



Circular No.: AMLD 02/2023

Date: 03 March 2023

To Chief Executive Officers of all Financial Institutions

Dear Sir/Madam,

MONEY LAUNDERING AND TERRORISM FINANCING (ML/TF) RISKS IN THE WEALTH MANAGEMENT SECTOR

Singapore is an attractive financial centre for high-net-worth individuals seeking wealth management services given the wide range of services and expertise that investors can tap on to access global and regional financial markets. To safeguard the integrity of Singapore's financial centre, our financial institutions (FIs) play a critical gatekeeper role in ensuring that wealth management fund flows into Singapore are and remain legitimate. This circular reminds all FIs to stay vigilant to the ML/TF risks in wealth management.

2 The wealth management sector has an inherently higher exposure to ML/TF risks due to its client attributes, size of transactions and the complexity typically involved in managing such wealth. It is therefore an area of supervisory focus for MAS – several thematic engagements and inspections of FIs in relation to their wealth management business have been carried out to ensure that robust controls are in place to effectively detect and deal with ML/TF risks. MAS has also issued guidance to the industry to set out our supervisory expectations in key control areas.¹

3 FIs' risk controls must keep pace with the growth in their wealth management business. FIs are expected to identify their high growth areas² and take steps to ensure that existing controls remain adequate to deal with key and emerging ML/TF risks (such tax evasion- and corruption-related risks³) posed. Specifically, FIs should:

(A) Strengthen Board and Senior Management (BSM) oversight and risk and control functions

4 Strengthen BSM oversight of high growth areas and be cognisant of the potential ML/TF risks posed. This includes ensuring that:

¹For example: (a) The guidance paper on "[Effective AML/CFT Controls in Private Banking](#)" issued on 4 Sep 2020; and (b) The information paper on "[Strengthening AML/CFT Practices for External Asset Managers](#)" issued on 24 Aug 2022.

² These are segments in which the FI has seen a material increase in demand e.g. based on the number of new accounts opened or the size of fund flows.

³ Corruption involves the abuse of public or private office for personal gain. It can take different forms, including bribery and embezzlement.

- (a) BSM are kept apprised of the potential ML/TF risks arising from high growth areas and set a clear tone from the top on actions to be taken to deal with these risks. BSM should also ensure that risk and control functions are well supported to pose an effective check and balance to front-line functions.
- (b) BSM are kept updated on the results of quality assurance reviews and testing done to validate the effectiveness of AML/CFT controls in high growth areas.
- (c) Risk and control functions are adequately resourced and familiar with changes in business strategy or target customer segments. This is to ensure risk and control functions can effectively monitor the ML/TF risk profile of high growth areas identified (e.g. via more granular system tags, calibrated key risk indicators and additional dashboards). A well-resourced risk and control function with strong understanding of these high growth areas is also essential to advise BSM on the continued adequacy of existing AML/CFT controls.

(B) Conduct added review and quality assurance testing

5 Take added steps to review existing Customer Due Diligence (CDD) practices in high growth areas and ensure that both front-line and control functions are functioning effectively. Added quality assurance testing should be done on key controls areas relating to the (a) identification of higher risk customers, including those that pose higher tax evasion- and corruption-related risks and (b) corroboration of the source of wealth (SOW) and source of funds (SOF) of customers. If existing CDD controls in place are found to be inadequate to deal with specific risk characteristics in high growth areas, FIs should promptly enhance their existing CDD practices to address the specific risks noted and ensure that higher risk customers continue to be identified for closer scrutiny.

(C) Continue to exercise vigilance over higher risk customers and transactions

6 Stay vigilant towards higher risk customers and transactions. In particular, FIs should:

- (a) Be cognizant of the added ML/TF risk when dealing with legal structures/arrangements used for the purpose of wealth management (such as trust arrangements, insurance wrappers and family offices) established for the benefit of the beneficial owners. In this context, FIs are expected to conduct in-depth enquiry to obtain a clear understanding of the purpose of the legal structure/arrangement used, assess whether there is a clear and legitimate purpose for the use of complex structures/arrangements⁴ and the commensurate ML/TF risks, and take necessary measures to pierce through the structures/arrangements to identify and verify the ultimate beneficial owners (UBO). In particular, FIs should seek to adequately understand and identify key controllers behind the structures/arrangements used, beyond obtaining the

⁴ FIs can take into consideration available industry guidance on complex structures, for example, the best practice papers: (a) "[ACIP Legal Persons Misuse Typologies and Best Practices Paper](#)" issued on 18 May 2018; and (b) "[Industry Best Practice Paper: Managing ML/TF Risks Associated With Complex Trust Structures](#)" issued on 27 June 2022.

ownership structure which may only depict the legal owner of the entity. FIs should also conduct appropriate checks to independently corroborate the source of wealth and funds of the legal structures/arrangements and the beneficial owners. FIs should also not regard the granting of tax incentives to legal structures/arrangements as assurance of the legitimacy of the clients, but should conduct the necessary due diligence on them independently.

- (b) Take note of prospective customers that withdraw their applications due to an inability or unwillingness to provide requisite CDD information. FIs should have established processes to monitor for such situations, and to consider the need to file a Suspicious Transactions Report (STR) for such cases.
- (c) As part of their ongoing monitoring, remain watchful of anomalous transaction spikes and unexpected fund flows with third parties or purportedly for business purposes, especially to or from higher risk jurisdictions. Other than third party flows, FIs should also be vigilant to related party transactions to detect risks associated with insider trading or anomalous commingling of business and personal funds. FIs are strongly encouraged to make use of data analytics to strengthen their monitoring for such unusual transaction patterns as well as to identify customer networks of concern.

7 We trust your FI will do its part to safeguard the integrity of Singapore's financial centre.

Yours faithfully

THONG LENG YENG
EXECUTIVE DIRECTOR
ANTI-MONEY LAUNDERING DEPARTMENT