

Political Exposed Persons

Politically Exposed Persons (PEP): What they are and why they matter

A politically exposed person (PEP) is an individual who is or has been entrusted with a prominent public function. Due to the nature of their position it's possible for a PEP to exploit their situation for personal gain through theft, fraud, embezzlement, bribe taking along with other forms of corruption. PEPs are therefore higher-risk clients when it comes to your anti-money laundering compliance and you must put measures in place to ensure that any funds you deal with on their behalf originate from a legitimate source.

After determining that a customer is a PEP, an ICB member must apply Enhanced Due Diligence (additional AML measures to the business relationship). You should also conduct ongoing due diligence specifically tailored to the client's PEP status. These requirements are preventive in nature and should not be interpreted as meaning that all PEPs are involved in criminal activity.

This risk also extends to members of their immediate families and known close associates. PEP status itself does not, of course, incriminate individuals or entities. It does, however, put the customer, or the beneficial owner, into a higher risk category. The level of risk associated with any PEP, family member or close associate (and the extent of EDD measures to be applied) must be considered on a case-by-case basis.

Under the definition of a PEP the obligation to apply EDD measures to an individual ceases after he has left office for one year, or for such longer period as you consider appropriate, in order to address risks of ML/TF in relation to that person.

Individuals entrusted with prominent public functions include:

- heads of state, heads of government, ministers and deputy or assistant ministers;
- members of parliaments or of similar legislative bodies;
- members of supreme courts, of constitutional courts or of other high-level judicial bodies the decisions of which are not subject to further appeal, except in exceptional circumstances.
- members of courts of auditors or of the boards of central banks;
- ambassadors, charges d'affaires and high-ranking officers in the armed forces (other than in respect of relevant positions at Community and international level);
- members of the administrative, management or supervisory boards of State-owned enterprises; and
- directors, deputy directors and members of the board or equivalent function of an international organisation.

These categories do not include middle-ranking or more junior officials.

Family members of a PEP include:

- a spouse or partner of that person;
- children of that person and their spouses or partners; and
- parents of that person.

A PEP might also include a wider family members in any money laundering activity so if you identify that a you have a brother, sister, uncle, aunt or other family member of a PEP as your client you should take a proportionate and risk based approach to the treatment of such persons.

Known close associates of a PEP include:

- an individual known to have joint beneficial ownership of a legal entity or a legal. arrangement or any other **close** business relationship with a politically exposed. person.
- an individual who has sole beneficial ownership of a legal entity or a legal arrangement that is known to have been set up for the benefit of a politically exposed person.

You are no longer obliged to apply EDD measures to family members or close associates of a PEP when the PEP is no longer entrusted with a prominent public function.

For the purpose of deciding whether a person is known to be a close associate of a PEP, you need only have regard to any information which is in your possession, or which is publicly known.

You are required, on a risk-sensitive basis, to:

- have in place appropriate risk management systems and procedures to determine whether a customer or the beneficial owner of a customer is a PEP, or a family member or known close associate of a PEP;
- take adequate measures to establish the source of wealth and source of funds which are involved in the business relationship or occasional transaction; and
- conduct enhanced ongoing monitoring of the business relationship.

It is for you to decide on all the available information the steps you need take to determine whether a PEP is seeking to establish a business relationship for legitimate reasons.

- You must take adequate measures to establish the source of wealth and source of funds which are involved in the business relationship in order to allow you to satisfy yourself that you don't handle the proceeds from corruption or other criminal activity.
- The measures you should take to establish the PEP's source of wealth and the source of funds will depend on the degree of risk associated with the business relationship, and where the individual sits on the PEP scale.

- You should verify the source of wealth and the source of funds on the basis of reliable and independent data, documents or information where the risk associated with the PEP relationship is particularly high.
- For PEPs who are assessed as being higher on the scale of risk, you could, for example, and when conducting source of wealth checks on funds from inheritance, request a copy of the relevant will. Where the wealth/funds of such PEPs originate from the sale of property, firms could seek evidence of conveyancing.

