

Wolfsberg FAQs on Source of Wealth and Source of Funds (PB/WM)

The Wolfsberg Group (the Group) published a Frequently Asked Questions (FAQs) document on how Financial Institutions (FIs) can identify, mitigate and manage money laundering risks posed by Private Banking & Wealth Management clients, by undertaking Source of Wealth (SoW) and Source of Funds (SoF) checks when appropriate and/or required by applicable regulation.

Different customer types will require different levels of SoW due diligence. SoW/SoF assessments provide evidence and plausible explanations about the customer's wealth and funding sources, ensure that customers are risk assessed appropriately and that necessary measures and controls are commensurate with the risks posed to the FI.

Documenting the SoW and/or SoF of a customer enables an FI to:

- understand the customer's background and financial history
- understand how and where capital was generated
- identify if a customer's transactional activity is in line with what would reasonably be expected based on the information recorded about the customer
- assess if activity and transactions are potentially suspicious

In line with regulatory expectations, FIs should adopt a risk based approach with respect to the amount of information collected and corroboration required for SoW/SoF purposes. This generally depends on the type of customers, the specific situations (like adverse information, PEP status, etc.) and the client risk rating.

The following are the recommendations by the Wolfsberg Group on how each FI should collect, corroborate and monitor information related to SoW & SoF.

Source of Wealth (SoW)

Customer SoW generally refers to a description of the economic, business and/or commercial activities that generated, or significantly contributed to, the customer's overall net worth (assets minus liabilities), recognising that the composition of wealth generating activities may change over time, as new activities are identified and additional wealth is accumulated.

The purpose of obtaining SoW information is not to account for, or verify, the exact value of the customer's overall net worth, but rather for an FI to assess the customer's wealth generating activities and, where relevant, those of any material beneficial owners (e.g. where the account holder is a personal investment vehicle).

The following sets out examples of (non-exhaustive) categories of SoW:

- **Family/Generational Wealth and Personal Backgrounds** - Includes family wealth, inheritance, gifts (from family, including spouse/partner), divorce settlement, lawsuit settlement, pension or retirement benefit scheme pay-outs.

- **Income, Revenue and Business Activities** - Includes business ownership, business operations, employment, sales of products, business properties and other commercial assets
- **Investment Activities** - Includes income from acquisition and sale of investments, e.g. from real estate, securities, royalties, patents, inventions and franchises.

SoW Due Diligence

- SoW due diligence should be conducted at account opening (or on-boarding) and refreshed periodically
- Collect relevant information and may include corroboration
- This is **NOT** a documentary exercise
- Follow a risk-based approach
- Check for plausibility
- In case of material gap or inconsistency ask for additional documentation
- SoW should be documented appropriately and the information retained

SoW for decision-making

- Information on the customer's professional, business and investment background, as well as the sources of income and/or revenue for certain entities.
- Information can come from the customer and/or other sources, including readily available, reputable public information
- Estimate the customer's net worth
- Review available information on how and through what means the customer obtained and accumulated the assets
- Check for plausibility
- Follow a risk-based approach

SoW Corroboration

- In high-risk scenarios obtain independent corroborating evidence including additional supporting information from a source independent from the customer
- Obtain information from independent, publicly available, reputable sources or documents issued by reputable third parties, such as company registries, banks, accountants and lawyers or notaries.
- Where corroboration proves to be difficult or impossible for the customer, assess the plausibility of the information provided and attempt to corroborate key milestones in the customer's wealth history
- Follow a risk-based approach
- If the evidence is judged to fall short of the standards:
 - deny on-boarding
 - increase the risk rating of the customer
 - place restrictions on the customer's product/account usage
 - subject the customer's transactional activity to heightened monitoring
 - terminate the customer relationship

Source of Funds (SoF)

- SoF refers to the origin and means of transfer of currency, financial instruments or other assets
- Understand both the origin of initial deposits
- SoF differs from SoW in that it refers specifically to the funds transferred by customers

SoF for decision-making

- The SoF may include (on a risk sensitive basis), the following:
 - the amount or value and type of financial instruments or assets
 - method of transfer
 - remitting party and the FI from which the transfer originated
 - country from where the fund transfer(s) originated
- If an account funded by a third party, particularly with no apparent link to the customer, then additional due diligence should include establishing and recording the relationship between the customer and the funding parties

SoF Corroboration

SoF represents an increased risk to the FI where:

- Customer already represents a high risk by virtue of the risk factors identified during the due diligence process
- Material amounts of physical cash are presented, or material amounts of funds are remitted from cash-intensive businesses like gambling, nightclubs, etc.
- There are inconsistencies with the customer's background

Customer Risk Assessment (CRA)

CRA process could include, but are not limited to, whether:

- The overall net worth or wealth of the customer has been documented adequately in the profile
- The initial and on-going SoF have been documented adequately
- The on-going SoW and/or SoF of the customer have been sufficiently corroborated
- There is any unexplained or incoherent SoW or SoF information
- There is adverse media/fact associated with the customer
- The customer is well known and reputable (for example, a HWNI in a local market)
- Material SoW and/or SoF is from a high-risk industry or country
- The customer is a Politically Exposed Person (PEP)

Risk Mitigation

- Policies and procedures to ensure appropriate controls
- Rigorous onboarding requirements including obtaining more information from the customer
- Enhanced Due Diligence to be done for higher risk clients like PEPs, clients giving rise to sanctions concerns and those with adverse information (amongst other potential issues)
- Use modern technology as an enabler

Exceptional Cases

- Where FIs are unable to comply fully with their own policies and procedures with respect to SoW and SoF, they should document the following:
 - The steps undertaken to obtain and corroborate the information
 - The reasons such information or evidence is not available
 - Why the relationship manager is comfortable opening or maintaining the account (this may include, among other things, the customer's background, length of acquaintance with the customer and results of adverse media searches in relation to the customer)
 - Identification of mitigating steps or compensating controls that are appropriate in such context (e.g. additional review of transactions or more frequent screening)
 - All decisions should be documented and governed appropriately

Ongoing Due Diligence and Monitoring

- Review SoW during periodic and event-driven (like change of nationality, resident country, adverse news, PEP status change, etc.) reviews
- Incorporate new information obtained from the customer into the KYC
- Inconsistencies should be addressed, understood, documented and escalated, as appropriate

Reference

https://wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsberg-standards/15.%20Wolfsberg_RBA_Guidance_%282006%29.pdf

<https://www.wolfsberg-principles.com/articles/publication-source-wealth-and-source-funds-private-bankingwealth-management-faqs>

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