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AML TRAINING ON SME RISK IN NEPAL

Managing the anti-financial crime risk of the Small & Medium Enterprise (SME) customers



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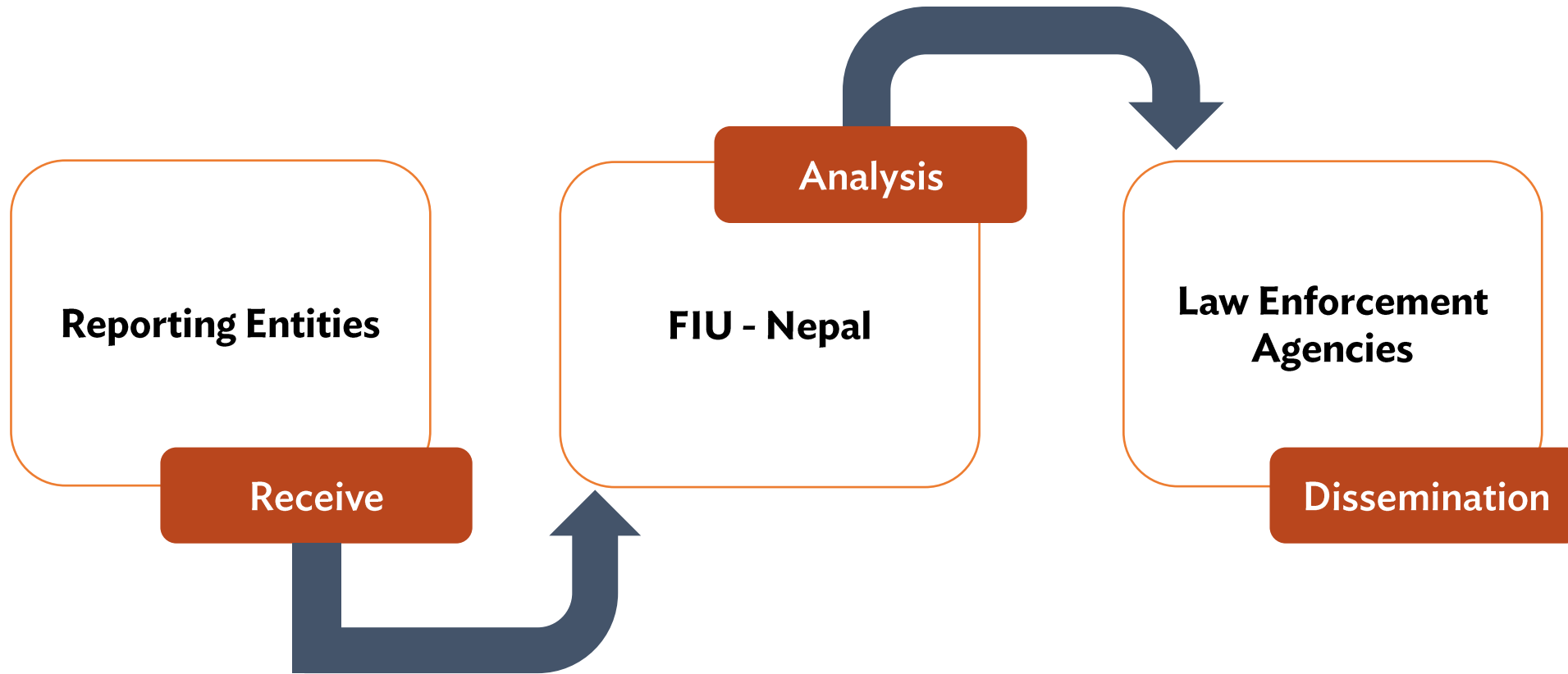
Presentation Outline

- CDD of SME Customers
- Ongoing Monitoring of SME Customers
- Nepalese Case Studies use of SME including TBML
- Suspicious Transaction Reports Nepal
- National Risk Assessment (NRA) 2020
- National Strategy and Action Plan (2019-2024)

Legislative and Regulatory Framework

- Asset (Laundering Prevention Act, 2008
- Asset (Laundering Prevention Rules, 2016
- AML CFT National Strategy and Action Plan 2019-2024
- National Risk Assessment Report on AML/CFT 2020
- AML CFT Directive issued to Banks and Financial Institution
- goAML Manual

FIU Functions



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Nepal: Current Scenario (TBML)

- TTR Cross Border Reporting
- SAR/STR Guidelines
- Risk Assessment of Banks
- Check FATF Country Classification
 - High Risk Jurisdictions subject to a Call for Action
 - High Risk and Other Monitored Jurisdictions (Jurisdictions under Increased Monitoring)
- goAML “STR TBML”
- MOU between FIU Nepal and Custom

What to Report to FIU Nepal

Threshold Transaction Report (TTR)

- TTR - Cash
- TTR - Cross Border
- TTR - FCY Exchange (TTR Exceptions)

Suspicious Transaction Report (STR)

- STR - PEP
- STR - High
- STR - Medium
- STR - Low

Suspicious Activity Report (SAR)

No Threshold applies to SAR/STR

- ✓ **Preliminary Analysis** to be done before reporting SAR/STR
- ✓ STR/SAR to be reported quoting Predicate Offence

CDD Information Requirement

- ✓ Client Information Name, address, business nature, registration date, PAN/VAT No., Director's details etc.
- ✓ **Beneficial Ownership Identification**
 - 10% Stake, Management and Control
- ✓ **PEP and High Net Worth Individual Identification**
- ✓ **Risk Categorization of Customer High-Medium-Low**
- ✓ **Ongoing Monitoring Ask for source of income (if required)**
- ✓ **Detailed information for wire transfer more than USD 600**
- ✓ **ECDD Requirements**
- ✓ **Identification and purpose for cash deposit more than USD 800**

SME Definition

The **Industrial Enterprises Act 2020**
(as per Fixed Capital)

S. N.	Category	Fixed Capital (USD)
1	Small Industry	1.2 million
2	Medium Industry	1.2 – 4 million
3	Large Industry	More than 4 million

Bank's Internal Classification

- ❑ as per Credit Facility
 - USD 81k to 565k

National Risk Assessment (NRA) 2020

- KYC CDD and Ultimate Beneficial Ownership (UBO)
- Level of financialization of the economy, large share of informal sector and cash-based economy
- Open border between Nepal and India to be enhanced to control transnational crimes and illegal activities
- Business Transactions from Saving Account
- Over financing of Projects
- Independent Audit of AML CFT Risk
- TBML and Capital Flight serious threat to government

National Strategy and Action Plan (2019 - 2024)



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Case Studies

Custom Duty Evasion

भन्सार छली ल्याएका लाखौंका कपडा बरामद



सशस्त्र प्रहरीले बरामद गरेको कपडालगायतका सामान। तस्विर : अन्नपूर्ण

Source: <https://annapurnapost.com/news/bhnsaar-chlii-lyaaekaa-laakhaunkaa-kpddaa-braamd-109618>

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Case Studies

Mis-description of goods

कान्तिपुर

सिमेन्ट बोकेको ट्रकमा भन्सार छलेका ७७ लाखका कपडा बरामद

जेष्ठ २६, २०७९ | रमेशकुमार पौडेल

<https://ekantipur.com/pradesh-3/2022/06/09/165478275129987831.html>

प्लास्टिकको दाना बोकेको ट्रकमा कपडा तस्करी,
५८ लाख रुपैयाँ माग दाबी गर्दै मुद्दा दायर

<https://bizmandu.com/content/20220206165117.html>

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Case Studies

Under-Invoicing

चीनतर्फको कार्पेट निकासीमा अबौंको न्यून बिजकीकरण

 सुवास भट्ट २०७४ चैत ७ गते १४:०२ मा प्रकाशित

0 प्रतिक्रिया

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Case Studies

Dummy Company

डमी कम्पनी खडाबाट कर छली भइरहेको
आशंका, जोइन्ट अडिट गर्नका लागि अर्थ
मन्त्रालयको सर्कुलर

<https://bizmandu.com/content/20220602163225.html>

Reason:

- Max. Profit Margin 20%
- Import by Company A
- Sales to Company B
- Sales to Company C
- Final Customer purchases from Company C
- Final Profit Margin 45%

Case Studies

❑ Use of Cash Intensive Business Travel, Tour Package

❑ Smuggling gold

Challenges



SME risks identified only for credit



Beneficial Ownership Database



Direct Access to Database



Multiple Lending esp in case of different named business)

- Over financing



National ID



Informal Remittance (Hundi)



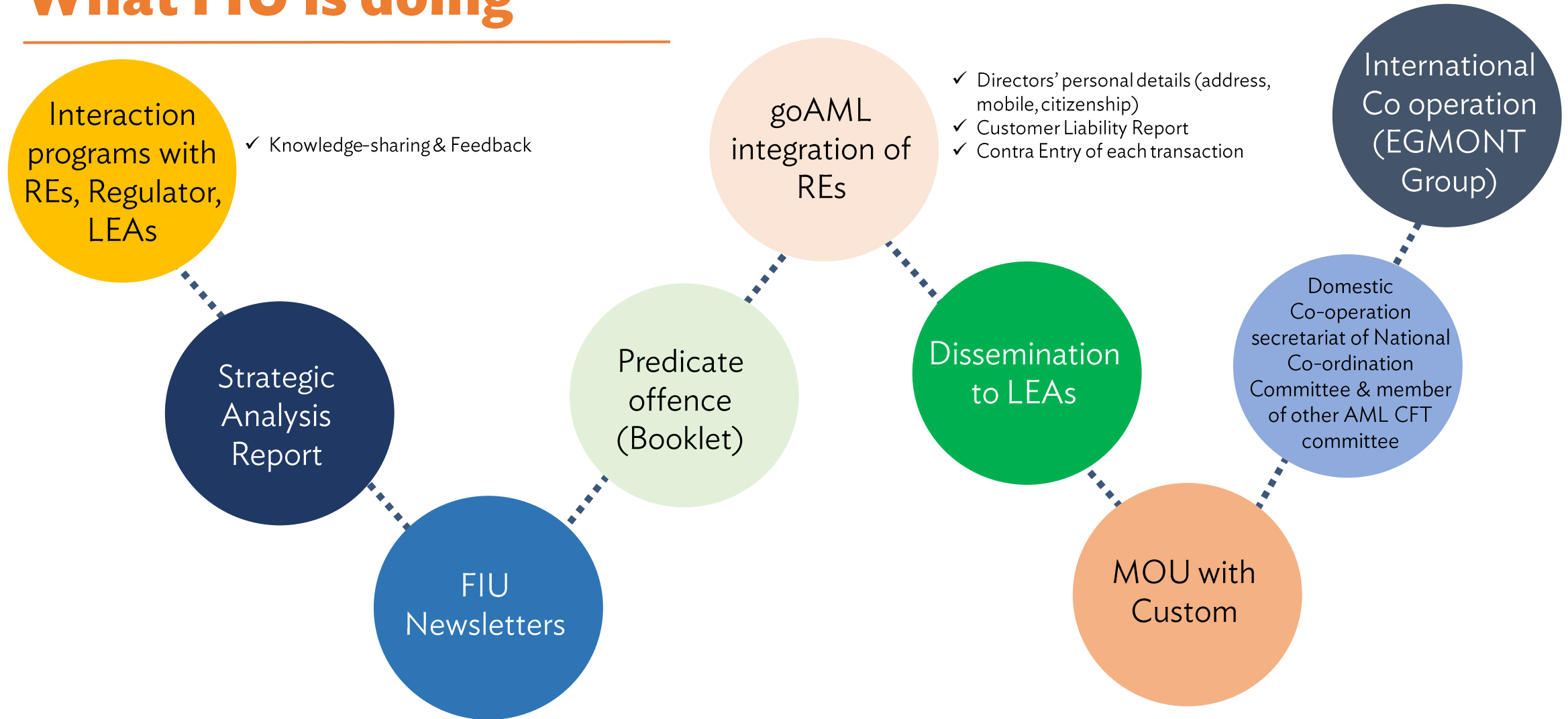
Consolidated Firm/Company Registration Database

- Registration at different entities



Open border

What FIU is doing



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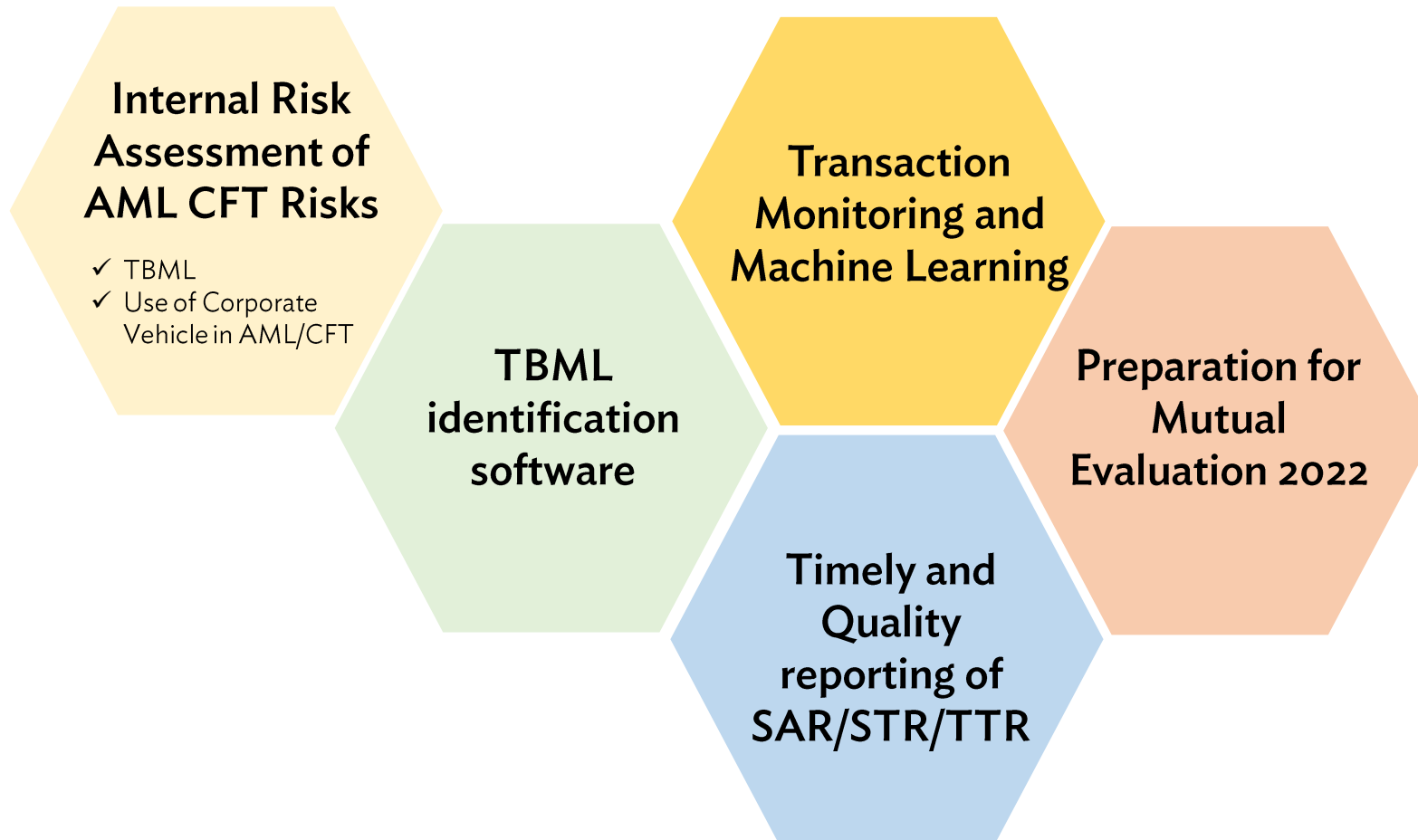
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Way Ahead



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End of Presentation

Thank you!

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