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MAS Circular Provides Further Guidance for FIs in Wealth Management Sector on Establishing Sources of Wealth of Customers

Introduction

On 26 July 2024, the Monetary Authority of Singapore ("**MAS**") issued the [Circular titled "Establishing the Sources of Wealth of Customers" \(Circular No.: AMLD 08/2024\)](#) ("**Circular**"). The Circular applies to all financial institutions in the wealth management sector in Singapore ("**FIs**"). The Circular provides further guidance on the establishment of the sources of wealth ("**SOW**") of customers and their beneficial owners before business relations with customers can be established.

In summary, the Circular emphasises the existing requirements for FIs to take appropriate and reasonable means to establish the SOW of customers and independently corroborate information obtained from customers against documentary evidence or public information sources.

The Circular provides that FIs should take the following steps:

- (a) Ensure that their policies and procedures to establish the SOW of customers are risk-proportionate and reasonable, taking into account the unique circumstances and profile of each customer.
- (b) Consider the following risk principles when designing their policies and procedures to establish the SOW of customers:
 - *Materiality* – FIs should obtain information on a customer's entire body of wealth to the extent practicable, with the primary outcome being to determine the SOW that are more material or of higher risk.
 - *Prudence* – For material SOW, FIs should attempt to use more reliable corroborative information, such as audited accounts or documents issued by independent third parties e.g. tax accountants.
 - *Relevance* – FIs should seek to obtain pertinent, fit-for-purpose corroborative evidence to the extent practicable.

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- (c) Ensure that their senior management should: (i) exercise close oversight over higher risk accounts and transactions; and (ii) ensure that ongoing monitoring controls take into account the customer's risk profile.

This Update outlines the key guidance under the Circular.

Overview

FIs play an important gatekeeper role in ensuring that fund flows into Singapore relating to their wealth management business are and remain legitimate, especially given that this sector presents inherently higher money laundering ("ML") and terrorism financing ("TF") risks due to its client attributes, size of transactions and the complexity typically involved in managing such wealth.

To help the wealth management sector implement appropriate anti-money laundering ("AML") / countering the financing of terrorism ("CFT") controls, MAS has issued several guidance papers over the past few years setting out its supervisory expectations in key control areas.

The Circular provides further guidance to FIs on the establishment of the SOW of customers and their beneficial owners before business relations with customers can be established.

Guidance

Appropriate and reasonable means for establishing SOW and independent corroboration of information

FIs should take appropriate and reasonable means to establish the SOW of customers and independently corroborate information obtained from customers against documentary evidence or public information sources. The appropriate means may include screening operating companies and individual benefactors contributing to the customers' and their beneficial owners' wealth or funds.¹

Risk-proportionate and reasonable policies and procedures

FIs should ensure their policies and procedures to establish SOW are risk-proportionate and reasonable, taking into account the unique circumstances and profile of each customer i.e. they should not apply a one-size-fits-all approach for all customers.

¹ Paragraph 8-6-4(b) of MAS ["Guidelines to MAS Notice 626 on Prevention of Money Laundering and Countering the Financing of Terrorism" dated 28 March 2024](#).

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FIs may consider a range of measures to establish SOW while minimising undue delay to the onboarding of legitimate customers, e.g. for customers with prominent public profiles, FIs may corroborate their representations on their SOW against reliable public information sources.

FIs should consider the following risk principles in designing such policies and procedures:

(a) *Materiality* – FIs should:

- Seek to obtain information on a customer's entire body of wealth to the extent practicable, with the primary goal to determine more material or higher risk SOW.
- Seek to understand customers' total wealth and how it was acquired.
- If it is not possible or practicable to corroborate some SOW at times (e.g. SOW from many years ago for which documents may no longer be easily available): (i) focus on corroborating more material or higher risk SOW; and (ii) assess whether the residual risk of the uncorroborated wealth is acceptable and whether additional risk-mitigating measures are needed in the absence of corroboration.

(b) *Prudence* – FIs should:

- Attempt to use more reliable corroborative information for material SOW, including audited accounts or documents issued by independent third parties e.g. tax accountants.
- Ensure that benchmarks or assumptions used to: (i) assess the plausibility of information received from customers; or (ii) estimate a segment of customer wealth in the absence of corroborative evidence, are reasonable, relevant and appropriate for the customer's specific risk profile and circumstances.
- Document and periodically review the bases for the benchmarks and assumptions used.
- Ensure that the benchmarks and assumptions are used to facilitate assessment of the plausibility of the customer's SOW, and are not used to justify or support circumstances or explanations by the customer if there are reasons that cast suspicion on the SOW.

(c) *Relevance* – FIs should:

- Seek to obtain pertinent, fit-for-purpose corroborative evidence to the extent practicable.
- Exercise reasonable judgment in determining which documents are critical for corroborating a customer's SOW and which documents they may reasonably do without (e.g. documents from many years ago, which may no longer be easily available, and are not of high relevance to the generation of the customer's wealth).
- Utilise independent and reliable documents and information obtained from credible public sources to support their SOW assessment, without having to rely on customers to provide corroborative evidence.

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Role of senior management

Establishing SOW is part of a wider set of AML/CFT controls to ensure the legitimacy of customers' wealth and transactions.

As such, senior management should:

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

Action Steps

FIs wishing to comply with the Circular's guidance should take the following action steps:

- (a) Review, update and ensure that their policies and procedures for establishing SOW are aligned with the risk principles and supervisory expectations set out in the Circular.
- (b) Train staff on the updated policies and procedures and the importance of establishing SOW as part of a wider set of AML/CFT controls.
- (c) Exercise close oversight over higher risk accounts (such as those where a significant portion of the customer's wealth cannot be corroborated) and consider whether additional risk-mitigating measures are needed (such as enhanced monitoring of the customers' transactions).
- (d) Ensure that ongoing monitoring controls take into account the customer's risk profile and the information gleaned from SOW establishment, and that any unusual or suspicious transactions are reported to the relevant authorities.

Concluding Words

The Circular provides welcome further guidance to FIs on the establishment of the SOW of customers and their beneficial owners before establishing business relations and should be read together with MAS' previous guidance papers setting out the supervisory expectations in key control areas.

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If you have any queries on the above, please feel free to contact our team members below who will be happy to assist.

Contacts

Financial Institutions Group



Regina Liew
Head, Financial Institutions
Group
Rajah & Tann Singapore LLP

T +65 6232 0456
regina.liew@rajahtann.com



Larry Lim
Deputy Head, Financial
Institutions Group
Rajah & Tann Singapore LLP

T +65 6232 0482
larry.lim@rajahtann.com

Click [here](#) for our Partners in Financial Institutions Group.

Funds & Investment Management



Anne Yeo
Head, Funds & Investment
Management
Rajah & Tann Singapore LLP

T +65 6232 0628
anne.yeo@rajahtann.com



Jasmine Chew
Deputy Head, Funds &
Investment Management
Rajah & Tann Singapore LLP

T +65 6232 0454
jasmine.chew@rajahtann.com



Philip Yeo
Deputy Head, Funds &
Investment Management
Rajah & Tann Singapore LLP

T +65 6232 0487
philip.yeo@rajahtann.com

Click [here](#) for our Partners in Funds & Investment Management.

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White Collar Crime



Thong Chee Kun
Partner, White Collar Crime
Rajah & Tann Singapore LLP

T +65 6232 0156

chee.kun.thong@rajahtann.com

Click [here](#) for our Partners in White Collar Crime.

Private Client



Vikna Rajah
Head, Private Client
Rajah & Tann Singapore LLP

T +65 6232 0597

vikna.rajah@rajahtann.com

Click [here](#) for our Partners in Private Client.

Please feel free to also contact Knowledge Management at eOASIS@rajahtann.com

Our Regional Contacts

RAJAH & TANN SOK & HENG | *Cambodia*

Rajah & Tann Sok & Heng Law Office

T +855 23 963 112 / 113

F +855 23 963 116

kh.rajahtannasia.com

RAJAH & TANN | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346

F +95 1 9345 348

mm.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

Rajah & Tann Singapore LLP

Shanghai Representative Office

T +86 21 6120 8818

F +86 21 6120 8820

cn.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32

F +632 8552 1977 to 78

www.cagatlaw.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800

F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550

F +62 31 5116 4560

www.ahp.co.id

RAJAH & TANN | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600

sg.rajahtannasia.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991

F +66 2 656 0833

th.rajahtannasia.com

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239

F +856 21 285 261

la.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382 / +84 28 3821 2673

F +84 28 3520 8206

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919

F +60 3 2273 8310

www.christopherleeong.com

Hanoi Office

T +84 24 3267 6127

F +84 24 3267 6128

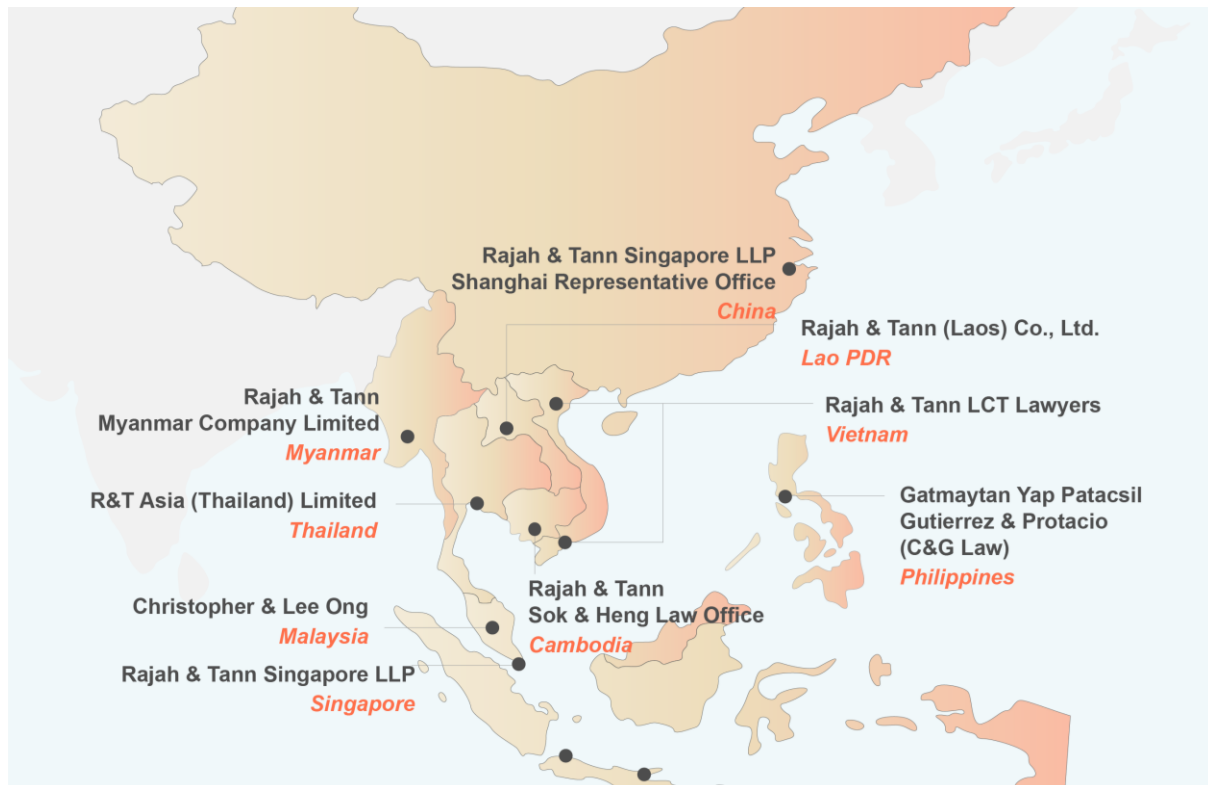
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