

Guidance on Beneficial Ownership Regarding Prevention of Money Laundering and Terrorist Financing, 2026



Government of Nepal
Ministry of Finance
Inland Revenue Department
Lazimpat, Kathmandu.
2025

Contents

Background:	1
Chapter-1	1
Preliminary	1
Chapter-2	3
Identification of Beneficial Owner	3
2.1 Introduction	3
2.2 Definitions:	4
2.3 Identification of Beneficial Owner	5
2.4 Legal Provisions related to Identification of Beneficial Owner	6
2.4.1 Existing provisions regarding beneficial owner in the Assets (Money) Laundering Prevention Act, 2008.	6
2.4.2 Functions, Duties, and Powers of the Regulatory authority or Registering Authority:	34
2.4.3 Duty of the Director of a Legal Arrangement:	35
2.4.4 Regarding the submission of details of the beneficial owner:.....	37
2.4.5 Maintenance of consolidated Records of Beneficial Owners:.....	39
2.5 Other Provisions Related to the Identification of Beneficial Owners:	40
2.5.1 Issues identified regarding Beneficial Owners in the Mutual Evaluation Report Nepal, 2023, regarding Anti-Money Laundering and Countering Financing of Terrorism Measures :-.....	40
2.5.2 National Strategy and Action Plan on Prevention of Anti-Money Laundering and countering the terrorist financing (2024/25-2028/29)	41
2.5.3 In the context of implementing Detailed Action Plan with Remedial Actions to exit form Jurisdiction under Increased Monitoring (Grey List), 2025	42
2.6 International Efforts and Best Practices Regarding the Identification of Beneficial Owners.....	43
2.6.1 Recommendation No. 24 of the Financial Action Task Force:.....	44
2.6.2 Recommendation No. 25 of the Financial Action Task Force:.....	45
2.6.3 Access to Information Regarding Beneficial Owners	47
2.7 Approaches	48
2.8 Instruments/Methods that may be used to conceal the Beneficial Owner.....	50
2.9 Procedures for Identification of Beneficial Owner.....	50

2.10 Methods of control and supervision in the context of identification of beneficial ownership.	51
2.11 Matters to be taken into account while identifying a Beneficial Owner:	53
2.12 Measures for Identification of Beneficial Owner:	55
Chapter-3	57
Miscellaneous	57
3.1 Adoption of Risk-Based Approach:	57
3.2 Record Keeping:	57
3.3 Reporting:	57
3.4 Inspection and Supervision:.....	57
3.5 Power to Interpret:	57

Guidance Relating to Beneficial Ownership, 2026

Background:

Whereas, it is expedient to further systematize the functions and proceedings of reporting entities while preventing the money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction, maintaining financial good governance by complying with the standards of the Financial Action Task Force maintaining integrity and transparency in the transaction of precious metals and stones, adopting a risk-based approach and maintaining uniformity in the identification and verification of beneficial owners,

The Department by exercising the power conferred by sub-section (2) of Section 7U. of the Assets (Money) Laundering Prevention Act, 2008 has issued this guidance.

Chapter-1

Preliminary

1. **Short title and commencement:** (1) The name of this Guidance is “Guidance Relating Beneficial Ownership, 2026.”

(2) This Guidance shall come into force from the date of approval by the Department.

2. **Definitions:** Unless the subject or context otherwise requires, in this Guidance, -

(a) **“Act”** means the Assets (Money) Laundering Prevention Act, 2008.

(b) **“Customer”** means a person or legal arrangement establishing a business relationship or conducting a transaction with a reporting entity, and the term also includes a person or legal arrangement attempting to establish a business relationship or conduct a transaction.

- (c) **“Rules”** means the Assets (Money) Laundering Prevention Rules, 2024.
- (d) **“Precious metal and stone”** means gold, silver, platinum, iridium, osmium, palladium, rhodium, ruthenium, diamond, sapphire, ruby, emerald, jade, pearl, corundum, aquamarine of any natural or refined form as mentioned in Schedule-1 pursuant to Rule 14 of the Rules, and any other metal or stone mixed with or containing two percent or more of gold, silver, platinum, iridium, osmium, palladium, rhodium, ruthenium, their ore, or jewelry made of such metals.
- (e) **“Financial Intelligence Unit”** means the Financial Intelligence Unit pursuant to Section 9 of the Act.
- (f) **“Department”** means the Inland Revenue Department.
- (g) **“Reporting entities”** means dealers engaged in transaction of precious and stones, including an importer, distributor, wholesaler, or retailer.
- (h) **“Beneficial Owner”** means a natural person who as the ultimate beneficiary or owner thereof, directly or indirectly owns or control or direct or influence customer, transaction, asset, legal person, or legal arrangement.
- (i) **“Legal Person”** means a company, corporation, cooperative institution, or other corporate body and this term also includes private firms, partnerships, or non-governmental organizations.
- (j) **“Legal Arrangement”** means a trust (express trust) or any other legal arrangement of a similar nature.
- (k) **“Directive”** means Directive issued by the Inland Revenue Department to Dealers in Precious Metals and Stones

(Reporting Entities) regarding the Prevention of Money Laundering and Terrorist Financing 2025.

- (1) **“Office”** means the Large Taxpayers Office, Medium Level Taxpayers Office, and Inland Revenue Offices.

Chapter-2

Identification of Beneficial Owner

The Inland Revenue Department acts as the regulatory authority for dealers in precious metals and stones. To prevent the risks of money laundering and terrorist financing, adopt a risk-based approach, and maintain uniformity among reporting entities regarding the identification of beneficial owners, the establishment of standards is deemed essential. Dealers of precious metals and stones involves high transaction amounts, a pre-dominantly of cash-based transactions, and assets that are easily portable, making them inherently a high-risk business from the perspective of money laundering and terrorist financing. To mitigate such risks, the identification and verification of the beneficial owner is mandatory.

Pursuant to Serial Number 2.5.7 under Regulatory Supervision in Schedule 2 of the Detailed Action Plan with Remedial Actions to Exist from Jurisdiction under Increased Monitoring (Grey list), 2026 , it is necessary to identify beneficial owners to implement arrangements for recording beneficial owner details in a real time/immediately, identify the flow of illicit assets through investigation to mitigate money laundering and financing of terrorism, minimize tax evasion and revenue leakage, enhance financial integrity, good governance, and accountability, protect right of Bonafede third parties, and ensure proportionate, effective, and dissuasive punishment.

2.1 Introduction

Prevention of money laundering and financing of terrorism has become a subject of major concern of the present world. The corporate vehicles such as companies, trusts (Guthi), authority, partnerships, and other types of legal persons and

arrangements have made significant contributions in the commerce and entrepreneurship sectors of the global economy. In certain circumstances, the corporate vehicles are misused in illicit activities such as money laundering and terrorist financing, corruption, and tax evasion. Studies by the Financial Action Task Force (FATF) have shown an increasing trend where criminal individuals use legal persons/arrangements to hide or transform assets acquired through illegal means. Transparency of legal persons/arrangements plays a vital role in the prevention of money laundering, terrorist financing, tax evasion, corruption, and organized crime.

FATF recommendations emphasize that member nations shall arrange for access to accurate and update information regarding legal persons/arrangements and beneficial owners, and ensure easy access for law enforcement agencies. Identification of the beneficial owner of a legal person/arrangement is important for its mitigation. Since the legal and economic rights of a legal person/arrangement may reside with different individuals, the reduction of financial crimes cannot be expected until the actual beneficial owner is reached.

The 2022 amendments to FATF recommendations No. 24 and 25 emphasize a multi-dimensional view point. To obtain information regarding beneficial owners, not just one but various mechanisms shall be used. For instance, factual, sufficient, and up-to-date information regarding the beneficial owner of a legal person or legal arrangement shall be obtained and verified from information kept by companies themselves, information residing in public bodies, and information obtained from reporting entities, etc. Identification of the beneficial owner helps in measuring the level of risk of financial investment in money laundering and terrorist activities.

2.2 Definitions:

Beneficial Owner:

Pursuant to the Assets (Money) Laundering Prevention Act, 2008, it is stated that beneficial owner" means a natural person who, as the ultimate beneficiary or owner

thereof, directly or indirectly, owns or controls or directs or influences a customer, transaction, property, legal person or legal arrangement.

According to FATF, Beneficial Owner (BO) refers to the natural person who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. The control can be realized either directly or indirectly.

A beneficial owner can only be a natural person who has the status of controlling every activity of the company/legal arrangement. If the ultimate natural person controlling the property of a company/legal arrangement is the beneficial owner, then the person holding a legal position or the structure or corporate can be taken as a legal owner.

There is a close relationship between the identification of the beneficial owner and transparency. It emphasizes how information regarding the beneficial owner is declared, stored centrally, and how public access to it is managed. Records regarding individuals, companies, and trusts should be categorized, and a balance should be maintained between the right to information and privacy, so that such information is published in an open manner to increase access for stakeholders. This is expected to increase transparency.

2.3 Identification of Beneficial Owner

In a general sense, the adoption of a system to identify the natural person who ultimately benefits from business activities is the identification of the beneficial owner. The responsibility for identifying the beneficial owner resides in bodies that register businesses or companies, bodies that conduct financial and non-financial transactions, businesses that provide legal/financial consultation, and companies or trusts, etc. A business activity carried out on the basis of a legal person/legal arrangement which is performed for a natural person, or the person who has

effective control in the decision-making process, such a person is the beneficial owner.

It is mandatory to verify whether the information regarding the beneficial owner obtained from relevant bodies is accurate based on analysis. A natural person who holds controlling ownership or interest in a legal person, either directly or through a chain of other entities or arrangements shall be identified or verified. Such control or interest can be exercised through shares, voting rights, assets, or other rights. If a beneficial owner cannot be identified through these means, they can be identified through personal or economic influence, individual relationships, availability of finance, historical or contractual relationships, or the use of company assets or profits.

2.4 Legal Provisions related to Identification of Beneficial Owner

- (a) Assets (Money) Laundering Prevention Act, 2008
- (b) Assets (Money) Laundering Prevention Rules, 2024
- (c) Directive issued by the Inland Revenue Department to Dealers in Precious Metals and Stones (Reporting Entities) regarding the Prevention of Money Laundering and Terrorist Financing 2025
- (d) Guidance on Targeted Financial Sanctions issued for Dealers dealing in precious metals and Stones, 2025

2.4.1 Existing provisions regarding beneficial owner in the Assets (Money) Laundering Prevention Act, 2008.

The various provisions related identification and verification of customers in the Act are as follows:

- (a) Prohibition on conducting or causing to be conducted any transaction in anonymous or fictitious name:**

1. Section 6 of the Act has made the provision that a reporting entity shall not open an account or conduct or cause to be conducted any transaction in an anonymous or fictitious name.
2. Pursuant to sub-rule (1) of Rule 13 of the Rules, a reporting entity shall not establish a business relationship or carry out a transaction with a customer who is in a situation as referred to in sub-section (1) of Section 7O. of the Act and a customer who fails to provide the details or documents requested pursuant to Rule 3, 4, or 5.
3. Pursuant to sub-rule (2) of Rule 13 of the Rules, notwithstanding anything contained in sub-rule (1), if a customer who was unable to submit the documents and details requested pursuant to Rule 3, 4, or 5, submits documents and along the reasons for such inability with documents and details to verify such reason, and if such reasons appear reasonable, the reporting entities shall not be barred from establishing a business relationship or carry on a transaction with such customer by updating their information.

(b) Conditions requiring identification and verification of customer:

1. In sub-section (1) of Section 7A. of the Act, provides that a reporting entity shall, while performing the following acts, accurately identify the customer and verify such identification based on documents, data, or information obtained from a reliable source, subject to sub-sections (3) and (4) when: -
 - (a) Establishing a business relationship,
 - (b) Opening an account,
 - (c) Doing an occasional transaction above the prescribed threshold,
 - (d) Transferring funds (wire transfer) through electronic means,

- (e) Making further verification upon a suspicion about the veracity or adequacy of previously obtained customer identification information,
 - (f) Making further verification when there is a suspicion of money laundering or terrorist financing,
 - (g) Making every transaction by High-risked Customers or politically exposed person, or
 - (h) Doing such other act as specified by the regulatory body.
2. According to sub-section (2) of Section 7A. of the Act, the minimum documents to be obtained by a reporting entity in carrying customer identification shall be as prescribed
 3. According to sub-section (3) of Section 7A. of the Act, the reporting entities shall use documents, data, or information obtained from independent and reliable sources for identifying and verifying the identification of the customer pursuant to this Chapter.

(c) Measures to be adopted while identifying and verifying the identification of the customer:

1. Sub-section (4) of Section 7A. of the Act provides that a reporting entity shall take the following measures to carry out identification and verification of identity of its customer accurately:
 - (a) Obtaining appropriate information and details about transactions or business relationships and the objective or intended nature thereof,
 - (b) Obtaining details including the name, address and date of birth on the basis of, inter alia, the documents prescribed

under sub-section (2), where the customer is a natural person,

- (c) Obtaining details and information as to, and verifying, its ownership and control system on the basis, inter alia, of the documents prescribed under sub-section (2), where the customer is a legal person or legal arrangement,
 - (d) Obtaining documents, along with the power of attorney, identifying and verifying the person on whose behalf such business relation or transaction is intended to be established or carried out and the person acting on that person's behalf, where a business relationship or transaction is to be established or carried out on behalf of other person,
 - (e) Obtaining such other necessary information and details regarding the nature and type of the customer, transaction or business in order to fulfill the obligation referred to in this Chapter,
 - (f) Taking such other measures as specified by the regulatory body.
2. Sub-section (5) of Section 7A. provides that, notwithstanding anything contained in sub-section (1), it is not mandatory for the following reporting entities as designated non-financial businesses or professions to carry out identification and verification of identity business dealing with precious metals and stones for customers who engage in transactions equal to or below one million rupees in a day.
3. According to sub-section (6) of Section 7A. of the Act, entire responsibility of accurately identifying and verifying the identity

of its customers pursuant to this Chapter shall be vested in the reporting entities.

4. According to sub-rule (1) of rule 3 of the Regulation, while identifying a customer as per section 7A of the Act, if the reporting entities has been granted access to the personal details kept in electronic records by the Government of Nepal during the process of that person obtaining a Nepali citizenship certificate or national identity card, the reporting entities may, with the consent of the concerned person, take the necessary details from such electronic records into its internal system for customer identification.
5. According to sub-rule (2) of rule 3 of the Regulation, there is a provision that to further verify the details of the electronic records obtained according to sub-rule (1), the reporting entities may, with the consent of the concerned customer, make the customer affix the signature in such records or access the same records through electronic Signature.
6. According to sub-rule (3) of rule 3 of the Regulation, the reporting entities, while obtaining information required in the course of customer identification, verification, and transactions under this rule, shall, as far as possible, obtain it on the basis of the mobile number mentioned by the concerned customer in the national identity card.
7. According to sub-rule (4) of rule 3 of the Regulation, while conducting customer identification and verification under this rule, if other details are necessary, the reporting entities shall conduct customer identification and verification by requesting additional details from the customer, and

8. Sub-rule (5) of Rule 3 of the Rules provides that, while updating the information related to the identification or verification of the customer, the reporting entities may make necessary arrangements to prioritize if on basis of risk and conduct the process through electronic means.

(d) Details to be obtained while identifying the customer:

Sub-rule (1) of Rule 4 of the Rules provides that, except in the circumstances mentioned in Rule 3, the reporting entities shall, while identifying the customer according to Section 7A. of the Act, obtain at least the following details:

(1) In the case of a natural person

- (a) Full name, surname, and gender,
- (b) Date of birth,
- (c) Permanent address as mentioned in the citizenship or National Identity Card and full details of the current place of residence, or full address of the office where the person is employed or the place where the business is conducted,
- (d) Information regarding through which the customers can be contacted at the earliest,
- (e) Full name and surname of father and mother or the mother or the father,
- (f) Nationality,
- (g) Any one of the following details according to the type of customer: -
 - 1. Citizenship Number, National Identity Card, Voter Identity Card, Driving License, or Passport no,

including the date of issuance, place of issuance, and the date of expiry period for Nepali citizens,

2. Birth Registration Certificate or Minor Identity Card, the citizenship, National Identity Card, or Passport number, issuance date, place of issue, and the date of expiry of parents/ Guardian in case of Minor.
3. The recommendation of the concerned local level for Nepali Citizens who have not obtained citizenship certificate in case of adult.
4. Passport number, date of issuance, place of issuance, and the date of expiry in case of a foreign national
5. The number of the Aadhaar Card or the certificate obtained according to Indian law certifying the person as an Indian citizen, the date of issuance, and the issuing body and place in case of an Indian national without a passport
6. The identity card number issued by the concerned government or international body, the date of issuance, the date of expiry, and the place of issuance in the case of a refugee,

(2) In the case of a Legal Person:

- a. Name of the legal person;
- b. Full details of the address of the registered and business office, telephone, email, website, and other similar means of contact,
- c. Type of business of the legal person,

- d. Registration number of the legal person, license, permission, or transaction license number, date of issuance, validity period, issuing body and country, and details regarding renewal if renewal is required according to prevailing law,
- e. Main documents, business, or primary objectives required for registration or obtaining license according to the type of legal person,
- f. Permanent Account Number (PAN) or the number and date of issuance of a similar certificate provided by a government body for tax purposes,
- g. Personal details of the Boards or the Management Committee, or any other committee formed for a similar purpose, and the senior management,
- h. Personal details of the Shareholders holding fifteen percent or more share of the legal person.
- i. If any legal person holds fifteen percent or more share ownership of any legal person, personal details of person holding fifteen percent or more share ownership of such legal person,
- j. Consolidated statements regarding the beneficial owner updated by the concerned legal person pursuant to subsection (1) of Section 35A. of the Act;
- k. Self-declaration stating that the current director, shareholder, proprietor, or partner is the beneficial owner;
- l. Personal details of the account operator.

3) In the case of a Legal Arrangement:

- (a) Name, primary objectives, and functions of the legal arrangement,

- (b) Full details of the country where the legal arrangement is registered or established and address of place of business, phone number, email, website, and other similar means of contact,
- (c) Registration number of the legal arrangement, license, permission, or business license number, date of issuance, validity period, issuing authority and country, and details regarding renewal if renewal is required according to prevailing law,
- (d) Name and full address of permanent residence or place of work of the trustee, controller, Guardian, or settlor, and contact number and medium for immediate contact,
- (e) Permanent Account Number (PAN) or the number and date of issuance of a similar certificate provided by a government agency for tax purposes,
- (f) Name, address, and category of the beneficiary,
- (g) Personal details of the account operator,
- (h) Consolidated statement if the beneficial owner updated by the concerned legal arrangement pursuant to sub-section (1) of Section 35B. of the Act: -
 1. Sub-rule (2) of Rule 4 of the Rules provides that, notwithstanding anything contained in sub-rule (1), a report entity while conducting customers due diligence of government agencies, entities or Inter government or international organization shall obtain decision of concerned agency or entity to operate or conduct transaction Power of Attorney granted for carrying out financial transaction and personal details of account operator for opening corporate account.
 2. Sub-rule (3) of Rule 4 of the Rules provides that, the reporting entities shall conduct customer due diligence as per the customers

nature, sector, production, service, and medium of payment and their risk.

3. Sub-rule (4) of Rule 4 of the Rules provides that, for the purpose of clause (c) of sub-section (1) of Section 7A. of the Act, a reporting entity shall conduct customers identification while carrying out an occasional transaction of one hundred thousand rupees or an equivalent amount in foreign currency of such amount once or several times a day.
4. Sub-rule (6) of Rule 4 of the Rules provides that, notwithstanding anything contained in sub-rules (4) and (5), the process for obtaining the signature thumbprint of a non-financial businesses or professional or business account operator shall be as determined by the concerned regulatory agency.
5. Sub-rule (7) of Rule 4 of the Rules provides that, even if there is a facility or exemption for customer identification or verification pursuant to the Act, or if the transaction is less than prescribed limit is found to be suspicious pursuant to sub-rule (4), the reporting entities shall submit a report regarding such suspicious transaction to the Financial Intelligence Unit.

(e) Details of documents required for verification for customer identification:

- 1) Sub-rule (1) of Rule 5 of the Rules, the reporting entities while verifying the customers identity shall inquiry the following documents as per the Section 7A. of the Act or if as customers is given access to the relevant government electronic records in accordance with the prevailing laws in case of documents pursuant to sub-rule (2) it shall be inquired on the basis of such records.

(1) In the case of a natural person:

- (a) In the case of a Nepali citizen, Citizenship Certificate, National Identity Card, or Voter Identity Card, or Driving License, or Passport,
- (b) In the case of a minor who is Nepali birth Registration Certificate or Minor Identity Card, and the Citizenship Certificate, National Identity Card, or Passport of the parent or guardian,
- (c) In the case of an adult Nepali citizen who has not obtained a Citizenship Certificate recommendation letter from the local level,
- (d) Passport in the case of a foreign citizen,
- (e) In the case of an Indian citizen who does not hold passport, certificate issued in accordance with Indian law showing him/her to be Indian citizen,
- (f) In the case of a refugee, an identity card issued by the concerned government or international Agency.

(2) In the case of a legal person:

- (a) Registration, license, permit, or permission to operate business in accordance with the law, and in case such documents are required to be renewed under prevailing law, the details regarding renewal,
- (b) Updated major documents disclosing the objectives and activities required for registration according to the type of legal entity,
- (c) Documents disclosing the address, type of business or work, and main objectives of the legal entity,

- (d) Permanent Account Number or a similar certificate issued by a government agency for tax purposes,
- (e) Documents that set out the identity of the office bearers and high-level managers of the Board of Directors or Management Committee or any other committee formed for such purpose,
- (f) Documents disclosing the identity of the account operator,
- (g) The consolidated details regarding the beneficial owner updated and maintained by the concerned legal person pursuant to sub-section (1) of Section 35A. of the Act.

(3) In the case of a legal arrangement:

- (a) Documents that sets out objectives and functions of registration or trust deed or the establishment of the legal arrangement,
- (b) Documents disclosing the identity and address of the trustee, controller, protector, settlor, beneficiary, or other beneficial owner,
- (c) Documents disclosing the identity and address of the main office bearers operating the legal arrangement,
- (d) Permanent Account Number or a similar certificate issued by a government agency for tax purposes,
- (e) Documents disclosing the identity of the account operator,
- (f) Consolidated details regarding the beneficial owner updated and maintained by the concerned legal arrangement pursuant to sub-section (1) of Section 35B. of the Act.

- 1) According to sub-rule (2) of Rule 5 of the Rules, a reporting entity, while identifying a customer under these Rules, shall conferring by having access for the following documents or electronic records established under prevailing law: -
 1. Citizenship Certificate,
 2. National Identity Card,
 3. Voter Identity Card,
 4. Driving License,
 5. Permanent Account Number,
 6. Records maintained in registering, regulating, or government agency, or records permitted by such agency.
 7. Other documents recorded in the electronic records as determined by the Regulatory body.
- 2) Sub-rule (3) of Rule 5 of the Rules, provides that while identifying any legal person or legal arrangement, the Reporting entities shall obtain the personal details of the members of the Board of Directors of such legal person or legal arrangement, or in the absence of such Board of Directors, through a committee authorized to take decisions regarding the operation and management of the legal person or legal arrangement and in the absence of such committee, the verification of persons shall be done form among the persons holding chief position, certified in the format determined by the concerned Regulatory Body, in an integrated manner.

(f) Identification of Politically Exposed Persons (PEPs) and Beneficial Owners:

- 1) Sub-section (1) of Section 7B. of the Act, provides that the Reporting entities shall establish a risk management system to identify whether a customer, person seeking to be costumers or beneficial owner, of a customer, or transaction is Politically Exposed Persons (PEPs).
- 2) According to sub-section (2) of Section 7B. of the Act, the reporting entities shall adopt the following additional measures if it finds the customers or beneficial owner is either a foreign Politically Exposed Persons (PEPs) or domestic Politically Exposed Person (PEPs) or international Politically Exposed Person (PEPs) evaluated to be a high risk while establishing business relationship or conducting transaction: -
 - (a) Obtain approval from the Senior Management Officials of the Reporting entities prior establishing a business relationship,
 - (b) Obtain approval as per clause (a) immediately, if existing customer is a Politically Exposed Persons (PEPs),
 - (c) To take all reasonable measures to identify the source of wealth and source of funds of the customer or beneficial owner,
 - (d) To conduct continuous monitoring of the business relationship or transactions with the customer and such person,
 - (e) To apply enhanced customer due diligence measures pursuant to Section 7E. of the Act.
- 3) Sub-section (3) of Section 7B. of the Act, provides that the provisions under sub-sections (1) and (2) shall be applicable to the

family members and associate persons of the Politically Exposed Persons (PEPs).

- 4) Sub-section (1) of Section 7C. of the Act, provides that the Reporting entities shall adopt necessary reasonable measures to identify and verify the beneficial owner while establishing a business relationship or conducting transactions.
- 5) Sub-section (2) of Section 7C. of the Act, provides that the Reporting entities shall ascertain whether a person is establishing a business relationship or conducting transactions on behalf of another person or not.
- 6) According to sub-section (3) of Section 7C. of the Act, while ascertaining as per sub-section (2) if it is found that a person has established a business relationship or conducted a transaction on behalf of another person, the Reporting entities shall adopt measures as per clause (d) of sub-section (4) of Section 7A. for the identification and verification of such person.

(g) Identification and Verification of Beneficial Owner of Legal Person:

- 1) Sub-rule (1) of Rule 6 of the Rules, provides that, the reporting entities, while identifying and verifying the beneficial owner of a legal person under Section 7C. of the Act, shall also adopt the following measures:
 - (a) Identification of the ultimate natural person, if any, who holds effective ownership of fifteen percent or more over the legal person,
 - (b) If information regarding the person having ownership as per clause (a) is not available, or if there is doubt or ambiguity in that regard, identification of whether or not there is any natural person exercising control over such legal person,

- (c) If no individual is identified as per clause (a) or (b), identification of the chief official serving as the director of such legal person, and
 - (d) Other measures deemed appropriate by the reporting entities.
- 2) Sub-rule (2) of Rule 6 of the Rules, provides that, the Reporting entities, while identifying and verifying the beneficial owner, shall in addition to sub-rule (1), must also identify individuals who can exert control over the legal entity:
- (a) A natural person who controls the legal entity or holds, directly or indirectly, fifteen percent or more of the shares, other ownership, value, or voting rights, or control over its decisions,
 - (b) A natural person performing management or similar functions,
 - (c) Individuals holding significant and differential voting rights,
 - (d) Individuals exercising control through debt instruments,
 - (e) Individuals exercising control over other person name or property,
 - (f) Individuals having the authority to nominate officials or to make appointment to senior managerial positions.
- 3) According to Sub-rule (3) of Rule 6 of the Rules, the reporting entities, while identifying and verifying the beneficial owner of a legal arrangement in accordance with Section 7C. of the Act, shall identify the settlor, trustee, protector, beneficiary or class of beneficiaries, and the ultimate natural person exercising effective control over the same or a person having similar status.
- 4) According to Sub-rule (4) of Rule 6 of the Rules, the reporting entities, while measuring the effectiveness of indirect ownership and

control over a legal person or legal arrangement, the reporting entities shall do so on the basis of the following criteria: -

- (a) Proportional ownership among all shareholders, partners, or beneficiaries;
 - (b) Proportional ownership of family members in regard to family interest.
- 5) According to Sub-rule (5) of Rule 6 of the Rules, the reporting entities may opt not to identify the beneficial owner of a legal person listed on the securities market if it is certain that details regarding the beneficial owner and their shares, control, or interests are public according to law or are easily accessible and sufficient, and if report confirm the compliance of international standards on prevention of money laundering and the terrorist financing.
- 6) According to Sub-rule (6) of Rule 6 of the Rules, the reporting entities, while updating the identification or details of the beneficial owner, shall obtain details regarding the beneficial owner from the concerned government entity in accordance with Section 35A of the Act, and if it appears that the information held by the reporting entities is necessary for the concerned government agency to verify the beneficial owner, such information shall be sent to the government agency.
- 7) According to Sub-rule (7) of Rule 6 of the Rules, the reporting entities shall adopt other necessary and appropriate measures on a risk-based approach to identify the structure of ownership and control of a legal person or legal arrangement.

(h) Enhanced Customer Due Diligence:

- 1) Sub-section (1) of Section 7E of the Act provides that, the reporting entities shall adopt appropriate measures regarding Enhanced

Customer Due Diligence while establishing a business relationship or conducting transactions with the following customers: -

- (a) A customer identified as high-risk through risk assessment conducted pursuant to Sections 7D., 7U., and 35,
 - (b) A customer conducting complex, large, or unusual transactions having no apparent visible legal economic or legal purpose,
 - (c) A customer from a country identified internationally as not complying or only partially complying with international standards relating to the prevention of money laundering and the terrorist financing,
 - (d) Politically Exposed Persons (PEPs) has family members and person associated with Politically Exposed Persons (PEPs),
 - (e) A customer conducting transactions pursuant to Sub-section (1) of Section 7N,
 - (f) A customer using high-risk new products or services;
 - (g) A customer suspected of an offense relating to money laundering and the terrorist financing or any other offense; or
 - (h) Other customers as specified by the regulatory body.
- 2) Sub-section (2) of Section 7E. of the Acts, provides that, the reporting entities, while conducting Enhanced Customer Due Diligence of a customer pursuant to Sub-section (1), shall also adopt additional measures determined by the regulatory body, and Sub-section (3) provides that other provisions regarding Enhanced Customer Due Diligence shall be as prescribed.
 - 3) Sub-rule (1) of Rule 8 of the Rules, provides that, the reporting entities, while conducting Enhanced Customer Due Diligence in

respect of a customer identified as high-risk, may adopt any or all of the following measures: -

- (a) To verify the purpose and background of complex, large, or unusual transactions whose financial or legal purpose are not clear,
- (b) To search for the source through internal or public mediums or to demand or obtain the same from the customer as per need based on risk-based procedure if the case transaction is of complex, large or unusual nature whose financial and legal objectives are not clear,
- (c) To Take possible measures to identify the background of the customer's transactions and the reasons for their purpose,
- (d) To control over and regularly monitoring the customer or transaction and ascertain whether or not such customer or transaction is unusual or suspicious, or to identify transactions which require further monitoring or verification,
- (e) To obtain or collecting additional details regarding the customer, beneficial owner, and associated persons;
- (f) To obtain or collect additional details regarding the business relationship with the customer, the transaction, and its nature and purpose;
- (g) To prescribe transaction limits;
- (h) To adopt other measures to examine or verify the documents received.
- (i) To make the first payment only through an account where Enhanced Customer Due Diligence (ECDD) has been performed,

- (j) To keep information related to the customer from time to time,
 - (k) To take necessary measures to identify the source of funds or assets,
 - (l) To Maintain records of findings of monitoring and provide the same to the audit or other competent authorities if demanded,
 - (m) To take other appropriate measures in addition to those mentioned in clauses (a) to (l).
- 4) According to sub-rule (2) of Rule 8 of the Rules, a reporting entity shall decide to obtain approval from senior management regarding whether or not to establish a business relationship, maintain a business relationship, or continue transactions with a customer identified as high-risk.

i) Simplified Customer Due Diligence:

1. Sub-section (1) of Section 7F. of the Act provides that a reporting entity may adopt simplified customer due diligence and verification measures in relation to a customer or transaction where there is a low risk of money laundering and terrorist financing.
2. Sub-section (2) of Section 7F of the Act provides that simplified customer due diligence and verification measures under sub-section (1) shall not be adopted in the case of a high-risk customer, transaction, or a business where there is a suspicion of money laundering or terrorist financing and sub-section (3) provides that other provisions regarding simplified customer due diligence and verification shall be as prescribed.
3. According to sub-rule (1) of Rule 9 of the Rules, a reporting entity may not undertake simplified due diligence and verification in the following circumstances:

- (a) If the customer is a foreigner,
 - (b) If the customer on main transaction of the customers belongs to a country not extensively complying with the international standards on Anti-money laundering and combating of financing of terrorizing proliferation,
 - (c) If the customer is listed on the securities market of a country that does not substantially comply with international standards regarding the prevention of money laundering, terrorist acts, or the manufacture and proliferation of weapons of mass destruction,
 - (d) In a situation where the details of the beneficial owner of a legal person or legal arrangement cannot be publicly available,
 - (e) In the case where the customer or the beneficial owner is a Politically Exposed Persons (PEPs)
 - (f) In the case where the customer is identified as high-risk or is suspicious, or
 - (g) In the case where the customer falls under a medium or higher risk category based on the risk assessment.
4. According to sub-rule (2) of Rule 9 of the Rules, the regulatory authority may determine the necessary standards regarding simplified due diligence and verification.
5. Sub-section (1) of Section 7H. of the Act provides that, a reporting entities shall review the identification and verification of existing customers and beneficial owners operating accounts or established business relationships at the time of commencement of this Section, and shall perform customer identification and verification in accordance with this Chapter based on the risk associated with the type and nature of such customer and beneficial owner, business relationship, transaction, product or service, country or geographical area, or

distribution system and sub-section (2) provides that the timeframe for performing customer identification and verification pursuant to sub-section (1) shall be as prescribed by the regulatory body.

6. Sub-section (1) of Section 7H. of the Act provides that a reporting entity shall perform identification and verification of the customer and the beneficial owner before opening an account or establishing a business relationship, during establishment of a business relationship, and while conducting occasional transactions.
7. Sub-section (2) of Section 7G. of the Act provides that notwithstanding anything contained in sub-section (1), a reporting entity may perform verification of customer identification even after the establishment of a business relationship or conduct of a transaction if the following conditions exist:
 - (a) If the reporting entities is confident that of identification can be verified practically at any time,
 - (b) If it is not possible to perform immediate verification of customer identification due to practical reasons, and such verification would cause an interruption in the regular conduct of business, and such interruption is not deemed necessary, and
 - (c) If conditions exist where the risks associated with money laundering and terrorist financing can be effectively managed.
8. Sub-section (3) of Section 7G. of the Act provides that notwithstanding anything contained in sub-section (2), a reporting entity shall perform identification and verification of the customer and the beneficial owner pursuant to sub-section (1) in relation to the following customers and transactions:

- (a) If the customer is identified as high-risk or Politically Exposed Persons or its family member or person associated with such customers or
- (b) In activities of customers is suspicious.

(J) Ongoing Monitoring (Ongoing Due Diligence):

1. According to Section 7I. of the Act, a reporting entity shall perform the following acts for ongoing due diligence of a customer, beneficial owner, or transaction: -
 - (a) Closely examining customers until a business relationship exists with them in order to ensure whether transactions have been made in consonance with the information available to it in relation to the customer, and details relating to the customers' business and risk profile,
 - (b) Demanding also the source of money from the customers or examine it if it is necessary to make close examination pursuant to clause (a),
 - (c) Reviewing and updating the previous documents and details in order to ensure that the documents and details relating to the customers including high-level officials or high-risk ones and business relationships, transactions with them and relating to the beneficial owners are updated,
 - (d) Regularly monitoring cross border correspondent banking and wire transfer transactions and the customers,
 - (e) Performing such other functions as specified by the regulatory body, and
 - (f) Performing such other functions as the reporting entities itself considers appropriate.

2. According to Rule 10 of the Regulation, if it is found that payments related to the business transactions of a legal person or legal arrangement are being made to or received from a personal account other than that of such legal person or legal arrangement, or if a personal savings account is found to be used as a medium for business transactions except as provided by prevailing law, the concerned financial institution shall provide such information to the Financial Intelligence Unit and the Inland Revenue Department.
3. According to Sub-rule (1) of Rule 18 of the Regulation, for the purposes of Section 7R. of the Act, a reporting entity shall maintain records of monitoring, risk assessment, internal control, and related details and documents for the period determined by the concerned regulatory body.
4. According to Sub-rule (2) of Rule 18 of the Regulation, a reporting entity shall develop an automated mechanism for the implementation of the provisions mentioned in the Act and this Regulation regarding beneficial owners, listed persons, and compliance audit.

(k) Provision to Submit Details of Beneficial Owner

- 1) Section 35A. of the Act provides the submission of details regarding the Ultimate Beneficial Owner. Pursuant to Sub-section (1) of the Section 35A, In a case where 15 percent or more share or capital is invested individually or jointly or in group directly or indirectly or in or through any other person's name in a company, cooperative organization, private firm or partnership firm or if one is an ultimate beneficial owner thereof through any means while incorporating, registering or obtaining license of a company, cooperative organization, private firm, partnership firm or any other kind of legal person established by investing capital through shares or any other means, the details of such ultimate beneficial owner shall be submitted to the

agency that incorporates and registers the legal person or issues a license thereof

- 2) According to Sub-section (2) of Section 35A. of the Act, the concerned agency shall not register and incorporate such legal person or otherwise issue license until the details referred to in Sub-section (1) are submitted.
- 3) According to Sub-section (3) of Section 35A of the Act, no company, cooperative organization, private firm, partnership or legal person established by making investment through shares or any other means pursuant to Sub-section (1) registered or licensed under the prevailing law shall be permitted to issue the held bearer shares or other financial instruments relating thereto.

Provided that if a foreign legal person issues the bearer shares or other financial instruments relating thereto, information thereof shall be provided to the concerned registration agency. Where the legal person has a regulatory body, such information shall be provided to such body as well.

- 4) According to Sub-section (4) of Section 35A. of the Act, If a person fails to provide the details pursuant to this Section or submits falsified details related to ultimate beneficial owner, the capital to the extent of details not provided or falsified details shall be confiscated by the regulatory authority or the registration agency, where such a regulatory authority does not exist, in addition to imposing a fine from one million to five million rupees on the ultimate beneficial owner and information thereof shall be provided to Financial Intelligence Unit and the concerned body responsible for investigation or law enforcement agency.

- 5) According to Sub-section (5) of Section 35A of the Act, the concerned company, cooperative organization, private firm, partnership firm or legal person established by making investment through shares or any other means shall regularize, update and maintain the details referred to in Sub-sections (1) and (2) until five years from the date of the end of the capacity of ultimate beneficial owner of a person and to provide as requested by the government or reporting entities. In the case of others, it should be kept in such a way that it is made available as specified.
- 6) According to Sub-section (6) of Section 35A of the Act, the legal person registration agency and the regulatory authority shall maintain the records of the ultimate beneficial owner of such legal person for a period of at least five years from the date of cancellation of that legal person.
- 7) According to sub-section (7) of Section 35A. of the Act, A company, cooperative organization, private firm, partnership or legal person established by investing capital through shares or any other means existed at the time of commencement of this Section shall submit the details related to ultimate beneficial owner set forth in this Section to the agency registering such a legal person or issuing the license within one year from the date of commencement of this Section.
- 8) According to sub-rule (1) of Rule 76 of the Rules, while preparing the details of the beneficial owner of a legal person in accordance with Section 35A. of the Act, the legal person shall, as required, obtain details or a self-declare the following information from individuals who can hold or control ownership of the legal person: -
 - (a) Whether an individual or a single-family household holds fifteen percent or more ownership,

- (b) Whether a relevant natural person holds fifteen percent or more ownership when considering the investment and ownership structure of one or multiple legal entities,
 - (c) Whether there are notable and differing voting rights,
 - (d) Whether there is control through debt instruments,
 - (e) Whether there is ownership or control exists through the name or assets of any other person,
 - (f) In the case of a company having nominee shareholders or directors as per prevailing law, whether the company nominating such nominee shareholders or directors, or any person above it, has the status of a beneficial owner directly or indirectly as per the Act,
 - (g) Whether the status of a beneficial owner exists due to the nomination of officials,
 - (h) Whether there is an uninterrupted right in the appointment of senior-level managerial positions,
 - (i) Whether there is information regarding all person who can hold ownership or control maintained by reporting entities.
- 9) According to sub-rule (2) of Rule 76 of the Rules, the regulatory body, the legal person, or the body registering the legal arrangement may prioritize and arrange to the collect details of beneficial ownership based on the self-declaration, paid-up capital, business transactions, and risk.

Provided that, the details of a legal person having a paid-up capital of less than ten million rupees or a natural person having share ownership of less than one million rupees may be submitted at the time determined by the regulatory authority or the registering entities.

- 10) According to sub-rule (3) of Rule 76 of the Rules, the details as per sub-rule (1) shall be submitted to the regulatory authority or the registering entity within three months from the date of registration of the details, application of license, or change in ownership or control.
- 11) According to sub-rule (4) of Rule 76 of the Rules, upon obtaining information as per sub rule (2) or (3) the relevant regulatory authority for legal person and registration agency for those without such bodies must verify details about the beneficial owner through any or all of the following measures-
 - (a) By requesting details regarding the revenue or fees paid or submitted by such person,
 - (b) By requesting details of the beneficial owner held in the reporting entities through the regulatory body,
 - (c) By requesting details held with the Financial Intelligence Unit,
 - (d) By requesting details from the Trade Transparency Unit as per the prevailing laws relating to import and export, and by requesting details from the Transparency Unit,
 - (e) By requesting details from other bodies involved in investigation, asset management, or law enforcement,
 - (f) By requesting details held with judicial bodies regarding the beneficial owner,
 - (g) By requesting details from foreign counterparts or concerned bodies as per necessity,
 - (h) By obtaining details through information available in the public domain,
 - (i) By obtaining details through other appropriate means.

2.4.2 Functions, Duties, and Powers of the Regulatory authority or Registering Authority:

- 1) According to sub-rule (5) of Rule 76 of the Rules, while verifying pursuant to sub-rule (4), if a condition as referred to in sub-section (3) of Section 35A. of the Act are observed , the concerned regulatory agency in the case of a legal person having a regulatory body, and the registering authority in the case of a legal person not having such a body, shall request necessary evidence and documents through the concerned legal person.
- 2) According to sub-rule (6) of Rule 76 of the Rules, in the matter of the evidence and documents requested pursuant to sub-rule (5), the concerned person shall submit the evidence and documents available with them to the requesting agency within thirty-five days.
- 3) According to sub-rule (7) of Rule 76 of the Rules, the ownership or transaction of a person who fails to submit the evidence and documents requested pursuant to sub-rule (5) shall be frozen.
- 4) According to sub-rule (8) of Rule 76 of the Rules, if the evidence and documents submitted pursuant to sub-rule (6) are found unsatisfactory, or if bearer shares or other related financial instruments are found to have been issued contrary of the Act and these Rules, a fifteen-day period shall be given for clarification to be presented by the beneficial owner through the respective legal person as to why action should not be taken.
- 5) According to sub-rule (9) of Rule 76 of the Regulation, if an explanation is not submitted within the period specified under sub-rule (8), or if the notice requesting an explanation is not received, or if the submitted explanation is not satisfactory, or if the evidence and details of documents regarding the ownership or transaction frozen under Sub-

rule (7) are not received within three months as per sub-rule (6), the assets shall be confiscated and a fine shall be imposed pursuant to Sub-section (4) of Section 35A. of the Act, and information thereof shall be provided to the concerned individual and the legal person.

- 6) According to sub-rule (10) of Rule 76 of the Regulation, the respective authority shall maintain the details of the person whose assets have been confiscated and on whom a fine has been imposed under Sub-rule (9) on its website.
- 7) According to sub-rule (11) of Rule 76 of the Regulation, if a regulatory authority or registering entity, while identifying the beneficial owner of a legal person, finds that the owner is a foreign person, information thereof shall be communicated to the respective authority.
- 8) According to sub-rule (12) of Rule 76 of the Regulation, if action for confiscation and fine is taken under this Rule, or if the submitted details are suspicious, the regulatory authority or registering entity shall provide information thereof to the Financial Intelligence Unit and the concerned investigating officer as per necessity.

2.4.3 Duty of the Director of a Legal Arrangement:

- 1) According to sub-section (1) of Section 35B. of the Act, a domestic or foreign person operating legal arrangement shall update and maintain the details of natural person who establishes and protects such legal arrangement and ultimately controls such legal arrangement; of person or group/class that receives high financial benefit from such legal arrangement or of person who provides services related to financial, account, tax or investment management and agency of such legal arrangement, and consolidated records of such details shall be sent to the concerned regulatory authority if such a body exists.

- 2) According to sub-section (2) of Section 35B. of the Act, the natural person operating legal arrangement or having ultimate control over such legal arrangement shall also disclose the details relating thereto while becoming a client in a reporting entity.
- 3) According to sub-section (3) of Section 35B. of the Act, in the event of any change or alteration in the details pursuant to this Section, such a legal person shall immediately provide information thereof to the concerned regulatory body.
- 4) According to sub-section (4) of Section 35B. of the Act, the regulatory authority may impose a fine up to one hundred thousand rupees on a legal arrangement or person that fails to provide details pursuant to this Section, submits falsified details or fails to provide information to the reporting entities.
- 5) According to sub-section (5) of Section 35B. of the Act, the legal arrangement operating at the time of commencement of this Section shall submit the details set forth in this Section within one year from the date of commencement of this Section.
- 6) According to sub-section (6) of Section 35B. of the Act, the records pursuant to Sub-section (1) shall be safely maintained until at least five years from the date of withdrawal of such person from the involvement in legal arrangement.
- 7) According to sub-section (1) of Section 35C. of the Act, notwithstanding anything contained elsewhere in the prevailing laws, the legal persons referred to in Section 35A shall maintain details such as his or her name, address, registration and license, legal identity and capacity, working area, regulatory laws, and details that disclose the identity of Directive Committee or officers of other similar committees in a way to be publicly available.

- 8) According to sub-section (2) of Section 35C. of the Act, If there is an ultimate beneficial owner in the legal person referred to in Section 35A, such a legal person shall also disclose the details of such ultimate beneficial owner while becoming a client of reporting entities
- 9) According to sub-section (3) of Section 35C. of the Act, The regulatory body, where it exists, and the registration agency, where such regulatory authority does not exist, may impose a fine ranging from five hundred thousand rupees to five million rupees on a legal person who fails to make public the details pursuant to sub-section (1) by updating thereof or fails to disclose the details of ultimate beneficial owner as set forth in sub-section (2).

2.4.4 Regarding the submission of details of the beneficial owner:

- 1) According to sub-rule (1) of Rule 77. of the Rules, the details prepared under Sections 35A. and 35B. of the Act shall be certified by the respective legal person or legal arrangement and submitted to the regulatory authority or the registering authorities.
- 2) According to sub-rule (2) of Rule 77. of the Rules, a legal person or legal arrangement may make the following provisions to organize, updated or cause to be updated the details under Sections 35A., 35B., or 35C. of the Act and submit such details to the concerned body, and designated contact in this regard: -
 - a) In the case of a reporting entities, the Compliance Officer,
 - b) In the case of a legal person other than those mentioned in Clause (a), the person acting as the executive or head of such person, or senior level employee designated by him/her,
 - c) In the case of a legal arrangement, the trustee.
- 3) According to Sub-rule (3) of Rule 77 of the Rules, the regulatory authority or the registering entity shall conduct risk assessment of the

details and subjects related to Sections 35A., 35B., and 35C., exchange cooperation with foreign bodies, and monitor the condition use, and quality of such cooperation and submit a report to the Coordination Committee on an annual basis.

- 4) According to Sub-rule (4) of Rule 77 of the Rules, the regulatory authority or the registering entity shall designate a contact person to perform or cause to be performed the activities pursuant to Sub-rule (2).
- 5) According to Sub-rule (5) of Rule 77 of the Rules, the Office of the Company Registrar may develop and implement necessary standards regarding the identification and control of the beneficial owner, and on the basis of such standards, the regulatory authority or the registering entity may develop and implement separate specialized standards according to the nature and risk of the business.
- 6) According to Sub-rule (6) of Rule 77 of the Rules, the audit of the proceedings pursuant to Sections 35A., 35B., and 35C. of the Act shall be caused to be conducted annually by a compliance auditor pursuant to Section 35F.
- 7) According to Sub-rule (1) of Rule 78 of the Rules, a legal person and a person operating a legal arrangement shall update the details pursuant to Section 35C. and Section 35B. of the Act, respectively, in the format prescribed by the concerned regulatory authority and submit them to the regulatory body.
- 8) According to Sub-rule (2) of Rule 78 of the Rules, prior to imposing a fine pursuant to Section 35B. or 35C. of the Act on a legal person or a legal arrangement that fails to submit details, provides false details, or fails to provide information to the reporting entities pursuant to sub-rule (1), an explanation shall be sought by providing a period of fifteen days.

- 9) According to sub-rule (3) of Rule 78 of the Rules, the regulatory authority shall impose a fine as per Section 35C. of the Act on a legal person or legal arrangement that fails to submit details, provides false details, or fails to inform the reporting entities as per sub-rule (2), or such legal persons failing to provide an explanation or providing an unsatisfactory explanation shall face penalty as per Section 35C. of the Act.

2.4.5 Maintenance of consolidated Records of Beneficial Owners:

- 1) According to sub-rule (1) of Rule 79 of the Rules, the body registering a legal person or legal arrangement shall maintain integrated records including the full name, address, and investment details of the beneficial owner of such legal person or legal arrangement.
- 2) According to sub-rule (2) of Rule 79 of the Rules, the body or office designated by the Government of Nepal shall, on the basis of the records under sub-rule (1), prepare and maintain updated national-level integrated records of the beneficial owners of legal persons or legal arrangements.
- 3) According to sub-rule (3) of Rule 79 of the Rules, the bodies under sub-rule (1) shall, for the purpose of maintaining national-level integrated records, provide the integrated records prepared by them to the body or office under sub-rule (2).
- 4) According to sub-rule (4) of Rule 79 of the Rules, for the purpose of this Rule, the body or office under sub-rule (2) may develop an electronic system to provide arrangements for the entry and updating of details in the national-level integrated records through an online medium.

2.5 Other Provisions Related to the Identification of Beneficial Owners:

2.5.1 Issues identified regarding Beneficial Owners in the Mutual Evaluation Report Nepal, 2023, regarding Anti-Money Laundering and Countering Financing of Terrorism Measures: -

- (a) Weak implementation of Recommendations No. 24 and 25 of the Financial Action Task Force,
- (b) Lack of information or notices regarding beneficial owners in the registrar of Nepal,
- (c) The report has pointed out the need for additional efforts regarding risk-based Customer Due Diligence (specifically concerning Politically Exposed Persons (PEPs) and beneficial owners).

As the assessment shows partial compliance with Recommendations No. 24 and 25 of the Financial Action Task Force, the following issues regarding beneficial owners appear to have been identified: -

- a) Although the Office of the Company Registrar maintains general information regarding beneficial owners, most of such information is not publicly available,
- b) Lack of clarity in the details and classification of directors of agency and cooperatives,
- c) Inability to obtain accurate, updated, and timely information regarding beneficial owners,
- d) Absence of a mechanism to monitor and ensure the quality of information regarding beneficial owners,
- e) Lack of collection, management, and updating of information on beneficial owners regarding trusts;
- f) Absence of mandatory provisions requiring trusts to provide their accurate details;

- g) Lack of clarity in penalties and weak implementation against those who fail to provide details of beneficial owners on time,
- h) Absence of a clear timeframe in company law for updating information regarding beneficial owners,
- i) Lack of accurate and updated information on the beneficial ownership of legal persons, and
- j) Weak international cooperation, among others.

2.5.2 National Strategy and Action Plan on Prevention of Anti-Money Laundering and countering the terrorist financing (2024/25-2028/29)

Contains the following provisions regarding the identification of beneficial owners:

- 1) Strategy 2.1 under Objective No. 2 of the Strategy and Action Plan regarding reporting entities
- 2) Under Activity 2.1.3, which aims to institutionalize intensive arrangements for institutional good governance and transparency based on risk, have mentioned to formulate and implement detailed guidelines for the identification and monitoring of Beneficial Owner including Fit to Proper Test of individuals with significant ownership and senior managerial level for the fulfillment of objective of Assets (Money) Laundering Prevention Act.
- 3) Under Activity 2.1.7 of Strategy 2.1 of objective No. 2, regulatory bodies shall issue directives to reporting entities to develop and implement detailed procedures for the screening of high-level official, beneficial owners, listed persons, criminal records, adverse information, and other related matters,

- 1) Strategy 5.2 contains a strategy to establish a registry that discloses the identification of beneficial owners. Under this, the following activities/programs are mentioned:
 - (a) The Ministry of Industry, Commerce, and Supplies has been assigned the responsibility to prepare and implement standards for the declaration or identification of beneficial owners of legal persons or legal arrangements (including firms) that could be beneficial owners at the time of incorporation or purchase and sale of capital,
 - (b) Providing access to the relevant agencies and reporting entities to the beneficial ownership registry,
 - (c) Establishing an electronic registry concerning beneficial owners, and
 - (d) Making policy arrangements to maintain integrated records of all types of firms, companies, and entities.

2.5.3 In the context of implementing Detailed Action Plan with Remedial Actions to exit form Jurisdiction under Increased Monitoring (Grey List), 2025

Contains following provisions regarding the identification of beneficial owners:

- a) Under Serial No. 2.5.2 under Regulation and Supervision of Schedule 2, has provisioned for issuing directives covering the latest amendments made to the Act and Rules, including arrangements for customer identification and verification (KYC) based on the National Identity Card, Politically Exposed Persons, beneficial owners, transaction monitoring, identification of suspicious transactions, targeted financial sanctions, review of institutional risk assessment of reporting entities as per the Act, and submission of regulatory reports through electronic

means and to arrange for special assessment of issues during inspection and supervision,

- b) In Serial No. 2.5.7 under Regulation and Supervision of Schedule 2, provides mechanisms for formulating standards for the identification of beneficial owners and recording promptly the details of beneficial owners in a real-time/immediate manner,
- c) In Serial No. 2.5.8 under Regulation and Supervision of Schedule 2, maintain access to the National Crime information Database held by the Nepal Police and conduct Fit & Proper Tests of the relevant or Shareholders official while issuing licenses to reporting entities, or during the purchase, sale, or updating of securities,
- d) In Serial No. 4.5.8 under Investigation of Schedule 4, prioritize the task of searching for beneficial owners and bringing them within the scope of investigation proceedings.

2.6 International Efforts and Best Practices Regarding the Identification of Beneficial Owners

It is observed that the recommendations of the Financial Action Task Force (FATF) have been providing policy guidance in preventing money laundering and Terrorist financing. The Financial Action Task Force is an independent inter-governmental body. It develops and promotes policies in global financial system against money laundering, terrorist financing, and the financing of the proliferation of weapons of mass destruction. The recommendations of the Financial Action Task Force are the global standards against money laundering and the financing of terrorist activities. Provision regarding the transparency and beneficial ownership of legal persons is contained in FATF Recommendation 24, and provision regarding the transparency and beneficial ownership of legal arrangements is contained in Recommendation 25, which are briefly mentioned below: -

2.6.1 Recommendation No. 24 of the Financial Action Task Force:

1. Countries should have mechanisms that identify and describe the different types, forms and basic features of legal persons in the country; and the processes for the creation of those legal persons, and for obtaining and recording of basic and beneficial ownership information. This information should be publicly available,
2. Countries should assess the ML/TF risks associated with all types of legal person created in the country,
3. Countries should require that all companies created in a country are registered in a company registry, which should record the company name, proof of incorporation, legal form and status, the address of the registered office, basic regulating powers, and a list of directors. This information should be publicly available,
4. Companies should be required to a register of their shareholders or members, containing the number of shares held by each shareholder and categories of shares,
5. To take reasonable measures by companies or company registry office to obtain and hold up-to-date information on the companies' beneficial ownership,
6. Using existing information obtained by financial institutions and designated non-financial businesses and professions, in accordance with Recommendations 10 and 22, information held by other competent authorities on the legal and beneficial ownership of companies' information held by the company registry office.
7. The information on beneficial ownership should be accurate and as up to-date as possible,
8. Requiring that one or more natural persons resident in the country authorized by the company, and accountable to competent authorities,

for providing all basic information and available beneficial ownership information, and giving further assistance to the authorities,

9. The company should be required to maintain the information and records referred to for at least five years after the date on which the company is dissolved or otherwise ceases to exist,
10. Mechanism should be applied to ensure that bearer shares or bearer share warrants are not misused for money laundering or terrorist financing.
11. Mechanism should be applied to ensure that nominee shares and nominee directors are not misused for money laundering or terrorist financing,
12. Competent authorities, and in particular law enforcement authorities, should have all the powers necessary to obtain timely access to the basic and beneficial ownership information held by the relevant parties.
13. There should be liability and proportionate and dissuasive sanctions, as appropriate for any legal or natural person that fails to comply with the requirements.
14. International co-operation in relation to basic and beneficial ownership information should be provided, on the basis set out in Recommendations 37 and 40.

2.6.2 Recommendation No. 25 of the Financial Action Task Force:

1. To obtain and hold adequate, accurate, and current information on the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries and any other natural person exercising ultimate effective control over the trust and to maintain information for at least five years after their involvement with the trust ceases,

2. Measures to be ensure that trustees disclose their status to financial institutions and when forming a business relationship or carrying out an occasional transaction above the threshold,
3. Trustees should not be prevented by law or enforceable means from providing competent authorities with any information relating to the trust,
4. Competent authorities, and in particular law enforcement authorities, should have all the powers necessary to be able to obtain timely access to information on beneficial ownership, the residence of the trustee and any assets held or managed by the financial institution
5. International co-operation in relation to information, including beneficial ownership information, on trusts and other legal arrangements, should be provided on the basis set out in Recommendations 37 and 40.
6. There should proportionate and dissuasive sanctions if trustee fails to perform the duties and meet their obligations,

Immediate Outcome 5 of the FATF Methodologies have mentioned that, there should be measures to prevent the misuse of legal persons and arrangements for ML/TF proposes and to provide accurate and current beneficial owner information in timely manner to relevant competent authorities which is the rating criteria for effectiveness.

The Guidance on Transparency and Beneficial Ownership issued by the Financial Action Task Force in 2014 facilitates member states in preventing the misuse of legal persons/arrangements and in implementing FATF Recommendation 24- Transparency and Beneficial Ownership of Legal Persons, Recommendation 25- Transparency and Beneficial Ownership of Legal Arrangements, Recommendation 1-Assessing Risks and Applying a Risk-Based Approach, Recommendation 10-Customer Due Diligence, Recommendation 22- Customer

Due Diligence of non-financial business and professional, and international cooperation based on Recommendations 37 and 40. FATF recommendations focuses on the source of assets of legal persons/arrangements and their activities, basic and beneficial ownership, the acquisition of accurate and timely information, and the assurance that such information is accessible to investigative authorities. This assists financial institutions and non-financial businesses and professional in identifying customers, identifying beneficial owners, and identifying and resolving ML/TF related risks.

Overall, the recommendations issued by the Financial Action Task Force (FATF) appear to emphasize the following matters:

- a) Preventing the use of legal persons and legal arrangements for criminal activities.
- b) Making legal persons and legal arrangements sufficiently transparent by arranging for the declaration and record-keeping of the beneficial owner.
- c) Making it mandatory for competent authorities establishing business relationships, to identify the beneficial owner during the Customer Due Diligence (CDD) process,
- d) Ensuring that accurate and updated basic information regarding the beneficial owner is made publicly available in a timely manner,
- e) Providing for effective penalties for individuals/entities that violate these arrangements.

2.6.3 Access to Information Regarding Beneficial Owners

In the context of establishing public access to information regarding beneficial owners, it is found that the United Kingdom first introduced the concept of a national public registry of beneficial owners in 2016. In the UK, beneficial owners are referred to as Persons of Significant Control (PSCs). This information is maintained and published by Companies House, with provisions for open access

to the general public. To maintain a balance between transparency and privacy, the UK has implemented general data protection regulations. This is done based on the European Union's data protection laws. Sensitive information such as date of birth and permanent residential address is not made public. If a threat is made against a business, such information can be reviewed and removed from public access upon the request of the concerned person/entity. In 2017, Slovakia also implemented this mechanism. It is found that countries like Armenia, Denmark, Sweden, and Portugal provide information upon payment of certain fees. Regarding access to information, by classifying the information, except for information considered sensitive according to the country's laws on personal property, other information should be made open to the public. The effectiveness of the system for identifying beneficial owners depends on how accurate, updated, and accessible the mechanism for declaring beneficial owners is.

2.7 Approaches

To prevent the misuse of legal structures for criminal purposes, the following approaches related to declaration of beneficial owner information: -

(a) Central Registry Approach

Beneficial owners are identified based on the declarations made at the time of registration with a registering entity. For example, information regarding beneficial owners can be obtained from details submitted during registration at the Office of the Company Registrar, or Department of Industry and Commerce offices. Some countries have arranged for this information to be accessible to the general public, while others provide access only to investigative agencies.

(b) The Gatekeeper or Licensed Intermediary Approach

Information regarding beneficial ownership can also be obtained from the details of persons mentioned in the licensing authorities. Identification of the beneficial owner can be made based on information held by bodies that

grant licenses for industry, mining, and production, such as the Department of Industry, Department of Mines and Geology, and the Inland Revenue Department. Beneficial owners can also be identified based on information published regularly or upon request by professional service providers such as auditors and legal practitioners. Furthermore, beneficial owners can be identified by obtaining and analyzing information from banks and financial institutions, and non-financial businesses and professional

(c) Company Approach

Information regarding beneficial owners can also be obtained based on the detail's companies post on their websites or publish from time to time. Companies themselves collect the details of their beneficial owners and make them available to the relevant authorities. It is possible that information received from a company may not be accurate or updated; furthermore, it is necessary to be equally sensitive to the fact that criminal individuals registering shell companies may not publish correct information.

The following arrangements is on place for maintaining records to identify the beneficial owner: -

Personal Records	Company Records	Relationship-related Records
Name	Name	Shareholding
Citizenship/Passport/ National Identity Card No.	Address/Area of Registration	Voting Rights
Permanent Account Number (PAN)	Company Registration No./PAN	Shareholder Percentage
Nationality	Date of Incorporation	Direct/Indirect

Date and Place of Birth	Date of Dissolution	Date of Commencement of Relationship
Place of Residence		Date of Termination of Relationship
Contact Number		

2.8 Instruments/Methods that may be used to conceal the Beneficial Owner

According to the FATF Guidance on Transparency and Beneficial Ownership (2014), the instruments/methods that may be used to conceal the beneficial owner are as follows:

- (a) By establishing shell companies,
- (b) Use of intermediaries in forming legal person,
- (c) trust or other legal arrangement,
- (d) Informal nominee shareholders and directors-close, associates and family,
- (e) Unrestricted use of legal persons as directors,
- (f) Formal nominee shareholders and directors-where the identity of the nominators is undisclosed,
- (g) Bearer shares and bearer share warrants,
- (h) Complex ownership and control structures.

2.9 Procedures for Identification of Beneficial Owner

While identifying the beneficial owner of a legal person, the following procedures shall be adopted:

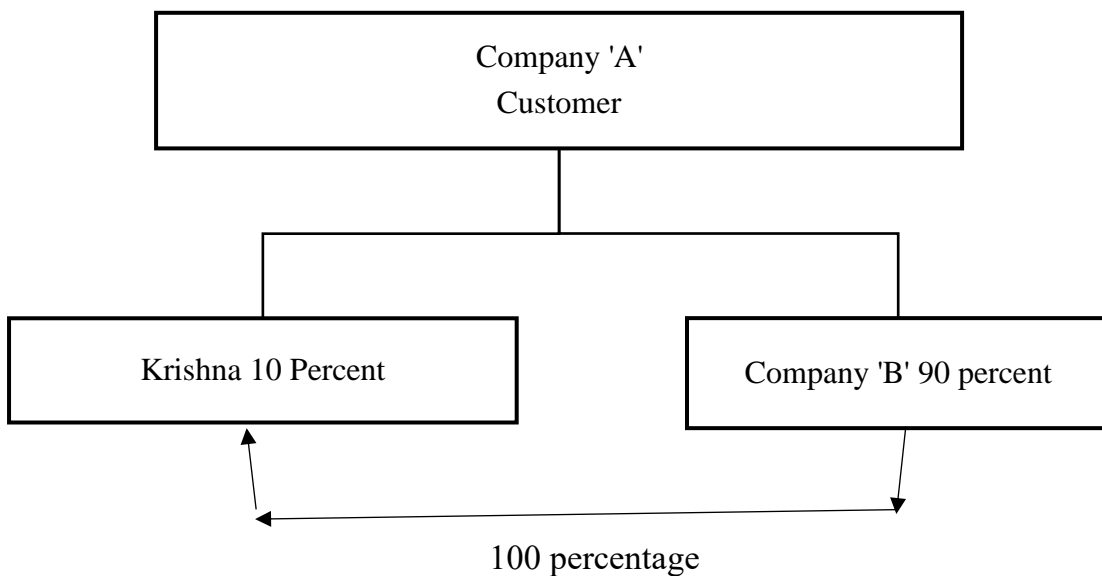
- (1) While identifying the beneficial owner of a legal person, first, identify the natural person who has direct or indirect ownership or voting rights

of 15 percent or more in any company, cooperative, private firm, or partnership firm;

- (2) If the beneficial owner cannot be identified through the first method, identify the natural person who exercises effective control over the legal person in a direct or indirect manner;
- (3) If the natural person cannot be identified through the first and second procedures, the natural person who holds a senior management position shall be identified.

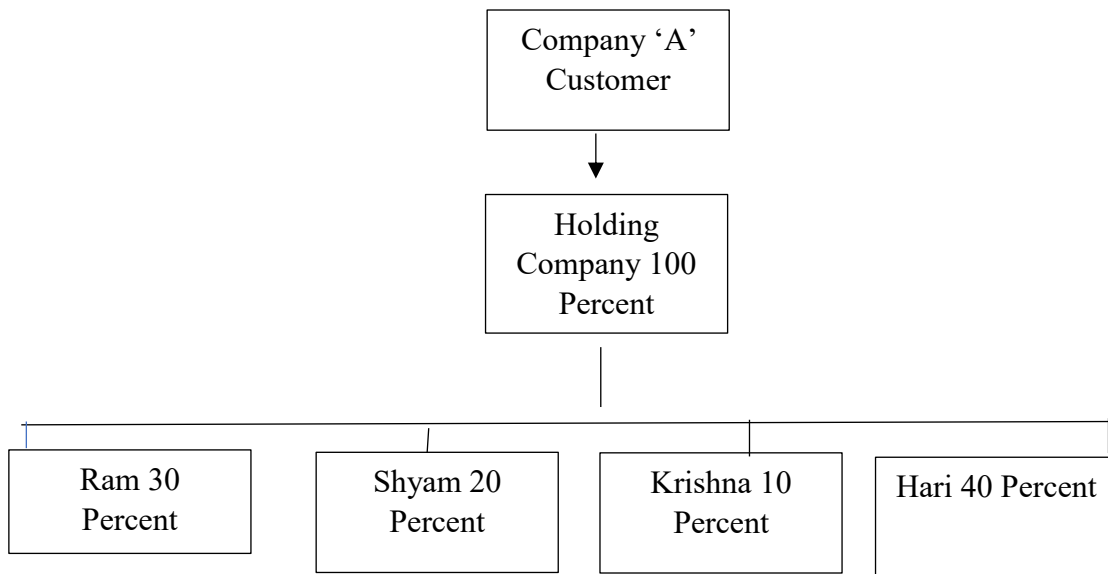
2.10 Methods of control and supervision in the context of identification of beneficial ownership.

a) Direct or Indirect Ownership:



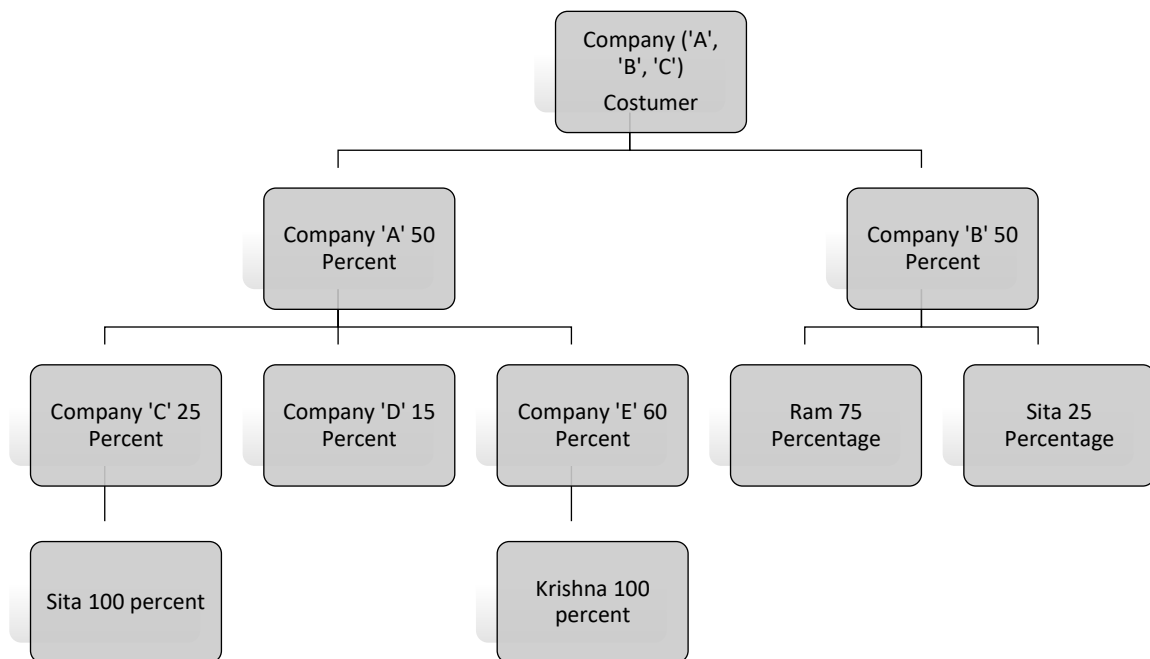
Krishna is the real beneficial owner of Company A. It is seen that Krishna has 10 percent direct and 90 percent indirect ownership in Company A.

b) General Indirect Ownership:



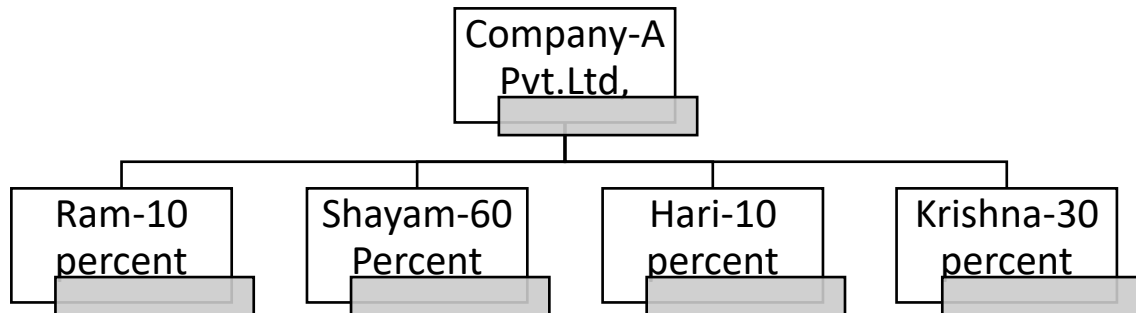
On the basis of ownership, Ram, Shyam and Hari are the real beneficial owners of Company 'A'. However, it is seen that Krishna's indirect share ownership has not exceeded 15 percent, which is less than all others.

c) Company Ownership or Complex Structure:



On the basis of ownership, Sita is a joint beneficial owner, and Ram and Krishna are the indirect beneficial owners of Company 'A', 'B', 'C' on the basis of indirect ownership.

d) Identification of Beneficial Owner on the Basis of Effective Control:



Company 'A' Pvt. Ltd. has 4 directors: Ram, Shyam, Hari and Krishna, holding 10, 60, 10 and 30 percent shares respectively in the company. In the company, Ram holds only 10 percent shares but is the former chairperson of the company and is consulted by the board on most matters. Although Ram holds only 10 percent shares, he exercises effective control over the company, hence he must be identified as the real beneficial owner of the company. Similarly, Ram, Shyam and Krishna are also real beneficial owners of the company.

2.11 Matters to be considered while identifying a Beneficial Owner:

Instead of a single method/measure, it is appropriate to adopt multiple measures to identify the beneficial owner. Inquiry into the following matters help in identifying the beneficial owner:

- a) Whether there is consistency between the knowledge of the nature of the business and the economic status or not,
- b) Whether the same individual in a bank or financial institution is operating accounts for many people by signing for them or not,
- c) Whether Real estate or vehicles are registered in another person's name and used by someone else or not,

- d) Reaching the beneficial owner through couriers/carriers by mobilizing informants to stop the smuggling of precious metals and stones and foreign or domestic cash,
- e) Whether the control and ownership of companies/firms lies with individuals different from those having legal ownership or not,
- f) Whether there is consistency between banking transactions in comparison to business turnover/income or not,
- g) Whether there is consistency between the income and investment of a shareholder or not,
- h) When identifying the beneficial owner of a trust, identifying the trustee, protector, beneficiary individual or group, and who exercises effective control of the trust,
- i) Whether the details of the share register and changes in ownership are updated or not,
- j) In the case of a company or similar legal person, identifying and verifying the person holding controlling ownership or interest.
- k) Control or interest through share voting rights, property, or other rights,
- l) Personal relationships, historical, or contractual relationships with those who keep the legal person under control,
- m) Identifying the person who uses the company's assets or takes the benefits.
- n) Analyzing employees working as senior Management officers.
- o) Analyzing multiple elements of ownership and control, as indirect ownership may also exist; and
- p) In relation to legal arrangements, identifying and verifying the settlor, trustee, beneficiary person or group, and the persons involved in

exercising effective control over the trust when identifying the beneficial owner.

2.12 Measures for Identification of Beneficial Owner:

Although there some legal and institutional provisions regarding the identification of beneficial owners are in place, significant improvements are still needed in terms of obtaining and verifying beneficial owner information as well as ensuring public access to such data. Identifying the beneficial owner is a difficult task. It is appropriate to adopt the following measures to identify the beneficial owner.

The following methods must be adopted while regulating reporting entities dealing in precious goods and metals:

- (a) Developing, implementing a system for identifying legal person and legal arrangement based on national risk assessment identifying their objectives, national and international interrelationships, and obtaining basic information regarding beneficial ownership.
- (b) Adopting a system of collecting adequate information regarding the beneficial owner during the time of establishment of corporate vehicles as legal persons/legal arrangements;
- (c) Collecting and storing information regarding the beneficial owner through electronic means and updating it in a manner that it can be made available to national and international competent authorities upon demand,
- (d) Maintaining balance between the protection of sensitive personal information and transparency by classifying and publicizing information and enhancing public access thereto,
- (e) Implementing a system whereby the registering entity designates any natural person or legal/accounting or other service provider person to provide basic information of such legal person to the competent authority at the time of registration,

- (f) Determining on the basis of threshold, risk, and context,
- (g) Causing the legal person/legal arrangement to update details regarding the beneficial owner, such as the number of directors, investment structure, etc., and decide to provide them immediately upon demand by the competent authority,
- (h) Collecting basic and updated details of the beneficial owner from concerned bodies, including the business/company or entity, registering entity, financial institutions and non-financial businesses and professionals, persons providing legal/accounting etc. consultancy, and the property registration/regulatory body;
- (i) Making legal provisions for the declaration of the beneficial owner at the time of registration/licensing of a legal person/legal arrangement and deciding for maintaining a beneficial owner register in such law,
- (j) Deciding to collect and update information held by reporting entities, regulatory bodies, and other competent authorities and maintain their integrated and organized details by creating an information technology-based portal,
- (k) Adopting an information technology-based information management system while maintaining coordination, cooperation, and collaboration among concerned bodies
- (l) Analyzing direct/indirect financial transactions and involvement in the decision-making process, etc., of persons having family and personal relationships with the directors or Politically Exposed Persons (PEPs) of the legal person/legal arrangement;
- (m) Analyzing formal/informal agreements made with natural persons who exercise indirect but effective control over the directors or Politically Exposed Persons (PEPs) of the legal person/legal arrangement in making significant decisions.

- (n) Adopting a system that identifies natural person, holding a certain percentage or more ownership in a legal person/legal arrangement, as the beneficial owner and initiate necessary actions accordingly.

Chapter-3

Miscellaneous

3.1 Adoption of Risk-Based Approach:

The reporting entities shall adopt a risk-based approach on the basis of the identification and verification of the beneficial owner.

3.2 Record Keeping:

Records related to the beneficial owner shall be maintained in a manner that is accurate, updated, and immediately available. Generally, such records shall be kept safe for up to five years after terminating business transaction. Information related to the beneficial owner shall generally be updated annually, whenever notice of change or at the time of any high-risk details.

3.3 Reporting:

The reporting entities shall provide the details of identification and verification of the beneficial owner in the format as per Schedule-1 to the Department, and the report of suspicious transactions to the Financial Intelligence Unit.

3.4 Inspection and Supervision:

The Office shall conduct on-site/off-site monitoring, inspection, and supervision of the reporting entities on a risk basis. In that process, monitoring shall also be conducted regarding the identification and verification of the beneficial owner. It shall be the duty of the reporting entities to cooperate in the said work.

3.5 Power to Interpret: (1) The power to interpret this Guidance shall vest in the Director General of the Department.

(2) The Department may amend this Guidance as per necessity.

Schedule-1

Beneficial Owner Declaration Form

To, the Inland Revenue Department,
Lazimpat, Kathmandu.

A) Information Related to the Customer

Name:	
Address:	
Firm/Company Registration No.	
PAN:	
Contact No.	
Email Address:	

B) Details Related to the Beneficial Owner:

S.N.	Name	Post	Citizenship/ Passport/ National ID No.	Nationality	Date and Place of Birth	Current Address	PAN	Contact No.	Basis of Beneficial Ownership (1, 2, 3)	PEPs (Yes/ No)

Note: 1-Ownership, 2-Effective Control, 3-Others

C) The details/information mentioned above are true, accurate, and complete.

		Seal of the Entity
Signature:		
Name:		
Date:		