



Proposed guidance on source of funds and source of wealth

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Source of funds and source of wealth

Your anti-money laundering and counter-terrorism financing [\(AML/CTF\) program](#) must include risk-based procedures that document when and how you will establish your customers' source of funds and source of wealth, including the source of funds and source of wealth of your customers' beneficial owners.

Establishing the source of funds and source of wealth involves collecting information about the customer and their beneficial owners and on a risk basis, verifying it for accuracy by using [reliable and independent documents and data](#).

Establishing the source of funds and source of wealth is an important part of understanding your customers' financial circumstances, background and position. This can support your assessment of the risks associated with providing designated services to a customer, monitoring customer transactions and reporting suspicious matters to AUSTRAC.

It also helps to mitigate the risk that the funds or wealth of a customer are derived from criminal activity, and to protect your business from the harms of money laundering, terrorism financing, and other serious crimes.

What are 'source of funds' and 'source of wealth'?

'**Source of funds**' refers to how and where the customer obtained the funds for a specific transaction or designated service you provide to the customer. Verifying your customer's source of funds will assist you in applying risk-based systems and controls in accordance with your AML/CTF program, and help you meet your

transaction monitoring and [suspicious matter reporting obligations](#). This process includes determining if you suspect that the funds could be the proceeds of crime or may be relevant to the investigation of a criminal offence.

'Source of wealth' refers to where the customer's entire body of wealth and assets came from – not just what is involved in a transaction or business relationship. It describes the economic, business, or commercial activities that generated, or significantly contributed to, the customer's overall net worth.

In collecting and verifying information about a customer's source of wealth, you are aiming to answer the following questions:

- Why and how does the customer have the amount of overall assets they do?
- How did they acquire or generate these total assets?

A customer's source of wealth may change over time and should be considered as part of ongoing customer due diligence.

When to collect and verify information on the source of funds and source of wealth

You must collect and on a risk basis, verify the source of funds and source of wealth when your customer is a foreign [politically exposed person \(PEP\)](#) or a high money laundering and terrorism financing (ML/TF) risk domestic or international organisation PEP.

A PEP is an individual who holds a prominent public position or role in a government body or international organisation, either in Australia or overseas. Immediate family members and/or close associates of these individuals are also considered PEPs. Read more about individuals who may be considered a [PEP](#).

In other cases you should collect and verify source of funds and source of wealth in accordance with your AML/CTF program.

Your AML/CTF program should include triggers for source of funds and source of wealth checks:

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- As part of your applicable customer identification procedures (ACIP) before commencing to provide a designated service to a customer.
- When carrying out [enhanced customer due diligence](#) (ECDD) for higher risk customers, including foreign PEPs.
- As part of ongoing due diligence and monitoring for all customers, particularly for customers that pose a higher ML/TF risk. This may change over time as the ML/TF risk profile of the customer changes.

In some cases, you may be satisfied without having to independently verify the information you have collected about the source of funds or source of wealth. In other circumstances, relying on self-disclosure alone may not be adequate and it may be appropriate to verify information by relying on another source that involves using reliable and independent documents or data. The steps you take to verify the source of funds and source of wealth should be commensurate to the ML/TF risk.

Examples that could trigger the need to verify the information you have collected on the source of funds or source of wealth could include:

- The customer's transactions or other activity are inconsistent with what you know about the customer.
- There are discrepancies between the information provided by the customer and other information available to you.
- There is adverse media reporting or other information is relevant to the customer's source of funds and/or source of wealth.
- There has been a material change in the customer's circumstances.
- You determine that the risks associated with providing the designated service to the customer are high or have increased which makes it appropriate to verify the customer's source of funds and/or source of wealth.

See [Preventing financial crime using a risk-based approach](#).

Collecting information on the source of funds and source of wealth

You should draw on a range of information when establishing the source of funds and source of wealth. This information could include:

- information the customer has already provided to you for the purpose of other designated services or products
- asking the customer or requesting they make a declaration about their source of funds or source of wealth
- secondary sources such as internet searches, media reporting, published lists of prominent persons, commercial databases – this information may be more readily available for foreign PEPs and high-net-worth individuals.

How to verify the source of funds and the source of wealth

Source of funds

Verifying the source of funds involves confirming where those funds came from, how they were obtained by the customer and whether this is consistent with what you expect of the customer.

Verification involves more than knowing, for example, which financial institution the funds were transferred from - unless the financial institution is providing finance such as a loan for the transaction. Checking that the customer's personal details match those on the account from where it was transferred is not sufficient.

The information you obtain should substantiate how the customer has acquired the funds. Examples could include funds from the sale of property or other assets, receipt of a gift, or an inheritance.

If a customer declares that they have been given funds for a transaction from a third party you should record information relating to that original transaction. You could

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verify this by requesting bank statements or other documentation relating to the transfer.

In some cases it may be difficult to determine the source of funds without some understanding or knowledge of the customer's source of wealth.

Source of wealth

Verifying the source of wealth of a customer can be more challenging, as their wealth may include funds or assets that you do not hold for the customer. You may be able to source information to verify this from publicly available databases or commercial databases.

The data or documents you use to verify the source of wealth will depend on the level of ML/TF risk, the type of transactions undertaken and the designated services you provide to the customer.

Documents and data to support verification

You must document any source of funds or source of wealth checks conducted on a customer or transaction, including the checks undertaken, the information or evidence obtained, and your determinations or conclusions.

Examples of documents and data you could use to establish the source of funds or source of wealth include:

- bank statements
- payslips
- a will (or a certified copy)
- a trust deed (or a certified copy)
- audited financial accounts showing funds disbursed to the customer
- sale/purchase agreements
- receipts of other transactions or similar documentation
- documents detailing share transactions, business activities, bequest of a gift, insurance payouts, inheritances, gambling winnings, trading in digital currencies, etc.

- publicly available registers, including property or land registers, and business and company registers
- transaction records.

Your AML/CTF program and risk-based procedures

Your assessment of your customer's ML/TF risk will determine the appropriate steps you take to understand and verify your customer's financial position. The level of verification should be proportionate to the level of ML/TF risk.

Understanding the nature and purpose of your business relationship with a customer will help you identify unusual or unexpected transactions, or activity that may warrant establishing their source of funds or source of wealth, which may include verification.

When developing your AML/CTF program, consider the factors on this page. You should also take into account any risk assessments or other publications by AUSTRAC related to the services you provide.

Customer types and their control structures

Different types of customers will present different risks, depending on their ownership and control structures, industry and other factors.

Examples of customer types and control structures, which may present a higher risk include:

- Foreign PEPs are recognised as presenting particular risks – it is mandatory to carry out source of funds and source of wealth checks for all designated services you provide to foreign PEPs.
- High ML/TF risk domestic or international organisation PEPs also require source of funds and source of wealth due diligence.
- Limited visibility of the source of funds for high-net-worth individuals moving funds into or out of Australia for the purposes of gambling or other cash intensive services.

- Complex corporate or trust structures that do not appear to have a legitimate economic purpose. These structures may also be exploited to conceal the financial activities of the individual beneficial owners seeking to move and use funds without detection.
- Customers acting as intermediaries for another person may be used to obscure the activities of the individual they are acting for.

Expected sources of funds and wealth of your customers

Understanding the typical profiles of your customers will help you determine the appropriate risk-based procedures to include in your AML/CTF program.

For example, if your customers for a particular designated service typically earn a regular salary and wages, and whose wealth consists of a family home, savings, and other ordinary investments or inheritance, there may be less need to collect and verify information about these customers' source of funds and source of wealth.

If, however, your customers typically fund themselves or have higher levels of wealth as a result of higher risk, less common or less transparent activities, we would expect you to undertake more intensive collection and verification of their source of funds and source of wealth.

The types of designated services you provide

Some designated services will be more open to abuse and exploitation by criminals, even where the majority of customers use your services for lawful purposes.

For example, cash intensive services could be more susceptible to customers seeking to obscure the source of those funds or their true identity.

How you deliver designated services

How you deliver your services can be relevant when designing your risk-based procedures for verifying source of funds and source of wealth. For example, if you provide your services online to a global market the risks will be different than if you are providing services face-to-face in a small community.

Geographic risk

If you deal with [higher risk jurisdictions](#), this should be factored into your risk-based systems and controls related to verifying the source of wealth and source of funds. Examples of risk factors can include corruption risks, organised crime, known tax havens, terrorism financing, proliferation financing, or sanctions risks.

Prescribed foreign countries

A *prescribed foreign country* is a country which is recommended by the Financial Action Task Force that other countries are required to apply countermeasures. Refer to section 102 of the AML/CTF Act.

Under the [Anti-Money Laundering and Counter-Terrorism Financing \(Prescribed Foreign Countries\) Regulations 2018](#), Iran and the Democratic People's Republic of Korea (DPRK) have been prescribed.

You must apply enhanced customer due diligence if a party to a transaction is physically present in, or is a corporation incorporated in, Iran or the Democratic People's Republic of Korea. A party to a transaction could be your customer, a beneficial owner or agent of your customer, or a party to the transaction who is not your customer. The enhanced due diligence you apply should include source of funds and source of wealth checks commensurate to the ML/TF risk.

You must also comply with all applicable [Australian sanction laws](#) in relation to Iran and the Democratic People's Republic of Korea.

Reporting suspicious matters

If you cannot satisfactorily establish the source of funds or the source of wealth for a high-risk customer, you should consider whether to continue to provide designated services to the customer. You may continue to provide designated services if you can

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mitigate the risks in accordance with your AML/CTF program, including by applying [enhanced customer due diligence](#).

If you notice unusual activity that raises a suspicion while establishing the customer's source of funds or source of wealth, including if you suspect on reasonable grounds that a person or transaction is linked to a crime or may otherwise be relevant to the investigation of an offence, you must consider whether to submit a [suspicious matter report](#) to AUSTRAC.

Related pages

- [Transaction monitoring](#)
- [Suspicious matter reports \(SMRs\)](#)
- [Customer identification and due diligence overview](#)

Additional resources

- [Frequently asked questions on Source of Wealth and Source of Funds](#), issued by The Wolfsberg Group
- [Financial Action Task Force \(FATF\) guidance on Politically Exposed Persons](#)
- [FATF's 'High-risk and other monitored jurisdictions'](#)

Related legislation

- Chapter 1 of the AML/CTF Rules – Definition of KYC information, PEPs and reliable and independent information
- Chapter 4 of the AML/CTF Rules – Applicable Customer Identification Procedures at 4.1.3, 4.1.5-4.1.7, 4.13.3 and 15.10
- Chapter 15 of the AML/CTF Rules – Ongoing Customer Due Diligence at Rule 15.10
- [Anti-Money Laundering and Counter-Terrorism Financing \(Prescribed Foreign Countries\) Regulations 2018](#)