



Banco Santander
Bank of America
Barclays
Citigroup
Credit Suisse
Deutsche Bank
Goldman Sachs
HSBC
J.P. Morgan Chase
MUFG Bank
Société Générale
Standard Chartered Bank
UBS

the Wolfsberg Group

Wolfsberg Group Frequently Asked Questions (FAQs) Source of Wealth and Source of Funds (Private Banking/Wealth Management)

Preamble

The Wolfsberg Group¹ (the Group) is pleased to publish Frequently Asked Questions (FAQs) on how Financial Institutions (FIs) can identify, mitigate and manage money laundering risks by undertaking Source of Wealth (SoW) and Source of Funds (SoF) checks on relevant customers, when appropriate and/or required by applicable regulation.

This document is targeted predominantly at FIs' Private Banking/Wealth Management (PB/WM) customer segments and takes into consideration controls and procedures recognised in the Wolfsberg Anti-Money Laundering Principles for Private Banking.²

SoW and SoF are to be considered among the key elements of customer risk assessment and risk management for certain customers, as defined by each FI. SoW assessment seeks to identify how a customer accumulated their wealth and SoF information provides an FI with the understanding of how and for what purpose an account is going to be funded. SoW/SoF assessments allow FIs to recognise any risks and note any inconsistencies, which should be addressed and either mitigated or escalated for further review.

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, for example, 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

¹ The Wolfsberg Group consists of the following international financial institutions: Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P. Morgan Chase, MUFG Bank, Société Générale, Standard Chartered Bank and UBS.

² *Wolfsberg Anti-Money Laundering Principles for Private Banking* (2012), <https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsberg-standards/10.%20Wolfsberg-Private-Banking-Principles-May-2012.pdf>

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 customer, their specific circumstances and risk rating.³

These FAQs represent the collective work of the Group in considering the policies, procedures and approaches to managing and mitigating money laundering risk under a risk based approach and are therefore not intended to prescribe how each FI should consider the collection and corroboration of SoW/SoF information in its own policies and procedures. In drafting these FAQs, the Group acknowledges that there are different definitions of, and approaches to, what constitutes SoW and SoF, as well as the corroboration or usage of that information as part of Know Your Customer (KYC) processes and therefore each FI's risk mitigation strategy should be tailored to meet its own risk appetite.

The FAQs cover generally understood descriptions of what it meant by SoW and SoF in the context of Financial Crime Compliance, the applicability of information collected, its corroboration and assessment, as well as on-going due diligence and monitoring.

Q1. What is Customer SoW in the context of Financial Crime Compliance?

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**

This can include family wealth, inheritance, gifts (from family, including spouse/partner), divorce settlement, lawsuit settlement, pension or retirement benefit scheme pay-outs.

SoW could also include casino or lottery wins, sales of residential properties, antiques, artwork and other personal assets, depending on unique personal circumstances.

Where appropriate, information should be collected on underlying activities that have generated the wealth.

- **Income, Revenue and Business Activities**

This can include business ownership, business operations, employment, sales of products, business properties and other commercial assets.

For natural persons, examples include salaries, bonuses, commissions and other compensation from employment or contract work, as well as regular income from pension or retirement schemes.

For entities, examples include profits generated from their activities (such as sales of goods or services), receivables, contracts, existing fixed assets and any periodic funding from existing or new beneficial owners.

- **Investment Activities**

This can include income from acquisition and sale of investments, e.g. from real estate, securities, royalties, patents, inventions and franchises.

³Please refer to *The Wolfsberg Guidance on a Risk Based Approach for Money Laundering Risks*, https://wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsberg-standards/15.%20Wolfsberg_RBA_Guidance_%282006%29.pdf

Q2. When and how is SoW Due Diligence conducted?

In line with an FI's policies and procedures, SoW due diligence should be conducted at account opening (or onboarding) and refreshed periodically in accordance with the risks presented by the customer. The due diligence process, when it includes SoW, involves the collection of relevant information and may include corroboration. This should not be seen as a documentary exercise and consideration should be given as to whether the customer's SoW appears legitimate and the collected information is plausible (i.e. the information provided by the customer is reasonable) with regards to the customer's overall wealth and other information that has been collected about the customer.

While some gaps in the chronology of wealth accumulation over time are not uncommon, any significant gaps and/or material inconsistencies may present challenges to determining plausibility. In such cases, an FI may consider seeking further clarification from the customer, for example by requesting additional documentation, or conducting independent enquiries. For further information on SoW corroboration see Question 4 below.

While FIs conduct due diligence in different ways, using multiple channels and terminology, the due diligence information should be sufficient to create a coherent picture of the customer, establish their SoW and be available for review by an independent party. SoW should be documented appropriately and the information retained pursuant to the FI's document retention policies/procedures.

Q3. What SoW information is useful for decision-making?

SoW information may include information on the customer's professional, business and investment background, as well as the sources of income and/or revenue for certain entities. The level of detail that is obtained should be commensurate with the risk presented to the FI by the customer relationship. The information can come from the customer and/or other sources, including readily available, reputable public information.⁴ At a minimum, the primary, significant contributors to the total or majority of wealth should be included. FIs may consider whether relevant information gathered during other parts of the due diligence process can assist in assessing SoW.

In assessing the SoW, an estimate of the customer's net worth should be included. The objective is to review available information on how and through what means the customer obtained and accumulated the assets reflected in the net worth, contributing to an understanding of how the customer acquired their wealth and whether the explanations are indeed plausible.

Q4. What role does SoW Corroboration play in decision-making?

Once documented, the SoW information collected from the customer may, in specific cases, require corroboration (i.e. additional supporting information from a source independent from the customer), based on local regulatory requirements and the FI's policies and procedures.

Corroboration is effective when it helps to support the SoW information collected and can take various forms, such as information from independent, publicly available, reputable sources or documents issued by reputable third parties, such as company registries, banks, accountants and lawyers or notaries. The level of reliance to be placed on evidence used for corroboration requires the exercise of judgement and is determined by the source, type and verifiability of the evidence provided.

FIs should consider all the evidence collected and determine whether it is sufficient to support the SoW.

Where corroboration proves to be difficult or impossible for the customer, for example, in cases of generational wealth or a substantial inheritance received decades ago, the FI should assess the plausibility of the information provided and attempt to corroborate key milestones in the customer's wealth history. Factors that may need to be considered for a risk based assessment could include:⁵

⁴ The Wolfsberg Group previously defined that "the most important criteria for choosing sources are the reputability, credibility, relevance and quality of the sources and the publishing institution. Sources with no editorial process or with serious allegations against, or challenges to, their content, including completeness ... and quality of data... should be avoided." <https://www.wolfsberg-principles.com/sites/default/files/wb/Wolfsberg%20FC%20Country%20Risk%20FAQs%20Mar18.pdf>

⁵ The Wolfsberg Guidance on a Risk Based Approach for Managing Money Laundering Risks is available at https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/wolfsberg-standards/15.%20Wolfsberg_RBA_Guidance_%282006%29.pdf

- the overall inherent risk rating of the customer (which typically will include an assessment of risk, based on the customer's specific circumstances, products and services usage, transactional and behavioural activity (actual or expected) and geographic factors)
- the quality and plausibility of the information provided as part of the due diligence and SoW exercise, the evidence available to corroborate it and whether this reduces (and by how much) the inherent risk, (e.g. available evidence indicates that the customer's wealth is sufficiently transparent)
- any other information held by the FI on the customer and available for consideration, including from other lines of business or jurisdictions of operations (subject to banking secrecy or other confidentiality provisions for sharing information)
- market/segment specific governance committees, using experts who understand those markets/segments and any specific considerations that may apply

If the evidence is judged to fall short of the standards required by an FI's policies and procedures, the FI may consider, for example, taking any of the following actions:

- 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

Q5. What is Customer SoF in the context of Financial Crime Compliance?

A customer's SoF refers to the origin and means of transfer of currency, financial instruments or other assets deposited with the FI, with a focus on the amount to be transferred by a customer and the specific means/methods by which the transfer(s) will occur. SoF may relate closely to the purpose of the account and, in accordance with its risk based approach, the FI should understand both the origin of initial deposits and, where other risk factors may be present, inquire about subsequent funding. SoF information may also be helpful for monitoring and reviewing of account activities.

SoF differs from SoW in that it refers specifically to the funds transferred by customers to the FI. Consistent with SoW, SoF needs to be understood in the context of the attributes of the customer's personal and financial background; e.g. the purpose of the account could be to invest the income generated from investment in securities and not relate to other activities.

Q6. What SoF information is useful for decision-making?

SoF information should be collected and documented in accordance with the FI's risk based policies and procedures and the information obtained (directly or indirectly) from the customer.

The SoF may include (on a risk sensitive basis), the following:

- the amount or value and type of financial instruments or assets funding the account (other than cash), including the activities that generate the funds
- method of transfer
- remitting party and, where applicable, the FI from which the transfer originated
- country from where the fund transfer(s) originated

If an account is materially funded, or is expected to be 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.

Q7. What role does SoF Corroboration play in decision-making?

Where required by applicable law and/or regulation, and/or in accordance with the FI's risk based approach, the customer's SoF information may need to be further investigated, for example, where SoF represents an increased risk to the FI, such as:

- where the customer already represents a high risk by virtue of the risk factors identified during the due diligence process, and/or is otherwise rated as higher risk
- where SoF represents increased risks (e.g. when material amounts of physical cash are presented, or material amounts of funds are remitted from a gambling institution)
- where there are inconsistencies with the customer's background and what has been collected as part of the due diligence process.

The type of evidence required for SoF corroboration is dependent on the specific source (origin and means of transfer). Evidence that has been used to corroborate SoW may also be used in SoF corroboration, when these are indistinct. For example, the stated SoW comprises salary, securities investments and property investments. The funds to be deposited with the FI are proceeds from a property sale. A search in the land registry shows appreciation in property price and also proves ownership by the customer. The land registry record could be used to validate SoW and the receipt of a wire payment from a customer's lawyer's account might be utilised to validate the initial SoF.

Q8. How can FIs approach SoW/SoF Due Diligence for PB/WM customers operating outside of this segment?

While many high net-worth or ultra-high-net-worth individuals (HNWIs or UHNWIs) have PB/WM accounts and are relationship managed, they may also have retail banking accounts. An FI's policies and procedures should ensure that appropriate controls apply to customers that operate outside of their traditional customer segment. This can be achieved through FIs applying more tailored customer segmentation rules for those customers for whom SoW/SoF exercises are necessary.

This approach may include a set of questions or indicators aimed to identify customers posing a higher risk, who may require a more rigorous on-boarding process than for other retail customers based on outputs from any integrated screening controls, or when EDD may need to be applied (e.g. for PEPs or entities giving rise to a sanctions concern, among other potential issues). This might apply to a comparatively small number of customers, particularly given the overall size of retail businesses and the generally lower risk nature of the business line and product offering.

As digital on-boarding becomes more prevalent in the retail space, with more technologically-enabled means of identification and verification (e.g. biometrics, digital identities or anti-impersonation measures), SoW collection (and possibly corroboration) should still be considered, as deemed necessary and dependent on the circumstances of the customer, in line with each FI's policies and procedures.

Q9. Source of Wealth and Source of Funds in Customer Risk Assessment

As described elsewhere in this document, SoW is not always required to be collected and/or corroborated and the same may be applicable for SoF. Nevertheless, if required, once SoW/SoF due diligence has been carried out, the assessment of the customer's risk to the FI and their risk rating should reflect each of these enquiries in a coherent, consistent and plausible manner. Where inconsistencies are identified, they should be clarified. If inconsistencies cannot be clarified, the FI's next steps may include those already set out in response to material inconsistencies in Question 4 of this document.

Factors considered as part of the Customer Risk Assessment process could include, but are not limited to, the following:

- Whether the overall net worth or wealth of the customer has been documented adequately in the profile
- Whether the initial and on-going SoF have been documented adequately
- Where required, whether the on-going SoW and/or SoF of the customer have been sufficiently corroborated
- Whether there is any unexplained or incoherent SoW or SoF information
- Whether there is adverse media/fact associated with the customer

- Whether the customer is well known and reputable (for example, a HWNI in a local market)
- Whether material SoW and/or SoF is from a high risk industry or country
- Whether the customer is a Politically Exposed Person (PEP)

Q10. How can FIs approach exceptional cases in which SoW/SoF standards are not met?

There may be exceptional cases, where FIs are unable to comply fully with their own policies and procedures with respect to SoW and SoF, for example, where long-term customers may no longer have sufficient information/evidence or where local customs/practices present particular challenges in obtaining information.

In cases where the FI decides to retain a relationship where its SoW and SoF standards cannot be met as per its policies and procedures, the FI should document 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) as well as identifying any mitigating steps or compensating controls that are appropriate in such context (e.g. additional review of transactions or more frequent screening). Any decisions should be documented and governed appropriately.

Q11. How can FI s approach on-going Due Diligence and Monitoring?

FIs should consider requiring that SoW and, where applicable, SoW corroboration, be reviewed and updated as necessary during the lifecycle of the relationship, including when periodic reviews are scheduled or an event-driven review is triggered by changes in a customer's circumstances (e.g. country of residence) or account activities, and/or when the customer's risk rating has been increased. Updates should be made when transactional activity, requests for new products or other means indicate that the customer's SoW has changed materially from that recorded by the FI. The focus of the updates should be on incorporating the new information and obtaining evidence to validate it, where required (e.g. for high risk customers). The purpose of the SoW review is not to revisit the existing and documented SoW information for the customer.

FIs may also consider implementing mechanisms to identify when a review of SoF (including actual against expected SoF) may be necessary. When inconsistencies are noted between known customer information and on-going account activities, they should be addressed, understood and documented. If concerns remain, the matter should be escalated according to the FI's policies and procedures.

The level of corroboration of SoW and/or SoF information during a review process (whether for periodic or event-driven reviews) should be risk based and take into consideration the following factors:

- any material changes or new events affecting the on-going SoW and/or SoF of the customer and the information that has already been obtained at on-boarding or at previous reviews
- the length of the customer's relationship with the FI
- the relationship manager's knowledge of the customer's circumstances and key events
- whether the account records are in line with the expected activity which was described in the previous version of the SoW/SoF
- the plausibility of the existing information (to determine whether further corroboration may be required, if not previously obtained)
- any new risk indicators identified or detected (suspicious activity, adverse media or law enforcement interest)
- results of previous transaction monitoring inquiries
- where the data can be shared, whether the customer has been subject to any internal investigations and/or SAR filings