



'General Overview' Anti Money Laundering, Counter Fighting Against Terrorism- Know Your Customer

Money Laundering and Terrorist Financing- Summary	
1.	What is Money Laundering?
	Money laundering is the practice of engaging in a series of financial transactions to conceal the ownership, source, control or destination of illegally gained money. Ultimately, it is the process by which the proceeds of crime (dirty money) are made to appear to have a legitimate origin. The crime proceeds involved can be generated by any number of criminal acts, including drug dealing, corruption and other types of fraud (extortion, bribery), insider trading, prostitution rings and tax evasion.
2.	What are the Process of Money Laundering?
	<p>The process involved in Money Laundering are:-</p> <p>1. Placement – Entry of funds in the system This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposit directly, into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.</p> <p>2. Layering – Distancing, Hiding of the proceeds from the point of entry. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe.</p> <p>3. Integration – Creating a legitimate explanation for the proceeds, Usage of funds The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.</p>
3.	What are the sources through which money can be laundered?
	<input type="checkbox"/> Drug Trafficking <input type="checkbox"/> Smuggling <input type="checkbox"/> Human Trafficking <input type="checkbox"/> Gambling <input type="checkbox"/> Counterfeiting <input type="checkbox"/> Tax evasion <input type="checkbox"/> Corruptions <input type="checkbox"/> Misappropriations of public funds etc.
4.	What is Terrorist Financing?
	Terrorist financing denotes directly or indirectly, unlawfully and willfully, providing or collecting funds with the intention of using in whole or in part, in order to carry out a terrorist act, or by a terrorist or a terrorist organization.
5.	What are the applicable domestic legal framework pertaining to AML/CFT?
	<input type="checkbox"/> Anti-Money Laundering Act, 2008 <input type="checkbox"/> Anti-Money Laundering Rules 2009 <input type="checkbox"/> 1st Amendment in ALPA, 2011 <input type="checkbox"/> 2nd Amendment in AML/CFT, 2013 as an Ordinance <input type="checkbox"/> Anti-Money Laundering Rules 2072-73 <input type="checkbox"/> Unified Directives No. 19 issued by Nepal Rastra Bank



Know Your Customer and Customer Due Diligence	
1.	What is Know Your Customer (KYC) and Why is it Required?
	It is a process by which banks obtain information about the identity and address of the customers. KYC enables banks to know/understand their customers and their financial dealings. The objective of KYC guidelines in banks is to prevent the banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities.
2.	What is Customer Due Diligence (CDD)?
	<ul style="list-style-type: none"> ○ Identify the customer on the basis of original identification documents. ○ Identify, where applicable, the beneficial owner and control structure of the customer. ○ Obtain information on the purpose and intended nature of the business relationship. ○ Obtain information on anticipated level of activity that is to be undertaken along with details of occupation and employment. ○ Obtain duly filled up account opening form with signature and thumb impression. ○ Check Account Opening Form thoroughly and verify signature with the signature in specimen card and signature of introducer with affixing signature verified stamp along with the signature of the staff verifying. ○ Verify legal documents and certify as 'Original seen and verification' by pre-nominated person by affixing stamp and full signature. ○ Fill up all the available details in the system and make sure to fill up all mandatory field. ○ Conducting ongoing monitoring of the business relationship including ensuring that the transactions being conducted are consistent with the knowledge of the customer, the business and risk profile, including, where necessary, the source of funds and ensuring that documents, data or information held are kept up-to date.
Customer Acceptance	
1.	What is Customer Acceptance Policy?
	The policy indicating the criteria for acceptance of customers that takes into consideration all Factors related to the customer, his activity, his related accounts and other adequate description of Customers in accordance to their associated risk.
2.	Does our policy permit the opening of Anonymous Account?
	No.
3.	What are Shell Bank and Shell Entities? Can we Open their account?
	<p>Shell bank is a bank that has no physical presence in its country of incorporation (except if a subsidiary of a regulated bank).</p> <p>A shell entity is a company that exists but does not actually do any business or have any assets.</p> <p>These types of corporations are not all necessarily illegal, but they are sometimes used Illegitimately, such as to disguise business ownership from law enforcement or the public.</p> <p>Account shall not be opened for shell bank and companies.</p>
4.	Can multiple account of same nature of natural person be opened?
	<p>No</p> <p>DE dupe check at the time of account opening is mandatory to prevent the customer from opening multiple accounts in a bank.</p>
5.	Who are prohibited from opening the accounts and carrying out transactions?
	<input type="checkbox"/> Shell Banks and Entities <input type="checkbox"/> Accounts in anonymous and fictitious name, unknown identity,



	<input type="checkbox"/> Entities sanctioned by major sanction authorities like United Nations, OFAC etc. <input type="checkbox"/> Customer who cannot furnish the information/documents as required by banks for verification.
Customer Identification	
1.	What is Customer Identification?
	<p>Customer identification is an essential element of an effective customer due diligence programme which banks need to put in place to guard against reputational, operational, legal and concentration risks. It is also necessary in order to comply with anti-money laundering legal requirements and a prerequisite for the identification of bank accounts related to terrorism.</p> <p>Banks need to identify below customer :-</p> <ul style="list-style-type: none"> <input type="checkbox"/> A person/entity that maintains account and/or has business relationship with bank <input type="checkbox"/> One on whose behalf the account is maintained(i.e. the beneficial owner) <input type="checkbox"/> Walking customers doing occasional transactions. (Not our client) <input type="checkbox"/> any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction(one time or on many occasion crossing Threshold Limit set by NRB). <input type="checkbox"/> Customer suspected of doing any suspicious transaction or activity. <input type="checkbox"/> If there is any suspicion or confusions on previously obtained documents of existing Customers. <p>When the bank feels it is necessary to obtain additional information from the existing customers; Based on the conduct and activity in the account.</p>
2.	What is Beneficial Ownership?
	<p>"Beneficial owner" means a natural person who, directly or indirectly, owns or controls or directs or influences a customer, an account, or the person on whose behalf a transaction is conducted, or exercises effective control over a legal person or legal arrangement or remains as an ultimate Beneficiary or owner of such activities.</p> <p>Beneficial ownership outlines the identity of persons with a controlling interest in privately-held Businesses, who turn out to be the ultimate recipient of a financial transaction, Beneficial owners should, for money laundering purposes, be broadly conceived of as including the individuals</p> <ul style="list-style-type: none"> (i) who generally have ultimate control over such funds through ownership or other means and/or (ii) who are the ultimate source of funds for the account and whose source of wealth should be subject to due diligence
3.	How to Identify Beneficial Owner?
	<p>Beneficial owners are ultimately a natural person who has control over the company. Hence, CDD information of all natural persons having control over any company, should be taken:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Person holding 10 % or more shares or those having voting rights <input type="checkbox"/> Member of senior management. <input type="checkbox"/> Person who has or exercise significant control over the company. <p>For trust, trustees, settlers/grantors and beneficiary, For natural person; custodian, account operator, third party mandate are the beneficial owners.</p>



4.	Is it necessary to verify CDD information and take additional information of all customers?
	In case of natural person, it is important to verify all the CDD information (as prescribed in NRB Directives No. 19) from different sources up to our satisfaction. It is not necessary to take CDD information other than as prescribed in Directives No.19 in case of Regulated public limited companies that are listed in stock exchange, and any well regulated And supervised foreign based institutions adequately applying the FATF Recommendations.
5.	Can we open the account without full documentary evidence?
	Yes, provided below conditions:- The customer falls under low risk, The deficiency is rectified as a matter of urgency; deficiency rectification time shall be complied with the internal policy of bank. Bank can restrict transaction limit for such account until full completion of CDD.
6.	What can be done if the documents are not provided within prescribed time?
	Where the customer can not submit required documents, the business must be closed or posting restrictions may be applied in the account after the deadline. Any further extension beyond the deadline requires approval from senior management with clear Justification.
7.	Who are rejected customers? What shall be done for such customers?
	Those customers:- <input type="checkbox"/> Who cannot provide documents, information and details required for customer identification and verification <input type="checkbox"/> It is difficult to apply the customer due diligence measures and assess the risk; account Of such customers must not be opened. <input type="checkbox"/> Documents, information and details provided by a customer appear conflicting to the Identity of customer. List of rejected customer shall be forwarded to concerned department on regular basis.
8.	What is the record retention period in respect of identification of customers?
	All the records substantiating identification of customers and beneficial owner for closed Accounts and customer transaction report shall be retained for minimum period of five years.
Risk Management	
1.	What is customer risk categorization?
	In order to establish/maintain business relationship and develop suitable mechanism for monitoring, customers are to be categorized as High risk, Medium risk and Low risk. The process of assessing the risk of the customer based on their profile is known as customer risk categorization. Risk categorization is meant for proper monitoring of accounts and does not reflect on the account holders.
2.	What do you mean by High Risk Customer?
	New or existing clients that pose higher money laundering or terrorist financing risks that tend to increase the overall risk exposure to a financial institution. As listed in the NCC KYC AML/CFT Procedural Guidelines 2018
3.	What do you mean by Medium Risk Customer?
	Customers that are likely to pose a higher than average risk to the bank may be categorized



	as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. As listed in the NCC KYC AML/CFT Procedural Guidelines 2018
4.	What do you mean by Low Risk Customer?
	Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. Examples: salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments and Government owned companies, regulators and statutory bodies etc. In such cases, only the basic requirements of verifying the identity and location of the customer shall be met. As listed in the NCC KYC AML/CFT Procedural Guidelines 2018
5.	What is SDD?
	SDD stands for Simplified Due Diligence. Simplified Due Diligence is the process of identifying and evaluating the low risk and medium risk customer. Simplified due diligence is the lowest level of due diligence that can be completed on a customer. This is appropriate where there is little opportunity or risk of your services or customer becoming involved in money laundering or terrorist financing.
6.	In what circumstances are Simplified due diligence arrangement available?
	Customers are categorized based on their risk profile. Simplified due diligence may be followed in case of low risk customers.
7.	What is ECDD?
	ECDD stands for Enhanced Customer Due Diligence. Enhanced customer Due Diligence refers to additional due diligence pertaining to the identity of the customer, source of income, nature and value of transaction etc. for transactions of High risk customers. Enhance Due Diligence is required where the customer and product/service combination is considered to be a greater risk. This higher level of due diligence is required to mitigate the increased risk.
8.	In what circumstances is enhanced customer due diligence measures required?
	Customers those are likely to pose a higher than average risk to the bank may be categorized as medium or high risk depending on customer background, volume of transaction, country of origin, source of fund. Examples of customer requiring higher due diligence may include: <ul style="list-style-type: none"> <input type="checkbox"/> Included in PEP (politically exposed persons). <input type="checkbox"/> Resident of a "High Risk" country & opening a non-resident account <input type="checkbox"/> Customer who conducts complex, unusual large transactions and unusual patterns of transactions or which have no apparent economic or visible lawful purpose. <input type="checkbox"/> Business/product/service falls under High Risk. <input type="checkbox"/> Customer suspected of ML, TF or other offence.
9.	What do you mean by PEP?
	Politically Exposed Person" means any domestic politically exposed person or official or foreign politically exposed person or official, or international politically exposed person or official and immediate family members or persons known to be close associated of such person. <ul style="list-style-type: none"> <input type="checkbox"/> International politically exposed person" means any person who is or has been entrusted with a prominent function by an international organization as a member of senior management, or a director, deputy director, member of the board or in an equivalent position.



	<p><input type="checkbox"/> Domestic politically exposed person” means any politically exposed person of Nepal who is or has been in the post of special class or equal to special class or above that class of the Government of Nepal, judge of the Appellate Court and above, senior politician, Minister central member of national political party or senior executives of any institution partially or fully owned by the state.</p> <p><input type="checkbox"/> Foreign politically exposed person” means politically exposed person who is or has been the Heads of State or of government, senior politician, central member of national political party, senior government, judicial or military official, senior executives of state owned corporations of a foreign country.</p>
10.	Who are included in PEP?
	<p><input type="checkbox"/> National and International PEP who were or are appointed in a senior position in the political, social, financial, administrative, business and trade, industrial sector.</p> <p><input type="checkbox"/> Immediate family members (spouses, children, parents and siblings and may also include other blood relatives and relatives by marriage.) of PEP.</p> <p><input type="checkbox"/> Close associates (close business colleagues and personal advisors/consultants) to the politically exposed person as well as persons who obviously benefit significantly from being close to such a person.</p>
11.	What are the additional due diligence required for Politically Exposed Persons (PEPs)?
	Bank should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in public domain. Bank should verify the identity of the person and seek information about the source of fund before accepting PEP as a customer. Account opening has to be approved by senior level. Bank should also subject such accounts to enhanced monitoring on an ongoing basis. The above may also be applied to the accounts of the family members and close relatives of PEP.
12.	What do you mean by PEP screening?
	Screening the name of individual during customer on boarding process against list of domestic and International PEP.
13.	What do you mean by Sanction Screening?
	Screening the details of customers at the beginning of account opening for safeguarding the Bank against being used as a conduit for Money Laundering and Financing of terrorism by individuals/entities listed in the Sanction List published by UN, OFAC, HMT-UK etc.
14.	What is non-face to face account opening?
	When the customer is not physically present at bank and seen personally by designated staff of the bank and when the verification of the original legal documents cannot be done on face to face.
15.	What shall be done if the customer is reluctant to furnish the information/ documents as required by the bank or the bank is not able to apply appropriate customer due diligence measures?
	The bank shall not open an account in case it is unable to apply appropriate customer due diligence measures i.e. unable to verify the identity and/or obtain documents required as per the risk categorization due to non-cooperation of the customer or non-reliability of data/information furnished to the bank.
16.	What are the basis of customer risk identification and analysis?
17.	<p>Risk are classified on the basis of below parameters:</p> <ul style="list-style-type: none"> <input type="checkbox"/> People <input type="checkbox"/> Geography <input type="checkbox"/> Product



	<input type="checkbox"/> Transaction
18.	What are the additional details (EDD criteria) to be written for personal accounts that may help approving authority to understand the customer and inherent risk?
	<input type="checkbox"/> Brief background of customer-Resident of, any public position held by him, renowned business person, details of business etc. <input type="checkbox"/> Source of fund may include- through sale property, savings, income from business/ dividend or through other means etc. <input type="checkbox"/> Expected annual turnover and frequency of transaction in account. <input type="checkbox"/> Source of Income: Professional, salaried, Employee others <input type="checkbox"/> Address verification, if any <input type="checkbox"/> Last Review Date and Next Review Date. <input type="checkbox"/> Transaction Profile of Customer <input type="checkbox"/> Relationship- Any other relationship with us prior to this business deal etc. Details of all the members of one house family and account opened by one house family member, if any.
19.	What are the additional details to be written for non- personal accounts that may help approving authority to understand the customer and inherent risk?
	<input type="checkbox"/> Brief background of customer. <input type="checkbox"/> Signatory or account operator. <input type="checkbox"/> Business Type (Whole Seller, Retailer etc.), <input type="checkbox"/> How long business in to operation. <input type="checkbox"/> Physical Presence of Business (include site visit report, if any). <input type="checkbox"/> Key person of business. <input type="checkbox"/> Involvement in other business if any. <input type="checkbox"/> details of business outlet. <input type="checkbox"/> Transaction Summary/Profile other relevant information if any,
Monitoring of Transactions	
1.	What is one off transaction? Is KYC required for one-off transaction?
	“One-Off” transactions means any transaction carried out other than in the course of business relations. e.g. a single foreign currency transaction or related transactions that exceed NPR 100K per day in single or multiple transaction Information as per SDD personal/Non personal must be obtained for one off transaction that exceed NPR100K per day in single or multiple transaction.
2.	If the customer does not have a bank account. But S/he needs to make a remittance. Is KYC applicable to them?
	Yes. KYC exercise needs to be done for all those who want to make wire transfer payment for transmitting NPR 75K or above.
3.	Can we allow customer to withdraw 10lakh or above cash?
	We shall not allow customer for withdrawing cash by crossing the limit prescribed by NRB Directive as it regards with same payee. Only for exceptional cases (as mentioned in NRB Circular 4/2074), we can allow customers withdrawing cash more than or equaling to NRP10.00 Lac to the same payee on same day.
4.	What is ongoing monitoring (ongoing due diligence) of clients account and transaction? Why is it required?
	It is the process of scrutinizing transactions undertaken throughout the course of the relationship to ensure that the transactions being conducted are consistent with the financial



	institution's knowledge of the customer, their business and risk profile, including where necessary, the source of funds.
5.	What are unusual transactions?
	<p>Unusual transactions include transactions that are not part of a customer's normal operational management, for instance:</p> <ul style="list-style-type: none"> <input type="checkbox"/> A bank account which has been dormant for some years suddenly became active with large fund deposit/transfers taking place. <input type="checkbox"/> A customer declaring herself/himself as a housewife/student, but their accounts receives heavier than the normal receipts followed by withdrawals. <p><i>For more, refer Suspicious Transactions Reporting Guidelines of NRB</i></p>
Regulatory Reporting	
1.	What is Threshold Transaction Reporting (TTR)? What is the threshold limit above which transaction need to be reported?
	<p>TTR is a report that Financial Institutions are required to file with FIU, NRB for each deposit, withdrawal, exchange of currency, or other payment or transfer by or through banks which involves a transaction above certain prescribed threshold limit.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Deposit or withdrawal of NRs 1.00 million cash or more into or out of the same account in one transaction or in a series of transactions in one day. <input type="checkbox"/> Inward or outward remittance of NRs 1.00 million or more into or out of the same account in one transaction or in a series of transactions in one day or inward or outward remittance of NRs 1.00 million or more by a customer (in case of non-account-holder customer) in one transaction or in a series of transactions in one day. <input type="checkbox"/> Exchange of foreign currency equivalent to NRs 5,00,000/- or more by a customer in one transaction or in a series of transactions in one day.
2.	What is STR?
	STR stands for Suspicious Transaction Reporting. A suspicious transaction, whether completed or attempted, is a transaction that gives you the feeling or impression that something or someone is up to something that could be related to a money laundering offence or a terrorist financing offence.
3.	To whom STR is reported?
	STR is ultimately reported to Financial Information Unit (FIU), Nepal Rastra Bank within 3 days of identification.
4.	Can branch report Suspicious transactions?
	When an employee suspects a transaction to be suspicious/ unusual, He/she can submit STR in consultation with Branch Compliance Officer without confronting with customer. After receiving report, BM will conduct initial investigation of the transaction and if convinced that reported transaction is suspicious, He/ She shall forward the same to Compliance Department for further detailed investigation.
Employee Code of Conduct	
1.	What do you mean by the term "tipping off"?
	Tipping off is a serious offence where reporting officer or other individual discloses information that could affect the investigation or the suspect get the chance to conceal the fraud. Regulator can penalize even individually if the individual or institution discloses such confidential information which effects the investigation process.
2.	What are the penalty provisions if the bank and FI fails to implement the laws/directives relating to AML/CFT?



	<input type="checkbox"/> Written reprimand. <input type="checkbox"/> Financial penalty up to 50 Million. <input type="checkbox"/> Partial or full business restriction. <input type="checkbox"/> Revoking License. <input type="checkbox"/> Bank to take appropriate action against concern staff if bank is penalized by regulator.
3.	What if the employee intentionally fails to file STR?
	If staff intentionally fails to file STR, then such staff is liable for punishment as per prevailing act or Employee Service Regulation.
4.	Why it important to conduct AML training to an employee?
	As per regulatory and statutory requirements, bank shall conduct ongoing training programs to the employee in understanding AML/KYC standards periodically to make the human resources competent and knowledgeable regarding anti-money laundering risk and anti-money laundering legal framework.
5.	Why is it important to conduct an internal assessment on AML?
	<input type="checkbox"/> To assess the level of understanding in AML/KYC standards. <input type="checkbox"/> To make the staff familiar with the internal AML policies, procedures of bank. <input type="checkbox"/> To establish, implement and enhance internal controls to meet relevant regulatory requirements and mitigate AML risk.
6.	What is FATF?
	The Financial Action Task Force (FATF) is an intergovernmental organization that designs and promotes policies and standards to combat financial crime. Recommendations created by the Financial Action Task Force (FATF) target money laundering, terrorist financing, and other threats to the global financial system. The FATF was created in 1989.
7.	How many Recommendations are issued by FATF?
	Advised to assist countries with the implementation of the AML/CFT standards, 40 recommendations were issued by FATF.
8.	What is the Impact for bank and staff on non-compliance with AML, CFT standards?
	Failure to comply with AML laws and regulations and breaches of financial sanctions can have serious consequences: financial penalty (1Million to 50 Million), damaged reputations, blacklisting, restrictions on international trade business etc.