appropriate authorities for investigation, both domestically and overseas.</p> <p>The FIU provides adequate and relevant training in financial analysis and money laundering investigations to staff so that STRs effectively processed.</p> <p>The FIU applies for membership in the Egmont Group.</p> <p>The FIU works with the supervisors and regulators of the reporting institutions to prepare consistent guidelines to assist in the identification of suspicious and unusual transactions so as to reflect both domestic and international trends and typologies.</p> <p>The FIU maintains comprehensive statistics on the currency and suspicious transaction reports. Statistics should include breakdown on the type of institution making the report, breakdown of STRs analysed and disseminated, number of domestic and international requests for assistance.</p>
--	---

<p>Law enforcement, prosecution and other competent authorities (R.27, 28, 30 & 32)</p>	<p>It is recommended that the authorities:</p> <p>Ensure that there is a dedicated centralised law enforcement agency established or empowered to deal with AML/CFT investigations as referred to it by the FIU and other relevant agencies.</p> <p>Undertake training across all law enforcement agencies on AML/CFT matters.</p> <p>Provide Nepal Police, RID and other enforcement agencies with AML/CFT capacity building in the field of investigation, prosecution, combating and suppressing such crimes.</p> <p>Develop a good coordination and mutual feedback system between NRB, Nepal Police, RID and other investigation agencies in relation to use of asset freezing and seizing provisions in BFIO, 2004.</p> <p>Develop an effective intelligence and information system to support the investigation of financial crimes including ML and FT.</p> <p>Maintain a central database of statistics to enable review of the efficacy of AML/CFT provisions and an understanding of typologies.</p> <p>Coordinate training for enforcement agencies in relation to specific AML/CFT techniques.</p>
<p>3. Preventive Measures – Financial Institutions</p>	
<p>Customer due diligence, including enhanced or reduced measures (R.5 to 8)</p>	<p>Nepal should consolidate the core elements of the CDD regime within the AML/CFT Ordinance rules and extend the ambit of the rules to all financial institutions, including exchange houses and money remitters. Particular note should be taken of those elements of FATF Recommendation 5 that must be implemented by law or regulation, rather than regulatory guideline.</p> <p>Nepal should provide for detailed, sector-specific AML/CFT guidelines to be issued by all the relevant regulatory authorities, ensuring that such guidelines are consistent with the AML/CFT Ordinance rules, are cross-referenced to the rules, and impose equivalent obligations upon all institutions, while recognising relevant sectoral differences. Such guidelines should extend also to those financial institutions that are not subject to prudential supervision.</p> <p>Prior to the passage of the AML/CFT Ordinance Nepal should utilize the existing NRB Act and BFI Ordinance to immediately promulgate rules and regulations for financial institutions that will partially implement the requirements of the Vienna and Palermo Conventions and the revised FATF 40</p>

	<p>Recommendations by:</p> <ul style="list-style-type: none"> • requiring financial institutions to draft and implement “know your customer” and “customer due diligence” procedures; • requiring financial institutions to file suspicious transaction reports and currency transaction reports for all suspicious or large cash transactions; • requiring banks to verify all account holders against the United Nations 1267 list; and • effective and dissuasive sanctions for any financial institution found not to abide by the forgoing procedures.
Third parties and introduced business (R.9)	Not applicable
Financial institution secrecy or confidentiality (R.4)	<p>The draft AML/CFT Ordinance has a provision that would enable financial institutions to make information available to the Department to assist AML investigations.</p> <p>It is recommended that the prospect of using financial intelligence in investigating money laundering be clearly indicated through the implementation of the AML/CFT Ordinance.</p>
Record keeping and wire transfer rules (R.10 & SR.VII)	<p>It is recommended that authorities:</p> <ul style="list-style-type: none"> • Establish consistent record keeping requirements for all financial transactions and customer information, not limited to transactions exceeding a certain set amount. • Extend AML/CFT obligations in Nepal to include money transfer companies and exchange houses and strengthen the supervisory and regulatory environment on the money transfer companies. • Consider putting together a task force to decipher the true scale of the Hundi problem in Nepal, which includes all relevant policy, tax, enforcement, and investigative agencies. • Take steps to nurturing officially licensed fund transfer companies to build incentives to move remittance to formal channels • Conduct outreach/education campaigns to help bring illegal remitters into the formal financial structure through licensing. • Consider making legal alternative remittance systems, and encouraging licensing by those engaged in this business.
Monitoring of transactions and	NRB should issue guidelines to financial institutions requiring all financial institutions to pay special attention to unusual

relationships (R.11 & 21)	<p>transactions with no apparent economic or visible lawful purpose and to keep relevant records and findings so that they can be made available to assist competent authorities.</p> <p>NRB should issue guidelines to financial institutions requiring them to pay special attention to transactions with customers from, or in jurisdictions that insufficiently apply the FATF Recommendations.</p>
Suspicious transaction reports and other reporting (R.13-14, 19, 25 & SR.IV)	<p>Laws imposing suspicious transaction reporting obligations should be enacted, including transactions for which there are reasonable grounds to suspect that funds are linked or related to, or to be used for terrorism, terrorist acts or by terrorist organisations. All suspicious transactions, including attempted transactions, should be reported regardless of the amount of the transaction.</p> <p>The AML/CFT Ordinance should provide legal protection for financial institutions reporting suspicious transaction reports to the FIU in good faith. Financial institutions and their staff should be prohibited by law from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU.</p> <p>Nepal should consider establishing a currency transaction reporting system above a set threshold, taking into account that Nepal is a cash-based economy.</p> <p>The draft AML/CFT Ordinance should provide for a designated authority to issue guidelines to assist financial institutions and designated non-financial businesses and professions (DNFBP) on AML/CFT. Similarly, the designated authority should provide feedback to financial institutions and DNFBP on STRs provided.</p>
Internal controls, compliance, audit and foreign branches (R.15 & 22)	<p>Financial institutions should be required to put in place effective screening procedures to ensure high integrity standards when hiring employees.</p> <p>Financial institutions should be required to establish and maintain internal procedures, policies and controls to prevent ML and FT, and to communicate AML/CFT policies and procedures to their employees.</p> <p>Financial institutions should be required to maintain an adequately resourced and independent audit function to test compliance (including sample testing) with these procedures, policies and controls.</p> <p>Financial institutions should be required to establish ongoing employee training in AML/CFT, in particular elements of CDD, record keeping and suspicious transaction reporting.</p>
Shell banks (R.18)	<p>NRB should provide guidelines that prohibit financial institutions from engaging in a correspondent banking relationship with foreign shell banks, and to check if respondent financial</p>

	<p>institutions in a foreign country are permitting shell banks to open an account in Nepal.</p>
<p>The supervisory and oversight system - competent authorities and SROs (R. 17, 23, 29 & 30).</p>	<p>Nepal should enact the draft AML/CFT Ordinance with provisions to ensure that effective, proportionate and dissuasive criminal, civil or administrative sanctions are available to deal with natural or legal persons covered by the FATF Recommendations that fail to comply with national AML/CFT requirements.</p> <p>The NRB or FIU should supervise financial institutions to ensure compliance with AML/CFT requirements.</p> <p>The NRB does not have the authority to enforce sanctions on natural or legal entities operating without approval. To punish and prevent economic crimes including ML, coordination among various regulatory authorities in the supervisory function is needed.</p> <p>The NRB's authority to supervise financial institutions is established under the BFI Ordinance. However, to ensure effective implementation of the NRB's supervisory powers, there is a need to significantly strengthen the NRB's supervisory capacity. In order to achieve this, training programs should be provided to supervisors; manuals on supervision that meet the FATF requirements should be produced; and a sufficient pool of experienced human resources should be secured and developed and supported by adequate funding.</p> <p>Establishing a committee for the formation of policy to control money laundering is advisable to put in place an effective, structured and well-coordinated AML/CFT system. With the Prime Minister as head of the committee, it would include all relevant authorities including Ministers of major government departments, the Governor of the Central Bank, the Head of CIAA, and other relevant entities, etc.</p> <p>The FIU and other regulatory and law enforcement agencies involved in combating money laundering and terrorist financing should be adequately structured funded, staffed, and provided with sufficient technical and other resources to fully and effectively perform their functions. Adequate structuring includes the need for sufficient operational independence and autonomy to ensure freedom from undue influence or interference.</p>
<p>Financial institutions - market entry and ownership/control (R.23)</p>	<p>Nepal should ensure that financial institutions are subject to adequate AML/CFT regulation and supervision and are effectively implementing the FATF Recommendations.</p> <p>Nepal should ensure that a designated competent authority or authorities has/have responsibility for ensuring that financial institutions adequately comply with the requirements to combat money laundering and terrorist financing.</p>

	<p>Nepal should adopt legal measures requiring a “fit and proper” test on principal shareholders and senior management of financial institutions at the point of approval to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest or holding a management function, including in the executive or supervisory boards, councils, etc in a financial institution.. In addition, such tests should continue to be conducted even after the financial institution begins its business.</p>
<p>AML/CFT Guidelines (R.25)</p>	<p>An AML/CFT law should be enacted and enforced to establish national AML/CFT requirements for financial institutions and DNFBPs.</p> <p>The NRB or, on its establishment, the FIU should issue guidelines to assist financial institutions and DNFBPs with implementation and compliance for all AML/CFT obligations. At a minimum, the guidelines should give assistance on issues covered under the relevant FATF Recommendations, including: (i) a description of ML and FT techniques and methods; and (ii) any additional measures that these institutions and DNFBP could take to ensure that their AML/CFT measures are effective.</p>
<p>Ongoing supervision and monitoring (R.23, 29 & 32)</p>	<p>The supervisory capacities, procedures and systems of NRB, SEBO, the Insurance Board and other supervisory authorities should be enhanced to ensure that supervisors are able, in accordance the provisions in AML/CFT legislation and regulations, to effectively review of policies, procedures, books and records of financial institutions and DNFBPs.</p> <p>The Supervisory capacity of all regulators in Nepal should be enhanced to ensure adequately trained and experience staff are able to exercise their powers to compel production of or to obtain access to all records, documents or information relevant to monitoring compliance.</p> <p>Although an AML/CFT system has not yet been adopted, the government of Nepal should conduct a more comprehensive assessment to measure the country’s risk of money laundering and terrorist financing to support effective supervision of compliance.</p> <p>In order to assess whether it is AML/CFT system is operating effectively, Nepal should develop a comprehensive understanding of its risks and vulnerabilities to ML and TF.</p> <p>Nepal should review the effectiveness of its AML/CFT measures on an ongoing basis by considering the full range of money laundering and terrorist financing risks facing the country and current AML/CFT measures.</p> <p>The draft AML/CFT Ordinance should provide for Nepal to maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of systems for combating money</p>

	laundering and terrorist financing.
Money value transfer services (SR.VI)	<p>Nepali authorities should:</p> <ul style="list-style-type: none"> • Extend AML/CFT obligations in Nepal to include money transfer companies and exchange houses and strengthen the supervisory and regulatory environment on the money transfer companies. • Consider putting together a task force to decipher the true scale of the Hundi problem in Nepal, which includes all relevant policy, tax, enforcement, and investigative agencies. • Conduct outreach/education campaigns to help bring illegal remitters into the formal financial structure through licensing. • Consider making legal alternative remittance systems, and encouraging licensing by those engaged in this business.
4. Preventive Measures –Non-Financial Businesses and Professions	
Customer due diligence and record-keeping (R.12)	<p>It is recommended that the authorities:</p> <ul style="list-style-type: none"> • Conduct money laundering threat assessments for DNFBP sectors, and establish customer due diligence and record keeping requirements that adhere to the FATF Recommendations. • Implement specific KYC and reporting requirements to comply with AML/CFT standards.
Monitoring of transactions and relationships (R.12 & 16)	<p>It is recommended that the authorities introduce regulations to ensure that DNFBPs:</p> <ul style="list-style-type: none"> • Implement appropriate measures to monitor transactions that are complex in nature or with persons/entities working in countries with less stringent or satisfactory implementation of FATF standards.
Suspicious transaction reporting (R.16)	<p>It is recommended that authorities:</p> <ul style="list-style-type: none"> • Establish obligations for the DNFBPs to comply with the FATF Recommendations by setting up mechanisms to report suspicious transactions to the FIU.
Internal controls, compliance & audit (R.16)	<p>It is recommended that the authorities introduce regulations to ensure that:</p> <ul style="list-style-type: none"> • DNFBPs establish internal procedures to control for money laundering within their sectors. • There is compliance with AML/CFT provisions once they have been established for the sector.
Regulation,	It is recommended that:

supervision and monitoring (R.17, 24-25)	<ul style="list-style-type: none"> • DNFBPs be brought into the framework of the draft AML/CFT Ordinance. • special attention should be paid to regulating and supervising casinos and real-estate agents given the very high ML and TF risks for these businesses. • DNFBPs be educated on the AML/CFT risks in their sector and be provided guidance on how they can protect against/combat these risks. • DNFBP regulatory organizations should be provided the tools to monitor and ensure effective compliance with AML/CFT obligations as per the FATF Recommendations
Other designated non-financial businesses and professions (R.20)	<p>The authorities and the financial sector should consider:</p> <ul style="list-style-type: none"> • The establishment of an electronic database of domestic and international terrorism lists such as the UN 1267 list, and creating the ability to electronically monitor activities when compared to entities on those lists. Updating pursuant to new designation to and from the international community would be greatly enhanced. • Assembling a task force to identify sectors prone or more vulnerable to money laundering or terrorist financing and begin implementing appropriate measures to combat those risks, including reduced reliance on cash and enhanced computerisation of the financial system.
5. Legal Persons and Arrangements & Non-Profit Organisations	
Legal Persons – Access to beneficial ownership and control information (R.33)	Competent authorities should implement effective supervision measures to ensure that record keeping requirements are being met in relation to beneficial ownership and control of legal persons.
Legal Arrangements – Access to beneficial ownership and control information (R.34)	<i>No recommendations</i>
Non-profit organisations (SR.VIII)	<p>It is recommended that the authorities:</p> <ul style="list-style-type: none"> • Conduct an entire sector-wide assessment, noting the scale and scope of the sector, potential vulnerabilities, and risks for money laundering and terrorist financing. • Strengthen the powers and capacities of the Social Welfare Council to consolidate registration and supervision to cover all NPOs in Nepal to conduct yearly and spot audits to include managerial and administrative oversight (as well as financial) on NPOs.

	<ul style="list-style-type: none"> • Update the Societies Registration Act so as to increase the due diligence, record keeping and registration requirements of societies. • Work with other countries and the APG on amending their supervisory and regulatory environment of non-profits to conform with the best practices and guidelines set out by the FATF.
6. National and International Co-operation	
National co-operation and coordination (R.31)	<p>Nepal should ensure there is an effective mechanism such as a National Coordination Committee to enable policy makers, the FIU, law enforcement and other competent authorities co-operate with each other to develop and implement policies to combat money laundering and terrorist financing activities.</p> <p>Nepal should establish mechanisms for consultation between competent authorities, the financial sector and other sectors (including DNFBP) that are subject to AML/CFT laws, regulations and guidelines.</p>
The Conventions and UN Special Resolutions (R.35 & SR.I)	<p>Nepal should immediately sign and ratify the Terrorism Financing Convention.</p> <p>Nepal should take steps to codify the elements of all the relevant United Nations conventions in local law.</p> <p>Nepal should take steps to understand the major weakness in its current enforcement systems and work to better implement the provisions of the NCA. It is recognized, however, that the current insurgency is a significant resource and logistical impediment to effective implementation of these conventions.</p> <p>The Authorities should consider using the United Nations 1373 procedures to list the identified members of the Maoist insurgency as well as the insurgency itself. This process may aid the government in limiting the international funding and support that the Maoist insurgency currently receives.</p> <p>The authorities should consider putting in place regulations under the NRB Act to enforce the provisions of the relevant Security Council Resolutions. One immediate and concrete step that can be taken is for the NRB to distribute the 1267 list and require all financial institutions to verify that none of the listed persons are customers of the financial institution.</p>
Mutual Legal Assistance (R.32, 36-38, SR.V)	<p>Nepal should enact comprehensive mutual legal assistance provisions, either as part of the AML/CFT Ordinance or as a stand alone MLA Ordinance.</p> <p>One of the key elements of a successful money laundering regime is the ability to work cooperatively with foreign Financial</p>

	<p>Intelligence Units as well as foreign law enforcement agencies. Accordingly, any MLA law should allow Nepali authorities to provide the broadest assistance possible under principals of domestic law.</p> <p>Additionally, the Team recommends that MLA law should provide for the assistance to be peer to peer to facilitate the efficient exchange of information.</p> <p>Nepal should consider, in addition to the legislation, establishing standard operating procedures that will provide a clear and efficient basis for evaluating and acting on any such requests. If possible, dual criminality should not be required for the provision of mutual legal assistance.</p> <p>The relevant Nepali law enforcement authorities should develop standard operating procedures for joint investigations with foreign counterparts.</p>
<p>Extradition (R.32, 37 & 39, & SR.V)</p>	<p>It is recommended that the Extradition Act be amended to: (1) remove the requirement of an extradition treaty; (2) include ML and TF as extraditable offences; and (3) allow Ministry-to-Ministry requests for extradition.</p> <p>To preserve the intent of the statute, Nepal might consider limiting extradition requests to those countries that will also allow extradition to Nepal under reasonably similar standards.</p> <p>Rather than a list-based approach of crimes, Nepal might consider allowing extradition for any acts that would be a crime if committed within Nepal. Additionally, pending passage of the ML and TF ordinances, Nepal might consider adding an additional section to the Extradition Act, specifically providing for extradition in cases of ML, Terrorism or TF.</p>
<p>Other Forms of Co-operation (R.32 & 40, & SR.V)</p>	<p>It is recommended that the Nepal FIU should be given a clear legislative mandate to share financial information and other relevant intelligence with its foreign counterparts either upon its own initiative or upon request as well as to make inquiries on behalf of its foreign counterparts.</p> <p>The FIU should establish a mechanism to ensure that foreign requests are responded to in a timely way.</p> <p>The FIU should maintain statistics on the number of requests for assistance made or received by the FIU, including a breakdown of the number of requests processed and refused.</p> <p>Nepal law enforcement agencies involved in terrorist financing investigations should be able to exchange information and to provide investigative assistance to their foreign counterparts by either establishing a mechanism or utilizing existing gateways such as Interpol, the World Customs Organization etc.</p>

Table 3: Authorities' Response to the Evaluation

No formal written response was provided by Nepal to the Mutual Evaluation Report.

List of abbreviations

AML	–	Anti-Money Laundering
AML/CFT	–	Anti-Money Laundering / Combating the Financing of Terrorism
APG	–	Asia/Pacific Group on Money Laundering
ARS	–	Alternative Remittance Systems (Hundi)
CDD	–	Customer Due Diligence
CDO	–	Chief District Officer
CFT	–	Combating the financing of terrorism
CIAA	–	Commission for the Investigation of the Abuse of Authority
CLAG	-	Combined law agency group
CTR	–	Cash Transaction Reporting
DNFBP	–	Designated Non-Financial Businesses and Professions
FATF	–	Financial Action Task Force
FI	–	Financial Institutions
FIU	–	Financial Investigation Unit
FER	-	Foreign Exchange Regulation (Act)
FT	–	Financing of Terrorism
GDP	–	Gross Domestic Product
IB	–	Nepal Insurance Board
IRD	-	Inland Revenue Department
INGO	–	International non government organisation
KYC	–	Know Your Customer
ML	–	Money Laundering
MOU	–	Memorandum of Understanding
NBL	–	Nepal Bank Limited
NBFC	–	Non-Bank Finance Companies
NCA	–	Narcotics Control Act
NDCLEU	-	The Narcotics Drug Control Law Enforcement Unit
NPOs	–	Non-profit organisations
NR	–	Nepal Rupees
NRB	–	Nepal Rastra Bank
OFAC	-	US Office of Foreign Assets Control
PEPs	-	Politically exposed persons
RID	–	Revenue Investigation Department
SAARC	-	South Asian Association for Regional Cooperation
SEBO	–	Nepal Securities Board
STR	–	Suspicious Transaction Report
SWC	–	Social Welfare Council
TDA	–	Terrorism and Destructive Acts Act, 2001
UN	–	United Nations
UNSCR	–	United Nations Security Council Resolutions