



FijiFIU

Fiji Financial Intelligence Unit



FIU Policy Advisory

Financial Transactions Reporting Act

Reference: 1/2019

Date: 20 September 2019

Re: Establishing Source of Funds

This Policy Advisory is issued pursuant to the powers of the Financial Intelligence Unit under section 25(1)(j) of the Financial Transactions Reporting (FTR) Act and regulation 21(6) and 35 of the FTR Regulations to provide guidance to financial institutions on the requirements of the FTR Act and the FTR Regulations, including risk-based implementation.

A. Application of Policy Advisory

1. This *Policy Advisory* is applicable to all financial institutions and is effective immediately.

B. Purpose of Policy Advisory

2. The purpose of this *Policy Advisory* is to provide further guidance and clarification on establishing a customer's¹ *source of funds*.

C. Establishing a Customer's Source of Funds on First Engagement with a Customer

3. Financial institutions are required to identify and verify their customers under section 4 of the Financial Transactions Reporting (FTR) Act.
4. The purpose of these identification and verification measures or customer due diligence (CDD) measures is for financial institutions to undertake reasonable measures to know their customers and their background.
5. On first engagement with a customer, a financial institution must gain an understanding of what is/are the activity/activities that will generate funds that will be used by the customer to fund a proposed business relationship or occasional transaction².
6. Under regulation 7(a)(vi) of the FTR Regulations, a financial institution must, as part of the CDD process, obtain information about a customer's *source of funds* and to verify this information to reliable and independent source documents or other evidence.

¹ The terms "customer" and "client" maybe used interchangeably.

² The term "occasional transaction" is defined under section 2 of the FTR Act and means any transaction involving cash that is conducted by a person otherwise than a transaction through an account in respect of which the person is the account holder. The threshold of an occasional transaction means a transaction not exceeding \$5,000.

7. *Source of funds* refers to the origin of funds or the activity that will generate funds to be used in a business relationship or occasional transaction. The origin or activity maybe a customer’s occupation or business activity.
8. Refer to section 10 of FIU Enforceable Guideline 4 for further information.

Section 10.1(v) FIU Enforceable Guideline 4
“A financial institution must identify and collect the following information about the customer:...

(v) Source of funds, in particular what is the normal source of funds or income for the customer e.g salary, rental income, pension etc. Some customers, such as the unemployed or minors, will have no regular source of income.

9. *Source of funds* is usually linked to the occupation of a customer. Thus it may be weekly wages or fortnightly salaries of the customer. *Source of funds* may also be derived from other sources such as monthly rental income or pension.
10. Some customers, such as minors, senior citizens or the unemployed, will have no regular source of funds or income. However, they may receive funds from other sources which will fund their account or business arrangement.
11. A financial institution must create and maintain a customer profile for each customer which will contain sufficient information on a customer. The customer profile must include details on the source of funds of the customer.

Regulation 18 FTR Regulations

- (1) *“...a financial institution must create and maintain a customer profile for each customer of sufficient nature and detail to enable the financial institution to monitor any transaction of the customer, apply enhanced customer due diligence where necessary, and detect suspicious transactions.*
- (2) *A customer profile must include -...where necessary the source and legitimacy of the funds...”*

D. Verification of a Customer’s Source of Funds on First Engagement with a Customer

12. Based on the money laundering (ML) and terrorist financing (TF) risk of a customer and the information provided by the customer on his or her *source of funds*, a financial institution must take reasonable and appropriate measures to verify this information on a customer’s regular source of funds to appropriate supporting documents.
13. If a customer is assessed as having a higher ML/TF risk, a financial institution must undertake enhanced due diligence which includes enhanced scrutiny of the customer’s source of funds.

Regulation 20 FTR Regulations

- (1)*“...a financial institution must undertake enhanced customer due diligence of any customer and any transaction that the institution have determined is of higher risk of money laundering and terrorist financing.*
- (2) *Any enhanced customer due diligence must include enhanced –*
 - a. scrutiny of customer’s identity...*
 - b. scrutiny of the source and legitimacy of funds;*
 - c. transaction monitoring; and*
 - d. customer profiling.”*

14. If a customer is assessed as having a lower ML/TF risk, a financial institution may apply simplified CDD which includes a lower level or reduced scrutiny of the customer's source of funds.

Regulation 21 FTR Regulations

(1) "...a financial institution may undertake simplified customer due diligence procedure in certain circumstances if...the risk of money laundering or financing of terrorism is lower;

.....

(3) Simplified due diligence may include a lower level of—

- a. scrutiny of customer identification;
- b. scrutiny of the source and legitimacy of funds;
- c. scrutiny of the legitimacy of the recipient of funds;
- d. transaction monitoring; and
- e. customer profiling.

15. For customers whose *source of funds* are linked to their occupation, the supporting documents used to verify occupation may also be relied upon to verify their regular source of income. For example, employer issued ID cards/letters may be relied upon as evidence that a customer receives regular wages/salary from the said employer.

16. Once a business relationship with a customer is established and an understanding of the customer's source of funds is established, the financial institution is not required to continuously verify the source of cash or funds received or paid into an account. For example a bank is not required to verify the source of each and every cash deposit or loan repayment that the customer makes into an existing bank account.

E. Continuous Due Diligence of a Customer and Business Relationship

17. Section 11 of the FTR Act requires that a financial institution must, during the course of a business relationship with its customer, conduct *continuous due diligence* on the *customer and the business relationship*.

18. As part of this continuous due diligence, the financial institution must pay special attention to a customer's transactions to ensure that they are consistent with the financial institutions' knowledge of the customer, the customer's business, type of business and source of funds.

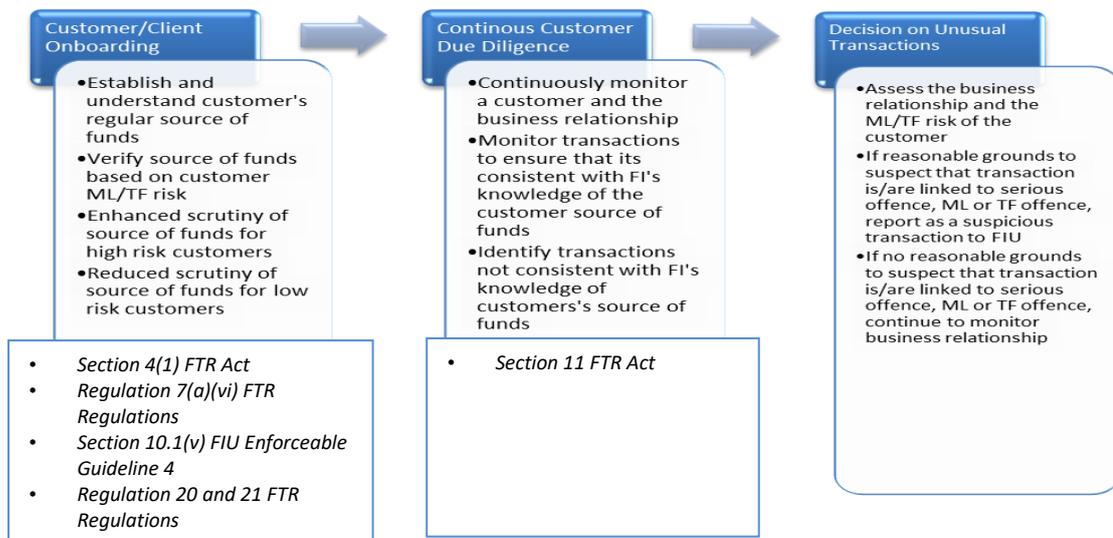
Section 11 FTR Act

"A financial institution must in the course of its business relationship with its customer—

- a. conduct continuous due diligence on the customer and its business relationship with the customer; and
- b. pay special attention to transactions to ensure that they are consistent with its knowledge of the customer, the customer's business, type of business and source of funds."

19. If a transaction (or series of transactions) conducted by a customer is not consistent with a financial institution's knowledge of the customer's source of funds, the financial institution must assess the business relationship, customer profile together with the risk of the customer before deciding on appropriate action to take.

- a. If there are *reasonable grounds to suspect that the transaction(s) is/are linked to the commission of a serious offence or a money laundering or terrorist financing offence*, the financial institution should report the transaction(s) to the Financial Intelligence Unit as a suspicious transaction report.
- b. If there are *no reasonable grounds to suspect that the transaction(s) is/are linked to the commission of a serious offence or a money laundering or terrorist financing offence*, there are no grounds for further reporting of this transaction(s). The financial institution must continue to monitor the business relationship.



F. Compliance

20. The FIU and/or the relevant supervisory authority, in the course of its supervision, may assess the compliance of financial institutions with the requirements of this Policy Advisory.
21. Non-compliance may result in sanctions as specified in section 43(2) of the FTR Act and regulation 42(2) and 42(3) of the FTR Regulations.

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