



INTEGRUM

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# ESTABLISHING THE SOURCES OF WEALTH

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## INTRODUCTION

The Monetary Authority of Singapore (“**MAS**”) issued a Circular providing further guidance on establishing the Sources of Wealth (“**SOW**”) of customer prior to initiating business relationships. The Circular applies to all Financial Institutions (“**FIs**”) and sets forth the risk principles to be considered when designing policies and procedures to establish customers’ SOW in a risk-proportionate and rational manner, as well as outlining the responsibilities of the senior management.

FIs should ensure that their policies and procedures for establishing the SOW of customers are commensurate with the associated risk and reasonable, considering the unique circumstances and profiles of each customer. A standardized approach shall not be applied universally to all customers. This regulatory update discusses the key principles FIs can follow to ascertain the SOW of customers, while minimizing any undue delays in the onboarding of legitimate customers.

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## RISK PRINCIPLES

The MAS recommended 3 principles to consider while designing policies and procedures for establishing SOW, as outlined below.

**MATERIALITY:** FIs should aim to understand a customer's total wealth with the primary outcome being to determine the SOW that are more material or of higher risk. In cases where some sources cannot be easily verified (e.g., due to the age of documents), FIs should also assess if the residual risk of uncollaborated wealth is acceptable and consider additional risk-mitigating measures if needed.

**PRUDENCE:** For material SOW, FIs should use reliable corroborative information, such as audited accounts or documents from independent third parties (e.g., tax accountants). If benchmarks or assumptions are used, they should be relevant, appropriate, and documented. These tools should aid in assessing the plausibility of the SOW, not justify suspicious sources.

**RELEVANCE:** FIs should obtain pertinent and fit-for-purpose evidence where practical (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). Where feasible, FIs are encouraged to use independent and reliable documents and information from credible public sources to support their assessment of customers' SOW, thereby reducing the need to rely solely on customer-provided evidence.

## SENIOR MANAGEMENT RESPONSIBILITIES

Given that the establishment of SOW is a part of wider set of internal controls, the MAS also provides guidance for senior management as follows.

**EXERCISE CLOSE OVERSIGHT OVER HIGHER RISK ACCOUNTS:** If an FI is unable to corroborate a significant portion of customer's wealth, the matter must be escalated to senior management for approval prior to the establishment of business relations. Senior management should consider implementing further risk-mitigating measures, such as enhanced transaction monitoring.

**ENSURE THAT ONGOING MONITORING CONTROLS TAKE INTO ACCOUNT THE CUSTOMER'S RISK PROFILE:** Ongoing monitoring controls should integrate customer information acquired during the establishment of the SOW, including total net worth and anticipated sources of funds, to evaluate whether account activities align with customer's profile.

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