

July 2020

## **GFSC review shows Guernsey firms' positive record on source of funds and source of wealth**

*On 7 July 2020 the GFSC issued its report on the thematic review on source of funds (SOF) or source of wealth (SOW) in Guernsey's private wealth management sector (the "Thematic Review").*

The review itself was undertaken during the second half of 2019. It involved 47 firms, including private banks, trust and corporate service providers, investment managers and law firms. The Thematic Review focused on the practices of the sectors most exposed to the threat of laundering illicit funds, where multiple high-risk factors are likely to be present.

The GFSC reviewed the SOW, SOF and beneficial ownership records of 107 high-risk relationships, 30% of which were with foreign Politically Exposed Persons (PEPs) and summarised their findings in the Thematic Review. It found that 90% of firms ask all customers at client take-on how they made their money and all firms periodically considered the plausibility of their customers' SOW and SOF.

Although the GFSC identified certain deficiencies in establishing and understanding SOW and SOF among six of the firms visited by the GFSC, there were no cases which caused the GFSC to question the identity of the customer and beneficial owner, reinforcing the GFSC's positive findings from last year's thematic review of beneficial ownership.

The Thematic Review provides a useful analysis of firms' practices in establishing and understanding the SOW and SOF in order to meet the requirements outlined in the Handbook, as well as applying a risk-based approach to corroborating SOW and SOF and reviewing SOW and SOF. A particular challenge for firms in managing and mitigating the risks of handling the proceeds of corruption are PEP relationships given the extended definition of a PEP within the Guernsey framework. The Thematic Review uses a number of case studies to identify issues and recommends areas for improvement; it will be useful to all regulated firms within the Bailiwick when seeking to assure themselves that their own controls are, and remain, effective and relevant to their business, particularly where their services or products are offered to customers, which have a similar profile to that of Guernsey's private wealth management sector.

The GFSC stressed that it encourages all firms to apply a risk-based approach to establishing SOW and SOF which is calibrated to take account of risk factors associated with the customer, the customer's economic activity, country connections and what and how the firm's products and services are delivered. There are extensive examples of these factors in section 3.17 of the Handbook on Countering Financial Crime and Terrorist Financing (the "Handbook") to assist firms. If measures to establish and understand a high risk customer's SOW and SOF are to be effective and meet the requirements in the Handbook, the GFSC encourages all firms, regardless of their sector, to undertake the following steps at the commencement of the relationship and when significant new funds are received:

1. Ascertain at the outset how the customer generated his or her total net worth and that of the particular funds to be used in the business relationship or transaction.
2. Take into account the various risk factors present within the relationship (including customer, country, product/service and deliver channel risks, and their cumulative impact) in considering the extent to which this information should be corroborated by further information and official documentation from the customer, appropriate third parties and/or independent open source information.
3. Consider if this make sense against what the firm knows about the customer and the intended purpose and rationale for the business relationship or occasional transaction.

The GFSC did however highlight that on some occasions firms had relied on open source information to corroborate otherwise sketchy information which had been provided by a customer. This should be viewed as insufficient – to meet the requirements of the Handbook the following three-step process should be adhered to:

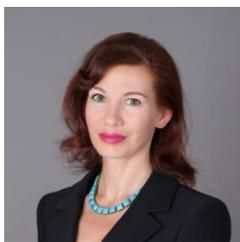
- A. Gathering SOW and SOF information from the customer.
- B. Applying a risk-based approach in determining the extent to which that information is corroborate, which is commensurate with the risk factors present in the relationship.
- C. Conducting a check that the information and documentation obtained under steps A. and B. make sense in the light of all the information the firm knows about the customer from its wider due diligence including open source checks.

Broadly speaking the Thematic Review is a positive report for Guernsey and shows that the island's financial services industry maintains extremely high standards in the global fight against money laundering. However as with any endeavour we can always do more to fine tune our approach.

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