# Enhanced CDD

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Enhanced CDD is mandatory for three categories and discretionary for a fourth. The mandatory categories are politically exposed persons (PEPs) with their family members and close associates, customers from or connected to higher-risk countries and any customer that the firm's own assessment rates as higher-risk.[1] The discretionary fourth is any situation in which the Guidelines' red-flag indicators are present. Enhanced measures include obtaining senior management approval to establish or continue the relationship, establishing the source of wealth and source of funds, and conducting enhanced ongoing monitoring.

## Politically exposed persons

PSN02 follows the FATF division. Foreign PEPs are always subject to enhanced CDD. Domestic PEPs and PEPs of international organisations are subject to enhanced CDD where the relationship or transaction presents higher risk, which the firm must assess.[2] The notice extends the status to family members and close associates. A person who ceases to hold the prominent public function remains a PEP until the firm assesses that the risk has fallen away, a judgement that depends on the office held and the time elapsed and must be documented. Screening against a

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commercial PEP database at onboarding and periodically thereafter is the baseline. Confirming a positive hit through a second source and recording the decision is the expected practice.

In the DPT context PEP risk arises most often through the corporate customer. A Singapore trading company whose ultimate beneficial owner is the relative of a minister in a neighbouring country is a foreign-PEP relationship from the first day. Firms that screen only the customer entity and its directors miss this. The screening must reach every identified beneficial owner.

## Source of wealth and source of funds

The two concepts are distinct and the Guidelines treat them so. Source of funds is the origin of the particular funds or tokens used in the relationship. Source of wealth is the origin of the customer's overall net worth.[3] For DPT customers both raise questions that fiat institutions rarely face. A customer who deposits 200 ETH acquired in 2016 can establish source of funds by showing the on-chain history from the acquisition address and source of wealth by showing the original fiat purchase or the mining records. A customer who cannot do so, and who explains the holding as an early investment of which the records are lost, presents a problem that the firm must resolve on the file: either corroborate by blockchain analytics (Chapter VII) or decline.

## Client question

"Our customer is a Singapore family office that wants to deposit S$ 15 million in Bitcoin acquired over several years through three exchanges, two of which have since closed. What does the file need?" The file needs enough to let a reasonable compliance officer conclude that the Bitcoin was acquired with legitimate wealth. In practice that means four things. - The account statements or export files from the surviving exchange for its share. - For the closed exchanges, bank statements showing the fiat transfers to them in the relevant years, matched against the on-chain receipts to addresses the customer controls, with the customer demonstrating control by a signed message. - A blockchain-analytics report on the deposit

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addresses showing no material exposure to sanctioned, darknet or mixer counterparties. - A source-of-wealth narrative supported by tax returns or audited accounts of the family's operating business. If the matching leaves a gap of more than a small percentage, the firm should document why it accepts the explanation or should decline that portion.

## Notes

1. MAS Notice PSN02, para. 8 (enhanced customer due diligence), covering politically exposed persons, higher-risk countries and other higher-risk customers. ↩
2. MAS Notice PSN02, para. 8 (politically exposed persons) and para. 2 (definitions of "politically exposed person", "domestic politically exposed person", "foreign politically exposed person" and "international organisation politically exposed person"). ↩
3. Guidelines to Notice PSN02, section on enhanced CDD, source of wealth and source of funds; MAS, Guidance on Private Banking Controls, 2014 (as a reference standard for source-of-wealth corroboration). ↩

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