



# Source of Wealth Requirements

## *Risk-Sensitive Execution*



HONG KONG MONETARY AUTHORITY  
香港金融管理局

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# Background



- Jan 2016 – SOW Forum
  - Panel format, clarify understanding, share best practice
- Sep 2016 – Circular “De-risking and Financial Inclusion”
  - General Principles
- Challenges remain in execution
  - Understanding remains uneven
  - Complaints regarding excessive collection in low risks
  - Findings from on-site examinations in low and high risks
- Aim – Consistent understanding and risk-sensitive execution



# Why collect information on SOW and SOF?



- **Identify, mitigate and manage ML/TF risks**
  - Understand the customer's background and financial history
  - Identify how the customer accumulated their wealth
  - Understand how and for what purpose an account is going to be funded
  - Identify if transactional activity is in line with what would be reasonably expected
  - Assess if activity and transactions are potentially suspicious





- **AI should not focus design of controls simply to meet regulatory requirements**
  - SOW information drives risk-based approach
  - Wider KYC background information: goes beyond a single AML control
  - Informs ongoing monitoring, ability to spot what is not right
  - Helps drive private wealth management relationship, better understand customer needs, provision of better service



# Recap: SOW definition



- **Source of Wealth refers to the origin of the entire body of wealth (i.e. total assets)**
  - This information will usually give an indication as to the volume of wealth the customer would be expected to have, and a picture of how the customer acquired such wealth
  - Although AIs may not have specific information about assets not deposited or processed by them, it may be possible to gather general information from commercial databases or other open sources



# What SOW information is useful?



- **Information on the customer's professional, business and investment background, as well as the sources of income and/or revenue**
  - Activities that significantly contributed to the overall net worth
  - While an estimate of the net worth is usually obtained (e.g. for PB customers), this is not to account for, or verify, the exact value of the overall net worth, but to assess if claimed wealth generating activities are reasonable

What are the difference as to SOF?

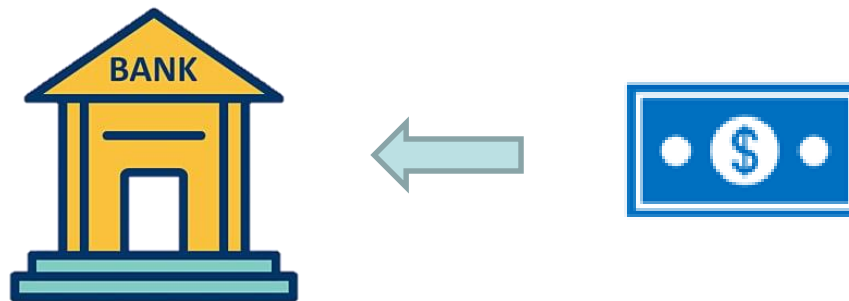
- Not just what is involved in a transaction or business relationship



# Recap: Why is SOF information useful?



- **Understand how and for what purpose an account is going to be funded**
  - Relates closely to the purpose of the account
- **Understand both the origin of initial deposits and inquire about subsequent funding**
  - Useful for transaction monitoring





# Where does SOW requirement arise?



- AMLO – Section 10 and 15 of Schedule 2
  - When a customer or a beneficial owner is a **PEP**
  - In *some* **high risk situations** take reasonable measures to establish the customer's or beneficial owner's SOW and the SOF
- AML/CFT Guideline – Para 12.3
  - When establishing a **private banking** relationship with a customer, obtain additional customer profile information including SOW and SOF



No expectation to establish SOW for every customer



# What are reasonable measures?



## Reasonable measures = Risk-based



i.e. what is appropriate and necessary in line with the identified ML/TF risks

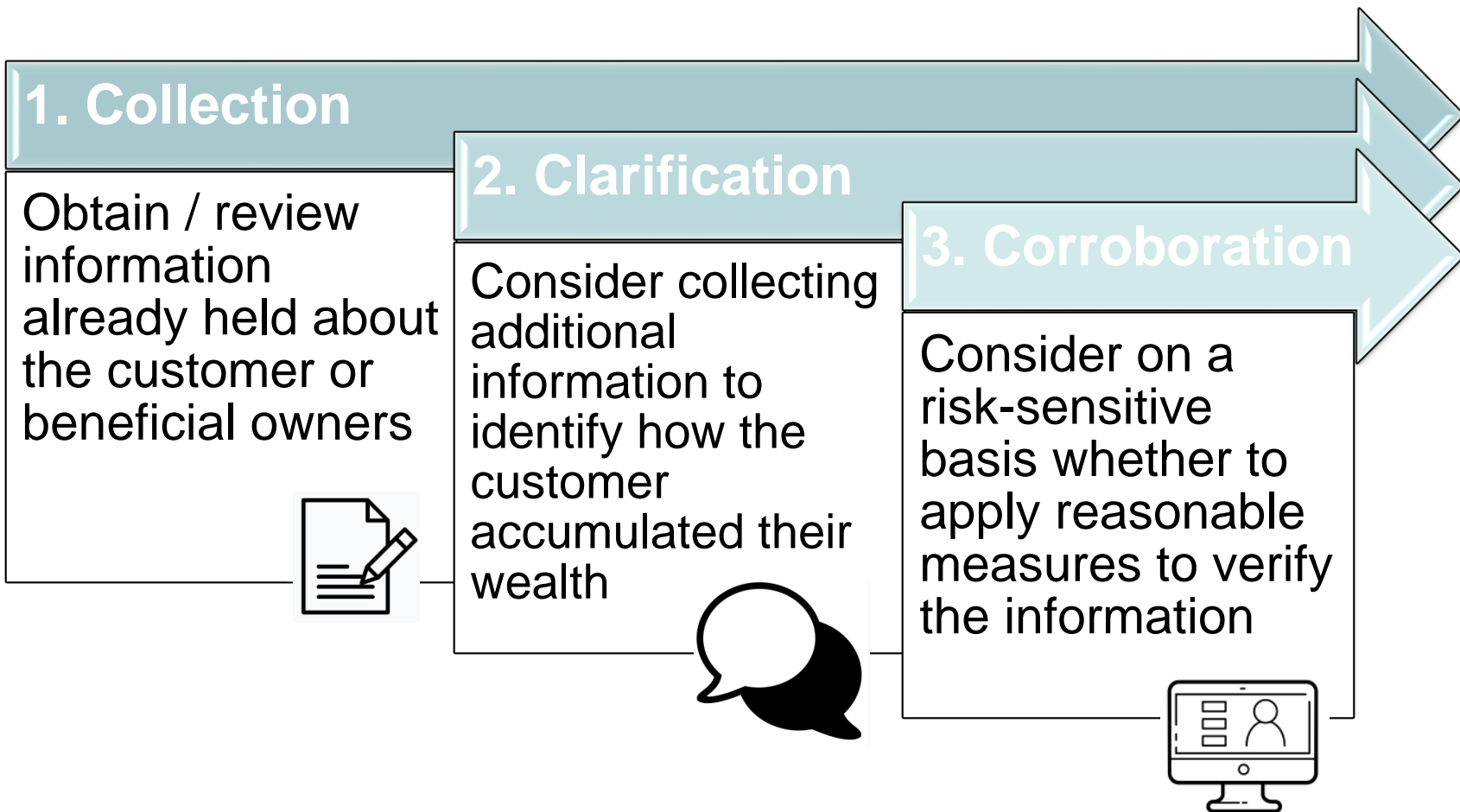
No expectation to apply the same SOW procedures to all relevant customers in the same manner

Obtaining SOW information is one of the possible EDD measures and not mandatory for every high-risk customer

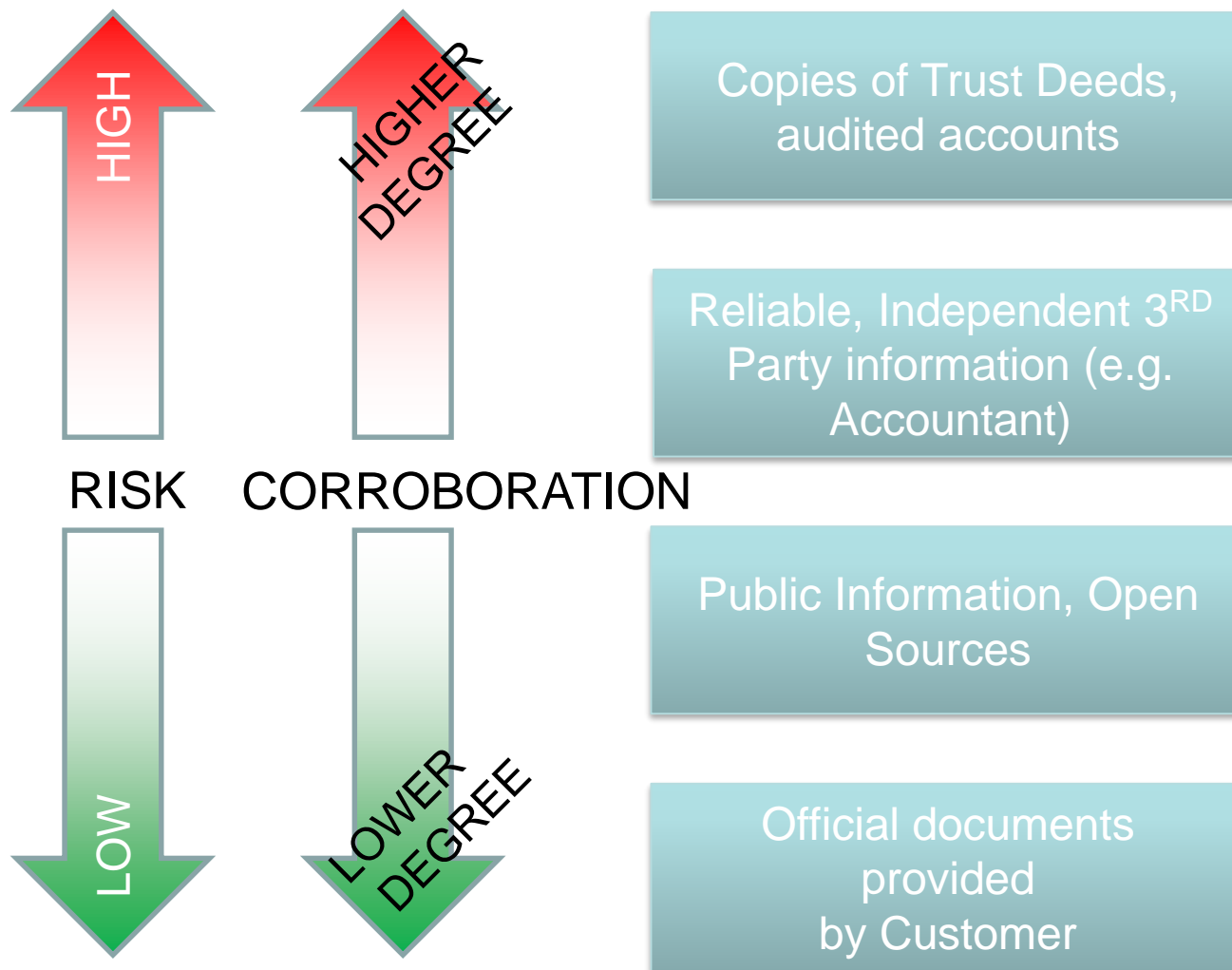
No expectation to collect evidence dating back decades when the risk does not justify doing so



# How to establish SOW?



# Level of corroboration increases with risk



# What is corroboration?



- Corroboration – a “reasonableness test”
  - to support the genuineness of SOW information provided by the customer
  - to identify anything not making sense by comparing SOW information with those from other independent sources
- Corroboration  $\neq$  Verification
- Impossible and impractical to verify every SOW information



# Case Study



1

- Family member of a former Hong Kong PEP approached Bank A for a credit card
- The applicant was identified as PEP, classified as high risk and subject to EDD in accordance with Bank A's policy
- Bank A asked for additional information about the source of income and the applicant considered the information excessive as an ordinary person



Is the additional request reasonable and risk-sensitive?



# Case Study



2

- Bank B requested additional information from a foreign PEP customer during periodic review through a 10-page customer information form requiring some of family history dating more than a quarter of a century ago



No expectation to collect evidence dating back decades when the risk does not justify doing so



# Reference



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