

A photograph of a white wind turbine on a hillside. The turbine is positioned on the right side of the frame, with its three blades extending outwards. The background shows a range of mountains under a sky with a gradient from blue to orange, suggesting a sunset or sunrise. The overall scene is serene and natural.

**KYC / SOW**

Expectations and Challenges

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## MAS Guidance:

### Robust Corroboration of Source of Wealth (SOW) and Source of Funds (SOF)

#### TO BE ASSURED THAT CLIENTS' ASSETS ARE LEGITIMATE

##### Obtain clear understanding of how clients' assets are derived:

- Ask the right questions to assess legitimacy of customer's wealth and the source of funds
- Obtain adequate information/documents to support assessment

##### Set the right expectations for client relationship:

- Financial Institutions (FIs) have zero tolerance for illegitimate funds
- To continue the relationship, client should provide adequate information to enable the FI to robustly assess legitimacy of SOW and SOF

#### Source of Wealth ("SoW")

- ✓ Refers to the **entire body of client's wealth** (not just the assets being banked)
- ✓ Establish the plausibility of obtaining the seed capital
- ✓ Understand (and articulate) the client's SoW trajectory
- ✓ Corroborate the client's SoW

#### Source of Funds ("SoF")

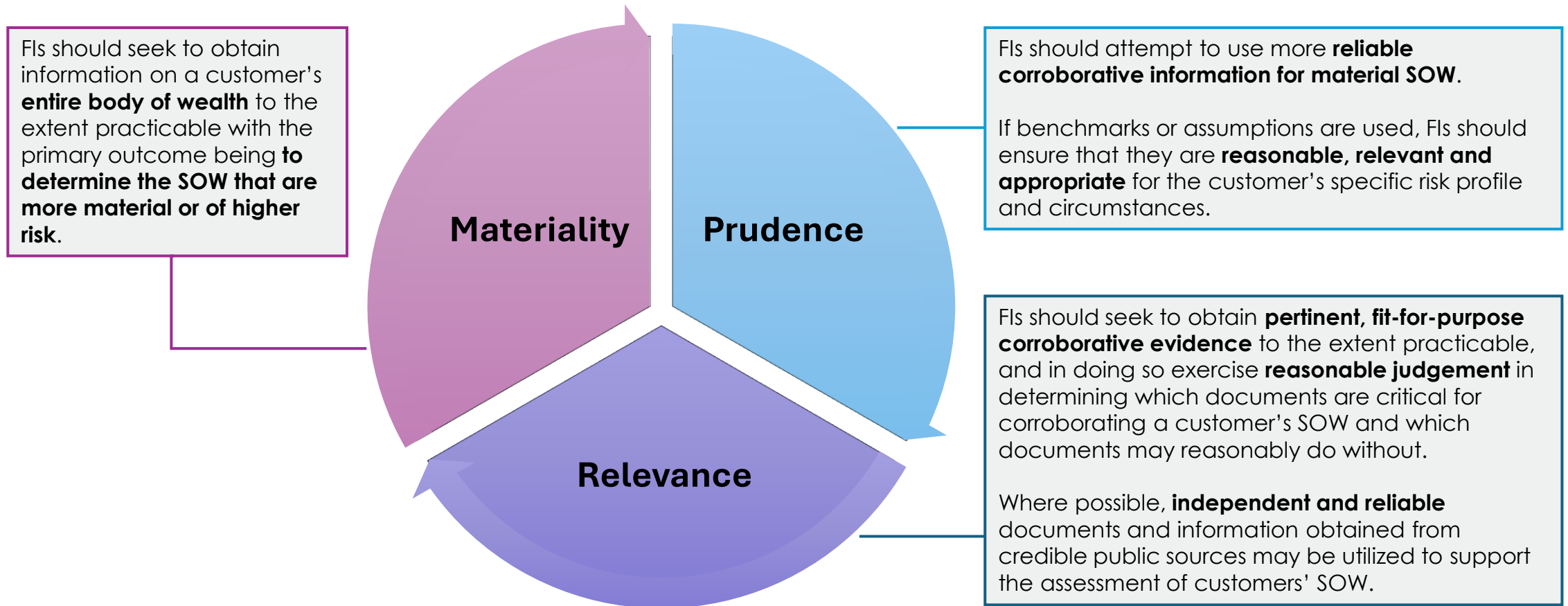
- ✓ Refers to the **economic activity that generated the funds** in question
- ✓ For substantial transaction amounts, corroborative evidence should be obtained to support the provenance of funds
- ✓ Additional scrutiny should be placed on funding from third parties

## MAS Circular on Establishing the Sources of Wealth (SOW) of Customers

- The Circular provides further guidance to financial institutions (FIs) in the wealth management sector on the establishment of SOW of their customers before business relations can be established.
- FIs should take **appropriate and reasonable means** to establish the SOW of customers and **independently corroborate** information obtained from the customer against documentary evidence or public information sources.
- FIs should ensure that the SOW of their customers is established in a **risk-proportionate and reasonable** manner, considering the unique circumstances and profile of each customer (i.e., not a one-size-fits-all approach).
- FIs may apply a range of measures to establish the SOW of customers, while minimizing any undue delay to the onboarding of legitimate customers.

## Key Risk Principles

In the designing of policies and procedures to establish SOW of customers in a risk-proportionate and reasonable manner, MAS expects FIs to consider the following risk principles:



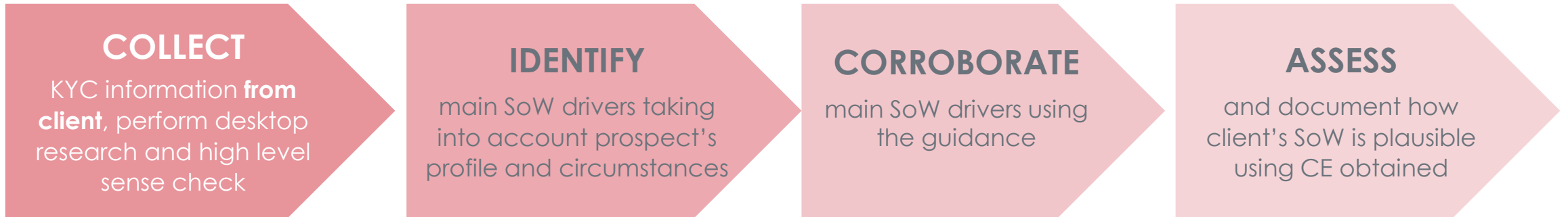
## Key Takeaways

Establishing the SOW of customers is part of a wider set of anti-money laundering/counter-terrorism financing (AML/CFT) controls to ensure the legitimacy of the customers' wealth and transactions.

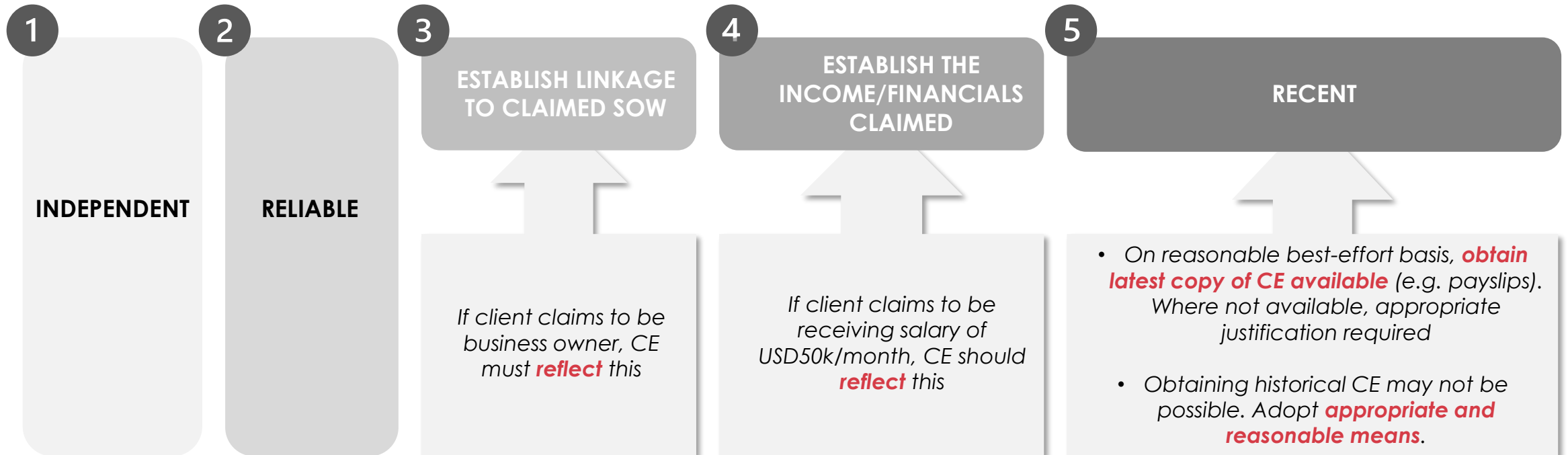
Senior management should:

- **Exercise close oversight over higher risk accounts**: For example, where an FI is unable to corroborate a significant portion of a customer's wealth, the FI should escalate the case to its senior management for approval before establishing business relations with the customer and consider whether additional risk-mitigating measures are needed, such as enhanced monitoring of the customer's transactions.
- **Ensure that ongoing monitoring controls take into account the customer's risk profile**: Ongoing monitoring controls should consider customer information gleaned from SOW establishment, such as the customer's total net worth and expected sources of funds, to facilitate the FI's assessment of whether the customer's account activities are in line with their profile.

## 5 Overarching Principles of Corroborative Evidence (“CE”)



CE is required to corroborate the client's source of wealth (“SoW”) and the Bank **should not rely solely on the client's representation**



## Debunking SoW Myths

- There is no one piece of corroborative evidence to “rule them all”
- Performing SoW corroboration is not a game to build your Pokédex
- One-size-fits-all approach doesn't exist
- Reasonable means should be taken to establish and substantiate client's source of wealth and where required, such reasonable means may need to be elaborated or explained to articulate a convincing SoW narrative.
- Sense and sanity check must be performed on the CE obtained e.g.,
  - Audited financials of company show USD200m revenue but zero public presence?
  - Client provides an employment letter claiming USD 1m p.a. but company is not sizeable?
- Really knowing your clients – visit business operations and ‘kick the tyres’
- Help is on the way - AML/CFT Industry Partnership (ACIP), co-chaired by UBS and UOB, is developing a paper on best practices in SOW establishment and aiming to share first draft to MAS in Oct '24.

## A tricky situation: Old wealth

- Long standing client of the bank >10years and going on in years
- Mother gifted client USD2m in 1998 and USD2m in 2008 before passing on
- USD4m was invested over the years and grew to the current AUM with the Bank
- Mother's source of wealth was a small to mid-size family run business in kretek manufacturing



- How do we establish plausibility of seed capital?
- What corroborative evidence can we obtain?
- What were the risk considerations?
- Were additional approvals required?



## CASE STUDIES: **Inadequate** Corroboration

### Key Learning Points

- FIs should obtain objective supporting information when establishing sources of wealth and not rely on customers' representation. Further due diligence should be conducted where discrepant information is noted.
- In establishing customers' SOF, FIs should obtain substantive information to establish the activity that generated the funds to ensure they are legitimate and not proceeds of crime.

#### **OVER-RELIANCE ON CLIENTS' REPRESENTATION**

- × Client D represented that his net worth of USD200m was derived from his business, which was represented to have an annual turnover of more than USD150m with net profit margin of about 3% to 4%
- × The bank accepted the customer's representations and did not obtain any documentation or objective information to substantiate his net worth

#### **FAILING TO ESTABLISH SOURCE OF FUNDS**

- × Client E informed the bank at on-boarding that the initial funding of USD80m would be transferred from his account from another bank
- × The bank did not obtain additional information to establish the legitimacy of the funds

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### **INADEQUATE DUE DILIGENCE PERFORMED**

- × Client F represented that his net worth of USD200m was mainly derived from a 50% stake in his family business
- × Although the financial statements obtained by the bank showed that the business had been loss making over years, no further due diligence was conducted to substantiate his wealth. The bank did not verify his business ownership as well
- × Client G attributed her source of wealth to accumulated employment income from senior management roles
- × While online searches showed that she indeed held those positions in public-listed companies, the bank did not obtain salary benchmarks nor supporting documents to corroborate her salary earnings

## CASE STUDIES: **Good Practices** Observed

### Detailed Establishment of Journey to Wealth

- Account A is owned by 4 beneficial owners (BOs), whose SOW is represented to be from their car distributorship business based in a Southeast Asian Country.
- The BOs represented that the company was set up more than 30 years ago and their wealth was largely accumulated during the boom periods in the past.

#### **As part of SOW corroboration, the bank:**

- ✓ Obtained the company's financial statements and documentation to verify the BOs' ownership in the business
- ✓ Conducted market research into the market share and vehicle sales in the country over the past 30 years
- ✓ Validated the net profit and revenue assumptions using industry benchmarks.
- ✓ Documented the BOs' journey to wealth based on detailed calculations

## CASE STUDIES: **Good Practices Observed**

### Corroboration using Objective Information Sources

- Account B is beneficially owned by a couple whose net worth is represented to be largely derived from the husband's employment income.
- The husband was said to be a senior management member of a global bank stationed in a Middle Eastern country between 1985 to 2012. As his employment was dated, the client could not produce past income statements.

#### **In corroborating the customer's net worth, the bank:**

- ✓ Verified the husband's previously held position of the global bank through online searches
- ✓ Obtained salary benchmarks of finance professionals in the Middle East.
- ✓ Documented his estimated annual income and applied a conservative return on investments (with basis documented) to arrive at the net worth

## CASE STUDIES: **Good Practices Observed**

### Adequate Inquiry into the Source of Funds



























- During the on-boarding, Client C indicated that the account would be funded with an initial amount of US\$30m, which would be transferred from another bank

Beyond ascertaining that this was a first party transfer, the bank obtained supporting documents showing that the funds were derived from the sale of his properties.

## Common Profile of Project Cerulean individuals

- **Nationality from Golden Passport Jurisdictions** - Former China Nationals with current nationalities from Golden Passport countries
- **Family Office** - a substantial number had plans to set up a Single Family Office
- **Intermediaries** – Referred via IAMs and RIs and other introducers
- **“Too good to be true” or contradictory Source of Wealth (SOW) journey:**
  - 18 year old earning USD500k p.a. in first job
  - Land price appreciation within span of 6 months between buying and selling
  - Salary of USD 5m p.a. and employer has no public profile / not supported with financial statements
  - Sudden pivot into a totally unrelated industries
  - Historical shareholding information not aligned with SoW profile
- **Lack of public presence for the SOW companies inconsistent with its financial profile**
- **Lack of quality corroborative evidence** - not independent
- **Fraudulent documents** – dubious audit firms, obvious red flags, etc.
- **Common linkages between Clients not identified** – e.g., same family or SOW company

# Tax Residency Mismatches

CRS Tax Residence	Nationality	Country of Residence	Mailing Address Country	Contact Number Country	SOW country	Remarks
 Dominica	 China  Dominica	 China  Dominica	 China	 China	 China	<ul style="list-style-type: none"> <li>Onboarded in 2006. Change in nationality and residency from China to Commonwealth Dominica in May 2018, <b>prior to commencement of SG's exchange of financial account information with China</b> in Sept 2018 (change to lower tax rate country)</li> </ul>
<b>Non Tax Transparent</b>						
 St Kitts & Nevis	1  China 2  St Kitts & Nevis	 St Kitts & Nevis	 Hong Kong	 Hong Kong  St Kitts & Nevis	 China	<ul style="list-style-type: none"> <li>Onboarded Feb 2020. Client furnished both St Kitts &amp; Nevis &amp; China ID during account opening</li> <li>Client clarified he did not renounce his China citizenship and he has been staying in Hong Kong in the past years. <b>Unable to provide any St Kitts utility bills when requested.</b></li> </ul>
 China  Antigua & Barbuda	1  China 2  Antigua & Barbuda	 China  Antigua & Barbuda	 Singapore	 China  Singapore	 China	<ul style="list-style-type: none"> <li>Onboarded Jul 2019. Change of nationality and residency to Antigua shortly after account opening in Oct 2019</li> <li>Substantial <b>third-party loan-related inflows</b> (from SG &amp; HK banks).</li> <li>Client clarified that she did not renounce China citizenship</li> </ul>

- July 2013 MAS designated tax crimes as a money laundering predicate offence
- Country of tax residency manipulation
- Tax obligations ≠ tax residency → Refer to OECD website for guidance

**If you get the culture right, most of the other stuff will just take care of itself.**

– Tony Hsieh