

AML Tuesday's Session #19 on:

Enhanced Monitoring and Verification of SoF/SoW

FIs

June 18, 2024

Enhance Due Diligence

Risk Based
Approach

Protection against
heightened risks

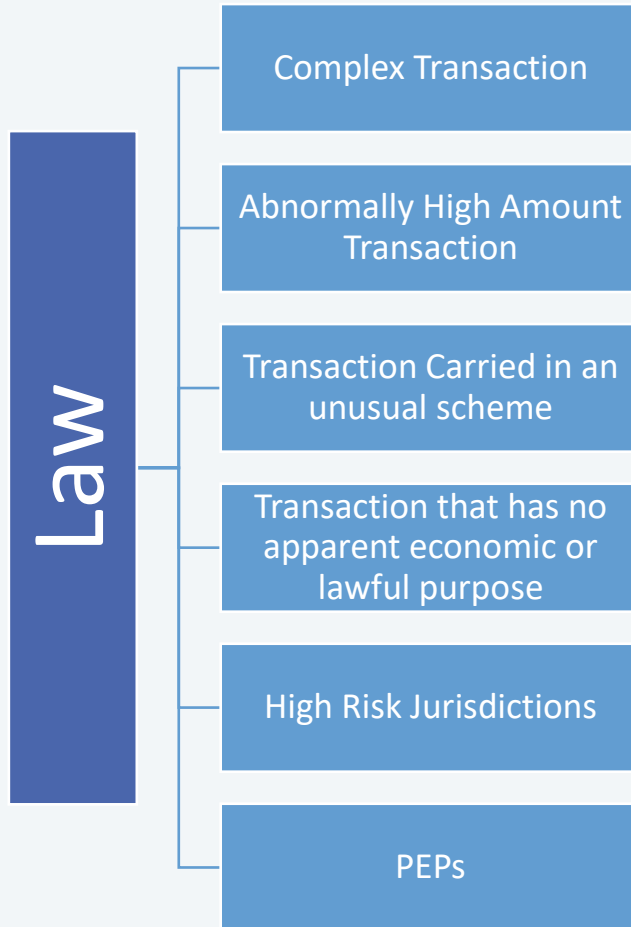
Helps institutions in
tailoring their risk
management
strategies

Identification of
potential risks

Implementation of
preventive
measures

Regulatory
Compliance

EDD Under Monaco Requirements



Example of measures to take

- ✓ Increased scrutiny and higher standards of verification and documentation from reliable and independent sources
- ✓ More detailed inquiry and Evaluation of Customer
- ✓ Increased investigation to ascertain whether the customers or related persons are foreign PEPs
- ✓ Increased supervision of the Business Relationship

Enhanced Due Diligence

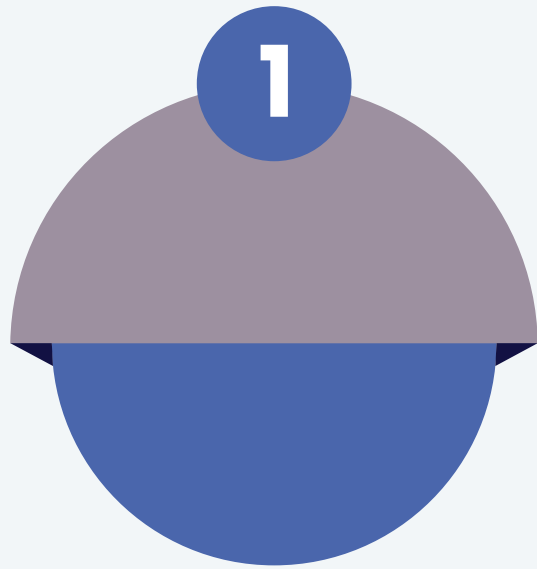
EDD on Customer

- Objective is to gain a deeper understanding of the client's profile, transaction patterns, and risk factors

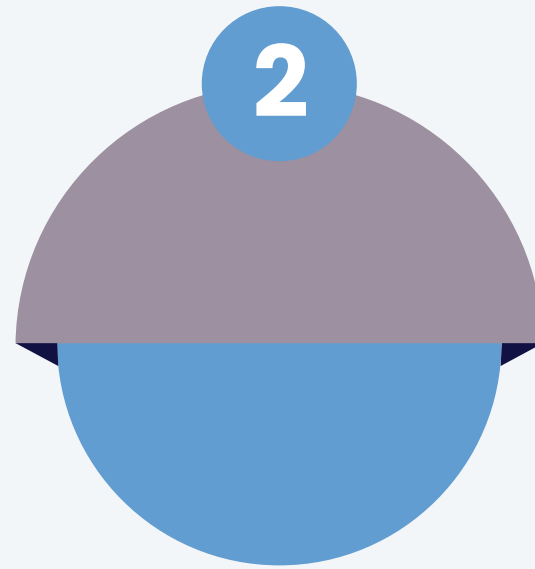
EDD on Transaction

- Objective is to establish the purpose of the transaction, economic rationale, and consistency with declared activity

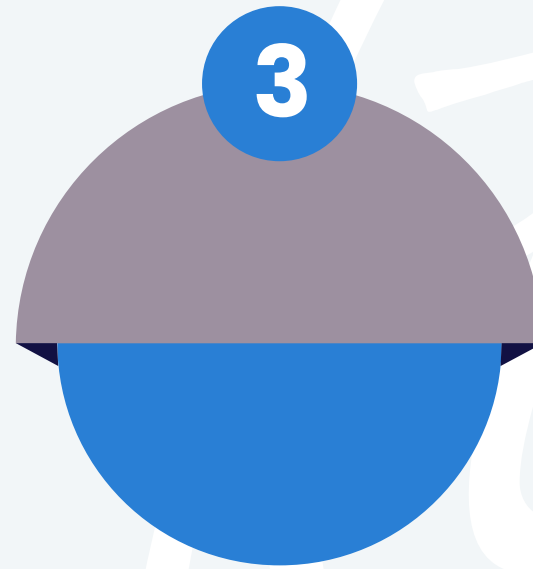
EDD on a Customer



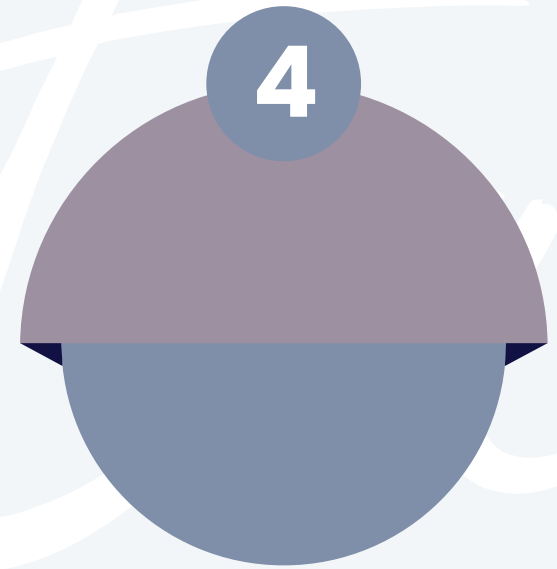
**Comprehensive
examination of
customers**



**Creating a
Comprehensive
Customer Profile**

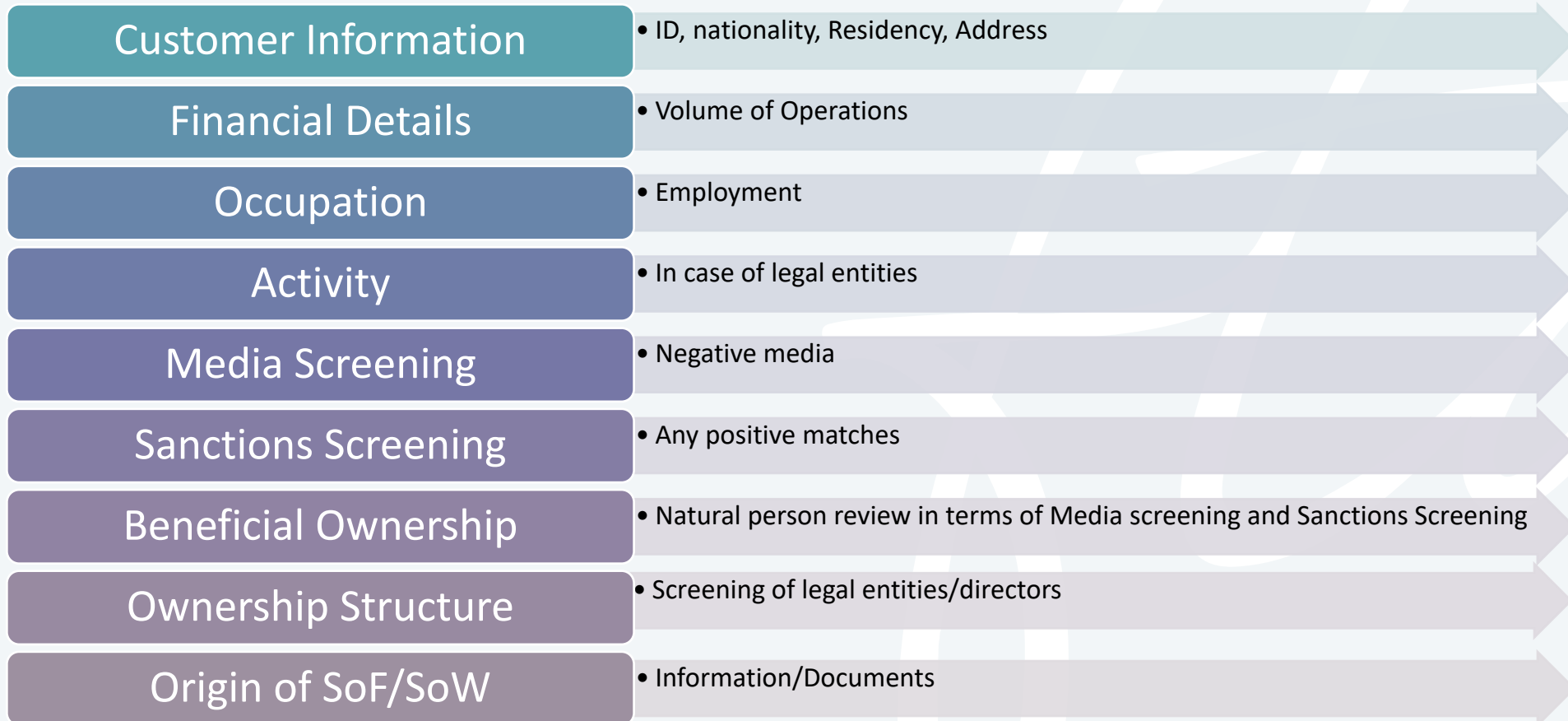


**Understanding
the Nature of a
Client's Business**



**Identifying and
Verifying
SoF/SoW**

EDD on a Customer



EDD on a Customer – Additional Factors

Purpose and Anticipated activity of a customer;

Nature of Customer's Wealth and Business;

Corporate Structure of the Customer;

Type of products and services to be used;

Current source of funds for the account;

Geographic location and jurisdiction of the ownership structure and Ultimate Beneficial ownership;

References or other information to confirm the reputation of the client.

EDD on a Customer - Consequences

01

Increase the risk Rating of the Customer

02

Place thresholds on customer activity/transactions/products

03

Subject the customer's transactional activity to heightened monitoring

04

Terminate the customer relationship

EDD on a Transaction

01

Economic Rationale

What is the purpose of the transaction

02

Parties involved

Analysis related to counter-party
Any third party involved

03

Jurisdiction

Jurisdiction analysis related to the transaction

04

Accompanying Documents

Documents to justify the transaction and its economic rationale

EDD on a Transaction

Assess on an ongoing basis

- Whether the transactional activity of a business relationship is consistent with the customer's profile
- The nature of the product provided
- The entity's understanding of the customer's and beneficial owner's source of wealth.

Supporting Documentation

Documents issued by a
government Authority or a
court

Documents issued by
other public sector bodies
or local authorities

Documents issued by
regulated professionals

Establishment of Source of Funds or Wealth

01

It should be conducted
on a Risk Sensitive Basis

02

Verification requirement
will also depend on the
availability of publicly
accessible information

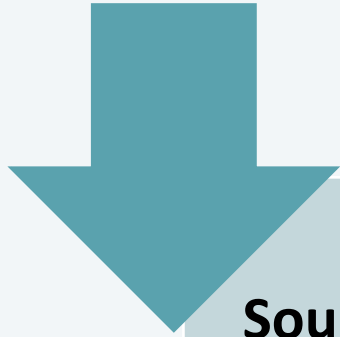
03

Collected evidence
should be reasonable in
terms of risk related to
the customer

04

Collected evidence
should contribute to
forming an accurate
picture on customer
financial profile

Source of Funds Source of Wealth



Source of Funds

- Activity that generated the particular funds for a business relationship or occasional transaction.
- Amount being invested/deposited/or wired as part of Business Relationship
- Establishment should cover the provenance of such funds and not only Institution from which the funds will be received



Source of Wealth

- Size of wealth of the customer
- Picture of how the individual acquired such wealth
- How the total net wealth of the customer or beneficial owner has been generated

SoF/SoW – Wolfsberg Principles

Source of Wealth

- 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

Source of Funds

- 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

Source of Wealth – AMSF Guidance

01

UNDERSTAND

A broad picture of the Customer's total wealth and how such wealth was acquired over time (information can be directly obtained from a customer or obtained via public sources)

02

REQUEST

Documentary Evidence where there are doubts about the veracity of specific information provided by the Customer or where the risks are higher (e.g., PEP from Jurisdiction with high corruption risks.)

03

ASSESS

The legitimacy and reasonableness of customer's wealth

Source of Wealth – Categories

Family/Generational Wealth

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

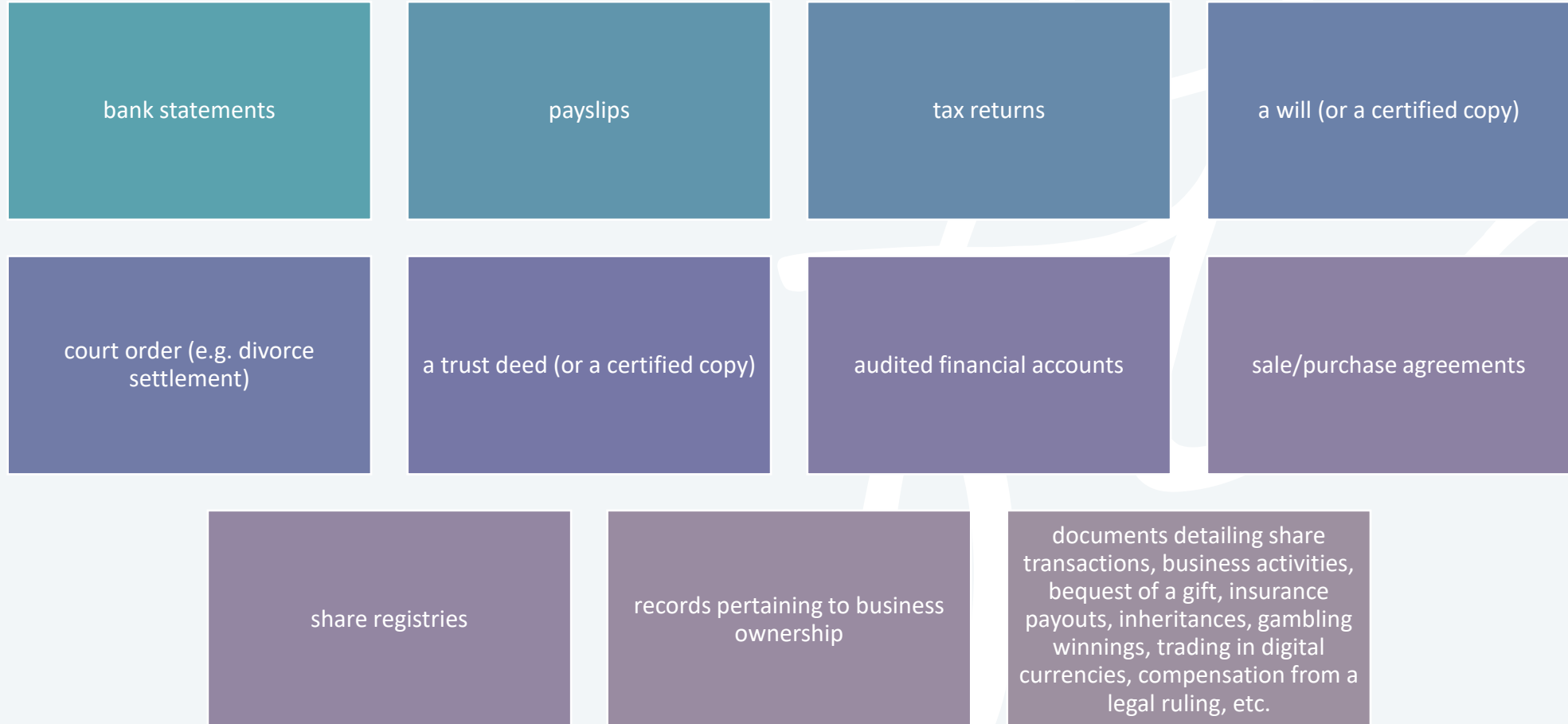
Income, Revenue, and Business Activities

- Business ownership, business operations, employment, sales of products, business properties, and other commercial assets.

Investment Activities

- income from acquiring and selling investments, e.g., real estate, securities, royalties, patents, inventions and franchises, and virtual assets.

Source of Wealth – Documented Verification Examples



Source of Wealth – Documented Verification

Where the entity is part of a group, obtaining reliable information from another member of the group with which the customer or beneficial owner has a connection;

Obtaining information from a reliable third party (for example, a professionally qualified solicitor, accountant or tax advisor) who has an office in a country or territory connected with the customer or beneficial owner;

Where the customer has been introduced to the firm, obtaining information from the introducer;

Where information is publicly available or available through subscription databases, obtaining information from a reliable public or private third party source;

Reasonable Measures – Example 1

- Customer A is an executive chairman of a listed company. Customer stated that the wealth was generated through the income from listed company.

Option 1

- Request documents from Customer, bank statement, employment contract

Option 2

- Conduct internet research
- Review information available publicly – Annual reports of the company, information on the web site of the company, news and information provided on the stock exchange
- Analyze the value of the company and the customer's personal wealth based on share prices

Reasonable Measures – Case Discussion

- Customer A is a politically exposed person from jurisdiction Y with high corruption risks. Source of funds of the customer is sale of real estate in jurisdiction X. Declared volume of the incoming funds is 10 million euros.
- The institution has requested to provide information and documents regarding source of wealth. The customer provided that the wealth was generated before the individual took the public position, when he was the owner of the biggest supermarket retail chain in Jurisdiction Y. He provided the abstract from the registry where it is shown he was the sole owner of the enterprise. The compliance officer has also undertaken search via public sources and has confirmed that the individual did own the enterprise.



*Thank you for your
time*

Financial Transparency Advisors GmbH
Zieglergasse 38/7/1070 Vienna, Austria

Phone: +43 1 890 8717 11

www.ft-advisors.com

<http://www.ft-advisors.com>

Next Session:
12 July, 2024

Topic:
Beneficial Ownership,
Complex Structures,
Practical application of
UBO Verification Measures

Today's Host and Presenter: Tamar Goderdzishvili