

## IDENTIFYING DIRTY MONEY

### Source of Wealth and Source of Funds

#### WHAT IS DIRTY MONEY?

Dirty money is defined as proceeds (funds, assets) that are acquired through illegal transactions or activities.



#### SOURCE OF WEALTH (SOW)

Source of Wealth (SOW) refers to a customer's history of his/her financial wealth. This describes how monies were acquired to present a clear picture of the origin of a customer's net worth. Financial institutions and DNFBPs are required to obtain SOW information from clients as part of the Know Your Customer (KYC) and Enhanced Due Diligence (EDD) procedures.

#### SOURCE OF FUNDS (SOF)



Source of Funds (SOF) refers to an individual's or an entity's origin of funds that may be used in a specific transaction or business relationship. It is essential that financial institutions and Designated Non-Financial Business and Professions (DNFBPs) conduct SOF checks to confirm the legitimacy of monies earned to identify any money laundering, terrorist financing or proliferation financing (ML/TF/PF) activities.

#### Did You Know?

The FSRC distributes a publication in the form of a monthly newsletter which features relevant and timely topics of interest to regulated entities. Quarterly training is facilitated by the FSRC on AML/CFT/CPF. The training theme for 2024 is "***Strengthening the Foundation with Pillars of Compliance***". The First Quarter Training focused on recent legislative changes and common deficiencies noted in AML/CFT/CPF compliance programs. The Second Quarter Training focused on developing and implementing effective risk management procedures.

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SOW and SOF are both integral components of client risk assessments. The two (2) main objectives of SOW and SOF checks are to:

- Identify any illegal transactions; and
- Prevent ML/TF/PF activities.



The relationship between SOW and SOF is as follows:

SOW focuses on a person's overall wealth over a significant period. This includes all income streams and any other means of accumulation of wealth. This may consist of, but is not limited to:

- **Employment:**  
This involves obtaining documents such as pay slips, an employment letter stating the employer's name, address and nature of business. If self-employed, the financial institutions and the DNFBPs should collect information on the type of business and income earned.
- **Inheritance:**  
This involves obtaining documents such as a death certificate, will, proceeds from life insurance and any other legal documentation that represents inheritance gains.
- **Business:**  
This involves obtaining documents that include the name, address and nature of the business, information on business sales and the business licence.

SOF focuses on the origin of funds used in a specific transaction and the purpose of the funds. This may consist of, but is not limited to:

- Salaries/Wages;
- Bonuses;
- Dividends;
- Savings;
- Loans;
- Inheritances;
- Lottery Winnings/Betting;
- Pension Releases; and
- Any other means of legitimate source of money.

Outcomes that may occur when financial institutions and DNFBPs do not utilize SOW and SOF checks as part of their AML procedures :

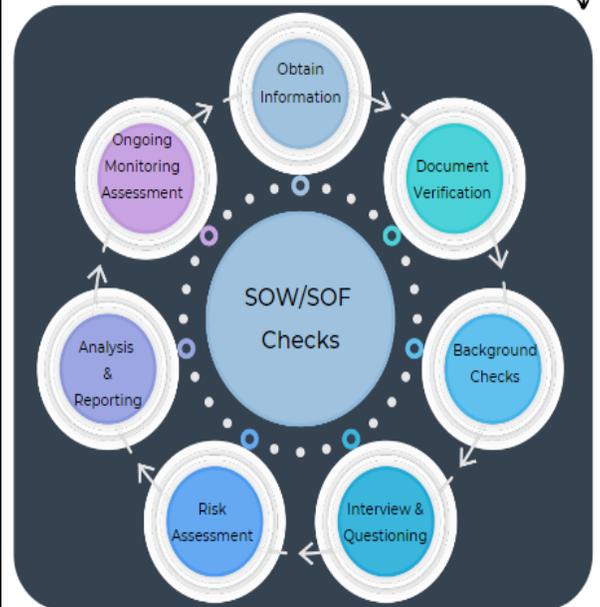
- Reputational Damage;
- Exposure to Fraud; and
- Substantial Fines.

The understanding that SOW and SOF measures are essential in maintaining transparency and integrity in financial transactions. Incorporating SOW/SOF checks is an effective in conducting comprehensive assessments to identify and mitigate risks of any involvement in illicit financial activities. By adhering to the AML/CFT/CPF regulations and providing accurate information about the origin of financial resources, individuals and businesses can contribute to a safer and more secure financial environment.



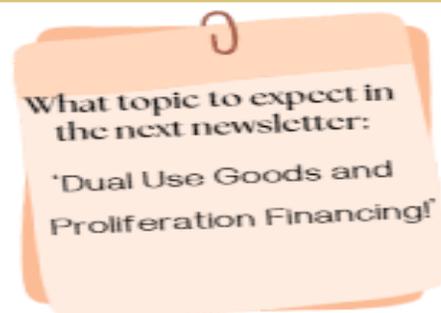
### TIPS FOR SOW AND SOF CHECKS:

The Cycle Process when Conducting SOW/SOF Checks



### Three useful facts that could be utilized to ensure the success of SOW/SOF checks:

1. Implement robust policies and procedures by developing comprehensive guidelines.
2. Perform EDD on high-risk clients or transactions. This may involve applying additional scrutiny through background checks and additional documentation requests.
3. Provide Ongoing Training to employees involved in conducting these checks to ensure that they understand the importance of these checks and are familiar with relevant regulatory requirements.



# TRIVIA QUIZ TIME!



IDENTIFYING DIRTY MONEY  
SOURCE OF WEALTH AND SOURCE OF FUNDS



## IN THIS QUIZ:

Read each  
question  
carefully

Select the  
best answer

Ensure that  
each  
question is  
answered

Feel free to  
submit your  
answers via  
email to  
'[info@fsrc.kn](mailto:info@fsrc.kn)'

## BEGIN HERE

### Question 1:

What term best describes the illegal practice of generating income through criminal activities?

- a) Cryptocurrency
- b) Black Money
- c) Illicit Profits
- d) Underground Revenue

### Question 2:

Which of the following is **NOT** a typical source of dirty money?

- a) Human Trafficking
- b) Drugs Smuggling
- c) Legitimate Business Investments
- d) Arms Smuggling

### Question 3:

What term best describes the practice of using legitimate businesses to generate income from illegal activities?

- a) Front Operations
- b) Shell Companies
- c) Money Laundering
- d) Offshore Accounts

### Question 4:

Which financial record provides a detailed history of an individual's or entity's financial transactions, including sources of income and expenditures?

- a) Tax returns
- b) Pay Stub
- c) Bank Statement
- d) Credit Report

### Question 5:

Which organization in St. Kitts and Nevis oversees the implementation of laws and regulations related to the disclosure of sources of wealth and sources of funds?

- a) Caribbean Financial Action Task Force (CFATF)
- b) Eastern Caribbean Central Bank (ECCB)
- c) Financial Services Regulatory Commission (FSRC)
- d) White Collar Crime Unit (WCCU)