



## **Anti-Money Laundering/Combating the Financing of Terrorism**

- **AML/CFT: General Overview of International Standards, Financial Sector and Nepal's compliance**
  - What is Money Laundering (ML) and Financing of Terrorism (TF)?
  - Features of ML/TF
  - Understanding the crimes and relation with ML
  - Global ML Scenario
  - Overview of International Standards
  - Nepal's Compliance
  
- **AML/CFT: Preventative Measures**
  - Suspicious Transaction (ST)
  - Suspicious Transaction Reporting (STR)
  - STR Detection Mechanism & Reporting
  - Threshold Transaction Reporting (TTR)
  - Know Your Customer (KYC)
  - Customer Due Diligence (CDD), Enhanced CDD
  - Wire Transfer/ Cross Border Transaction
  - Confidentiality & Tipping off
  - Internal Control & Appraisals
  - Role of BFIs in AML/CFT

- **Regulation, Supervision and Sanction  
(Relating to AML/CFT on Banking Sector)  
Regulation, Supervision and Sanction**

- Regulation
- Supervisory Expectation
- Role of Supervisor
- Sanctions
- Major Role of FIs

**Monitoring, Detecting and Reporting STR/TTR**

- Monitoring
- STR Detecting
- Reporting

**FIU (Needs, Function, scope etc...)**



## Money laundering vs. Terrorist financing

### What is ML?

It is a process to clean 'dirty' money in order to disguise its criminal origin.

Acquiring, using, possessing of illegal money.

Concealing or disguising the illicit origin of property, or assisting any person involved in the offence for evading legal consequences of offender.

### What is ML?

- अपराधिक आर्जन वा कालो धन हो भनी जान्दा जान्दै उक्त सम्पत्तिको गैह कानूनी श्रोत लुकाउने उद्देश्यले वा उक्त कालो धन आर्जन गर्नका लागि अपराध गर्ने व्यक्तिलाई कानूनी कारवाही बाट बचाउने उद्देश्यले उक्त सम्पत्तिको रूप परिवर्तन गर्नु वा स्थानान्तरण गर्नु
- अपराधिक आर्जन भन्ने जान्दा जान्दै उक्त कालो धनको वास्तविक प्रकृति, श्रोत, स्थान, कारोवार, आदीलाई लुकाउनु वा ढाकछोप गर्नु

“कालोद्यन वा गैरकानूनी वा आपराधिक आर्जनलाई वैधानिक वा कानूनी श्रोतबाट आर्जन भएको देखाउने काम नै सम्पत्ति शुद्धीकरण हो”

### **Sources of Illegal Money**

Illegal drugs trade

Illegal arms trade

Human trafficking

Corruption

Fraud

Forgery

Theft

- Extortion
- Smuggling
- Revenue related crimes
- Organized crimes
- Other criminal activities

### **Features of ML**

**Funds always have a - Criminal**

**Placement:** Entry into financial system (deposit/loan/purchase/investment etc.)

**Layering:** Series of transactions and change of nature of the property

**Integration:** Returned to main economy as clean. (illicit funds Returned legal channels)

### **Money Laundering Cycle**

# Integration

Money is returned into the economy as legitimate funds. The money is now "clean".

# Placement

The initial entry of "dirty money" into the financial system.

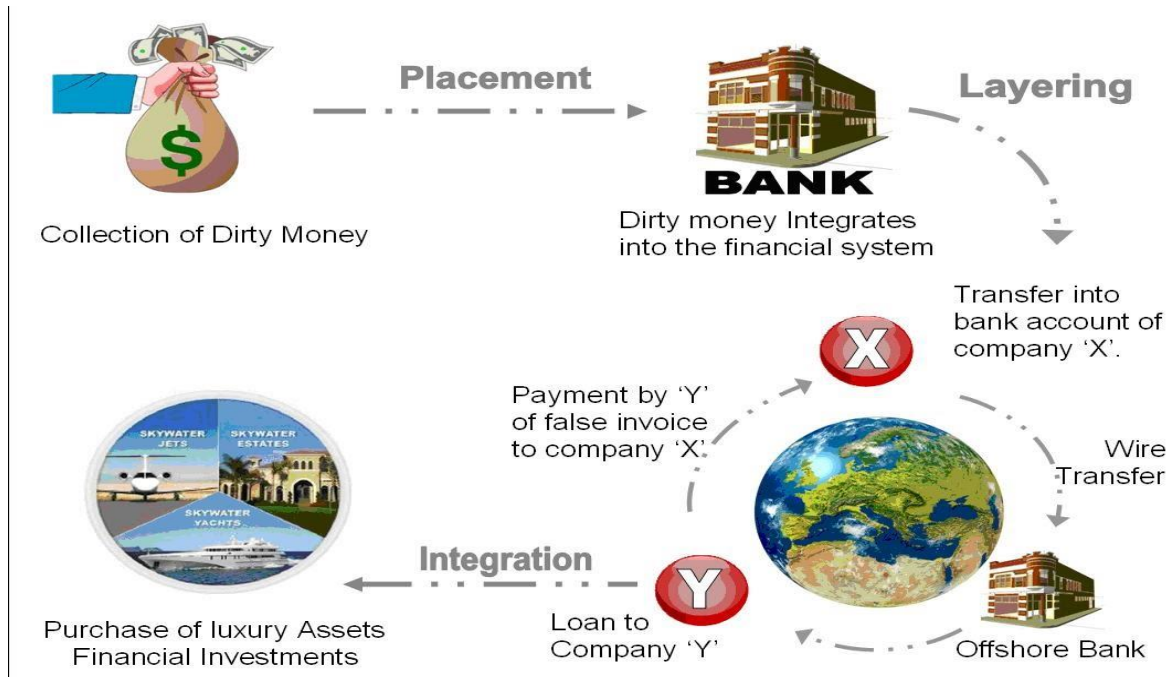
# Layering

Consists of a series of transactions designed to conceal the origin of the funds.

**The Money Laundering Cycle**

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## A typical Money Laundering Scheme



## Symptoms of Extreme Money Laundering in a Country

- ❖ Lack of financial stability
- ❖ Compromise of transparency, stability and predictability

- ❖ Detraction of genuine investments (foreign/domestic)
- ❖ Increase of capital flights and trade deficits and abuse of foreign exchange
- ❖ Increase of black or illegal trade or business, massive tax evasion and trade based money laundering
- ❖ Abuse of corporate entities
- ❖ Increase of corruption, crimes and contaminations
- ❖ Weakening good governance, regulatory and legal system
- ❖ Making the criminals and mafias powerful
- ❖ Collapsing financial, legal, justice, security and social system, trust and values.

कति छ कालोधन ?

- ❖ सन् २०११ मा UNODC ले दिएको प्रतिवेदन अनुसार:
- ❖ विश्वको कुल गार्हस्थ उत्पादनको ३.६ प्रतिशत कालोधन रहेको अनुमान,
- ❖ सो मध्ये २.७ प्रतिशत (१.६ ट्रिलियन अमेरिकी डलर) शुद्धीकरण भईरहेको,
- ❖ जम्मा १ प्रतिशत कालोधन मात्रै जफत भईरहेको,
- ❖ विकासोन्मुख देशमा उक्त अनुमानको देब्वर प्रतिशत कालोधन रहेको,

यसर्थ नेपालमा कुल गार्हस्थ उत्पादनको कम्तिमा ७.२ प्रतिशत कालोधन रहेको अनुमान गर्न सकिन्छ

- ❖ उक्त आँकडामा करछलीबाट प्राप्त सम्पत्ति समावेश छैन,
- ❖ करछली वा अन्य राजश्व सम्बन्धी कसुरलाई समावेश गर्ने हो भने अनुमानित आँकडा दोब्वर हुन जान्छ ।
- ❖ सन् २००० मा अमेरिकी कुल गार्हस्थ उत्पादनको ८ प्रतिशत (राजश्व सम्बन्धी कसुरबाट आर्जित सम्पत्ति सहित) कालोधन रहेको अध्ययनले देखाएको छ ।  
यसर्थ, नेपालमा १६ प्रतिशतसम्म आँकलन गर्न सकिन्छ,  
अझ संक्रमणकालिन अवस्थाले थप केहि प्रतिशत बढी हुन सक्ला... ?

### What is TF?



### **Motive is Primarily:**

- Religious
- Political
- Charitable etc

### **Involve funds from legitimate sources:**

1. Personal donations
2. Profits from businesses
3. charitable organizations etc.

### **Providing or collecting (legal or illegal) funds or other supports**

- to terrorism, terrorist or terrorist organization, terrorist activities or associates
- Not to be confused with terrorism

### **Features of TF**

- Funds can be Legally Obtained (need not have a criminal Origin)
- Primary Motive is Other
- Diversification for Criminal propose
- Terrorists use techniques and to protect the identity (of their sponsors and of the ultimate beneficiaries of the funds.)

### **Relation with ML & TF**

## **Money Laundering vs Terrorist Financing**

### **Money Laundering**

Where do these funds come from?



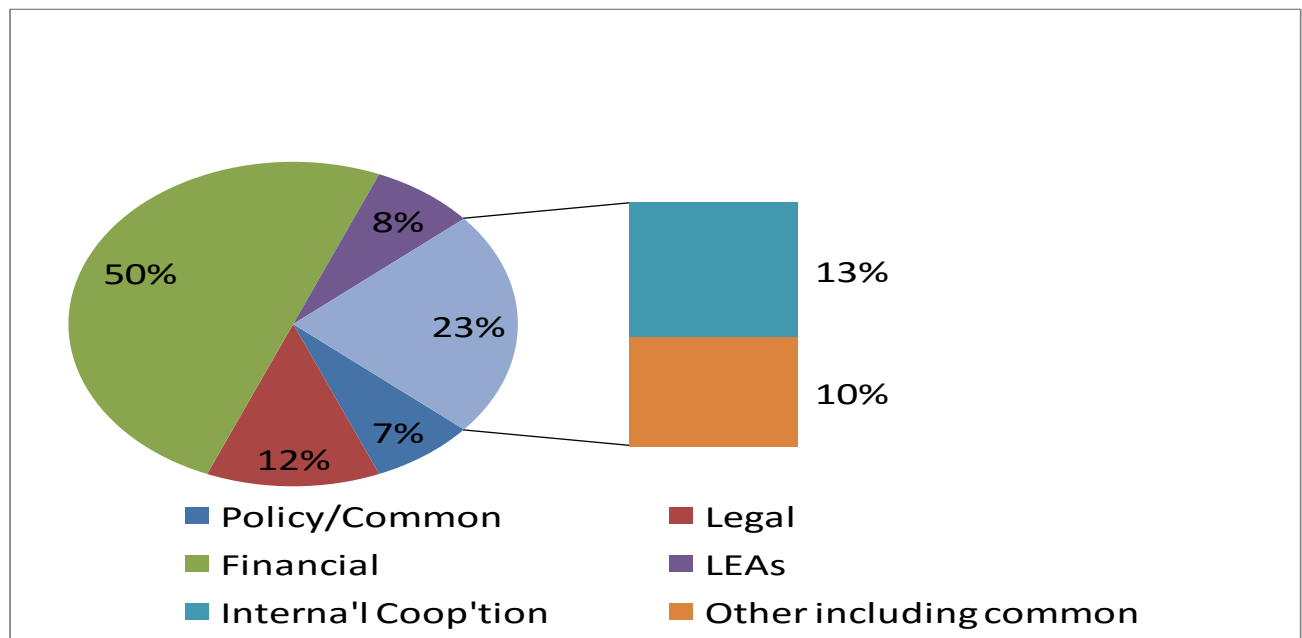
### **Terrorist Financing**

Where are these funds going to?

## Major Sources of ML in Nepal

- Tax Evasion
- Corruption
- Corruption
- Corruption
- Human Trafficking

## FATF 40 Standards and Sectoral Roles



## Supervisory and Operational Development

- AML/CFT Questionnaire for BFIs (Off-site)
- New Account Opening and Monitoring Guidelines for PEPs
- Account Opening and Monitoring Guidelines for Establishing Beneficial Owners
- Introduced Business Guidelines
- Customer Risk Rating Guidelines
- Transaction and Account monitoring Guidelines
- Cross-Border Correspondent Banking Guidelines
- Cash Examination Guidelines
- STR and TTR Guidelines



- Record Keeping and Retention Guidelines
- Compliance and Internal Control Guidelines
- Outline of overall Supervisory Manual (Progressing)
- Off-site Matrix format
- Supervisory Manual etc.

### **How much a Bank be able to detect?**

All of illegal proceeds.

Most of illegal proceeds.

Many of illegal proceeds.

A few of illegal proceeds.

Almost none of illegal proceeds.

### **Who is this? Is it traced?**

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#### **Possible answers...**

A masked or colored but complete person

May be a mad guy

May be a joker

May be an entertainer

May be an actor

May be a beggar

May be a criminal

#### **Again an STR? ...**

**...So, consider an event from different perspectives !!!**



### **Threshold Transaction Report (TTR)**

TTR within 15 days

Threshold Limit Requirement by the various Agencies:

### **Special Monitoring of Certain Transactions**

RE to pay special attention to:

- All complex, unusual large transactions and all unusual patterns of transactions

- Transactions with no apparent economic or visible lawful purpose,
- Transaction with customers of High Risk Country
- Examination of purpose and background
- Other as necessary

#### Special Monitoring Issues

- Monitoring Mechanisms based on
  - Customers
  - Transactions
  - Products
  - Services
  - Delivery channel
  - Geography
- Monitoring mechanisms of over all system

#### **Reasons of Non-Reporting of STRs**

- Lack of proper KYC/CDD system
- Lack of integration of KYC/CDD information into system
- Lack of STR detection indicators or red flags
- Reluctance in implementation (reasons hidden)
- No functional system in place
- Support to the criminals
- Breach of trust of the Nation.

#### **Why AML/CFT System?**

To save the staff and organization from being an instrument of abuse by criminals

To save the staff and organization from regulatory and other legal sanctions and risks

To detect, report and book the criminals

To increase tax regime and promote healthy business and trust

To attract foreign/domestic investment

To save financial system from being collapsed

To earn credit with/of international sector

## Who are PEPs

स्वदेश वा कुनै विदेशी मुलुकमा राजनैतिक, व्यवसायिक, सामाजिक, वित्तीय, प्रशासनिक, व्यापारिक, औद्योगिक क्षेत्रमा उच्च तहमा कार्यरत वा कार्य गरिसकेका व्यक्ति, उच्च सार्वजनिक जिम्मेवारीमा रहेका वा रहिसकेका राष्ट्र प्रमुख, सरकार प्रमुख, मन्त्री, नेपाल सरकार वा नेपाल सरकारको पूर्ण स्वामित्वमा भएको संस्थाको प्रथम श्रेणी वा सो भन्दा माथिका पदाधिकारी, राजनीतिक दलका नेताहरु, निजी वा सामाजिक क्षेत्रका उच्च पदस्थ पदाधिकारी र त्यस्ता व्यक्तिका परिवारका सदस्य तथा नजिकका सहयोगी

### कसरी थाहा पाउने ?

- सम्भावित ग्राहकसँग प्राप्त गरिने सम्वद्ध सूचनाको आधारमा,(KYC/CDD & EDD)
- सार्वजनिकरूपमा उपलब्ध सूचनाको आधारमा,
- उपलब्ध भएमा राजनीतिक रूपमा प्रभावशाली व्यक्तिहरु (PEPs) को तथ्याँक (Data Base) मा पहुँच स्थापित गरेर ।

**Thank you.**